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Trump’s Vow to Target China’s Currency Could Be First Step to Trade War

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By Ian Talley

WASHINGTONð Donald Trumpôs pledge to declare China a currency manipulator on day one of his presidency raises the prospect of U.S. tariffs on the Asian giant that figure to push their relationship onto new, contentious ground.

The threat, which Mr. Trump has made repeatedly, risks sparking a trade war with China that would complicate negotiations on a host of other strategic and economic issues. It also risks sparking a legal backlash by U.S. importers.

Unlike Mr. Trumpôs many other policy promises, his commitment to sanction China for its currency policy has been one of his most explicit, and was included in his Gettysburg, Pa., speech that outlined his first-100-days action plan.

By itself, the currency-manipulation designation has little practical effect. It requires an escalation in negotiations with currency offenders and gives the White House power to preclude countries from some U.S. financing and trade deals. If used in conjunction with other laws that give the president broad authority to unilaterally sanction trade partners, however, Mr. Trump could use the designation to justify costly fees on imports from China, as he has also promised.

ñTrump has a lot of legal authority to intervene in trade,ò said Michael Gadbaw, a former U.S. Trade Representative attorney who is now a Georgetown University law professor.

Under the Foreign Trade Act of 1974, for example, ñhe could determine that this is an unreasonable and unjustifiable restriction on trade, and use that authority to impose tariffs on China,ò Mr. Gadbaw said.

Few economists would dispute Beijing kept the value of its exchange rate artificially low for more than a decade to gain an unfair export advantage against trade competitors. That competitive devaluation helped transform the nation into the worldôs second-largest economy at the expense of manufacturers in the U.S. and other countries.

But over the past two years, Chinese authorities have burned through nearly $1 trillion of the countryôs foreign exchange reserves to prop up the yuan against heavy downward pressure on the currency.

A fast-cooling economy has led to an unprecedented exodus of capital out of the country, tugging the currency down with it.

ñThe fact is that China has not manipulated for over two years,ò said Fred Bergsten, a senior fellow at the Peterson Institute for International Economics and a longtime advocate for stronger trade sanctions against Beijing for its yuan policy. ñIt would be highly inappropriate and inaccurate to label them a manipulator at this time.ò

Still, Mr. Trump could use his authority in the Treasury Departmentôs semiannual currency report to Congress, due out in April next year, to censure China as part of a broader strategy to leverage trade concessions from Beijing.

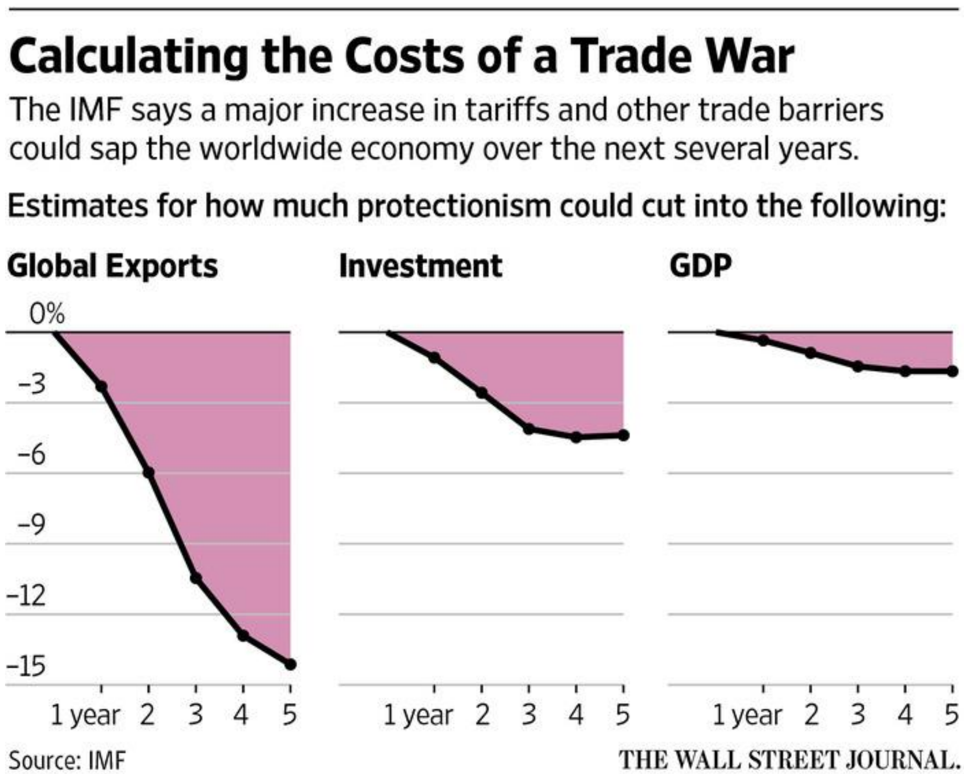
Gregory Daco, an Oxford Economics economist, says he thinks Mr. Trump will most likely refrain from imposing 45% trade tariffs on China, as he proposed many times during the campaign. But he could threaten to use more targeted and limited protectionist measures.

Chinaôs finance and commerce ministries didnôt respond to questions about the potential for a more protectionist U.S. under Mr. Trump, or of Washington labeling China a currency manipulator. Foreign Ministry spokesman Lu Kang said Thursday that Beijing was still waiting to assess the new administrationôs policies toward China.

Chinese exporters and economists, meanwhile, warned of a backlash for U.S. firms. ñIf there really is a 45% tariff, I donôt think Boeing will sell any more airplanes in China,ò said Lawrence Lau, an economics professor at Chinese University of Hong Kong.

Investors, analysts and economists are uncertain whether Mr. Trumpôs policies as president will match his campaign rhetoric as a candidate. Many say they are counting on his move into the White House, with the burden of responsibility that comes with leading the worldôs largest economy, to moderate his most controversial economic proposals.

Even if Mr. Trumpôs trade sanctions were temporary, many experts believe Beijing would respond in kind. That is one reason why the IMF said in its latest World Economic Outlook in October a surge in global protectionist measures could sap global gross domestic product by more than 1.5% over the next several years.



ñChina probably would retaliate and thatôs problematic for us,ò said Matthew Goodman, a top Asia expert at the Center for Strategic and International Studies.

Besides the economic fallout from a trade war, imposing punitive tariffs could also endanger Washingtonôs already strained diplomacy with Beijing on many other economic and strategic issues.

The U.S. has been trying to negotiate greater access for U.S. companies into Chinese markets, including through a bilateral investment treaty. American firms want to be able to take advantage of the business opportunities that a billion-plus population moving into the middle class represents. Washington has also been encouraging Beijing to wind down a massive overhang of excess industrial-production capacity swamping global markets, pushing down prices and forcing U.S. layoffs.

U.S.-China relations have also been on edge over escalating cybersecurity tensions, Beijingôs reluctance to rein in North Koreaôs nuclear weapons ambitions, and maritime border conflicts that threaten to turn into dangerous regional conflagrations.

The new president could also find himself embroiled in a legal challenges from U.S. companies such as Apple Inc. that rely on Chinese imports as part of their global product supply chains.

ð James T. Areddy contributed to this article