# Trump Opens a New Front in the Trade Wars

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February 7, 2020

Along with using tariffs to wage trade wars, U.S. President Donald Trump has long been obsessed by the idea that foreign countries are cheating the United States by keeping their currencies artificially low. Now he has managed to unite those twin obsessions into a potentially dangerous new rule that could spark more trade tensions and potentially further roil relations with China, Japan, and the European Union.

This week, the U.S. Commerce Department finalized a new rule that will allow Washington to levy tariffs on countries that it believes are undervaluing their currency, which theoretically makes their exports cheaper and gives them an edge in competition with American-made goods. U.S. countervailing duties, normally reserved for use against certain imports that are proved to be dumped at below-market prices, could now be slapped on imports from any country that the Commerce Department decides has cheap money.

"This Currency Rule is an important step in ensuring that unfair trade practices are properly remedied," Commerce Secretary Wilbur Ross said in a statement.

Ironically, however, the new currency rule is just the latest effort by the Trump administration to remedy the negative fallout of its own trade policies. The overall economic picture remains good—with a better-than-expected jobs report Friday, even though Trump's much-touted economy has created fewer jobs per month than the Obama administration.

But sectors exposed to the trade wars, such as agriculture and manufacturing, are shedding jobs and racking up bankruptcies. For farmers who lost their biggest export market thanks to the trade war with China, Trump has offered tens of billions of dollars in bailouts—but despite Chinese promises of big agricultural purchases, those export markets have yet to return.

And just last month, the administration suddenly expanded tariffs on imported steel to include products made with steel because pricier imports of raw steel make goods using that steel more expensive (and thus less competitive) for U.S. manufacturers to churn out. New research suggests that the steel and aluminum tariffs may have cost the manufacturing sector as a whole 75,000 jobs; those new "cascading tariffs" are an implicit recognition that the steel tariffs, just as expected, caused plenty of pain but did almost no good for U.S. businesses.

In January, despite the overall growth in employment, 12,000 jobs disappeared in manufacturing, underscoring Trump's difficulty of turning his protectionist policies into job creators for the Rust Belt states he vowed to help.

The new currency rule promises a fresh take on an old problem—but one that is partly of Trump's making. For decades, politicians and policymakers in Washington have bristled at countries that gain an export edge thanks to currencies that seem undervalued compared with the dollar. In the 1980s, Japan used a relatively cheap yen to become an export powerhouse. Two decades later, China used a cheap yuan to do the same—in both cases, at the expense of some U.S. industries, though to the benefit of U.S. consumers. Sen. Chuck Schumer, a New York Democrat, has for years tried to pass a similar currency rule through Congress.

The idea never gained much traction for two reasons. It's very difficult to determine if and by how much any given currency might be undervalued, since most are traded freely on the market and fluctuate for all sorts of reasons. And U.S. law mandates that countervailing duties—tariffs on artificially cheap imports—must be limited to goods that benefit from a specific government subsidy, not just cheap currency.

But as economists have known for 60 years, there's a bigger irony to Trump's crusade against what he feels are undervalued foreign currencies, like the Chinese renminbi, the euro, or the yen. If the dollar is stronger against those currencies these days, that's partly because of his own trade policies, particularly the tariffs he keeps slapping on with happy abandon.

Tariffs, like those that Trump applied to foreign steel, aluminum, solar panels, washing machines, and most goods from China, raise the price of goods for U.S. consumers. If there were lots of people out of work and lots of unused factories, tariffs might just spur more domestic production and do some good. But that's not the case in the United States today, with historically low levels of unemployment.

China's economy is bigger and weaker than during SARS, and ripple effects are already being felt across supply chains and in commodities markets.

"In a fully employed economy, when tariffs raise the prices of imports but there is no scope for expanding the supply of domestic substitutes, something has to push the prices of imports back down. So the dollar rises," said Barry Eichengreen, a professor of economics at the University of California, Berkeley who has studied the effects of tariffs for years.

That has been especially notable since early 2018, when the Trump administration began levying tariffs in earnest. And that's when the dollar started to rise against the yuan, yen, euro, and other currencies, making them look undervalued and spurring the administration's latest crusade. What's causing the Trump administration's "dollar discomfort," Eichengreen said, "is Trump's own trade policies."

For trade observers who watched how the Commerce Department implemented the steel tariffs and handed out exclusions to favored firms, the new currency rule seems likely to lead to even more backroom shenanigans like that which has worried the department's own inspector general.

"One question is whether it's a good idea for a Commerce Department or the U.S. government to use countervailing duties to address undervalued currencies, and a whole other question is whether this Commerce Department should be involved," said Daniel Ikenson, the director of trade policy studies at the Cato Institute, who has written about the new measure.

Given the shady way that the Commerce Department handed out exclusions to well-connected companies, as the inspector general determined, Ikenson fears giving the department even more discretion over a fresh wave of controversial tariffs will just mean “more smoke-filled backrooms with cronies … and underhanded dealings.”

It’s not entirely clear if the new measure will pass muster under World Trade Organization rules, since countervailing duties are a trade remedy to help a specific sector facing harm from a specific foreign subsidy. The U.S. International Trade Commission will have to make the determination if any company claims cheap currency is causing harm, but it still could raise concern among other countries already alarmed by unilateral U.S. trade actions.

Another problem is how the Commerce Department will even determine if a foreign currency is undervalued, which is notoriously tricky to do. Commerce said it would consult with the Treasury Department in making that decision but won’t rely on the annual determinations that Treasury officials make about other countries’ currencies. Last year, the Treasury Department came to the rare conclusion that China was manipulating its currency but then suddenly reversed itself as Trump wrapped up his mini-trade deal with Beijing. A few other countries, including South Korea, Germany, Japan, and Switzerland, are on the Treasury watch list for potential currency manipulation.

The Commerce Department indicated that it would be looking primarily at cases of direct intervention in currency markets, as when central banks sell their holdings to drive down the local currency and juice exports; regular policy decisions like interest rates wouldn’t normally be in the crosshairs, the department said. But Ikenson noted that that’s at least partly about protecting the United States from similar claims abroad. Countries accused the United States of making the dollar too cheap during the loose-credit response to the financial crisis, and Trump himself has repeatedly tried to talk down the value of the dollar and pressured the Federal Reserve to cut interest rates to that end.

What the new currency rule does is add even more potential for conflict with America’s big trading partners.

Since taking office, Trump and his top trade officials have railed against what they see as unfair trade practices by big economies, especially China and the European Union. Trade talks this year between the United States and Europe were already set to be contentious, with Trump brandishing the threat of additional tariffs on European cars and with Europe refusing to further open up its market to U.S. farm goods. Another round of U.S. tariffs, this time stemming from a years-old dispute over European subsidies for the aerospace giant Airbus, could land this month. Any Commerce Department action against European goods under the new rule could not only threaten to derail the already tense trade talks but would invite more retaliatory European tariffs on U.S. exports.

And the new rule could also pose a threat to the recently inked trade detente with China. Trump has for years accused Beijing of keeping the value of its currency low to goose exports and win an unfair advantage in the United States, even though, for the most part, Beijing intervened recently in currency markets to keep its currency from falling even further—not to push it down.

But that could change early this year in the wake of the coronavirus, which has infected tens of thousands of people and killed more than 600 since the outbreak began in Wuhan, China, more than a month ago. The virus and subsequent quarantine threaten to chill Chinese economic activity in a year when Beijing desperately needs to post healthy growth numbers.

China has already started to loosen credit to stimulate the economy, and economists expect further stimulus to minimize the economic fallout from the virus—including, perhaps, letting the currency depreciate to give exporters a little breathing room.

The Chinese state-run outlet *Global Times* warned that the new U.S. currency tariffs, if deployed against China, would put both the “phase one” trade package and any future trade talks at “grave risk.”