Tech May Be Caught in Crossfire of U.S.-China Currency Clash

Alexis Kramer

January 5, 2017

President-elect Donald Trump's promise to brand China a currency manipulator has sparked concerns that U.S. technology companies will face trade setbacks with the Asian nation.

Trump said during his campaign that he would move against China on that front immediately upon taking office and impose 45 percent tariffs on its exports to the U.S. Trump has accused China of keeping its currency, the yuan, artificially weak against the dollar to make its exports more competitive.

If Trump carries out his plan, China is likely to retaliate at the expense of tech companies, trade policy and economic analysts told Bloomberg BNA. One way it could do that is by boosting efforts to build up its domestic tech industries, impacting U.S. markets, they said. Strained relations between the countries could hinder U.S. efforts to influence Chinese policies—including on data and intellectual property—that affect the U.S. tech sector.

China could respond by "making life more difficult for tech companies looking to do business in China," Brad W. Setser, senior fellow at the Council on Foreign Relations in New York and a former Department of the Treasury official, said.

China is the U.S.'s largest trading partner and third largest export market. U.S. exports to China of "advanced technology products," which include information and communications products, totaled $34.2 billion in 2015, according to the U.S. Census Bureau. U.S. exports to China of semiconductors—used in a wide range of technologies from artificial intelligence to the internet of things—totaled $6.93 billion in 2015, according to a Dec. 21 Congressional Research Service report.

Trump's remarks on the campaign trail and picks for senior administration posts have signalled a tough stance against China.

"They are a manipulator, grand master level," Trump said in an economic policy speech in September. International trade lawyer Robert Lighthizer, whom Trump picked to serve as U.S.

trade representative, and Peter Navarro, who will head Trump’s newly formed White House National Trade Council, have previously accused China of unfair trade practices, according to Bloomberg News.

Trump’s words have already drawn fire. The Global Times, an English language newspaper in China under the People’s Daily, the official newspaper of China’s Communist Party, said in a Nov. 13 editorial that Trump’s accusations “cannot hold water.” The Treasury Department determined in an October 2016 reportthat China did not meet the criteria of currency manipulator.

Potential Moves

If Trump's Treasury Department determines that China is a currency manipulator, one year of bilateral negotiations would ensue, during which China would be urged to implement policies to address its claimed currency undervaluation. If Steven Mnuchin, Trump’s pick to lead the department, determines that China has failed to take measures to correct its exchange rates following that year, Trump could take remedial action, including prohibiting the U.S. government from acquiring goods or services from China or from approving financing for projects located in China.

The U.S. Constitution gives Congress the power to impose tariffs. However, Congress has delegated a number of international trade-related powers to the president through legislation. Trump could try to invoke the International Emergency Economic Powers Act of 1977 (Pub. L. No. 95-223) that authorizes the president to regulate international commerce to “deal with any unusual and extraordinary threat,” if he “declares a national emergency with respect to such threat.” It is unclear whether China’s alleged currency manipulation could amount to such an emergency. The statute also requires the president to consult with Congress before exercising this authority.

A Trump transition spokeswoman didn’t respond to a Bloomberg BNA request for comment.

Ways China Could Retaliate

If the U.S. imposes tariffs, “China would do something in response that has the potential to impact tech companies quite significantly,” David Dollar, a former Treasury official and senior fellow at the Brookings Institution’s John L. Thornton China Center, said. It could bring a case against the U.S. to the World Trade Organization, the international organization that enforces international trade rules, he said, or accelerate efforts to rely on domestic rather than U.S. production.

The Global Times promised, in its editorial, that “China will take countermeasures” If Trump brands it a currency manipulator and imposes steep tariffs. A number of American industries could be impaired, according to the newspaper, which listed Apple Inc.'s sales of iPhones as a potential target.

The newspaper predicted that iPhone sales in China—where Apple makes 23 percent of its overall sales, according to Bloomberg News—“will suffer a setback.” China is home to approximately 131 million iPhone owners, according to a May report from the state-run China Internet Network Information Center.

Setser, of the Council on Foreign Relations, said China could retaliate by boosting efforts to build up its domestic semiconductor industry so it can rely less on the U.S. and other foreign markets.

Semiconductors were among China's top imports in 2015, with 52 percent of its total semiconductor imports coming from the U.S., according to the trade representative's office. Previously, China stepped up efforts to shift to domestic technology companies after 2014 revelations of widespread spying by U.S. intelligence agencies, according to Bloomberg News.

But Chinese countermeasures aren't the only way the tech sector could be affected.

Imposing tariffs on China would cause the U.S. dollar to appreciate, said Dollar, making U.S. exports more expensive for foreigners to buy. A tariff on Chinese imports would also make electronic products such as iPhones more expensive to manufacture in China, driving up prices, he said.

Strained Relations

A big concern about branding China a currency manipulator is that it could weaken dialogue between the U.S. and China and reduce U.S. influence in areas such as data localization and IP protection, where the U.S. wants China to change, Bill Watson, a trade policy analyst at Washington's Cato Institute, said. The label would "make it harder for the U.S. government in their efforts to open up China" and persuade it to adapt its policies so U.S. tech companies benefit, he said.

On data localization, or the practice of prohibiting the storage of local data on servers outside of the country, the U.S. Chamber of Commerce and U.S. computer industry groups such as the Software and Information Industry Association and BSA | The Software Alliance have been unsuccessful in pushing China to alter its rules. U.S. businesses say China's current data localization policy creates barriers to entering the Chinese market.

China's reputation as a weak protector of IP rights has been a focus of bilateral talks at U.S.-China Joint Commission on Commerce and Trade meetings. The two countries agreed, at the 27th annual meeting in November, to explore using big data to enhance their abilities to combat counterfeiting online, according to a Department of Commerce fact sheet. China also committed to strengthening cooperation between rightsholders and e-commerce platforms, and to increased supervision over counterfeiting, it said.

Manipulator Label

The charter of the International Monetary Fund requires its 189 member countries, including China, to avoid manipulating exchange rates to gain an unfair competitive advantage over other members.

Section 701 of the Trade Facilitation and Trade Enforcement Act of 2015 requires the Treasury secretary to analyze the currency exchange rate policies of major trading partners that have a bilateral trade surplus with the U.S. above $20 billion, a current account surplus of more than 3 percent of its gross domestic product and that have engaged in persistent, one-sided intervention in the foreign exchange market.

According to Treasury's Oct. 14 report on global foreign-exchange policies, no major trading partner has met the currency-manipulation standard. Treasury found that China met only one of the three criteria that would warrant enhanced analysis of its foreign exchange policies.

Setser said it's not clear what China would do immediately if the Trump administration branded it a currency manipulator, and that its response would depend on the strength of the actions taken against it. If the U.S. imposes sanctions, Setser said, there is "almost a certainty that there would be some kind of Chinese response."