National Farmers Union

FACT SHEET

Currency Manipulation

Issue Summary: ***Currency manipulation is the key contributor to the U.S. trade deficit. The U.S. is currently negotiating the Trans-Pacific Partnership (TPP), a trade agreement with 11 other countries. All potential gains in TPP through tariff reductions are at risk because of likely currency manipulation. The TPP currently contains no provisions to address currency manipulation.***

- Currency manipulation is a trade distorting action that artificially lowers the cost of U.S. imports and raises the cost of U.S. goods.
- The most common way for governments to manipulate currency is through the purchase of foreign exchange reserves and other financial assets in foreign currencies.[1]
- According to the Economic Policy Institute, currency manipulators accumulate growing federal exchange reserves over time, unlike other countries who both buy and sell reserves in order to maintain the target exchange rate.
- Currency manipulators meet the following criteria, according to recent analysis[2]:
    - Holding federal exchange reserves that exceed six months of goods and services imports
    - Maintaining a total current-account surplus between 2001 and 2011
    - Growing total federal exchange reserves faster than GDP between 2001 and 2011
    - Having a gross national income in 2010 of at least $3,000 per capita.
- Currency manipulation directly impacts trade by weakening the home currency or keeping a country's currency undervalued for trade.[3] This differs from other economic policies such as quantitative easing and other actions impacting interest rates and prices because they are internally focused and do not distort trade.
- Eliminating currency manipulation would reduce the annual U.S. trade deficit by $200-$500 billion, which would increase U.S. Gross Domestic Product by 2 to 4.9 percent.
- For example, one year after the North American Free Trade Agreement (NAFTA) was implemented, Mexico devalued its currency by 50 percent, negating the tariff reductions achieved in the agreement.
- The U.S.-Korea Free Trade Agreement (KORUS) did not contain provisions to address currency manipulation, despite the Treasury Department's identification of Korea as a currency manipulator.

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[1] http://s2.epi.org/files/2015/stop-currency-manipulation-in-the-trans-pacific-partnership.pdf

[2] Bergsten, C. Fred and Joseph E. Gagnon. 2012. *Currency Manipulation, the U.S. Economy, and the Global Economic Order.* Washington: Peterson Institute for International Economics.

[3] https://research.stlouisfed.org/publications/es/11/ES1105.pdf

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