

Brainard Faces China Questions If Biden Picks Her for Treasury

By [Saleha Mohsin](#)

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- ▶ Fed's Brainard seen as candidate for Biden Treasury secretary
- ▶ Colleagues say she wanted to label China currency manipulator



Lael Brainard *Photographer: Andrew Harrer/Bloomberg*

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Lael Brainard may face scrutiny over her dovish comments about China as a top Obama administration official if President-elect Joe Biden chooses her to be Treasury Secretary, but people familiar with her work said she took a more aggressive approach in private.

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Now, as the Federal Reserve governor emerges as a leading candidate for the post, her past remarks risk painting her as weak on Beijing -- a potential vulnerability in a political climate that has become more adversarial, fueled by growing trade imbalances and President Donald Trump's more combative approach to China.

Senators from both parties -- who would vote on her confirmation if Biden selects her -- have supported a forceful stance against China on issues ranging from trade to human rights to military expansionism.

During her time as Treasury's undersecretary of international affairs under President Barack Obama, Brainard pushed behind-the-scenes to label China a currency manipulator, former colleagues say. Her boss at the time, then-Secretary Tim Geithner, ultimately rejected her advice, and Brainard backed the administration's decision in public.

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While at Treasury, Brainard boasted that the administration had made "measurable gains" in U.S. exports to China without "undue drama" -- comments that now strike a contrast with Trump's tariff wars with Beijing.

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“We have pursued our agenda with China in a way that creates predictability and clarity, pursuing areas of cooperation

even as we press to resolve problems,” she said in a 2012 speech. Still, she noted that the U.S. would continue to urge China to “avoid persistent exchange rate misalignment, and refrain from competitive devaluation.”

As Treasury’s top diplomat from 2010 to 2013, Brainard never publicly expressed discontent with the administration’s China policy.

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But she was known to support a more punitive approach to China’s unfair trade practices, a position she argued during closed-door meetings, according to Obama officials familiar with the discussions.

She oversaw eight reports reviewing the currency practices of major trading partners, and cleared China of manipulation in each of them. The documents noted China’s lack of transparency and said the yuan was “significantly undervalued.” While the reports said the U.S. would “closely monitor” Beijing’s activities, they stopped short of assigning the politically-charged label of “currency manipulator.”

Brainard, her former colleagues said, disagreed with the decision. But she lost those battles and instead carried out Obama’s policy of approaching China’s unfair trade practices through diplomacy rather than aggression.

Brainard and Geithner declined to comment through

spokespeople.

“Her speeches provided performative skepticism while serving to justify continuing passivity by Treasury,” according to Jeff Hauser of the left-leaning Center for Economic and Policy Research in Washington. “China currency manipulation was the top issue on her agenda for three years when she was at Treasury, and during that time she never expressed disagreement with the policy she managed.”



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Brainard, who has served as a Fed governor since 2014, is likely to face scrutiny of her record on China from Biden’s transition team and, if nominated, from senators of both parties.

“The approach under Biden will be strategically similar to the Trump administration: Tough. But tactically different,” said PGIM Inc. chief economist Nathan Sheets, who was Brainard’s successor at Treasury under Obama.

Biden’s team is also said to be considering ex-Fed official Roger Ferguson and current Fed official Raphael Bostic for Treasury Secretary.

Trump, who has repeatedly bashed Obama’s approach to China, has ratcheted up tensions during his term, slapping tariffs on hundreds of billions of dollars of Chinese goods and labeling Beijing a currency manipulator -- the move Brainard is said to have unsuccessfully supported. And Trump appeared to win some concessions from the move: Chinese officials lobbied the U.S. to lift the designation before they would sign any trade deal.

But there were reasons to tread more carefully during Obama’s presidency. Brainard’s time at the Treasury

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Department came during the height of the global financial crisis. The U.S. relied more heavily on G-20 and G-7 meetings to speak out on China, rather than take direct action, because the U.S. needed China's help.

The Asian nation held \$1.2 trillion in debt issued by the American government. If China dumped any of it to save itself from further losses, it would have triggered further chaos in financial markets.

For that reason, Geithner flew to China in 2009 to assure officials that their investments in the U.S. were "very safe."

"The U.S. saw China as potentially playing a useful role in stabilizing U.S. financial markets and assisting the global recovery," said Eswar Prasad, an economist at Cornell University who worked in the International Monetary Fund's China division.

Even though lawmakers of both parties and business groups argued for greater pressure on Beijing, the Obama administration never designated China a currency manipulator. Geithner downplayed the significance of the label, saying it would merely trigger a dialog between officials from the two countries, something he said was already happening. And Brainard was a key figure in the discussions.

"Issuing a report that requires us to consult accomplishes nothing," Geithner said in 2010.

Since then, imbalances have grown. The annual U.S. trade deficit with China has increased by more than 50% to \$345.6 billion in the past decade.

– *With assistance by Craig Torres, Jennifer Epstein, and Jordan Fabian*

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