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Treasury Puts Taiwan on Notice in Currency Report but Strikes Measured Tone

The Biden administration removed Vietnam and Switzerland from the list of currency manipulators, but it will push all three countries to address its concerns.

By Alan Rappeport

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The Treasury Department said on Friday that it was putting Taiwan, Vietnam and Switzerland on notice over their currency practices, but it struck a more conciliatory tone than the Trump administration by stopping short of labeling any of them a currency manipulator.

The announcement came in the Treasury Department's first foreign exchange report under Secretary Janet L. Yellen. The report, which Treasury submits to Congress twice a year, aims to hold the United States' top trading partners accountable if they try to gain an unfair advantage in international commerce through practices such as devaluing their currencies.

Being labeled a currency manipulator requires a trading partner to enter into negotiations with the United States and the International Monetary Fund to address the situation. The blemish is somewhat symbolic but can lead to tariffs or other retaliation if talks collapse.

Both Switzerland and Vietnam had been on the list of currency manipulators after the Trump administration added them last year, and their removal on Friday means no country currently faces that designation. Still, Treasury said there were signs that Switzerland, Vietnam and Taiwan were improperly managing their currencies.

"Treasury is working tirelessly to address efforts by foreign economies to artificially manipulate their currency values that put American workers at an unfair disadvantage," Ms. Yellen said in a statement.

The decision is the latest attempt by the Biden administration to de-escalate tension with American allies after four years of former President Donald J. Trump's confrontational approach to international economic diplomacy. It also steers the United States away from Mr. Trump's fixation on bilateral trade imbalances, taking a more holistic view of trade relationships.

Treasury officials noted the extraordinary economic conditions brought on by the pandemic in the last year and said they were not trying to send mixed messages by suggesting manipulation was taking place but not labeling it as such.

"This report adopts a more measured and analytical tone in evaluating U.S. trading partners' currency practices relative to the Trump administration's approach of wielding the report as a political tool," said Eswar S. Prasad, the International Monetary Fund's former China chief. He said the Biden administration's report "comes to analytically balanced assessments of foreign exchange market intervention by U.S. trading partners."

The Trump administration labeled Vietnam and Switzerland as manipulators in its final report in 2020, but the Biden administration said there was insufficient evidence to support the designation. To receive the label, Treasury must conclude that a country manipulates the exchange rate between its currency and the dollar for "purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade."

Treasury instead said it would continue "enhanced engagement" with Vietnam and Switzerland and begin such talks with Taiwan, which includes urging the trading partners to address undervaluation of their currencies. There is no fixed duration for how long such talks can go without a resolution.

Mark Sobel, the chairman of the Official Monetary and Financial Institutions Forum, said the Biden administration was wise to take a more nuanced approach to assessing how countries were managing foreign exchange.

He noted that Switzerland faced unusual monetary policy and safe-haven challenges and that Vietnam's foreign exchange reserves had been low when it received the manipulator label last year. A government can suppress the value of its currency by selling it in foreign exchange markets and stockpiling dollars.

Moreover, Taiwan, Thailand and South Korea have traditionally been even worse offenders than Switzerland and Vietnam, according to Mr. Sobel, even though the United States has avoided calling them out for it.

"I think the new Treasury team is more willing to recognize that the relative policy divergence between the U.S. and others is a significant factor in that," Mr. Sobel said. "I also think the Trump administration approach was much more belligerent as a general proposition."

Taiwan was the United States' 10th-largest trading partner in 2019, according to the Office of the United States Trade Representative. Vietnam was the 13th largest and Switzerland the 16th.

While the United States has been deepening ties with Taiwan as part of its effort to confront China, the Biden administration is also calling for a major investment in America's semiconductor industry to reduce the nation's reliance on imports from Taiwan and other countries.

The Treasury report said that Taiwan's central bank "continues to actively intervene in the foreign exchange market" and that "less formal exchange rate management practices" had prevented the Taiwanese dollar from fully reflecting macroeconomic fundamentals.

Currency analysts have been expecting the Biden administration to put more pressure on Taiwan to change its foreign exchange practices after the appointment of Brad Setser to a senior role at the Office of the United States Trade Representative. As a fellow at the Council on Foreign Relations in 2019, Mr. Setser wrote a report concluding that Taiwan was hiding $130 billion in reserves to mask its currency interventions and that the case for naming it a manipulator was stronger than the case for naming China.

"Taiwan really has been intervening on a large scale to maintain an undervalued currency for competitive advantage," Mr. Setser wrote on Twitter at the time.

The Treasury Department did not label China a currency manipulator, instead urging it to improve transparency over its foreign exchange practices.

Treasury kept China, Japan, South Korea, Germany, Italy, India, Malaysia, Singapore and Thailand on its currency monitoring list, and added Ireland and Mexico.