

# Currency Manipulation 101

## What Is It and How Does It Affect American Jobs?

### Why Is Currency Important to Trade?

- Because trade happens through the exchange of money, currency can be as important an influence on trade as the qualities of the traded goods or services themselves.
- When governments intervene in currency markets to subsidize their exports, they violate the principles of free trade and force the market to ignore normal pressures of supply and demand.
- Free trade supports U.S. exports and American jobs, but free trade in goods and services **requires** free trade in currencies.
- **Government intervention in currency markets distorts trade flows and undermines free trade agreements.**

### How Does a Country Manipulate Its Currency?

Currency manipulation is a policy used by governments and central banks of some of America's largest trading partners to artificially lower the value of their currency (in turn lowering the cost of their exports) to gain an unfair competitive advantage.

Simply explained, in order to weaken its currency, a country sells its own currency and buys foreign currency – usually U.S. dollars. Following the laws of supply and demand, the result is that the manipulating country reduces the demand for its own currency while increasing the demand for foreign currencies.



### How Do We Know a Country Has Manipulated Its Currency?

The International Monetary Foundation (IMF) and the World Trade Organization (WTO) have provisions prohibiting the use of currency manipulation to gain trade advantages. Based on IMF principles, a three-part test can be used to clearly identify a currency manipulator within existing or future trade agreements:

- ✓ Did Country X have more exports than imports (an account surplus) over a set six-month period?
- ✓ Did Country X add to its foreign exchange reserves over that same six-month period?
- ✓ Are Country X's foreign exchange reserves more than sufficient (i.e. over three months' normal imports)?

#### Do Monetary Policy and Quantitative Easing Fall under This Test?

No. The currency rules recommended by leading economists would NOT affect monetary policy. The test is narrowly targeted to capture the most egregious policy – direct intervention – and in no way restricts the ability of a country to engage in independent monetary policies like quantitative easing.

## What Happens When a Country Manipulates Its Currency?

American-made products can compete anywhere in the world within a free market. But when countries manipulate currencies and unfairly lower the cost of their exports, markets are distorted in three significant ways, damaging the U.S. economy and costing America jobs.

### Distortion #1: U.S. exports to Country X become more expensive

Country X's weaker currency increases the cost of U.S. exports, making them less attractive to consumers in Country X, causing reduced U.S. exports and a loss of U.S. jobs.



### Distortion #2: Country X's exports to the U.S. have an unearned competitive advantage

Country X's weaker currency lowers the cost of Country X's exports, making them more attractive than American-made goods, causing fewer sales of U.S. products and a loss of U.S. jobs.



### Distortion #3: U.S. exports to all countries become less competitive

Country X's weaker currency increases the cost of U.S. exports in all global markets, making them less attractive to consumers the world over, causing reduced U.S. exports and a loss of U.S. jobs.



## How Do We Solve the Problem and Protect American Jobs?

- Manipulating currency to gain an unfair competitive advantage is already prohibited for members of the IMF and WTO, but the prohibitions lack teeth. **The solution is simple: strong and enforceable currency rules must be included in all future trade agreements – including TPP.**
- If these rules are included, any country found to be in violation would lose the benefits of the trade agreement. This will strongly discourage currency cheating and protect free trade and free market principles.

Supporting strong and enforceable currency rules in all future trade agreements will stop currency manipulation, restore free trade, and protect American jobs.