Updated January 10, 2025

Exchange Rates and Currency Manipulation

At various points over the past two decades, some Members of Congress have expressed concerns that other countries are engaging in currency manipulation—that is, purposefully using exchange rate policies to gain an unfair trade advantage. There are broad debates among economists and policymakers about currency manipulation, including how it should be defined, its prevalence, and its implications for the U.S. economy. Amidst these debates, the U.S. government has developed and applied policy tools to address currency manipulation. This product provides an overview of the various policy tools and highlights specific issues that Congress might consider in evaluating debates about the exchange rate policies of other countries.

Background

An exchange rate is the price of one currency in terms of another currency. Exchange rates are among the most important prices in the global economy: they affect international trade and financial flows and the value of every overseas investment.

Governments have different exchange rate policies, and these policies may change over time. Some governments, including the United States, allow the value of their currency to fluctuate depending on the supply and demand of their currency relative to other currencies. The supply and demand of currencies, in turn, depend on a range of factors, such as economic growth, interest rates, inflation, domestic priorities, and geopolitical events. Other governments actively intervene in foreign exchange markets (by buying and selling currencies) in order to influence the value of their currency—for example, to sustain the currency at a fixed value or to keep the currency from deviating too far from a target value.

Currency Manipulation

Currency manipulation refers to government policies that interfere with market forces and intentionally push down the value of a country's currency in order to boost exports. The resulting weak or depreciated currency makes a country's exports less expensive to foreign buyers than they would be otherwise. All else equal, currency manipulation by other countries may make U.S. exports less competitive in global markets.

U.S. policymaker concerns about exchange rates were particularly salient during:

- the 1930s, when several countries repeatedly devalued their currencies in order to boost exports during the Great Depression;
- the 1980s, when the U.S. dollar appreciated relative to the currencies of its major trading partners; and
- the 2000s and 2010s, when the Chinese central bank engaged in large-scale interventions in foreign exchange markets with the aim of limiting appreciation of its currency, the renminbi.

Currency manipulation is a controversial topic. There are questions about the extent to which governments can successfully influence the value of their currency, particularly with today's highly liquid and integrated international financial markets. Additionally, many economic policies (including fiscal and monetary policies) impact exchange rates. Policymakers and analysts may face difficulty differentiating "unfair" currency manipulation from "legitimate" economic policies (for example, consistent with a central bank's mandate to support employment). Furthermore, the net economic effects of currency manipulation for the United States are unclear—while U.S. exports may fall when other countries have weak currencies, U.S. consumers may benefit from less expensive imports.

Policy Tools

The United States has sought to address currency manipulation through a variety of international institutions and forums, U.S. laws and regulations, and trade policy tools. U.S. policymakers have used these approaches to varying degrees and in varying contexts.

International Institutions and Forums

The International Monetary Fund (IMF). After World War II, the United States in conjunction with European allies led the creation of the IMF to promote international monetary stability. Upon joining the IMF, member countries pledge, among other commitments, to refrain from manipulating their exchange rates to gain an unfair trade advantage. The IMF has never determined that a member country has manipulated its currency during the institution's nearly eight-decade history. If the IMF did determine a member was manipulating its exchange rate, that member could lose access to IMF financing and its voting rights at the IMF, and ultimately, face expulsion from the institution.

The Plaza and Louvre Accords. During the 1980s, the United States negotiated agreements on exchange rate issues directly with major trading partners. In 1985, the Group of 5 (G5, comprised of France, West Germany, Japan, the United States, and the United Kingdom) signed the Plaza Accord, in which countries agreed to intervene in currency markets to depreciate the U.S. dollar. In 1987, six countries (the G5, plus Canada) signed the Louvre Accord, in which they agreed to halt the depreciation of the U.S. dollar through a variety of different policy measures.

G7 and G20 discussions. The United States engages in exchange rate discussions at the Group of 7 (G7, a small group of advanced economies) and the Group of 20 (G20, a larger group of major advanced and emerging-market economies). Over the past decade, G7 and G20 statements routinely have included commitments to adopt market-determined exchange rates and refrain from competitive devaluations. Commitments made at the G7 and the G20 are not enforceable.

U.S. Legislation

The Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418). P.L. 100-418 requires the Treasury Department ("Treasury") to analyze and report semiannually on the exchange rate policies of major U.S. trading partners. If countries are found by Treasury to be manipulating their currencies, the legislation, in some instances, negotiations with those countries to address the issue. Treasury made four designations of currency manipulation between 1988 and 1994 (China, South Korea, and Taiwan [twice]) and three times between 2019 and 2021 (China, Switzerland, and Vietnam). Designations lasted a few months to a few years.

The Trade Facilitation and Trade Enforcement Act of 2015 (P.L. 114-125). In 2015, Congress enacted legislation that specifies metrics for determining whether or not countries are engaged in currency manipulation. If concerns persist after one year of "enhanced bilateral engagement," P.L. 114-125 requires Treasury to undertake a range of specific actions, including raising the issue at the IMF. Since the law was enacted, Treasury has designated three countries (Switzerland, Taiwan, and Vietnam) for currency manipulation under the criteria outlined in P.L. 114-125, with designations lasting a few months to a few years.

Trade Tools

Trade negotiations and agreements. In 2015, Congress included exchange rate policies as a principal negotiating objective in Trade Promotion Authority (TPA) legislation (P.L. 114-26). Pursuant to TPA, Treasury negotiated currency issues in the context of the United States-Mexico-Canada Agreement (USMCA, which entered into force in July 2020). The TPA granted by Congress to the President in 2015 expired in 2021, and has not been renewed.

Tariffs on imports from countries with undervalued exchange rates. In 2020, the Commerce Department (Commerce) implemented a regulatory change that attempts to counter currency manipulation through tariffs. The regulation allows, in certain circumstances, tariffs on imports from countries designated by Commerce, in consultation with Treasury, to be undervaluing their currency. In 2021, Commerce announced its first, and to date only, affirmative finding regarding a currency-related subsidy involving tires from Vietnam, and imposed a countervailing duty on such imports from Vietnam.

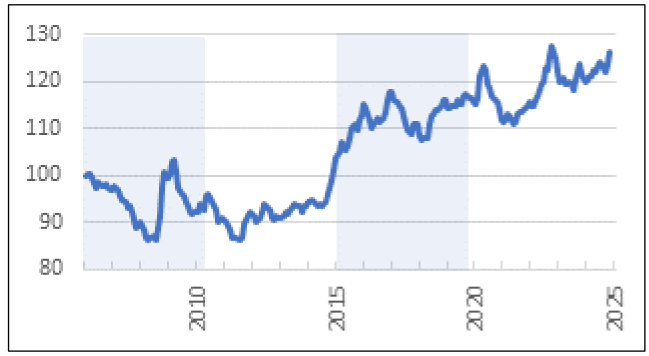
Section 301. In October 2020, the U.S. Trade Representative (USTR) announced a "Section 301" investigation into a country's currency practices (Vietnam). Section 301 of the 1974 Trade Act (P.L. 93-618) grants USTR a range of responsibilities and authorities to investigate trade practices that may violate U.S. trade agreements or engage in acts that are "unjustifiable," and potentially impose trade sanctions. In 2021, USTR determined that Vietnam had taken "unreasonable" actions to push down the value of its currency; it lifted the designation following bilateral negotiations.

Select Policy Issues for Congress

Appreciation of the U.S. dollar. Over the past decade, the U.S. dollar has appreciated by about 40% against a basket of currencies (**Figure 1**). Congress could create a commission or require Treasury and/or the Federal Reserve to analyze the factors contributing to the dollar's appreciation.

Figure 1. Nominal Broad U.S. Dollar Index

Jan. 2006 – Nov. 2024 (Jan. 2006=100)



Source: Federal Reserve.

Treasury's "Monitoring List." As part of its semiannual report to Congress on the international economic and exchange rate policies of major U.S. trading partners, Treasury includes a "Monitoring List" of countries with exchange rate policies that merit close attention. In November 2024, the list included China, Germany, Japan, Singapore, South Korea, Taiwan, and Vietnam. Because the monitoring list garners attention, Congress might consider how the list is constructed, whether or not to require additional analysis of the countries on the list, and/or whether to require engagement with countries on the list.

China and ongoing transparency issues. Treasury has repeatedly noted China's lack of transparency around key features of its exchange rate mechanism, complicating analysis of China's policies. Legislation was introduced in the 118th Congress that would require the U.S. Executive Director at the IMF to advocate for greater transparency of China's exchange rate policies (H.R. 839/S. 4418).

Evaluating policy tools. As the number of policy tools to address currency manipulation has expanded, so too has the number of international bodies and U.S. government agencies engaged in evaluating currency policies. Different actors have different criteria and processes for evaluating currency manipulation, and they at times arrive at different conclusions. Congress might consider how to balance the flexibility provided by an expanded array of policy tools with the ability to send clear signals to U.S. trading partners. Congress could asses the effectiveness of the range of policy tools by holding hearings with the relevant executive branch agencies and/or policy experts. Congress could also consider whether current legislation relating to currency manipulation should be amended, expanded, terminated, or consolidated.

Rebecca M. Nelson, Specialist in International Trade and Finance

IF10049

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.