



Currency Manipulation

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Context: India falls in United States list of currency manipulator.



Background: The U.S. Treasury labeled

Switzerland and Vietnam as currency manipulators on Wednesday and added three new names to a watch list of countries it suspects of taking measures to devalue their currencies against the dollar.

The U.S. Treasury said its "monitoring list" of countries that meet some of the criteria has grown to 10 with the additions of Taiwan, Thailand and India. Others on the list include China, Japan, Korea, Germany, Italy, Singapore and Malaysia.

Currency Manipulation

It labeled by the US government to countries it feels are engaging in “unfair currency practices” by deliberately devaluing their currency against the dollar. The practice would mean that the country in question is artificially lowering the value of its currency to gain an unfair advantage over others.

This is because the devaluation would reduce the cost of exports from that country and artificially show a reduction in trade deficits as a result.

Main Parameters

An economy meeting two of the three criteria in the Trade Facilitation and Trade Enforcement Act of 2015 is placed on the Monitoring List. This includes:

1. A significant bilateral trade surplus with the US, one that is at least \$20 billion over a 12 month period.
2. A material current account surplus equivalent to at least 2 percent of gross domestic product over a 12 month period.
3. Persistent, one-sided intervention — when net purchases of foreign currency totaling at least 2 percent of the country’s GDP over a 12 month period are conducted repeatedly, in at least six out of 12 months.

Matter of Concern

Once on the Monitoring List, an economy will remain there for at least two consecutive reports to help ensure that any improvement in performance versus the criteria is durable and is not due to temporary factors, according to the US treasury department.

The administration will also add and retain on the Monitoring List any major US trading partner that accounts for a large and disproportionate share of the overall US trade deficit, even if that economy has not met two of the three criteria from the 2015 Act.

The US Department of the Treasury Office of International Affairs, in its latest report to the US Congress, has included India, Taiwan and Thailand to its Monitoring List of major trading partners that “merit close attention” to their currency practices and macroeconomic policies.

Other countries in the latest list comprise China, Japan, Korea, Germany, Italy, Singapore, Malaysia.

India was last included in the currency watchlist in October 2018, but removed from the list that came out in May 2019.

The designation of a country as a currency manipulator does not immediately attract any penalties, but tends to dent the confidence about a country in the global financial markets.

Conclusion

India, which has for several years maintained a significant bilateral goods trade surplus with the US, crossed the \$20 billion mark, according to the latest report. Bilateral goods trade surplus totalled \$22 billion in the first four quarters through

June 2020.

Based on the central bank's intervention data, India's net purchases of foreign exchange accelerated notably in the second half of 2019. Following sales during the initial onset of the pandemic, India sustained net purchases for much of the first half of 2020, which pushed net purchases of foreign exchange to \$64 billion—or 2.4% of GDP—over the four quarters through June 2020.

Connecting the Article

Question for Prelims : Which of the following are the essential functions of the India Trade Promotion Organisation ?

1. Promotion through department stores, contact and product promotion programmes, and market surveys.
2. Information dissemination on products and markets among trade and industry in India and abroad.
3. Organizing seminars, conferences and workshops on trade-related issues.
4. Up gradation of the facilities of Pragati Maidan to exacting international standards.

Select the correct answer using the code given below:

- (a) 1 and 2 only
- (b) 2 and 4 only
- (c) 1, 2 and 4 only
- (d) 1, 2, 3 and 4

Question for Mains : India has put in the list of currency manipulation by the US Department of Tresery. What is the significance of this ? How it will impact Indi's growing relations with US? Discuss.