

December 17, 2020

## **U.S. Treasury labels Switzerland a currency manipulator – let's not get overly excited!**

On December 16, 2020, the US Treasury released its semi-annual report “Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States”. In this report, Switzerland and Vietnam get singled out as currency manipulators. Ten other countries, including Germany, China, Italy, Singapore and Japan, have been named on the Treasury’s “Monitoring List”.

Swiss media have breathlessly reported on this “outrageous” action against Switzerland and have again bashed President Trump and its administration for aggressive behavior against Switzerland. So let’s relax and look at the facts.

### **Treasury’s report is required by Congress and is of purely technical nature**

Since 1988 (Omnibus Trade and Competitiveness Act), Congress requires the Treasury to deliver a semi-annual report on potential misbehavior by trading partners with regards to currency manipulations based on technical and quantifiable criteria. In 2015 (Trade Facilitation and Trade Enforcement Act), the criteria have been adjusted the last time – during the Obama Administration with a Vice-President called Joe Biden. These objective criteria include the following:

- The existence of bilateral trade surplus with the USA of at least \$20 billion over a 12-month period
- The existence of a material current account surplus of at least 2% of GDP over a 12-month period
- Evidence of persistent, one-sided intervention on the foreign currency markets in at least 6 out of the last 12 months, comprising net purchases of at least 2% of GDP over the last 12-month period

Switzerland has met all three criteria – by a large margin! Thus, Treasury had no other choice than naming Switzerland a currency manipulator in its report to Congress. But closely reading the report, it becomes evident that Treasury somehow reluctantly named Switzerland a currency manipulator. Treasury understands the special situation of Switzerland and the specificities of a Swiss-American business relationship resulting in a clear win-win situation. Looking at the development of the Swiss Franc–US Dollar exchange rate, it is clear that there is currently either no currency manipulation or Switzerland is doing a very poor job. In the last 20 years, the Swiss Franc appreciated 100% to the US Dollar! In 2001, one Swiss Franc cost US\$ 0.57, today it costs US\$ 1.14! Tell me about manipulation.

### **Special situation of Switzerland**

In the last years, many Swiss people and institutions have used the exceptionally close relationship with the US government and Congress to explain the special situation of Switzerland: Our Federal Councilors, State Secretaries, the Swiss Ambassadors in Washington Martin Dahinden and Jacques Pitteloud, the US Ambassador in Bern Edward T. McMullen, jr., and many associations, including the Swiss-American Chamber of Commerce. The message was clear: Switzerland is one of the most globally competitive economy with large foreign direct investments and a large international trade made necessary because of its small size. And thanks to the stringent budget control (“Schuldenbremse”) and the great political stability, the Swiss Franc is a favored “oasis of stability” for people around the world worrying about the future. All this makes the role of the Swiss National Bank to ensure price stability exceptionally important.

## Special Swiss-US business relationship

As noted above, Swiss institutions have also been very active describing the very special nature in the business relationship between Giant USA and Dwarf Switzerland. It is correct that Switzerland enjoys a large trade surplus in goods. On the other hand, the USA enjoys great benefits from the relationship:

- The USA enjoy a large “Services Surplus”.
- Swiss companies are the 6<sup>th</sup> largest foreign direct investors in the USA, larger than German companies. The “FDI Surplus” is about US\$ 20 billion – in favor of the USA.
- These companies provided some 500’000 direct jobs, plus some 1.2 million indirect jobs. Measuring the “Job Surplus” (jobs by Swiss companies in the USA minus jobs by US companies in Switzerland), the USA enjoy a job surplus of approx. 400’000 jobs, the second largest job surplus in favor of the USA, right behind Japan.
- These companies also create a large “R&D Surplus”. Swiss companies are the largest R&D spenders of all international company groups with about US\$10 billion in annual R&D expenses. The “R&D Surplus” amounts to about US\$ 9 billion – in favor of the USA.
- These companies also create a large “Tax Surplus” of approx. US\$3 billion - in favor of the USA
- In addition, Switzerland is a great and valued partner in education (Apprenticeship program!) and foreign policy (Iran!), humanitarian initiatives and much more.

Looking at these facts, it may safely be said that this win-win relationship only creates winners.

## Where do we go from here?

The technical designation of Switzerland as a currency manipulator does in no way automatically lead to sanctions. It invites Switzerland to enter into a discussion with Treasury on the situation and possible measures to be taken. The measures mentioned in the Treasury’s report, which Swiss media were so agitated about (quantitative easing, lower interest rates, higher pension age and more), are very similar to similar reports coming from the Global Forum, IMF, G20, OECD and the like. They are in no way US demands, but cookie-cutter generic recommendations.

It is not expected that the outgoing Trump Administration would enter into serious discussions with Switzerland in the remaining 33 days, especially amid Corona, urgent Congress financing measures and the like. President-elect Biden has proposed two excellent choices to take over Cabinet-level functions which will be important in this matter:

- Janet Yellen as Treasury Secretary. Ms. Yellen is a highly experienced economist and was the Chairwoman of the Federal Reserve Bank from 2014-2018. As a central banker, she will have a clear understanding of the goals and limitation of the Swiss National Bank.
- Katherine Tai as US Trade Representative (USTR). Ms. Tai is a highly experienced lawyer with rich experience in global trade as the General Counsel for the USTR (2007-2014) and then as Chief Trade Counsel to the Ways and Means Committee of the House of Representatives.

These two seasoned professionals and their teams guarantee that the discussion will be professional and rooted in facts. It may even provide Switzerland with an opportunity for a rich discussion on the Swiss-US business relationship.

**Urgent: Switzerland needs to communicate!**

For the new Biden Administration, there will be a serendipity of priorities, with domestic issues probably taking front stage. Switzerland cannot wait for the USA to get interested in the facts. We will need to find every possible way to communicate with the key administration people and lay out the facts of the great win-win relationship. Everybody needs to be engaged - the Swiss-American Chamber of Commerce will certainly play its part!

Thank you for your support in this matter and for your support throughout the year.

Best wishes for the Holiday Season and see you in the next, much better year.

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