Politics

U.S. Drops Switzerland, Vietnam Currency-Manipulator Labels

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- Switzerland, Vietnam, Taiwan met criteria for designation
- U.S. presses China on activities of state-owned banks

The U.S. refrained from designating any trading partner as a currency manipulator in the Biden administration's first foreign-exchange policy report, even as Switzerland, Taiwan and Vietnam met thresholds for the label.

The Treasury Department said Friday that those three economies met criteria for the manipulator label, including a large trade surplus with the U.S. But it said there was "insufficient evidence" to conclude that the three trading partners showed the intent of "preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade" to apply the tag.

A Treasury official told reporters that the decision not to designate any nation a manipulator should not be seen as a mixed message. In December, the last report done under President Donald Trump designated Switzerland and Vietnam as manipulators.

The new assessments signal the Biden administration is taking a less confrontational approach to international currency policy after Trump labeling of China and other countries as manipulators proved ineffective and spurred concerns of politicization.

The latest report assesses currency activities through 2020.

Covid Impact

The U.S. acknowledged that the unprecedented nature of the coronavirus pandemic's impact on the global economy led to creative policy responses by governments and central banks. For that reason, the Treasury said it seeks a deeper understanding of Switzerland's, Taiwan's and Vietnam's currency actions in order to determine if the interventions were done with the intent of gaining an unfair trade advantage, or to cope with the crisis.

Ireland and Mexico were added to the Treasury's watch list, which means they met two of the three criteria for designation. The Treasury kept China, Thailand, India, Japan, South Korea, Germany, Italy, Singapore and Malaysia on the monitoring list.

The agency said China's "failure" to be more transparent around activities at state-owned banks warrants close monitoring. Those banks can act in currency markets with official guidance due to close relationships with China's central bank.

U.S. MANIPULATION CRITERIA

- A current-account surplus equivalent to at least 2% of GDP
- A bilateral trade surplus of at least $20 billion
- Foreign-exchange interventions amounting to at least 2% of a country's GDP

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

The manipulator tag has no specific or immediate consequence, beyond any short-term market impacts. But the law requires the administration to engage with the trading partners to address the perceived exchange-rate imbalance. Penalties, including exclusion from U.S. government contracts, could be applied after a year unless the label were removed.

Trump Era

During the Trump era, the Treasury abruptly designated China a manipulator in mid-2019 outside its usual release schedule, only to lift the label five months later to win concessions in a trade deal. The developments raised concerns that the report was being increasingly politicized.

That, combined with the December manipulator designations being defied by Switzerland and Vietnam who did not change their policies as a result, has called into question the credibility of Treasury's foreign-exchange assessments.

These concerns continue under Yellen.

In 2019, her predecessor Steven Mnuchin used the older of the two active trade laws that inform Treasury's currency assessments to label China a currency manipulator. Now, Yellen is using that same law to decide that no nation warrants the designation.

"The inconsistent use of the same criteria by successive administrations certainly undercuts the notion of the Treasury currency report being a dispassionate and nonpolitical evaluation of other countries' currency practices," said Eswar Prasad, an economist at Cornell University who formerly worked in the International

Monetary Fund's China division.

Still, he said that Yellen's "less overtly political approach" may restore some credibility.

Spending Spree
The SNB spent 110 billion francs on interventions last year

Source: Swiss National Bank annual report

Swiss officials have repeatedly denied that they are manipulating the franc, and have continued the nation's purchases of foreign currencies as part of a long-running campaign to fight deflation through negative interest rates and currency intervention.

The Treasury noted the impact of monetary policy objectives on the franc, and said it is is in talks to develop "specific actions" to address the causes of Switzerland's external imbalances.

Earlier this month, the International Monetary Fund gave the Swiss National Bank a green light for its purchases of foreign exchange, while also recommending that officials follow counterparts with a strategy review.

Taiwan

The U.S. moved Taiwan from its watch list to the separate list of those meeting all three criteria for distortionary currency policies. As with Switzerland and Vietnam, Treasury officials said Taiwan met the criteria laid out in a 2015 law by a wide margin, but declined to name the country as a “manipulator” under a related 1988 act.

Taiwan widely exceeded the thresholds for all three criteria, and the U.S. urged the nation to create a plan to address the causes of its currency undervaluation.

Taiwan’s central bank has acknowledged intervening in foreign exchange markets to pare gains by Taiwan’s currency against the dollar. Daily efforts to stabilize the Taiwan dollar began in earnest in June 2020 until September. Since then, it appears that the bank has been managing the currency’s appreciation.

The bank’s governor, Yang Chin-long, said in March he believed the U.S. might designate Taiwan a currency manipulator, but he didn’t expect serious negative impact for the local economy, given robust U.S. demand for semiconductors. Semiconductors, he said, were the main factor driving Taiwan’s trade surplus with the U.S.

As for the dollar, the Treasury highlighted that even after its decline in 2020, it remained “nearly 5% above its 20-year average,” considering the real effective exchange rate -- which adjusts for inflation and is weighted against currencies of U.S. trading partners.

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(Updates with additional details from 18th paragraph)