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US Watch-List For 'Currency Manipulation': What Is It?

By Joel Ng

SYNOPSIS

The US watch-list for 'currency manipulation' seems to be part of a puzzling move in the trade war against China. The problem is the mess of contradictions and hypocrisy it has raked up and Singapore is hit by the broad sweep of the watch-list.

COMMENTARY

THE UNITED States' inclusion of Singapore on its currency manipulation watch-list is puzzling. It is well known the Singapore currency is 'pegged' to a basket of currencies as the Singapore authorities manage the exchange rate of the Singapore dollar to keep domestic consumer price inflation low and stable. Does this move mean a needless escalation over what is essentially a semantic question? In some people's lexicon, "managed" could be redefined as "manipulated" with a keystroke.

But what is more puzzling about the US Treasury Department's newly-released report on the forex policies of US trading partners is that the stated intention of the Trump administration is to reduce the large trade surpluses of major US trading partners. The US, the report notes, "has run a steady bilateral goods trade surplus with Singapore, which totalled US$6 billion in 2018". If we include services, the US trade surplus with Singapore is a whopping US$18 billion in its favour. Thus Singapore is already aligned with the US' broad strategic objective, in not running a trade surplus against it. Why then is Singapore a problem?

Glass House the US Built

To understand how the US conceives the problem, one must understand the logic. President Donald Trump believes that the trade deficit the US faces with specific countries is bad, and has tasked his officials with reducing this. Their solution begins with the notion that other countries' current account surpluses create such imbalances, which must therefore be reduced.

They then suggest ways of doing this, with one key factor being the domestic rate of savings. The US takes aim at several countries whose rate of savings it deems too high: China, Germany, Malaysia, and Singapore.

Only Malaysia, whose gross national savings had fallen from 38 percent to 26 percent of GDP, avoided criticism on this count. This, ironically, must be interpreted as a troubling sign from Malaysia's domestic perspective as it has not been met by increased safety nets and people with lower savings rates face financial insecurity. This aspect goes unmentioned in the US Treasury report, but that is not all.

The Liberal State & Hypocrisy

For an administration committed to dismantling "Obamacare" or anything that looks like so-called "socialist" forms of healthcare in the US, the report recommends Singapore expand "the social safety net in areas like healthcare, unemployment insurance, and retirement" to "reduce incentives for private saving and support stronger consumption."

It is at best inconsistent as a 'liberal' state argues for less state intervention in foreign exchange while calling for massively expanding state intervention in the domestic sphere. It rises to the level of hypocrisy when that state preaches abroad the very policies it is trying to dismantle at home. If the administration believes these policies do not work for the US, how can it assert that they would work in other countries? As the saying goes, people who live in glass houses should not throw stones.

Yet, the report tacitly acknowledges that savings and welfare are two forms of security, and if one is to be reduced, the other has to counterbalance it. The US, which has not managed a gross domestic savings rate above 20 percent in recent years, does neither. Hitherto, Republican administrations in the US are ideologically committed to dismantling the few welfare provisions it does have.

China's Inclusion

Current US foreign policy must be thought of in terms of its effect on the bilateral relationship with China. The report is no different. The US Treasury issued a three-point set of criteria to make the watch-list for currency manipulation: having a large bilateral surplus, having a significant current account surplus, and a "persistent, one-sided intervention in foreign exchange markets". While China met only one of these criteria (the bilateral surplus – ironically, Singapore did not meet this, the main criterion), the US included it on the watch-list anyway, because the surplus was "exceptionally large and growing."

By its own admission, "a key driver of this increase was a sharp decline in US exports to China in the fourth quarter of 2018, a time when US imports from China were sustained". This was the same quarter that President Trump escalated the trade war with China. But the asymmetrical reaction suggests that the US is more dependent on Chinese goods than vice versa.

Rather than admit its trade war is not working, and measures it had taken appear to have had the opposite effect of reducing the surplus, the administration has doubled down and stopped just short of labelling China a 'currency manipulator'. Presumably if it did with such flimsy grounds even by its own three-point criteria, Washington just loses credibility rather than achieving its intended effect of shaming China.

US Strategy Dissected

The logic becomes clear if one thinks of it as a strategic attempt to recast the norms of international behaviour in the US' favour. The large domestic savings of China have allowed it to wield these surpluses as foreign policy tools, most visibly in the Belt and Road Initiative (BRI). The US, despite the Build Act and the reconstitution of the Overseas Private Investment Corporation (OPIC), has found itself lagging at a strategic level in countering the increasing Chinese influence around the globe.

OPIC does not have the financial muscle to counter BRI because the US is incapable of generating the surpluses of China. Part of this is a direct result of the ideological commitment to a retreat of the state over the past 40 years. But that removed many US foreign policy tools, best exemplified by the way China uses the very tools the US has abandoned.

Any state's foreign policy is governed by domestic interests, and it is near impossible for the domestic interests of national actors to favour a reduction of their current account and trade surpluses just because of international pressure. Current account surpluses will always be decided according to national needs over time, not according to what other states want.

Indeed, standing up to international pressure tends to win a sitting government domestic plaudits. As Singapore's former Prime Minister Goh Chok Tong has said: "The grandest visions forged in the absence of the ability to perceive others' interests will come to naught."

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