



Flossbach von Storch
RESEARCH INSTITUTE

ECONOMY & POLITICS 09/04/2025

Trump's Tariffs rage: the pretentious USA, sluggish Germany and agile Switzerland

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Summary

Although Switzerland, as a small open economy, is dependent on foreign trade, it is reacting calmly to Donald Trump's tariff escapades. This is because the Swiss economy is resilient - not least due to its liberal economic system.

Zusammenfassung

Obwohl die Schweiz als kleine offene Volkswirtschaft abhängig vom Außenhandel ist, reagiert sie gelassen auf Donald Trumps Zolleskapaden. Denn die Schweizer Wirtschaft ist – nicht zuletzt aufgrund ihrer freiheitlichen Wirtschaftsordnung – resilient.



1 Trump's tariff announcement as a shock

Donald Trump's tariff announcement on Liberation Day came as a shock. While the average tariff level in the USA in 2024 was still 3.3 per cent according to the WTO, the new president now announced tariffs averaging over 20 per cent. Compared to Lesotho (50 per cent), China (34 per cent), the EU (20 per cent) and the UK (10 per cent) got off lightly.

The outcry was huge. Share prices collapsed worldwide and pessimism spread. "*The USA is making a sharp mercantilist U-turn,*" commented the [NZZ](#). The EU Parliament has already unpacked the [bazooka](#). China announced counter-tariffs of 34 per cent. Memories of the fatal [tariff race of the 1930s](#) are awakened.

At a conference organised by the *UBS Center for Economics in Society* on the topic of "*Why is Switzerland so rich and why doesn't it have to stay that way?*", the Swiss State Secretary for Economic Affairs demonstrated composure. Having just returned from Washington, she summarised that although the decision was opaque, the atmosphere was friendly. Donald Trump had praised Switzerland for not being part of EU ...

2 31 per cent as friendly customs

The Secretary of State was relaxed, even though the new customs hurdle for Switzerland is considerable! Total US goods imports from Switzerland amounted to USD 63.4 billion in 2024, while the bilateral trade deficit was around USD 39 billion. From this, Team Trump calculated an implicit tariff of 61%, which allegedly includes other trade barriers in addition to Switzerland's actually low tariffs. Such as an undervalued (!) Swiss franc?

The so-called reciprocal tariff of 31 per cent resulting from a "friendship discount" of 50 per cent hurts because the USA is the world's largest economy and still has good growth prospects. After all, 18 per cent of Switzerland's goods exports go to the USA, making it its most important export market. This affects the watch industry and mechanical engineering, among others.

However, pharmaceutical products and gold, Switzerland's most important export goods to the USA, are exempt. Services such as asset management and skiing in the beautiful mountains are also not affected. After all, services account for a quarter of all Swiss exports.



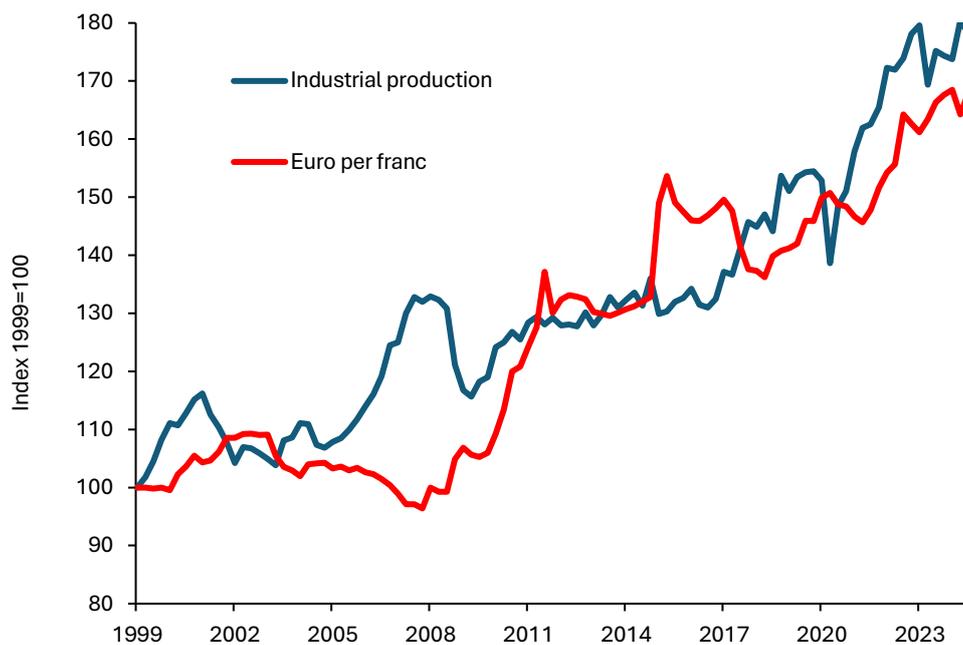
3 Why Switzerland is resilient

The Swiss economy is resilient for at least three other reasons. Firstly, the country mainly exports high-quality goods, making it easier for companies to pass on exchange rate and customs-related price increases in the target market. (Even if a sudden price jump of 31 per cent is not realistic.)

Secondly, Switzerland's exports go all over the world. 82 per cent of goods exports do not go to the USA. 51 per cent go to the European Union, with which relations are friendly - despite often arduous negotiations.

Thirdly, the Swiss economy is fit. The gradual appreciation of the Swiss franc against the euro and dollar has repeatedly forced Swiss industry to reinvent itself, as Figure 1 shows. In the short term, an increase in prices abroad due to customs duties or exchange rate appreciation may cause profit margins to shrink, but in the medium term companies will adapt again.

Figure 1: Switzerland: Industrial production and exchange rate



Source: OECD and IMF.



4. Freedom brings prosperity

There are reasons for this high level of resilience, which Federal Councillor Albert Rösti presented at the above-mentioned conference as the foundation of prosperity. Switzerland has a federal structure that leaves as many decisions as possible to the people in accordance with the principle of subsidiarity. This limits the power of the state. Tax increases are usually only possible with the direct consent of the people.

For industry, this means that it is left to its own devices. There is no industrial policy of the kind currently being promoted in the EU with billions of euros. Large companies such as pharmaceutical companies have to prove themselves alone in the highly competitive global market because the national market is too small to cover the high fixed costs. Medium-sized companies have to constantly fend off cheaper foreign competition, not least because of the strong Swiss franc.

This has resulted in great prosperity despite a lack of raw material resources and an unfavourable topography. Even if some of the economic policy mistakes of Switzerland's neighbours are repeated - such as more regulation and the expansion of employment in the public sector - the small country has so far been able to decouple itself from the gloomy mood in its neighbourhood thanks to economic freedom.

5 What Switzerland does better than the USA and Germany

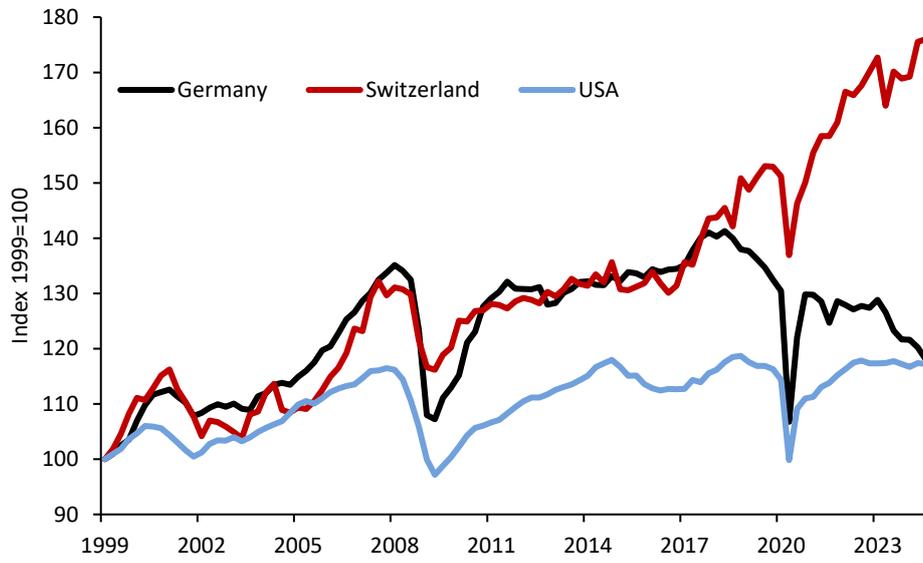
While a small circle of influential people in the USA believe they can steer global trade, the Swiss state is wisely keeping a low profile. While in the USA an excessive government deficit - and not the trade barriers of other countries - drives up the current account deficit, in Switzerland restrained government spending (thanks to a debt brake) and net capital exports ensure current account surpluses.

While industry in Switzerland has remained lean, uncontrolled social security expenditure and rampant regulation have driven up in Germany unit labour costs, resulting in a sharp drop in international competitiveness. The soft euro has made the once dynamic German industry sluggish, which is why it now has to tremble at Trump's tariffs.

In the midst of a nonsensical global trade dispute, the agile Swiss economy is showing how it's done. Industrial production is growing, while it is stagnating in the USA and falling in Germany (Figure 2). From a German perspective, we would like to see an end to the growing state interventionism. It remains to be seen when big Germany will learn from little Switzerland.



Figure 2: Industrial production in Switzerland, the USA and Germany



Source: OECD.



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