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SWISS MERCANTILE SOCIETY.**An Interesting Lecture**

by Dr. H. WEITNAUER, Counsellor of Legation.

After disposing of the routine agenda, at the monthly meeting the President, Mr. W. Meier, had the pleasure of calling upon Dr. A. Weitnauer, Counsellor of Legation, to address us on "Switzerland and the basic problems of World Trade". He gave himself only 40 minutes to cover the ground, yet he managed to do it with a good deal of detail. Below follows a precis of his address.

"No word has cropped up in the discussions on world trade policies of the last few years as often as the word "freedom". Customs barriers should be removed, import restrictions swept away, currencies made convertible.

Freedom in world trade is indeed reasonable, but by no means self-evident. The economic block of communist countries is based on the greatest possible self-sufficiency. Even in the western world there are tendencies in this direction. Some would rather have protectionism, but it would be bad form to say so openly.

The world has not got over the destruction of the last war which accounts for the fact that there should still be so many restrictions to freedom in world trade, especially in Europe. Nowhere has the destruction of production centres and the exhaustion of financial reserves been so far reaching as in Europe. Reconstruction is by no means completed. It is not enough to rebuild factories but new reserves have to be constituted, a very long process. The present social policies followed by most governments entail financial burdens which have to be borne by impoverished, if not entirely depleted economies. As a consequence, countries have soft currencies and must maintain strict exchange control.

Those countries outside Europe which belong to the underdeveloped countries are usually most anxious to develop their own industries to make themselves independent of the old world. They can only do so by protecting their new production branches against foreign competition for a long time.

The work of the European Payments Union in which participate also the colonial territories of European States and the countries of the British Commonwealth apart from Canada, has greatly alleviated difficulties mentioned and has replaced the bilateral payment arrangements by a central clearing system. The principle at present in force is that at least 75% of the imports of EPU countries must be freed from all restrictions. As a result of this liberalisation a very considerable increase in the exchange of goods and services has taken place.

This highly satisfactory freeing of trade and payments is limited to the Payments Union. With the rest of the world, particularly with the U.S.A., most of the member countries have not come to better terms. In regard to the Dollar Area the world suffers from what is called the Dollar gap. They cannot free their imports from and their payments to the U.S.A. because they cannot earn enough Dollars. They must maintain import restrictions against the U.S.A. and their currencies are not convertible into U.S. Dollars.

The war enormously increased the American production potential, and raised the American prosperity to a hitherto unimaginable level. It also made her the leading political and economic power of the western world. All that America does in home, foreign, and economic policy, has its repercussions on the other western countries. The economic recession in U.S.A., if it assumes greater proportions, would not leave any country in the west untouched.

The United States has taken very seriously the role that fate assigned to it. The financial help which America has extended to other countries, mostly in the form of simple gifts, amounts by now to Dollars 30,000 m. Right from the start America has been working for the systematic removal of trade and customs barriers. Yet the U.S.A. is the most ill-suited country to assume the role of leading power in world trade. She is a continent which is almost self-supporting. Her home market buys up all but 4-5% of her total production. Only this small balance is exported. The U.S.A. is thus practically not a world trading nation, but shows strong trends towards isolationism.

The same trend is found in American politics, due to its historical development. Here early pioneers were of sturdy independence, who gave themselves a constitution which is deliberately so framed as to make governing as difficult as possible for the government.

The outward sign of economic power wielded by America is the Dollar, the essence of a convertible hard currency, as opposed to the soft unconvertible payment difficulties.

There is only one country in Europe whose economic soundness is expressed in just as convertible and hard a currency as the American Dollar: Switzerland.

Payments between the U.S.A. and Switzerland are completely free. Yet the U.S.A. is a continent, Switzerland one of the smallest countries in the world. Our country is overcrowded, the U.S.A. not densely populated. U.S.A. possesses huge natural resources, Switzerland has only the working capacity of her population, which has made and kept our country rich and flourishing. The estimated 30 to 35% of our national annual production which is usually sent abroad, shows to what extent the Swiss economy is dependent on export. The U.S.A. produces raw materials and industrial goods of which the world is in need. Switzerland specialises in goods of precision and beauty which are, as a rule, non-essentials.

Switzerland's economic structure depends in the extreme on exports which, by their very nature, are utterly vulnerable. Switzerland cannot, therefore, be as generous as the world expects America to be.

The solution of the problems of world trade is sought in the restoration of freedom in this field of human endeavour, in which our country stands as a shining example. Switzerland has one of the lowest customs tariffs in the world, her customs protection amounting to only about 7-8%. 92% of these imports have been freed from all quantitative restrictions, in relation to all countries in the world. The remaining 8% cover agricultural produce, to protect Swiss agricultural production which, for strategic reasons, we cannot abandon.

The Swiss production apparatus is one of the most modern, and is used to the limit of its capacity. Switzerland has considerable gold reserves, hence the Swiss francs hardness as a currency. Finally our country has not received one cent of American help. On the contrary, Switzerland has extended grants and credits to distressed countries since the war, to the tune of Sfr. 1000 m. In short Switzerland has already reached the limits set to the world to free its trade.

Thus it is very simple to describe the Swiss attitude to the basic problems of world trade.

1. The liberal aims set for the organisation of world trade correspond completely with Swiss interests, which compel her to export to the great world markets. Switzerland is prepared to co-operate, within her limited possibilities, in all the efforts to secure these aims.

2. As a country with an easily vulnerable economy, Switzerland must beware not to undermine her position as a result of measures taken by other countries to recover their economic health. This danger is very real. It explains why Switzerland, though prepared to contribute to a free world economy, cannot sacrifice her vital interests.

The Dollar Gap. America's trade partners who suffer from a chronic Dollar shortage, see the remedy in the U.S.A. allowing the rest of the world to step up considerably their exports to America and thus to close the Dollar gap through their own efforts. This would require a drastic lowering of American tariffs, simplification of customs formalities, etc. It would be a more satisfactory method than the present one of America giving Millions of Dollars to other countries. Import duties have been reduced from 25.8% in 1934 to 12.7% in 1952. Very appreciable but not sufficient for world creditor No. 1.

The average customs levy on Swiss imports into U.S.A. greatly exceeded in 1952 the 12.7% just mentioned, and topped the 30% mark. Some of the most important Swiss export goods are subject to American duties of over 60%.

In spite of this Switzerland has always been able to regard her balance of payment with U.S. as being in equilibrium. To-day it shows a large surplus. Over half of our exports to the U.S.A. are watches, over one third of our total watch production goes to the U.S.A., last year 13½ million pieces valued at 375 m. francs.

At this very moment the whole energy of traditional American protectionism is concentrated on Swiss watches, on which the American watch makers want to have the duty raised, which at present stands at 35%. Whether Mr. Eisenhower will accord what Mr. Truman refused remains to be seen.

The General Agreement on Tariffs and Trade (Gatt).

During the winter of 1947/8 a great world trade conference took place at Havana. It resulted in the draft of a charter for the organisation of world trade. This was not ratified by the leading countries and can be regarded as dead.

Instead of the Havana charter, the General Agreement on Tariffs and Trade (Gatt) has come into being. Under its big international conferences have been held between 1947 and 1951. They were

particularly successful in securing a reduction of the American tariff.

Why has Switzerland kept away from Gatt, whose main objects are in line with her own policy? The Gatt Trade Code lays down the principle of complete freedom from quantitative restrictions for all imports. This principle is practically cancelled by the exceptions in favour of soft currency countries who may operate discriminatory import restrictions as long as they cannot balance their accounts. Hard-currency countries are not allowed to retaliate, even if a very important part of their production is shut out from a soft currency market. Such a situation may be bearable for the United States, but for Switzerland it would spell ruin. She must at least be able to threaten to close her frontiers, and thus her highly absorbent market, to the exports of a discriminating partner.

Switzerland has asked Gatt that a clause be inserted in the Trade Code which takes account of our special position. This has not been granted although our case is considered well-founded. Therefore Switzerland has perforce to stay away from Gatt. Unfortunately this has meant that Switzerland has not had any tariff negotiations with the United States.

European Payments Union. Switzerland's non-membership of Gatt has more importance in principle than in practice, now that our country has joined the European Payments Union, whose trade code forbids all discrimination between hard and soft currency countries. No EPU country can thus treat our imports differently from those of other EPU countries on balance of payment grounds. This applies to about 60% of our total trade. Our exports have substantially increased, but so have our credits to the Union which now amount to 800 m. frs. We should greatly welcome a reduction of the older debts, but our debtors, especially Great Britain, show an almost unsurmountable reluctance to pay back.

Convertibility. Originally EPU was conceived as a stepping stone to a payments system of complete freedom, called convertibility of currencies, rightly described as a pet idea of the British Government. The Pound Sterling, a world currency par excellence, seeing that half the payments of the world are made in £, is not convertible into Dollars. After the first

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experiment of free convertibility into Dollars failed in 1947, the British authorities will only make another attempt when success is as good as secured.

Convertibility can only make sense when accompanied by a removal of all import restrictions. It would be of no great value if it were not possible to buy and sell freely all over the world.

Many conditions are usually mentioned as indispensable for the success of a convertibility experiment. A sufficient currency reserve will be of paramount importance. A dollar guarantee fund created by the U.S.A. is regarded as very desirable. The American Government consider convertibility, however, as evidence that economic recovery has been achieved, and that the currency of such a country commands confidence.

Switzerland fully sympathises with all efforts to make the more important currencies convertible. She could wish for nothing better than stable world currencies, when the national banks balance deficits among themselves in gold or convertible currencies. Switzerland regrets, however, that convertibility is at present only considered as applicable to current transactions, for she counts the revival of capital exports among its main pre-occupations. She hopes that when convertibility is reached, it will soon include the free movement of capital.

The discussion which followed showed how closely the speaker's address was followed by an appreciative audience.

E.H.S.

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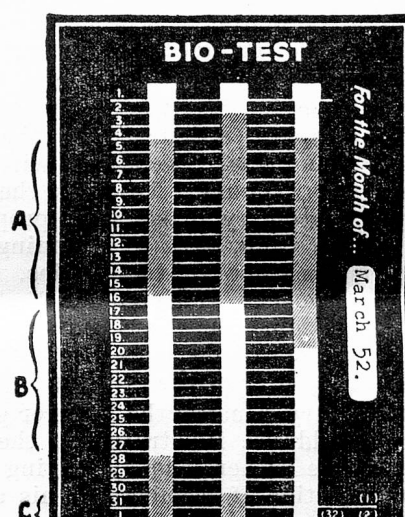
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