

**Zeitschrift:** The Swiss observer : the journal of the Federation of Swiss Societies in the UK

**Herausgeber:** Federation of Swiss Societies in the United Kingdom

**Band:** - (1982)

**Heft:** 1794

  

**Rubrik:** Economic world

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# Trend towards more protectionism grows

FREE trade furthers the development of the world economy, enhances prosperity and is of benefit to all concerned. Protectionism reduces economic growth and in the long run increases unemployment. Fortunately this belief is widely held in the business community. Governments declare this to be their policy and the efforts of many international institutions are aimed in this direction.

Chambers of Commerce are among such institutions which aim at fostering the development of free trade in a liberal market economy system based on competitive private enterprise. In its programme of action for 1982 the International Chamber of Commerce states two main objectives:

□ The restoration of an efficient market economy system with a minimum of obstacles to competition and maximum mobility of economic resources, particularly labour.

□ The promotion of an open international trading system and a liberal international order governing economic relations between states; the encouragement of international trade by simplifying trading practices and procedures.

A number of international institutions actively and successfully pursue policies to further the free exchange of goods and services and thus contribute to a healthy development of the world economy.

Besides institutions such as the Organisation for Economic Co-operation and Development (OECD) and organisations connected with the United Nations, like the Economic and Social Council (ECOSOC) and the United Nations Conference on Trade and Development (UNCTAD), the General Agreement on Tariffs and Trade (GATT) deserves special mention.

It entered into force in 1948 and comprises a large number of member states. Its objectives are to conclude agreements with a view to arriving at a full and free exchange of goods and services based on non-discrimination and to eliminate restrictions on trade.

Very considerable progress has been achieved by GATT. Exten-

sive reductions in tariffs have resulted from the Kennedy-Round and further steps towards liberalisation will be effected in the course of the Tokyo-Round. They comprise not only the lowering of tariffs but also relate to non-tariff restrictions such as

**Free trade is of vital importance to the export-oriented economy of Switzerland, a country that has always been in the forefront of efforts to facilitate the movement of world trade. Here Artur Frauenthal, executive vice president of Sulzer Brothers of Winterthur, in a speech before the British-Swiss Chamber of Commerce in Switzerland, discusses the worldwide efforts now being made to liberalise trade.**

product standards, customs valuation, import licensing procedures and subsidies.

Very substantial progress towards free trade has of course also been achieved through the formation of the European Economic Community and the European Free Trade Association.

For the Swiss economy unrestricted trade is of the utmost importance. We live to a great extent from the exports of our industries and among those the machinery sector has the biggest share.

Of the production of the Swiss companies of the Sulzer Group 70 per cent to 80 per cent is exported and in the case of products like diesel engines or weaving machines exports account for practically 100 per cent of output.

How does our practical experience in international business compare with the picture I have given you regarding policies and aims of free trade advocated by so many individuals, striven for by international institutions and paid lip service to by numerous governments?

In the area of tariffs great progress has been achieved,

especially in Europe. In many overseas countries tariffs still impede trade to a considerable extent. It is obvious that customs duties at rates of 50 per cent or more of the value of the goods constitute barriers which are difficult to overcome. That of

course is the clear objective: they are designed to protect local industries.

Other means used by many countries to restrict imports are limitations by import quotas, cumbersome and bureaucratic import licensing procedures, surcharges and import deposits without interest for extended periods. Sometimes dutiable values are inflated by arbitrary valuation methods. In one Western industrialised country we were faced with a situation in which for the same product customs authorities considered the price we charged our local company too low, whereas the fiscal authorities maintained that the price was too high.

Very effective measures are used outside the official areas of tariffs and import licensing. I am referring to restrictive 'buy national' drives such as 'buy American' or 'achetez français'. There is in fact hardly a country in the world where this does not apply but the degree to which such policies are pursued varies considerably.

Although there may be no explicit instructions or regulations, companies or organisations influenced, controlled, or owned by the state generally do

not buy foreign products. A trend towards further nationalisation obviously aggravates the situation.

The application of specific technical standards or tests can constitute a very effective barrier. And indeed such tactics are used time and again to put foreign competitors at a decisive disadvantage.

We often find ourselves competing with companies which are state-owned. Their sales policies and in particular their system for fixing prices can differ widely from that of private companies. If the prime objective is to produce work in order to guarantee jobs, prices are reduced to levels at which it is impossible for us to compete. The resulting deficits are covered by the state on the principle that this is more desirable than a high unemployment rate.

Fiscal provisions are often used as a form of subsidy for domestic industries. In particular, exports are in many countries rewarded by way of tax reductions or refunds. By contrast, the Swiss tax on turnover puts exporters at a disadvantage.

While on the subject of the various forms of subsidies, it may be worth mentioning research and development. Whereas in Switzerland costs for research and development of products and processes are borne by private enterprise, in many countries industry receives extensive support through grants and also through research contracts financed by public institutions.

Political treaties between states often have the effect of discriminating against imports from third countries, particularly if they are connected with government loans.

For exports of capital goods, such as machinery and plant, it is often imperative to be able to grant extended payment terms over periods of five or more years. The interest rates applic-

able to such export credits are a decisive factor.

Loans granted for political reasons often carry conditions which are totally irreconcilable with sound economics. They offer a clear and unfair advantage to the export industry of the country granting the loan.

In an effort to eliminate such distortions the OECD countries came to an agreement on minimum interest rates for export credits. These minimum rates, however, are not differentiated according to currency. In relation to the market rates for loans in, for instance, French francs, English pounds or US dollars, they are far too low. In a number of countries the difference between market rates and interest rates for such export credits is refunded by the state. The amounts involved are very substantial.

In the annual report of a state-supported export credit corporation of a European country you can read the following comments: The average lending rate was eight per cent, the average borrowing rate amounted to 13 per cent. The resulting deficit was reimbursed by the government.

Without these loan arrangements the price level of the exports in question would have been between six per cent and 14 per cent less favourable, and more than 75 per cent of the exports financed would not have materialised without this support.

There is no need to stress the unenviable position of Swiss exporters who are faced with foreign competitors benefiting from such support.

In contrast to the high and very honourable aims described at the outset, this picture of our actual day-to-day experience as exporters may seem very negative and pessimistic. Of course – and this is fortunate – not all our export business is faced with barriers or distorted competition of this sort. But even so the effects of such competition weigh heavily on Swiss exporters.

The fact that we have been able to continue our activities during the past difficult years without heavy losses may be interpreted as a sign of the competitive strength of Swiss industry.

However, the trend towards in-

creasing protectionism is growing. With millions of unemployed in the industrialised countries of the western world it is somehow understandable that governments are tempted or feel obliged to apply protective measures favouring their own industries, and thereby utilising spare capacity and providing jobs for people who would otherwise be unemployed.

These tendencies are highly dangerous. They will have a very negative effect on the further development of the world economy. Uneconomical structures will be maintained, ultimately to the detriment of national economies. Retaliatory measures will be taken by other governments, with harmful effects on international cooperation and world trade.

In spite of the numerous cases of protectionist measures directed against our export trade there is only one course Switzerland can reasonably follow: to adhere to the principles of free trade and the market economy.

The temptation to ask for protection and subsidies can and will grow in Switzerland, too, if economic conditions should become worse. It is imperative for all of us to fight against such tendencies. We must endeavour, in word and deed, to support the stated objectives of the International Chamber of Commerce: namely, to restore an efficient market economy system, and to promote liberal attitudes in international trade.

We strongly believe that this will eventually be to the benefit of all concerned.

## Banker's move

MR R.E. Staehli, former UK representative and vice-president of the Swiss Volksbank and Banque Populaire Suisse SA Luxembourg, has returned to Switzerland and is now in charge of international banking relations at Swiss Volksbank head office (international division).

His successor is Mr H.P. Toedtli, formerly deputy UK representative.

## Pharmaton celebrates

THIS month Pharmaton, the Swiss-based pharmaceutical company founded by dentist Paul Kradolfer, celebrates its 40th anniversary.

The company's initial business was the development and manufacture of local anaesthetics and other preparations for use in dentistry. But by the early '60s the company had expanded into other areas of medicine – in particular, intensive and systematic research of the plant *Panax ginseng*.

In 1974 a subsidiary company, GPL Ginseng Products Ltd, was founded for the development and worldwide marketing of ginseng-based specialities.

At its plant in Korea, the com-

pany combined European technology with traditional knowledge of the native ginseng plant to extract the main active substance for its Geriatric Pharmaton and Ginsana ranges.

Today, Pharmaton products are available in almost 100 countries throughout the world and fall into four main categories – dental products, cosmetics products, ginseng products and a general pharmaceuticals group with specific applications in geriatrics and paediatrics.

## New office

SULZER Bros (UK) Ltd have announced a change of address for their Manchester office.

The new offices are at Statham House, Talbot Road, Stretford, Manchester M32 0ET. Tel: 061-848 0211.

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