

World trade problems and their significance for Swiss-American
economic relations

Talk by Ambassador Paul R. Jolles, Director of the Federal Division of Commerce, at the Annual Meeting of the American Chamber of Commerce in Switzerland, Zurich, 2 March 1973

I. The present background

President Nixon, upon assuming his new term, indicated that Europe will be in the foreground of American thinking and policy-making this year. When the United States, after establishing contacts with China and after having disengaged themselves from the war in Vietnam, once again turn their attention to Europe, this is a signal for us to respond by focusing our thoughts on the relations with the United States. Let me say at the outset that we in Switzerland welcome the prospects of a dialogue with the United States. We share the opinion that it is urgent to concern ourselves with our transatlantic relations.

Let me begin by taking stock of what these relations have meant in the past in the field of trade and economic policy. With the enactment of the reciprocal trade agreements act in 1934 under the aegis of Cordell Hull, the United States have taken the leadership of solving the problems of economic stagnation and recession by successive moves to liberalize world trade. After the second World War a new and multilateral world monetary and a world trade system were created at Havana and at Bretton Woods. International rules were established which have served us well and it is within this framework that an unprecedented growth and prosperity were achieved. The volume of international trade has been multiplied by five during the last 20 years and industrial output has grown

accordingly. By launching the Marshall-Plan in 1946, the United States devoted the necessary resources to set in motion the economic recovery of Europe, and the Europeans responded by coordinating their efforts in the OECE. Simultaneously President Truman initiated the Point-Four-Program for the economic progress of the newly independent developing countries. The fact that the major GATT-rounds for tariff dismantling bore the names of Secretary Dillon and President Kennedy indicates how much these moves to liberalize the worldwide exchange of goods were due to the leadership of the then dominating world trading power.

This process, which was bold and imaginative, gained particular and autonomous momentum in Europe and led to the total abolition of industrial tariffs in the framework of the customs union of EEC and the free trade area of EFTA, which in the course of last year through the accession of the United Kingdom, Denmark and Ireland to EEC and the simultaneous conclusion of free trade agreements between the remaining EFTA countries and EEC created the basis for a free European market of sixteen countries and nearly 300 million persons with a foreign trade volume three times as large as that of the US. Europe filled the technological gap and gained a status of competitive equality and comparable economic strength with the United States. Other profound changes in the world economic situation occurred. Japan developed rapidly into a major trading power and the developing world has despite continued and in part increasing difficulties gained momentum. This expansion of world trade, accompanied by a corresponding development of the exchange of services and of foreign investments, increased the interpenetration and interdependence of the national economies. It also facilitated the international repercussions of cyclical movements and disturbances. An element of growing disequilibrium was introduced in the world economy by the persistent balance of payments deficits incurred by the United

States since 1964. Foreign creditors, including the subsidiaries of American companies abroad, accumulated dollar balances in rapidly growing amounts and the euro-dollar-market ensued. High inflation rates impaired the international competitiveness of the American industry and this fact as well as tariff-barriers in some quarters and the attraction of integration in Europe prompted American multinational firms to implant themselves ever more firmly abroad. The corresponding net export of long term capital from the United States averaged 5 billion dollars per year and being added to the unilateral payments for defense and aid purposes increased the American deficit and led to a dwindling of reserves, until in August 1971 the convertibility of the dollar had to be suspended, drastic domestic measures to be taken and an import surcharge to be imposed. What happened since are current events in everybody's mind. The significant fact for the Swiss is not the emergence of the first foreign trade deficit in the United States since 1898 - Switzerland only enjoyed a slight trade surplus in three exceptional years since 1892 - but the fact that this deficit is not balanced by the repatriation of capital earnings and profits from foreign operations and services.

It is against this new background and the fundamental monetary disequilibrium - on which I shall not dwell any further - that the present economic problems have to be viewed. It is because of this crisis situation, the roots of which are manifold and only in part connected with trade developments, that world trade issues, which are the subject of my talk to-day, are ~~once~~ again receiving priority attention. They have, after the successful conclusion of the Kennedy-Round in 1967, receded in the background. Europe concentrated on shaping its future through the deepening and enlargement of European integration. The United States concentrated on achieving a balanced relationship with the Soviet Union and establishing contacts with China and on the unhappy political situation in Southeast-Asia.

Moreover, internal problems such as social unrest, stagflation and unemployment required the urgent attention of the American government. Whereas at the beginning of the 1960's the Kennedy-Round was launched as an effort to match the then anticipated regional progress in Europe with a corresponding worldwide liberalization movement, no similar attempt was made when the enlargement of the European Community actually became a concrete possibility. Now the time has obviously come to catch up. But the situation has changed to the extent that trade liberalization no longer represents the continuation of a traditional objective, but tends to be considered as an element of crisis management with the danger that its impact on the present economic problems is misjudged. We have, moreover, almost overnight reached the very crucial point where the question arises whether the multilateral monetary and trading system can again be made to work satisfactorily, whether the problems can be solved through consent and adjustment and through discussion and negotiation in existing international institutions, or whether unilateral action will be resorted to which would lead to rapid disintegration, and through the proliferation of national controls set us back to the mid-thirties. The choice is crucial, the stakes are enormous and the situation is serious indeed. I hardly need to emphasize that a country like Switzerland is vitally interested in preserving the multilateral approach and a liberal framework of international rules within which the market forces can come to play. What are the prospects and what are the tasks if this course is to be followed and what would the implications be for the bilateral relations between the United States and Switzerland?

II. The prospects for the coming GATT negotiations

A year ago the United States and the EC on the one hand and the United States and Japan on the other committed themselves through

joint declarations to "a comprehensive review of international economic relations with a view to negotiating improvements in the light of structural changes which have taken place in recent years" and "to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT beginning in 1973".

The summit meeting of the heads of states and governments of the enlarged European Communities held in Paris in October 1972 reaffirmed this commitment with a view to achieving in the monetary and commercial field stable and balanced economic relations. The institutions of the Community were asked to elaborate an appropriate conception by July 1st. Switzerland, like most other industrialized and many developing countries, confirmed at the last meeting of the Contracting Parties of GATT her willingness to participate in these negotiations. Meanwhile September 12 - 14 has been set as the date for the Ministerial Meeting in Japan, which should launch this new major negotiating phase of GATT.

Thus the timetable for settling the pending trade problems by international negotiations is set. But what are the conditions that must be fulfilled to make this approach promising? I should like to put forward on a personal basis a number of considerations which seem to me of crucial importance.

First ^{specific} the objectives of this new negotiation must be clarified and agreed upon by all participants.

The necessity to avoid misunderstandings and ~~converging~~ assumptions arises from the context in which these negotiations fall. They are not merely viewed as another round of tariff reductions, but are related to a comprehensive effort to improve the international economic relations and to contribute to a global equilibrium. There seems to be a feeling in some quarters of the United States that the

- 6 -

American defense effort on behalf of Europe as well as the acceptance of persistent American deficits and multilateral transfers to help European countries to build up their reserves should now be compensated by unilateral trade concessions or that the balance of payments deficit should and could be brought into equilibrium by appropriate trade measures. The reproach of insufficient burden sharing is voiced, coupled with the complaint of trade discrimination resulting from European integration which has not yet ~~produced~~ the political unity for which alone the United States would have been willing to pay the price. Some of these arguments have, of course, been challenged. Onesided recriminations are, at any rate, hardly a good starting point for an international trade negotiation which, in order to succeed, must from the outset be placed on the basis of reciprocity. While the inherent link of monetary, trade, defense and aid matters may be useful to promote the awareness of global interrelationships and be a reminder of what is at stake, the negotiations should be pursued separately in each sector. Given the complex causes for the American balance of payments deficit and the role of foreign investments as well as short and long term capital movements, it would moreover be quite unrealistic to think that trade measures alone could suffice to overcome the disequilibrium.

The basic principle of reciprocity seemed to be recognized in the joint declarations of the United States, EEC and Japan mentioned above. It was stressed that the negotiations shall be conducted "on the basis of mutual advantage and mutual commitment with overall reciprocity". This bears to be recalled today. The level of the American tariff and the number of American non-tariff barriers as well as the American restrictions on agriculture constitute as much of an irritant to European trading partners as vice-versa. The substance for reciprocal concessions surely exists.

Moreover these negotiations are separate from the compensation which the United States claim as a result of the enlargement of the

- 7 -

European Community. There is a well-defined GATT procedure for such cases which has been set in motion.

In order to dispel any misapprehension, and this is my second point, it is essential that both major trading partners, the United States and the EEC, secure a proper mandate to negotiate. A proposal to negotiate ad referendum would cast doubt on the willingness or the ability of either party to put agreed concessions into effect. The political will to achieve tangible progress can best be demonstrated by the enactment of sufficient enabling legislation. This seems to be the intention of the United States, and the summit meeting of the EEC has on its part set the deadline of July 1st for the elaboration of an appropriate mandate. Switzerland is fortunate in disposing of permanent legislative authority to engage in trade and tariff negotiations.

My third consideration relates to parallel progress in the monetary field. Trade concessions are only meaningful on the basis of monetary stability. The recent devaluations of the dollar have modified the terms of competition overnight to a greater extent than the tariff concessions in the Kennedy-Round, which took three years to negotiate and five years to implement.

Fourthly, the implications of a possible review of national escape clauses and international safeguards and adjustment mechanisms have to be born in mind. It must be admitted that the existing safeguards provisions may no longer correspond to the actual situation. Their review requires however a great deal of circumspection. Any revision of the present articles of GATT may easily get out of hands, considering the heterogeneous composition of its membership and further progress of liberalization could be illusory if it were coupled with an easier recourse to derogations or even retaliation. The trading community needs stable rules. Uncertainty as to the use

of restrictive measures based on such broad concepts as market disruption would constitute a serious impediment to the expansion of foreign trade. Objective criteria, clearly defined conditions for complementary internal adjustment measures, a phasing-out provision and appropriate international supervision are required to avoid arbitrariness.

Finally the coming months must be devoted to prepare a program for negotiation which can be considered realistic and balanced by all concerned. Every effort must be made to avoid the negotiations from breaking down in their initial phase because of an erroneous appreciation of what can reasonably be expected.

There seems to be a general agreement that the negotiations should encompass three broad areas:

tariffs on industrial products,
non-tariff barriers and
healthier international market conditions for the exchange of
agricultural goods.

Furthermore everybody recognizes that export receipts, being the main source of foreign exchange for financing the economic development of developing countries, special efforts should be made to increase the participation of these countries in world trade.

What the specific objectives of negotiations could be in each of these fields, is however not easy to determine. Has the time come to abolish tariffs altogether as an antiquated measure of trade protection - a working hypothesis which Switzerland could accept - or should the effort be limited to levelling off the peaks and achieving a more equal tariff protection by the different countries? What kind of negotiating method can be conceived to deal with non-tariff barriers, the quantitative effects of which are not easy to

determine? There are non-tariff barriers with a direct and adverse impact on trade and others which serve predominantly legitimate purposes such as safety, standardization and the protection of health, but which have indirect effects on trade.

Finally in the field of agriculture the rules of GATT have never really been applied and account must be taken of the economic, social and political factors involved as well as of the relationship between trade measures and internal agricultural production policies. Free trade in agricultural goods would hardly be a realistic proposition, and it is difficult to see which aspects of the common agricultural policy of EEC could be negotiable. On the other hand a new GATT-Round without an agricultural component is hardly conceivable. Intermediate solutions should be possible and experience shows that they could be mutually advantageous.

As to the position of the developing countries, which enjoy generalized preferences in most industrialized countries except as yet in the United States and Canada, specific measures would be required in their favour, since a tariff reduction scheme would ultimately result in reducing their preferential access and therefore not yield any new benefit.

The enumeration of these issues and alternatives shows how important it is that the preparatory work under way in Geneva should by next September have progressed to the point of indicating the outlines of a realistic and balanced program enabling Ministers to circumscribe the scope of the forthcoming negotiations.

III. The impact on Swiss/American relations

From the point of view of the present state of bilateral Swiss/American economic relations the conditions seem to be met to open the prospects for advantages to each party in a new GATT round. The ~~point of departure~~^{ure} is favourable since there is no need to correct a basic disequilibrium or to overcome a conflict of trade policy. Foreign trade between our two countries is evenly balanced and so are the reciprocal foreign investments which in Switzerland are not subject to any artificial restraints. Thus the recent dollar devaluation of 10% was not required to equalize our respective competitive position; on the contrary, Switzerland, as in the case of the American surcharge of 1971, is adversely affected as an innocent bystander by this measure. The situation is all the more unpleasant as the dollar area is not limited to the United States, our second largest national client, absorbing roughly 9% of Swiss exports, but extends to 1/3 of our total export markets, a proportion which is even higher for certain specific sectors, such as watches, shoes, heavy machinery and some textiles. Moreover, as Switzerland is much more dependent on trade than the United States - our export earnings represent 25% of GNP as compared to 4,3% for the United States and the volume of our foreign trade is 1/6 that of the United States, a country 40 times larger - our concern for a return to stable monetary conditions within a liberal system needs hardly be stressed.

Our competitive position is also affected by another factor for which we have, however, to take the responsibility ourselves: the higher rate of inflation. While the United States succeeded to keep inflation last year at 3,5%, Switzerland advanced into the top group of European countries with a record level of 7%. It is surprising that this combined effect of revaluation and inflation has not yet reversed our balance of trade with the United States, and I leave it to the economists to ponder whether this is due to the so-called

- 11 -

"perverse" effects of devaluations or to a slackening of the interest of American industry to make use of the gained advantage by concentrating the necessary attention and effort to foreign marketing. However a reversal of the trend is expected.

My claim that there is no clash in trade policy between our two countries is based on the conviction that we both strive to secure liberal trading conditions. The Swiss objective in concluding the Free Trade Agreement with EEC last year was to create a firm basis for the trading relations with her neighbours and thus to ensure stable conditions for the major part of her foreign trade. In fact we strive to achieve the same benefit of continental market dimensions enjoyed by the United States themselves. Not only in terms of GATT rules, but also on economic grounds adverse effects on other parties seem very unlikely. The formula of the free trade area, contrary to that of a customs union, does not require Switzerland to modify her external tariff vis-a-vis third countries. We remain a low-tariff-country with an average protection of merely 4% and it is difficult to see how the gradual elimination of tariffs on EEC-goods over a period of 4 1/4 years could result in any trade distortion to the detriment of non-European suppliers. Let me point just in passing to the fact that our average tariff protection is smaller than the margin of 4,5% fixed at the Smithsonian for the fluctuation of exchange rates! Moreover, the incidence of specific tariffs based on weight is automatically reduced in periods of inflation, and generally benefits the expensive products of advanced technology. Moreover, free trade with Europe is limited to the industrial sector and the few tariff concessions on agricultural products which were added to the package by autonomous action have been granted by us on a most-favoured-nations basis. The 15% of US-exports to Switzerland which relate to agriculture are therefore not jeopardized; a share much larger than the Swiss agricultural exports to the United States, which represent only 5,8% of the total.

If there is thus no room for concern about discrimination, there is certainly room for negotiations on reciprocal trade liberalization. The average incidence of US-tariffs of 8% still has a significant

- 12 -

impact on Swiss exports. Moreover, some traditional Swiss export goods, such as watches, are faced with American tariff peaks up to 40% !

In the field of non-tariff barriers the United States have notified their objections against licence fees for automobiles based on horsepower and government procurement practices as well as norms in the field of electrical appliances and sanitary goods. Switzerland on the other hand has notified objections against the Buy American provisions for federal and state procurement in the United States, the tariff evaluation systems of the American selling price and the Final List and the procedures for the application of the antidumping and countervailing duty legislation. I mention these random examples only as an illustration of the real substance, but also the inherent difficulties of any negotiations on non-tariff barriers.

Remains the question whether Switzerland as a world trading nation of medium importance - holding the 12th rank in terms of total volume of foreign trade - can actually play a role in these GATT negotiations alongside the three major participants, the United States, the EEC and Japan, and what her place will be in the search for trade solutions between industrialized and developing countries.

In quantitative terms the Swiss contribution will of course hardly be able to affect ^{very} substantially the overall result. A country like Switzerland which pursues an autonomous foreign trade policy independent of any groups might however play its role in the definition of the negotiating objectives and help bridge possible divergencies among the main participants. Since foreign trade is of particular importance to Switzerland our country knows from direct experience the significance and the implications of many of the outstanding problems.

- 13 -

In these negotiations Switzerland will be the firm advocate of further liberalization. Furthermore, Switzerland will hardly be isolated, but find herself in the company of other EFTA-countries and non-European industrialized states which as a group represent a significant part of world trade.

Let me conclude by stressing the belief that world trade issues deserve to receive high priority and constitute an important objective of economic policy on their own merits. They should not merely be tackled as a corollary to the monetary problems; they are neither the key nor the last straw for the restoration of a balance of payments equilibrium. Rather they are the means to improve the economic situation of every country and can be a powerful bond for cooperation and the improvement of the world political climate. As President Nixon said in his recent Economic Report in speaking about the renewed emphasis on international economic competition:

"This is a great advantage, because in economic competition every participant can win - there need be no losers."

The possibilities for negotiations in the existing international institutions still exist and should be used to the fullest possible extent. GATT offers a forum for settling individual complaints as well as general issues. Even though progress may be slow and the debates sometimes exasperating, the multilateral approach must be pursued. The alternative to liberalization would be protectionism and the alternative to international negotiation would be a return to autarky and retaliatory chain reactions. On this course, to paraphrase Mr. Nixon's statement, there could be no winners. It will therefore be our common responsibility to safeguard an orderly and liberal system of world trade which in order to function requires restoration of monetary stability.