Title:
Switzerland's Cheesy Economy

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Summary:
In a series of referenda in 2003-5, Swiss citizens transformed their country forever, economically aligning it with the European Union and opening it up to work migration. It was an uncharacteristic response to increasingly worrisome times.

Keywords:

Article Body:
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In March 2003, Switzerland's annual rate of inflation dipped to 1.3 percent. Once a cause for celebration, it is now construed to be a worrisome sign of lurking deflation. Growth has been below trend for years now. Demand is ever-weakening and capacity is idle. Taxes are high, the national debt soaring.

Interest rates are vanishingly low, having been chopped by half a percentage point in March 2003. But the Swiss franc, impervious to these monetary gambits, is at a five year high against the dollar. Switzerland depends on exports and tourism - they constitute more than half its gross domestic product. The almighty currency does its trade balance no favors.

National economic emblems are crumbling left, right and center. In an interview to the daily Blick, Andre Dose, chief of Swiss International Air Lines, the tottering successor of the bankrupt Swissair, begged for tax exemptions, lower insurance premiums and a waiver of airport charges as well as soft loans and subsidies from both government and banks. The airline lost more than $700 million in 2002.

A study recently released by Agrarplattform - a group representing farmers, processors and retailers - disabused the Swiss of their long held conviction that their cherished agricultural sector - notably milk, potatoes and meat - is profitable. Indigenous armaments technology firms - such as the state-owned Ruag group - besieged by anti-war protesters, saw their profits slashed.

In 2002-5, Switzerland's leading brand names - Roche (pharmaceuticals), Credit Suisse (banking), Adecco (manpower) and Zurich Financial Services - have announced record losses and job cuts.

And then there is Severe Acute Respiratory Syndrome (SARS) and avian (bird) flu. Switzerland has been struck with ten suspected cases of the former. It tightened inspections at its airports, cancelled flights and allocated funds for research into the new pandemic. Swiss pharmaceutical company, Roche, produced a diagnostic kit by end-2003.

No sector is spared the slump. Swiss banks, much-decried over the last few years for their alleged complicity in money laundering, are being pried open by assertive United States regulators and a zealous, mainly European, Financial Action Task Force.

In 2002, Swiss banks begun to repatriate to Nigeria more than $670 million looted by late dictator Sani Abacha and deposited with them. In the run-up to the war in Iraq, the government froze $368 million in Iraqi financial assets at Washington's behest, repeating its act in 1990.

Mobsters, terrorists, scammers, venal politicians and tax dodgers now look for anonymity and discretion to Lebanon and Cyprus, or even to Austria, the USA, the United Kingdom and Luxemburg . Switzerland's reputation as a safe pecuniary haven is in tatters.

This was only the latest in a series of upsets suffered by the ailing banking industry.

In August 1998, following intensive public pressure by Jewish organizations - and a thinly-disguised anti-Semitic backlash -Switzerland's two major banks, UBS and Credit Suisse, agreed to set up a $1.25 billion fund to settle claims by holocaust survivors and their relatives. The red-faced Swiss government threw in $210 million. It seems that the banks were in no hurry to find the heirs to the murdered Jewish owners of dormant accounts with billions of dollars in them.

A settlement was reached only when legal action was threatened against the Swiss National Bank and both public opinion and lawmakers in the USA turned against Switzerland. It covers owners of dormant accounts, slave laborers, and 24,000 of 110,000 refugees turned back to certain death at the Swiss border - or their heirs.

A high level international commission, headed by Paul Volcker, a former chairman of the Federal Reserve Board, identified 54,000 accounts opened by holocaust victims - not before it inspected 350,000 accounts at an outlandish cost, borne by the infuriated banks, of $400 million. To compound matters further, the Bergier Commission, set up in 1996 by the Swiss parliament, revealed, in March 2002, that Swiss banks provided the Axis powers with interest free loans.

Wall Street dealt Swiss financial intermediaries and their US-based brokerages, another blow. Recently, they settled with US regulators over charges of issuing biased stock analyses and recommendations. But this did not prevent former star investment banker with Credit Suisse First Boston, Frank Quattrone, from being charged with obstructing justice and destruction of evidence. Many mid-size and large Swiss firms are exiting the tainted capital markets altogether.

In April 2003, according to Swissinfo, the news Web site of Swiss Radio, Jean-Pierre Roth, chairman of the Swiss National Bank (SNB), warned, in its annual meeting, against undue optimism. Deteriorating trading conditions, stagnant consumption and diminished government spending heighten the "risks of a renewed worsening of the situation ... Compared to the previous year, conditions for our companies have worsened."

The country is still hobbled by red tape and anti-competitive cartels. Growth in 2003 was lower than the Bank predicted only five months ago, he admitted. The Organization for Economic Cooperation and Development (OECD) concurs. In its outlook, it warned that subdued conditions abroad and an inexorably appreciating franc continue to threaten the country's recovery.

GDP grew by an imperceptible 0.6 percent in 2003 and 1.9 percent in 2004. The International Monetary Fund (IMF), more upbeat, projected a 0.3 percent uptick in 2003 and 2.4 percent the year after. In 2002 the economy froze at zero growth. Unemployment stood at an unprecedented 3.9 percent in February 2003.

Not all is bleak, though. German chipmaker, Infineon, is considering to relocate to Switzerland. In April 2003, San-Diego based Netrom's Tempest Asset Management inaugurated a currency trading center in Zurich "to gain access to the multi-trillion dollar financial markets in Europe". Swiss firms, from gourmet baker Hiestand to computer peripherals manufacturer, Logitech, are showing record sales and surging profits.

The UBS Index of Investor Optimism, maintained by Swiss mammoth bank, UBS and the Gallup Organization, climbed 61 points in March 2003 - albeit to reach only one third its size in January 2000. Half the population foresee a recovering economy and two fifths believe in improving employment prospects.

Moreover, globalization has coerced Switzerland into abandoning its splendid - and costly - isolation. In March 2002 it voted to join the United Nations - something it has resisted for decades. Swisspeaks, a two month festival promoting Switzerland, took place in April 2003 in New-York.

Ten million visitors attended Expo.02 - a national exhibition in Neuchatel. Seven agreements with the European Union came into force in June 2003. Incredibly, Switzerland is poised to join the Schengen agreement, leading to the scrapping of internal borders with the EU. Banking secrecy will be partially lifted in line with Union directives.

With 7 million inhabitants (one fifth of which are immigrants) - Switzerland is among the richest polities on Earth. Income per capita is more than $38,000. The economy's openness - its weakness - is also its fount of strength. It endows Switzerland with enviable resilience and flexibility.

The country survived intact the first and second world wars, fought on its doorstep. It has reinvented itself, metamorphosing in the process from a backward rustic landlocked domain to a financial cum engineering global empire. It will emerge, as it always does, invigorated and ready for new challenges.