

The raw silk trade and its risks

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The supply of raw silk was the first link in the chain of the ribbon industry and one of its principal sources of risk. The price of raw silk fluctuated with the harvests of cocoons, which depended on the weather, on the health of the silkworms and on the political conditions in the producing regions. A bad harvest in Italy could double the price of raw silk, in which case the ribbon merchants, who had committed themselves to delivering ribbons at fixed prices, could suffer heavy losses.

The Basel merchants managed this risk in several ways. They bought raw silk in advance, when prices were favourable, and held stocks that allowed them to bridge periods of high prices. They diversified their sources, buying in different Italian regions, in France, in Spain and in the Levant. They maintained close relationships with silk dealers and throwsters in Italy, who informed them of the state of the harvest and the market. And they adjusted their selling prices and their production to the cost of raw material.

In the 1850s, an epidemic of silkworm disease, pébrine, devastated the silk production of France and Italy. As the harvests collapsed and prices soared, the European silk industry was forced to seek raw silk from other sources. The opening of Japan to foreign trade in the late 1850s and the opening of the Suez Canal in 1869 made Asian silk from China and Japan available in large quantities, so that the centre of gravity of the raw silk trade shifted to Asia.¹ The Swiss silk merchants, among them those of Zurich and Basel, established relationships with Asian suppliers and trading houses, and some Swiss firms opened branches in Yokohama and Shanghai.

The raw silk trade thus connected Basel, through the needs of its ribbon industry, with Asia long before the modern relationships between Switzerland and China that the author of this book has experienced in his practice in Hong Kong and Singapore. The Swiss silk traders in Yokohama and Shanghai in the late nineteenth century were among the first Swiss

businessmen in East Asia, whose activity prepared the commercial relationships that the Swiss watch industry, the Swiss trading houses and later the Swiss banks and pharmaceutical companies would develop.

The management of raw material risk, which the ribbon merchants practised empirically, is today the subject of sophisticated financial instruments: futures, options and swaps on commodities, which allow producers and consumers to hedge their exposure to price fluctuations. The companion volume on Geneva examines the commodity trading industry, which uses these instruments on a large scale. The Basel ribbon merchants who bought raw silk in advance and held stocks were practising, without the instruments, the risk management that the commodity traders of Geneva practise today.

1 Notes

1. On the pébrine epidemic of the 1850s and 1860s, its effects on European sericulture, Louis Pasteur's research on the disease and the shift to Asian raw silk (China, Japan) after the opening of Japan and the Suez Canal (1869), see the literature on the history of the silk industry. To be verified. ↩

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