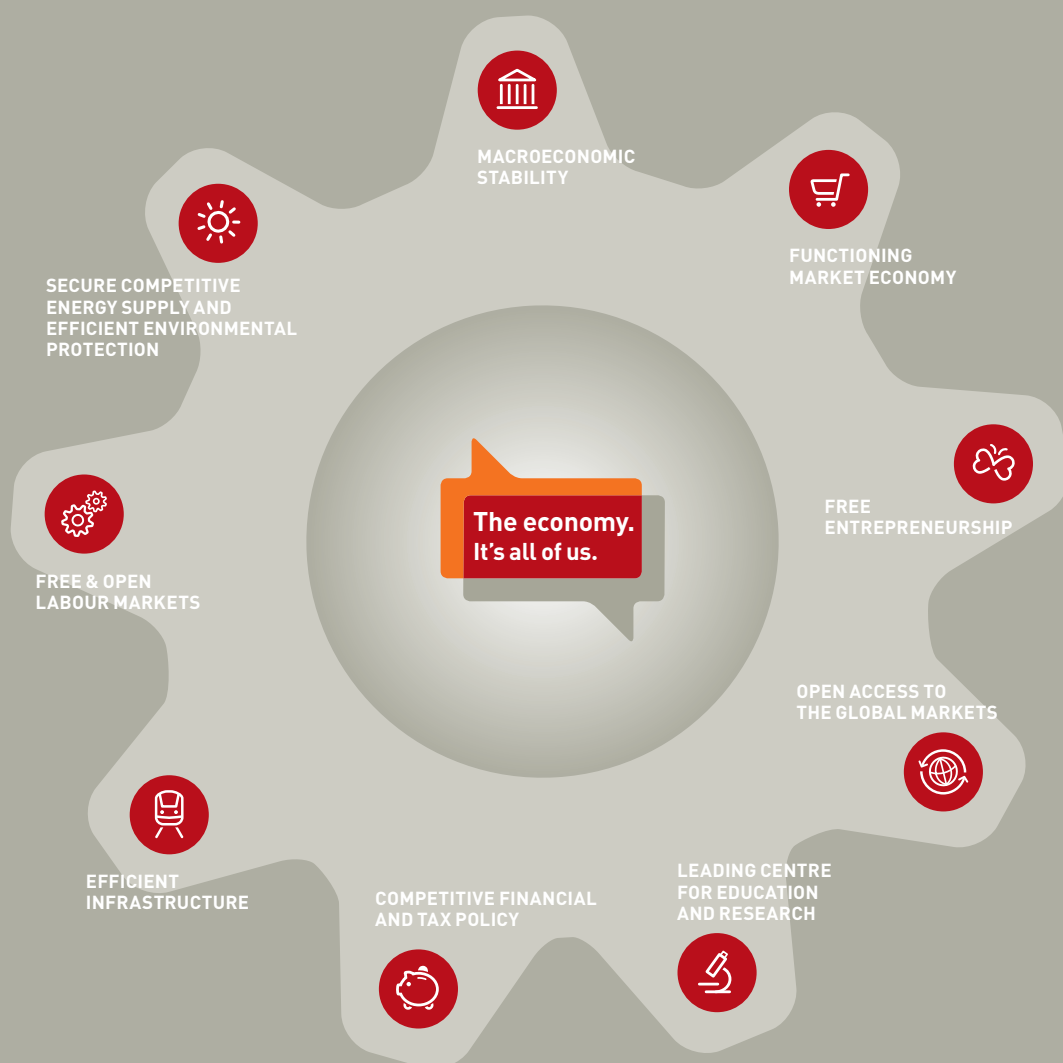




**Switzerland's foreign
economic strategy
→ Demands of
the economy**

→ Success factors

Switzerland's foreign economic strategy and the resulting recommendations are oriented towards the central success factors for favourable political framework conditions. This reference framework also defines the economic policy compass of *economiesuisse*.



For information on all nine success factors, see economiesuisse.ch/en/success-factors-english

→ Contents

3 Foreword

- 3 Foreign economy: imperative for prosperity

4 Introduction, objectives and procedure

- 4 Significance and structure of Switzerland's foreign economy
- 6 Switzerland as an investor abroad
- 6 Foreign economic policy objectives and instruments
- 8 Procedure in this position paper

9 Trends in foreign economic policy

- 9 Political upheavals
- 10 Fragmented world trade system
- 11 Digitalisation
- 11 Protectionism
- 11 Sustainability
- 12 Economic dynamics
- 13 Monetary policy

14 Analysis of potentials: the foreign trade index

17 Current challenges for Switzerland's foreign economic policy

- 17 Negotiation-based instruments:
insufficient representation of business interests
- 18 Autonomous instruments: Switzerland is slow to take action

20 SWOT analysis

- 20 Strengths and opportunities
- 21 Weaknesses and risks

22 Requirements on foreign economic policy

- 22 Coherent foreign economic policy
- 23 Intensification of market access and improvement of legal certainty
- 27 Horizontal level: active commitment in international organisations
- 27 Focus must be kept on the main target markets
- 29 Need to secure the best possible framework conditions
within Switzerland

32 Summarised conclusions

- 34 Abbreviations
- 36 Notes

→ Foreign economy: imperative for prosperity

IF SWITZERLAND IS TO CONTINUE TO GENERATE THE HIGHEST POSSIBLE VALUE ADDED AS A BUSINESS LOCATION, ITS FOREIGN ECONOMIC POLICY WILL HAVE TO UNDERGO A PARADIGM SHIFT.

→ Dear Reader,

Switzerland's prosperity is to a large extent based on the export and import performance of businesses. Our companies are present in the global markets and successfully hold their own against international competitors. In difficult economic times, the fact that Switzerland's export industry is broadly diversified and exports are carried out from a variety of sectors is a distinct advantage. Special attention should be directed towards the structural importance of small and medium-sized enterprises (SME): more than 90 percent of the 24,000 export businesses in Switzerland are in this category. Throughout the entire country, i.e. not only in the major business centres, but also in the outskirts, there are small and medium-sized companies that have firmly established themselves on the global market. Innovation, quality and specialisation are often the key elements in their strategies of manufacturing high-quality industrial products or providing first-class services. Some of these "hidden champions" will grow in the next few decades and evolve into major players.

This success cannot be taken for granted. On the contrary it has to be constantly strived for. In order to continue to be successful, companies need good framework conditions in Switzerland and the best possible access to foreign markets. But dark clouds are appearing on the horizon in the form of ever-increasing protectionism. In addition, there is growing political uncertainty associated with Brexit and the reorientation of US international economic policy. Also, the rapid growth of technologies is posing a challenge for Switzerland's traditional foreign economic policy.

How can and should Switzerland position itself in this environment, and which foreign economic policy should it implement? In this position paper we call upon policy makers to take action to ensure that Switzerland can remain prosperous in the future.



HEINZ KARRER
President,
economiesuisse



MONIKA RÜHL
Chairwoman,
Executive Board,
economiesuisse

Firstly, it is not just a question of market access for our exports of goods. A successful foreign economic policy foreign economic policy has to be much more versatile. It has to account for the importance of service exports, seek to strengthen investment protection, avoid the double taxation of business activities and improve the representation of Switzerland at the international level.

In addition, given the complexity of economic interdependencies, our country's foreign economic foreign economic policy can no longer be clearly separated from our domestic policy. Domestic policy measures in the areas of taxation or agriculture can quickly put a strain on foreign economic policy. In our view, what is now called for is a clear shift of priorities: the Federal Council and Parliament have to place foreign economic policy at the centre of their political endeavours.

This position paper was prepared in collaboration with our members. It is intended to serve as an orientation aid for shaping Switzerland's future foreign economic policy and is addressed to policy makers and units of the federal.

→ Introduction, objectives and procedure

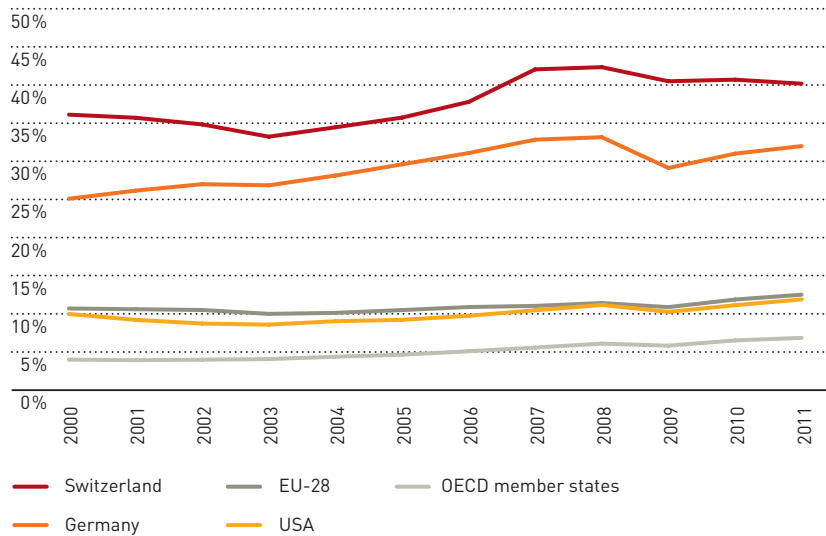
SWITZERLAND'S FOREIGN ECONOMY IS STRONG AND BROADLY BASED. TO ENSURE IT STAYS THAT WAY, SWITZERLAND HAS TO CONTINUE TO PURSUE TWO MAIN OBJECTIVES.

Significance and structure of Switzerland's foreign economy

The importance of foreign economy for Switzerland's prosperity is underscored by one simple fact: two out of five Swiss francs are earned abroad.¹ In a small country, the share of exports is automatically higher than in a large economy such as the USA, but the fact that the proportion of exported value added in Switzerland is higher than in Germany (cf. Figure 1) is remarkable. And a comparison with the average figures for OECD member states also highlights the importance of the foreign economy for Switzerland.

Figure 1:
Proportion of exported value added in various countries in percent

→ In Switzerland, 40 percent of gross value added is exported. This figure means that Switzerland is at the forefront by international comparison.

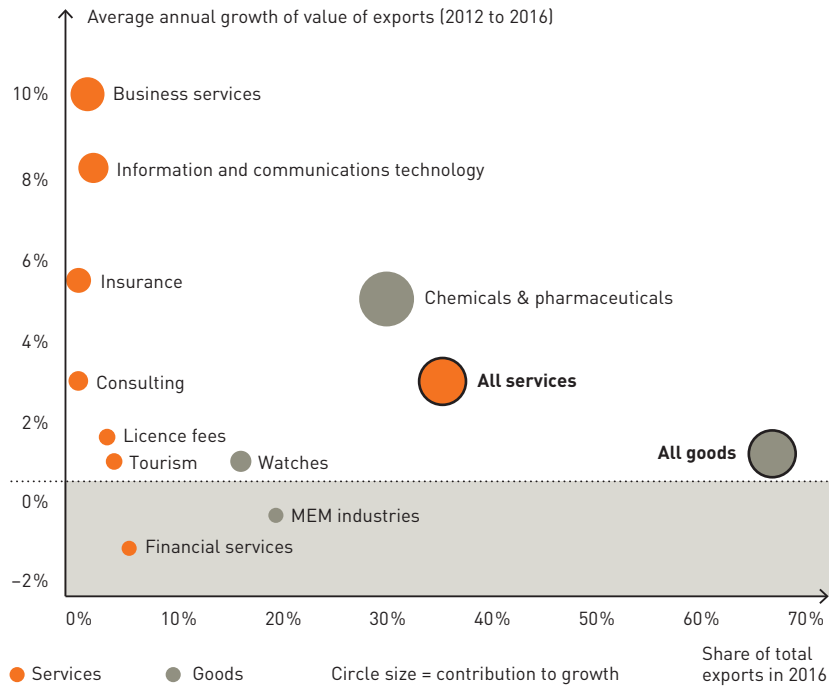


Source: OECD (2017)

An analysis of the most important Swiss export sectors shows that Switzerland generates a third of its gross revenue with exported services and two thirds with goods exports. In terms of turnover, the most important export sector is chemicals and pharmaceuticals (cf. Figure 2). In 2016, this sector generated export revenue totalling 94 billion Swiss francs, which corresponds to 29 percent of Switzerland's total goods and services exports. Companies in the machinery, electrical engineering and metals (MEM) industries² were in second place, with watches and financial services following in third and fourth place respectively.

Figure 2:
Trend in selected export sectors


→ In 2016, financial services accounted for a third of total exports – and the trend is upwards. Goods accounted for a two-thirds share.



Sources: Federal Customs Administration FCA (2017), Swiss National Bank SNB (2017), own calculations

This sector analysis³ also shows that export figures for the chemicals and pharmaceuticals industry increased at an above-average rate between 2012 and 2016. Exports of watches are also strong and increased in the period under review. The MEM industries are important too: on average, their exports fell slightly in the observed period, though they picked up again in 2016.

The growing importance of services exports is also apparent. In the past few years, the services sector has in fact contributed slightly more towards the overall increase in exports than the goods sector. The high contribution to growth can be partly attributed to increased demand for Swiss information and communications technology and business services abroad.



COMMODITY HUB SWITZERLAND Alongside the conventional export and import of goods there is another area of foreign economy that is of considerable significance for Switzerland: transit trade. Raw materials are sold, stored, processed and shipped by Switzerland, but they never physically enter the country. Swiss companies generate value added to the tune of 25.2 billion Swiss francs with transit trade – i.e. close to four percent of Switzerland’s GDP. Furthermore, driven by transit trade, wholesale trade has contributed more than 40 percent towards the growth of Switzerland’s labour productivity in the past few years. Switzerland’s raw materials cluster embodies not only transit trade, but also trade financiers, goods inspectors and shipping companies. Swiss shipping companies own a larger maritime fleet than Holland or Spain.

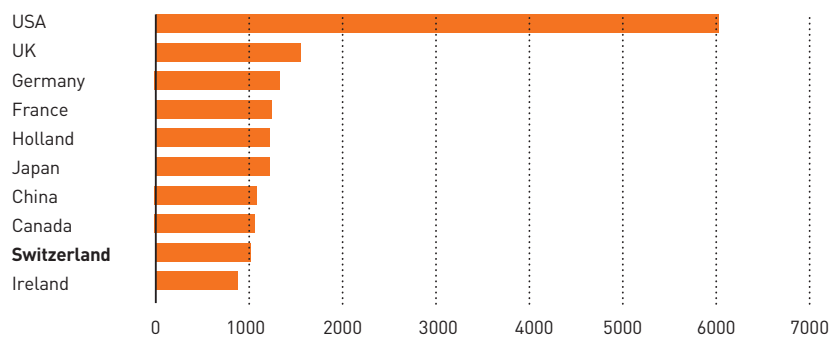
Switzerland as an investor abroad

Swiss companies not only export and import goods and services, they also invest heavily abroad. Since 1998, Swiss foreign direct investments have more than quadrupled. In 2015, they totalled around 1,121 billion Swiss francs. Two million jobs abroad depend on these investments. Switzerland is the world's ninth biggest foreign direct investor. The largest share of investments by Swiss companies is in the EU, followed by the USA.

Here, too, the activities of small and medium-sized Swiss companies are noteworthy: around 4,000 of the approximately 5,000 companies with operations abroad belong to this category – by international comparison, this is a very high proportion.

Figure 3:
Stock of foreign direct investments
in billion US dollars (2015)

→ Switzerland is one of the top ten
foreign direct investors.



Source: OECD (2017)

Foreign Direct investments in Switzerland have also increased sharply – by a factor of eight since 1998. As of 2015, the value of foreign capital stock in Switzerland was 833 billion Swiss francs. The largest investor is the EU (especially Luxembourg and the Netherlands), followed by the USA.

Foreign economic policy objectives and instruments

Despite the strong Swiss franc and the financial market crisis, Switzerland's export industry has developed positively in the past few years. The broad diversification in terms of sector, markets and company size, coupled with the close ties resulting from foreign direct investments, has helped ensure that Switzerland was able to survive various crises relatively unharmed. In view of the high diversification of Switzerland's export sector, however, it is clear that an industrial policy would have been doomed to failure. Instead, a successful foreign economic policy must set out to establish the prerequisites for companies of all sizes from all export fields to successfully establish themselves on as many markets as possible.

The primary objective of Switzerland's foreign economic policy is to secure and foster prosperity in our country. Investments by companies irrespective of sizes are important for Switzerland as a business location. Large companies can transfer their business activities outside the country in the short and medium term, whereas small and medium-sized companies are often less flexible when it comes to changing their geographic location and are thus more dependent on non-discriminatory market access for conducting trade in goods and services.



“For globally active Swiss insurers like Zurich, the whole range of foreign economic policy instruments is of importance: equivalent regulatory framework conditions, trade agreements and double taxation agreements are important instruments both for a competitive local presence as well as for supporting our international business clients in various markets around the world.”

Claudia Dill,
CEO Latin America,
Zurich Insurance Group Ltd

Objective 1: To increase market access and legal certainty through broad international cooperation

Swiss companies are able to export to and import from foreign markets without discrimination, and thus exploit the full foreign economic potential (market access). They can also rely on legal certainty in foreign markets (legal certainty in market presence) and on strong protection of innovation (protection of intellectual property). Switzerland represents actively its economic interests in international bodies and thus ensures optimal framework conditions for Swiss companies in horizontal areas.

Objective 2: To secure ideal framework conditions within Switzerland

Switzerland uses its room for manoeuvre to strengthen the international competitiveness of its companies through autonomous measures.

Foreign economic policy instruments

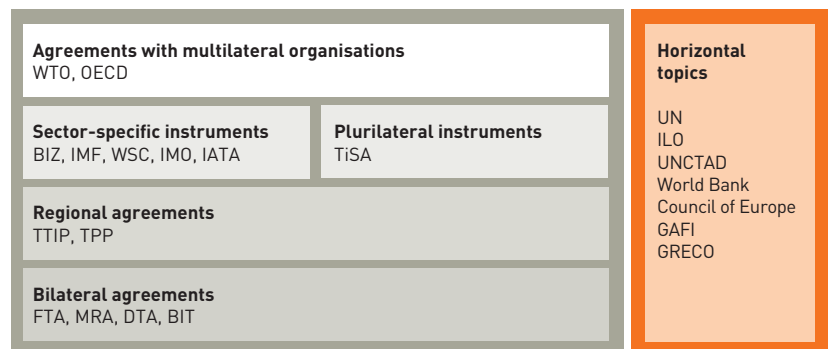
Foreign economic policy instruments can essentially be classified into two categories (cf. Figures 4 and 5):

→ **Negotiation-based instruments:** This includes obligations under international law that specify the applicable framework conditions at the international level for the foreign economy. Switzerland can negotiate these provisions directly with a partner country (i.e. bilaterally), with a number of countries (i.e. plurilaterally) or with the entire international community (i.e. multilaterally). These provisions have in common that Switzerland cannot specify them unilaterally. They have to result from negotiations.

→ **Autonomous instruments:** This concerns the elements of framework conditions that Switzerland can define without the consent of other countries.

Figure 4:
Negotiation-based instruments

→ Objective 1: To strengthen market access and increase legal certainty through broad international cooperation.



Note: all the abbreviations used above are explained on page 34.

Figure 5:
Autonomous instruments

→ Objective 2: To secure ideal framework conditions in Switzerland.

Monetary policy	Digital foothold
Tax policy	Export promotion
Labour market	Tariffs & customs processes
Basic infrastructure	Agricultural policy

Procedure in this position paper

In this position paper we discuss the foreign economic policy Switzerland should adopt to achieve the aforementioned objectives, and which instruments would be the most suitable for this purpose. We begin with an analysis of international trends that affect Switzerland's foreign economic policy. We then go on to present economiesuisse's foreign trade index, which, based on various indicators, shows with which countries Switzerland stands to realise the highest gains from trade through an improvement of market access. We then examine current problems for Switzerland's foreign economic policy. The descriptive section of this paper is concluded with a SWOT analysis. This is followed by the specific demands of the business sector, which are then briefly summarised.

→ Trends in foreign economic policy: from digitalisation to protectionism

EXPORTING AND IMPORTING COMPANIES HAVE TO ASSERT THEMSELVES IN AN EXTREMELY DYNAMIC ENVIRONMENT WHERE THE FRAMEWORK CONDITIONS ARE CONSTANTLY CHANGING.

A foreign economic policy has to take account of future trends along various dimensions (social, political, economic, technological).

Political upheavals: uncertainty is on the rise

At both the political and the macroeconomic level, the foreign trade environment is currently characterised by a high degree of uncertainty – and this is unlikely to change in the foreseeable future.

Will the EU intensify internal integration to the detriment of third-party states?

Switzerland's largest trade partner, the European Union, is currently in transition. One of its most important member states, the UK, intends to break with the EU. This could mean that the remaining member states will further integrate, which in turn would mean that third-party states might be excluded to a greater extent. Switzerland faces the peril that its companies could be discriminated against in favour of EU-competitors if the bilateral agreements do not guarantee access to the EU market.

Brexit: market access has to be renegotiated and location competition is gaining momentum

How British companies will access the EU market after Brexit is still entirely unclear. At the same time, Switzerland also has to redefine its bilateral relations with the UK. Regardless of the quality of the effective market access that the UK can negotiate with the EU, it will endeavour to increase its attractiveness as a business location by implementing autonomous measures. This will increase the pressure on Switzerland's competitiveness as a location. Generally, location competition will intensify.

USA: America first, Switzerland second?

The USA is the market with the greatest potential for Swiss companies. While demand for Swiss services and products essentially exists, the tariffs and technical barriers that are currently in place are impeding market access. This means that investments in research and the creation of jobs in Switzerland are also being hampered.

There is still no free trade agreement between Switzerland and the USA that would remove the existing trade barriers. Furthermore, the extent to which the USA's future trade policy will be characterised by protectionism

is unclear, as is the question of whether market access will be rendered more difficult for Swiss companies. Changing framework conditions in the USA (for example, corporate tax) are further fueling location competition.

Fragmented world trade system: implementation of the best solutions is looking ever less likely



“We generate 94 percent of our turnover from the export of precision tools. Trade with our neighbouring countries is particularly important for us. To maintain our leading position we need free and uncomplicated market access and the ability to recruit the best personnel from our closest neighbours.”

Urs W. Berner,
CEO Urma AG

Due to digitalisation and fragmented value chains multilateral measures become more and more important for global framework conditions. As the complexity of decision-making mechanisms in the World Trade Organisation (WTO) is increasingly hampering the development of global standards, governments are now shifting their focus to plurilateral or bilateral agreements. But there is a risk that such agreements could distort world trade, partly because of discrimination of individual product categories, but also because of the exclusion of certain countries.

A dynamic development of plurilateral agreements commenced in the mid-1990s. In 1996, 29 countries concluded a plurilateral agreement (Information Technology Agreement, ITA)⁴ with the aim of completely eliminating customs tariffs on IT products. In the meantime, 82 countries have signed this agreement, so that it now covers 97 percent of global trade in IT products. The Chemical Tariff Harmonisation Agreement (CTHA) is another well functioning plurilateral agreement. And the WTO Pharmaceuticals Agreement, which includes a list of tariff-free products that is intended to be revised every two years (though in practice these revisions are often delayed), is another example of a plurilateral agreement. The plurilateral WTO Agreement on Government Procurement was concluded to prevent discrimination against foreign bidders for the award of government mandates. But some major countries are not signatories to this agreement, including China and Brazil. The negotiations on the Trade in Services Agreement (TiSA) were postponed at the end of 2016. TTIP (Transatlantic Trade and Investment Partnership) and the TPP (Trans-Pacific Partnership) are not plurilateral agreements. They both pursue the objective of creating megaregional free trade zones (or “mega-regionals”) that other countries could join at a later juncture (via a docking process). However, neither of these agreements has been successfully concluded to date.

From an economic point of view, both plurilateral and bilateral agreements are only second-best solutions. While they can certainly lead to increased trade for the signatory countries, they can also result in discrimination against companies and sectors from non-signatory states because they do not apply to all countries. In addition, differences in the content of such agreements give rise to an abundance of deviating regulations, and thus to high transaction costs.

As a result of technological and social developments, horizontal standards will in future gain more relevance for Switzerland’s foreign economy. These are not always defined in the classical trade organisations, but may distort or even hamper trade depending on the circumstances. This means that there is a risk that non-tariff trade barriers could be created via horizontal issues. Switzerland’s sound international reputation, offers it an opportunity to actively campaign in the respective organisations for international standards to promote trade instead of restricting it.

Digitalisation: territorial focus on value added becomes less important

Digitalisation is having far-reaching impacts on society and the economy. As a megatrend it will exert the biggest influence on the next few years. It has the potential to sharply accelerate globalisation. Geographic borders will vanish and distances will become less significant. This will open up numerous opportunities, but it will also intensify global competition and give rise to regulatory, economic and social challenges. It will raise questions such as the taxation of robots or products that are produced using 3D printers. Other issues include digital trade, data protection and cyber security, new rules of origin and interventions in competition. It is already clear today that it is impossible to find solutions to these challenges by adopting a strictly national perspective. Instead, what is required is close international cooperation.



“In today’s digital reality, a liberal foreign economic policy is more important than ever for Switzerland. We must ensure that we do not lessen the potential of modern solutions such as block chain technologies by pursuing a protectionist policy. Obligations such as mandatory data localisation do not in any way help either our globally active companies or our highly important small and medium-sized companies.”

Marcel Stalder,
CEO EY (Switzerland)

Digitalisation opens up numerous opportunities. For example, trade barriers can be overcome. Thanks to electronic communication tools, it is possible to provide services abroad without the need for personnel to travel to other countries where they would have to apply for residence permits. New digital instruments for customs can sharply reduce transaction costs. Furthermore, thanks to digitalisation it is possible to streamline the structure of value chains and international division of labour.

It will therefore be more important than ever for Switzerland to support its national economy by providing a strong digital foothold. This means that it will have to bring about significant improvements in the area of e-government and refrain from banning any technologies.

Protectionism: major markets will increasingly isolate themselves

Since the financial and economic crisis, politicians throughout the world have been increasingly resorting to protectionist measures in order to ease fears among the population and isolate their country from global competition. This is in part also a reaction to the technological transition addressed above.

According to the WTO, five percent of global trade is being negatively affected by protectionism. It is interesting to note that this concerns especially non-tariff-related measures. For example, in Southeast Asian growth markets, tariffs are being removed but at the same time new non-tariff-related trade barriers are being introduced, such as the requirement of mandatory data localisation on domestic servers. By contrast, other countries are raising their tariffs to the limits of their WTO obligations. It is also likely that governments will cancel investment protection agreements and lessen their protection of intellectual property in order to support their local suppliers.

Sustainability will increasingly become a competitive advantage

In its three dimensions (ecological, economic and social), sustainability will continue to gain significance. Companies providing high-quality products in this regard will be able to increase their competitive capacity. Thanks to its excellent reputation, Switzerland will be able to make a significant contribution towards a more sustainable development worldwide via its



“Today, protectionism frequently occurs via non-tariff trade barriers, and the effective protection of intellectual property rights is coming under pressure. But those rights are of central importance at an international level for companies like ours who are an integral part of a knowledge- and innovation-based foreign economy, which invests a great deal in research and development in Switzerland.”

Peter R. Thomsen,
Manager Global IP
Litigation & Transactions, Novartis

foreign economic policy. But at the same time, sustainability is more and more being instrumentalised as a pretext to introduce protectionist measures or raise taxes and levies. In a similar fashion, the protection of intellectual property could be weakened.

Economic dynamics: potential shifting to new markets

The big shift from BRIC to SIMT

Economic priorities are shifting and the world is becoming more multipolar. Asian economies are reporting remarkable growth rates and a rapidly growing middle class. This trend has not gone unnoticed. The USA recently shelved negotiations on the Trans-Pacific Partnership (TPP), but the EU has in contrast concluded a free trade agreement with Vietnam and is currently negotiating agreements with Indonesia and other East Asian countries. The BRIC states still represent an important bloc, but new emerging economies such as South Korea, Indonesia, Mexico and Turkey (referred to as the SIMT states) are also gaining importance. The same applies to existing free trade areas: the potential for Switzerland’s trade with the Mercosur nations (Argentina, Brazil, Paraguay and Uruguay) is still greater than the potential for trade with ASEAN (Association of South East Asian Nations). However, the latter has closed the gap and will probably surpass Mercosur in the next few years.

Value chains will become more global and encompass more services

Thanks to lower transport costs and the opportunity afforded by digitalisation to respond to the higher demand for ever more complex products with more streamlined and global value chains, new value added niches are opening up for Swiss companies. This is occurring to an ever-increasing extent in the services sector. The existing and future non-tariff barriers in trade in services are thus giving rise to ever higher economic costs.

The globalisation of value chains means that the Swiss economy has to focus to a greater extent on its comparative advantages and services that are high in added value. This in its turn will speed up the structural change in Switzerland, especially with respect to the skill-biased technological change⁵ (cf. box, page 13: “Market liberalisation accelerating the structural transition and giving rise to the creation of jobs”), and thus the requirements placed on the labour market. Being a high-quality education and research location will become an ever-greater competitive advantage. In addition, to utilise the potential of the globalised value chains, the requirements for basic transport infrastructure (aviation, road and rail, shipping) will increase. The risk of capacity overloads will also go up.

Market liberalisation accelerating the structural change and giving rise to the creation of jobs

→ A recently published calculation by *economiesuisse* shows that, contrary to widespread claims, instead of destroying jobs the structural transition will in fact create up to half a million jobs a year.



“Our small and medium-sized companies and our industry sector rely on skilled personnel and innovation in order to hold their own against international competition. Switzerland therefore needs first-class education and research institutions that work closely together with companies and train the required specialists.”

Christiane Leister,
President of the Board of Directors of
Leister AG and member of the Council
of the Federal Institute of Technology,
Zurich

Various factors are driving the structural change in the Swiss economy, i.e. its shift from traditional industry towards being a highly technology-based and innovative research, services and production location. The reasons for this are technological progress and the globalisation of the economy. However, not everyone regards this transition as a positive development: it is often claimed that this will lead to job losses. Nevertheless, in its recently published dossier-politik, “Structural change in Switzerland: facts and perceptions”, *economiesuisse* showed that this transition will create almost half a million jobs a year. But because these new jobs will call for highly qualified employees, it is essential that the necessary training and further education facilities are available in Switzerland.

Monetary policy: the Swiss franc will continue to be subject to appreciation pressure

Political upheavals are also restricting planning security with respect to the currency markets. Due to international uncertainties and macroeconomic disparity, the Swiss franc will continue to be subject to appreciation pressure. To ensure that Switzerland’s export industry can remain competitive, a prudent monetary policy will also be required in the future. The autonomy of the Swiss National Bank (SNB) must be preserved at all costs.

→ Analysis of potentials: the foreign trade index

WITH ITS NEW FOREIGN TRADE INDEX, ECONOMIESUISSE AIMS TO SHOW IN WHICH COUNTRIES SWISS COMPANIES COULD GENERATE HIGH TRADE PROFITS IN THE FUTURE. SWITZERLAND'S FOREIGN ECONOMIC POLICY SHOULD THEREFORE PRIORITISE THESE LOCATIONS.

In view of the sluggish further development of the World Trade Organisation (WTO), many countries, including Switzerland, have concluded bilateral free trade agreements. Has Switzerland's foreign economic policy set the right priorities in its bilateral agreements in the past few years? Which markets should Switzerland's trade diplomacy focus on in particular? In order to answer these questions comprehensibly and as objectively as possible, economiesuisse has developed a foreign trade index that is intended to indicate which target markets possess particularly high potential. For this purpose, relevant indicators were combined to form an index for Swiss foreign trade.⁶ The 38 indicators are all based on official statistics, thus rendering the index transparent and comprehensible. The resulting index shows the level of trade profits that could be generated in a given target market. The index value is influenced by two main factors: the actual size of the market (based on GDP) and the quality of its economic environment. This explains why, for example, Saudi Arabia is placed above Sweden. Although Sweden has an easier economic environment for companies, its market is significantly smaller than Saudi Arabia's.

The results underpin the findings formulated above relating to the structure of Switzerland's foreign economy. The EU and the USA indicate by far the greatest potential, while high trade profits can also be anticipated in China and Japan. In view of current political developments, the UK also warrants special attention. Since the Brexit decision, future market access has been uncertain, but the foreign trade index indicates that the UK market is highly relevant for Swiss companies.

The BRIC countries remain important, although other growth markets (the SIMT states: South Korea, Indonesia, Mexico and Turkey) are simultaneously gaining momentum. And frontier markets⁷ such as Vietnam (which currently occupies 47th place on the index) also have to be taken into account.

Figure 6:
The foreign trade index
2016

→ The greatest potential lies in trade relations with the USA and the EU.



“Asia is and will remain a major growth market. Switzerland has already succeeded in creating a competitive advantage for itself with China – especially over the USA and the EU. For Swiss companies it is extremely important to gain better access to other emerging markets such as Vietnam and Indonesia.”

Doris Albisser,
Leading Partner,
EurAsia Competence AG

Position	Country	Index value	Change since 2011
1	USA	100.0	+1
2	EU-28	91.3	-1
3	China	70.6	+1
4	Japan	45.6	-1
5	Germany	41.5	0
6	United Kingdom	38.0	+1
7	France	34.1	-1
8	India	30.0	+4
9	Italy	28.3	-1
10	Canada	27.4	-1
11	Australia	26.1	+3
12	South Korea	25.8	+3
13	Brazil	25.5	-3
14	Spain	22.7	-3
15	Russia	22.7	-2
16	Mexico	21.7	+1
17	Holland	19.2	-1
18	Indonesia	19.0	+2
19	Turkey	17.1	-1
20	Saudi Arabia	15.3	no value

Source: economieuisse

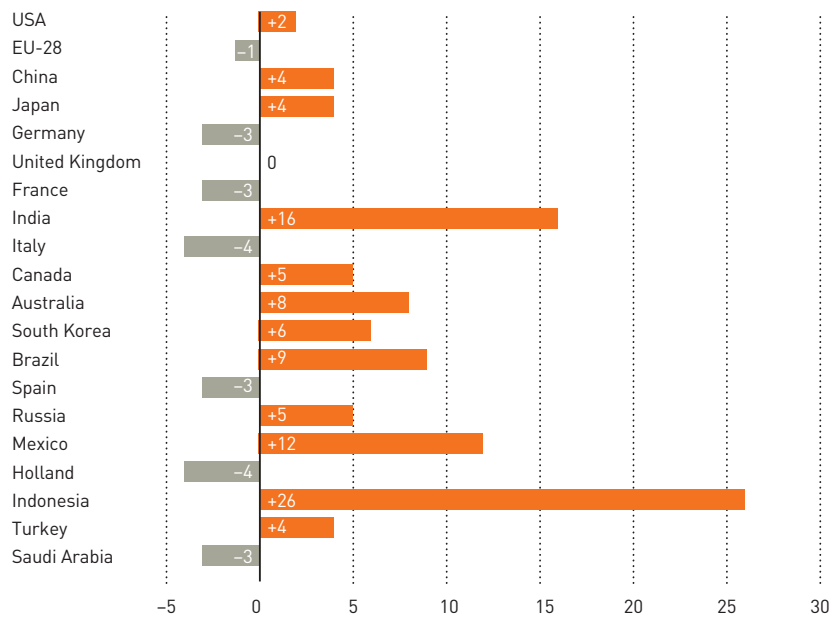
The index clearly shows that, in the past few years, Switzerland’s foreign economic policy has correctly prioritised the negotiation of free trade agreements with China and Japan. Switzerland has meanwhile concluded free trade agreements with seven of the top ten countries on the index (if the EU is not regarded as a country). The exceptions are the USA, India and Australia. The Mercosur countries deserve special attention: Brazil and Argentina are markets with considerable potential. Because customs tariffs are still relatively high in these countries, a free trade agreement would be greatly beneficial.

The foreign trade index provides information about the absolute potential of a given target country. It would now be interesting to determine in which markets Switzerland has not yet been able to utilise the existing potential. In order to indicate those countries in which significant trade profits would be feasible, the index value can be compared with the actual trade activities. A positive delta value means that the country concerned figures much higher on the foreign trade index than in the rankings of countries based on the actual value of goods exports.

Figure 7 reveals some interesting information – for example, high trade profits can be anticipated if economic relations with the USA were to be intensified.⁸ Other countries in which the high potential has not been exploited include Indonesia, India, Mexico, Brazil and Australia. With the exception of Mexico, Switzerland does not have a free trade agreement with any of these countries. By contrast, Switzerland’s economy is so firmly integrated into Europe that the potentials have been more exhausted. Here, foreign economic policy has to secure the existing market access and selectively intensify it.

Figure 7:
Rankings of countries based on
actual trade in goods
 2016

→ Utilisation of potential by Swiss companies, by country.



Sources: Federal Customs Administration FCA (goods exports rankings),
 economiesuisse (foreign trade index)

→ Current challenges for Switzerland's foreign economic policy

IN ORDER FOR SWITZERLAND TO FURTHER DEVELOP ITS FOREIGN ECONOMY IT WILL HAVE TO NEGOTIATE BUSINESS-FRIENDLY FRAMEWORK CONDITIONS WITH PARTNER STATES AND IMPROVE THE BACKGROUND CONDITIONS AT HOME

In the previous chapter, Switzerland's trade diplomacy was given a positive assessment with respect to the setting of priorities. This chapter focuses on existing problems that either have to be addressed in negotiations or which Switzerland will have to solve autonomously.



“Comprehensive free trade agreements are essential for us. In order to be able to sell our quality products throughout the world we need to have the same operating conditions as our competitors. For example, it is important that we do not have to have our compliance with technical regulations verified several times, which is currently the case in our trade with the EU under Bilateral Agreements I. This is a prerequisite for the sale of our medical instruments.”

Eva Jaishi,
CEO Swiss Tools

Negotiation-based instruments: insufficient representation of business interests

Even though global trade is no longer growing at the same pace as in the past, each year companies continue to sell more goods and services in other countries and import them from abroad. This increases the necessity for standards that apply in as many countries as possible. These standards are developed by a variety of international organisations, and here Switzerland needs to participate more actively.

A number of federal authorities deploy representatives to international bodies in order to safeguard Switzerland's interests. While Switzerland's interests are well represented in organisations such as the WTO by personnel from the State Secretariat for Economic Affairs (SECO), this is not always the case in other organisations. This is particularly problematic in that the bodies concerned set standards in horizontal areas that have considerable impacts on the framework conditions for Swiss companies. In addition, coordination between the various federal authorities is not secured in these bodies, with the consequence that Switzerland's economic interests are insufficiently protected. As far as Switzerland's preferential agreements are concerned, it currently has a dense network of more than 120 investment protection agreements and 57 double taxation agreements based on international standards. Here, two weaknesses should be emphasised: double taxation still exists in Africa because no corresponding agreements have been concluded, and not all double taxation agreements comply with the OECD standard. In the past few years, major investment protection agreements have been terminated, namely in South Africa, Indonesia and India.

Switzerland has negotiated considerable market access through its 30 free trade agreements. Thanks to the approximately 120 bilateral agreements with the EU, Swiss companies have a high degree of access to the European single market. However, the development of the bilateral path to the market has come to a halt for the time being, and, therefore, existing gaps (for example in the areas of services and energy trading) cannot be closed. The EU is linking new market access agreements to an institutional agreement. If the further development of relations between Switzerland and

its most important trade partner remain blocked, Swiss companies will suffer losses in productivity. This will especially apply if the EU decides to further isolate its single market thus giving European companies competitive edge over their Swiss rivals.

Through the conclusion of a free trade agreement with China, Switzerland created a competitive advantage for itself, particularly over concurrence in the USA and the EU. However, it still needs to make progress with other countries that have a high potential for trade profits. This especially concerns the USA, Vietnam, Indonesia and the Mercosur states. Switzerland has concluded free trade agreements with Mexico and Turkey, but they need to be updated. In general, the very tight network of free trade agreements is contrasted by outdated rules of origin. For example, those specified in the 1972 free trade agreement with the EU are unusable for many companies. In addition, the fact that free trade agreements are non-cumulative generates higher transaction costs in global value chains. Under these circumstances, it is particularly difficult for small and medium-sized companies to deliver the required certificates of origin, which means they cannot always benefit from free trade agreements.

Autonomous instruments: Switzerland is slow to take action

Switzerland provides importers and exporters with excellent framework conditions at home which enable them to hold their own against international competitors. This is underscored by its high rankings in competitiveness reports by the World Economic Forum (WEF) and the International Institute for Management Development (IMD). The advantages here include the highly efficient labour market, excellent research and education institutions with dual vocational training and the competitive corporate tax regime, though the future development of the latter is somewhat uncertain.

In some sectors, however, there are deficits that Switzerland could eliminate autonomously, providing that the political will exists to do so. For example, according to UN rankings, Switzerland is lagging behind in the areas of digitalisation and e-government. In the WEF Global IT Report it is only ranked 28th, and it recently lost another place on the table because its digital interaction with its citizens was deemed inadequate. In particular, in the area of customs administration, antiquated systems are often still in use, though these are to be modernised within the framework of the DaziT² project. Switzerland is also losing ground as an attractive location because it has erected high trade barriers in some areas – in particular agriculture,



“Switzerland is a forerunner in the field of information and communications technology and is thus in an ideal position to conquer the global markets with its products and services. In order for highly innovative small and medium-sized companies to gain a foothold in markets in Asia or the Middle East, they have to be able to rely on targeted export promotion.”

Johannes Müller,
CEO Dätwyler Cabling Solutions AG

High costs as the result of protectionism in the agriculture sector

→ The high degree of protectionism in the agriculture sector is blocking the conclusion of important free trade agreements for Swiss companies.

but also in some segments of the domestic-oriented services sector. Thus, Switzerland is only ranked 22nd in the globalisation table of the Swiss Institute for Business Cycle Research (KOF), and the cited deficits have also been underscored in the WEF Competitiveness Ranking. These protective measures ultimately lessen Switzerland’s scope for manoeuvre in international free trade negotiations.

Increasing protectionism is therefore not only a challenge abroad. Recently, petitions for referenda have increasingly incorporated protectionist aspects. With initiatives calling for food sovereignty, for example, or self-determination, attempts are also being made in Switzerland to insulate domestic companies and the population against global competition.

An imbalance exists between the highly competitive foreign economic sector and the low level of labour productivity on the domestic front (especially in the services sector). The labour market is also being regulated to an increasing extent and is becoming less open, which is particularly disconcerting because Switzerland will only be able to preserve its prosperity if it can hold its own in the battle for talents.

Coordinated export promotion is therefore of the utmost importance, but in Switzerland it is fragmented in many sectors. Various players act autonomously abroad: representatives of Swiss business hubs, Switzerland Global Enterprise (S-GE), embassies, cantonal business promoters, bilateral chambers of commerce etc. The result is a situation characterised by a lack of coordination and uniformity. Furthermore, in various growth markets Switzerland does not have sufficient trade diplomacy resources.

With a net self-sufficiency rate of around 55 percent, Switzerland is dependent on agricultural imports. Thus, the balance of trade in the agriculture sector is negative, while in the processed foods segment it is positive. Despite this, Switzerland’s agriculture tariffs are very high, with an average of 36.1 percent. This is the main reason why Swiss prices for agricultural products are 45 percent above the global market level. According to the price regulator, at the production and wholesale levels additional costs to the tune of 2.6 billion Swiss francs are incurred in Switzerland due to customs tariffs. Imported products are also 0.6 billion Swiss francs more expensive for consumers. In addition to high tariffs, high direct payments are hampering the structural transition change of the agriculture sector. Because on average around 55 percent of farmers’ gross income comes from the state, market and pricing signals are merely of secondary importance for farmers when it comes to production decisions. This harms the tourism and foodstuffs industries, which have to pay high prices for agricultural raw materials. The agriculture and foodstuffs sectors are also gradually losing market shares due to shopping tourism. The high degree of protectionism in the agriculture sector not only results in higher import costs for companies, it is also blocking the conclusion of other important free trade agreements, especially with Indonesia and the Mercosur countries. Any future agreement with the USA will also require the removal of trade barriers and the opening of the market in the agriculture sector.

As we have witnessed in the past, liberalisation of a market can also open up opportunities for agricultural operations: for example, since Swiss cheese producers have been able to sell their goods tariff-free in the EU, they have been able to significantly increase their sales and profits.

→ SWOT analysis

Based on an analysis of the current foreign economic policy, strengths and weaknesses can be identified which in turn make it possible to draw conclusions regarding risks and opportunities, as well as make an assessment of the general environment. The most important findings can be summarised in the form of a SWOT table (SWOT=strengths, weaknesses, opportunities, threats).

Strengths

- High competitiveness – number 1 in the WEF and IMD rankings (open, liberal, autonomous trade policy, good access, efficient tax system, excellent public education and research systems)
- Good network of free trade agreements, investment protection agreements and double taxation agreements, well integrated into the EU single market
- Client-oriented and competent authorities
- Foreign trade characterised by generation of high valued added, flexibility and adaptability, with innovative companies
- Ninth-largest foreign direct investor (G-10)
- Good reputation with regard to sustainability
- Prudent monetary policy

Opportunities ((probability of occurrence/benefits)

Bilateral level:

- With location competitors increasingly adopting a protectionist approach, a still open Switzerland will be able to make itself more attractive as a free trade agreement partner and increase its market access **[7/10]***
- The Swiss economy can further increase its productivity by concluding new free trade agreements **[8/10]**
- Through the cumulation of free trade agreements (multilateralisation), Swiss companies can increase their competitiveness in terms of globalised value chains **[6/9]**

Autonomous measures:

- The modernisation of customs procedures and data acquisition systems, together with an appropriate expansion of infrastructure (especially in the civil aviation sector), will reduce companies' transaction costs and increase their competitiveness **[7/8]**
- The abolition of industry tariffs will cut the costs of intermediate products and send a positive signal at the international level **[8/8]**
- Creating competitive and liberal framework conditions will open up new opportunities for free trade thanks to digitalisation **[10/8]**

→ * The figures in parentheses in the opportunities and risks sections indicate the probability of occurrence and the impacts of the described development on a scale of 1 to 10. 1 = low probability/benefit or harm / 10 = very high probability / benefit or harm.

Weaknesses

- The potential of the US and growth markets (Mercosur, Vietnam, Indonesia, India, Russia) cannot be fully exploited according to the foreign trade index (insufficient market access, no free trade agreement)
- Stalemate in EU relations
- Uncertainty over access to UK market due to Brexit
- Outdated rules of origin, free trade agreements non-cumulative
- Lagging behind in the areas of e-government (regulatory technology)/digitalisation. Number 28 in UN ranking, ranked 7th in the 2016 WEF Global IT Report (one place lower than in 2015)
- High import barriers and export subsidies (especially in the agriculture sector): only ranked 22nd in the KOF globalisation table
- No access to global agenda-setting
- Imbalance with respect to diplomatic resources (EAER versus FDFA)
- Too many players with unclear branding means non-uniform, uncoordinated export promotion
- Dual economic structure: highly competitive external sector versus inefficient and to some extent isolated domestic market (especially services sector)
- According to IMF and WEF, openness of the labour market is declining
- Low degree of flexibility and lack of pace in regulatory processes
- Fully stretched basic infrastructure (especially in the civil aviation sector)
- Deficits in Swiss export promotion

Risks (probability of occurrence/harm)

Discrimination risks

(to be tackled bilaterally, multilaterally):

- Protectionism is on the rise abroad and is lessening the competitiveness of Swiss companies in the USA and growth markets (9/10)
- EU and US competitors of Swiss companies will gain faster and better preferential access to the UK market after Brexit (8/10)
- Switzerland's access to the EU market will be hampered because the EU is focusing on intensified integration and the bilateral path is currently blocked (8/9)
- New, primarily non-tariff trade barriers and challenges relating to framework conditions for Swiss companies are arising, for example insufficient cyber security is hampering the protection of intellectual property (10/10)
- Macroeconomic shocks and upheavals on the currency markets (8/7)
- Access to growth markets cannot be accomplished with the existing civil aviation network due to infrastructure deficits (for example in the Mercosur countries and the Philippines) (7/9)
- EU member states are applying MIFID II to establish additional financial requirements and thus erect market access barriers (10/7)
- Companies (especially those in the small and medium-sized segment) cannot benefit from free trade because different standards and outdated rules of origin are preventing the application of agreements (8/9)

Political risks (to be addressed autonomously):

- Populist initiatives could isolate Switzerland (for example, the corporate responsibility initiative, the self-determination initiative, or the initiatives calling for termination of the agreement on the free movement of persons and the prohibition of certain technologies) (7/10)
- Switzerland is unable to conclude additional free trade agreements because protectionism in the agricultural sector is blocking negotiations (8/10)
- Swiss companies are unable to integrate themselves into global value chains due to isolated segments of the domestic market (7/9)
- Adaptation of framework conditions in Switzerland is occurring too slowly (for example, tax reform) (9/8)
- The quality and quantity of economic diplomacy are insufficient for future requirements: too little focus on horizontal areas, inadequate representation in growth markets, excessive demands on small and medium-sized companies (7/8)
- Increasing transaction costs for Swiss companies due to lack of e-government, for example interoperability of digitalised procedures and diverging standards (7/7)
- Bottlenecks in transport infrastructure due to insufficient expansion (8/9)

→ Requirements on foreign economic policy

IN ORDER FOR SWITZERLAND TO ATTAIN ITS FOREIGN ECONOMIC POLICY OBJECTIVES IT WILL HAVE TO USE NEGOTIATION-BASED INSTRUMENTS AT THE INTERNATIONAL LEVEL AND AUTONOMOUS INSTRUMENTS AT THE DOMESTIC LEVEL.

Coherent foreign economic policy

A coherent foreign economic policy should account for the trends addressed earlier in this paper:

→ **Vanishing duality:** it is becoming increasingly difficult to separate domestic and foreign policy. Domestic policy decisions almost always have an impact on foreign policy and thus should be examined accordingly.

→ **Multilateralism:** more streamlined and globalised value chains enhance the importance of multilateral solutions and increase the costs associated with diverging preferential agreements.

→ **Focus on non-tariff barriers:** major trade barriers are growing less tariff-based. Varying regulatory standards, for example relating to data protection, production regulations or the recognition of education certificates, are preventing Swiss companies from exporting and importing goods and services.

→ **Development of a digital foothold:** value added is arising digitally to an increasing extent, services do not cross physical borders and digitalisation is posing new challenges in terms of competitive framework conditions for successful foreign trade.

→ **Insufficient market access:** foreign economic policy should not focus solely on market access, but also has to take account of regulatory and administrative issues relating to market presence and cooperation.

→ **Increasing importance of horizontal areas:** because the breakdown of trade barriers is no longer the sole key interest in a coherent foreign economic policy, international organisations have to be taken into account to a greater extent that are not traditionally involved in foreign trade but nonetheless codetermine the framework conditions for Swiss companies.

Intensification of market access and improvement of legal certainty

Multilateral level: WTO liberalisation is the best solution

Because the global trade system is based on WTO law, this should be further developed wherever possible. Trade liberalisation achieved via the WTO should clearly be targeted (over the long term) as the best solution. Better market access and the facilitation of cross-border trade via new agreements (Trade Facilitation Agreement, TFA) are just as important as the multilaterally secured protection of intellectual property at the WTO level.

If WTO member states fail to meet their obligations to the detriment of Switzerland, the latter has to actively safeguard its interests. This could also mean appealing to the WTO dispute settlement body.

Plurilateral level: focus on TiSA

Trade liberalisation with plurilateral agreements is the second-best solution. The success of the Information Technology Agreement (ITA) shows that this can be a feasible option. Here the focus should be on negotiations on the Trade in Services Agreement (TiSA). Switzerland should push for this instrument to be renegotiated and concluded as soon as possible.

Regional level: securing the option of docking

If there are signs that negotiations are progressing on agreements concerning large-scale free trade zones such as the TTIP (though negotiations here are currently stalled), Switzerland must have the option of adhering (docking) quickly and with short transitional periods. Here, the objective has to be to minimise disadvantages for Swiss companies and Switzerland as a location. In addition to market access, the criteria for participation should include codetermination rights concerning further development and legal certainty.

Bilateral level (preferential agreements)

→ Conclusion of new free trade agreements, consistent modernisation of existing agreements and striving for cumulation

Switzerland should continue to bilaterally develop market access to other countries where the highest trade profits can be anticipated and where Swiss companies could potentially be discriminated against through simultaneous negotiations being conducted with the countries of origin of their competitors, and it should conclude new agreements and improve the existing ones (cf. Figure 8, page 24).

From the business point of view, several points have to be considered in connection with free trade agreements. The minimum standard in such agreements is compliance with WTO law. On this basis, agreements should be reached concerning improvements with respect to market access and the protection of intellectual property that extend beyond the scope of multilateral regulations. Here, quality takes precedence over quantity.

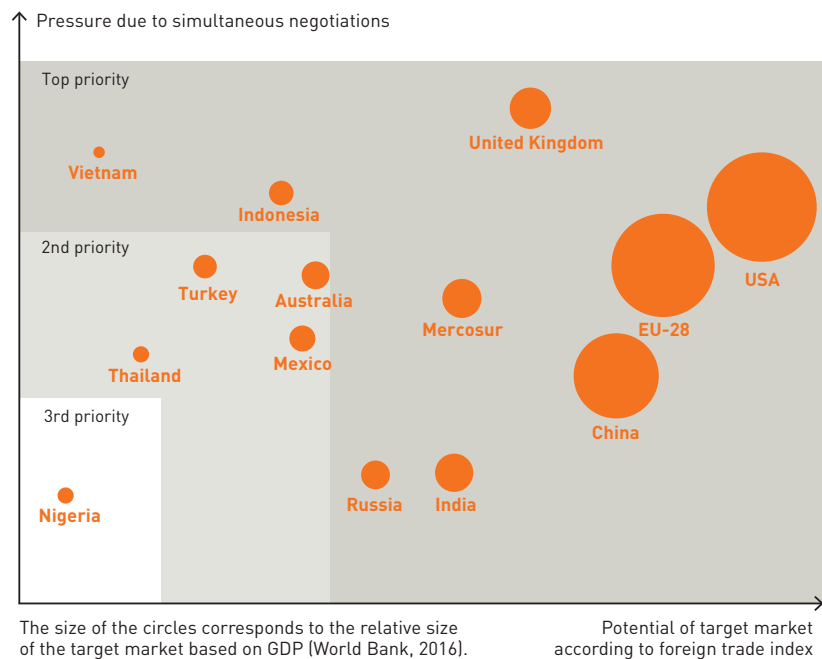
Existing free trade agreements signed by Switzerland need to be updated and adapted to the increasingly globalised value chains. The rules of origin in these agreements have to be modified. These updates and the conclusion of new agreements should include provisions governing the free movement of services. This also means that Switzerland has to campaign for the international recognition of dual education, which must not be allowed to be globally discriminated against in favour of university degrees attained abroad. Furthermore, provisions relating to digital trade should be envisaged: for example, investment restrictions in the field of information and communications technology should be abolished, regulations calling for the obligation of data localisation should be prevented and restrictions concerning the movement of data should be addressed.

Switzerland should also campaign in favour of the possibility of cumulating free trade agreements.

Topics that are not directly related to market access (for example human rights or ecological issues) should also be taken into account, but in this context should always be referred to the respective international organisations and their instruments.

Figure 8:
Prioritisation of free trade negotiations
 Status: 2016

→ The highest priority should be attached to the conclusion of bilateral free trade agreements or the further development of such agreements with the USA, the EU, the UK, China and the Mercosur countries.



Source: economiesuisse

→ Taxation: conclusion of new double taxation agreements and improvement of existing ones

It is in the interests of Switzerland's export industry that the country does not shut itself off from international taxation standards. This concerns the introduction of the automatic exchange of information regarding financial accounts in order to combat tax evasion, the implementation of minimum standards within the framework of the OECD project aimed at combating

the erosion and shifting of profit (BEPS) and administrative assistance in tax matters. Switzerland’s cooperative approach should be positively reflected in the negotiation of double taxation agreements or culminate in the assumption of such negotiations – this applies in particular for countries that are of importance from the point of view of export trade, including Brazil, Italy and certain African nations.¹⁰ Imposing political conditions (such as governance) on partner countries could have a counterproductive effect for Switzerland. Attractive international tax agreements are important for securing investments in Switzerland.

**Figure 9:
Double taxation agreements**

→ Attractive international tax agreements are important for securing investments in Switzerland.

Priority/objective	Country
Conclusion and enactment	Brazil
	Saudi Arabia
	Italy
	African nations

→ **Investment protection agreements: enlargement of network**

**Figure 10:
Investment protection agreements**

→ Bilateral investment protection agreements enhance the degree of planning certainty for Swiss companies.

Priority/objective	Country
Renegotiation (retention of protection level)	India
	Indonesia
	South Africa
Conclusion	Brazil
Updating	South Korea
	Mexico
	Russia
	Saudi Arabia
	Turkey
	China

The existing very close network of Switzerland’s bilateral investment protection agreements should be retained. Priority should therefore be attached to approaching those countries that have recently terminated their investment protection agreement. At the same time, new agreements should be sought with important partner countries. As a rule, these agreements should secure a high level of protection.

Criteria for an investment protection agreement

→ Investment protection agreements should meet the following requirements:

1. Guarantee of legal certainty
The primary objective is to guarantee legal certainty for domestic investors. Switzerland’s existing agreements provide a high level of protection and contain the following elements: definition of investment and investor; specification of general obligations; prohibition of discrimination; prerequisites for the legal admissibility of expropriations; guarantee for transfer of payments; regulations governing the settlement of disputes.

2. No general exemptions
Investment protection should apply to all business sectors. This means that investments also have to be protected for which the host nation has imposed market access restrictions. Protection must also apply to already existing investments.

3. Effective settlement of disputes

The instrument of arbitration has proved to be effective in the field of investment protection under international law. It facilitates a rapid, objective and depoliticised settlement of disputes. Access to arbitration must be open to all business sectors and may not be tied to the previous exhaustion of national legal recourse in the host country.

4. Preservation of state and regulatory sovereignty

Although investment agreements have to protect against indirect expropriation, unjust treatment and breaches of government pledges, the fact that the involved countries also need scope for defining their sovereign policies is undisputed. In this regard, the economy supports further developments and details of investment agreements (for example, protection of the environment, health, climate and consumers, as well as transparency rules). But legal certainty, non-discrimination and the highest possible level of protection of investment agreements must always be guaranteed.

→ **Civil aviation: further liberalisation and focus on multilateralism**

Switzerland's direct connection to the international civil aviation network is crucial for its foreign economy as well as its attractiveness as a location. In view of this, Switzerland should broaden its network of civil aviation agreements:

Figure 11:
Aviation agreements

→ Switzerland should broaden its network of civil aviation agreements.

Priority/objective	Country
Further development	Singapore Russia India
	South Korea Philippines Malaysia
	United Kingdom
	Corée du Sud
	Philippines
	Malaysia
	Royaume-Uni

In general, in addition to concluding bilateral agreements, Switzerland should increasingly focus on a commitment within the International Civil Aviation Organisation (ICAO) and endeavour to bring about a multilateral facilitation of trade within this body.

Horizontal level: active commitment in international organisations

A stringent foreign economic policy not only has to focus on market access, but also has to take account of horizontal and sector-specific policy areas that influence the competitiveness of Switzerland's import and export industries.

Switzerland therefore has to actively safeguard its interests in the relevant international organisations and secure coordination between the individual federal authorities that are represented in them. It is simply not possible to deal with topics such as cyber security solely at the national level: these have to be addressed in global organisations and Switzerland therefore needs to include itself among the agenda setters in these bodies.

The following international organisations are of particular importance for Switzerland's foreign economy: the World Trade Organisation (WTO), the World Intellectual Property Organisation (WIPO), and the World Customs Organisation (WCO), plus the Bank for International Settlements (BIS), the Financial Stability Board (FSB), G20 (the group of the 20 most important industrial and emerging economies), the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD), all UN institutions including the International Labour Organisation (ILO), the International Maritime Organisation (IMO), the International Civil Aviation Organisation (ICAO) and the UN Conference on Trade and Development (UNCTAD).



"Switzerland's economy needs to have sufficient capacities in the civil aviation sector so that companies are able to export goods and services at low cost. This particularly applies to Zurich, Geneva and Basel airports. Without the necessary capacities it will not be possible to tap into new markets."

Thomas Klühr,
CEO Swiss

Focus must be kept on the main target markets

The country analysis of economiesuisse shows that, although the importance of the BRIC countries and other growth markets is increasing sharply, the EU, the USA, the UK and China are still the main markets. Switzerland's foreign economic policy therefore has to continue to focus on these markets, which include the following regions and countries:

The European Union

Together with the free trade agreement concluded in 1972, Bilateral Agreements I and II form the foundation of the bilateral relations between Switzerland and the EU. Both sides have benefited greatly from this solution to date. Its further development is therefore a strategic priority. In order to fully exploit the potential of the bilateral relations between Switzerland and the EU, agreements need to be concluded in the areas of infrastructure, energy and financial services (especially in the field of information and communications technology).

At present it is not possible to provide services with high value added directly from Switzerland to the EU (services in the finance sector, for example, but also to an increasing extent services relating to investment goods, including after-sales services). In view of the growing importance of services in international trade (including for the industrial sector), the question arises whether Switzerland will still be able to afford to waive a comprehensive services agreement with the EU in the future.

The EU is insisting that the conclusion of new market access agreements must depend on a framework agreement on institutional issues in which Switzerland agrees to the dynamic adoption of the EU aquis covered by the



“Many companies that are known to very few people within Switzerland are world market leaders in their particular niche. In order for them to continue to succeed, it is essential for the best possible framework conditions to remain intact. This includes the ability to hire top executives, the existence of an attractive taxation system, legal certainty, a low level of bureaucracy thanks to a low regulatory density and liberal labour law.”

Ute Lepple,
Director, Scintilla AG

bilateral agreements, and that a dispute settlement mechanism must be negotiated. In order for the economy to support a framework agreement, clear limits need to be defined: the scope of the aqis to be adopted dynamically¹¹ has to be clearly defined. Furthermore, certain exemptions are required: the agreement on the free movement of persons, tax issues (including transfer payments) and Switzerland’s relations with non-member states must be explicitly excluded from the dynamic adoption of the EU aqis.

Any further cohesion payments by Switzerland have to be made dependent on compliance with the existing agreements (Mutual Recognition Agreement) and the recognition of equivalence by the EU (financial services/insurances).

As before, deviations from the EU aqis will be required, and this means that equivalence clauses in the agreements will continue to be of great importance in the future. Where possible, the recognition of equivalent legal bases should be regulated within the framework of a bilateral agreement (contractual entitlement to recognition) and should be given preference over unilateral equivalence recognition by the EU. Outside the scope of the application of bilateral agreements, a cost-benefit analysis (interests of the Swiss economy) should be done in those areas in which Swiss legislation is to be adapted to the EU legal system. Harmonisation with the EU legal framework should only take place where, in addition to furthering economic interests, the chance exists for reliable, long-term recognition of equivalence by the EU.

→ **United Kingdom**

Switzerland has to do everything in its power to guarantee legal certainty in its bilateral economic relations with the UK and to maintain its currently excellent access to the UK market. This should be effected via a comprehensive latest-generation free trade agreement (including regulatory cooperation) and any necessary additional agreements (for example on civil aviation). Wherever possible, and in the interests of both countries, efforts should be made to broaden and intensify the existing bilateral market access. A contractual solution has to be in place by the time the UK exits the EU. If this is not possible, an interim solution needs to be negotiated.

→ **USA**

Access to the US market has to be secured for Swiss companies and, where possible, improved in both the tariff and the non-tariff areas. In addition, cooperation with the authorities on regulatory issues should be intensified. In the medium term, efforts should be made to bring about a bilateral free trade agreement between Switzerland and the USA. This would particularly serve the interests of domestic small and medium-sized companies for which the USA is by far the most attractive market without a free trade agreement. A close eye should be kept on the impacts of future domestic and foreign policy measures of the US government (for example, tax policy, new trade restrictions), and the negative consequences for the Swiss economy should be minimised as far as possible.

→ China

The further development of the free trade agreement with China is of central importance for the Swiss economy. For Swiss exporters, the negotiation of a further reduction of tariffs on imports into China would be an important step. This would mean that Chinese producers could buy quality products and services from Switzerland more cheaply, which would also facilitate investments in high-quality manufacturing, innovation and the creation of jobs. Additional tariff concessions would give rise to growth, value added and competitiveness in both countries. Switzerland should also endeavour to expand its network of visa-issuing bureaus in China in order to maintain the positive trend in tourism.

Need to secure the best possible framework conditions within Switzerland

Switzerland can also autonomously implement numerous measures for supporting its foreign economy. These include providing general framework conditions such as an excellent education system, internationally competitive universities, efficient infrastructure, a liberal labour market, a prudent monetary policy and internationally attractive and competitive corporate taxation. Here, the following requirements are particularly relevant for foreign economic policy:

A high level of legal certainty and low regulatory density

Legal certainty is an important factor for the attractiveness of a business location. A stable legal system and the lowest possible regulatory density are the basis of internationally attractive commercial law. People's initiatives in Switzerland should not give rise to legal uncertainty with respect to international agreements that Switzerland has concluded.

Waiving protectionism

Switzerland should not pursue protectionist policies. This includes waiving bureaucratic restrictions on the options for recruiting personnel abroad (migration policy) and maintaining a liberal labour law; avoiding unreasonable protectionism in the agriculture sector at the cost of the foreign economy; waiving restrictions on the digital economy; avoiding network and geo blocking, as well as bans on certain technologies (for example, the genetic engineering moratorium).

Swiss agricultural protectionism must not be allowed to hamper export trade

→ The high level of tariff protection must be reduced in order to permit the conclusion of additional free trade agreements.

Agricultural protectionism must not be allowed to hamper Switzerland's conclusion of additional free trade agreements. Switzerland's agricultural policy also has to be adapted to the applicable WTO rules. At the same time, new markets have to be opened up for Swiss agricultural products in order to facilitate more revenue for the sector. This means that Switzerland must gradually reduce the high level of tariff protection of agricultural products by 2030. It should avoid opening up agricultural markets only in individual segments because this would distort production incentives for farmers and trade. Until the tariffs are lowered, interim instruments will be required such as those used in processing business.



“Switzerland imposes very high tariffs for the protection of its agriculture sector. However, in order for it to conclude new free trade agreements, for example with the Mercosur countries, it will have to lower these tariffs. This would also benefit Swiss consumers in that they would have a greater choice of meats, fruits etc., at lower prices.”

Dieter Meier,
entrepreneur and musician

Creation of trade-facilitating infrastructure

Switzerland has to provide trade-facilitating infrastructure within the country. Adequate road, railway, shipping and air transport capacities are of utmost importance for international trade. In the civil aviation sector, Switzerland has to provide the necessary scope for meeting growing demand and thus pave the way for exploiting new foreign trade markets. This applies in particular to Zurich, Geneva and Basel airports. The Civil Aviation Infrastructure Plan (SIL) for Zurich Airport should include measures to secure the necessary land for future expansion.

Switzerland should abolish all industry tariffs

Autonomously abolishing all import duty on industrial goods would simplify the import of goods into Switzerland in a time of diversified global value chains. Here, Canada, Norway, Iceland and Singapore are leading the way at the international level. Because the industry tariffs are very low at an average of one percent, their abolition would primarily result in an easing of administrative work for companies. The business sector welcomes the decision taken by the Federal Council in December 2017 to implement this measure.

Switzerland has to adapt its administrative structures to the new circumstances

In order to secure open market access with the necessary legal certainty, together with a coherent foreign economic policy, Switzerland has to restructure its diplomatic resources. Within the federal administration, personnel and financial resources should be moved to those units entrusted with economic diplomacy. Switzerland has to train more economic diplomats and promote the corresponding structures. In practice, this means that the role of the State Secretariat for Economic Affairs (SECO) in international organisations needs to be strengthened. Incentives will also have to be created in order to render careers in this area more attractive.

Modernisation of customs procedures

The federal administration has to make its procedures and structures as efficient as possible so that transaction costs for domestic companies fall as much as possible. Customs processes need to be modernised and fully digitalised. The means that the financing of the corresponding projects has to be secured and priority has to be attached to freight operations (export, import, transit). The business sector should be included in the implementation of these measures and companies should be informed at an appropriately early stage.



“Import duty on primary and intermediate materials makes our products more expensive. In view of this, we are calling for a general abolition of tariffs. In addition, the seamless cumulation of origin between the EU, Turkey and the West Balkan countries is essential for us.”

Vincenzo A. Montinaro,
CEO Cilander AG

Establishment of digital structures for the acquisition of data

Switzerland’s export industry needs modern digital structures for the acquisition of data so that domestic players (especially small and medium-sized companies) can obtain data quickly and at reasonable cost (= e-government and one-stop shop). The federal administration should make its data from embassies, consulates and third parties mandated with public funding (for example, Switzerland Global Enterprise, S-GE) available online in a suitably bundled and readily accessible form. Easy access to federal government experts for consulting on practice-relevant issues (for example, customs clearance) must be provided via digital platforms.

Export promotion: broader support for chambers of commerce and promotion of efficient export insurance

Switzerland does not provide any official comprehensive export promotion services. Small and medium-sized companies could benefit from official export promotion, but this has to be provided within the framework of subsidiarity and be restricted to those sectors in which it has been proven to be effective. The federal government can support the following general advisory services, via private chambers of commerce or the mixed-financed S-GE: basic data, market analyses, participation at trade fairs, initial consultations. S-GE possesses a strong network of business hubs that provide these services directly on location. The award of additional mandates to chambers of commerce should be supported. An improvement in the branding of export promotion is also essential. The distribution of government initiatives over several entities without a joint external presence dilutes the presence on foreign markets. Other potential export promotion instruments should also be examined.

The state export risk insurance scheme should also provide insurance services within the framework of subsidiarity. In the field of export financing, in particular, sound insurance schemes are essential for obtaining loans from banks. Where private insurers do not provide services, the state export risk insurance scheme could operate on the basis of economic viability.

→ Summarised conclusions

SWITZERLAND'S FOREIGN ECONOMIC ENVIRONMENT IS CHARACTERISED BY NEW TARGET MARKETS, DIGITALISATION AND PROTECTIONISM. POLICY MAKERS ALSO NEED TO REACT.

Switzerland needs a coherent foreign trade policy. Below is a summary of the requirements formulated in this position paper on Switzerland's foreign economic policy:



Global orientation of foreign economic policy

In order to lessen the dependence of individual partners and diversify foreign trade, relations with countries in America and Asia need to be developed more quickly and intensively. Switzerland should seek free trade agreements with countries like the USA, Brazil, India and Indonesia



Focus must remain on key target markets

Relations with key markets (the EU, the USA, China and the UK) must be maintained and intensified.



Combat against protectionism and dirigism

Switzerland must resolutely defend itself against protectionist measures abroad and where necessary appeal to international courts of arbitration, especially when it comes to the protection of intellectual property.



Better representation of economic interests in foreign economic policy

Switzerland should more resolutely represent its economic interests in international organisations at the multilateral, regional and bilateral levels. This calls for coordination between the federal departments and an adaptation of the involved personnel within the federal administration, as well as the provision of appropriate education in the field of economic affairs for Swiss representatives in international organisations (beyond the WTO and OECD).

**Quicker use of autonomous room for manoeuvre**

Switzerland has to keep its framework conditions competitive and adapt them quickly to the changed circumstances. In the course of the next five years the present-day administrative costs for foreign trade should be significantly reduced, industry tariffs should be eliminated and the basic infrastructure should be expanded. Both export promotion and agricultural policy need to be reoriented.

**Recognition of sustainability as an opportunity**

Switzerland's economic diplomacy should make better use of the excellent reputation of companies with respect to sustainability. At the same time it must take decisive steps to ensure that protectionism is not practised either at home or abroad under the pretext of sustainability. In multilateral instruments the sustainability interfaces have to be structured so that they are not suitable for the implementation of protectionist measures.

ABBREVIATIONS

- ASEAN** → Association of Southeast Asian Nations: Brunei, Indonesia, Cambodia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam
- BEPS** → Base Erosion and Profit Shifting (OECD project)
- BIS** → Bank for International Settlements
- BRIC nations** → Group of emerging economies: Brazil, Russia, India and China
- CTHA** → Chemical Tariff Harmonisation Agreement: chemicals sector agreement on the harmonisation of tariffs
- DaziT** → Uniform transformation programme of the Federal Customs Administration: its goal is the simplification and digitalisation of all customs procedures. The name “DaziT” is a combination of “Dazi” (Romansh for “customs”), “transformation” and “IT”
- EAER** → Federal Department of Economic Affairs, Education and Research
- EU-28** → Refers to the 28 member states of the European Union
- FATF** → Financial Action Task Force: international workgroup on financial measures for combating money laundering
- FDFA** → Federal Department of Foreign Affairs
- FSB** → Financial Stability Board: international organisation that focuses on the stability of the global financial system (monitoring, recommendations for regulations)
- FTA** → Free trade agreement
- G20** → Group of the 20 most important industrialised and emerging nations
- GRECO** → Council of Europe Group of States against Corruption
- IATA** → International Air Transport Association
- ICAO** → International Civil Aviation Organisation
- ICT** → Information and communications technology
- ILO** → International Labour Organisation
- IMD** → International Institute for Management Development
- IMF** → International Monetary Fund
- IMO** → International Maritime Organisation
- ITA** → Information Technology Agreement: plurilateral agreement within the WTO for the liberalisation of trade in IT goods

- KOF** → Federal Institute of Technology, Zurich, Institute for Business Cycle Research
- MEM industry** → Mechanical and electrical engineering and metals industry
- Mercosur** → South American common market: Argentina, Brazil, Paraguay, Uruguay and Venezuela (the latter nation is currently suspended)
- MIFID II** → Markets in Financial Instruments Directive
- MRA** → Mutual Recognition Agreement
- OECD** → Organisation for Economic Cooperation and Development
- SECO** → State Secretariat for Economic Affairs
- S-GE** → Switzerland Global Enterprise (organisation for the promotion of Switzerland's foreign economy). Formerly "Business Network Switzerland".
- SIL** → Civil Aviation Infrastructure Plan (federal government planning and coordination instrument for civil aviation)
- SIMT nations** → New emerging economies: Indonesia, Mexico, South Korea and Turkey
 - TFA** → Trade Facilitation Agreement
 - TiSA** → Trade in Services Agreement
 - TPP** → Trans-Pacific Partnership
 - TTIP** → Transatlantic Trade and Investment Partnership
- UNCTAD** → United Nations Conference on Trade and Development
 - WCO** → World Customs Organisation
 - WIPO** → World Intellectual Property Organisation
 - WSC** → World Standards Cooperation
 - WTO** → World Trade Organisation

NOTES

- ¹ Here, it is not only gross exports according to customs statistics that are taken into account, but also the value added generated in Switzerland with goods and services according to the OECD. This is obtained for example by deducting the intermediate goods provided for products abroad.
- ² The MEM industry incorporates the following customs categories: metals, machinery, appliances, electronics, vehicles and precision instruments, appliances and devices.
- ³ By way of explanation: the term “exports of licence fees” concerns the revenue that Swiss companies generate abroad through the sale of licences in the areas of research and development, market rights and franchises, and fees for the reproduction and distribution of intellectual property. Tourism exports are the revenue generated by Swiss companies from foreign clients for business and holiday travel, stays at health resorts, hospitals and educational institutions, and daytrips and transit journeys. In addition, there is consumer spending by cross-border commuters and temporary residents. Business services include architectural, engineering and planning services, scientific and technological services.
- ⁴ 82 countries have meanwhile signed the Information Technology Agreement, which aims at abolishing import duty on IT goods.
- ⁵ The term “skillbiased technological change” describes a consequence of technological progress. Employers are increasingly hiring highly qualified personnel instead of less qualified staff.
- ⁶ Here, “relevant” means that the selection of indicators takes account of the structure of Switzerland’s foreign economy, for example, in that the relatively high importance of exports of pharmaceutical products is reflected with the addition of health-related data such as life expectancy. The foreign trade index contains indicators such as the absolute figures and rates of change of GDP, per-capita GDP, life expectancy, health expenditure, proportion of investments to GDP, value added share of the agriculture sector, population growth, proportion of trade to GDP, new foreign direct investments, public expenditure to GDP, level of education, economic freedom, quality of institutions and infrastructure, labour market, macroeconomic environment, degree of innovation.
- ⁷ The term “frontier markets” refers to countries that currently have a low per-capita income and an underdeveloped economy, but which are expected to undergo significant economic growth. In other words, they are the emerging economies of tomorrow.
- ⁸ The delta value should not be regarded as an absolute figure, but rather only as a relative one. Because the USA is well ahead in both rankings, this cannot result in a high delta value. Here it should also be noted that the foreign trade index does not reflect the factor of distance. Due to technological development, however, this factor is increasingly losing significance.
- ⁹ DaziT is a comprehensive reform programme of the Federal Customs Administration that aims to modernise and digitise customs processes by 2026. Its budget is around 400 million Swiss francs. (For an explanation of the name, please refer to the list of abbreviations.)
- ¹⁰ There are still notable gaps, particularly (though not exclusively) in Africa: agreements have not been concluded with Nigeria, Zimbabwe, Ethiopia and Kenya. Switzerland has concluded double taxation agreements without compliance with the OECD standard with Egypt, Tunisia, Morocco, Ivory Coast, Malawi, Zambia and South Africa. The only double taxation agreement that Switzerland has concluded and which complies with the OECD standard is with Ghana (in 2014).
- ¹¹ Here a clear distinction has to be made between dynamic and automatic adoption of legislation. Dynamic adoption means that Switzerland can autonomously decide on each adoption of EU law, i.e. the decision is taken by Parliament.

economiesuisse → This is what we do.

The economy: it's all of us.

A flourishing economy is the basis for our prosperity and for a strong and healthy nation. As an umbrella organisation, economiesuisse represents the interests of the competition-oriented, internationally networked and responsible-minded Swiss business sector.

As a link between the political sphere, the economy and society, we campaign for the best possible framework conditions for Swiss companies of all sizes, from small and medium-sized firms through to major groups. We represent around 10 000 companies from all business sectors and regions of the country, with approximately two million employees at home and a further two million abroad.

Our policy is to foster open, constructive and solution-oriented dialogue with Switzerland's leading political and business figures and the population. We also stand by our partners during referenda in order to achieve our shared objectives. Our commitment to the business sector is oriented on the principles of a liberal market economy system and sustainable growth.

We would be pleased to hear from you.
info@economiesuisse.ch

Like us on Facebook!
[www.facebook.com / economiesuisse](https://www.facebook.com/economiesuisse)

Follow us on Twitter!
[www.twitter.com / economiesuisse](https://www.twitter.com/economiesuisse)

www.economiesuisse.ch

PROJECT MANAGEMENT



JAN ATTESLANDER

is a member of the Executive Board and head of foreign economic policy at economiesuisse

Phone no. +41 44 421 35 30

jan.atteslander@economiesuisse.ch



MARC ENGELHARD

is project manager foreign economic policy at economiesuisse

Phone no. +41 44 421 35 46

marc.engelhard@economiesuisse.ch

This position paper was prepared with the close cooperation of the economiesuisse foreign economic Committee, which also approved it for publication.

This publication is available in German, French, Italian and English.

Editor: Nicole Wiedemeier, economiesuisse
Concept: Wirz Corporate AG, Zurich
Production: DAZ Druckerei Albisrieden, Zurich
Translation: Keith Hewlett, Transcripta AG, Zug
Publication date: February 2018



economiesuisse

Verband der Schweizer Unternehmen
Hegibachstrasse 47
Postfach
CH-8032 Zürich

economiesuisse

Verband der Schweizer Unternehmen
Spitalgasse 4
Postfach
CH-3000 Bern

economiesuisse

Fédération des entreprises suisses
1, Carrefour de Rive
Case postale 3684
CH-1211 Genève 3

economiesuisse

Federazione delle imprese svizzere
Via S. Balestra 9
Casella postale 5563
CH-6901 Lugano

economiesuisse

Swiss Business Federation
Avenue de Cortenbergh 168
B-1000 Bruxelles