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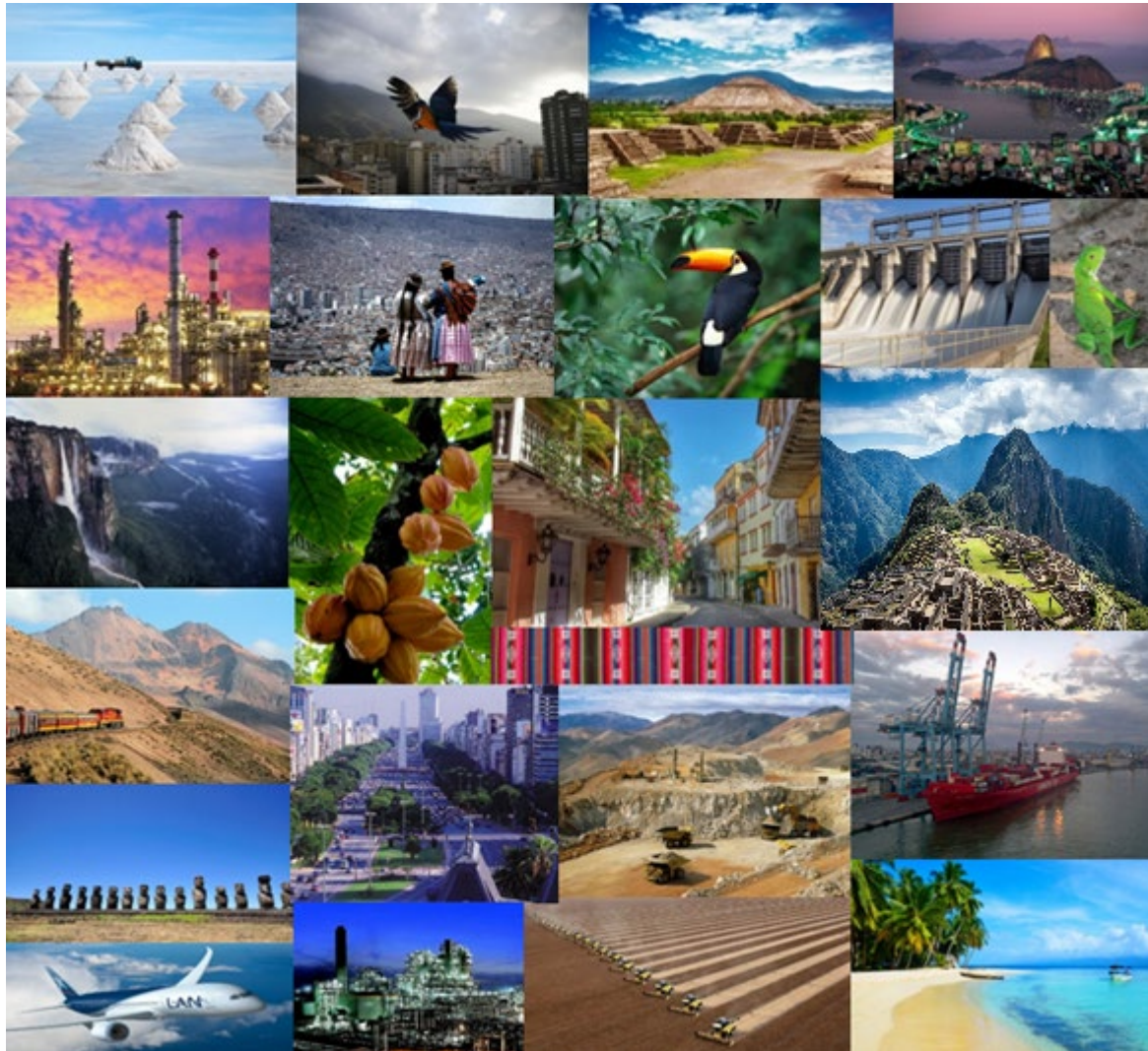
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Economic Relations Report 2021



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Bern, March 2021

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Source : Encyclopedia Britannica

Foreword

Dear reader,

While 2019 was already a challenging year for many countries in Latin America and the Caribbean (LAC), 2020 turned into a historical low in the light of the Covid-19-crisis, marking the second decade of the 21st century as a “lost decade”. While economic activities worldwide were hampered, the LAC-region suffered disproportionately: The world’s GDP fell by around 3.5% in 2020, the LAC’s GDP, however, decreased more than double, namely by 7.4%. Although many LAC-countries imposed heavy lockdowns, the region until March 2021 experienced 27.8% of Covid-19 deaths worldwide, while only representing 8.4% of the world’s population. According to UN figures, around 22 million people slipped into poverty in the LAC-region last year, bringing the number of people living in poverty up to around 209 million, which corresponds to a third of the total population of LAC countries.

Swiss-Latin American trade relations have also suffered disproportionately under the Covid-19-crisis: While total Swiss trade only fell by 2.6% in 2020, it plummeted by 11.5% with the LAC-region (gold excluded: -10.8%). The decrease was especially rampant with South America (-16.8%). Swiss exports (-14.5%) were more affected than imports (-9.5%). While on the import side, gold was constantly the major product (75% in 2020), pharmaceuticals became dominant on the export side (54%).

This year’s special chapter focuses on the phenomenon of the informal economy in Latin America, which according to estimates constitutes nearly 60% of economic activity in the region and creates vicious cycles impeding inclusive growth and development. For example, no tax revenue for social spending can be generated by the state on informal employment, while informal workers do not have social security. The Covid-19-crisis brutally highlighted this situation, limiting the fiscal room for maneuver for countries in Latin America and leaving people not only jobless, but also without substantial social compensation income. Renewed economic growth will be fundamental to rebound formalization efforts that many countries in the region successfully developed and applied over the last years, also thanks to the support of Swiss companies.

While 2020 has certainly been the most challenging year in decades for Latin America, Switzerland and our bilateral economic relations, we do have some good news nevertheless: Swiss companies remain committed in the region, which is underlined by many new investments (see pages 32-34). Our most important market for exports in Central America, Panama, now benefits from a chamber of commerce, the *Cámara de Comercio Suizo Panameña*. Guatemala’s parliament approved the accession protocol to the EFTA-Central America free trade agreement in February 2020 and the free trade agreement with Ecuador, signed in 2018, entered into force in November 2020. Furthermore, we were also able to virtually hold the tenth meeting of the Swiss-Mexican Consultative Group on Trade and Economic Cooperation. For 2021, we are confident that economic growth will return again in the LAC-region and in Switzerland, boosting Swiss economic relations with Latin America too – the primary objective the Americas Unit at the State Secretariat for Economic Affairs is committed to.

We wish you an instructive and pleasant reading of this year’s report.


Erwin Bollinger
Ambassador, Head of Bilateral Economic Relations
Delegate of the Federal Council for Trade Agreements

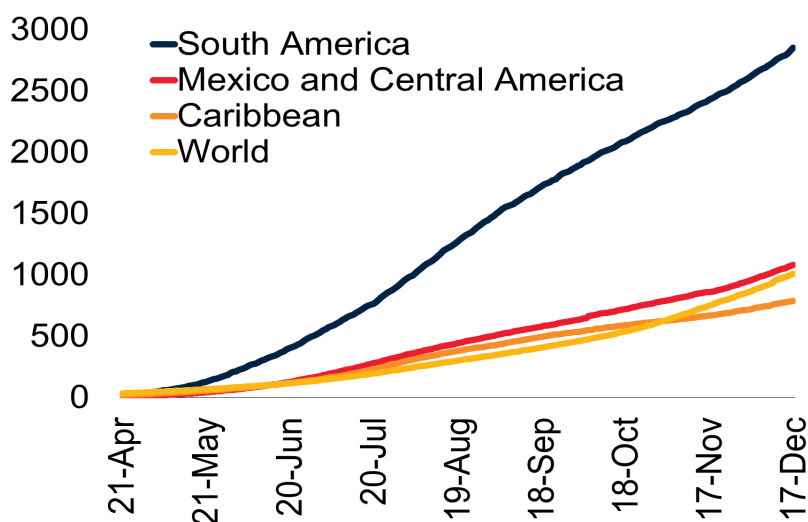
Overview

This report first reviews the economic situation in Latin America in 2020. Chapter 2 illustrates the issue of the informal economy in Latin America, whose negative effects have been reinforced by the Covid-19-crisis. Chapter 3 focuses on developments in Swiss-Latin American economic relations with regard to trade, investment and bilateral agreements. The remainder of the chapter offers insights into trends in Latin America's regional and global integration, SECO's economic development cooperation in the region and bilateral meetings in 2020.

1. Economic Situation in Latin America in 2020

In 2020, **economic growth** in Latin America and the Caribbean (LAC) **plummeted by 7.4%** versus zero growth in 2019.¹ The **Covid-19-pandemic** had a dramatic economic and health impact in the region, especially in South America (see figure 1) which recorded a comparatively large number of Covid-19-cases in contrast to other regions and the world.

Figure 1: Number of Covid-19-Cases per 100'000 People in 2020



Source: World Bank Group, *Global Economic Prospects, January 2021*.

Note: Lines show cumulative cases per capita. Last observation is December 17, 2020.

South America's GDP shrunk markedly by 8.1% and Central America's GDP declined by 5.9%. Regarding the two largest markets in LAC, Brazil's GDP deteriorated by 4.5% (2019: +1.1%), while Mexico exhibited an important decline of 8.5% (2019: -0.3%)². Argentina's GDP was hit severely by a drop of 11.8% (-2.1% in 2019) as the health crisis has worsened an already dire economic situation. The continued economic and humanitarian crisis coupled with the Covid-19-pandemic in Venezuela led to a 25% fall in GDP. In South America, besides Brazil, Paraguay was least hit by the pandemic (-4%), followed by Uruguay (-4.5%) and Chile (-6.0%). All other countries had to absorb negative growth rates in the range of at least 7%: Bolivia (-7.9%), Colombia (-8.2%), Ecuador (-11.0%) and Peru (-13.9%). In Central America, Panama and El Salvador both witnessed a decline of 9.0%, while Honduras' GDP decreased by 6.6% and Costa Rica's GDP by 5.5%

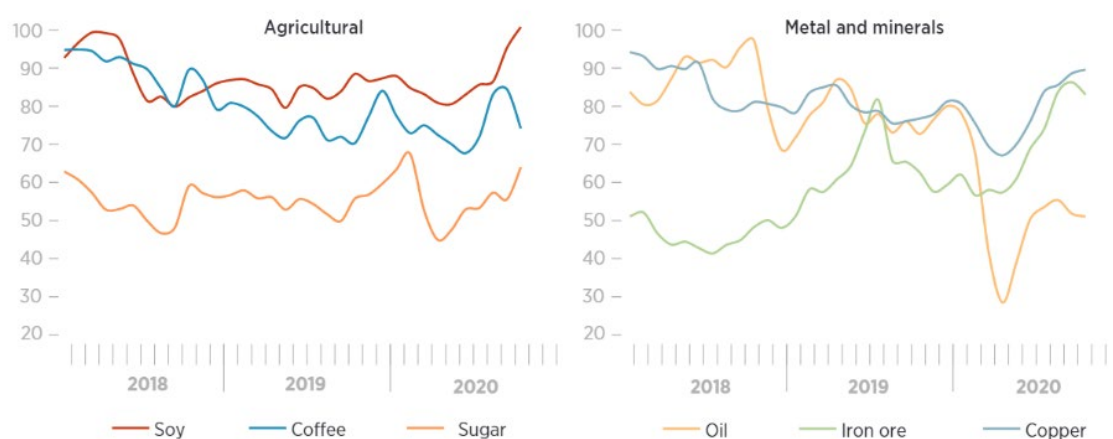
¹ IMF, *World Economic Outlook as of January 2021*; IMF, *World Economic Outlook as of October 2020*; Real GDP (Gross Domestic Product) Growth, Annual Percent Change; Estimates for 2020; Accessed 01/03/2021.

² IMF, *World Economic Outlook as of January 2021*; IMF, *World Economic Outlook as of October 2020*; Real GDP (Gross Domestic Product) Growth, Annual Percent Change, Estimates for 2020; Accessed 01/03/2021.

respectively. For a third consecutive year, Nicaragua (-5.5%) remained in a recession. In the Caribbean, the countries that depend heavily on tourism suffered enormously due to travel restrictions as a consequence of the Covid-19-pandemic. For instance, Aruba's GDP fell by 19.7%, while St. Kitts and Nevis's GDP shrank by 18.7%.³

The global **trade** environment deteriorated starting from March 2020 onwards in response to the economic crisis caused by the Covid-19-pandemic. **Exports** from LAC fell by an annual estimated rate of between 11.3% and 13% in 2020, affecting all subregions alike. This compares to a decline of exports of only 2.3% in 2019 and to an increase of 8.2% in 2018. The downturn can mainly be explained by lower export volumes as well as a fall in main commodity prices, mostly at the beginning of the Covid-19-pandemic. Towards the end of 2020, prices recovered showing different trajectories depending on the type of commodity (see figure 2 below). Exports declined overall: in South America by 12.4%, in the Caribbean by 18.9% and in Central America by 5.7%. In South America, positive outliers are Paraguay (+4.1%) and Chile (+1.1%) while in Central America none of the countries reported an export increase. In South America, the sharpest contractions affected Venezuela (-70.8%), Bolivia (-28.7%), Colombia (-23.6%) and Peru (-21.7%). Exports from South America that declined most were those to the United States (-22.5%) followed by exports to LAC (-21.7%) and the European Union (-15.2%). Interestingly, exports to China slightly increased by 1.8% due to increased demand. Total **imports** of goods followed the same trend in LAC than exports, decreasing by 19%.⁴

Figure 2: Prices of the Main Export Products of LAC (Index: 2010=100, 2018-2020)



Source: IDB, *Trade Trend Estimates, Latin America and the Caribbean, 2021 Edition*.

Public debt levels in the region reached 79.3% of GDP in 2020, which constitutes a considerable increase compared to 2019 (68.9%). In South America, Brazil had the largest debt-to-GDP ratio with 101.4% followed by Argentina (96.7%). No data is available for Venezuela. Chile, Paraguay, and Peru featured on the other side of the spectrum with debt-to-GDP ratios of 32.8%, 35.5% and 39.5% respectively. In Central America, Belize (134.6%) and El Salvador (89%) showed very high debt-to-GDP ratios, while Guatemala (32.2%), Honduras (46%) and Nicaragua (48.3%) had much lower debt-to-GDP ratios. In the Caribbean, debt-to-GDP ratios of Barbados (134.1%) and Jamaica (101.3%) remained high. Debt is expected to stabilize as growth resumes in 2021, but concerns about its sustainability remain.⁵

³ IMF, *World Economic Outlook as of October 2020*; Real GDP (Gross Domestic Product) Growth, Annual Percent Change, Estimates for 2020; Accessed 01/03/2021.

⁴ IDB, *Trade Trend Estimates, Latin America and the Caribbean*, 2021 Edition; Accessed 01/03/2021.

⁵ IMF, *World Economic Outlook as of October 2020*; General Government Gross Debt, Percent of GDP; Accessed 02/03/2021.

Inflation declined to 6.2% in 2020 (2019: 7.7%). Venezuela continued steeply on its path of hyperinflation. Haiti (22.4%) and Uruguay (10%) also featured high inflation rates. Mexico (3.4%), Paraguay (2.9%), Chile (2.9%), Brazil (2.7%), Colombia (2.4%), Peru (1.8%) and Bolivia (1.7%) witnessed single-digit price increases. Ecuador, using USD, exhibited zero inflation. In Central America, Panama entered a deflationary phase (-0.8%). Elsewhere in Central America, price increases ranged from 0.8% (Belize) to 4.4% (Nicaragua).⁶

The region's **current account** deficit amounted to -0.5% of GDP in 2020 compared to -1.7% in 2019. In South America, current account deficits ranged from -4.1% (Venezuela) to -0.7% (Paraguay). Argentina showed a small current account surplus (+0.7% compared to -0.9% in 2019), while Brazil had a surplus of 0.3%. The Caribbean Islands recorded the three largest deficits with Dominica (-27.8%), Grenada (-25.3%) and Antigua and Barbuda (-22%).⁷

In 2020, **foreign direct investment** (FDI) plummeted by an estimated 37% to 101 billion USD in LAC, illustrating the dramatic impact of the Covid-19-pandemic. In South America, flows declined by 46% to an estimated 60 billion USD. In Brazil, FDI dropped by 50% to 33 billion USD as the country's privatization program and infrastructure concessions were halted during the pandemic crisis. The most affected industries were transportation and financial services, followed by the oil and gas extraction and automotive industries. FDI to Peru, Colombia and Argentina dropped significantly by 76%, 49% and 47% respectively. In Argentina, the pandemic crisis in conjunction with an already distressing economic situation led to a sovereign debt default in May. FDI to Chile fell by 21% to 8.9 billion USD. Flows to Central America contracted equally by an important 14% to an estimated 38 billion USD. FDI to Mexico decreased by 8% to an estimated 31 billion representing the only single digit decline in the region.⁸

In **2021**, the region is expected to witness a **modest recovery** with a GDP growth rate of 4.1%. All countries in LAC are expected to show positive growth rates in 2021 with the exception of Venezuela (-10%) and Nicaragua (-0.5%). In Brazil, the recovery in private consumption and investment is expected to continue in 2021 as a result of enhanced confidence and favorable credit conditions, leading to an acceleration on the growth trajectory to estimated 3.6%. Growth in Mexico is anticipated to rise to 4.3%. This rebound is due to higher exports as the U.S. economy improves. Furthermore, the United-States-Mexico-Canada Trade Agreement (USMCA) entered into force in July 2020. For Argentina, GDP is predicted to expand by 4.9% due to an easing of pandemic mitigation measures and less uncertainty regarding the recent debt restructuring, thus supporting private consumption and investment. In South America, Peru (+7.3%), Bolivia (+5.6%) and Paraguay (+5.5%) will post strong growth rates, followed by Ecuador (+4.8%), Chile (+4.5%), Uruguay (+4.3%) and Colombia (+4.0%). In Central America and the Caribbean, Belize (+8%) and Honduras (+4.9%) are expected to be the top growth performers. Panama, the Dominican Republic and Guatemala are each expected to show solid growth by 4%.⁹

⁶ [IMF, World Economic Outlook as of October 2020](#), Inflation, Average Consumer Prices, Annual Percent Change; Accessed 02/03/2021; No data is available for Argentina.

⁷ [IMF, World Economic Outlook as of October 2020](#), Current Account Balance, Percent of GDP, accessed 02/03/2021.

⁸ [UNCTAD Investment Trends Monitor, January 2021](#); Accessed 02/03/2021.

⁹ [IMF, World Economic Outlook as of January 2021](#); [IMF, World Economic Outlook as of October 2020](#), Real GDP Growth, Annual Percent Change; [World Bank, Global Economic Prospects, January 2021](#); Accessed 02/03/2021.

2. The informal economy in Latin America and the Covid-19-crisis

2.1 The phenomenon of the informal economy in Latin America and its implications

Informality plays a crucial role in the dynamics of Latin American labor markets. The OECD estimates that nearly 60%¹⁰ of all active workers in the region are either informally employed or part of the informal sector (in comparison, the OECD estimates that in the developing and emerging countries of Europe and Central Asia informality amounts to 40%). Understanding labor markets and the economy in Latin America therefore presumes a thorough comprehension of the phenomenon of informality, including its determinants as well as the social and economic implications it entails. Overall, informality in Latin America has significantly risen since World War II. While the economic expansion after the war led to an increase in urban formal employment, the urban labor force grew simultaneously. This generated an excess supply of labor, which contributed to the growth of the informal sector.¹¹ Moreover, the “lost decade” referring to the Latin American debt crisis in the 1980s further reinforced informality, making self-employment the most widespread form of labor activity. Despite the neo-liberal reforms accompanied by structural labor-market reforms afterwards, it was not until the 2000s that informality started to slowly decrease in Latin America.

Thanks to the consistent economic growth as a result of the commodity boom, a significant amount of money poured into Latin American economies that led to an appreciation of their currencies¹². This in turn resulted in an increase in spending and the growth of more labor-intensive sectors. Consequently, more people entered the formal labor market. Nonetheless, the overall level of informality remains high in Latin America (despite significant variation between countries). ILO estimates show that informality rates range from nearly 38% in Costa Rica up to 82% in Bolivia¹³. Informality is thus central to understanding the dynamics of Latin American labor markets and the Latin American economy¹⁴.

The objective of this chapter is to provide an overview of the characteristics of informality in Latin America in general. Furthermore, the chapter aims to put informality into the context of the Covid-19-pandemic. Lastly, Latin American public policies targeting the transition to formal labor markets are explored.

¹⁰ OECD (2020), *Latin American Economic Outlook 2020: Digital Transformation for building back better*. Retrieved from <https://www.oecd-ilibrary.org/>; Any figures about informality are not to be taken at face-value, as they are difficult to estimate precisely.

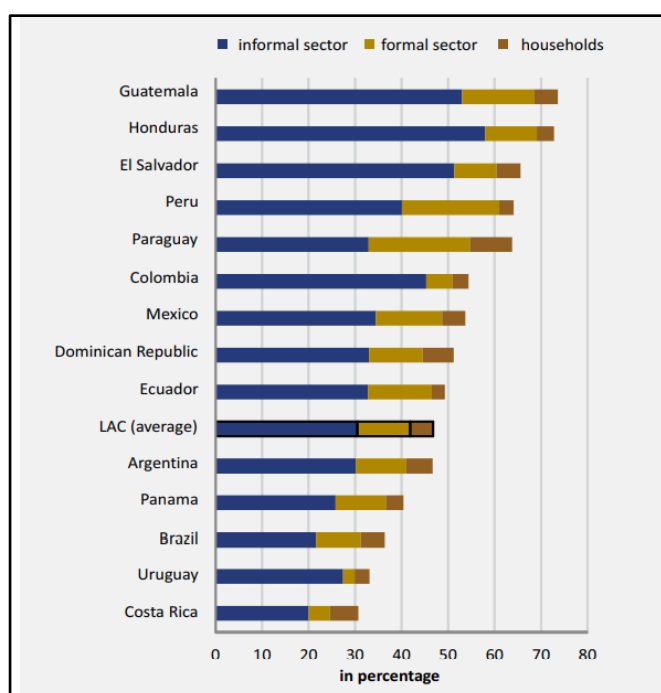
¹¹ Biles, J. J. (2009). Informal Work in Latin America: Competing Perspectives and Recent Debates. *Geography Compass*, 3(1), 214-236. Retrieved from <https://doi.org/10.1111/j.1749-8198.2008.00188.x>

¹² Retrieved from <https://blogs.iadb.org/ideas-matter/en/why-inequality-declined-in-latin-america/#:~:text=Levels%20of%20informality%20also%20fell,But%20these%20factors%20are%20secondary>.

¹³ ILO Statistics on Informality, Retrieved from <https://www.ilo.org/global/topics/employment-promotion/informal-economy/lang-en/index.htm>, accessed 12/12/2020.

¹⁴ Informality in the labor market is central in many other countries in the world: Ghana (89%), Ivory Coast (87%), India (88%), Bangladesh (94%), Indonesia (80%), Thailand (64%), South Africa (35%) according to the most recent ILO statistics for every country.

Figure 3: Sectoral contribution to non-agricultural informal employment 2013



Source: ILO (2015), *Transition to the formal economy in Latin America and the Caribbean*.

2.1.1 Definition of informality

It is not surprising that there is no clear consensus as to what counts as informal work and what does not. A simple binary understanding of informality is not applicable to today's increasingly heterogeneous and diverse Latin American labor markets. In practice, the boundaries of informal work are fluid, ever changing and constantly being redefined. The definition of informality therefore changes accordingly. Informal work is generally conceived as income-generating activities that are regulated neither by the state nor subject to established institutional norms.¹⁵ Such activities exist in a variety of forms across and within economies. Both the vagueness of the concept of informality and the fact that data capturing the informal sector is difficult to collect render the mapping of the informal economy in terms of size, composition and evolution extremely difficult.

According to the ILO¹⁶, informality manifests itself on three different levels:

1. Formal enterprises that contract a share of their workers informally.
2. Unregulated small businesses and micro-enterprises choosing not to formalize.
3. Self-employed workers voluntarily or involuntarily excluded from formal employment.

¹⁵ Portes, A., & Haller, W. (2004). *La economía informal*. Serie Políticas Sociales 100. División de Desarrollo Social – CEPAL. Santiago, Chile: United Nations.

¹⁶ Hussmans, R. (2005). *Measuring the informal economy: From employment in the formal sector to informal employment* (ILO Working Paper No. 53). Retrieved from ILO website: <https://www.ilo.org/global/research/publications/working-papers/lang-en/index.htm>

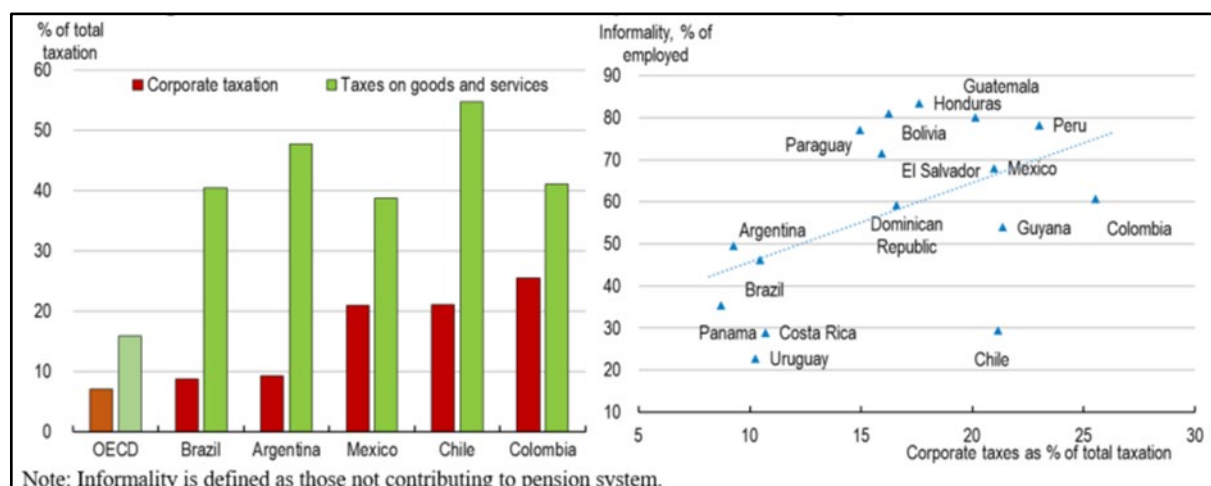
2.1.2 What factors shape informality in Latin America?

The choice to take on informal work is a result of several co-existing determinants that simultaneously create an environment facilitating and fostering informality. Oftentimes, the given circumstances leave no other viable choice and actual criminal intent is absent. The variance in informality rates across Latin American countries can be traced back to two main categories of factors. On the one hand, independent country-level factors that capture the overall context of a country and, on the other hand, individual-level factors. Due to the scope of this chapter, only the most important debates around the causes of informality are discussed and the following list of determinants is therefore not exhaustive.

Country-level factors

One of the debates in the existing literature focuses on the *legal and institutional framework* present in given countries. This perspective claims that excessive state regulation and laws, policies and legal barriers increase transaction costs, discourage compliance and therefore prevent individuals and entrepreneurs from participating in the formal economy.¹⁷ Rigid labor regulation for example, such as high costs for lay-offs, might discourage formal-sector hiring.¹⁸ Furthermore, burdensome tax systems have shown to lead to a larger informal sector in Latin American countries.¹⁹ Compared to the OECD average, the regulation and tax burden on formal companies is high in Latin America and directly correlated with high informality rates.²⁰ The goal of the neoliberal reforms implemented in the 1980s was to promote flexible forms of employment and to deregulate the Latin American economy. Countering arguments, however, claim that these reforms eroded the quality of work and promoted greater precariousness of employment by introducing probationary employment, short-term contracts and limited benefits. This, according to some scholars, rendered the distinction between formal and informal work less relevant and thus increased the informalization of the Latin American labor market.²¹

Figure 4: Relative tax burden faced by formal firms in Latin America



Source: OECD Revenue Statistics Latin American countries and IADB SIMS database

¹⁷ ILO. (2002). *Report VI of International Labor Conference on decent work and the informal economy*. Retrieved from <https://www.ilo.org/public/english/standards/relm/ilc/ilc90/pdf/rep-vi.pdf>

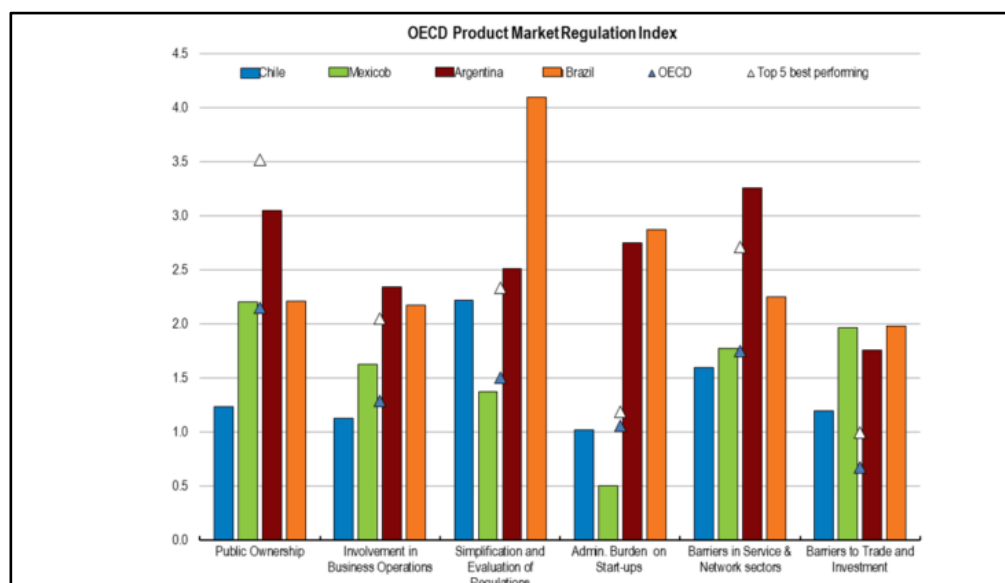
¹⁸ Loayza N. V. (2018). *Informality: Why is it so widespread and how can it be reduced?* (WBG Research & Policy Briefs No. 20). Retrieved from <https://www.worldbank.org/>

¹⁹ Vuletin G. (2008). *Measuring the Informal Economy in Latin America* (IMF Working Paper No. 102). Retrieved from IMF website: <https://www.imf.org/en/Publications/WP/>

²⁰ OECD (2018), *Revenue Statistics*. Retrieved from https://www.oecd-ilibrary.org/taxation/revenue-statistics-2018_rev_stats-2018-en

²¹ Biles, J. J. (2009). op. cit. ; Olmedo, C. & Murray, M. J. (2002). The Formalization of Informal/Precarious Labor in Contemporary Argentina. *International Sociology* 17(3), 421-443. Doi: [10.1177/0268580902017003004](https://doi.org/10.1177/0268580902017003004)

Figure 5: Regulatory burden



Source: OECD 2018 PMR Database

Another large corpus of literature focuses on the notion of *labor excess*, meaning that not all individuals seeking formal employment can be absorbed into the formal economy. In this context, *patterns of economic growth* play an important role. When assuming that the correlation between growth and informality is countercyclical, economic expansion creates more formal jobs, which in turn leads to the decrease of the informal economy²². At the same time, informality expands during an economic crisis. However, growth in Latin America has been slow and marked by capital-intensive technology, which requires less jobs and more workers with high skill specificity. This “jobless growth” has further contributed to an increase in informality.²³ Another debate that plays into the concept of labor excess is the idea that *urbanization* in Latin America led to a “hyper-tertiarization”²⁴ by the masses of new job seekers that could not be absorbed into the formal industry. Instead, they created their own jobs through commercial and service activities.²⁵

Individual-level factors

Informality rates further vary according to a number of individual-level factors, which often interact with each other. Again, the following discussion on individual-level factors is not exhaustive. First, there is a consensus that *poor* individuals are more likely to be informally employed.²⁶ The links between informal work and being poor are complex because many informal jobs actually yield more income than unskilled formal work. Formal jobs therefore cannot guarantee the escape from poverty. However, poverty forces people to take up unattractive informal work, because being poor engenders the absence of viable alternatives when formal employment cannot be secured. Due to the low income that such informal jobs usually yield, the poor remain poor. In a vicious cycle of poverty, the informal sector in Latin America thus absorbs the poorest segment of the population due to a lack of alternatives and in turn entraps them in poverty through low income generation. The working poor are constrained to the informal economy, especially in *rural areas*, where a large share of the poor population lives.²⁷

²² ILO. (2002). op. cit.

²³ ibid.

²⁴ As the rural-urban migration accelerated and brought masses of job-seekers to the cities, the market could not absorb all of them. They had to invent their own employment in commercial and services activities of minimal productivity.

²⁵ Bairoch (1973).

²⁶ ILO (2015). op. cit.; ILO (2002). op. cit.; OECD (2019). *Economic Surveys: Mexico*. <https://doi.org/10.1787/19990723>

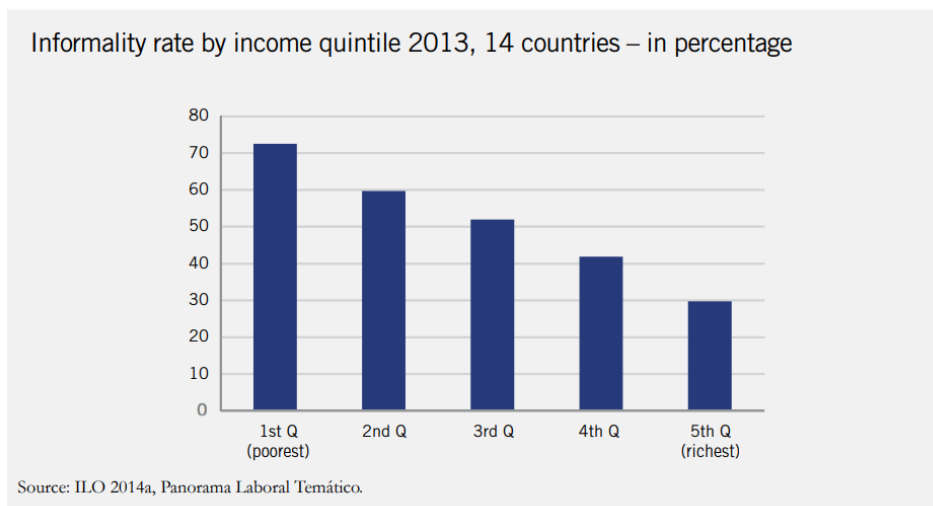
²⁷ Vuletin G. (2008), op. cit.

Furthermore, informality correlates with *education* and *skills*. While higher levels of education do not guarantee access to formal employment, they remain nonetheless an important driver in the reduction of informality. Countries with low informality rates generally have a more universal education system and consequently higher skilled human capital.²⁸

Another determinant of informal employment is *gender*. The link between poverty and informality is stronger for women. Women are more frequently found in traditionally lower-income jobs or unpaid occupations (e.g. domestic work), which in turn engenders a higher possibility of being informally employed.²⁹ This is no different in Latin America, where traditional gender roles strongly characterize the underlying cultural ideas of gender and ultimately lead to the overrepresentation of women in the informal sector.

Identifying all the drivers of informality is a challenging task. While the factors discussed in this chapter certainly correlate with informality rates in Latin America, the causality of these effects as well as the direction of causality itself are not a given. It is essential that policy measures discussed in chapter 2.3 consider how the different drivers of informality interact and overlap.

Figure 6: Informality rates and poverty



Source: ILO (2015), *Transition to the formal economy in Latin America and the Caribbean*.

2.1.3 Economic and social implications of informality in Latin America

The factors discussed in chapter 2.1.2. show that informality is the consequence of a series of social and economic structures. In order to better comprehend what effect the reduction of informality would actually have on the region, it is essential to expand the discussion to the economic and social implications of informality in Latin America.

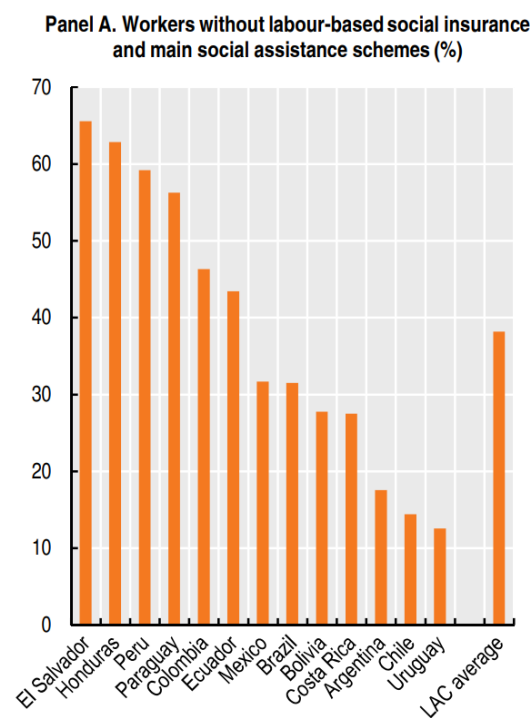
The reality of informal work in Latin America is most prevalent among the socioeconomically most disadvantaged and vulnerable groups. The poor, women and low-skilled individuals are most likely to be active in the informal economy. Workers pursuing their livelihoods in conditions of informality frequently lack a formal contract, basic social protections or benefits and remain tied to poorly paid and often precarious work without even a minimum of job security.

²⁸ Docquier, F., Müller, T., & Naval, J. (2017). Informality and Long-Run Growth. *The Scandinavian Journal of Economics*, 119(4), 1040-1085. <https://doi.org/10.1111/sjoe.12185>

²⁹ Biles, J. J. (2009), op. cit.; ECLAC (2020). Latin America and the Caribbean and the Covid-19-pandemic: Economic and social effects and the impact on women's lives [Presentation]; ILO. (2002). op. cit.

Unstable incomes impede informal workers to invest in education in order to obtain a formal and more productive job. This further reinforces underlying long-standing structural problems in Latin America, such as inequality, and creates a vicious cycle, where the gap between rich and poor widens and the possibility to escape poverty becomes very small.³⁰ For example, due to low-skilled workers spending most of their working lives in informal employment without pension contributions, old age poverty in Colombia is high.³¹ Similarly, the prospect of non-existent pensions forces informal workers in Brazil and Argentina to retire later until they are able to benefit from non-contributory pensions.³² Therefore, high informality increases the vulnerabilities of the already vulnerable and prevents the strengthening of a Latin American middle class. The formalization of the labor market would play a crucial role in rendering it more inclusive and escaping the social vulnerability trap Latin America currently finds itself in.³³

Figure 7: Lack of social assistance in Latin America



Source: OECD (2020), *Latin American Outlook 2020: Digital Transformation for building back better*.

Moreover, due to the informal economy not being regulated, the state cannot levy taxes on informal enterprises or workers. This significantly diminishes *public revenues* and thus the ability of the state to boost productivity and finance functioning social security systems. As already explained, this notably affects individuals active in the informal sector, who have no safety net to fall back on.³⁴ Furthermore, high informality inhibits the growth of companies, because economic growth would entail high costs of formalization. Also, a number of Latin American countries have relatively high-trade protection regimes, which shields producers from outside competition. Without competition driving productivity, economic growth cannot be resilient and sustainable.³⁵

³⁰ OECD (2019), *Latin American Outlook 2019: Development in Transition*. Retrieved from <https://www.oecd-ilibrary.org/>

³¹ OECD (2019). *Economic Surveys: Colombia*. Retrieved from <https://www.oecd-ilibrary.org/>

³² OECD (2019). *Economic Surveys: Argentina*. Retrieved from <https://www.oecd-ilibrary.org/>; OECD (2018). *Economic Surveys: Brazil*. Retrieved from <https://www.oecd-ilibrary.org/>

³³ OECD-LAC Virtual Social Inclusion Ministerial Summit (2020). *Informality & Social Inclusion in the Times of Covid-19*. Retrieved from <https://www.oecd.org/latin-america/events/>; OECD (2019), *Latin American Outlook 2019: Development in Transition*. Retrieved from <https://www.oecd-ilibrary.org/>

³⁴ OECD-LAC Virtual Social Inclusion Ministerial Summit (2020). *Informality & Social Inclusion in the Times of Covid-19*. Retrieved from <https://www.oecd.org/latin-america/events/>

³⁵ Loayza N. V. (2018). op. cit.

This dynamic keeps Latin America in a so-called productivity trap and hinders the sustainable and inclusive development of the region.

In conclusion, informality strongly manifests itself in the Latin American economy and society. Even though informality is not per se the cause of the existing structural and socio-economic challenges in the region, it reinforces them through vicious cycles of amongst others inequality, poverty, a general lack of social protection and structural labor market barriers.

2.2 Interplay between the Covid-19-crisis and the informal economy

Overall, Latin American countries have moved towards higher levels of development since the beginning of the 21st century. Nevertheless, as discussed in chapter 2.1.3, new trends resulting in vicious cycles have appeared and simultaneously inhibited the development in the region. The Covid-19-pandemic has highlighted, amplified and intensified these trends and structural challenges. The following discussion aims to enhance our understanding of the interplay between these structural challenges and the Covid-19-crisis.

2.2.1 Social consequences of the Covid-19-crisis

The crisis exacerbated the adverse social consequences of informality. It has led to massive job losses not only in Latin America, but also on a global level and many businesses and stores had to close. The imposed lockdowns and social distancing measures have prevented people from working and earning a living. Such measures have a particularly adverse effect on regions with high informality rates. The large share of the population whose survival depends on daily informal activities is notably more affected by the Covid-19-crisis. Sectors, in which informality is high (e.g. restaurants, retail, transportation and construction) have had to shut down first. Normally, social protection systems and programs shield workers from the adverse effects of losing their jobs. However, in Latin America, the majority of informal workers does not have access to such assistance or any kind of safety net, which leaves them with little or no income. Furthermore, roughly half of all informal workers that live in poverty does not profit from cash transfers or non-contributory pensions.³⁶

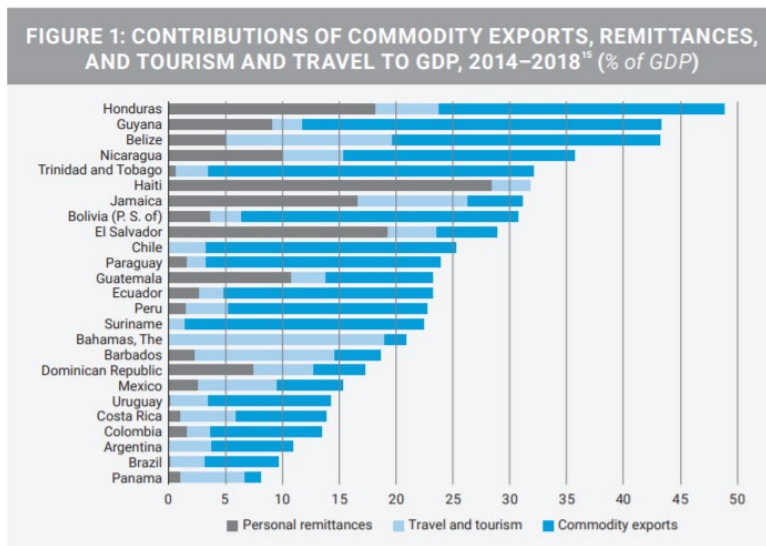
As argued in chapter 2.1, the socioeconomically most disadvantaged and vulnerable segments of the population are more likely to be active in the informal sector, which in turn decreases their chances to escape poverty. The protection that vulnerable and disadvantaged groups lack during such crises amplifies the vicious cycle of informality and poverty even more. In other words, the link between informality and poverty strengthens and the vulnerable become even more vulnerable. This social vulnerability trap, while not being a new issue, has not only become more visible during the crisis but has also been reinforced.

2.2.2. State-level consequences of the Covid-19-crisis

Like in other parts of the world, the large fiscal stimuli adopted by Latin American governments in order to mitigate the economic consequences of the Covid-19-crisis, have and will put a massive strain on the sustainability of Latin American public finances (see figure 9). On top of this, many raw materials have seen their demand decrease dramatically, causing their price to plummet to record lows. For those economies with little diversification and high dependence on commodity exports, a sharp loss in income is the consequence.

³⁶ OECD-LAC Virtual Social Inclusion Ministerial Summit (2020). op. cit.

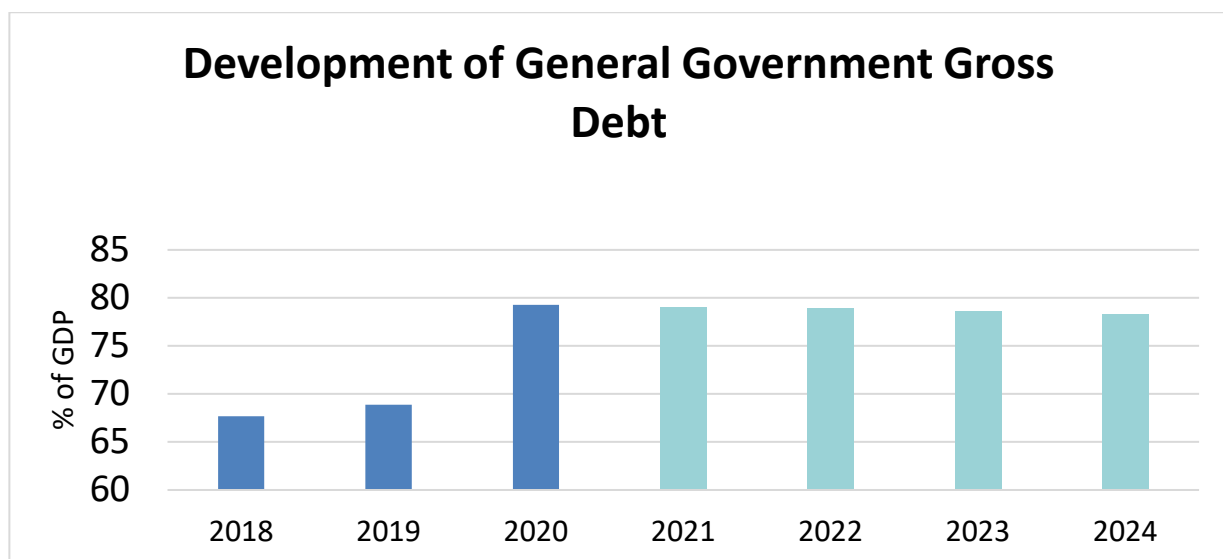
Figure 8: Lack of diversification in Latin American economies



Source: UN (2020), *Policy Brief: The impact of Covid-19 on Latin America and the Caribbean*.

As discussed in chapter 2.1, the state cannot levy taxes on informal enterprises or workers, which significantly diminishes public revenues and therefore the possibility to push productivity and to finance working social security systems. The absence of these public revenues is particularly evident during the Covid-19-crisis – a time when such revenues are most needed. Again, a vicious cycle develops: Informality diminishes public revenues, which limits the available means to protect informal workers during this global pandemic. This lack of protection reinforces poverty and thus informality, which in turn decreases public revenues. Similarly to poverty, the Covid-19-crisis amplifies the connection between missing public revenues and informality, which further engrains the region in its development traps. Once again, this harmful dynamic existed before, but has become more evident during the Covid-19-crisis.

Figure 9: Increasing debt in Latin America



Source: IMF World Economic Outlook Database (October, 2020)

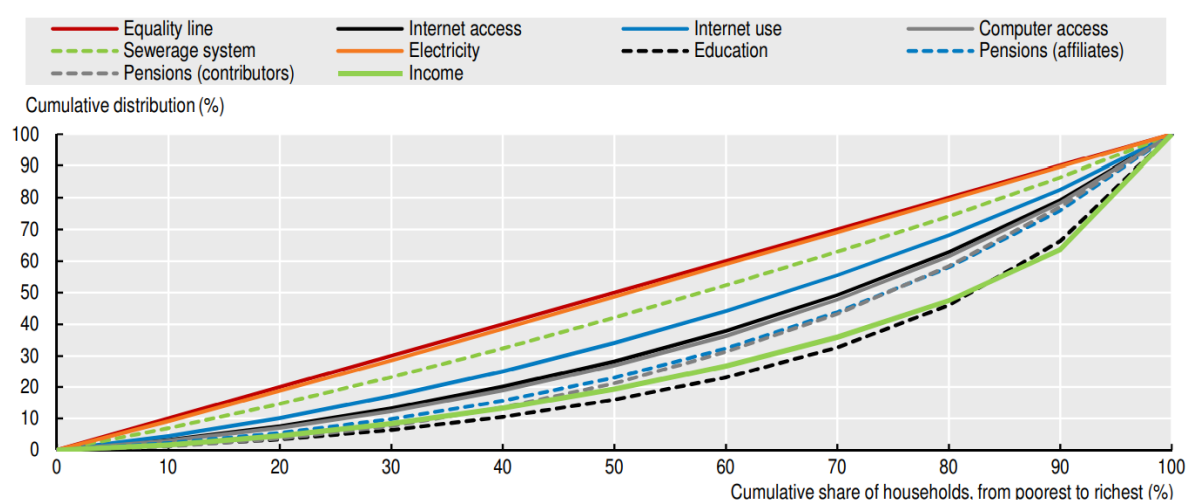
2.2.3 The Covid-19-crisis as an opportunity to build back better

While the Covid-19-pandemic reinforces and highlights existing structural problems in Latin America, it also offers the necessary impetus to tackle these issues and fundamentally change the dynamics that have limited inclusive growth to date. The crisis illustrated the barriers that the substantial informal economy in Latin America creates for the region's reduction of social vulnerability and its sustainable development in general. The momentum of the crisis can therefore be taken advantage of in order to bring about meaningful and effective change through long-term policies targeting the formalization of the Latin American labor market. This will additionally increase the region's resilience to future economic shocks.

As analyzed in the OECD Latin American Outlook 2020³⁷, the current crisis is an opportunity especially for digital transformation. Digital technologies can contribute to improving productivity, foster inclusiveness and even transform public institutions. Even though there has been progress in the past decade, enabling many people and firms to keep working or studying and still complying with social distancing measures, the important digital divide remains. This leaves especially the most vulnerable behind.

The potential role of the digital transformation is not to be underestimated. In fact, new technologies create new services and jobs, bring under-represented people into the labor market and offer access to better public services, health and education. This process contributes to the transition to formality and at the same time addresses the productivity trap in Latin America. Unfortunately, the Covid-19-crisis has exacerbated the digital divide in the region, with the more vulnerable segment of the population, of whom only 25% have access to internet, being left behind. A working and sustainable digital transformation requires a high level of information and well-established communications technology (ICT), such as broadband access and internet across the different layers of the economy. Only then can the digital transformation effectively contribute to overcoming the development traps in Latin America.

Figure 10: Distribution of internet access, internet use and other services by income decile in LAC countries, 2017 or latest available year



Source: OECD (2020), *Latin American Outlook 2020: Digital Transformation for building back better*.

³⁷ OECD (2020), *Latin American Economic Outlook 2020: Digital Transformation for building back better*. Retrieved from <https://www.oecd-ilibrary.org/>

While considerable strides towards collective internet access across the sub-continent have already been made, its distribution in Latin America is still strongly correlated with household income. The gap in internet use between households in the richest and poorest quintiles is almost 40 percentage points.

To sum up, the digital transformation can help achieve the goal of sustainable and resilient growth in Latin America. Its potential to elevate the low-skilled workforce to more technology/high-productivity labor and thus contributing to the formalization process is undeniable, provided access to the necessary infrastructure is ensured. Coordinated implementation, ideally across countries, is however vital for the digital push to have the most meaningful impact.

Figure 11: Digital transformation to build back better



Source: OECD (2020), *Latin American Economic Outlook 2020: Digital Transformation for building back better*.

2.3 Policy responses to informal economy

2.3.1 Policies addressing informal economy in general

Overview

The following chapter provides an overview of policies in Latin America addressing informality. Chapter 2.1 and 2.2 illustrate the diversity and heterogeneity of the different drivers and characteristics of informality in Latin America. The independent factors leading to informality have different relative weight across the region, which makes finding the right policy mix the main challenge for the transition to formality. Formalization processes need to be tailored to the specific circumstances in each country, as different contexts entail different pathways to formality.³⁸

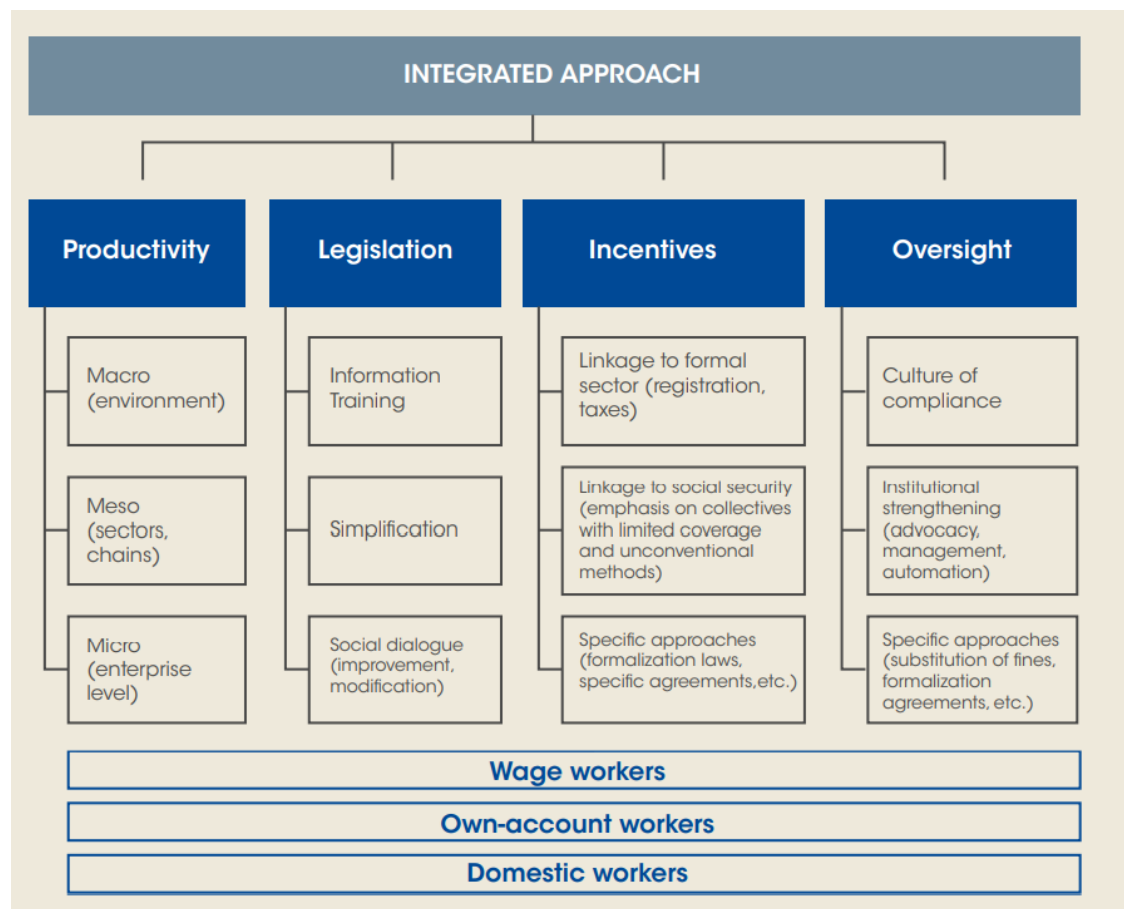
While individualized country strategies addressing informality are necessary, the need for an integrated approach becomes evident when considering the diverse dimensions of informality, even within countries.³⁹ An integrated approach conveys policy coordination and coherence between the different macro- and micro-level processes when addressing the diversity of informality. Public

³⁸ De Laiglesia, J. R. (2017, October 18). *Policy pathways for addressing informality*. OECD Development Centre. Retrieved from <https://oecd-development-matters.org/2017/10/18/policy-pathways-for-addressing-informality/>

³⁹ ILO. (2014). *Recent experiences of formalization in Latin America and the Caribbean*. Retrieved from https://www.ilo.org/wcmsp5/groups/public/--americas/--ro-lima/documents/publication/wcms_245882.pdf; ILO (2015). op. cit.

policies tackling informality in Latin America can be summarized in four categories: productivity, legislation, incentives and oversight.

Figure 12: Public policies to support the transition to formality in Latin America



Source: ILO (2014), *Recent experiences of formalization in Latin America and the Caribbean*.

Activities listed under the “**productivity**” column aim to increase the ability of economic units to comply with the existing standards and regulations. Productivity is an indicator for this ability and thus closely linked to informality. With productivity being one of the development traps in Latin America, the region faces considerable difficulties in this area.⁴⁰ In order for formalization efforts to be sustainable, productivity must be ensured through macro-, meso- and microeconomic policies. Policies on the macroeconomic-level are designed to foster robust growth and create a favorable environment for productivity to prosper. Productivity increases also take place at the mesoeconomic-level through interventions targeting specific labor intensive sectors. Finally, at the microeconomic level, the productivity of enterprises is increased by strengthening technology, human capital and production organization.

In the second category “**legislation**”, countries intervene in three areas. First, countries improve the information and knowledge available on the rights and responsibilities of employers, workers and the public. This is particularly important because many companies do not know what exactly formality entails. Furthermore, public policies aim to adapt and simplify regulations and procedures for formalization. The third area focuses on the development of social dialogue in order to improve standards and regulations.

⁴⁰ OECD (2019). op. cit.

Public policies in the third category “**incentives**” aim to highlight the benefits of formalization and divert the discussion away from the focus on formalization costs. Thereby, policies are designed to link labor to tax issues by for example offering tax reductions, discounts or exemptions in the case of formalization. Second, some countries encourage formalization by simplifying and adjusting eligibility requirements for accessing social benefits. Third, countries advance the formalization process in Latin America through specific approaches, such as specific agreements.

The last category “**oversight**” focuses on compliance and institutional strengthening. Several governments have implemented activities to enhance their capacity to foster compliance by improving the spread of information on labor rights and responsibilities and strengthening institutions responsible for labor inspection services through automation, management optimization and advocacy.

Figure 12 further illustrates the necessity for specific measures targeting the groups of people most affected by informality, such as **wage workers**, **own-account workers** and **domestic workers**.

While policies often address informality directly, it is important to keep in mind that the size of the informal sector is also a product of the overall state of the country in question. Chapters 2.1 and 2.2 demonstrate that several vicious cycles on the individual- as well as on the state-level sustain and constantly reinforce informality. It is the goal of public policies to break these vicious cycles and instead transform them into virtuous ones, by decreasing poverty, improving access to education, closing the gender gap and creating an overall inclusive economy with equal chances. The decrease of informality must thus also be targeted indirectly through individual-level and state-level factors that if left unaddressed provide the ideal breeding ground for informality.

Examples

The processes and tools used to tackle informality in Latin America take place on a spectrum of integration ranging from rather targeted and selective interventions all the way to highly consolidated and integrated approaches, manifest in coherent and coordinated country strategies. The degree of policy integration in Latin America varies. While the majority of Latin American countries have implemented targeted policies addressing only certain economic units or groups of workers, a few examples of highly integrated and consolidated approaches exist nonetheless. In the following, we examine the public policies of Argentina, Brazil and Colombia as examples for highly integrated and comprehensive approaches to tackle informality.⁴¹ All three countries have adopted policies in all four categories illustrated in Figure 12. We also shed light on measures taken by Mexico and Peru.

While Argentina, Brazil and Colombia all placed informality at the top of their employment agendas, each country has stepped in through a different entry-point, tailored to its specific circumstances and context. This, once more, highlights the diversity and heterogeneity in the possibility of pathways to formality in the labor market.

⁴¹ ILO (2015). op. cit.

Figure 13: Overview of three integrated approaches

<p style="text-align: center;">Argentina</p> <p style="text-align: center;">Informal jobs transition</p>	<p style="text-align: center;">Brazil</p> <p style="text-align: center;">Micro and SMEs transition</p>	<p style="text-align: center;">Colombia</p> <p style="text-align: center;">Creation of formal enterprises and jobs</p>
<ul style="list-style-type: none"> • Regulatory environment: labour inspection, special regimes (rural workers, domestic work), offender employers registry • Incentives to formalize employment: simplification regimes, reductions in social security contributions for new hires, wage subsidies for hiring employment programmes participants, co-responsibility agreements on social security contributions 	<ul style="list-style-type: none"> • Boost enterprises registration and creation: simplified taxation regimes for SMEs and micro-entrepreneurs, innovation and technology transfer programs, access to credit • Incentives to formalize employment: reductions in social-security contributions for micro-entrepreneurs, labour inspection 	<ul style="list-style-type: none"> • Boost enterprises creation: single windows for enterprises • Prioritize sectors • National networks on Labor formalization: rise-awareness campaigns to employers and workers on good practices

Source: ILO (2015), *Transition to the formal economy in Latin America and the Caribbean*.

The informal job transition led by the Ministry of Labor in **Argentina** started in 2003 with a focus on labor inspection (*Plan Nacional de Regularización del Trabajo*) and became progressively more comprehensive with new incentives and rules for formalization, such as co-responsibility agreements for social security contributions, incentives for formalization in SMEs and initiatives supporting skills development. This eventually resulted in a new national strategy (*Plan Integral de Combate al Trabajo No Registrado*) in 2013 as well as new legislation (*Promoción del Trabajo Registrado y Prevención del Fraude Laboral*) in 2014.⁴²

In **Brazil**, the Ministry of Economy put the focus on supporting the formalization of SMEs in order to trigger more widespread formality across the country. Simplified taxation regimes (SIMPLES Law, 1996) as well as preferential treatment on social security regulations for SMEs (SMEs Law, 1999) initiated a first wave of registration and access to financing, which ultimately resulted in more sustainability and productivity. Similar to Argentina, this process successively became more extensive with additional preferential treatment laws (SIMPLES Nacional, 2006; entrepreneur Law, 2009) and other measures targeting skills development, innovation technology transfer, access to credit and the enforcement of labor inspection (e.g. *Plano Nacional de Combate à Informalidade dos Trabalhadores Empregados PLANCITE*, 2014).⁴³

The formalization process in **Colombia** is more recent. It started in 2010 with the Law on formalization and employment creation (Law No. 1429), simplifying preferential taxation systems for enterprises and incentivizing the formal hiring of vulnerable groups. Furthermore, the Colombian government has made efforts in focusing on certain regions and sectors and advocating for formalization in an approach that has become more integrated under the “*Comité Nacional de Competitividad e Innovación*”.⁴⁴

⁴² *ibid.*

⁴³ ILO (2015). *op. cit.*

⁴⁴ *ibid.*

The most recent coordinated efforts to formalize labor markets took place in **Peru** and in **Mexico**. National quantitative formalization targets are at the core of the formalization strategies of both countries. The Peruvian Ministry of Labor and Employment formulated its integrated formalization strategy “*Estrategia Sectorial para la Formalización Laboral*” in 2014. The strategy consists of different initiatives (e.g. “*Plan Reto*”, “*Jovenes a la obra*”, “*Centros de Empleo*”, “*Formálizate ahora*”) and acts in all four areas illustrated in Figure 12: The long-term increase of productivity, establishing a culture of compliance, creating regimes and incentives for SMEs and adapting legislation. Mexico has started to coordinate the efforts of relevant policy institutions in 2013 with the “*Programa para la formalización del empleo*”. Hereby, sub-national governments and national social security and labor institutions coordinate their initiatives in the context of Working Groups. Moreover, there has been significant effort in enhancing workers’ skills in the private sector through education, technical assistance, on-the-job-training and skill certification.⁴⁵

As already mentioned, integrated and coordinated approaches to reduce informality are outnumbered by targeted and specific interventions. Most initiatives focus on the areas where formality is of particular importance, such as highly affected groups, sectors or economic units. **Honduras**, the **Dominican Republic** and **Trinidad and Tobago**, for example, have adopted formalization policies targeting inter alia unemployed workers in informal employment and workers with disabilities).⁴⁶

Evaluation

Due to its unclear definition and lack of data, the phenomenon of informality has received little attention by research to date. It is difficult to trace changes in informality rates back to actual public policies. Impact evaluations of policies addressing informality are therefore an uncommon practice. Nevertheless, countries that have adopted integrated and coherent policies were generally the most successful in reducing informality. On the other hand, when interventions targeted and prioritized only one aspect of the problem, results were restricted.⁴⁷ The efficient reduction of informality consequently requires a multi-layered, coherent and well-coordinated national strategy.

Figure 14: Declines in informality, by country (percentage point change)

Countries	Indicator	Period	Results
Argentina	Unregistered wage employment	2003 - 2012	↓ 14.5
Brazil	Informal employment (% total employment)	2002 - 2012	↓ 13.9
Ecuador	Informal employment (% total employment)	2009 - 2012	↓ 10.8
Jamaica	Informal employment (% total employment)	2008 - 2012	↓ 3.1
Mexico	Informal employment (% total employment)	2010 - 2013	↓ 0.7
Paraguay	Informal employment (% total employment)	2001 - 2011	↓ 5.8
Peru	Informal employment (% total employment)	2004 - 2012	↓ 6.6
Colombia	Informal employment (% total employment)	2009 - 2012	↓ 2.3
Dominican Republic	Urban informal employment	2005 - 2010	↓ 10.7
Uruguay	Employment not registered with social security	2004 - 2012	↓ 15.1

Source: ILO (2014), *Recent experiences of formalization in Latin America and the Caribbean*.

⁴⁵ *ibid.*

⁴⁶ ILO (2015). *op. cit.*

⁴⁷ *ibid.*; De Laiglesia, J. R. (2017, October 18). *op. cit.*

The above analysis reveals that while economic growth and productivity are necessary conditions to maintain formalization efforts in a sustainable manner, more multi-faceted interventions are necessary to bring about efficient structural change. The need for long-term integrated and coherent country strategies is obvious. This, however, is where the biggest challenge lies: Finding the necessary consensus between different actors in order to coordinate and consolidate initiatives and advance the transition towards formal labor markets is extremely demanding.

Box 1: Initiatives by Swiss companies in the region to reduce informality

Swiss companies in Latin America contribute with different initiatives to the reduction of informality. Examples in Brazil, Colombia and Mexico are presented in this box:

Brazil: ABB Institute: The ABB Institute was founded in 1998 at ABB's Osasco unit, with the implementation of a pioneering socio-educational program called the *Criança Futuro Esperança Program* (Child Future Hope Program), maintained exclusively with resources from ABB in Brazil. Since its foundation, the ABB Institute has assisted about 500 children. The program was conceived to promote aspects related to integrity, responsibility and productivity among its participants, most of them residents of high social vulnerability locations in the vicinity of the company's units, both in Guarulhos and in the former ABB manufacturing plant in Osasco. The program acts in a preventive manner targeting social and educational conditions so that the participants, at the age of 15, are better prepared for the job market. With the global restructuring of the company's business, the ABB Institute is currently undergoing a reformulation of its program in Brazil in order to better reflect the dynamics of the company's activities in the country.

Colombia: Nestlé's "iniciativa por los jóvenes" and vocational training pilot project: With its "iniciativa por los jóvenes," the Swiss multinational Nestlé is striving to help 10 million young people worldwide gain better access to the labor market by 2030. The initiative is particularly important in Latin America, especially as these economies are characterized by a high degree of informality and sometimes low productivity. Against this backdrop, Nestlé has been organizing the annual "encuentro de jóvenes" of the Pacific Alliance since 2016, in coordination with the relevant government agencies and the local Swiss embassies. In December 2021, the event will be held for the second time in Colombia due to the current presidency of the Pacific Alliance, with a thematic focus on vocational education and training.

Nestlé officially launched a vocational training pilot project as part of the "iniciativa por los jóvenes" in Colombia in October 2019, which will provide 200 young people with apprenticeship training in accordance with the Swiss dual vocational training model in an initial phase starting in mid-2021. This project will be implemented in collaboration with the Colombian Ministries of Trade, Education and Labor, the Presidential Advisory Service for Youth Affairs, the Colombian-Swiss Chamber of Commerce and the Swiss Embassy in Bogotá. Of particular relevance is the involvement of the private sector, which provides the training positions in the companies: Around 20 companies are participating in the pilot project. The long-term goals of dual vocational training in Colombia are to improve the integration of young people into the labor market, thus reducing youth unemployment and increasing competitiveness and productivity.

Mexico: participation of Swiss companies in the "Jóvenes Construyendo el Futuro" program:

At the beginning of his mandate in 2018, Mexico's President, Andrés Manuel López Obrador (AMLO), met with the President of the Coordinating Business Council, and declared that the government will continue to work closely with the private sector in the implementation of the vocational education and training (VET) system in Mexico to generate more jobs for apprentices throughout the country. However, since the beginning of 2019, AMLO's administration has focused its efforts on the implementation of short-term social programs, for example the Youth Building the Future (*Jóvenes Construyendo el Futuro*) program. The purpose of this program is to offer inclusion in the workforce through training (up to 12 months) in private companies to young people (ages 18-29) of all educational levels, who do not study and do not work. The main difference between this program and VET is the lack of an academic component and the duration is limited to one year. In June 2019, The Swiss-Mexican Chamber of Commerce and Industry signed an agreement with the Mexican Secretary of Labor and Social Prevision to promote the program within Swiss member companies in Mexico. Currently, more than 500 training spaces are offered at Swiss companies all over Mexico for the Youth Building the Future Program.

2.3.2 Policies addressing the informal economy during the Covid-19-crisis

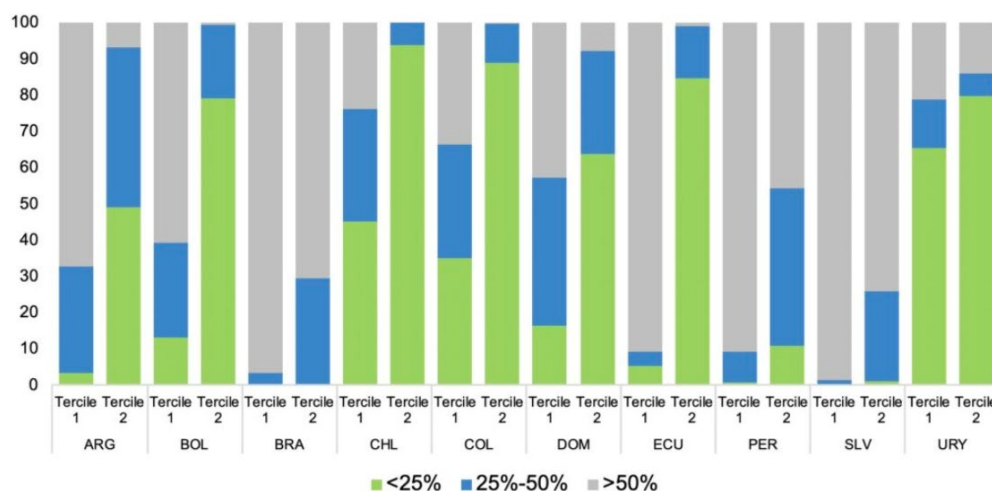
As explained, the Covid-19-crisis has brought to light and exacerbated the vicious cycles of informality, leaving the vulnerable even more vulnerable. Due to the gravity of the crisis, quick policy action addressing the informal sector in Latin America has been necessary.

Latin American governments reacted swiftly to these unprecedented challenges. The landscape of policy responses to the Covid-19-crisis across Latin America remains rather homogenous. Temporary short-term measures such as unemployment insurance, more flexible access to unemployment benefits, temporary short-time work schemes, wage subsidies and lower labor contributions were put in place for formal sector workers. Since it is impossible for informal workers to benefit from these measures, quick cash transfers based on locally-maintained registries of low-income households were set up to target not only the formal but also the informal sector. Amongst others, Argentina, Brazil, Bolivia, Chile, Colombia, Costa Rica, Ecuador, Mexico, Uruguay and Peru provided additional resources to cash transfer schemes, so that benefit coverage could be expanded.⁴⁸

Figure 15 illustrates the weight of these cash transfers in proportion to the usual monthly monetary labor income earned in 2018 for households in the lowest third of income per capita (tercile 1) and in the middle third (tercile 2). For vulnerable households (tercile 1), the replacement rates tend to be rather high. In Argentina, Bolivia, Brazil, Ecuador, Peru and El Salvador, the majority of households in tercile 1 receive more than 50% of their usual monthly income in benefits. For households in tercile 2, however, replacement rates are usually below 50%.

⁴⁸ Arnold, J., Garda, P., & Gonzalez-Pandiella, A. (2020). *Reaching out to informal workers in Latin America: Lessons from Covid-19*. Retrieved from <https://oecdecoscope.blog/2020/06/29/reaching-out-to-informal-workers-in-latin-america-lessons-from-covid-19/>

Figure 15: Weight of Monetary Transfer in Usual Monthly Labor Income for Targeted Households in Terciles 1 and 2



Source: Busso, M., Munoz, C. M., Messina, J., & Montenegro, G. (2020), *Covid-19: The Challenge of Ensuring Assistance to Informal and Vulnerable Workers*.

The implementation of these quick cash transfer schemes for informal workers revealed, once again, the existing gaps in Latin American social security systems. Not only are informal workers hard to reach because they have been off the radar of the state, they usually also lack access to banking services, which underlines the Latin American digital divide discussed in section 2.2.3.

Figure 16: Measures creating access to emergency benefits (not exhaustive list)

Brazil	Colombia	Chile	Costa Rica
<ul style="list-style-type: none"> Emergency benefit through smartphone application 	<ul style="list-style-type: none"> Free digital banking products Emergency benefits to households previously not covered by social benefits 	<ul style="list-style-type: none"> Free debit cards for those who do not have a bank account 	<ul style="list-style-type: none"> Cash transfer offers creation of a new bank account

Source: Arnold et al. (2020). *Reaching out to informal workers in Latin America: Lessons from Covid-19*

As Figure 16 shows, several Latin American countries have made efforts in ensuring informal workers' access to emergency benefits by implementing measures such as offering free digital banking products, handing out free debit cards and creating a smartphone application to receive benefits.⁴⁹ Such programs have helped replace substantial shares of pre-crisis incomes for informal workers.

The Covid-19-response targeting the informal sector in Latin America mainly consists of short-term cash transfers. While these emergency benefits are necessary to protect the most vulnerable, they are not sustainable on their own in the long-term. Integrated and holistic long-term policies targeting informality are essential for profound and lasting structural change. The Covid-19-crisis offers momentum for such change, especially as the shortcomings in the social protection systems

⁴⁹ Busso et al. (2020). *Covid-19: The Challenge of Ensuring Assistance to Informal and Vulnerable Workers*. Retrieved from <https://blogs.iadb.org/ideas-matter/en/covid-19-the-challenge-of-ensuring-assistance-to-informal-and-vulnerable-workers/>

in Latin America and the corollary lack of access to banking services become evident. Policies addressing informality should both attempt to formalize labor markets in the long-term and ensure the necessary social protection for informal workers during said formalization process. Long-term formalization efforts should thus be combined with short-term policies protecting the vulnerable.

2.4 Conclusion

The large informal sector has hindered meaningful and inclusive growth in Latin America and trapped the region in its development through reoccurring vicious circles. The latter have been reinforced by the Covid-19-crisis and left the already vulnerable segment of the Latin American population even more exposed. The Covid-19-crisis has thus exacerbated the consequences of informality and exhibited its underlying dynamics. In a positive way, this situation could serve as catalyzer to improve existing structures and bring about meaningful change in the future.

Policies addressing informality in general are most effective if they exist as part of a long-term country strategy. A long-term integrated approach to formalizing the labor market seems to yield better results than selective policies that merely address certain aspects of informality. Establishing a consolidated and integrated approach to tackle informality of course comes with the challenge of finding consensus between the different actors involved. Combining economic policies with institutional responses when addressing informality is therefore essential. Policies targeting informal workers in the context of the Covid-19-crisis on the other hand provide for short-term emergency cash transfers. The transfer of these benefits to informal workers has proven to be difficult due to their lack of access to banking services, but Latin American governments have reacted with innovative ideas to close this gap.

While the Covid-19-crisis has exacerbated the effects of informality in Latin America and thrown the region into a deep recession, it has also indicated potential ways forward. Social protection for informal workers will support efforts to foster formalization. One of the main lessons from the Covid-19-crisis is that establishing effective universal safety nets inclusive of informal workers and entrepreneurs in combination with long-term integrated formalization efforts are necessary to bring about profound structural change and sustainable as well as inclusive development in the region.

3. Bilateral Economic Relations

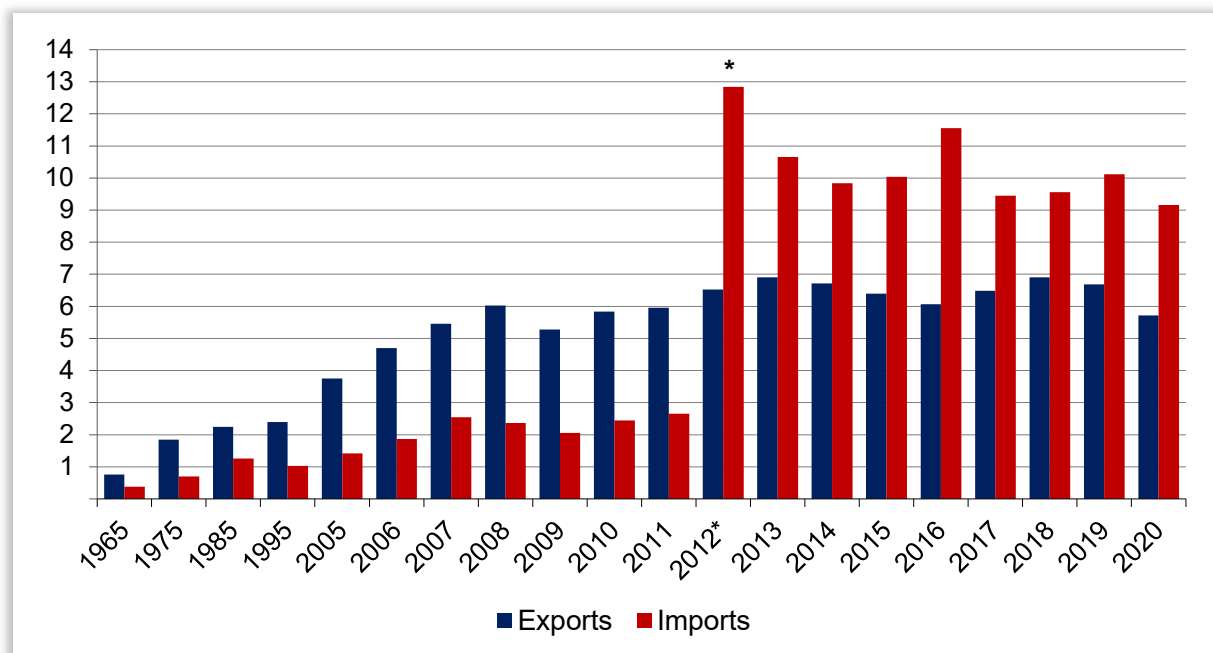
3.1 Trade⁵⁰

In a year marked by the Covid-19-crisis, Switzerland's bilateral trade with Latin America and the Caribbean (LAC) fell by 11.5% in 2020 (*gold excluded: -10.8%*). This decrease was driven by South America with a reduction in trade by 16.8% (*-12.3%*), while trade with Central America only declined by 4.4% (*-7.7%*), and with the Caribbean by 1.7% (*-22.5%*). Trade with LAC constitutes 2.6% (*1.9%*) of total Swiss trade, the biggest part of which (1.8%) is accounted for by trade with South America (*1.2%*). Trade notably decreased with Argentina (-33.5%), Bolivia (-32.3%), Panama (-27.8%), Ecuador (-26.8%), Peru (-25.4%), Paraguay (-22.3%) and Uruguay/Venezuela (-15.4%), while it increased with Guyana (+64.6%), the Dominican Republic (+45.7%) and Nicaragua (+20.2%).

Total Swiss external trade fell by 2.6% in 2020 (*without gold: -9.0%*). Bilateral trade with the European Union, Switzerland's most important trading partner, decreased by 5.8% (*-7.3%*). Trade also fell with the Middle East (-25.9%, *-41.2%*), Asia (-7.0%, *-8.9%*) and with Oceania (-1.9%, *-16.4%*). On the other hand, commerce with North America (+36.8%, *-8.4%*) and Africa (+5.9%, *-12.2%*) witnessed an increase.

Traditionally, Switzerland registers a large trade deficit with LAC, which is mainly owed to gold imports. These account for 75% of total imports from the region (see also Table A.8., p. 56 and Figure A.5., p.56 for individual countries' share).

Figure 17. Switzerland - Latin America and the Caribbean: Trade in Goods 1965 - 2020 (in CHF billion)



Source: Swiss Federal Customs Administration (FCA), Bern.

* Following a Federal Council decision, the FCA now includes gold, silver and coins in the trade statistics, which have been backdated to 2012

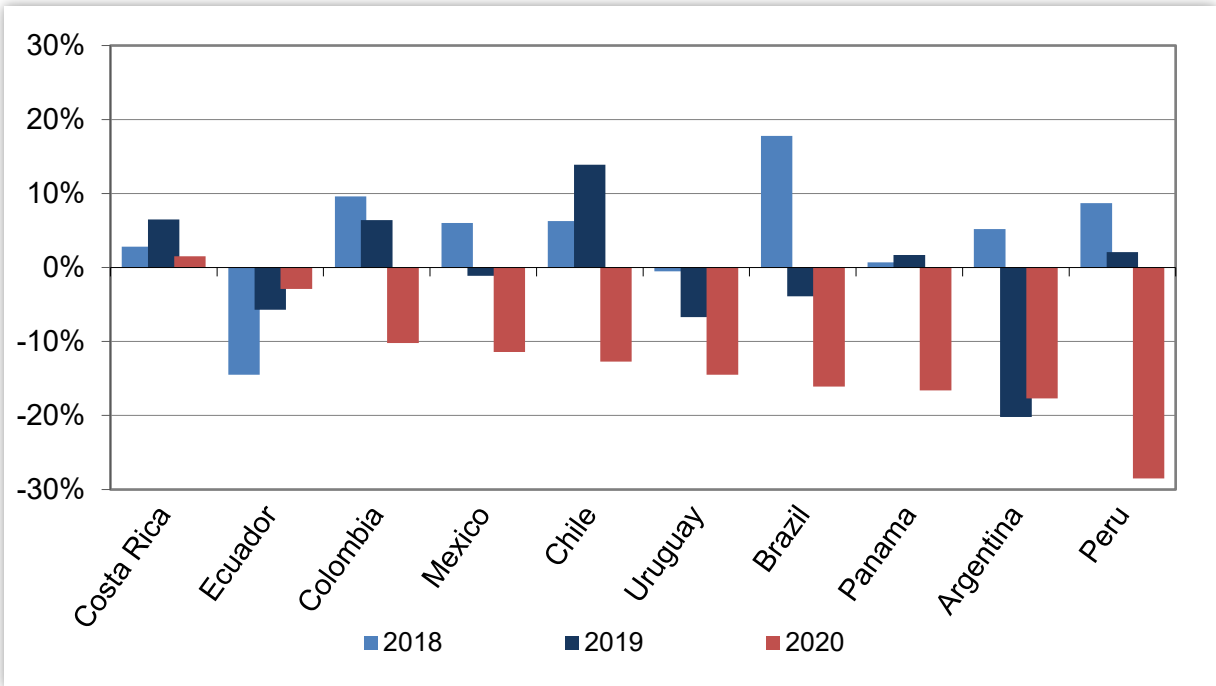
⁵⁰ The Federal Customs Administration compiles two types of trade statistics: Business Cycle and General Total, the latter including precious metals (incl. gold), precious stones and gems, works of art and antiques. In Latin America, gold imports account for most of the difference between Business Cycle and General Total. Figures 6-8 and relevant data in chapter 3.1 use the General Total. Numbers in brackets indicate Business Cycle data.

In absolute numbers, **Swiss exports** to Latin America amounted to CHF 5.72 billion (*without gold: CHF 5.71 billion*) in 2020 and thereby constituted 1.9 % of total Swiss exports in 2020. Swiss exports to LAC declined in 2020 by 14.5% (*without gold: -14.1%*), after having declined by 3.4% in 2019 and grown by 6.5% in 2018. This fall was mainly driven by an export drop to South America (-15.7%), while the exports to the Caribbean (-33.7%) even fell sharper, but having less weight. Exports to Central America decreased by 10.5%.

In comparison, exports to Asia (-19.2%, *without gold: -8.6%*, 2019: -17.6%), Oceania (-16.5%, *without gold: -17.5%*, 2019: -4.4%), the Middle East (-13.6%, *without gold: -13.9%*, 2019: -13.6%), Africa (-8.6%, *without gold: -9.5%*, 2019: +2.1%) and the EU (-3.7%, *without gold: -5.4%*, 2019: +15.3%) were also marked by a negative development, while exports to North America (+49.3%, *without gold: -6.0%*, 2019: +9.4%) experienced a positive trend.

Brazil, Mexico and Argentina remain the biggest export markets for Swiss goods (69% of Swiss exports to LAC), but exports to all three countries decreased in 2020; those to Mexico by 11.4%, those to Brazil by 16.1% and those to Argentina even by 17.7%, continuing and aggravating the negative trend of the previous year. Pharmaceutical products are the most important export goods to all three countries (Argentina: 60.0%; Brazil: 55.1%; Mexico: 37.9%), but, as in 2019, these exports also declined in 2020: in Argentina by 24.2%, in Brazil by 13.5% and in Mexico by 1.8%. Other countries with a significant drop in Swiss exports were Suriname (-63.0%), Cuba (-56.7%), the Bahamas (-53.4%), Bolivia (-42.4%), Peru (-28.5%), Honduras (-28.2%), Paraguay (-23.8%), Guyana (-16.8%), Panama (-16.6%), Venezuela (-15.8%), – and St. Vincent and the Grenadines with 98.9%. Export growth was only registered with Nicaragua (+74.7%), Trinidad and Tobago (+73.7%), Costa Rica (+1.5%) and some small Caribbean nations. For absolute figures, shares and variations of Swiss exports see Table A.3. on page 53.

Figure 18. Switzerland - Latin America: Change in Exports, Main Exp. Partners 2018-2020 (percentage change)



Source: Swiss Federal Customs Administration, Bern

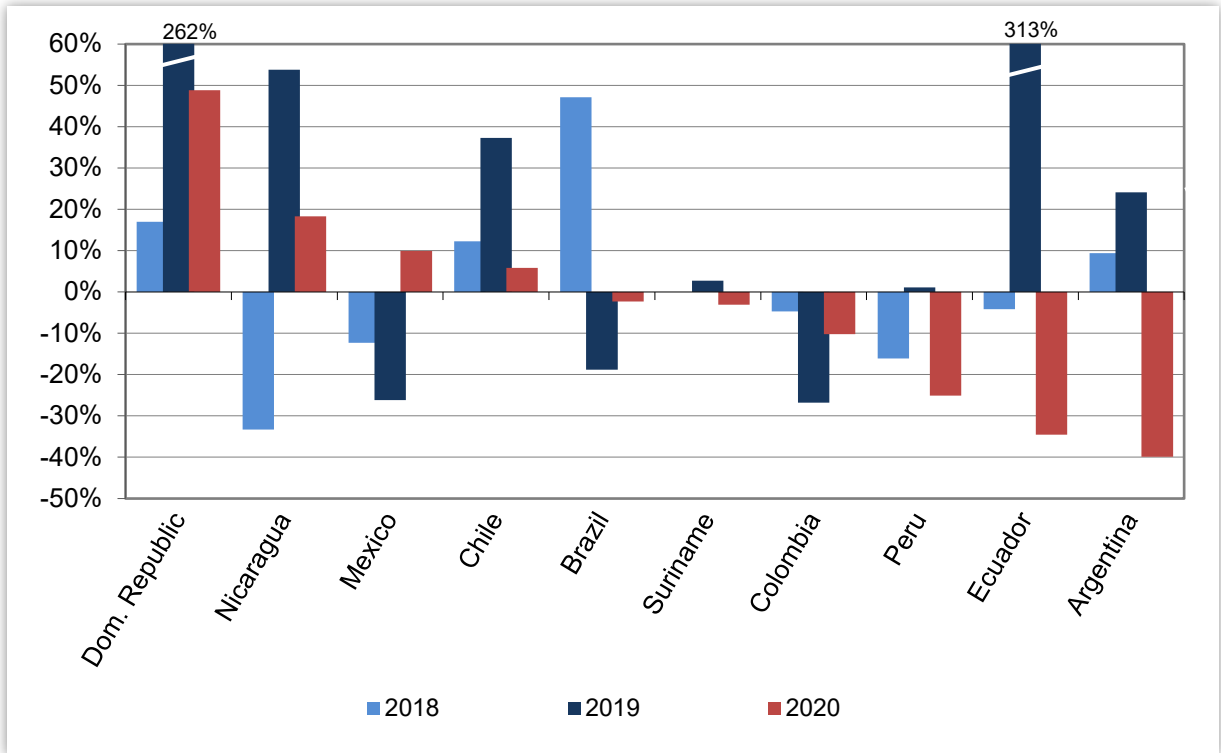
After an increase of 5.2% in 2019, **Swiss imports** from LAC fell in 2020, by 9.5% (*without gold: +0.3%*), amounting to CHF 9.2 billion (*CHF 2.0 billion*), which corresponds to 3.6% of total Swiss imports. This trend was due to an import decrease from South America by 17.5%. On the other hand, imports from the Caribbean continued their steep increase (+44.5%), driven as in 2019 by a leap in gold imports from the Dominican Republic by almost 50%. Imports from Central America also grew, by 4.4%.

The development of imports from other world regions varied: while imports from Oceania (+25.8%; *without gold: -7.5%*), Africa (+10.2%, *without gold: -17.2%*), Asia (+9.6%; *without gold: -9.4%*) and North America (+6.6%; *without gold: -15.8%*) accelerated, those from the Middle East (-30.9%; *without gold: -67.6%*), and the EU (-7.5%; *without gold: -9.0%*) declined.

An important share of total Swiss imports from LAC consists of gold (2020: 74.7%)⁵¹. Of the major import partners, only for Costa Rica (0%), Mexico (33%), Colombia (33%) and Panama (49%) gold constitutes less than half of imports. Virtually all imports from Suriname (99.98%) are gold. Its share in total imports is also very important for the Dominican Republic (97%), Guyana (96%), Chile (91%), Peru (90%), Argentina (88%), Nicaragua (77%) and Ecuador (66%); it is less significant for Brazil (57%). Gold imports from Latin American countries reached 557 tons in 2020, 20.1% less with respect to the previous year. The value of gold imports decreased by only 18.3%, indicating a small increase in gold prices. For further information, see Table A.8., p. 56.

For absolute figures, shares and variations of Swiss imports see Table A.4., p. 54.

Figure 19. Switzerland - Latin America: Change in Imports, Main Imp. Partners 2018-2020
(percentage change)



Source: Swiss Federal Customs Administration, Bern

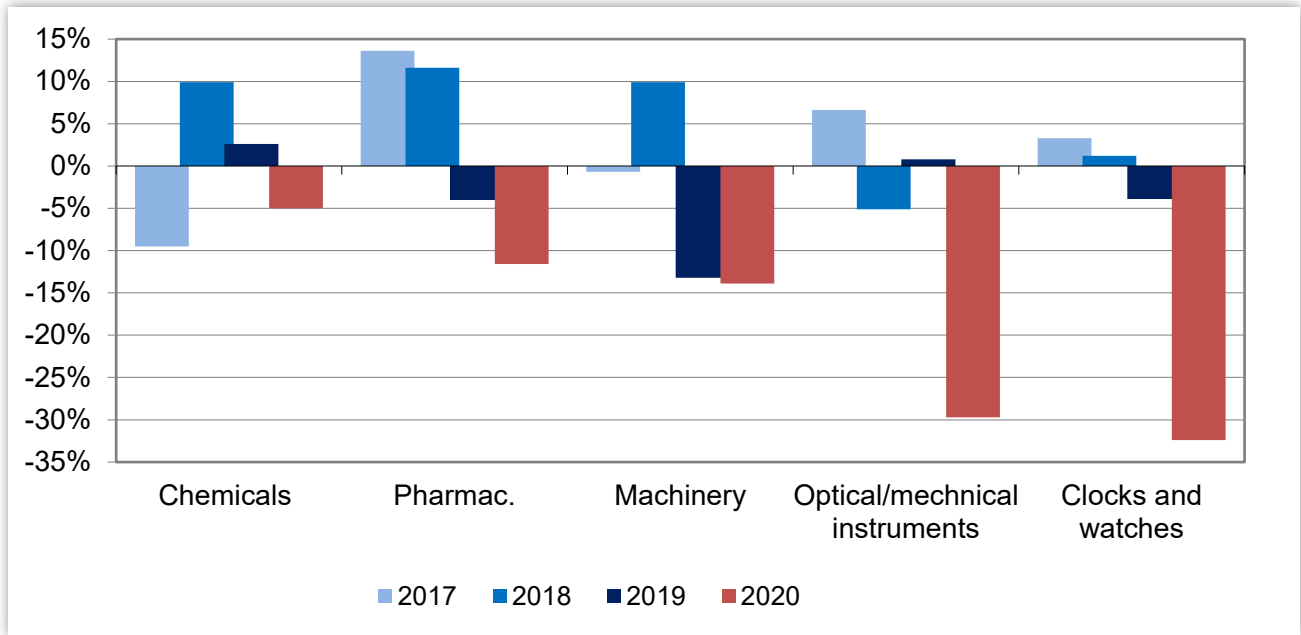
⁵¹ Gold is the subchapter 7108 of chapter 71 of the Harmonized System (precious stones, metals and jewellery).

Switzerland's **main export goods** to Latin America in 2020 were pharmaceuticals (54%), chemicals (16%), machinery (12%), watches (5%) and optical and medicinal instruments (4%). Since 2000, pharmaceutical exports have more than tripled. In 2020, they declined by 12%, after a slight decline of 4% in 2019 and strong increases in the previous years (2018: 12%, 2017: 14%). For many of Switzerland's main trading partners in the region, the bulk of exports consists of pharmaceuticals, namely Panama (87%), Uruguay (78%), Ecuador (72%), Costa Rica (70%), Colombia (67%), Argentina (60%), Brazil (55%) and Chile (53%).⁵²

Chemical exports, ranking second in Swiss exports to the region and having increased by 14% since 2000, also experienced a negative trend in 2020 (-5%), after having increased in the previous years (2019: 3%, 2018: 10%). Brazil is by far the biggest export market, with 42% of chemical exports to the region. Countries where chemical exports constitute an important share of total Swiss exports are Brazil (25%), Suriname (22%), Argentina (22%), Honduras (20%), Guatemala (11%), Mexico (14%), El Salvador (13%), Colombia (12%) and the Dominican Republic (10%).⁵³

Machinery exports rank third and currently constitute 12% of exports to the region. They decreased by 14% in 2020 and have overall declined since 2000 by 36%, when they still constituted the biggest part of Swiss exports to the region. Their main destination is Mexico, with 37% of exports, followed by Brazil (30%) and Chile (9%). Mexico (-3%) and Brazil (-22%) saw a decrease in 2020, while machinery exports to Chile augmented by 13%.⁵⁴

Figure 20. Switzerland - Latin America: Change in Exports, Main Product Groups 2017 – 2020



Source: Swiss Federal Customs Administration, Bern.

⁵² According to “nature of goods” (06.2.1 Pharmaceuticals, vitamins, diagnostics). Calculable under <https://www.gate.ezv.admin.ch/swissimpex/>

⁵³ According to “nature of goods” (Chemicals correspond to 06 minus 06.2.1).

⁵⁴ According to “nature of goods” (09 - Machines, appliances, electronics).

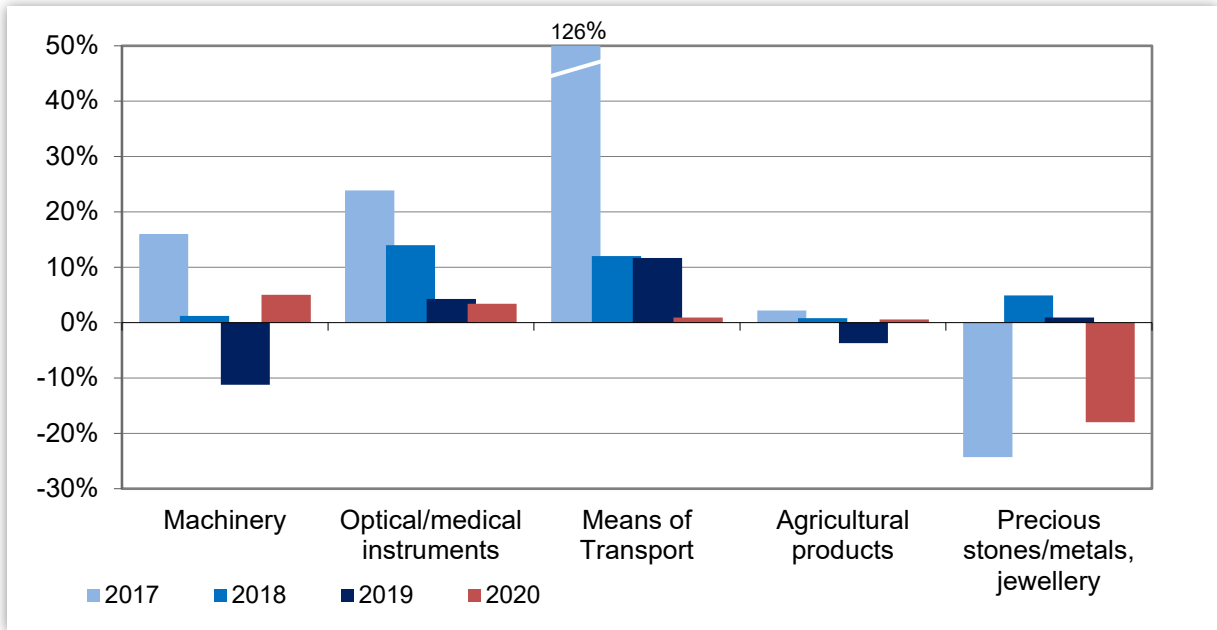
Apart from gold (75%), **major import goods** in 2020 were agricultural products (12%), means of transport (3%), machinery (2%) and optical and medicinal instruments (2%). Gold imports fell by 18.5% in 2020, after having increased by 0.7% in 2019. Main countries of origin were Peru (CHF 1.5bn), the Dominican Republic (CHF 1.1bn), Suriname (CHF 1bn), followed by Argentina (CHF 881m), Brazil (CHF 799m) and Chile (CHF 716m).⁵⁵

Imports of agricultural products, ranking second after gold, increased by 1% in 2020. Almost one third (29%) came from Brazil; other main countries of import were Colombia (15%), Peru (9%), Costa Rica (7%), Ecuador (6%), Mexico (5%), Argentina (4%) and Chile (4%).⁵⁶ The relative importance of agricultural imports on total imports to Switzerland is especially high for Cuba (98%), Honduras (94%), Bolivia (94%), Paraguay (91%), Uruguay (87%), Costa Rica (83%), Guatemala (82%), Colombia (56%), Venezuela (55%) and several small states of the Caribbean.

Means of transport ranked third in imports and increased by 1% in 2020. They almost exclusively originate from Mexico (59%) and Brazil (41%) and represent 17% of Mexico’s imports to Switzerland.⁵⁷

Imports of machinery increased by 5%. Mexico accounted for 84% of machinery imports, and experienced an increase by 8%. No. 2 was Brazil with 8% and with a strong decline by 22%.⁵⁸ The last relevant import category, optical and medical instruments, witnessed an increase of 3%, after having increased in the previous 3 years already.

Figure 21. Switzerland - Latin America: Change in Imports, Main Product Groups 2017 – 2020



Source: Swiss Federal Customs Administration, Bern.

⁵⁵ See table A.8. on p. 56 for more details.

⁵⁶ According to “nature of goods” (01 - Forestry and agricultural products, fisheries).

⁵⁷ According to “nature of goods” (10 - Vehicles).

⁵⁸ According to “nature of goods” (09 - Machines, appliances, electronics)

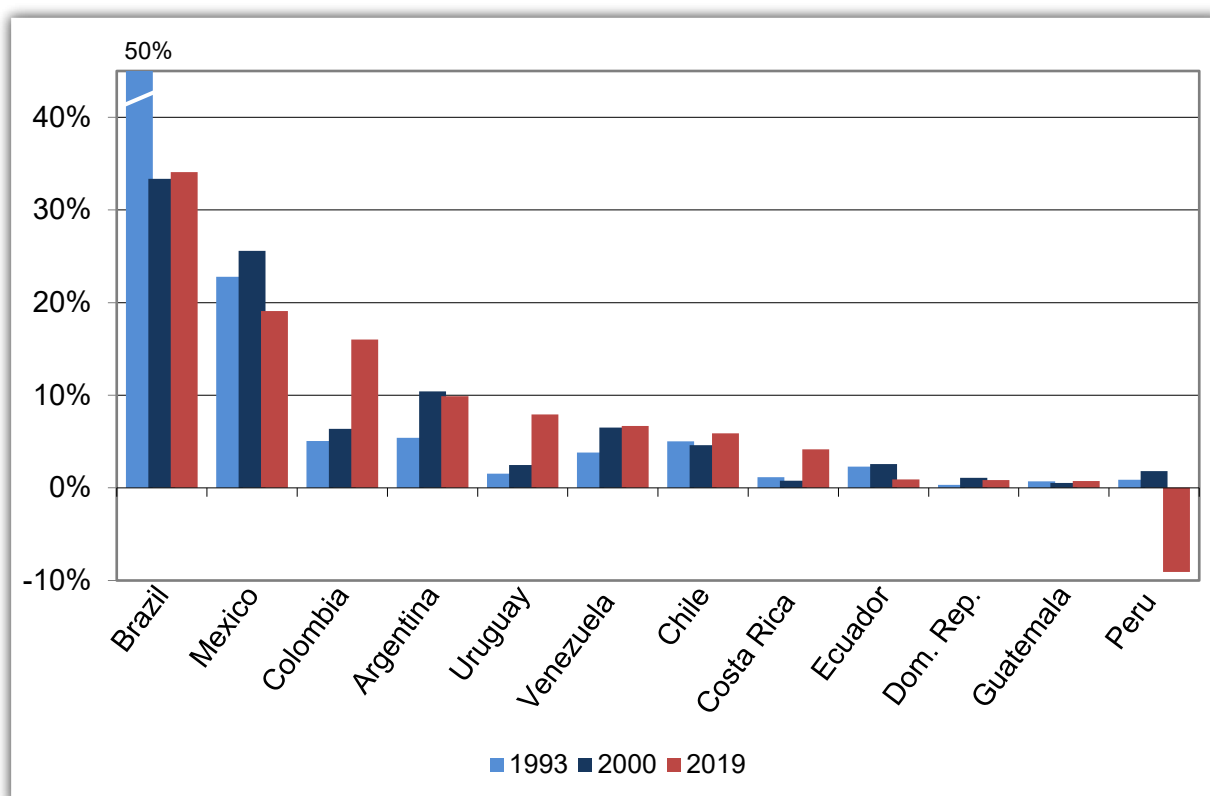
3.2 Swiss Foreign Direct Investment⁵⁹

In 2019, Latin America accounted for 2.1% of the overall Swiss FDI stock with a total of CHF 30.1 billion. Together with FDI in offshore financial centers (OFC; CHF 118'241 billion), the subcontinent's share constituted 10.3% of the total Swiss FDI stock.

With CHF 10.6 billion (34.1%), Brazil attracts the biggest share of Swiss FDI (OFCs excluded), followed by Mexico with CHF 5.9 billion (19.1%) and Colombia with CHF 5.0 billion (16.0%). Figure 22 shows the main destination countries for Swiss FDI in Latin America. For detailed data, see Table A.7., p. 55.

At the end of 2019, Swiss firms employed 173'551 people in Latin America, the majority of which in Brazil (60'926), Mexico (40'204), Chile (17'787), Colombia (12'750) and Argentina (11'117). Swiss firms also had a large number of staff in Peru (7'392), Ecuador (5'768), Venezuela (2'704), Costa Rica (2'547), Panama (2'347), the Dominican Republic (2'290), Guatemala (1'817) and Uruguay (1'089).

Figure 22. Switzerland - Latin America: Foreign Direct Investment by Main Partners 1993 - 2019 (% of total Swiss FDI stock in Latin America)



Source: Swiss National Bank, Zurich

⁵⁹ [Swiss National Bank](#) (2019)

Box 2. Focus: Straumann's investment in Brazil

In September 2020, Straumann, leader in the dental implant sector, opened its third factory in Curitiba, a city known for its industrial activity that concentrates an important part of the production of health devices in Brazil. The Basel-based company invested 13 mio. CHF in this plant. This investment will enable the manufacturer to significantly increase its capacity to produce Neodent dental implants for export. "The production expansion is due to the significant growth in external demand for our products, which are sold in more than 70 countries", said Neodent CEO Mathias Schupp. The new production site also centralizes marketing, sales and support activities and will eventually house a training center for industry professionals. The Group plans to continue to invest in Brazil with the aim of expanding its presence in the dental aesthetics segment.



Box 4. Focus: Syngenta's investment in Argentina

Syngenta celebrated its 20th anniversary with the presence of the President of Argentina, Dr. Alberto Fernández. The company announced an investment plan for more than 25 mio. USD, between 2019 and 2022, to carry out infrastructure improvements that will allow to increase the production capacity in its two seed processing plants and research centers located in the south of the province of Santa Fe.



Box 3. Focus: Nestlé's investment in Guatemala

Nestlé opened its largest and most modern distribution center in Central America in Guatemala in 2020. One of Nestlé's major investments in its more than 80 years of presence in Guatemala was inaugurated with the presence of the President of the country. The Nestlé Distribution Center has 12'000 m² and more than 20'000 storage pallets in order to guarantee an important process of imports and exports to countries such as Mexico, Brazil, Chile, Nicaragua and USA. With an investment of more than 11 mio. USD and 9 months of intense work, during the construction process the new infrastructure contributed with more than 1'500 direct and indirect jobs.



Box 5. Focus: Nestlé's investment in Mexico

Nestlé increased investment in the new coffee processing plant in the state of Veracruz from an original sum of 154 mio. USD to a total of 200 mio. USD. In its first phase the factory will employ 250 people directly and generate a further 2'500 indirect jobs. It has the potential to provide 1'200 direct jobs and 12'000 indirect jobs at the end of its expansion, including support for the training of young people through the dual training model. The factory will process around 20'000 tons of locally sourced green coffee a year, and is equipped with state of the art environmental technologies (treatment and reuse of water, use of 100% of coffee waste to produce energy, and use of 100% renewable electricity).



Box 6. Focus: Fedecocagua's investment in Guatemala

Fedecocagua is a federation of 78 cooperatives of small coffee producers with 25'000 members, founded in 1969 and its general manager is the Swiss citizen Ulrich Gurtner. Fedecocagua exports almost 50% of its coffee to Switzerland. These exports represent for Switzerland 70% of all its imports from Guatemala. The newly inaugurated complex of Camojá, in Huehuetenango Guatemala, with an investment of 3,5 mio. USD will provide services with modern laboratories, tasters and a 2'500 m2 warehouse with a capacity of 80'000 quintals of parchment coffee to guarantee the traceability of the product. This new warehouse translates into a direct benefit for 4'500 people and 7'500 employees producing coffee, with a sales value of 4 mio. USD per year.



Box 8. Focus: Nestlé's investment in the Dom. Rep.

Nestlé Dominicana S.A. operates two factories, producing not only for the domestic market but also for export to the Caribbean region. In the presence of Dominican President Luis Abinader and several ministers, ground was broken on November 13, 2020, for a biomass plant at the site in San Francisco de Macoris, where Nestlé produces dairy products. According to the Market Head for the Latin Caribbean Region, Mr. Pablo Wiechers, by 2023, 70 mio. USD will be invested in the country, and by 2025, all packaging will be recyclable or reusable, according to the company's "Zero Waste to Landfill" guidelines. With this green business strategy, Nestlé is helping to combat the effects of climate change and protect the environment in the Dominican Republic.



Box 7. Focus: Holcim's investment in Mexico

Holcim invested 40 mio. USD in a clinker processing plant in the state of Yucatán. This plant will have a production capacity of 650'000 tons per year. This investment will generate more than 400 direct jobs.



Box 9. Focus: Roche's investment in Costa Rica

Roche was established in Costa Rica over 45 years ago. Following the positive experiences since 2017 with "Roche Services & Solutions Operations Americas", which provides services in the areas of IT, finance and procurement for the whole continent, the company expanded its services by adding a new human resources unit called "People Support Solutions". In 2020, the company has hired an additional 370 employees. This means that Roche will duplicate its operations in Costa Rica exceeding 700 direct employees.

3.3 Bilateral Economic Agreements and Joint Economic Commissions

Agreements on the Promotion and Reciprocal Protection of Investments (BITs)⁶⁰

BITs are important for Switzerland. They ensure legal security, improve the investment climate of signatory countries and encourage foreign investment. Switzerland has the third largest BIT network worldwide with around 110 BITs in force.

In Latin America, Switzerland has BITs with most countries, except for the Bahamas, Belize, Bolivia, Brazil, Ecuador, Haiti, Suriname and some small Caribbean islands states.

The Congress of Brazil has never ratified the BIT signed with Switzerland in 1994. The reason lies in the provisions on international arbitration for investor-state dispute settlement cases. Brazil has proposed an alternative model text to Switzerland, which is limited to certain investment protection standards and does not contain an investor-state dispute settlement mechanism; the new Brazilian model would make provisions for disputes to be settled with an ombudsperson and a joint committee that includes representatives of the investor's home state and the host country, as well as the investor himself.

Ecuador and Bolivia have denounced their BITs with Switzerland, the former ceased to apply on 11 September 2018, the latter on 19 May 2019. The provisions of these BITs continue to be effective for a ten-year period for investments made before the date of termination. However, these BITs do not apply to new investments made after the date of termination.

Taxation

a) Double Taxation Agreements (DTAs)

Presently, Switzerland has DTAs to avoid or mitigate double taxation with Argentina, Chile, Colombia, Ecuador, Jamaica, Mexico, Peru, Trinidad and Tobago, Uruguay and Venezuela.

Brazil and Switzerland signed a DTA in May 2018. The agreement was approved by the Swiss parliament in 2018 and by the Brazilian parliament in February 2021. Provided that Brazil finishes its ratification procedures, the agreement may enter into force in January 2022.

b) Automatic exchange of information in tax matters

In 2014, the OECD Council adopted the new global standard for the **international automatic exchange of information in tax matters (AEOI)**,⁶¹ to which over 100 countries have thus far committed. This came in response to the global financial crisis, and to combat tax evasion worldwide.⁶² In Switzerland, the introduction of AEOI requires parliamentary approval on a country-by-country basis to become effective.

⁶⁰ For more information on the nature and purpose of BITs visit:
https://www.seco.admin.ch/seco/fr/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/Internationale_Investitionen/Vertragspolitik_der_Schweiz.html

⁶¹ For more information on AEOI visit:
https://www.sif.admin.ch/sif/en/home/multilateral/steuer_informationsaust/automatischer-informationsaustausch/automatischer-informationsaustausch1.html

⁶² <http://www.oecd.org/tax/automatic-exchange/news/over-2500-bilateral-relationships-in-place-for-the-exchange-of-crs-information.html>, accessed 16/01/2021

Referring to Latin America, data has started to be collected in the course of 2018 and was exchanged in 2019 for the first time on a reciprocal basis with Argentina, Brazil, Chile, Colombia, Mexico and Uruguay. In the Caribbean, the AEOI was for the time being implemented on reciprocal basis with Barbados, Saint Kitts and Nevis and Saint Lucia. Although the AEOI was activated with other countries and territories in 2018, the implementation is subject to some delay, which is the case for Antigua and Barbuda, where the Convention on administrative assistance in tax matters entered into force on 1 February 2019.

Some countries must implement a Global Forum action plan on confidentiality and data security. In these instances, there will be no reciprocal exchange of data with Switzerland until the action plan has been successfully implemented. Swiss financial institutions must, however, already collect the relevant data from the time of activation of the AEOI and forward it to the Federal Tax Administration by the specified deadline. In Latin America and the Caribbean, the Global Forum action plan needs to be implemented by Aruba, Belize, Costa Rica, Curacao, Grenada, Montserrat, Dominica, Saint Vincent and the Grenadines, Sint Maarten and Trinidad and Tobago.

Some other jurisdictions (including Anguilla, the Bahamas, Bermuda, Cayman Islands, Turks and Caicos and British Virgin Islands) have declared themselves "permanent non-reciprocal jurisdictions". This means that they will supply account information on a permanent basis but will not receive any data.

In 2019, the AEOI was activated with Panama, and the first exchange of financial account information took place in 2020. In the same year, the AEOI entered into force with Antigua and Barbuda and Dominica. The first exchange of financial account information with these countries should take place in 2021. Furthermore, the Federal Council intends to extend the AEOI on Peru, Sint Maarten and Trinidad and Tobago. The parliament adopted the corresponding federal decrees in 2019. As these countries do not yet meet the conditions of the global standard, the activation of the AEOI has been postponed for an indefinite period.

Table A9 (p. 57) presents an overview of the main economic agreements between Switzerland and Latin American countries.

Joint Economic Commissions

Switzerland regularly holds bilateral economic commissions with numerous countries around the world, the purpose of which is the strengthening of economic relations. These meetings, which are also an opportunity to address specific problems with partner countries and pluri- and multilateral matters, usually also include business representatives from both sides.

Commissions have been established with Argentina, Brazil, Chile⁶³, Mexico⁶⁴, Peru⁶⁵ and Venezuela. Owing to the pandemic, in 2020, only one meeting could be held in a virtual format:

⁶³ Official denomination of the committee: Bilateral Economic Dialogue.

⁶⁴ Official denomination of the committee: Consultative Group on Trade and Economic Cooperation.

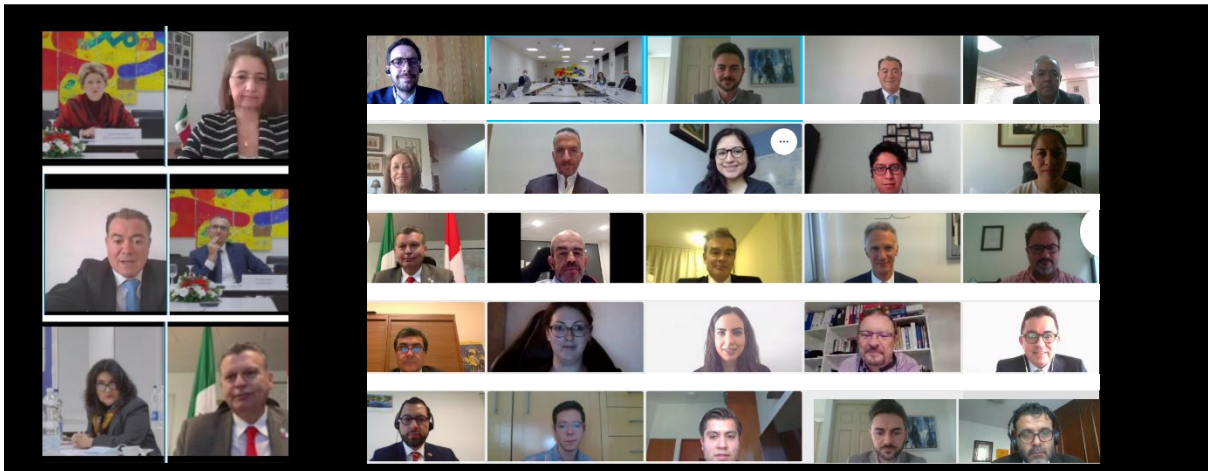
⁶⁵ Official denomination of the committee: Bilateral Economic Meeting.

Swiss-Mexican Consultative Group on Trade and Economic Cooperation

The Swiss-Mexican Consultative Group on Trade and Economic Cooperation held its tenth meeting on November 26, 2020 in a virtual format, featuring over 50 participants. The introductory remarks were provided by Luz María de la Mora Sánchez, Undersecretary of Foreign Trade of Mexico, and State Secretary Marie-Gabrielle Ineichen-Fleisch. The meeting was subsequently co-chaired by César Manuel Remis Santos, Chief of the International Negotiation Unit at the Mexican Ministry of Economy, and Ambassador Erwin Bollinger, Head of the Bilateral Economic Relations Division at SECO and Delegate of the Federal Council for Trade Agreements. Cecilia Jaber Breceda, Ambassador of Mexico to Switzerland, Eric Mayoraz, Ambassador of Switzerland to Mexico, representatives from other government agencies, the Swiss-Mexican Chamber of Commerce and Industry as well as Swiss business associations also participated in the meeting.

The discussions covered amongst others the modernization of the Mexico-EFTA free trade agreement, trade and investment promotion, as well as the cooperation in the context of the WTO – inter alia in light of the challenges posed by the Covid-19-crisis – and the OECD. Private sector topics, including the broader framework conditions for innovation and market access as well as sectoral and company-specific requests, were equally addressed. Both parties pledged to remain in close contact on the follow-up activities pertaining to the substantive bilateral economic agenda.

Swiss-Mexican Consultative Group on Trade and Economic Cooperation 2020



3.4 Latin American Integration: Recent Trends and Developments

Inter-American Integration

Mercosur: Mercosur, officially Southern Common Market, is a trade bloc including Argentina, Brazil, Paraguay and Uruguay. It was established by the Treaty of Asunción in 1991. Bolivia, Chile, Colombia, Ecuador, Guyana, Peru and Suriname are associated states. In recent years, Mercosur has launched new initiatives to deepen economic ties with the Pacific Alliance. In a virtual ceremony led by the President of Uruguay, Luis Lacalle Pou, Mercosur held its Summit of Presidents in December 2020, where Uruguay handed over the pro tempore presidency of the bloc to Argentina.⁶⁶

Pacific Alliance: The Pacific Alliance was founded in 2011 by Chile, Colombia, Mexico and Peru (Ecuador is currently in the process of adhesion) with the purpose to gradually achieve a free movement of goods, services and persons. Following the immediate removal of 92% of tariffs between members, the remainder was phased out by 2020. Thus far, the integration has progressed on several fronts, notably the abolition of visas setting up a platform for student and academic mobility, a grouping of stock exchange markets into a single one, and progress in the homologation of health and regulatory certifications.⁶⁷

In November 2020, the Vth Meeting of Youth of the Pacific Alliance was held virtually (youth, employability and the impact of the pandemic). The event was organized by the company Nestlé together with the Government of Chile, in its capacity as pro tempore presidency, and the Swiss Government, as observer state. As one of 60 observer countries, Switzerland has offered collaboration in the areas of innovation, vocational and professional education, water footprint as well as customs management.

Community of Latin American and Caribbean States (CELAC): CELAC is a regional bloc of 33 states founded in 2011 as an intergovernmental platform for political dialogue, for the first time bringing together all Latin American and Caribbean countries. CELAC is the formal successor to the Rio Group and CALC⁶⁸. The last CELAC summit took place in January 2020 in Mexico.⁶⁹

Latin American Integration Association (LAIA)⁷⁰: Founded in 1980 with the Montevideo treaty, LAIA's objective is the establishment of a common Latin American market based on a network of regional treaties and preferential tariffs. Headquartered in Montevideo, its member countries comprise over 510 million citizens.⁷¹

System of the Central American Integration (SICA)⁷²: Established in 1993, SICA aims to advance regional integration in Central America and to promote peace, freedom, democracy and development in the region. Headquarters are based in Panama.⁷³

Union of South American Nations (UNASUR): UNASUR was established in 2008 based on the Treaty of the Union of South American Nations and aims to achieve further integration in the

⁶⁶ <https://es.wikipedia.org/wiki/Mercosur>, accessed 08/01/2021.

⁶⁷ https://es.wikipedia.org/wiki/Alianza_del_Pacifico, accessed 08/01/2021.

⁶⁸ Cumbre de las Américas

⁶⁹ https://es.wikipedia.org/wiki/Comunidad_de_Estados_Latinoamericanos_y_Caribeños, accessed 08/01/2021.

⁷⁰ Asociación Latinoamericana de Integración, ALADI in Spanish; Member states are Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela. Nicaragua is currently in the accession process.

⁷¹ https://es.wikipedia.org/wiki/Asociación_Latinoamericana_de_Integración, accessed 08/01/2021.

⁷² Sistema de la Integración Centroamericana. Member states are Belize, Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

⁷³ https://es.wikipedia.org/wiki/Sistema_de_la_Integración_Centroamericana, accessed 08/01/2021.

cultural, economic, social and political areas. Amid growing tensions with Venezuela, seven countries⁷⁴ withdrew their membership between 2018 and 2020, and Peru suspended it. The remaining members are Bolivia, Guyana, Suriname and Venezuela.⁷⁵

The Forum for the Progress and Development of South America (PROSUR): PROSUR was initiated in 2019 by the presidents of Chile and Colombia. This new forum aims at being a South American coordination mechanism for public policies, in defense of democracy, the independence of powers, the economy of markets, and the social agenda, thereby replacing UNASUR. The first PROSUR summit took place in Santiago in March 2019. Eight countries⁷⁶ signed the *Declaration of Santiago for the renewal and strengthening of South America*, which formally created PROSUR. In December 2020, the pro tempore presidency went on from Chile to Colombia.⁷⁷

Latin America - Europe

Latin America - European Union: EU-CELAC ministerial meetings are held to strengthen the bi-regional dialogue. The latest one was held in July 2018, when the foreign affairs ministers from the EU and CELAC met in Brussels. The meeting focused on consolidating multilateralism and strengthening cooperation in global fora. The delegations discussed the rules-based global order, the Paris Climate Agreement, the 2019 Global Drug Policy Review and the Global Compact for Migration.⁷⁸

Mercosur - European Union: On June 20, 2019, the European Union and Mercosur reached a political agreement for a comprehensive trade agreement. It will remove duties on over 90% of bilateral trade in goods. Furthermore, it includes important chapters, among others on food safety, environmental protections and labor conditions. The EU is Mercosur's second biggest trade in goods partner after China, accounting for 17.1% of the bloc's total trade in 2019.⁷⁹ The agreement is now under legal revision, and will then have to be ratified by the parties. The deal has been denounced by European farmers, environmental activists and indigenous rights campaigners. In October 2020 both the European Parliament and the European Commissioner for Trade have stated that the EU-Mercosur agreement "cannot be approved as its stands".

Mexico - European Union: In April 2018, the two sides reached an agreement in principle on the trade section of the modernized EU-Mexico Global Agreement. In April 2020, the parties concluded the technical details on the modalities for public procurement under the revised Agreement. Internal procedures are currently underway in view of signing and formally ratifying the Agreement.

Andean Community (CAN) - European Union: The EU has a comprehensive trade agreement with Colombia and Peru since 2013. Ecuador has joined the agreement on 1st January 2017. Bolivia, a member of the Andean Community, also has the possibility to solicit accession.⁸⁰

Central America - European Union: A comprehensive Association Agreement between the six Central American countries⁸¹ and the EU was signed in June 2012 with the purpose of furthering political dialogue, enhancing cooperation and trade and contributing to economic growth,

⁷⁴ Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay and Uruguay.

⁷⁵ <https://es.wikipedia.org/wiki/Unasur>, accessed 08/01/2021

⁷⁶ Argentina, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay and Peru.

⁷⁷ https://es.wikipedia.org/wiki/Foro_para_el_Progreso_de_América_del_Sur, accessed 08/01/2021.

⁷⁸ <https://www.consilium.europa.eu/en/meetings/international-ministerial-meetings/2018/07/16-17/>, accessed 08/01/2021.

⁷⁹ <https://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur>, accessed 08/01/2020.

⁸⁰ <http://ec.europa.eu/trade/policy/countries-and-regions/regions/andean-community/>, accessed 08/01/2021.

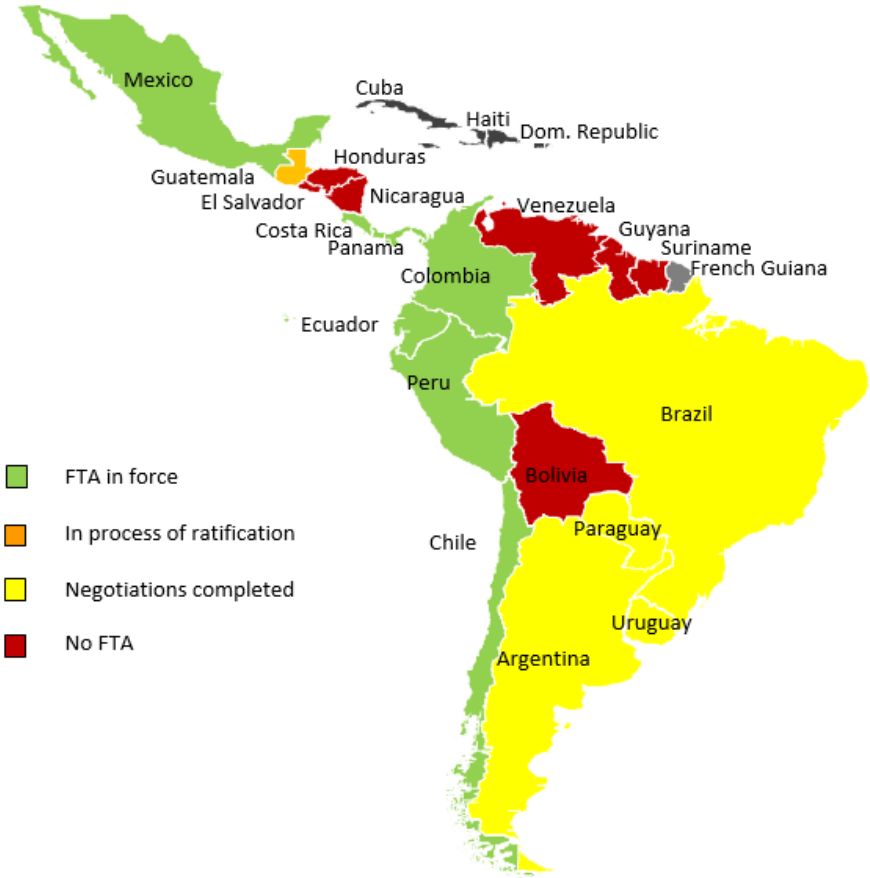
⁸¹ Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

democracy and political stability in the region. The EU and Central America have a long history of cooperation dating back to the former’s support of the peace process in the region in the 1980s. The 2012 Agreement supplants the region’s preferential access to the EU under the generalized system of preferences (GSP).⁸²

Latin America - EFTA⁸³

Mercosur - EFTA: Two years after starting the negotiations on a free trade agreement, EFTA and Mercosur reached an agreement in substance during the tenth round of negotiation (August 2019). The agreement is currently under legal revision and will then have to be signed and ratified by the parties. With the agreement, over 96% of Swiss exports to Mercosur countries will benefit from tariff concessions and around 95% will be completely exempt from customs duties - in some cases after transition periods. In addition to chapters on tariff reduction, rules of origin or trade in services, the agreement also includes a chapter on trade and sustainable development, where the parties reaffirm their commitment to multilateral agreements and principles regarding environmental and labor standards.

Central America - EFTA: A broad-based free trade agreement (FTA) with Costa Rica and Panama is in force since August 2014. Following the signature of an Accession Protocol with Guatemala (2016), this country’s parliament approved the agreement in February 2020. Currently, Parties to the existing FTA need to complete their existing procedures in order to allow the entry into force of the FTA with Guatemala. The agreement remains open to the other Central American states.⁸⁴



⁸² Central America - Trade - European Commission (europa.eu) , accessed 08/01/2021.
⁸³ The members of the European Free Trade Association (EFTA) are: Iceland, Liechtenstein, Norway and Switzerland.
⁸⁴ <http://www.efta.int/free-trade/free-trade-agreements/central-american-states>, accessed 08/01/2021.

Chile - EFTA: The FTA between EFTA and Chile has been in force since 2004 and is currently being modernized. So far, three rounds of negotiations have taken place and good progress has been made.

Ecuador - EFTA: A free trade agreement entered into force in November 2020. It is a broad-based agreement, covering trade in goods, rules of origin, trade facilitation, technical barriers to trade and sanitary and phytosanitary measures, services, investment, intellectual property rights, government procurement, competition, as well as trade and sustainable development.⁸⁵

Mexico - EFTA: Following the launch of negotiations between EFTA and Mexico to modernize the EFTA-Mexico Free Trade Agreement in January 2016, four rounds of negotiations have been held so far, the latest in June 2017 in Mexico City. Both parties are committed to continue the modernization process.⁸⁶

Latin America - Other Regions

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP): Negotiations for the Trans-Pacific Partnership (TPP), which includes Chile, Mexico and Peru amongst the twelve signatories,⁸⁷ were concluded in 2015 after seven years of talks. Following the United States' withdrawal in January 2017 from the TPP, the remaining members made several adjustments and called the new arrangement the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The agreement was signed in March 2018 in Santiago de Chile. As seven initial signatories have already ratified the agreement,⁸⁸ it has entered into force for them. Brunei, Chile, Malaysia and Peru must still ratify the agreement. The ratification process in Chile has passed the Chamber of Deputies in April 2019, but the Senate suspended the process in the light of the 2019 Chilean protests. It is designed as an open platform, with the possibility for third countries and other trading blocs to join.⁸⁹

United States-Mexico-Canada Free Trade Agreement (USMCA): On November 30, 2018, the presidents of the United States, Canada and Mexico signed the United States-Mexico-Canada Free Trade Agreement (USMCA) at the G20 summit in Buenos Aires. It is a revised version of the North American Free Trade Agreement (NAFTA), featuring inter alia adapted rules of origin in the automobile sector as well as a formalized review of the agreement every six years. The agreement has been ratified by the Mexican Parliament in 2019 and, after a longer period of domestic negotiations and the signing of a Protocol of amendment among the three countries, by the US Congress (early 2020). Finally, Canada ratified it in March 2020 just before the Covid-19-crisis stroke. The agreement entered into force in July 2020.⁹⁰

⁸⁵ <https://www.efta.int/free-trade/Free-Trade-Agreement/Ecuador>, accessed 08/01/2021.

⁸⁶ <http://www.efta.int/free-trade/free-trade-agreements/mexico>, accessed 08/01/2021.

⁸⁷ Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam.

⁸⁸ Australia, Canada, Japan, Mexico, New Zealand and Singapore.

⁸⁹ https://en.wikipedia.org/wiki/Comprehensive_and_Progressive_Agreement_for_Trans-Pacific_Partnership, accessed 09/01/2021.

⁹⁰ https://en.wikipedia.org/wiki/United_States-Mexico-Canada_Agreement, accessed 09/01/2021.

3.5 SECO's Economic Cooperation and Development division's engagement in countering informality

Economic growth in Latin America has been persistently lower and more erratic than in other emerging economies, largely due to low productivity caused by both weak competition and a large informal economy.

To tackle these challenges, several factors have to be addressed in parallel: Regulations need to be simplified, administrative burdens dismantled, market entry encouraged and trade barriers reduced in order to strengthen the competitiveness of companies.⁹¹ SECO's economic development cooperation supports its partner countries in Latin America in this process.

Strengthening competitiveness to tackle informality

A comprehensive strategy is needed to deal with both informality and competition. Bringing more workers and enterprises into the formal sector will result in broader social and labor protection, fairer wages, a more equitable tax burden and ultimately to increased economic growth.

In its priority countries **Peru** and **Colombia**, SECO's economic development cooperation endorses this positive link between formality and competition through its two flagship programs *SeCompetitivo Peru* and *Colombia más Competitiva*. Both programs facilitate national reforms related to competitiveness, such as in the areas of business environment, skills development, trade facilitation, entrepreneurship and competition policy. At the regional level, the programs provide support for sustainable value chains (cacao, coffee, tourism and natural ingredients). With the overall goal of contributing to producers' integration into global value chains, the programs help them increase productivity, access to finance and mitigate and adapt to climate change. At the national level, *SeCompetitivo Peru* and *Colombia más Competitiva* contribute directly and indirectly to the formalization of the economy by addressing the countries' multidimensional and diverse challenges related to competitiveness:

- *SeCompetitivo Peru* supports the development of a government-led and co-financed **digital platform that consolidates and expands business services**. The provision of these services will target formal companies, providing an incentive to formalization.
- In Peru, less than 6% of microenterprises and SMEs have **access to formal financing**. *SeCompetitivo* contributes to the creation of innovative financial instruments for selected value chains. Thereby, it facilitates access to formal credit and improves financial conditions for formal SMEs and exporting companies.
- The Peruvian labor market is highly informal (exceeding 70%) and faces a mismatch between demand and supply due to a lack of quality, pertinence and access of its technical education system. *SeCompetitivo* helps the Peruvian government improve the capacity of technical educational institutions and **better align students training and private sector needs**.

⁹¹ Informality and weak competition in Latin America | VOX, CEPR Policy Portal (voxeu.org), accessed 08/12/2020

- Colombia has issued a National Policy on formalization in 2019. *Colombia más Competitiva* is directly contributing to the implementation of this policy by generating information on the business sector and its level of formality. This support includes an improved **quality and interoperability of administrative registries**. The program is also co-funding the National Business Census 2021 and providing technical assistance to the chambers of commerce of Colombia to improve knowledge on the formal and informal businesses in their territories.
- *Colombia más Competitiva* is indirectly contributing to formalisation **by improving the governance and functioning of the National System of Competitiveness**. It ultimately identifies barriers and costs of doing business in Colombia and proposes reforms to improve the business environment. This business facilitation translates in a better case for formalization.
- Through the support to sustainable value chains, both programs directly contribute to formalization by providing technical assistance to producers in the agri-business sectors and to service providers in the tourism sector. Thereby, the programs help **increase the producer's productivity and facilitate access to new markets**, which again contributes to formalization of these sectors.

Tackling informality in the specific sector of mining

The Better Gold Initiative for Artisanal Small-Scale Mining (BGI for ASM) supported by SECO improves working and living conditions in artisanal small-scale mining communities, and facilitates the creation of responsible supply chains from ASM operations to the Swiss market. The BGI for ASM considers **formalization a prerequisite for compliance with its standards and for exports to Switzerland**. Therefore, the project supports small-scale mining operations in their formalization efforts by providing training and disseminating information on formalization and by supporting the government in policy reforms linked to formalization of ASM operations. The BGI is highly recognized in Bolivia, Colombia and Peru, where the ASM gold sector is getting increased attention on the political agenda.

In Colombia, in addition to the structural challenges of the economy, **migration from Venezuela** is also contributing to a high level of informal economic activities. According to the IMF, over 2 million migrants have crossed the border from Venezuela and continue to join Colombia's labor market. 67% of the migrants who find jobs do so in the informal sector.

Through the Migration Initiative of the Inter-American Development Bank (IDB), Switzerland engages to strengthen formal employment and job training in Colombia. The SECO contribution improves access to and quality of employment services and skill certification as means of increasing economic opportunity for both migrants and the local population.

In **Bolivia**, SECO's economic development cooperation supports the Sustaining Competitive and Responsible Enterprises program (SCORE), implemented by the International Labor Organization. The program facilitates the formalization of Bolivian SMEs and helps them improve their access to international markets. To this end, the program contributes to the development of strategies that address the causes of low productivity and the difficulties of formalization for companies in two high-potential sectors: Andean cereals and tourism. SMEs and informal production units in these sectors also benefit from specific support services and training to encourage companies' formalization and their integration into global value chains.

Improving the state's regulatory framework

Cumbersome administrative barriers and high taxes are other reasons that keep companies informal. Latin America stands out in this respect. At the same time, informality of companies also reduces the tax base for corporate and personal income taxes, decreasing the capacity of the public sector to boost productivity and reduce inequality. SECO tackles this vicious cycle through its support in the area of tax policy and tax administration via several bilateral, regional and global programs.

According to the IMF, outdated, inaccurate, and incomplete tax registers (and the high levels of informality that result from that) are the main cause for the low levels of tax collection in most low- and middle-income countries. At the same time, policy makers must ensure that the tax system itself does not constitute a barrier for the formalization of the economy by allowing low tax rates regimes and facilitating the declaration and payment of the taxes to encourage voluntary compliance.

Global programs for taxation, including the OECD's tax and development work and the World Bank's Global Tax Program provide technical assistance in both tax policy and administration, including in several countries in Latin America. At the regional level, SECO supports formalization in Latin America and the Caribbean through its program with the Inter-American Center of Tax Administrations (CIAT). CIAT's technical assistance to tax administrations strengthens controls as well as facilitates compliance both of which support formalization of the economy.

Special emphasis is placed on the tax systems of **Peru** and **Colombia**, the two priority countries of SECO's economic development cooperation in Latin America: In Peru, SECO contributes to the efforts aimed at formalizing the economy by supporting the strengthening of the tax administration (SUNAT) through several technical assistance programs (e.g. through the "*National PFM Strengthening Program*"). In Colombia, SECO supports the formalization of land titles at the subnational level, and consequently the inclusion into the formal property tax systems, through different cadaster projects.

3.6 Notable Bilateral Meetings 2020

In light of the Covid-19-crisis, 2020 has been a difficult year for bilateral meetings and only two meetings were held, both through digital means:

Bern/Mexico City, 6 July 2020: State Secretary Marie-Gabrielle Ineichen-Fleisch held a virtual exchange with Luz María de la Mora Sánchez, the Mexican Undersecretary of Foreign Trade. During the discussion, which was assisted by a small government delegation on each side, the two high-level representatives lauded the 75th anniversary of the bilateral diplomatic relations as well as the continued cooperation on a dense economic agenda. In addition, they inter alia discussed joint international cooperation efforts to stem the challenges posed by the Covid-19-crisis, the modernization of the EFTA-Mexico free trade agreement, broader trade relations, multilateral cooperation as well as sectoral and company-specific requests. The virtual exchange provided a stepping stone in view of the 10th meeting of the Swiss-Mexican Consultative Group, which was held on 26 November 2020. For more information on the Consultative Group, see section 3.3.

Bern/Brasilia, 17 September 2020: Ambassador Erwin Bollinger, Delegate of the Federal Council for Trade Agreements and Head of the Bilateral Economic Relations Division at the State Secretariat for Economic Affairs, held a videoconference with Ambassador Kenneth da Nóbrega, Brazilian Secretary for Bilateral Negotiations with the Middle East, Africa and Europe. During the 50-minute exchange, in which a small delegation participated on each side, the Ambassadors discussed bilateral economic relations, the Covid-19-crisis and measures taken by both countries to alleviate the negative economic ramifications from the pandemic, as well as the organization of the next Joint Economic Commission (which was scheduled for December, but cancelled at short notice. Now due in April 2021). Ambassador Bollinger explained that Switzerland's historically large economic measures to mitigate the economic consequences from Covid-19 focus on three pillars: preserving jobs, maintaining wages and ensuring liquidity for small and medium-sized enterprises (SMEs).



Swiss Embassy, Brazil

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Tulum, Mexico

Table A.1. Switzerland-Latin America - Share of Goods Exports and Imports, Trading Partners 2019-2020
(CHF million and percentage change)

	Exports			Imports			Trade balance 2020		
	2019	2020	Var. (%)	Share in reg. exp. in %	2019	2020		Var. (%)	Share in reg. imp. in %
SOUTH AMERICA	4'639.3	3'913.2	-15.7	68.4	7'954.7	6'561.3	-17.5	71.6	-2'648.1
Brazil	2'514.7	2'109.6	-16.1	36.9	1'425.9	1'392.6	-2.3	15.2	717.0
Argentina	671.6	552.9	-17.7	9.7	1'669.2	1'003.7	-39.9	11.0	-450.8
Colombia	574.9	516.1	-10.2	9.0	338.5	304.0	-10.2	3.3	212.0
Chile	369.2	322.2	-12.7	5.6	744.1	786.9	5.8	8.6	-464.7
Uruguay	158.6	135.6	-14.5	2.4	32.0	25.6	-20.1	0.3	110.0
Peru	171.6	122.7	-28.5	2.1	2'282.8	1'709.4	-25.1	18.7	-1'586.7
Ecuador	100.5	97.6	-2.9	1.7	313.5	205.3	-34.5	2.2	-107.7
Venezuela	29.6	24.9	-15.8	0.4	2.6	2.3	-10.9	0.0	22.6
Paraguay	20.6	15.7	-23.8	0.3	23.5	18.5	-21.1	0.2	-2.9
Bolivia	22.9	13.2	-42.4	0.2	7.2	7.2	-0.4	0.1	6.0
Guyana	1.9	1.5	-16.8	0.0	34.0	57.4	69.1	0.6	-55.9
Suriname	3.5	1.3	-63.0	0.0	1'081.5	1'048.3	-3.1	11.4	-1'047.0
CENTRAL AMERICA (including Mexico)	1'936.0	1'732.4	-10.5	30.3	1'333.9	1'392.9	4.4	15.2	339.5
Mexico	1'439.0	1'275.2	-11.4	22.3	933.2	1'025.9	9.9	11.2	249.2
Costa Rica	197.5	200.5	1.5	3.5	105.7	101.2	-4.3	1.1	99.3
Panama	233.0	194.4	-16.6	3.4	99.4	45.7	-54.0	0.5	148.7
Guatemala	29.1	28.6	-1.8	0.5	47.8	48.0	0.4	0.5	-19.4
Honduras	19.2	13.8	-28.2	0.2	29.1	32.6	11.9	0.4	-18.8
El Salvador	12.2	12.0	-2.2	0.2	2.8	2.3	-15.6	0.0	9.6
Nicaragua	4.0	7.0	74.7	0.1	115.8	137.0	18.3	1.5	-130.0
Belize	2.0	1.1	-46.2	0.0	0.1	0.2	55.1	0.0	0.9

Source: Federal Customs Administration, Bern.

Table A.1. (cont.)

Switzerland – Latin America: Share of Goods Exports and Imports, Trading Partners 2019-2020
(CHF million and percentage change)

	Exports			Imports			Trade balance 2020
	2019	2020	Var. (%)	Share in reg. exp. in %	2019	2020	
CARIBBEAN	113.6	75.4	-33.7	1.3	833.7	1'204.8	13.2
Dominican Republic	39.9	34.2	-14.2	0.6	768.3	1'143.3	12.5
Bahamas	21.4	10.0	-53.4	0.2	4.2	2.1	0.0
Jamaica	12.4	9.3	-24.6	0.2	1.5	2.8	0.0
Trinidad & Tobago	4.9	8.6	73.7	0.1	1.4	0.6	0.0
Cuba	9.6	4.1	-56.7	0.1	38.7	46.6	0.5
Barbados	5.9	3.7	-37.6	0.1	0.6	0.5	0.0
Haiti	1.3	2.2	68.5	0.0	6.1	3.5	0.0
Antigua	1.5	1.0	-35.7	0.0	0.0	0.2	0.0
St. Kitts and Nevis	2.7	0.7	-72.5	0.0	0.4	0.3	0.0
St. Lucia	2.2	0.6	-71.3	0.0	0.0	0.0	0.0
Grenada	0.2	0.4	109.5	0.0	1.4	0.0	0.0
Dominica	0.6	0.3	-50.0	0.0	0.0	0.0	0.0
St. Vincent	11.0	0.1	-98.9	0.0	11.1	4.8	0.1
TOTAL LATIN AMERICA	6'689.0	5'721.0	-14.5	100.0	10'122.3	9'159.0	100.0
COMPARATIVE NUMBERS				Share in total Swiss exp. in %			Share in total Swiss imp. in %
Asia	75'719.6	57'818.0	-23.6	19.3	46'587.8	58'387.8	21.4
EU	126'801.6	121'961.4	-3.8	40.8	147'047.3	135'881.6	49.8
Africa	3'758.4	3'434.3	-8.6	1.1	12'448.7	13'688.1	5.0
TOTAL SWISS FOREIGN TRADE	311'976.7	299'209.4	-4.1	100.0	276'058.1	272'991.6	100.0
							-3'438.0
							-1'129.4
							-1'109.1
							7.8
							6.5
							8.0
							-42.4
							3.2
							-1.3
							0.8
							0.5
							0.6
							0.4
							0.3
							-4.7

Source: Federal Customs Administration, Bern.

**Table A.2. Switzerland – Latin America: Export and Import of Goods
1965 - 2020**
(CHF million and percentage)

	Exports	Imports	Balance	Share of Latin America in total Swiss trade (%)	
				Exports	Imports
1965	762	385	377	5.9	2.4
1970	1'286	634	652	5.9	2.3
1975	1'847	696	1'151	5.5	2.1
1980	2'100	1'063	1'037	4.4	1.9
1985	2'242	1'260	982	3.3	1.8
1990	2'082	1'995	87	2.4	2.1
1991	2'346	1'893	453	2.7	2.0
1992	2'666	1'674	992	2.9	1.8
1993	2'574	1'174	1'400	2.8	1.3
1994	2'736	1'000	1'736	2.9	1.1
1995	2'393	1'032	1'361	2.5	1.1
1996	2'671	1'008	1'663	2.7	1.0
1997	3'243	1'057	2'186	2.9	1.0
1998	3'694	1'262	2'432	3.2	1.1
1999	3'500	1'166	2'334	2.9	1.0
2000	3'960	1'742	2'218	2.9	1.2
2001	4'143	1'607	2'536	3.0	1.1
2002	3'622	1'673	1'949	2.7	1.3
2003	3'400	1'228	2'172	2.5	0.9
2004	3'678	1'185	2'493	2.5	0.9
2005	3'750	1'416	2'334	2.4	0.9
2006	4'700	1'869	2'831	2.5	1.1
2007	5'463	2'542	2'921	2.7	1.3
2008	6'032	2'370	3'662	2.8	1.2
2009	5'275	2'058	3'217	2.8	1.2
2010	5'838	2'441	3'397	2.9	1.2
2011	5'955	2'655	3'300	2.9	1.4
2012*	6'521	12'843	-6'322	2.2	4.6
2013	6'902	10'653	-3'751	2.1	3.6
2014	6'714	9'837	-3'123	2.4	3.9
2015	6'392	10'034	-3'642	2.3	4.1
2016	6'071	11'555	-5'484	2.0	4.2
2017	6'482	9'454	-2'972	2.2	3.6
2018	6'904	9'560	-2'656	2.3	3.5
2019	6'689	10'122	-3'390	2.1	3.7
2020	5'721	9'159	-3'438	1.9	3.6

Source: Swiss Federal Customs Administration, Bern.

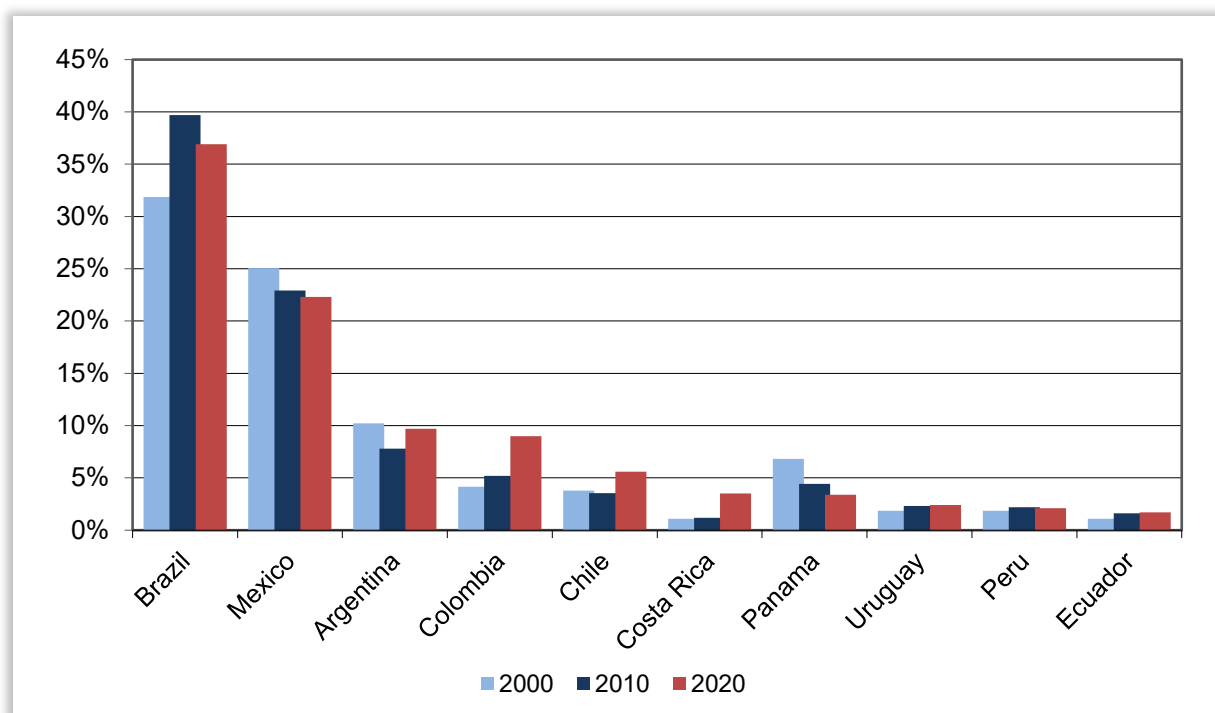
** Following a Federal Council decision, the FCA now includes gold, silver and coins in the trade statistics, which have been backdated to 2012

Table A.3. Switzerland - Latin America: Main Export Destinations for Goods 1990 – 2020 (CHF million and percentage share)

	1990	2000	2010	2019	2020	Var. in % 2020/2019	Share in % 2020
Brazil	536	1'262	2'317	2'515	2'110	-16.1	36.9
Mexico	458	992	1'338	1'439	1'275	-11.4	22.3
Argentina	177	405	455	672	553	-17.7	9.7
Colombia	154	164	303	575	516	-10.2	9.0
Chile	104	150	206	369	322	-12.7	5.6
Costa Rica	17	43	68	198	200	1.5	3.5
Panama	135	270	259	233	194	-16.6	3.4
Uruguay	31	74	136	159	136	-14.5	2.4
Peru	61	74	128	172	123	-28.5	2.1
Ecuador	65	43	95	101	98	-2.9	1.7
Others	344	483	533	258	195	-24.7	3.4
Total	2'082	3'960	5'838	6'689	5'721	-14.5	100.0

Source: Swiss Federal Customs Administration, Bern

Figure A.1. Switzerland - Latin America: Share of Goods Exports, Main Trading Partners 2000 - 2020 (% of total Swiss exports to Latin America)



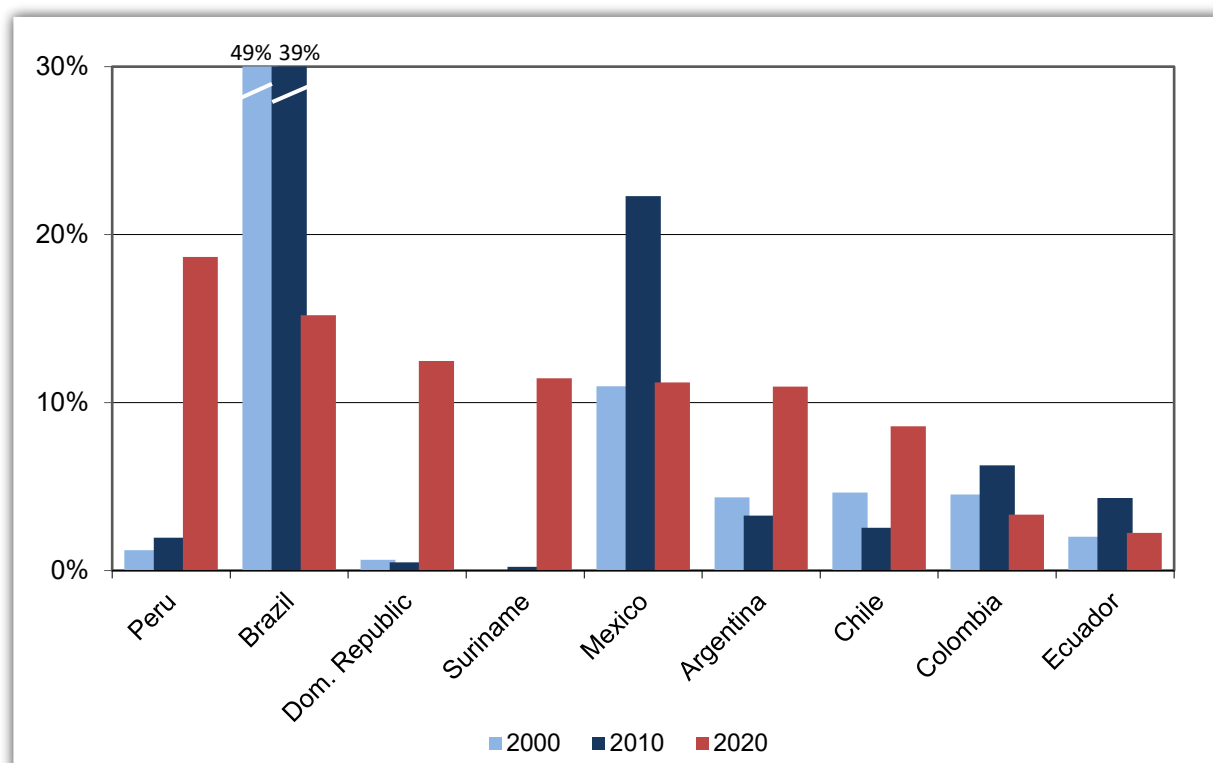
Source: Swiss Federal Customs Administration, Bern

Table A.4. Switzerland - Latin America: Main Countries of Origin for Goods, Imports
1990 - 2020 (CHF million and percentage)

	1990	2000	2010	2019	2020	Var. in % 2020/2019	Share in % 2020
Peru	29	21	43	2'283	1'709	-25.1	18.7
Brazil	345	856	849	1'426	1'393	-2.3	15.2
Dom. Rep.	2	11	11	768	1'143	48.8	12.5
Suriname	0.1	0.4	5	1'082	1'048	-3.1	11.4
Mexico	54	191	491	933	1'026	9.9	11.2
Argentina	118	76	72	1'669	1'004	-39.9	11.0
Chile	36	81	56	744	787	5.8	8.6
Colombia	71	79	138	339	304	-10.2	3.3
Ecuador	12	35	95	314	205	-34.5	2.2
Others	1'328	392	442	565	540	-4.6	5.9
Total	1'995	1'742	2'202	10'122	9'159	-9.5	100.0

Source: Swiss Federal Customs Administration, Bern

Figure A.2. Switzerland - Latin America: Share of Goods Imports, Main Trading Partners, 2000 - 2020 (% of total Swiss imports from Latin America)



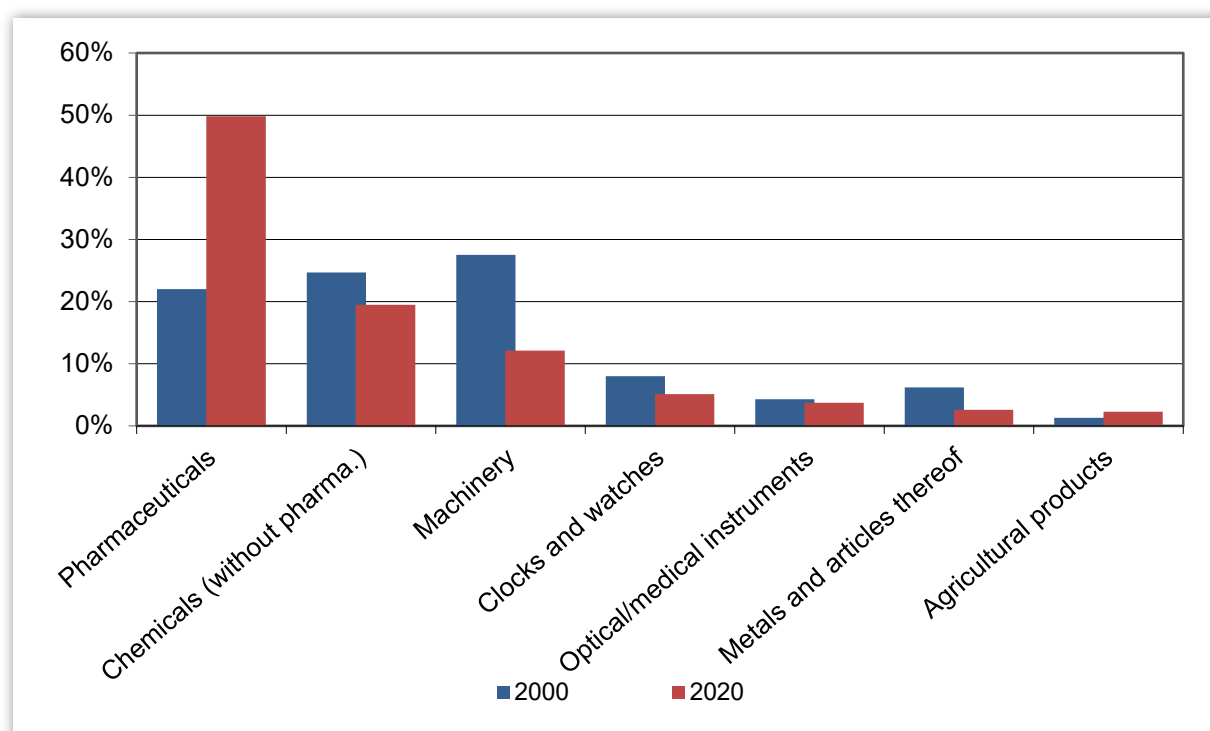
Source: Swiss Federal Customs Administration, Bern

Table A.5. Switzerland - Latin America: Goods Exports by Product Groups
2000 - 2020 (CHF million, percentage)

Chapters of the Harmonized System	Value			Var. in % 2020/2019	Share in % 2020
	2000	2019	2020		
1-24 Agricultural products	52.0	167.3	131.5	-21.4	2.3
25-26 Mineral products	0.7	0.3	0.4	24.2	0.0
27 Mineral fuels	13.0	1.2	1.2	-0.3	0.0
28-38 Chemicals (without pharma.)	976.7	1'175.6	1'117.2	-5.0	19.5
30 Pharmaceuticals	872.2	3'226.3	2'850.7	-11.6	50.3
39-40 Plastic, rubber	54.4	78.2	65.0	-16.9	1.1
41-43 Skins, leather and products thereof	3.0	3.6	4.3	18.9	0.1
44-46 Wood	1.6	5.4	3.6	-32.6	0.1
47-49 Paper and articles thereof	25.6	13.1	11.1	-15.2	0.2
50-63 Textiles, clothing	34.0	14.1	11.2	-20.6	0.2
64-67 Shoes, umbrellas, etc.	2.4	2.2	1.0	-55.7	0.0
68-70 Stone, glass, ceramic articles	31.6	21.8	15.9	-27.1	0.3
71 Precious stones, metals and jewellery	98.3	51.9	21.9	-57.9	0.4
72-83 Metals and articles thereof	101.8	162.2	147.9	-8.8	2.6
84-85 Machinery	1'089.4	805.8	694.1	-13.9	12.1
86-89 Means of transport	95.2	121.8	64.0	-47.5	1.1
90 Optical and medical instruments	168.9	304.6	214.1	-29.7	3.8
91 Clocks and watches	318.0	430.8	291.2	-32.4	5.1
93 Weapons and ammunition	1.3	0.2	1.2	391.1	0.0
94 Furniture, bedding etc.	6.8	3.1	2.7	-14.8	0.0
95-97 Toys, sports articles, etc.	13.3	19.2	13.5	-29.7	0.2
Unspecified	-	80.3	57.3	-28.6	1.0
Total Swiss exports: Latin America	3'960.2	6'689.0	5'721.0	-14.5	100.5
Total Swiss exports: World	136'014.9	311'976.7	299'209.4	-4.1	---

Source: Swiss Federal Customs Administration, Bern

Figure A.3. Switzerland - Latin America: Goods Exports, Main Product Groups
2000 - 2020 (% of total Swiss exports to Latin America)



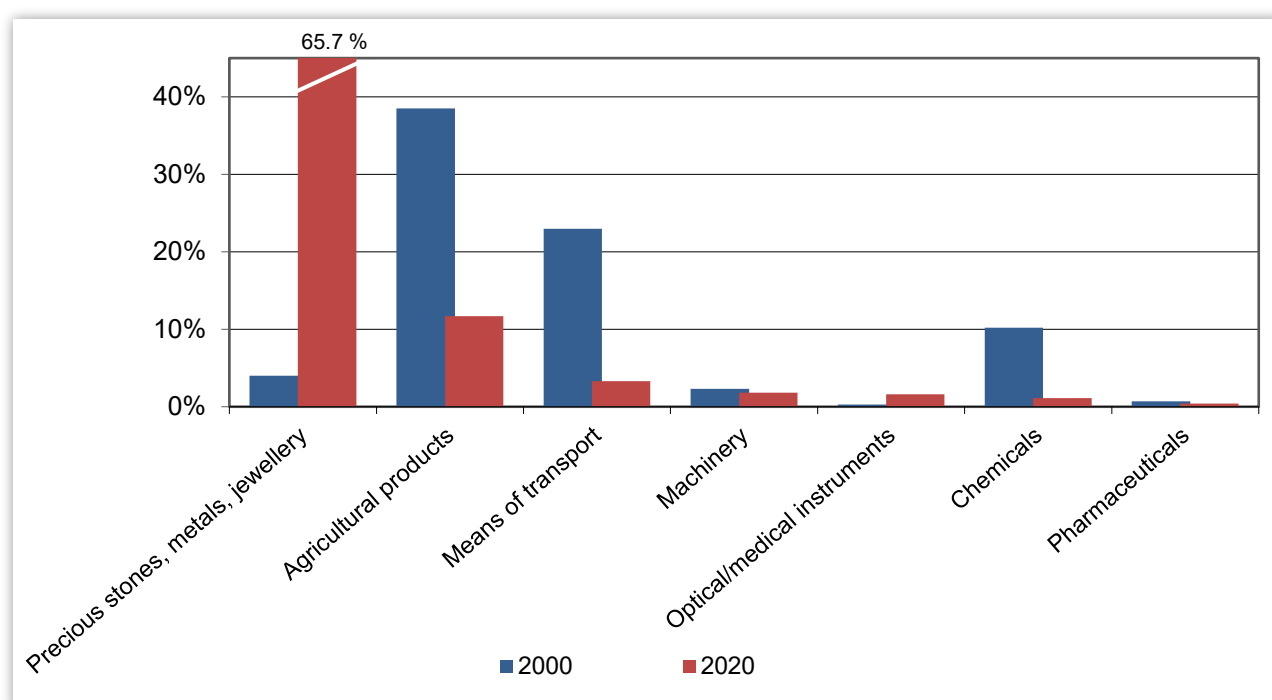
Source: Swiss Federal Customs Administration, Bern.

Table A.6. Switzerland - Latin America: Goods Imports, Product Groups
2000 - 2020
 (CHF million, percentage)

Chapters of the Harmonised System	Value			Var. in %	Share in %
	2000	2019	2020	2020/2019	2020
1-24 Agricultural products	670.3	1'069.4	1'075.7	0.6	13.5
25-26 Mineral products	2.5	0.9	1.1	20.4	0.0
27 Mineral fuels	0.2	0.1	0.0	-61.0	0.0
28-38 Chemicals (without pharma.)	178.2	114.3	99.4	-13.0	1.1
30 Pharmaceuticals	11.6	31.2	36.1	15.7	0.5
39-40 Plastic, rubber	6.3	17.1	15.6	-8.9	0.2
41-43 Skins, leather and articles thereof	4.5	2.7	2.9	8.0	0.0
44-46 Wood	1.5	5.8	5.6	-4.5	0.1
47-49 Paper and articles thereof	66.7	12.5	13.4	7.6	0.2
50-63 Textiles, clothing	17.1	21.0	20.2	-3.6	0.3
64-67 Shoes, umbrellas, etc.	3.5	9.2	9.8	6.5	0.1
68-70 Stone, glass, ceramic articles	3.5	4.9	4.5	-7.3	0.1
71 Precious stones, metals and jewellery	70.4	7'345.1	6'018.4	-18.1	65.6
72-83 Metals and articles thereof	191.5	14.0	15.6	11.0	0.2
84-85 Machinery	39.7	161.3	169.3	5.0	2.0
86-89 Means of transport	400.2	302.1	304.9	0.9	3.8
90 Optical and medical instruments	5.5	139.6	144.4	3.4	1.8
91 Clocks and watches	5.7	17.5	12.5	-28.8	0.2
93 Weapons and ammunition	0.2	0.6	0.7	8.6	0.0
94 Furniture, bedding, etc.	1.6	3.0	4.3	45.2	0.1
95-97 Toys, sports articles, etc.	61.6	18.5	6.7	-63.8	0.1
Unspecified	-	272.7	1'197.9	339.3	13.1
Total Swiss imports: Latin America	1'742.3	10'122.3	9'159.0	-9.5	100.0
Total Swiss imports: World	139'402.2	276'058.1	272'991.6	-1.1	---

Source: Swiss Federal Customs Administration, Bern

Figure A.4. Switzerland - Latin America: Goods Imports, Main Product Groups
2000 – 2020 (% of total Swiss imports from Latin America)



Source: Swiss Federal Customs Administration, Bern.

**Table A.7. Switzerland - Latin America: Foreign Direct Investment, Main Destinations
1993 - 2019**
(Total FDI stock at the end of year in CHF million, excluding offshore financial centres)

	1993	2000	2018	2019
Brazil	4'086	5'707	10'273	10'551
Mexico	1'872	4'377	5'452	5'910
Colombia	414	1'092	4'479	4'950
Argentina	443	1'782	3'020	3'066
Uruguay	126	421	2'485	2'453
Venezuela	315	1'116	2'104	2'063
Chile	413	790	1'800	1'821
Costa Rica	96	130	1'046	1'287
Ecuador	189	441	321	281
Dom. Rep.	27	183	211	265
Guatemala	58	88	179	228
Peru*	72	310	24	-2'813
Others	100	664	787	883
Total	8'211	17'100	32'181	30'945

Source: Swiss National Bank, Zurich.

* The negative stock of Swiss direct investment in Peru can be explained by the *directional principle* method used by the Swiss National Bank. This method, which adopts a net perspective, calculating Swiss direct investment abroad as the difference between assets and liabilities of domestic parent companies vis-à-vis their subsidiaries abroad, thus making it possible for there to be a negative direct investment stock.



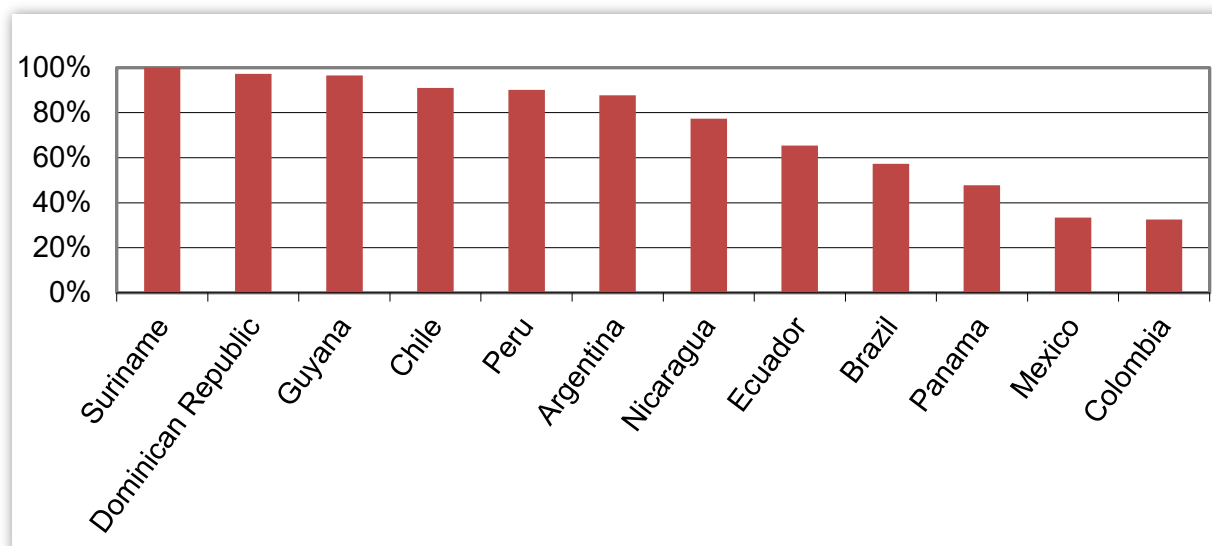
Iguazu Falls, Argentina/Brazil

Table A.8. Switzerland - Latin America: Gold Imports, Main Countries of Origin
2020 (CHF million)

	Gold Imports	Total Imports	Share of gold in total Imports (in %)
Peru	1'541	1'709	90%
Dominican Republic	1'112	1'143	97%
Suriname	1'048	1'048	100%
Argentina	881	1'004	88%
Brazil	799	1'393	57%
Chile	716	787	91%
Mexico	342	1'026	33%
Ecuador	134	205	66%
Nicaragua	106	137	77%
Colombia	99	304	33%
Guyana	55	57	96%
Panama	22	46	49%

Source: Swiss Federal Customs Administration, Bern.

Figure A.5. Switzerland – Latin America: Share of Gold Imports, Main Countries of Origin
2020 (% of total imports)



Source: Swiss Federal Customs Administration, Bern.

Table A.9. Switzerland - Latin America: Main Economic Agreements (entry into force)

South America		Central and North America	
Argentina*	Trade agreement BIT DTA	26.11.1957 06.11.1992 27.11.2015	Costa Rica* BIT DTA FTA (EFTA)
Bolivia	DTA	declaration of intention: 02.04.1993	El Salvador Trade agreement BIT
Brazil*	Trade agreement DTA	01.08.1936 (provisory) DTA signed on 03.05.2018	Guatemala Trade agreement BIT FTA (EFTA)
Chile*	Trade agreement BIT FTA (EFTA) DTA	31.01.1899 02.05.2002 01.12.2004 05.05.2010	Honduras BIT
Colombia*	Trade agreement BIT DTA FTA (EFTA)	02.10.1909 06.10.2009 11.09.2011 01.07.2011	Mexico* Trade agreement BIT DTA FTA (EFTA)
Ecuador	Trade agreement DTA	21.10.1941 22.12.1995; modifying protocol: 17.4.2019	Nicaragua BIT DTA
Guyana	FTA BIT	01.11.2020 02.05.2018	Panama* BIT FTA (EFTA)
Paraguay	Trade agreement BIT	12.12.1969 28.09.1992	
Peru	Trade agreement BIT DTA FTA (EFTA)	21.10.1941 23.11.1993 10.03.2014 01.07.2011	Caribbean Barbados* BIT
Uruguay*	Trade agreement BIT DTA	21.10.1941 22.04.1991 28.12.2011	Cuba Trade agreement BIT
Venezuela	BIT DTA Framework agreement on cooperation	30.11.1994 23.12.1997 06.05.2009	Haiti Trade agreement
			Jamaica BIT DTA
			Dominican Republic BIT
			Trinidad & Tobago BIT DTA

*AEOI: Automatic Exchange of Information (details in chapter 3.3)

BIT: Agreement on the Protection and Promotion of Investments
DTA: Double Taxation Agreement
FTA: Free Trade Agreement

Table A.10. Switzerland - Latin America: Chambers of Commerce, Swiss Business Hubs and swissnex

Chambers of Commerce in Switzerland	
Latin American Chamber of Commerce in Switzerland (Latcam)	
Kasernenstrasse 11 CH-8004 Zurich	
Tel.:	+41 44 240 33 00
President:	Ramon Esteve
Director:	Tatjana Gaspar
Honorary Ambassador	Dr. Philippe G. Nell
E-mail:	latcam@latcam.ch
Website:	www.latcam.ch
Swiss-Cuban Chamber of Commerce and Industry (SwissCubanCham)	
SwissCubanCham Hirschmattstrasse 25 6002 Luzern	
Tel.:	+41 41 227 04 07
President:	Andreas Winkler
E-mail:	info@swisscuban.org
Website:	www.swisscuban.org
Chambers of Commerce in Latin America	
Argentina	Cámara de Comercio Suizo Argentina
	Av. Leandro N. Alem 1074 Piso 10 C1001AAS Buenos Aires, Argentina
	Tel.: +54 11 4311 7187
	President: Arq. Ernesto Kohen
	General Manager: Cecilia Dibárbora
	E-mail: info@suiza.org.ar
	Website: www.suiza.org.ar
Brazil	Câmara de Comércio Suíço-Brasileira
	Av. das Nações Unidas, 18.001 04795-900 São Paulo, Brazil
	Tel.: +55 11 5683 7447 / +41 44 586 37 41
	President: Philip Schneider
	Executive Director: Stefania Moeri Hertach
	E-mail: swisscam@swisscam.com.br
	Website: www.swisscam.com.br
Chile	Cámara Chileno-Suiza de Comercio (CCHSC) A.G.
	(currently no office address)
	Tel.: +56957284935
	President: Susanna Torres
	General Manager: Constanza Cárdenas
	E-mail: constanza.cardenas@swisschile.cl
	Website: www.swisschile.cl

Colombia	<p>Cámara de Comercio Colombo-Suiza Calle 98, No 15 – 17, Oficina 402 Bogotá, Colombia</p> <p>Tel.: + 57 1 310 874 42 78 President: Harold Karam Executive Director: Silvia Gutierrez Díaz E-mail: direccion@colsuizacam.com colsuizacam@colsuizacam.com Website: www.colsuizacam.com</p>
Cuba	<p>Swiss-Cuban Chamber of Commerce and Industry Centro de Negocios Miramar Edo. Jerusalem. Of. 214 Ave. 3ra, Esq. 80 Miramar, Playa, La Habana</p> <p>Tel.: +53 7 204 9020 Fax.: +53 7 204 2029 President: Andreas Winkler E-mail: andreas.winkler@swisscuban.org info@swisscuban.org Website: www.swisscuban.org</p>
Dominican Republic	<p>Cámara de Comercio y Turismo Dominicano-Suiza Plaza Universitaria, Local 22A, primer piso Av. Sarasota #19 Esq. Av. Enrique Jiménez de Moya Bella Vista, Zip 10108 Santo Domingo, República Dominicana</p> <p>Tel.: +1 809 475 1721 / +1 849 295 5040 Fax: +1 809 412 7828 President: Gaetan Bucher E-mail: g.tahan@camaradominicosuiza.org Website: www.camaradominicosuiza.org</p>
Ecuador	<p>Cámara de Industrias, Comercio y Servicios Ecuatoriano - Suiza Av. Eloy Alfaro N35-09 y Portugal Ed. Millenium Plaza Quito Quito, Ecuao</p> <p>Tel.: +593 – 2 333 20 48 ext. 107 President: Sofia Almeida Moreno E-mail: comunicacion@swisscham.com.ec</p>
Guatemala	<p>Cámara de Comercio Suizo-Guatemalteca 16 Calle 0-55 zona 10 Torre Internacional nivel 14 01010 Ciudad de Guatemala, Guatemala, C.A</p> <p>Tel.: +(502) 23 67 55 20 President: Siegfried Brand E-mail: info@camaradecomerciosuizoguatemalteca.org.gt Website: https://camaradecomerciosuizoguatemalteca.org.gt</p>

Mexico	<p>Asociación Empresarial Mexicano-Suiza, A.C. Parque Molino de Flores 22, Col. El Parque 53398 Naucalpan, Estado de México</p> <p>Tel.: + 52 1 55 1384 4045 President: Alexandre Rodel Secretary: Marleen Van Outrive E-mail: inesblaser.aems@gmail.com Website: www.aems.mx/</p>
	<p>Cámara Suizo-Mexicana de Comercio e Industria, A.C. (SwissCham) Lago Alberto 319, Piso 12, Col. Granada, Delegación Miguel Hidalgo, C.P. 11320 Ciudad de México, México</p> <p>Tel.: +52 (55) 5081 1894 President: Fernando J. Cruz Director General: Christian O. Michel Casulleras E-mail: info@swisscham.mx Website: http://swisscham.mx/</p>
Panama	<p>Cámara de Comercio Suizo Panameña (CCSP) Edificio Casa Blanca Calle 44 y Avenida Justo Arosemena Panamá City, Panamá</p> <p>Tel.: +507 6364 2530 President: Andreas Eggenberg Executive Director: Elena Nathani Badrutt E-mail: swisschamberpanama@gmail.com Website: https://swisschamberpanama.org/</p>
Paraguay	<p>Cámara de Comercio Paraguayo-Suiza Dr. Juan Eulogio Estigarríbia 5086 Asunción, Paraguay</p> <p>Tel.: +595 976 388 790 President: Sebastián Campos Cervera Executive Director: Robin Schenk E-mail: info@swisschamperu.com Website: http://swisschamperu.com/</p>
Peru	<p>Cámara de Comercio Suiza en el Perú Av. Salaverry 3240, Piso 1 Lima 27, Peru</p> <p>Tel.: +51 1 264 35 16 President: Felipe Antonio Custer General Manager: Corinne Schirmer E-mail: info@swisschamperu.org Website: www.swisschamperu.org</p>

Uruguay	<p>Cámara de Comercio Suizo-Uruguaya Av. Rivera 3058 Ap. 902 11300 Montevideo, Uruguay</p> <p>Tel.: (+598) 99 321 941 President: Cr. Alejandro Suzacq Secretary: Helga Ringeltaube E-mail: info@swisschamuruguay.org.uy Website: www.swisschamuruguay.org.uy</p>
Venezuela	<p>Cámara Venezolano-Suiza de Comercio e Industria Torre Europa, Piso 6, Ofc. 6-A Av. Francisco de Miranda, Campo Alegre, Chacao Apartado postal 1060 A Caracas 1060, Venezuela</p> <p>Tel.: +58 212 953 51 55 / +58 212 953 37 85 President: Claudio Petrini Executive Director: Fini Otero E-mail: info@camarasuiza.org Website: www.camarasuiza.org</p>

Swiss Business Hubs and swissnex	
Brazil	<p>Swiss Business Hub Brazil c/o Consulado Geral da Suíça Av. Paulista 1754, 4º andar Edifício Grande Avenida 01310-920 São Paulo</p> <p>Tel.: +55 11 3372-8200 Director: Philippe Praz E-mail: philippe.praz@eda.admin.ch Website: www.s-ge.ch</p>
Brazil	<p>swissnex c/o Consulado Geral da Suíça Rua Cândido Mendes, 157, 12 andar Rio de Janeiro / RJ 20241-220</p> <p>Tel.: +55 21 3806 2141 CEO: Maria Conti E-mail: maria.conti@swissnexbrazil.org Website: www.swissnexbrazil.org</p> <p>swissnex c/o Consulado Geral da Suíça Av. Paulista 1754, 10º andar 01310-920 São Paulo SP</p> <p>Tel.: +55 21 3806 2100 E-mail: ask@swissnexbrazil.org Website: www.swissnexbrazil.org</p>

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