
Executive summary of the Swiss Foreign Economic Policy Report 2018

Objectives of the Federal Council for 2018

In the year under review, the Federal Council focused once again on improving the Swiss economy's access to international markets and on consolidating and further developing political and economic relations with the EU (cf. Objectives of the Federal Council 2018, Guideline 1).

The past year saw a number of major economic policy challenges. Along with other international organisations, the World Trade Organization (WTO) and the Organisation for Economic Cooperation and Development (OECD) were confronted by the United States' reoriented foreign economic policy. At a number of different levels, Switzerland systematically pressed for the preservation and strengthening of rules-based, multilateral world trade relations. Negotiations with the EU regarding an institutional agreement (InstA) and the trade dialogue with the United Kingdom regarding its departure from the European Union ("Brexit") remained central to Swiss foreign trade policies. At the end of the year, the Federal Council decided to initiate consultations regarding the result of the InstA negotiations. As a result of the dialogue with the United Kingdom, the foundations were laid for a seamless continuation of the bilateral economic relations, to the extent possible following the UK's withdrawal from the EU. And finally, new free trade agreements (FTAs) with Ecuador and Indonesia were concluded during the year under review, while the existing FTA with Turkey was revised and updated.

The present report deals with these and other events of significance to Swiss foreign trade policies (sections 2–6). The feature topic relates to the international trade crisis and Switzerland's options (section 1).

The Federal Council will detail the achievement of foreign trade policy objectives in the 2018 Annual Report of the Swiss Government. A provisional assessment of foreign economic policy in 2018 suggests that the goals were achieved.

Global economic environment and economic policy developments

Many regions saw positive rates of economic growth in the year under review. The United States in particular experienced strong growth, while growth in the EU slowed somewhat compared to the previous year. China and India also displayed solid growth. Inflation rates remained moderate globally, though inflationary pressures were increasing overall. Unemployment fell to very low levels in the USA, and also decreased in Europe.

The upswing in the Eurozone continued in the first half of the year, but slowed somewhat compared with the previous year. Recently, growth was driven mainly by foreign trade. The domestic economy continued to benefit from the European Central Bank's expansionary monetary policy and from relatively lenient fiscal policies. The unemployment rate moved close to the low it had recorded in boom year 2007. The upswing covered most geographic areas in Europe. Germany experienced an

economic boom: its export industry benefited from the favourable economic situation, while high capacity utilisation and low lending rates stimulated corporate investment. Despite political and structural problems, Italy, Spain and France also saw positive levels of economic activity. Growth in the UK economy was only moderate owing to uncertainty regarding its withdrawal from the EU (cf. section 2.4). The development of corporate investments in particular fell short of expectations. Thus, the UK economy became uncoupled, at least temporarily, from the EU's positive economic growth momentum. After two years of strong growth, the year under review saw a noticeable cooling in Europe, which also spread to Switzerland in the second half of the year.

The USA continued to steer a course of “normalisation” of its monetary policy, gradually raising the key interest rates. On 1 January, the “Tax Cuts and Jobs Act” – the most comprehensive US tax reform for over thirty years – entered into force. The USA also took a new track in terms of foreign trade policy: various measures were implemented to reduce the trade deficit, and some of the existing trade agreements were renegotiated (section 1.2.1). Canada continued to give priority to diversifying market access for its economy in geographic terms. In the year under review, it expanded its relations in the Asia-Pacific region by signing the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).

In Latin America, the major markets of Argentina, Brazil and Mexico were confronted with persisting domestic political difficulties. These hindered any broad-based reforms and put a brake on growth, while in Brazil the presidential election presented uncertainties. At the same time, an exacerbation of the economic crisis in Venezuela had repercussions on the whole region. The Argentinian economy for its part suffered an increasingly acute currency crisis.

China stepped up its foreign economic involvement. Beijing is taking targeted measures to take the lead in strategic technology sectors by the end of 2025. And by pursuing its “silk route” plans (One Belt, One Road Initiative), China is driving forward the expansion of direct trading and transport routes to the Middle East as well as to Africa, Europe, Southeast Asia and beyond. On 8 March, Japan, Malaysia, Singapore and Vietnam signed the above-mentioned CPTPP with seven other countries in Oceania and the Americas as a partial replacement for the former Trans-Pacific Partnership (TPP), which had collapsed after the departure of the USA in 2016.

In sub-Saharan Africa, the two biggest economies – Nigeria and South Africa – were confronted with structurally low rates of economic growth. This had a serious impact on the whole region's growth prospects. In Nigeria, the persistently high dependence on income from natural resources underscored the urgency of economic diversification. South Africa was confronted with rising public indebtedness, reflecting the need for fiscal consolidation in other countries in the region as well.

In the Middle East, the USA's revocation of its nuclear agreement with Iran and Washington's reintroduction of sanctions against Iran were key events (cf. section 6.3).

Economic situation in Switzerland

In the first half of the year, real seasonally adjusted gross domestic product (GDP) in Switzerland grew at an above-average rate. On an international comparison, Switzerland was one of the faster-growing economies. Measured against the figures for the same quarter a year earlier, it closed the gap versus the Eurozone, which had grown more strongly since the “Swiss franc shock” of January 2015. Moreover, the recovery increasingly spread to the domestic economy and the labour market. GDP growth was driven primarily by the service sector and was accompanied by a strong rise in employment.

Digitalisation was a major factor shaping economic policy in the year under review. On 29 August, in response to feedback from the “Digital Test” survey, the Federal Council decided that measures to lower the barriers for digital business models should be given closer consideration in order to improve conditions for business. The Federal Council established that the Swiss labour market is very well positioned with regard to the digitalisation-related impact on employment. In April, the Federal Council approved the provision of additional CHF 62 million needed for the continued implementation of the 2019–2020 Action plan for digitalisation in the ERI field..

Summary of the contents of the Foreign Economic Policy Report 2018 and outlook for 2019

Feature topic: International trade crisis and Switzerland’s options (section I)

Section I discusses the escalation of measures and countermeasures taken by the major trading powers during the year under review which are impacting on international trade and raise the spectre of a severe trade crisis and hence of a global economic crisis. These events may represent a change in the continual process of international trade liberalisation and expansion of multilateral trade law that followed the establishment of the General Agreement on Tariffs and Trade in 1947. Despite these frictions, the EU and Japan as well as Switzerland in particular are continuing to develop their free trade relations.

The new protectionist trends in international trade present a challenge for Swiss foreign economic policy. As a medium-sized economy, it is particularly important for Switzerland that the multilateral WTO trading system is preserved and that the country continues taking an active part in its further development. At the same time, Switzerland needs to continually develop and expand its other foreign trade instruments – particularly the FTAs – and to prevent any discrimination against Swiss companies that would favour their foreign competitors. This includes maintaining and expanding the bilateral path adopted with the EU, and especially the conclusion of an InstA.

Switzerland’s foreign trade options, however, hinge on its economic policy framework. Thus, the Federal Council is aiming at a reduction in tariffs on industrial goods and at lowering technical barriers to trade that push up prices, as well as improving the competitiveness of agricultural production.

Economic relations with the EU (section 2)

Since 2014, Switzerland and the EU have been negotiating an InstA that would consolidate existing market access agreements and open the way for other ones, for example regarding electricity (sections 2.1.1 and 2.1.2). On 7 December the Federal Council acknowledged the results of the negotiations and decided to initiate consultations on the draft text.

Switzerland was faced with major challenges when, during the year under review, the EU instituted safeguard measures as a reaction to the safeguard duties of the USA. Switzerland has been seeking at various levels to minimise the impact of these measures on its own economy (cf. section 1.2.1).

According to a decision dated 21 December 2017, the EU Commission only recognised equivalence with the relevant EU regulations of the legal framework and oversight of financial markets in Switzerland up to 31 December 2018. In the year under review, the Federal Council continued its efforts to secure recognition of equivalence for the future without any time limits in order to ensure legal certainty. On 30 November, the Federal Council approved measures to protect Switzerland's stock exchange infrastructure in case such recognition is not extended (section 2.1.3). Switzerland also addressed the EU's action by way of the WTO. On 17 December, the EU Commission announced that it would reconfirm recognition of equivalence for another limited period from 1 January to 30 June 2019.

Given the largely positive feedback from public consultations, the Federal Council decided on 28 September to forward to Parliament its dispatch on the second contribution for selected EU Member States. On 29 November, the Council of States voted by a large majority in favour of the contribution. However, the funds will only be committed if the EU refrains from instituting any discriminatory actions against Switzerland (section 2.2).

In its dialogue with the United Kingdom, Switzerland achieved agreement on the contractual framework for the continuation of existing economic relations between the two countries after Brexit (section 2.4).

International organisations and economic treaties

In the year under review, the international trade crisis had a particularly severe impact on the WTO (sections 1 and 3.1.1). In this context, various reform initiatives were launched to secure and strengthen the multilateral trade system of the WTO. The measures and countermeasures implemented in the past year by the USA and other states are the subject of several WTO dispute settlement proceedings. Switzerland too initiated such proceedings regarding the US safeguarded duties on steel and aluminium in the year under review.

Switzerland has successfully expanded and deepened its network of FTAs (sections 3.2.1 and 7.1.2–7.1.3). In June, in the context of the European Free Trade Association (EFTA), an FTA was signed with Ecuador, along with a modernised FTA with Turkey. In addition, renegotiated FTAs with Georgia and the Philippines entered into force. In December, the FTA between EFTA and Indonesia was signed. At the

same time, negotiations with several partner countries on bilateral investment treaties (BITs) continued (sections 3.2.2 and 7.1.4). Considerable use was also made of other Swiss economic diplomacy instruments, such as economic missions, bilateral work meetings and meetings of joint economics commissions (sections 3.2.3 and 7.1.5).

Sustainability and corporate social responsibility (section 4)

The Federal Council attached great importance again in the past year to the implementation of Agenda 2030 for Sustainable Development (section 4.1). This involved a review of the EFTA model chapter on trade and sustainable development, which links Switzerland's foreign trade policy to the requirements of sustainable development (section 4.2).

Implementation of the Swiss action plan on corporate social responsibility (CSR) and in the areas of economy, human rights and the green economy was continued and helped to ensure that CSR has evolved into a broad-based concept in Switzerland (section 4.3).

Economic development cooperation (section 5)

Switzerland, together with the 189 other members states of the World Bank, will finance a capital increase totalling USD 13 billion. Resources of this central development institution will be allocated according to modified criteria in future (section 5.2).

The Loans for Growth Fund, which was developed together with private-sector stakeholders in Switzerland for mobilising private investments to finance the business activities of small and medium-sized enterprises (SMEs), was fully funded by the end of the past year.

In the context of economic development cooperation, Switzerland also promotes digitalisation in a changing work environment (section 5.3). On Switzerland's initiative, a World Bank Development Report on this subject was launched.

Export control and sanctions (section 6)

On 31 October, the Federal Council decided to refrain from the planned modification of the authorisation criteria for exports of war material (section 6). In its autumn session, the National Council approved a motion tabled by the Conservative Democratic Party (BDP) demanding that the authorisation criteria be moved from the War Material Ordinance to the War Material Act and that the criteria for rejection in the Federal Act on the Control of Dual-Use Goods be harmonised with those for war material exports. On 27 June, the Federal Council issued its dispatch on the amendment of the Dual Use Act, whereby the Ordinance of 13 May 2015 on the export and placement of goods for internet and mobile communication surveillance would be incorporated in the Act (section 6.2).

On 8 May, the USA announced its withdrawal from the nuclear agreement with Iran (Joint Comprehensive Plan of Action – JCPOA) and reintroduced the sanctions

against Iran, which it had provisionally suspended. These measures directly impacted on Swiss companies that conduct business with Iran. Measures taken against North Korea, Ukraine, Russia, Venezuela, Syria and Myanmar are also referred to in the present report.

Outlook for the coming year

International trade has seen an escalation of protectionist measures and counter-measures between the major trading powers. The established international organisations such as the WTO and the OECD remain under considerable pressure to implement reforms while taking account of opposing interests. There is a risk of a break in the historical trend towards liberalisation of trade and its regulation by multilateral trade law. Switzerland attaches great importance to future WTO reforms aimed at preserving and further developing the world trade order. Together with like-minded countries, it will drive forward efforts in this direction.

In addition, the continued development of the free trade network and the provision of Swiss companies with improved access to foreign markets will remain key pillars of Switzerland's foreign economic policy. Negotiations for an FTA with Mercosur (Argentina, Brazil, Paraguay and Uruguay) will be at the centre of attention. In addition, the Federal Council is seeking to hold exploratory talks on a possible FTA with the USA. These efforts will be supplemented by the continued updating and extension of the Swiss BITs and the reform of investor/state dispute resolution via the United Nations Commission on International Trade Law – UNCITRAL).

In spring 2019, the Federal Council will address the results of the consultations on the text of the agreement with the EU. The Federal Council will express its commitment to the consolidation and timely updating of the existing bilateral agreements with the EU and may also move ahead with the modernisation of the bilateral FTA dating from 1972. The EU is facing major internal challenges due to the United Kingdom's imminent withdrawal from the Union (Brexit). In the coming year, the Federal Council will in particular seek to ensure seamless continuation and development of existing economic relations with the UK.

Regarding the sustainability of trade relations and CSR, the Federal Council will report on the implementation of the CSR Action Plan – and, if necessary, update it – in the coming year. This also applies to the Report on economy and human rights.

In February 2019, the Federal Council will submit its 2020–2023 Dispatch on Economic Promotion to Parliament. The Federal economic development programme is aimed at helping SMEs and the regions to seize the opportunities afforded by digitalisation. It seeks to improve the general framework conditions, to enhance Switzerland's profile as a business location and to strengthen its presence abroad.

The DaziT transformation programme aims at digitalising customs processes on both sides of the Swiss border. In this context, the Federal Council is seeking to implement the relevant changes to the agreements on adjacent customs clearance posts.

The Federal Council will continue to monitor the implementation of China's "silk route" (One Belt, One Road) initiative and engage in a constructive dialogue with

China and the countries involved to uphold Switzerland's economic interests and compliance with international standards.

Moreover, the Federal Council will report to Parliament on the implementation of its 2017–2020 Dispatch on International Cooperation.