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The strategic focus of Swiss foreign economic policy

The foreign economic report 2004 outlines Switzerland's foreign economic policy objectives for the first time. This assessment is occasioned by global economic and trade policy developments and a growing tendency towards regional and bilateral trade and investment agreements. In addition, the last few decades have seen the international exchange of services and investments eclipse the trade in goods. The increased volume of economic exchange beyond national borders requires tighter alignment of domestic market policy and foreign economic policy.

Executive summary

The international division of labor forms the foundation of the economic success of Switzerland. As a small country, which is poor in natural resources, Switzerland turned outwards at an early stage and has benefited strongly from the growing trend of globalization. During the trade policy liberalization of the last few decades, Swiss companies have derived benefit from the many opportunities offered by dynamic markets abroad. In the recent past, globalization has also shown itself to be a positive force for emerging and developing market countries that have not tried to hide their economies behind tariff walls and other protective measures. The failure of the import-substitution strategy, i.e. replacing imports by protecting the local economy, highlights a fundamental point which is often neglected in the economic policy debate: exports and investments abroad are not the only factors which underpin economic development. Imports and foreign investment in the domestic market are equally important. Firstly, imports facilitate competition in the domestic economy. This forces national companies to improve their productivity continually in order to compete with the imported products. Secondly, imports increase the competitiveness of the export sector by providing cheap, high-quality upstream inputs. In the foreign economic policy debate, it is therefore essential that mercantilism does not cloud the issue by regarding exports as an advantage and imports as a concession. Instead, the two-way movement of imports and exports should be seen as equally important factors in ensuring the effectiveness of the international division of labor as a mechanism to multiply wealth.

Furthermore, the wealth effect of the division of labor increases in proportion to the size of the market. The more countries that participate (progressively further) in globalization, the more wealth is generated for all parties involved. The remarkable performance of China and other emerging market countries and the changes that have taken place in Central and Eastern Europe over the last few years should not be viewed as a threat to Western industrialized countries but rather as an enormous opportunity for increasing the wealth of the entire world. To ensure that as many countries as possible share in the wealth effect of the international division of labor in future, the developed world has a responsibility to assist countries with weak economic structures in preparing for a successful entry to international markets. The provisions agreed on by the international community within the framework of the UNO Millennium Development Goals point the way forward in this regard.

The three core elements of Switzerland's foreign economic policy

Against the background set out above, it is clear that a foreign economic policy which aims to promote Switzerland's prosperity must firstly support exports, secondly improve market access for imports and thirdly target the integration of as many countries as possible in the global economy. The foreign economic policy details discussed in this report, with the emphasis on promoting prosperity, embrace all three of these aspects and are based on the following three core elements:

(1) Foreign market access and an international set of regulations
(2) Swiss domestic market policy
(3) The contribution to economic development in partner countries

These three core elements are closely interrelated, and together form the basis for foreign economic policy. Understood in such a broad manner, foreign economic policy must explicitly recognize that mutually exclusive foreign trade and domestic market policies no longer make sense for a country as internationally integrated as Switzerland.

The first core element: foreign market access and an international set of regulations

In a narrow definition of the concept, foreign economic policy entails securing market access abroad. This means enabling access to foreign markets for Swiss exporters of goods, services, investments and other productive factors. On the one hand, this requires the removal of barriers to cross-border economic activity. Such hurdles may include customs barriers, non-tariff measures and other obstacles deployed by a country to hamper or restrict market access for foreign producers. On the other hand, foreign market access increasingly requires the setting up of transparent, effective and internationally compatible regulations to govern economic exchange. The absence of such structures limits the market opportunities for Swiss producers abroad, even if, for example, all customs barriers were to be removed. International economic policy institutions and instruments in their entirety, which are targeting the removal of hurdles to market access and promoting the construction of a framework of regulations to govern international trade, are decisive factors in determining the opportunities enjoyed by Swiss producers in markets abroad.

For the first time, the Swiss Federal Council has therefore formulated explicit strategic guidelines for the core policy element of foreign market access and international regulations. For this reason, the bulk of this report is dedicated to explicating this foreign economic policy element. The overarching policy objective is to achieve non-discriminatory market access for Swiss producers in all countries.

The attainment of this ideal situation is most effectively accomplished via a multilateral framework, i.e. agreements which embrace as many countries as possible. As a result, Swiss foreign economic policy recognizes the primary importance of further expanding multilateral regulations and increasing their scope, especially within the parameters of the WTO. This process cannot exclusively prioritize the direct interests of Swiss policy – it must also take the global perspective into consideration. Currently, emerging and developing market countries make up a majority of WTO members.

The multilateral route to market liberalization is often cumbersome and follows its own particular pace. As a result, many countries seek to accelerate market liberalization via preferential trade agreements and other plurilateral or bilateral frameworks. To avoid the discrimination resulting from such agreements, Switzerland also seeks to conclude plurilateral and bilateral agreements, in addition to the multilateral pursuit of liberalization. In this regard, the following priorities have been identified. The primary criterion in negotiating agreements is the anticipated economic importance of a country. Equally important is the current or potential discrimination towards Switzerland in comparison to major competitors in the market in question. Other criteria include the willingness of partner countries to enter into negotiations and the political opportunities offered by an agreement.

Against this backdrop, Switzerland has targeted bilateral agreements with three groups of countries, which go beyond WTO agreements. Firstly, the EU/EFTA countries, with which Switzerland enjoys close relations due to their geographical proximity. Secondly, the non-European OECD countries, especially the USA and Japan, but also Canada, Australia, New Zealand, South Korea and Mexico. Thirdly, Switzerland nurtures ties with the economic giants of the future: China, India, Brazil and Russia. Finally, this category also includes countries where the negotiation of treaties would prevent significant discrimination against Switzerland.

Securing market access should not relate to the trade in goods only. Increasingly the trade in services and the approval and protection of direct investments are also crucial factors of economic exchange. Market liberalization is therefore explicitly defined in a comprehensive manner and covers products (goods and services) and productive factors (investments, labor force and intellectual property). Equal priority is accorded to what are termed horizontal policies, which are growing in importance in the sphere of foreign trade. Examples of horizontal policies that apply to all products and productive factors include, for example, competition policy, fiscal policy and company law.

The second core element: Swiss domestic market policy

The Swiss domestic market requires reforms because Switzerland has not yet fully benefited from the international division of labor. The highly productive export sector stands in strong contrast to a whole range of segments of the economy which, in comparison to other countries, are protected to a large degree from international competition and are characterized by below-average productivity. The objective of domestic market policy is to facilitate more competition in those sheltered sectors. The most effective way to achieve this objective is via market liberalization to allow international competition. However, this is not possible to the same extent in all sectors, so domestic market policy also aims to improve the standing of domestic competitors, thereby reinforcing the forces of competition. Even if this process does not lead to competition from imports, it is still important for the foreign trade position of Switzerland because it ensures that Swiss exporters benefit from high-quality, low-priced upstream inputs. On February 18, 2004, the Federal Council announced a growth package (aimed at returning Switzerland to the path of growth) in which the strategy for domestic market policy is explicitly defined. The strategy identifies the primary measures for promoting competition and supply in the years ahead.

The third core element: contributing to economic development in partner countries

This core element of foreign economic policy aims to assist as many countries as possible to participate in the benefits of the international division of labor. This element is based on two main pillars. The first pillar represents Switzerland's economic development and cooperation efforts to support partner countries in designing national policy frameworks that promote prosperity, and takes the form of bilateral and multilateral agendas. These efforts are based on the strategy for economic development cooperation adopted by the State Secretariat for Economic Affairs (seco). The second strategy pillar is Switzerland's active engagement in the economic policy debate within international organizations. The policy framework for the domestic economies of partner countries is developed and aligned on the basis of mutually elaborated policy proposals. This includes country surveys by the OECD, the WTO and the IMF.

Implications for the strategic focus of foreign economic policy

In the light of international developments outlined above, the analysis by the Federal Council has identified the following implications for the strategic focus of Switzerland's foreign economic policy.

- Starting foreign economic policy at home: a more competitive domestic market generates momentum for growth, raises the international competitiveness of Swiss companies and lays the groundwork for international agreements.
  - By encouraging the implementation of the reforms initiated by the growth package, the Federal Council consistently promotes the objective of increased competition in the domestic market.

- Setting up multilateral agreements: for Switzerland, non-discriminatory international trade agreements including as many countries as possible represent the best form of market liberalization.
  - The Federal Council is committed to multilateral trade agreements within the parameters of the WTO.

- Working towards a coherent global framework of regulations: an international framework of regulations is required to place economic exchange on a firm footing, thereby taking into account all issues for which countries are mutually responsible.
  - The Federal Council is committed to promoting trade regulations which encourage economic exchange and meet the requirement of sustainability.

- Extending EU/EFTA market access: the European Union and the EFTA countries remain Switzerland's primary trading partners. Access to the single European market, which is as unrestricted as possible, is of great importance to Switzerland.
  - The Federal Council aims to achieve trade access to the European single market and EFTA countries which is as similar as possible to domestic market access, especially in the goods and services sectors.

- Building a network of agreements with selected partners: due to the growing international trend towards bilateral agreements, Switzerland will also pursue free trade agreements with selected countries and economic blocks outside of the EU/EFTA zone. In this regard, priorities are set.
  – The Federal Council will pursue bilateral agreements and, in particular, free trade agreements with selected countries and economic blocks. Partners are selected on the basis of their current and future economic importance as well as the potential for discrimination against Switzerland.

- Prioritizing comprehensive trade agreements: services and investments, as well as the mobility of qualified workers and intellectual property, play an increasingly important role in the international division of labor. Multilateral and bilateral agreements must therefore extend beyond the trade in goods.
  – The Federal Council will pursue comprehensive trade agreements which extend beyond the trade in goods to cover services and investments in particular.

- Supporting the economic development of partner countries: a good policy framework for the domestic markets of partner countries also works in the interests of Switzerland because these countries can then fully participate in the international division of labor.
  – The Federal Council is committed to ensuring that Switzerland contributes to economic development in partner countries through the channels of economic development cooperation and membership in international organizations.

For the first time, the current analysis provides an overview, coupled with a comprehensive strategy for Switzerland's foreign economic policy. The following aspects are new:

1) Objectives and guidelines have also been formulated for the core element of Swiss foreign economic policy that addresses foreign market access and the agreement of international regulations for economic exchange.

2) The report highlights the fact that a growing international tendency exists to conclude regional or bilateral trade and investment agreements. To avoid the possibility of discrimination favoring significant competitors in foreign markets, Switzerland also has to adopt this approach. The current strategic focus defines the necessary criteria for prioritizing such agreements.

3) The report also recognizes the fact that growth in direct investments will outpace the trade in goods, and that direct investment is linked to the liberalization of services. In addition to the traditional sphere of trade in goods, Swiss foreign economic policy will therefore have to pay increased attention to the other economic categories – services, investments, labor and intellectual property.

4) To give this aspect the necessary emphasis, the current foreign economic policy analysis is primarily structured around trade categories; the aspect of negotiations within international institutions (WTO, EU/ EFTA, bilateral agreements) ranks second in this analysis. The new focus of the report allows to highlight the debate surrounding the degree to which multilateral, regional and bilateral negotiations are substitutive or complementary to each other.

5) Finally, the report recognizes the fact that domestic market policy and foreign economic policy are increasingly closely interrelated. Effectively, the liberalization of imports coupled with the facilitation of import competition form part of domestic market policy as well as foreign economic policy.

1 Positioning foreign economic policy

This section of the report examines the role of foreign economic policy within the broader concerns of general economic policy (1.1) and analyzes the constitutional foundations of Swiss foreign trade law (1.2). The section concludes by illustrating the categorization of foreign economic policy into its three core elements and demonstrating their interrelation (1.3).

1.1 The role of foreign economic policy within the general economic policy

Although globalization continues apace and has boosted economic prosperity also in the developed world, Switzerland has suffered from stagnating per capita income over the last decade. This has required an intervention to return Switzerland to a path of growth. The Federal Council therefore based its legislation planning for the period 2003–2007[1] on three central guiding principles. Principle one: "Promoting prosperity and securing sustainability"; principle two: "Overcoming Switzerland's demographic challenge"; and principle three: "Consolidating Switzerland's standing in the world". These principles are clearly interrelated. For example, Switzerland will only be able to ensure its prosperity and long-term welfare if it can effectively further its interests internationally and if the country is perceived as a reliable and cooperative partner.

1 For details, see the full text of the report (only available in German and French), BBl 2004 1149.

Aligned with these principles, the Federal Council approved a growth package on February 18, 2004. The package presents seventeen measures which articulate six overarching determinants of growth, thereby creating a strategic framework for general Swiss economic policy:

- Increasing competition in the domestic market
- Continuing Swiss integration in the world economy
- Reducing the tax burden and optimizing government activities
- Sustaining high levels of employment
- Ensuring a competitive education system
- Developing business legislation that promotes growth.

The strategic focus of Swiss foreign economic policy presented in this report forms part of the overall economic policy framework of the Federal Council. It formulates the pursuit of the objective "Continuing Swiss integration in the world economy", and sets forth the Federal Council's foreign economic policy objectives.

This report also takes into consideration the domestic market prerequisites – contained in the objective "Increasing competition in the domestic market" – which underpin economic success abroad. At the same time, however, foreign economic policy is also a component of Swiss foreign policy and must be aligned with foreign policy objectives. In addition to protecting Switzerland's economic interests abroad, economic policy must also contribute to protecting human rights, reducing hardship and poverty in the world and conserving the natural environment. In this way, foreign economic policy also contributes to security policy and a policy of sustainability. The interrelations implicit in this point are expanded in Appendix 1. Combating poverty in developing countries is also an aspect of sustainability and is achieved in particular through economic development policy and cooperation. It is a core element of foreign economic policy.

1.2 The constitutional foundations of Swiss foreign trade law

Switzerland's economic system is based on the principle of economic freedom (Art. 94 of the Swiss Federal Constitution [Bundesverfassung der Schweizerischen Eidgenossenschaft, hereinafter "BV"]). Economic freedom takes the form an individual right that has the quality of a fundamental right (Art. 27 BV); from an institutional point of view, it serves as a guiding principle for actions by the Confederation and the cantons (Art. 94 par.1 BV). This economic system also applies to cross-border trade. The liberal economic order within Switzerland is reflected in the pursuit of economic freedom at the international level.

Foreign economic law gives legal expression to the framework enshrined in foreign economic policy. The law is largely based on international treaties to which Switzerland is party. Such treaties contain rules for world trade (e.g. WTO regulations), regional free trade, bilateral trade in goods and services and investments. Further issues are also increasingly the subject of intergovernmental agreements, such as scientific cooperation. International treaties become an integral part of the Swiss legal corpus upon entering into force for Switzerland. In addition, foreign economic law also embraces all the autonomous economic measures regulating foreign relations.

The constitutional foundations of Swiss foreign economic law are primarily contained in Articles 54 and 101 BV. Article 54 BV confers upon the Confederation comprehensive authority in the area of foreign affairs and forms the basis for contractual foreign economic law. The instruments based on Article 54 go beyond the field of international treaties and also comprise measures that relate in particular to the principle of international solidarity (e.g. embargo measures, non-proliferation measures, development aid, debt rescheduling). According to Article 101 par. 1 BV, the Confederation must safeguard the interests of the Swiss economy, which includes taking promotional measures (Export Promotion Act). In terms of Article 101 par. 2 BV, the Confederation may take measures in exceptional cases to protect the domestic economy and thereby, if need be, depart from the principle of economic freedom (protective measures are based mainly on the Federal Law on Foreign Economic Measures and the Customs Tariffs Law). Finally, Article 103 (structural policy) also applies as a partial basis for guarantees covering export and investment risks and for the legislation regarding technical barriers to trade. Pursuant to Art 101 BV, foreign economic policy is also to be understood as policy safeguarding Switzerland's self-interests and is thus concerned with foreign policy, a position that is reiterated in the Federal Council's 2000 report on foreign policy.

Article 101 of the Swiss Federal Constitution directly concerns foreign trade. Not only does it make the Confederation responsible for foreign economic policy, it also defines the interrelation of safeguarding domestic interests and economic freedom, as outlined above. The economic system in Switzerland is committed to economic freedom, and this principle must in general also apply to cross-border economic exchange. It would therefore be a mistake to interpret Article 101 as a mercantilist focus for Swiss foreign economic policy, as would be the case if improved market access abroad were not matched by liberalization in the Swiss market. This constitutional provision commits Switzerland to promoting liberal economic principles internationally. Global regulations and minimum standards for economic exchange are the preferred route to facilitate market access for Swiss companies abroad and ensure good growth prospects in such markets. However, foreign economic policy remains a component of foreign policy, and is deployed by governments around the world as a way to protect their political interests. The political interests of current and potential Swiss trading partners will therefore always play a role in determining the ongoing development of the international economic legislation playing field and the detailed provisions of bilateral trading relationships.

1.3 The three core elements of Switzerland's foreign economic policy

The national growth objectives and the constitutional provisions lead to the conclusion that foreign economic policy:

- must support the creation of an international set of regulations which, within the parameters of a coherent policy, guarantee general market access for Swiss entities and protect their investments abroad; this also requires plurilateral and bilateral agreements with other countries;
- must promote regulations in the domestic market that encourage competition and strengthen the domestic economy; such regulations are also necessary to ensure that the full benefits of the international division of labor are enjoyed domestically;
- must encourage economic development and forward-looking global economic integration in a targeted manner, especially in poorer countries, and contribute to the improvement of the national economic policy framework in all partner countries.

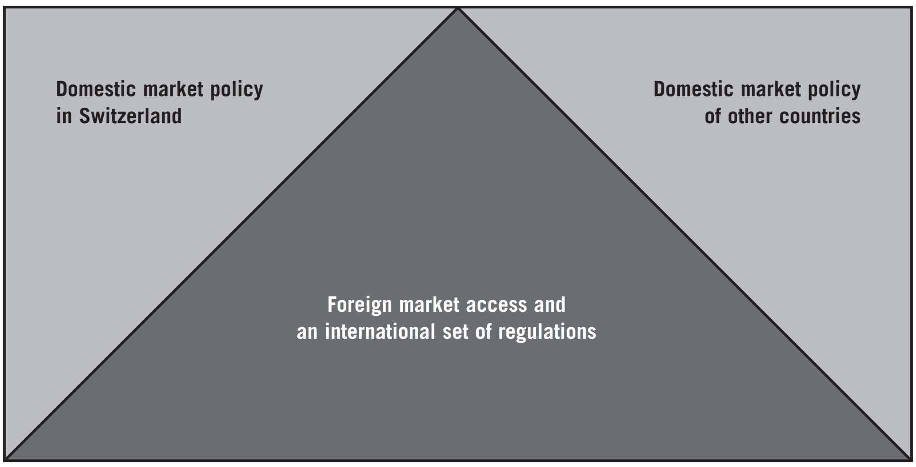
If one considers the extent of globalization, then foreign economic policy must be understood in a comprehensive way as extending to all policy provisions that impact on the international exchange of goods, services, investments, labor and intellectual property. Exports are always pitted against imports, so general economic policy is also foreign economic policy. All economic policy measures affect market access for foreign producers, Switzerland's position as an economic center and its international competitiveness. At the same time, agreements providing guaranteed market access abroad improve the position of Swiss producers if the market in the partner country is economically dynamic and enjoys a stable economic framework. This can only take place within multilateral negotiated parameters which also take into consideration the legitimate claims of emerging and developing market countries. Swiss foreign economic policy can thus be understood as being based on three elements. These are firstly, the improvement of foreign market access and the setting up of an international economic framework; secondly, domestic market policy in Switzerland and thirdly, the contribution made by Switzerland to improving the economic framework in partner countries (i.e. domestic market policy abroad).

The rest of this section examines these three core elements of Swiss foreign economic strategy in detail. Specific strategies have already been formulated for the second two elements (Swiss domestic market policy and the contribution made by Switzerland to improving the economic framework in partner countries, especially regarding the economic and trade policy measures adopted in terms of development cooperation. These will be summarized in section 1.4.) Explicit guidelines have not previously been formulated for the core policy element of foreign market access and an international set of regulations. Section 1.3 thus formulates a strategy for this element in detail, based on the analytical foundation developed in section 1.2.

Graphic representation of the three core foreign economic policy elements

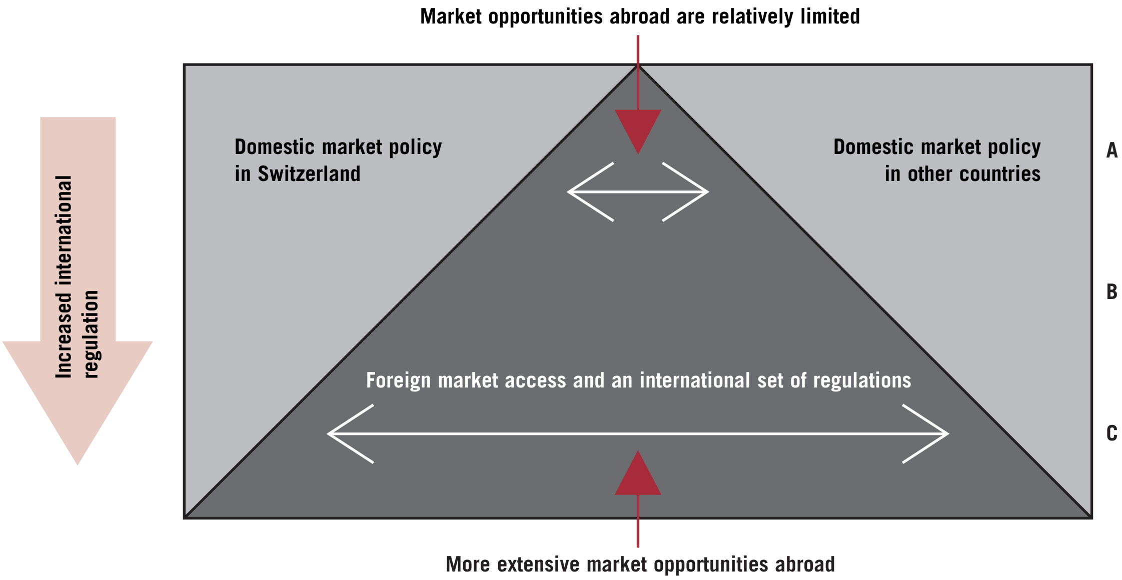
The diagram below illustrates the three core elements of Switzerland's foreign economic policy. All countries determine their own domestic market policies. The diagram presents the Swiss perspective; so, domestic market policy in Switzerland is positioned in the field on the left. The domestic market policy of other countries (either in the form of individual national policies or the policies of groups of countries) is represented in the field on the right.

The field in the center of the diagram represents foreign market access and an international set of regulations. It is shown as a triangle positioned between the domestic market policies of individual countries and demonstrates the extent of international regulations and the scope of agreements governing mutual market liberalization.



These interrelations will be elaborated in the following diagram. The basic tenet underlying the diagram is that more extensive economic exchange is possible if national economic systems are more strongly integrated and aligned with one another. The three scenarios listed below (A – limited integration, B – moderate integration and C – strong integration) show schematically how the situation changes given increased integration between countries.

As long as each country follows its own domestic market policy (the situation represented at level A in the following diagram), major differences between national economic policy regulations can arise. Once countries enter into economic exchange with one another, these differences can lead to a situation where foreign producers are at a disadvantage compared to domestic producers. The economic exchange is therefore limited. Increasing the scope of the triangle, representing foreign market access and an international set of regulations, has the effect of furthering international economic exchange. In parallel, however, the scope for setting domestic market policy will be reduced. More extensive international economic integration requires that national policies are aligned to a greater extent and joint international economic regulations must be formulated. As a result, international exchange increases (the situation indicated by levels B and C in the diagram).



A **Limited integration:** market access is only partially enabled by tariff reductions; possibly most favored nation treatment, but no domestic equivalence (foreign producers continue to be subject to a substantial disadvantage due to differing national regulations governing goods, no rights of domicile or differing horizontal policy provisions).

B **Moderate integration:** compared to A, market access is better, e.g. through equal status with domestic producers, zero tariffs, recognition of product tests carried out abroad, investment protection, market access guarantees, compliance with minimum labor standards, etc.

C **Strong integration:** market access is good due to convergence with domestic market conditions on the basis of harmonizing technical laws, simplifying or eliminating customs procedures, ensuring free movement of persons, facilitating market access in the sphere of public procurement, agreeing on common anti-competition regulations, eliminating currency fluctuations.

Foreign market access and an international set of regulations

From the perspective of a small but liberalized economy, the regulation of market access and investment protection is best achieved via the multilateral route, especially through the WTO, as this is most likely to ensure the enforcement of the agreed provisions. However, it must be noted that the emerging and developing market countries are in the majority at the WTO. The demands made by these countries will determine the progress and, ultimately, the success of negotiations towards an international trade framework. Multilateral negotiations result in regulations and minimum standards that apply to the international exchange of goods, services and other productive factors, with broad implications for national economic policies. In addition, plurilateral and bilateral economic agreements further improve market access for Swiss producers and investor protection abroad. In relation to Europe, the expansion of economic cross-border relations in certain areas of the economy can now only be extended further via the replication of domestic market conditions (i.e. legal harmonization and coordination). This will also facilitate the simplification of border controls. The improvement of market opportunities for Swiss producers abroad is also possible via non-treaty tools such as export promotion.

Swiss domestic market policy

The performance of the domestic economy is a significant factor in determining the success of a country when it comes to exporting goods and services and investing abroad. To enhance the export volume of the domestic economy on a sustainable basis, instead of simply benefiting upstream component imports, sectors of the economy that were previously focused on the domestic economy in particular must increase their competitiveness. Competition can also be facilitated by imports and direct investment.

Contributing to economic development in partner countries

A stable and appropriate environment of economic and political parameters in partner countries is essential for ensuring that contractually agreed market access is in fact utilized and that the contractual parties actually benefit from the advantages of globalization. Bilateral and multilateral economic development cooperation is a key element of foreign economic policy in cultivating national institutions. At the multilateral level, international organizations offer a forum for development policy activities and provide a certain degree of supervision for national economic policies in all countries. Switzerland’s membership in and contribution to international organizations that play a role in the economic sphere (IMF, World Bank, regional development banks, WTO, OECD, various entities and specialized agencies of the UNO) is vital for economic development cooperation and dialog with industrialized countries. It means that Switzerland must renew its efforts to coordinate the various aspects of its foreign relations and domestic market policy while at the same time meeting its commitments under international agreements. In this regard, the UNO Millennium Development Goals provide a mandatory framework. In particular, the Development Goal targeting a system of fair trade emphasizes the need for a global development partnership.

The three core trade policy elements are closely interrelated. The strong degree of economic, social and political integration often makes it impossible to distinguish between domestic market and foreign economic policies. It is less and less the case that Switzerland can pursue domestic economic objectives without considering the impact of these on its economic relations with other countries. Promoting international exchange requires that national economic policies must be guided increasingly by the need to facilitate cross-border trade. On the one hand, this means the reduction of traditional trade barriers, such as customs duties. On the other hand, the development of international standards, or at the very least recognition agreements, is required to manage the discrepancies between national legislative frameworks. To ensure that such agreements are underpinned by domestic policies, individual countries must articulate their objectives actively and at an early stage, thereby contributing to the formulation of this international regulatory framework.

2 The international environment: analysis and implications for Switzerland

This section analyzes the international environment in which Swiss foreign economic policy is formulated. The following three trends emerge as significant: Firstly, the volume and scope of international economic exchange have increased sharply in recent years. This development is examined in section 2.1. Secondly, foreign markets, and therefore Switzerland's current and future trade partners, are developing at different rates. Section 2.2 shows which countries are likely to take the lead in the international economic race over the next ten years. Thirdly, the last few decades have seen the emergence of international institutions, multilateral treaties and a range of plurilateral or bilateral agreements which regulate economic exchange between countries. Section 2.3 examines the progress of negotiations at the multilateral, plurilateral and bilateral levels. Finally, section 2.4 assesses the implications for Switzerland.

The following analysis is based on a general classification of economic exchange into five categories: goods, services, capital (investment), labor and intellectual property. The latter three categories are collectively termed "productive factors". In describing trade policy developments, a distinction is made between measures that affect individual categories and horizontal policies that generally apply to all five categories of economic exchange. Horizontal policies generate regulations in areas such as competition, taxation, company law[2] and the environment.

2.1 Growing global economic integration[3]

Since the end of the Second World War, two major developments have contributed to and driven the internationalization of markets: the liberalization of economic and trade policy and the technological advances made in communication and transportation. The changes that have affected institutions, policy and technology are closely interrelated. Between 1950 and 2003, global trade in goods has grown by an average of 6% per annum, which is one and a half times as fast as growth in global gross domestic product (GDP). The international exchange of goods and services has enabled countries to concentrate on their particular sectors of specialization and production areas for which they are specifically suited. This is termed the international division of labor and is seen as one of the primary reasons for the rise in standards of living over the last few decades. Countries that have liberalized their economies and actively participated in the globalization process have generally benefited, while countries which have adopted a policy of protectionism have tended to experience less momentum in their economies.

The growth in international economic integration has been characterized by two major trends:

- In terms of economic exchange, there has been particularly strong growth momentum in the categories of services and investment over the last two decades.
- In terms of geographical developments in international integration, a shift has occurred from trans-Atlantic to trans-Pacific trade and to trade between countries in the southern hemisphere (termed "south-south" trade). The proportion of south-south direct investment also increased during the 1990s. At the same time, the proportion of trade taking place within the various regional integration blocks has also risen.

2 The area of company law also includes issues such as corporate governance, corporate responsibility and fighting corruption.

3 Data in this section was drawn from various publications of the World Bank, WTO and UNCTAD.

2.1.1 International trade categories

In 2002, goods to the value of USD 6 trillion were exported globally, which represents about 80% of total exports (goods and services). In 1980, the proportion of goods was 85%. A growing percentage of global trade takes place within multi-national companies. It is much more difficult to quantify the trade in services. The WTO distinguishes between four modes of service delivery. The first mode involves the service itself crossing international boundaries ("cross-border supply") and covers about one third of the total trade in services. The second mode of service delivery sees the consumer of the service crossing international boundaries ("consumption abroad"), and represents about 10% of services. The third and largest mode of delivery, accounting for about half of all services, is transacted via a subsidiary abroad ("commercial presence"). Setting up a foreign subsidiary involves a direct investment, so the trade in services is closely allied to developments in direct investment. The final mode covers services where the provider crosses international boundaries ("movement of natural persons"), and represents a minimal percentage of the total.

Internationally, the capital stock generated by direct investment has risen by a factor of ten between 1980 and 2003. The proportion of this capital stock as a percentage of global GDP has risen from 6% (1980) to 23% (2003). The greatest growth in direct investment has taken place in the services sector, which has resulted in a sectoral shift away from commodities and manufacturing (1990: 9% and 44% of the capital stock, respectively) to services (2003: 67%). Industrialized countries are responsible for about 90% of global direct investment, with approximately 40% of this capital going to developing market countries. This investment has a significant positive impact on the economic development of these countries.

In addition to the international flows of capital, the mobility of people (i.e. workers, from an economic perspective) is another factor that has contributed to the reduction in economic differences between countries. However, the mobility of people is currently subject to significantly stronger national regulation than the exchange of goods, services or investment. For the year 2000, the UNO estimates that only about 3% of the world's population lived outside of the country of their birth. By contrast, the global proportion of goods and services that are exported makes up almost a third of global GDP while cross-border financial flows (portfolio and direct investment) represents almost 50% of global GDP. While the migration of people from the southern hemisphere to the northern hemisphere attracts greater public attention, in fact half of the total cross-border migration of workers takes place between countries in the southern hemisphere. However, the repatriation of foreign earnings by workers abroad to their countries of origin remains an important source of finance in developing countries. In 2001, it made up the second largest inflow of funds after direct investment, well ahead of development aid.

2.1.2 Geographical development of world trade

The largest share of the trade in goods and services in 2003 was transacted by a relatively small group of countries. The 30 biggest exporting and importing nations accounted for about 85% of world trade. In 2002, OECD member states generated 70% of global goods exports and 76% of global services. The major exporters of goods and services are the G7 countries and, for goods, China, with South Korea, Mexico and Russia also featuring as big players.

In terms of regional performance in the trade in goods, trans-Atlantic trade has declined in significance compared to trans-Pacific trade since 1960.

Between 1963 and 2003, goods exports from the USA and Canada to the EU 15 fell – as a share – significantly, matched by an increase in exports to the Asia-Pacific region[4]. The situation for goods imports was even more spectacular, with the share from Asia almost doubling.

The development of trade relations internal to areas with regional or bilateral preferential agreements has also been particularly significant. At the end of 2003, a total of 176 regional and bilateral trade agreements were in force. In that year, approximately 36% of global goods exports were effected in the six largest regional free trade

4 Afghanistan, Australia, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Fiji, Hong Kong, India, Indonesia, Japan, Kiribati, Laos, Macao, Malaysia, Maldives, Mongolia, Myanmar, Nepal, New Zealand, Pakistan, Papua New Guinea, Philippines, Singapore, Solomon Islands, Sri Lanka, South Korea, Taiwan, Thailand, Tonga, Tuvalu, Vanuatu, Vietnam, W.Samoa

areas (EU 15, NAFTA, AFTA, CEFTA, Mercosur and the Andean Community)[5]. The proportion of exports from NAFTA countries to fellow NAFTA members grew from one third to more than half in the period between 1970 and 2000 (table 1). In 2000, the EU sold almost two thirds of its exports to EU member states, although this figure isn't much higher than thirty years ago. In 2000, the Mercosur countries exported significantly more to other Mercosur members than in 1970, while the share of exports within the Gulf Cooperation Council (GCC)[6] and between ASEAN-AFTA member states did not change significantly.

5 NAFTA: Canada, Mexico, USA; ASEAN-AFTA States: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam; CEFTA: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia; Mercosur: Argentina, Brazil, Paraguay, Uruguay; Andean Community : Bolivia, Columbia, Ecuador, Peru and Venezuela

6 GCC – Cooperation Council of the Gulf States: United Arab Emirates, Bahrain, Qatar, Kuwait, Oman, Saudi Arabia

Table 1:
Share of intra-regional exports as a percentage of total exports

	1970	1980	1990	2000
EU 15	60	61	66	62
NAFTA	36	34	41	56
ASEAN-AFTA	22	17	19	23
MERCOSUR	9	12	9	21
CEFTA	–	–	–	12
Andean Community	2	4	4	9
GCC	5	3	8	5

Source: WTO, World Trade Report 2003

In the last decade, south-south trade between developing market economies has grown rapidly, showing more impetus than global trade. The liberalization of trade and investment policies in these countries has resulted in greater integration and a generally stronger economic performance. The share of south-south exports has risen from 6.5% to 10.6% of global goods exports. The largest increase has taken place in the developing economies of Asia, which generate more than two thirds of south-south trade. The remaining third is spread between countries in the Middle East (about 15%), Latin America (about 13%) and Africa (just under 6%).

2.2 Ranking the major economies

A dynamic foreign economic policy must aim to improve market prospects for companies by prioritizing those countries that offer or have the potential to offer the largest number of business opportunities. It is relatively easy to identify the economic giants of today, but predicting the market leaders of tomorrow is more difficult and involves a number of factors that cannot be pinned down with ease. It is hard enough to determine the future economic momentum of a market, but forecasting the contours of foreign trade integration in ten year's time is even more complex. In addition to assumptions about economic momentum, such a forecast also requires certain assumptions about the relative profile of goods, services and other productive factors in the composition of future international trade. Other factors play a role, such as the degree of participation by different countries in international trade and shifts in real terms of trade between countries. The assumptions used in this analysis are based on experience to date. In the past, improvements in a country's standard of living have generally been coupled to an increased integration in foreign trade. Smaller countries have tended to participate more strongly in the international division of labor than larger countries. Research has also shown that the degree of trade integration tends to fall in proportion to increased geographical distance.

Taking into consideration the difficulties outlined above, the following discussion is based on a very simple scenario that only encapsulates GDP and excludes changes in foreign trade integration and shifts in exchange rate relationships. The scenario assumes that real growth in a country's GDP over the last decade will be repeated in the next ten years. The analysis is based on nominal GDP in USD for 2003. Table 2 shows the projected ranking of countries for 2015 if their GDP growth between 2003 and 2015 is similar to performance over the decade before.

This very simple extrapolation should in no way be understood as a forecast. Changes to the institutional, political or economic parameters in an individual country could result in an entirely different outcome for its economic performance in the decade ahead than past figures would suggest. Despite this limitation, the ranking offers an initial assessment of the future priorities for Swiss foreign economic policy.

Table 2:
Ranking of major countries on the basis of GDP

Country	Nominal GDP (in USD): global ranking			Potential change
	1993 [1)]	2003 [1)]	2015 [2)]	2003–2015
USA [a,c]	2	2	1	1
EU 25 [a,b,c,d]	1	1	2	–1
Japan [a,c]	3	3	3	0
China [a,c,d]	4	4	4	0
Canada [a,c]	5	5	5	0
India [a,c,d]	10	8	6	2
South Korea [a,c,d]	8	7	7	0
Mexico [a,b,c,d]	7	6	8	–2
Australia [a,c]	9	9	9	0
Brazil [a,d]	6	10	10	0
Russian Confederation [c,d]	15	11	11	0
Taiwan	13	13	12	1
Turkey [a,b,c,d]	14	14	13	1
Switzerland [a]	11	12	14	–2
Norway [a,b,c]	21	15	15	0
Indonesia [a,c,d]	16	17	16	1
Saudi-Arabia [c]	19	16	17	–1
Iran [c,d]	22	21	18	3
Hong Kong [a,d]	20	19	19	0
South Africa [a,c,d]	17	18	20	–2
Thailand [a,c,d]	18	20	21	–1
Malaysia [a,c,d]	24	24	22	2
Israel [a,c,b]	23	23	23	0
United Arab Emirates [a,c,d]	34	27	24	3
Singapur [a,b,c,d]	27	25	25	0
Egypt [a,c,d]	32	28	26	2
Argentina [a,d]	12	22	27	–5
Philippines [a,c,d]	28	29	28	1
Chile [a,b,d]	31	33	29	4
New Zealand [a,c]	33	31	30	1

1) Data source: World Economic Outlook Database (April 2004)
2) Own calculations based on data from 1)
a) WTO member
b) Free trade agreement with Switzerland
c) Double taxation agreement (DTA) with Switzerland
(EU: agreements are with individual member countries, except for Malta and Cyprus)
d) Investment protection agreement (IPA) with Switzerland (EU: agreements are with individual member countries)

A surprising result from this projection is that the USA could once again overtake the EU if it maintains its economic momentum from the last decade through to 2015. This is especially significant if one considers that the assessment for the EU's growth performance is based on figures for all 25 member states over the last ten years. It must be added, however, that the USA will have to overcome its double deficit (Federal budget and balance of payments) successfully without any loss of economic momentum if it is to maintain its historical growth rate from the last decade.

Despite continued projected low growth on the basis of the last ten years, Japan will be able to hold its position ahead of China. China's ranking clearly indicates that very high growth rates over a single decade are not enough to match the impact of a country's share of global population on its economic standing if the growth comes from a low base.[7]

The remaining two NAFTA members, Canada and Mexico, will maintain their position in the world economy. India's march forward is a significant development. South Korea and Taiwan have already joined the league of industrialized countries and will tend to feature more strongly in the strategic focus of future Swiss foreign economic policy. In contrast, Brazil and Argentina have lost ground over the last decade. While Brazil will be able to maintain its current ranking, Argentina is likely to drop further down the table. Meanwhile, Chile is reaping the benefits of its reform process. Australia will defend its 9th position, while New Zealand appears poised to recover further from its economic weakness in the post-war era. Although the Russian Federation has overtaken Turkey since 1993, measured in terms of GDP, their rankings in the world economy are surprisingly close to one another, considering Russia's relative size. Switzerland will slip even lower down the table, falling behind Turkey to position 14 in 2015, if it continues the growth rate from 1993 to 2003.

As a group, the ASEAN countries have a significant profile in the world economy with several ASEAN members appearing in the top-30 list (Indonesia, Thailand, Malaysia, Singapore and the Philippines). Not all these countries are likely to make headway in the rankings, however. The Gulf States (Saudi Arabia and the Arab Emirates are ranked in the top 30) by contrast are characterized by a strong potential for growth. The role played by oil in its economy also explains the advance enjoyed by Norway – this EFTA country has almost caught up with Switzerland. While Hong Kong's status as a trade center is more important than its GDP reflects here, the situation is reversed for Iran. It is worth noting that, although it currently leads Iran, South Africa's trend appears negative for the future. Israel is likely to maintain its place in the top 30. In conclusion, it is interesting to consider the rankings of individual EU member countries if they are viewed separately and not as a composite. Germany, France, the UK and Italy would occupy places 4–7, ahead of Canada, followed in 9th place by Spain. The Netherlands would rank between Australia and Brazil in position 14, and Sweden, Belgium and Ireland would feature ahead of Turkey in positions 18 to 20. Switzerland would be in position 22 behind Turkey. Poland and Austria would find themselves rated 23rd and 24th respectively. A stronger focus on Europe than the table would suggest is further evidence of the central importance played by geographical location, despite globalization, in determining the volume of goods traded. Distance is somewhat less of a factor when it comes to direct investment.

In general, three groups of countries are particularly important for the Swiss economy today, and their significance will increase in future. The first group is made up of the EU and EFTA member states – their size and their proximity underline their importance. The second group includes the non-European OECD countries, especially the USA and Japan, but also Canada, South Korea, Mexico, Australia and New Zealand. Finally, the third group encapsulates the large, dynamic emerging markets and transition countries, especially China, India, Brazil and Russia. These three groups play a central role in Switzerland's strategic focus.

7 During a period of rapid growth, it may well happen that a country's GDP could be further boosted by a real increase in the value of its currency. This factor has not been taken into consideration in the extrapolation.

2.3 Developments in the trade policy environment[8]

Historically, the primary category of international exchange has been the trade in goods, and this has therefore enjoyed the greatest share of attention in the process of reducing barriers to trade. The growing importance of the tertiary sector of the economy in industrialized countries, combined with the advances made in technology, has seen an increase in the trade in services, the volume of cross-border capital flows and (closely related to both these spheres) the international deployment of workers. The protection of intellectual property rights is underpinned in particular by technological progress. The growing international interdependence of economic players also reinforces the need for global competition regulations. In contrast, regulations governing the application of differing national laws in the area of taxation and (partly) also private law already exist. Agreements and common standards are also necessary for other areas of horizontal policy if international mobility is to continue to expand for people, companies, goods and services.

Developments in international regulations – governing the exchange of goods, services and productive factors (investments, labor and intellectual property) as well as horizontal policies such as competition and taxation – are illustrated clearly in the history of the WTO and in the process of economic integration within the EU.

The rise of a new trend towards bilateralism?

The development of the General Agreement on Tariffs and Trade (GATT) and the formation of the WTO in the mid-1990s reflects the groundswell of change that has taken place in the sphere of international economic relation in the post-war era.[9] GATT entered into force in 1948 and was initially an agreement to reduce tariffs relating to the trade in goods. From the 1970s onwards, the treaty was extended to dismantle non-tariff barriers for the international exchange of goods (standards, certification and test systems) and included provisions for government procurement. In the mid-1990s, under the umbrella of the newly-formed WTO, two additional agreements were signed: the General Agreement on Trade in Services (GATS) sought to regulate multilateral trade in services and the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) extended regulations on intellectual property. In 2004, the WTO was made up of 148 member states and regulated more than 90% of global trade flows. The WTO is the principal global forum for negotiations between the conflicting aspirations and interests of countries. The majority of WTO members are emerging and developing market countries. Progress to date in the current round of negotiations (the Doha Round) indicates that these countries are more and more effective in pressing their own agenda. Further progress in negotiating international trade regulations will only be possible if the interests of this majority of members receive due consideration.

Developments in Western Europe show a similar history, albeit with a strong political departure point and objective. The European Economic Community was formed in 1958 with the objective of jointly regulating the strategic coal and steel industries, atomic energy and the combined common trade of member states. Following the reintroduction of currency convertibility, the Community tackled the reduction of trade tariffs, initially between the six founding members but then, in a parallel process, this was extended to the EFTA, which was a much larger body in those days. The Treaties of Rome went a lot further in their provisions than EFTA Convention, and clearly promoted political finality and the free movement of goods, services, investments and labor. Although the EFTA Convention was expanded significantly, it never aimed for the level of legal harmonization achieved via the implementation of the Treaties of Rome.

The single domestic market program adopted in 1985 was a crucial step in the EU's development. Measured by the success it has achieved, this approach could serve as an example for the integration of service sector markets. The final barriers to the free movement of capital were eliminated in the 1990s with the creation of economic and monetary union. The free movement of people has been an issue from the earliest days of the European Economic Community when it only had six members and Italy was characterized by emigration. Today, the EU has consolidated the

8 A detailed discussion of the trade policy environment and Switzerland's trade policy instruments is contained in a separate publication released by the State Secretariat for Economic Affairs in the series "Grundlagen der Wirtschaftspolitik" (only available in German and French) in early 2005.

9 It is worth mentioning in passing that earlier periods, such as the liberal era at the end of the 19th century, saw significant international exchange. Switzerland, for example, participated in a currency union at this time, and during this period, the migration of labor was a more significant factor in balancing the economic differences between countries than the growing trade in goods and services, capital flows and licensing is today.

free movement of people into the concept of "union citizenship", making it unique in comparison to other integration projects.

The extension of the Treaties of Rome via the Treaties of Maastricht, Amsterdam and Nice has reinforced economic integration and expanded this to political unification. Significant moves are afoot at present to tackle horizontal policies that affect the economy. The EU has now grown to 25 member states and further expansion is anticipated.

The example of the EU has served as an inspiration, and integration on a regional basis has since been pursued elsewhere around the world. For several years, the virtual stagnation of negotiations in the WTO has seen the reemergence of plurilateral and bilateral agreements. Initially, such agreements were focused on regional solutions, but recent trends show that inter-continental agreements have gained momentum. This development raises several questions. Does the trend point towards resurgent bilateralism, or will such agreements pave the way for a resumption of WTO negotiations? The verdict is still out, but it is clear that multilateral liberalization in the sphere of economic relations is more advantageous for all countries than a network of bilateral agreements. The risks of discrimination and trade distortion are considerable for states which are not party to bilateral agreements.

The regulations in the three main WTO agreements – GATT, GATS and TRIPS – are not legally interlinked. However, the negotiations to extend the WTO framework have effectively linked the trade in goods (especially agricultural products), services and intellectual property. The negotiations themselves will therefore have to take this fact into consideration, reflected in the vested interests of several alliances between member states. Any successful outcome to the negotiations will need to find a way to balance all these vested interests.

Plurilateral and bilateral agreements confirm the view that, in general, agricultural products, manufactured goods, services, investments and intellectual property do not circulate independently of one another and that only a comprehensive solution will resolve trade issues. Few agreements address the trade in services in isolation. The trend has been to negotiate what are termed "second generation" free trade agreements, which, in addition to the trade in goods, contain provisions governing services, investments, public procurement and horizontal policies.

However, the extension of negotiations beyond the exchange of goods to non-tariff trade boundaries, services, investments and horizontal policies creates a domestic policy challenge for the states involved. This challenge has heightened since the WTO became a global organization with a majority of member states being emerging and developing market economies. Issues that had previously been seen as matters of domestic policy have now become the subject of international negotiations, and in turn are impacted on by the outcome of international agreements. One example of such an issue is the reduction in the scope of options for regulating comprehensive basic coverage if the services sector were to be liberalized. Another difficult domestic issue is enforcement: for example, what happens to the traditional tool of customs penalties if one abandons trade tariffs?

As the interests of states around the negotiating table become more divergent and the issues in question become more sensitive to domestic policy, there is a growing risk that the commonality needed for agreement will be reduced. As a result, it is important to note the interdependence of WTO negotiations and the growing tendency to adopt plurilateral and bilateral agreements. Bilateral negotiations between comparable economies may make it easier to achieve the desired depth of integration but such agreements come at the price of reduced geographical scope. It is interesting to note the absence of a free trade treaty between the EU and the USA in this regard. Steps in this direction would have a far-reaching impact on the need for a global body like the WTO, as well as its prospects for further development.

2.4 Implications for Switzerland

Switzerland is closely tied to the world economy and has a strong international focus. However, other European countries of comparable size – such as Sweden, Finland and Austria – have managed to boost their international integration significantly since joining the EU, and have outpaced Switzerland. If one considers exports in relation to GDP, Austria's economy, for example, is far more strongly integrated than the Swiss economy. However, this perspective neglects the importance of Switzerland as a source of direct investment globally. In this area, Switzerland boasts a profile as sizeable as many of the major EU countries. Appendix A2 analyzes the issue of Switzerland's foreign trade integration in more detail.

If Switzerland continues the slow pace of economic growth seen over the last decade, it must surely be overtaken in the hierarchy of trading countries. The underlying cause of the problem is the need for structural change within the country. In terms of employment levels, the sectors of the economy that have been adding jobs are those which are not yet fully exposed to international competition, such as healthcare and education. For institutional and domestic policy reasons, these sectors often also enjoy secure sources of financing from taxes or compulsory levies. This puts into question the desirability of their expansion. In the EU, these very sectors are currently being integrated in the single market to an increasing degree and liberalized on an international scale. This goes hand in hand with enormous reform pressure. It is up to Switzerland to use domestic market policy to promote the same degree of competitiveness in sectors with a domestic focus (in addition to healthcare and education, sectors such as agriculture and construction). This challenge is closely related to the need to open the domestic market to foreign competition, thereby reinforcing global integration.

In parallel to the expansion of public-funded services, the employment rate in the manufacturing sector, which is exposed to international competition, has declined significantly over the last ten years. Employment[10] in the economy as a whole has grown, but declined by 16.2% in the manufacturing sector between 1992 and 2002. Switzerland has only just been able to maintain its standing as an exporter in global trade because the manufacturing sector improved its productivity and reduced the share of domestic value added in output. This reflects a worldwide phenomenon of economic globalization where the value-added chain is broken down into its component stages, and producers find the best (domestic or foreign) source for each step in the production.

10 equivalent to full time work

The process of globalization offers Switzerland many opportunities. In the area of corporate services, understood broadly also to include the financial services sector, these opportunities have already been exploited to a significant degree, and often this success has gone hand in hand with the launch or expansion of business subsidiaries abroad. The fall of the Berlin Wall in 1989 and the resurgence of the free market model played a significant role in this process, as many developing markets and transition countries were opened to direct investment.

For Switzerland's foreign trade network, these developments have three important implications:

- To underpin domestic reforms, stronger foreign trade liberalization in more sectors should be facilitated via agreements. This applies in particular to the service sectors dependant on public procurement, the infrastructure sector and the agricultural sector.
- To ensure that Switzerland retains its role as a production center that contributes to the value-added chain of businesses, the existing barriers to the trade in goods must be removed with increased vigor and new discrimination must be prevented. This means primarily a reduction in tariffs for the major emerging markets, zero tariffs for industrialized countries for export products where Switzerland is a leader, new cumulative agreements on rules of origin and more (extensive) agreements on the mutual recognition of conformity certification.
- Protecting direct investment remains a high-profile issue. Such agreements must be expanded to cover guaranteed market access. This is even more important in

significant emerging markets where non-European OECD countries have already secured their market position. In a complementary move, the profile of services in preferential agreements must be increased in relation to goods.

There are considerable difficulties to overcoming these challenges, for example:

- Domestic policy opposition to large-scale reforms, which is slowing the liberalization of the domestic economy and reducing the scope for negotiating market access abroad
- The marginalized institutional position of Switzerland in the European context, the country often finds itself forced to implement policy at a later stage instead of being able to co-developing domestic market reforms
- The slow pace of negotiations in the framework of the WTO, a forum which in reality has the most to offer a medium-sized, open, globally focused and highly developed economy
- Switzerland's modest negotiation position in comparison to its large competitors reduces its ability to expand its bilateral network comparably, making it crucial for the country to form alliances
- The sometimes contradictory priorities within such alliances (e.g. EFTA), requiring greater outlay to formulate negotiating positions while possibly reducing the actual outcomes.

Against the background of these findings, the Federal Council has formulated objectives and guidelines for Swiss foreign economic policy relating to foreign market access and an international set of regulations. These objectives and guidelines are outlined in more detail in the following section.

3 Foreign market access and an international set of regulations

Foreign economic policy must focus on promoting prosperity. From the perspective of Switzerland, the primary objective in terms of foreign market access and an international set of regulations is the prevention of discrimination against Swiss companies in all markets. In an ideal world, Swiss producers (indeed all producers) would not be subject to discrimination in foreign markets from local or other foreign producers. A medium-sized trading nation such as Switzerland is not in a position to influence the current growing global trend towards regional and bilateral agreements, which results in discrimination against producers from non-member countries. A small, open economy has to balance the scales by entering into plurilateral and bilateral agreements itself.

From this starting point, section 3 outlines the strategic focus underpinned by the core element of foreign market access and an international set of regulations. The section begins with a general overview of strategy objectives and guidelines (3.1). This is followed by a detailed breakdown of the action required by Switzerland in each category of economic exchange (goods, services, investment, labor and intellectual property) and in areas of horizontal policy that apply to more than one category (3.2). This is followed by a summarized agenda for the core policy element of foreign market access and an international set of regulations (3.3). This agenda is structured according to spheres of institutional negotiations, i.e. multilateral negotiations, bilateral negotiations with the EU and plurilateral and bilateral negotiations with other countries.

3.1 General goals and objectives

The strategic focus in the core area of foreign market access and an international set of regulations must highlight an approach to improving the position of Swiss producers in comparison to their competitors. To do this, the following five questions must be answered:

- In which global environment should market access be improved?
- Which countries should be negotiation partners?
- In which economic categories should market access be improved?
- Which companies should benefit from negotiation outcomes?
- How can Switzerland benefit best from negotiation outcomes?

The following five objectives (enjoying equal priority) can be identified, based on these questions, and apply to Switzerland as a medium-sized trading nation and net exporter of capital:

- To participate actively in strengthening the global economic system
- To improve foreign market access in important markets
- To achieve foreign market access in all economic categories
- To improve foreign market access for companies of all size
- To ensure that existing agreements are implemented and utilized

The objectives relating to foreign market access and an international set of regulations must be pursued in such a way that the concrete steps taken are in harmony with the objectives of foreign policy, security policy and the sustainable development strategy of the Federal Council.

The following section examines the five general objectives in detail and extrapolates these with fifteen concrete guidelines.

Objective 1: *to participate actively in strengthening the global economic system*

Creating and reinforcing an international economic system governed by a set of regulations will improve the global framework for the exchange of goods, services, investments, labor and intellectual property. This best reflects the political opportunities open to a medium-sized trading nation. The creation of suitable domestic market conditions is an important prerequisite to be able to perform as an effective negotiating partner at the international level.

Guideline 1: safeguard the universal nature of foreign trade relations

In principle, Switzerland aims to achieve foreign trade relations with all the countries of the world. This enables the country to diversify its foreign trade risks and to participate in the process of strengthening and stabilizing the world. As far as possible, Switzerland's foreign trade relations should take place in the context of an international economic system governed by a set of regulations and must be characterized by non-discrimination towards domestic producers in partner countries (domestic equivalence) and non-discrimination towards domestic producers from third-party countries (most-favored nation treatment).

Guideline 2: strive towards a coherently structured set of international regulations

The global community of nations is moving closer together. This increases the importance of a set of international regulations to provide a stable framework for economic exchange. This set of regulations must be structured and coherent, i.e. it must take into account the international responsibilities of sustainability; personal, national and collective security; and the duty to reduce the ongoing disparities in global prosperity. Credible participation by Switzerland in the creation of a coherent set of international regulations requires appropriate domestic policies as a prerequisite.

Guideline 3: gain scope for negotiating in the foreign economic policy arena

Domestic economic reforms are in the economic interests of Switzerland. They will also determine Switzerland's ability to enter into international agreements. This applies in the multilateral context in particular, but also impacts on plurilateral and bilateral agreements. Domestic economic reforms are very important in the area of foreign relations because they set the parameters for future negotiations.

Objective 2: *to improve foreign market access in important markets*

Foreign market access as wide-ranging as possible is essential for Switzerland. In principle, this access can be best achieved via the route of a multilateral system of regulations. Access to very large or very dynamic markets should also be improved via plurilateral and bilateral agreements, thereby avoiding discrimination compared to competitors from third-party states.

Guideline 4: improve market access in as many countries as possible using a multilateral approach

Multilateral agreements, which guarantee all parties the same bilateral market access on the basis of most-favored status, are more advantageous to Switzerland than a network of plurilateral and bilateral agreements. This makes active participation in the liberalization of international economic relations in a multilateral system a priority for Switzerland. In this process, Switzerland will contribute to the efforts to take into account the specific needs of the poorest developing countries, e.g. via the framework of special and differential treatment.

Guideline 5: expand market access in the EU

The EU is the most important economic partner for Switzerland due to its physical and cultural proximity. Further improvement of access to the EU market is therefore important for Swiss producers and investors. Market access can be expanded on the basis of agreements or via unilateral harmonization of legal provisions, but even unilateral solutions must be safeguarded as far as possible in legislation.

Guideline 6: improve market access to economically significant markets outside the EU/EFTA

Given their economic importance, it is desirable to achieve high-quality access to large, dynamic markets outside of the EU/EFTA zone. However, this objective cannot be fully achieved via the multilateral route at present. Improved access to economically important markets is a high priority in the light of the growing network of plurilateral and bilateral agreements being reached between these and other countries. Four criteria must apply when selecting negotiation partners, and the first of these criteria is essential: (1) the current and potential future economic importance of the country; (2) the current and potential future degree of discrimination in the country's markets in favor of competitors from other countries if Switzerland fails to achieve an agreement; (3) the willingness of partner countries to enter into negotiations and (4) the political opportunities offered by an agreement.

Objective 3: *to achieve foreign market access in all economic categories*

Improving foreign market access must embrace all economic categories as far as possible. In addition to regulations governing the traditional area of goods, increased agreement is necessary in the categories of services and investment, and also on horizontal policies (such as taxation, competition and company law). These categories are becoming more and more important in the context of international economic integration.

Guideline 7: comprehensive market access must be prioritized

From an economic perspective, agreements which improve market access on as broad a basis as possible (i.e. covering all five categories of economic exchange) must be prioritized. If a comprehensive agreement is not possible, then a similar outcome can be achieved on the basis of plurilateral and bilateral agreements to supplement multilateral agreements. This approach can increase market access for individual categories and address horizontal policies.

Guideline 8: recognize the importance of services and investment

The international exchange of services and investment is expected to maintain momentum in the years ahead. This development must be taken into consideration in the formulation of foreign economic policy. Greater attention will be required in the areas of services and investment when it comes to formulating agreements, defining specific details and selecting partner countries. Formal agreements on market access and long-term protection are especially crucial for investment.

Guideline 9: further reduce tariff and non-tariff barriers to the trade in goods

The reduction of trade tariffs for the exchange of goods remains in the spotlight, especially in the case of newly industrialized countries. Complicated customs procedures and rules of origin have to be simplified. As customs duties are increasingly eliminated, the impact of non-tariff barriers becomes a more serious hurdle. Such barriers include product regulations that differ between the source and target countries and the failure to accredit tests, certification, inspections and approval effected aboard. In parallel to the reduction of tariffs, measures must therefore also be undertaken to reduce the non-tariff barriers to trade. Although this applies in particular for manufactured goods, it will also impact on processed and unprocessed agricultural products.

Guideline 10: extend the process of setting regulations to address horizontal policies

The creation of globally applicable regulations for horizontal policy areas (such as competition, taxation, company law and the environment) is increasingly important. Differences in national provisions engender a horizontal effect and can act as a barrier to the international exchange of goods, services, investments, labor and intellectual property. Implementing existing international regulations and agreeing new ones in the sphere of horizontal policy requires priority attention (see objective 1). The treatment of horizontal policies in plurilateral and bilateral agreements is also an important issue.

Objective 4: *to improve foreign market access for companies of all size*

Improving access to foreign markets must increase the market opportunities for companies of all sizes. Non-treaty instruments supplement the progress achieved via agreements.

Guideline 11: reduce the market access problems faced by companies of all sizes

Major companies often have subsidiaries in the export markets they serve, which generally gives them better knowledge of local conditions. It also means that they are extremely reliant on the effectiveness of investment regulations and sufficient mobility for management and specialist staff. Small and medium enterprises tend not to have representative offices in foreign countries and for these companies the priority issues are the export of goods, cross-border service delivery opportunities and unhindered access for the performance of assembly work and maintenance. For all companies, a common concern is the removal of discrimination in favor of domestic producers in the target market.

Guideline 12: deploy non-treaty instruments effectively

Even if market access in foreign markets is guaranteed via agreements, it can still be difficult for Swiss companies, especially for small and medium enterprises, to take the step of operating abroad. Export promotion is an effective tool in this regard, and must be deployed in a targeted manner that is aligned with the priorities of improving market access, thereby taking full advantage of existing market access opportunities.

Objective 5: *to ensure that existing agreements are implemented and utilized*

Fully implementing, utilizing and complying with existing agreements is essential and requires the necessary resources.

Guideline 13: ensure domestic implementation of agreements

It is often the case that domestic law does not fully correspond to the international legal provisions of agreements. This requires adjustments to national laws and, in problematic areas, discussions with partners about the application or revision of the agreement.

Guideline 14: promote good formal and informal relations with partner countries

To represent Swiss foreign policy interests abroad as fully as possible, political relationships must be cultivated actively at all levels, i.e. on a bilateral basis. Switzerland's membership of multilateral and plurilateral committees and organizations should also be actively utilized.

Guideline 15: utilize channels for legal enforcement

Where necessary, Switzerland must follow all the available legal channels to enforce its contractual claims. This applies in particular to mechanisms for consultation or dispute resolution provided in terms of foreign trade agreements.

3.2 Detailed policy action requirements

The objectives and guidelines introduced under section 3.1 will now be fleshed out in terms of concrete policy action. This section is structured according to the five categories of economic exchange (goods, services, investment, labor and intellectual property) and also addresses areas of horizontal policy. A detailed discussion of the policy action required in terms of foreign trade is provided separately for each of the five categories and for horizontal policy issues.

The discussion distinguishes between four groups of potential partners for negotiations: the EU and EFTA member states; non-European OECD countries; economically significant emerging and developing markets, including China, India, Brazil and Russia; and all other countries.

3.2.1 Policy action requirements for the trade in goods

A multilateral approach to negotiations within the WTO remains an important instrument from Switzerland's perspective, and offers the opportunity to reduce or eliminate tariffs substantially on a global basis. In parallel, Switzerland is committed to supporting the simplification of customs procedures.

In terms of trade with the EU, an area of high priority is the expansion and consolidation of existing agreements regarding manufactured products (mutual recognition of conformity certification) and agricultural products (reducing tariff protection and, in certain sectors, recognition of technical provisions and quality norms as equivalent). Free trade in cheese, commencing in 2007, should be extended to other agricultural products. Furthermore, economic relations can be consolidated in the category of goods by simplifying customs procedures and further steps in harmonizing legislation.

Policy priorities regarding trade with non-European OECD countries include the elimination of remaining tariffs to improve market access as well as the simplification of customs procedures. In a framework of low tariffs, non-tariff barriers become more significant hurdles to trade. In the context of trade with these countries, the reduction of non-tariff barriers is also a priority.

When it comes to trade relations with the majority of emerging markets, the central priority is a reduction in tariffs (some of which are still very high) within the framework of the WTO. A further priority is the improvement of market access in economically significant emerging market countries such as China, India and Brazil by using the mechanism of plurilateral and bilateral agreements. Simplifying customs procedures with these countries is also worth pursuing, either in the context of the WTO or via plurilateral and bilateral agreements.

Regarding non-tariff trade barriers in non-European OECD member states and emerging markets and developing economies, there is a clear deficit in terms of recognizing tests, certification, inspections and approval effected in Switzerland. Bilateral agreements on mutual accreditation are often not possible or require enormous outlay. Instead, one option would be to set up cooperation agreements between the official agencies directly involved and between conformity assessment agencies in the source and target countries. This type of mutual recognition agreement (MRA) is a sensible alternative to international treaties when it comes to achieving mutual accreditation.

Government procurement [11]

The plurilateral WTO Government Procurement Agreement strives to improve market access in the sphere of public tenders in the major non-European OECD countries. The extension of the agreement, for example, to all US states and cities would be of considerable interest to Switzerland. Relatively few WTO member states are party to the Government Procurement Agreement and no expansion of the agreement is anticipated in the immediate future. In terms of Swiss policy, however, a minimum priority is an improvement in transparency for government procurement in the economically significant emerging and developing economies.

In relations with the EU, the priority in terms of government procurement is to carry through on existing international commitments. Problems caused in this regard by the 25 national legal codes in member states should be resolved as far as possible via bilateral consultation with the supervisory authorities in the member states.

In individual cases, liberalization in government procurement can also be accomplished in the framework of plurilateral and bilateral agreements, as demonstrated in the EFTA agreements with Mexico and Chile.

11 Government procurement also applies to the trade in services; for this reason, it is listed separately in the table on page 30

3.2.2 Policy action requirements for the trade in services

Switzerland is committed to improving global access to services markets within the multilateral framework of the WTO and GATS. In concrete terms, this entails additional commitments regarding market access and domestic equivalence in sectors which are important to Switzerland.

There is no comprehensive service-sector agreement between Switzerland and the EU that goes beyond GATS and covers all sectors. The absence of such an agreement is one area where the provision of foreign market access for Swiss producers is deficient. No remedy is in sight via GATS, so Switzerland will have to examine the option of resuming negotiations with the EU in the area of services.

To prevent discrimination against Swiss service providers in important markets, Switzerland is also committed to achieving plurilateral and bilateral service-sector agreements with selected partners (also in the framework of free trade agreements) which go beyond the level of multilateral liberalization secured thus far and can be harmonized with GATS. Potential priority partners include the non-European OECD countries, especially the USA and Japan, but also Canada, South Korea, Mexico, Turkey, Australia and New Zealand. The emerging markets in Asia and Latin America are another important focus area, and some of these countries have already entered into preferential trade agreements with major trading nations.

3.2.3 Policy action requirements for investment

Creating global legal parameters at a multilateral level for cross-border investments remains an important long-term priority for Switzerland to be able to provide comprehensive market access for investors and protection for their investments. Switzerland will therefore support initiatives that pursue this priority.

In relation to EU member states, OECD and GATS regulations together meet some of Switzerland's requirements. Remaining barriers to direct investment within the EU are being further dismantled, inter alia via the planned service sector directives. In this context, it is essential that Switzerland safeguards its position as a direct investor in the EU and counteracts a relative weakening of this position. The planned review of opportunities in the negotiations surrounding services must take these risks into consideration.

There is no universal, multilateral framework addressing the category of investment, so Switzerland's policy is to pursue legal guarantees for market access and investment protection via plurilateral and bilateral agreements. Existing bilateral agreements with Switzerland on investment protection generally only cover current or previously approved foreign investments. There is still no systematic bilateral agreement to secure foreign market access. The current network of bilateral investment protection agreements that cover existing Swiss foreign investment should be extended to close significant gaps, and must be modernized in cases where older agreements with major partners no longer meet current requirements. Furthermore, Switzerland must investigate opportunities to improve market access for Swiss investors. This applies especially to any country where there is potential discrimination in favor of major competitors, especially the USA. Guaranteed market access on the basis of agreements can also be accomplished in the framework of plurilateral and bilateral free trade agreements, as demonstrated in the EFTA agreements with Chile and Singapore.

3.2.4 Policy action requirements for labor mobility

GATS and various plurilateral and bilateral agreements have secured improvements in market access in the service sectors, thereby necessitating international labor mobility. This applies in particular to managers and specialists (termed "key personnel").

The free movement of persons agreements between Switzerland and the EC and EFTA have secured access for Swiss workers to these labor markets, and Swiss workers now enjoy virtual equality with workers from EU and EFTA states.

Further improvement in market access might be considered in relation to major non-European OECD member states. However, two areas of priority remain: the accreditation of qualifications and social security, inasmuch as this restricts labor mobility.

3.2.5 Policy action requirements for intellectual property rights

Inadequate implementation of provisions in the multilateral TRIPS agreements by various countries – especially significant emerging and developing countries – presents a major problem for Switzerland. Efforts to improve the implementation of the agreement are therefore a high priority. In the framework of the existing WTO committees, Switzerland is working towards compliance with the TRIPS provisions. Measures against counterfeiting and the implementation of patent provisions are two central areas of focus in this regard. Furthermore, Switzerland supports the improvement of TRIPS regulations. Protection of geographical indications (origin/provenance designations) is a priority for Switzerland, and the certified appellation already enjoyed by wines and spirits should be extended to other products.

In relation to the EU, designations of origin and geographical indications for agricultural products require ongoing attention. Negotiations can be pursued in the framework of the Joint Committee pursuant to the bilateral agreement with the EU on trade in agricultural products.

Provisions governing intellectual property rights that go beyond the minimum standards of TRIPS can be included in plurilateral and bilateral agreements, as demonstrated in various EFTA free trade agreements. Such provisions should aim to increase the scope of protection standards and add mechanisms for consultation and implementation. However, it must be remembered that these types of provisions are subject to most-favored status under the terms of the TRIPS agreement.

3.2.6 Policy action requirements in horizontal policy areas

Competition

The creation of globally applicable, binding regulations for competition remains a priority for Switzerland, because practices which reduce competition between public and private companies can counteract steps towards liberalization already negotiated. The lack of multilateral regulations in the sphere of competition underlines the OECD recommendations in this regard.

In terms of Swiss legislation, the revised Federal Act on Cartels and Other Restraints of Competition (2004) has improved the enforcement options available to anti-competition bodies. A further priority is to prevent cross-border cartels, an increasingly urgent issue due to the growing integration of markets for goods and services. Switzerland is therefore committed to closer cooperation with national competition authorities and the EU. It is also worth investigating the option of including legal assistance in anti-competition cases as an aspect of plurilateral and bilateral agreements with partner countries.

Switzerland has a strong interest in promoting common regulations regarding unfair competition, especially provisions which define and implement consumer protection. The growing cross-border use of the internet makes this priority even more urgent. It is essential that Switzerland pursues the option of cooperation with the EU in this matter.

Taxation

Switzerland also has an interest in closing loopholes in its network of bilateral double taxation agreements, even if finalizing new agreements with certain countries necessitates a deviation from long-standing Swiss policy. Furthermore, the quality of existing double taxation agreements should be improved as far as possible. This relates to the abolition of withholding tax on dividends, interest income and license fees within corporate bodies. In relation to EU member states, this could be facilitated within the framework of Switzerland's agreement with the EU on a withholding tax for interest income. This relief should also be formalized in bilateral agreements with individual EU countries.

The possibility of agreements with other countries is still unclear. In terms of tax policy, there is still pressure on Swiss banking confidentiality. Switzerland has entered into negotiations with several countries to pursue the option of including an expanded administrative assistance clause in double taxation agreements. This clause is based on the existing double taxation agreement with the USA, dating back to 1951. These negotiations have already resulted in a protocol of understanding with Germany, which entered into force on March 24, 2003.

Company law, corporate governance, corporate responsibility and anti-corruption efforts

Switzerland is committed to the creation and adoption of broad international instruments that promote responsible corporate behavior towards society, the environment and the state. Switzerland supports the deployment of existing instruments, such as the United Nations convention against corruption and recommendations by the OECD, the ILO and the UNO for responsible corporate conduct. Active membership of international organizations that formulate standards for the functioning and conduct of companies is a growing priority for Switzerland.

The debate regarding corporate governance is also fuelling the reform of company law. In the framework of GATS, Switzerland lobbies for the liberalization of company law restrictions in WTO member states, for example, nationality restrictions for board members, forms of incorporation and the acquisition of property.

Environment

Switzerland supports the creation and adoption of international environmental regulations to improve global protection for environmental resources and to avoid competition and location disadvantages. For Switzerland, reviewing the interrelation of regulations governing trade and the environment is a priority. Competitive disadvantages and barriers to trade brought about by conflicting environmental regulations must be prevented via a globally harmonized and coordinated approach. Countries which fail to ratify environmental agreements enjoy a competitive advantage over signatory countries. The USA regularly fails to commit at an international level in the sphere of the environment (Kyoto Protocol, Basel Convention). Emerging and developing market countries are involved in the UNO convention process, but their initial obligations are very limited. Switzerland is therefore committed to international environmental agreements that embrace as many countries as possible in an equitable manner, but respect the fact that emerging markets and transition countries are in a unique position that requires special consideration.

3.3 The agenda for foreign market access and international regulations according to various spheres of institutional negotiation

The discussion under point 3.2 shows the importance of a multilateral approach to agreeing on regulations and liberalizing economic exchange in stages. Switzerland is committed to the liberalization of economic relationships within the framework of the WTO and supports the strengthening of multilateral regulations in general. It demonstrates this support via the creation of market regulations that are transparent, effective and internationally compatible. International regulations must be structured in such a manner that they are consistent with concerns of sustainability, security policy and the obligation to reduce persistent global economic disparities.

However, to benefit as much as possible from a multilateral approach requires the review of domestic market policy objectives and instruments. In particular, Switzerland must reevaluate the worth of tariff protection for its economic policy objectives. Such a review is also important because foreign trade objectives in the categories of goods, services, investment, labor and intellectual property and in areas of horizontal policy as a rule cannot be approached independently. There are two reasons for this. Firstly, partner countries are often not willing to negotiate about individual categories if this will not lead to a balancing of interests. Secondly, a clear-cut separation of economic exchange into categories is not necessarily a suitable approach. The trade of goods and services and the rules governing services and investments are closely interrelated. Intellectual property rights are also closely related to the exchange of goods and services and to foreign investment.

Switzerland will pursue an expansion of its agreements with the EU, which is by far its most important trading partner and physical and cultural neighbor. The issue of market access in the EU will be the focus of the Federal Council's status report which it will submit before the end of the current legislative session. Without anticipating the outcome of this report, it is clear that, from a purely foreign economic policy perspective, negotiations must be based on the EU's existing legislation ("acquis communautaire") in the sphere of goods as a major tool to improving the market outlook for Swiss producers in the long term. Switzerland must examine the possibilities of resuming talks in the area of services, and also has the option of harmonizing its laws with EU developments in the categories of goods, services and investment inasmuch as this would achieve an improvement in market access and increase Switzerland's standing as a competitive economic center. This would be a unilateral step by Switzerland without any official guarantee and could be disadvantageous for the country in the long term compared to the outcome of a comprehensive negotiated solution.

Switzerland will continue to expand its network of plurilateral and bilateral economic agreements with significant emerging and developing economies with the aim of improving market access and investment opportunities for Swiss companies and preventing discrimination favoring competitors from other countries. On the basis of the four criteria outlined in guideline six above, important partners for the bilateral expansion of foreign trade relations include economically significant non-European OECD countries, especially the USA and Japan, but also Canada, South Korea, Mexico, Turkey, Australia and New Zealand. Negotiations with these countries must prioritize agreements in the areas of goods, services, investment, non-tariff trade barriers, intellectual property rights and horizontal policies. Within the range of political options, it may also be possible to improve labor mobility abroad. If a comprehensive agreement is not possible, sectoral agreements in the various economic categories may be an option for improving market opportunities.

Switzerland also has a vital interest in strengthening and – from a legal perspective – in safegiarding economic ties with significant emerging and developing market countries. This applies in the economic categories of goods, services, investment and intellectual property and in areas of horizontal policy. It also reinforces the importance of formulating country-specific strategies for the four economically most significant emerging markets: China, India, Brazil and Russia.

Even if access in foreign markets is guaranteed via agreements, it can still be difficult for Swiss companies, especially for small and medium enterprises, to take the step of operating abroad. The improvement of market opportunities for Swiss producers abroad must also be underpinned by non-treaty channels. These includes federal export promotion programs and agencies (such as Osec and government-issued export risk guarantees). Better institutional and operational coordination for programs and agencies is essential. Efforts are underway in this regard, and are reflected in reports to Parliament in 2005 about Osec and export risk guarantees. Improved coordination is also required for the various programs and agencies that promote Switzerland (including Switzerland Tourism, Location: Switzerland and Presence Switzerland). In response to two parliamentary questions[12] in this regard, the Federal Council submitted a report on December 9, 2005 outlining a new concept for promoting Switzerland.

12 The questions addressed the coordination of country promotion activities and were posed on May 18, 2004 (Postulate ref. 04.3199 WAK-S "Koordination der Landeswerbung") and on September 15, 2004 (Postulate ref. 04.3434 WAK-N "Konzept für eine koordinierte Landeswerbung der Schweiz"). The Federal Council's report is entitled "Bericht über die Koordination der Landeswerbung in Erfüllung des Postulats 04.3199 sowie des Postulats 04.3434", and is available from seco in German, French and Italian.

Tabelle 3: Policy action requirements in economic categories and horizontal policy areas

	Multilateral	**EU/EFTA**	**Plurilateral/bilateral**
Goods	• Commitment within the WTO framework to reduce tariff barriers further and to simplify customs procedures • Review of domestic economic policy in the light of these commitments	• Extension of free trade to additional agricultural products • Reduction or elimination of non-tariff barriers for manufactured and agricultural products and electricity • Harmonization of legislation and further simplification of customs procedures	• Elimination of remaining tariffs, mutual recognition of test results, certification, approval, etc, in EFTA agreements with other countries • Reinforcement of GATT principle of most-favored status in cooperation agreements with non-WTO countries
Government procurement	• Case-by-case extension and consolidation of the plurilateral WTO agreement, especially with non-European OECD countries (e.g. the USA) and developing countries	• Implementation of existing commitments	• Case-by-case liberalization of government procurement
Services	• Commitment to global liberalization of services markets within the WTO framework (GATS) • Additional commitments regarding market access and domestic equivalence in important sectors	• Review the possibility of resuming negotiations with the EU	• Preferential liberalization of services with selected partners beyond levels in multilateral agreements
Investment	• Commitment within the OECD and the WTO framework (GATS, TRIPS, TRIMS) to strengthen existing regulations and obligations • Long-term commitment to create a global set of regulations for cross-border investments	• Application of OECD and WTO (GATS) regulations	• Continued strengthening of network of bilateral investment agreements (post-establishment) • Increased guarantees for market access (pre-establishment)
Labor	• Consolidation of market access/ mobility for managers and specialists (key personnel) within framework of GATS	• Free movement agreements implemented in stages	• Consolidation of market access/mobility for managers and specialists (key personnel)
Intellectual property rights	• Improved application of TRIPS • Further development of TRIPS (absolute protection of geographical indications for as many products as possible)	• Agreement to protect geographical indications for agricultural products	• Integration of provisions exceeding TRIPS minimum standards to protect intellectual property rights with selected partners
Horizontal policies	• Creation of binding multilateral competition regulations • Participation in bodies (OECD) to set international standards for company law	• Efforts to promote greater cooperation • Clarification of trade-related tax issues (e.g. definition of tax domicile)	• Collaboration with partner countries in term of competition policy • Expansion of network of double taxation agreements

4 Swiss domestic market policy and the contribution to economic development in partner countries

Section 4 reviews Switzerland's strategies for the other two core elements of foreign economic policy: Swiss domestic market policy (4.1) and Switzerland's contribution to economic development in partner countries (4.2). Strategies in these two areas have been covered extensively elsewhere[13] so this section will be restricted to an overview.

4.1 Swiss domestic market policy

In section 1.3, the report introduced the three core dimensions of Swiss foreign economic policy. A strategy has already been developed for the second core element, Swiss domestic market policy, in the form of the Federal Council's growth policy objectives. A challenging priority is to foster more competition in the domestic market. The creation of internationally competitive structures within Switzerland is a prerequisite for success abroad. One step in this direction would be the liberalization of sectors of the economy that are still highly sheltered. Further consolidation of economic relationships in sectors that are already well integrated is only really possible via legal harmonization. Conditions equivalent to those within domestic market should expand beyond national borders.

The report now considers the extent to which the international environment impacts on the Federal Council's six growth policy measures concieved within the framework of the growth package announced on February 18, 2004 to improve domestic market competition.

- The Domestic Market Act addresses legal restrictions on market access at cantonal and municipal levels and will align these to the standards of EU single market legislation. The EU has for a long time already effectively protected local subsidiaries from the disadvantages of divergent national laws.
- Revision of federal legislation for government procurement, the second objective of the growth package, aims to eliminate legislative fragmentation in Switzerland. The planned introduction of a "competitive dialog" as an adjudication procedure is based on legislative developments in the EU.
- The drafting of an electricity supply law is intended to prevent the establishment of network monopolies within the cantonal borders. The proposed law will also facilitate negotiations with the EU on an agreement regarding market access; the Swiss energy sector already enjoys wide European access, albeit without legal safeguards. This will only be possible to the extent that Switzerland creates a level playing field for competition among domestic and foreign suppliers in the medium term. This in turn will require independent transmission grid operators and a sufficiently strong regulator.
- Historically, the market for healthcare services in Switzerland has been fragmented along cantonal lines. The revision of the federal law on health insurance, another aspect of the growth package, is not intended primarily to address this problem. However, several of the innovations proposed in the revision process (for example, the easing of the obligation to contract applying to outpatient health services and steps taken towards one source for hospital financing) are prerequisites for creating a healthcare sector organized on a national basis. In the EU, a (highly controversial) parallel move is the debate about a patient's right to non-discriminatory state-provided healthcare in other member countries. This would place enormous pressure on the cost/price ratio in individual national health systems and would represent a new dimension to the concept of a single domestic market. A similar trend is apparent in the Bologna model for higher education, which has already been implemented in Switzerland.
- The growth package policy measures for ongoing reform in the agricultural sector ("Agrarpolitik 2011" represent an opportunity to redeploy resources more productively. Based on experience in Austria's agricultural sector following that

13 Regarding Swiss domestic market policy: Swiss Federal Department of Economic Affairs (2002): Growth report (published by seco in "Grundlagen der Wirtschaftspolitik", only available in German and French); Interdepartmental working group "Growth" (2004): Das Wachstumspaket des Bundesrates (published by seco in "Grundlagen der Wirtschaftspolitik", only available in German and French). Regarding Switzerland's contribution to economic development in partner countries: Economic Development Cooperation, seco (2002): Strategy 2006 for economic development cooperation (available in English).

country's admission to the EU, broader competition within the sector will lead to stronger product innovation and more rationalized operating units. These domestic reforms are also unavoidable if Switzerland is to gain foreign economic policy leeway. It is more and more difficult for countries to shelter individual economic sectors from general market access regulations on a selective basis. The transition to free trade in certain processed agricultural products is resulting in pressure to liberalize the primary products themselves. The Federal Council plans to present a report to parliament in this regard during 2006.

– Finally, the Federal Council has published a report on the liberalization of the market for services in relation to the EU ("Services liberalization in Switzerland", November 2005).

The growth package extends the achievements of the revitalization program in the 1990s, which paved the way for increased economic liberalization. Here it is worth mentioning the recently revised Swiss cartel law (Federal Act on Cartels and Other Restraints of Competition), which extends powers to the competition commission that are comparable to any in the EU, with the exception of state intervention. And the federal legislation regarding technical barriers to trade autonomously adjusts most technical law provisions in Swiss law to regulations in the EU. This mechanism created room for an agreement on mutual recognition of conformity certification with the EU and also achieved legal harmonization within Switzerland, for example, within the area of construction materials. Another important development is the first reform program for the Swiss railway system, which laid the groundwork for an EU agreement on land transportation and in turn has opened the door to further rail transport reform. The separation of the former PTT (post and telecommunications monopoly) into two commercial entities represents the first step towards further reforms, initially in the telecommunications sector and, more recently, increasingly also in the area of postal services. These reforms have matched similar progress in the EU, both in terms of scheduling and overall conception. There are many more examples of cases where domestic reform is closely related to foreign economic policy developments. Domestic reform stimulates competition from imports and also improves the outlook for exports.

4.2 Switzerland's contribution to economic development in partner countries

The third core element of Swiss foreign policy contributes to positive development in partner countries. It is based on two policy pillars:

– The first pillar is direct material aid and support to less developed countries within the framework of economic development cooperation.
– The second pillar is broad dialogue with all countries about suitable economic policies and is effected primarily in international organizations. It ranges from the exchange of experience to more or less binding policy recommendations.

4.2.1 Strategy for economic development cooperation

Economic development cooperation is an integral component of Swiss foreign economic policy.[14] It is in the global interests of all countries that emerging and developing market countries exploit the opportunities offered by globalization and overcome its risks, with the final objective of reducing poverty. This policy element corresponds to the Swiss constitution and legislation and echoes the UNO Millennium Development Goals.

Combating poverty is based on the fundamental principle of solidarity, but it is also a challenge that lies in the interests of Switzerland. The struggle against poverty represents a contribution to international stability and solidarity. In the long term, combating poverty is in the economic interest of Switzerland as success in this respect can open up new opportunities for trade and investment.

A broad front is required in the battle against poverty, and a central factor is the promotion of economic growth and the private sector through investment and trade. The establishment of markets and scope for private initiative are prerequisites and

14 Economic development cooperation efforts are complementary to the work of the Swiss Agency for Development and Cooperation (SDC), which concentrates more on the poorest countries.

drivers for sustainable development, and require a functioning, effective state which lays down the rules for exchange and protects the rule of law. This entails the passing of legislation, creating a functional independent judiciary, combating corruption, encouraging responsible corporate management, building infrastructure, protecting the environment and natural resources and guaranteeing democratic institutions. The key concept of "good governance" sums up all these aspects. The challenge is primarily one that governments in developing economies and transtition countries must face up to (in the sense of "self help"), but partner countries can provide support and assistance from outside.

Swiss economic development cooperation pursues four mutually reinforcing channels:

- Creating a positive framework for development. A crucial element in this regard is a stable macroeconomic environment and a functioning financial market. Switzerland plays a leading international role in the process of sustainable debt relief in emerging and developing market countries. At the same time, Switzerland cooperates with other donors to strengthen financial markets in its partner countries, both at a domestic and an international level. This helps to avoid major crises and systemic shocks.
- Supporting integration in the world economy. Development with a human face depends on integration, rather than the impulse to resist globalization. Countries with strongly protective policies that avoided engagement with the global economy have tended to lose out over the last twenty years. Free trade is a necessary but not sufficient prerequisite for development. A full-scale development strategy requires sufficient domestic investment and strong domestic and regional markets. Switzerland has embarked on several programs that contribute to export competitiveness in partner countries and help underpin their domestic markets and regional integration.
- Mobilizing private resources. Development aid must be deployed as a lever to mobilize private capital and skills, which are essential for development and for the attainment of the UNO Millennium Goals. In concrete terms, this translates into facilitating access to finance and (environmentally-friendly) technology for economically viable and innovative small and medium enterprises in developing economies and transition countries. It also means improving the competitiveness of these small and medium enterprises and their access to international markets. In order to facilitate a substantial private sector contribution to combat poverty, it is important to involve the private sector in the creation and maintenance of basic infrastructure. A strong regulatory environment and supportive mechanisms will underpin these efforts and ensure that the entire population has access to basic services. Public-private partnerships are a valuable form of cooperation when it comes to such infrastructure projects.
- Cooperating with multilateral finance institutions. International financial agencies are important partners in the process of economic integration. Their support in emerging and developing market countries contributes significantly to the solution of complex, politically sensitive, globally relevant problems that are often beyond the financial means of bilateral programs.

Switzerland is a small donor country, and thus places strong emphasis on multilateral aid while also reinforcing its participation and position in multilateral development banks to be able to influence their policies and operations better.

These channels and instruments mutually reinforce each other. They spur sustainable economic development and contibute to effective self-development in partner countries. To be successful, Switzerland must coordinate its efforts with those of other donor countries and concentrate on a limited number of countries. This ensures stronger management, coherence and profiles for the programs.

4.2.2 Promoting better national economic policies

Switzerland's institutional dialogue with other countries within the framework of international organizations is the second pillar of the Swiss contribution to economic development. International dialogue is based on an analysis of various aspects of national economic policy in partner countries, resulting in recommendations being made or standards being agreed. The most important forums are the OECD, the IMF, the World Bank, regional development banks and the WTO. Switzerland also participates in global conferences and supports the implementation of decisions adopted here. The agenda at such events is to develop concepts and instruments for the further improvement and harmonization of national economies.

One of the priority areas of the OECD's work is monitoring the quality of public finances and structural reform. The OECD represents a privileged forum for exchanging experience and developing and structuring policies in the industrialized world. Benchmarking and country reviews are a key tool to promote best practice and transparency. The OECD also has an extensive cooperation program to share such experience and tools with developing countries.

Financial crises in emerging market economies represent the greatest challenge to the IMF at present. Initially, until the period of fixed exchange rates ended in the 1970s, the IMF's primary role was to ensure exchange rate stability. In what are termed Article IV Consultations, the IMF goes beyond its objective of preventing financial crises and intends to promote healthy monetary policy and general economic development. To hold these consultations with developed economies as well, is both a recognition of the need for equal treatment for all member states and an opportunity to exert peer pressure. The Bank for International Settlements (BIS) is another vehicle that aims to promote stability in the financial sector as a prerequisite for stronger flows of private capital. Recent experience has shown how deeply affected potential trading partners are by the failure of a national banking system. The circle of countries concerned extends well beyond the emerging economies of Asia and Latin America.

The World Bank and regional development banks (African Development Bank, Asian Development Bank, Inter-American Development Bank and European Bank for Reconstruction and Development) support structural change in the economy. While the IMF and BIS are concerned with defining and implementing international norms and standards, the development banks underpin the modernization of state institutions, improvements in the institutional and regulatory environment for the private sector, financial sector reform, infrastructure projects and the privatization and restructuring of state companies. They also play a central role in social development, for example in areas such as healthcare and human capital development. The development banks and the IMF act as guarantor in most developing countries for financial stability and a healthy economy. Economic policy debate with these countries deserves particular attention, and resources required normally exceed the outlay made in this regard for OECD country reviews of economic policy. The World Bank, the development banks and the IMF will remain the major source of finance for these countries. These institutions also play an increasingly important role as joint investors or lenders in private projects with risks that exceed the capacity of commercial banks.

The WTO is the preeminent negotiating platform for agreement on regulations governing international economic exchange. Independent of actual negotiations, the WTO's trade policy review mechanism has become an important tool of its own. This mechanism can highlight general aspects of national legislation that impact on trade. As one of the primary objectives, the reviews provide transparency regarding national economic policy formulation, and the reviews afford member states the opportunity to put forward suggestions for policies and practices in a particular country or to express their concerns in this regard.

Appendix 1 Interrelation of foreign economic policy and foreign policy, security policy and sustainable development policy

The Federal Council responded to events in the 1990s in two foundational foreign policy and security policy reviews. These were prompted by the transformation of former East Block states into countries with legitimate democratic governments and a free market economy, as well as general economic and social developments during the decade. This period was characterized by increased globalization which not only occured in terms of economic relations, but also with respect to society at large, the environment and politics. In this vein, the Federal Council also formulated a policy for sustainable development.

The Federal Council's 2000 report on foreign policy

The Federal Council's 2000 report on foreign policy[1] defined foreign policy as a component of general policy led by the interest to safeguard and promote Switzerland's political and economic position in the world. At the same time it is based on a consensus that the pressing issues of our time are increasingly global in nature and cannot be addressed by individual states on their own. Switzerland's contribution to solving global problems must therefore be effected in cooperation with other countries. Furthermore, the contribution of foreign policy in addressing global challenges must rest on fundamental ethical principles. As a consequence, Switzerland's commitment to further developing and defending human rights is an unfailing principle in Swiss foreign policy.

1 BBl 2001 824

In its foreign policy report of 1993[2], the Federal Council defined the following five foreign policy objectives:

2 BBl 1994 I 153

- Safeguarding and promoting security and freedom
- Promoting human rights, democracy and the rule of law
- Protecting the natural environment
- Promoting prosperity
- Reducing social extremes

The goal of promoting prosperity is of particular concern to foreign economic policy. Simultaneously, close economic integration is a fundamental route to safeguarding and promoting peace. The process of European integration is a shining example in this regard. Foreign economic policy is also at the heart of safeguarding and promoting security and stability in that it encompasses measures to prevent and resolve conflict, supports non-proliferation and foresees a framework for embargo policies. Foreign economic policy also contributes to the reduction of social inequalities, particularly in the form of development policy. In formulating regulations for economic exchange, foreign economic policy contributes to promoting human rights, democracy and the rule of law as well as protection for the natural environment.

The Federal Council's 2000 report on security policy

In its security policy report dated June 7, 1999[3], the Federal Council outlined a strategy for Swiss security policy. Economic policy and foreign economic policy together represent one of the pillars of Swiss security policy. The objective of Switzerland's security policy is to develop strategies to prevent and resolve violent conflict. In support of this objective, economic policy and foreign economic policy target the following goals:

3 BBl 1999 7657

- The first priority of economic policy is to maintain a high level of employment in Switzerland and to eliminate social imbalances, thereby contributing to Switzerland's prosperity and political stability.
- Foreign economic policy must open up markets and promote import/export diversification in order to secure supply and employment even under difficult circumstances.

In terms of security policy, the first important foreign economic policy tool is support for international agreements and institutions to avoid the escalation of conflicts of an – initially – economic nature. A second tool is harmonized export control for goods with a civil and military application. This is an essential step in the battle against the proliferation of weapons of mass destruction. A third tool is economic exchange and its inverse, an embargo policy to prevent economic exchange, in an attempt to influence political or social issues in other countries. In this regard, it is essential for a small country like Switzerland that this trade instrument serves the interests of all nations as a whole and does not benefit individual states. In the wake of the terrorist attacks of 9/11, security policy issues within foreign economic policy have grown in importance. It is essential to maintain a balance between security policy issues and economic interests to ensure that trade liberalization is not negatively impacted by a surfeit of security control for goods, services, people, capital and access to knowledge.

2002 sustainable development strategy

The 1992 United Nations Conference on Environment and Development (UNCED, informally known as the Earth Summit) held in Rio de Janeiro reflected a growing concern about global problems in the spheres of the environment and development. The conference resolved the Rio Declaration on Environment and Development, an agreement on 27 general principles, and Agenda 21, a comprehensive program of action for the 21st Century. The Earth Summit enshrined the philosophy of sustainability as an international political anthem. Development can be viewed as sustainable if it meets the needs of the current generation without threatening the ability of future generations to meet their needs. Three binding international treaties were also concluded at the Earth Summit: the United Nations Convention on Biological Diversity[4], the United Nations Framework Convention on Climate Change[5] and the United Nations Convention on Desertification[6].

The Federal Council's strategy of sustainable development announced in 2002[7] is an expansion of the 1997 strategy, was prepared in view of the outcomes of the follow-up UN conference on envirement and development held in Johannesburg. The strategy is based on the belief that policy must strive to achieve a balance between the three areas of sustainability, namely the economy, society and the environment. Protecting natural and human resources improves the competitiveness of the economy and economic growth in the long-term, which in turn is an unavoidable prerequisite for financing environmental protection and social needs.

4 SR 0.451.43
5 SR 0.814.01
6 RS 0.451.1
7 BBl 2002 3946

- Sustainability is often understood primarily in an ecological sense to mean that consumers today should not exploit natural resources at the expense of future generations. This is a pressing problem, especially in areas of international environmental crisis such as global warming. The Federal Council has prioritized the pursuit of coherent and effective international regulations and programs to meet these challenges.
- In the social sphere of sustainability, the first challenge is in the area of domestic policy issues, such as the long-term financial security of social welfare institutions. These issues have been brought to the fore mainly by changes in demographic patterns, which impact on retirement provision and health insurance to provide all people living in Switzerland with access to good medical care. Foreign trade integration is able to moderate the impact of this challenge by contributing to economic growth. The possible contribution made by immigration to economic growth underlines the need for suitable measures to improve mutual understanding between the Swiss citizenry and immigrant communities.
- In the context of this foreign economic report, it is clear that the economic dimension of sustainability is of particular importance. It must be remembered that economic sustainability is not only reflected in a growth policy that raises prosperity in Switzerland today and in the future. Economic sustainability comprises meeting the needs of the current generation too. There is still a huge deficit in this regard in many parts of the world, making a suitable development policy essential. Development policy is thus a crucial aspect of the economic dimension of sustainability policy.

As development progresses, the objective must shift from preventing poverty to promoting prosperity, along with further integration in the global economy. Economic development cooperation therefore addresses strategy areas such as the economic framework in partner countries, foreign market access and a set of international regulations.

Appendix 2 International comparison of Swiss foreign trade integration

Switzerland has traditionally enjoyed strong foreign trade integration. The following overview provides an international comparison of Switzerland's standing in individual economic categories: goods, services and direct investment. The analysis closes by investigating the interrelation between these three categories and Switzerland's balance of payments.

Goods and services

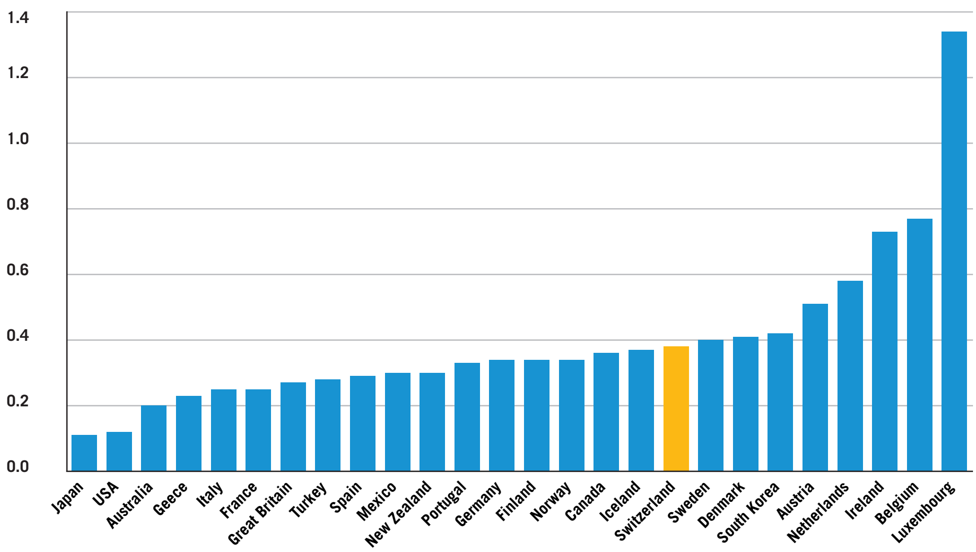
In 2003, Switzerland exported goods to the value of approximately one third of GDP and services worth around 12% of GDP (approximately CHF 54 billion). Switzerland's position as a trading partner can be assessed in relation to the ranking of major global exporters and importers for the same year (2003, see table A1). In terms of goods, Switzerland ranks as one of the top 20 exporting and importing countries. If one views the EU 15 as a single trading partner, then Switzerland moves up the table by seven additional places. Switzerland exports considerably more services than it imports.

Table A1: Switzerland's position in the global list of major trading partners (2003)

	Goods		Services	
	Exports	Imports	Exports	Imports
Switzerland's global rating	19	18	16	24
Share of total world trade	1.3%	1.2%	1.8%	1.1%
Revised position if EU 15 counts as one partner	12	11	7	14

Source: WTO, International Trade Statistics 2004

Chart A1: International comparison of 2003 foreign trade ratio
(exports + imports of goods and services) / 2xGDP)



Source: OECD, Economic Outlook

To better understand the importance of foreign trade to the Swiss economy, it is necessary to analyze trade volumes in relation to Swiss GDP. This is measured by the ratio of foreign trade to output, or – more precisely – the relation of total exports plus imports of goods and services as a percentage of twice the GDP. The foreign trade ratio of smaller countries tends to be higher than for larger countries. In 2004, Switzerland's foreign trade was 40% of GDP. This placed Switzerland midway in the field of comparable countries (see chart A1). To view this rating in context, Switzerland's foreign trade ratio was higher than the figure for Finland, Norway and Portugal, but lower than Sweden, Denmark and Austria's figure, and significantly lower than the foreign trade ratio enjoyed by the Republic of Ireland and the Benelux countries.

Since 1960, the foreign trade ratio for most OECD countries has risen (see table A2). Switzerland's ratio rose by 50% between 1960 and 2003. The strong rate of growth in large countries such as Turkey, the USA, Mexico, France and Canada is of particular interest. Within the ranks of the smaller countries, the Republic of Ireland, Austria and Belgium grew at significantly faster rates than Switzerland. EFTA member states Norway and Iceland saw their foreign trade ratio fall by about 10% over this period.

Table A2: Comparison of foreign trade ratio between 1960 and 2003

1	Turkey	5.5	14	Germany	1.7 (1968)
2	Spain	3.8	15	Greece	1.6
3	USA	2.6	16	Luxembourg	1.6
4	Mexico	2.3	17	Finland	1.6
5	South Korea	2.2 (1970)	18	New Zealand	1.5 (1972)
6	Ireland	2.2	19	**Switzerland**	**1.5**
7	France	2.1 (1964)	20	Australia	1.4
8	Austria	2.1	21	Great Britain	1.3
9	Canada	2.0 (1961)	22	Netherlands	1.3
10	Belgium	2.0	23	Denmark	1.2
11	Italy	2.0	24	Japan	1.0
12	Portugal	1.8	25	Norway	0.9
13	Sweden	1.8	26	Iceland	0.9

Source: OECD, Economic Outlook

In Switzerland, approximately one quarter of foreign trade represents trade in services with the remaining three quarters being trade in goods. The foreign trade ratio can also be calculated individually for goods and services. Between 1960 and 2003, the foreign trade ratio for services doubled while it grew by 40% for goods. This shows that the trade momentum for services is more dynamic than for goods, a fact underscoring the impact of the services sector.

Direct investment

The rising volume of cross-border direct and financial investment is a central feature of globalization in the world economy. Growth in direct investment reflects generally higher flexibility enjoyed by companies in selecting their physical locations. It also indicates the increased significance of service provision abroad, which is mostly effected via a foreign branch.

Swiss companies have rapidly recognized the potential of investment abroad. When calculated in terms of absolute value, Switzerland's direct investment places it in the top 20 countries in terms of investment source and target. This applies for cross-border capital flows and for capital stock accumulated abroad from direct investment (table A3). However, Switzerland is more important as an investment source than as a target country for direct investment.

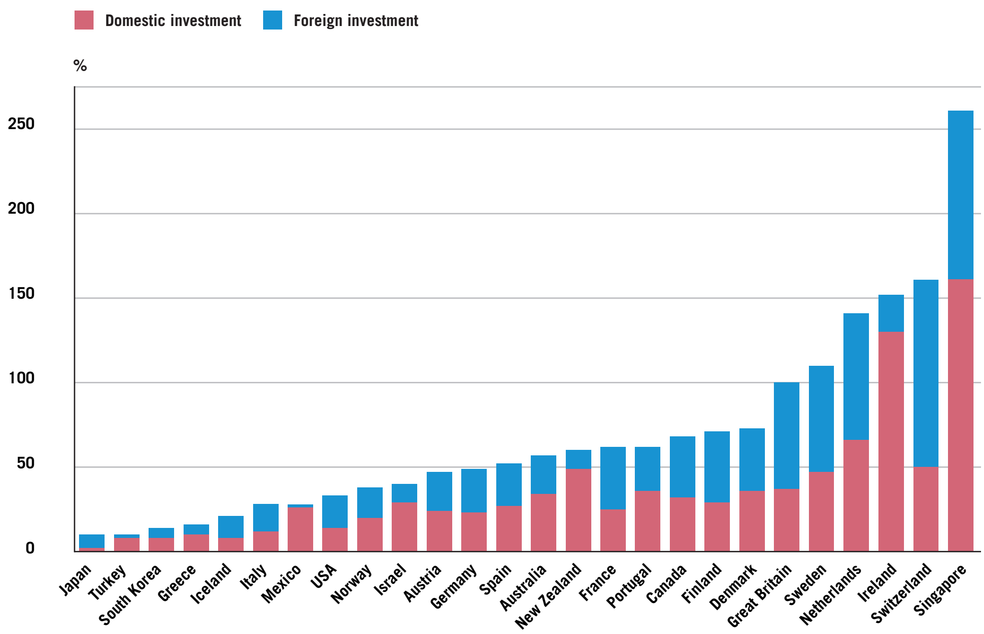
Table A3: Switzerland's position in the global list of direct investment

	Capital flows (average 1994–2003)		Capital stock (2003)	
	Exports	Imports	Exports	Imports
Switzerland's global rating	11	18	6	15
Share of global investment volume	3%	1%	4%	2%
Revised position if EU 15 counts as one partner	6	8	3	8

Source: UNCTAD, World Investment Report 2004

If the capital stock from direct investment (domestically and abroad) is measured as a percentage of GDP, Switzerland features close to the top of the list, behind Hong Kong and Singapore (see chart A2, Hong Kong not represented). This analysis also clearly shows how Switzerland's role as a direct investor abroad is far more significant than it is as a target country for direct investment.

Chart A2: Capital stock from direct investment as a percentage of GDP (2003)



The following table (table A4) shows an international comparison of the relative growth of foreign direct investment in relation to GDP. In Switzerland, the capital stock from foreign direct investment relative to GDP in 2003 was 6.3 times the value in 1980. This places Switzerland well ahead of other OECD countries. If one views the capital stock from Swiss direct investment abroad relative to GDP, it can be seen that Switzerland has enjoyed significantly less growth.

Table A4: Capital stock from direct investment as a percentage of GDP: comparison between 2003 and 1980

	Domestic FDI stock[8]		FDI-Stock[8] abroad
Finland	27.7	Mexico	158.2
Sweden	21.5	Ireland	50.3 (1984)
Iceland	13.6 (1981)	Austria	34.9
Spain	11.9	Finland	30.1
Mexico	7.3	Spain	28.5
Japan	6.8	South Korea	27.9
France	6.5	Sweden	22.6
Switzerland	**6.3**	Norway	20.8
Netherlands	6.1	Australia	16.9
Italy	6.0	Portugal	15.2
Austria	6.0	Denmark	12.1
Denmark	5.9	France	10.3
Germany	5.8	Italy	10.0
New Zealand	4.7	Iceland	7.5 (1981)
USA	4.7	Germany	5.6
Australia	4.3	**Switzerland**	**5.6**
South Korea	3.7	New Zealand	4.9
Great Britain	3.2	Japan	4.3
Portugal	3.0	Great Britain	4.2
Norway	2.0	Canada	4.0
Canada	1.6	Netherlands	3.2
Greece	1.1	USA	2.4
Ireland	0.9	Greece	1.0

Source: UNCTAD, World Investment Report 2004

8 FDI = foreign direct investment. Factor by which FDI has change in comparison to 1980.

Components of Switzerland's balance of payments

A country's balance of payments shows the interrelation of financial flows between domestic and foreign players. The balance of payments methodology uses a double-entry accounting system. This means that every recorded item should have a debit and a credit, and there should be a net balance of zero. The balance of payment is divided into four accounts: the current account, capital transfers, the financial account and miscellaneous items.

The current account records payments for exports and imports of goods and services, labor income (gross salaries of domestic and foreign cross-border workers), investment income (income from capital investments, such as dividends or income from direct investment) and current transfers (e.g. worker remittances by emigrants).

Capital transfers include debt relief and financial gifts.

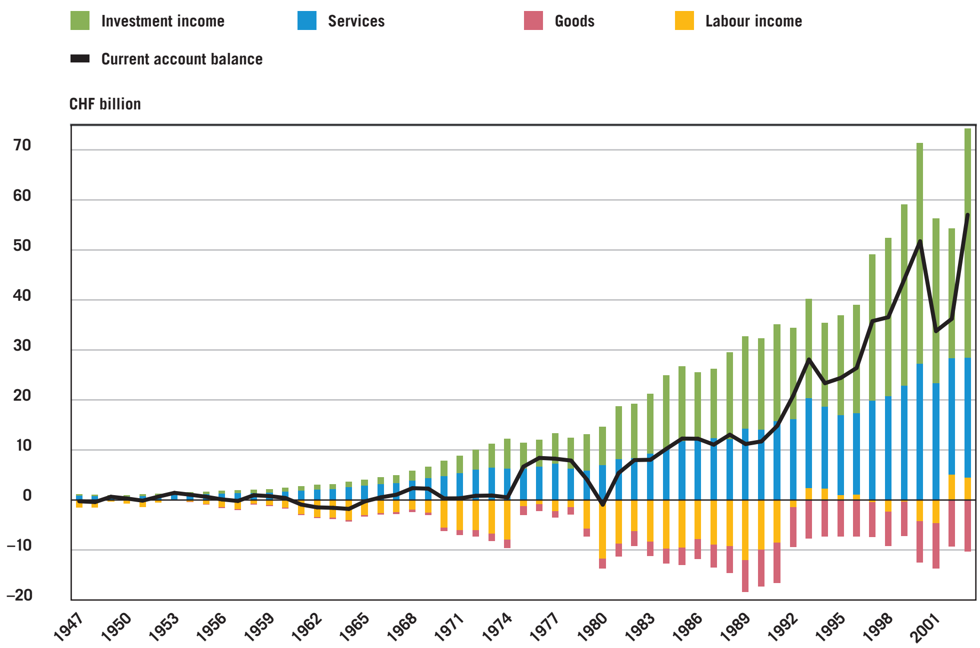
The financial account includes all cross-border direct investment (e.g. corporate shareholdings), portfolio investment (e.g. investments in equities and bonds) and other investments (e.g. loans).

An account is also provided for recording net errors and omissions, being the difference between all income from abroad and all payments made abroad. This accounting difference arises from incomplete reporting of transactions or statistical errors.

Between 1947 and 2003, the Swiss current account recorded a surplus in 46 years and a deficit in 10 years (see chart A3). Over this period, Switzerland's current account trend has been towards rising surpluses. Up until the start of the 1980s, the current account was influenced largely by fluctuations in the figures for goods and services. In the early 1960s and 1970s, high GDP growth rates (a period of economic overheating) led to an excess of imports in both goods and services. As growth slowed or turned negative, this balance was generally offset or became positive.

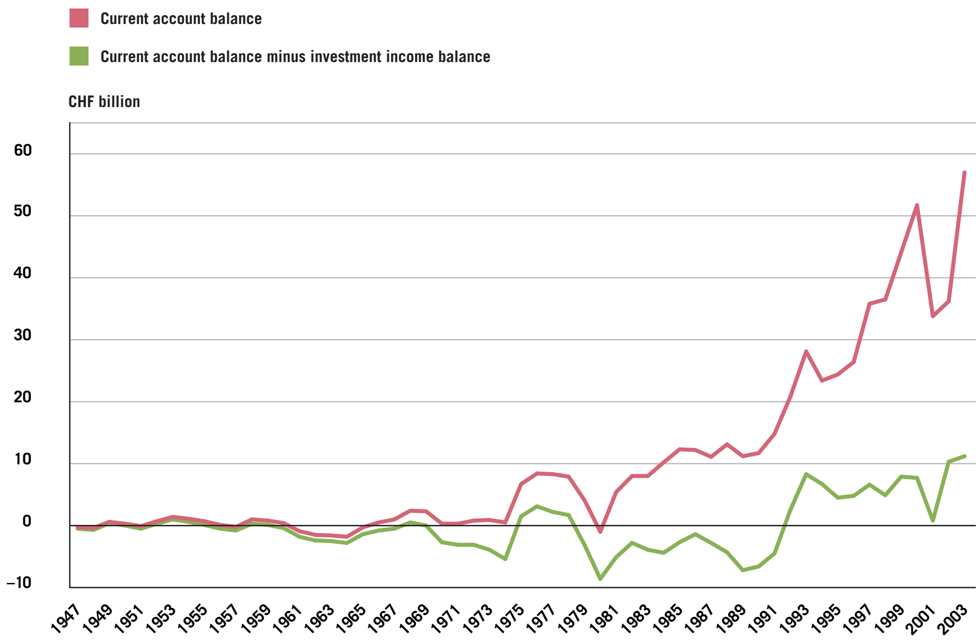
Over the period from 1950 to 1990, the current account for goods and services was generally balanced. Since the 1990s, this category has been consistently positive, due to the positive balance for services. Even during periods of strong domestic growth, the trade in goods and services showed a relatively large surplus. This can partly be explained by the difference in export and import prices; in the 1990s, the increase in export prices was significantly stronger than for import prices.

Chart A3: The Swiss current account components[9] and total balance



9 The component for current transfers is so minimal that it cannot be represented in the chart.

Chart A4: The significance of investment income in the current account



Since the mid-1970s, the current account balance has been increasingly underpinned by surpluses on the investment income account. Between 1950 and 2000, net investment income rose with virtually no interruptions. The reason for this steady increase has been the growth in Switzerland's net assets abroad.

If one strips the investment income component from the current account figures, the upward trend is clearly neutralized (see chart A4). Without the investment income component, it becomes clear that the current account would have recorded a negative balance in the 1980s, with a positive balance restored in the 1990s.

AFTA ASEAN Free Trade Area

ASEAN Association of Southeast Asian Nations

BIS Bank for International Settlements

CEFTA Central European Free Trade Agreement

EC European Community

ECSC European Coal and Steel Community

EFTA European Free Trade Association

EU European Union
(first pillar: EC, ECSC, Eura¬tom; second pillar: common foreign and security policy; third pillar: police and judicial cooperation in criminal matters)

Euratom European Atomic Energy Community

EU 15 Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden, the Netherlands, the United Kingdom

EU 25 EU 15 plus Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, Slovenia (countries that joined the EU in May 2004)

FDI Foreign Direct Investment

G7 Group of Seven
The seven leading industrial nations of the world: the United States of America, Japan, the United Kingdom, Germany, France, Italy, Canada

GDP Gross Domestic Product

GATS General Agreement on Trade in Services

GATT General Agreement on Tariffs and Trade

GCC Gulf Cooperation Council

ILO International Labour Organization

IMF International Monetary Fund

Mercosur Mercado Común del Sur
Southern Common Market, created by Argentina, Brazil, Paraguay and Uruguay

MFN Most Favoured Nation
A GATT principle

MRA Mutual Recognition Agreement

NAFTA North American Free Trade Agreement *(between the USA, Canada and Mexico)*

OECD Organisation for Economic Cooperation and Development

SDC Swiss Agency for Development and Cooperation

SME Small and Medium-Sized Enterprises

TRIMS	Agreement on Trade-Related Investment Measures
TRIPS	Agreement on Trade-Related Aspects of Intellectual Propery Rights
UNCED	United Nations Conference on Environment and Development
UNCTAD	United Nations Conference on Trade and Development
UNO	United Nations Organization
WTO	World Trade Organization

Schweizerische Eidgenossenschaft
Confédération suisse
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Publisher
On behalf of the Federal Council:
State Secretariat for Economic Affairs SECO
CH – 3003 Berne

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The Federal Council adopted the 2004 Foreign Economic Policy Report on January 12, 2005.

Project managment and editing
Graf Moll & Partner Corporate Publishing GmbH, Zurich

Translation
Thomas Olver, Glenwood/SA