

Executive summary of the Swiss Foreign Economic Policy Report 2017

Objectives of the Federal Council for 2017

In the year under review, the Federal Council focused once again on improved access to international markets for Swiss companies and on renewing and further developing political and economic ties with the EU (cf. Objectives of the Federal Council 2017, Objectives 4 and 5).

The Federal Council actively supported the liberalisation of international trade within the framework of the World Trade Organization (WTO) and by way of negotiating free trade agreements (FTA). With regard to economic relations with the EU, the constitutional provisions on the control of immigration were successfully implemented in compliance with the Bilateral Agreements Switzerland-EU. Subsequently, the updating of the Switzerland-EU agreement on technical trade barriers, which had been negotiated in 2016, took effect in July 2017 after a considerable delay. This means that important Swiss industrial products will continue to have access to the EU single market without the need for additional certification of conformity or tests. The Federal Council continued its dialogue with the United Kingdom to ensure that the existing close bilateral economic relations are preserved even after the UK's intended withdrawal from the EU.

The present report discusses these and other items of significance to Swiss foreign economic policy (sections 2 to 7). The report focuses in particular on developments in international investment protection and the measures being taken by Switzerland to further develop the bilateral investment treaties (BITs) (section 1).

The Federal Council will detail the achievement of the foreign economic policy objectives in the 2017 Annual Report of the Swiss Government. A provisional assessment of foreign economic policy in 2017 suggests that the objectives have been achieved.

The economic environment

The world economic upswing continued in the year under review. For the first time in a number of years, the business cycle was pointing upwards simultaneously in almost all of the world's major economies. In line with the positive economic situation and due not least to global growth in investment activity, world trade recovered from its sluggish performance in the two preceding years. At the same time, inflation rates remained low in many industrial countries.

In Switzerland, rates of economic growth remained generally moderate, though business activity saw a sharp rise in the second half of the year. In step with the economic recovery, the labour market situation also improved somewhat, and unemployment rates continued to fall. Thanks to the reviving global economy, there was an upturn in exports. Domestic demand also provided positive stimuli. Both consumption and investments contributed to GDP growth. Industry and the hotel and catering trade benefited from this dynamic environment and were thus able to make good some of the ground lost when the Swiss franc appreciated sharply in 2015. On the other hand, as the banks' lending and deposits business was impacted by the prevailing negative interest rates, the financial services sector showed only moderate growth. The wholesale and retail sectors also generated fewer stimuli than in the previous two years.

Switzerland's most important trading partner is the EU, accounting for 62 per cent of total foreign trade. Between January and October, 53 per cent of goods exports went to the EU – three percentage points more than in the same period of 2016. This can be ascribed to the relatively buoyant EU economy and to the Swiss franc's depreciation against the euro. Within the EU, Germany was Switzerland's largest trading partner by far, with the neighbouring state of Baden-Württemberg accounting for the lion's share of this. Italy and France remain the second and third largest trading partners respectively, with the UK coming in at fourth place.

After the EU, the USA is Switzerland's second most important trading partner, accounting for 12 per cent of total foreign trade. In the first ten months of the year, 15 per cent of Swiss exports went to the USA, which was the source of seven per cent of its imports. Moreover, with 258 billion Swiss francs invested in the United States, Switzerland is the USA's sixth most important direct foreign investor. The USA remains a significant growth market for Swiss industry. In the year under review, the US Administration brought about a paradigm change in trade policy by focusing on bilateral relations and seeking to reduce trade deficits with specific partners. Thus it withdrew from the regional Trans-Pacific Partnership (TPP) agreement that had been signed in 2016. Furthermore, negotiations on the plurilateral Trade in Services Agreement (TiSA) were discontinued. The USA is prioritising the renegotiation of the North American Free Trade Agreement (NAFTA) with Canada and Mexico.

In Latin America, Brazil and Argentina – the subcontinent's largest and third-largest economies respectively – have emerged from recession. This also had beneficial effects on bilateral trade with Switzerland.

In Asia, China continued to dominate economic developments. After the EU and the USA, China is Switzerland's third-most important trading partner – a position that has been further consolidated by the bilateral Switzerland-China FTA. Three and a half years after the agreement's entry into force, bilateral trade has developed positively from the viewpoint of both countries, and not only in absolute terms but also in relation to trade with other partners.

In the Middle East and Africa region, the United Arab Emirates (UAE) were Switzerland's largest partner again in the reporting year, both for trade and for investment. With a capital stock of almost 26 billion Swiss francs, Swiss direct investments in the UAE exceeded those in China and in many other countries.

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

Feature topic: Using developments in international investment protection as an opportunity (section 1)

Switzerland is one of the world's ten largest capital exporters. Favourable conditions for foreign investment are thus important for Switzerland. Against the background of globalising value added chains and digitalisation of the economy, the significance of cross-border corporate structures is increasing, also for small and medium-sized enterprises (SMEs). Because this results in assets being tied up abroad for the long term, there is a growing need for intergovernmental treaties to regulate the relevant conditions. In this context, BITs are an important instrument for strengthening international legal security (synopsis in section 8.1.1).

In the last few years, BITs and the dispute settlement procedures they provide for have come under increasing criticism. Recently, a number of countries have terminated such agreements. Switzerland recognises the need for reform in certain areas. Consequently, the Swiss approach to BITs has continuously been developed in recent years. At the international level, Switzerland is participating in efforts focusing (among other things) on increased transparency and other reforms in investor-state dispute settlement procedures.

Corporate social responsibility (section 2)

Competitive companies committed to responsible business conduct are a factor in Switzerland's success as a business location. The fundamentals of corporate responsibility - with regard to human rights, labour and environmental standards, combating of corruption, etc. - are widely recognised in Switzerland. The federal government supports corporate social responsibility in a number of ways, such as promoting implementation of the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Economic relations with the EU (section 3)

After Parliament decided at the end of 2016 to implement Art. 121a of the Federal Constitution (control of immigration) complying with the Switzerland-EU Agreement on the Free Movement of Persons, the updated Agreement on the Mutual Recognition of Conformity Assessments, as negotiated in the first half of 2016, entered into force in mid-2017 and at the end of 2017 (section 3.1). As a consequence, further progress was also achieved at a technical level in other areas. In light of the developments in the overall relations between Switzerland and the EU, the Federal Council decided in November to initiate preparations of a new Swiss contribution to reduce economic and social imbalances in certain EU Member States (section 3.2). Following the unjustified and discriminatory decision of the EU on 21 December to recognize equivalence of the Swiss stock market only temporarily, the Federal Council may reconsider the work towards the draft bill in 2018.

As part of the «Digital Switzerland» strategy, an internal federal coordination group was established with a view to identify, as early as possible, the potential impact of the European Commission's strategy for promoting a digital single market and to utilise resulting synergies for Switzerland (section 3.3). In the context of their informal dialogue, Switzerland and the United Kingdom agreed that the existing contractual relations, which are largely based on the bilateral agreements between Switzerland and the EU, should as far as possible be continued after the UK's intended withdrawal from the EU (section 3.4).

World Trade Organization (WTO) and other multilateral economic cooperation (section 4)

Little progress was achieved in the WTO during the year under review (section 4.1). At the WTO's Eleventh Ministerial Conference, held in Buenos Aires, the ministers reiterated the importance of the multilateral trading system. Only in few areas of negotiation was it possible to adopt multilateral decisions. In addition, Switzerland joined, a number of plurilateral initiatives, among with an initiative to step up exploratory work in the area of e-commerce.

In the fringes of the WTO Ministerial Conference, Switzerland signed a declaration with a number of other countries regarding the discontinuation of subsidies for fossil fuels that distort trade and are harmful to the environment.

In the year under review, the WTO examined Swiss foreign trade policy. The WTO members acknowledged, inter alia, Switzerland's robust economy, the political stability, the flexibility of the labour market, and the incentives for innovation, whereas the high level of protection in the area of agriculture attracted widespread criticism. The state-owned postal, insurance and telecommunication monopolies were also queried by some WTO-Members.

Domestically, the focus was on the implementation of the WTO Ministerial Declaration on Export Competition passed at the Tenth Ministerial Conference in Nairobi in December 2015. The Declaration calls for the abolishment of all remaining export subsidies for agricultural products, which include the Swiss export contributions for processed agricultural products. In addition, a national Trade Facilitation Committee was appointed, as provided for by the WTO Agreement on Trade Facilitation for all WTO members.

In the Organisation for Economic Cooperation and Development (OECD), the imminent accession of new members gave rise to discussion in the year under review (section 4.2). The Federal Council is urging that the OECD's standards also be observed by new members.

Free trade agreements and other economic agreements (section 5)

Switzerland continued efforts in the year under review to expand and further develop the Swiss network of free trade agreements (synopsis in section 8.1.2). The negotiations on the update of the FTA with Turkey were concluded in substance. Progress was made in most of the other ongoing negotiations. However, some negotiations still face challenges, such as Switzerland's limited possibilities for facilitating access to its domestic market for agricultural products (section 5.1). In addition to the ongoing negotiations, three Joint Committees of the EFTA States with free trade partners met during the year under review (Cooperation Council for the Arab States of the Gulf, Hong Kong, Ukraine; section 5.2). To promote bilateral economic relations with partners with which Switzerland has not concluded an FTA, various economic missions and meetings of Joint Economic Commissions took place (section 5.3 and synopsis in section 8.1.3), and discussions were held on the protection of intellectual property (section 5.5).

Economic development cooperation (section 6)

Multilateral development banks such as the World Bank are vital to international development cooperation. Their expertise makes them important partners to Switzerland in the implementation of its development policies. In the year under review, Switzerland celebrated the 25th anniversary of its accession to the World Bank (section 6.1). The strategies and programmes for promoting professional skills in developing countries (section 6.2), sustainable investments (section 6.3) and sustainable tourism (section 6.4) are examples of Switzerland's innovative approach to development cooperation.

Export controls and sanctions (section 7)

In the year under review, the Conference of States Parties passed a number of mandates relating to the implementation of the Arms Trade Treaty, which entered into force in 2015 (section 7.1). For exports subject to the Swiss Control of Goods Act nearly 8000 permits were issued in the year under review (synopsis in section 8.1.4.). Owing to North Korea's repeated nuclear and rocket tests, stricter sanctions were imposed on this country (section 7.2). The Federal Council took further action against Mali after repeated violations of the ceasefire agreement by armed groups. The sanctions against Syria were eased during the reporting year for certain humanitarian organisations.

Outlook for the coming year

The Federal Council will continue in 2018 to develop the free trade network and to improve access to foreign markets for Swiss companies. The Federal Council is seeking to conclude the EFTA negotiations on FTAs with Ecuador and with Indonesia and, if possible, with India, Malaysia and Vietnam. The EFTA negotiations are being continued with Mercosur and, if possible, also those on the modernisation of the existing EFTA-Mexico FTA. The exploratory discussions with China regarding a deepening of the Switzerland-China FTA will continue, as will the exploration of a possible modernisation of the EFTA-Canada FTA. Negotiations on the modernisation of existing FTAs are to start with the Southern African Customs Union and with Chile. The Federal Council will also give priority to the trade dialogue with the USA.

Negotiations with the EU on institutional issues will continue in 2018. The aim is to strengthen legal certainty and the non-discrimination of market players within the scope of the agreements based on harmonisation of national regulations, as well as exploring new opportunities for enhancing mutual market access. In order to maintain market access for Swiss exporters by reducing technical barriers to trade in the manufacturing sectors covered by the 1999 Agreement on Mutual Recognition of Conformity Assessments (MRA), the Federal Council will continue talks with the EU-Commission on the updating of the MRA to take account of ongoing technological developments. Moreover, the Federal Council will initiate the consultation process for a new Swiss contribution to reduce economic and social imbalances in certain EU Member States. However, the Federal Council may reconsider the draft bill in light of the overall relations between Switzerland and the EU.

The Federal Council will continue to closely observe the negotiations between the EU and the United Kingdom (UK) on their future relations while pursuing the Swiss-UK dialogue with the aim of ensuring an as seamless as possible continuation of economic relations between Switzerland and the UK after the latter's intended withdrawal from the EU.

Further to the cooperation agreement with the EU in the area of competition, which took effect in 2014, Switzerland intends to commence negotiations on a comparable cooperation agreement with Germany, its most important trading partner.

Outside Europe, the focus of Swiss foreign economic policy will continue to be on improving market access for Swiss companies in emerging economies, especially China and other Asian countries. The Federal Council is also following economic developments and the associated potential taking shape in other new markets, such as in South America and Africa.

In the context of the WTO, Switzerland will advocate the continuation of work in all areas of negotiation and the strengthening of the institutions and the regulations of the WTO. Concerning agriculture-related negotiations Switzerland will maintain a defensive position.

Once the referendum deadline will have been elapsed, the Federal Council will put into effect, as of 1 January 2019, the statutory amendments required to implement the Decision on export competition passed by the Tenth WTO Ministerial Conference of 2015, together with the accompanying measures. The consultative process on the amendments of associated ordinances will begin in spring 2018.

The Federal Council will continue updating and expanding the Swiss BIT-network. In 2018 the ongoing negotiations with India, Malaysia and Mexico will be continued, and negotiations on a new BIT with Bahrain respectively on the updating of the existing BIT with Slovakia will be started. At the same time, Switzerland will participate in the multilateral work in UNCITRAL in view of setting up a permanent multilateral investment dispute settlement tribunal. Switzerland will advocate, together with other countries, initiation of relevant negotiations in 2018.

By November 2018, the interdepartmental platform on commodities will be re-examining the situation of the Swiss commodities sector in respect of competitiveness, integrity, the environment and other aspects.

In 2018, Switzerland will participate in various expert groups working on the OECD digitalisation project («Going digital»). Switzerland will also take part in the negotiations regarding the accession of various countries applying for OECD membership. In spring 2018, the OECD will publish its peer-review report examining on Switzerland's implementation of the OECD's Anti-Bribery Convention. This report will focus on the prosecution of persons involved in bribing foreign public officials.

Switzerland will continue contributing to international development efforts. In this context, the Federal Council will pay due attention to the challenges in the areas of finance and trade, climate change, water, and migration on the one hand, and to the implementation of the Sustainable Development Goals of the Agenda 2030 on the other. The World Bank accords high priority to the same challenges. For this institution capital increases will be under discussion in 2018. The Federal Council will consider possible participation by Switzerland. Subject to available resources, the Report to the Parliament on "International Cooperation by Switzerland 2017–20" will continue to be implemented through economic and trade-policy measures, with the aim of creating more and better jobs, enhancing competitiveness and an economy more resilient to climate change.