

# Foreign Economic Policy Report 2012

## 1 **The importance of the border regions in terms of promoting Switzerland as a business location and of foreign economic policy**

*The border regions are very important to the Swiss economy, as the country's most intensive trade relations are those conducted with the border areas of the neighbouring states. Some of the most important drivers of the European economy are located in those border areas, so good relations with our neighbours – going well beyond the sphere of foreign trade – are crucially important. In the event of problems on the national borders, it is important to swiftly arrive at amicable solutions. Switzerland is committed to ensuring this.*

*This main topic highlights the distinctive characteristics of border regions and the economic importance of the neighbouring states and their border areas. It also focuses on the importance of these territories for selected federal policies. Most discussion centres on the fields in which the actions of the federal government are of central importance to the economic development of the border regions: enhancing locational quality and competitiveness, the labour market, foreign trade, infrastructure, and education, research and innovation. Development in these fields fundamentally influences relations in cross-border areas, with the neighbouring states and with the EU as a whole. The strategies we pursue must be territorially differentiated – as highlighted, for example, by «Spatial Concept Switzerland». The division of federal responsibilities and good collaboration, between the federal government on the one hand and the supraregional and cantonal bodies on the other, facilitate efforts to promote regional foreign trade.*

### **Preliminary remark**

In this paper the term *border regions* is used to denote parts of Switzerland immediately adjacent to its national frontiers (such as North-West Switzerland and individual border cantons), and also their counterparts beyond the frontiers as defined by the perimeter of the EU's INTERREG IV A<sup>1</sup> support programmes. The term *cross-border regions* denotes the cross-border development areas as defined by INTERREG IV A. The Upper Rhine development area, for example, encompasses four areas: North-Western Switzerland, Alsace, the western part of Baden-Württemberg, and the Southern Palatinate. The term *border areas*, finally, denotes the more extensive regions of neighbouring countries that share a border with Switzerland – such as German federal *Länder* and French *régions*.

<sup>1</sup> See [www.regiosuisse.ch](http://www.regiosuisse.ch).> ETZ/INTERREG > INTERREG > INTERREG IV A.

## 1.1

### Background

Being a small country, Switzerland in a sense consists mainly of border regions. Of the 26 cantons, 15 share a border with a neighbouring country. Political, cultural and especially economic relations are correspondingly close. In 2010, 75 % of Switzerland's nominal gross domestic product was generated in those 15 cantons. Not all border regions are alike, however: they range from metropolitan conurbations to alpine zones.

Trade relations with the border areas of Bavaria, Baden-Württemberg, Rhône-Alpes and Lombardy are particularly important, as these are among the most important drivers of the European economy. This regional foreign trade integration makes a major contribution to Switzerland's economic prosperity.

The border regions offer good prospects for cross-border collaboration, generating benefits on both sides of the border and also having effects beyond those territories. At the same time specific challenges can arise in these regions, or general challenges can become particularly accentuated, impairing relations with our neighbours or with the EU.

Appropriate institutional frameworks are crucially important to regional economic success. Regions are not pre-ordained territorial units, but spaces that develop through social and economic exchange. This often means that the borders of municipalities and cantons are crossed. This gives rise to both opportunities and challenges, especially in border areas where these processes can also cross national frontiers.

We shall consider the great importance of regional cross-border economic integration in terms of promoting Switzerland as a business location. The guiding principle here is the recognition that economic development is partly a function of spatial location. If we are to make Switzerland a more competitive, more attractive place to do business, the strategies we adopt must be territorially differentiated (see section 1.3.1). Promoting the unique selling propositions of locations, i.e. those qualities that make them stand out from the competition, moves to centre-stage. In this respect, moreover, Switzerland is placing increasing emphasis on federalism: it is not only the federal government that makes a contribution to regional economic integration but also supraregional and cantonal bodies («subnational levels»).

We shall also examine other factors of key significance to border regions, principally relating to (foreign) trade (see sections 1.3.2–1.3.5), and primarily from the federal viewpoint. The selection of these fields is based on the bilateral agreements with the EU, which are the central foundation for the expansion of relations with the regions adjacent to Switzerland's borders. As for financial and tax-related questions<sup>2</sup>, we focus on the taxation of cross-border commuters.

<sup>2</sup> For more detailed information see the Report of the Swiss Federal Tax Administration on International Questions of Finance and Taxation 2013 ([www.efd.admin.ch](http://www.efd.admin.ch) > Documentation > Publications > Brochures > Report on International Questions of Finance and Taxation 2013).

## 1.2 Thematic context

### 1.2.1 Special characteristics of border regions

#### The political-institutional dimension

Like its five neighbouring countries, Switzerland is a member of the European Convention of 21 May 1980<sup>3</sup> on cross-border cooperation between territorial authorities (the Madrid Convention). This sets out the legal framework for cooperation at the level of cantons and municipalities. Furthermore the Federal Council, representing several border cantons, has signed the Karlsruhe Agreement of 1996<sup>4</sup> with Germany, France and Luxembourg. This contains provisions for the conclusion of cooperation agreements and the creation of cross-border bodies (special-purpose associations). Numerous organisations of this type exist all along the Swiss border, safeguarding and consolidating economic and social cohesion in the cross-border regions. On Switzerland's northern and eastern frontiers, for example, this function is exercised by the three-nation Upper Rhine Conference, the International Lake Constance Conference, and the Upper Rhine Commission. As for the border with France, mention should be made of the *Comité régional franco-genevois* (CRFG) and the *Conférence TransJurassienne* (CTJ) and in the Italo-Swiss border area the *Regio Insubrica*.<sup>5</sup>

Switzerland's border regions are also particularly affected by the Schengen Association Agreement of 26 October 2004<sup>6</sup> and the Dublin Association Agreement, also of 26 October 2004<sup>7</sup>. As a result, systematic identity checks are no longer conducted at the national borders – which makes cross-border passenger traffic much smoother. The Swiss Border Patrol still conducts goods inspections, though, as Switzerland is not a member of the EU customs union.

#### The economic dimension

In economic terms, frontiers are primarily barriers that generate costs. They impair the flow of goods and services, impede production factors, and make it difficult for companies to benefit from economies of specialisation and scale.<sup>8</sup> This can restrict regional integration in that the regions on one side of the frontier or the other run the risk of becoming truly peripheral regions. As examples of economic drawbacks we might mention interruptions in the network infrastructure, impediments to flows of labour, trade and capital, differing administrative systems, and the territorial segmentation of labour, commodity and property markets.

Territorial proximity to neighbouring countries can, however, constitute a competitive advantage (contact function), in that border regions become a starting point for cross-border networks or take on specific functions such as transportation hubs or

<sup>3</sup> SR 0.131.1

<sup>4</sup> The Agreement is not published in the AS. It can be downloaded from the Federal Department of Foreign Affairs (FDFA) at [www.eda.admin.ch](http://www.eda.admin.ch) > Topics > Switzerland's cross-border cooperation > Legal basis > Karlsruhe Agreement.

<sup>5</sup> See [www.oberrheinkonferenz.org](http://www.oberrheinkonferenz.org); [www.bodenseekonferenz.org](http://www.bodenseekonferenz.org); [www.hochrhein.org](http://www.hochrhein.org); [www.crfginf.org](http://www.crfginf.org); [www.conference-transjurassienne.org](http://www.conference-transjurassienne.org); [www.regioinsubrica.org](http://www.regioinsubrica.org).

<sup>6</sup> SR 0.362.31

<sup>7</sup> SR 0.142.392.68

<sup>8</sup> See van Houtum, Henk: An Overview of European Geographical Research on Borders and Border Regions, *Journal of Borderland Studies*, Vol. XV, No. 1, Spring 2000; Frey, René L.: Kooperation in Grenzregionen: am Beispiel der Basler Dreiländerregion; paper delivered on 30 May 2012.

transit centres (known as *gateways*). Frontiers also give rise to so-called arbitrage opportunities: businesses can exploit mismatched conditions on each side of the frontier: differences in price, taxation, wages and labour costs, for example – and also differing technological capabilities. This can also lead to conflict, though: when Schaffhausen farmers purchase agricultural land adjacent to their own just across the border in southern Germany, the German response is critical.

### **The sociocultural dimension**

Border regions are where different nationalities meet, with all that they have in common and all that they do not. Their relations depend largely on their readiness to open themselves up to their neighbours. Matters such as a common identity and fellow feeling have significant parts to play. In some places, such as the Lake Constance region and the Upper Rhine, a cross-border sense of collective identity<sup>9</sup> has developed – though differing views and isolationist tendencies can be discerned here and there. Indicators of this include the current debate about cross-border commuters in Ticino and Geneva, and air traffic in northern Switzerland.

*A certain degree of ambivalence is typical of border regions. Frontiers offer development potential, but they can also constitute obstacles. From the overall economic viewpoint, the impeding effect of frontiers should be kept to an absolute minimum.*

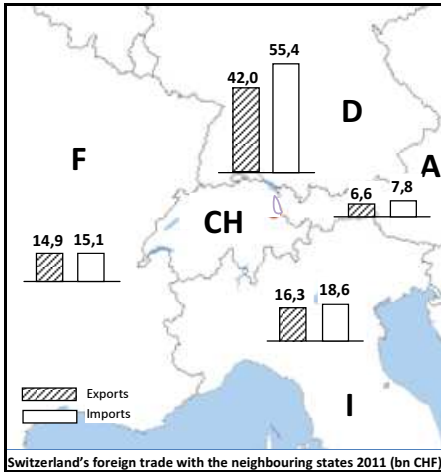
### **1.2.2 The economic importance to Switzerland of neighbouring states and border areas**

The EU remains Switzerland's most important trading partner. In 2011 the value of exports to the EU totalled 118 billion Swiss francs (57 % of all Switzerland's exports). Imports from the EU totalled 136 billion Swiss francs (74 % of all Switzerland's imports).<sup>10</sup> Switzerland is the EU's fourth-most-important trading partner, after the US, China and Russia.

Trade relations with our immediate neighbours are extremely important (see figure). In 2011 they accounted for 45.2 % of Switzerland's foreign trade volume, i.e. exports plus imports. By comparison: Switzerland's trade relations with the EU as a whole accounted for 65.1 % of our foreign trade volume in 2011.

<sup>9</sup> Newrly, Petra: *Transnationaler Regionalismus*, LIT-Verlag, Münster–Hamburg–London, 2002, S. 41.

<sup>10</sup> Foreign trade statistics of the Federal Customs Administration (FCA) of 23 October 2012 based on the country-of-origin principle (unpublished).



Germany is Switzerland's most important economic partner, with a trade volume of 97.4 billion Swiss francs – followed by Italy with 34.9 billion Swiss francs and France with 30.0 billion Swiss francs. Austria, with 14.4 billion Swiss francs, is also one of our most important trading partners.

In 2010 Switzerland's four neighbours – Germany, Italy, France and Austria – accounted for 44.5 % of its foreign trade (the EU as a whole: 65.5 %). The equivalent figures for 2009 were 45.8 % and 66.3 %.

Despite recessionary tendencies in most EU member states, trade relations between Switzerland and all but one of the neighbouring states were up in 2011 in comparison with the previous year: Germany +4.3 %, Italy +2.2 %, Austria +10.6 %. The one exception was France, at -1.6 %. The figures for numerous other European states declined.

Another indicator of the intensive economic networking between Switzerland and its neighbouring countries is the volume of mutual direct investment as at the end of 2010. In aggregate, Swiss investment in the four neighbouring countries of Germany, France, Italy and Austria totalled 113 billion Swiss francs, while investment by those four countries in Switzerland exceeded 150 billion Swiss francs. Swiss companies employ around 540 000 people in these countries, while the number of people employed in Switzerland as a result of direct investment by neighbouring countries is of the order of 175 000 people.

The importance of the border areas in terms of foreign trade is huge. In 2011 around 45 % of exports to Germany and 40 % of imports from Germany were handled by the federal *Länder* of Baden-Württemberg and Bavaria.<sup>11</sup> Switzerland does almost as much trade with Baden-Württemberg as it does with the USA (31.4 billion Swiss francs in 2010). At the same time, Switzerland conducts a comparable volume of trading with Bavaria as it does with Spain (2010: 11.4 billion Swiss francs) and Japan (2010: 11.1 billion Swiss francs). In 2009 around one third of our exports to France went to the immediately adjacent areas of Alsace, Franche-Comté and Rhône-Alpes, which accounted for about a quarter of Switzerland's total imports from France.<sup>12</sup> Where Italy is concerned, 49 % of exports and 53 % of imports were conducted with the border areas of Piedmont, Lombardy, the Aosta Valley and

<sup>11</sup> Our own calculations based on figures from the statistics offices of the relevant federal *Länder*.

<sup>12</sup> Our own calculations based on figures from the French National Institute of Statistics and Economic Studies (INSEE), only available for 2009.

Trentino-Alto Adige.<sup>13</sup> In trade with Austria, the border areas of Vorarlberg and Tirol are Switzerland's most important partners.

*Switzerland's neighbours, and the border areas in particular, are extremely important partners to the Swiss economy in terms of both trade relations and direct investment. The Federal Council considers it important to gear the various policy areas towards exploiting this potential.*

### **1.2.3 The importance of the border regions in the context of selected federal policies**

#### **From the viewpoint of promoting Switzerland as a business location**

The specific qualities of an area or a location play a major role in its economic development. Promotional measures must be formulated to match the special spatial characteristics of metropolitan areas, industrial regions, tourist destinations and border regions. The policy presented by the Federal Council in its Message of 23 February 2011<sup>14</sup> on the promotion of Switzerland as a business location, 2012–2015, is designed to make these areas more attractive and to make the Swiss economy – in which the role of SMEs is so pronounced – more competitive. In most fields – those of regional and tourism policy first and foremost – implementation is territorially differentiated.

Cross-border cooperation in border regions was for a long time overwhelmingly the province of the cantons. As competition between business locations has intensified, however, the number of internationally competitive locations is trending downwards. From the federal viewpoint, therefore, action on a large scale is called for in order to achieve the requisite critical mass (such as cooperation among the cantons in the Jura arc). Switzerland's federal structures are advantageous here, as they enable the federal government to obtain the support of supraregional and cantonal bodies in its work to strengthen regional foreign trade.

#### **From the viewpoint of foreign trade strategy**

The Federal Council's foreign trade strategy of 2004 highlighted the fact that the international division of labour is the foundation of Switzerland's economic success (see the Federal Council's report of 12 January 2005<sup>15</sup> on foreign economic policy in 2004, and also Messages on economic agreements). Two core elements of the strategy are the improvement of market access for Swiss companies abroad, and a competition-friendly domestic-market policy. The Federal Council thinks it important to make this point: improved market access is not a one-way street. There must be concomitant liberalisation measures in Switzerland. Since the foreign trade strategy features no spatial differentiation, the border regions are not mentioned explicitly. But the interplay of foreign trade and domestic-market policies is particularly evident in these areas: this is precisely where the domestic economy (construction,

<sup>13</sup> Figures from the Italian National Institute for Statistics (Istituto nazionale di statistica; ISTAT).

<sup>14</sup> BBI 2011 2337

<sup>15</sup> BBI 2005 1089

retailing etc.) is at its most sensitive to the structural pressures emanating from market liberalisation (see sections 1.3.2 and 1.3.3).

### **From the viewpoint of foreign-policy strategy**

The Federal Council also focuses more closely on border regions in its foreign-policy strategy for the years 2012–2015 (see Foreign Policy Strategy 2012–2015. Report of the Federal Council of March 2012<sup>16</sup> on the legislature's core foreign-policy issues). Key strategic issue no. 1 is the maintenance and consolidation of Switzerland's relations with its neighbouring countries, with particular attention to the border regions and the rapid resolution of any differences of opinion. Harmonious, equitable relations with neighbouring countries are especially important from the viewpoint of the national government because a good understanding with them has positive effects on Switzerland's relations with the EU. Any difficulties arising with our neighbours must be tackled before their repercussions are more widely felt. The repayment to Italy of the withholding tax paid by cross-border commuters, for example, has brought about a noticeable improvement in the cooperative climate with that country (see section 1.3.2).

**From the viewpoint of spatial development policy** Given the current prevalence of networking and mobility, economic areas and living spaces – the so-called functional regions – often no longer coincide with areas defined in political and institutional terms. The Federal Council took account of this fact when it approved the new Spatial Concept for Switzerland, devised on a tripartite basis by the federal government, the Conference of Cantonal Governments and the Swiss Associations of Cities and Municipalities. This concept proposes establishing twelve intercantonal zones for planning and implementation, most of them including foreign territory adjacent to our borders. The emergence of such cross-border functional regions is an opportunity, primarily for the cross-border metropolitan conurbations and urban centres (Basel, Geneva, Lugano) – and possibly also for rural and mountainous areas. This is a way for these centres to achieve the requisite critical mass, improving their positioning in the international competition between locations. Peripheral border regions derive advantages from the link to a centre beyond the national frontier. Chiavenna, for example, fulfils this function for Bregaglia in Graubünden.

*The Federal Council regards the border regions as extremely important to relations with Switzerland's neighbours and the EU as a whole, and also to the development of the Swiss economy. The federal policies outlined here take account of this concern by proposing solutions that are aligned to the specific areas with their individual needs.*

<sup>16</sup> This report can be downloaded from the FDFA at [www.eda.admin.ch/eda/en](http://www.eda.admin.ch/eda/en) > Documentation > Publications > Swiss foreign policy > Foreign Policy Strategy 2012–2015.

## 1.3 The federal government's central spheres of action

### 1.3.1 Improving locational quality and competitiveness

#### New Regional Policy and INTERREG

Under the New Regional Policy (NRP)<sup>17</sup>, as enshrined in the Federal Regional Policy Act of 6 October 2006<sup>18</sup> that came into force on 1 January 2008, the federal government is making individual regions more competitive and helping them to create more added value. The *border regions* are explicit regional-policy targets in addition to mountainous and rural areas. Suitable projects in the target regions will trigger economic stimuli, maintaining existing jobs and creating new ones. With the support of the federal government, for example, the *Valposchiavo centre of woodworking expertise* launched a cross-border pilot course with sixteen trainees in 2011. This is resulting in closer cooperation between the region and Italy, and at the same time strengthening Graubünden as a training location. The NRP is a joint initiative by the federal government and the cantons. Canton-specific objectives are defined in four-year programme agreements. The cantons are in charge of selecting, structuring and implementing the projects. With non-repayable federal funds averaging 40 million Swiss francs a year and loans of 50 million a year, this bottom-up approach makes a significant contribution to regional business promotion (see the Message of 28 February 2007<sup>19</sup> on the federal government's multi-year programme, 2008–2015, for the implementation of the New Regional Policy [NRP] and its funding). The first phase of the programme is currently being evaluated. In parallel, and in consultation with the cantons, the federal government is devising the strategy for the second phase of the programme beginning in 2016.

The EU's INTERREG programmes<sup>20</sup>, in which Switzerland participates under the NRP, are particularly important to the border regions. Part of the EU's cohesion policy, these provide support for regional initiatives by member states. The EU's regional policy also has an economic focus. In the last twenty years, although the NRP and the EU's cohesion policy have different focal points, periods and funds, numerous projects contributing either directly or indirectly to the attractiveness of Swiss border regions have been launched and supported. We might mention the *Minnovarc* microtechnology network in the Jura arc, the *Enerbuild* project that helps SMEs in the construction sector in the Alpine Space to remain competitive with energy-efficient buildings, and *SPL Insubria*, the Italian/Swiss cooperation platform in the field of regional production systems.

#### Tourism in border regions

For many of Switzerland's border regions – and indeed for some of their counterparts in the neighbouring countries – tourism is a significant economic sector that makes a major contribution to regional economic output. The border regions also generate an important proportion of Switzerland's overall tourism-relevant added value. Being located near the border, for example, is an opportunity – because it also

<sup>17</sup> Documentation on the NRP can be downloaded from the Federal Department of Economic Affairs, Education and Research (FDEAER) at [www.wbf.admin.ch](http://www.wbf.admin.ch) > Topics > Economy > New Regional Policy (NRP) and from [regiosuisse](http://regiosuisse.ch) at [www.regiosuisse.ch](http://www.regiosuisse.ch) > NRP.

<sup>18</sup> SR 901.0

<sup>19</sup> BBl 2007 2445

<sup>20</sup> See [www.regiosuisse.ch](http://www.regiosuisse.ch) > ETZ/INTERREG.



implies proximity to major foreign conurbations such as Milan or Munich. But at the same time the adjacent border regions are primarily competitors, a factor that has been accentuated by the rising external value of the Swiss franc. A comparison of the canton of Graubünden and the Austrian province of Vorarlberg, for example, shows that the numbers of guests that each attracts from the other are very different. In the canton of Graubünden guests from Austria accounted for around 1 % of overnight stays in 2011, while over 10 % of guests in Vorarlberg were from Switzerland and Liechtenstein. So because of the frontier, a basically homogeneous product is thus on offer on widely differing terms.

The opening of the *Gotthard base tunnel* as part of the new transalpine rail routes project (NEAT) and *Expo Milano 2015* will be significant milestones for tourism in the border regions. Experience with the Lötschberg base tunnel shows that shorter journey times can stimulate tourism. The Gotthard base tunnel is likely to be a particular opportunity for tourism in the canton of Ticino. Expo 2015 will give all parts of the Alpine region tremendous opportunities to position themselves as attractive global tourism destinations.

### **Cross-border agglomeration programmes**

The federal government's agglomeration programmes do a great deal to make urban locations more attractive. A total of six billion Swiss francs has been earmarked in the *infrastructure fund* for the coordination of transport and settlement in urban areas until 2025 (see the federal decision of 4 October 2006<sup>21</sup> on the credit facility for the infrastructure fund).

Three of Switzerland's four metropolitan areas – Zurich, Geneva–Lausanne and Basel – have perimeters that cross borders. Their economies depend on cross-border flows of commuters and goods. Here, as in smaller towns in frontier areas – Schaffhausen, for example – location development must have a cross-border dimension. Under first-generation agglomeration programmes, federal contributions totalling nearly a billion Swiss francs have been invested in the transport infrastructure in cross-border agglomerations since 2008. Partial funding has also been provided for urgent measures such as the Cornavin–Eaux-Vives–Annemasse (CEVA) rapid transit line<sup>22</sup> in the Geneva agglomeration (550 million Swiss francs). Linking the Swiss and French rail networks, CEVA forms the new backbone of the regional transport network. By offering an alternative to private transport, the rail link helps to alleviate the traffic problems in the Geneva area. CEVA simplifies the circulation of people and makes the region more economically attractive.

*The NRP and INTERREG will in future continue to deliver important economic stimuli in the context of cross-border cooperation. In cross-border regions particularly, territorially differentiated mechanisms enable specific needs to be met. Since the resources of the infrastructure fund can also be used for measures extending beyond Switzerland's borders, the Federal Assembly's decision (expected in 2014) on the measures to be taken under second-generation agglomeration programmes – whose implementation is scheduled to begin in 2015 – is also very important to the border regions.*

<sup>21</sup> BBI 2007 8553

<sup>22</sup> www.ceva.ch

### 1.3.2

## Labour market

### The free movement of persons and accompanying measures

The Agreement of 21 June 1999<sup>23</sup> between the Swiss Confederation on the one hand and the EU and its member states on the other on the free movement of persons (Free Movement of Persons Agreement, FMPA) came into force in 2002, and subsequently access to the Swiss labour market was progressively liberalised. In return Swiss nationals acquired the right to live and work anywhere they wish on the territory of the contracting parties. Quotas applying to the immigration of workers from the EU and EFTA were gradually rescinded. The checks on employment relationships that had previously applied, and the so-called principle of priority for nationals as a precondition for the issue of a work permit (under which Swiss companies had to try to fill a position with a Swiss national before they could appoint a foreigner) were discontinued in 2004 for nationals of EU-17<sup>24</sup> and in 2011 for nationals of EU-8<sup>25</sup>. Since the FMPA came into force there has been net immigration of almost 370,000 persons from the EU and EFTA into Switzerland. In the same period there has been net emigration of some 60 000 Swiss nationals. In the years since the FMPA came into force, net emigration has thus been slightly higher than the average of preceding years. It is difficult to assess the extent to which the FMPA has contributed to this slight rise in net emigration, because no statistics exist for the countries where Swiss emigrants go. According to the statistics on Swiss nationals abroad<sup>26</sup>, around 60 % of them are located in EU or EFTA states.

In addition, seconded employees and the self-employed have since 2002 been able to spend up to ninety days per calendar year working in Switzerland with no requirement to obtain a work permit. They are simply required to register. The number of service providers subject to this requirement has risen every year since the FMPA came into force, reaching a new high of almost 90 000 persons in 2011.

Increased immigration from the EU and EFTA has largely satisfied the heavy demand in the Swiss labour market for additional (qualified) staff. Negative effects on the local working population have been very limited, partly in consequence of the *accompanying measures* taken to protect pay and working conditions in Switzerland. These include retrospective checks on the pay and working conditions of Swiss employers and foreign service providers. Recent years have seen a constant increase in control activity in connection with these accompanying measures, which has now stabilised at a high level.

Experience of these accompanying measures to date has shown that there are loopholes in the legislation. In order to close them, the Federal Council has decided that the amendment of the accompanying measures approved by the Federal Assembly in

<sup>23</sup> SR 0.142.112.681

<sup>24</sup> EU-15: Belgium, Denmark, Germany, Finland, France, Greece, the United Kingdom, Ireland, Italy, the Netherlands, Austria, Luxembourg, Portugal, Sweden, Spain. Malta and Cyprus, which joined the EU in 2004, are treated the same as the EU-15. The same provisions apply to the EFTA states: Iceland, Liechtenstein and Norway.

<sup>25</sup> EU-8: Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia, the Czech Republic, Hungary.

<sup>26</sup> The statistics on Swiss nationals abroad can be downloaded from the FDFA at [www.eda.admin.ch](http://www.eda.admin.ch) > Documentation > Publications > Swiss Abroad > Statistics on the Swiss Abroad.

its 2012 summer session (see the Message of 2 March 2012<sup>27</sup> on the Federal Act on the Amendment of Measures Accompanying the Free Movement of Persons) will come into force at the beginning of 2013. The new mechanisms will more effectively combat the phenomenon of bogus self-employment on the part of foreign service providers. In addition the State Secretariat for Economic Affairs (SECO) and the enforcement agencies are working to make the accompanying measures more efficient by improving enforcement (see the Evaluation by the supervisory authority of measures accompanying the free movement of persons and their effects. Federal Council's position paper of 18 January 2012<sup>28</sup> on the report of the National Council's audit commission of 21 October 2011, and Federal Council's position paper of 4 July 2012<sup>29</sup> on the position paper of the National Council's audit commission of 8 May 2012).

### **Effects of the free movement of persons on the economy and the labour market**

In the last ten years the free movement of persons has improved recruitment opportunities for Swiss companies, thus promoting economic growth and increasing employment. The effects of the FMPA on the Swiss labour market are described in detail in the 8<sup>th</sup> report of the Monitoring Commission on the Switzerland/EU Free Movement of Persons Agreement of 25 May 2012<sup>30</sup>: «Effects of the free movement of persons on the Swiss labour market». Immigration varied with the demand from companies, and thus also with the state of economic activity. Most of it took place in occupational groups with high qualification requirements, in which local staff also found additional employment opportunities.

*Real incomes* have continued to rise since the free movement of persons was introduced, and the *compensation structure* in Switzerland has remained stable. Various studies<sup>31</sup> have concluded that increased immigration has slightly attenuated the trend in real incomes because it has made it easier to meet the need for qualified staff and avoided costly bottlenecks in companies. Possible pressure on the income trend was detected in some vocational groups with high qualification requirements, but not, as a rule, among persons with low and middle-ranking qualifications. This indicates that the accompanying measures have been effective, especially in the low-income field.

Immigration by skilled personnel has probably also led to a rise in productivity in the Swiss labour market. In-depth academic studies are currently being conducted into the effects of immigration stemming from the FMPA on productivity and the Swiss economy, and particularly on incomes.

### **Effects in border regions**

The discontinuation as of 1 June 2004 of priority for Swiss nationals and preventive wage controls also made it administratively simpler to employ *cross-border com-*

27 BBl 2012 3397

28 BBl 2012 1255

29 BBl 2012 7353

30 The report can be downloaded from SECO at [www.seco.admin.ch](http://www.seco.admin.ch) > Topics > Labour > Free movement of persons CH-EU and accompanying measures.

31 See e.g. Stalder, Peter (2010): Free migration between the EU and Switzerland: Impacts on the Swiss Economy and Implications for Monetary Policy. Swiss National Bank (SNB), Zurich. Gerfin, Michael und Kaiser, Boris (2010): The Effects of Immigration on Wages: An Application of the Structural Skill-Cell Approach. Discussion Paper, Faculty of Economics and Social Sciences, University of Bern.

*muters*. The recruitment of cross-border commuters was no longer restricted to certain regions (no quotas had ever applied). This also enabled the persons affected to work in Switzerland as weekly commuters and thereby made cross-border commuting more attractive.

Since the FMPA came into force there has been a substantial increase in the number of cross-border commuters (+84 000; +4.8 % per year). The total in 2011 was 245 000 persons. While there was a moderate rise in the proportion of cross-border commuters in north-western and eastern Switzerland, the increase was much sharper in the Lake Geneva region, the Jura arc, and southern Switzerland. In comparison with migrant workers from the EU, whose qualification levels are above average, relatively high proportions of unskilled personnel are found among cross-border commuters and short-term residents subject to the registration requirement. The effects of the free movement of persons are accordingly the subject of heated discussion in the border regions affected.

The employment trend shows that regions with fast-rising proportions of cross-border commuters posted above-average employment growth (see chapter 5 of the 7th report of the Monitoring Commission on the Switzerland/EU Free Movement of Persons Agreement of 26 May 2011<sup>32</sup>: «Effects of the free movement of persons on the Swiss labour market»). A current study<sup>33</sup>, however, concludes that some of the growth in cross-border commuting in the first few years after the FMPA came into effect (until 2005) was at the expense of domestic employment. The Monitoring Commission's report also found that in the years 2001–2008 overall employment growth in the Jura arc and southern Switzerland was above average, whereas among the resident population it was below average. But the two regions also posted different growth rates in their populations of working age, so the employment rate among the resident population rose nonetheless. Employment rates also rose in regions with increasing cross-border commuting, however, where there was thus increased utilisation of the potential domestic workforce. In the Lake Geneva region, north-western Switzerland and the Jura arc there was a slight increase in unemployment relative to non-border regions. On the whole, findings about the effects of the free movement of persons on border regions are still mixed. As the possibility of displacement effects cannot be entirely ruled out, the question is currently undergoing in-depth analysis in a study commissioned by the federal government.

Fears of increased pressure on salaries in Switzerland's border regions are groundless. But this is another area in which developments must be kept under observation, because the sharp revaluation of the Swiss franc against the euro makes the question all the more explosive. The revaluation of the Swiss franc gave foreign cross-border commuters a substantial rise in their real incomes (in euros). This may have made cross-border commuting more attractive, as well as increasing the risk of normal pay conditions in Switzerland being undercut.

### **Taxation of cross-border commuters**

Cross-border commuters make a sizeable financial contribution to Switzerland. In 2010, according to an estimate by the federal tax authorities, withholding taxes

<sup>32</sup> The report can be downloaded from SECO at [www.seco.admin.ch](http://www.seco.admin.ch) > Topics > Labour > Free movement of persons CH-EU and accompanying measures.

<sup>33</sup> Losa, Fabio B. et. al. (2012), *Libera circolazione: gioie o dolori?*, Ufficio di statistica Cantone Ticino. Employment trends 2001–2005 were investigated more closely.

brought the federal government, cantons and municipalities some 3.6 billion Swiss francs net, 461 million of which went to the federal government.<sup>34</sup>

The taxation of cross-border commuters is to a certain extent a politically sensitive question, as is immediately evident in relations between Switzerland and *Italy*. The relevant agreement between the two countries, which dates back to 1974, applies to the cantons of Graubünden, Ticino and Valais. It provides for the transfer of around 40 % of the withholding tax levied on cross-border commuters' incomes to Italy. In June 2011, in order to increase the pressure on the authorities of both countries to revise the agreement, the canton of Ticino resolved to pass only half of the agreed equalisation payments to Italy, placing the other half in a blocked account. The sum concerned (28 million Swiss francs) was released in May 2012. On 9 May Switzerland and Italy had agreed to create a joint taxation group to work on solutions to outstanding questions of finance and taxation, the revision of the agreement on cross-border commuters among them.

### **The cross-border provision of services**

There are no statistics on cross-border services provided by Swiss companies in the EU and EFTA. Two years ago SECO therefore undertook an estimate based on E-101 forms issued. Form E-101 data are registered by the Federal Social Insurance Office (FSIO) at national level. However, these data are merely indicative of the provision of cross-border services for periods up to 90 days, as form E-101 includes all postings to an EU member state for up to a year (and hence also postings for more than 90 days). Comparing the number of cross-border service provision (i.e. E-101 forms issued) from Switzerland to the EU and EFTA and *vice versa* in 2009 gives a ratio of roughly one to three.

Cross-border service provision creates opportunities, but it also creates difficulties. The EU is a potential market for Swiss companies in the field of specialist services; but in the construction industry, for example, our neighbours are themselves subject to fierce competition from abroad. Moreover, service providers in this field are sometimes faced with various obstacles beyond our borders. Companies wishing to provide construction services in Germany, for example, must make advance transfers for holiday pay to the responsible German funds in respect of the employees concerned, even if provision has already been made for the period of the posting as required by Swiss law. There is a similar provision for the payment of holiday pay and the 13th monthly salary in the Italian construction trade (*casce edili*). Swiss companies thus incur additional costs when providing services in Germany or Italy. Companies wishing to provide certain construction services in France are obliged to arrange insurance to cover claims under guarantee for a period of ten years (*garantie décennale*). Until recently, however, it was not possible for Swiss companies to obtain this cover from any French or Swiss insurer.

These obstacles facing Swiss companies have been raised with our neighbours in the context of various bilateral bodies in the attempt to find pragmatic solutions. They have also been raised in the Joint FMPA Committee, and with the competent authorities in a group of technical experts. Thanks to these bodies, numerous questions have already been resolved – or at least brought closer to being resolved. SECO is supporting Swiss companies and employee organisations, for example, in their attempts to find solutions to the problems relating to holiday pay in Germany and

<sup>34</sup> Estimate by the Swiss Federal Tax Administration based on calculations by the cantons.

Italy. A solution at the level of private companies to the problem of the *garantie décennale* was reached through mediation by the secretariat of the Upper Rhine Conference. Since the end of 2010 there have been insurance company contact points in Geneva and Basel that help Swiss companies to apply for a *garantie décennale*.

A number of foreign companies providing services in Switzerland have also, however, objected to certain measures as obstacles – as the example of Liechtenstein shows, where Switzerland's introduction of security deposits in collective employment agreements declared to be generally compulsory has led to criticism. In the decorating and plastering trade, however, companies and employee organisations in Switzerland and Liechtenstein found a solution in the autumn of 2012 by assuming guarantees on behalf of companies in Liechtenstein. Efforts along similar lines are being made in other sectors too.

*In the last ten years, immigration and cross-border commuting have benefited Switzerland in terms of economic growth and rising employment. Companies in border regions have particularly benefited from the fact that it is now easier to recruit cross-border commuters. While no particular pressure on wages could be detected in Switzerland's border regions in consequence of the FMPA, the question of the possible displacement of local staff by cross-border commuters and immigrant labour is being examined more closely. Developments in border regions must also be kept under close observation in light of the sharp revaluation of the Swiss franc against the euro. Otherwise the measures accompanying the FMPA will continue to be consistently applied, and their enforcement improved.*

### 1.3.3 Foreign trade

It is an objective of Swiss economic policy to maintain favourable framework conditions for trade with the EU. The Agreement of 22 July 1972<sup>35</sup> between the Swiss Confederation and the European Economic Community (free-trade agreement with the EU), the autonomous amendment of the legal framework in line with European regulations and the bilateral market-access agreements removed various obstacles to the economic integration of border regions caused by legal and institutional framework conditions and customs procedures. This policy thus also affects trade with foreign regions adjacent to our borders.

Despite this fundamentally favourable structural situation, agreements, conventions and the like give no guarantee that problems in trading with neighbouring regions will be avoided. In addition to these occasional difficulties, the revaluation of the Swiss franc is an increasing cause for concern. It has perceptible effects on existing trade flows, and these are having an especially serious impact on the Swiss retail sector («shopping tourism»).

<sup>35</sup> SR 0.632.401

## Customs procedures

Switzerland and Liechtenstein constitute a customs union. All our other neighbours belong to the European Customs Union. Despite the free trade agreement with the EU, all goods crossing between the two customs unions have to go through customs clearance twice: when they leave one, and when they enter the other. This double customs procedure gives rise to costs for exporters and importers, and it makes trade in border regions more expensive. On the instructions of the Federal Council the costs of this requirement, including the cost of clearing goods through customs when they are exported and imported, will be ascertained by 2013 pursuant to the Fournier postulate (10.3429 «Ascertaining regulatory costs») and the Zuppiger postulate (10.3592 «Measuring regulatory costs»).

It is in the interests of Switzerland and the EU to simplify the customs procedures applying to bilateral trade. The Agreement on the simplification of inspections and formalities in respect of the carriage of goods and on customs security measures reached on 25 June 2009<sup>36</sup>, for example, reduced the additional burden of the newly-introduced security checks for goods at the frontier. Customs-clearance costs incurred by importers and exporters on both sides, which are by no means negligible, could be further reduced through direct interaction between the Swiss and EU customs-clearance systems, and by the improved coordination of procedures. The objective is for a single registration to be sufficient for exportation from one customs union and importation into the other. With their intense exchange of goods, border regions would derive particular benefit from such a solution. Switzerland and the EU are working on a step-by-step improvement. In the context of the World Customs Organisation they are preparing two modules for the exchange of identities of approved economic operators and of security data.

## Product regulations

Differences in technical product specifications are also barriers to trade for regions on each side of our borders. Various bilateral agreements between Switzerland and the EU have made it easier for important sectors to gain access to the European market, mirroring the situation that exists among EU member states. In this connection mention should be made of the Agreement of 21 June 1999<sup>37</sup> on the mutual recognition of conformity assessments, which came into force in 2002. It covers a large proportion of industrial-product regulations. The mutual recognition of product regulations and conformity assessments simplifies the exploitation of cross-border value chains. A special agreement for the *watch industry*, which is very important to the whole of the Jura arc on both sides of the border, has been in existence since 1967 (Agreement of 30 June 1967<sup>38</sup> concerning products of the clock and watch industry). The 1999 Agricultural Agreement (Agreement of 21 June 1999<sup>39</sup> on trade in agricultural products) covered the mutual recognition of regulations applying to certain *agricultural products and in the veterinary field*. In force since 2002, it undergoes constant continuing development.

In addition, Switzerland has since 1992 pursued the policy of avoiding unnecessary discrepancies between Swiss regulations (especially manufacturing and product

<sup>36</sup> SR 0.631.242.05

<sup>37</sup> SR 0.946.526.81

<sup>38</sup> SR 0.632.290.13

<sup>39</sup> SR 0.916.026.81

regulations) and those of our major trading partners. The relevant rules and criteria are set out in the Federal Act of 6 October 1995<sup>40</sup> on technical barriers to trade, which came into force in 1996 and was revised in 2010. Switzerland autonomously simplified the importation of certain products not covered by these agreements and lawfully in circulation in the EU, but without discriminating against Swiss producers.

Recent years have thus brought continual improvements in mutual access to markets on both sides of our borders. However, these improved framework conditions could not alter:

- the fact that the implementation of these agreements can lead to problems; according to a survey of the application of bilateral agreements between Switzerland and the EU conducted by the DFDA/DEA Integration Office<sup>41</sup> in 2010,<sup>42</sup> a number of breaches have occurred – though solutions were found in most cases;
- the fact that the agreements do not include all relevant products or cover the totality of trade.

One example of this latter problem: since 2011 Italy has been calling for radiometric controls of prefabricated metal products not originating in the EU. This affects Swiss companies that supply products to the metals industry in Lombardy and Piedmont. The cumbersome procedure makes imports from Switzerland more expensive, putting Swiss manufacturers at a disadvantage to their EU-based competition. Switzerland has proved that its regulations and geographical location make contamination unlikely. Without a special agreement it is difficult to induce Italy to adapt these rules. In a first step, attempts to simplify the process are being made.

Another example of an issue that is not covered by an existing agreement may be found in the upcoming applicability of Regulation (EU) No 995/2010 of the European Parliament and of the Council of 20 October 2010, laying down the obligations of operators who place timber and timber products on the market (ban on illegally harvested timber or product made of such timber). This European regulation will impact on Swiss exporters of furniture articles, paper, raw timber, building items. An understanding with the EU on this matter is necessary to avoid potential obstacles to trade due to this regulation. The administration is in contact with interested parties in Switzerland as well as with the units in charge within the European Commission.

### **Strength of the franc**

The export-weighted real exchange rate of the Swiss franc has risen sharply since 2009. It peaked at the beginning of August 2011, when the franc almost reached parity with the euro. By imposing a minimum exchange rate of Swiss francs 1.20 against the euro, the Swiss National Bank enabled companies to plan with certainty. Despite this, the Swiss franc's overvaluation against the euro – measured by the real exchange rate index – remains at an above-average 20 %.

<sup>40</sup> SR 946.51

<sup>41</sup> From 1 January 2013 the Directorate for European Affairs.

<sup>42</sup> The survey can be downloaded from the Directorate for European Affairs at [www.europa.admin.ch](http://www.europa.admin.ch) > Documentation > Reports > Valuation Bilateral Agreements.



Until mid-2012 Swiss industry held its ground well. In the last quarter of 2011 the production index for industry and manufacturing stood at the same level as in the same quarter of the previous year. Until mid-2012, Swiss industry's capacity utilisation was good. Because order-throughput times are long, production and revenues take time to react to changes in price competitiveness. Moreover, not all supply contracts can be terminated at short notice. Because of these two factors, it takes a certain amount of time for the negative effects of the strong franc to be reflected in the export figures. To a substantial extent, negative effects on industry were moderated by the favourable economic trend in Germany – Swiss industry's most important market. As the last revaluation phase of the Swiss franc has shown, moreover, many sectors and companies in Switzerland have such a strong position in the global market (e.g. watches, chemicals/pharmaceuticals) that they are able to increase their prices without serious reductions in sales.

Because of the close interaction between companies in Switzerland and its adjacent regions, border regions are hit especially hard by the overvaluation of the Swiss franc. As well as classic exporting industries, retailers and other commercial enterprises in border regions – in the hospitality and construction industries, for example – are also affected by the strength of the franc.

### **Shopping tourism**

By simply crossing the border, Swiss consumers are able to buy the same or similar items at lower prices. In addition to structural price differences, which – for agricultural products especially – can be considerable, the economic incentives for shopping tourism are subject to fluctuations in the franc/euro exchange rate. The border separates currency areas, and at retail level it can give rise to competitive distortion. This situation – competition from imports due to the exchange rate of the franc – is particularly unfavourable to the retailing sector. This effect is amplified if retailers in Switzerland cannot buy from the same wholesaler as their competitors abroad.

In relation to total consumer spending, the 3-5 billion Swiss francs estimated to have been spent beyond our borders in 2011 is not a huge sum. But if we consider selected product categories, shopping tourism is indeed significant – and often the expression of a Switzerland that is economically isolated. Meat is particularly important, as price differences are at their most pronounced in this class of consumer goods owing to the protection of Swiss agriculture. According to calculations of purchasing-power parities by EUROSTAT, the EU statistics office, meat price levels in Switzerland are around double the average for the 27 EU member states. As the price difference is at its greatest here, meat is the real driving force behind shopping tourism. This is also evident from its share of total spending on shopping tourism. Based on a number of estimates, about one billion Swiss francs was probably spent beyond our borders on meat alone in 2011. That would represent an increase of one third in comparison with 2009, when the Swiss franc was weaker. In addition, crossing the border to buy meat provides the opportunity to buy other products as well, even though the price differences applying to these would not be sufficient on their own to make the trip worthwhile. Because of the price difference, this situation needs to be looked at again – especially as regards meat. It remains the Federal Council's objective to improve mutual market access with the EU in the field of agricultural produce and foodstuffs by taking appropriate measures and concluding agreements.

As well as agricultural protection, Swiss economic policy faces a second challenge relating to cartel law that is especially important to its border regions. The matter at

issue is the improved enforcement of the legal entitlement to cross-supplies within dealer networks. A manufacturer must not be able to prohibit a dealer in Switzerland from obtaining supplies from a wholesaler abroad. The amendment to cartel law that has been set in motion, together with the agreement between Switzerland and the EU on cooperation between their competition authorities (see section 5.6), which is scheduled to be signed before long, promise improvements in this regard. However that may be, it is the task of the private sector to establish new supply chains and promote competing brands in order to combat price discrimination at the expense of Swiss retailers and Swiss consumers.

*Close economic relations with the EU, and particularly with neighbouring regions, have prompted Switzerland to adopt and apply the bilateral approach and to continue to develop it. Such a framework, however, cannot eliminate all obstacles to trade, because the agreements do not cover all sectors and implementing them can give rise to problems. Favourable contractual conditions, moreover, cannot eliminate the vulnerability of trade to exchange rate movements, nor can they prevent it from being obstructed by anticompetitive practices in the private sector. These problems are a matter for competition policy and cooperation between the competition authorities.*

### **1.3.4 Infrastructure**

In 2010, as part of its efforts to enhance Switzerland as a business location and to maintain its competitiveness in terms of infrastructure, the Federal Council adopted an infrastructure strategy (see the Federal Council report of 17 September 2010<sup>43</sup>: «The Future of National Infrastructure Networks in Switzerland») that for the first time attempted to produce an overview of the infrastructure networks within the federal government's area of responsibility. To begin with, there are gaps and challenges with regard to the quality of the networks – road, rail, air travel and the electricity grid – that have priority for border regions.

On the whole, the Swiss *highway network* has good links with the trans-European road network. There is only one gap, in north-eastern Switzerland: there is no direct motorway link with Austria, although the network is complete on the Swiss side. Previous Austrian projects were not pursued because of environmental concerns. A supra-regional working group headed by the federal province of Vorarlberg, on which Switzerland is represented, is currently working on new options. The greatest challenge with regard to the road network is the increase in traffic volumes that is expected over the coming decades. There will be a serious worsening of the bottlenecks affecting Switzerland's highway network – primarily in and between the agglomerations, where long-haul, transit and local traffic flows merge. Border regions (the Lake Geneva area, north-western Switzerland, Ticino to a lesser extent) will be among the regions affected (though perhaps not those worst affected). Construction projects to eliminate systemically critical bottlenecks are essential, and some of them are extremely urgent.

<sup>43</sup> BBI 2010 8665

As far as accessibility by *rail* is concerned, large Swiss cities are only average in terms of the European rankings. By the end of 2020 the federal government proposes to invest some 1.1 billion Swiss francs in the rail network to improve its links with the European high-speed network in the west-east direction. The federal government is also utilising unconventional approaches: it is providing partial or advance funding for relevant rail construction beyond the Swiss borders (e.g. the Geneva–Bourg-en-Bresse, Rhine-Rhône TGV and Lindau-Munich routes). The Gotthard and Ceneri base tunnels will be operational by 2019. And major projects will be implemented in the agglomerations, for example the Geneva–Annemasse and Mendrisio–Varese links. Though the Gotthard base tunnel will increase freight capacities, creating suitable access routes on both sides of the national frontier will require a great deal of commitment.

*Air travel* is supremely important to the nation's global accessibility. All three national airports are located in border regions, so they also attract a high proportion of passengers from neighbouring countries. Geneva and Zurich airports are approaching their capacity limits, further aggravated in the case of Zurich by the restrictions imposed by Germany on the times when its air space may be used. The Federal Council expects the international treaty with Germany signed on 4 September 2012 to lead to the resolution of the conflict over aircraft noise and to legal certainty for Zurich airport. The demand for air travel can be expected to continue rising sharply, and Zurich in particular will not be able to cope with this increase even with huge gains in efficiency. In the longer term airlines may therefore conceivably turn to other nearby *hubs* beyond Switzerland's borders, such as Milan, Munich etc. As for the *electricity grids*, Switzerland's function as a power-transit country means that its connections with neighbouring countries are relatively good in terms of capacities, but its network structure meets the requirements of an integrated European grid only to a limited extent. The border regions with the most serious bottlenecks are the Lake Geneva area, Valais, Ticino and the Zurich/Aargau area. Against the backdrop of the turnaround in energy policy initiated by the Federal Council, it is becoming more and more urgent to improve the links between the national high-tension grid and the European integrated grid. In this respect the Alpine Convention's new energy platform is a facility for dialogue about the challenges facing all the Alpine countries in expanding their energy infrastructures.

*On the whole Switzerland's infrastructure links with its neighbours correspond to the degree of mutual economic and social networking. Needs and priorities do not always match, and in such cases Switzerland must cooperate closely with the neighbouring states in order to arrive at amicable solutions. This is in the interests of Switzerland, and all the more so of the particularly exposed border regions.*

### 1.3.5 Education, research and innovation

The subject of foreign students pursuing academic studies in Switzerland is currently one of considerable political resonance in the field of education. Although this is not a «border-specific» phenomenon, it is seen as significantly more pronounced in areas close to the borders. From the viewpoint of the federal government, the

presence of foreign students is a positive factor in the academic sphere, in line with Switzerland's generally international orientation. But it can become a problem if it causes academic institutions to exceed their capacity limits, thus impairing the quality of the education they provide. And a further negative factor: the only contribution that foreign students make to the cost of their education is their course fees, whereas students from one canton studying in another have the bulk of their costs met by their home cantons. The universities react to this development in different ways. St. Gallen has had a quota in force for several years, and places are allocated on the basis of an examination. Basel requires proof that the individual has a place in his home country if a *numerus clausus* applies to the selected subject in that home country. In Ticino, however, foreign students have become part of the universities' growth strategy.

To strengthen regional innovation systems, national and international bodies that are particularly concerned to promote research and research-based innovation are taking responsibilities and initiatives. The national thematic networks launched by the Commission for Technology and Innovation (CTI) are particularly worthy of mention. An important component of the networks approved by the CTI is the transfer of knowledge and technology between the national players in a given field of innovation and European partners, in the context of the most suitable EU support programmes or via bilateral transfer processes. One example is the national *Carbo Composites* thematic network, which gives Swiss suppliers of carbon-fibre composite components access to collaborative research projects with their German contracting partners in the automotive sector.

Regions are also becoming more and more active in the field of innovation. Examples of projects with a cross-border orientation include the *International Packaging Institute*, the centre of excellence for packaging technology in Schaffhausen, and the joint NRP implementation programme of the western Swiss cantons in the area of innovation and entrepreneurship. The success of regional programmes to promote innovation depends to a great extent on their proximity to innovation stakeholders, companies first and foremost, and on the catchment area having the minimum required size. In the Swiss context this last point means that a cantonal orientation often does not go far enough, and there is a need to think in terms of larger functional regions.

In many Swiss border regions there are opportunities to cooperate in larger-scale regions straddling the frontiers. Switzerland's economic development and innovation momentum are strongly driven by international dialogue, especially in border regions. Products and services sometimes cross frontiers several times in the course of a product cycle. Decisive efforts in research and innovation are made in border regions. The relationship of Swiss border regions with their foreign neighbours is not characterised by any one-sided dependency. The stimuli that they generate for the economic development of regions beyond the frontier are at least as relevant. Where spending is concerned, research and innovation projects are dominated by the life sciences sector (pharmaceuticals, chemicals, biotechnology).

We might illustrate this by highlighting the efforts made by the «Upper Rhine metropolitan region», which has the objective of grouping players and innovation networks in this trinational region into what it calls cross-border clusters. Clusters are networks that include companies and educational and research institutions as well as

public-sector institutions. As might be expected, the thematic focus is on life sciences. The *BioValley*<sup>44</sup> project, which has federal support, is an example of this category. The establishment of cross-border clusters is intended to make these sectors more competitive, and also to make the border regions even more attractive locations on an international comparison. Mention should also be made of the *phaenovum*<sup>45</sup> school students' research network, which is designed to bring on the next generation of qualified regional researchers and practitioners by providing education with a practical orientation.

*Education, research and innovation constitute a policy field in which the long view is appropriate. Cross-border cooperation in the fields of vocational training, advanced training, the mobility of the teachers and the taught, intercultural communication and the establishment of joint clusters all strengthen border regions as internationally competitive business locations. They also foster the sense of common identity, and they have the potential to exert a positive influence on overall relations with neighbouring states.*

## 1.4 Conclusion

Switzerland's economic well-being does not just hinge on its trade relations in the broad international context as shaped by globalisation. Just as important is the need to strengthen cross-border cooperation between border regions and areas. The strategies we pursue must be adapted to the specific region. The division of federal responsibilities and good collaboration – between the federal government on the one hand and the supraregional and cantonal bodies on the other – facilitate efforts to promote regional foreign trade.

At regional level the Swiss border regions and those of our neighbours are, in a sense, in competition with each other. But they are also partners in competition with other European and non-European growth regions. The more progress is made towards eliminating obstacles in the border regions, the more competitive they will become in a European or global context. In this connection the cross-border activity spaces that figure in the Spatial Concept must be strengthened.

From the viewpoint of the federal government, five subject areas in particular should be highlighted: improving locational quality and competitiveness, the labour market, foreign trade, infrastructure, and education, research and innovation. Trends in these fields have a decisive effect on the nature and development of relations in border regions and with our neighbouring states. Projects that create win-win situations for the partners and benefit the population must be given priority.

Cross-border organisations have a central role to play as mediators and catalysts. The nature of Switzerland's involvement in the INTERREG programmes must be reviewed. The Federal Assembly is expected to consider both the content of regional policy and its financial aspects in 2015, which will include the nature of any future Swiss participation in the EU's INTERREG programmes. Consideration might also

<sup>44</sup> See [www.biovalley.com](http://www.biovalley.com).

<sup>45</sup> See [www.phaenovum.de](http://www.phaenovum.de).

be given to mechanisms comparable to those of the European institutions for territorial cooperation. These institutions have the objective of promoting cooperation among their members and facilitating it from the legal point of view.

Networks of residential and economic areas sometimes extend far beyond national frontiers, to the benefit of areas on both sides. Many of the federal government's support mechanisms, however, are restricted to the national territory. The national thematic networks launched by the CTI are the first attempt in the field of innovation promotion to adopt a contrary approach. In line with its efforts to promote Switzerland as a business location and its agglomeration policies, the federal government will redouble the efforts in the area of science-based innovation promotion, creating instruments with cross-border orientation within the existing legal framework.

From the viewpoint of the Federal Council, the border regions are a key factor in promoting a harmonious relationship with our neighbouring states and the EU as a whole. Furthermore, they make a major contribution to strengthening Switzerland as an attractive business location. Switzerland must make every effort to ensure that cross-border integration at the subnational level generates the maximum possible benefit.