

Executive Summary

Federal Council objectives

For the 2007 reporting year, the Federal Council's foreign economic policy objectives were once again centred on continued implementation of the core strategy points established in its Foreign Economic Report 2004. Priority was given to the WTO's Doha Round of trade talks; continued expansion of the network of free trade agreements; stronger and deeper cooperation with the EU; the preparation of the necessary details for Switzerland's contribution to reducing economic and social disparities in an enlarged EU; and continuation of economic and trade policy measures in the field of development cooperation. Among the other objectives set by the Federal Council, one aspect of the current growth policy has a particular bearing on foreign trade policy, namely the revision of the Federal Act on Technical Barriers to Trade (SR 946.51).

The Foreign Economic Report allows us to take a first look at progress made during the reporting year. Continued expansion of the network of free trade agreements occupied an important place in the activities. This was complemented by implementation of the strategies for the four BRIC countries set forth in the Foreign Economic Report 2006. While there were no breakthroughs in negotiations at the Doha Round of trade talks, the WTO and the body of regulations that has resulted from previous rounds of trade negotiations continue to determine Switzerland's trade relations with many different states. Relations with the EU were being consolidated. At the same time, new opportunities for cooperation in various sectors are being discussed. Implementation of Switzerland's contribution to the new EU member states is proceeding according to plan. The budget lines for this contribution as well as for continued cooperation with non-EU Eastern European countries and the Commonwealth of Independent States (CIS) were approved by Parliament. Finally, the Federal Council continued its efforts to improve Switzerland's international competitiveness. Particularly important was the preparatory work done within the Federal Administration for the upcoming revision of the Federal Act on Technical Barriers to Trade (SR 946.51). Important decisions were also reached regarding the promotion of exports and of Switzerland as a location for setting up business.

Foreign Economic Report 2007

The **introductory chapter** (cf. chapter 1) is devoted to "competitiveness and international openness". Its purpose is to clarify what is meant by the term "competitiveness", to show where Switzerland stands in relation to other countries and to explain what this implies for Swiss foreign economic policy. On this latter point, the report draws the conclusion that Switzerland should promote the opening of its economic branches to international competition so that the advantages of international trade can be used to improve national economic productivity and, consequently, raise Switzerland's level of competitiveness for the benefit of its inhabitants and companies. If the necessary reforms are implemented, Switzerland will maintain its position as one of the world's most competitive nations.

Multilateral economic cooperation (cf. chapter 2)

For the first half of the year, efforts to move the Doha Round of trade talks ahead focused on the political level and on the "G4" (USA, EU, Brazil, India) attempts to spearhead negotiations on agricultural and industrial goods. Discussions and negotiations were then moved to the multilateral trade forum in Geneva. Although no political breakthrough in negotiations could be achieved during the reporting year, the WTO is still very important for Switzerland's exports and foreign trade policy thanks to past WTO successes in terms of trade liberalisation and the existing body of WTO regulations. Even free trade agreements are based mainly on WTO rules, and WTO provisions are often referred to in these agreements. Consequently, Switzerland places great importance both on the Doha Round as well as on implementation of existing WTO agreements.

Among the other multilateral economic organisations, Switzerland views the OECD as an important forum enabling countries with more highly developed economies to cooperate and exchange ideas. The main highlights of the reporting year were the OECD's annual Ministerial Council Meeting, the official visit made to Bern by the OECD's new Secretary-General as well as the OECD's Economic Survey of Switzerland 2007. Trade and investment promotion programmes were continued in UNCTAD – the forum used for cooperation between OECD member states and developing and transition countries. In addition, preparations began for the twelfth session of the United Nations Conference on Trade and Development (UNCTAD XII), which is scheduled to take place in Ghana in April 2008.

European economic integration (cf. chapter 3)

Economic ties with EU and EFTA member states are extremely important for Switzerland. The legal basis for these ties can be found in the 1972 free trade agreement, in the 16 CH-EU bilateral agreements as well as in the revised 2001 EFTA Convention.

Switzerland's relations with the EU in the reporting year were based on the guidelines established in the Federal Council's Europe Report, which was presented in 2006. Emphasis was placed on implementation of the bilateral agreements and their extension to the new EU member states Romania and Bulgaria. In addition, the preparatory work was completed for Switzerland's contribution to reducing economic and social disparities in an enlarged EU. As a result, the ten partner countries that joined the EU in 2004 can now begin submitting project proposals. Other areas of possible cooperation were discussed with the European Commission, particularly public health and free trade in agricultural and food products. Initial negotiations took place regarding the electricity market and customs formalities ("24-hour rule"). Different views on cantonal tax laws were discussed at an initial informal meeting where the Federal

Council once again countered accusations that the lack of tax harmonisation constituted a violation of the free trade agreement. Additional meetings are planned for 2008.

Free trade agreements with non-EU and non-EFTA partners (cf. chapter 4)

The global shift towards bilateral and multilateral free trade agreements continues unabated. Asian and Latin American countries, too, are increasingly taking part in this development, more often than not with partner countries from other regions of the globe. After a temporary stop, the EU has now again taken up negotiations.

Switzerland cannot afford – nor does it wish – to be left standing on the sidelines. The activities during the reporting year reflect the interest in free trade negotiations, which is unlikely to subside anytime soon. Avoiding discrimination on important markets abroad continues to be the main objective. In addition, free trade agreements help to intensify trade relations with key partners or are included in corresponding strategies (e.g. relating to BRIC countries). Particularly encouraging, the bilateral agreement with Egypt went into effect during the reporting year and negotiations with Canada – which for a long time had remained at a standstill – were finally brought to a close. Signature of the agreement with Canada is expected to take place in early 2008. While Switzerland normally seeks greater leverage in such negotiations by working through the EFTA, it does not exclude the possibility of pursuing the bilateral route. Negotiations with Japan – our third largest trading partner – are currently underway and several rounds of negotiations took place during the reporting year.

Horizontal policies (cf. chapter 5)

In order for a country's foreign trade policy to be understood and taken seriously by economic operators and international partners, clear positions need to be established and coherently represented on matters being discussed in various international negotiations and international organisations. For this reason, Swiss relations with international partners and organisations are based on coordinated horizontal policies.

Among other things, horizontal policies are important for services, investments, Technical Barriers to Trade, international competition policy, public procurement and trade-related aspects of intellectual property rights (TRIPS). A large part of the activities carried out in these areas during the reporting year revolved around the negotiation of agreements, particularly free trade agreements. Other important policymaking activities included discussions on revision of the Federal Act on Technical Barriers to Trade (SR 946.51); a complete review of Swiss product regulations to check their compatibility with current EU legislation; ratification by Parliament of five bilateral investment protection treaties; measures taken to crack down on counterfeiting and piracy; and signature of bilateral agreements with China and India for greater cooperation in the area of intellectual property rights.

International financial system (cf. chapter 6)

International trade in goods, services and capital hinges on a stable international financial system. The International Monetary Fund (IMF) and the Financial Stability Forum (FSF) play a key role in ensuring the stability of this system. Switzerland's membership to the FSF during the reporting year can therefore be considered as an accomplishment. For its part, the IMF released a country report on Switzerland and moved ahead with plans to change member voting power and quotas. Switzerland also took part in various international associations of supervisory authorities (banking, securities trading, insurance, money laundering). Such associations are important because they allow members to exchange information and experiences and work together to establish standardised rules. Finally, various matters relating to international taxation also come under this heading.

Economic development cooperation (cf. chapter 7)

Economic development cooperation measures form an important part of Swiss development policy. The aim is to help developing countries, transition countries and the new EU member states to gain a lasting foothold in the world economy and reduce poverty by promoting economic growth.

During the reporting year, most of the efforts were devoted to follow-up on the Federal Act of 24 March 2006 on Cooperation with Eastern European Countries (SR 974.1). Parliament approved the budget lines for Switzerland's contribution to reducing economic and social disparities in an enlarged EU (cf. chapter 3) as well as for its continued cooperation with Eastern European countries and the CIS. In early March, the Federal Act of 9 October 1981 on Preferential Tariffs for LDCs (SR 632.91) and the Federal Ordinance of 16 March 2007 on Preferential Tariffs for LDCs (SR 632.911) went into effect. In addition, the Federal Council extended its performance mandate for the promotion of imports from a chosen group of developing and transition countries (Swiss Import Promotion Programme - SIPPO) for four more years. SIPPO along with a smaller investment incentive programme for Sub-Saharan Africa will be integrated in the Business Network Switzerland (OSEC). Finally, a proposal was drafted for a strategic realignment of economic cooperation. This proposal will be in more detail in the Federal Council's Message on the new budget lines for economic and trade policy measures in the field of development cooperation, which will be submitted to Parliament in 2008.

Bilateral economic ties (cf. chapter 8)

In today's globalised world, too, Switzerland continues to place great importance on maintaining an active and coherent approach to bilateral economic ties as a means of complementing and strengthening its efforts at the multilateral and/or multilateral level. Issues that cannot be addressed in international agreements can be handled at the bilateral level. This enables Switzerland to represent its interests and concerns in a targeted manner and paves

the way for direct relations between Swiss companies and the corresponding countries. During the reporting year, priority was given to implementation of the strategies for BRIC countries, which were summarised in the Foreign Economic Report 2006. Strategies were also established for other trading partners of considerable interest to Switzerland (Gulf Cooperation Council (GCC)¹, Mexico and South Africa). Progress was also made on several bilateral economic agreements (e.g. US-Swiss Trade and Investment Cooperation Forum) and new agreements were signed (e.g. with China).

Export controls and trade embargoes (cf. chapter 9)

During the reporting year, Swiss export controls and trade embargo measures were heavily influenced by international efforts to respond to Iran's nuclear policy. Since Switzerland's policies are already circumspect in this regard, no major adjustments were needed. Activities continued to be centred on implementation of relevant legal provisions: the Federal Ordinance of 25 June 1997 on the Export, Import and Transit of Dual-purpose Goods and Special Military Supplies (SR 946.202.1); the Federal Ordinance of 17 October 2007 on the Control of Dual-purpose Chemicals (SR 946.202.21), and various ordinances concerning measures to be taken against individuals and countries, etc.

Promotion of exports, Switzerland as a location for setting up business and tourism (cf. chapter 10)

A major focus of export promotion activities is on companies, particularly SMEs. These activities are carried out by the Business Network Switzerland (OSEC) working on behalf of the Federal Administration. The outstanding achievement during the reporting year was Parliament's decision to set aside CHF 68 million in funding to continue these activities for 2008-2011. Insurance is another way to encourage exports. During the reporting year, a new chapter began with the Swiss Export Risk Insurance (SERV) starting business. Finally, debt restructuring by the so-called Paris Club also plays a role in this context. During the reporting year, full or partial debt relief agreements were reached with several debtor countries.

Most of the efforts to attract foreign direct investment to Switzerland came from the "Location Switzerland" programme, which launched information campaigns in various countries to promote Switzerland as an attractive business hub. A further development was the revision of the Federal Act on the promotion of Switzerland as a location for setting up business. One of the consequences of this revision is that the "Location Switzerland" programme will be transferred to OSEC starting in 2008. Parliament decided to add a tourism promotion programme to the existing promotion of Switzerland as a location for setting up business, which will enable the Federal Council to continue sponsoring Swiss tourism promotion campaigns for the next few years.

Outlook

The Federal Council's foreign economic policy objectives for 2008 will be concentrated on the Doha Round of trade talks, cooperation with the EU and continued expansion of the network of free trade agreements with non-EU and non-EFTA partners. Switzerland will continue in its efforts to help jump-start the stalled Doha Round trade talks by seeking progress on all issues. Free trade negotiations with several partners have reached a point where agreements are likely to be signed this year (particularly with the GCC, Japan, Columbia and Peru). Switzerland should be able to start negotiations with some countries, depending on their situation (India, Indonesia, South Eastern European countries), while for others feasibility studies and/or preliminary contacts are planned (especially with China, Russia and various ASEAN² member states). Other issues that the Federal Council intends to focus on in 2008 include its upcoming Message on partial revision of the Federal Act on Technical Barriers to Trade (SR 946.51) and its Message on the continued funding of economic and trade policy measures in the field of development cooperation. The Federal Council will also decide how best to proceed with efforts to coordinate foreign economic policy and development cooperation. As for the EU, the Federal Council will devote its attention to drafting its Message on renewal of the bilateral agreement on the free movement of persons and extension of this agreement to include Bulgarian and Romanian nationals. Negotiations regarding the electricity market and simplification of customs formalities ("24-hour rule") will be continued and possibly concluded.

¹ Saudi Arabia, United Arab Emirates, Kuwait, Bahrain, Qatar, Oman

² Association of Southeast Asian Nations