

Executive Summary

The Objectives of the Federal Council

The year under review was characterised by the unexpectedly rapid transition from an economic boom in Switzerland to a situation in which recession loomed. In the first half of the year it was mainly the financial sector that suffered from the effects of the real estate crisis in the US, but in the second half the repercussions of the financial crisis that it triggered were increasingly felt by the economy as a whole. At the same time, the deterioration in the US economy affected the entire world. Certain indicators suggest a general downturn going beyond the normal cyclical correction that follows a protracted upswing phase. There has even been talk of the first truly global economic crisis since the 1930s.

Swiss foreign economy and foreign-economic policy were affected by this development in several ways. Being so dependent on exports, Switzerland has naturally been particularly hard-hit by the economic deterioration in its most important markets. It was therefore incumbent on foreign economic policy to make its contribution to combating the economic downturn within the stabilisation measures taken by the Federal Council. Above all it is tasked with continuing to negotiate free-trade agreements and ensuring that they come into effect as soon as possible, as well as maximising efforts by OSEC to assist exporters. Very specifically, the international financial institutions and supervisory authorities are called upon to make their contribution to overcoming the financial crisis, and to review their regulatory mechanisms in order to prevent future crises to the maximum possible extent. The global economic crisis has given new impetus to the WTO Doha Round. At their meeting in mid-November the G20 states were unanimous that the WTO must also make its contribution to the recovery of the global economy. Existing problems must therefore be resolved as quickly as possible.

The Federal Council's foreign economic policy objectives for the year under review centred round the negotiations of the WTO Doha Round, cooperation with the EU and the continued expansion of the network of free-trade agreements with partners outside the EU and EFTA. Other matters to which the Federal Council assigned a high priority during the year were the messages to parliament on the partial amendment of the Federal Act on Technical Barriers to Trade (THG) of 6 October 1995, and on the continued funding of measures relating to economic and trade policy in the context of development cooperation. The Federal Council also set itself the objective of deciding on further steps to strengthen coordination between foreign economic policy and development cooperation (see the Executive Summary of the 2007 Foreign Economic Report).

The Federal Council's annual report will contain detailed information on the achievement of individual objectives. The Foreign Economic Report, however, provides the opportunity to draw preliminary conclusions on certain important matters. The following summary and the individual sections of the report highlight the further expansion of the network of free-trade agreements, and the strengthening of cooperation with the EU during the year. Whether a breakthrough in the Doha Round could be achieved despite the failure of the unofficial meeting of ministers in July was as yet unknown at the time of going to press. Work on the partial amendment of the THG is proceeding on schedule, and proposed economic and trade policy measures in the field of development cooperation were implemented. To the extent that developments during the year under review were foreseeable, the Federal Council can thus look back on a year in which it achieved its foreign economic policy objectives.

The 2008 Foreign Economic Report

The **Main Feature Topic** (see chapter 1) is devoted to the topical question of "Natural Resources in Foreign Economic Strategy". Because Switzerland lacks natural resources, and given that certain raw materials have become scarce or expensive as global demand for them has risen, foreign economic policy has an important part to play in the procurement of important natural resources. This chapter shows how Switzerland's supplies of and trading activities in raw materials fit into the Federal Council's foreign economic policy strategy (see the 2004 Foreign Economic Report). In fact, the main elements of the strategy are well suited to show the most important thrusts of foreign economic policy also in the field of natural resources. The chapter concludes that it is very important for the issue of natural raw materials to be more closely integrated into international economic policy. This is fraught with difficulty, however, as states wish to use their resources first and foremost for their own needs – or even in pursuit of an economic policy shaped by power politics.

Multilateral economic cooperation (see chapter 2):

The informal ministerial meeting held in July, attended by representatives of some thirty countries, was central to efforts to make progress on negotiations for the WTO Doha Round. Try as they might, the major economic powers were unable to reach agreement on the most important negotiation topics, agriculture and industrial goods. This chapter also provides an overview of work on the implementation of the WTO agreement on matters not covered by the Doha Round, such as dispute settlement and review of national economic policies. Switzerland underwent its fifth review of this type in 2008. On the one hand, this allowed us to

present Switzerland's economic policy to the other WTO states, with explanations where necessary. On the other, the analysis gave us the opportunity to discuss suggestions from the WTO secretariat and other member states on particular aspects of our economic and economic policy.

The diverse work of the OECD, in which Switzerland is a very active participant, focused on the accession of five new member countries (Chile, Estonia, Israel, Russia and Slovenia) and on combating the financial crisis. With its experience and resources, the OECD is well-placed to cooperate with other international organizations on dealing with the crisis.

UNCTAD's activities culminated in its twelfth ministerial conference, held in Accra, Ghana, in April. Even after this major event, however, which is held only every four years, UNCTAD has yet to find its place in the structure of international economic organisations. Switzerland supports UNCTAD projects, particularly in the fields of promoting trade and investment.

European economic integration (see chapter 3)

Economic relations with member states of the EU and EFTA are of overriding importance to Switzerland. Their legal foundations are the 1972 free-trade agreement with the EU together with the 16 agreements of Bilaterals I and II, and the EFTA Convention as revised in 2001.

The year under review featured the further consolidation of the agreements with the EU and initial discussions in new subject areas. The Schengen/Dublin agreement, which came into force on 12 December, was particularly important. A referendum called against the extension of the agreement on freedom of movement of persons to Romania and Bulgaria will be put to a vote on 9 February 2009. Negotiations on the amendment of the agreement on goods traffic, which had been made necessary by the introduction of mandatory advance notice of exports into the EU (known as the 24-hour rule), continued to make progress. They should be completed early in 2009. Prominent among the new subject areas is agriculture and food, on which negotiations began at the beginning of November. The dialogue with the EU begun by the Federal Council to resolve the prospective problems associated with the implementation of the EU's REACH Directive is particularly important to Swiss exports. Differences remain between Switzerland and the EU with regard to the compatibility of cantonal fiscal provisions with the 1972 free-trade agreement.

Free-trade agreements with partners outside the EU and EFTA (see chapter 4)

The worldwide trend towards negotiating bilateral free-trade agreements continued during the year under review, not least because of problems with the WTO Doha Round. While continuing its efforts to conclude such

agreements within EFTA, Switzerland also concluded a bilateral agreement with Japan, ranked fourth among its most important trading partners.

Switzerland's principal objective remains the avoidance of discrimination in important foreign markets. Furthermore free-trade agreements make a major contribution to the establishment of closer economic relations with important partners, or form part of the strategies designed to achieve this (vis-à-vis the BRICs, for example). As well as those with Japan, negotiations with Peru and the member states of the Gulf Cooperation Council (GCC) were substantially concluded. The agreement with Canada was signed in January, the broad-based free-trade agreement with Colombia in November. Several of these agreements are scheduled to come into effect in 2009. Negotiations with India were commenced within the framework of EFTA, while discussions with China on a possible bilateral free-trade agreement continued. The foundations were laid for negotiations with a number of other countries in 2009, among them Albania, Russia, Serbia and the Ukraine. Finally, the depth and range of existing agreements were increased in special sessions of their Joint Committees, which normally meet every two years.

Horizontal policies (see chapter 5)

If Switzerland's foreign-trade policy is to be seen as transparent and consistent by both business and our international partners, it is essential to define a coherent position on important questions of foreign trade policy and to advocate it systematically in international negotiations and organizations.

Important developments during the year under review in the areas of trade in goods, technical barriers to trade, trade in services, electronic commerce, investments, competition, public procurement and trade-relevant aspects of intellectual property are discussed in chapter 5. Many of them took place in negotiations on agreements (mainly free trade agreements), and others – like the amendment of the Federal Act on Technical Barriers to Trade – in the context of national legislation. For the first time, rules governing electronic commerce have been agreed with the US and several free trade partners. Mention should also be made of efforts in the OECD and the IMF to find ways to take account of legitimate national security interests without unnecessarily restricting investment freedom, and also to make the increasing investment activity on the part of sovereign funds more transparent.

The international financial system (see chapter 6)

The importance of a stable international financial system to the cross-border exchange of goods, services and capital was clearly demonstrated during the year under review – as were the consequences when the system no longer

works. Besides the governments of the countries that were most affected, the IMF and the Financial Stability Forum (FSF) were called upon to play a key role in combating the international financial crisis. Chapter 6 therefore concentrates on describing the most important work within these two organisations, as well as Switzerland's contribution to it. The IMF's country report on Switzerland should also be singled out. Another section of the chapter is devoted to the activities of the international supervisory bodies (banks, securities trading, insurance, combating money laundering), in which national supervisory authorities have the opportunity to exchange experience and information and to draw up standardised regulatory rules. These institutions also devoted a great deal of effort to overcoming the international financial crisis.

Economic development cooperation (see chapter 7)

Economic development cooperation measures form part of Switzerland's development policy. They are designed to support the long-term integration of developing and transition countries into the global economy, to boost their economic growth with the aim of reducing poverty, and to eliminate economic and social inequality in the expanded EU. Developing and transition countries have been seriously affected by the financial crisis and rising food prices. Promoting sustainable growth is thus particularly important.

The central event during the year under review was parliament's approval in December of the new credit line of CHF 800 million for development cooperation. This will enable bilateral and multilateral projects and measures to be continued. Switzerland supported developing countries in the field of macroeconomics, investment promotion and infrastructure funding, while economic cooperation focused on promoting sustainability standards and improving the trading capacities of the poorest developing countries. As before, Switzerland conducted most of its multilateral activities through the World Bank Group, in which its permanent membership of the Board of Directors gives it an influential role in formulating the entire organisation's policies and programmes. Furthermore Switzerland's participation in the regional development banks constitutes one of the mechanisms available to it in its economic development cooperation, and one that is well utilised.

Bilateral economic ties (see chapter 8)

Switzerland is committed to shaping its bilateral economic relations – which supplement its activities at both plurilateral and multilateral levels – actively and coherently. The objective is to represent Swiss interests in countries with which no international agreements (yet) exist, and to improve the overall environment for Swiss companies.

Close contacts were therefore maintained during the year under review with our traditional economic partners in Europe and North America. Switzerland also concentrated on implementing its strategy for important emerging nations (Mexico, South Africa and members of the Gulf Cooperation Council, as well as the so-called BRICs), and on preparing strategies for other important trading partners (Indonesia and Turkey). The Head of the Federal Department of Economic Affairs and high-level representatives of the administration carried out a number of foreign visits, sometimes accompanied by representatives of Swiss business. These enabled specific problems of trade and investment to be addressed, further opportunities for cooperation to be explored, and the depth of bilateral economic relations to be increased.

Export controls and trade embargoes (see chapter 9)

During the year under review Iran was once more the focus of Swiss and international policy on export controls and embargoes. After the UN Security Council had intensified sanctions on 3 March, the Federal Council made the necessary changes to the relevant internal ordinance. Mandatory measures vis-à-vis Myanmar, Zimbabwe and persons and organisations connected to Osama bin Laden, Al Qaeda or the Taliban were also tightened up. Work in the field of export controls focused on adapting Swiss provisions to reflect changes in the international export-control regime. In October, finally, the Federal Council resolved to revise the Goods Control Act, and began the consultation process on a proposal to that effect.

Promoting exports and tourism, attracting inward investment (see chapter 10)

The federal government focused its export-promotion efforts on Osec Business Network Switzerland, established by SECO to support companies in Switzerland and Liechtenstein – principally SMEs – in their export activity, and on Swiss Export Risk Insurance (SERV), which took up its activities in 2007. Osec significantly expanded its activities during the year under review. Besides taking over from the federal government the task of spreading awareness of Switzerland's attractions as a centre for business and investment, it also took responsibility for promoting imports and investment to the benefit of developing and transition countries.

Switzerland's tourism industry posted a record result in the year under review. In the light of the financial crisis, however, visitor numbers and earnings must both be expected to fall in the months to come.

Outlook

Overcoming the financial crisis and its effects on the export economy will remain one of the Federal Council's central foreign economic policy

objectives in 2009. It took its first specific steps in this direction in November, when it adopted a series of stabilization measures. Apart from the emergency measures taken to overcome the current financial crisis, the efforts of the Federal Council will focus on continuing to strengthen competition in the domestic market and on improving conditions for the export economy, in particular by concluding further free-trade agreements. It will also concentrate during 2009 on consolidating relations with the EU and on strengthening the multilateral WTO rules. In relation to the EU, one central factor is the referendum on renewing the agreement on the freedom of movement of persons and extending it to cover Bulgaria and Romania. Because this agreement is legally linked with the other six agreements of Bilateral I, this referendum constitutes a fundamental decision on the bilateral approach. Other important matters are the credit line for a financial contribution to benefit these two EU states, and the conclusion of negotiations on the 24-hour rule. Negotiations in the areas of electricity, agriculture and public health will continue, and exploratory talks on the implications of the REACH regulation will begin. Switzerland's efforts in the WTO will continue to focus on the continuation and successful conclusion of the Doha Round. Other important business will include the revision of the THG, which will commence its passage through parliament; the parliamentary debate on the message on the popular initiative for the prohibition of exports of war material; the analysis of the results of the consultation process on the revision of the Goods Control Act; and subsequently the preparation of a message to parliament and elaboration of a new concept of Switzerland's tourism-promotion activities.