

Overview (Executive summary)

The Federal Council's Objectives for 2010

After several difficult years for the global economy and for Switzerland's exporters, an economic recovery began to emerge at the end of 2009 and continued throughout much of the year under review. Global trade and Swiss goods exports increased significantly, although they failed to reach pre-crisis levels.

Even though the export opportunities enjoyed by a medium-sized economy such as that of Switzerland depend to a great extent on global demand, foreign economic policy can establish coherent and appropriate framework conditions to help ensure that the opportunities available may be exploited. The Federal Council's strategy focused on this objective also during the challenging years 2008 and 2009 (see the overviews of the foreign economic policy reports for those years). In the main feature topic (see section 1 below), the Federal Council concludes that pursuing a strategy oriented towards achieving medium and long-term growth and stability, rather than simply intervening in the economy in the short term, has not only enabled Switzerland to come through the latest crisis comparatively well but has also made it easier for our economy to participate in the upswing that is now starting to emerge. The fact that there was an above-average rise in Swiss exports to Canada and Japan – two countries with which Switzerland concluded free trade agreements in 2009 – despite the crisis can serve as an example.

During the year under review, the Federal Council's foreign economic policy objectives once again focused chiefly on relations with the EU, the WTO's multilateral rules and free trade agreements with countries outside the EU. Whereas the existing agreements in these areas were implemented without any major problems, the environment became more challenging as regards extending the rules further. It was still not possible to conclude the Doha Round in 2010. The EU's request for clarification on institutional and legal issues hampered the continuation of the negotiations already in progress with the EU as well as the commencement of new ones. There was more positive news regarding free trade agreements, with two new agreements (Peru and Ukraine) signed, two others entering into force (Serbia and Albania) and negotiations in relation to other agreements making progress or in preparation. Important advances were also achieved outside these three target areas (including increased monitoring of systemic risk in the financial markets and the approval by the Federal Council of three messages concerning economic development cooperation, as well as an external evaluation of the activities of Osec and Swiss Export Risk Insurance (SERV)).

In its Annual Report, the Federal Council will give a detailed and comprehensive account of the progress made towards the achievement of its objectives for 2010. With regard to foreign economic policy, it may provisionally be concluded that the objectives for the year under review have been achieved in a number of different areas.

The 2010 Foreign Economic Policy Report

Main feature topic (see section 1)

The main feature topic is devoted to the subject of «World trade during the financial and economic crisis – the repercussions for Switzerland as a business location». It examines the consequences of the crisis for world trade and Switzerland, as well as for its principal economic partners, with the focus on 2009. It is interesting to note that the recession in Switzerland was significantly less marked than in most other industrialized countries. A major contribution was made by exceptionally robust domestic demand, which led to a below-average fall in imports by international standards. Switzerland was thus one of the countries that supported the global economy during the crisis. In terms of the decline in exports in 2009, Switzerland was in the middle of the global rankings. The relatively modest fall in exports is attributable in particular to the Swiss export economy's favourable product specialization. On the other hand, Switzerland's geographical sales structure did not prove particularly advantageous as regards exports. Analysis of developments during the year under review forms the basis for the Federal Council's conclusions and the lessons learned from the crisis in terms of economic policy. In particular, areas are identified where structural measures are required so that Switzerland can continue to overcome crises successfully in the future.

Multilateral economic cooperation (see section 2)

In March, the stocktaking summit involving the chief negotiators in the Doha Round (section 2.1) failed to kick-start the talks. During the year under review, the emphasis was therefore on technical negotiations in several areas. It was the G20 meeting of heads of state and government in Seoul in November that finally led to renewed activity on the political front. The participants agreed to push for an early, balanced conclusion to the Round on the basis of the progress already achieved, with next year specified as a window of opportunity that should be used. Outside the Doha Round, negotiations continued with a total of 30 candidates for accession, the trade policies of 17 members were scrutinized, and important decisions were reached in the course of dispute-resolution procedures. The monitoring of the trade measures undertaken by WTO members – a procedure decided on after the start of the financial crisis – was continued. The committee responsible concluded that most countries avoided implementing new, strongly protectionist measures despite the extent of the crisis.

A key event for the OECD (section 2.2) was the entry of four new members (Chile, Estonia, Israel and Slovenia), bringing the number of members to 34. The acceptance process for Russia is proceeding more slowly. At their annual conference, the ministers approved the final report on innovation strategy, which was completed after three years' work. Next year's report will cover the «green growth strategy». Switzerland was represented at Federal Council level at a number of sectoral ministerial meetings.

Important topics at UNCTAD (section 2.3) included the interim report on the implementation of the resolutions of the previous year's twelfth Ministerial Conference, known as the «Accra Accord» (see the 2008 Foreign Economic Policy Report), and the impact of the financial and economic crisis on developing countries. At UNIDO (section 2.4), Switzerland maintained its involvement in several projects focusing on the promotion of environmentally friendly technologies.

The International Labour Organization (ILO) (section 2.5) focused on consolidating two important decisions – the Declaration on Social Justice for a Fair Globalization (2008) and the Global Jobs Pact (2009). Switzerland applied for a seat on the Board of Directors of the ILO in order to tackle issues such as improved coordination within the organization and better cooperation with other international organizations.

Switzerland stands by its request for membership of the G20 (section 2.6), but is also using other methods of bringing its interests and views to bear in the work and decisions of this group. This is all the more important because the G20 is constantly expanding its areas of activity and involving an increasing number of international organizations of which Switzerland is a member.

European economic integration (see section 3)

Although Swiss trade relations with the single European market grew less strongly than was the case for other regions, the EU – together with its EEA partners – is still Switzerland's most important trading partner by far, accounting for 78 % of Swiss imports and 60 % of exports. The turmoil in the euro zone triggered by the Greek debt crisis in the spring led to the Swiss franc strengthening, which had a negative impact on the export economy. As regards relations with the EU, the Federal Council met in conclave in August and decided to pursue these within the framework of sectoral bilateral agreements. The existing agreements (Bilateral I and II) continued to be implemented and were adjusted as necessary. While negotiations and exploratory talks continued in other areas (especially agriculture, food safety, product safety and public health, electricity and regulations relating to chemical safety/REACH), obstacles were encountered, for reasons that included unanswered questions on institutional issues. An informal bilateral group of experts was set up to examine these questions. Tax matters remain an important topic in relations with the EU. In addition to possible changes to the Savings Tax Agreement, further discussions about the EU's code of conduct on corporate tax are also required. During the year under review, bilateral framework agreements were signed with Bulgaria and Romania regarding Switzerland's contribution to the reduction of economic and social disparities in the EU. These agreements had been approved by parliament in the previous year. Further progress was made in implementing the corresponding contributions to the ten countries that joined the EU in 2004. An interim assessment carried out towards the end of the year reached positive conclusions.

EFTA's activities revolved around the organization's 50th anniversary celebrations. The jubilee was marked by seminars and other events in EFTA member states and several partner countries. In July, Iceland applied for membership of the EU.

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

In 2010 EFTA signed new free trade agreements (Peru, Ukraine), while others entered into force (Albania, Serbia). Negotiations are still continuing with India, those with Hong Kong are at an advanced stage and others will commence next year (Russia-Belarus-Kazakhstan customs union, Indonesia, Bosnia and Herzegovina, Montenegro). A study was conducted to examine the feasibility of commencing negotiations on a free trade agreement with Vietnam, and talks took place with other countries with a view to strengthening trade links. A joint feasibility study on the

possibility of a free trade agreement between Switzerland and China was conducted on a bilateral basis; the ensuing negotiations are due to begin in early 2011.

Horizontal policies (see section 5)

The fields of trade in goods (industrial and agricultural), technical barriers to trade, services, investment, competition law, public procurement and trade-related aspects of intellectual property are core elements of Swiss foreign economic policy and of numerous economic agreements. The most important events during the year under review included: an agreement between the participants in the Pan-Euro-Mediterranean system of origin rules, who decided to embody this system in a consolidated agreement and extend it to the West Balkan countries (section 5.1); the coming into force of the amended Federal Act on Technical Barriers to Trade and the associated ordinance (section 5.2); the decision of the OECD to update the guidelines for multinational enterprises (section 5.4); the approval by the Federal Council of a negotiating mandate regarding a cooperation agreement on competition with the EU (section 5.6); and the conclusion of the negotiations on a plurilateral agreement to combat counterfeiting and piracy (section 5.7). Efforts to develop the basis for a global convention on climate change continued in Cancun, Mexico, in December and the possibility of extending the validity of the Kyoto Protocol was proposed. The contracting parties to the biodiversity convention approved a protocol on access to genetic resources and an equitable distribution of the benefits arising from their use (section 5.5).

The international financial system (see section 6)

The International Monetary Fund (IMF) and the Financial Stability Board (FSB) achieved significant progress with their proposed reforms aimed at strengthening the international financial system. These include increased monitoring of systemic risk in the financial markets and amending the IMF's lending instruments. Debt servicing reached a record high. At the FSB, a peer review process is evaluating the quality of national measures to implement international standards. Switzerland will be subject to such a peer review in 2011. Global developments have led to internal reforms at the IMF, including reforms relating to member quotas and representation on the Executive Board. The Financial Action Task Force against Money Laundering (FATF) continued evaluating its members; all 34 member countries have now been assessed. Switzerland adapted its double-taxation agreements with numerous countries in line with the decision by the Federal Council to conform in future to the OECD standard relating to information exchange on tax matters. More than 20 revised agreements were signed, ten of which were passed by parliament in June. When the deadline for the optional referendum has expired, the agreements will enter into force, provided that they have also been ratified by the partner countries.

Economic development cooperation (see section 7)

In 2010 the repercussions of the financial and economic crisis continued to make themselves felt and to influence the focus of bilateral measures and multilateral activities. Bilateral measures concentrated on the financial sector, promoting private-sector sustainability standards and labelling, financing climate-related measures, promoting SMEs and financing infrastructure. On the multilateral front, the development banks were faced with significant financing needs and were forced to initiate capital increases. Switzerland is also participating in the latter, in proportion to its usual share and subject to the approval of parliament. Furthermore, the

World Bank Group decided to approve a shift in voting rights in favour of major developing countries. Kazakhstan joined the Swiss voting group. Switzerland increased its representation at the African Development Bank and is now permanently represented in the office of the Executive Director. Infrastructure financing comprises the largest proportion of the support measures for eastern European countries and the Commonwealth of Independent States (CIS), while further measures have been directed towards macroeconomic support, facilitating investment and cooperating on trade-related matters.

In September the Federal Council approved three messages: 1) to increase and extend credit lines to eastern Europe, 2) to participate in capital increases for multilateral development banks, and 3) to explain how official development assistance can be increased to 0.5 % of gross national income by 2015.

Bilateral economic relations (see section 8)

As part of its efforts to foster bilateral relationships, the Federal Council attached particular importance to the continued implementation of country strategies for emerging markets (Brazil, Russia, India, China (BRIC), the GCC countries, Indonesia, Mexico, South Africa and Turkey), without neglecting its traditional partners in Europe and other regions. The main emphasis was on high-ranking missions to several countries, some of which were accompanied by business delegations, and meetings of Joint Commissions. These gatherings were also used to launch further initiatives designed to expand economic relationships. On the occasion of a meeting between the President of the Confederation and the Russian Minister of Economic Development during the official visit to the President of Russia in Sochi, a new action plan for the development of economic cooperation between the two countries was signed. One of the highlights of the year was the celebration of the 60th anniversary of the establishment of diplomatic relations with China, which was attended by the President of the Confederation and the President of the People's Republic of China.

Export controls and embargoes (see section 9)

In the year under review, Switzerland continued to play an active role in the further development of the four international export-control regimes, supporting targeted control measures for proliferation-relevant and restricted goods. Switzerland's chairmanship of the plenary meeting of the Wassenaar Arrangement, in which 40 countries participate, presented a further opportunity to boost the international visibility of Swiss export controls. SECO did not have to reject as many export applications as in the previous year. This was due at least partly to greater understanding of export control requirements on the part of the business sectors involved. However, some uncertainty arose from the fact that the sanctions applied by Switzerland against Iran on the basis of the relevant UN resolutions do not go as far as those applied by the USA, the EU and other countries; numerous questions were addressed to SECO on this topic.

It has recently become apparent that some changes are needed to the Embargo Act which came into force on 1 January 2003, so a draft amendment was submitted for the consultation process. At international level, the UN Security Council lifted the sanctions against Sierra Leone that had been in place for 13 years, imposed an arms embargo and other sanctions against Eritrea and approved further sanctions

against Iran. The Federal Council also tightened the sanctions against Guinea and adjusted other embargoes as necessary.

Promoting Switzerland as a business location (see section 10)

The aim of promoting Switzerland as a business location is to maintain the country's international competitiveness over the long term as a place to do business. Where foreign economic policy is concerned, this covers export promotion instruments, boosting Switzerland as a business location, export risk insurance and promotional campaigns in the tourism sector. The Confederation's mandates carried out by Osec in the area of export promotion and promoting Switzerland as a business location were subjected to an external evaluation in the year under review. This found that Osec's work was appropriate and cost-effective overall. Swiss Export Risk Insurance (SERV) can look back on a successful year. There was brisk demand for the bond guarantees and manufacturing insurance introduced in the previous year. SERV's activities were also evaluated externally in 2010. The evaluation attested to its efficient and competent implementation of the statutory requirements. Customer feedback was positive, and the service on offer was assessed as being internationally competitive.

Following a downturn in the previous year, the situation improved for the Swiss tourism sector in the year under review. This was principally attributable to visitors from Asia and the Middle East. The support programme for tourism marketing introduced in 2009 made a positive contribution. In the coming months, SECO will work on an implementation programme for the Federal Council's tourism policy covering the period 2012–2015, in consultation with stakeholder groups. Switzerland also continued to participate in international cooperation in the tourism sector.

Outlook for the coming year

In 2010 Switzerland was able to make up for the crisis-related decline in economic output, and exports picked up again strongly; next year the Federal Council will focus its attention on the pursuit of sound, broad-based economic growth. A wide range of activities is being undertaken in the field of foreign economic policy. Particularly important developments are expected in the area of trade policy with a focus on market access. Negotiations on an EFTA free trade agreement with Hong Kong are to be concluded shortly and those with India should reach an advanced stage. Negotiations will commence with major countries such as China, Russia (together with Belarus and Kazakhstan) and Indonesia, as well as with smaller regional partner countries (Bosnia and Herzegovina, Montenegro). Decisions on whether to start negotiations with other countries (Malaysia, Vietnam, Central American countries) are to be taken during the course of the year. At the WTO it remains to be seen whether the new political momentum created at the G20 summit of heads of state and government in Seoul in November 2010 will have concrete results in the coming year. Switzerland remains committed to the conclusion of the Doha Round. Clarifying the institutional relationship with the EU will be of major importance. The Federal Council intends to continue or commence talks in the areas of cooperation between competition authorities, electricity, agriculture, food and product safety, health, participation in the Galileo satellite navigation system, REACH and emissions trading.

Other matters relevant to foreign economic policy over the next year include drafting a message to parliament on amending the Embargo Act, Switzerland's active participation in the negotiations on updating the OECD guidelines for multinational enterprises, and preparatory work on the messages regarding international development cooperation 2013–2016.