

Overview

The Federal Council's Objectives for 2011

When setting its objectives for the year under review, the Federal Council again focused on broad-based economic growth (see Foreign Economic Policy Report 2010, «Outlook for the coming year»). It regarded greater competition in the domestic market and improved framework conditions for foreign trade as essential prerequisites. It also laid emphasis on consolidating relations with the EU.

Particularly intensive efforts aimed at facilitating access to foreign markets were made during the year under review. Negotiations with Hong Kong and Montenegro on EFTA free trade agreements were concluded, and those with India made progress. The current negotiations with Bosnia and Herzegovina are expected to be concluded in the first quarter of 2012. Negotiations with major countries such as China (on a bilateral basis), Russia (together with Belarus and Kazakhstan) and Indonesia have commenced, and others (Vietnam, Central American countries) are due to begin in 2012. The Swiss export sector is therefore expected to see conditions improve over the medium term in a challenging international environment. Despite intensive endeavours by Switzerland, it again proved impossible to bring the WTO Doha Round to a conclusion. In order to safeguard the bilateral approach over the long term, the Federal Council also decided to continue to pursue a coordinated, comprehensive approach to relations with the EU, that includes discussions on outstanding institutional questions.

This report provides detailed information on these matters and about other issues relevant to Swiss foreign economic policy.

In its Annual Report, the Federal Council will give a comprehensive account of the progress made towards the achievement of its objectives for 2011. With regard to foreign economic policy, it may provisionally be concluded that the objectives for the year under review in particular relating to free trade agreements have been achieved, while renewed efforts will be required in 2012 on other topics (such as the possibility of concluding the Doha Round and continuing the negotiations with the EU).

The economic environment during the year under review

In the first half of the year under review, the Swiss economy continued to develop favourably. However, the economic outlook deteriorated in the second half.

Gross domestic product rose 1.3 % year on year in the third quarter, compared with growth rates of -1.6 % and +2.7 % in the two previous years (third quarter to third quarter in each case). The recession that hit the global economy in the fourth quarter of 2008, affecting Switzerland only to a limited extent, increasingly gave way to a gratifying upturn from the second half of 2009 onwards. If the recovery in the year under review was only moderate (+0.6 % in the first quarter compared with the previous quarter, followed by +0.4 % and +0.2 % in Q2 and Q3), this was primarily because of the strong Swiss franc and its impact on the export-oriented sectors of the Swiss economy.

In the end, the only positive stimuli for overall economic growth came from private and public-sector consumption and construction investment: in other words, from the domestic economy. By contrast, dwindling exports and declining investment in plant and equipment had a negative impact on GDP. Value creation in industry shrank markedly for the first time in the third quarter.

The Swiss franc trended upwards against the euro from mid-2007. To begin with, the Swiss economy was able to absorb this, partly because in retrospect it became increasingly obvious that the currency had been undervalued initially and the appreciation was compensating for this. By 2010, however, the situation had become one of over-valuation. In July/August 2011, the appreciation of the franc had reached such threatening proportions that the Swiss National Bank felt obliged to announce that it was setting a euro floor of 1.20 CHF/€, having already introduced other monetary easing measures. The franc's valuation remains extremely high even at this level, though, and is having a very negative impact on exports.

The main reason for the strength of the franc is the tense situation surrounding public-sector finances in the euro zone and beyond, as well as the associated nervousness on the international financial markets. Overall economic demand is now being hit by the measures that have been imperatively demanded by these markets to reduce excessive budget deficits, even though these measures are indispensable if confidence is to be restored in a number of countries.

All the more important for Switzerland in this challenging global economic environment is the fact that in recent years it has increasingly been able to target its exports at markets outside the EU and the USA, thanks to favourable conditions created by its foreign economic policy through a raft of new bilateral agreements. Many of these markets are experiencing considerable growth even in the present difficult global economic environment, and in some cases their currencies have also appreciated against the dollar and the euro since 2009.

The 2011 Foreign Economic Policy Report

Main feature topic (see section 1)

The main feature topic is devoted to the subject of «Foreign economic policy and the financial, economic and debt crisis». The Federal Council set out the elements of its foreign economic strategy in 2004, and this chapter – having described the challenges that have emerged – explains which points it intends to focus on in the next few years. The Federal Council is planning concrete measures to strengthen Switzerland's economic position in the world, as well as taking steps to improve market access and competitiveness in the goods, services and factor markets. In order to strengthen the country's economic position, the Federal Council wants to improve the international regulatory framework on foreign trade, integrate Switzerland even more fully in formal and informal international forums, continue and accelerate the bilateral negotiations with the EU and expand the network of agreements with countries outside the EU. With a view to improving competitiveness, it intends to take measures in the fields of goods and services, intellectual property, public procurement, the movement of capital, capital investment and labour mobility. The report concludes by stating that the international environment has become more difficult for Switzerland and the competitiveness of the Swiss economy must be

improved by means of internal reforms and autonomous liberalization measures. This is also a prerequisite for continuing to improve access to foreign markets.

Multilateral economic cooperation (see section 2)

Despite more intensive negotiations and the plan to complete the Doha Round in two stages, it proved impossible to achieve the hoped-for results: no agreement was signed at the WTO Ministerial Conference in December (section 2.1). Instead, the focus was on Russia signing the Protocol of Accession. Outside the Doha Round, negotiations continued with a total of 26 candidates for accession, the trade policies of 14 members were scrutinized, and important decisions were reached in the course of dispute-resolution procedures. Monitoring the trade measures introduced by WTO members – a procedure decided on after the start of the financial crisis – has become an integral part of the WTO's work. The body responsible found that the number of restrictive measures taken by WTO members and candidates for accession has increased and that the lifting of previous measures is taking place too slowly.

The OECD (section 2.2) celebrated its 50th anniversary in the year under review. It intensified its cooperation with the most important emerging markets, while Russia's acceptance process is continuing to progress slowly. The organization seeks to contribute to global growth through its strategies for innovation, green growth and skills. The Ministerial Council Meeting adopted the updated Guidelines for Multinational Enterprises and launched a new framework for a comprehensive development strategy. Special mention should also be made of a number of peer reviews of Switzerland, covering tax issues, the integration of migrants and their children into the labour market, health systems and economic policy.

The work of UNCTAD (section 2.3) focused on preparations for the thirteenth intergovernmental meeting to be held in Doha in April of 2012. Switzerland concluded a framework agreement with the UN Inter-Agency Cluster on Trade and Productive Capacity led by UNCTAD to make coordinated trade-related services available to Switzerland's partner countries for development cooperation. At UNIDO (section 2.4), Switzerland maintained its involvement in global and country-specific programmes focusing on resource-efficient, clean production.

The International Labour Organization (ILO) (section 2.5) approved a convention concerning decent work for domestic workers. Switzerland was elected as a deputy member of the governing body for the term ending in 2014. It will focus intensively on strengthening the ILO's norm systems and making its economic and social policies more consistent.

During the year under review, the G20 (section 2.6) was under French presidency, which proposed an ambitious programme of work with seven broad-based priorities. Switzerland again used all available opportunities to improve its links with the G20 and bring its economic and financial interests to bear in the work of this group. It participated in preparatory meetings held by the G20 and contributed actively to international organizations entrusted with implementation tasks by the G20. The appointment of Philipp Hildebrand as Vice-Chairman of the Financial Stability Board was particularly significant.

European economic integration (see section 3)

In the year under review, developments in the EU were strongly influenced by the sovereign debt crisis and the associated currency crisis, which also had an impact on Switzerland. Nevertheless, Swiss trade relations with the European single market remained almost unchanged compared with the previous year and continue to account for the majority of Swiss foreign trade. One important reason for this is the good functioning of the existing agreements (particularly the 1972 free trade agreement and Bilaterals I and II). On the other hand, negotiations and exploratory talks in other areas (especially agriculture, food safety, product safety and public health, electricity and regulations relating to chemicals/REACH) encountered obstacles, mainly because of unanswered questions on institutional issues. Progress was made in some areas (emissions trading, cooperation between competition authorities, cooperation with the European Defence Agency). In January the Federal Council decided to pursue a coordinated, comprehensive approach to enhancing relations with the EU in order to safeguard the bilateral approach over the long term. With a view to overcoming the existing obstacles, it also decided to conduct in-depth discussions with the EU on the outstanding institutional questions. The objective is to protect the sovereignty of both contracting parties and to ensure that the well functioning institutions continue to operate smoothly. Work to implement the Swiss enlargement contribution to new EU member states for the purpose of reducing economic and social disparities has continued on schedule.

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

The free trade agreements with Colombia and Peru that came into force during the year under review bring the number of existing agreements to 24. Free trade agreements were signed with Hong Kong and Montenegro, and negotiations with India and with Bosnia and Herzegovina have reached an advanced stage. Switzerland has begun bilateral negotiations with China and – as part of the EFTA negotiations – other important partners (Russia–Belarus–Kazakhstan Customs Union, Indonesia). At their autumn meeting in November, the EFTA ministers decided to commence talks with the Central American countries next year. The Vietnamese government also agreed to begin negotiations on the basis of the feasibility study completed during the year under review. Switzerland lays great emphasis on extending the existing agreements, such as in the area of services (section 5.2) and the amendment of agricultural regulations to take account of new practices (section 5.1).

Horizontal policies (see section 5)

Developments in the area of horizontal policies (section 5.1–5.8) have an impact on Switzerland's entire foreign economic policy and numerous economic agreements. In the year under review, these included the signing and ratification of the convention on the Pan-Euro-Mediterranean system of origin rules (section 5.1); the first experience of the application of the Federal Act on Technical Barriers to Trade, which introduced the Cassis de Dijon principle (section 5.2); the adoption of the updated Guidelines for Multinational Enterprises by the OECD Ministerial Council (section 5.4); the advanced negotiations regarding a cooperation agreement with the EU on competition (section 5.6); and the conclusion of the revision of the plurilateral WTO Agreement on Government Procurement (section 5.7); as well as the entry into force of the bilateral agreement between Switzerland and Russia on the

protection of geographical indications and designations of origin (section 5.8.1). Developments in the area of energy and the environment (section 5.5) notably included the Ministerial Meeting of the International Energy Agency, which is held every two years, and the seventeenth conference of signatories to the UN Framework Convention on Climate Change in Durban. Against the background of the events in Japan, Libya and the Gulf of Mexico, the former focused on energy security and international cooperation to create an energy policy fit for the future. At the Climate Change conference in Durban, the signatories to the UN Framework Convention on Climate Change decided to draft a new, global climate change regime by 2015. The EU, Switzerland and several other countries declared their willingness to make new commitments to reducing emissions under the Kyoto Protocol.

Economic development cooperation (see section 6)

Switzerland continues to participate in international economic development cooperation by means of bilateral support measures and contributions to multilateral development organizations. The approval of three Messages by parliament was of particular significance in the year under review. These referred to 1) increasing and extending framework credits for cooperation with eastern European countries and the Commonwealth of Independent States (CIS); 2) capital increases for multilateral development banks; and 3) financing an increase in official development assistance to 0.5 % of gross national income by 2015. Switzerland pursued the Federal Council's strategy by strengthening its development cooperation with the seven priority countries (Colombia, Egypt, Ghana, Indonesia, , Peru, South Africa and Vietnam), but it also developed a strategy for North Africa in response to the political upheavals in that region. It continued to implement measures to help eastern European countries and the CIS states, and to pledge contributions to the enlarged EU. The pledging period for the latter expires in mid-2012. On the multilateral front, the main emphasis was on implementing the agreed capital increases for regional development banks, to which Switzerland contributed. The new Message for 2013–2016 drafted jointly by SECO and the Swiss Agency for Development and Cooperation (SDC) primarily covers all the framework credits for economic cooperation and transitional assistance (including humanitarian aid). The Message is being introduced by means of a new strategy for international development cooperation. Parliament will debate this Message in 2012.

Bilateral economic relations (see section 7)

In view of the global economic and political uncertainty, the cultivation of bilateral relations was particularly important during the year under review. The Federal Council continued to implement 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. To this end, the Head of the Federal Department of Economic Affairs (FDEA) visited a number of countries, including Brazil, Chile, Germany, Hungary, India and Russia , in addition to the contacts made at international events such as the WEF in Davos. Furthermore, the State Secretary of SECO made visits to a number of different countries during the year under review. Events of special importance included the state visits to Switzerland of the President of India and the Prime Minister of Kuwait, both of whom were accompanied by large delegations from the private sector. Meetings of Joint Commissions, established in connection with bilateral economic agreements, have a significant role to play in the future development of

bilateral economic relations. Several such meetings took place again this year, including with Azerbaijan, Kazakhstan, Mexico and Russia. The Swiss-US Joint Economic Commission and the Swiss-US Trade and Investment Cooperation Forum made a valuable contribution to the resolution of bilateral economic issues with the USA.

Export controls and embargoes (see section 8)

The USA's proposal to nominate India as a member of the four international export control regimes caused a debate. Although Switzerland welcomes India's membership in principle, it wants to make it conditional upon a clear political commitment by that country regarding the non-proliferation of nuclear arms and a test ban on such weapons. In Switzerland, the Federal Council decided to strengthen export controls by extending the stricter provisions of the control of goods act to the prior notification requirement, providing thus for tougher penalties for breaches. In the wake of tighter UN and EU rules on embargoes, Switzerland, too, amended the relevant provisions, especially in respect of Iran and Libya (under the Gaddafi regime), as well as Syria and Belarus. The other sanctions based on UN and EU resolutions were left in place.

Promoting Switzerland as a business location (see section 9)

During the year under review, the strength of the Swiss franc presented a major challenge to export promotion, export risk insurance and, especially, tourism.

Demand for Osec's export promotion services rose, particularly from SMEs. The Swiss Export Risk Insurance Agency (SERV) also experienced increased demand. The new products – the bond guarantee and working capital insurance – introduced in 2009 played an important role here. On the basis of an external assessment, the Federal Council approved SERV's new strategic objectives up to 2014. The promotion of Switzerland as a business location will continue virtually unchanged in institutional and financial terms during the next legislative period, following a parliamentary decision during the year under review.

The tourism sector faced a more difficult situation. Overnight stays declined during the year under review, mainly because of lower demand from European visitors. The growing number of tourists from Asia failed to compensate for this fall. In order to cushion the negative impact of the strong franc, parliament increased the funding for Switzerland Tourism's national marketing programme by 24 million Swiss francs for the period 2011–2013 and raised the Federal loan to the Schweizerische Gesellschaft für Hotelkredit (the Swiss Society for Hotel Credit) by another 100 million Swiss francs as a temporary precautionary measure. Switzerland participated in forward-looking studies carried out by the World Tourism Organization (UNWTO) and the OECD Tourism Committee. Their findings will be of value when developing Swiss tourism policy in the future. The main focus was on projects to promote responsible, sustainable and globally accessible tourism (UNWTO), as well as Green Innovation in Tourism and Tourism Trends and Policies (OECD).

Outlook for the coming year

In response to declining growth forecasts in Switzerland and abroad, the Federal Council will again pay great attention to economic policy in 2012. In the area of foreign economic policy it will ensure that market access opportunities are exploited, and where possible expanded, on the basis of existing agreements. It will also make a commitment to combating protectionist trends and measures. In addition, it will continue negotiating other free trade and investment protection agreements.

Efforts will be made in 2012 to conclude negotiations on a free trade agreement between EFTA and India as well as Bosnia and Herzegovina. Negotiations are continuing between EFTA and the members of the Russia–Belarus–Kazakhstan Customs Union, as well as between Switzerland and China, while those with the Central American countries and Vietnam will commence under the aegis of EFTA. Attempts will also be made to begin negotiations with Malaysia. Exploratory contacts with the Mercosur countries will continue. It is expected that the agreements with Chile, Mexico and Singapore will be updated, and that negotiations will be entered into with Jordan regarding a services chapter. Ongoing negotiations on investment protection agreements will continue with Georgia, Indonesia and Malaysia and Russia.

Furthermore, the bilateral business missions carried out by the Head of the FDEA and the State Secretary of SECO will focus on facilitating market access for Swiss exporters to third markets and preventing discrimination. China has already been selected as the destination of a joint business delegation. SECO will also work to normalize economic relations with Italy.

Owing to elections and changes of government in several member states, it is doubtful whether major progress will be made in WTO negotiations during 2012. WTO members are nevertheless asked to find new ways of achieving further liberalization within the framework of the WTO. Particular attention should be paid to taking the interests of the least developed countries into consideration, as pointed out by heads of state and government leaders of the G20 countries at the Cannes summit in November 2011.

There is also important work to be done within the framework of other multilateral economic forums. The conclusions of the OECD projects on Green Innovation in Tourism and Tourism Trends and Policies are expected to be published at the end of 2012, making a valuable contribution to the further development of Switzerland's tourism policy. Moreover, from 2012 the Swiss tourism industry will benefit from the findings of the cooperation with UNWTO and the OECD Tourism Committee by receiving regular newsletters. Following the retirement of Juan Somavia, the ILO will elect a new Director-General. Switzerland regards the debates of the International Labour Conference on the reform of working methods and the continuing discussions on policy coherence with reference to the social dimension of globalization as significant. Also of interest is the ILO's debate on a proposal to support member states in establishing a social protection floor, since this topic is also attracting increased attention in the wider United Nations context. Mexico will be the new chair of the G20.

On the basis of the Federal Council's decision to pursue a coordinated, comprehensive approach to further developing Swiss-EU relations, all the planned or ongoing

negotiations will be initiated or continued in 2012 as far as possible. The existing agreements with the EU will be continued and consolidated. This includes plans to amend the annexes to the agreement on the free movement of persons in the areas of social security and the recognition of professional qualifications, and to update the annexes to the Agriculture Agreement.

In the coming year, the new Message on international development cooperation 2013–2016 will be debated in parliament. Preparations are already being made to implement the Message, such as by revising the country strategies for the priority countries. Activities in North Africa will also enter a new phase, following the opening of programme offices in Cairo and Tunis at the end of 2011.

Export promotion, export risk insurance and the promotion of Switzerland as a business location will continue to focus on helping companies do business in other countries and on boosting foreign investment in Switzerland. The strength of the Swiss franc will present a particular challenge. Osec will use the extra funding granted by parliament under the terms of the «Promoting Switzerland as a business location 2012–2015» Message to enter new markets, including those outside the euro and dollar zones.

Another important event in 2012 is the Rio+20 summit in Brazil, which will be the fourth UN conference on sustainability since 1972. At this Sustainable Development summit, the community of nations will discuss urgent problems in the areas of the environment, resources and climate change.