

Overview of the Foreign Economic Policy Report 2012

The Federal Council's Objectives for 2012

*The Federal Council's objectives for the year under review focused in particular on measures to strengthen the Swiss economy by providing the best possible operating environment and promoting long-term growth (see *The Federal Council's Objectives for 2012*, Objective 2). Specific moves on the domestic policy level included submitting the amendment of the National Economic Supply Act for consultation and adopting the Message on the further development of agricultural policy. It also attached importance to consolidating relations with the EU.*

Regarding foreign economic relations, particularly intensive efforts aimed at facilitating access to foreign markets were made during the year under review. Negotiations on the EFTA free trade agreements with Bosnia and Herzegovina are nearing completion, while negotiations with a number of Central American states (Costa Rica, Guatemala, Honduras, Panama) are at an advanced stage. The negotiations with India, Indonesia, Russia (together with Belarus and Kazakhstan), Vietnam and China (on a bilateral basis) have continued. In the WTO, member states have identified and negotiated on issues on which there appears to be a possibility of reaching agreement at the ninth Ministerial Meeting due to be held in 2013. With a view to safeguarding the bilateral approach over the long term, the Federal Council also submitted proposals to the EU aimed at resolving the institutional questions raised by the latter. At the same time, it continued to pursue its coordinated, global approach.

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 detailed account of the progress made towards the achievement of its objectives for 2012. The provisional results of its foreign economic policy suggest that the objectives for the year under review have been achieved. This is particularly true of the free trade agreements, despite the increasingly challenging nature of the negotiations leading to these agreements (see section 4). Perseverance is also called for in other areas of activities. This means systematically following through the approach embarked upon.

The economic environment during the year under review

Five years after the major financial and economic crisis, the global economy remains in a weakened state, with many countries reporting high levels of unemployment by historical standards. This could lead to social tensions and indeed has already done so in some European countries. At the end of the year under review, the main source of uncertainty is the euro zone. Here a number of countries are enduring recessions which in some cases have taken on serious proportions. This marked economic downturn in certain countries is attributable to various causes: the impact of the slowdown in global demand, the lack of price competitiveness in a

number of southern European countries, repercussions of the debt crisis and long-term structural consolidation of public finances.

Even in Germany, which had displayed a highly dynamic economic performance up until 2012, increasing signs of a slowdown have been in evidence in recent months. In the US, the «fiscal cliff» – i.e. the consequences of various changes to tax receipts and subsidies which are due to take effect at the beginning of 2013 – remained a source of serious concern during the year under review. In Europe, the extension given to Greece for the achievement of its austerity targets is now raising doubts about whether the country's debt can be financed.

While the situation in several other parts of the world is definitely better than in the US or Europe, risks exist in those regions as well. During the year under review, even Asia, the world's most dynamic region, felt the impact of the European crisis as it has very close financial and economic ties with Europe. However, most Asian countries have relatively extensive room for manoeuvre in the area of fiscal policy.

The economic forecasts for 2013 are largely dependent on the development of the debt crisis in the euro zone and on the impact of the measures taken there. The risk of a worsening of the European debt crisis appears to have diminished in comparison with the first half of the year under review. This improvement is thanks to the decisions taken by the European Central Bank in September and the proposals put forward by the European Commission as a first step toward establishing a banking union. It is still too early to sound the all-clear, however. The crisis will not be over and the risk of a renewed loss of confidence and a resurgence of tensions on the financial markets will not be banished until the reform process underway in the crisis-stricken countries has made tangible progress toward sounder public finances and stronger competitiveness.

The fact that the economic slowdown has recently been showing signs of spreading to other parts of the world poses an additional risk. This trend could lead to a sharper-than-expected fall-off in world trade owing to the close ties created by trade and globalized production processes. Experience suggests that a pronounced slowdown would have an impact on various – predominantly export-oriented – Asian countries. If Asia as a whole were to suffer not just a temporary downturn but a lasting loss of momentum, this would put the export industries of Europe and Switzerland under even greater pressure.

The 2012 Foreign Economic Policy Report

Main topic (see section 1)

The main topic is devoted to Switzerland's economic relations with neighbouring states, particularly in the border regions which are very important for the Swiss economy. From the point of view of promoting Switzerland as a business location and of foreign economic policy, our most intensive trading relationships are with our immediate neighbours and in particular with the economic powerhouses of Bavaria, Baden-Württemberg, Rhône-Alpes and Lombardy. In terms of innovation, integration and complementarity of value-creation chains, these regions have very close and growing economic ties with Switzerland's border regions. The issue is

therefore one of selecting an appropriate political approach not only in the context of making locations more competitive, more attractive places to do business and in the context of foreign trade and the labour market, but also in the areas of training, research, innovation and spatial planning. Realizing this, the Federal Council intends to continue to maintain and enhance Switzerland's relations with neighbouring countries – not least of all in the context of its relations with the EU.

Multilateral economic cooperation (see section 2)

Thanks to the existing WTO rules and obligations (section 2.1), governments have so far desisted from the wholesale introduction of protectionist measures despite the difficult economic environment. An investigation by the WTO's Trade Policy Review Body does show, however, that governments have increasingly been resorting to trade-distorting measures in recent years. This context is making it more difficult to find common solutions in the Doha Round, which remains deadlocked. To find a way out of the impasse, WTO members are endeavouring to address specific issues on which progress can be made. These include, for example, trade facilitation and – in the plurilateral context – the widening of the Information Technology Agreement. As a small and open economy, Switzerland depends on free access to international markets.

Apart from the issue of taxation and the major differences which exist on this subject (section 2.2), cooperation between Switzerland and the OECD was very productive, helping to strengthen our policy of economic liberalization and disseminate scientific analyses and common economic guidelines and standards. At the same time, Switzerland supports the OECD's policy of privileged partnership with the new and most important emerging economies, such as Brazil, China, India, Indonesia and South Africa.

During the year under review, the thirteenth session of the United Nations Conference on Trade and Development (UNCTAD; section 2.3) confirmed the mandate of this organization for the next four years. The mandate covers in particular policy analysis, consensus building and technical cooperation in the areas of trade and development. During the year under review, the United Nations Industrial Development Organization (UNIDO; section 2.4) raised its profile through a range of high-level initiatives, particularly in relation to the efficient use of industrial commodities and energy in developing countries. Switzerland actively supports these initiatives.

In connection with the work of the International Labour Organization (ILO; section 2.5), Switzerland has adopted a strategy which forms the basis for a concrete, credible and efficient engagement in the ILO. The strategy adopts a three-pronged approach: a commitment to strengthening the ILO, the credible application and promotion of ILO standards and principles in Switzerland, and the promotion of decent working conditions throughout the world. The past year was marked by the stalemate affecting the system of supervision of standards. For the first time in the history of the ILO, the Committee on the Application of Standards was unable to address infringements of the core ILO agreements.

Although the decisions of the G20 (section 2.6) in 2009 had a significant impact on the global economy, in subsequent years the range of issues addressed was greatly expanded while at the same time the increasingly complex agenda made it more and more difficult for the G20 to take appropriate decisions on current economic prob-

lems. Switzerland is continuing to work with the international organizations which have received mandates from the G20 and has a policy of targeted participation in selected areas of work of the G20.

European economic integration (see section 3)

The economic and budgetary problems which have beset the EU since spring 2010 and the arduous quest for solutions have not left the Swiss economy unscathed. Any deterioration in the situation in the EU can have consequences for Switzerland. On the one hand, Switzerland is coming under mounting pressure on the question of taxation, while on the other hand the EU is becoming less willing to allocate resources to building relations with Switzerland. What is more, the EU is making a continuation of the bilateral approach conditional on a substantial strengthening of the institutional mechanisms. The ongoing negotiations on the electricity agreement should also be mentioned in this context as they should contribute to an institutional solution enabling progress to be made on other issues as well – including agriculture, food safety, product safety, public health and chemical safety.

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

In light of the complex global economic situation, the strong franc and the lack of progress on the Doha Round, the Federal Council is still keen to make progress in opening up markets through the negotiation of free trade agreements. As the number of FTAs worldwide increases, Switzerland has consistently been committed to concluding such agreements with the aim of preventing actual or potential discrimination. The year under review saw the entry into force of free trade agreements with Hong Kong, Ukraine and Montenegro. At the same time, negotiations continued with Bosnia and Herzegovina, China, India, Indonesia, the Central American states and the Russia–Belarus–Kazakhstan Customs Union. 2012 also saw the initiation of negotiations with Vietnam and the official launch of negotiations with Malaysia. The ongoing negotiations with the new partners are bringing to light new challenges. Switzerland is increasingly faced with demands which are not readily reconcilable with its national policies, for example in the area of services provided by natural persons or market access for agricultural products. Finally, it is also becoming increasingly difficult to ensure consistency between the objectives of economic, social, environmental and human rights policies.

Sectoral policies (see section 5)

Developments in sectoral policies (sections 5.1 to 5.8) play a crucial part in Switzerland's entire foreign economic policy and all economic agreements. In addition to the negotiations on new free trade agreements, examples during the year under review also included negotiations on the updating of several agricultural agreements incorporated in existing free trade agreements and in the EFTA Convention, the regional Convention on pan-Euro-Mediterranean preferential rules of origin (section 5.1), the widening of the scope of the bilateral Agreement on Mutual Recognition in Relation to Conformity Assessment (MRA Switzerland–EU) to include explosives used for civilian purposes (section 5.2), work on a possible launch of plurilateral negotiations on trade in services (section 5.3) and the review of the structure and modus operandi of the National Contact Point for the Implementation

of the *OECD Guidelines for Multinational Enterprises* (section 5.4). Switzerland is aware of the challenges entailed in securing supplies of raw materials (section 5.5.1) and actively promotes risk reduction by supporting initiatives to increase transparency in commodity trading and by expanding its relations with commodity-exporting countries. Switzerland also supports sustainability initiatives in the commodity sector. For the first time, the *Rio+20 Conference* (section 5.5.2) provided global recognition for the green economy as an instrument which makes a key contribution to sustainable development. Switzerland has also committed itself to a 20 % reduction in greenhouse gas emissions in comparison with 1990 levels by 2020. Moreover, the completion of negotiations on a cooperation agreement with the EU on competition (section 5.6) and the current revision of federal and cantonal legislation as a consequence of the revised plurilateral WTO Agreement on Government Procurement (section 5.7) shall be mentioned.

Economic development cooperation (see section 6)

Switzerland participates in international economic development cooperation through bilateral support measures and contributions to multilateral development organizations. A defining feature of the year under review was the adoption of the *Message on Switzerland's International Cooperation in the period 2013–16*. The Message defines the strategic focus and financial basis for these activities until 2016. For the first time, this Message covers the whole of Switzerland's international cooperation, i.e. humanitarian aid (Swiss Agency for Development and Cooperation – SDC), technical cooperation and financial aid (SDC), economic and trade policy measures in the context of development cooperation (State Secretariat for Economic Affairs – SECO) and transitional assistance for the countries of the CIS and Eastern Europe (SECO/SDC). In adopting this Message, the Swiss parliament has reaffirmed its decision of February 2011 to increase funding for international cooperation in stages to 0.5 % of GDP by 2015. The economic development cooperation measures are aligned on SECO's core competencies. At the same time, they support Switzerland's foreign trade strategy. Multilateral cooperation is also a key component of this area of activity. During the year under review, the multilateral development banks focused on a further strengthening of result-driven action, on the concrete implementation of the decisions of the World Summit on Sustainable Development and the energy agenda, on sustainable and integrated growth, on job creation and on engagement in fragile states. The *Rio+20 Conference* highlighted the challenges and opportunities of a green economy for the developing countries. This also confirms the importance of Switzerland's efforts to implement projects that help to avert conflict between economic growth and sustainable resource management.

Bilateral economic relations (see section 7)

Switzerland's most important economic partners are facing low growth, or in some cases even recession. Switzerland has so far largely resisted the economic slowdown, even though the crisis affecting a number of EU member states has had a direct impact on Swiss companies. Against this background, it is particularly important to strengthen relations with our neighbours (section 1) and improve the operating environment. In the US, the slow economic recovery is continuing, which is important for Switzerland as the US is its second-largest export market after

Germany. During the year under review, Asia appears to be the world's most dynamic region. The Federal Department of Economic Affairs¹ took account of this by defining a foreign trade strategy for Asia. The events taking place in the countries of the «Arab Spring» are leading to transition processes which are of relevance to Switzerland partly because of their geographical proximity and partly because of our economic ties with these countries. Switzerland has stepped up its engagement in this area in a number of sectors.

Export controls and embargoes (see section 8)

During the year under review, New York hosted a diplomatic conference convened to negotiate an Arms Trade Treaty (ATT). The contracting states were unable to agree on the text of a treaty. Despite the failure of this conference, Switzerland will continue to actively work for a comprehensive and robust ATT. In the framework of the Nuclear Suppliers Group (NSG), a complete revision of the lists of controlled items will take place by 2013. In the area of the embargo measures, the main focus was on a further tightening of the sanctions against Iran and Syria. By contrast, the tight measures imposed against Myanmar (Burma) were largely lifted. New sanctions against Guinea-Bissau came into force.

Promoting Switzerland as a business location (see section 9)

During the year under review, the Swiss economy kept being confronted to the strength of the Swiss franc.

Osec continued to provide targeted support services for exporters. International trade entails increasingly complex challenges, particularly in terms of the integration of Swiss SMEs into international value-creation chains. It is therefore important that Osec should remain flexible and adjust to SMEs' new needs.

The products which Swiss Export Risk Insurance (SERV) has been offering since 2009 made it possible to meet the most important liquidity needs of companies often impacted by the strength of the Swiss franc. Examining the social and environmental sustainability of the transactions it insures is a high priority for SERV. The revision of the OECD recommendation on common approaches to environmental and social due diligence during the year under review is the decisive criterion in this regard.

As far as foreign operations to promote Switzerland as a business location are concerned, the Confederation and the cantons have concluded new service agreements with Osec. These entered into force at the beginning of the year under review and form a solid basis on which to address future challenges.

Outlook for the coming year

Despite a slight improvement in the economic situation, there is still a risk of a slowdown in growth both within Switzerland and abroad. The Federal Council will continue to pay close attention to economic policy in 2013. In foreign economic policy it will seek to further expand the market access guaranteed by existing

¹ From 1 January 2013: «Federal Department of Economic Affairs, Education and Research (EAER)».

agreements. It will also engage in efforts to combat protectionist trends and measures. Additional free trade agreements and new agreements on the promotion and mutual protection of investments are also to be negotiated.

The negotiations on EFTA free trade agreements with Bosnia and Herzegovina, India and the countries of Central America, as well as the bilateral negotiations between Switzerland and China, are to be concluded in 2013. The negotiations between EFTA and the members of the Russia–Belarus–Kazakhstan Customs Union will continue, as will those with Indonesia and Vietnam. In addition, new negotiations in the framework of EFTA will be launched with Malaysia, and EFTA will continue its efforts to resume negotiations with Thailand and Algeria. Exploratory contacts with the Mercosur countries and the Philippines will continue. Existing free trade agreements, in particular those with Chile, Mexico and Singapore, will continue to be updated and expanded. The ongoing negotiations with Indonesia, Russia and Georgia on agreements on the promotion and mutual protection of investments will continue.

Economic growth in the industrialized countries will probably continue to be hampered by a weakened financial system and the process of consolidation of government debt. Low growth in the industrialized countries and the general climate of uncertainty are also having a negative impact on the emerging markets. Developments in the euro zone will continue to have a decisive impact on the Swiss economy. The head of the Federal Department of Economic Affairs, Education and Research (EAER) and the director of the SECO will thus do their utmost to cultivate relations with Switzerland's neighbours. In addition, bilateral missions will help expand Switzerland's economic relations with emerging countries. The first mission of the head of the EAER, as the Minister of Economic Affairs and Education, will take him to South Africa – accompanied by a delegation consisting of representatives of the private sector and scientists. Attention will also be focused on the dynamic markets of Latin America. Plans are already in place for the head of the EAER to lead a joint economic mission to Mexico.

In the WTO context, member states are aiming to make progress in the area of trade facilitation measures and the agreement on the liberalization of information technology. The ninth Ministerial Conference is due to be held in Bali in December 2013.

Numerous efforts are also underway in other multilateral economic forums. The implementation of the OECD's horizontal strategies (innovation, green growth, skills and global development) is continuing. The initiatives launched during the year under review on new approaches in response to the economic challenges and on new sources of growth based on intangible goods are to be discussed at the 2013 Ministerial Conference. The talks on Russia's OECD accession process will also continue at least until 2014. Russia, which takes over the presidency of the G20 in 2013, will continue the work initiated by the previous presidencies, but is also seeking a resumption of work on economic and financial issues. In the International Labour Organization, interest will focus on decisions on the new Director General's proposals for internal reforms and efforts to overcome the stalemate in the Committee on the Application of Standards. Other issues of importance to Switzerland include the entry into force of the International Maritime Labour Convention in

August 2013 and the ratification of Convention no. 122 concerning Employment Policy.

In terms of developments in the area of European policy in 2013, the Federal Council regards the consolidation of the bilateral approach as a priority. Here, the aim is to unblock the deadlocked negotiations by expanding the depth of the talks on institutional issues. In parallel a solution could be found in order to bridge the differences between positions on corporate taxation. Negotiations can also be expected to begin on the extension of the agreement on the free movement of persons to Croatia. The cooperation agreement between Switzerland and the EU in the area of competition could be signed in 2013. This agreement will help combat cross-border anti-competitive practices more effectively. Work on the ratification of the revised Agreement on Government Procurement will continue in 2013.

In the area of sectoral policies, one particular point to note is that subject to certain preconditions Switzerland will take part in negotiations on a plurilateral agreement on trade in services between interested countries. One of the tasks of the National Contact Point (NCP) is to support companies in the implementation of the updated OECD Guidelines for Multinational Enterprises. The NCP will tightly cooperate with the interest groups. The Federal Council will address the issue of commodities by updating the EAER's commodity strategy. Work on fleshing out a comprehensive climate change regime by 2020 will continue. Switzerland and the other countries which have signed up to a second commitment period of the Kyoto Protocol will press ahead with ratifying their undertakings at national level. Finally, in free trade negotiations Switzerland will continue to actively champion better and appropriate protection of intellectual property and will work to secure better protection of geographical indications at plurilateral and bilateral level.

In 2013, the implementation of the new Message on International Cooperation will be a prominent issue. Other key areas will be the negotiations on the replenishment of funds for the multilateral development banks (IDA of the World Bank group and African development funds of the African Development Bank). In addition, the Development Aid Committee of the OECD will subject the development aid (SECO/SDC) to a peer review process and make recommendations on the modalities and effectiveness of the measures in question. Preparations for an extension of the Federal Act on Cooperation with the States of Eastern Europe will also begin.

In March 2013, a closing conference on the negotiations on the Arms Trade Treaty will be held in New York. Switzerland still advocates regulation of the arms trade which would introduce greater responsibility and transparency in this area and lead to effective action to combat illicit arms trafficking.

Export promotion and export risk insurance services should continue to enjoy strong demand from SMEs in 2013. In future, we need to ensure that the needs of the export industry are met as effectively as possible and in particular that it is better integrated into global value-creation chains. Where appropriate, new services need to be developed for this purpose.