

## **Executive summary of the Foreign Economic Policy Report 2013**

### **Objectives of the Federal Council for the year 2013**

*When defining its objectives for the year under review, the Federal Council focused in particular on strengthening the Swiss economy by creating the best possible framework conditions and also on the pursuit of a sustained growth policy (see Federal Council's objectives for 2013, Objective 2). For this purpose, at the internal policy level, it specifically adopted a report on the costs of regulation, an explanatory statement on the statute of limitations and an explanatory statement on sanctions in the event of unlawful or unjustified notice of termination. It also initiated a consultation procedure on the revision of the National Economic Supply Act.*

*In the year under review, foreign economic activities aimed at opening up the market made further progress. Negotiations on a bilateral free trade agreement with China were concluded with the signing of the agreement on 6 July. The EFTA negotiations on free trade agreements with Bosnia and Herzegovina and also with Costa Rica and Panama were concluded and the agreements signed. Negotiations with Guatemala, India, Indonesia, the Russia–Belarus–Kazakhstan Customs Union and Vietnam continued. In the WTO framework, the 9<sup>th</sup> Ministerial Conference was held on 3 to 7 December in Bali. Negotiations on trade facilitation were completed and progress made on development issues and in the area of agriculture. With a view to consolidating relations with the EU and securing and developing the bilateral approach, the Federal Council adopted a negotiating mandate on the renewal of the Switzerland–EU institutional framework and opened exploratory discussions with the EU.*

*This report provides detailed information on these and other important aspects of Switzerland's foreign economic policy.*

*In its Annual Report, the Federal Council will be explaining in detail the state of work in relation to its objectives for 2013. The provisional results of the foreign economic policy suggest that the objectives for the year under review were achieved. This applies in particular to the free trade agreements, even if these negotiations are becoming increasingly challenging (see section 4).*

### **The economic environment in the year under review**

*The global economy is only making a hesitant recovery from the financial crises of recent years; because of the numerous risks, the recovery has not yet been consolidated. In the year under review, slight trends towards an improvement in many industrialised countries contrasted with a cooling of the economy in certain emerging countries.*

*Distinctive features of the economic trend in the EU in the year under review were a continuing easing of the sovereign debt crisis and the first signs of economic recovery. In the core countries, especially Germany, the engine of the economy has already begun to gather speed while in the Southern Member States, the downward economic spiral which had continued for years was at least halted. However, the development of these countries will continue to be curbed by the stringent austerity*

*policy, hard-pressed banks and the steep rise in unemployment. In the long run, emergence from the debt crisis will depend on the success of reforms in the individual countries (consolidation of State finances, labour market and other structural reforms) and also on the EU level (banking union). Because of high unemployment, social tensions and the lack of political unity, there is a latent risk of setbacks to economic reforms in the countries of Southern Europe.*

*In the USA, the moderate recovery in the economy continued. However, the positive picture is overshadowed by the renewed budget dispute between the political parties. In Japan, the economy has picked up noticeably thanks to a highly expansive monetary policy and state programs designed to assist the economy. On the other hand, various emerging countries which in recent years have made an important contribution to support for the global economy through their high growth rates, have lost much of their dynamic. It is true that China did avoid the steep downturn which some had feared. On the other hand, a number of other countries (including Brazil and India) came under increasing pressure on the financial markets and reported much slower growth.*

*In the year under review, as indeed in previous years, the Swiss economy continued to navigate its way relatively well through the troubled global economic waters. In 2012 – unlike many EU Member States – Switzerland was spared a recession and achieved GDP growth of 1 per cent. In the year under review, growth was slightly higher (at 1.8% according to the latest estimates). This noteworthy economic resilience is explained largely by the robust domestic economy which is supported by constant immigration and low interest rates. On the other hand, we are still awaiting a significant recovery in the exporting industry. However, in recent years, an export crisis as such has been avoided thanks largely to the lower exchange rate limit against the euro set by the National Bank. This helps to defuse the currency situation and consequently supports the exporting industry.*

## **Report on foreign economic policy in 2013**

### **Feature topic (section 1)**

*The feature topic is devoted to Swiss commercial diplomacy and its future in a changing world. The idea of a commercial diplomacy which supports enterprises through State intervention is a priori somewhat alien to the Swiss tradition because the responsibility of the economic players is a fundamental principle of Swiss economic policy. The special risks which are inherent in activities abroad, such as a lack of transparency of the framework conditions on various foreign markets and the global upsurge in protectionism do however favour a pragmatic approach which enables private players to adapt to a changing world. Depending on the situation, the Federation supports Swiss economic players when they experience difficulties in other countries. The feature topic begins by throwing light on the difficulties with which Swiss enterprises may find themselves confronted abroad. The instruments which the Federation deploys in its commercial diplomacy are then explained. The Federal Council is convinced that it makes sense to pursue effective commercial diplomacy in the service of the Swiss economy. This presupposes that commercial diplomacy benefits from suitable instruments which are appropriate for the international competition and meeting the challenges of globalisation. Finally, it must be*

*expected that Swiss commercial diplomacy will increasingly generate added value in the emerging economies outside Europe. That is why the resources of commercial diplomacy must be gradually redeployed in future.*

## **Multilateral economic cooperation (section 2)**

*At the eighth WTO Ministerial Conference, the Ministers recognised that substantial differences remained in the Doha negotiations. In the run-up to the ninth WTO Ministerial Conference in Bali, they therefore agreed to focus on issues on which progress could realistically be expected (section 2.1). At the Bali Conference, held on 3 to 7 December, negotiations on trade facilitation were completed and progress was also made on development issues and in the agricultural sector. In the year under review, the WTO also conducted its regular appraisal of Swiss trade policy. The WTO members stressed in particular the rapid recovery of the Swiss economy after the crisis and the good results achieved in terms of employment and inflation. Criticism was levelled at the high level of national protection, high subsidies and sluggish pace of reform in agriculture.*

*Aside from the tax dossier, which remains very important for Switzerland, activities in the OECD (section 2.2) were dominated by the opening of proceedings with a view to the accession of Colombia and Latvia. The accession procedure for Russia was continued. In the year under review, Switzerland also underwent the biennial assessment of its economic policy by the OECD.*

*The new Secretary General of the United Nations Conference on Trade and Development (UNCTAD) wishes to take on board the evaluation report and the recommendations of the independent external oversight body of the United Nations in order to improve UNCTAD management (section 2.3). This year, for the first time, the United Nations Organisation for Industrial Development (section 2.4) elected a representative from China as its Director General. Switzerland actively supports the work of this organisation on production methods which make efficient use of resources so as to make a contribution towards industrial development which is both dynamic and simultaneously more sustainable and climate-friendly.*

*Turning to the work of the International Labour Organisation (ILO; section 2.5), Switzerland continued with the implementation of its strategy which is designed to lay the foundation for a concrete, credible and effective commitment to the ILO through a three-pronged approach: the commitment to strengthening the ILO, the credible application and promotion of ILO standards and principles in Switzerland and the promotion of greater human dignity for labour all over the world. In the year under review, ILO Convention No. 122 on employment policy was ratified whilst in August the Federal Council adopted the explanatory statement on the ratification of the ILO Convention No. 189 on dignified working conditions for domestic employees.*

*Switzerland was also invited by the Russian G20 Presidency (section 2.6) to take part in the work of the financial segment. It was similarly given an opportunity to contribute to the working groups on energy sustainability and the fight against corruption. At these meetings, Switzerland was able to make a number of important contributions at every level.*

### **European economic integration (section 3)**

*In the year under review, the economic situation of the EU was characterised by a sustained easing of the sovereign debt crisis and the first signs of an economic upturn which are as yet however still to be confirmed. The EU is still Switzerland's foremost trading partner. This partnership is based on numerous bilateral agreements which Switzerland has signed to date with the EU. To secure and enhance this bilateral approach, relations between Switzerland and the EU are to be strengthened and the institutional framework in the area of market access renewed. On 18 December, the Federal Council adopted a negotiating mandate to that effect.*

### **Free trade agreements with non-EU and EFTA countries (section 4)**

*In a global environment in which an increasing number of preferential trade agreements are being concluded, the Federal Council continued its policy of extending the Swiss network of free trade agreements. By doing so, it wants to give Swiss enterprises at least the same level of access to the key markets that is enjoyed by its leading competitors. In the year under review, free trade agreements were concluded between Switzerland and China and in the EFTA framework with Bosnia and Herzegovina as well as with Costa Rica and Panama. Negotiations with Guatemala, India, Indonesia, the Russia–Belarus–Kazakhstan Customs Union and Vietnam continued. In these negotiations, the balancing of respective interests and making allowance for the global value added chains are proving to be a growing challenge.*

### **Sectoral policies (section 5)**

*Developments in sectoral policies have a key bearing on Swiss foreign economic policy as a whole and on all economic agreements. In the year under review, over and above negotiations on new free trade agreements, these policies concerned the following areas among others: the procedure for ratification of the regional agreement on pan-European–Mediterranean preferential rules of origin (section 5.1), the ongoing updating of the agreement on the mutual recognition of assessments of conformity with the EU (section 5.2), negotiations on a plurilateral agreement for the further liberalisation of the trade in services (section 5.3) and the new transparency rules for investment arbitration procedures of the UN Commission for International Commercial Law (section 5.4). In its basic report on commodities, the Federal Council stressed the economic importance of the commodities sector for Switzerland and the responsibility of enterprises in the area of social welfare and the environment (section 5.5.1). Switzerland therefore supports the “Extractive Industries Transparency Initiative” (EITI), the “Better Gold Initiative” and the “Sustainable Recycling Industries” program. At the 19<sup>th</sup> Conference of the contracting parties to the framework climate agreement, attention focussed on strengthening the international climate regime by 2020 and on the cornerstones of a comprehensive climate agreement for the period after 2020 (section 5.5.2). An agreement on cooperation in the area of competition was also signed with the EU (section 5.6). Following the adoption of the revised plurilateral WTO agreement on public procurement systems, work continued on a revision of the corresponding legislation at both Federal and cantonal level (section 5.7). Finally, in the World Intellectual Property Organisation, the Marrakesh Agreement on easier access to literary and artistic works for people with reading disabilities was concluded and a bilateral agreement on the protection of geographic data signed with Jamaica (section 5.8).*

## **Economic development cooperation (section 6)**

*Switzerland participates in international economic development cooperation through bilateral aid measures and contributions to multilateral development organisations. The year under review saw a start to the implementation of the measures adopted in the context of the explanatory statement on Swiss International Development Cooperation 2013–2016. Initial results show that the strategic orientation defined in the explanatory statement and the financial basis are serving the intended purpose. Other important events in the area of Swiss Development Cooperation included the international dialogue on the agenda for sustainable post-2015 development and the peer review of Switzerland by the OECD Development Committee.*

*Cooperation with the multilateral development banks is another cornerstone of this area of activity. In the year under review, negotiations took place with the aim of restocking the World's Bank Development Fund for the poorest countries and increasing the resources of the African Development Bank. This report deals with three other especially important topics which arose during the year, in particular the integrated development of urban infrastructures, the systematic creation of sustainable added value chains and the strengthening of independent verification authorities for public finances.*

## **Bilateral economic relations (section 7)**

*Switzerland's neighbour countries, which are major economic partners, continue to suffer from flatlining economies. Against that background, global bilateral relations help to improve the range of outlets for Swiss enterprises. In particular, the deepening of relations with the Gulf Arab states and the countries of Central and South Eastern Asia opens up new business opportunities. Finally, Switzerland is keeping a close watch on the free trade discussions between its two foremost trading partners, the EU and the USA.*

## **Export controls and embargo measures (section 8)**

*In the year under review, the UN General Assembly adopted the Arms Trade Treaty which was also signed by Switzerland. Within Switzerland, the ordinance on the control of chemicals was completely revised with the aim of facilitating implementation of the Chemical Weapons Convention. As part of the Wassenaar Agreement, in the year under review Switzerland submitted a revised proposal for the control of machine tools. As far as embargo measures are concerned, sanctions against North Korea were tightened. The sanctions imposed on Iran and Syria were continued.*

## **Promotion of business in Switzerland (section 9)**

*For the targeted support of Swiss exporting enterprises, Switzerland Global Enterprise and the Swiss Export Risk Insurance (SERV) in the year under review took measures which are designed to safeguard jobs in Switzerland over the long-term. The partial review of the Export Risk Insurance Act should help to enable SERV to continue providing targeted and effective support for the efforts of Swiss exporting companies in future.*

*In view of the intensified global competition between locations seeking to attract business, joint promotional efforts must continue to be made by the Confederation and the cantons. In this context, the focus of attention is on the positioning of Swit-*

Switzerland as a first class location for innovative enterprises generating high added value.

After several difficult years, Swiss tourism returned to growth in the year under review.

## **Outlook for the coming year**

Against the background of the sluggish upturn in the world economy, the Federal Council will continue to attach great importance to foreign economic policy in 2014. It will endeavour to further extend market access secured by agreements and continue to advocate action against protectionist trends and measures. In particular, it will continue negotiations on new free trade agreements.

2014 is expected to see the completion of the negotiations on free trade agreements between EFTA and Guatemala, India and the members of the Russia–Belarus–Kazakhstan Customs Union. Negotiations between EFTA and Indonesia and Vietnam will continue, those with Thailand are due to be resumed and new talks opened with Malaysia. EFTA is also continuing its efforts to secure the resumption of negotiations with Algeria. Contacts leading to exploratory talks with the Philippines and Pakistan are ongoing. Work to update existing free trade agreements, in particular with Chile, Canada, Mexico, the Republic of Korea, Singapore and Turkey, is continuing. The ongoing negotiations with Georgia, Indonesia and Russia on the agreements for the promotion and mutual protection of investments will continue. There are also plans to open negotiations with Malaysia with the aim of renewing the agreement on the promotion and mutual protection of investments, which has been in force since 1978.

Following the ninth WTO Ministerial Conference in December 2013, the Ministers agreed on a work program to define the next steps in the negotiations. This will be discussed at the informal WTO Ministerial Conference to be held at the end of January 2014 at the invitation of Switzerland.

Among Switzerland's activities in the OECD, tax matters remain prominent. The emphasis here is on the global forum on transparency and the exchange of information on tax matters. At its meeting of 22 November in Jakarta, this forum drew up a comprehensive list of countries for the first time. Switzerland is a member of the forum and attended the meeting but it was the only OECD country not to be listed because it does not yet satisfy the formal qualifications. However, Switzerland was not isolated nor was it made the target of public criticism again. Switzerland will also be engaged in the implementation of the OECD action plan against the erosion of the tax base and against profit shifting. In 2014, the International Labour Organisation will have to continue its work to secure the lifting of the blockade on the system of standards control since there as yet still no signs of a sustainable solution to the problems which gave rise to the blockade.

Even if forecasts anticipate faster economic growth in the EU in the year 2014, economic recovery in the Southern European Member States will probably continue to be held up by the financial austerity policy and the hard-pressed banks and only make slow progress. Negotiations on institutional matters with the EU are to begin on the basis of the negotiating mandate adopted by the Federal Council in the

spring of 2014. This places negotiations on institutional matters in the context of a medium-term European policy strategy covering all the outstanding issues with the EU. In 2014 Switzerland's European policy will therefore be marked by the start, continuation or review of negotiations in the following sectors: market access, electricity, REACH, agriculture/health/product safety, cooperation (CO<sub>2</sub> emission trading systems, joint security and defence policy, research, education), finance and tax matters and a contribution to enlargement.

As far as sectoral policies are concerned, market access negotiations on the trade in goods covered by free trade agreements, especially with developing and emerging countries, are becoming increasingly challenging. These countries do not always agree to dismantle all customs tariffs on all Swiss industrial exports and Switzerland's high level of border protection in the agricultural sector often makes it difficult to achieve a balance of interests. The application of anti-dumping measures by some of Switzerland's key trading partners is threatening to have increasingly negative impacts on Swiss enterprises. The updating of the agreement on the mutual recognition of conformity assessments with the EU will continue in 2014 to enable Swiss products in future to benefit from the same level of access to the EU market as that enjoyed by competitor products from the EU itself. The dismantling of technical barriers to trade will also be continued with other major international trading partners (especially China) through stronger cooperation between the authorities in specific product sectors. Negotiations on a plurilateral agreement for the further liberalisation of the trade in services will be continued. In the commodities sector, work will continue to implement the recommendations set out in the fundamental report. The interdepartmental platform responsible for these matters will be informed of the latest status of this work by the Federal Council in the spring of 2014. To enable a global climate agreement to be adopted in 2015 for the period after 2020, substantial progress will have to be made with the negotiations in the next two years. In line with Switzerland's foreign economic policy and in view of the successful cooperation with China in the context of the bilateral dialogue on intellectual property, the intention is to begin a similar institutional-based dialogue with other key economic partners of Switzerland.

In the area of international development cooperation, in 2014 priority will be given to the definition of an agenda for sustainable development post-2015. The corresponding inter-governmental negotiations in the UN are to be launched in September. Moreover, the first ministerial meeting of the Global Partnership for Effective Development Cooperation will be held in April; this is an important and broadly based platform for dialogue to strengthen the effectiveness of development cooperation. The restocking of the World Bank's development fund and that of the African Development Bank, together with the reform of governance of the European Bank for Reconstruction and Development, will be other issues for the coming year. Finally, 2014 will see the results of the peer review of Swiss development cooperation by the OECD Development Aid Committee and the start of the implementation of the recommendations.

One of the central priorities of economic relations between Switzerland and the Community of Independent States is the completion of a comprehensive free trade agreement between EFTA and the Russia–Belarus–Kazakhstan Customs Union. With the free trade agreement between EFTA and the Gulf Cooperation Council

*expected to come into force, economic relations between Switzerland and the Arab States of the Gulf are likely to be deepened next year.*

*Demand for export promotion and export risk insurance offerings will in all probability remain high in 2014. In this context, it is important for the requirements of SMEs to be met through targeted actions designed to meet their particular needs; this will facilitate the participation of the Swiss export industry in international competition. This can be done, e.g. through the planned partial revision of the Export Risk Insurance Act, strengthening the foreign presence of Switzerland Global Enterprise and also by the development of services for the better integration of SMEs into the global added value chains. The positioning strategy for the promotion of Switzerland as a place to do business, which is increasingly focused on quality and sustainability rather than on quantity alone, encourages new, high quality enterprises to relocate here.*

*In 2014, Switzerland will be holding a workshop with the OECD Tourism Committee which will highlight basic lines of action designed to optimize the coordination of tourism policy with other relevant policy areas (e.g. economic and environmental policy), enabling the growth potential of tourism to be exploited more effectively. The results of this workshop will be incorporated into an OECD project which will examine the tourism policies of several member states to determine their impact on long-term and sustainable tourism growth and make suitable recommendations. In addition, 2014 will see the continuation of an exchange with the EU concerning technical aspects of tourism policy. The intention is for the EU Commission to give a presentation of the EU tourism policy at the Swiss Tourism Forum in 2014.*