General Overview

The Global Economy during the Pandemic

During the reporting period, the Swiss economy was severely impacted by the COVID-19 pandemic and government measures were taken world-wide to contain the virus. The impact of these measures on the global economy and international trade is a major cause of concern. Like most countries, Switzerland has struggled over the reporting period to come to terms with a deep recession, the outcome of which remains uncertain.

Despite the severity of the situation and compared to the rest of the world, Switzerland has thus far coped well with the COVID-19 crisis from an economic perspective. The measures taken by the Swiss Confederation, cantons and municipalities to support the national economy, and in particular the labour market, have prevented even more serious economic decline. Thanks to the rapid and pragmatic provision of financial aid, many companies have been able to avoid cash flow problems. The tried and tested short-time work model has also proved critical in preventing a wave of redundancies. International trade and cross-border value chains, both vital to Switzerland's continued prosperity, have also functioned well. At no point has Switzerland experienced serious supply shortages. Short-term problems with the handling of individual medical PPE deliveries at the start of the first wave were off-set by targeted commercial Swiss diplomacy before they could have a negative impact. The importance of Switzerland's open markets and rule-based international trading system, which is something unique in both its depth and its impact across the globe, was made very evident during this crisis. The key chapter of this report (Section 1) focuses on Switzerland's foreign economic policy and global value chains against this background.

Many of the phenomena and trends emerging in the global economy are not new, but emphasise and reinforce pre-existing tendencies. On the one hand, the importance of digital technologies and infrastructures was made clearer than ever throughout the reporting period. In the face of drastic state restrictions on freedom of travel and movement, and on businesses, it became apparent that large parts of the economy were able to continue to operate – albeit under considerably more difficult conditions – thanks to digital working and communications. This was particularly the case for large parts of the service sectors, as well as for public administration. Consequently, there has been greater focus on key regulatory issues regarding the use of these technologies, particularly with regard to data protection and cybersecurity.

These positive effects of digital transformation contrast sharply with increasing trends in recent years toward industrial policy intervention, international trade restrictions and the decline of multilateral institutions. These trends, apparent globally, have intensified considerably in the wake of the COVID-19 crisis. Switzerland is a mid-sized economy with a relatively small domestic market. As a consequence, foreign market access on non-discriminatory terms and legal certainty remain vital to safeguarding long-term prosperity. At the same time, particularly as a competitive country with a high degree of specialisation, it also remains dependent on the unhindered supply of goods and services from abroad.

The Federal Council is committed to sustaining international economic relations which are essential for Switzerland, as was highlighted by the unprecedented situation that arose during the reporting period.

Federal Council Objectives for 2020

During the reporting period, the Federal Council continued to maintain and strengthen the rules-based multilateral international trade order and the existing network of bilateral trade agreements. Furthermore, the Federal Council worked in all areas of foreign economic policy to minimise as far as possible the impact of the COVID-19 crisis on the Swiss economy and, by extension, the global economy. The Federal Council is particularly committed to ensuring that economic recovery at home and abroad is not hampered by trade and investment restrictions.

The Federal Council will report in detail how foreign economic policy objectives were met in the 2020 financial year. A preliminary assessment of foreign economic policy over the reporting period shows that targets were largely met despite the unprecedented situation.

Economic situation and global developments

As a result of the COVID-19 pandemic and measures taken to contain the virus, spring saw historic falls internationally in gross domestic product (GDP). The low point for many industrialised countries was seen in April. From a sectoral perspective, the COVID-19 crisis has to date differed considerably from earlier recessions. During the 2009 financial crisis for instance, demand above all for durable goods declined, meaning that global trade in goods and industry fell disproportionately. By contrast, in the first half of the reporting period the service industries suffered worst, being largely constrained by health policy measures. Consequently, private consumer spending, which would normally help to stabilise the economy, declined massively internationally.

Following the easing of lockdown measures and supported by extensive policy packages, economic activity largely recovered towards the middle of the year. Many areas however failed to witness a return to pre-crisis levels. That recovery however lost momentum as the year progressed. Due to increased infection rates and, in some cases, tougher measures, the economy is expected to make slow progress over the winter period, particularly in many European countries and the United States. This will also negatively impact the Swiss export sector. Internationally, China stands out from the crowd: the country was the first to be affected by the COVID-19 crisis at the start of the year, but then made a relatively rapid recovery.

Further economic progress depends crucially on the development of the Coronavirus pandemic and the corresponding lockdown measures. Uncertainty therefore remains extremely high.

The economic situation in Switzerland

In the third quarter, Switzerland's GDP made a strong recovery (+7.2 %), off-setting around three-quarters of the massive decline in the first half of the year (-8.6 % cumulative). GDP then remained a good 2 % below the pre-crisis level. Compared to Germany and other neighbouring countries, and also for example the United States, *Switzerland recorded lower overall losses in value. So far, the Swiss economy has been less affected by the crisis.*

Following the relatively swift and early easing of COVID-19 lockdown measures, recovery in domestic demand in the third quarter was similar to that of GDP overall. The labour market has stabilised. The number of job seekers has not increased further, and short-time working has significantly reduced.

Different sectors have however benefited to varying degrees from the recovery. Retail trade and parts of the hotel and catering industry profited from many Swiss spending their summer holidays in the country. Some areas of the service sector, such as for example the entertainment industry, were harder-hit by continuing health policy measures. Recovery there was correspondingly somewhat weaker. Reduced international travel has weighed heavily on the transport and tourism sectors, with the number of foreign visitors to Switzerland remaining low. The manufacturing sector has similarly failed to return to pre-crisis levels, despite substantial movement in the third quarter against the decline seen in the first six months of the year. Industrial sectors sensitive to cyclical fluctuations also suffered from the international economic situation: in most major economies GDP, and with it demand for applicable exports from Switzerland, remained well below pre-crisis levels.

The recovery of the Swiss economy lost momentum in the third quarter. In the fourth quarter of the reporting period, currently available high-frequency data highlighted amongst other things some decline in consumption. The continued rise in COVID-19 infections and the resulting tightening of healthcare measures are hindering progress. However up to mid-November at least, the Swiss economy experienced no further decline. Subsequent developments are largely dependent on how the COVID-19 pandemic and its associated measures unfold, both at home and abroad. Uncertainty remains extremely high.

Substantive overview of 2020 foreign economic policy and outlook for 2021

Key chapter: Impact of the COVID-19 crisis on international trade and global value chains (Section 1)

Security of supply and the role and reliability of global value chains have been the subject of extensive political debate, both in Switzerland and abroad. These doubts over the international division of labour and the performance of open markets arise from tendencies, observed for some time, toward international trade restrictions, industrial policy interventions and attempts to repatriate cross-border manufacturing processes to national economies or regional mergers. Efforts to reduce foreign dependency are a key driving force here. This should both result in greater supply security and the strengthening of national industries.

There is every reason to be concerned that the protectionist and industrial policy tendencies which have emerged in recent years will continue in the international sphere. The COVID-19 crisis and related slump in global economic activity are likely to reinforce these trends in many parts of the world. This will exert further pressure on Switzerland's highly developed export-oriented economy, which particularly depends on open markets.

The Federal Council will therefore use all of the domestic and foreign economic policy resources at its disposal to maintain and bolster Switzerland's competitiveness. It believes that economic networking supported by international regulations is a key pillar in ensuring the country's economic prosperity and the guaranteeing of supply security, particularly in the light of a global economic crisis.

Important economic policy developments in Switzerland with regard to foreign trade (Section 2)

Domestic and foreign economic policies are closely interlinked. During the reporting period Parliament instructed the Federal Council to draw up a legal framework for the control of foreign direct investment. The desire to monitor such investments has resulted in similar efforts in many European states and elsewhere. At an international level a trend towards strengthening such regulations is emerging. The Federal Council believes that the greatest possible openness to foreign investment – particularly in the context of a global recession – is a significant factor for Switzerland as a business location.

On 29 November, the popular initiative «Für verantwortungsvolle Unternehmen – zum Schutz von Mensch und Umwelt» [Responsible business - protecting people and the environment] was rejected by the cantons. Parliament's indirect counter-proposal will therefore come into force, provided it is not rejected in a referendum. In accordance with this counter-proposal, companies will be obliged to provide sustainability reports and conduct due diligence with respect to conflict minerals and child labour.

Economic relations with the EU (Section 3)

With regard to the institutional agreement (InstA), the Federal Council sought clarification from the EU during the reporting year on three points of particular relevance to Switzerland: assurance that institutional agreement regulations affecting state aid do not have horizontal effects beyond the agreements covered; the creation of legal *certainty to guarantee protection of wages in Switzerland; and clarification that the institutional agreement does not oblige Switzerland to accept the EU Citizen's Rights' Directive. The popular initiative «Für eine massvolle Zuwanderung (Begrenzungsinitiative) » [For moderate immigration (limitation initiative)] was rejected in a popular vote on 27 September 2020. On 11 November, the Federal Council outlined its position with regard to the necessary clarifications.*

During the reporting year, the European Commission did not revisit its decision to allow recognition of the so-called stock exchange equivalence to expire at the end of June 2019. Consequently, the concurrent measure to protect Swiss stock exchange infrastructure remained in force. Similarly, it was not possible to update the «Medical Devices» section in the Agreement on Mutual Recognition of Conformity Assessments (MRA).

Work on Switzerland's second contribution to selected EU Member States continued throughout the reporting year. Switzerland and the EU held discussions on a non-legally binding agreement regarding key parameters. Exploratory talks were also held with EU Partner States.

International Organisations (Section 4)

The COVID-19 crisis has hampered on-going attempts to reform the World Trade Organisation (WTO). Some progress has nevertheless been made with the conclusion of a provisional appeal mechanism between 18 members, including Switzerland, and a declaration on the integration of micro, small and medium-sized enterprises (MSMEs) into world trade. Multilateral negotiating initiatives were continued, particularly in the areas of e-commerce, domestic regulation of services and investment facilitation. This also applies to the multilateral process to limit subsidies to fisheries. Negotiations were also initiated within a narrower multilateral framework for an Agreement on Climate Change, Trade and Sustainability (ACCTS).

The International Labour Organization (ILO) has published analyses on the repercussions of the COVID-19 pandemic on the labour market and recommendations to mitigate the impact of the crisis. It focused its activities on collaboration in the area of economic development to promote occupational safety and health, business continuity and emergency provision for the SMEs concerned.

The OECD has, through a series of studies and conferences, contributed decisively to transparency regarding the measures taken during the course of the COVID-19 pandemic and their impact. At the invitation of Saudi Arabia, Switzerland was also able to bring to bear its interests in the G20 in the year under review.

Bilateral economic agreement (Section 5)

Switzerland's negotiations to conclude free trade agreements (FTAs) within the framework of the European Free Trade Association (EFTA) in the reporting year were considerably hampered by the COVID-19 pandemic.

The referendum against the Federal Decree of 20 December 2019 approving the Comprehensive Economic Partnership Agreement (CEPA) between the EFTA States and Indonesia was held. The vote will take place on 7 March 2021.

In June, the Federal Council published a Sustainability Impact Assessment of the FTA between EFTA and Mercosur Member States, which had been concluded in 2019. The document concludes that the agreement will have little impact on various environmental factors.

In December, Switzerland and the United Kingdom ratified a trade agreement in the reporting year to as far as possible ensure continuity in terms of bilateral relations for essential trade agreements between Switzerland and the EU. Also in December, an agreement limited in time on the mobility of services providers was signed. It, as well as a number of other agreements between Switzerland and the UK have entered into force on 1 January 2021. However, given the United Kingdom's exit from the European Customs Union and the European Single Market, additional customs formalities and other obstacles to trade relations could not be prevented after the transition period drew to a close on 31 December.

Sustainability and corporate social responsibility (Section 6)

Sustainability and corporate social responsibility once again featured prominently in the Federal Council's foreign economic policy in the reporting year. Consultations were initiated vis-a-vis the 2030 Sustainable Development Strategy. At the start of the year, the Federal Council approved the updated action plans for the 2020–2023 legislative period on corporate social responsibility, and on business and human rights. With regard to Free Trade Agreements, during the reporting year the Federal Council committed in particular to more cooperation and transparency on sustainability issues.

Economic development cooperation (Section 7)

During this period the Federal Council reported to Parliament on the implementation of the International Cooperation Dispatch 2017–2020. Switzerland has largely achieved the goals of the IC Dispatch and contributed to reducing poverty and inequality, creating economic opportunities, protecting the environment and promoting peace in partner countries.

Parliament also approved the loans for the International Cooperation Strategy 2021-2024. Moreover, during the reporting year, Switzerland decided to participate in capital increases to the African Development Bank (AfDB) and the World Bank Group (WBG).

Export controls and sanctions (Section 8)

The Federal Council introduced temporary export controls on medical protective equipment and certain medicines under the COVID-19 Ordinance 2.

A new legal framework was created in the reporting year for the export licence procedure for goods for internet and mobile communications monitoring. The payment mechanism for the delivery of humanitarian goods to Iran also came into force.

The popular initiative "For a ban on financing war material manufacturers" was rejected on 29 November. The Federal Council recommends that the popular initiative "Against arms exports to countries in civil war (corrective action initiative)" be rejected and prepares a counter-proposal.

Outlook for the coming year.

At the end of the year, the Federal Council anticipated continued improvement in both the domestic and global economic situation through the coming year. Containing the COVID-19 pandemic will however remain a major challenge globally for the foreseeable future.

The Federal Council will continue to work for the best possible framework conditions for the Swiss economy. In particular, economic recovery in the domestic market and abroad must not be hampered by measures that restrict trade and investment. The Federal Council is also pursuing this matter in Switzerland. The National Council will again consider in the spring session the abolition of industrial tariffs proposed by the Federal Council.

The Federal Council will continue to give top priority to EU relations. The Federal Council will seek to clarify outstanding issues relating to the 2021 draft institutional agreement and to conclude negotiations. The EU Commission's decision on continuation of the equivalence of the Swiss Data Protection Act is still pending.

The 12th WTO Ministerial Conference envisaged for the reporting year has had to be postponed to 2021 due to the COVID-19 crisis. The Federal Council will adopt a negotiating mandate for this conference and the anticipated outcome of the negotiations, and will consult the competent parliamentary committees and cantons in this regard. Switzerland is committed to strengthening the WTO institutionally through binding decisions, and seeks to further develop multilateral trade rules, particularly in view of the COVID-19 pandemic. It will, in this respect, actively support discussions on the subject of trade and ecological sustainability.

Within the OECD, the Federal Council will continue to advocate international taxation of the digital economy in line with Switzerland's interests. As no result was forthcoming during the reporting year, members are striving for a consensus solution by mid-year.

The trade agreement between Switzerland and the United Kingdom came into force on 1 January 2021. Both sides will jointly monitor implementation of the agreement and will remain in close contact in order to close gaps as far as possible in comparison to previous relations and to facilitate seamless trade. At the same time, exploratory discussions are planned with a view to possible modernisation and expansion of the trade agreement.

Switzerland will also begin FTA negotiations with Moldova. Negotiations with Thailand are also to be resumed. In both instances, the aim is to reach a modern and comprehensive trade agreement. The EFTA states and Kosovo also intend to start free trade agreement negotiations in the coming year. The Federal Council is preparing a negotiating mandate to this end, and will consult the competent committees as well as the cantons and other interested parties.

The Federal Council intends to present an updated foreign economic strategy in the course of the year.

Contents

1 Impact of the COVID-19 crisis on international trade and global value chains

1.1 Economic impact of the crisis

In the spring of 2020 the global economy experienced a serious crisis which impacted directly on Switzerland. Restrictions on economic activity, domestic consumption and trade in particular hit every country and, amongst other consequences, culminated in a historic decline in Swiss foreign trade. Despite these difficult conditions, Switzerland was guaranteed supplies of essential goods at all times. Digital technology and digital working environments have been vital in maintaining economic activity, particularly in the service sector. The crisis has highlighted the crucial importance of effective digital processes for the economy and administration (*e-government*) as well as a sound, reliable digital infrastructure.

1.1.1 International trade and investment

Following the global spread of COVID-19 in the spring of the reporting year, the global economy plunged into a deep recession with devastating effects. In many countries, however, the low point had probably already been reached by the middle of the year.

Unlike earlier crises, COVID-19 was not triggered by an accumulation of imbalances in a specific market (e.g. the tech bubble in the late 1990s or the financial crisis of 2008–2009) or external shocks (e.g. the oil crises, Euro zone debt crisis or the appreciation of the Swiss franc from 2011). It was brought about primarily following a cascade of government measures to curb the pandemic, which severely impacted economic activity. These government measures intensified pre-existing trends to restrict international trade. International travel was also severely curtailed, particularly impacting tourism and related industries as well as cross-border service provision.

International goods trade

Following a lack of momentum at the beginning of the year, international trade in goods collapsed in April and fell to its lowest level in almost a decade. A dynamic recovery occurred from June onwards such that, by September, international trade in goods had returned to February levels. Against the backdrop of further rises in Coronavirus cases and stricter measures at the international level, commodity trading is expected to lose considerable momentum towards the end of the year. Some of Switzerland's main trading partners, in particular major Southern European countries, are likely to have to struggle for even longer with the consequences of the COVID-19 crisis.

Complex global value chains, which are of above-average importance for the Swiss economy (see the 2014 Federal Council Report on Foreign Economic Policy[1]), were particularly affected by containment restrictions at the beginning of the pandemic. The reduced production output of specialised companies due to health protection measures

1 BBl **2015** 1457

(direct effects) led to suppliers throughout the value chain being affected by supply bottlenecks (indirect effects). Disruptions in international logistics and transport services – essential to the international division of labour – have further exacerbated the situation. For instance, delays in the delivery of primary and intermediate products have hampered production processes.

International trade in services

In many countries, protective measures imposed by the authorities and restrictions on cross-border movement have led to a severe downturn in international trade in services. In addition to transport and logistics services, cross-border services provided by private persons, such as repair and handicraft work as well as consultancy services, have been significantly affected. On top of that, the tourism sector worldwide has been virtually at a standstill for several months.[2]

By contrast the acceleration of digitalisation, encouraged by the rules of hygiene and distance and the resulting increase in remote working, can be viewed positively in the services sector. Digitalisation is a key factor in maintaining and improving Switzerland's competitiveness, especially from a foreign trade perspective (see the 2016 and 2019 reports on Foreign Economic Policy[3]). Furthermore, changes in working and consumption patterns as a result of the restrictions imposed have benefited digital service providers. E-commerce[4] has continued to flourish, contactless payment has consolidated its position and distance learning has been largely introduced in schools and universities within a short space of time. The smooth functioning of the Swiss tertiary sector (IT and telecommunications services, financial services, transport services, and distribution and logistics services) has significantly helped to mitigate the negative consequences of the crisis.

International investments

According to International Monetary Fund (IMF) data, the growth of foreign direct investment, on which global value chains are based, has been stagnating for approximately five years. This is due in part to political factors (tax reforms and trade disputes), but also to economic factors (declining returns) and structural change.[5] The situation has deteriorated sharply due to the COVID-19 crisis. Both the OECD and the United Nations Conference on Trade and Development (UNCTAD) estimate an overall decline of 30–40 % in international investment in the reporting year[6]. Aviation and the energy sector were particularly affected.

Even prior to the COVID-19 crisis, several countries had already tightened their investment controls or were considering the introduction of such systems. The crisis

2 WTO, *Trade in services in the context of COVID-19*, May 2020, https://www.wto.org/english/tratop_e/covid19_e/services_report_e.pdf.
3 BBl **2017** 813 resp. BBl **2020** 1979.
4 WTO, *E-Commerce, trade and the COVID-19 pandemic*, May 2020, https://www.wto.org/english/tratop_e/covid19_e/ecommerce_report_e.pdf.
5 See UNCTAD, *World Investment Report 2019*, S. 2.
6 See UNCTAD, *World Investment Report 2020*, S. 8, www.investmentpolicyhub.unctad.org > publications; and OECD, *FDI flows in the times of COVID 19*, www.oecd.org > Tackling Coronavirus (COVID-19).

accelerated the trend. Within the EU Framework for the Screening of Foreign Direct Investment of 26 March 2020, the European Union advised EU-member states to tighten controls in critical sectors or introduce such a monitoring system.[7] On 18 June, the German Parliament approved an amendment to the Foreign Trade and Payments Act (*Aussenwirtschaftsgesetz*) aimed at strengthening the German investment control mechanism. The United States alongside Australia, Canada and Japan, among others, have had a control mechanism in place for several years. In Switzerland, Parliament instructed the Federal Council in March to prepare the framework for introducing an investment control mechanism of this nature (see Section 2.1).

1.1.2 Swiss foreign trade

Switzerland is firmly embedded in the international division of labour. The contribution of foreign trade is accordingly extremely significant: According to the WTO and OECD, about one-quarter of Swiss exports in 2015 included foreign net product that had previously been imported into Switzerland.[8] After deducting this imported net product, Swiss exports still account for some 40 per cent of the net product of the entire economy. This reflects the extremely high significance of international trade for Switzerland given the fact that the country has few natural resources and a limited domestic market (see the 2014 Federal Council Report on Economic Foreign Policy[9]).

Primary and intermediate products make up a considerable proportion of Switzerland's foreign trade. Faced with high domestic cost levels, Swiss companies must be able to easily procure high-quality and affordable services from abroad in order to focus on high added value activities. Delays in supply chains due to closed borders, export restrictions by trading partners, limited and expensive freight capacities, or even breaks in production outside the country lead to higher production costs in Switzerland.

Economic recovery depends then both on the situation abroad, and on domestic measures. The current crisis accentuates the importance of the rules-based international trading system in order to safeguard international value chains, particularly in the light of a serious global economic crisis (see Section 1.2.2).

Trade in goods

The COVID-19 pandemic has had wide-ranging repercussions on Swiss foreign trade. This fell to a historic low in the second quarter of the reporting year. Exports excluding valuables fell after seasonal adjustment by 7.9 % as against the first quarter (excluding valuables and transit trade: - 13.9 %) and imports excluding valuables fell by as much

7 See Communication from the Commission 2020/C 99 I/01, *Guidance to the Member States concerning foreign direct investment and free movement of capital from third countries, and the protection of Europe's strategic assets, ahead of the application of Regulation (EU) 2019/452 (FDI Screening Regulation)*.
8 www.oecd.org > Directorate for Science, Technology and Innovation > Industry and globalisation > GVCs – SWITZERLAND.
9 BBl **2015** 1457

as 14.2 %. With the exception of chemicals and pharmaceuticals, the main export sectors saw significant decline. This was the result of the major collapse in cross-border trade in April, with recovery following in May and June. Exports of machinery, apparatus and electronic devices fell by 20 % year-on-year, while exports of precision instruments, watches and jewellery fell by around 49 %. Although declining demand posed the biggest challenge in the reporting year according to business surveys[10], various sectors were also affected by delays and interrupted supply chains. The situation was further compounded by a decline in freight capacity, particularly in air transport.

A marked recovery in goods trading was however seen in the third quarter (excluding valuables and transit trade: +10.5 % as against the previous quarter), but this only partly off-set the decline in the first half of the year. Exports to China rose strongly, whilst those to the Euro zone and USA remained well below the levels of the first quarter of 2020.

Switzerland is a major global manufacturer of pharmaceuticals and medical technology products. However, it is heavily reliant on imports for protective masks, examination gloves or specific active substances. This was made particularly apparent when global demand for medical protective equipment and pharmaceutical products soared from March onward. Countries around the world responded by introducing measures to restrict trading in these specific goods categories. In early March several EU Member States, and later the EU itself, imposed export restrictions on medical personal protective equipment. At Switzerland's instigation the European Commission elected on 20 March to exempt exports to Switzerland (and the other EFTA states as well as Western Balkan countries) from the export licensing obligation for these goods in order to keep supply channels open in the closely integrated economic area of continental Europe.

Medical protective equipment: Measures taken by the Federal Council

The Federal Council also decided on 25 March to implement export controls for medical protective equipment under the COVID-19 Ordinance 2.[11] This control was subsequently extended on 3 April to key medical goods. The extremely rapid spread of COVID-19 led to increased demand for these types of goods in Switzerland as well. The availability of adequate quantities and quality of medical protective equipment was essential to stop the further spread of the virus and to protect the health of medical personnel. The measures introduced by Switzerland were broadly in line with those of the EU and were lifted on 22 June by the Federal Council after the situation improved. Exports to EU and EFTA countries, the United Kingdom and other Western European countries, as well as to private individuals and aid organisations, were from the outset exempt from export con-

10 See media communication from Economiesuisse dated 17 April 2020, www.economiesuisse.ch > Article > Zustand der Wirtschaft in der Corona-Krise (state of the economy during the Corona crisis).

11 AS **2020** 773 783 841 863 867 1059 1065 1101 1131 1137 1155 1199 1245 1249 1333 1401 1501 1505 1585 1751 1815 1823 1835 2097 2099 2213 Art. 14 Ch. 2.

trols. Export applications could be submitted via an electronic authorisation platform[12] and were generally processed within five days. All applications made were approved, since demand for the goods in question was at all times covered in Switzerland over the period concerned.

Trade in services

The closure of companies and borders as well as hygiene and distancing measures considerably hampered service sector activities in Switzerland. Tourism suffered from the lack of foreign footfall. The aviation and travel sectors were also affected to a considerable extent. The export of installation and maintenance activities, together with the provision of consulting services, was severely limited. The same applied to the provision of cross-border transport and logistics services. Passenger transport to and from neighbouring countries came to a virtual standstill for some time. Cross-border freight transport was hampered by reduced capacity, increased prices, delays and cancellations.

On the other hand e-commerce saw significant growth in Switzerland.[13] While businesses were closing, the mailing of small consignments increased by a striking 25 % compared to early in the year. Both digital infrastructure and Swiss Post, as well as other logistic service providers, were initially overwhelmed.

Foreign direct investment

With direct investment stock abroad of over CHF 1 445 billion, Switzerland is one of the ten biggest capital exporters in the world. It is also one of the biggest recipients of foreign direct investment (CHF 1 370 billion, SNB data, 2018). The COVID-19 crisis is expected to impact foreign direct investment both into Switzerland and out of Switzerland. However, no concrete data are currently available.

1.2 Measures to overcome the crisis

Policy measures to address the impact of the crisis have been implemented at various levels. The geographical diversification of the Swiss economy has been a major factor in this respect. Switzerland's relations with established trading partners in all parts of the world, together with its diplomatic network, have played an important role in easing the economic whirlwind and nurturing conditions for recovery. The structures and mechanisms in place, notably in the FTA context, such as joint committees and administrative co-operation, have been instrumental. This fundamental infrastructure of Swiss foreign economic policy has proved invaluable. At the same time the global

12 www.seco.admin.ch > Aussenwirtschaft & Wirtschaftliche Zusammenarbeit > Wirtschaftsbeziehungen > Exportkontrollen und Sanktionen > Elic (Foreign economy and economic operation > economic relations > export controls and sanctions).

13 In Switzerland, for instance, e-commerce sales of physical goods are expected to grow by up to 30 % in 2020 compared to 2019. For April 2020, growth was around 65 % compared to the previous year. See *E-Commerce Report Schweiz 2020* (Switzerland 2020), www.datatrans.ch > know-how > e-commerce-report-schweiz.

crisis calls for multilateral solutions, which alongside its partner countries in various international organisations, Switzerland is committed to delivering.

1.2.1 The role of multilateral organisations

Role of the WTO

In line with maintaining oversight of its members' trade policies, the WTO is involved in transparency work relating to the trade measures taken by its members in response to the COVID-19 crisis. According to the Director General's report on new trade-related developments[14], the WTO identified 256 measures in the goods trading sector, implemented by 87 members, including Switzerland, at the peak of the crisis. 109 of these measures can be seen as «trade-restrictive» (mainly restrictions on the export of medical items), while 147 are aimed at facilitating trade, including the temporary suspension of tariffs. In both categories of measures, the products concerned are mainly medical equipment (masks, protective clothing, respirators) and pharmaceutical products. In terms of trade in services, 45 member states have introduced a total of 99 measures, mostly to facilitate trading. Against this background the WTO, in its role as trade policy monitor and through its transparency work, is contributing to the management of the crisis.

In addition to this transparency work, the WTO could soon launch an initiative to facilitate international trade in certain goods necessary to the handling of (current and future) pandemics. At the WTO General Council on 16 December, members of the «Ottawa Group», including Switzerland, announced their intention to initiate open negotiations on trade and health for all WTO members in early 2021. The initiative calls for the introduction of binding rules in areas such as export restrictions, transparency, non-tariff barriers and trade facilitation by the next WTO Ministerial Conference.

G20 measures

In response to the pandemic, G20 trade ministers at a special summit in May adopted a package of measures to protect people's health while promoting the fastest and fullest possible economic recovery.[15] Member States are committed to ensuring that trade-distorting measures taken in response to the crisis are time-limited, transparent, and proportionate, and that essential capacity in terms of transport and logistics remains available at all times. In the longer term, the G20 will work multilaterally to increase the resilience of global value chains and maintain international investment streams. In addition to the implementing of these measures, the lifting of export restrictions should also be monitored. The measures should only be short-term to ensure the supply of medical equipment and basic agricultural goods, and be jointly moni-

14 WTO, *WTO report shows members moving to facilitate imports even as trade restrictions remain high*, July 2020, https://www.wto.org/enlish/news_e/news20_e/trdev_24jul20_e.htm.

15 G20, Trade and Investment Ministerial Meeting, *Ministerial Statement*, May 2020, www.g20.org > Media > Documents > G20SS Statement.

tored. Switzerland has called for greater transparency with regard to trade and investment measures. It is also committed to ensuring that sustainability is taken into account in the economic recovery.

OECD studies and recommendations

The OECD has also examined the economic consequences of the COVID-19 pandemic. It has identified emergency measures taken by countries to promote the health sector and other industries. The OECD has also published studies and information on macroeconomic support measures for coping with supply and demand shocks, and for stabilising the financial markets. In consultation with Member States, it has planned the conducting of evidence-based analyses of medium- and long-term challenges, specifically aimed at strengthening the resilience of supply chains for essential goods and preventing persistent competition distortion. In one study it concluded that Member States would have had greater difficulty safeguarding supplies during the COVID-19 pandemic in the absence of global value chains. This conclusion is based primarily on the fact that export restrictions in many countries directly impacted the supply of primary materials to production plants.[16] Ultimately, interdependent production with international division of labour appears more resilient than local production. The OECD therefore advises companies first and foremost to improve their risk management strategy, place greater emphasis on risk awareness, enhance transparency and promote agility.

The OECD also published a paper[17] on the significance of corporate social responsibility during a pandemic and organised an extraordinary OECD *Global Forum*. The OECD believes that companies with well-established due diligence and social dialogue have better avoided supply chain disruption because they knew the situation of their business partners. It also believes that state support packages to help companies cope with the crisis should, as far as possible, be linked to compliance with the principles of corporate social responsibility (see Section 6.4), to ensure that companies are better prepared to meet future challenges (e.g. climate change). The aim should also be to ensure that the measures are in line with the objectives of the 2030 Sustainable Development Agenda and the Paris Climate Agreement[18].

Role of the International Labour Organisation (ILO)

Given the extraordinary impact of the COVID-19 pandemic on global labour markets, the ILO played a key role during the reporting year. It has regularly published reports investigating the effects of the pandemic on global employment figures and specific analyses on mitigating the impact of the crisis and supporting a swift recovery. These publications have been complemented by practical advice on specific topics, particularly in the area of worker protection. In addition, the ILO, in collaboration with the World Health Organisation (WHO), rolled out the widespread implementation of health and safety instructions for handling COVID-19 in the workplace. It has also

16 OECD, June 2020, *Shocks, risks and global value chains: insights from the OECD METRO model*.
17 www.mneguidelines.oecd.org > COVID-19 and RBC.
18 Paris Climate Agreement of 12 December 2015, which entered into force in Switzerland on 5 November 2017 (SR **0.814.012**).

conducted an international survey to analyse the consequences of COVID-19 for companies, particularly SMEs. On the basis of this survey the ILO focused its involvement on supporting companies' emergency preparedness and compliance with health regulations. The ILO has, in addition, provided companies with online training and advice documentation, which will make future interventions more effective and less costly.

Initiatives by the World Bank Group (WBG) and International Monetary Fund (IMF)

The IMF and the multilateral development banks, predominantly the WBG, had already during the first half of the year agreed on a comprehensive package of measures totalling some USD 250 billion. Developing countries are suffering particularly badly from the direct and indirect consequences of the COVID-19 crisis. According to World Bank estimates, up to 115 million people could return to extreme poverty during the reporting year, almost half living in South Asia and over one-third in sub-Saharan Africa.[19] The IMF and development banks have targeted their support to providing urgent budgetary assistance, strengthening health systems, ensuring companies' cash flow especially with respect to trade financing, and to mitigating the social impact of the crisis on the population.

The IMF and World Bank also launched a spring initiative to establish a temporary moratorium on poor countries' debt servicing. This initiative was supported by the G20 and by the Paris Club, a group of 22 industrialised countries that coordinates viable solutions for debtor countries facing payment difficulties. Bilateral public creditors suspended debt services for the poorest countries from 1 May until the end of the year.

International sanctions and COVID-19

The potential easing of sanctions was also discussed on an international scale against the backdrop of the COVID-19 crisis. Switzerland has followed these discussions and has repeatedly emphasised that these sanctions in no way hinder the provision of the equipment and material essential to combat COVID-19. Humanitarian goods such as medicines or food are in principle not subject to Swiss sanctions. Exemptions are made on humanitarian grounds as required.

1.2.2 Significance of Switzerland's trade relations

EU reconstruction measures and Swiss-EU trade relations

Swiss foreign trade is geographically extremely diverse. However, the EU Member States are still Switzerland's most important economic partners by far. Due to its largely non-discriminatory access to the European internal market (see Section 3) and its geographical location, the Swiss economy is closely interlinked with European cross-border value chains, particularly those involving neighbouring countries.[20]

19 World Bank, October 2020, *Updated estimates of the impact of COVID-19 on global poverty: The effect of new data*, blogs.worldbank.org > Open Data.
20 2014 Federal Council Report on Foreign Economic Policy (BBl **2015** 1457).

Due to the strong links with the national economy, economic recovery in the EU and implementation of the measures to achieve this are also crucial for Switzerland. The EU and its Member States have adopted similar approaches to those of Switzerland to bolster economic activity in the short term, combining partial short-time work compensation with measures to help companies with cash flow. To repair the immediate damage caused by the COVID-19 pandemic and shore-up the economy, the EU has adopted a substantially increased Multiannual Financial Framework (MFF) for the years 2021–2027, amounting to EUR 1 074.3 billion [21], as well as an additional vehicle («Next Generation EU», NGEU) to temporarily increase the EU budget for the period 2021–2024 by EUR 750 billion. The contribution that this reconstruction plan makes to rapid economic recovery will depend crucially on the coordination of measures taken by EU Member States, the implementation of such measures and how the crisis develops.

In this context, it is important to ensure that Switzerland – while also being outside the EU – continues to remain integrated within European value chains. This also applies to the strengthened sector industrial policy that the EU and its Member States will pursue with the resources at their disposal in future (see also Section 1.3.2). Investments under the NGEU are intended to support ecological and digital transitions, and 30 % of total expenditure under the MFF and NGEU is to be linked to projects to combat climate change. Thanks to this significant increase in its budget, the EU also has more funds available for programmes that Switzerland is interested in being part of.

Bilateral and multilateral relations outside the EU

Switzerland's good relations with its trading partners, collaboration within the framework of international economic organisations and both bilateral and multilateral free trade agreements have been major assets in coping with the crisis. The Federal Council has been developing this network for a long time. The good relationships and close links with decision-makers in conjunction with preferential trade relations have proved invaluable in overcoming the crisis. Swiss companies have been able to continue purchasing essential goods and services from abroad, albeit with some delays. Rapid, target-oriented solutions have helped to preserve international value chains.

The Federal Council is therefore committed to expanding Switzerland's trade relations with key partners and to maintaining and extending its network of contacts. Diplomatic visits, invaluable in this context, will be resumed as soon as possible. Preferential access to foreign markets on the basis of Free Trade Agreements is another decisive element in the recovery of the Swiss economy (see Section 5.1). Also of great importance in this connection are the investment protection agreements (IPAs), which provide greater legal security for Swiss investors abroad and foreign investors in Switzerland (see Section 5). The basis for Switzerland's trade relations, however, remains the multilateral trading system (see Section 4).

21 The 2014–2020 MFF, to which (unlike the new MFF for 2021–2027) the United Kingdom also contributed amounted to EUR 9,988 billion.

1.2.3 Economic development cooperation

The often inadequate basic public services, notably in the areas of health, infrastructure and security, have made the implementation of measures to contain the pandemic in developing countries particularly difficult and this has posed significant economic challenges. The collapse in demand has led to the disappearance of important export markets, causing financial difficulties for many companies. Customs, tax and tourism revenues have declined simultaneously, while public spending and related debt have risen. In addition, remittances from migrants to their countries of origin fell by up to 14 % worldwide in the reporting year, resulting in a particularly painful loss of income for poor populations in developing countries.[22]

Economic development cooperation has helped to contain the crisis as part of ongoing bilateral activities aimed at ensuring access to basic services and overcoming economic crises. For example, Switzerland contributed CHF 8,5 million to a decentralised budget support package as part of a World Bank programme to provide local, basic services in Tunisian municipalities. Switzerland's international cooperation partner countries were also supported in their efforts to return to sustainable and resilient economic policy and reintegrate into global value chains. In addition, economic development cooperation has provided access to capital and expertise for private companies and public utilities. The short and medium term objective was to combat the consequences of the pandemic in partner countries. To this end, the Federal Council reprogrammed CHF 50 million from the existing budget until the end of the year. In a joint position with the OECD Development Assistance Committee, Switzerland, together with the major bilateral creditors, has come out in favour of a coordinated fight against the pandemic.

Switzerland also continued to work towards integrating its partner countries into the international trading system. In order to promote their integration into global value chains, Switzerland helps its partner countries to implement international conventions and standards in the area of the movement of goods and so contributes to reducing the customs procedures that hinder trade. Providing support to promote the international competitiveness of partner countries has become even more important with the COVID-19 crisis.

Through its development finance company (SIFEM), Switzerland has provided rapid and targeted support to all companies that combine a proven business model, social responsibility towards employees and proven development impact. Many SMEs in developing countries are suffering from the economic consequences of the pandemic and are reliant on help with cash flow. Their survival is crucial for social stability and economic recovery in these countries. ILO programmes co-financed by Switzerland have focused on supporting SMEs and companies in the textile supply chain to ensure occupational health and safety in the workplace and to provide appropriate working conditions throughout the COVID-19 crisis.

22 World Bank, April 2020, www.worldbank.org > Press release > 2020 > 04 > 22 > *World Bank predicts sharpest decline of remittances in recent history*.

1.2.4 Promotion of external economic activities

Due to the sharp decline in foreign demand, disruptions in supply chains, restrictions on the movement of people and goods, and uncertainty in response to rapidly changing regulation in export markets caused by the crisis, vehicles to promote the foreign economy have been heavily relied upon by exporting Swiss SMEs, whose need for advice and support has increased since the beginning of the pandemic.

Switzerland Global Enterprise (S-GE) has stepped up its consulting and information services to provide Swiss exporters with timely and targeted support for handling foreign markets in these difficult circumstances. To meet the increased demand from exporters, additional funds amounting to CHF 2,6 million will be made available in 2021. In addition to the targeted and temporary augmentation of local advisory services, more digital services will be made available to open up international business opportunities. Swiss Export Risk Insurance (SERV) has stepped up compliance audits so that Swiss SMEs can quickly gain access to SERV cover and thus to appropriate cash flow to finance exports. In addition, SERV has taken measures to further reduce the administrative burden of export financing to facilitate access to cash flow and provide security of planning for companies at the same time. In addition, a temporary adjustment to the 25 October 2006 ordinance on Swiss Export Risk Insurance[23] was adopted, which includes an increase in the cover rates for cash-flow products and maximum flexibility with regard to the value-added requirement.

S-GE has also increased its support for investors in order to create and maintain a favourable framework for foreign investment in Switzerland.

1.3 Challenges facing Switzerland as an open national economy

The COVID-19 crisis has reinforced protectionist and industrial policy trends in many parts of the world. This is not in the interests of Switzerland’s open, export-oriented economy. The Federal Council therefore intends to use all of the resources at its disposal in terms of domestic and foreign economic policy to maintain and sharpen Switzerland's competitiveness. Particularly in a global economic crisis, open markets and a rules-based trading system are crucial for Switzerland.

1.3.1 Fragility of value and logistics chains

Overall, the crisis has revealed the resilience of Swiss value and logistics chains: even during the unprecedented situation caused by the pandemic, Switzerland did not experience any nationwide or long-term shortage in vital supplies. Food, medical equipment and medicines were always available in sufficient quantities.

23 SR **946.101**

However, the situation has been tense at times with regard to the supply of medical protective equipment and certain pharmaceutical products. In addition, various sectors have experienced delays and interrupted supply chains. This was noted primarily in the automotive industry and the luxury goods sector, which have had difficulty in sourcing raw materials, electrical components and furniture.

The COVID-19 crisis has also highlighted links with and within Asia. As a result of restrictions in Asian countries, many companies have had to cope with the short-term closure of their Asian production facilities or those of their suppliers. They have had to apply for exceptional permits, hold discussions with local authorities and find alternative logistics solutions. Frequently, Asian-based suppliers of Swiss companies have been affected by disrupted supply chains in another Asian country. In many cases, however, these shortcomings have been resolved, thanks in part to the support of the Federal administration and local diplomatic interventions.

Example: The Cressier Refinery (NE)

One key case in this regard concerns the Cressier refinery, which supplies 30 % of the Swiss market, and to which oil is transported directly from the port of Marseilles via a pipeline. In early April, there was a bottleneck in the unloading of oil tankers. The French Directorate General for Energy and Climate prioritised unloading that was strategically important to France, as opposed to Switzerland. Following the intervention of the Swiss Embassy in Paris, deliveries to the Cressier refinery were also prioritised. This prevented the pipeline and thus the Cressier Refinery from being shut down. Had another supply source been compromised at the same time, for example due to low water levels in the Rhine or a disruption in strategic rail links for the transport of goods in Germany, Switzerland could have experienced critical supply shortages.

1.3.2 Calls for the renationalisation or regionalisation of production

A study conducted by the OECD during the reporting year highlighted tendencies towards restricting international trade, increasing industrial policy interventions and re-shoring of value chains (see Section 1.2.1.). Individual measures also proposed in OECD countries confirm this trend, even where they partly concern specifically medical products. The global economic downturn is expected to highlight further protectionist tendencies.

USA

In the United States, strengthening the industrial base has been under discussion for quite some time, and has been used to justify protectionist trade measures. Against the backdrop of the pandemic, the focus is on re-shoring in the areas of pharma, medical technology and medical protective equipment. COVID-19 has highlighted specific dependencies in the United States, for example, with regard to pharmaceuticals.[24] Based on the comprehensive Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 27 March, the US Department of Health was mandated to provide a detailed analysis of the afore-mentioned sectors and to make recommendations for strengthening resilience and domestic production if gaps were identified. Furthermore, on the basis of the CARES Act, the US Development Finance Corporation, which previously was involved in development finance alone, was allocated additional funds to promote re-shoring by providing credits and guarantees to companies.

US industry itself has pointed out that extensive re-shoring would undermine the benefits of efficient and diversified international value chains, weaken resilience due to a forced national focus, and could lead to retaliatory measures by trading partners, ultimately jeopardising industrial innovation and the competitive edge.[25] The US Government has nevertheless issued an Executive Order in addition to the CARES Act, which outlines targeted re-shoring of the pharmaceutical industry.

EU

The COVID-19 crisis has given more impetus to ongoing considerations regarding the EU's strategic and technological autonomy. A Franco–German initiative[26] has suggested increasing the EU's economic and industrial resilience and autonomy. Substantial resources would then be allocated to the health sector. An EU pharmaceutical strategy is also in the pipeline. Reducing perceived dependency involves first finding consensus with regard to EU trade policy, the subject of a public consultation during the reporting year.

The trade commissioner suggests «open strategic autonomy»: diversifying value chains, stockpiling of certain goods (1 % of goods imported into the EU come from only one country[27]), and engaging in international trade rules-setting according to EU values and rules. Industry has participated in and supports industrial policy development. BusinessEurope however has called for avoiding isolating the economy.[28] Industry supports the programme to revitalise the domestic market, the reconstruction plan and most of the measures suggested, in order to ensure a level playing field, especially with China.

24 Information Technology & Innovation Foundation, June 2020, www.itif.org > Publications > 2020 > 06 > 15.

25 U.S. Chamber of Commerce, April 2020, *Learning the Right Lessons: Safeguarding the U.S. Supply of Medicines and Medical Products*, www.uschamber.com > Issue brief > Learning the right lessons safeguarding the US supply of medicines and medical products.

26 *Initiative franco-allemande pour la relance européenne face à la crise du coronavirus*, (Franco–German Initiative for European Recovery from the Coronavirus Crisis) May 2020, www.elysee.fr > Emmanuel Macron > 2020 > 05 > 18 > Initiative franco-allemande pour la relance européenne face à la crise du coronavirus.

27 European Centre for International Political Economy, Cernat Lucian, Guinea Oscar, July 2020, *On ants, dinosaurs and how to survive a trade apocalypse*, www.ecipe.org > Blog > How to survive a trade apocalypse.

28 BusinessEurope, June 2020, *Smart technological sovereignty: how it could support EU competitiveness*, www.businesseurope.eu > publications > smart technological sovereignty, how it could support EU-competitiveness.

Switzerland and the EU have negotiated an institutional agreement (InstA) to consolidate mutual market access and to shore up long-term sustainability (see Section 3.3).

1.3.3 Strengthening and securing Switzerland's supplies

The COVID-19 crisis also triggered supply security discussions in Switzerland. Since April, several parliamentary interventions have been submitted regarding the importance of international value chains for Switzerland, the dependencies that may arise from them, and possible solutions.[29] These parliamentary interventions mainly concern the health sector, particularly the pharmaceutical industry, vaccines, medical protective equipment and ethanol.

The debate on the consequences and potential measures required to safeguard supply in the COVID-19 context has reaffirmed the Federal Council's domestic and foreign economic policy: its goal remains to consolidate Switzerland's position as an attractive business location and a reliable trading partner and to create the corresponding framework conditions. This includes open markets and a rules-based international trading system (see 1.2.2). On the other hand, value chain resilience and a specific focus on «essentials» contribute to security of supply.

National Economic Supply

The supply of goods and services to the country is in principle a matter for the economy. The government should intervene only if the economy is no longer capable of fulfilling this supply function (principle of subsidiarity).

The supply of *essentials*[30] at times of severe shortages must be guaranteed by the country's economic supply organisation, which includes the *Bundesamt für wirtschaftliche Landesversorgung* (BWL) (Federal Office for National Economic Supply – FONES). Compulsory stockpiling is a vital tool in preparation for serious shortages of essentials. The economic sectors concerned have the option of establishing compulsory stockpiling organisations under private law to implement compulsory stockpiling and to set up guarantee funds, financed by contributions from importers or first distributors which cover the costs of compulsory stockpiling for the companies.

[29] E.g. Po. Reimann Lukas 20.3433 "Auslandabhängigkeit vermindern, souveräner und krisenresistenter werden" (Reducing foreign dependency, regaining more sovereignty and becoming more crisis-resistant) dated 6 May 2020; Mo. Mitte-Fraktion (Centre Group) 20.3245 "Essentielle Güter - wirtschaftliche Abhängigkeit verringern" (Essential Groups - reducing our economic dependence) dated 4 May 2020; Mo. Commission for Health and Social Security) SR **20.3166** "Erhöhung der Versorgungssicherheit bei Medikamenten und Impfstoffen" (Improving the security of supply of medicines and vaccines) dated 29 April 2020; Mo. Minder Thomas 20.3906 "Schweizer Landesversorgung in sehr grossen Krisen sicherstellen" (Securing the country's supply in the event of major crises) dated 19 June 2020.

[30] «Essentials» for stockpiling include: consumable foodstuffs and products to be processed prior to consumption, fertilisers, fodder, energy sources and medicines. Additional compulsory stockpiles include molasses, specific medicinal products, uranium fuel and plastic granules for the packaging industry.

In the event of serious shortages, whether imminent or already arising, the Federal Council may oblige individual companies to increase their stocks of essentials. The Federal Department of Economic Affairs, Education and Research can order the release of compulsory reserves. In addition, the Federal Council has the option, under existing law, to take measures concerning essentials, for example to protect public health, as it did at the start of the COVID-19 crisis (see Section 1.2).[31]

Resilience of the value chains

The Swiss economy is firmly embedded in international supply and production chains (see Section 1.1.2). The pandemic has shown that in a crisis with global consequences, this international division of labour can pose risks for companies and the economy. It is primarily in companies' interests to ensure that their production structures can withstand a crisis.

The opportunities for companies to boost the resilience of value chains can vary greatly depending on the sector and products. For example, geographical diversification or the ability to readily substitute supply chains are some of the factors that promote resilience. Shortening value chains by merging certain value-creation processes can also help reduce risks, provided that suitable suppliers are found who are able to handle multiple production stages or are able to perform these stages in-house. Holding stocks is another option.

Companies are best-placed to identify and implement potential improvements in the way supply chains are organised, based on specific needs and risks. This approach will help to safeguard Switzerland's supplies. State measures or regulations would not be appropriate in this respect. They would undermine the competitiveness of companies and could even prove counter-productive. This applies in particular to the possible repatriation of production processes to Switzerland on behalf of the state (see OECD study in Section 1.2.1). The Federal Council supports companies by advocating open markets and providing information on imminent risks.

1.4 Conclusion

In retrospect, from a Swiss perspective, global value chains generally worked well over the reporting year, despite the COVID-19 crisis. The geographical diversification of the economy, as well as Switzerland's diplomatic network and strong relations with trading partners across the globe, have greatly contributed to mitigating the economic consequences of the COVID-19 crisis. Combined with agricultural performance, domestic production and a well-functioning retail trade, they have helped to prevent long-term shortages in Switzerland.

31 See Ip. 20.3403 Addor "Massnahmen zur Versorgung mit wichtigen medizinischen Gütern zur Bekämpfung der Covid-19-Pandemie" (Measures for the supply of vital medical goods to combat the COVID-19 pandemic) dated 6 May 2020; Mo. 20.3906 Minder "Schweizer Landesversorgung in sehr grossen Krisen sicherstellen" (Guaranteeing the country's supply in the event of major crises) of 19 June 2020.

Security of supplies and the role of international value chains have been discussed both in Switzerland and abroad. These form part of an ongoing trend towards tighter restrictions on international trade, industrial policy interventions and attempts to repatriate international production processes. Calls to reduce dependence on foreign suppliers have increased during the current crisis.

In this context, the fact that international value and supply chains are indispensable for Switzerland's continued prosperity must not be overlooked. These chains are based on open markets and internationally agreed rules, and the legal certainty and predictability these provide at all levels. The extreme opposite, i.e. the self-sufficient production of goods over much of the value chain or indeed in its entirety, would generate significant economic costs for Switzerland, where prices and wage costs are high. In addition, goods produced and exported in this way would be less competitive on the international market.

Overall, trends towards greater protectionism and industrial policy measures, which have become increasingly apparent in recent years, are set to continue in Switzerland's dealings with international partners. As a result of the COVID-19 crisis and the related serious decline in global economic activity, these trends are likely to intensify in many parts of the world. As a highly competitive and export-oriented economy with a relatively small domestic market, Switzerland will increasingly come under pressure. It is not advisable for Switzerland to follow these protectionist trends. Open markets, international networking (especially digital interconnection, as seen during the crisis) and targeted measures in the public interest provide the basis for sustainable recovery and a more resilient Swiss economy.

Only a global response can sustainably overcome a global crisis. The Federal Council will therefore remain committed to preserving and further developing the rules-based trading system at multilateral level and to strengthening collaboration with organisational institutions such as the OECD in particular, and with neighbouring countries and the EU (see Sections 3 to 5). At the same time, Switzerland will continue to meet its responsibilities in terms of economic development cooperation to assist developing countries with the health and economic crisis, both in its own interests and from a wider perspective (see Section 7).