

Executive Summary of the Foreign Economic Policy Report 2016

Objectives of the Federal Council for 2016

In the year under review, the Federal Council focused in particular on access to international markets for Swiss companies and on maintaining and further developing relations with the EU (cf. Objectives of the Federal Council 2016, Objectives 3 and 4). The Federal Council supported the liberalisation of international trade within the framework of the WTO and by way of negotiating free trade agreements (FTA). Switzerland also took part in the negotiations on a plurilateral Trade in Services Agreement. In relation to the EU, work focused on implementing the new constitutional provisions regarding immigration. The United Kingdom's intended withdrawal from the EU following a referendum prompted the Federal Council to have examined possible implications for Switzerland.

Through the Swiss development cooperation policy as well as in the general context of Swiss foreign economic policy, the Federal Council contributed to implementing the 2030 Agenda for Sustainable Development.

The present Report discusses these and other items of significance to Swiss foreign economic policy. The challenges and opportunities presented by globalisation and digitalisation are the feature topic of the Report.

The Federal Council will detail the achievement of objectives in the 2016 Annual Report of the Swiss Government. A provisional assessment of the Swiss foreign economic policy in 2016 suggests that the objectives in this area were achieved.

The economic environment

The year under review saw positive but low rates of growth in the world economy. The relatively weak expansion was mainly due to a generally low level of growth of investment, productivity and salaries in the industrialised countries. In the United States, economic growth continued its positive trend, supported by expansionary monetary policy and low energy prices. The Eurozone continued to recover from the crises of the past years, but growth remained sluggish and the wide disparities between the regions persisted. Both in the Eurozone and in the United States, private consumption remained the main growth driver.

Growth in international trade was conspicuously weak: while world trade grew on average by 5,3 per cent p.a. between 2005 and 2013, for 2016 the OECD is forecasting a growth rate of just 1,7 per cent. This was due on the one hand to weak demand in the industrialised countries and, on the other, to the developments in the Chinese economy, which is transitioning from an export-driven, manufacturing-based to a more domestically oriented services-based economy. Moreover, two important emerging markets – Brazil and Russia – were in recession, the OECD predicting a recovery in 2017.

The economic situation in Switzerland improved in the year under review following a currency-induced slowdown in the previous year. Based on the recovery of growth in various European countries, the improvement was in particular due to foreign trade, whereas retail sales and overnight stays in tourism tended to stabilise at a

low level. Developments in the various sectors remained mixed. Whereas certain sectors proved crisis-resistant (e. g. pharmaceuticals and electronics), output in other sectors (e. g. mechanical engineering and metals) was lower than before the 2008-09 crisis. The labour market recovered only slowly from the impact of the previous year's economic slowdown.

Overall, the outlook for the world economy remains fragile. In addition to various geopolitical risks, the weakened banking sector in a number of Eurozone Countries and the impact of the «Brexit» referendum in the United Kingdom and of the elections in the United States affect the business cycle. In Switzerland, continuing uncertainties about the future course of relations with the EU may put a damper on investment and economic growth in the medium term.

2016 Foreign Economic Policy Report

Feature topic (section 1)

In the year under review, the Federal Council observed rising concerns among parts of the Swiss population about the effects of globalisation and digitalisation of the economy. In other countries, too, efforts to promote free trade are being increasingly criticised and called into question. The feature topic of the present Report addresses the challenges and opportunities these developments pose for Switzerland. The Federal Council stresses that, in the era of digitalization, open markets and an appropriate policy environment are particularly important to prosperity in Switzerland, and the measures that need to be taken to ensure sustainable economic growth are highlighted.

Multilateral economic cooperation (section 2)

In the year under review, the WTO members revisited a number of topics from the Doha Round, such as domestic support for agriculture. At the same time, a number of new topics – such as e-commerce and trade facilitation for SMEs – commanded increasing importance (section 2.1). The Federal Council is proposing to the Parliament to adopt and implement the ministerial decision of December 2015 removing customs duties on a wider range of information technology products (ITA II, section 10.2.3).

The OECD (section 2.2) stepped up its cooperation with emerging countries. As in the previous year, the thematic focus of the organization's work was on transparency and the exchange of information in tax matters. The OECD's «Global Forum» confirmed that Switzerland meets the international standards for the exchange of information on request. With regard to the digital economy, the OECD called on governments to create an economic environment that permits the inclusive and prosperity-enhancing use of digitalisation.

The G20 (section 2.6) was chaired by China in the past year. The main focus was on global economic growth and on strengthening international cooperation, e. g. in tax matters and in the area of international trade and investment. Switzerland was invited to join the G20 Finance Track and the Anticorruption Working Group.

In the UNCTAD and other UN organisations, implementation of the 2030 Agenda for Sustainable Development was pursued (sections 2.3 and 2.4). The Federal Council

seeks to shape economic, environmental and social policies in accordance with these goals. In the ILO, Switzerland supported efforts to improve conditions so as to promote decent work and social justice in global value chains (section 2.5).

European economic integration (section 3)

The moderate economic recovery in the EU did not produce as much growth impetus for Switzerland as had been expected. Following the «Brexit» referendum on the United Kingdom's withdrawal from the EU, Switzerland entered into talks with United Kingdom representatives. The Federal Council is committed to maintaining the existing mutual rights and obligations in the event of the United Kingdom leaving the EU and, insofar as possible, improving them. The referendum also affected the talks between Switzerland and the EU. In this regard, it is important to attain certainty on the maintenance and further development of the Switzerland-EU bilateral agreements. The Federal Assembly agreed on legislation to implement Article 121a of the Federal Constitution which is in conformity with the Agreement on Free Movement of Persons. The Federal Council continues to seek an agreement on the future institutional framework in view of well regulates access to the internal market of the EU.

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

As explained in the feature topic, the Federal Council continues to attach great importance to the continued development of Switzerland's free trade network. At the end of 2016, Switzerland had 28 FTA with 38 partners – in addition to the FTA with the EU and the EFTA Convention. In the year under review, the EFTA States signed FTA with the Philippines (section 10.2.1) and Georgia (to be submitted to parliament in 2017). FTA negotiations with Malaysia and Vietnam continued, while those with India and Indonesia were resumed. The EFTA States commenced FTA negotiations with Ecuador, and negotiated with Mexico to develop the existing FTA. Exploratory talks on the possible expansion of the existing EFTA-Canada FTA were initiated. With Mercosur, the EFTA States agreed on the scope of possible future FTA negotiations. The trade policy dialogue between the EFTA and the USA was continued.

Sectoral policies (section 5)

In the year under review, the Federal Council started implementing the decision of the WTO Ministerial Conference of December 2015 providing for the abrogation of the remaining export subsidies for agricultural products, initially in relation to exports to the least developed countries. The legislative changes which are required for removing the other export subsidies under the «chocolate law» were submitted for consultation, together with a number of accompanying measures in September (section 5.1). The Federal Council worked on further removing technical barriers to trade, for example by adapting technical product requirements to those of the EU and by continuing international cooperation between regulatory agencies (section 5.2). Further progress was achieved in the negotiations on the TiSA during the year under review (section 5.3). A working group within the federal administration completed a further review of Swiss contractual practice in the context of international investment agreements, the resulting report has been published (section 5.4). When negotiating and implementing international economic agreements, the Federal Council continued to coherently pursue the objective of sustainable development

concerning commerce, environment and labour (section 5.5.1). With regard to the revision of the Swiss company law, the Federal Council is proposing new transparency rules for companies active in commodities extraction (section 5.5.2). To implement the Paris Agreement on climate change, the Federal Council promulgated a revised law on CO₂-emissions (section 5.5.3). In the field of competition, Switzerland entered into exploratory talks about possible cooperation agreements with some neighbouring countries (section 5.6). In the WIPO and in the WTO and in the context of the FTA negotiations, Switzerland continued efforts to protect geographical indications as well as genetic resources and traditional knowledge (section 5.8).

Economic development cooperation (section 6)

In the year under review, Switzerland's international cooperation continued to focus on poverty reduction, job creation and, hence, alleviating global risks that cause people to become refugees. For example, the Federal Council was active in the fight against money laundering, the financing of terrorism and other illicit financial flows. Switzerland supported efforts to strengthen financial systems of developing countries. Implementation of the Swiss International Cooperation Programme 2013–16 was completed in the year under review, while the International Cooperation Programme 2017–20 and the renewed Eastern Europe Cooperation Act were adopted by the Federal Council and enacted by the Parliament. The Programme 2017–20 takes due account of the goals of the 2030 Agenda for Sustainable Development and the Paris Agreement on climate change. The World Bank concluded the revision of the Environmental and Social Framework which started in autumn 2012. Switzerland joined the Asian Infrastructure Investment Bank (AIIB) as a founding member in April.

Bilateral economic relations (section 7)

As in previous years, the countries of Western Europe and North America as well as China remained Switzerland's most important export markets. The economic missions to various partner countries gave the private sector members of the delegations an opportunity to entertain relations and promote common interests. A highlight of the year was the inauguration of the Gotthard Base Tunnel: In attendance were, among others, the German Federal Chancellor, the President of France, the Prime Minister of Italy and the Federal Chancellor of Austria. With Iran, a «road map» was agreed with a view to deepening bilateral relations. Against this background, the Federal Council is proposing to the Parliament to approve the trade agreement with Iran (section 10.2.2).

Export control and embargo measures (section 8)

The export of «dual-use» goods, i.e. goods that can be used for both civilian and military purposes, is of considerable importance for the Swiss economy. By passing the revised Goods Control Act and the revised Goods Control Ordinance in the year under review, Switzerland implemented the Agreement on the European Satellite Navigation Programmes. Also in 2016, Switzerland lifted the bulk of the sanctions against Iran and revoked those against Ivory Coast and Liberia, whereas the sanctions against North Korea were tightened.

Export and Location Promotion (section 9)

On 1 January 2016, new regulations on Swiss Export Risk Insurance (SERV) entered into force. The mandate of the export and location promotion organisation «Switzerland Global Enterprise» (S-GE) was extended by four years. S-GE stepped up its information campaign aimed at promoting the advantages of Switzerland as a business location, shifting the focus towards targeting innovative, high-value-adding industries. Owing to the persistently strong Swiss franc and dwindling demand from Asia, demand for services of the Swiss tourism industry slightly decreased. In the year under review, Switzerland was assigned the chairmanship of the European Commission of the World Tourism Organization (UNWTO).

Outlook for the coming year

In 2017, the Federal Council will again strive to improve access to foreign markets for Swiss exports and to strengthen international legal certainty while further improving domestic economic conditions. In doing so, due attention will be paid to the coherence of the policy goals in commercial, social, environmental and human rights matters.

The Federal Council will continue talks with the EU about free movement of persons as well as negotiations on an agreement on institutional issues. The preservation of the bilateral agreements between Switzerland and the EU will remain the priority objective. In parallel, the Federal Council will continue the dialogue with the United Kingdom begun after the «Brexit» referendum, with a view to ensure the continuation of the existing close bilateral economic ties even after the United Kingdom's possible withdrawal from the EU. Because the ongoing revision of the Swiss-EU Agreement on technical barriers to trade was delayed in the past year, this process will have to be pursued in 2017. The aim is to ensure that Swiss exporters continue to enjoy the same level of access to the internal market of the EU as that enjoyed by their EU competitors. The Federal Council will assess the situation concerning a possible liberalisation of the electricity market and the possible conclusion of a corresponding agreement with the EU. Negotiations are to take place with selected neighbouring countries on cooperation agreements in the area of competition.

With regard to the continued expansion of the network of FTA, the conclusion of the ongoing negotiations with India, Indonesia and Malaysia will be sought. Negotiations with Ecuador and Vietnam are to be continued, while negotiations with Mercosur are to commence. Meanwhile, efforts to update various existing FTA will be continued. Negotiations on an investment protection agreement with Malaysia will continue, while talks on new investment protection agreements or renewing existing ones are to commence with Mexico and other partners. Switzerland will also support efforts to continue negotiations on the TiSA.

In anticipation of the 11th WTO Ministerial Conference scheduled to take place in Buenos Aires in December 2017, the Federal Council is committed to strengthening and further developing the global trading system. In light of the implementation of the WTO decision on export competition, which requires export subsidies under the «chocolate law» to be discontinued, the Federal Council intends to submit a package of measures to the Parliament with a view to contribute to preserving the value added in food production. Furthermore, the Federal Council will submit proposals

to the Parliament for the approval of the revised WTO Agreement on Government Procurement and for the revision of the Federal Act on Public Procurement.

The Federal Council will pay special attention to provide an appropriate policy framework for the digital economy. Among other things, the Federal Council will cooperate on this issue in the OECD and in the ILO. In 2017, the OECD members will again address the extension of the Membership of the Organization. Switzerland will advocate an open OECD but with clear rules for accession in order to maintain high common standards. Efforts aimed at preventing base erosion and profit shifting (BEPS) remain a topic for discussion both in the OECD and in the G20. In this context, passing Swiss Corporate Tax Reform III is of high importance. The Swiss electorate will be able to vote on this issue on 12 February 2017. In the G20 – which will be chaired by Germany – Switzerland will have the opportunity in 2017 again to participate in the G20 «Finance Track»”.