



## **THE CHALLENGE OF GLOBALIZATION: THE SWISS WAY**

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Madam Ambassador,  
Mr. Chairman,  
Dear Board Members,  
Walter Diggelmann,  
Ladies and Gentlemen,

It is a great honor for me to deliver the keynote speech of your 2004 General Assembly. I take this condolences on the passing away of the 40<sup>th</sup> U.S.-President, Ronald Reagan.

I will share this morning with you some thoughts on Switzerland's path in today's globalized world. In doing so, I will recall some of the major achievements of Mr. Reagan and the lessons we can draw. As we are moving fast toward a more integrated global economic system, the importance of national borders decreases, and interdependence increases significantly. In this context, governments set up the basic framework conditions for the business community.

Globalization is nothing new. The exchange of goods between nations, foreign investment and the movement of persons are quite ancient phenomena. Yet, the progressive merging of separate national markets into one huge global market has accelerated during the last decade of the Twentieth Century. This has brought profound changes to our economic landscapes and social tissues.

Several factors have contributed to speed up this process. On the political side, the most noteworthy ones are the collapse of communism and the re-integration of the former European communist block and China into the world economy. Mr. Reagan took a significant part to bring an end to the Cold War. He did not come as his predecessors to survive the Cold War but to win it. He was the first to understand that Moscow's economic foundations were too weak to sustain an Arms Race, significantly increased defense expenditures, deployed US Pershing II missiles in West Germany in response to the Soviet stationing of SS-20 missiles near Europe, and launched the "Strategic Defense Initiative" also called "Star Wars". His constrained rhetoric and personal diplomacy were key for a peaceful but inexorable end to communism. More than twenty years after John F. Kennedy's famous glamour "*ich bin ein Berliner*" of June 26, 1963 in West Berlin, Ronald Reagan expressed his vision of the future with courage and determination with a clear message at the Brandenburg Gate on June 12, 1987: "*General Secretary Gorbachev, if you seek peace, if you seek prosperity for the Soviet Union and Eastern Europe, if you seek liberalization: Come here to this gate ! Mr.*

*Gorbachev, open this gate ! Mr. Gorbachev, tear down this wall.* .....and the Wall fell on November 9, 1989. Thank you Mr. Kennedy. Thank you Mr. Reagan and Mr. Gorbachev for ending peacefully this war.

Economic factors at the center stage of globalization include the rise of emerging countries, the rapid decrease of the cost of international transport and communication as well as technological innovations such as increased computing capacity or the internet. This process has been facilitated by a general trend towards de-regulation and liberalization. Started under President Carter, these policies were further vigorously pursued by Mr. Reagan. His strategy was designed to transform an ailing US economy into a highly competitive one.

What has been our experience in Switzerland? How well have we been able to master the challenges? And are we using our chances?

For the past 30 years, Switzerland faces difficulty to keep up with the market dynamism of other major industrialized countries. Year after year, our economy loses competitiveness in international comparison mainly because of a lack of competitiveness in the domestic market.

In 1980, value-added per capita in Switzerland was 10 % higher than in the US; today, it is 20 % lower, that is a total loss of 30 %. Isn't it astonishing to note that Ireland, one of the poorest EU Member State a few years ago, has now taken over Switzerland in terms of GDP per capita and that Austria should catch up soon.

In order to remedy this situation, the Federal Council adopted on February 18, 2004 a comprehensive growth package based on six pillars:

First, domestic competition. Barriers to competition in the internal market must be eliminated; they impede an efficient allocation of resources.

Second, size of the government. The government should keep up with the growing efficiency of the private sector and limit its size. The government must guarantee efficient public service across the country. Mr. Reagan was often sceptical about government: *"Government's view of the economy could be summed up in a few short phrases: if it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it"*. This may sound ironical. But even in an irony, there is a kernel of truth.

Third, external economic relations. Switzerland should strengthen its access to foreign markets. I will come back shortly to our overall strategy in this respect.

Fourth, human capital. In an economy highly dependent on technological progress, neglecting human capital is a serious mistake. Much work has been done in the areas of research and permanent capacity building. Additional measures are necessary for the tertiary sector; they must be developed with the cantons who are mainly responsible for their implementation.

Fifth, innovation. Economic growth depends on innovation mainly by small- and medium-size firms which make up 99 % of the economic tissue. Innovation implies risks and requires close cooperation between firms, financial intermediaries and research centers.

Sixth, labor market. Sustainable growth is not possible without a dynamic labor market. Switzerland registers one of the highest participation rate and retirement age. The growing ageing population coupled with a low birth rate will raise serious problems in the future inter alia to finance old age insurance and to replenish the labor market with young forces. Measures will have to be taken; options include raising the retirement age or the participation rate.

The Federal Council will translate the growth package into proposals to Parliament. This package, which includes no less than 17 measures, will be regularly monitored. Although criticized by some commentators as being too minimal, it reflects Swiss political realities. In our direct democracy, not only Parliament but also the people have a very strong say on the government's proposals.

We may ask ourselves how can political projects be best promoted under such a system? The political action of Mr. Reagan may invite us to look for new ways to move ahead successfully. Facing serious difficulties with Congress, Mr. Reagan understood very quickly that to get a big idea through Congress, you do not work it out through the leadership but you go to the people.

Referring to the growth package, let me be clear on three points: first, contrary to the opinion of the detractors, the package is ambitious. Second, the realization of the potential of the package will be in the hands of Parliament. Third, the government will fight for this program. An inter-departmental working group under my chairmanship will monitor the progress and report annually to the Federal Council. I intend to

become the Confederation's driving force for sustainable growth and to go to the people to explain them the advantages they will derive from the reforms.

Regarding Switzerland's overall situation, let me say very clearly that I do not want to join the chorus of those who are pessimistic: I am convinced that we can elaborate a growth-oriented policy framework on solid ground! Our asset base includes political and macroeconomic stability, a strong financial place with abundant availability of capital, a competitive tax environment, flexible labor markets with low unemployment, strong work ethics and low absenteeism, a high-performing education system, and a modern infrastructure.

Swiss have a natural tendency to self-criticism. In today's times of economic, political and security uncertainties, we should all be inspired by Mr. Reagan's vision, optimism, endless hope and wisdom. Six months after he entered the White House, he said "*What I'd really like to do is go down in history as the President who made Americans believe in themselves again.*" Mr. Reagan succeeded with a drastic shift of the economic focus from post World War II policies based on Keynes and the monetarists who reasoned in terms of macro policy and aggregates.

Mr. Reagan worked in the tradition of the 18<sup>th</sup> - early 19<sup>th</sup> Century French economist Jean-Baptiste Say putting the individual and the entrepreneur at the center stage. Criticized as "trickle down economics", his supply-side economics with i.a. large marginal tax cuts, enhancement of competition and deregulation laid the foundation for a radical restructuring of the US business and the labor market. 16 million jobs were created between 1982 and 1988. While growing budget deficits and national debt are not the best course of action for a small country such as Switzerland, there should be no doubt on the benefits to crack down protectionism, administrative burden and inefficiency, and unleash entrepreneurial forces.

Among its objectives, the growth package includes a better integration into the world economy, a point particularly important for Switzerland. It is only with open markets that Swiss firms may optimize efficiency through international specialization and economies of scale. Better access to foreign markets is also closely linked to domestic policy as trade negotiations imply the opening of the national market. Additional pressure can thereby be exerted on staunch protectionist interest groups.

In this context, let me briefly outline our international economic policy strategy. It has three pillars, namely our WTO membership, the bilateral agreements with the EU and the extension of our network of Free Trade Agreements.

At the multilateral level, the WTO is our most important negotiating forum, covering trade in goods and services, the protection of intellectual property, and government procurement. The basic principles of most-favored nation and national treatment ensure non-discriminatory access to the markets of the 147 WTO Members. For Switzerland, bilateral and regional co-operation can never be full substitutes for global trade negotiations. We have therefore a particular interest in pursuing trade liberalization at the WTO. The focus of the negotiation is presently on agriculture. In this sector, trade liberalization must be progressive and accompanied by adequate trade rules, including protection of geographical indications and environmental safeguards.

At this stage, rules (clarified and improved disciplines in particular on anti-dumping, subsidies and countervailing measures) and coherence issues (trade and environment for instance) lag behind market access negotiations. This is regrettable. If we do not make progress on all aspects of the negotiations, the WTO will not be able to respond to some of the challenges of a more globalized world.

Switzerland attaches great importance to the successful conclusion of the Doha Round. Today, we are confident that we will take in Geneva by the end of July the necessary decisions to give impetus to negotiations which have lost pace since the last Ministerial meeting in Cancùn. However, even if we manage to reach this objective, much work and persuasion still lie ahead in order to complete a Round fulfilling our expectations.

At the regional level, our contractual ties with the European Union are strong, thanks to our Free Trade Agreement of 1972 and the first set of bilateral agreements which entered into force in 2002. Recently, we reached a political conclusion on a second set of bilateral negotiations with the European Union, further enhancing co-operation. The eight new agreements will allow us to participate in additional policy areas of great interest to us such as inner security and asylum, the environment and culture. Our strengthened relationship will duly take into account the interests of both parties, in particular of the Swiss financial market. The Agreement on the taxation of savings led to a regime maintaining vital Swiss bank interests and meeting the EU objective of taxing savings' revenues of EU citizens independently of residency and location of account deposits.

The Swiss government will present the eight agreements to Parliament in autumn in a single message; Parliament will take eight separate decisions. The entry into force of each agreement will take place after completion of an eventual referendum.

The relationship with the European Union will grow in the future given the considerable development potential of the ten new Member States. Their economic dynamism will create new opportunities for Swiss firms. Furthermore, the successful negotiations referring to the extension of the bilateral Agreement on the free movement of persons to the 10 new Member States will provide us better access to much needed staff of different qualification levels. Transition periods and the possibility to take flanking measures will provide for a controlled, step-by-step, opening of the labor market and prevent abuses such as social dumping. The government will also present a message to the Parliament and the new legislation will be subject to optional referendum.

In addition to our efforts at the multilateral level and to our relationship with the European Union, regional trade agreements with selected partners significantly contribute to Switzerland's international competitiveness. Disadvantages that may result from preferential agreements between our main competitors and third countries have to be offset by the conclusion of similar agreements between Switzerland and these countries. Discrimination of Swiss exporters and investors could be particularly harmful in markets exhibiting significant growth potential.

We usually aim to conclude such free-trade agreements with our EFTA partners. In the 1990s, EFTA has negotiated free-trade agreements in parallel to the European Union with Eastern and South-Eastern European as well as Mediterranean countries. More recently, EFTA has also concluded free-trade agreements with extra-regional partners such as Mexico, Singapore and Chile. Presently, negotiations are under way with Tunisia, Egypt, the Southern African Customs Union (SACU) and Canada. At the same time, exploratory work takes place with Korea and Thailand.

Let me now turn to the Swiss-American economic relationship.

The U.S. is our most important economic partner outside Europe, and our second partner overall after neighboring Germany. In 2003, Swiss exports to the United States reached nearly 15 bn Swiss Francs, or 11% of our total exports. On the import side as well, the U.S. plays a key role with supplies amounting to more than 6.6 bn Francs. In the first four months of this year, Swiss exports to the U.S. have increased by more than 5%.

Our relationship is important not only with regard to trade in goods but also in services, including tourism, and investment. In 2002, the last year for which annual data on investment is available, the stock of Swiss foreign direct investment in the United States was 81 bn Swiss Francs. This corresponds to 19.8% of total Swiss FDI. This share is far greater than the combined share of Swiss FDI in Germany, France and Italy! Swiss firms employed a staff of more than 300'000 in the U.S. At the same time, the stock of U.S. FDI in Switzerland was close to 66 bn Swiss Francs according to the Swiss National Bank. This, in turn, amounted to close to 38% of total FDI in Switzerland, nearly twice the combined share of German, French and Italian FDI. According to Amcham's yearbook, over 650 American companies operate in Switzerland, employing a total of 73'000 people.

Whereas this data highlights the magnitude of our economic relations, it does not reflect its quality and real importance. I particularly think of the following three aspects:

- first, the transmission of economic impulses;
- second, the exchange of technologies and knowledge;
- and third, our interpersonal relationship.

Let me first begin with the transmission of economic impulses. The United States are the world's largest single market. Increases of internal demand in the U.S. have an impact on economic cycles abroad, including in Switzerland. In the last few years, characterized by sluggish growth in Europe and Japan, U.S. stimuli contributed significantly to the world economy. Thanks to these favorable factors, Europe's economy is now on an upward trend. However, the growing US budget and trade deficits are nevertheless source of concern. As a capital abundant country, the US should not be today the largest debtor in the world but a net creditor. Furthermore, the twin US budget and current account deficits have contributed to the instability of the US dollar during the past decades. The fluctuations of the US dollar are a real preoccupation for many Swiss firms who would need more certainty for their transactions. For Mr. Reagan, the US debt problem was not *"because we have not taxed enough, but because we spend too much"*. Such a situation is however not sustainable in the long term.

Turning to U.S. trade policy, we actively follow new developments. In particular since the terrible events of 9-11, fears have been expressed that the U.S. may gradually lessen its commitment to open markets. Security measures such as the container security initiative and the 24-hour rule, the Bioterrorism Act and stricter requirements for the issuance of visa have not made life easier for our trade community. Additionally, doubts have arisen in some instances on whether the confidentiality of business or personal data is sufficiently protected.

I wish to underline that we fully share the objective of the United States of making trade safe and of enhancing security in general. I am convinced that security in international trade is essential for maintaining the political momentum in favor of open trade. At the same time, I wish to invite the United States and all other countries to seek internationally co-ordinated solutions for security issues. Such mutually-agreed solutions are possible. They increase security and reduce considerably the burden for firms and travellers. After all, we must keep in mind that open markets are a prerequisite to economic growth and development, and that they make important contributions towards the eradication of poverty – a major breeding ground for insecurity.

Second, I wish to turn to how the United States' role as a leading nation in technology and knowledge affects us through our bilateral relationship.

Given its huge innovation potential, the U.S. is an important source of technological progress. The ingredients in this recipe for success are excellent research institutions, close co-operation between Universities and the private sector, a well-developed venture capital market, and entrepreneurial spirit to translate research and development into commercially-viable innovations.

Our intense economic relations allow us to benefit from each other's technologies. Institutional infrastructures such as the Swiss Science Network in North America further enhance this co-operation. My hope is that some more of that American entrepreneurial spirit and optimism will come to Switzerland through these close ties as well!

Third, I would like to highlight the human dimension of our economic relationship. Bilateral exchanges that are as intense as ours inevitably lead to a multitude of personal contacts. They range from simple phone calls or e-mails between business partners to the constant relocation of thousands of expatriates who work in each other's country.

Americans living in Switzerland and Swiss citizens living in the United States are important pillars of our bridge of friendship. They enhance mutual understanding and trust, they add a solid human foundation to our cooperation and they greatly enrich our societies. These relationships give globalization a very human face, and are one of our most valuable assets.

The intensity of our relations motivates us to continuously explore new ways to strengthen them. In December 2000, we established a Joint Economic Commission (JEC). It is a forum where representatives from the private and public sectors of both countries regularly meet to discuss bilateral economic issues. In addition, high-level officials from EFTA States and representatives of the office of the United States Trade Representative will shortly meet to discuss current trends in our foreign economic policies and explore a further strengthening of our co-operation. This dialogue is at an early stage, leaving room for various avenues.

Switzerland is interested to strengthen economic ties with the U.S. Among the several options under review, there is also the idea of a free-trade agreement. I am aware that this is not a new idea for AMCHAM and particularly for you, Walter. Your own experience has shown that this issue requires thorough analysis, given its potential economic and social implications for some sectors of our economy. In the end, any initiative on our side will have to take into account the overall interest of the Swiss economy. In this context, we need to co-operate closely with you, the business community.

Speaking about you inevitably leads me to speak about AMCHAM. And, of course, I cannot speak about AMCHAM without referring to you, dear Walter.

I recently went down into the basement of seco in order to search our archives for information on how our exports developed since you joined AmCham. You know what I found out ? Between 1969 and 2003, our exports to the U.S. nearly increased by a factor of 8, from below 2 bn USD to nearly 15 bn USD ! The U.S. share in our total exports grew from 9.4% to 11% translating into a higher growth towards the U.S. than the rest of the world ! Although I haven't done any econometric analysis to assess the contribution of the departing CEO, Walter Diggelmann, to this increase, I am sure that it is a great one !

The organization which you have managed so well for many years has been our main private sector counterpart on Swiss-U.S. business relations. Under your outstanding

guidance, AMCHAM has vigorously advocated the interests of the Swiss-American business community and of international business in Switzerland. The phenomenal growth of your organization from 280 members in 1969 to 2'380 corporate and individual Members today is perhaps the best indicator of both the trust and the success that AmCham has acquired under your leadership. On behalf of seco, let me also thank you for your always thoughtful contributions to the development of our policies towards the United States. We look forward to continuing this excellent co-operation with you and with your designated successor, Mr. Martin Naville. Let me take this opportunity to congratulate you warmly, Mr. Naville, for your nomination at the helm of the Swiss-American Chamber of Commerce.

Before I conclude, let me touch upon an issue that is close to my heart and that, in the past, has all too often raised difficulties: the generally unsatisfactory relationship between the bilateral chambers of commerce and OSEC.

Let me recall that our export promotion law is based on the principle of "subsidiarity". This means that state activities in the area of export promotion shall complement existing activities from the private sector. Clearly, the idea is not to displace or crowd out private initiative. I can assure you that we do greatly value the competence and the contributions which institutions such as yours make to our international economic performance !

First improvements of the situation have been achieved through the enhanced separation between the public and the private activities of OSEC, and a clear focus on its public tasks. Furthermore, the personal conditions for a fruitful cooperation are fulfilled : Both Daniel Küng, the new CEO of OSEC and Rolf Jeker, the new President of the Board of OSEC are familiar with the problems and expectations of all actors involved, including chambers, business hubs and, most importantly, small- and medium-size firms.

This is why I may now call upon the bilateral chambers of commerce to return to a constructive co-operation with the other actors in the area of export promotion. This is clearly the best way forward ! Switzerland is too small to split its export promotion efforts in order to satisfy the big challenges of a competing world economy.

To conclude, Switzerland stands at a cross-road. It is not the first time. But each time, the problems are more difficult to tackle. The path toward sustainable economic growth and improving living standards depends on higher productivity of the domestically-

oriented sectors. Long overdue hard decisions and rigorous implementation are required to free the competitive forces in our country. Working hard toward these objectives, we shall not forget some of Mr. Reagan's simple, straightforward and successful principles: the faith and the trust in the people, the optimism for the future and the willingness to succeed !

Thank you for your attention.