
SWITZERLAND'S FOREIGN ECONOMIC POLICY STRATEGY



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Foreword

The previous Swiss foreign economic policy strategy dates back to 2004. It was updated in 2009 and 2014 to include considerations on sustainability and global value chains. However, the far-reaching economic, geo-strategic, technological and socio-political changes that have occurred since call for a review and realignment of the strategy.

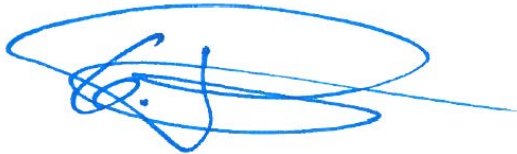


How has the world changed in recent years? I see the following developments as paramount:

- Global trade volume has doubled since the turn of the millennium, despite various economic crises. People have become increasingly mobile, and global migration, also for economic reasons, has increased by around a third. Technological developments – particularly digitalisation – are pervading the economy and society. Internet use has more than tripled worldwide since 2005.
- Globalisation is therefore advancing – but the picture is more mixed than it may seem. The global financial and economic crisis in 2008–09, the euro crisis in 2010–12, the challenges of climate change, and from 2020, the first global pandemic in almost a century, have caused widespread unease.
- Meanwhile, on the international stage, the balance of power is constantly shifting, with certain actors questioning the current world order. There is a trend towards the formation of regional blocs with differing governance, economic and value systems.

The Swiss economy has fared well in this sometimes-turbulent environment, with real gross domestic product growing by an average of 1.6% a year over the past ten years. Time and again, the Swiss economy has proven resilient, including during the coronavirus crisis. Our policy of economic openness and integration in international value chains has stood the test of time. We are also committed to the international community's ambitious Sustainable Development Goals, as set out under the 2030 Agenda.

The revised foreign economic policy strategy therefore does not propose any fundamental change in direction. Instead, it intends to help identify the upcoming economic challenges and highlight the associated opportunities and risks for Switzerland as a business location. Setting out strategic fields of action ensures that Switzerland's economic interests continue to be well asserted internationally.

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke extending to the right.

Guy Parmelin, President of the Swiss Confederation

Summary

Foreign trade is crucial to Switzerland, a medium-sized economy with few natural resources and a small domestic market. Switzerland's foreign economic policy seeks to maintain and increase the country's prosperity, in line with the Sustainable Development Goals. The focus is on qualitative economic growth, in other words increasing productivity through technological advancement and the effective use of production resources. In addition, the Swiss foreign economic policy pursues the strategic objectives of a broadly supported, rules-based international order, non-discriminatory access to international markets, and economic relations that contribute to sustainable development in Switzerland and abroad. Trade and globalisation induce and intensify structural change. Domestic policies with regard to the labour market, the social system, regional development and taxation play an important role in cushioning the costs involved in adapting to this structural change.

The current challenges that need to be addressed are the geopolitical changes in particular, as manifested by the rivalry between the United States and China, and the tendency towards regional bloc formation. Furthermore, the COVID-19 pandemic has reinforced existing protectionist tendencies and highlighted challenges to the resilience of global production and supply chains. Ultimately, the requirements of foreign economic policy are becoming more thematically diverse. Ongoing digitalisation brings new opportunities and regulatory approaches. Furthermore, Switzerland has committed itself to becoming carbon neutral by 2050 and sustainability concerns require horizontal consideration of environmental and social issues.

Thanks to a policy of international openness, Switzerland has been able to integrate in the global economy in recent decades and benefit from international value chains. This strategy builds on this success and highlights some central areas of action:

① Focusing on Switzerland's interests

To safeguard prosperity and employment, Switzerland aims for extensive, legally protected and non-discriminatory access to well-functioning international markets for its businesses – particularly SMEs. Foreign economic policy interests are defined with the early involvement of stakeholders and taking into account empirical analyses. Switzerland asserts these interests through multilateral, plurilateral and bilateral channels, also using economic and trade diplomacy. When warranted, unilateral approaches are followed.

To evaluate the economic, environmental and social implications of market access agreements, more targeted analyses will be conducted. To ensure effective, efficient, open and administratively simple application of economic agreements, the agreements are regularly reviewed regarding their intended implementation and optimisation potential. Switzerland generally refrains from anti-subsidy measures (such as countervailing and anti-dumping duties).

② Actively engaging in multilateral cooperation

To tackle global challenges, Switzerland pursues international, preferably multilateral, approaches. It is actively involved in the relevant forums and promotes international rules and standards, particularly in the multilateral context. To ensure that international regulations are applied as intended, Switzerland actively exercises its rights in dispute settlement procedures and is developing capacity and resources in this regard.

③ Opening up and regulating foreign trade

Switzerland advocates trade that is regulated and has a sound basis in law, while remaining as open and barrier-free as possible. It aims for a comprehensive reduction in import tariffs for industrial goods, technical regulations that are internationally coordinated, proportionate and fit for purpose, and improved market access for agricultural goods. It seeks non-discriminatory access to service markets, public procurement markets and investment. Finally, it strives for easy access to skilled workers and specialists and a high standard of protection for intellectual property.

④ Prioritising key partners

Switzerland continues to pursue regulatory convergence with its most important trading partner, the EU. Maintaining and developing the proven bilateral approach remain central. Switzerland continuously explores how to expand and deepen trading relations and cooperation with other key trading partners (such as the US, China and the UK). Switzerland strives for effective inclusion of developing countries and emerging markets in the global economy and the rules-based international system. It supports them in harnessing the opportunities of global integration.

⑤ Boosting resilience through diversification

To boost resilience, Switzerland creates well-suited framework conditions that allow economic actors to diversify, both geographically and in terms of suppliers and customers. Switzerland seeks opportunities for enhanced international cooperation in the supply of critical goods. It generally refrains from government-controlled repatriation of production processes. Integration in global markets reinforces interdependencies in the global financial and economic system. To contribute to the stability of this system, Switzerland promotes the resilience of developing countries and emerging markets.

⑥ Contributing to environmental and social sustainability

Through its foreign economic policy, Switzerland contributes to sustainable development both domestically and in partner countries. It supports effective application and development of globally recognised standards for protection of the environment, biodiversity, human rights and workers' rights. Switzerland also promotes the guidelines on responsible business conduct for companies based in or operating in Switzerland. Finally, it assists selected developing countries and emerging markets in meeting the Sustainable Development Goals.

7 Integrating the digital economy

As an important location for business and research, Switzerland advocates comprehensive international rules on digital trade and unhindered data flows. Working with various international organisations, Switzerland seeks long-term, broad-based solutions for the digital economy.

8 Increasing transparency and participation

Switzerland implements a transparent and accountable foreign economic policy that is responsive to the concerns of stakeholders. It systematically informs the public about its foreign economic policy activities and seeks ongoing dialogue with stakeholders.

9 Interacting with domestic policy

Switzerland carefully evaluates options, costs and opportunities of new national regulations and foreign trade proposals and assesses the national and international regulatory approaches of its key economic partners. Switzerland takes into account both domestic and foreign economic policy implications of regulations. The benefits to the economy as a whole always take priority.

Contents

STRATEGIC CONTEXT

Purpose of foreign economic policy strategy

- Importance of international trade to Switzerland → 13
- Objectives of the foreign economic policy strategy → 16
- Role of domestic policy → 17

Challenges in the foreign economic policy context

- World order in a state of flux → 19
- Protectionist tendencies and criticism of globalisation → 21
- The demands placed on foreign economic policy → 23

STRATEGIC AREAS OF ACTION

Principles of foreign economic policy

- ① Focusing on Switzerland's interests → 27
- ② Actively shaping multilateralism → 29
- ③ Opening up and regulating foreign trade → 31

Geographical priorities

- ④ Prioritising key partners → 33
- ⑤ Boosting resilience through diversification → 39

Thematic focus areas

- ⑥ Contributing to environmental and social sustainability → 41
- ⑦ Integrating the digital economy → 44

Participatory foreign economic policy

- ⑧ Increasing transparency and participation → 46
- ⑨ Interacting with domestic policy → 48

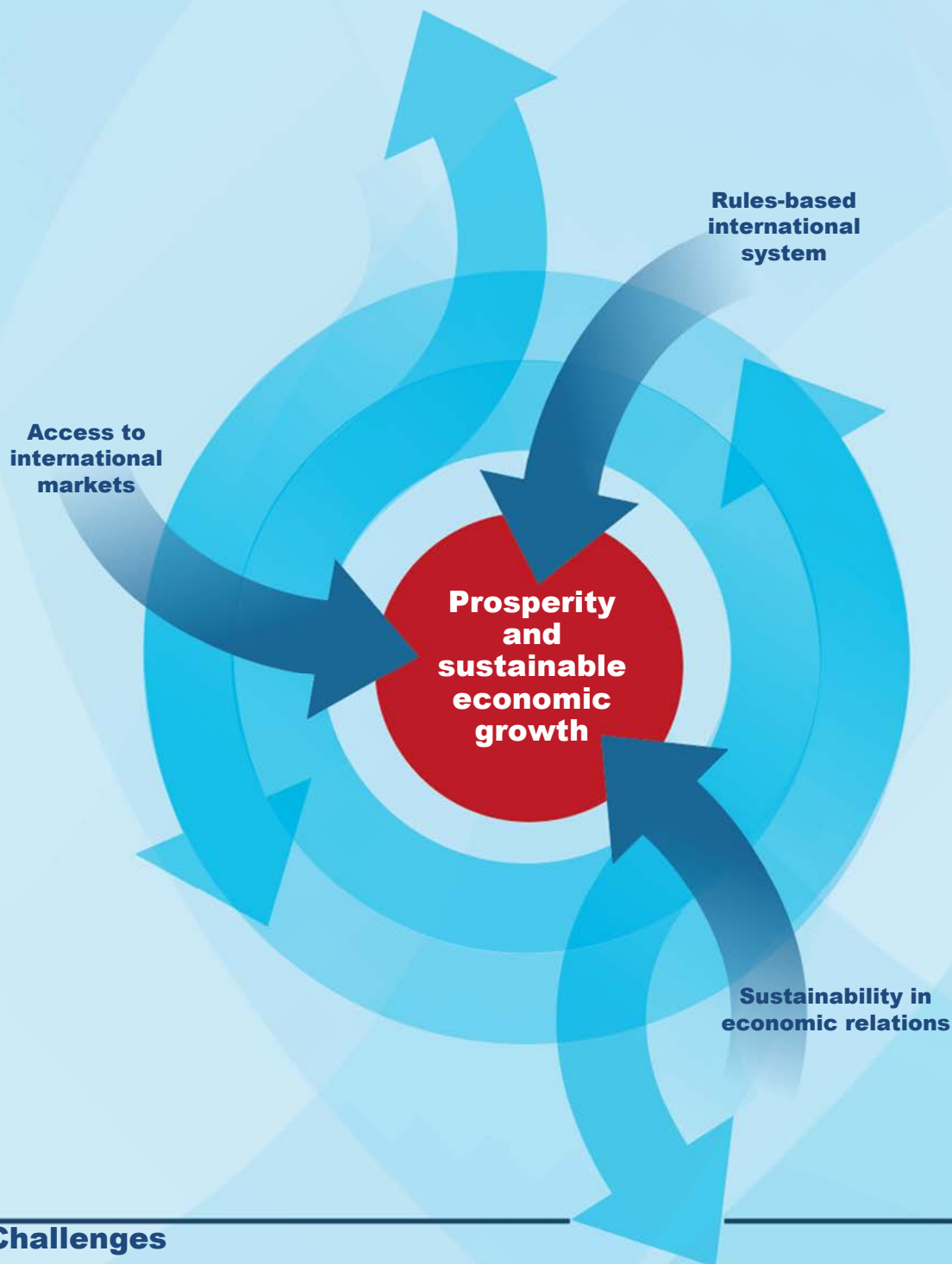
The foreign economic policy strategy of the Federal Council is an important compass providing mid- to long-term orientation. It sets out the main strategic thrust of Switzerland's foreign economic policy but refrains from defining quantitative objectives or concrete implementation measures.

The foreign economic policy strategy seeks to maintain and increase Switzerland's prosperity, in line with the Sustainable Development Goals. It is in line with Switzerland's international obligations and with other Federal Council strategies.

The strategy firstly highlights the importance of foreign economic policy to Switzerland and its objectives. It sets out how domestic policy interests influence foreign economic policy. Finally, it presents the challenges, opportunities and risks of the evolving international context.

The strategy revolves around the various areas of action, which are guided by the foreign economic policy challenges.

STRATEGIC CONTEXT



Purpose of foreign economic policy

The foreign economic policy strategy acts as a compass to guide Switzerland's foreign economic policy. By way of introduction, this section shows how cross-border economic activities contribute to the Swiss economy and the prosperity of the population. This can be used to derive the overarching objectives of the foreign economic policy strategy. Domestic policy also shapes the effects of foreign economic policy.

Importance of international trade to Switzerland

At CHF 85,000, Switzerland's per-capita GDP is among the highest in the world.¹ Access to international markets, participation in international value chains through specialisation, and the resulting innovative capability are crucial to this high level of prosperity. Switzerland is one of the countries that most benefits from globalisation.² Foreign markets play an essential role in the performance of an economy like Switzerland without any significant natural resources and with a limited domestic market.

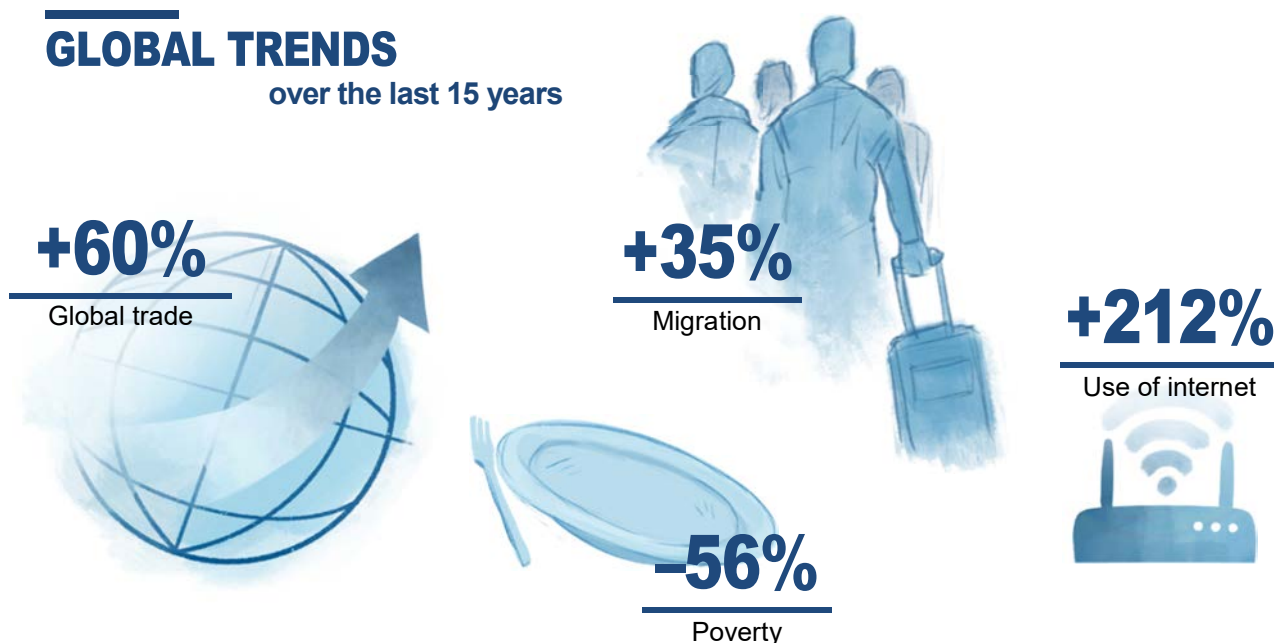
Globalisation and Switzerland's high level of prosperity

Open markets are vitally important to the export as well as import of goods and services. Export provides businesses with additional sales opportunities. The resulting specialisation contributes to increased productivity. On the import side, by purchasing intermediate inputs, businesses can focus on high-value activities. Fiercer competition from imports also promotes innovation.

Open markets allow value creation

GLOBAL TRENDS

over the last 15 years



Sources: see List of illustrations on p. 52. Global trade (goods and services) 2005-2019, poverty 2005-2017, migration 2005-2017, Use of internet 2005-2017.

Open markets mean businesses can focus on their strengths and – despite relatively high costs domestically – be internationally competitive. This in turn contributes to high-quality jobs and high wages in Switzerland. Open markets also allow consumers to access a more diverse range of products and take advantage of lower prices.

Open markets benefit consumers

Open markets are particularly crucial to small and medium-sized enterprises (SMEs), which make up 99% of Swiss businesses and employ two thirds of all workers.³ For smaller businesses that do not have subsidiaries abroad and only have limited resources, an open trade policy is particularly important.⁴ This is only possible thanks to lean processes and legal certainty with regard to market access.

SMEs need an open trade policy

Switzerland's high share of foreign trade reflects the importance of foreign economic affairs. The foreign trade of goods contributes 40% of Switzerland's total economic value added (GDP), with the foreign trade of services contributing over a third (see figure 'Key figures for Switzerland', p. 15).⁵ While services account for a quarter of Switzerland's total exports, that figure is around 60% if the value added included is taken into account.⁶ This share has significantly increased in recent decades, which is due to the trend towards the digitalised service economy.

Contribution of Swiss foreign trade

Measured in terms of capital stock, Switzerland is among the ten largest originators and recipients of foreign direct investment.⁷ These flows of capital provide businesses with access to new markets, as well as access to technologies and knowledge. They also benefit domestic economic activity. Foreign direct investment increases competition in Switzerland and requires local businesses to become more efficient.⁸

Contribution of foreign direct investment

Cross-border economic relations not only result in increased prosperity in Switzerland, but also abroad. Increased integration in global trade in recent decades has contributed to a significant decline in global poverty, with the share of people living in extreme poverty decreasing by 74% since 1990.⁹ Open economies generally record higher economic growth than domestic market-oriented economies.¹⁰ Domestic institutions play an important part in cushioning the impacts of structural change and taking into account the distribution effects.

Global benefit of trade liberalisation

The economic conditions in Switzerland need to be continually adapted to reflect new social, political, technological and economic developments. The challenges are manifested in various current and future trends. For example, the world economy has been in a low interest rate environment for more than a decade, which involves high indebtedness globally. This strategy explicitly addresses the challenges relevant to foreign trade.

Economic framework conditions are changing

KEY FIGURES FOR SWITZERLAND

CHF 84,803

GDP per capita

+ 1.6%

Annual GDP growth
2009–2019

119%

Share of foreign trade
(trade as a % of GDP)



1 in 3

...Swiss francs is
earned through
foreign trade

40%

Imports by
large companies

58%

Exports by
large companies

60%

Imports by
SMEs

42%

Exports by
SMEs

7 in 10

... employees work in
businesses operating in the
international trade of goods



Objectives of the foreign economic policy strategy

Foreign economic policy serves to maintain and increase the prosperity of Switzerland's population (Art. 2, Art. 54, Art. 94, Art. 101 Cst.), in keeping with the Sustainable Development Goals (Art. 73, Art. 104a Cst.). The focus lies on qualitative economic growth,¹¹ in other words increasing productivity through technological advancement and efficient allocation of production resources (labour, capital, raw materials) or through specialisation. Economic growth is therefore not dependent on increased use of limited production resources.

A focus on qualitative economic growth

Three strategic objectives are crucial to ensure that Switzerland's cross-border economic relations can contribute to prosperity as an overarching goal:

- 1) Switzerland seeks a broad-based, multilateral and reliable rules-based international system for cross-border economic relations, which is also to include developing countries and emerging markets. Such a system of international rules and obligations creates legal certainty, predictability and stability for the domestic and international activities of Swiss businesses. This makes Switzerland attractive to high value-added businesses, which contribute to prosperity and employment in Switzerland.
- 2) Switzerland seeks legally protected access to international markets that is as extensive as possible. Access should be non-discriminatory so that businesses in Switzerland are not at a disadvantage compared with their most important foreign competitors. Access should also be mutual: for businesses in Switzerland, foreign markets are important in terms of both selling exports and procuring production inputs or capital. Swiss businesses therefore compete globally, which in turn contributes to innovation and enhanced productivity. Consumers ultimately benefit from product diversity and cheaper prices.
- 3) Switzerland advocates cross-border economic relations that contribute to sustainable development at home and abroad. It is committed to the creation of a framework that corrects market failure, such as negative externalities¹² of economic activity.

Rules-based international system

Mutual access to international markets

Sustainability in economic relations

The Swiss government defines the framework conditions facilitating the achievement of the strategic goals. As competitive businesses are drivers of economic development and underpin high incomes and attractive jobs both nationally and internationally, the focus is on maintaining and increasing competitiveness. Competitive and high value-added companies contribute in particular to the funding of state activities and the social welfare system. Cross-border economic relations therefore benefit the whole economy and play a part in Switzerland's high quality of life.

Competitive businesses provide income and jobs

It is not only Switzerland's foreign economic policy that makes a substantial contribution to the country's prosperity. Also important are education, research and innovation, foreign policy, security policy, social policy, environmental policy, financial market policy and the creation of favourable framework conditions through economic policy. The strategies on these policy areas fall outside the scope of this foreign economic policy strategy. The same applies to the monetary policy of the independent Swiss National Bank.

Complementary strategies and policies

Role of domestic policy

In a globalised world, effectively safeguarding Switzerland's interests requires the country to play an active part in shaping international frameworks, including through participation in relevant negotiations. International obligations in foreign economic policy are sometimes perceived in domestic policy terms as a loss of state sovereignty. But the approach of sharing sovereignty to achieve common overarching goals is also a basic principle of Switzerland's federal state. Sovereignty also means having the freedom to tackle challenges where they can best be met. Furthermore, accepting the resulting obligations under international law to secure prosperity is a sovereign act in that it is legitimised in functioning democracies through the legislator. The approval processes with regard to international law in principle mirror those for domestic law.

Sovereignty in foreign economic policy

Foreign economic policy and domestic policy influence each other. Domestic policy interests can influence international relations if, for example, they lead to new trade barriers or impose additional regulations to guarantee consumer safety. Conversely, discussions within the scope of multilateral or international institutions can also provide impetus for domestic policy changes. Some examples are international agreements on climate protection or provisions under international law on prohibiting trade-distorting agricultural subsidies. Foreign economic policy developments are increasingly affecting legislation at home (e.g. product regulations). Sometimes foreign economic policy finds itself caught between the conflicting priorities of economic openness for prosperity on the one hand and domestic policy interests on the other.

Conflicting priorities with domestic policy

For example, in the area of agricultural policy, Switzerland is seeking ways to resist international pressure to open up the Swiss market. The aim is to ensure sustainable development in the agriculture and food sectors (Art. 104a Cst.) and prevent excessive pressure on agricultural production and prices. But for Switzerland's internationally well-integrated economy, border protection and financial support (e.g. subsidies) are a growing challenge with regard to developing its trade relations and the international rules-based order.

Swiss agricultural policy as a challenge

Many national regulations are reliant on international cooperation to be effective and to guarantee smooth economic exchange. These include technical regulations, standards, recognition of qualifications and requirements regarding data storage, and workforce mobility. A reduction in trade costs or an elimination of regulatory barriers to trade may then require domestic legislation or international cooperation to be adapted, e.g. through a harmonisation of legal provisions. The recognition of equivalent or appropriate regulations is currently used in isolated cases but is likely to become more important in future.

Domestic regulations have an impact across national borders

Technological progress is facilitated by trade and globalisation and can thus reinforce structural change.¹³ This can occur over several years and sometimes involve high adjustment costs for industries, businesses and employees. Domestic policy offers the greatest scope to help those affected adapt to structural change. Besides economic policy, this includes education policy, labour market policy and social policy. As Switzerland has very good framework conditions in this area, structural change does not result in economic and social distortions that are comparable with other OECD countries.¹⁴

Trade can reinforce structural change

The ability to adapt to structural change and its political acceptance through the cushioning of adjustment costs remain a central requirement of a successful open economy. In Switzerland, several policy areas are important to mitigate the adverse effects of structural change.

Cushioning the impact of structural change in Switzerland

- A high-quality and internationally competitive education system that is geared towards both the current and future needs of the labour market.
- A flexible labour market to ensure that companies can adapt to structural change and invest in the creation and safeguarding of jobs.
- A well-functioning social partnership, adequate compensation for loss of earnings for the unemployed, as well as supporting measures so that unemployed people can be quickly reintegrated into the labour market.
- To prevent excessive wage pressure through immigration, supplementary measures to protect workers through labour market supervision and the accompanying measures to the free movement of persons with the EU.
- In addition, the New Regional Policy (NRP) and the New System of Fiscal Equalisation (NFE) help cushion the effect of structural change by levelling up regional differences in Switzerland.
- Finally, tax and transfer policy ensures that income distribution meets socially accepted ideas.

Challenges in the foreign economic policy context

The international environment provides the framework for Switzerland's foreign economic policy. The following section sets out the key trends that are crucial to the positioning of Switzerland and orientation of the strategy: a world order in a state of flux, protectionist tendencies and an increasing criticism of globalisation, as well as sustainability and digitalisation.

World order in a state of flux

On the international stage, a number of large emerging markets and forums such as the G20 have gained importance, contributed to geopolitical shifts, and called into question the established world order. While distant markets continue to be opened up, we can observe a regionalisation of international value chains.¹⁵ Regional hubs are increasingly emerging in Europe, Asia and America (see figure 'Trade flows and centres, p.21).

Geopolitical shifts

The West is increasingly competing with the systems of alternative economic orders. While western economies tend to be more heavily geared towards the model of a liberal, open and social market economy, in keeping with western values, they are increasingly facing more state-controlled economic systems, sometimes coupled with authoritarian tendencies.

Increasing competition between systems

The influential economic actors, namely China, the EU and the United States, represent different government, economic and value systems. They are shaping international debate with their beliefs and seeking broad implementation of their regulatory approaches. Amid this strategic rivalry for geopolitical, economic and technological influence, other countries will have to take a position. In many areas there is therefore a tendency towards regional bloc formation. Switzerland too will have to weigh up its economic interests against its security and foreign policy principles and position itself accordingly.

Regional bloc formation

Multilateralism has faced challenges for some time. This is shown in particular by the developments in the World Trade Organization (WTO), where parties failed to reach an agreement at the Doha round. Despite their economic growth, the major emerging markets – led in particular by China, India and South Africa – continue to insist on special rules for all developing countries and resist uniform regulations. However, the United States' occasional loss of interest in the WTO has fuelled political appetite in many countries to reform the WTO rules. With a focus on agricultural and state subsidies, talks will however remain very difficult due to conflicting interests. Substantial progress can therefore be expected mainly in plurilateral forums, i.e. with only some WTO members.

Challenges in multilateralism

Since the change of administration in 2021, the United States appears keen to re-assume its leading role in international organisations and the multilateral trading system. However, social inequality at home and the increasing criticism of globalisation remain key challenges. Trade policy is positioned as a tool to strengthen the middle class. Meanwhile, environmental concerns and transatlantic cooperation with the EU are back at the top of the agenda. But this does not change anything in the medium term with regard to the priorities of reshoring, i.e. the targeted shifting of production processes back to the United States, and the confrontation with China. The increasing integration of foreign economic policy and security policy is likely to continue.

Developments in the United States

China is increasingly asserting its leadership aspirations at regional and global level through technological progress and political projects such as the Belt and Road initiative. In its 14th five-year plan for 2021–25, as part of its Made in China 2025 and China 2030 strategies, it seeks to strengthen the domestic market and home-grown innovation in the field of high tech. Its aim is to reduce dependence on foreign markets. At the same time, China is gradually opening up its markets and advocating this in multilateral forums, whereas in its 'strategic emerging industries', it is to some extent turning inwards. China has also declared that it aims to become carbon neutral by 2060.

Developments in China

The EU is keen to further develop single market integration in a targeted way in the coming years, for example as part of its digital strategy, the European industrial strategy and the capital markets union action plan. With the European Green Deal, including the Carbon Border Adjustment Mechanism, it is aiming to reach net zero emissions by 2050 and to build a more resource-efficient and competitive economy. On the whole, the EU increasingly wants to be a pioneer in establishing its regulatory approaches as international standards. One example is the General Data Protection Regulation (GDPR), whose rules are also applied extraterritorially, especially in cases involving personal data from the EU.

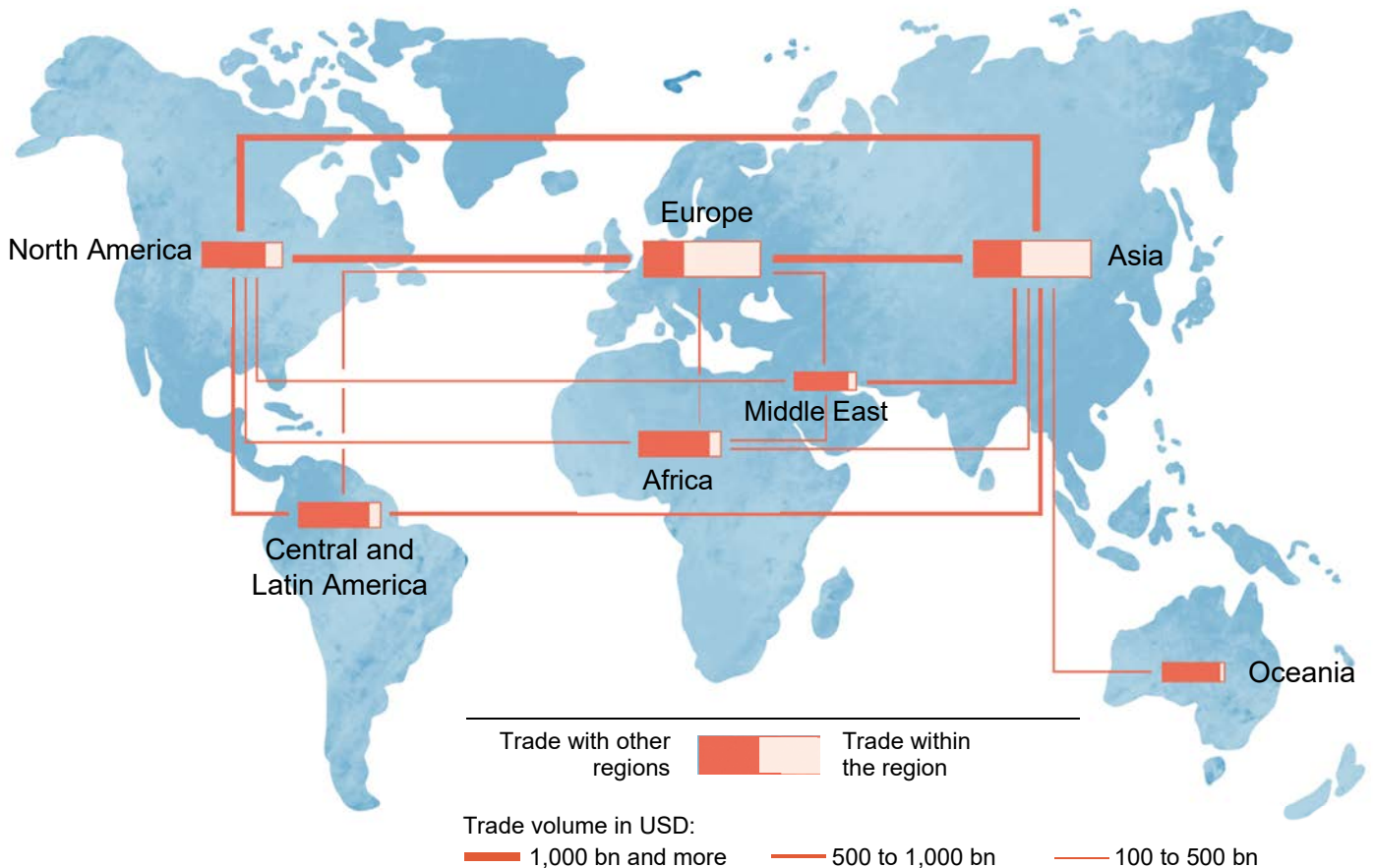
Developments in the EU and Brexit

As a counterpart to continued internal integration, industrial policy and protectionist tendencies are emerging, such as investment control and the repatriation of value chains as part of what is known as the Open Strategic Autonomy. The EU's new trade strategy reflects the trends towards increased protection of economic interests. As a result of Brexit, the UK is now a key new economic partner in close proximity to Switzerland outside of the EU.

The EU, Japan, the USA and to some extent China have signed many modern free trade agreements with third countries in recent years. In addition, regional trade agreements have emerged (e.g. AfCFTA, CPTPP, RCEP) which are geopolitically significant. The new agreements in Asia in particular reflect the trends of shifting global trade centres and advancing regionalisation of value chains.

New agreements and regional trading centres

TRADE FLOWS AND CENTRES



Sources: see List of illustrations on p. 52. Trade of goods. Data for 2019.

Protectionist tendencies and criticism of globalisation

Protectionist tendencies have grown in recent years.¹⁶ On the one hand, international trade is increasingly seen from a mercantile perspective, where the highest possible level of exports is sought (compared with imports) and trade relations are understood as a zero-sum game. On the other, this development is bolstered by the rivalry between the United States and China. On the whole, trade barriers as a political lever have become more important. These are far-reaching developments for Switzerland as an internationally-integrated economy.

Increase in protectionist tendencies

Growing integration in world trade has contributed to a significant decline in global poverty in recent years.¹⁷ Worldwide income is now distributed more fairly between countries and a new global middle class has emerged. At the same time, domestic income inequality (after state transfers) has considerably increased in many countries.¹⁸ Various factors have contributed to this. International trade is sometimes seen as mainly benefitting large companies and privileged population groups rather than poorer demographic groups, the middle class and SMEs. But this view places less emphasis on macroeconomic effects, highlighting instead regional or sectoral distribution effects. In Switzerland, income inequality has fallen slightly in the last 10 years and is now below the OECD average.¹⁹

Decrease in poverty amid growing domestic income inequality

Structural change and growing domestic inequality in many countries, the resulting domestic policy tensions, and global threats – such as global health risks, climate change and biodiversity loss – are also changing the political perception of globalisation. The criticism levelled against globalisation ranges from calls for enhanced social and environmental standards to a fundamental rejection of trade and multilateral economic cooperation. The financial and economic crisis fuelled this trend, which started in the 1990s. Globalisation and current trading rules are perceived as the cause of a downward spiral in terms of environmental, social and labour standards. It is important to emphasise that economic prosperity and environmental and social policy are mutually dependent.

Growing scepticism
towards globalisation

The COVID-19 pandemic has led to record slumps in economic performance across the world and has compounded regional, social and economic challenges in a number of states. The debt burden has risen significantly in many countries due to the economic mitigation measures put in place. The pandemic has illustrated the global interconnectedness of value chains and reinforced protectionist tendencies. There were interruptions at production sites and in transport and logistics services. As the economy starts to recover from this slump, supply shortages and price increases can be observed again, particularly but not only in intermediate goods. This is due to a lack of capacity, whether because of pent-up demand, structural challenges (e.g. the shortage of microchips) or rising transport costs. This has also sparked a debate about national security of supply in Switzerland.

Pandemic-driven
challenges for global
supply chains

Switzerland's geographically diversified economic relations largely mitigated the supply bottlenecks during the COVID-19 crisis. The shortages for European suppliers only came to a head after the situation in Asia had normalised. Despite the at times tense supply situation for medical personal protective equipment (PPE) and pharmaceutical products, Switzerland's value and logistic chains proved relatively resilient on the whole. In addition, Switzerland's good diplomatic network, its established trade relations, and the federal government's existing export promotion programme helped ease the situation.

Prevention of lasting
shortages in Switzerland
during the COVID-19
pandemic

Despite increased trade barriers, trade was also facilitated during the pandemic, particularly for medical goods and digital commerce.²⁰ However, in many places the discussion about security of supply resulted in industrial policy initiatives. Industrial policy is the targeted and selective preference granted by the state to individual businesses, sectors and/or fields of technology. It is expected that the experience of the coronavirus crisis will reinforce such industrial policy tendencies.

An increase in industrial
policy tendencies

The demands placed on foreign economic policy

Under the Federal Constitution, Switzerland's foreign economic policy seeks to safeguard the interests of the Swiss economy. The relevant areas are constantly growing, such as the intended contribution to sustainable development, as well as the triple crisis of climate change, biodiversity loss and environmental pollution. Technological advancement and the growing importance of cross-border data transmission are also resulting in new areas of action. Foreign economic policy is becoming more thematically diverse.

Increased thematic diversity

The importance of sustainable economic development is reflected in the United Nations 2030 Agenda and in multilateral agreements, such as the Paris Agreement. The core of the 2030 Agenda are the 17 Sustainable Development Goals, which take account of the economic, social and environmental dimensions of sustainable development. Besides considering the impact on natural resources (climate, air, waterways, biodiversity), the aspects that are relevant to trade also include compliance with the International Labour Organization's core labour standards, particularly local employment conditions. Switzerland has also committed to reach net zero emissions and to be climate neutral by 2050, and the federal government's long-term climate strategy is geared towards achieving this goal.²¹

Focus on sustainable economic development

As an open economy that is lacking in raw materials, Switzerland imports significantly more carbon emissions than it produces domestically. From the perspective of end consumption, some three quarters of Switzerland's total carbon footprint is therefore created abroad.²² Certainly, production and consumption in Switzerland are reliant on the import of comparatively environmentally-intensive goods (e.g. raw materials). Meanwhile, technological specialisation, the strong service sector and Switzerland's energy mix result in comparatively clean exports. We cannot conclude from the relatively high consumption-based emissions that foreign trade is damaging *per se*. Even the academic literature only finds mixed evidence to support the 'pollution haven hypothesis' which states that trade causes carbon footprints to be shifted to developing countries with lower regulatory standards.²³ In fact, it has been shown that sustainability provisions in free trade agreements can successfully counter this effect.²⁴

Trade and carbon footprint

Digitalisation is permeating the economy and society and results in both opportunities and challenges for foreign economic policy. According to the WTO, trade costs fell by 15% between 1996 and 2014. This is due to both lower transport costs and new information and communication technologies, which make geographical distances less cost-relevant and make it easier to tap distant markets. The WTO estimates that the expected continued fall in these transaction costs will increase global trade growth by two percentage points a year (until 2030).²⁵

Digitalisation lowers trading costs

Technological developments also have certain disruptive potential, bringing new working models, platforms, production processes, scalabilities and consolidation tendencies. This changes both the structure of trade flows and the nature of cross-border economic relations. Technological developments give rise to new ways of providing services (e.g. remote maintenance of systems) and new types of services (e.g. customised online advertising, cloud computing). On top of that, many business models increasingly also include service components (e.g. maintenance services). Intangible assets, such as software, licences and patents, are becoming more important. It can be expected that services trade will further increase and that the coronavirus pandemic will further enhance the use of digital opportunities.²⁶

Changes driven by technological developments

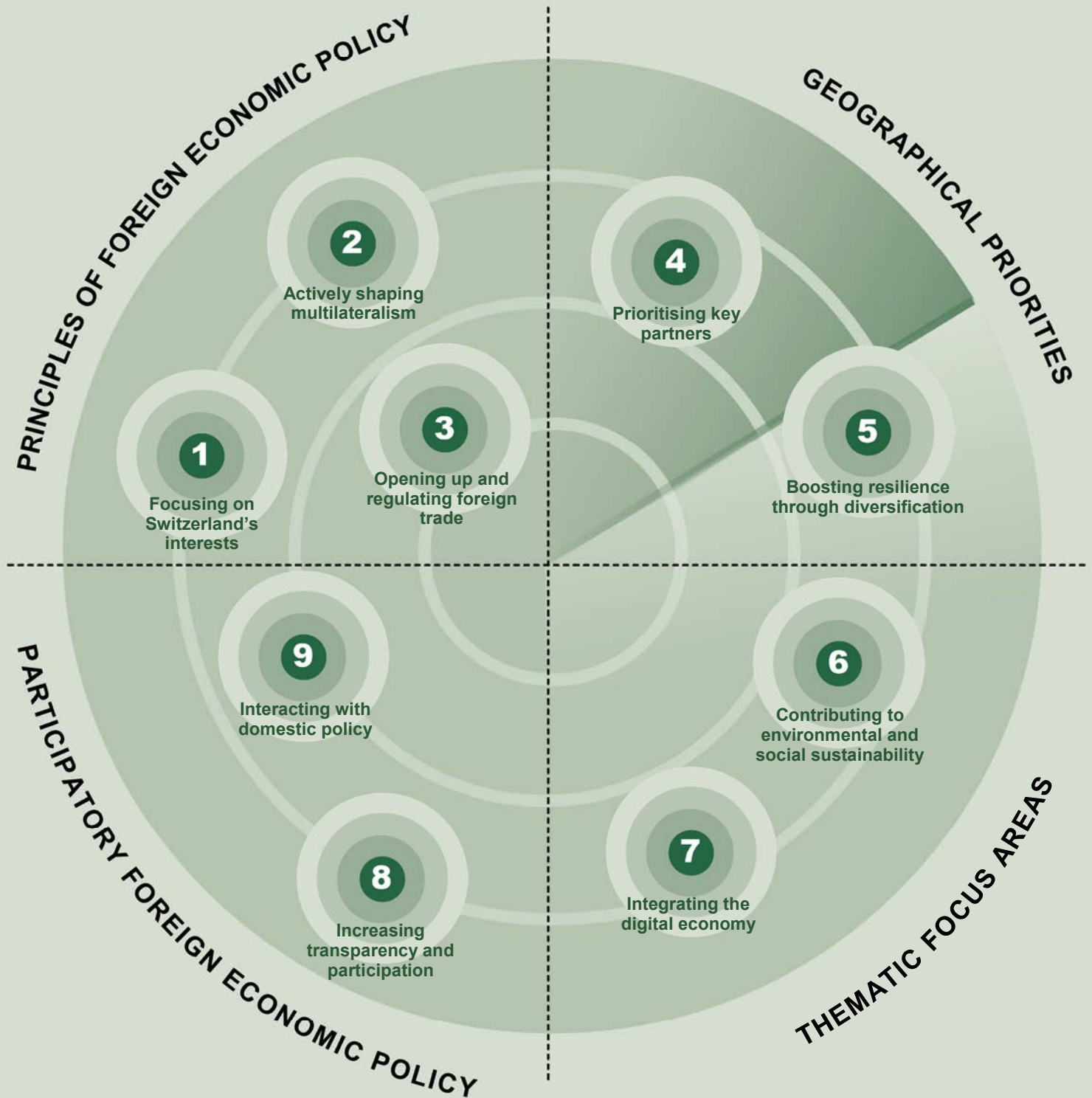
Guaranteeing a suitable regulatory framework for the digital economy is crucial, both for the attractiveness of Switzerland as a location and to ensure that cross-border economic relations are as smooth as possible. This includes protection of intellectual property, data privacy and cyber security. Switzerland faces different regulatory approaches, which are mainly shaped by the United States, the EU and China. This increasingly raises the question for Switzerland of how to deal with the regulatory differences between key trading partners.

Different approaches to regulation in the digital space

The larger actors, such as China, the EU and the United States, are trying to establish their regulatory approaches as international standards. Some examples include the European GDPR and the American Cloud Act, which governs access to the data of American firms by US law enforcement authorities. These actors seek extraterritorial application of rules, focusing in particular on the origin of the data concerned and the head office of the company processing the data. Owing to integrated value chains, Switzerland faces certain limitations in terms of shaping the general framework for the digital economy.


Limited scope due to extraterritorial application

STRATEGIC AREAS OF ACTION



Principles of foreign economic policy

A goal-orientated foreign economic policy must pursue Switzerland's interests. Multilateralism as the gold standard for medium-sized open economies should be actively promoted, and free trade should be organised in an open and regulated manner.



Focusing on Switzerland's interests

Switzerland defines its foreign economic policy interests on the basis of early involvement of stakeholders and empirical analyses. It utilises multilateral, plurilateral and bilateral instruments, as well as thematic alliances.

Switzerland defines its foreign economic policy interests for upcoming international negotiations according to a defined and systematic process. This is done with the early involvement of stakeholders and federal offices. In this way, Switzerland's foreign economic policy safeguards the interests of Switzerland abroad (Art. 101 Cst.). Empirical evidence is included in the process of formulating and implementing interests.

Targeted definition of interests

Switzerland pursues its interests using a broad range of international economic law instruments. These include multilateral agreements and free trade agreements, investment protection agreements, double taxation agreements and MFN-based plurilateral agreements (with other WTO members). Bilateral exchanges with economic partners are supported by economic diplomacy instruments.

Broad range of foreign economic policy instruments

Switzerland's trade diplomacy uses various instruments to expand and deepen bilateral trade and economic relations. These include supporting businesses locally via the embassies and Swiss Business Hubs, whether through consular assistance or the provision of information, advice and contacts. Other instruments are organising and running official visits and economic missions. Economic policy consultations or mixed economic commissions are important vessels for exchange and discussion with strategically important trade and economic partners.

Instruments of economic and trade diplomacy

Switzerland seeks thematic alliances with like-minded countries that have similar interests. For example, Switzerland negotiates the majority of its economic agreements within the framework of EFTA, together with Iceland, Liechtenstein and Norway. In addition, Switzerland joined forces with 46 WTO members to safeguard the WTO-based global trading system as 'friends of the system'.

Thematic alliances

Another example is the participation in the Agreement on Climate Change, Trade and Sustainability (ACCTS) together with Costa Rica, Fiji, Iceland, New Zealand and Norway, where trading rules supplement other climate and environmental measures to create a favourable environment for efficient climate policy. The Small Advanced Economies Initiative (SAEI) brings together seven small, advanced and open economies: Denmark, Finland, Iceland, Israel, New Zealand, Singapore and Switzerland, and functions as an informal platform.

Assessing the impact of cross-border economic relations is a challenge due to complex interrelationships and methodological limitations. Switzerland intends to conduct targeted scientific assessments ahead of important economic agreements (*ex-ante* assessments), which are taken into account in negotiations. This involves recording the most significant economic, environmental and social effects in both quantitative and qualitative terms. The focus is on the potential exchange of goods, services, workforces, capital (investment) and data. *Ex-post* assessments can be carried out in selected cases after the required implementation period of the agreement and when sufficient data is available. These assessments strengthen exchange and collaboration with the academic community on relevant aspects of trade policy.

Ex ante and ex post assessments of instruments

Economic agreements should be as efficient, open and administratively simple to implement as possible. In this sense, Switzerland seeks both new agreements and the extension or modernisation of existing ones. Analyses need to be conducted regularly regarding to what extent trade barriers can be eliminated and how the use of agreements can be made easier. In the event of specific disputes, Switzerland considers deploying legal and other means of dispute settlement, provided they are set out in the relevant agreement.

Efficient implementation of economic agreements

Larger countries in particular are increasingly resorting to compensatory measures to sanction other countries for breaching agreements under international law. These include, for example, imposing tariffs to offset subsidies or goods exports that are below the respective domestic price (dumping). It is not uncommon for such measures to be motivated by protectionist aims. As a highly integrated economy, Switzerland is generally not interested in resorting to trade defence measures. Such measures usually raise prices of the products in question and disadvantage importers and consumers. In addition, introducing trade defence measures in a legally compliant manner requires complex and time-consuming preliminary investigations. Finally, trading partners may resort to countermeasures, which does not help resolve the problem. Switzerland has therefore not used such instruments in relation to economic agreements and wants to refrain from doing so in future.

Refraining from trade defence measures

Switzerland considers the environmental and social impact when shaping economic relations. A careful balance needs to be struck between free trade and the wish for effective sustainability standards (see also action area 6). On the one hand, international economic activity can make a positive contribution to economic development in the medium and long term. With suitable accompanying measures, it can leverage the transfer of new technologies and new knowledge. On the other, in less developed countries in particular, concerns about full sustainability cannot always be effectively translated into action due to institutional weaknesses, where the

Contribution to sustainable development

challenges include corruption and inadequate law enforcement. By providing technical support, Switzerland's economic cooperation can help build institutional capacity and promote effective and reliable economic policy. In this way, Switzerland improves the resilience of developing countries and emerging markets, so that they are better able to utilise the opportunities of global integration.

2

Actively shaping multilateralism

Switzerland seeks multilateral solutions to global challenges and plays an active part in promoting and enforcing international rules and standards.

As a country that does not belong to a regional economic bloc, Switzerland is reliant on international cooperation and the resulting legal certainty. Global challenges should primarily be tackled through international approaches, with the priority on the multilateral approach. Through representation in numerous international organisations and alliances, such as the WTO, the Bretton Woods Institutions, the ILO, the OECD and the UN, Switzerland can play an active part. It also encourages Swiss representation in important bodies, such as the G20, and contributes to international agreements. Switzerland calls on international organisations to cooperate closely. At the same time, it is aware of the current challenges affecting progress in negotiations in multilateral forums and particularly within the WTO.

Prioritising multilateral solutions

The rules-based multilateral trading system creates legal certainty for international economic activities and establishes an indispensable basis for prosperity. Switzerland seeks to strengthen the WTO and its multilateral and plurilateral systems of rules (particularly GATT, GATS, TRIPS, GPA and ITA). It works with like-minded members on issues of WTO reform, for example as a member of the Ottawa group.²⁷ In addition, it contributes to various discussions and committees relevant to trade. Switzerland also advocates a WTO dispute settlement mechanism that is fit for purpose. For example, with other member states it has agreed a plurilateral agreement for an interim solution to the blocked WTO dispute settlement Appellate Body.

WTO and its crucial system of rules

In international organisations and alliances, Switzerland plays an active role in shaping international rules for offensive and defensive interests. It initiates and participates in the corresponding work and processes so as not to be a rule-taker and have to accept pre-negotiated solutions. It wants to be a rule shaper and to have a seat at the table and influence the rule-making process.

Switzerland as a rule shaper

Switzerland promotes international rules and standards where they correlate with its overall interests. It supports transparent and non-discriminatory international rules that encourage competition and help deliver on the Sustainable Development Goals.

... in the promotion of international rules and standards ...

Promoting international rules and standards also involves soft law-making. Soft law refers to instruments that are not legally binding but prescribe certain behaviour. While hard law solutions can be difficult to achieve, soft law allows for consensus-based further development of the international order and swift response to emerging global challenges. Soft law can provide scope for action but it can also pose challenges in terms of democratic legitimacy and in some cases concerning unequal input of all states in soft law-making. The Federal Council committed in 2019 to involve Parliament more closely and at an earlier stage in soft law projects.²⁸

... and in soft law-making

Switzerland promotes the use of its trade policy instruments and the systematic application of the international system of rules. In particular this includes enforcing its rights in dispute settlement procedures, whether in multilateral or bilateral contexts. The federal government is developing capacity in this regard and providing the necessary resources.

Strengthening enforcement of requirements under international law

Switzerland implements all collective sanctions passed by the UN Security Council and decides on a case-by-case basis after weighing up the various interests whether to adhere to the sanctions of its most important trading partners (in practice the EU). In so doing, it is careful to preserve its international scope for action as far as possible. Avoiding negative humanitarian implications of sanctions is a key concern for Switzerland, which is why it advocates smart sanctions.

Sanctions framework

As part of its *International Cooperation Strategy*, Switzerland advocates effective integration of developing countries and emerging markets in the market-oriented global economy and the international rules-based system.²⁹ Switzerland has an influence on the governance of a number of multilateral development banks as a shareholder and member of the board. It supports the integration of partner countries in global value chains, improvements to the rule of law and public services, enhanced competitiveness and economic resilience, and financial support for local SMEs through the Swiss Investment Fund for Emerging Markets (SIFEM). In this way it contributes to market development and the creation of local employment opportunities in line with international standards.

Integration of developing countries and emerging markets

3

Opening up and regulating foreign trade

Switzerland advocates open, barrier-free and regulated trade. It aims to achieve a balanced outcome to negotiations with regard to interests and concessions.

Switzerland is committed to a cross-border exchange of goods, services, investments and data that is regulated and has a sound basis in law, while remaining as open and straightforward, i.e. barrier-free, as possible. It seeks to gain extensive access to the markets of its economic partners on terms at least equivalent to those enjoyed by key countries. When entering into agreements, Switzerland strives to negotiate market access provisions that go beyond those contained in the WTO's body of rules. However, the provisions for placing goods and services on the Swiss market should not be changed in any way that could bring them into conflict with Switzerland's current legal framework.

Regulated free trade ...

Agreements can often cover a very large number of subjects. Therefore, the potential of each individual agreement and its ability to reconcile the mutual interests of the economic partners must be assessed. To ensure reciprocity, the objective is to achieve a balanced outcome to negotiations with regard to mutual interests and concessions. This could mean combining various related areas of trade (e.g. investment protection agreement and traditional free trade agreement) or it could also take the form of a separate sectoral agreement (e.g. with a focus on digital trade or services).

... and balanced negotiation outcomes ...

Switzerland's aims when entering into economic partnership agreements are to abolish reciprocal import duties on as many industrial goods as possible and improve market access for agricultural products in a way that is compatible with its agricultural policy. Switzerland primarily trades in products with a high degree of specialisation and occupies third place in an international ranking based on the complexity of a country's imports and exports.³⁰

... for the trade in goods and customs duties...

Other matters dealt with in agreements include rules of origin³¹ and trade facilitation measures. Technical barriers to trade and the mutual recognition of conformity assessments also have to be addressed. These technical barriers to trade are becoming increasingly important, especially where developing countries with relatively low customs duties are concerned.³² Certain technical barriers to trade result from technical requirements that serve a greater public interest, including boosting sustainability at the social or environmental level. Switzerland favours technical provisions that are internationally agreed and proportionate, and which do not constitute a means of arbitrary discrimination or a disguised restriction on trade.

... regarding non-tariff barriers to the trade in goods

Switzerland advocates the non-proliferation of weapons of mass destruction and the responsible trading of conventional weapons and dual-use goods. It does so as a party to international conventions (e.g. ATT, BWC, CWC, NPT) and international export control regimes (AG, MTCR, NSG, WA). Switzerland plays an active role in drawing up relevant guidelines and lists of goods.

Export control policy for the trade in goods

Switzerland scores higher than the OECD average in terms of openness in 3 out of 21 service sectors (without taking bilateral agreements into consideration).³³ Bilateral agreements serve as a means of improving access to foreign markets for Swiss service providers and of preventing them from being placed at a disadvantage in comparison with providers from other countries. In addition, they help ensure access to skilled workers and specialists, particularly from non-EU/EFTA states. Given the imminent shortage of skilled workers in certain sectors, this aspect is becoming increasingly important. Coherence with Switzerland's migration policy³⁴ must be ensured in this context.

... for the trade in services and its regulation

When it comes to foreign direct investment, Switzerland's main concern is to ensure that Swiss investors can access the relevant markets on terms at least equivalent to those enjoyed by key countries. It enters into investment protection agreements to guarantee these investments protection under international law. Its network of more than 110 bilateral investment promotion and protection agreements also helps enhance Switzerland's attractiveness as a business location.

... for foreign direct investment and its protection...

In recent years, many different countries have introduced reporting and authorisation requirements for foreign investment projects by means of 'investment controls'. These restrictions apply, above all, in sectors that are considered sensitive, and they serve mainly to protect national security. Switzerland, too, is considering introducing investment controls, but in such a way as to maintain Switzerland's openness to foreign investment and its attractiveness as an investment location.

... and reporting and authorisation requirements for foreign investment projects

Switzerland is committed to global standards and rules that contribute to sustainable development (see action area 6).

... for sustainable standards and rules

Switzerland advocates a free flow of data around the globe and works to establish uniform rules and standards. The growing importance of data and digital business processes affects various areas of regulation (see action area 7).

... for digital commerce

As an innovative national economy which files an above-average number of patent applications per head of population, the protection of intellectual property plays an important role for Switzerland. It is therefore committed to transparent and predictable rules. These include international treaties for the protection of patents, brands, designs, geographical indications and copyrights, plus bilateral agreements on geographical indications and designations of origin. In addition to general principles, these agreements also cover individual sectors. Switzerland thus endeavours to include matters that have not yet been fully addressed by the multilateral rules in such agreements. At the same time, it provides its partner countries with technical support. The objective here is to improve their understanding of the relationship between intellectual property and innovation.

... for intellectual property

Lastly, reciprocal access to procurement markets is in the interest of the Swiss economy. This is partly due to the fact that Switzerland has a relatively small market for public procurement (around CHF 40 billion in 2020).³⁵ Facilitating reciprocal access to public procurement markets thus creates new opportunities for Swiss-based companies and paves the way for effective competition.

... and for public procurement markets and access to them

Geographical priorities

As a national economy that has become strongly integrated in the global economy, gaining access to geographically diversified markets is beneficial to Switzerland and strengthens its resilience to crises. At the same time, Switzerland focuses on its primary economic partners, while maintaining an independent position in the changing geopolitical environment.

4

Prioritising key partners

Switzerland continues to pursue the proven bilateral approach with the EU. It constantly seeks opportunities for strengthening economic relations with other key trading partners and advocates the effective inclusion of developing countries and emerging markets in the global economy.

Switzerland's main trading partners are its European partners, the USA and China as well as other countries with which it has concluded a free trade agreement (see figure 'Switzerland's trading partners', p. 35).

Switzerland's cross-border trade

European Union (EU)

Enjoying largely unrestricted access to the EU internal market and cooperating with the EU in selected areas of interest while retaining as much political independence as possible is of great importance to Switzerland.³⁶ Its access to the EU internal market is based on a large number of bilateral agreements covering a wide variety of areas. These deal with matters far beyond the access customarily guaranteed by normal free trade agreements³⁷ and include the Agreement on the Free Movement of Persons, which enables Swiss nationals to move freely within the EU and vice versa, thus governing the provision of services between the two territories and facilitating access to human resources. On 26 May 2021, the Federal Council decided to bring the seven years of negotiations on the draft institutional agreement (InstA) to a close, stating that the agreement failed to adequately address some of Switzerland's vital interests. Nevertheless, Switzerland reaffirmed its commitment to the continued pursuit of the bilateral path. For instance, it hopes to stabilise and further develop cooperation in shared interest with the EU by establishing a regular, structured political dialogue.

Tailored access to the EU internal market

Maintaining and developing the bilateral approach remains top priority. Consequently, questions concerning legal developments and the updating of the existing bilateral agreements between Switzerland and the EU will continue to play a major role. There are a few areas in which more bilateral agreements could be reached with individual EU member states, where these have the power to conclude such agreements without coming into conflict with EU regulations. Under certain circumstances, Switzerland might also take unilateral action to partially counteract the negative consequences of failure to sign the InstA, with measures to protect the Swiss stock exchange infrastructure being just one example. However, there are practically no direct, equivalent alternatives to treaty-based cooperation with the EU.

Proven bilateral approach

Swiss exporters must ensure that their products conform to the regulations of the target market. Consequently, Switzerland avoids regulatory divergence with the EU, its biggest export market, wherever possible and feasible. However, this unilateral approach is hampered by the fact that EU legislation regularly includes provisions requiring the recognition of equivalence in certain areas, such as stock market and data protection equivalence.

Regulatory alignment with the EU

It is important that the existing agreements are regularly reviewed and updated to take account of new economic concerns, improve legal certainty and prevent Switzerland from being disadvantaged relative to the EU's other trading partners. Economic and political relations with the EU and its member states must be maintained. This also means continuing to cooperate in the context of Switzerland's contribution to selected EU member states.

Developing the Swiss-EU bilateral agreements further

Significant new and revised EU regulations and standards are to be expected in various areas (e.g. the European Green Deal, competition and third-country subsidies, digital strategy). Any new initiatives must be closely monitored and examined to see what implications they might have for Switzerland. Switzerland is constantly looking for ways to help shape these developments, identifying what courses of action are open to it and whether it is in Switzerland's interest to take part.

Keeping track of EU regulatory initiatives and exploring options for action

UK

Since the United Kingdom's withdrawal from the EU single market and customs union, Switzerland's economic relations with the UK have been governed by new bilateral agreements. The Federal Council's 'Mind the gap' strategy aims to close any loopholes and thus ensure legal continuity in Swiss-UK relations. At the same time, Switzerland is keen to develop and enhance its relationship with the UK with regard to financial services, trade and migration, for example.

Developing and enhancing relations

SWITZERLAND'S TRADING PARTNERS

Share of Swiss total trade (import and export)

USA



Stock of foreign direct investment (FDI) **35%**
Trade with goods and services **17%**

EU, EFTA, UK



Stock of FDI **42%**
Trade with goods and services **59%**

Other countries

Stock of FDI **14%**
Trade with goods and services **6%**

China



Stock of FDI **1%**
Trade with goods and services **5%**

Other FTA partners

Stock of FDI **8%**
Trade with goods and services **13%**

SWITZERLAND'S FOREIGN TRADE

37%

Trade with services

63%

Trade with goods

18%

Raw materials,
semi-finished
products

22%

Capital goods

57%

Consumer
goods

3%

Energy
sources

Sources: see List of illustrations on p. 52. Data for 2019. Trading partners: Stocks of FDI according to ultimately eligible investor, services considered if assigned to a country, 'FTA' means free trade agreements. Foreign trade: Share of total trade of Switzerland.

USA

As the world's largest market and strongest economic power, the USA is a key partner for Switzerland. Its importance has increased in recent years, partly due to regulatory standards. The USA is the most important of its trading partners with which Switzerland does not have a bilateral free trade agreement.

USA as main overseas trading partner

The USA is a highly interesting market for Swiss companies. Although Europe and the United States share many common values and interests, their legal traditions differ considerably in certain areas. This has a concomitant effect on their regulatory approaches, making the protection of personal data and shifting exchange rates sensitive matters for Switzerland in the context of its relations with the USA. There is also an increasingly notable tendency by the USA to link foreign and security policy issues to (foreign) economic policy. Switzerland is constantly looking for ways in which to expand and improve its trade relations with the United States. It explores opportunities for cooperation, especially in relation to (vocational) education and training, innovative, high-tech sectors (e.g. cleantech), infrastructure, trade in services, digital commerce and the possibility of entering into a trade agreement.

Exploring opportunities for cooperation with the USA

China

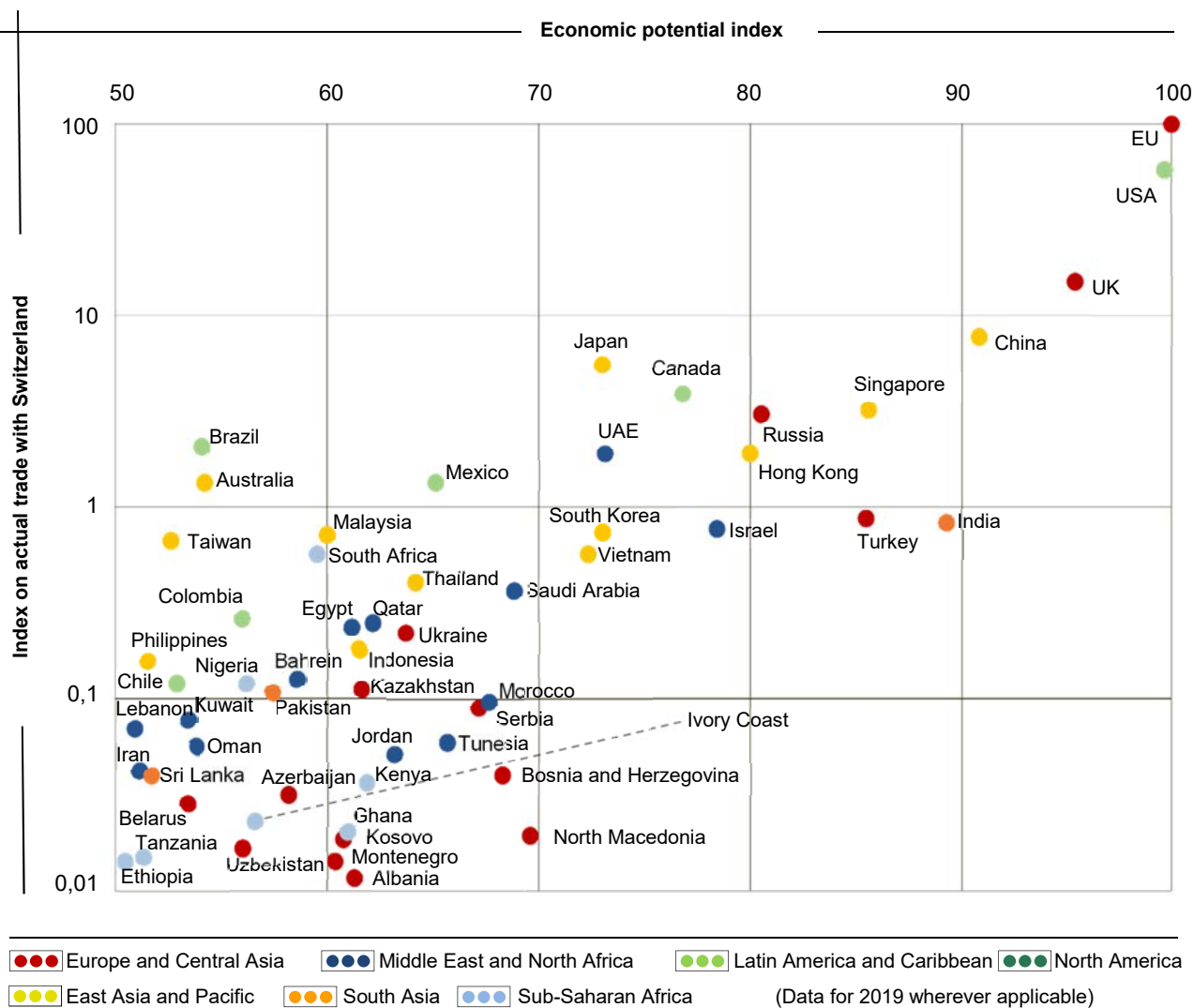
China is the world's third-largest internal market. With annual GDP growth averaging around 9% over the last 15 years, China is a significant driver of global economic growth, although it has recently experienced a loss of momentum.³⁸ Switzerland's foreign economic policy in relation to China is based on the Confederation's *China Strategy*,³⁹ through which Switzerland addresses China's growing economic importance, seeks to identify opportunities for cooperation based on mutual interest and supports China's integration into the existing international economic order. The 2013 free trade agreement between Switzerland and China is to be reviewed with the aim of identifying opportunities to enhance the relationship. Along with the Memorandum of Understanding on cooperation in the context of the Belt and Road Initiative, the innovative strategic partnership between the two countries is intended to generate additional investments.

China as a trading partner with potential

Switzerland and China have fundamentally different economic systems and models of governments, which sometimes gives rise to divergent views. This can be seen in relation to data or internet governance, for example, as well as in the treatment of state-owned enterprises. With this in mind, Switzerland is committed to finding constructive solutions at both the bilateral and multilateral levels. This means giving greater consideration to sustainability and human rights issues in its cooperation with China.

Taking aspects of sustainability and human rights into account

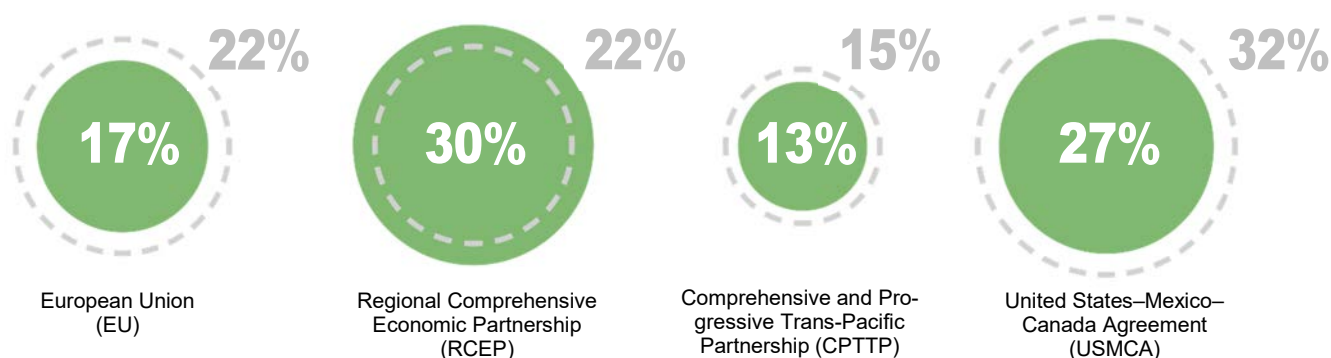
POTENTIAL FOR SWISS ECONOMIC RELATIONS



For both indices, different indicators are combined and scaled (best value = 100; worst value = 0). The focus is on the relative ranking of the countries. The EU is Switzerland's most important economic partner and has the highest potential (market potential, framework conditions, openness, distance to Switzerland). The analysis does not allow a statement as to whether the existing potential is being fully exploited. Of particular interest are the countries with solid potential, which could be exploited to a greater extent. The systematic analysis should be supplemented with a qualitative assessment.

SELECTED REGIONAL TRADE AGREEMENTS

as a share of global GDP, 2005 and 2019



Sources: see List of illustrations on p. 52. For member states of the regional agreements, see Abbreviations on p. 51.

Other key or potential partner countries

The regional shift in growth momentum towards the emerging market economies, global demographic change and the increasing importance of an expanding middle class are changing the weight of the individual players. Thus, value chains within Asia and from Asia with the rest of the world have risen significantly following China's integration into global trade.⁴⁰ Today, the East Asia and Pacific region accounts for around one third of global trade.⁴¹ As the importance of the emerging markets and fast-rising developing countries, particularly Brazil, India, Indonesia, South Africa and Turkey, increases, so too do their demands to be given a say in shaping the international regulatory regime.

Increasing importance of emerging markets

Over the past few years, the EU, the USA and Japan have entered into numerous economic partnership agreements with third countries and, in a sense, are fast catching up with Switzerland, which has built up a very broad network of trade agreements thanks to its active foreign economic policy. Switzerland thus stands to lose certain preferential advantages it currently enjoys over its main competitors (EU, Japan and the USA) on the basis of its economic agreements. For this reason, Switzerland is paying close attention to these developments and attempting to prevent being disadvantaged in this way by pursuing an active foreign economic policy.

Securing preferential advantages vis-à-vis key countries

Switzerland conducts a systematic analysis to determine which other countries qualify as key or potential economic partners. The following criteria are used to prioritise them:

Criteria for prioritising partner countries

- a) The country's potential in terms of economic policy (market potential, underlying economic conditions, degree of integration into the global economy, political significance);
- b) Its actual economic relationship with Switzerland, measured with reference to the total volume of trade in goods and services and direct investments.

Although this approach is fundamentally systematic, it leaves room for the required flexibility. In choosing potential partners with which to conclude a free trade agreement, the following criteria are also taken into consideration:

- c) Actual and potential loss of preferential advantages due to other economic agreements of key partners (especially the EU, Japan and USA);
- d) How realistic the chances are of successfully entering into an agreement. In addition to Switzerland's economic interests, consideration must be given to what it sees as sensitive political issues.

A large number of countries from East Asia and the Pacific region have considerable economic potential and already enjoy relatively well-established economic relations with Switzerland. A few African nations with great economic potential and regional importance also stand out. Various Latin American countries and Middle Eastern states display potential for expanding economic relations (see figure 'Potential for Swiss economic relations', p. 37).

Switzerland's potential for economic relations

The prioritisation of economic partners is an integral part of the Federal Council's existing foreign policy regional and country strategies.⁴² These are supplemented by the cooperation programmes that build on them in the field of economic cooperation and development. To pay due attention to the international dynamic of the economic and foreign policy environment, the priorities set are periodically reviewed for coherence. This involves consulting stakeholders. The results of this prioritisation are incorporated in the federal government's regional and country strategies to ensure coherence externally.

Switzerland's country strategies and review of prioritisation

5

Boosting resilience through diversification

Switzerland creates optimal framework conditions for supply chain diversification and examines the potential of regional and plurilateral trade agreements. It seeks opportunities for international cooperation in the supply of critical goods.

As a medium-sized, internationally networked national economy, Switzerland needs to be highly resilient, as has been demonstrated most recently by the COVID-19 pandemic. Properly functioning institutions within the country contribute to a robust national economy by cushioning the impact of structural change (see section on 'Role of domestic policy'). The risks associated with cross-border economic relations include geopolitical changes, protectionist tendencies, domestic opposition to foreign economic policy interests, challenges in supplying the country with goods in a global economy based on the division of labour, climate risks and structural change based on expected trends that could have a significant impact on global economic performance.

Knowing the risks

Various channels are to be used to boost economic resilience. Given Swiss companies' numerous value chains, one issue is the geographical diversification of the partner companies along these value chains. A broad network of trade agreements provides a framework within which companies can diversify their business relations, while also maintaining important administrative and diplomatic contacts with Switzerland's main partner countries. Guaranteeing sufficient room for manoeuvre is another key concern. Other technologically and economically advanced nations, like Singapore and New Zealand, have shown that smaller societies can also navigate their way successfully without being tied closely to large political blocs.

Geographical diversification

Companies can boost their resilience by geographically diversifying both their suppliers and the users of their products and services. Opportunities to diversify or possibly shorten value chains vary from industry to industry and product to product. Therefore, companies themselves are best placed to identify any potential improvements in the way their supply chains are organised and take appropriate action.

Diversification opportunities for companies

Swiss economic policy supports companies by creating the framework conditions required to ensure they have as many options as possible available to them as well as the freedom to choose between them. In this context, state intervention in the corporate sector in the form of governmental action or orders would not be appropriate as this would pose a threat to competitiveness. The state plays a subsidiary role here, as is also the case when it comes to supplying essential goods to the country. It provides information about imminent risks to value chains, keeps an eye on the provision of essential goods and helps SMEs to find alternative suppliers in extraordinary situations.

State plays subsidiary role

New regional trade agreements create new trade hubs and support the regionalisation of value chains (see figure 'Selected regional trade agreements', p. 37). Concluded in 2018, the CPTPP has 11 member states, while the 2020 RCEP has 15 signatories, including China. The latter facilitates trade between China, Japan, and South Korea for the first time. Its unified rules of origin are of great importance for regional value chains. Switzerland continually analyses the developments associated with regional and plurilateral trade agreements of this kind, paying particular attention to the economic benefits and the political feasibility of becoming a member.

Important regional economic treaties

International supply and value chains function on the basis of markets that are as open as possible and internationally agreed rules. This gives rise to competition, legal certainty and predictability as the precursors of sustainable economic growth. These aims are key to boosting resilience and reinforcing supply security, as confirmed during the COVID-19 pandemic when it became obvious that, even in such a situation, security of supply is not the same as self-sufficiency.

Open markets contribute to security of supply

In this context, Switzerland is seeking opportunities to step up international cooperation in the supply of critical goods. One example of this is the *Trade and Health Initiative* launched under the auspices of the WTO during the pandemic. Owing to Switzerland's geographical position and cultural, legal and political affinities with other European countries, these are its main focus as key strategic partners. Switzerland may look into signing up to individual regulations or industrial policy initiatives of its European trading partners. However, it opposes any protectionist tendencies in such initiatives.

Increased international cooperation in the supply of critical goods

No state-led or state-sponsored repatriation of production processes to Switzerland is to be attempted. In Switzerland especially, where prices and wage costs are known to be high, the internal market is small, raw materials are barely available and there is a high degree of specialisation in complex goods made from a large number of primary materials, any largely self-sufficient production of goods would result in prohibitively high costs, not to mention logistic challenges. Goods produced in this way would not be competitive on the international market.

Importance of international production processes

Thematic focus areas

The thematic focus areas are determined by trends in the foreign economic policy context. These are not new topics, but are action areas of great importance to foreign economic policy objectives.



Contributing to environmental and social sustainability

Through its foreign economic policy, Switzerland contributes to sustainable development in Switzerland and its partner countries. It promotes sustainable trade and global standards for the protection of the environment, human rights and workers' rights. It also advocates corporate social responsibility.

Foreign economic policy serves to maintain and increase the prosperity of the country and its people, in line with the Sustainable Development Goals. By doing so, foreign economic policy makes an important contribution to these Sustainable Development Goals. While the primary aim of foreign economic policy instruments is to reinforce the economic dimension of sustainable development, great importance is also given to the environmental and social dimensions. They too are to be strengthened, or not compromised in any way by foreign economic policy instruments.

**Sustainability dimensions
economy, environment
and society**

Countries with a market economy rely on market processes to be generally efficient in their handling of scarce resources. However, the full potential of welfare gains can only be realised in functioning markets which are largely capable of internalising negative externalities – i.e. through price mechanisms. Wherever possible, any proven market failure should be addressed through the use of market-based instruments that form part of a rules-based international system. The possibility of policy failure must also be taken into account.

**Specifically addressing
market failure while considering
policy failure**

Market failure and a lack of international coordination mean that environmental impacts especially are barely reflected in the price of goods and services, leading to the overuse of natural resources. That is why Switzerland is working towards the internalisation of external costs (e.g. in CO₂ prices). As far as the cross-border effects of such externalities are concerned, Switzerland is committed to international standards for the protection of humans, animals and the environment as well as those that protect human rights and workers' rights.

In its *2030 Sustainable Development Strategy*, the Federal Council shows how it intends to implement the Sustainable Development Goals, both in Switzerland itself and in the context of its activities abroad.⁴³ Although Swiss imports have a high environmental impact (see section on 'Challenges'), Switzerland regularly performs well in international sustainability rankings when it comes to domestic production. This is attributable to, among other factors, its high degree of prosperity, low-emission production facilities and good working conditions,⁴⁴ and can have a positive effect on development in partner countries in which Swiss businesses have foreign branches. Moreover, the low emissions associated with Swiss exports can help prevent higher emissions elsewhere.⁴⁵

Sustainable development
in Switzerland

Through its sustainable foreign economic policy, Switzerland primarily champions international and multilateral approaches to solution-finding. As a member of the WTO and other international organisations and bodies, Switzerland supports a range of initiatives aimed at liberalising the trade in environmental goods and services. Through its involvement with the World Bank, regional banks, the OECD and the Green Climate Fund, it is committed to discussions on reducing fossil fuel subsidies and on the circular economy. These issues are also the subject of the ACCTS, an agreement being negotiated by a small group of countries. As an ILO member and partner of Alliance 8.7, Switzerland campaigns against child and forced labour and calls for decent working conditions. Lastly, the implementation of UN sanctions and those of Switzerland's key trading partners (e.g. the EU), including humanitarian exceptions, contributes to the greater protection of human rights.

Multilateral engagement
for a sustainable
foreign economic policy

Switzerland encourages the effective application and development of globally recognised sustainability standards that help create climate-friendly and socially acceptable conditions in value chains while ensuring respect for animals and the environment. These are the issues on which it focuses in the ACCTS negotiations. It also supports the development of such standards in the context of the International Trade Centre, the International Social and Environment Accreditation and Labelling Alliance and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).

Promoting sustainability
standards

Switzerland promotes the drawing up of international standards on corporate social responsibility (CSR) in order to strengthen value chain sustainability. It expects companies registered or operating in Switzerland to comply with these international standards wherever in the world they do business.⁴⁶ The OECD and UN guiding principles are the key reference points, along with the Swiss action plans on corporate social responsibility and human rights. Corporate due diligence and increased transparency are the core issues, with the federal government providing companies with support and information in its capacity as the OECD National Contact Point for Responsible Business Conduct. The implementation of the indirect counter-proposal to the responsible business initiative will see the introduction of an obligation to report on non-financial matters and to conduct due diligence when it comes to child labour and the sourcing of minerals.

Corporate social
responsibility

To achieve the Sustainable Development Goals, Switzerland has adopted an approach based on constructive dialogue and cooperation in its foreign economic policy. This means that Switzerland generally dispenses with unilateral import restrictions on products with specific manufacturing or processing methods, especially if no internationally recognised standards are available. Promoting a common understanding of harmful and non-sustainable production methods and reflecting that understanding in relevant international standards is therefore important. The public's concerns about information on the production methods used must also be taken into account.

Dialogue on sustainability to avoid import restrictions

In the case of goods – often agricultural products – whose production processes are potentially highly problematic from a sustainability point of view, the linking of market access concessions to compliance with sustainability standards (e.g. as with palm oil in the Free Trade Agreement with Indonesia) is to be examined. With respect to the EU's planned Carbon Border Adjustment Mechanism (CBAM) for imported CO₂ emissions, Switzerland is looking into potential courses of action. An early study indicates that this kind of measure is most likely to achieve its purpose if co-ordinated with other states.⁴⁷

Exploring alternative approaches and conditionality

Switzerland includes binding provisions on sustainability in its free trade agreements as a way of ensuring sustainability in its bilateral economic relations. The parties to the respective agreement undertake to comply with it in such a way that the economic objectives pursued are consistent with their objectives in the area of environmental protection and workers' rights. These provisions also reaffirm certain norms and obligations concerning human rights.

Sustainability in free trade agreements

Switzerland monitors the implementation of the provisions on sustainability in free trade agreements and systematically discusses any problems arising in this respect with its partner countries. Switzerland constantly reviews and improves the monitoring mechanisms, and ensures that the relevant special interest groups are included in the process and informed.

Monitoring sustainability provisions and their implementation

Switzerland regularly reviews the provisions on sustainability to ensure they are relevant and up to date, amending them to take account of changes in the overall conditions. For example, the EFTA model chapter on trade and sustainable development was revised in 2019 and now features new provisions on trade and climate change, biodiversity, gender equality and responsible business conduct.

Sustainability provisions in the EFTA model chapter

The EFTA model provisions on trade and sustainable development, as revised in 2019, shore up the institutional monitoring mechanisms: the possibility of setting up a panel of experts that can effectively exert public pressure on the parties concerned will help them to enforce their rights and obligations. This mechanism supplements the role of the Joint Committee. Wherever possible and meaningful, a dialogue specifically about implementation of the provisions is established with the partner country and other instruments are brought into play. Switzerland proposes dialogues of this kind on trade, sustainable agricultural and food systems, labour and employment.

Monitoring sustainability provisions in the EFTA model chapter

Selected developing countries and emerging market economies with which Switzerland has entered into trade agreements receive support through economic development cooperation programmes. These include measures aimed specifically at improving trade-related sustainability requirements. The private sector is involved in implementing the provisions that have been laid down and in acquiring and applying the necessary expertise. Technical assistance is also available to partner countries to help them cope better with structural change. Economic development projects in critical areas can support trade agreements on an ad-hoc basis.

Supporting
partner countries



Integrating the digital economy

Switzerland works at the international level to ensure that data is able to move as freely as possible, without losing sight of data protection. It strives to reach an agreement on regulatory standards in this area with its main trading partners.

Switzerland performs very well in international digital competitiveness rankings, due in part to its creation of an attractive operating environment that includes high-quality communication and electric power infrastructures.⁴⁸ Foreign policy has also taken a digital turn, as set out in the *Digital Foreign Policy Strategy 2021-24*.⁴⁹ In addition, the *Digital Switzerland strategy*⁵⁰ details how the country intends to leverage the potential of digitalisation.

Various
digitalisation strategies

On average, 15% of annual GDP growth in Switzerland over the past 20 years has been attributable to investments in information and communication technologies.⁵¹ As a major business location and research hub, Switzerland works at the international level to ensure that data is able to flow around the globe as freely as possible. Market access and avoiding unnecessary barriers to trade are the priority issues here. Switzerland endeavours to ensure that its own legal system and values are enforced with regard to data held in Switzerland. It should be possible for data in Switzerland to be made available, exchanged and used for commercial purposes in a way that is adequate but also upholds the data protection principles enshrined in Swiss law.

Free movement of data
while ensuring data
protection

National regulations can take on a new significance with regard to foreign trade as a result of digitalisation, for example when data is transmitted across borders. This can lead to conflict with the territoriality principle, which states that national authorities have exclusive jurisdiction within their own territory. Thus, major players such as China, the EU and the USA are attempting to establish their own regulatory approaches as international standards. In Switzerland, in addition to the country's own legal bases, EU and US legislation are of particular importance to digital commerce.

Differences in
international
regulatory approaches

Switzerland works to establish a uniform set of global standards and rules for digital trade. In doing so, it places a special focus on developing common minimum standards for adoption by like-minded partners while at the same time encouraging even broader implementation. Several potential approaches can be found in WTO legal texts. Switzerland is actively involved in the Joint Statement Initiative on Electronic Commerce, the WTO's plurilateral negotiations on trade-related aspects of e-commerce. It also takes part in the OECD's efforts to build a common understanding of digital issues among its members and ensure a holistic approach to establishing common standards.

Engagement for international standards on digital trade

As an EFTA member, Switzerland is committed to making comprehensive rules on digital commerce an integral part of trade agreements. The EFTA model chapter on e-commerce is an important instrument in this respect. The focus lies primarily on new provisions on net neutrality, cross-border data flows, electronic contracts and electronic signatures, electronic payment methods and source codes. Switzerland would like to see comprehensive rules on digital trade become an integral part of new economic partnership agreements, with existing agreements being modernised accordingly. Of primary interest is negotiating (bilateral) agreements of this kind, first and foremost with like-minded states (e.g. the UK).

Digital commerce in free trade agreements

Given that many Swiss companies also operate on the EU market, EU regulatory standards take on extreme importance. This can be seen particularly in the recognition of equivalence – of Swiss data protection legislation by the European Commission, for instance. However, the fact that regulatory standards are as closely aligned as possible does not always lead to them being recognised as adequate. Switzerland is therefore seeking to arrive at bilateral solutions with its main partners (e.g. Swiss-US Privacy Shield).⁵²

Bilateral solutions with key trading partners

Major digital platforms have highlighted the relevance of 'network effects'. These give existing companies advantages that can lead to higher barriers to market entry and increased market dominance. While these challenges are not new, they have now triggered a debate at the international level on various competition policy measures, sector-specific regulations and specific data privacy rules. Switzerland represents its interests in these ongoing discussions and seeks to step up cooperation between national authorities.

Challenges presented by digital platforms and companies

The growing importance of multinational corporations and platforms that can be accessed from anywhere has prompted efforts to harmonise corporate taxation across the global economy. Switzerland is in favour of long-term, broad-based multilateral solutions and contributes to the work being done in this area by the OECD. However, it also champions the maintenance of effective competition with good conditions for businesses to operate.

New taxation rules

Participatory foreign economic policy

While Switzerland's external trade relations make a decisive contribution to the prosperity of the population in economic terms, formulating foreign economic policy on this basis can seem abstract. Therefore, it is important that any approach to developing Swiss foreign economic policy must be transparent and enjoy broad political support. At the same time, sufficient account must be taken of the interdependence between domestic and foreign economic policy expectations.



Increasing transparency and participation

Switzerland pursues a transparent foreign economic policy that is accessible to stakeholders. It systematically provides information about new regulations and agreements. It also reports on its regular exchange with stakeholders.

The way in which foreign economic policy is formulated and implemented should be transparent, easy to understand and responsive to the concerns of stakeholders. Important international economic partnership agreements are systematically subject to an optional referendum. The task here is to make sure that the general public is adequately informed about the challenges and objectives of Swiss foreign economic policy.

Transparent
foreign economic
policy...

Regularly engaging in dialogue with stakeholders boosts transparency and helps ensure that national economic and social interests are represented. The stakeholders in the sense of organised advocacy groups include the cantons, civil society, associations and parliament (see figure 'The main stakeholders in foreign economic policy of Switzerland', p. 47). The parliamentary foreign affairs committees are consulted on mandates to negotiate. SECO chairs a number of forums for stakeholder inclusion. The exchanges that regularly take place are reported publicly.

... through
stakeholder inclusion

Companies are keenly interested in having streamlined regulations that are easy to implement and points of contact that are clearly communicated and easy to reach. *EasyGov.swiss*, the online desk for businesses, plays an important role here. Switzerland also has its own export risk insurance (SERV) and Switzerland Global Enterprise (S-GE), which facilitate exports by Swiss companies and promote Switzerland abroad as a business location.

Support mechanisms for
SMEs and promoting
Switzerland as a business
location

The federal government also makes it easier for Swiss companies to gain access to significant foreign infrastructure projects. Forecasts estimate that global infrastructure investments will need to reach around USD 90 trillion by 2040 to keep pace with profound economic and demographic changes across the globe.⁵³ To this end, Switzerland coordinates and bundles the knowledge and expertise to be found in industry, support

Promoting access to
large-scale infrastructure
projects

mechanisms and the Federal Administration, including the network of representations and the Swiss Business Hubs. More and more, these actors appear on the market as 'Team Switzerland'.

The Federal Council's annual report on foreign economic policy provides a detailed account of ongoing negotiations and other developments in connection with foreign economic policy. In addition, the federal government systematically provides information about new regulations and agreements that have been entered into. This information is made available to companies, especially SMEs, which are also supported in implementing these. Relevant platforms include export promotion, the contact point for infrastructure projects, the Export Round Table and the economic cooperation reporting mechanisms.

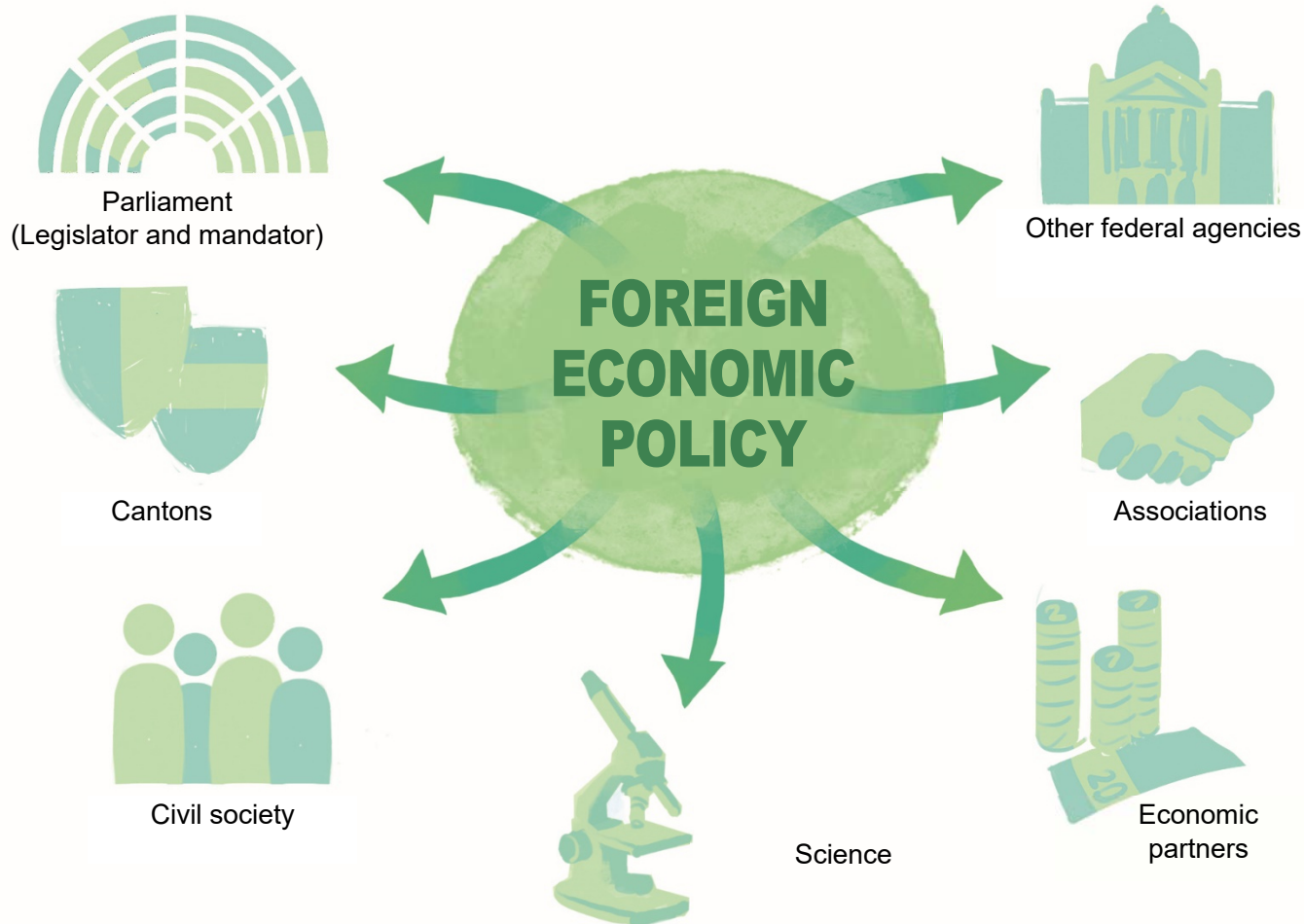
Instruments to ensure transparency

The respective Joint Committee is responsible for monitoring the performance of obligations under a free trade agreement. It can respond to any concerns on matters dealt with by the agreement. The issues to be discussed are tabled prior to the meeting, involving the stakeholders. A report on these discussions is made publicly available.

Monitoring obligations under free trade agreements

THE MAIN STAKEHOLDERS

in foreign economic policy of Switzerland



Sources: SECO, own illustration.

9

Interacting with domestic policy

Switzerland carefully evaluates new regulations and assesses the approaches of its key economic partners. In doing so, it gives due consideration to both the foreign economic and domestic policy implications of regulations. The benefits to the economy as a whole always take priority.

A number of trends have raised the public profile of foreign economic policy. However, domestic political actors tend to pursue very different goals in this respect. While many companies attach great importance to free markets, other 'trade-relevant' topics are increasingly attracting attention, leading to calls for adjustments to be made to foreign economic policy. In some cases, protectionist aims are being pursued, both at home and abroad. This can give rise to tensions that require foreign economic policy to strike a balance between competing interests.

Politicisation of foreign economic policy issues

Domestic policy performs a number of roles that complement those of foreign economic policy. It shapes the way in which society and the economy function and takes steps to cushion the impact of structural change. At the same time, it represents a variety of interests, and this has an impact on the room for manoeuvre available to foreign economic policy. Conflicts of this kind lead to differing perceptions of trade and globalisation (see section on 'Challenges'). The following aspects should make it easier to reconcile foreign economic and domestic policy interests – in line with the action areas that have been identified: a clear focus on interests and the effectiveness of instruments (see action area 1), active regulation of trade (see action area 3), greater consideration of the social and ecological dimensions of sustainability (see action area 6) and increased transparency and responsiveness of foreign economic policy (see action area 8).

Reconciling foreign economic and domestic policy interests

Regulatory policy plays a key role. The significance of regulations that blur the line between foreign economic and domestic policy implications is repeatedly emphasised in the present strategy (see 'Role of domestic policy' or action area 7). The options, costs and benefits must be carefully analysed in each individual case; this can be done by conducting a regulatory impact assessment.⁵⁴ Where new regulations are concerned, this means evaluating the existing national and international regulatory approaches of the key economic partners. Where there is a need for regulation, to avoid friction in international economic relations, consideration should be given to adopting regulatory approaches similar to those that already exist.

Assessing existing international regulatory approaches

Increasing regulation in response to more stringent requirements, particularly with regard to sustainability, has seen implementation costs rise as a result. International cooperation on the mutual harmonisation of national regulations could become instrumental in mitigating higher costs in cross-border trade (see also action areas 2, 3, 6 and 7). At the same time, it is possible to play an active role in shaping regulatory standards that could have a global impact if also espoused by the major players. However, Switzerland is only likely to achieve global significance here by working alongside larger groups of countries. Nevertheless, in the past, Switzerland has been able to create advantages for itself by exercising regulatory restraint in favour of promoting innovation.

Involvement in
shaping international
regulatory standards

Economic policy instruments can bolster foreign economic policy in very specific ways. One example is the unilateral action taken by Switzerland to facilitate trade, which includes simplifying regulations, eliminating customs duties on industrial goods and cushioning the impact of structural change. On the whole, having a domestic market policy designed to facilitate more competition is a key factor when it comes to strengthening Switzerland as a business location in the international arena and gaining the scope for manoeuvre in negotiations needed to successfully represent Switzerland's foreign economic policy interests (e.g. market access).

Complementary
economic policy
instruments

Conclusions

The world has undergone profound changes since the dawn of the new millennium. Switzerland's revised foreign economic policy strategy takes these economic, environmental, social and geopolitical changes into account. It recognises that current and future challenges present opportunities as well as risks. It provides guidance on Switzerland's positioning in a world order that has come under pressure, and in response to rampant protectionist tendencies and criticism of globalisation in all its many forms. It shows how Switzerland copes with the demands of sustainable development and increasing digitalisation.

As a medium-sized national economy with few natural resources, Switzerland relies on foreign markets and being integrated into international value chains. It is committed to the international rules-based system, access to international markets and sustainable economic relations as a means of safeguarding the population's prosperity. Consequently, the framework conditions must also be adapted on a regular basis to take account of social, political, technological and economic developments. The strategy defines the main areas of action designed to ensure that the policy of openness adopted in recent decades continues to deliver benefits.

If Switzerland wishes to pursue a focused foreign economic policy, it must define its interests. For a medium-sized, open national economy like Switzerland, multilateral approaches remain essential. Switzerland endeavours to keep both the import and export trade as open and regulated as possible and seeks access to geographically diversified and resilient markets, thus strengthening the country's ability to withstand crises. Switzerland focuses on its primary economic partners, while also maintaining an independent position in the changing geopolitical environment. This enables it to focus on sustainable development in its dealings with all partner countries.

The present strategy does not represent a fundamental realignment of foreign economic policy. However, it now allows the goals to be formulated in a transparent manner, takes account of the current foreign economic policy environment and addresses public concerns. Last but not least, it recognises the importance of coherence between foreign economic and domestic market policy.

The strategy therefore provides a fresh perspective and can help achieve a better understanding of Swiss foreign economic policy. Recent global economic momentum clearly illustrates that an approach which is both transparent and enjoys broad political backing will remain key to developing Swiss foreign economic policy going forward.

Appendix

Abbreviations

ACCTS	Agreement on Climate Change, Trade and Sustainability
AfCFTA	African Continental Free Trade Area
AG	The Australia Group
ATT	Arms Trade Treaty
BWC	Biological Weapons Convention
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership; Member states: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam
Cst	Federal Constitution
CWC	Chemical Weapons Convention
EFTA	European Free Trade Association
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDPR	General Data Protection Regulation
GPA	Government Procurement Agreement
ILO	International Labour Organization
ITA	Information Technology Agreement
MTCR	The Missile Technology Control Regime
NPT	Treaty on the Non-Proliferation of Nuclear Weapons
NSG	Nuclear Suppliers Group
OECD	Organization for Economic Cooperation and Development
RCEP	Regional Comprehensive Economic Partnership; Member states: Australia, Brunei, China, Indonesia, Japan, Cambodia, Laos, Malaysia, Myanmar, New Zealand, Philippines, Singapore, South Korea, Thailand and Vietnam
SMEs	Small and medium-sized enterprises
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
UN	United Nations
WA	Wassenaar Arrangement
WTO	World Trade Organization
USMCA	Agreement between the United States of America, the United Mexican States, and Canada

List of illustrations

p. 13 **Global trends over the last 15 years**

Migration: United Nations (2017): International Migration Report 2017. Definition of migrant: “an international migrant is a person who is living in a country other than his or her country of birth”. 2005-2017.

Poverty: The World Bank Group (2021): Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population), 2005-2017. data.worldbank.org (as of: 31.07.2021).

Global trade: The World Bank Group (2021): World Imports of goods and services in constant 2015 US\$, 2005-2019. data.worldbank.org (as of: 31.07.2021).

Internet use: The World Bank Group (2021): Individuals using the Internet (% of population), 2005-2017. data.worldbank.org (as of: 31.07.2021).

p. 15 **Key figures for Switzerland**

GDP per capita: Federal Statistical Office FSO (2021): GDP per capita at current prices, 2019. www.bfs.admin.ch (as of: 31.07.2021). The World Bank (2021): GNI per capita, Atlas method (current US\$), 2019. data.worldbank.org (as of: 31.07.2021).

Trade-to-GDP ratio: Sum of exports and imports of goods and services as a percentage of gross domestic product. The World Bank (2021): Trade (% of GDP), 2019. data.worldbank.org (as of: 31.07.2021).

Contribution of foreign trade: Exports of goods (excluding non-monetary gold and valuables) and services are corrected for the share of imported value added and set in relation to GDP. OECD (2018): Trade in Value Added (TiVA). Foreign value-added share of gross exports, 2016; SECO (2021): GDP and expenditure-side components, not adjusted, 2019. www.seco.admin.ch (as of: 31.07.2021).

Employees: Federal Statistical Office FSO (2020): Portrait of Swiss SMEs, 2011-18 (de, fr). 2018. www.bfs.admin.ch (as of: 4.08.2021).

Imports and exports: FCA (2021): Foreign trade statistics. Swiss imports and exports by activity sector and enterprise size class, 2019. www.aussenhandel.admin.ch (as of: 27.5.2021).

p. 21 **Trade flows and centres**

UNCTAD (2021): Merchandise trade matrix in thousands USD, annual, 2015-2020. Data for 2019. unctadstat.unctad.org (as of: 20.08.2021).

p. 35 **Switzerland's trading partners, Switzerland's foreign trade**

SNB (2021): Capital stock in Switzerland by ultimate beneficial owner. Swiss balance of payments and Switzerland's international investment position. Services that cannot be assigned to a specific country are not included. Imports and exports. Data for 2019. data.snb.ch (as of: 20.08.2021).

FCA (2021): Swiss-Impex – Goods, without gold. Imports and exports. Data for 2019. www.ezv.admin.ch (as of: 20.08.2021).

p. 37 **Potential for Swiss economic relations**

Potential index (x-axis): Population (IMF), GDP and GDP growth from 2010-19 (IMF), Ease of Doing Business (World Bank), Global Competitiveness Index (WEF), trade-to-GDP ratio (UNCTAD), direct investment as percentage of GDP (UNCTAD), categorisation of embassies (FDFA), distance to Switzerland (CEPII). Data for 2019, wherever possible.

Trade index (y-axis): Share of trade in goods with Switzerland (FCA), share of trade in services with Switzerland (SNB), share of direct investments in and by Switzerland (SNB). Share of bilateral flows or stocks to the Swiss total, 2019.

Selected regional trade agreements as a share of global GDP

The World Bank Group (2021): GDP at constant 2010 US\$, 2005 and 2019. data.worldbank.org (as of: 31.07.2021). For member states, see list of abbreviations.

References

- ¹ Federal Statistical Office FSO (2020): GDP per capita at current prices, 2019. Accessed on 4 August 2021 at: www.bfs.admin.ch > Look for statistics > National economy.
- The World Bank Group (2020): GNI per capita, 2019, Atlas method (current US\$). Accessed on 4 August 2021 at: data.worldbank.org > Indicator.
- ² Funke, Dr. Claudia / Kreuzer, Philipp / Sachs, Dr. Andreas / Weiss, Johann (2020): Globalisierungsreport 2020. Wer profitiert am stärksten von der Globalisierung?. Bertelsmann Stiftung.
- ³ Federal Statistical Office FSO (2021): Commercial companies by economic division and size of company, 2018 (de, fr, it). Accessed on 4 August 2021 at: www.bfs.admin.ch > Look for statistics > Catalogues and Databases > Tables > Entreprises marchandes selon la division économique et la forme juridique.
- ⁴ Legge, Stefan / Lukaszuk, Piotr (2019): *Analysis of the use of free trade agreements commissioned by SECO* (de only). University of St Gallen.
- ⁵ OECD (2018): *Trade in Value Added (TiVA). Foreign value added share of gross exports*, 2016. Accessed on 30 July 2021 at: www.oecd.org > A to Z > Directorate for Science, Technology and Innovation (STI) > Industry and globalisation > Global Value Chains & Trade in Value Added.
Exports of goods (excluding non-monetary gold and valuables) and services are corrected for the share of imported value added and shown relative to GDP.
- ⁶ World Trade Organization (2019): *WTO Trade in Value-Added Terms and Global Value Chains*, 2015. Accessed on 21 April 2021 at: www.wto.org > News and events > Archives > 2019.
- ⁷ UNCTAD (2021): *World Investment Report 2021*.
- ⁸ Federal Council (2019): *Cross-border investment and investment controls*. Federal Council Report in response to postulate 18.3376 Bischof of 16 March 2018 and 18.3233 Stöckli of 15 March 2018 (de only; executive summary available in English).
- ⁹ The World Bank Group (2021): *Poverty headcount ratio at \$1.90 a day* (2011 PPP) (% of population), 1990-2017. Accessed on 31 July 2021 at: data.worldbank.org > Indicator.
- ¹⁰ International Monetary Fund (1997): *Meeting the Challenges of Globalization in the Advanced Economies*.
Tarr, David / Matusz, Steven J. (1999): *Adjusting to Trade Policy Reform*. Policy Research Working Papers.
- ¹¹ Regarding economic growth, economic theory distinguishes between qualitative and quantitative growth. While the former is the result of greater resource efficiency (e.g. labour productivity or return on capital), the latter is due to an increase in labour input (e.g. a higher level of employment or a higher labour force participation rate). See: EAER (2015): *The foundations of new growth policy – A retrospective analysis and outlook for the future strategy* (de, fr). EAER report in response to postulate 13.3907 Leutenegger Oberholzer of 27 November 2013.
- ¹² Negative externalities are costs of an activity that do not impact the party who causes them, but a third party independent of the transaction. An example of a negative externality of economic activity is environmental pollution.
- ¹³ Structural change summarises dramatic shifts in the way a country, industry or market functions that occur over a longer period and are triggered by such things as technological developments or social, climatic or other long-term changes.
- ¹⁴ Bouchiba-Schaer, Sarah / Weber, Bernhard (2017): *Strukturwandel dank hoch qualifizierten Arbeitskräften gut gemeistert* (de only). *Die Volkswirtschaft*, (10).
Nathani, Carsten / Hellmüller, Pino (2017): *Ursachen und Auswirkungen des Strukturwandels im Schweizer Arbeitsmarkt* (de only). Rütter Sococo.
- ¹⁵ Legge, Stefan / Lukaszuk, Piotr (2021): *Regionalization vs globalization: what is the future direction of trade?* World Economic Forum. Accessed on 27 September 2021 at: www.weforum.org > Articles > Global Issues > Trade.
- ¹⁶ International Monetary Fund (2019): *World Economic Outlook: Global Manufacturing Downturn, Rising Trade Barriers*.
World Trade Organization (2019): *Overview of Developments in the International Trading Environment: Annual Report by the Director-General*.
Federal Council (2021): *Switzerland's security policy*
- ¹⁷ The World Bank Group (2021): *Poverty headcount ratio at \$1.90 a day* (2011 PPP) (% of population). Accessed on 21 April 2021 at: data.worldbank.org > Indicator.
- ¹⁸ Lakner, Christoph / Milanovic, Branko (2013): *Global Income Distribution: From the Fall of the Berlin Wall to the Great Recession*. *World Bank Economic Review*, 30(2), issue 2, pp. 203-232.
- ¹⁹ OECD (2021): *Inequality - Income inequality - OECD Data. 2007-2017*. Accessed on 4 August 2021 at: data.oecd.org > topic > Society > Inequality > Income inequality.
- ²⁰ World Trade Organization (2020): *How WTO Members Have Used Trade Measures to Expedite Access to COVID-19 Critical Medical Goods and Services*.
OECD (2021): *OECD Services Trade Restrictiveness Index: Policy Trends up to 2021*.
- ²¹ Federal Council (2021): *Switzerland's long-term climate strategy*.
- ²² Federal Office for the Environment FOEN (2018): *Environmental footprints of Switzerland: Developments from 1996 to 2015*.
- ²³ Cherniwchan, Jevan / Copeland, Brian R. / Taylor, M. Scott (2017): *Trade and the Environment: New Methods, Measurements, and Results*, Annual Review of Economics, Vol. 9, pp. 59-85.
Cole, Matthew (2004): *Trade, the pollution haven hypothesis and the environmental Kuznets curve: examining the linkages*. *Ecological Economics*, 48(1), 71-81.
Kolcava, Dennis / Nguyen, Quynh / Bernauer, Thomas (2019): *Does Trade Liberalization Lead to Environmental Burden Shifting in the Global Economy?* *Ecological Economics*, vol. 163, pp. 98-112.
- ²⁴ Brandi, Clara / Schwab, Jakob / Berger, Axel / Morin, Jean-Frédéric (2020): *Do environmental provisions in trade agreements make exports from developing countries greener?* *World Development*, 129, 104899.
- ²⁵ World Trade Organization (2018): *World Trade Report 2018: The future of world trade: How digital technologies are transforming global commerce*.

-
- ²⁶ OECD (2019): *Trade in the Digital Era*. OECD Trade Policy Papers. World Trade Organization. (2019). *World Trade Report 2019: The future of services trade*.
- ²⁷ The Ottawa Group describes itself as a small, representative group of WTO members. It comprises Australia, Brazil, Canada, Chile, the European Union, Japan, Kenya, South Korea, Mexico, New Zealand, Norway, Singapore and Switzerland.
- ²⁸ Federal Council (2019): *Consultation and participation of Parliament in soft law-making*. Report of the Federal Council in response to postulate 18.4104 (de, fr, it), Council of States Foreign Affairs Committee, 12 November 2018.
- ²⁹ Federal Council (2020): *Switzerland's International Cooperation Strategy 2021-24*.
- ³⁰ OEC - The Observatory of Economic Complexity. Economic Complexity Rankings (ECI). Data for 2019. Accessed on 29 April 2021 at: oec.world > Rankings.
- ³¹ If primary materials originating in another country that is a party to the agreement are used in the production of goods, they maintain their status as originating products and may be used without restriction.
- ³² OECD (2005): *Looking Beyond Tariffs: The Role of Non-Tariff Barriers in World Trade*. The World Bank Group (2020): *World Development Report: Trading for Development in the Age of Global Value Chains*.
- ³³ OECD (2020): Services Trade Restrictiveness Index. Accessed on 6 May 2021 at: stats.oecd.org > Industry and Services > Services Trade Restrictions
- ³⁴ The State Secretariat for Migration (SEM) defines Switzerland's migration policy. Further information is available at: www.sem.admin.ch.
- ³⁵ Federal Council (2017): *Dispatch on the Total Revision of the Federal Act on Public Procurement*. (de, fr, it), BBl 2017 1851.
- ³⁶ SECO (2015): *Economic effects of the discontinuation of Bilaterals I* (de, fr, it)
- ³⁷ Federal Council (2015): *Federal Council report in response to postulate 13.4022 "Free trade agreement with the EU instead of bilateral agreements"* submitted by Keller-Sutter (de, fr, it).
- ³⁸ The World Bank Group (2021): GDP Growth (annual %), 2004-2019. Accessed on 29 March 2021 at: data.worldbank.org > Indicator.
- ³⁹ Federal Council (2021): *China Strategy 2021-24*.
- ⁴⁰ World Trade Organization (2019): *Technological Innovation, Supply Chain trade, and Workers in a Globalized World*.
- ⁴¹ The World Bank Group (2021): Imports of goods and services (current US\$), 2019. Accessed on 4 August at: data.worldbank.org > Indicator. East Asia also includes the countries of South East Asia.
- ⁴² Federal Council (2020): *Foreign Policy Strategy 2020-23*.
- ⁴³ Federal Council (2021): *2030 Sustainable Development Strategy*.
- ⁴⁴ SolAbility (2020): *The Global Sustainable Competitiveness Index 2020*. Kroll, Dr. Christian / Sachs, Jeffrey D. et al. (2021): *Sustainable Development Report 2021*.
- ⁴⁵ Nielsen, Hana / Kander, Astrid (2020): Trade in the Carbon-Constrained Future: Exploiting the Comparative Carbon Advantage of Swedish Trade. *Energies*, 13, 3613.
- ⁴⁶ Federal Council (2020): *CSR Position Paper and Action Plan of the Federal Council: Report on Progress 2017-19 and Action Plan 2020-23* (de, fr, it).
- ⁴⁷ Ecoplan / World Trade Institute / University of Zurich (2013): *Border Tax Adjustments - Can energy and carbon taxes be adjusted at the border?*
- ⁴⁸ IMD (2020): *IMD World Digital Competitiveness Ranking 2020*.
- ⁴⁹ Federal Council (2020): *Digital Foreign Policy Strategy 2021-24*.
- ⁵⁰ Federal Council (2020): *Digital Switzerland Strategy* (de, fr, it).
- ⁵¹ Federal Statistical Office FSO (2020): Value added by ICT and media sectors, 1998-2018 (de, fr, it). Accessed on 3 May 2021 at: www.bfs.admin.ch.
- ⁵² The Swiss-US Privacy Shield Framework provides companies on both sides of the Atlantic with a mechanism to comply with data protection requirements when transferring personal data from Switzerland to the United States in support of transatlantic commerce.
- ⁵³ Heathcote, Chris (2017): *Forecasting infrastructure investment needs for 50 countries, 7 sectors through 2040*. Accessed on 12 April 2021 at: blogs.worldbank.org.
- ⁵⁴ Federal Council Guidelines on the regulatory impact assessment process for proposed federal legislation (RFA Guidelines) BBl 2019 8519 (de, fr).

Editor Federal Department of Economic Affairs,
Education and Research EAER
3003 Bern
www.wbf.admin.ch

Date of publication 24 November 2021

Design Christoph Bigler, Section Publications, SECO
Illustrations Jonah Baumann, Section Publications, SECO

This publication is also available in German, French and Italian. It can be downloaded from the website www.seco.admin.ch >
Foreign Trade & Economic Cooperation >
Foreign Economic Policy

Bern, 2021 / © EAER



