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The Challenges of Swiss Foreign Economic Policy

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**Check against
delivery!**

Dear President,
Dear Ambassadors,
Ladies and Gentlemen,

It is a great pleasure for me to be your guest at your General Assembly. Your Chamber plays an important role bringing Switzerland and Latin America closer together every day.

Our ties go back to the thousands of Swiss who migrated to Latin America during the past centuries. With their political, economic and social heritage they contributed to the building of new nations.

Likewise, many Latin Americans enrich our society to-day. The Swiss communities in Latin America always kept ties with their origin. They constituted an excellent basis for our firms to expand vigorously throughout Latin America. Their presence is remarkable. Switzerland is among the top five foreign investors in several countries.

Be it migrants or firms, they all ran significant risks and faced big challenges. They were animated by the pioneer spirit of settlers and of entrepreneurs. We can be proud of them. Latin America has a prominent place on the Swiss radar. Last February, I travelled to Mexico with a business delegation and had very fruitful discussions on bilateral and multilateral issues.

In April, my colleague Federal Councilor Burkhalter held talks in Chile, Peru and Colombia. In July, Federal Councilor Doris Leuthard will sign a civil aviation agreement in Brazil and meet several ministers. Finally, no later than last Monday, I had the honor to sign free trade agreements with Costa Rica and Panama during the EFTA Ministerial Meeting in Trondheim. This leads me to my three messages for this afternoon: first, we must put the multi-lateral trading system back on the top of our agenda; second, the constant opening of foreign markets as well as of our own must be a key priority; and, third, our relationship with Latin America must be permanently strengthened. If there is a will, there is a way.

I can assure you that we will find the way. And this, despite the complexity of the issues at an age of the internet, of the I-Pad and of Solar Impulse – Bertrand Piccard's solar energy-driven aircraft –. As you may have sensed, I will focus my remarks on one specific area, foreign economic policy. Let me highlight five big challenges.

First challenge: Strengthen the multilateral trading system

Since 2008, the Doha Round faces a stalemate. Interests of industrialised and emerging countries are extremely hard to reconcile.

A successful outcome would boost world growth through better market access and improved rules for products, services and intellectual property. Despite present difficulties, the WTO remains a cornerstone for world trade because of its universality with 159 members, its comprehensive rules and its effective dispute settlement mechanism. At the end of May, I attended an informal WTO Ministerial gathering in Paris. All the major players reiterated their commitment for the multilateral system.

We discussed the preparation of the next WTO Ministerial meeting which will take place in December in Bali. In this context, we are working diligently on an agreement on trade facilitation.

It aims at simplifying customs procedures in order to reduce transaction costs in international trade. In addition, we strive to resolve several Doha issues in the area of agriculture. One of them refers to stricter rules for the administration of tariff rate quotas to ease agricultural imports. The Bali Conference will also address the needs of least developed countries with a set of measures. From a single undertaking under the Doha Round, we have moved to a step-by-step approach seeking results on specific issues.

Furthermore, a coalition has emerged in order to further liberalize trade in services on a plurilateral basis. We aim at establishing a gold standard agreement for services which any WTO member could then join. Switzerland participates actively in these talks. It is now up to the new Director General of the WTO, Roberto Azevêdo (“Assevedu”), to build bridges between the various camps and to invigorate the organisation. Switzerland remains fully committed to the WTO.

Second challenge: Solve key issues with the European Union

The European Union is by far our most important trade partner. In 2012, it accounted for over 75% of our imports and 56% of our exports. It is also the main destination of our foreign direct investments; Swiss firms employ 1.3 million persons in the EU. Needless to say that Switzerland is very closely integrated with the EU. Among the many important bilateral agreements with the EU, one agreement comes to the forefront:

By progressively introducing free movement of persons between Switzerland and the EU, we have moved into new territory: while during the late nineties we registered a negative migratory flow from the EU, it has now reversed, reaching 53'400 persons in 2012. In addition, up to 260'000 commuters cross our border every day.

EU personnel are essential, since they provide our economy with much needed labour and skills, thereby boosting domestic demand, investment, productivity and

growth. Since 2005, our economic growth has been systematically above that of the EU, while it was the opposite in the ten preceding years.

With its decision regarding the so-called “safeguard clause” on the 24th of April this year, the federal Council did not in any case question the good relations with the EU. On the contrary, this decision intends to guarantee the support of Swiss citizens for the agreement on the free movement of persons, which is a central pillar of the bilateral relations with the EU.

In order to further develop our bilateral relations with the EU, we are currently working on various institutional issues. We need to solve them in order to move forward on a series of important topics, such as chemical safety as well as market access in the fields of electricity, agricultural and food products.

The EU has expressed openness to continue the institutional dialogue with Switzerland. Earlier this year, contacts at senior official level started in order to reconcile the institutional positions of both parties.

The questions at stake concern:

1. the modalities for taking over new EU rules
2. the surveillance of the application of the agreements
3. their uniform interpretation as well as
4. dispute settlement.

Let me add that the Swiss government aims at renewing the “bilateral way” through a comprehensive and coordinated approach encompassing all current bilateral issues with the EU. This also includes the fiscal area. Switzerland is willing to discuss specific aspects in this field with the EU within the dialogue on corporate tax regimes.

We have also adopted the OECD standard on administrative assistance in tax matters and have revised bilateral double taxation agreements with numerous countries. Overall, we strongly believe that a renewal of the bilateral way is in the mutual interest of Switzerland and the EU. However, it will need to be balanced and cover interests of both sides – not the least to ensure continued popular support in Switzerland.

Third challenge: Mitigate competition disadvantages from an US-EU major trade and investment agreement In February, the EU and the US announced their decision to each initiate the internal procedures necessary to launch negotiations on a Transatlantic Trade and Investment Partnership. Together, they represent half of world output and one third of world trade.

They will aim at liberalizing trade for industrial and agricultural products and at eliminating technical barriers to trade. While customs duties on industrial products are relatively low, the elimination of non-tariff barriers could bring substantial benefits. Challenges will be considerable, in particular in issues such as genetically-modified organs and growth hormones for animals.

The EU needs an agreement to stimulate growth and job creation. In addition, it must maintain a level playing field on the US market with the Pacific countries engaged in a major negotiation with the US. And what about third countries? As Karel de Gucht, the EU Commissioner for Trade, put it: “the scale of this agreement is such that it will impact the rest of the world.” The agreement will have both trade diversion and trade creation effects.

The effects on the Swiss economy will depend on the scale of liberalization. Switzerland is in an uneasy position. In 2006, we had to realize after a six-month exploration that we could not launch free trade negotiations with the US mainly due to the impact on our agriculture. Today, our situation is not much different. Although the negotiations are presently limited to the US and the EU, it is likely that upon conclusion, their agreement will be open to third countries. Mexico and Turkey have already expressed a very strong interest.

By the way, in its draft negotiating mandate, the EU has stated its intention to incorporate inputs from third countries having an FTA with both the US and the EU. Switzerland could be at a considerable disadvantage. I have established an inter-departmental working group to analyse the effects of the US-EU Agreement on our economy. We will look at all our options and seek to mitigate the competitive disadvantages for our country.

Fourth challenge: Open additional markets

Nowadays, the free trade path has taken over the multilateral one. FTAs have become very comprehensive and complex, with provisions not only on trade in goods and services, but also on intellectual property rights, investment protection, government procurement and competition. During the past years, we have also noted that the larger the partner, the more difficult the negotiations. In addition, processes initiated with studies, followed by exploration talks and negotiations, may take several years. This means numerous negotiating rounds. We presently stand at nine with the customs union between Russia, Belarus and Kazakhstan, and at eleven with India.

With China, it took six years altogether; effective negotiations took two years and four months. I will be very pleased to sign our free trade agreement in Beijing in July, as China is the second largest economy in the world and has a huge potential for our

investors and exporters. Our network of FTAs is very broad and covers 82% of our imports and 72% of our exports.

The important groups and countries still missing are Mercosur with in particular Brazil and Argentina in Latin America, the US in North America, Indonesia, the Philippines and India in Asia, Australia and New Zealand in Oceania. With most of these partners negotiations will face the big hurdle of agriculture. Should the EU conclude an FTA with Mercosur and with the US, Swiss firms would face significant competitive disadvantages on these markets. We must therefore continue to work very hard to improve our domestic framework conditions which are the key to our international competitiveness. Fifth challenge: Strengthen relations with Latin America

Latin America is on the rise. Mexico and Chile are OECD members. Colombia has started the accession process and Costa Rica will do so next year. The WTO is headed by a Brazilian, the OECD by a Mexican and the Vatican by an Argentinean! Geneva, Paris and Rome are in Latin American hands. The region's political clout is unheard of.

This comes as no surprise, given the impressive achievements of the last ten years. Sound macro-economic policies with primary budget surpluses and prudent monetary policies, a commodity boom and targeted redistribution of wealth to the poorest have led the way toward a sustained growth model unparalleled in Latin America since the 1960s and 70s.

As a consequence, our economic relations with Latin America have regained strength lately. Latin America's share in our trade has increased steadily. The sub-continent accounts for 2.4% of overall Swiss trade. This is still a very low share, trade with China alone being almost twice as large. It means that there is a significant potential for increase.

At a time of faltering demand in the European Union, it is both in the interest of Switzerland and our Latin American partners to intensify our relations. And it is being done; in 2012 our exports and imports with Latin America increased by 9.4 and 15.7%, respectively. However, this is not an easy task. Our firms face significant hurdles with complex bureaucracy, weak infrastructure, long-delayed reforms, rigid labour laws, lack of transparency and corruption.

Nobel Prize laureate Octavio Paz puts it right saying "America is not so much a tradition to continue as a future to realize". Recent events in Brazil have clearly shown that despite significant progress, much remains to be done. This can only increase Switzerland's awareness for Latin America and willingness to enhance our ties with all countries.

So far, we have established free trade relations with Chile, Colombia, Mexico and Peru. They all rank among the top 50 of the World Bank Doing Business classification. We also look forward to a rapid ratification of our two new agreements with Costa Rica and Panama.

I hope that the remaining Central American countries will also conclude FTAs with us and that Mercosur will be part of our free-trade network in the not too distant future.

Let me conclude by stressing three points:

First, Switzerland will not meet any of the foreign economic policy challenges on its own. They all call for cooperation and coalition building.

We will succeed, provided we can create win-win situations. It might be more important to explain to the other parties the benefits they will get, than to focus on our own gains.

Second, the success of our foreign economic policy will depend more and more on our ability to adapt ourselves to mainstream policies set at the regional and world stage.

Third, the potential to increase our economic relations with Latin America is huge. We are at the beginning of a new, very promising era. Let us join forces for a great journey!

I thank you for your attention.