

strategy report

Win-Win: Swiss-US Free Trade

*Arguments for a free trade agreement with Switzerland's
second-largest economic partner*

Patrick Dümmler and Jennifer Anthamatten

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Foreword: Time for a deal

The Swiss economy's ties with the rest of the world are extraordinarily close. Its foreign trade quota (ratio of the total value of exports and imports as a percentage of GDP) has increased more than 17 percentage points since 2000, and is now running at 110 %. In the last two decades this country has recorded very high rates of globalization-driven growth in per capita income, benefiting above average from Swiss companies' involvement in global trade. It's not just multinationals that operate internationally, but two-thirds of SMEs as well. Around three-quarters of people employed in Switzerland work for companies for which international trade and economic exchange are relevant.

The Swiss economy has particularly close ties with the member states of the European Union. Even so, for quite some time Switzerland has been struggling with the question of how far integration with our most important trading partner, the EU, should go. There is certainly potential, however, for improved market access beyond the European Single Market. While Switzerland has an extensive network of free trade agreements (FTAs), so far there has been none with its second-largest trading partner, the US – despite the fact that the impact of free trade in terms of prosperity is particularly pronounced for an open economy such as Switzerland. In 2006 the two countries were on the verge of opening official negotiations. Back then, domestic political interests, primarily from the Swiss agricultural industry, prevented them from embarking on formal negotiations. History should not be allowed to repeat itself. The window of opportunity for improving mutual market access is now wide open.

Already there are 700,000 jobs in Switzerland and the US directly benefiting from bilateral trade and reciprocal investment. A total of more than CHF 400 billion in direct investment on both sides of the Atlantic underscores the attractiveness of the market system in Switzerland and the US, helped by shared values such as a commitment to achievement and innovation. We have extremely close connections and affinities, which would be further boosted by an FTA. Tens of thousands of new jobs could be created. Besides the implications for the real economy, an agreement would also provide greater legal certainty. In a world of increasing uncertainty, these are very important factors, especially given the weakened state of the multilateral trading system.

The intensified exchange currently taking place between Switzerland and the US on the political and administrative level should be exploited to launch official negotiations on an FTA. The potential gain in prosperity is too great to let the opportunity go to waste again. Now it's time for a deal!

Peter Grünenfelder, Director of Avenir Suisse

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Executive summary

Weakening multilateralism: a challenge for Switzerland

The multilateral approach to opening global trade has been faltering for almost two decades, and talks within the framework of the World Trade Organization (WTO) are making no progress. This creates problems, especially for smaller countries like Switzerland that are heavily dependent on foreign trade. If they are not to become subject to the whims of major export markets, these nations have to make up for the lack of multilateral momentum by signing free trade agreements.

In a rules-based system such as the WTO, even less economically powerful nations can take action against bigger countries via the dispute settlement mechanism, something which is hardly possible in a purely power-based system without binding and enforceable rules. For this reason, especially since the mid-1990s Switzerland has been weaving a close web of FTAs, which now covers more than 70 countries, including its most important trading partners: the European Union (EU), China, Japan, and Canada.

Nations have to make up for the lack of multilateral momentum by signing free trade agreements.

Competition between the US and China at various levels

As a major economic power, the US is fundamentally better equipped to handle international trade based on power rather than rules. But even the US is facing increasingly stiff challenges on the global trade, particularly from China. These days many countries, especially in the Asian region, but increasingly in Europe and South America too, are engaging in greater volumes of trade with China than with the US. At the moment the competition between the US and China is economic and technological, but in the medium and long term it will increasingly have an element of (power) politics. For this reason, safeguarding and expanding trade with like-minded nations is a central foreign policy objective for the US administration.

Switzerland and the US: obvious trade partners

But so far the US has not had a bilateral trade agreement with Switzerland. Given the variety of challenges on a global level, it is astonishing that the two countries have so far failed to move from the exploratory talks currently running to official negotiations on an FTA.

The US accounts for around 13 % of Switzerland's total trade volume (imports and exports of goods and services), making it Switzerland's second-most-important trading partner, behind the EU and ahead of China (6 % of Swiss trade). Switzerland, by contrast, is less significant for the US market, although it still accounts for 2.3 %, making it the US's tenth-largest trading partner.

Pharma driving rapid growth in Swiss exports of goods

Since 2000, the share of goods imported from Switzerland to the US has doubled to around 1.6 %. The most extensive product group is pharmaceuticals. By the same token, Switzerland's imports from the US are mainly chemical end-products and active agents. Statistically speaking, Swiss imports from the US have also increased significantly. Overall, goods imported to Switzerland from the US (on the basis of US export figures) have probably grown by CHF 5 billion since 2000.

Tariffs already low

In Switzerland more than half the products imported from the US are already subject to a very low tariff rate of less than one percent; the average tariff rate is 0.1 %. The highest absolute customs expenses (not to be confused with tariff rates) arose on the import of private vehicles. However, this has less to do with high Swiss import duties (which for US manufacturers are substantially lower than EU duties) than with heavy demand for American cars. Road vehicles are among the top five product categories imported from the US.

The average tariff rate for Swiss products exported to the US is higher, at 0.6 %. Dairy products incur the highest customs expenses, not because of the large volume traded, but because of an above-average tariff rate of almost 9 %.

It is striking – and from an economic point of view not surprising – that the product groups traded are precisely those where the tariff rates are already very low or have even been abolished. In the case of Swiss imports, this applies to around 5,000 of a total of 8,000 product groups.

The product groups traded are precisely those where the tariff rates are already very low.

High tariff rates, particularly for agricultural produce

Switzerland's customs tariff classification includes around 1,500 products with an (estimated) ad valorem tariff of more than 5 %. Around 800 products incur tariff rates of more than 10 %, and 400 more than 25 %. In more than 90 % of cases, these high rates apply to agricultural produce. Flour, for example, incurs an average tariff rate of more than 400 % of the value of the goods, which effectively prohibits trade in these products. In the US too, certain product groups – primarily tobacco (350 %) and peanuts (more than 130 %) – are subject to prohibitively high tariffs.

If bilateral trade is to be boosted significantly, tariff rates will have to be substantially reduced or completely abolished for the other product groups as well.

Growing exports of services

It is not just goods that are traded between the two countries. There has been disproportionate growth in trade in services. Between 2012 and 2017 (there are no comparable figures for years prior to this), exports of services from the US to Switzerland increased by 79 %. Over one-quarter

of services imported into Switzerland come from the US. Imports in the other direction grew only 30 % over the same period. This development is the opposite of the trend in the trade in goods, where US imports from Switzerland have grown more rapidly than the other way around.

The portfolio of services traded between Switzerland and the US reflects the high state of development of the two economies. In some cases, they involve highly specialized activities such as research and development (R&D), insurance services, or licensing innovative products.

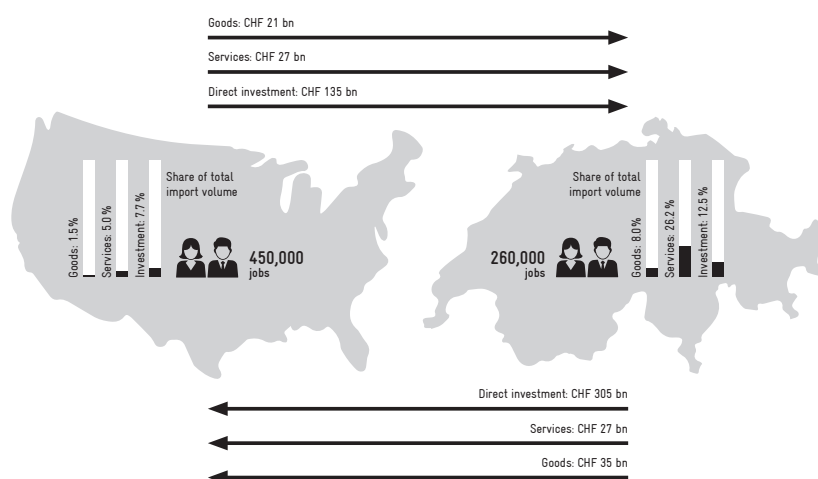
More than 400,000 jobs down to direct investment alone

There are already close ties between Switzerland and the US in terms of direct investment as well. Swiss investors plowed substantially more into the US than vice versa: CHF 305 billion versus CHF 135 billion. This makes Switzerland the seventh-largest investor in the US.

In 2017, Swiss companies employed around 319,000 people in the US, while US companies in Switzerland generated some 89,000 direct jobs. Indirectly (including locally sourced services such as construction and maintenance) the effects are even greater.

Swiss investors
plowed substantially
more into the US
than vice versa.

Economic flows between Switzerland and the US (2017)



Win-win situation

In 2017 Switzerland generated a current account surplus of around CHF 14 billion in the trade of goods and services with the US. The capital account presents a different picture, especially when it comes to direct investment: here Switzerland invested around CHF 170 billion (2017) more in the US than vice versa. Swiss companies employ almost four times as many people in the US than do US companies in Switzerland. From a mercantilist perspective, e.g. on the basis of jobs, we have the following situation:

The bilateral economic ties (goods, services, and direct investment) already assure more than 700,000 jobs directly, around 260,000 of them in Switzerland and 450,000 in the US. Around 180,000 jobs in Switzer-

land, and some 140,000 in the US, exist on the basis of the trade in goods and services between the two countries. This calculation is done on the basis of (assumed) average revenues of CHF 350,000 per employee and the highly simplifying assumption that this figure is identical in both Switzerland and the US. Given Switzerland's CHF 14 billion current account surplus, the US creates an estimated 40,000 or so more jobs in Switzerland than the other way around. At the same time, the very high level of Swiss direct investment into the US has created 230,000 more jobs in the US than vice versa.

On a net basis, the US thus benefits more in terms of jobs from Switzerland than vice versa. Bilateral trade relations are creating around 190,000 more jobs in the US than in Switzerland. From a mercantilist point of view, this puts Switzerland's oft-cited current account surplus with the US in perspective.

Bilateral trade relations are creating around 190,000 more jobs in the US than in Switzerland.

Second go at an agreement

Since fall 2018, Switzerland has again been in exploratory talks with the US (EAER 2019). The goal is to find out whether there is now a basis for official negotiations 13 years after they foundered at the first attempt. A major reason for the renewed endeavor is the Trump administration's approach of forcing the pace when it comes to signing new bilateral trade agreements or improving existing ones. Given the upcoming US presidential elections, the window for resuming formal talks will close again soon.

Trade in goods: 41,000 additional jobs

It is possible to estimate the trade-creating effects of an agreement between the two countries on the basis of data from previous FTAs of both countries. For Switzerland, the following picture emerges by comparison with a situation without an FTA:

- In terms of trade in goods, cumulatively over five years after the implementation of an FTA, additional imports of CHF 26.9 billion can be anticipated.
- In Year 5, imports of goods will be CHF 9.6 billion higher, equivalent to around 27,500 new jobs created in the US.
- The relative importance of the US for Switzerland's foreign trade in goods continues to grow (trade diversion).
- Five years after the introduction of the FTA, Switzerland will be importing 25 % more product groups from its US trading partner than before. This will help diversify the range of products on offer and enhance the benefit for Swiss consumers.

For the US, the figures turn out as follows compared with a scenario without an FTA with Switzerland:

- On a cumulative basis, imports of goods will increase by CHF 13.6 billion over the five years after the implementation of the FTA.

- In the fifth year, there will be a CHF 4.7 billion increase in the import of goods, corresponding to around 13,500 new jobs created in Switzerland.
- With an FTA, US exports of goods will tend to increase more than imports; for Switzerland it will be precisely the opposite way around. This means that an FTA is likely to reduce the United States' present goods trade deficit with Switzerland, turning it into a surplus by 2031 if growth rates remain constant.

Situation regarding trade in goods* five years after implementation of an FTA



*Calculations done only for trade in goods. Increased trade in services and a higher volume of investment are not included here.

**Five years after the introduction of an FTA, the Swiss import volume from the US would amount to CHF 33 bn versus CHF 23 bn without an FTA. For the US import volume, these values account for CHF 48 bn and CHF 43 bn respectively.

Solution possible for agricultural goods

Without Swiss concessions on agricultural goods, there will be no FTA with the US. Currently the United States' main exports to the rest of the world are soybeans, corn, nuts, and meat. The Swiss tariff rate for soybeans is already very low, and even if there were free trade, the volumes imported would be unlikely to increase much because US farmers primarily produce genetically modified soybeans, for which there is little demand in Switzerland. A similar situation could be expected if tariffs on corn were reduced. Switzerland cultivates only a few hectares of nuts, so there would be only marginal competition from imports. The situation for meat is different. Here Switzerland covers a high proportion of its own needs. There would be leeway for beef products within the framework of a reduced-tariff quota, and longer transitional periods could make the potential structural change more socially tolerable for pork and poultry farmers.

Positive impetus to trade in services, direct investment, and public procurement

Given the limited data available, it is harder to assess the benefits of an FTA between Switzerland and the US in terms of the movement of services and direct investment. However, comparisons with the two countries' other FTAs suggest that an FTA would accelerate growth in trade

in services as well. We could also expect an FTA to create greater legal certainty for economic players, making investment in the two countries relatively more attractive. In the medium to long term, this would be reflected in the volume of direct investment too. An agreement could also create interesting opportunities in terms of public procurement.

The benefits of an FTA in a nutshell

An FTA would have immediate benefits for export-oriented Swiss companies that already sell in the US. It would save an estimated CHF 135 million or so per year in customs duties (Legge, Lukaszuk and Föllmi 2019), making Swiss products more competitive relative to products from other countries. However, reducing customs duties would not be the main point of an agreement: even more importantly, an FTA would substantially increase legal certainty and provide political safeguards as the multi-lateral approach continues to erode.

A free trade agreement would substantially increase legal certainty.

With a 190,000-job surplus, the US already profits greatly from its bilateral trading relations with Switzerland. An FTA would boost US exports of goods to Switzerland even more than the other way around, creating an additional 27,500 US jobs. But Switzerland would reap the benefits as well in the form of 13,500 more jobs than without an FTA.

Higher incomes and the resulting increase in investment and consumption would also produce indirect effects resulting in job creation, although it is virtually impossible to put a figure on this. Overall, the new jobs created by the trade in goods would in all probability constitute the lower limit for the positive effects of a Swiss-US FTA across the economy.

Ten strategic recommendations for Switzerland

The following strategic recommendations are primarily addressed to political decision makers in Switzerland. It is in their hands whether an FTA with the US has domestic political backing or, as in 2006, founders at an early stage.

- 01_ Diversify and optimize the potential of Switzerland's network of bilateral FTAs by concluding new agreements.
- 02_ Sign an FTA with the US as soon as possible to create a platform for subsequently expanding and deepening its scope.
- 03_ Independently sign an FTA rather than being tied to a future US-EU agreement.
- 04_ Actively involve the relevant domestic stakeholders in free trade talks at an early stage, particularly the agricultural sector.
- 05_ Reduce the non-tariff barriers to reciprocal market access between Switzerland and the US for agricultural goods.
- 06_ Come up with creative solutions to open the agricultural market to the US in stages by reducing tariffs.

- 07_ Boost consumer sovereignty by means of clear, complete declarations of origin and production methods for agricultural goods.
- 08_ Allow competition from imports, and trust in the innovatory potential of Swiss producers.
- 09_ Create a separate quota for the exchange of labor between Switzerland and the US.
- 10_ Quantify the real problem of copyright infringements in the age of streaming.

Exploit the opportunities of an FTA now

Basically, efforts to conclude an FTA should succeed. To a large extent, Switzerland and the US share the same values in terms of the rule of law, freedom, democracy, and the free market. Issues of human rights, working conditions, pay, and environmental compliance are less significant than they are in many other FTA negotiations, for example with Asian countries.

If an agreement is reached, both Switzerland and the US will benefit from an FTA. This is a historic opportunity that the two countries should seize now rather than waiting another 13 years.

Both Switzerland and the US will benefit from a free trade agreement.

1 Background

1.1 Challenging global developments

The multilateral approach of trade liberalization has been faltering for almost two decades. The so-called Doha Round of trade negotiations between members of the World Trade Organization (WTO), under way since 2001, has so far failed to produce a successful outcome. The interests of the 164 members are too divergent.

This has consequences: In a rules-based system such as the WTO, even less economically powerful nations can take action against bigger countries via the dispute settlement mechanism. In a purely power-based system without binding, enforceable rules, this is hardly possible.¹ One of the consequences is the growing number of bilateral free trade agreements (FTAs) being signed; since 2006 they have doubled in number to almost 300. The growing importance of FTAs comes at the expense of the multilateral approach (WTO 2019).

The growing importance of free trade agreements comes at the expense of the multilateral approach.

China's ascent, and the diminishing supremacy of the US

At the same time, globalization and China's admission to the WTO in 2001 have both increased and shifted global flows of trade. Hong Kong (which joined the WTO in 1995) has a decisive share in this, with many goods entering or leaving China via the Special Administrative Region.²

While in 2000 most countries' trade in goods with the US exceeded their trade in goods with China, China (including Hong Kong) has now overtaken the US (see Figure 1). This picture suggests an explanation for the recent darkening in relations between the US and China: China is a growing economic challenge – and thus also an increasing challenge in terms of (power) politics – for the US. The shift in trade flows is especially pronounced in the Asia-Pacific region, where the United States' trading supremacy is now limited to only a small number of countries such as Cambodia, Bangladesh, and Bhutan. The relative supremacy of the US has now also been broken in Africa, and even in South America.

China's growing influence, also in Europe

In Europe, which traditionally has extremely close political and economic links with the US, there has also been a massive increase in China's significance in terms of foreign trade. This is particularly striking in EU member states in the eastern part of Europe: Estonia, Latvia, Poland, Slo-

1 A survey conducted by the WEF (2019) ranks the erosion of multilateral trade rules as the second-biggest risk for 2019.

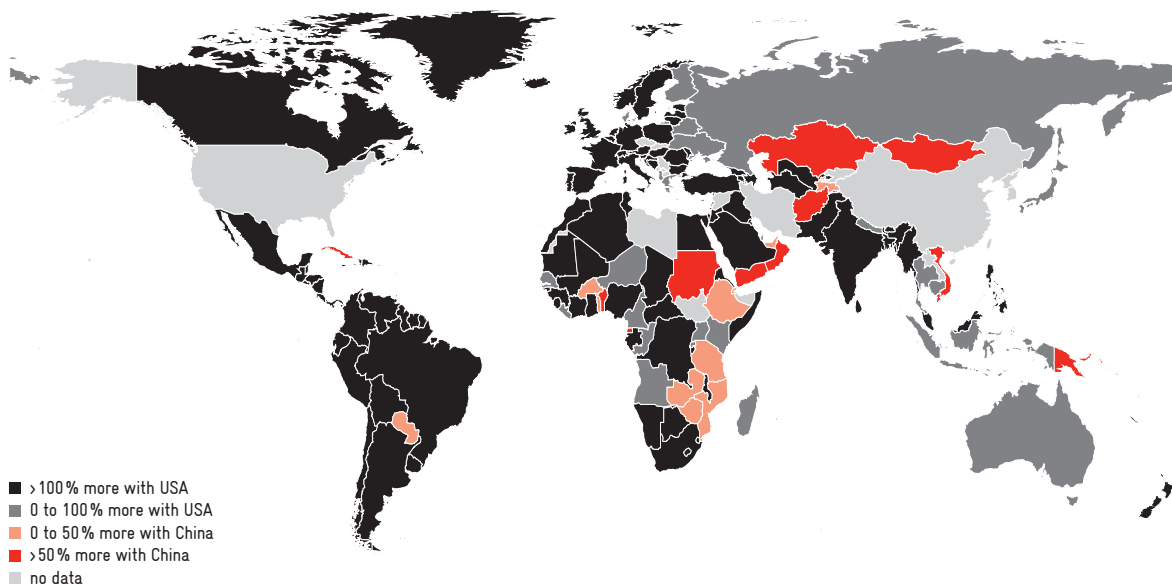
2 12 % of all Chinese exports arrive in Hong Kong, and 8 % of all Chinese imports are imported via Hong Kong (figures for 2017, WITS 2019).

Figure 1

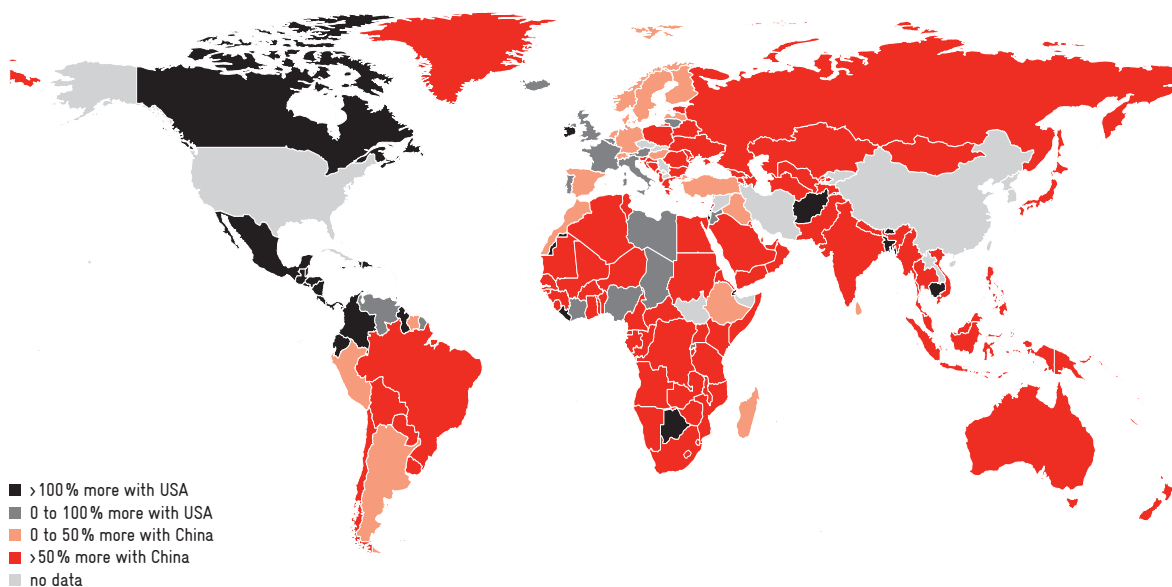
The growing importance of China (including Hong Kong) in global trade

China's ascent as an economic world power is reflected in global trade relations. If Hong Kong is included in the equation, more and more countries are doing a greater volume of trade with China than with the US.

Relative importance of the US and China (including Hong Kong) in trading terms (2000)



Relative importance of the US and China (including Hong Kong) in trading terms (2017)



The countries in black are those where the volume of goods traded (imports and exports) with the US exceeds the volume of trade with China by more than 100%. Dark grey indicates that while this figure has fallen below 100%, the country in question still does more trade overall with the US than with China and Hong Kong combined. The same applies inversely to countries marked in red.

Source: WITS (2019), calculations by Legge et al. (2019)

venia, Croatia, Hungary, Romania, Bulgaria, and Greece, which now have closer trading ties with China than with the US. This also applies, albeit to a lesser extent, to Scandinavia, Germany, the Netherlands, and Spain. Only Ireland still conducts substantially larger volumes of trade with the US than with China, presumably, in part, because of its function as a bridgehead for many US companies in the EU.

The status of the US as the powerhouse of world trade and liberalization is being called into question: In addition to having FTAs with 12 countries and the 10 nations that make up the Association of Southeast Asian Nations (Asean), China is also one of the seven members of the Asia-Pacific Trade Agreement (Apta). By contrast, the United States' network of agreements with 20 countries does not include a single European nation, while China already has FTAs with Switzerland, Iceland, and Georgia (Mofcom 2019 and USTR 2019b).

The United States' network of free trade agreements does not include a single European nation.

China is Switzerland's third-largest trading partner, the US its second-largest

Including Hong Kong, Switzerland now does slightly higher volumes of trade with China than with the US.³ Free trade has been possible with Hong Kong since 2012, and with China since 2014 (see Box 1). Since two FTAs are in place and the following considerations are limited to economic aspects, the significance of China for Switzerland is presented separately from Hong Kong.

Box 1

FTA with the US or China? Safeguarding Switzerland's existing agreements

Article 32.10 (the so-called China clause) of the newly negotiated NAFTA agreement between the US, Mexico, and Canada (USTR 2018b) has aroused a lot of attention in Switzerland.

It affects future agreements made by a NAFTA party with "non-market" countries. The clause does not prohibit FTAs of this sort, but does give the other two NAFTA parties the right to continue the agreement without the third party. There is the possibility that the US would want to include similar wording in a bilateral FTA with Switzerland. Even if it came to this, however, fears in Switzerland that the existing FTA with China would have to be terminated are exaggerated. This is because the USMCA (US-Mexico-Canada Agreement), as the new agreement taking the place of NAFTA is called, explicitly excludes FTAs that are already in place.

What is not clear is how a Swiss-US FTA would treat any modernization or extension of the existing FTA between Switzerland and China.

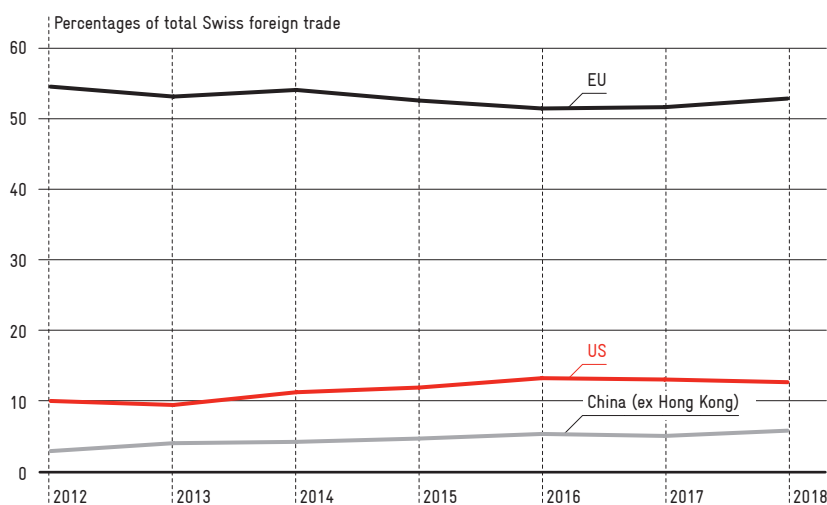
Taken in isolation, Switzerland does less trade with China than with the US. Overall, the US accounts for 13 % of Switzerland's foreign trade (the sum of imports and exports of goods and services). This makes the US Switzerland's second-most-important trading partner, behind the EU (53 %) but still ahead of China (6 %) (see Figure 2).

³ Goods trade (imports and exports) with Switzerland in 2017: Hong Kong CHF 25 billion, China CHF 37 billion, and USA CHF 58 billion (FCA 2019b).

Figure 2

The United States: Switzerland's second-largest trading partner

Measured by imports and exports of goods and services, the United States is Switzerland's second-largest trading partner. The United States' share of Switzerland's total foreign trade is more than twice that of China.



Source: BEA (2019), FCA (2019b), SNB (2019a), SNB (2019b), USITC (2019), own calculations

The aim of the present study is to analyze the close economic relations between Switzerland and the US on the basis of facts, and elucidate the potential effects of a free trade agreement. In addition to the movement of goods and services between the two countries, we also take a close look at direct investment.

We finish with strategic recommendations designed to create a basis within Switzerland to prevent talks from being broken off or negotiations not taking place, as was the case 13 years ago in 2006.

1.2_ Major gap in Switzerland's web of free trade agreements

With the multilateral approach getting weaker, in recent decades Switzerland has been accelerating efforts to expand its network of bilateral agreements. It now covers more than 70 countries, including the EU member states⁴, and can thus be seen as one of the most extensive free trade networks in the world (see Dümmler and Kienast 2016). Around three-quarters of Switzerland's total trade in goods takes place with countries with which it has an FTA.

Switzerland's network of bilateral agreements is one of the most extensive free trade networks in the world.

Extensive network of free trade partners – with one major gap

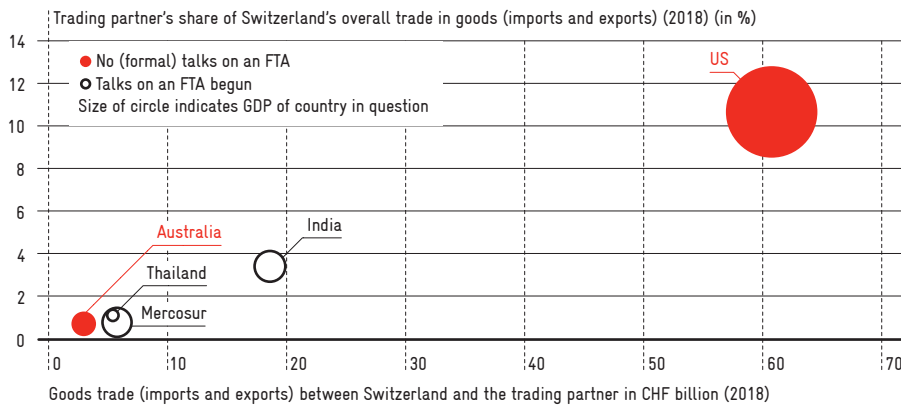
However, from an economic point of view there are a number of gaps: for example, there have still been no agreements with India, the

⁴ Switzerland has also made provision for the eventuality of Brexit with an agreement that has been negotiated but not yet put into effect: trade between the UK and Switzerland should continue without major hiccups ("mind the gap" strategy).

Figure 3

Top five trading partners without a free trade agreement (FTA) with Switzerland

Not only is the United States the strongest economy with which Switzerland does not yet have an FTA; it is also the partner with the most intensive trade at present.



The basis is the trade in goods, since data for trade in services are not available for all trading partners. However, even if bilateral trade in services (where data are available) is included, this does nothing to alter the selection and ranking of the most important trading partners without an FTA with Switzerland.

Source: FCA (2019b), IMF (2019), SNB (2019b), own calculations

Mercosur states ⁵, Thailand, or Australia. Talks with Australia have not been initiated to date; official negotiations are at least under way, or exploratory talks are being held, with the other countries and economic areas. But one country outshines all these in terms of its global and bilateral economic significances: the US. The US is by far the most important partner trading with Switzerland without an FTA (see Figure 3). Given the close and intensifying economic ties, and both partners' commitment to free and fair global trade, an FTA should actually be an urgent priority. Close political and administrative contacts this year (2019) have created a window of opportunity that should now be used.

The US is by far the most important partner trading with Switzerland without a free trade agreement.

Box 2

Information on methodology and data used

The analyses in Chapters 2 and 3 are based on import data from Switzerland and the US respectively. Although different sources of data were used, the assumption in empirical trade research is that this allows greater accuracy than using import and export data from the same source. It is presumed that because of customs duties and non-tariff barriers to trade (such as norms and the certificates that have to be produced), a country's imports are monitored more strictly and thus better recorded than its exports.

⁵ The Mercosur states include Argentina, Brazil, Paraguay, and Uruguay.

2_ Strong bilateral economic ties

2.1_ Growing trade in goods

Between 2000 and 2018 there was a sharp increase in the absolute volume of trade between Switzerland and the US (see Figure 4).

- Imports of goods into Switzerland from the US more than doubled (up CHF 11 billion to CHF 21 billion). This significant increase is primarily due to a change in the way the statistics are gathered, which makes comparisons over time difficult.⁶ The statistical counterpart, US exports to Switzerland, reveals strong growth in the volume of imports from the US to Switzerland in the last two decades.
- In 2017 the US imported goods worth CHF 35 billion from Switzerland. In 2018 the figure was as high as CHF 40 billion, an increase of CHF 23 billion versus 2000.

Thanks to this development, Switzerland's goods trade surplus has grown increasingly quickly, coming to around CHF 14 billion in 2017 and approximately CHF 20 billion already by 2018 (FCA 2019b, USITC 2019).

US products account for a large share of Swiss imports

Around 7.6 % of goods imported into Switzerland are currently from the US. In percentage terms, Swiss imports from the US have remained more or less constant since the 2000 reference year (this is also reflected in the US export figures). Swiss consumers already benefit greatly from goods made in the US. Switzerland ranks 18th in the list of destinations for US exports.

Imports of goods from Switzerland to the US have increased in both absolute and relative terms. In 2000 only 0.8 % of all US imports came from Switzerland; now the figure is 1.6 %. This makes Switzerland the 14th-most-important country of origin for imports to the US. However, in relation to its size, the US market is not significantly dependent on Swiss products.

Switzerland is the 14th-most-important country of origin for imports of goods to the US.

Key industries and product groups

In 2018 Switzerland imported a total of 12 product groups exclusively from the US, including certain organic chemical products, food products, and specific types of wood and machinery. Only in the case of Germany (127 product groups), France (55), Italy (48), and Austria (16) did more goods come exclusively from one country (Legge et al. 2019).

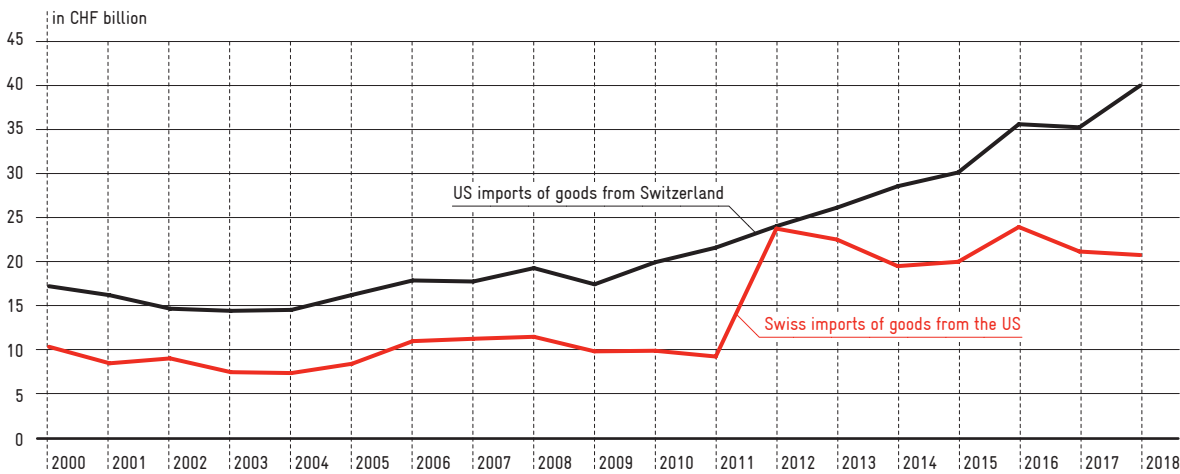
Pharmaceutical products make up the lion's share of goods imported by the US from Switzerland (see Figure 5), and with average annual growth

⁶ Before 2012, non-European products were attributed to the port of entry (in most cases the Netherlands); only from 2012 were they attributed to the actual country of origin.

Figure 4

Growing trade in goods between Switzerland and the US

The trade of goods between Switzerland and the US has increased substantially since 2000. US imports of goods from Switzerland have grown 4.8% per year on average. The sharp increase in Swiss imports of goods from the US in 2012 is due to statistical reasons.



The sudden increase in 2012 is due to a change in the way statistics are gathered. Prior to 2012, non-European products were attributed to the port of entry (in most cases the Netherlands), but since 2012 they have been attributed directly to the actual country of origin.

Source: FCA (2019b), SNB (2019b), USITC (2019), own calculations

of 18 % over the last two decades are also among the most rapidly developing products. In second place are organic chemicals, accounting for 11 % of total imports to the US from Switzerland, followed by precision instruments (9 %) (USITC 2019).

Given the widespread opposition to free trade in agricultural circles, it is remarkable that already 12.7 % of Swiss exports of agricultural and forest products go to the US ⁷, while only 2 % of the products in this area imported by Switzerland ⁸ originate from the US (FCA 2019b).

Switzerland's main imports from the US, on the other hand, are chemical end-products, precision instruments, air- and spacecraft, road vehicles, plus jewelry, household goods, and precious metals (see Figure 6). ⁹

Customs duties and potential savings

More than half the products imported from the US are already subject to a very low tariff rate of less than one percent: In 2018, 76 % of imports were already tariff-free; for the remaining 24 %, the average MFN (most-favored nation) tariff ¹⁰ was only 0.7 %. Overall, in 2018 Swiss consumers and companies (see Box 3) paid around CHF 30 million in duties on a total

Pharmaceutical products make up the lion's share of goods imported by the US from Switzerland.

7 A high proportion of this falls to sweetened beverages, particularly exports of cans of Red Bull.

8 Switzerland's food market, followed by Norway and Iceland, is the most heavily protected from foreign imports. This particularly applies to unprocessed foods such as dairy products, meat, fruit, and vegetables.

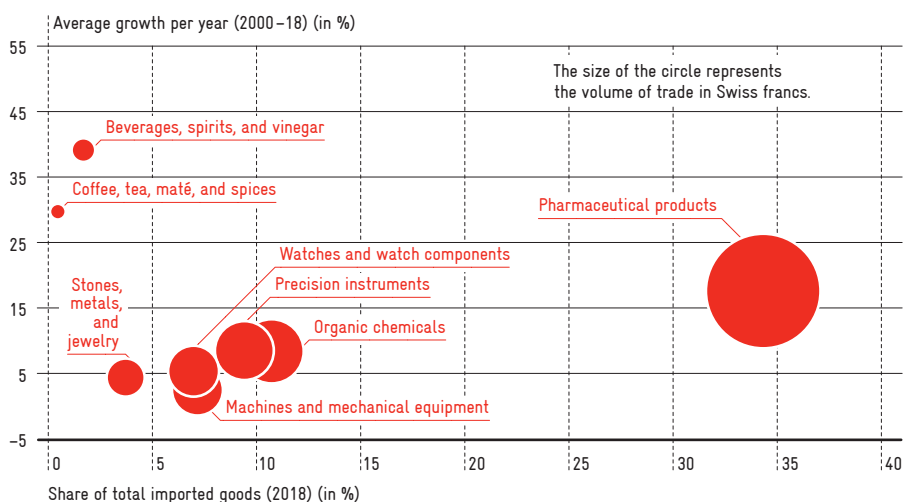
9 Because of the use of import data for each country, different product group categories underlie the analyses.

10 MFN (most-favored nation) tariffs are those charged by WTO member states among themselves.

Figure 5

US imports from Switzerland by product group

Pharmaceutical products account for around one-third of overall US imports from Switzerland. This is by far the most important export from a Swiss perspective at present.



Source: SNB (2019b), USITC (2019), own calculations

volume of imports from the US of some CHF 21 billion. This gives an average tariff rate of 0.14 %. The highest absolute customs expenses (not to be confused with tariff rates) arose on the import of private vehicles ¹¹ (around 14 % of total duties paid), followed by wine (around 9 %). Besides wine, other agricultural goods resulting in relatively high customs expenses are whey, ethanol (pure alcohol), and beef.

Box 3

Who pays the customs duty?

Imported goods are reported to customs by the forwarder charged with shipping the goods, or by the importer itself. The customs duty due is paid by the importer directly or charged on to the importer by the forwarder. Import duties levied are thus ultimately always paid by domestic consumers and companies rather than by the manufacturer or exporter abroad.

The question of who bears the actual economic burden of duties is quite another matter. If they are to remain competitive, producers of goods often cannot pass the entire customs duties on to consumers.

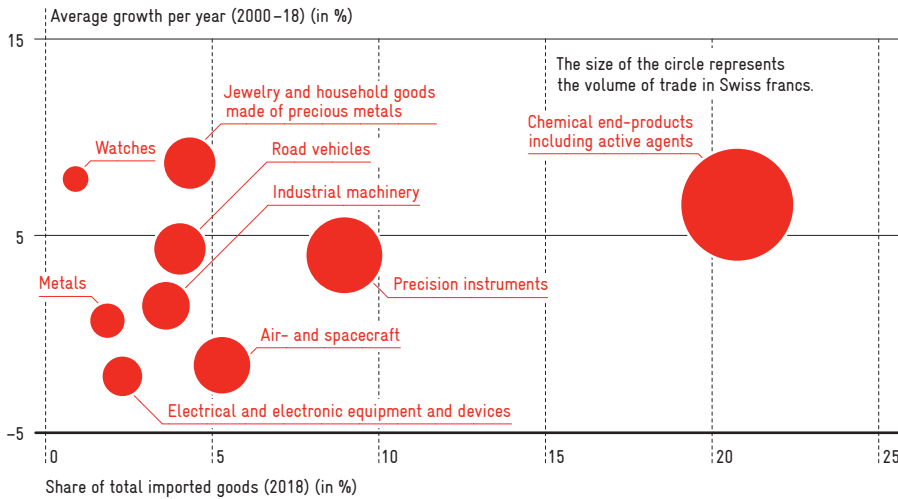
Switzerland imports more than 5,000 of 8,000 possible product groups from the US. ¹² This trade is in products where the tariff rates are already

11 Swiss tariff rates for the import of vehicles from the US are already very low. They account for 4 % of the car value. In the EU, the same car would be subject to a tariff rate of 10 % (Futurezone 2019).

Figure 6

Swiss imports from the US by product group

On the Swiss side too, one product category stands head and shoulders above the rest: accounting for more than 20 % of total imports to Switzerland from the US, chemical end-products are the clear winner.



Source: FCA (2019b), own calculations

very low or even zero. In other words, to increase trade, the tariff rate should be reduced or even abolished for other product groups too.

Switzerland's customs tariff classification includes around 1,500 products with an (estimated) ¹³ MFN ad valorem tariff ¹⁴ of more than 5 %, over 800 products have tariff rates of more than 10 %, and 400 even over 25 %. In more than 90 % of cases, these high rates apply to agricultural produce (see Figure 7). Flour, for example, incurs an average tariff rate of more than 400 % of the value of the goods, which effectively prohibits trade in these products.

For their part, US consumers and companies (see Box 3) paid customs duties of almost CHF 250 million in 2018 on the basis of slightly more than CHF 40 billion's worth of imports from Switzerland. This corresponds to an average tariff rate of 0.6 %. Dairy products, with a share of around 3 %, incur the highest customs expenses, not because of the large volume traded, but because of an above-average tariff rate of almost 9 %. In the US too, certain product groups – primarily tobacco (350 %) and peanuts (more than 130 %) – are subject to prohibitively high tariffs.

US consumers and companies paid customs duties of almost CHF 250 million on imports from Switzerland.

2.2_ Growing trade in services

¹² Based on eight-digit HS numbers. HS stands for the internationally Harmonized System for classifying and coding goods.

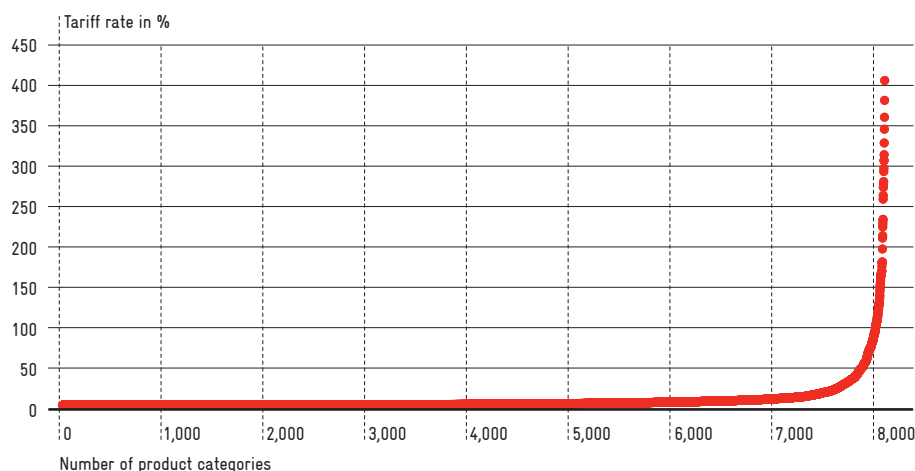
¹³ The MFN ad valorem tariff was estimated on the basis of all Swiss imports.

¹⁴ An ad valorem tariff (duties by value) is expressed in percent and is calculated on the basis of the price of the imported product, as opposed to duties calculated on the basis of the weight of the imported goods. Switzerland is one of the last remaining countries in the world to retain the system of duties by weight.

Figure 7

Average Swiss customs duties on imports from the US

In 2018, Switzerland saw positive imports from the US for around 5,000 of a total of 8,000 product groups with regular import duty. These are product groups where the tariff rate is either zero or already very low. To increase trade, the other tariff rates will have to be reduced as well.



Source: FCA (2019b), Legge et al. (2019)

Alongside trade in goods, trade in services between Switzerland and the US has intensified considerably in recent years. Between 2012 and 2017 ¹⁵, services imported to Switzerland from the US increased by around CHF 12 billion, while US service imports from Switzerland grew by approximately CHF 6 billion (see Figure 8). Over this period, Swiss imports from the US grew much more rapidly (up 79 %) than US imports from Switzerland (up 30 %). This development is the opposite of the trend in the trade in goods, where US imports from Switzerland have grown more rapidly than the other way around.

Swiss imports from the US grew much more rapidly than US imports from Switzerland.

Over one-quarter of services imported into Switzerland come from the US

The relative importance of the US as a provider of services to Switzerland increased by 8 percentage points between 2012 and 2017 ¹⁶, from 18 % to 26 % of total service imports (SNB 2019a). At the same time, Switzerland's relative importance as a provider of services to the US has remained more or less constant at around 5 % (+0.2 percentage points; BEA 2019). This trend is manifest in a declining surplus for Switzerland, which in 2017 even turned into a deficit (CHF –0.2 billion).

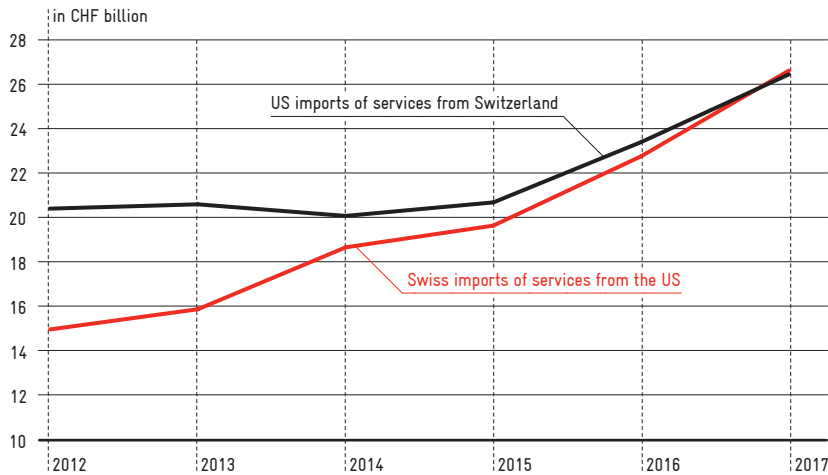
¹⁵ Data on the import of services by country are only available for Switzerland from 2012 (SNB 2019a). Even though the US data source provides corresponding figures from the export perspective for a longer period, here we adhered to the principle of using import data (see Box 2).

¹⁶ To draw conclusions about the relative importance of the US as a provider of services to Switzerland, for the sake of statistical rigor numerators and denominators should be taken from the same data source. The data for the Swiss perspective are those from the SNB, which is why this comparison only covers data from 2012 on.

Figure 8

Powerful growth in spending on services from the US

In the years after 2012, Switzerland has recorded a surplus in the trade in services with the US; in other words, Switzerland has exported more services than it has imported. However, this surplus has declined steadily, and in 2017 even turned into a deficit of CHF 0.2 billion.



Source: BEA (2019), SNB (2019a)

Switzerland procures around one-quarter of the services it imports from the US. The most important segments are research and development (R&D) (24.8%), license fees (24.4%), and telecommunications, computer, and information services (18.8%). Imports of R&D services have grown particularly rapidly since 2012 (see Figure 9).

The declining services surplus for Switzerland turned into a deficit in 2017.

Trade in highly specialized services

One of the most important services imported by the US from Switzerland is insurance (31.9%), which has grown rapidly at a rate of 5% per year from 2012 to 2017, to CHF 8.5 billion in 2017. By comparison, imports of financial services¹⁷ from Switzerland are only modest (CHF 0.5 billion in 2017). Only consulting and tourism services have seen even more rapid growth than insurance, with 8.5% and 7.0% respectively. Other significant categories are license fees (21.8% of all US service imports from Switzerland) and consulting services (11.4%) (see Figure 10).

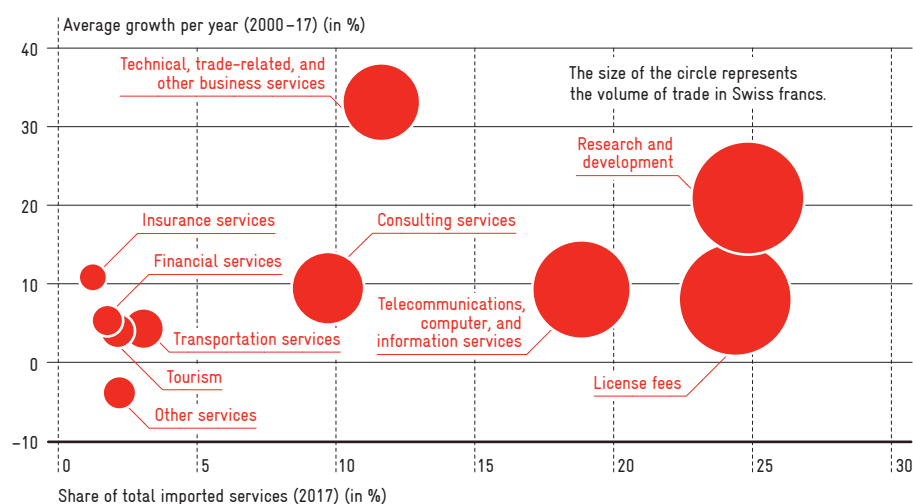
The portfolio of services traded between Switzerland and the United States reflects the high state of development of the two economies. It is not just goods that are traded. There is disproportionate growth in trade in services. In some cases these are highly specialized activities such as research and development (a good example is the billions invested by

¹⁷ The financial services category covers all services provided by banks and other financial institutions.

Figure 9

Swiss imports of services from the US: R&D and license fees

Half of Switzerland's total service imports from the US are in R&D and license fees. Telecommunications, computer, and information services account for a further 19%.



Source: SNB (2019a), own calculations

Swiss pharmaceutical companies in the US) and licensing innovative products.

It is significant that the relative importance of service imports is higher than for goods. This too can be interpreted to indicate two mature economies whose value creation not only primarily depends on the service sector, but which also develop highly specialized services and business models that are exportable. The US in particular has evolved for many Swiss companies operating internationally into a source of services essential to the process of producing products and services.

2.3_ High level of reciprocal direct investment

There are already also close ties between Switzerland and the US when it comes to direct investment. Measured in terms of the immediate investor (see Box 4), Switzerland has invested much more (CHF 305 billion) in the US than the other way around (CHF 135 billion). This makes Switzerland the seventh-largest investor into the US, with a volume of investment three times higher than China, India, and Mexico together (BEA 2019, figures for 2017).

Measured in terms of ultimate beneficial ownership (see Box 4), the balance of investment at first seems to swing in favor of the US. However, given Switzerland's status as an important international base for holding companies, ultimate beneficial ownership can be misleading when it comes to assessing the real economic significance of investments (see Figure 11 and Box 4).

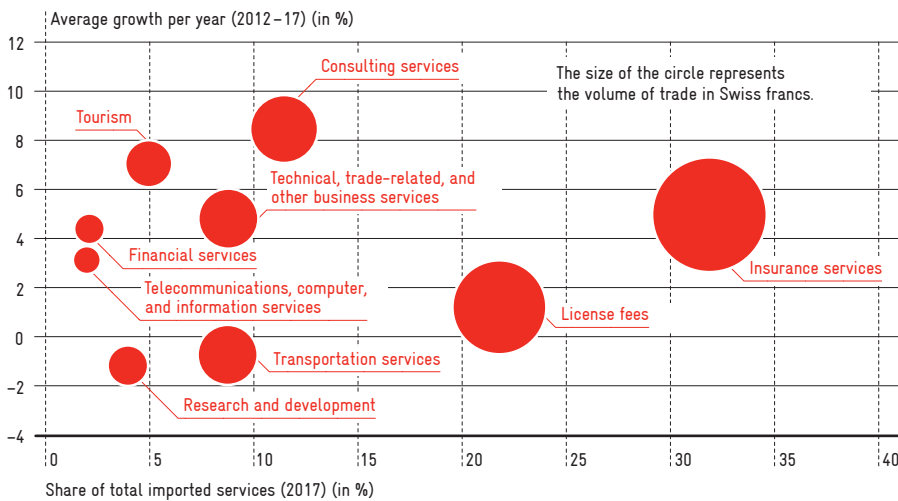
More than 400,000 jobs on the basis of direct investment alone

Switzerland is the seventh-largest investor into the US.

Figure 10

US imports of services from Switzerland: insurance services and license fees

With a share of 32% of total service imports from Switzerland, insurance is by far the most important category for the United States. License fees (22%) account for another hefty percentage.



Source: BEA (2019), SNB (2019b), own calculations

The number of jobs created is one example of how the concept of immediate investor more adequately reflects the macroeconomic significance of direct investment: In 2017, Swiss companies employed around 319,000 people in the US¹⁸ (SNB 2019a), while US companies generated some 89,000¹⁹ (FSO 2018) direct jobs in Switzerland. Indirectly (including locally sourced services such as construction and maintenance) the effects are even greater. This comparison underscores Switzerland's major macroeconomic importance as a direct investor in the US, and vice versa.

Box 4

Ultimate beneficial owner versus immediate investor

The concept of immediate investor reflects the country of origin of the investor with a direct interest in a company. By contrast the concept of ultimate beneficial ownership reflects the country of the investor who ultimately exercises control. Investments defined in terms of the immediate investor may be owned (more than 50% of the voting interest) by groups with their head office in other countries and controlled from there (the ultimate beneficial owner). The immediate investor's country is thus merely the country where the intermediate company is based (SNB 2016).

The reason for the large stocks of US direct investment in Switzerland defined in terms of the ultimate beneficial owner lies in the fact that Switzerland is an important base for holding companies. So a large portion of US direct investment involves pass-through capital

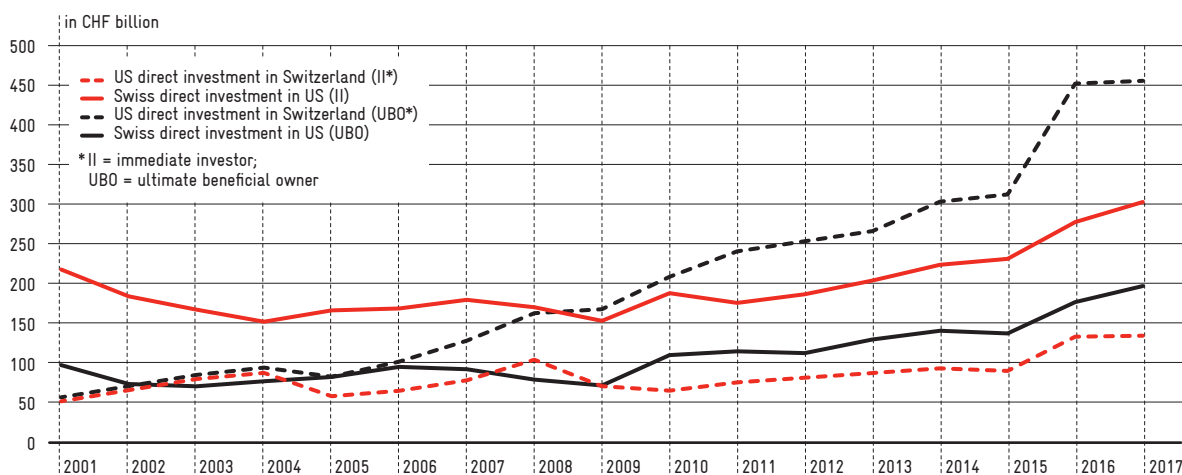
¹⁸ Workforce of subsidiaries of Swiss companies in the US. Other sources talk of 460,000 or 750,000 jobs created directly in the US by Swiss direct investment and trade in goods and services with Switzerland (*Embassy of Switzerland 2017 and 2019*).

¹⁹ Number of people employed in Switzerland by corporate groups based in the US.

Figure 11

High level of Swiss direct investment into the US

Measured in terms of immediate investor, the amount of Swiss direct investment in the US is around CHF 170 billion higher than US investment in Switzerland. Since Switzerland is an important international center for holding companies, the concept of immediate investor best reflects the real economic impact.



Source: BEA (2019), SNB (2019a)

which does not generate any real economic benefit in Switzerland, for example in the form of jobs. This capital is much more likely to leave Switzerland again and be invested in a third country.

It is a different story when it comes to direct investment from Swiss actors in the US, the lion's share of which directly creates value, including jobs, in the US.

2.4_ Together more than 700,000 jobs

The following analyses and interpretations are posited between the poles of new foreign trade theory and mercantilism. In many countries, the latter is again finding fertile ground, even though the ideas of mercantilism have long been obsolete from the point of view of economic theory (see Box 5). However, for the arguments in this subsection we have deliberately taken a mercantilist perspective.

Box 5

A theoretical assessment of mercantilism

Mercantilism is a theory of economic policy geared to trade surpluses that was dominant between the 16th and 18th centuries. The goal is to increase (government) revenues by way of foreign trade surpluses (acquiring foreign currency). It involves actively encouraging exports while at the same time imposing tariff-based and non-tariff barriers to imports to protect domestic companies from competition from abroad. In the 18th century, mercantile theory gave way to classical economics, and later to new approaches to foreign trade theory.

A mercantile theorist would argue that the current account deficit with Switzerland constitutes a loss from the US point of view. While this argument is correct in terms of amounts of money, it overlooks the beneficial nature of imports. Trade does not just benefit the country

exporting; the goods and services generate greater benefit in the importing country than comparable domestic goods. Both countries involved see their level of utility and prosperity increase.

A high degree of specialization, and thus a higher degree of efficiency, always involves surpluses and deficits in foreign trade, which in themselves are irrelevant (Dümmeler and Schnell 2017). Put simply, it is normal for a barber to be at a deficit to his mechanic in terms of the trade in services, because the mechanic's visits to the barber every year come to nowhere near the amount of money the barber spends on service and repairs to his car. For there to be a balance of services trade between the two partners, the mechanic would have to go to the barber more often in future and the barber could never sell his car. This would mean they would both have much less freedom of choice and less utility than if they had full market choice.

Switzerland's current account surplus

In 2017 Switzerland generated a current account surplus (trade in goods and services, see Sections 2.1 and 2.2) of around CHF 14 billion with the US. The capital account presents a different picture, especially when it comes to direct investment (see Section 2.3): here, measured in terms of immediate investors, Switzerland invested around CHF 170 billion (2017) more in the US than vice versa. Swiss companies employ almost four times as many people in the US than US companies in Switzerland. In relation to the global economic importance of Switzerland, Swiss direct investment in the US is disproportionately high.

Current account and capital account are two sides of the same coin, and are brought together in the balance of payments, which must always be balanced (see Box 6).

In relation to the global economic importance of Switzerland, Swiss direct investment in the US is disproportionately high.

Box 6

A brief explanation of the balance of payments

The balance of payments includes an economy's entire cross-border economic transactions. The balance of payments comprises the current account (which records transactions in goods and services) and the capital account (which records transactions in financial assets). Since sales of goods and services from Switzerland to the US are higher than the corresponding imports, this results in a current account surplus for Switzerland; in other words, a positive balance for Swiss exporters in the US corresponding to the difference. This can be seen in the balance of the capital account. On the balance of payments level, this means that the sum of the transactions in a country's current account and capital account, adjusted for statistical differences, is always zero.

Win-win situation

If we now weigh the current account against the capital account, for example on the basis of jobs, we get the following estimate:

Bilateral trading relations (goods, services, and direct investment) already assure more than 700,000 jobs directly, around 260,000 in Switzerland and some 450,000 in the US. Around 180,000 jobs in Switzerland,

and some 140,000 in the US, exist on the basis of trade in goods and services between the two countries. This calculation is done on the basis of (assumed) average revenues of CHF 350,000 per employee (SHRM 2017) and the simplifying assumption that this figure is identical in both Switzerland and the US. Given Switzerland's CHF 14 billion current account surplus (as of 2017), the US creates an estimated 40,000 or so more jobs in Switzerland than the other way around.^{|²⁰}

When it comes to direct investment, it all points in the other direction. Since Switzerland has more direct investment in the US than vice versa (a balance of CHF 170 billion in the United States' favor), again assuming average revenues of CHF 350,000 per employee, 230,000 more jobs are created in the US than in Switzerland (see FSO 2018, SNB 2019a).

When it comes to direct investment, 230,000 more jobs are created in the US than in Switzerland.

On a net basis, the US thus benefits more in terms of jobs from Switzerland than vice versa. Bilateral trade relations are creating around 190,000 more jobs in the US than in Switzerland (230,000 minus 40,000).^{|²¹} From a mercantilist point of view, this puts Switzerland's oft-cited current account surplus with the US in perspective.

2.5_ First go at an agreement

Already in July 2005 during the administration of US President George W. Bush, close bilateral trading relations culminated in exploratory talks on the possibility of an FTA between Switzerland and the US.^{|²²}

First attempt founders

A motion by the then Swiss economics minister Joseph Deiss in January 2006 to open official negotiations was rejected by the Swiss Federal Council. This had been preceded by five parliamentary initiatives that voiced criticism of a possible FTA. The main issue was protecting the Swiss agricultural sector from imports from the US.

Following the Federal Council's rejection, isolated parliamentarians tried to reanimate the debate. There were six initiatives in this direction, but from 2008 onward the topic disappeared from the political agenda (see Figure 12).

It was only in 2012 that there were new moves, initially driven by Swiss interests in protecting geographical indications for cheese, and from 2013 increasingly also fueled by the possibility of an agreement between the US and the EU. The Transatlantic Trade and Investment Partnership (TTIP) would have been the world's largest free trade area, with implications for Switzerland (see Box 7). The US and the EU were not just discussing reducing duties on industrial and agricultural

20 Since the level of pay is higher in Switzerland than in the US, the number of jobs created in Switzerland by the current account surplus tends to be overestimated.

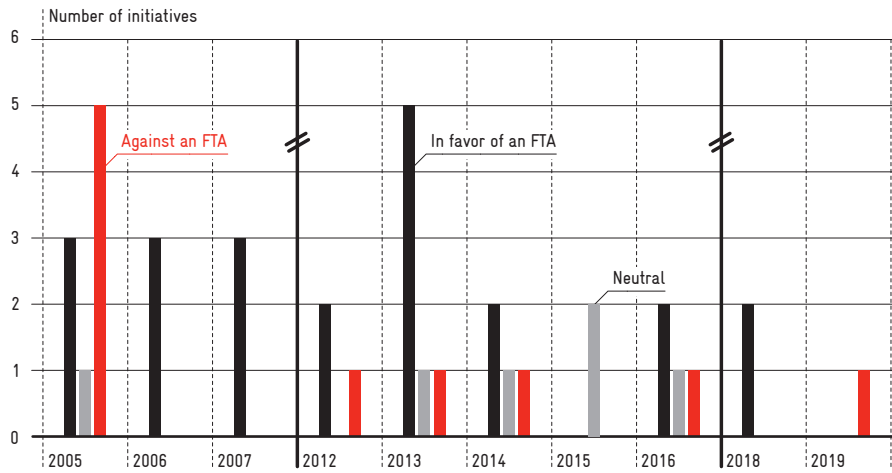
21 Swiss companies are among the best-paying employers in the US (*Embassy of Switzerland 2019*).

22 This prompted a comprehensive analysis of bilateral trading relations by Hufbauer and Baldwin (2006).

Figure 12

Parliamentary initiatives related to Swiss-US free trade

An analysis of political developments reveals three phases of more dynamic action: between 2005 and 2007 in response to the first attempt; between 2012 and 2016 in response to concerns about the signing of the TTIP (EU-US); and from 2018 on the basis of the second attempt to negotiate a bilateral agreement with the US.



Source: Own evaluation based on Swiss Parliamentary Services (2019a)

goods. They were also talking about removing many non-tariff barriers to trade and opening the public procurement market in both directions.

Box 7

Potential consequences of the TTIP for Switzerland

The WTI (World Trade Institute, 2014) at the University of Bern has postulated various different scenarios for the TTIP agreement and its impact on Switzerland. The most damaging move for Switzerland (-0.5% of GDP) would have been a bilateral reduction in customs duties by the EU and the US. Trade diversion effects (see Box 8) would have negatively impacted many Swiss companies.²³

The Swiss export industry would also have suffered because of more restrictive rules of origin (Balestrieri 2014). These determine from what percentage of value creation a product can be exported to the US, for example as “Made in the EU,” under the preferential terms of the trade agreement. To facilitate trade, many EU companies might have dropped Swiss suppliers, particularly suppliers of automotive components and precision instruments (including medical technology), in favor of companies within the EU.

If a comprehensive agreement had come to pass between the two trading partners that among other things included the recognition of standards, and if Switzerland had been able to sign up to the agreement, this would have resulted in estimated $+2.9\%$ growth in Swiss GDP

²³ See also Economiesuisse (2015).

(WTI 2014). From a Swiss point of view, this would not only have enabled free access to the EU and US markets; compliance with technical norms would have had to be checked only once and would have subsequently been valid for Switzerland, the EU, and the US. ²⁴ The aim was to conclude the TTIP by the end of 2015. Because of public protests in the EU (think chlorinated chicken) and the change in US president, however, the agreement was not signed. Officially talks are on hold, but they could be resumed at any time. ²⁵

²⁴ There is (still) a mutual recognition agreement (MRA) of this type in place between Switzerland and the EU, but not with the US. If all three trading partners had agreed, the conformity of a product would have had to be recognized only once.

²⁵ In July 2018 there were talks at the highest level between US President Trump and European Commission President Juncker. They agreed to continue the dialog on removing barriers to trade (European Commission 2018). Since then, however, there does not appear to have been much movement in this direction.

3_ Benefits of a free trade agreement

3.1_ Trade in goods

Since fall 2018, Switzerland has again been in exploratory talks with the US (EAER 2019). The goal is to find out whether there is now a basis for official negotiations 13 years after they foundered at the first attempt. A major reason for the renewed endeavor is the Trump administration's approach of forcing the pace when it comes to signing new bilateral trade agreements or improving existing ones. ²⁶

Possible savings in duties on the trade of goods – an estimated CHF 135 million or so for Switzerland and CHF 24 million for the US ²⁷ (Legge et al. 2019) – are not the decisive factor when it comes to a potential FTA between Switzerland and the US. Since an agreement between the two countries would lead to a reduction in the costs of trade (transportation, market access, tariffs, insurance, and regulation), there would be more trade between them with an FTA (see Box 8). The actual degree of this effect would depend on what concrete barriers to trade (tariff-based and non-tariff) were actually reduced by the agreement.

With an agreement, trade between the two countries would increase.

Box 8

Trade creation and trade diversion

Putting an FTA or customs union in place generally triggers changes in cross-border flows of trade (Viner 1950).

Firstly, exporting companies in the countries involved benefit from cost savings (no more import duties) and, as a rule, also from lower barriers (e.g. lower technical barriers to trade). This makes their products more competitive by comparison with providers from other countries. This creates additional trade (so-called trade creation).

Secondly, providers from other countries that are not part of the new agreement become less competitive than competitors in the countries involved in the agreement, as the former still have to pay duties on exports and have compliance with the relevant technical regulations checked. As a result, because its price including duties, etc., is higher, a supplier from another country that basically produces efficiently can be forced out of the market by a less efficient company in one of the countries participating in the agreement. This leads to so-called trade diversion.

The following estimates are based on the assumption that an FTA between Switzerland and the US would be similar to the FTAs signed

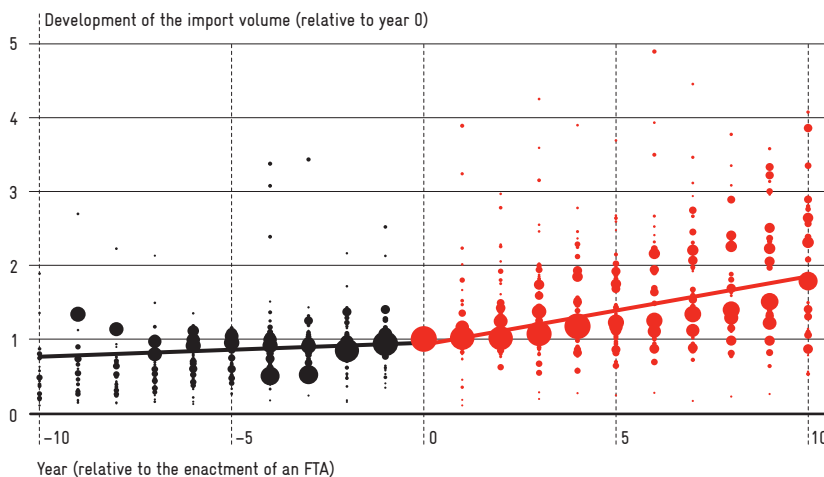
²⁶ Examples from the document *2018 Trade Policy Agenda and 2017 Annual Report of the President of the United States on the Trade Agreements Program*: “[...] President Trump has launched a new era in American trade policy” (p. 14), “Under President Trump, the United States remains committed to working with like-minded countries to promote fair market competition around the world [...]” and “Countries that are committed to market-based outcomes and that are willing to provide the United States with reciprocal opportunities in their home markets will find a true friend and ally in the Trump Administration.” (p. 16, *USTR 2018a*).

²⁷ These figures assume a utilization rate of 100 %. Adjusted for the expected utilization rate, the estimated savings in duties come to around CHF 100 million for Switzerland and CHF 7 million for the US (Legge et al. 2019).

Figure 13

Switzerland: trade-creating effects of an FTA

Based on the data of FTAs signed by Switzerland to date, following an FTA imports would increase around 7.3 percentage points per year more than without an agreement. In terms of trade with the US, this corresponds to an additional import volume of CHF 9.6 billion in Year 5 following the signing of an FTA (CHF 26.9 billion on a cumulative basis).



Source: Legge et al. (2019)

by Switzerland or the US in the past. On this basis, the trade-creating effects of an FTA between the two countries in the trade of goods were projected. In each case the observations were weighted by volume of trade (Legge et al. 2019).²⁸

Substantial increase in volume of trade between Switzerland and the US

According to this model, compared with a situation without an FTA, Swiss imports would increase an additional 7.3 percentage points per year with an FTA (see Figure 13). Cumulated over the five years following the enactment of the FTA, this would lead to an additional CHF 26.9 billion in imports, and in Year 5 after the enactment of the FTA the volume of imports would be CHF 9.6 billion higher than without an agreement (based on 2018 import volume; BEA 2019). The additional import volume (= export volume for the US) in the fifth year after enactment of the FTA would be equivalent to around 27,500 new jobs created in the US, assuming average revenues of CHF 350,000 per employee (SHRM 2017).

Calculations (Legge et al. 2019) show that an FTA between Switzerland and the US would not only lead to an increase in the volume of trade in absolute terms (trade creation), but also in relative terms (trade diversion;

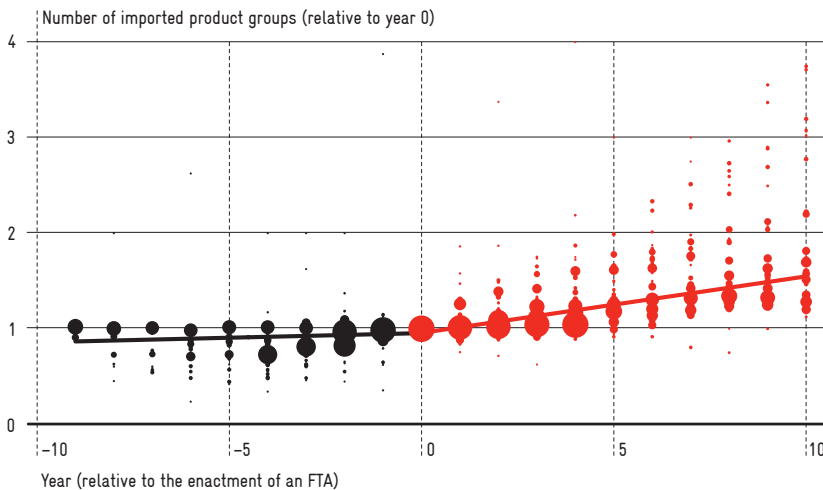
In the fifth year after enactment of the free trade agreement, 27,500 new jobs would be created in the US.

²⁸ Given the different data sets (all FTAs signed to date) for the two countries, the growth in one country's imports does not necessarily match the growth in the other's exports.

Figure 14

Switzerland: more imported product groups after enactment of an FTA

After Switzerland enacts an FTA, the number of imported product groups increases 25%. This boosts domestic competition (competition from imports) and helps increase the range on offer to consumers and companies.



The analysis on the number of imported product groups is based on a limited data set covering the years 2000–2018 (19 years). Therefore, there are no data available for the year -10.

Source: Legge et al. (2019)

see Box 8). The US would become even more important as a trading partner to Switzerland.

But not only this. After signing an FTA, Switzerland typically also trades a larger number of products with the partner country in question. Five years after the FTA, Switzerland imports 25 % more product groups from the trading partner in question (see Figure 14). This helps diversify the range of products on offer and enhances the benefit for Swiss consumers.

More than 13,000 new jobs in Switzerland

All FTAs to date show that there are also trade-creating effects on the US side. After enactment of an FTA, imports grow by 2.1 percentage points more per year on average (see Figure 15). Applied to imports from Switzerland, this means an additional import volume of CHF 13.6 billion cumulatively over five years, CHF 4.7 billion in the fifth year alone (on the basis of 2018 import volume; FCA 2019b). The latter is equivalent to 13,500 jobs created in Switzerland.

In the fifth year after enactment of the free trade agreement, 13,500 new jobs would be created in Switzerland.

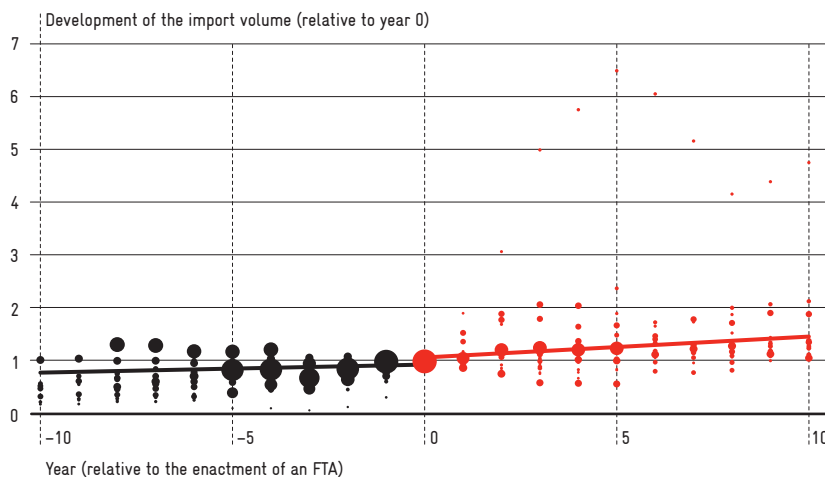
Reduction in US goods trade deficit with Switzerland

When Switzerland signs an FTA, the increase in imports of goods into Switzerland from the trading partner in question is greater on average than growth in exports to the trading partner; from the US perspective

Figure 15

US: trade-creating effects of an FTA

Based on the data of FTAs signed by the US to date, following an FTA imports would increase around 2.1 percentage points per year more than without an agreement. In terms of trade with Switzerland, this corresponds to an additional import volume of CHF 4.7 billion in Year 5 following the signing of an FTA (CHF 13.6 billion on a cumulative basis).



Source: Legge et al. (2019)

it is precisely the opposite. These different effects of FTAs on the two countries suggest that a Swiss-US FTA would not only generate additional trade, but could lead to a reduction in the medium term in the United States' current account deficit with Switzerland.

Based on the volume of trade between the two countries in 2018 – assuming growth rates remained constant – following an FTA the United States' current goods trade deficit with Switzerland would be transformed into a surplus in 2031.^{|29}

An agreement could lead to a reduction in the United States' current account deficit with Switzerland.

3.2_ Agricultural goods

There will be no agreement with the US unless Switzerland makes concessions in relation to agriculture (Dümmli 2019).^{|30} To gauge the potential competition with Swiss agriculture from imports, we looked at the structure of the US's global agricultural exports (see Table 1).^{|31} By far the most important are exports of soya, followed by corn (maize), nuts, and beef.

29 Swiss imports of goods from the US will grow more rapidly with an FTA than Swiss exports to the US. Together with the US's current small services trade surplus, all other things remaining equal, the US current account deficit with Switzerland would also be likely to become a surplus in the medium term.

30 Swiss hopes of completely excluding the debate on free trade in agricultural goods are very unlikely to materialize. In informal talks with the EU on resuming negotiations following the effective demise of the TTIP, the US called for free trade in agricultural goods with the European Union, at least in part (NZZ 2019a).

31 It can be assumed that the structure of US exports will not change because of an FTA with Switzerland, as demand from Switzerland is too small to significantly influence the structure of US offerings.

Table 1

Top ten US agricultural exports

In 2018 the biggest US agricultural export to the rest of the world by far was soybeans, followed by corn, nuts, and beef.

| Export ranking | Agricultural goods | Amount (USD m) |
|----------------|---|----------------|
| 1 | Soybeans | 17,163 |
| 2 | Corn | 12,921 |
| 3 | Nuts (fresh or dried) | 7,823 |
| 4 | Beef | 7,282 |
| 5 | Food preparations | 5,940 |
| 6 | Wheat or meslin* | 5,458 |
| 7 | Pork | 4,602 |
| 8 | Oil cake from soybeans | 3,994 |
| 9 | Poultry | 3,629 |
| 10 | Residues from the manufacture of starch | 3,253 |

*Mixture of wheat and rye

Source: USITC (2019)

Soybeans: market could open up

Soybeans, primarily used for animal feed, are one of the most heavily traded commodities worldwide. In 2018, Switzerland imported around 14,700 metric tons of soybeans worth CHF 10.7 million, not one ton of which came from the US (FCA 2019b). The reason for this is that under the terms of the Swiss federal ordinance on animal feed, since 1999 it has been compulsory to declare genetically modified (GM) feed ³², and many Swiss labels ³³ have opted for non-GM feed. The US, by contrast, continues to grow primarily genetically modified soybeans. For this reason Swiss imports mainly come from Brazil and the EU.

A complete opening of Switzerland's market for soybeans – the tariff rate for soybeans from the US runs at a mere CHF 0.10 per 100 kilograms (FCA 2019c) – should be possible. ³⁴ Even with a zero tariff, demand for US soybeans would likely remain low because 94 % of soybeans grown in the US are genetically modified (Soy Network Switzerland 2019). Separating supply and processing chains to avoid contamination is expensive and hardly likely to be justified even at zero tariff.

Switzerland imported around 14,700 metric tons of soybeans, not one ton of which came from the US.

³² Impurities of below 0.9 % do not have to be declared.

³³ These include IP-Suisse, Naturafarm, Bio Suisse/Knospe, Suisse Garantie, QM Schweizer Fleisch and Terra Suisse (Soy Network Switzerland 2019).

³⁴ In 2017, Switzerland harvested around 5,600 metric tons of soybeans (Agristat 2018), subsidizing cultivation with CHF 1.7 million in taxpayers' money, or CHF 1,000 per hectare per year (FOAG 2018).

Corn: declaration and innovation

More important for Switzerland than soybeans are imports of corn. In 2018, Switzerland imported around 132,120 metric tons of corn worth CHF 43.2 million, only 172 tons of which came from the US (FCA 2019b). Depending on the degree to which the corn has been processed and what it is used for, the tariff rate is up to several dozen francs per 100 kilograms (FCA 2019c). In 2016 Switzerland grew around 35 % of its corn itself (Agristat 2018). ³⁵

Given the production structures, the US would primarily have transgenic corn to offer. Basically, it is permitted to import modified corn into Switzerland for food or animal feed, but it has to be declared. In view of the domestic demand structures, imports from the US are unlikely to constitute major competition for Swiss corn. Apart from this, innovative manufacturers place a premium on designations of origin: Ribelmais AOP from the Rhine Valley was the first grain to be protected in Switzerland.

Nuts: no competition for domestic production

The production of nuts in Switzerland came to around 2,500 metric tons in 2017, grown on a mere 7 hectares of land (Agristat 2018). In 2018 imports of all types of nuts together came to around 36,600 tons, of which 22 % originated in the US. As a rule, the tariff rates are only a few francs per 100 kilograms. Given the minimal domestic production, more intense competition from US imports is unlikely to have any great effect, instead diverting trade away from other exporting countries to the US.

Meat: exploit creative room for maneuver

At around USD 15.5 billion, meat products are also one of the most frequent exports from the US (see Table 1); beef accounts for by far the greatest share of this. In 2019 Switzerland imported around 21,000 metric tons of beef, primarily from Germany, Austria, and Ireland. ³⁶ Only 2 % of all Swiss beef imports originated from the US (FCA 2019b). A sizeable 86 % of the beef consumed in Switzerland was produced domestically. Despite this, in the last five years imports have exceeded the reduced-tariff minimum quota for red meat (including beef) notified to the WTO, in some cases by more than double (Proviande 2019). It would thus be possible within the framework of FTA negotiations to offer the US a reduced-tariff quota for beef without major implications for Swiss producers.

The situation is different for white meat (including pork and poultry). In recent years, the WTO tariff rate quota has not been exhausted.

Offering the US a reduced-tariff quota for beef would not have major implications for Swiss producers.

³⁵ Corn grown for seed is subsidized to the tune of CHF 700 per hectare per year (FOAG 2018).

³⁶ Because of the price difference, the volume of meat bought by private Swiss individuals in foreign countries close to the border is estimated at 12 % of the total volume of all meat sold domestically in Switzerland (Proviande 2019).

Table 2

Switzerland's top ten agricultural exports

By far the biggest exports from Switzerland to the rest of the world in 2018 were coffee and sweetened beverages.

| Export ranking | Agricultural goods | Amount (CHF m) |
|----------------|---|----------------|
| 1 | Coffee | 2,299 |
| 2 | Mineral water and other soft drinks | 1,775 |
| 3 | Chocolate | 844 |
| 4 | Food preparations | 715 |
| 5 | Cheese and curd | 622 |
| 6 | Food preparations from flour, groats, meal, starch, or malt extract | 596 |
| 7 | Cigars, cheroots, cigarillos, and cigarettes | 563 |
| 8 | Animal fodder | 223 |
| 9 | Concentrates of coffee, tea, or maté | 186 |
| 10 | Sugar confectionery not containing cocoa | 169 |

Source: FCA (2019b)

This is primarily because of the high proportion of domestically produced white meat: 95 % for pork and 65 % for poultry (the latter has increased in the last few years) (Proviande 2019). Swiss producers have managed to promote their domestic product and differentiate it from the imported competition. Besides more pronounced differentiation, longer transitional periods in particular could help make the potential structural change more socially tolerable for pork and poultry producers.

Switzerland's offensive agricultural interests

When it comes to Swiss exports of agricultural goods, coffee and sweetened beverages outstrip all other types of product (see Table 2). This is down to two companies in particular: Nestlé and its coffee capsule system, and Red Bull with its energy drink. Both companies bottle their products for the global market exclusively in Switzerland.

Over 40 % of all Swiss exports of sweetened beverages go to the US. Swiss sugar beet producers are thus already dependent on the US market. This means it should also be in the interest of Swiss agriculture to have an FTA with the US safeguarding this important market.

There are opportunities when it comes to processed dairy products, especially cheese and chocolate. Already in 2018, Switzerland had a surplus of around CHF 970 million in trade in agricultural products with the US (FCA 2019b). Increasing bilateral trade on the basis of lower tariffs and non-tariff barriers could generate additional sources of revenue for innovative farmers.

Over 40 % of all Swiss exports of sweetened beverages go to the US.

3.3_ Services trade and direct investment

Given the limited data available, it is hard to assess the benefits of an FTA between Switzerland and the US in terms of the trade in services and direct investment.

Switzerland-China: growth rate doubled

The only figures for Switzerland are based on its FTA with China, the only agreement for which there are nearly enough data available from both before and after enactment of the FTA. ³⁷ However, applying the results to a potential FTA with the US is only possible to a limited extent, since only one single agreement has been studied and the US and China differ so greatly in terms of their economic development – something which is also likely to heavily influence the structure in demand, especially for services, and investment opportunities.

Overall, the growth rate for bilateral trade in services (expenditure and revenues cumulatively) has been 2 percentage points per year higher on average since the FTA came into force.

The greatest increase in growth rates was observed for transportation services, where Swiss expenditure increased by 46 percentage points and revenues by 38 percentage points (SNB 2019a). There was very high growth in expenditure on insurance services (+43 percentage points) and license fees (+20 percentage points); on the revenue side, there was also growth from license fees (+4.7 percentage points) and R&D (+4.3 percentage points).

Growth in US exports of services

There are more data available for the US side of the equation. The development of trade in services can be illustrated by the examples of FTAs between the US and Australia, Singapore, and Chile, all of which have been in force since 2004. Post-FTA growth rates were significantly higher in all three cases than before the FTA. Five years after enactment of the FTA, the rate of growth for US exports to Chile had increased by almost 20 percentage points; this figure was 12 percentage points for Singapore, and 10 percentage points for Australia.

An FTA between Switzerland and the US can therefore likewise be expected to help significantly boost trade in services.

A free trade agreement between Switzerland and the US can be expected to help significantly boost trade in services.

Legal certainty for direct investment crucial

There are too little data available to be able to come to any statistically reliable conclusions about the way volumes of direct investment between Switzerland and the US could potentially develop. Overall, however,

³⁷ The agreement was enacted in 2014; data for trade in services are available from 2012 to 2018 (SNB 2019a).

we could expect an FTA to create greater legal certainty for economic players, making investment in the two countries more attractive in relative terms. In the medium to long term, this would also be reflected in the volume of direct investment.

A free trade agreement creates greater legal certainty for economic players.

Greater legal certainty is usually created by safeguarding defined rights of ownership and imposing restrictions on expropriation. The uncertainty resulting from contradictory and sometimes retroactively valid laws can be reduced. An FTA also makes it considerably more difficult to introduce unexpected barriers to investment, ³⁸ suddenly raise tariffs, or place restrictions on intellectual property.

3.4_ Public procurement

An FTA could also create additional benefits in public procurement. At present, two legal frameworks are crucial for Switzerland in terms of participating in public tenders in the US or its states:

The Buy American Act of 1933 obligates the administration to give goods and services produced in the US precedence over those produced abroad. The legislation, a response to the Great Depression in the US from 1929 onward, allows the president to waive the requirements in the case of reciprocal treatment, or by way of an explicit agreement (for example an FTA). The WTO's Government Procurement Agreement (GPA) was excluded from the Buy American Act. Switzerland has access to the American procurement market via the 1979 GATT agreement.

This should not be confused with the Buy America Act ("America" rather than "*American*"), which lays down specific percentages of domestic value creation for public procurement in rail and road transportation. From 2016, for example, the domestic (US) content requirement for rail equipment was 60 %. This requirement is being progressively raised: in 2018 it was 65 %, and from 2020 the minimum domestic content will be 70 %. The Swiss company Stadler Rail is extending its facility in Utah to meet these requirements. ³⁹

Offset agreements and the Swiss Army's shopping list

Switzerland, by contrast, does not have any comparable rules, except when it comes to procuring armaments from abroad. In the past, this has mainly been done by way of so-called offset agreements (or counter trade) ⁴⁰; in other words, the foreign manufacturer undertakes to compensate the amount of the contract by allowing Swiss industry to take

³⁸ The investment protection rules were a topic of hot debate during negotiations on the TTIP between the EU and the US. The arguments for and against can be read in *Wirtschaftsdienst* (2014).

³⁹ According to Stadler Rail Chairman Peter Spuhler, production costs are higher in the US than in Switzerland, which is also reflected in the tendered prices. The reason for this is that the US currently lacks a pool of well-qualified labor with the relevant training (*SRF 2019a*).

⁴⁰ Basically, offsets are forbidden by the WTO, although this does not apply to armaments.

an interest of up to 100 %. This enables Swiss companies to have a direct interest in the manufacture of the product or participate indirectly through the creation of additional orders. ⁴¹

This is relevant inasmuch as Switzerland is planning to invest many billions in modernizing its army over the next few years. The shopping list includes jet fighters (around CHF 6 billion), ground-to-air missiles (around CHF 2 billion), and armored vehicles and other equipment for ground troops (around CHF 7 billion) (SRF 2019b).

Switzerland already buys armaments from the US, spending around CHF 30 million per year on average since 2000 (FCA 2019b). A major investment in the 1990s was the acquisition of 34 F/A-18 fighter planes made by US company McDonnell Douglas Corporation (now Boeing). Including rearmament, more than CHF 5 billion has been paid to US manufacturers (Armasuisse 2018).

Switzerland is planning to invest many billions in modernizing its army over the next few years.

3.5_ Summary of benefits

An FTA would have immediate benefits for export-oriented Swiss companies that already sell in the US. It would save an estimated CHF 135 million or so per year in customs duties (Legge et al. 2019; see Section 3.1), making Swiss products more competitive relative to products from other countries. However, reducing customs duties would not be the main point of an agreement: Much more importantly, an agreement would help create more legal certainty and thus make investment in the US a more attractive prospect. It could also reduce the risk of sudden tariff increases or restrictions on intellectual property. Last but not least, it could create interesting opportunities for Switzerland in public procurement.

Both countries already profit from their bilateral trading relations (goods, services, and direct investment) in the form of more than 700,000 direct jobs, around 260,000 of them in Switzerland and some 450,000 in the US (see Section 2.4). An FTA would create new jobs both in Switzerland and the US by way of increased volumes of trade. On the basis of trade in goods alone, five years after the conclusion of the FTA the equivalent of 13,500 (Switzerland) and 27,500 (USA) new jobs would emerge (see Figure 16).

These calculations only relate to the additional jobs created on the basis of intensified trade in goods. They do not include new jobs created by increasing trade in services. The volume of investment by Swiss companies in the US would likewise increase further thanks to greater legal certainty and a realignment of value chains (trade diversion), which would also contribute to job growth. Higher incomes and the resulting increase

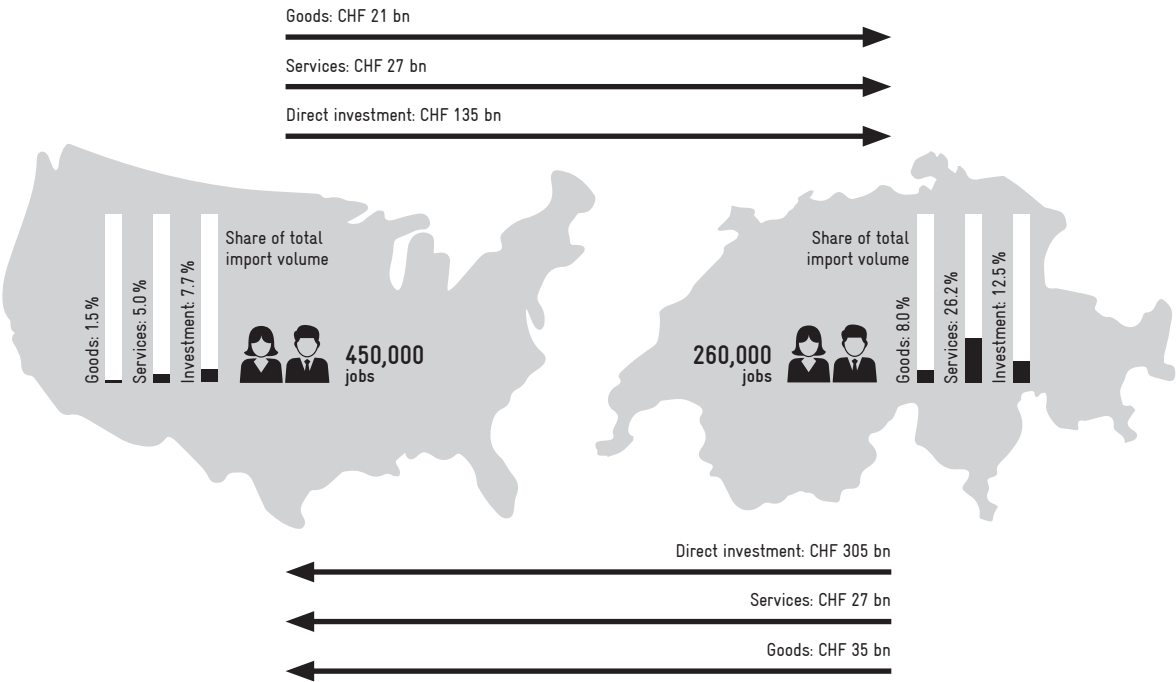
⁴¹ Critics fault offset agreements, claiming among other things that they increase the purchase price (the offset agreements are priced in) and the risk of corruption (NZZ 2019b). The Swiss association of mechanical and electrical engineering industries, however, sees them as an important instrument that, for example, allows industry to participate in international programs (Swissmem 2018).

in investment and consumption could also be expected to produce indirect effects resulting in job creation (see Figure 17). Overall, the number of new jobs created by an FTA in Switzerland and the US would thus far exceed the figure calculated here.

Figure 16
Job-creating potential of economic links between Switzerland and the US

Economic ties between the two countries already create many jobs in each. An analysis of goods trade reveals that five years after its enactment, an FTA would be creating 13,500 (Switzerland) or 27,500 (US) new jobs.

Status quo in 2017



Situation regarding trade in goods* five years after enactment of an FTA



*Calculations done only for trade in goods. Increased trade in services and a higher volume of investment are not included here.
 **Five years after the introduction of an FTA, the Swiss import volume from the US would amount to CHF 33 bn versus CHF 23 bn without an FTA. For the US import volume, these values account for CHF 48 bn and CHF 43 bn respectively.

Source: BEA (2019), FSO (2018), FCA (2019b), SNB (2019a), SNB (2019b), USITC (2019), own calculations

Figure 17

Increase in prosperity due to FTA broken down into individual components

*Only the new jobs created on the basis of trade in goods were calculated for a potential Swiss-US FTA.
Additional job-creating components are presented schematically.*

Bilateral exchange based on basic trade without FTA

- + Effect due to additional trade in goods
 - + Effect due to additional trade in services
 - + Effect due to additional investment
 - + Indirect effects
-

Bilateral exchange after enactment of an FTA

Swiss imports of goods increase by 7 percentage points per year on average following an FTA (versus the situation without an FTA). The figure for the US is 2 percentage points. Additional trade in services plus investment and indirect effects (e.g. increases in consumption due to job-creating effects) lead to a greater bilateral exchange and thus gains in economic prosperity for both countries.

Source: Own illustration

4_ Ten strategic recommendations

The following strategic recommendations are primarily addressed to political decision makers in Switzerland. It is in their hands whether an FTA with the US has domestic political backing or, as in 2006, founders at an early stage.

FTA as a means of reducing uncertainty

In general, FTAs reduce the uncertainty for companies engaged in trade. From a Swiss point of view, there are two key sources of uncertainty: firstly, the declining importance of the multilateral approach (e.g. the weak WTO); secondly, uncertainty with regard to future relations with Switzerland's most important trading partner, the EU (e.g. the institutional agreement). This will make other trading partners more important. From a Swiss perspective, the sheer size of the US market is an important argument for stepping up economic cooperation. FTAs thus serve as an insurance policy and safety net for export-oriented Swiss companies.

Strategic recommendation no. 1:

Diversify and optimize the potential of Switzerland's network of bilateral FTAs by concluding new agreements.

Quickly conclude a platform agreement

Talks, so far exploratory, and intensified contact at the highest level between Switzerland and the US have created a window for instituting formal negotiations on an FTA. Considering that the campaign for the presidential elections, to be held on 3 November 2020, is likely to start shortly, this window will soon close. Given the short amount of time available, the most realistic option would be to negotiate a deal in the form of a platform agreement containing a future developments clause making it possible to widen and deepen the agreement in subsequent years by way of additional chapters.

Strategic recommendation no. 2:

Sign an FTA with the US as soon as possible to create a platform for subsequently expanding and deepening its scope.

FTA with the US as an expression of Swiss independence

It is now largely up to Switzerland to negotiate a deal with the US. If the talks founder again, Switzerland might subsequently come under pressure to sign an agreement negotiated by the EU and the US. Otherwise Swiss companies would be at a significant disadvantage compared with their competitors in the markets of the country's two most important

trading partners. Having its own FTA would therefore be an expression of Switzerland's sovereignty.

Strategic recommendation no. 3:

Independently sign an FTA rather than being tied to a future US-EU agreement.

Diverse fears of free trade: agricultural sector the biggest stumbling block

Probably the most important insight from the failure to enter into official negotiations with the US in 2006 (see Section 2.5) is the need to get the various stakeholders involved early on – especially farmers, consumers, and environmental organizations. To work out common solutions and positions as far as possible, they have to be got on board during the exploratory talks.⁴²

In 2006, among the biggest stumbling blocks were the differences in Swiss and US interests when it came to liberalizing the agriculture sector. But the resistance did not just come from those representing the interests of agriculture and their fears that border protection would be lifted. There was also opposition from the green end of the spectrum, where there were environmental and social concerns (Greens 2005 and Swiss Parliamentary Services 2019b) centered on the fact that Switzerland basically had higher standards when it came to environmental, consumer, animal, and social protection. Violations of international law and human rights by the US were also an issue (Swiss Parliamentary Services 2019c).

An analysis of parliamentary initiatives, as a reflection of the public debate, shows that calls for an FTA were strongest when Switzerland was under pressure to also find a solution with the US because of the TTIP negotiations. There were a particularly large number of initiatives against an FTA once it was time to start discussing the concrete points of an FTA (see Figure 12).

It is no surprise that the agricultural sector took a dominant role in the political debate. At least 33 members of parliament (the National Council or Council of States), including 15 farmers (6.1%), regularly champion the cause of agriculture (13.4 % of all parliamentarians) (Dümmler and Roten 2018). Considering its economic importance, the agricultural sector (which accounts for 3.1% of the workforce and only 0.7% of value creation in GDP terms) is heavily overrepresented in the federal parliament. Members of parliament include the chairman and the director of the Swiss Farmers' Association.

While it is key to involve relevant stakeholders, this should not be allowed to result in a power of veto. Equally, no concessions should be

Calls for a free trade agreement were strongest when Switzerland was under pressure because of US-EU TTIP negotiations.

42 Cf. motion 18.3797 from Council of States member Konrad Graber (Swiss Parliamentary Services 2019a).

made to domestic actors beyond the true costs of adjusting to an FTA. Additional privileges should not be granted to a sector such as Swiss agriculture that already receives support to the tune of billions in taxpayers' ⁴³ and consumers' money.

Strategic recommendation no. 4:

Actively involve the relevant domestic stakeholders in free trade talks at an early stage, particularly the agricultural sector.

Reduce non-tariff barriers to trade

One way of involving agriculture-friendly stakeholders in particular is to carry out the process of partially liberalizing the market for agricultural produce in stages. The first stage would be to reduce non-tariff barriers to better exploit the existing potential for trade. Only then would further market liberalization take place that also covered tariff-based barriers to trade. ⁴⁴

The first stage would be to reduce non-tariff barriers to better exploit the existing potential for trade.

This means that Switzerland should negotiate with the US the removal of non-tariff barriers to trade such as various product regulations and approval requirements. This could result in the recognition of the equivalence of certain technical regulations related to plant health, animal feed, seeds, organic farming, wine and spirits, and veterinary medicine, and the quality standards for fruit and vegetables. Then the technical implementation could be discussed at least once a year in a mixed agricultural committee.

Strategic recommendation no. 5:

Reduce the non-tariff barriers to reciprocal market access between Switzerland and the US for agricultural goods.

Tariff-based barriers to trade: many gradations are possible

To increase the consumer surplus and reduce the macroeconomic costs of Swiss agricultural policy, a rapid, comprehensive move to free trade would be better than partial liberalization (see Dümmler and Roten 2018). But partial liberalization would seem more realistic on political grounds.

Switzerland should come up with creative solutions to making concessions to the US on agriculture. There are various levers enabling partial liberalization, including:

- Granting transitional periods of several years for the opening-up of the market. Around 56 % of farmers are currently aged over 50 (FSO 2019b); and if there were long transitional periods, they would hardly be affected by partial liberalization;

⁴³ Together with Norway and Iceland, Switzerland has the most heavily subsidized farms in the entire OECD (OECD 2018).

⁴⁴ This approach was suggested by the Swiss Farmers' Association back in 2009 against the backdrop of a potential FTA (which subsequently fell through) with the EU on agriculture (Bravo 2009).

- Granting the US a limited additional quota for duty-free import into Switzerland;
- Targeted tariff reductions for specific agricultural products by way of a concession, with other products sensitive for Switzerland (initially) excluded from free trade;
- Differentiation on the product level, for example free trade in processed corn products rather than in unprocessed corn;
- Extending the non-controlled periods in the three-phase system for fruit and vegetables (see Swisscofel 2018).

South Korea is an example of how successful creative solutions can be (see Box 9). Switzerland should actively exploit the various opportunities afforded by partial free trade in agricultural goods to prevent discussions from failing on a domestic level or in actual negotiations with the US.

Box 9

The US-Korean example: a template for Switzerland?

The FTA with South Korea is a good example demonstrating that the US is not basically against partial liberalization. Half of the land cultivated in South Korea is used to grow rice, 56.6% of all farms produce rice, and the country is 102.5% self-sufficient in the grain (MoA 2017).⁴⁵ On Korea's insistence, rice was excluded from free trade. In return it was agreed to reduce the 40% tariff rate on meat over a period of 15 years (NYT 2007). Given the trade deficit, reducing tariffs on vehicles was more important for the US than free trade in rice. This means that to be able to propose interesting solutions in negotiations, Switzerland should work out what areas are more important to the US than free trade in specific agricultural goods important to Switzerland.

Strategic recommendation no. 6:

Come up with creative solutions to open the agricultural market to the US in stages by reducing tariffs.

Key role of demand, particularly for agricultural goods

When it comes to discussing free trade in agricultural goods, the demand side should not be neglected. This is because in the consumer goods market too, it is generally not supply that creates demand, but the preferences of consumers.

Special preferences (for example domestically produced goods) might limit the essentially trade-creating effects of an FTA. Despite possible reductions in the price of foreign products resulting from lower costs of trade, the lower price will not necessarily change consumer behavior.

Special consumer preferences might limit the trade-creating effects of a free trade agreement.

⁴⁵ South Korea's agricultural sector is larger than its Swiss counterpart in both absolute and relative terms. It accounts for 1.8% of Korean GDP and 4.9% of employed persons (MoA 2017). However, volumes produced and the number of farms are in decline.

This is particularly relevant in the context of the Swiss meat market. Even though meat products from the US would be cheaper following liberalization, this does not necessarily mean that domestic demand for Swiss products would decline. Especially when it comes to meat products, many consumers in Switzerland will favor Swiss over foreign production standards. Swiss producers, who for decades have been advertising on the basis of their superiority over foreign products, should not be concerned about competition from abroad.

Competition from imports versus shopping tourism

Consumers in Switzerland who purchase purely on the basis of the price of food already have an alternative to domestic agricultural goods. It is estimated that trips abroad to shop for food ^{|46} account for around CHF 2.8 billion a year (Dümmler and Roten 2018). This means that the “cheap imports” feared by the farming lobby following an FTA are more likely to compete with shopping abroad than with domestic products.

The situation is different for imports of specialties and highly differentiated products, which are typically unique, increase choice for Swiss consumers, and pose no direct competition to domestic products. But in a country where even tropical fruit, not grown on an industrial scale in Switzerland, is subject to import duty, experience shows that arguments like this have a tough time in the political process. The argument goes that if, for example, bananas could be imported freely, consumers in Switzerland would eat fewer domestic apples; bananas are seen as a substitute for apples. This way of thought indirectly dictates the eating habits of consumers.

Adding value through product differentiation is the key

A promising strategy for survival in the face of competition from imports is specializing and differentiating by way of a production method more in tune with Swiss preferences. For example, a greater number of Swiss producers could choose to specialize in organically grown foods. ^{|47} They could conceivably offer pesticide- and GMO-free products, meat from animals held and slaughtered particularly humanely, heavily reduced use of antibiotics, or hormone-free products.

Swiss farmers must step up their value creation by adding tangible value for consumers. A good start would be labels, plus improved, unsolicited declarations of origin and production methods. Switzerland therefore has an offensive interest in protected designations of origin and geographical indications.

A promising strategy is specializing and differentiating by way of a production method in tune with local preferences.

⁴⁶ In Switzerland this refers to bulk buying just over the border with neighboring countries. It is prompted by what in some cases are massively lower prices for food and many other day-to-day consumer goods abroad.

⁴⁷ There is already an arrangement between Switzerland and the US governing the reciprocal recognition of standards for organic products. This equivalence rule gives Swiss producers easier access to the growing US organic market (Swiss Federal Council 2015).

Strategic recommendation no. 7:

Boost consumer sovereignty by means of clear, complete declarations of origin and production methods for agricultural goods.

Trust in powers of innovation

Greater competition forces producers with relatively high costs to innovate. There is great potential for this in the agricultural sector. This was demonstrated, for example, in the course of the gradual opening-up of the cheese market to the EU (see Dümmler and Roten 2018), which led to the appearance of new varieties and brands and the more intensive fostering of existing ones. Coupled with the protection of designations of origin, this created export opportunities that Swiss producers were able to capitalize on.

In areas such as dairy produce, stronger representation of offensive interests in free trade negotiations would open up new markets. In the US market there are also segments of customers prepared to pay more for superior products such as cheese and chocolate. The agricultural sector can learn from the strategy of serving financially strong customer segments in special niches already adopted by many small and medium-sized enterprises.

Strategic recommendation no. 8:

Allow competition from imports, and trust in the innovatory potential of Swiss producers.

Create a quota for labor

To further consolidate bilateral relations between Switzerland and the US and make direct investment more attractive, the two countries should on a reciprocal basis create a separate annual quota allowing quick and straightforward immigration for workers with an employment contract in place.

At present, workers from the US in Switzerland fall under the so-called third-country quota (as opposed to the agreement on the free movement of persons with the EU and the EFTA states). In 2019, 8,500 of these third-country permits are available for the whole of Switzerland (FDJP 2018). An additional quota for US workers could help address the shortage of qualified labor.

Swiss people require a visa to take up employment in the US, and fall under the quota for each visa category. The procedure for obtaining a visa could be simplified, for example with Swiss workers being issued with the equivalent of the TN (Treaty NAFTA) visa for Canadians and Mexicans.

An additional quota for US workers could help address the shortage of qualified labor in Switzerland.

Strategic recommendation no. 9:

Create a separate quota for the exchange of labor between Switzerland and the US.

Protection of intellectual property as a bone of contention

Even though the US concedes that Switzerland has high standards when it comes to protecting intellectual property, ⁴⁸ for years Switzerland has been on the USTR watch list (USTR 2019a). The main reason is online piracy. Switzerland is accused of doing too little, in the eyes of the US, to combat illegal downloads of copyrighted material such as films, music, and books.

The amended Swiss copyright legislation is currently at the political revision stage, with the two chambers of parliament clearing up the last remaining differences. The intention is to strengthen measures tackling illegal providers of copyrighted material while also avoiding legal prosecution for consumers. It remains to be seen whether this will be sufficient to address US concerns.

Essentially, it is debatable whether, in the age of flat rate streaming for unlimited consumption of media, illegal downloads should still be given the same importance as they were a few years ago. The issue has likely become a lot less serious.

In the age of flat rate streaming, illegal downloads have likely become a lot less serious.

Strategic recommendation no. 10:

Quantify the real problem of copyright infringements in the age of streaming.

Conclusion: Seize this historic opportunity

Basically, efforts to conclude an FTA should be successful. To a large extent, Switzerland and the US share the same values when it comes to the rule of law, freedom, democracy, and the free market (Kim, Miller and Feulner 2018). Issues of human rights, working conditions, pay, and environmental compliance are of less significance than they are in many other FTA negotiations, for example with Asian countries. Issues seen by some parties as problematic in bilateral relations with the EU, such as the free movement of persons, the EU Citizenship Directive, and state aid, are not relevant either from a Swiss point of view in the context of an FTA with the US.

The situation is different than in 2006. The global environment has changed fundamentally. Now the dominant themes are weakened multilateralism, trade wars, and the rise of China. Issues related to the bilateral relationship between Switzerland and the US have evolved, banking secrecy is history, and creative solutions involving gradual liberalization can be found for the shrinking Swiss agricultural sector ⁴⁹.

If consensus can be achieved, both Switzerland and the US will profit from an FTA. This is a historic opportunity that the two countries should seize now rather than waiting another 13 years.

⁴⁸ “Generally, Switzerland provides high levels of intellectual property (IP) protection and enforcement” (USTR 2019a, p. 75).

⁴⁹ Since 2006 the number of agricultural establishments in Switzerland has declined by more than 19% to 50,852 (2018) (FSO 2019a).

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