1.1 Swiss-American Business Relations: A View from Washington

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Looking Back on an Intensive Year

From an economic policy perspective, 2005 was one of the most fascinating years in the recent history of Swiss-U.S. relations. When the Swiss Federal Council decided on May 18, 2005, to intensify Switzerland’s ties with the USA, it led the way with a series of bilateral initiatives.

The most significant project was conducting Swiss-U.S. exploratory talks on a potential free trade agreement (FTA). For several months, the Swiss and U.S. governments discussed the feasibility of a comprehensive bilateral treaty to liberalize trade in goods as well as services and to promote cooperation in various areas such as the protection of intellectual property, labor and environmental issues.

The Swiss authorities in Washington and in Bern worked hand in hand with the business community, mainly with the very active Swiss-American Chamber of Commerce, to promote the idea. Our American counterparts responded to the same degree. Members of Congress, the business community and think tanks expressed strong support for such an agreement. The Office of the U.S. Trade Representative, backed by the U.S. administration, was genuinely interested in going ahead with negotiations.

In January 2006, both governments came very close to entering formal FTA negotiations. In the end, though, the Swiss Federal Council decided that its conditions for going ahead with negotiations at this stage had not been met. However, the FTA project proved that Switzerland is an attractive partner of the world’s largest economy and that Switzerland has outstanding brand recognition in political as well as business circles.

Looking Ahead: Creation of the Swiss-U.S. Trade and Investment Cooperation Forum

To build on the momentum created by the intensive discussions, Federal Councillor Joseph Deiss and U.S. Trade Representative Rob Portman established the Swiss-U.S. Trade and Investment Cooperation Forum to strengthen the robust bilateral economic relations. The Forum will serve as a framework for launching discussions and negotiations on subjects of common interest. It will pave the way for closer cooperation in specific areas, and it will also give Switzerland an opportunity to raise issues related to U.S. trade and investment policy at any time.

The Forum anticipates that the Swiss and U.S. private sectors will become active participants in its work, thus helping to determine the issues for discussion. It will also organize events aimed at strengthening the links between the two partners, with the Swiss-American Chamber of Commerce playing a central role there.

Without a doubt, the engaged and passionate discussions on a potential FTA brought the two countries closer together. We were able to solidify our relationship of mutual trust. Our understanding of each other’s positions and procedures improved. The two governments intend to further strengthen their cooperation in the World Trade Organization and other international economic fora.

In addition, Switzerland and the USA have signed a Memorandum of Understanding (MoU) to expand the dialogue on all matters of mutual interest and to intensify bilateral relations. The MoU envisages a regular political dialogue covering the full range of bilateral relations. This will ensure a direct and constantly open communication channel between Bern and Washington. Thanks to the continuation of the Fulbright Student Exchange Program, the Swiss and U.S. higher education systems will greatly benefit. Finally, complementing the Swiss-U.S. Treaty on Mutual Assistance in Criminal Matters, the two governments have agreed to reinforce cooperation in criminal investigations related to terrorism and its financing.

Gaining New Insights

The FTA initiative had many other positive spillover effects. We did not spare any effort in our detailed examination of the economic relationship between Switzerland and the United States. In that context, the Institute for International Economics conducted the most comprehensive analysis to date on the economic relations between our two countries. A team headed by leading global trade experts Gary Hufbauer and Richard Baldwin authored The Shape of a Swiss-US Free Trade Agreement, an excellent reference work for officials, business executives, and members of the general public interested in those issues.

The Swiss-American Chamber of Commerce commissioned The Forgotten Sector, a groundbreaking study on the role of foreign investors in Switzerland. The USA is by far the biggest foreign investor in our country with 40% of the entire foreign capital holdings in Switzerland (Germany and France contribute only 8% and 7.4%, respectively, to total foreign investment in Switzerland). The study reveals that foreign companies contribute about 8.2%, or 35 billion Swiss francs, to the Swiss GDP. By way of comparison, that is larger than the contributions from the entire Swiss machinery industry. Productivity of foreign companies is about 20% above the Swiss average. Their employment share has been steadily increasing and reached about 7% of total employment in Switzerland (around 210,000 workers in 2003). The study also shows that U.S. investments have greatly contributed to Switzerland’s economic well-being.

Bilateral Economic Relations in Full Swing

Trade

Driven by a U.S. economy in full swing, bilateral economic relations were very satisfactory last year: The development of the mutual exchange of goods was positive. According to U.S. statistics, the bilateral volume of trade increased by 14% and reached approximately $24 billion in 2005. U.S. exports to Switzerland developed with a growth rate of 17%--clearly above average at $11 billion (equalling the total of exports to Russia and Saudi Arabia combined).
The trade volume in services reached $18 billion (the statistics for services are available only up to 2004). Swiss companies are among the largest suppliers of services in the U.S. Likewise, Switzerland is a significant market for U.S. service companies. In 2004, Switzerland purchased more U.S. services than China and Indonesia combined.

**Foreign Direct Investment**

The picture is more complex on the investment side. Whereas U.S. investment in Switzerland continues to break records, Swiss investment in the USA has stagnated over the past four years.

The USA invests over $101 billion in Switzerland—more than in South America and the Middle East combined. The U.S. direct investment position in Switzerland grew by an astonishing 25% according to 2004 U.S. statistics. In the course of 2003 – 2004, the inflow of new U.S. direct investment amounted to $26 billion (versus $14 billion to Japan). Meanwhile, Switzerland is the fourth largest recipient of U.S. foreign direct investment worldwide.

The good news does not stop there. According to Location: Switzerland, 41 North American companies opened new operations in Switzerland in 2005. Last year’s best known projects included Eaton Corporation, Hercules, Kennametall and O-I (formerly Owens-Illinois). As long as the favorable basic conditions continue (a liberal economic environment compared to the EU, availability of a qualified work force, easy exchange of goods and services with the EU and a moderate tax burden), chances are good that U.S. companies will choose Switzerland as a point of departure for their expansion into EU territory in the future as well.

In the USA, the situation looks less promising. Switzerland maintains a very prominent position as a top investor in the United States; however, it is slowly losing ground. According to U.S. Department of Commerce figures, Swiss capital holdings in the USA amount to $123 billion, approximately 8% of the total foreign investment volume. With a 4.7% reduction in capital holdings in comparison with the previous year, Switzerland recorded the largest decrease among the ten most important investors in the USA. Nevertheless, there are indications that Swiss companies are increasing their investments in the United States again, with such noteworthy transactions as Swiss Re’s acquisition of GE Reinsurance and Novartis’ buy-out of Chiron.

**Outlook**

The U.S. economy is continuing to grow strongly despite high energy prices and the economic shock in the aftermath of Hurricane Katrina. In the coming quarters, we can continue to expect a favorable cyclical trend with GDP expansion rates on the order of 3.5% on average. In the second half of the year 2006, the values may be smaller than in the first six months. The development of energy prices is still of decisive importance for the further course.

We can expect a shifting of the components driving economic activity: Private consumption will weaken as a result of markedly higher energy prices, a continued calming of price development in the real estate market and further increases in interest rates. A slight impetus for growth from this side, however, may be bolstered by stronger private and public investments as well as by a further improvement in foreign trade. The development of rising prices leads one to assume that the Federal Reserve will continue its policy of small interest rate hikes for a short time still. Consequently monetary policy may slow down the economy further.

In global trade policy, the future of the Doha Round will be at stake. There are indications that the U.S. government would rather focus on domestic economic issues (budget deficit, energy prices) than international topics. The strategic relations with China and East Asia will continue to preoccupy Washington and draw attention away from transatlantic relations.

From a bilateral perspective, Switzerland is in a better position than ever. I am convinced that both countries are better prepared to handle any crisis we may encounter in the future. Both governments have agreed to significantly intensify their cooperation in the areas of diplomacy, terrorism-related investigations and student exchanges. In the economic field, we have valuable instruments such as the Joint Economic Commission and the newly created Swiss-U.S. Trade and Investment Cooperation Forum. Working together with the private sector, one of my priorities will be to use these instruments to resolve outstanding problems and to identify further potential areas of cooperation. Above all, strengthening our bilateral bonds will be required, and the Swiss-American Chamber of Commerce will be among our most significant partners in working toward that goal.