

ISSUE BRIEF

No. 4893 | JULY 31, 2018

It's Time for a Free Trade Agreement with Switzerland

Anthony Kim, Ambassador Terry Miller, and Edwin J. Feulner PhD

The United States and Switzerland have a long history of dynamic economic partnership that has enhanced prosperity in both countries. The two nations are linked through mutually beneficial trade and investments via numerous subsidiaries of Swiss and U.S. companies, and enjoy friendly and productivity-enhancing competition as top centers of international finance. The growth- and income-boosting economic ties between the U.S. and Switzerland offer a practical example of the value of international trade and investment in creating and sustaining prosperity: Both countries are near the top in income per capita and quality of life in the world. Yet the two nations can accomplish more, and now is the time to explore the pragmatic possibilities for further elevating the U.S.–Swiss economic relationship with a formal market-opening agreement.

Switzerland: A Competitive Economic Dynamo

Switzerland has an enviable track record as an adaptive and resilient economy, with its technological and innovative capacity underpinned by high degrees of openness and regulatory efficiency. Lacking natural resources except hydropower, Switzerland has had no choice but to innovate in order to

compete on a global scale. Given the country's small and fragmented internal market, the Swiss economy has had to seek out overseas markets for its goods and services as well as maintain its openness to foreign investment.

As documented by various international studies, Switzerland is one of the most advanced and capable free-market economies. According to The Heritage Foundation's annual *Index of Economic Freedom*, which measures the entrepreneurial environments of 180 economies around the world, Switzerland is the world's fourth-freest economy, and tops the rankings in Europe.¹

Underpinning Switzerland's high degree of economic freedom is its judicial system, independent of politics, which ensures effective and transparent enforcement of commercial contracts within a fully institutionalized legal framework. Strong property rights, including protections for intellectual property, promote entrepreneurship and productivity growth. Fiscal stability and a highly developed financial sector further promote Switzerland's position as a global leader of economic freedom.

While not a member of the European Union, Switzerland is at the geographic heart of continental Europe, and is a leading member of the European Free Trade Association (EFTA). Switzerland's openness to foreign trade and investment has provided real stimulus for the vibrant and robust economy. In addition to EFTA and a free trade agreement with the EU, Switzerland currently has a network of 30 free trade agreements with 40 partners outside the EU.² While Switzerland usually concludes its free trade agreements with its fellow EFTA members—Norway, Iceland, and Liechtenstein—Switzerland

This paper, in its entirety, can be found at
<http://report.heritage.org/ib4893>

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

has entered into bilateral trade agreements outside the EFTA framework as well, as in the case with Japan in 2009 and China in 2014.³

The Status of the Current U.S.–Swiss Economic Relationship

Switzerland and the United States have made great strides in deepening economic and business ties. The Alpine country is the 12th-largest trading partner of the United States with a roughly balanced exchange of goods and services amounting to over \$100 billion annually.⁴ American and Swiss companies produce cutting-edge and high-value-added pharmaceuticals, aerospace components, machinery, and equipment that flow in both directions and make the two economies more productive and competitive.

Trade in services also underpins the two countries' sophisticated commercial relationship. These include business and financial services, such as banking and insurance, and licensing fees for intellectual property. Switzerland is a top export market for U.S. services, and is even more important when services sold by U.S. affiliates in Switzerland are taken into account.

These commercial ties support high-paying jobs in both countries. According to the latest data, a combined 725,000 American jobs were supported by the U.S.–Swiss trade and investment relationship.⁵ Swiss affiliates in the U.S. accounted for over 460,000 of those jobs, followed by almost 200,000 American jobs from services exports to Switzerland, and 75,000 U.S. jobs supported by goods exports.⁶ With respect to research and development, Switzerland is

the United States' largest foreign direct investor—a fact that demonstrates the exceptional contribution of Swiss companies.

Recognizing the benefit of even greater economic cooperation, the United States and Switzerland established the Trade and Investment Cooperation Forum (TICF) in 2006. The TICF seeks to enhance bilateral cooperation with new initiatives, smooth the existing relationship by examining any specific matter raised by Swiss or U.S. authorities and the private sector, and pursue joint actions in international fora.⁷ That is a good start, but even more is possible.

The Path Forward

Clearly, Switzerland is already a competitive and dynamic economic partner for the United States. The two economies have advanced and flourished on the foundation of market principles and the effective rule of law. The value-sharing and mutually beneficial relationship between Switzerland and the U.S. is a great example of the benefits of cross-border trade and investment that strengthens economic ties between nations. Furthermore, Switzerland's strong commitment to free-market capitalism makes the Alpine country an ideal partner for an America seeking to reassert and deepen its own commitment to economic freedom.

Moving forward, the United States and Switzerland should seek to expand opportunities for greater trade and investment. It is notable that in its 2018 trade agenda report to Congress, the Trump Administration stated that “the United States remains committed to working with like-minded countries to promote fair market competition around the world.”⁸

-
1. Terry Miller, Anthony B. Kim, and James M. Roberts, *2018 Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2018), <http://www.heritage.org/index>.
 2. Swiss State Secretariat for Economic Affairs, “Free Trade Agreements,” undated, https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/Freihandelsabkommen.html (accessed July 30, 2018).
 3. Ibid.
 4. Office of the United States Trade Representative, “Switzerland: U.S.–Switzerland Trade Facts,” undated, <https://ustr.gov/countries-regions/europe-middle-east/europe/switzerland> (accessed July 30, 2018).
 5. Federal Department of Foreign Affairs, “Switzerland’s Economic Footprint in the United States: Creating Jobs and Supporting the U.S. Economy,” January 2017, <https://www.eda.admin.ch/dam/countries/countries-content/united-states-of-america/en/Swiss%20Economic%20Footprint%202017.pdf> (accessed July 30, 2018).
 6. Ibid.
 7. Office of the United States Trade Representative, “Agreement Between the Government of the United States of America and the Government of the Swiss Confederation Establishing a Trade and Investment Cooperation Forum,” May 2006, <https://ustr.gov/sites/default/files/US-Switzerland%20TIFA.pdf> (accessed July 30, 2018).
 8. Office of the United States Trade Representative, “The President’s 2018 Trade Policy Agenda,” April 2018, p. 4, <https://ustr.gov/sites/default/files/files/Press/Reports/2018/AR/2018%20Annual%20Report%201.pdf> (accessed July 30, 2018).
-

Switzerland is clearly a prime candidate as one of the “like-minded countries” with which the United States should work more closely. The fact that Switzerland is not a member of the EU should also add an additional strategic dimension to the Trump Administration’s trade policy thinking. As U.S. Ambassador to Switzerland Ed McMullen highlighted, considering all the practical opportunities ahead of the two countries, “we must have continued discussions about [a bilateral free trade agreement between the U.S. and Switzerland].”⁹ Such a trade pact, in effect, would be a catalyst for advancing freedom to trade and invest as well as for promoting overall economic freedom in both countries. It would be a powerful statement reflecting a shared commitment to a free and open economic environment between the United States and Switzerland.

In further enriching and institutionalizing the U.S.–Swiss trade and investment partnership with a formal market-opening agreement, the Trump Administration should consider:

- **Granting Switzerland tariff exemptions on steel and aluminum products.** Given that Swiss companies exported about \$80 million in steel and aluminum products to the U.S. in 2017, Switzerland has sought these tariff exemptions. To date the U.S. has not responded to Switzerland’s request. Consequently, Switzerland filed a complaint on July 10 with the World Trade Organization against the United States over the tariffs imposed by the Trump Administration on steel and aluminum imports.¹⁰
- **Pursuing an economic-freedom partnership with Switzerland that institutionalizes open trade and investment to a maximum degree.** One of the TICF objectives specifies “the resumption of exploratory discussions on the possible

initiation of free trade agreement negotiations between the two close economic partners.”¹¹ Using that as a stepping stone, the Trump Administration should elevate the current TICF to a genuine free and open trade pact based on the principles of economic freedom. At the recent G7 meetings in Quebec, President Trump surprised other leaders with this proposal: “We should at least consider no tariffs, no barriers—scrapping all of it.”¹² Zero tariffs would be the ultimate achievement for more open and free trade between the United States and Switzerland, and President Trump should keep his proposal in mind.

- **Instructing the U.S. Trade Representative and the White House National Economic Council to fast-track dialogues with their Swiss counterparts in the pursuit of a U.S.–Swiss economic freedom partnership.** Rather than requiring hundreds of pages to institutionalize a trade and investment pact with Switzerland, the pact should be simple, streamlined, and readily understandable to anyone who wishes to engage in trade and investment activities between the two nations. The pursuit of a perfect agreement, nonetheless, should not be allowed to be the enemy of a good agreement, and the two countries should be willing to consider a limited agreement that would produce real practical gains, even if it does not achieve everything that could be asked of it.

The Sooner, the Better

In their groundbreaking study on a possible U.S.–Swiss free trade deal, Gary Clyde Hufbauer and Robert E. Baldwin made the case that “as leading advocates of market capitalism, Switzerland and the United States are well situated to conclude an FTA [free trade agreement] that breaks new ground in dismantling barriers.”¹³ The case still makes good

9. Urs Gehrig and Florian Schwab, “Trump Is a Voracious Reader,” *Die Weltwoche*, January 12, 2018, <https://www.weltwoche.ch/ausgaben/2018-2/artikel/trump-is-a-voracious-reader-die-weltwoche-ausgabe-22018.html> (accessed July 30, 2018).

10. Aris Folley, “Swiss File WTO Case Against Trump Tariffs,” *The Hill*, July 10, 2018, <http://thehill.com/blogs/blog-briefing-room/news/396252-switzerland-joins-growing-list-of-countries-to-challenge-trump> (accessed July 30, 2018).

11. Office of the United States Trade Representative, “Agreement between the Government of the United States of America and the Government of the Swiss Confederation.”

12. Stephen Moore, “Trump’s Zero-Tariff Solution,” *The Washington Times*, July 8, 2018, <https://www.washingtontimes.com/news/2018/jul/8/trumps-zero-tariff-solution/> (accessed July 30, 2018).

13. Gary Clyde Hufbauer and Robert E. Baldwin, *The Shape of a Swiss–US Free Trade Agreement* (Washington, DC: Institute for International Economics, 2006), <https://piie.com/bookstore/shape-swiss-us-free-trade-agreement> (accessed July 30, 2018).

sense. In its quest for more practical and effective trade diplomacy, the Trump Administration should pursue an economic freedom partnership with Switzerland that would enhance economic well-being in both countries—and would serve as a pragmatic template for future trade and investment agreements that advance economic liberty and opportunity throughout the world.

—**Anthony Kim** is editor of the Index of Economic Freedom and Research Manager in the Center for International Trade and Economics (CITE), of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation. **Ambassador Terry Miller** is Director of and Mark A. Kolokotronis Fellow in CITE. **Edwin J. Feulner, PhD**, is Founder and former President of The Heritage Foundation.