



**TRADE POLICY REVIEW**

REPORTS BY

SWITZERLAND AND LIECHTENSTEIN

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Switzerland and Liechtenstein is attached.

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## **1 REPORT BY SWITZERLAND**

### **1.1 Introduction**

1.1. Switzerland submits this policy statement as part of the fifth Joint Trade Policy review of Switzerland and Liechtenstein.

1.2. With a trade to GDP ratio of 60%, the Swiss economy is among the most internationally integrated worldwide. Lacking natural resources, landlocked in Europe, and with high levels of wages and living costs, Switzerland's prosperity depends on competitive businesses that succeed in international trade through innovative, high value-added goods and services.

1.3. Since the last Trade Policy Review in 2013, the Swiss economy has remained in positive territory in spite of challenging circumstances. Recovery of the global economy after the financial crisis remained uneven and subdued. The European Union, by far Switzerland's most important economic partner, was faced with patchy growth and monetary challenges in the euro area. Sustained upward pressure on the Swiss franc and structural changes induced by technological innovation, in particular in the digital economy, and by rapidly evolving international value chains contributed to a demanding environment.

1.4. The fact that Switzerland's economy and trade have proved relatively resilient is due to a number of factors. At the domestic level, these include a diversified structure of the economy, a flexible labour market, a multi-tiered, high-quality educational system, well-established cooperation between social partners, sound infrastructures, budget balance and political stability.

1.5. The Government acknowledges that further sustained efforts will be required in order to preserve and strengthen Switzerland's competitive position in a fast changing world. In 2014, the Government launched a comprehensive review of its Growth Agenda, resulting in a new set of priorities and projected measures in June 2016. Their focus lies on increasing productivity, in particular of inward-oriented sectors of the economy, further strengthening of the economy's resilience and mitigation of negative effects of economic growth.

1.6. As reflected in the Growth Agenda 2016-2019 and the Government's foreign economic strategy first established in 2002, creating and securing opportunities for Swiss-based businesses abroad through trade and investment remains a key policy objective for Switzerland.

1.7. The rules-based multilateral trading system developed under the WTO provides the institutional basis and regulatory framework for predictable, non-discriminatory global trade and is an essential bulwark against protectionism. For Switzerland, maintaining the integrity and further strengthening the role and relevance of the WTO are essential for sustaining global economic development and growth.

1.8. Switzerland's trade policy priority on multilateral, non-discriminatory rules is complemented by the objective of continuous expansion and deepening of preferential trade relations by means of regional and bilateral approaches, both with the EU and with partners worldwide.

1.9. Switzerland attaches high importance to reduction of discrepancies in the level of development between nations, promotion of the further integration of developing countries into the global economy, and the need to make economic development more sustainable. The Government also takes seriously the concerns among the public about negative consequences of globalisation and structural changes in the economy. In this context, Switzerland strongly supports the UN 2030 Agenda for Sustainable Development and measures that contribute to socially and environmentally viable economic growth.

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## 1.2 Economic Context

### 1.2.1 Competitiveness and external environment

1.10. As a medium-sized economy with virtually no natural resources, Switzerland is highly dependent on the importation of raw materials and other goods and services that must be financed by export earnings. Within this context, the Swiss economy has been successful at product transformation and generation of a sizeable share of domestic value-added with respect to export products. About 70% of Swiss merchandise and services exports consist of domestic value creation. The remaining 30% are attributable to imported inputs. Known for the export of goods at the upper end of the quality scale and specialist niche products, Switzerland is firmly embedded in global value chains. It is estimated that roughly one fourth of output growth in Switzerland in the past 20 years can be ascribed to foreign trade.

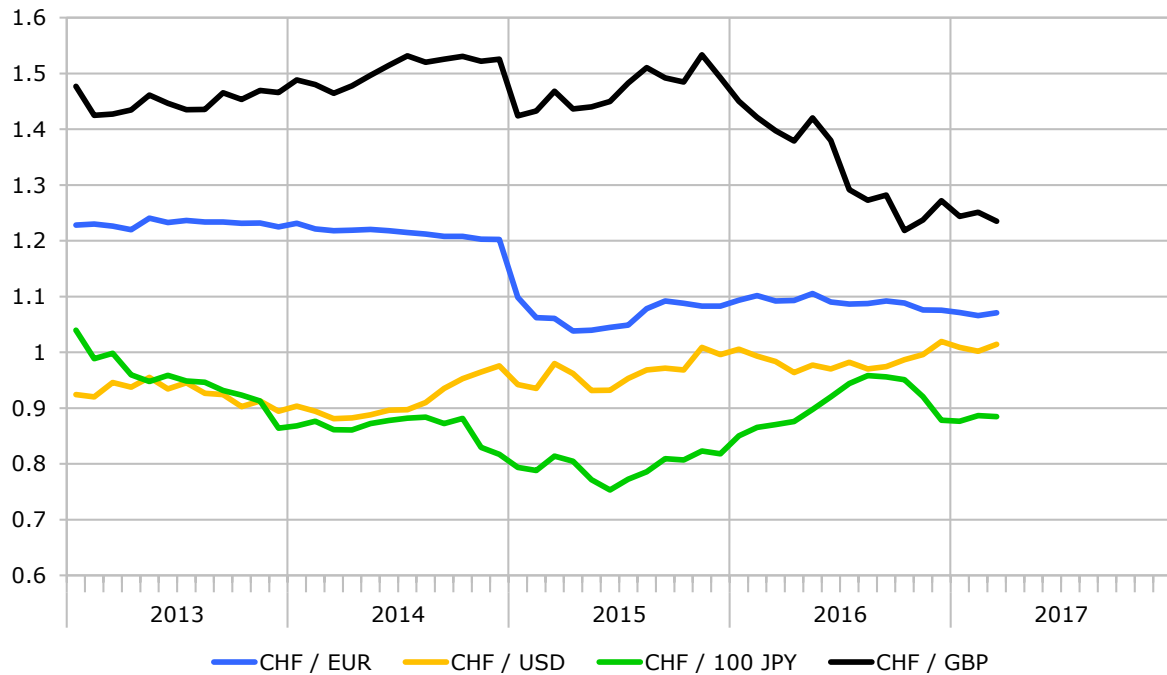
1.11. Switzerland is also one of the most innovative and competitive economies in the world. For some time now, Switzerland has consistently come first in the Global Competitiveness Index computed by the World Economic Forum and partner institutions. The Global Innovation Index also rates Switzerland on top. The ranking in the World Bank's Ease of Doing Business Index has deteriorated slightly in the last few years, to 31 out of 190. A combination of factors underpinning these rankings has contributed to making the Swiss economy more resilient in recent years.

1.12. For a small, land-locked country in Europe, Switzerland remains more susceptible than other, bigger economies to changing circumstances in the external environment. An important determinant for the Swiss economy typically is the economic performance of the European Union: 72% of Swiss merchandise imports come from the EU (2015: approx. SwF 121 billion), while 54% of Swiss exports (2015: approx. SwF 109 billion) go to the EU, making it by far Switzerland's most important trading partner.

1.13. Other major trading partners are the United States, China and Japan, followed by other countries in Asia, the Americas and the Middle East.

1.14. During the period under review, the international economic environment was characterised by a gradual, yet patchy recovery after the global financial crisis of 2007 and 2008. The recovery within the EU, and more specifically in the Eurozone, was more subdued than in other parts of the world, such as the US. Germany, Switzerland's most important individual trading partner, also registered more robust growth rates than the EU as a whole. There are signs that in 2017 a positive economic development across the Eurozone is not only gathering pace, but will also be more evenly distributed among its member states.

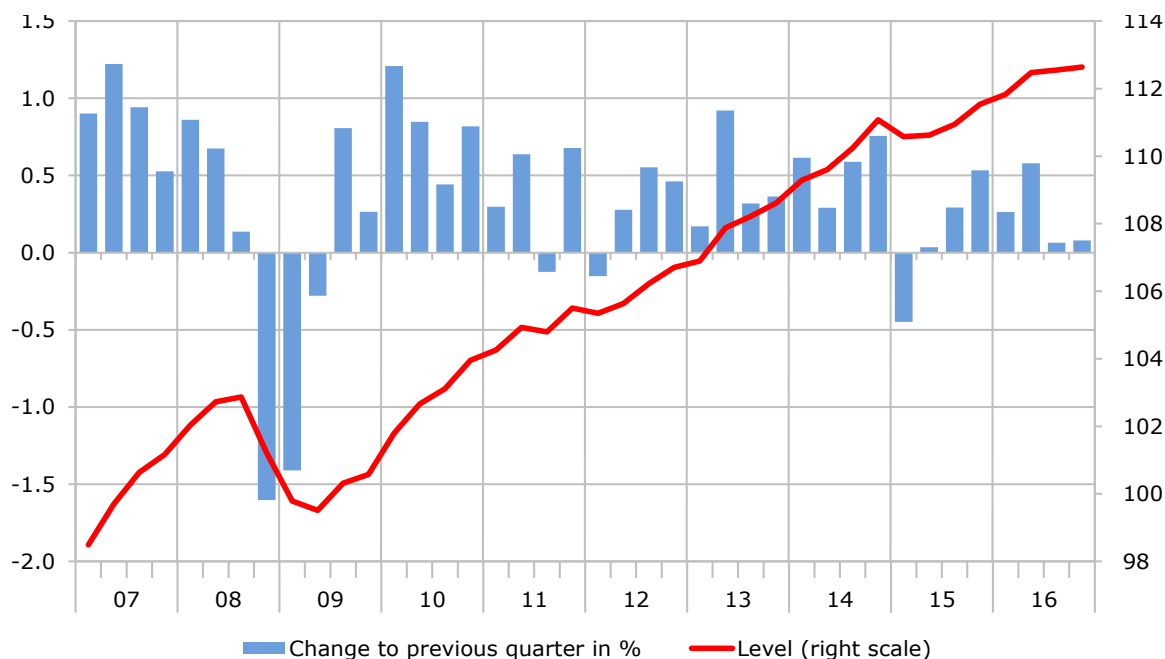
1.15. Yet in the years leading up to this review, the combination of an uncertain economic outlook, persistent sovereign debt problems, high private debt ratios in parts of the Eurozone and an increasingly expansionary stance of the ECB's monetary policy induced many investors to place their bets in Switzerland. These capital inflows exerted an upward pressure on the Swiss franc, traditionally a safe haven currency.

**Chart 1.1 Nominal exchange rate of Swiss franc versus other currencies, 2013-17**

Source: SNB.

### 1.2.2 Economic development

1.16. In spite of these external challenges, the Swiss economic performance was robust during 2013-2016. Between 2013 and 2015, real GDP growth averaged 1.5% and the unemployment rate has been broadly steady at about 3%. The economy weathered the sharp appreciation that followed the exit from the exchange rate floor in January 2015 relatively well. Activity was dented in early 2015 by the abrupt strengthening of the franc. However, growth subsequently returned, aided by the flexibility of firms and the labour market, to reach 0.8% for the year. For 2016, a continuing recovery with growth of 1.5% is expected. The Government's forecast for 2017 of 1.8% is slightly short of the current trend growth rate estimated at 2.0%.

**Chart 1.2 Real GDP of Switzerland, 2007-16**

Note: Volume index (2007=100), seasonally and calendar adjusted data.

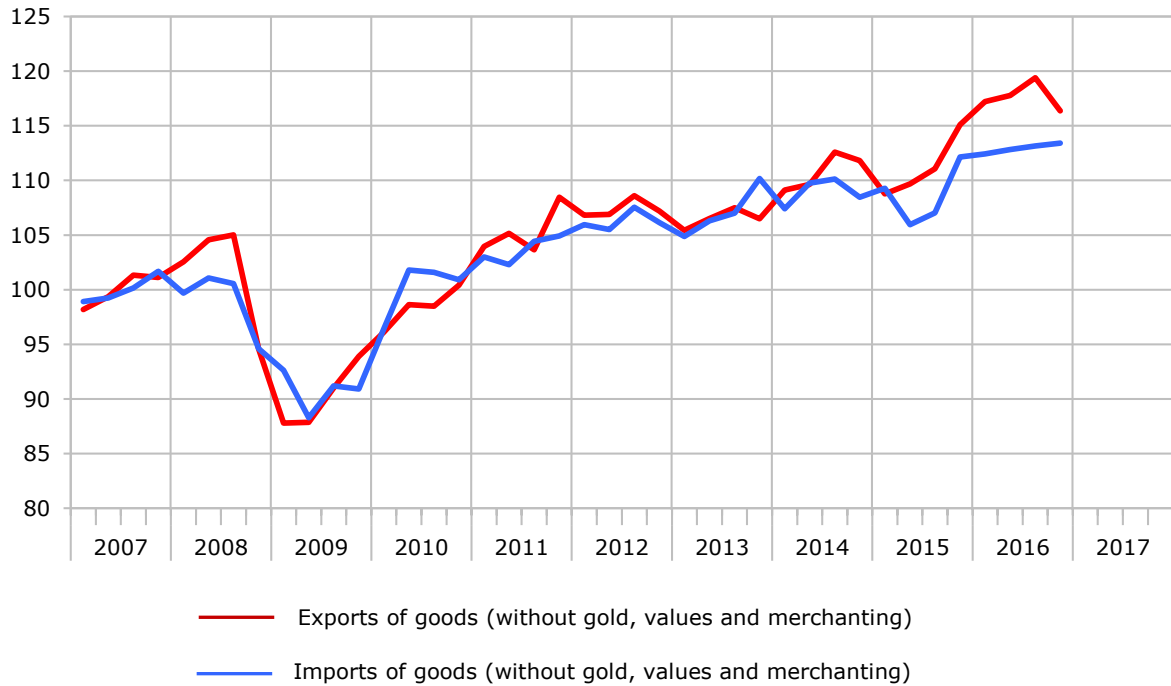
Source: SECO.

1.17. A variety of factors contributed to Switzerland's economic performance of the past few years. A main driver for moderate growth was domestic demand, while foreign trade lost some of its impact. This is in contrast to the years leading up to the global financial crisis when exports were a key engine stimulating economic activity in Switzerland. Apart from private consumption, construction and equipment investment and spending on health have increasingly taken over this function in recent years. To a certain extent, this phenomenon may reflect a broader trend in global trade, which no longer grows at a faster pace than global output. But the sustained appreciation of the Swiss franc since 2008 has certainly had a major dampening effect on the country's external trade dynamics.

1.18. Nevertheless, Switzerland's merchandise exports on the whole continued to grow, albeit at fluctuating rates.<sup>1</sup> In 2013, sales abroad remained essentially flat, while a more marked increase of 3.5% was registered in 2014. The following year saw a sudden drop in exports by 2.6%, which was due mainly to a brisk appreciation of the Swiss franc. Export activity picked up again in 2016 with an increase of 3.8%. By way of comparison, from 1988 to 2013, Swiss merchandise exports grew at an average of 4.1% per annum.

1.19. Imports into Switzerland displayed a similar pattern. In 2013 and 2014, they stagnated at the same level as in 2012. In 2015, when the export industry suffered a setback, import activity exhibited an even sharper decrease than exports of 6.9%, despite improved terms of trade, due to the rapid appreciation of the Swiss franc. There was a distinct turnaround in 2016 when imports rose again by 4.1%. The positive correlation of import and export activity seems to derive to a certain degree from Switzerland's position as an intermediary within international value chains. If export prospects brighten for Swiss industry, so does the need for exporters to purchase input material from abroad. In some instances, a different dynamic may be at play as well. The strength of the Swiss franc allows exporters to supply themselves with imported inputs at more favourable prices than before. Such a reduction in costs will at least in part compensate for a loss in price competitiveness induced by the appreciation of the national currency. Overall, however, large segments of Switzerland's export industry have been exposed to significant downward pressure on profit margins due to the strong Swiss franc.

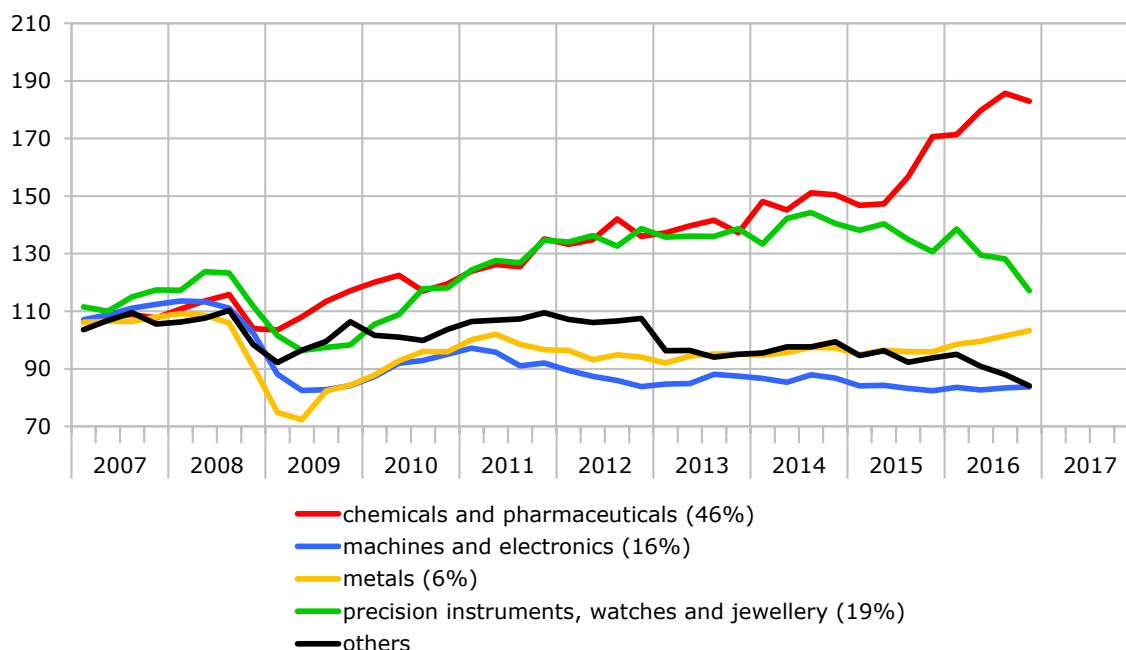
<sup>1</sup> Foreign trade statistics of the Federal Customs Administration.

**Chart 1.3 Trade in goods, 2007-17**

Note: Volume index (2007=100), seasonally adjusted, quarterly data.

Source: SECO, FCA.

1.20. A breakdown of the performance of various export industries indicates that some sectors performed much better than others. In fact, the upward trend in exports of goods was essentially due to the chemical and pharmaceutical industry, which now accounts for 46% of total Swiss merchandise exports. Even within that sector, a limited number of chemical agents and pharmaceutical products manufactured by a few companies have contributed an increasing share to Switzerland's export performance. Meanwhile, sales abroad of Swiss machines, precision tools, watches, jewellery and other traditionally important product categories have been sluggish or subject to a negative trend. It remains to be seen if a recent upswing in exports of metal and other products will be sustained in the future.

**Chart 1.4 Exports of goods by sectors, 2007-17**

Note: Volume index (2007=100), seasonally adjusted, quarterly data.

Source: SECO, FCA.

1.21. Swiss imports of services have been on an upward trend for almost 20 years and have more than doubled since 2000. This development is in a large measure due to the fact that Swiss residents are in a position to take more holidays abroad on account of the strength of the Swiss franc and real wage growth. But fees for the use of licenses and patents play an equally important role. The evolution of exports of Swiss services has been more unstable. To a certain degree, this is to do with the inherently volatile business of merchandising, which is influenced by the price movements of raw materials. All in all, exports of services recorded virtually no growth in the years from 2013 to 2016.

1.22. Consumer prices have stagnated or declined for several years. Inflation measured by year-on-year (y-o-y) changes of the consumer price index (CPI) has barely risen above zero since the end of 2011. As a consequence, the CPI was 2% lower in December 2015 compared with December 2011. A similar development is observed for core inflation (excluding fresh and seasonal products and energy and fuel). Looking at yearly averages, both headline (-1.1%) and core inflation (-0.5%) were negative in 2015, and 2016 witnessed a decline in prices of 0.4%. The latest official inflation forecast from December 2016 predicts an inflation rate of 0.1% for 2017 and 0.5% for 2018. This forecast is based on the assumption that the moderate pace of global growth will continue and lead to higher inflation, not only in the U.S. but also in the euro area. Historically, Switzerland's inflation rate has averaged around 2.5%.

1.23. Two external factors were the major drivers of the recent period of very low or negative inflation: (i) the drop in oil prices and (ii) the appreciation of the Swiss franc, which depressed the prices of imported goods. Declines in oil prices have only a temporary effect on inflation as long as they do not lead to sustainably lower inflation expectations. In contrast, a persistent appreciation of the Swiss franc may lower inflation over longer periods.

1.24. Price stability is an important condition for growth and prosperity. Inflation and deflation, by contrast, impair economic activity. They hinder the role of prices in allocating labour and capital to their most efficient use and result in a redistribution of income and wealth. The Swiss National Bank (SNB) equates price stability with a rise in consumer prices of less than 2% per annum. Deflation – i.e. a sustained decrease in the price level – also breaches the objective of price stability. The primary goal of the SNB is to ensure price stability, while taking due account of economic developments.



### 1.3 Economic Policy

#### 1.3.1 Growth agenda

1.25. For about 15 years, Switzerland's Growth Policy, or Growth Agenda, has been at the heart of the Swiss Government's economic policy. Its main objective is to enhance the national economy's growth potential with a view to generating long-term prosperity gains. This may be achieved by higher labour force participation and/or higher labour productivity. The focus lies on the enhancement of competition in the domestic market to overcome sluggish productivity growth of domestically oriented sectors compared with the highly productive export sector.

1.26. Until 2015, the Government's Growth Agenda was based on seven pillars:

- Enhancing competition on the domestic market;
- Pursuing Switzerland's integration into the global economy;
- Optimizing the public sector;
- Securing high labour market participation;
- Ensuring a competitive educational system;
- Facilitating entrepreneurship;
- Promoting sustainability and an efficient use of natural resources.

1.27. Further key objectives have included a flexible labour market with a high labour market participation, price stability, and sound public finances. On this basis, Switzerland broadly succeeded in maintaining its competitiveness during the period under review, with a high per capita income, low levels of unemployment and one of the highest labour market participation rates among OECD countries. At the same time, labour immigration increased significantly, along with a higher number of workers from neighbouring countries commuting to work in Switzerland on a daily basis.

1.28. Between 2012 and 2015, the Government's Growth Agenda also comprised efforts aimed at reform of the agricultural sector, expansion of Switzerland's network of preferential trade agreements, deepening of the economic relationship with the EU, reform of corporate taxation, improvement of IT infrastructure, promotion of e-government and reduction of red tape.

1.29. In spite of these efforts, productivity growth in Switzerland has remained low. A possible explanation is that the contribution to national output of domestic sectors such as health and social services has continued to increase, while their productivity levels stagnated. Moreover, in the wake of the global financial crisis important sectors such as manufacturing, wholesale trade and financial services, which used to contribute strongly to productivity gains, have lost some of their vigour.

1.30. Against this background, the Government decided in 2015 to focus the Growth Agenda on three main pillars:

- Enhancing labour productivity growth;
- Strengthening resilience of the economy;
- Improving resources and infrastructure productivity.

1.31. For the period 2016 to 2019, measures envisaged by the Government pertain, *inter alia*, to facilitating imports to increase competition in the domestic market, enabling the digital economy and streamlining government regulations. Amendment of 'too-big-to-fail' regulations for systemically relevant financial institutions and a stabilization programme for public finances will contribute to the economy's resilience. The internalisation of the environmental costs of energy consumption and a more efficient use of traffic infrastructure are further priorities of the 2016-2019 Growth Agenda.

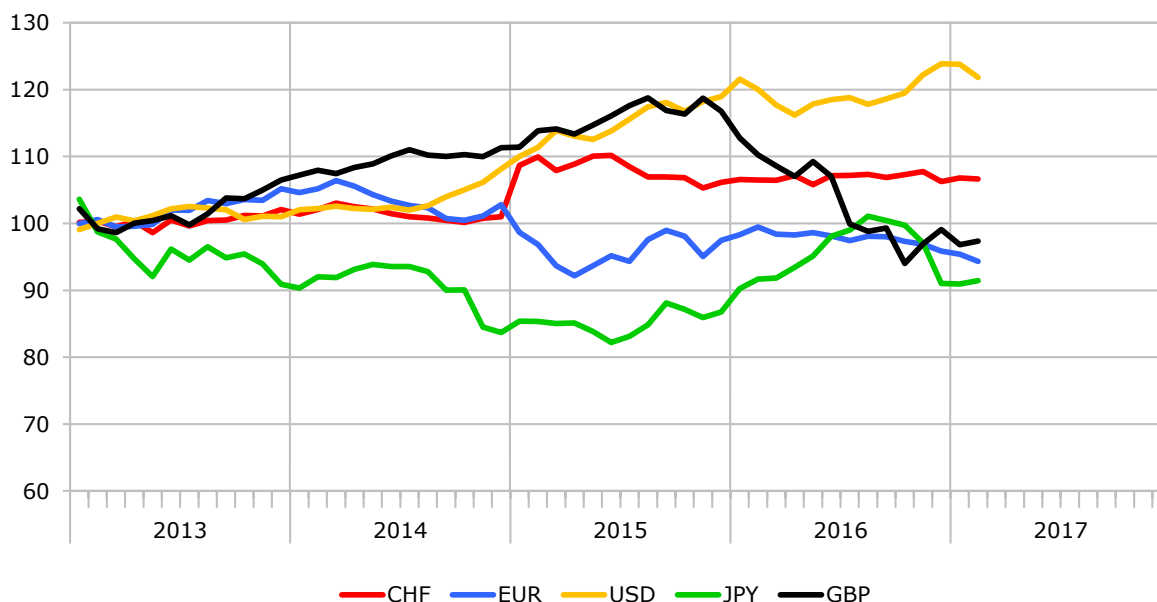
1.32. With respect to the facilitation of imports, the Growth Agenda 2016-2019 envisages autonomous measures ranging from simplified IT and value-added tax procedures to options to remove impediments to parallel imports and raising *de minimis* thresholds for small consignments.

### 1.3.2 Monetary policy

1.33. The aftermath of the global financial crisis presented monetary policy in Switzerland with major challenges. In 2011, the European sovereign debt crisis emerged as an additional challenge. Capital fled into safe haven currencies, such as the Swiss franc. Appreciation of the Swiss franc, which had already set in in 2008, accelerated and almost reached parity with the euro. This substantial overvaluation of the national currency became a threat to economic activity in Switzerland and nurtured a deflationary development. Under these exceptional circumstances, when short-term interest rates were already close to or at zero, the SNB announced a minimum exchange rate of SwF 1.20 per euro in September 2011.

1.34. In the course of 2014, the euro depreciated strongly against the US dollar with the Swiss franc also weakening against the US dollar. Against this background, the SNB concluded that maintenance of a minimum exchange rate of SwF 1.20 per euro had become unsustainable. It took the decision to discontinue the exchange rate floor on 15 January 2015, triggering an immediate further appreciation of the Swiss franc.

**Chart 1.5 Real exchange rate of Swiss franc and other currencies, 2013-17**



Note: Export-weighted, 2013Q1=100.

Source: SNB.

1.35. As a consequence, Switzerland's economy deteriorated in the first quarter of 2015, before slowly recovering towards the end of the year. Merchandise exports were particularly hit, along with tourism. By 2016, the economy was back on a recovery course, even though the output gap remained negative.

### 1.3.3 Fiscal policy

1.36. Switzerland's fiscal policy is to a large extent determined by the so-called 'debt brake' rule, established in 2003 and amended in 2010. This rule calls for balanced federal budgets; however, a budget balance must be achieved over the economic cycle in order that automatic stabilisers can perform their function in cyclical upturns and downswings. Spending overruns are therefore expected to be redressed when the economy recovers.

1.37. An appraisal of the debt brake by the Government concluded in 2013 that the goals had been achieved. Federal finances had not shown any structural deficits since 2006. The debt brake rule is also applied at the sub-federal level by several cantons. In the period under review, nominal gross debt in Switzerland was reduced from 49% of GDP to 46.1%. A further reduction in debt

levels will help increase Switzerland's resilience to external shocks, in line with one of the goals of the Government's Growth Agenda.

1.38. While the debt brake has proved to be an efficient fiscal rule for management of the budget in the short and medium term, it will not be sufficient to solve long-term structural problems, such as an ageing population and its implication for social security. Challenges of this kind need to be tackled by dedicated reforms. Further reduction of the Confederation's debt ratio would, however, provide future generations with the best possible starting point for tackling future problems. An overhaul of the existing old-age insurance will continue to be debated in Parliament in 2017.

1.39. In February 2017, a reform of the corporate tax code, which had been adopted by Parliament, was rejected in a popular referendum. This major reform had intended to abolish certain preferential tax provisions to bring the system into line with evolving international standards and to establish a modern and competitive company taxation. The Government will work out a new proposal in keeping with its commitment to conform to international standards.

#### **1.3.4 Other policy areas**

1.40. Switzerland and the EU are closely interlinked in terms of employment: as at the end of 2015, 455,800 Swiss nationals were living and working in the EU, while 1,363,700 EU/EFTA citizens were living in Switzerland (the population of Switzerland was about 8,300,000 in 2015). In February 2014, a popular initiative to stop "mass immigration" was accepted in a nationwide vote. The outcome of the vote brought about an amendment to the constitution with the Government tasked to introduce a new system to manage future immigration. At the end of 2016, Parliament adopted a new law that implements the immigration amendment in a manner that is compatible with the existing agreement on the free movement of persons within the EU.

1.41. In 2016, Switzerland Innovation, a network of independent regional sites for research and innovation, bringing industry and academia together, was inaugurated. It is represented by two hubs centred around the two Federal Institutes of Technology in Zurich and Lausanne and three additional network locations. A key objective of Switzerland Innovation is to create a platform that allows universities and innovative companies, both domestic and foreign, to collaborate and use their research for the development of marketable products and services, in support of Switzerland's global competitiveness.

### **1.4 Trade Policy**

#### **1.4.1 Overview**

1.42. Switzerland's trade policy aims to promote and secure open markets while contributing to sustainable development. It is anchored in the multilateral trading system of the WTO and complemented by a broad range of preferential arrangements with the EU and other partner countries.

1.43. As set out in the latest Growth Agenda adopted by the Government in June 2016, Switzerland will continue to focus on strengthening the productivity and competitiveness of its economy, with further liberalisation of international trade and investment as an important component. At the same time, Switzerland is seeking to mitigate negative effects of economic growth, notably by placing a greater emphasis on sustainability and coherence between global policies.

#### **1.4.2 WTO**

1.44. For Switzerland's economy, a strong, transparent and predictable rules-based multilateral trading system remains central. The WTO continues to form the indispensable basis of global trade and is the only mechanism with the potential to produce truly multilateral, inclusive solutions in the area of trade for a globalized economy.

1.45. Since the last review, Switzerland has pursued its active engagement across the WTO agenda in support of the multilateral trading system. The substantive outcomes achieved at the 9th and 10th Ministerial Conferences were momentous milestones, delivering on some important

Doha issues and enhancing the multilateral framework. At MC10 in Nairobi in particular, Switzerland contributed in a major way to reaching a consensus.

1.46. The Trade Facilitation Agreement (TFA), a key outcome of MC9 in Bali, was ratified by Switzerland in September 2015, and a national trade facilitation committee was established in November 2016. Switzerland expects the TFA to considerably simplify and expedite international business activities worldwide, in particular for MSMEs.

1.47. Implementation in Switzerland of the prohibition of export subsidies for agricultural products by 2020, adopted at MC10 in Nairobi, called for considerable changes in national legislation. To this effect, the Government conducted a public consultation from October 2015 to January 2016, with a view to submitting proposals to Parliament in the first half of 2017. Implementation of the expansion of the plurilateral Information Technology Agreement, another major achievement at MC10 that benefits all members, is equally subject to legislative changes. Switzerland will abolish all respective customs duties in one step, a process that should be completed by mid-2017.

1.48. With respect to decisions taken at recent WTO Ministerial Conferences for least developed countries, Switzerland notified its preferential treatment for services and service suppliers of LDCs in July 2015. In the context of the Nairobi decision on preferential rules of origin, a Registered Exporter System became effective in Switzerland in January 2017 for LDCs, allowing for self-certification of origin by LDC exporters to benefit from the Swiss Generalized System of Preferences (GSP).

1.49. Transposition of the revised Government Procurement Agreement (GPA) was launched in conjunction with a broader effort to harmonise Switzerland's government procurement system, which is characterised by a federal structure and competences at several levels of government. Technical work was concluded in 2016 and the federal bill is expected to be considered by Parliament in the course of 2017. Switzerland will be in a position to deposit its instrument of ratification on the revised GPA on completion of approval procedures at both federal and cantonal levels.

1.50. Switzerland is committed to contributing to further rule-setting and trade liberalisation efforts at the WTO that benefit producers and consumers worldwide. In Switzerland's view, results on outstanding Doha issues remain important. At the same time, the multilateral trading system needs to find responses to relevant developments in other areas, such as in the digital economy.

1.51. For Switzerland, further reduction of tariff and non-tariff barriers for industrial products and services continues to be of particular interest, along with a strengthening of the regulatory framework for the protection and enforcement of intellectual property rights, notably those advocated by the W/52 coalition. Switzerland also strongly supports WTO work on e-commerce, with a view to fostering digitally enabled trade, particularly for MSMEs and developing countries. With respect to agriculture, Switzerland will pursue its constructive engagement in negotiations, underlining the need to adequately take into account non-trade concerns.

1.52. In Switzerland's view, multilateral solutions continue to be the best way to avoid discrimination between countries and regions, and to create opportunities for all members. In this regard, Switzerland is open to consideration of various approaches that can add value to the multilateral trading system, including best practices and other non-legally binding commitments.

1.53. Where agreement among all WTO members is not achievable, plurilateral initiatives can be a valuable alternative, particularly if benefits are multilateralized. In this respect, Switzerland hopes that the negotiations on an Environmental Goods Agreement will be concluded in the near future, thereby contributing to achievement of environmental goals set out at multilateral level.

1.54. Switzerland attaches high importance to the WTO's regular work, in particular the monitoring of developments in the trading environment and of compliance by members with WTO rules, including on transparency. Switzerland also strongly supports the aim of making the WTO truly universal through further accession of new members that meet the organisation's standards. Furthermore, Switzerland maintains a keen systemic interest in a well-functioning dispute settlement mechanism at the WTO, although no participation by Switzerland as a party or third party in specific dispute settlement proceedings occurred during the period under review.

1.55. Switzerland's engagement in WTO includes active roles in a range of groups of members sharing common interests, such as G10 in agriculture, the W/52 coalition in intellectual property and the Friends of the System. During the period under review, Switzerland also continued to host a yearly informal WTO ministerial gathering on the fringes of the World Economic Forum in Davos.

### **1.4.3 Other multilateral and plurilateral initiatives**

1.56. Switzerland actively supports trade and investment-related work in the OECD. OECD's analytical and policy-oriented output continues to make a valuable contribution to promoting policy coherence, strengthening the multilateral trading system and showing the consequences of protectionism.

1.57. Switzerland also supports UNCTAD's activities in, *inter alia*, the areas of trade and investment. Analysis, consensus-building and technical assistance by UNCTAD play an important role in helping developing countries better integrate into the global economy, and measure progress towards the UN Agenda 2030 Agenda for Sustainable Development.

1.58. In the period under review, Switzerland was actively engaged in the negotiations for a plurilateral Trade in Services Agreement (TiSA). Switzerland remains committed to the conclusion of a high-quality services trade agreement that is fully compatible with the General Agreement on Trade in Services and open to broad participation, with the long-term objective of integration of the TiSA into the WTO framework.

### **1.4.4 Preferential relations**

1.59. As part of a comprehensive foreign economic strategy first established in 2007 and the Government's Growth Agenda, Switzerland has continued to negotiate and conclude bilateral and regional preferential agreements that complement and support the multilateral trading system. In 2015, 77% of Switzerland's merchandise exports went to preferential trading partners. Switzerland aims to further expand and deepen its preferential trading relations.

#### *European Union*

1.60. As referred to above, the European Union continues to be Switzerland's most important economic partner by far. The close relations between the two sides are reflected in an extensive network of contractual arrangements developed over time. In the area of trade, this network includes a free trade agreement concluded in 1972 and a range of further agreements, most of which have become effective since 2002 and cover topics such as customs cooperation, agricultural products, technical barriers to trade, land and air transport, government procurement and the free movement of persons.

1.61. Consolidation and further development of these close relations in fields of common interest has continued to be a priority of the Government. Since Croatia's accession to the EU in 2013, the bilateral framework between Switzerland and the EU has been extended to that member state. Negotiations on institutional aspects of the bilateral relationship have been conducted since mid-2014. Further topics under negotiation include the electricity market, food safety and emissions trading. With respect to the movement of persons, and as referred to above, new constitutional provisions on immigration, adopted in February 2014 in a popular vote, were implemented by Parliament in December 2016 in a manner that does not affect the existing agreements with the EU.

#### *Free Trade Partners*

1.62. Deepening and extending Switzerland's preferential trade relations beyond the EU and the European Free Trade Association (EFTA) Convention also remain major objectives of the Government. These FTAs make an important contribution to sustaining the competitiveness of the Swiss economy and the country's attractiveness as a business location through improved access to foreign markets and enhanced cooperation on an equal footing with Switzerland's main competitors.

1.63. With partners outside the Euro-Mediterranean area, Switzerland is generally seeking FTAs that are comprehensive in scope, including trade in goods, services, investment, intellectual property, competition, government procurement and trade facilitation. In addition, provisions on trade and sustainable development have been proposed to all negotiating partners in recent years, and have already been included in several FTAs.

1.64. Switzerland negotiates, concludes and administers its FTAs mostly in association with its EFTA partners. In the period under review, new EFTA free trade agreements were concluded with the Central American states of Costa Rica, Panama (2013) and Guatemala (2015), Bosnia & Herzegovina (2013), Georgia (2016) and the Philippines (2016). Switzerland signed a bilateral FTA with China in 2013, which entered into force in July 2014.

1.65. By the end of 2016, Switzerland had 28 FTAs with 38 partner countries outside the EU and EFTA, of which 26 agreements were in force. Together with its EFTA partners, Switzerland is pursuing negotiations with Ecuador, India, Indonesia, Malaysia and Viet Nam. Further processes have been started with Algeria, Thailand, and the Russian Federation, Belarus and Kazakhstan. In parallel, Switzerland is engaged in negotiations on further development of several existing EFTA free trade agreements, including those with Mexico and Turkey. The possibility of enhancing existing FTAs with further partners, such as Canada and Chile, is being explored.

#### **1.4.5 Trade and development**

1.66. Support of the integration of developing countries into the global economy has been one of three pillars of Switzerland's foreign economic strategy since 2007. In that context, promotion of trade plays a key role and offers significant opportunities for sustainable economic growth and job creation. In December 2016, the Government, in a strategy submitted to Parliament, confirmed trade promotion as a key objective of Switzerland's development cooperation for the period 2017-2020.

1.67. Switzerland has supported the global Aid for Trade Initiative of the WTO and the OECD since its inception in 2005. In December 2015, Switzerland renewed its commitment to the Enhanced Integrated Framework (Phase II) that specifically benefits LDCs.

1.68. In the period under review, Switzerland's trade promotion work focused on strengthening export capabilities of SMEs in designated partner countries and on facilitating imports into target markets. It also comprised several initiatives aimed at improvement of the institutional capacity required for participation in international trade and value chains. Projects, most of which were implemented with partner organisations, included:

- contributing to the World Bank's Trade Facilitation Support Programme, notably to assist WTO Members with implementation of the TFA;
- building in-country export know-how (e.g. on quality requirements, product labelling and border procedures) and developing a 'Standards Map' online database, in partnership with the International Trade Center (ITC);
- assisting trade support organisations in partner countries in facilitating SME exports to Switzerland and other European markets;
- establishing local quality assurance systems in support of SMEs' ability to comply with international standards, in association with the United Nations Industrial Development Organization (UNIDO);
- developing investment climate programmes in 20 partner countries, in cooperation with the International Finance Corporation (IFC).

1.69. Furthermore, Switzerland remains a major donor of the Advisory Centre on WTO Law (ACWL). With the International Labour Organization (ILO), Switzerland has been engaged in promoting compliance with core labour standards, particularly in the textiles sector, and support of SMEs through the Sustaining Competitive and Responsible Enterprises Programme (SCORE).

#### **1.4.6 Trade and sustainability**

1.70. In Switzerland's view, trade has to play an important role in addressing the goals of sustainable development, as reflected in the United Nations 2030 Agenda, and the challenge of climate change in particular. In WTO and other international organizations, Switzerland therefore actively advocates policies and rules that promote sustainable development and coherence between trade rules and relevant environmental, labour and social commitments.

1.71. As referred to above, Switzerland remains hopeful that the WTO negotiations on an Environmental Goods Agreement will be concluded successfully. Switzerland also strongly supports multilateral and plurilateral talks aimed at abolishing fisheries subsidies detrimental to the environment, in line with Sustainable Development Goal 14.6. In the course of 2017, new regulations will become effective in Switzerland for imports of products from illegal, unreported and unregulated (IUU) fishing.

1.72. Switzerland is actively engaged in the Friends of Fossil Fuel Subsidy Reform. Formed in 2010, this group promotes a phasing-out of inefficient fossil fuel subsidies, as envisaged by G20 and APEC leaders. It encourages governments to undertake voluntary peer reviews with a view to a phase-out of such subsidies by 2025.

1.73. In the period under review, and as mentioned above, Switzerland moved to negotiating and concluding free trade agreements with a dedicated chapter on trade and sustainable development. With some partner countries, Switzerland also engages in labour dialogues accompanying the implementation of FTAs.

1.74. Sustainability-oriented support to partner countries has been provided through UNIDO's Resource Efficient and Cleaner Production Programme and UNCTAD's Biotrade Facilitation Programme.

1.75. On 25 May 2016, Switzerland ratified the Minamata Convention, which aims at protecting the environment and human health worldwide through the prohibition of exports of mercury except under specific conditions.

1.76. In December 2016, the Government adopted a National Action Plan to implement the United Nations Guiding Principles on Business and Human Rights. The Plan aims to increase coherence between Switzerland's economic policy and human rights obligations, formulate expectations towards Swiss-based businesses and plan various awareness-raising and training initiatives.

#### **1.5 Outlook**

1.77. During the period under review, Switzerland's economic policy has sharpened its focus on fostering the competitiveness of Swiss-based businesses, building on the strengths of the country and addressing weaknesses such as insufficient productivity growth mainly of inward-oriented sectors.

1.78. For Switzerland to continue to succeed in a rapidly evolving, interdependent global economy, open markets and non-discriminatory trade rules are of fundamental importance. At the same time, Switzerland is mindful of a strong need to make trade work more and better for developing countries, in particular LDCs, and for sustainable development more generally in line with the UN 2030 Agenda. Switzerland will therefore actively pursue mutually supportive economic, social and environmental policies both at the domestic and global levels.

1.79. For Switzerland, the WTO remains the anchor of its trade policy. Switzerland will continue to strongly support and actively contribute to preserving a well-functioning multilateral trading system and to keeping it relevant for the membership and the global economy. In Switzerland's view, while maintaining the aim of multilateral solutions at the center, further developing and reinforcing the WTO's regulatory framework will also require variable approaches to address the wide range of interests and reflect the different stages of development of Members.



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## 2 REPORT BY LIECHTENSTEIN

### 2.1 Introduction

2.1. With a surface of 160 square kilometers, a resident population of about 38,000 and therefore a very limited domestic market, Liechtenstein has a constant track record of efforts to extend its economic integration with larger economic areas. Its foreign economic policy is therefore built upon four pillars: its membership in two economic areas: the Swiss Customs and Currency Union and the European Economic Area (EEA); a network of free trade agreements concluded through the European Free Trade Association (EFTA) as well as Liechtenstein's membership in the World Trade Organization (WTO).

2.2. This report on the Fifth Trade Policy Review of Switzerland and Liechtenstein presents the developments of the economic union between Switzerland and Liechtenstein during the past four years. Liechtenstein is an integral part of the Swiss customs territory, the two countries form a monetary union, and more than 100 other bilateral treaties, such as the Patent treaty, closely link them. This economic union has already existed for more than 90 years and constitutes a central building block for Liechtenstein's economic access to the world markets.

2.3. The Trade Policy Review reflects at the same time the high degree of Liechtenstein's integration in the European Economic Area (EEA), the second pillar of its foreign economic policy. The EEA Agreement forms the legal basis for economic cooperation between the three EEA EFTA States (Iceland, Liechtenstein, and Norway) and the EU (currently 28 Members). As a party to the EEA Agreement, Liechtenstein fully participates in the EU's Internal Market, which is based on the principle of the free movement of goods, persons, services and capital, with uniform and common rules governing competition, including state aid. In addition, the Agreement covers cooperation in i.e. research and development, education, social policy, the environment, consumer protection, tourism, and culture. For the last 22 years, the EEA agreement has been the most important pillar for Liechtenstein's economic actors to participate in the European markets.

2.4. Together with the integration into the above mentioned economic areas, and in order to establish favourable framework conditions that facilitate cross-border economic relations for the heavily export-oriented Liechtenstein companies beyond Europe, Liechtenstein's membership to WTO and to EFTA constitute the main pillars of its foreign economic policy. Liechtenstein is firmly committed to the rules-based, transparent and open multilateral trading system of the World Trade Organisation. Since an open and well-functioning multilateral trading system is fundamental to economic growth and development, the trading system of the WTO is essential to Liechtenstein's economic policy. Liberalisation of trade at multilateral and regional levels (via WTO and EFTA) is a high priority of Liechtenstein's foreign economic policy. One of its main objectives is to ensure and to extend – as far as possible – non-discriminatory access to foreign markets for its companies.

2.5. In an economic environment which is increasingly internationally linked and globally dependent, it is a central priority of the Liechtenstein Government to promote general conditions for business activities which are stable and favorable. In addition to political continuity, this requires a predictable legal and social as well as a liberal economic order. The level of State intervention in economic processes is kept low. They are facilitated by fast administrative channels, a low level of bureaucracy and business-friendly tax legislation.

### 2.2 Trade and Economic Policy Environment

2.6. During the last four years, the Liechtenstein Government has continued to adhere to its long-standing liberal economic policy based on self-dependent economic actors and state interventions that are limited to the establishment of framework conditions which are favourable to entrepreneurship. At the same time Liechtenstein incorporated newly adopted *acquis communautaire* into domestic law, more than 8,700 EEA relevant EU legal acts are now applicable in Liechtenstein. The implementing act for the EU Services Directive regulating the general framework for the provision of services in Liechtenstein by EEA nationals, either as permanent establishment or as temporary cross-border provision, is one example for this policy. Moreover, Liechtenstein expanded its network of free trade agreements together with the other EFTA Member States.



2.7. Great efforts have finally been put into the creation of new and the improvement of existing laws in the context of financial services in order to comply with evolving European and international standards while providing the basis for future business opportunities.

### 2.2.1 Economic growth

2.8. Liechtenstein's economy is small in absolute terms, poor in natural resources and highly export-oriented with a large share of value added in industry (41% of GDP in 2014). These factors are reflected in the impact of the global financial and economic crisis on Liechtenstein's economy during the last years from which Liechtenstein relatively well recovered despite the massive strengthening of the Swiss franc in the wake of the sovereign debt crisis in the Euro zone and its pressure on Liechtenstein's export industry. GDP increased every year (with 0.4% in 2012, 4.7 in 2013 and 2014 3% (provisional)).

2.9. Liechtenstein's economy has continued to steadily create new jobs. The total number of people employed in Liechtenstein increased from 34,334 in 2010 to 36,680 in 2014, reaching a further high in 2015 with 36,755. More than half of the employed persons (19,652) in 2015 commuted daily from neighbouring Switzerland and Austria or from Germany. Compared to the total resident population (37,622 in 2015), the high proportion of job creation remains a particular feature of Liechtenstein's economy. In 2015 38.4% of the labour force worked in industry, 60.9% in services and 0.8% in agriculture. By international comparison, the very low proportion of agriculture and forestry is striking, as is the relatively high proportion of the manufacturing sector. The services sector is smaller than in other European countries. Unemployment rates during the last four years varied slightly between 2.3% (2012) and 2.5% (2013) as well as 2.4% (2014 and 2015).

2.10. Industrial direct exports, excluding exports to or through Switzerland, increased from SwF 3,389 million in 2013 to SwF 3,453 million in 2014 before it fell to SwF 3,217 million in 2015 and increased again to SwF 3,346 million in 2016 (provisional numbers) amounting to SwF 89,000 per inhabitant. The most important export country of Liechtenstein's industry and goods production sector remains Switzerland, followed by Germany and the United States.

2.11. At the end of 2015, the 16 Liechtenstein banks managed client assets in the amount of SwF 130.5 billion. The decline in assets under management by 3.0 % despite net inflows of new money is due to market developments, especially exchange rate effects after the abolition of the euro minimum exchange rate by the Swiss National Bank.

2.12. As regards insurance services, 21 life insurance, 17 non-life insurance, and 3 reinsurance undertakings operated with registered offices in Liechtenstein at the end of 2015. 11 undertakings operated as captives. Compared with the previous year, the numbers of insurances slightly decreased from 42 to 41. Liechtenstein is the only insurance center that offers insurance undertakings direct access both to the countries of the European Economic Area and to Switzerland.

2.13. The Liechtenstein fund center is a young market that has grown successively in recent years. Thanks to Liechtenstein's membership in the EEA, investment undertakings benefit from free access to the European market. At the end of 2015, there were 510 investment undertakings in Liechtenstein with net assets of SwF 45.2 billion.

2.14. Liechtenstein has the same inflation rate as Switzerland (2012: -0.7%, 2013: -0.2%, 2014: 0.0%, 2015: -1.1%, 2016: -0.4%). Interest rates continuously decreased and reached a historical low in 2016. There are no figures available reflecting private consumption or investment.

2.15. After structural problems were foreshadowed in the fiscal programming for 2010-2014 due to, amongst other factors, the economic and financial crisis, the general demographic development, and structural changes in the financial sector, fiscal consolidation was made one of the priorities of the Liechtenstein Government. On the basis of three fiscal stabilization packages, state budget consolidation measures were successfully implemented leading to savings of about SwF 162 Mio. and an increase of revenues of SwF 59 Mio. In 2014 and 2015, the state budget again posted a surplus. Liechtenstein focuses now on securing a balanced state budget. The sound

budgetary position of Liechtenstein was one decisive factor for the recent confirmation of its AAA rating from Standard and Poor's.

### 2.2.2 The economic sectors

2.16. Liechtenstein's economy is broadly diversified by sectors, businesses and products. The average value added is very high, based on research and development, qualified expertise, a wide range of high-tech and niche products, strong export orientation of its industry, and a highly developed financial services sector. Its services sector covers more or less all services of the UN services classification system. The rate of investment in research and development compared to GDP currently stands at the remarkable figure of 8.4%.

2.17. In 2013 and 2014, about 41% of the GDP is the result of value added in industrial production and manufacturing, 27% in general services, 25% in the financial services sector and the remainder in household, agriculture and forestry. At the end of 2015 Liechtenstein's economy accounted for 4,482 businesses (i.e. an average of one business per 8.4 inhabitants). Almost 90% of these are small businesses (1 to 9 employees) while 17 companies have more than 250 employees.

2.18. The primary sector employs 0.8% of the total workforce. The number of employees in the primary sector stayed stable in 2014 and 2015. Especially the dairy industry is important for Liechtenstein farmers. Some 55 farms produce around 13 million kg milk per year. In 2013, one third of 109 registered farms were certified to produce agricultural products according to organic farming production methods. The Liechtenstein agricultural sector plays an important role for the sustainable maintenance of hilly and mountainous areas, which make up two thirds of Liechtenstein's territory.

2.19. Liechtenstein's agriculture is closely linked with Switzerland through the Customs Union Treaty due to which the Swiss Federal Law on Agriculture is applicable in Liechtenstein. Moreover, identical climate, relief, soil, topography, and structure of production, together with a common policy formulated by Switzerland for the customs union, have enhanced the similarities between the Liechtenstein and Swiss agriculture sectors, which are dominated by small farms. Indeed, the overall average size of farms is about 32.7 ha in Liechtenstein and around 19 ha in Switzerland. The prices of agricultural products are broadly the same in Switzerland and Liechtenstein. The reduction of the total number of farms over the last few decades (through mergers and liquidations) has led to an increase in the number of farms of over 20 ha, and thus to the increase in the average size. Some 80% of the farmland is under lease.

2.20. Liechtenstein is one of the most highly industrialized countries in the world. Lacking a significant home market, virtually all goods produced are exported. Therefore, Liechtenstein's industry, specialized in high-tech niche products, was from the outset exposed to international competition. The high dependence on export constitutes a certain vulnerability of Liechtenstein's industrial sector. Thanks to its specific range of products and the diversity of its export markets, it is, however, relatively well recovering from the exchange rate drop after the Swiss national Bank's decision to lift the fixed minimum exchange rate between the Swiss franc and the Euro in January 2015. This had led to an economic slowdown and direct exports decreased by 6.9% in 2015. However, the direct exports from Liechtenstein undertakings increased again by 4% in 2016 compared to the previous year. The most important branches of the internationally competitive industrial sector are mechanical engineering, plant construction, manufacturing of precision instruments, dental technology, electronic control devices, vacuum, heating and lighting technology, dentistry and pharmaceutical products and food-processing industry.

2.21. Financial services also constitute an important economic sector in Liechtenstein (25% of GDP in 2015). Private wealth management dominates the financial centre today, offering a broad product portfolio. Fiduciary services and private banking account for a substantial part of the added value generated by the financial centre, while the rest is generated by insurers, the fund industry, independent asset managers and others. Globalization has an important effect on the competitive situation of the Liechtenstein financial centre. The most important challenges include the worldwide opening of markets, rapid technological progress, and the accelerating cycles of innovation. These challenges have changed the framework conditions and rules of the game for international competition.

2.22. As an EEA member, Liechtenstein implements relevant EU legislation. Accordingly, banking, insurance, securities and accounting legislation is based on the relevant EU Directives. Moreover, Liechtenstein as an EEA Member fully participates without the right to vote in the European Financial Surveillance System. In addition, the Liechtenstein financial institutions profit from the EU passport granting them the unhindered access to the EU Market. National accounting standards for financial institutions (mainly banks, which are not quoted) are also similar to the accounting rules of the Swiss FINMA. In general, the company may choose between the national accounting standard or IFRS standard. However, only 3 Banking Groups in Liechtenstein apply IFRS on a consolidated level. National accounting standard is applied on stand-alone basis only.

2.23. The strong Swiss franc continues to represent a challenge as a large and growing share of turnover is being generated abroad in foreign currencies. When the Swiss franc appreciates, the turnovers reported in francs drop accordingly. The same is true of income. Most of the costs of the financial sector are incurred in Swiss francs, however, to the extent the parent companies are located in Liechtenstein. This leads to a worsening ratio of costs and income. In the longer term, there is a risk of shifting costs abroad unless the currency situation returns to "normal".

2.24. The Liechtenstein financial sector is facing this high uncertainty with a comfortable capacity to bear risks. The average core capital (Tier 1) ratio at the end of 2015 across all banks was 21.3%. This represents an increase of about 2.5 percentage points over the previous year. These figures are based on the CRD IV provisions that entered into force at the beginning of 2015. The core capital ratio of the Liechtenstein banking center is thoroughly solid compared with other countries. The high level of capital adequacy offers a guarantee for a stable financial center and security for banking clients.

2.25. In accordance with the "Liechtenstein Declaration" of 12 March 2009, where the Liechtenstein Government committed to implement global standards of transparency and exchange of tax information as developed by the OECD and to advance its participation in international efforts in order to counteract non-compliance with foreign tax laws, Liechtenstein is inter alia actively participating in the work of the Global Forum on Transparency and Exchange of Information for Tax Purposes and has been assigned a Rating of "Largely Compliant" in the second phase of the Peer Review. Until now, Liechtenstein has negotiated and concluded 17 Double Taxation Agreements according to the OECD Standard, concluded 27 Tax Information Exchange Agreements (TIEA), ratified the Multilateral Convention on Administrative Assistance in Tax Matters in August 2016 ("Multilateral Convention") and signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information ("AEI MCAA") in 2014. As an early adopter to implement the global standard on automatic exchange of information, Liechtenstein has concluded an Agreement to Automatic Exchange of Information in Tax Matters (AEOI) with the EU which has entered into force on 1 January 2016. As of 1 January 2017 Liechtenstein's AEOI network comprises a total of 60 AEOI exchange partners. A further extension is planned with effect from 1 January 2018 for exchanges in 2019. Liechtenstein has also joined the Inclusive Framework of the OECD to implement BEPS measures and signed the Multilateral Competent Authority Agreement on Country-by-Country Reporting ("CBC MCAA") in 2016.

2.26. Liechtenstein has a vital interest in the worldwide enforcement of internationally recognized standards to prevent abuse of the financial markets. Liechtenstein's foreign policy therefore pays great attention to the development and international enforcement of uniform rules to prevent and combat money laundering and the financing of terrorism.

2.27. At the national level, legislative, administrative and other practical measures have been taken in the last years to achieve this goal. Liechtenstein has fully implemented the 3rd EU Anti-Money Laundering Directive and complete implementation of the 4th Anti-Money Laundering Directive is envisaged for July 2017. The relevant standards in Liechtenstein have been acknowledged by international bodies. In 2007, Liechtenstein underwent the second Financial Centre Assessment by the IMF. The IMF certified the FMA's effective measures in the fight against money laundering and financial transactions with a terrorist background.

2.28. In 2014 the anti-money laundering (AML) and combating the financing of terrorism (CFT) regime of Liechtenstein was again assessed by the IMF and the Council of Europe Committee of Experts on the Evaluation of AML and CFT (Moneyval). The assessment concluded that Liechtenstein has made significant steps and achieved considerable progress since the last mutual evaluation, particularly in bringing its legal framework more closely in line with the Financial Action

Task Force (FATF) recommendations, consolidating an overall robust institutional framework for combating money laundering and terrorist financing and moving towards greater transparency. The assessment also found that domestic cooperation is robust, and key stakeholders enjoy the trust of the financial and nonfinancial sectors. In 2016/2017 Liechtenstein was the first country to be evaluated in the Second Review Cycle of the United Nations Convention against Corruption in respect of its measures to prevent corruption and to recover stolen assets.

### 2.2.3 State activities

2.29. The Government of Liechtenstein neither provides export subsidies or guarantees, structural policy nor subsidies to companies with the exception of farms. The main features of the playing field set by the Government's economic policy are trade laws, stability and reliability of the policy, the creation of high quality educational systems, a business-friendly tax regime, low administrative burden and a slim and customer oriented public administration.

2.30. With the aim of further promoting an investor-friendly environment in accordance with relevant EEA law, the Liechtenstein tax legislation has been revised and in 2011, a totally new tax act replaced the previous one dating back to 1961. Under the new tax act legal persons taxable in Liechtenstein and engaged in economic activities are subject to a corporate income tax of 12.5%. The existing capital tax has been abolished. Income and gains from participations are tax-exempt, and losses carried over are no longer subject to a time limit. In addition, a notional interest deduction has been introduced. Other important innovations include group taxation for affiliated companies, provisions for private asset structure, facilitating the taxation of asset management companies, or provisions on the tax treatment of national and cross-border restructurings.

2.31. In addition to its participation in the Competence Centre for Small and Medium-Sized Enterprises (SME) under the direction of the Liechtenstein University of Applied Science (the Centre advises young professionals and companies in the growth phase on business planning and management, arranges contacts with financial institutions, investors or potential business partners) the Liechtenstein Government has also launched, together with the authorities of the neighbouring Swiss canton of St. Gallen, the establishment of the "RhySearch" centre. Under the umbrella of this centre for research and innovation several Swiss universities and the Liechtenstein University of Applied Science will cooperate and facilitate access for SME in the Rhine Valley to research activities carried out by those institutions.

2.32. Due to the country's small territory and in view of the high proportion of non-Liechtenstein citizens of the total resident and working population (34% and 70% respectively), Liechtenstein regulates employment and immigration. Compared to the last Trade Policy Review of Switzerland-Liechtenstein the portion of non-Liechtenstein citizens of the resident and working population has slightly increased. Therefore, the Government does not see any leeway to ease restrictions concerning immigration and employment as also the special rules concerning the freedom of movement of persons, granted to Liechtenstein in the EEA, remain unchanged. Furthermore, in view of Liechtenstein's geographic situation and in order to respect its rural character and preserve access to real estate for the resident population, the Government regulates investment into real estate (also for non-resident Liechtenstein citizens).

## 2.3 Trade Policy Developments and Future Policy Directions

2.33. The framework of the trade environment of Liechtenstein is outlined by the Customs Union Treaty with Switzerland, Liechtenstein's membership in the European Free Trade Association (EFTA), the EEA and the WTO. These vessels allow Liechtenstein to participate in the multilateral trading system but at the same time to join, as a complementary tool, deeper economic cooperation in regional agreements. So far Liechtenstein has not been involved in any WTO or EFTA dispute settlement case.

### 2.3.1 The World Trade Organization (WTO)

2.34. Liechtenstein attaches high importance to a strong, rules based Multilateral Trading System. The WTO plays a key role in ensuring non-discriminatory market access for all WTO members and as a stronghold against protectionism. Liechtenstein remains committed to solve the outstanding Doha issues. At the same time the WTO system has to respond with flexibility to the realities and

needs of this century's globalized economy and to the increasingly diverse situations of its members. Improved market access means more trade, and more trade is beneficial to all, developed and developing countries alike. Furthermore, it offers opportunities for an increase in trade among developing countries. The multilateral trading system is a proven vehicle in promoting economic development and growth and is central to the future prosperity of our nations. At MC9 and MC10 the WTO has proven that it can deliver tangible results. Both the monitoring and negotiating arms of the WTO need to be strengthened and further developed.

2.35. Liechtenstein is committed to engage to further strengthen the multilateral system. Thus Liechtenstein has ratified the Trade Facilitation Agreement in September 2015. Furthermore, in May 2013 Liechtenstein was the first to ratify the revised Government Procurement Agreement that was adopted on March 2012. Liechtenstein also welcomes the ITA expansion and the launch of negotiations on an Environmental Goods Agreement in 2014. Switzerland is representing Liechtenstein in both initiatives by virtue of the Customs Union Treaty.

2.36. Services form an important part of the overall package of the current negotiating Round. Services account for a large part of economic growth, both in industrialized and developing countries. Liechtenstein is therefore supportive of ongoing efforts in the area of trade in services and is ready to engage constructively. Moreover, Liechtenstein joined the initiative on an ambitious plurilateral trade in services agreement (TiSA) in 2013 and is participating actively since then.

### **2.3.2 The European Economic Area (EEA)**

2.37. The European single market is the most important market for Liechtenstein's economic operators. Due to the EEA-Agreement with its four freedoms, Liechtenstein has non-discriminatory access to this market. As a consequence of this agreement, a large part of Liechtenstein's economic legislation is based on EU law. End 2016, Liechtenstein had implemented 99.4% of the relevant internal market rules. Liechtenstein's legislation in the respective areas is therefore identical with European law.

2.38. The relationship between Liechtenstein and the EU is not limited to the EEA. Since January 2012 Liechtenstein participates in the areas of Schengen and Dublin (open borders, visa, police co-operation, asylum, etc.). Association with Schengen and Dublin supplements and deepens Liechtenstein's integration in Europe in the areas of justice and home affairs.

2.39. During recent years, relations with the EU have also significantly advanced in areas regarding transparency and international cooperation in tax matters. Already in March 2009, Liechtenstein took a deliberate and far-reaching policy decision to support the increasing efforts on international cooperation in tax matters. In November 2013, the Government confirmed its commitment to the OECD Global Standard, thereby underlining Liechtenstein's international position as a reliable and trustworthy partner. In October 2015, Liechtenstein and the EU signed the Agreement on the Automatic Exchange of Tax Information. It reflects the evolution of EU legislation and incorporates the OECD's Global Standard for Automatic Exchange of Financial Account Information. With the agreement's entry into force on 1 January 2016, Liechtenstein fulfilled its political commitment as an Early Adopter of the OECD Global Standard.

2.40. Liechtenstein is furthermore committed to the implementation of the rules against tax avoidance practices that directly affect the functioning of the internal market ((EU) 2016/1164) based on the OECD Action Plan on tax base erosion and profit shifting (BEPS), with a view to ensuring a level playing field among countries. In this regard, the Liechtenstein Parliament adopted a number of adaptations of the Tax Act. These concern, inter alia, the correspondence principle for dividends within corporate groups to avoid double non-taxation, country-by-country reporting for large multinational enterprises, and transfer pricing rules.

2.41. The EEA had shown in its past that it offers a stable contractual framework for economic relations with the EU. Liechtenstein remains strongly committed to the EEA and focuses on continuing the good cooperation between the EFTA and the EU side in the EEA to protect the functioning of this common market.

### 2.3.3 The European Free Trade Association (EFTA)

2.42. Liechtenstein became a full EFTA member on 1 September 1991. Hitherto, in light of the customs union with Switzerland, Liechtenstein had been covered by the EFTA convention through a particular Protocol.

2.43. Since the early 1990s, EFTA has established an extensive network of contractual relations with States and Territories in Central and Eastern Europe, in the Mediterranean region and overseas. As of today, the EFTA States have a network of 27 Free Trade Agreements with a total of 38 partner countries and territories around the world: with Albania (2010), Bosnia and Herzegovina (2013), Canada (2009), Central American States (2013 Costa Rica /2015 Panama and Guatemala (entry into force pending)), Chile (2003), Colombia (2011), Egypt (2007), Georgia (2016 entry into force pending), Gulf Co-operation Council (GCC, comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates), Hong Kong, China (2012), Israel (1992), Jordan (2001), Lebanon (2004), Macedonia (2000), Mexico (2000), Montenegro (2012), Morocco (1997), Palestinian Authority (1998), Peru (2011), Philippines (2016 entry into force pending), Serbia (2010), *Southern African Customs Union (SACU)*, comprising Botswana, Lesotho, Namibia, South Africa and Swaziland) (2006), Singapore (2002), the Republic of Korea (2005), Tunisia (2004), Turkey (1991) and Ukraine (2012). The FTAs concluded by the EFTA States aim at enhancing mutual market access and ensuring that economic operators are granted non-discriminatory treatment vis-à-vis their main competitors in these markets.

2.44. EFTA is currently engaged in free trade negotiations with Algeria (on hold), Ecuador, India, Indonesia, Malaysia, Thailand (on hold), Customs Union Russia-Belarus-Kazakhstan (on hold) as well as with Viet Nam. Furthermore, the EFTA States explore the possibility to open negotiations with other third countries.

### 2.3.4 Customs Union Treaty/economic integration with Switzerland

2.45. The close cooperation with Switzerland is reflected in more than 100 bilateral treaties, the most important of them being the Customs Union Treaty and the Currency Union Treaty. The Customs Union Treaty, in combination with other agreements pertaining to the movement of persons, allowed for the abolition of any border or customs control between the two countries. Of equal practical importance to Liechtenstein's economy is the Currency Union Treaty which forms the legal basis for using the Swiss franc as the official currency in Liechtenstein.

2.46. The provisions of the Customs Union Treaty stipulate that the Swiss laws pertaining to customs as well as other federal legislation necessary for the implementation of the customs-free zone are applicable in Liechtenstein. In addition, trade and customs treaties concluded by Switzerland with third parties (with the exception of the EEA countries) regarding the provisions concerning trade in goods also apply to Liechtenstein on the basis of the Customs Union Treaty. Switzerland is authorized to represent Liechtenstein in relevant negotiations and to conclude such treaties with effect in Liechtenstein.

2.47. The Customs Union Treaty facilitated the bilateral cooperation far beyond its original scope of application, in particular in the areas of social welfare (health, social security), education (vocational and professional training), transport and environment. The entry into force of the revised EFTA Convention on 1 June 2002 has led to an additional integration step in the economic relations between Liechtenstein and Switzerland. Despite the difference in their integration policy towards the EU, both countries not only managed to maintain but foster the already existing close links.

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