The SHAPE of a FREE TRADE AGREEMENT between SWITZERLAND and the UNITED STATES

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Overview of an Agreement

- Potential benefits are directly related to the capacity of each government to open new frontiers of trade and investment liberalization. We recommend:

  - Immediate liberalization of 95 percent of manufactured trade.

  - At the end of transition periods, full market access covering virtually all agricultural products.

- The Swiss-US FTA should set a benchmark for WTO agreements in the Doha Round and beyond. Topics for path-breaking provisions include:
  - geographic indications (GIs);
  - government procurement;
  - movement of skilled personnel;
  - rules of origin;
  - and services.
Economic Gains

- Bilateral merchandise trade flows could increase between 20 percent (CGE model) and 100 percent (gravity model).

- Gravity models of foreign direct investment (FDI) suggest an increase in the inward stock of FDI in Switzerland by some 40 percent.

- CGE model estimates of the gain in two-way services trade are modest (about 12 percent). This low figure reflects limitations in modeling services trade and estimating the height of barriers.
• The CGE framework reports negligible changes in US and Swiss GDP levels. We are skeptical of this result for Switzerland.

• The modeling framework does not reflect:
  >> better technology due to increased competition,
  >> exit of less efficient firms,
  >> greater scale and network economies.

• Alternative methodologies predict annual GDP gains to each partner on the order of $1.1 billion. This amounts to a permanent gain of about 0.5 percent of GDP for Switzerland.
Agricultural Products

• Agriculture is by far the toughest area, both from the standpoint of negotiations and adjustment.

• A positive list approach is out of the question. However, long phase-out periods and special safeguards should be the norm for sensitive products.

• Both countries should think creatively about adjustment assistance and green box subsidies.
• **SPS Measures**

  - **SPS chapter of Swiss-US FTA** should deal with outstanding issues in the bilateral agenda such as:
    - mutual recognition of tests conducted in the exporting country;
    - lifting of US BSE-related ban on meat from Switzerland;
    - certification of US slaughter plants;
    - agreed labeling requirements.

  - **A standing group of senior government officials** should be established to resolve future disagreements and to promote the convergence of US and Swiss rules.
Geographic Indications

• To balance the political economy of Swiss agricultural market access, the United States should offer concessions on geographic indications.

• The United States should recognize Swiss agricultural GIs as “distinctive products”; while Switzerland should recognize several US geographic indications.

• In the Doha Development Round, the United States should accede to the Swiss view that a trademark infringes a geographic indication if in fact the trademark misleads the public.

• These changes will align the US stance on GIs with its broader agenda on the protection of intellectual property rights.
Manufactured Products

- Trade in manufactures (HS 25-97) represents more than 95 percent of bilateral merchandise trade.

- While the vast majority of manufactures enter free or pay only nuisance tariffs, important tariffs remain in watches, chemicals, and other sectors. Longer phase-outs will be necessary for sensitive products.

- The Swiss-US FTA should include liberal rules of origin, especially with respect to cumulation and certification.

- The FTA should provide greater scope for mutual recognition and self-assessment of standards.
Services Trade

- Barriers remain in financial services, network industries, the audiovisual sector, and professional personnel.

- In previous FTAs, the United States negotiated “WTO plus” provisions that should be embraced.

- The Swiss-US FTA should go further and set a higher standard by extending:
  >> unconditional MFN rights with respect to services;
  >> mutual recognition of educational and professional credentials;
  >> national treatment to insurance firms based in each country;
  >> freedom of movement to senior professionals and directors.

- The FTA should be a vehicle for advancing the agenda on information services, telecommunications, and public services.
The Swiss-US FTA should entail the reciprocal extension of full WTO Government Procurement Agreement (GPA) benefits and the best terms negotiated in prior FTAs.

The FTA should include initiatives to open state procurement equivalent to cantonal procurement.

The FTA should provide enhanced access for research and development, and transportation and utility services at the federal and subfederal levels.

Opening government procurement will improve the efficiency of public spending and set a useful precedent for WTO negotiations.
• Investment provides the bedrock for Swiss-US commercial relations.

• While both countries are closely aligned on major investment issues, the Swiss-US FTA could improve the investment environment by:
  >> further liberalizing sectors dominated by public monopolies;
  >> relaxing impediments to foreign ownership in selected sectors;
  >> allowing easier access to temporary employees;
  >> reviewing conditions for licensing professional personnel.

• The FTA should guarantee national treatment to private investors and ensure compensation in the event of public confiscation.

• The FTA should establish arbitration procedures for disputes between private investors and host states.
Switzerland & the European Union

- Brussels will take notice of a US agreement with Switzerland—the first US FTA with a European country; but the pact should not damage relations with Bern.

- Brussels has respected the Swiss tradition of operating on an independent commercial track.

- EU producers have obtained almost unfettered access to the Swiss market—apart from agriculture.

- The European Union should view the Swiss-US FTA in the same benign light that the United States views the Mexico-EU FTA.
Our central message is that an FTA can be highly worthwhile for both parties.

As foremost advocates of market capitalism, the parties can conclude an agreement that breaks new ground and inspires WTO negotiations.

To succeed, policy officials will have to:

- make path-breaking concessions at the negotiating table;
- build persuasive coalitions for liberalization at home;
- articulate reasoned responses to skeptical questions;
- provide meaningful adjustment assistance and green box subsidies for sensitive agriculture.