

The Shape of a Swiss-US Free Trade Agreement

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A comprehensive free trade agreement (FTA) between Switzerland and the United States could bring substantial economic gains for both partners at only moderate political and economic risk. It could increase bilateral trade by anywhere from 20 percent to as much as 100 percent. The annual GDP gains to each partner from expanded trade could be on the order of \$1.1 billion, amounting to a permanent gain of about 0.5 percent of GDP for Switzerland. The stock of foreign direct investment (FDI) in Switzerland—from all sources, not just the United States—might leap as much as 40 percent under the long-term influence of an FTA. Because both countries are highly developed and stable, with strong labor and environmental standards, a Swiss-US FTA could set a new standard in harmonizing domestic policies and liberalizing trade.

Before accomplishing such an FTA, however, both countries must lower their considerable barriers to trade in **agriculture**. Switzerland ranks among the largest importers of agricultural products and the United States among the biggest exporters, but their bilateral agricultural trade remains well below potential. Difficult issues spring not only from extremely high tariffs and strict tariff-rate quotas but also from certain sanitary and phytosanitary (SPS) measures as well as different ideas about the protection of geographical indications (GIs).

The authors recommend that the United States and Switzerland incorporate the best elements of their respective SPS agreements with Australia and the European Union into the Swiss-US FTA. Both countries should create a standing group of senior government officials to promote the convergence of SPS standards and, where possible, resolve current and future disagreements. The authors also examine how both countries can use GIs to protect certain sectors through “branding.”

Finally, and critically important to enlist domestic support, the Swiss-US FTA should contain special safeguard provisions for agriculture, accompanied by meaningful adjustment programs for adversely affected workers, firms, and communities. High levels of assistance will be necessary to manage the transition from extreme protection to freer trade, especially in beef, pork, dairy products, cereals, oilseeds, and sugar. A Swiss-US FTA can point both the United States and Europe in a different, less-distorting direction for agriculture, preserving the scenic and cultural values of rural life without burdening consumers with high prices and world markets with subsidized output.

Manufactured goods account for over 90 percent of bilateral merchandise trade, and for the most part this commerce faces low or zero tariffs. Yet a surprising number of high tariff rates obstruct trade in specific categories—not only textiles and clothing (as might be expected) but also watches, instruments, and specialty chemicals. A Swiss-US FTA agreement can quickly reach the goal of tariff-free trade in manufactured goods, coupled with liberal rules of origin and significant progress on aligning technical standards and conformity assessment systems.

Both the United States and Switzerland recognize the crucial role of **services** as a source of sustained competitiveness and export expansion. Barriers remain, but both countries have affirmed their intention to further liberalize their service sectors. A Swiss-US FTA can extend the principles of the World Trade Organization's General Agreement on Trade in Services quite widely, going as far as strict national treatment for foreign investors and mutual recognition of professional degrees and certificates.

On a global basis, **government procurement** remains largely insulated from international competition. Both countries could open many of their procurement markets, starting with those already opened to existing FTA partners and then going beyond, not only for federal procurement but also for state and cantonal procurement.

A Swiss-US FTA will improve the **investment** environment in both countries. Both governments need to further liberalize sectors dominated by public monopolies, relax impediments to foreign ownership in selected sectors, allow easier access to temporary employees, and review conditions for licensing professional personnel. The FTA should proclaim the rights of private investors with respect to national treatment and ensure appropriate compensation in the event of public taking of private property. It should also establish arbitration procedures for resolving disputes between private investors and host states, including an appellate body to ensure the consistent application of legal principles.

A Swiss-US FTA makes very good sense if negotiated as an agreement that pushes the frontier of liberalization. The economic payoff would be significant: a sharp expansion of bilateral trade, more choice and lower prices for household consumers and industrial users, and an influx of FDI, especially in Switzerland. While the European Union would look carefully at a Swiss-US FTA, the authors conclude that Brussels is likely to regard this venture in the same benign light as the United States views the Mexico-EU FTA. In both cases, the effect of out-of-area FTAs is to dilute existing preferences, bringing conditions closer to the ideal "level playing field."

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