The Global Economy of Switzerland: The Effect on the European Union and the World

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Introduction

Switzerland is a country that lies in Western and Central Europe, bordered by France, Germany, Italy, Austria, and Liechtenstein. Switzerland is a federal parliamentary republic, where the executive branch of the government is accountable to the parliament. The country has a population of 8 million people and the 4 official languages are German, French, Italian, and Romansh. The two largest cities in Switzerland, Zurich and Geneva, play a significant role in the country's economy. The quality of life in Switzerland is very high, ranking near the top in categories such as human development, economic competitiveness, civil liberties, and government transparency. It is also ranked as the number one country in the world for highest nominal wealth per adult and number eight country in the world for GDP per capita. (WorldBank.org) With Zurich and Geneva, leading the way Switzerland's economy has a large effect on the European Union and the world.

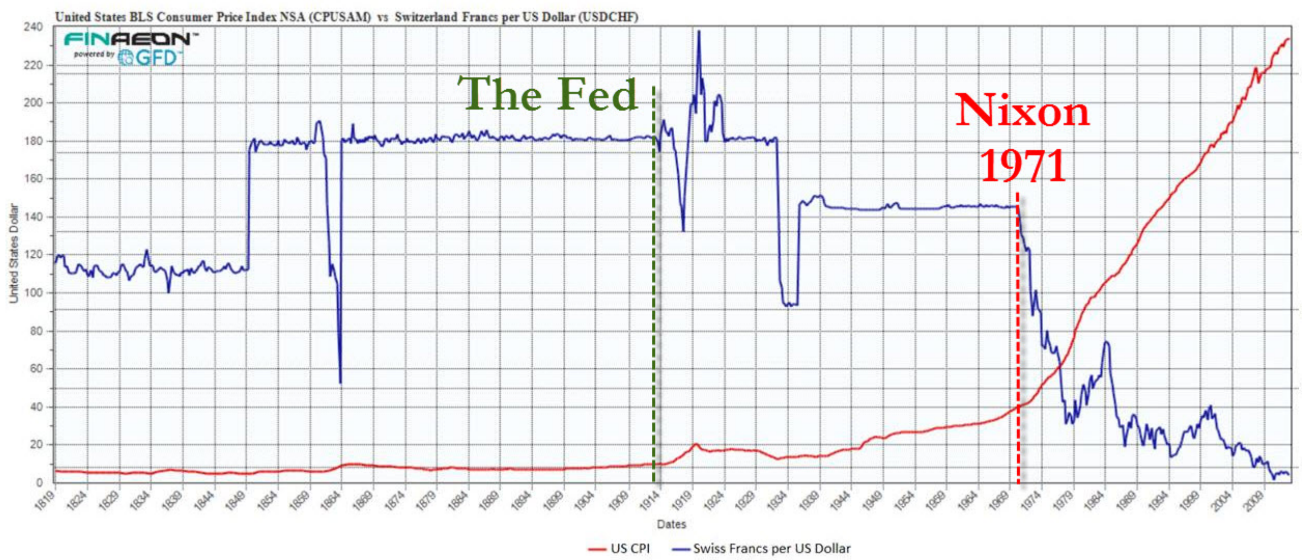
History of the Currency

In 1848, the Swiss Federal Constitution made it law that the Swiss government would be the only entity allowed to make money in Switzerland. Before that, there were over 8,000 different types of money in the country alone. The Swiss Franc wasn't actually introduced until 2 years later by the Federal Coinage Act, passed by the Federal Assembly on May 7th, 1850. It was introduced simultaneously as the French Franc so that they can be at par. The book, *The Monetary History of Gold,* has a concise summary of Switzerland's currency:

> In 1865, France, Belgium, Italy, and Switzerland formed the Latin Monetary Union, wherein they agreed to value their national currencies to a standard of 4.5

grams of silver or 0.290322 grams of gold. Even after the monetary union faded away in the 1920s and officially ended in 1927, the Swiss franc remained on that standard until 1936, when it suffered its sole devaluation, on September 27th during the Great Depression. The currency was devalued by 30% following the devaluations of the British pound, U.S. dollar and French franc. In 1945, Switzerland joined the Bretton Woods system and pegged the franc to the U.S. dollar at a rate of $1 = 4.30521 francs (equivalent to 1 franc = 0.206418 grams of gold). This was changed to $1 = 4.375 francs (1 franc = 0.203125 grams of gold) in 1949. The Swiss franc has historically been considered a safe-haven currency with virtually zero inflation and a legal requirement that a minimum of 40% be backed by gold reserves. However, this link to gold, which dates from the 1920s, was terminated on 1 May 2000 following a referendum. By March 2005, following a gold selling program, the Swiss National Bank held 1,290 tons of gold in reserves which equated to 20% of its assets.

The following graph from the United States Bureau of Labor Statistics illustrates how the Swiss Franc has progressed over time as compared to the U.S dollar:



State of the Economy

Due to its political stability, a diversified employment market, long term monetary security, and low public debt Switzerland has one of the most successful and stable economies in the world. Some of its economic indicators include: GDP at $651 billion per year, GDP per capita at $55,486, GNI per capita at $59,610, unemployment rate at 3.4%, inflation rate at -0.9%, CPI at 98.24, and the interest rate at -0.75%. Some of the social indicators include: life expectancy at 83 years, fertility rate at 2%, mortality rate at 4%, primary school enrollment rate at 103%, adult literacy rate at 99%, with 79% of the people aged 15-64 have a paying job. (WorldBank.org) The economy follows the traditional first world model, which the majority of the population being involved in the services sector, the second highest percentage of the population being involved in manufacturing sector, and the lowest percentage of the population being involved in the agricultural sector. The agricultural sector in Switzerland is aided by a heavy protectionism policy. High tariffs and extensive domestic subsidizations encourage domestic production, which currently produces about 60% of the food consumed in the country. According to the Organization for Economic Co-operation and Development (OECD), Switzerland is subsidizing more than 70% of its agriculture compared to 35% in the EU. As far as Switzerland's working population, 71% is involved in the services sector, 28% is involved in the manufacturing sector, and 1% is involved in the agricultural sector. These three umbrella sectors are divided into a number of smaller sectors that make up the majority of the Swiss economy. These sectors are watches, pharmaceuticals, mechanical and electrical engineering, banking, and tourism. (Observatory of Economic Complexity)

Exports

With a yearly value exceeding $20 billion, Switzerland is the world's largest producer of watches in value. Over 95% of the watches produced in Switzerland are exported, with the majority shipped to Asia (55%), Europe (29%), and the U.S. (14%). Switzerland is also one of the world's leading producers of pharmaceuticals, exporting over 85% of their output. One of the largest pharmaceutical companies in the world, Novartis, is headquartered in Switzerland. The mechanical and electrical engineering industry is also an important sector, accounting for more than 35% of Switzerland's visible exports, with 80% of their outputs being exported. The banking sector in Switzerland is dominated by two major banks-UBS and Credit Suisse. Not only do these banks have a major role in Switzerland, they are also important in the global financial market with both institutions having foreign subsidiaries across the world.

The mountainous regions in Switzerland make it a very popular tourist attraction, with the unique hotels in the Bernese Oberland state of Switzerland being one of the most popular locations. The tourism industry in Switzerland is very lucrative generating about 15 billion francs in revenue yearly. That revenue stream ranks the industry as the 4th largest source of export revenue, following the mechanical and electrical engineering industry, pharmaceutical industry, and the watchmaking industry. As you can see with the various sectors, Switzerland has a role in the global economy whether it be exporting goods to countries around the world or establishing subsidiaries in those countries (Switzerland Federal Department of Foreign Affairs).

Relations with European Union

Over the years, Switzerland and the European Union have signed two treaties named *Bilateral I* and *Bilateral II* which allows Switzerland to operate under the same laws of a member country in the European Union. *Bilateral I* included the free movement of people, air traffic, road traffic, agriculture, technical trade barriers, public procurement, and science. All of the laws in the *Bilateral I* are mutually dependent, which means if Switzerland fails to adhere to one of the laws, all of them cease to apply. *Bilateral II* included the cooperation in fraud pursuits, the Dublin regulation, and the Schengen membership (Official Journal of the European Union). The Dublin Regulation is an EU law that makes the member country responsible for the application of any refugee seeking international protection in their respective country. Schengen membership refers to European countries that have signed the Schengen agreement. This agreement allows all of the countries to abolish border control and adopt a common visa policy between themselves and the other countries in the agreement. Along with *Bilateral I and Bilateral II,* there are over 200 more trade agreements between Switzerland and the European Union (European Commission). With the treaties and trade agreements in place, Switzerland is effectively a member country of the European Union. This position allows them to receive all of the benefits of the EU without having to suffer the cons, such as one common currency.

Switzerland's relations with the EU have had a huge effect on their trades and exports, with Germany, France, and Italy being three of the top 5 trading partners with Switzerland, and the EU as a whole accounting for 64.7% of Switzerland's foreign trade. There relations have also had a huge impact on the EU, as Switzerland is the EU's 4th largest trading partner, accounting for 7.9% of the EU's foreign trade, as illustrated in the following table. (European External Action Service)

2012	Absolute value (EUR bn)	Percentage of total
EU imports from Switzerland (goods)	104.5	5.8%
EU exports to Switzerland (goods)	133.7	7.9%

Conclusion

Overall, Switzerland's economy is very stable and successful. With the majority of their main revenue generating sectors (watches, mechanical and electrical engineering, pharmaceuticals, banking, and tourism) exporting their products or having subsidiaries abroad, the country's economy is heavily intertwined with the world. With the establishment of numerous treaties between the European Union and Switzerland, the majority of Switzerland's exports are exported to member countries in the European Union. With their positive economic and social indicators, global economy, and position in Europe, Switzerland is an ideal choice for a multinational corporation to be headquartered.

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