

SWITZERLAND

Background Note

SWITZERLAND ECONOMY-AN OVERVIEW

Switzerland is a peaceful, prosperous, and modern market economy with low unemployment, a highly skilled labor force, and a per capita GDP among the highest in the world. Switzerland's economy benefits from a highly developed service sector, led by financial services, and a manufacturing industry that specializes in high-technology, knowledge-based production.

Its economic and political stability, transparent legal system, exceptional infrastructure, efficient capital markets, and low corporate tax rates also make Switzerland one of the world's most competitive economies. The Swiss have brought their economic practices largely into conformity with the EU's, to enhance their international competitiveness, but some trade protectionism remains, particularly for its small agricultural sector.

The fate of the Swiss economy is tightly linked to that of its neighbors in the euro zone, which purchases half of all Swiss exports. The global financial crisis of 2008 and resulting economic downturn in 2009 stalled export demand and put Switzerland in a recession. The Swiss National Bank (SNB) during this period effectively implemented a zero-interest rate policy to boost the economy as well as prevent appreciation of the franc, and Switzerland's economy recovered in 2010 with 3.0% growth. The sovereign debt crises currently unfolding in neighboring euro-zone countries pose a significant risk to Switzerland's financial stability and are driving up demand for the Swiss franc by investors seeking a safehaven currency.

The independent SNB has upheld its zero-interest rate policy and conducted major market interventions to prevent further appreciation of the Swiss franc, but parliamentarians have urged it to do more to weaken the currency. The franc's strength has made Swiss exports less competitive and weakened the country's growth outlook; GDP growth fell to 1.9% in 2011 and 0.8% in 2012.

Switzerland has also come under increasing pressure from individual neighboring countries, the EU, the US, and international institutions to reform its banking secrecy laws. Consequently, the government agreed to conform to OECD regulations on administrative assistance in tax matters, including tax evasion.

The government has renegotiated its double taxation agreements with numerous countries, including the US, to incorporate the OECD standard, and is considering the possibility of imposing taxes on bank deposits held by foreigners. These steps will have a lasting impact on Switzerland's long history of bank secrecy.

Key Economic Indicators

| | 2012 (est.) |
|---|--|
| GDP(PPP) | \$362.4 billion |
| GDP – composition by sector | Agriculture: 1.3% industry: 27.7% services: 71% |
| GDP- real growth rate | 0.8% (2012 est.) |
| Unemployment Rate | 3%(2012 est.) |
| Public Debt | 52.4% of GDP (2011 est.) |
| Inflation Rate (consumer prices) | -0.9% (2012 est.) |
| Exports | \$298.3 billion (2012 est.) |
| Imports | \$289.4 billion (2012 est.) |

Source: CIA World Factbook

INDO – SWISS BILATERAL RELATIONS

The commercial and trading relationship between India and Switzerland dates back to the pre-independence days of India. Several Swiss mercantile and industrial corporations had been active in India before independence, in areas like food processing, pharmaceuticals, engineering, commodity trading etc. It was as early as 1856 that a Swiss operation was established in India by the Volkhart Brothers. It expanded its network, diversifying its activities in India, soon becoming the backbone of Switzerland's economic presence in India. The relationship got further reinforced when India and Switzerland signed the Treaty of Friendship on 14th August 1948, the first such treaty to be signed by Independent India. Since then our bilateral relations with Switzerland have diversified and strengthened.

TRADE

Economic and Commercial activities between India and Switzerland have intensified in the recent past, particularly after the economic liberalization policies announced by the Indian government in 1991.

Despite the global economic slowdown, Indo-Swiss trade graph has been looking upwards. The two way trade expanded from USD 10.37 billion in 2007-08 to USD 33.50 billion in 2011-12, i.e. more than triple in 5 years. The balance of trade has remained heavily in favour of Switzerland.

| Year | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | 2012-13(April-Sep) |
|--------------------|-----------|-----------|-----------|-----------|--------------------|
| Exports | 769.24 | 589.39 | 689.79 | 1,095.34 | 547.17 |
| %Growth | 25.20 | -23.38 | 17.03 | 58.79 | |
| Imports | 11,869.50 | 14,698.43 | 24,802.00 | 32,404.95 | 10779.45 |
| %Growth | 21.64 | 23.83 | 68.74 | 30.65 | |
| Total Trade | 12,638.74 | 15,287.82 | 25,491.79 | 33,500.29 | 11326.60 |
| %Growth | 21.85 | 20.96 | 66.75 | 31.42 | |

Major items of India's exports to Switzerland

The main items of Indian exports to Switzerland are textiles and garments, organic chemicals, precious stones and jewellery, dyestuffs, machinery and parts, leather products, shoes and shoe uppers, cotton, plastics, coffee, tea, and hand-knotted carpets. India stands at 22nd position worldwide in terms of countries exporting to Switzerland with a contribution of just 0.5% in Switzerland's imports. Switzerland stands at 44th position worldwide in terms of countries importing from India.

Major items of India's Imports from Switzerland

Swiss exports to India consist of machinery and equipment (electrical and mechanical), precision instruments, pharmaceutical products dyes and chemicals, fertilizers, watches etc. India stands at 14th position worldwide in terms of countries importing from Switzerland with a contribution of 1.2% in Switzerland's exports. After China and UAE, Switzerland stands at 3rd position in terms of countries exporting to India.

Almost 90% of Indian imports from Switzerland comprise of Gold, precious stones and other jewellery items. Excluding Gold, Switzerland has provided parts for nuclear reactors for the purpose of power generation. Given that nuclear power is poised for accelerated growth in India, Swiss suppliers of equipments and parts have a good opportunity to do business with India.

INVESTMENTS

Swiss Investments in India

The first major investment by Swiss companies came in mid-50s. India remains one of the important investment destinations for Switzerland with about 170 joint ventures or subsidiaries operative in India in diverse fields such as engineering, industrial equipment, pharmaceutical, precision instruments, textiles etc.

Switzerland stands at 11th position overall and 6th in Europe in terms of investments, with a cumulative FDI inflow of USD 2.28 billion from April 2000 to December 2012.

An increasing number of small and medium enterprises are now ready to explore India as a destination for investments. Swiss SMEs can bring expertise into India but individually not huge foreign investments. But collectively this sector can contribute to considerable FDI flows and technology transfer.

More and more Swiss companies have found India not only a viable market but also one where they cannot afford not to be. Leading Swiss companies have been a part of India's journey towards a global economic powerhouse. After years of operation they have invested time and resources to understand local and business conditions. As India's economy grows at nearly double digit, there is immense possibility for the two countries to widen and deepen their relationship and to pool resources so that a new synergy raises their productivity and gives them a competitive advantage in today's global economy.

Indian Investments in Switzerland

India's outbound investments have been growing robustly over the past four years. Switzerland is amongst the preferred destinations for Indian companies, due to many advantages it offers to foreign investors.

Even Indian companies are increasingly setting up their units in Switzerland.

Despite the fact that it is an expensive base for operations in Europe, already more than 24 Indian companies have their operations in Switzerland including HCC, Tata AG, Birla AG, Infosys, Wipro, Dr.Reddy's Laboratories, TCS, Mindtree and Devi's Laboratories, Ramco, Amas Bank, Preroy AG, Neillsoft and Glenmark.

Bilateral Agreements

A set of bilateral agreements between Switzerland and India have been signed:

- The Avoidance of Double Taxation
- The Promotion and protection of Investments
- Cooperation in S&T
- MoU to set up a joint committee on Intellectual Property
- Currently Switzerland together with other EFTA countries (Iceland, Leichtenstein, Norway) and India are negotiating a broad based agreement on trade and investment. This initiative was taken when the Swiss President visited India in November 2007. Such

a free trade agreement is expected to significantly improve mutual market access and lift the Swiss Indian economic relations to a new level.

- Switzerland and India have also set up the Joint Economic Commission, in 1959, to conduct regular dialogues with the aim to strengthen the economic ties.

SECTORS OF INDO- SWISS COOPERATION

Both Switzerland and India continue to work closely for further strengthening the bilateral trade and investment flows. Cooperation in the below mentioned sectors will bring more vibrancy to the existing business ties between the two countries:

- **Vocational Education and Training**
- **Clean technology**
- **Biotechnology**
- **Manufacturing Technology**
- **Infrastructure**
- **R&D**
- **S&T**
- **Entertainment**
- **SMEs**
- **Tourism**