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Trade Policies Review Body

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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.

Contents

1 REPORT BY SWITZERLAND

1.1 Introduction

1.1. Switzerland submits this general policy statement as part of the sixth joint Trade Policy Review of Switzerland and Liechtenstein.

1.2. The Swiss economy is among the most internationally integrated worldwide. Lacking natural resources, landlocked in Europe, 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 2017, the Swiss economy has continued to perform well, in spite of adverse circumstances. Since 2020, the international economic environment has been characterized by a severe global economic and health crisis, triggered by the emergence of the COVID-19 pandemic. This has been followed by a strong economic recovery, albeit one that has been uneven across countries. At the end of 2021, a new wave of COVID-19, combined with global bottlenecks in the supply of raw materials and intermediate goods and a sharp increase in inflation created a challenging environment.

1.4. The Swiss economy and trade proved to be relatively resilient by international standards during the COVID-19 crisis. This strong performance is due to a number of factors: a diversified economic structure, a high degree of international openness, a high-quality education system, a flexible labour market, a moderate tax burden, sound public finances, well-established cooperation between social partners, and political stability.

1.5. The Government acknowledges that further sustained efforts are required in order to maintain and strengthen Switzerland's competitiveness in a fast-changing world. In 2021, it updated its foreign economic policy strategy, which provides a higher level of guidance for Switzerland's foreign economic policy measures while respecting the country's international commitments. In the same year, the Federal Council adopted the COVID-19 transition strategy, which aims to strengthen the economy's long-term recovery and increase growth potential. The strategy aims to improve growth in gross domestic product (GDP) per capita and labour productivity, as well as to strengthen competition in the domestic market.

1.6. As outlined in the new foreign economic policy strategy and the COVID-19 transition strategy for economic policy, creating and maintaining opportunities for Swiss-based businesses abroad through trade and investment remains a key policy objective for Switzerland, taking account of sustainability considerations.

1.7. The rules-based multilateral trading system developed within the framework of the WTO provides the institutional bases 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, and thereby contributing to the economic recovery from the COVID-19 pandemic.

1.8. Switzerland's trade policy priority on multilateral, non-discriminatory rules is complemented by a goal of continuous expansion and deepening of trade relations through regional and bilateral approaches, both with the European Union (EU) and with partners worldwide.

1.9. Switzerland attaches high importance to reducing gaps in the level of development between nations, to promoting the further integration of developing countries into the global economy, and to the need to make economic development more sustainable. The Government also takes seriously public concerns about the negative impact of globalization and structural changes in the economy. In this context, Switzerland strongly supports the United Nations 2030 Agenda for Sustainable Development and measures that promote socially and environmentally sustainable economic growth.

1.2 Economic Context

1.2.1 Competitiveness and external environment

1.10. As a medium-sized economy with few natural resources, Switzerland is highly dependent on foreign trade, whether it be imports of raw materials and intermediate goods or a dynamic export economy. In this context, the Swiss economy has been successful at product transformation and generation of a sizeable share of domestic value-added on export products. Around 75% of Swiss exports of goods and services corresponds to domestic value creation. The remaining 25% relates to imported inputs. Known for the export of specialist niche products and higher-end quality goods, Switzerland is firmly integrated into global value chains. In terms of value-added, it is estimated that, over the past 15 years, the contribution of goods' exports to GDP was around 40% on average. This strong outward orientation of the Swiss economy has been one of the pillars of Swiss growth for many years.

1.11. Switzerland is also one of the most innovative and competitive economies in the world. For some time now, it has consistently ranked first in the Global Competitiveness Index compiled by the World Economic Forum (WEF) and partner institutions. Switzerland is also ranked first in the Global Innovation Index. In recent years, it has fallen a few places in the World Bank's ease of doing business ranking and is now ranked 36th out of 190 economies. A combination of factors underpinning these results has contributed to the resilience of the Swiss economy in recent years, for example during the financial crisis or the coronavirus crisis.

1.12. For a small, land-locked country in Europe, Switzerland remains more susceptible than other, larger economies to changing circumstances in the external environment. An important determinant for the Swiss economy generally is the economic performance of the European Union: around two thirds of Swiss imports of goods are from the EU (2021: approx. CHF 135 billion), while around 50% of Swiss exports (2021: approx. CHF 130 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. In terms of Switzerland's foreign trade, the past few years have been characterized by increased specialization towards certain high value-added products, especially those produced by the chemical and pharmaceutical industries, but also by the watchmaking, precision instrument, or metal and machinery industries. Chemicals and pharmaceuticals have been particularly successful, with markedly strong growth in exports and imports, accounting for 50% of exports and 27% of imports of goods in 2021. As a result of this growing specialization, Switzerland's foreign trade, and thus the Swiss economy as a whole, have become less sensitive to exchange rate fluctuations. Added to this is the fact that Switzerland has a large service sector that also specializes in high value-added areas and is therefore less dependent on, for example, the hotel and restaurant industry and tourism.

1.15. Since 2020, the international economic environment has been characterized by a severe global economic crisis, triggered by the emergence of the COVID-19 pandemic in early 2020, which has hit world trade and the economies of Switzerland's main trading partners hard. To combat the spread of the virus, governments shut down entire sectors of the economy, leading to a collapse in demand and trade. At the same time, different governments introduced massive public aid programmes to support the affected sectors and the economy as a whole. Subsequently, further waves of the coronavirus occurred, triggering similar responses, particularly in Europe, although on a smaller scale than in the spring of 2020.

1.16. This was followed by a strong economic recovery, albeit one that has been uneven across countries, while in the third quarter of 2021 the GDP of the United States and China was at a higher level than before the crisis (see table below). At the end of 2021, economic recovery was hampered by a new wave of COVID-19, combined with global bottlenecks in the supply of raw materials and intermediate goods and an increase in inflation. However, there are many signs that the situation is expected to normalize and recovery will continue over the next two years. The recovery may be somewhat more hesitant in China, which has been pursuing a "zero-COVID" strategy since the start of the pandemic.

Table 1.1 International comparison of gross domestic product (GDP)

	2020	2021			Change from 2019 Q4	
	Q4	Q1	Q2	Q3	Q2	Q3
United States	1.1	1.5	1.6	0.6	0.9	1.4
United Kingdom	1.5	-1.3	5.4	1.1	-2.6	-1.5
Japan	2.3	-0.7	0.5	-0.9	-1.1	-1.9
Euro zone	-0.3	-0.2	2.2	2.3	-2.5	-0.3
Germany	0.7	-1.7	2.2	1.7	-2.4	-0.8
France	-1.1	0.1	1.3	3.1	-2.9	0.2
Italy	-1.6	0.3	2.7	2.6	-3.8	-1.3
Spain	0.2	-0.7	1.2	2.6	-8.3	-5.9
Switzerland	**-0.1**	**-0.1**	**1.6**	**1.5**	**-0.4**	**1.1**

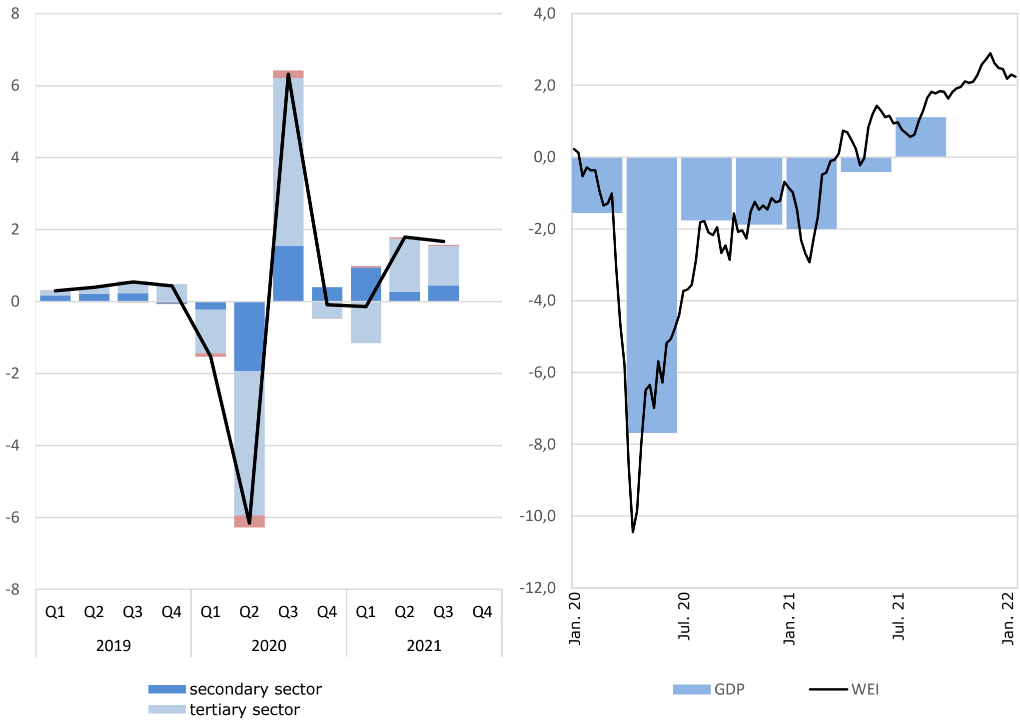
Note: Seasonally adjusted real values, change compared to the previous quarter, in %.

Source: National statistical offices, State Secretariat for Economic Affairs (SECO).

1.2.2 Economic developments

1.17. Over the past two years, the Swiss economy has evolved in response to the coronavirus pandemic and associated containment measures. In the first half of 2020, economic activity collapsed in the wake of the first wave of COVID-19 and the accompanying restrictive measures, both in Switzerland and abroad. This was followed by a strong economic recovery by the winter of 2020/2021, when the recovery was severely hampered by a new outbreak of the COVID-19 pandemic and the introduction of new containment measures. By the summer of 2021, however, most of the restrictive health measures had been lifted or significantly relaxed. This led to a strong recovery in economic activity in the second and third quarters, driven mainly by private consumption and the recovery of the service sectors that had been affected by the health restrictions (see graph below, left panel). As a result, GDP exceeded its pre-crisis level in the third quarter of 2021. With the arrival of the Omicron variant and increased containment measures at the end of 2021, the economic recovery slowed down somewhat, but without leading to a large-scale collapse in economic activity, as had been the case in previous waves (see graph below, right panel).

Chart 1.1 GDP growth and weekly economic index (WEI)



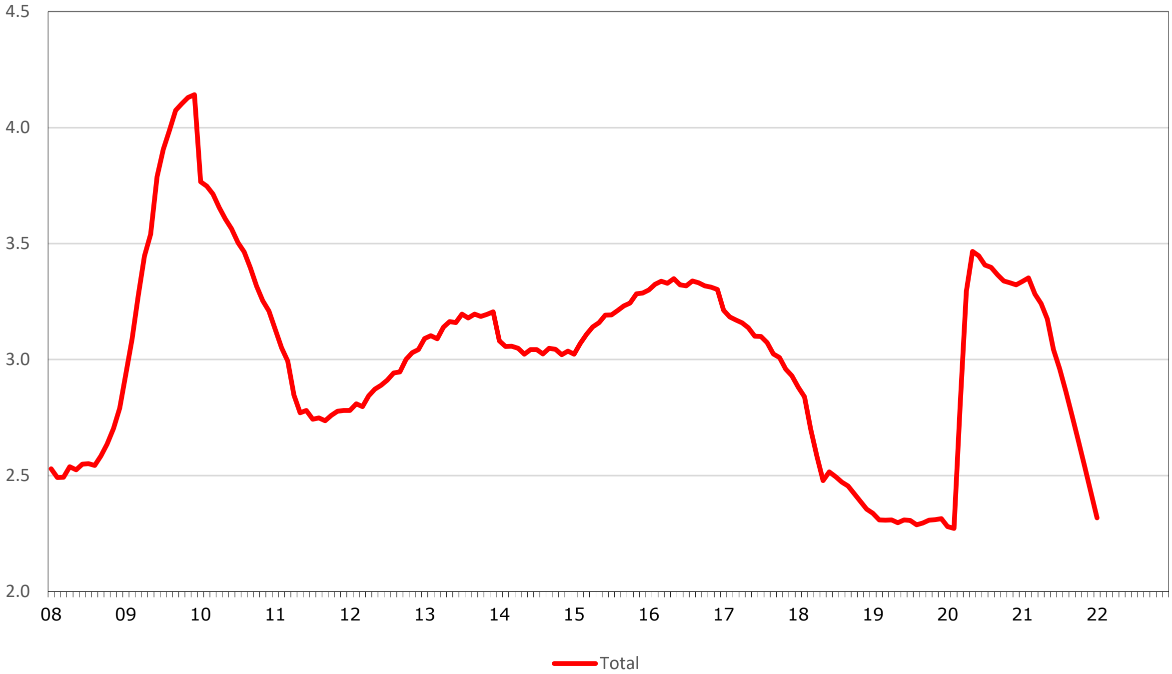
Note: Left panel: seasonally adjusted real values; sector input: percentage change from previous quarter.
Right panel: WEI – difference compared to the level of the fourth quarter of 2019, in %;
GDP: real values seasonally adjusted and corrected for sporting events.

Source: State Secretariat for Economic Affairs (SECO).

1.18. Thus, the Swiss economy has weathered the crisis relatively well by international standards, especially in comparison to many European countries. There may be a number of reasons for this positive development: First, the containment measures were more targeted and lasted for a shorter period than in many countries; second, the structural composition of the economy was beneficial to Switzerland, in particular thanks to the relatively lower importance of the tourism sector, or the higher importance of the chemical and pharmaceutical sectors, which had a stabilizing effect during the crisis; third, government support policies were introduced in a swift and very targeted manner, which prevented a large number of bankruptcies and job losses.

1.19. The stabilizing effect of business support measures during the crisis, in particular measures introduced for partial unemployment, is reflected in the change in the unemployment rate in Switzerland. The unemployment rate rose suddenly during the first wave of COVID-19 in the spring of 2020. In the summer of 2020, the situation stabilized in the labour market. The unemployment rate then fell sharply from February 2021 to 2.3% in January 2022. At the same time, there has been a significant increase in employment. Several indicators point to a further improvement in the labour market situation in the coming months.

Chart 1.2 Unemployment rate



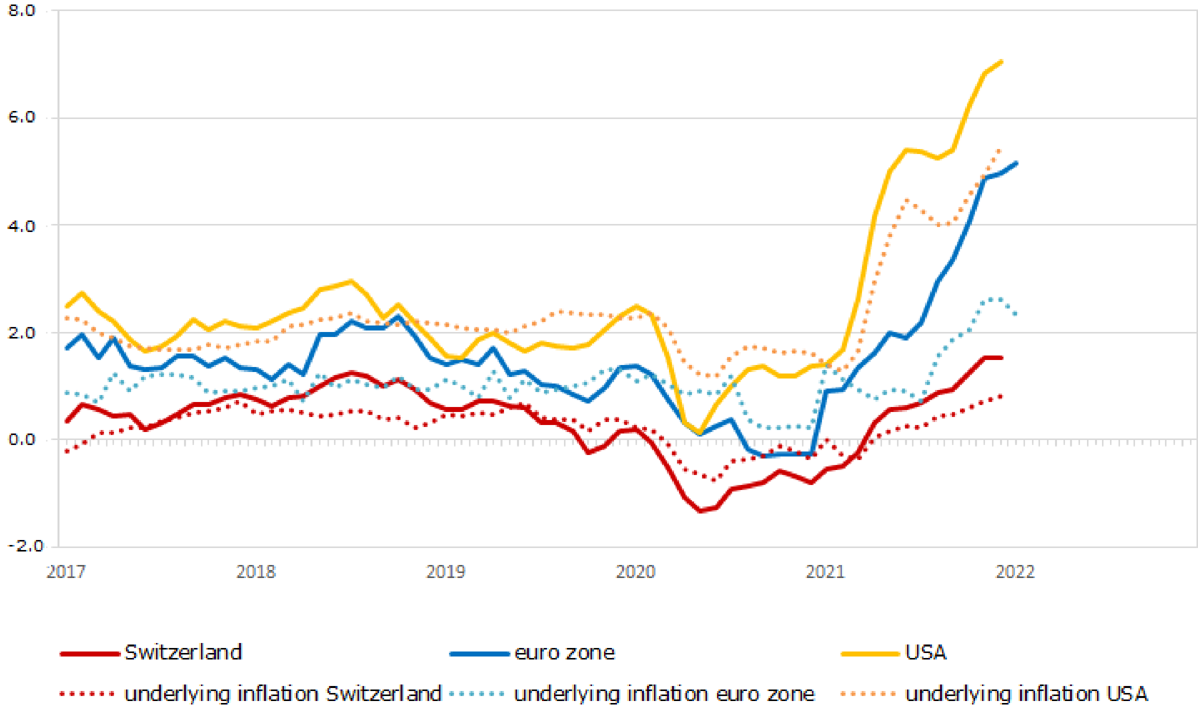
Note: Seasonally adjusted values, in %.

Source: State Secretariat for Economic Affairs (SECO).

1.20. The strong global economic recovery, which boosted demand for industrial goods, coupled with limited production capacity in some countries during the pandemic, created significant bottlenecks along global value chains. From the second half of 2021, a large proportion of industrial enterprises in Switzerland reported that their production had been limited by a lack of raw materials and intermediate goods. The metal products industry, the machinery sector and the production of electronic products have been particularly affected by these challenges. Although the supply problems are expected to ease slowly, they could persist for several more quarters.

1.21. The strong economic recovery, industrial bottlenecks and the healthy labour market, among other factors, are increasing upward pressure on prices and raising inflation risks internationally. While at the end of 2021 inflation reached historically high levels in the United States and the euro zone, it remained relatively low in Switzerland (see graph 1.3 below). As most of the factors underlying the international price surge are due to the pandemic and are expected to be temporary, inflationary pressures are likely to recede over time. In Switzerland, there is currently no sign of an inflationary spiral, with inflation expectations remaining below the Swiss National Bank's inflation target in both the medium and long term.

Chart 1.3 Inflation, international comparison, 2017–2022



Note: Year-on-year change, in %.

Sources: Swiss Federal Statistical Office; Eurostat; United States Bureau of Labor Statistics.

1.22. Despite supply difficulties and increased containment measures in the winter of 2021/2022, the Swiss federal group of experts expects Switzerland's GDP growth – adjusted for the impact of sporting events – to reach 3.0% in 2022 (see table below). During 2022, the slowdown factors are expected to gradually disappear. Economic growth is expected to accelerate significantly, driven by the catch-up effects of private consumption and investments, but also by exports. For 2023, growth of 2.0% is expected because of economic normalization. After 2021 (3.3%), the Swiss economy would thus experience two further years of above-average growth.

Table 1.2 Forecasts for Switzerland, December 2021

	2021	2022	2023
GDP adjusted for sporting events	3.3	3.0	2.0
GDP	3.5	3.2	1.7
Private consumption	2.6	3.8	2.0
Government consumption	6.3	-1.5	-1.9
Investments in construction	1.3	0.0	0.2
Investments in capital goods	3.7	4.0	4.0
Exports	7.9	5.6	4.6
Imports	5.1	5.8	5.2
Employment in full-time equivalent	0.5	1.5	0.9
Unemployment rate in %	3.0	2.4	2.3
Consumer price index	0.6	1.1	0.7

Note: Unless otherwise stated, change in %. GDP and components: seasonally adjusted real values; foreign trade: without objects of value.

Source: Swiss federal group of experts on forecasting.

1.23. In general, the economic risks for the next few years are on the decline. Uncertainty remains very high, particularly in relation to how the pandemic might develop. Although there are increasing signs that the coronavirus is becoming endemic, which would mean the end of the pandemic, further waves of infection cannot be ruled out in the near future. Possible highly restrictive health measures would then have a serious impact on the recovery.

1.24. Negative impacts on the economic recovery would also be expected if global bottlenecks were to persist longer than expected and if inflation rises were to result in continued pressure on prices with a significantly higher interest rate level. In this event, the existing risks associated with government and corporate debt would also increase significantly. This is all the more true as public debt has risen sharply in many countries in connection with the economic support measures introduced during the crisis. Further consolidation of public debt would hamper the recovery. In addition, financial market turbulence might also occur if investors were no longer to view debt levels as sustainable.

1.25. Risks in the Swiss real estate sector would also increase in the event of a sharp rise in interest rates. This is because property prices have risen more than incomes in recent years, particularly in 2021. The housing vacancy rate is also currently relatively high.

1.26. In addition, there are global risks emanating from the real estate sector in China. A real estate crisis with a strong impact on demand in China could have a significant impact on the global economy.

1.27. Conversely, it is also possible that the recovery in Switzerland and other advanced economies will be stronger than anticipated in the group of expert's forecasts. Faced with limited consumption opportunities, some households have accumulated considerable additional savings since the spring of 2020, some of which could be used for consumer spending.

1.3 Economic Policy

1.3.1 Foreign economic policy strategy

1.28. Given the size of its economy and its limited domestic market, foreign economic activities are essential for Switzerland. The Confederation's foreign economic policy aims to maintain and increase prosperity in Switzerland, while respecting the Sustainable Development Goals. The strategic objectives of this policy are an international regulatory framework with wide participation, non-discriminatory access to international markets, and economic relations that contribute to sustainable development in Switzerland and abroad.

1.29. In recent years, the global economic, geostrategic, technological and social environment has changed significantly. Rivalry between the major economic powers or the trend towards the formation of regional blocs are on the rise. The COVID-19 pandemic has also reinforced underlying protectionist tendencies and accentuated the challenges related to the resilience of global production and supply chains. Lastly, foreign economic policy issues are increasingly diverse: on the one hand, growing digitalisation is creating new opportunities and calls for new regulatory approaches. On the other hand, Switzerland is committed to achieving climate neutrality by 2050, with the goal of sustainability requiring a "horizontal" integration of environmental and social issues.

1.30. As these developments have clear implications for Switzerland's foreign economic policy, the Federal Council adopted an updated foreign economic policy strategy on 24 November 2021.[1]

1.31. By replacing the 2004 strategy, it is providing a higher level of guidance for Switzerland's foreign economic policy measures while respecting the country's international commitments. The strategy takes into account the current external economic situation to ensure that objectives are set transparently and that the concerns of stakeholders are taken into account at an early stage.

1.32. Thanks to its policy of openness, Switzerland has been able to integrate into the global economy and take advantage of international value chains over the past few decades. The foreign economic policy strategy builds on this achievement and sets out nine priority areas for action:

- Focusing on Switzerland's interests – To ensure prosperity and employment, Switzerland aims to provide its businesses, especially its SMEs, with broad, non-discriminatory access with legal guarantees to well-functioning international

[1] Available at: https://www.seco.admin.ch/seco/fr/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/aussenwirtschaftspolitik/aws.html.

markets. Switzerland defends its foreign economic policy interests through multilateral, plurilateral and bilateral international economic law instruments and economic and trade diplomacy instruments;

- Actively shaping multilateralism – In order to address global challenges, Switzerland is committed to international, ideally multilateral, solutions. It actively participates in relevant forums and promotes international rules and standards, particularly in the multilateral context;

- Promoting open and rules-based trade – Switzerland is committed, under its legislation, to open, barrier-free and rules-based trade in order to maintain Swiss standards;

- Prioritizing key partners – The EU remains Switzerland's most important economic partner. In addition, Switzerland is continuously reviewing how to deepen economic relations with its key trading partners and is committed to the effective integration of developing and emerging countries into the global economy;

- Building resilience through diversification – Switzerland is creating the best possible conditions for diversifying supply chains, and exploring the potential for regional and plurilateral economic agreements. It seeks opportunities to strengthen international cooperation in the area of critical goods from a supply perspective. In principle, it does not envisage adopting state measures to repatriate production processes to Switzerland;

- Contributing to environmental and social sustainability – Switzerland promotes sustainable trade and international standards for the protection of the environment, human rights and workers' rights. It is also committed to corporate social responsibility;

- Integrating the digital economy – Given its high economic and scientific ranking, Switzerland is committed to the creation of international rules for digital trade and the free flow of data. In various international organizations, it promotes its interests in the development of sustainable and widely supported solutions for the digital economy;

- Increasing transparency and participation – Switzerland pursues a foreign economic policy that is transparent, clear and open to the concerns of stakeholders. It systematically informs the general public about its activities in this area and continuously seeks dialogue with the stakeholders concerned;

- Taking into account interactions with domestic policy – Switzerland carefully considers any new regulations and explores the approaches already adopted by its main economic partners. Thus, it understands the impact of regulations on both foreign and domestic economic policy. In doing so, its focus is on the benefit to the economy as a whole.

1.3.2 Emerging from the COVID-19 crisis and long-term growth policy

1.33. As a result of COVID-19, in 2020 Switzerland experienced its most severe economic downturn since 1975. As in many other countries, an unprecedented level of restrictions had to be imposed on the Swiss economy to protect the population from the pandemic. Thanks to state support measures such as COVID-19 loans, extended partial unemployment compensation, loss-of-earnings allowances for the self-employed, parents and persons in quarantine, as well as comprehensive aid for severely affected businesses, waves of bankruptcies were avoided and people's incomes secured.

1.34. With its COVID-19 transition strategy for economic policy, adopted on 18 June 2021, the Federal Council aims to support the normalization of the economy and strengthen the long-term recovery. It has adopted various temporary measures for the recovery phase, such as the tourism recovery programme or the "Swiss Innovation Power" impulse programme, which facilitates access for SMEs to financing for innovation projects.

1.35. In order to ensure the long-term recovery of the economy as a whole and to increase growth potential, the Federal Council's priority must be to sustainably improve economic conditions. In principle, Switzerland already offers excellent conditions such as a high-quality education system, a high degree of international openness, a flexible labour market, a moderate tax burden and sound public finances. However, a progress report in 2019 drew attention to the fact that Switzerland lost ground in the years leading up to the COVID-19 crisis. GDP per capita growth and labour productivity growth were at best average compared to other Organization for Economic Co-operation and Development (OECD) countries. In recent years, Switzerland has fallen behind in several areas of international comparisons (for example in the OECD's Product Market Regulation (PMR) indicators or in the WEF's Global Competitiveness Report). A further potential for improvement lies in particular in strengthening competition in the domestic market in order to overcome the rather slow productivity growth of domestic-market-oriented sectors compared to the highly productive export sector.

1.36. In addition, the Swiss economy will face various challenges in the coming years. Due to changing demographics, the proportion of persons reaching retirement age is expected to rise from around 19% in 2022 to around 25% in 2045, which will be accompanied by a decrease in the share of the working population in the total population. Demographic changes will also lead to additional expenditure on health care and retirement provision, which will increase the pressure on ensuring sound public finances. Two other major challenges are the outstanding questions over future economic integration into the EU internal market and the implementation of a cost-effective climate policy.

1.37. In view of these challenges, action is needed in a number of areas. In its growth policy to date, the Federal Council has consistently emphasized: (i) the importance of a high degree of openness to foreign trade; and (ii) the importance of high-quality education and a high level of labour-market participation in order to address the shortage of skilled workers and enhance the potential of the labour force. Furthermore, it emphasized that: (iii) effective and timely regulations and a pro-innovation environment; coupled with (iv) dynamic competition, are essential for innovative businesses to thrive. The pandemic has also shown that: (v) sound public finances make a decisive contribution to the State's ability to act in a crisis. The prerequisites for such sound public finances are efficient public services and a tax system that avoids distorting effects while remaining attractive by international standards. Finally, (vi) an effective and efficient environmental and climate policy is essential for sustainable growth.

1.3.3 Monetary policy

1.38. Between 2017 and 2019, the Swiss National Bank (SNB) maintained an expansionary monetary policy. It continued to rely on the negative policy rate and the negative interest rate that banks and other financial market players pay on their SNB sight assets, as well as on the willingness of the SNB to intervene in the foreign exchange market where necessary. Both these measures remained essential to ensure appropriate monetary conditions. Annual inflation remained low and the inflation outlook moderate. By December 2017, the Swiss franc had returned, in real trade-weighted terms, to roughly the same level as before the abandonment of the minimum exchange rate against the euro in January 2015, which was followed by a significant appreciation of the franc. Nevertheless, the Swiss franc remained highly valued and the situation on the foreign exchange market fragile.

1.39. In 2020, the coronavirus crisis posed a significant challenge to monetary policy. Inflation has moved into negative territory. At the same time, the Swiss franc came under strong upward pressure due to its safe haven status. In these circumstances, an expansionary monetary policy remained necessary. The SNB's willingness to increase its intervention in the foreign exchange market and the SNB's negative policy rate were key to countering the upward pressure on the Swiss franc. In addition, the SNB took measures to ensure the supply of credit and liquidity to the economy. In particular, it created the COVID-19 refinancing facility (FDR), which allows banks to refinance their corporate lending under the State-guaranteed COVID-19 loan programme at the SNB's policy rate; it raised the threshold for exemption from the negative interest rate on sight assets held with the SNB; and it recommended to the Federal Council, after consultation with the Swiss Financial Market Supervisory Authority (FINMA), that the anti-cyclical capital buffer be deactivated. The SNB also offered USD liquidity in consultation with the Federal Reserve.

1.40. In 2021, the expansionary monetary policy remained unchanged and thus contributed to further recovery from the recession triggered by the coronavirus pandemic and the associated containment measures. The Swiss franc remained highly valued and occasionally came under pressure to appreciate. In view of the rise in inflation abroad and in Switzerland, the SNB has allowed some nominal appreciation of the Swiss franc. This helped to offset rising prices in Switzerland, as appreciation of the franc made imports cheaper, thereby helping to stabilize prices in Switzerland.

1.3.4 Fiscal policy

1.41. 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 stabilizers can perform their function in cyclical upturns and downswings. Spending overruns are therefore expected to be redressed when the economy recovers.

1.42. Following the introduction of the debt brake, structural surpluses have been consistently achieved, reducing the public debt. The strong initial financial situation thus afforded the Federal Council the flexibility to act swiftly and extensively to support the economy and households during the COVID-19 pandemic. Consequently, the federal budget was in deficit in 2020 and 2021. The pandemic-related debt must be wholly reduced. This will ensure that the federal budget remains strong in the future and is prepared for future challenges and crises.

1.43. While the debt brake is 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 with dedicated reforms. In December 2021, the Parliament passed the AVS 21 reform. The reform seeks to ensure the financial equilibrium of the Old Age and Survivors Insurance (AVS) and to safeguard the level of benefits in the AVS. Essentially, it involves standardizing the retirement age by raising the age for women by one year to 65, in line with that for men. Extra funding is to be provided through VAT, which is to be increased by 0.4 percentage points. The referendum deadline is April 2022.

1.44. In 2019, the Tax Reform and Financing of the AVS (RFFA) was accepted by a popular vote. Corporate tax reform was necessary, as some tax advantages no longer met the requirements of the international community. Meanwhile, the AVS is facing financial challenges as it has to provide pensions to an ever-increasing number. The next corporate tax reform will be carried out by implementing the two pillars of the OECD tax reform. The required 15% minimum taxation (pillar 2) is due to come into effect in January 2024 through a Constitutional amendment. However, the national implementation of the transfer of taxing rights to market States (pillar 1) cannot yet be decided, as adaptations relating to international law are required in advance.

1.3.5 Micro, small and medium-sized enterprises (MSMEs)

1.45. While Switzerland lacks an official definition of a micro, small and medium-sized enterprise (MSME), any business venture, whatever its legal form and activity, is considered an MSME if it employs fewer than 250 persons. Switzerland has almost 600,000 MSMEs, which account for more than 99% of all its companies and generate two thirds of all its jobs. In 2019, 42% of Swiss exports were attributed to MSMEs. As for imports, MSMEs accounted for 59% of inflows.

1.46. To ensure prosperity and employment, it is important for companies, especially MSMEs, to have access to open markets. For small companies with no overseas presence and limited resources, an open trade policy is crucial. Simple procedures and legal certainty regarding market access are thus essential. Reducing technical barriers to trade is essential in this context.

1.47. Foreign economic policy interests are defined by consulting all interested parties at an early stage. The SME Forum, an extra-parliamentary expert committee established by the Federal Council in 1998, is committed to ensuring that the federal administration pays special attention to small and medium-sized enterprises (SMEs) in its activities.

1.48. During consultation procedures, the SME Forum examines draft laws and ordinances and develops position papers reflecting the SME perspective. It assesses the implementation of the planned measures, particularly the administrative burdens, costs involved and limitations on entrepreneurial freedom. The Forum also addresses specific areas of existing regulations and proposes simplifications or alternative regulations. The SME Forum provides a place for discussion between its members (most of whom are male and female entrepreneurs) and the federal offices. Both parties thus analyse the concerns and demands of MSMEs.

1.49. MSMEs attach great importance to simple regulations that are both easy to apply and transparent. The SME portal and the EasyGov.swiss business portal play strategic roles in this respect.

1.50. The SME portal of the State Secretariat for Economic Affairs (SECO) is the single window for SMEs. Created almost 20 years ago, it provides a wide range of information for SMEs, from starting up a business to succession planning: practical information, news articles, key regulations, Government services for SMEs, etc. It also provides links to e-Government services. In 2021, the SME portal had about 1.8 million individual visitors.

1.51. In November 2017, the Confederation launched the EasyGov.swiss online window for interactions between businesses and the authorities. At the outset, the platform was mainly used by company founders, who can complete all the administrative procedures required to set up their business online, from registering the business to VAT, social insurance and accident insurance. Currently, some 40 administrative services are available - and the window has over 50,000 users, with a strong growth trend. EasyGov's main aim is thus to reduce the administrative burden on MSMEs. The range of services offered by the authorities will be considerably extended during the 2020-2023 legislative period.

1.52. The Swiss Export Risk Insurance (SERV) agency is an institution under public law of the Swiss Confederation. SERV covers political and commercial risks in connection with the exportation of goods and services. The insurance and guarantees of SERV provide Swiss exporting companies with cover against non-payment and facilitate the financing of export transactions. SERV's solutions also make it easier for companies to obtain credit or a higher credit limit and help them maintain their liquidity when exporting. SERV's offers are available to all companies, including MSMEs based in Switzerland. Traditionally, MSMEs account for more than two thirds of SERV's customer base.

1.53. Switzerland Global Enterprise (S-GE) is the official Swiss export promotion organization. In particular, it supports MSMEs in seeking and exploiting export opportunities abroad. S-GE reports on international market developments, offers advice, identifies international contacts, partners and business opportunities and helps to promote Swiss products and services abroad. The organization's branches in 31 countries also provide assistance abroad.

1.3.6 Innovation policy

1.54. 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 four additional network locations. The network forms an ecosystem that enables innovative universities and businesses to collaborate and use their research results to develop new marketable products and services. Switzerland Innovation is now an important component of the Swiss innovation promotion portfolio: it supplements federal instruments such as Innosuisse, the Swiss innovation agency, as well as regional and cantonal initiatives. Since its launch, the network has attracted around 240 companies, including 50 from abroad. Eight hundred new jobs have been created.

1.55. On 1 January 2018, Innosuisse, the Swiss innovation promotion agency, took on the tasks of the Commission for Technology and Innovation (CTI). Innosuisse is a federal institution under public law with legal personality. It is an independent agency in respect of its organization and management. The Federal Council sets strategic objectives and exercises a form of oversight, for example, by checking every year whether the strategic objectives have been achieved.

1.56. In order for innovation promotion to respond more swiftly to SMEs' changing circumstances and needs, the Federal Law on the Promotion of Research and Innovation (LERI) was amended in 2021. This amendment seeks to give Innosuisse more room for manoeuvre and greater flexibility, including when it comes to promoting innovation projects and start-ups.

1.4 Trade Policy

1.4.1 Overview

1.57. In accordance with its foreign economic policy strategy and its COVID-19 transition strategy for economic policy, adopted in November 2021 and June 2021 respectively, Switzerland attaches great importance to trade policy in the pursuit of its objectives (see Sections 1.3.1 and 1.3.2). Switzerland's trade policy 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. In addition, Switzerland promotes sustainable trade and international standards for the protection of the environment, human rights and workers' rights.

1.58. It is important for Switzerland to improve conditions to promote open markets. Thus, Switzerland will remove tariffs on industrial products as of 1 January 2024. The removal of tariffs will benefit Swiss consumers and businesses by reducing the price of many consumer goods, production costs and the administrative burden on importing businesses. Trade relations will become more efficient, and competition will be strengthened.

1.59. On 1 January 2018, Switzerland embarked on the DaziT programme: a large-scale programme to transform its customs procedures. In order to facilitate trade and ease the burden on the economy, the DaziT programme provides for the systematic simplification and full digitalisation of all customs procedures by the end of 2026. New applications simplify, *inter alia*, the customs clearance of goods in tourist traffic and enable mobile payment of the flat-rate fee for heavy goods traffic. The successful implementation of DaziT requires close collaboration with national and international partners. Discussions with neighbouring countries' customs administrations and European authorities are under way to simplify and speed up border crossings.

1.4.2 WTO

1.60. 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.

1.61. Against the backdrop of the COVID-19 pandemic and its ensuing uncertainties, Switzerland has pursued its active engagement across the WTO agenda in support of the multilateral trading system.

1.62. The WTO has an important role to play to address the social and economic challenges of the health crisis. The Organization must contribute to global economic recovery and stability by promoting a comprehensive and coordinated response to the pandemic through coherent, effective and targeted trade policies. To increase the production and distribution of essential goods, including vaccines, in all regions of the world, Switzerland supports a holistic approach to the WTO's pandemic response. Keeping markets open, minimizing export restrictions, ensuring transparency on trade measures and the state of value chains, and facilitating trade through simplified customs procedures will contribute to the common goal.

1.63. Intellectual property is a key aspect of the holistic approach. The Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) promotes partnerships between stakeholders in the research, development and production of new health technologies. The TRIPS Agreement proved its usefulness and effectiveness during the COVID-19 pandemic by acting as an incentive to produce drugs and vaccines of a complex composition quickly and safely. It is crucial that the TRIPS Agreement remains a reliable and predictable legal framework to continue encouraging collaborations between stakeholders and the effective sharing of know-how and technology.

1.64. The COVID-19 pandemic has highlighted the importance of preserving and strengthening the multilateral trading system. To realize the full potential of multilateralism, however, all Members must assume international responsibilities and commitments commensurate with their ability to help strengthen the multilateral trading system. Furthermore, reform of the WTO is necessary in order to better address relevant developments in the global economy and the needs of business and society.

1.65. WTO reform should enhance the Organization's three functions. First, as regards the negotiating function, the WTO must demonstrate its ability to conclude multilateral agreements that respond to current challenges, such as the digitalisation of the economy and environmental sustainability. The continuation of the moratorium on customs duties on electronic transmissions and reaching a tangible agreement on fisheries subsidies are outcomes that will contribute to the WTO's credibility. The matters of special and differential treatment and a level field of competition must be included in the reform.

1.66. Multilateral solutions continue to be the best way to avoid discrimination between countries and regions. 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.

1.67. Where agreement among all WTO members is not achievable, plurilateral initiatives are a valuable alternative. In this connection, Switzerland welcomes the recent conclusion of the negotiation on domestic regulation of trade in services and the adoption at the end of 2020 of a set of recommendations in support of MSMEs. The good work on the joint statement initiatives must continue. The aim is to improve conditions for e-commerce, investment facilitation for development, MSMEs, trade and environmental sustainability matters, and trade and gender. All these topics are relevant to the WTO's modernization.

1.68. Second, the restoration of a functioning dispute settlement system is a top priority. All Members must engage in constructive dialogue to find concrete solutions. Since 2018, Switzerland has stepped up its participation in the WTO dispute settlement system and strengthened its capacity in this area. Like several other WTO Members, Switzerland initiated WTO dispute settlement proceedings against US import restrictions on certain steel and aluminium products in July 2018 (DS556). During the period under review, Switzerland acted as a third party in 22 panel proceedings, 15 of which were related to the US measures on steel and aluminium and the rebalancing measures taken by some Members in response to these measures. As a third party, Switzerland regularly submits written or oral contributions.

1.69. Third, 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. The reform should serve to improve the function of monitoring WTO rules. This implies a systematic improvement in the transparency and operation of committees, including how trade irritants are addressed.

1.70. Switzerland also strongly supports the aim of making the WTO truly universal through further accession of new Members that meet the Organization's standards.

1.71. 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. Switzerland also strongly supports WTO work on e-commerce, with a view to fostering digitally enabled trade, particularly for MSMEs and developing countries.

1.72. With respect to agriculture, Switzerland will pursue its constructive engagement in negotiations, underlining the need to adequately take into account non-trade concerns. During the period under review, Switzerland has demonstrated its commitment by eliminating export subsidies on agricultural products, in accordance with the decision adopted at the Tenth Ministerial Conference (MC10) in Nairobi, which required the national legislation to be amended.

1.73. Switzerland has successfully completed the process of revising national law on Government procurement to harmonize federal and cantonal legislation and to transpose the requirements of the revised WTO plurilateral Agreement on Government Procurement (GPA). In force since 1 January 2021, the revised federal legislation on Government procurement and the revised GPA provides a modernized regulatory framework that improves legal certainty and simplifies the application of the law, while offering new opportunities to SMEs.

1.74. Switzerland's engagement in the WTO includes an active role in a range of groups of Members sharing common interests, such as the G10 in agriculture, the Friends of the System and the Ottawa Group. During the period under review, Switzerland continued to host a yearly informal WTO ministerial gathering traditionally on the fringes of the World Economic Forum in Davos.

1.4.3 Other multilateral and plurilateral initiatives

1.75. Switzerland actively supports trade and investment-related work in the OECD. The 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.

1.76. Switzerland also supports the activities of the UN Conference on Trade and Development (UNCTAD) in the areas of trade and investment, among others. 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 2030 Agenda for Sustainable Development.

1.77. Switzerland closely follows the work of the G20, which gives political impetus to global economic trends. At the invitation of the respective G20 presidencies, Switzerland has participated, as a guest in 2013, and regularly since 2016, in all meetings of the finance track, as well as in those of the Anti-Corruption Working Group (ACWG). Under Saudi Arabia's presidency in 2020, Switzerland was invited to participate in all G20 meetings. In 2021, under Italy's presidency, Switzerland again participated in the finance track, the ACWG, the Trade and Investment Working Group (TIWG) and the Health Working Group. In the TIWG, Switzerland continued to promote its values of open trade and modernization of the multilateral trading system.

1.4.4 Preferential relations

1.78. As part of its foreign economic strategy, Switzerland has continued to negotiate, conclude and modernize bilateral and regional preferential agreements that complement and support the multilateral trading system. In 2020, 75% of Switzerland's merchandise exports went to preferential trading partners. Switzerland aims to further expand and deepen its preferential trading relations.

1.4.4.1 European Union

1.79. 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.

1.80. During the period under review, Switzerland and the EU continued to conduct negotiations on an institutional agreement. The institutional agreement aimed to preserve Switzerland's access to the European single market and to create a basis for extending this access. On 26 May 2021, due to substantial differences between the parties on key aspects, such as wage protection and the citizens' rights directive, the Federal Council decided not to sign this agreement. However, safeguarding and developing well-established bilateral cooperation with the EU remains a priority for the Government.

1.81. The Federal Council has adopted a series of measures to give positive impetus to relations with the EU. In the short term, the Parliament approved by a large majority on 30 September 2021 the liberalization of the second Swiss contribution to certain EU member States. In the medium term, Switzerland proposes to establish a structured high-level political dialogue. Within this framework, a common agenda for further cooperation may be developed and monitored. In addition, Switzerland has embarked on a systematic assessment of regulatory differences between Switzerland and the EU, including in the area of domestic market agreements.

1.4.4.2 Free trade partners

1.82. 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.

1.83. 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, trade facilitation, and trade and sustainable development provisions.

1.84. Switzerland negotiates, concludes and administers its FTAs mostly in association with its EFTA partners. During the period under review, new EFTA free trade agreements were concluded with Ecuador (2018, entry into force in November 2020) and Indonesia (2018, entry into force in November 2021), and a substantive agreement was reached with the Mercosur States (2019). Switzerland signed a bilateral FTA with China in 2013, which entered into force in July 2014. In addition, the existing agreement with Turkey was modernized (2018, entry into force in October 2021). Switzerland also signed a bilateral agreement with the United Kingdom (2019, entry into force in January 2021).

1.85. By the end of 2021, Switzerland had 33 FTAs with 43 partner countries outside the EU and EFTA. Together with its EFTA partners, Switzerland is pursuing negotiations with India, Malaysia, Moldova and Viet Nam. In parallel, Switzerland is engaged in negotiations on further development of several existing EFTA free trade agreements, including those with Chile, Mexico and the Southern African Customs Union (SACU).

1.4.5 Trade and development

1.86. Supporting the integration of developing countries into the global economy, a pillar of Swiss foreign policy, remains an objective of Switzerland's new foreign economic strategy. In that context, promotion of trade plays a key role and offers significant opportunities for sustainable economic growth and job creation. Trade promotion is a key objective of Switzerland's development cooperation for the period 2021-2024, as it has been in previous periods. International trade is a key part of the solution to accelerate recovery from the COVID-19 crisis, especially for developing countries.

1.87. Switzerland has supported the global Aid for Trade Initiative of the WTO and the OECD since its inception in 2005. During the period under review, Switzerland continued its commitment to the Enhanced Integrated Framework (phase II), which aims to promote the integration of the least developed countries (LDCs) into world trade.

1.88. In the period under review, Switzerland's trade promotion work focused on strengthening export capabilities of MSMEs in designated partner countries and on facilitating imports into target markets. Several initiatives aiming to improve institutional capacity to participate in international trade and value chains have been carried out in this framework. Similarly, climate change mitigation and adaptation and gender equality are important cross-cutting objectives. The projects, most of which were implemented with partner organizations, included:

- Provide assistance to customs administrations to strengthen compliance with international standards and best practices in the import, export and transit of goods. This assistance has been put into operation through the World Customs Organization's (WCO) Global Trade Facilitation Programme and the World Bank's Trade Facilitation Support Programme, in particular to help WTO members implement the Trade Facilitation Agreement;

- Building in-country export know-how (for example, on quality requirements, product labelling and border procedures), in partnership with the International Trade Centre (ITC), and supporting the work of ITC's Trade for Sustainable Development programme and the Standards Map database, which aims to provide transparency on voluntary sustainability standards;

- Assisting trade policy makers in partner countries to build their capacity in trade negotiations and implementation of trade agreements and unilateral trade policies;
- Assisting trade support organizations in partner countries in facilitating MSME exports to Switzerland and other European markets;
- Establishing local quality assurance systems to help MSMEs' comply with international standards;
- Developing investment climate programmes in some 30 countries, in cooperation with the International Finance Corporation (IFC).

1.89. Switzerland remains a major donor of the Advisory Centre on WTO Law (ACWL). Along with the International Labour Organization (ILO), Switzerland has committed to promoting compliance with core labour standards, particularly in the textiles sector (Better Work), supporting MSMEs through the Sustaining Competitive and Responsible Enterprises (SCORE) programme and promoting decent work and productive employment through the Productivity Ecosystems for Decent Work. During the period under review, Switzerland also became one of the main donors to UNCTAD's programme on E-Commerce and the Digital Economy (ECDE), which aims to create an enabling environment and build capacity in e-commerce.

1.4.6 Trade and sustainability

1.90. In Switzerland's view, trade must contribute to achieving the goals of sustainable development, as reflected in the United Nations 2030 Agenda, and the challenge of climate change in particular. In the 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.

1.91. Within the WTO, besides its active participation in the Committee on Trade and Environment, in November 2020 Switzerland joined two initiatives that complement multilateral efforts: the trade and environmental sustainability structured discussions (TESSD) and the informal dialogue on plastics pollution and environmentally sustainable plastics trade (IDP).

1.92. Switzerland participates actively in the negotiations on the Agreement on Climate Change, Trade and Sustainability (ACCTS). This initiative aims to demonstrate the mutual support and complementarity of trade and environmental policies. The initiative thus provides a systemic contribution to the debate on trade and environment, including within the WTO.

1.93. During the period under review, as mentioned above, all Switzerland's FTAs with its EFTA partners include a chapter on trade and sustainable development. Dialogue is taking place with a number of partner countries on the implementation of the related commitments.

1.94. In October 2017, Switzerland ratified the Paris Agreement on climate change, which promotes, *inter alia*, the phasing out of fossil fuels. As such, Switzerland supports fossil fuel subsidy reform in the Friends of Fossil Fuel Subsidy Reform group. This group is committed to the phasing-out of inefficient fossil fuel subsidies, in line with the G20 and APEC statements.

1.95. Switzerland is a signatory to the Basel Convention, an amendment to which entered into force on 5 December 2019, prohibiting the transboundary movement of hazardous waste (destined for final storage, recovery or recycling) between OECD and non-OECD countries.

1.96. In January 2020, the Government adopted a revised Plan on Corporate Social and Environmental Responsibility and a revised National Action Plan on the Implementation of the UN Guiding Principles on Business and Human Rights. These plans aim to increase coherence between Switzerland's economic policy and the country's obligations to promote responsible business conduct and human rights. It also involves setting expectations towards Swiss-based businesses and planning various awareness-raising and training initiatives. This includes the promotion of due diligence in the responsible conduct of business following the UN Guiding Principles as well as the relevant OECD instruments for multinational enterprises.

1.5 Outlook

1.97. During the period under review, Switzerland's economic policy has remained focused on maintaining and improving Switzerland's prosperity, while respecting the Sustainable Development Goals.

1.98. During the COVID-19 crisis, Switzerland benefited from a number of stabilizing factors, such as the diversified economic structure, a high degree of international openness, a high-quality education system, a flexible labour market, a moderate tax burden and sound public finances. Following the unprecedented economic downturn triggered by the COVID-19 pandemic, Switzerland adopted the COVID-19 transition strategy, which aims to strengthen the economy's long-term recovery and address shortcomings in the Swiss economy, such as insufficient labour productivity and the need to strengthen competition in the domestic market.

1.99. 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.

1.100. 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. Switzerland thus supports the necessary reform of the WTO. In Switzerland's view, while maintaining the aim of multilateral solutions at the centre, 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.

2 REPORT BY LIECHTENSTEIN

2.1 Introduction

2.1. In 2019, the Principality of Liechtenstein celebrated the 300th anniversary of its existence within unchanged national borders. Liechtenstein's territory today covers an area of 160 km^2, making it the fourth smallest state in Europe. The settlement area amounts to 11%, while 42% of the national territory is considered forest area, 33% agricultural area, and 15% unproductive area. The Liechtenstein Constitution, which is still in force today, was adopted in 1921. In 1923, Liechtenstein and Switzerland concluded a Customs Treaty, which will thus have its 100th anniversary next year. Moreover, it was during this time that the Swiss Franc was introduced as Liechtenstein's currency. These steps had a very positive economic effect on the country, although the actual upswing in Liechtenstein began only after 1945. In addition to the Customs Treaty, cooperation with Switzerland today is based on more than one hundred other treaties, such as the Currency Treaty and agreements in areas such as education, intellectual property, agriculture, road transport, and indirect taxes.

2.2. Milestones in the recognition of Liechtenstein as an independent member of the international community were its accession to the Council of Europe in 1978, its accession to the UN in 1990, its admission to the European Free Trade Association (EFTA) in 1991, and its accession to the World Trade Organization (WTO) in 1995. Moreover, Liechtenstein has been a member of the European Economic Area (EEA) since 1995 and an associate member of Schengen-Dublin since 2011. Its economic foreign policy is built upon four pillars: (i) the inclusion in the Swiss customs and currency union; (ii) the participation in the European Single Market through the Agreement on the EEA; (iii) a broad network of free trade agreements concluded through EFTA and (iv) the membership in the WTO.

2.3. Unhindered access to the European Single Market via the EEA Agreement constitutes a comparative advantage and an essential factor for the security and stability of the Liechtenstein economy. EEA membership has opened up new business opportunities, leading to further diversification of the Liechtenstein economy and has positioned Liechtenstein as a reliable partner in Europe. At the same time, the Customs and Currency Treaties guarantee market access to Switzerland. The overall outcome of Liechtenstein's EEA membership is therefore very positive, which is underlined by consistently very high levels of approval for EEA membership among businesses, the population, and policymakers.

2.4. The report on the Sixth Trade Policy Review of Switzerland and Liechtenstein presents the developments in the economic union between Switzerland and Liechtenstein during the past four years. It simultaneously reflects the high degree of Liechtenstein's integration in the EEA, which forms the legal framework for economic cooperation between the three EEA EFTA States (Iceland, Liechtenstein, and Norway) and the EU member States. 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 EEA Agreement covers cooperation in other areas, such as research and development, education, social policy, the environment, consumer protection, tourism, and culture.

2.5. Since an open and well-functioning multilateral trading system is fundamental to economic growth and development, the trading system of the WTO is an essential element of Liechtenstein's economic policy. Liechtenstein is firmly committed to the rules-based, transparent and open multilateral trading system of the WTO. Liberalization of trade at multilateral and regional levels (via WTO and EFTA) is a high priority of Liechtenstein's economic foreign policy.

2.2 Trade and Economic Policy Environment

2.6. As a small and open economy, Liechtenstein has been significantly affected by the global economic downturn, triggered by the Covid-19 pandemic. However, contrary to the global financial crisis, when Liechtenstein's GDP contracted considerably more than in other (larger) economies, the contraction in terms of output does not stand out in the current recession when compared to other (larger) European economies. While there had first been a strong decline of external demand, exports have quickly recovered and the labor market has remained remarkably resilient to the downturn. In details, in 2020, direct merchandise exports from Liechtenstein amounted to CHF 2.86 billion, a significant decline of -16.4% from the previous year, while direct imports also decreased significantly by -17.0% to CHF 1.65 billion. While merchandise exports were severely hit during the first wave of the pandemic in early 2020, Liechtenstein's economy has benefited from a strong recovery in external demand since the second half of 2020. Notwithstanding the significant drop in output, Liechtenstein's economy is expected to remain resilient. Similarly, even during the challenging time of the Covid-19 pandemic, Liechtenstein's government budget has remained remarkably sound. Liechtenstein's public finances are characterized by virtually zero debt (CHF 37 million or 0.6% of GDP in 2019) and large financial reserves. Between 2014 and 2019, Liechtenstein has reported budget surpluses between 2% and 4% of GDP annually (the surplus amounted to 3.7% of GDP in 2019, up from 3% in 2018), leading to an increase in total financial reserves at the overall government level (state, local government and social insurances) to CHF 6.7 billion in 2019, slightly exceeding GDP in that year.

2.7. The considerable level of stability and resilience of Liechtenstein's economy is characterized by some important institutional specifics. In particular, the strong industrial and manufacturing base, contributing almost four times as much to gross value added (GVA) as financial services, differentiates Liechtenstein from other highly industrialised economies and financial centers. In light of the customs union with Switzerland and the membership in the EEA, the financial sector and the real economy enjoy full market access to both the Swiss market and the European Single Market. The EEA membership is not only central for Liechtenstein's international integration efforts, but also implies that the financial sector is fully regulated by EU standards. Additionally, the customs and currency union with Switzerland and the associated membership in the Swiss franc currency area also generally contribute to the stability of the economy. The industrial sector includes some highly successful niche players in global markets, with companies showing considerable flexibility in adjusting to changing structural circumstances. This flexibility results from the need to face strong competition in global markets and to be highly innovative to increase productivity against the background of a strong appreciation of the Swiss franc over the last years. Furthermore, high equity ratios in the non-financial corporate sector, high liquid reserves and no debt in the public sector as well as high incomes and wealth in private households increase the resilience of the whole economy, as temporary shocks can be better cushioned. Finally, Liechtenstein's economy is characterized by a high degree of diversification, including within the different sectors of its economy.

2.8. In an environment where economies are increasingly internationally linked and globally dependent, which has become apparent with the effects of the Covid-19 pandemic, it is a central priority of the Liechtenstein Government to promote conditions for business activities which are stable and advantageous. 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 has been kept low for most of the reporting period. However, in order to mitigate the economic consequences of business closures and other health-related counter-measures ordered by the authorities since the outbreak of the pandemic, Government and Parliament as well as local authorities have adopted a number of temporary support measures, including in particular a comprehensive fiscal support package adopted as early as in March 2020. These include making interest-free transitional loans available to MSMEs, a provisional deferral of the payment of social insurance contributions and taxes, financial support for self-employed affected directly or indirectly by administrative lockdown measures, and the granting of short-time work allowances. Most of these support measures have been phased out in the meantime. However, short-time work allowances, which have helped to avoid temporary lay-offs, will continue until the end of March 2022.

2.9. The fiscal measures taken by the government to cushion the economic consequences of the Covid-19 pandemic, which were further extended by municipalities' budgets, resulted in fiscal stimulus measures amounting to around 2% of GDP. Despite these extra expenditures in light of the global pandemic, and an additional extraordinary expenditure of CHF 100 million to increase reserves in the social security system, the budget balance on the state level remained significantly positive in 2020.

2.10. Indeed, sound public finances have become an important structural characteristic of Liechtenstein's economy. Following the financial crisis of 2008, the government enacted structural reforms which significantly lowered public spending, with the public spending ratio standing at 20.9% of GDP in 2019, the lowest level among all European countries. Against this background, today's public finances reflect a fast and decisive implementation of necessary structural reforms and an efficient decision-making in economic policy in the last decade. Thereby, the public sector has repeatedly confirmed its flexibility to adapt to new circumstances and its high political effectiveness in implementing structural reforms.

2.11. During the last four years, the Liechtenstein Government has thus continued to adhere to its long-standing liberal economic policy relying on self-dependent economic actors and confining state interventions to the establishment of framework conditions which are favourable to entrepreneurship. At the same time Liechtenstein has continued to incorporate newly adopted European acquis communautaire into domestic law: More than 11,300 EEA-relevant legal acts of the European Union are now applicable in Liechtenstein. Moreover, Liechtenstein has further expanded its network of free trade agreements together with the other EFTA Member States, who, since 2016, have concluded new preferential agreements with other members of the WTO, such as Georgia, the Philippines, Ecuador and Indonesia.

2.2.1 Economic growth

2.12. Liechtenstein's economy is small in absolute terms, poor in natural resources and highly export-oriented with a large share of gross value added generated in manufacturing. It has shown stable growth in recent years up until 2019, with GDP increasing from CHF 6.1 billion in 2016 to CHF 6.4 billion in 2017 and CHF 6.5 billion in 2018. For the first time since 2015, the economic momentum of previous years (2016: +1.9%; 2017: +3.7%; 2018: +2.7%) weakened in 2019, with GDP amounting to CHF 6.4 billion, showing a contraction of -2.4%.

2.13. For many years, Liechtenstein's economy experienced an above-average growth in employment. The population of Liechtenstein almost doubled since 1970 to 39'062 by the end of 2020. Over the same period, the number of persons employed in Liechtenstein more than tripled to 40,328. In 2017, the number of jobs started to exceed the number of people residing in Liechtenstein. Due to the strong economic growth over the past decades and the small size of the country, an increasing input of labour from neighbouring countries is required. More than half of the employed persons commute daily, mostly from neighbouring Switzerland and Austria or from Germany. Compared to the total resident population, the high proportion of job creation remains a particular feature of Liechtenstein's economy. In 2020, 40% of the employment in terms of full-time equivalents was in industry, 60% in services and 0.1% 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 in recent years first decreased further from 2.1% in 2016 and 1.8% in 2017 to 1.7% in 2018 and 1.5% in 2019 before slightly rising again to 1.9% in 2020 and dropping to 1.6% in 2021. This underscores the good recovery and the robustness of Liechtenstein's labour market.

2.14. Liechtenstein companies create jobs not only in Liechtenstein, but also in significant numbers abroad. The number of employees working abroad for industrial companies which are members of the Liechtenstein Chamber of Commerce and Industry (LCCI) increased strongly in recent years to 58,201 in 2019. This corresponds to a foreign share of 80%. In the same year, the Liechtenstein banks had, in terms of full-time equivalents, approximately 4,000 employees working abroad (compared to 2,129 in Liechtenstein).

2.15. Due to its small size, highly developed and open economy, and its competitive industry, Liechtenstein traditionally is highly dependent on foreign demand and has high levels of import and exports compared to its GDP. Since trade data is available for Liechtenstein (1995), the country has never registered a negative trade balance. The foreign trade ratio is high by international standards, and can be explained by the high foreign trade surplus driven by the exports. The most important export destination country for Liechtenstein's industry and goods production sector besides Switzerland remains Germany, followed by the United States, Austria and France.

2.16. At the end of 2019, Liechtenstein's economy accounted for 5,050 commercially active companies. About 88% of them had fewer than ten employees, 98% fewer than 50. The number of companies in Liechtenstein is therefore very large compared to the population: There is one commercially active company for nearly every eight inhabitants. The number of commercially active companies in Liechtenstein has nearly doubled in the last two decades. Employment (number of persons employed part-time and full-time) in Liechtenstein is diversified across the economic sectors of industry and manufacturing, financial services, and general services. The ten companies with the highest employment are spread across all three of these economic sectors, accounting for 63% of total employment in Liechtenstein in 2019.

2.17. Assets under management of the 13 banks (until 2020: 14 banks) in Liechtenstein and abroad collapsed in the wake of the financial crisis of 2008/2009 and subsequent far-reaching reforms in the financial centre, but since then they have risen again quite steadily to over CHF 365.4 billion (including foreign group companies) in 2020. Assets under management in Liechtenstein, excluding foreign group companies, also recovered and exceeded the level of 2007, amounting to CHF 179.2 billion in 2020. In 2020, net new money placed with Liechtenstein financial institutions including foreign group companies amounted to CHF 17.7 billion (2019: CHF 20.4 billion) respectively to CHF 5.5 billion (2019: CHF 1.0 billion) if foreign group companies are not taken into account. The positive trend in assets under management and net new money thus seems to be continuing in spite of the pandemic. According to estimates by the Boston Consulting Group (2015), Liechtenstein has a share of about 1% in the total of USD 11'000 billion in cross-border assets under management. Compared to other countries/territories, Liechtenstein's financial sector can thus be considered a rather small player.

2.18. As regards insurance services, there were 19 life insurance, 14 non-life insurance, and three reinsurance undertakings operating with registered offices in Liechtenstein at the end of 2020. 11 undertakings operated as captives. Compared with the previous year, the numbers of insurances slightly decreased. Liechtenstein is the only insurance center that offers insurance undertakings direct access both to the countries of the EEA and to Switzerland. The solvency rate of the Liechtenstein insurance sector was approximately 190% at the end of 2020.

2.19. The Liechtenstein investment fund center is a relatively 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 2020, there were 522 investment undertakings in Liechtenstein with net assets of CHF 59.1 billion.

2.20. Liechtenstein has the same inflation rate as Switzerland (2017: 0.53%, 2018: 0.94%, 2019: 0.36%, 2020: -0.73%). There are no figures available reflecting private consumption or investment in Liechtenstein only.

2.2.2 The economic sectors

2.21. 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 in 2019 stood at 5.7% or CHF 375.4 million, 98% of the investments made by companies themselves. The 436 new patent applications (2019: 437) at the European Patent Office in 2020 correspond to 11.2 patent applications per 1'000 inhabitants, which is very high in comparison with other countries.

2.22. In 2019, 45.8% of GVA was the result of value added in industrial production and manufacturing, compared to 42.6% in general services, 11.5% in financial services[2] and 0.1% in, agriculture, forestry and fishery.

2.23. The primary sector employs 0.6% of the total workforce, its share having further decreased from 0.8% in 2017. In 2020, there were 95 recognized farms in Liechtenstein. These managed an agricultural area of 3,584 ha. The average agricultural area per farm was 37.7 ha. In 2016, the 102 recognized farms had managed an average usable agricultural area of 35.2 ha per farm. Of the 95 recognized farms, 76 kept cattle in 2020.

[2] Traditionally, in Liechtenstein's statistics, financial and insurance activities, legal and accounting activities as well as activities of head offices were regarded as financial service providers. More recently, statistics take the NACE Rev.2 classification as a reference (Statistical Classification of Economic Activities in the European Community). The figure listed for financial services represents activities in accordance with divisions 64 to 66 of that classification system (i.e. financial and insurance activities).

2.24. Liechtenstein's agriculture is closely linked with Switzerland through the Customs Treaty due to which the Swiss Federal Law on Agriculture is applicable in Liechtenstein as well. 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. 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 with a size of over 20 ha, and thus to an increase in the average size. Some 80% of the farmland is under lease. Organic agriculture has developed strongly in recent years. About 39% of all of Liechtenstein's agricultural land is used to produce agricultural products that meet organic standards. 40% of all professional farmers in Liechtenstein are organic farmers. Organic farming has thus become an inherent part of agriculture in Liechtenstein. There are also 10 organic-certified food processors in Liechtenstein. Staple products such as milk and vegetables compose the backbone of the organic farming movement in Liechtenstein, which began 30 years ago. Liechtenstein's agricultural sector also plays an important role for the sustainable preservation of the characteristic landscape of hilly and mountainous areas, which make up two thirds of Liechtenstein's territory.

2.25. Liechtenstein's economy continues to be strongly shaped by its goods production. In 2019, the goods-producing sector provided 36.5% of all jobs. This represents a remarkably high proportion, compared to other European countries. Jobs in the goods-producing industry are provided by a total of 625 enterprises (2019). These enterprises are mainly small companies with less than 50 persons employed. They are engaged in a large number of specialized market niches and contribute to the broad diversification of Liechtenstein's economy. The most important branches of the industrial sector are mechanical engineering, plant construction, manufacturing of precision instruments, dental technology, electronic control devices, vacuum, heating/lighting technology, dentistry and pharmaceutical products and food-processing industry.

2.26. Financial services also constitute an important economic sector in Liechtenstein. Private banking and wealth management account for a substantial part of the added value generated by the financial centre today, while the rest is generated in particular by insurers, the fund industry and independent asset managers. Globalization has an important effect on the competitive situation of the Liechtenstein financial centre. The most important challenges include restrictions to (global) market access, the rapid technological progress, and the accelerating cycles of innovation.

2.27. As an EEA Member State, Liechtenstein must implement relevant EU legislation. Accordingly, banking, insurance, securities and accounting legislation is based on the relevant EU Directives and Regulations. Moreover, Liechtenstein as an EEA Member State fully participates without the right to vote in the European Financial Surveillance System. In addition, the Liechtenstein's financial institutions benefit from an EU passport granting them the unhindered access to the EU Market.

2.28. The appreciation of the Swiss franc continues to represent a challenge for Liechtenstein companies, in particular in the manufacturing sector, 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 profits, because most of the costs of the financial sector are incurred in Swiss francs, to the extent the parent companies are located in Liechtenstein, which leads to a worsening ratio of costs and income. The Liechtenstein financial sector, however, is facing this uncertainty with a comfortable capacity to bear risks. The average core capital (Tier 1) ratio across all banks was 22.3% in June 2021. This is far above the requirements of Basel III (8%, including supplementary capital) and the EU average (approx. 17.2%). This is also true for the leverage ratio, which at 7.8% by the end of 2020 was significantly above the requirements of Basel III (3%). The consolidated cost/income ratio of banks in the Liechtenstein financial centre was 71.2% in 2020. The high level of capital adequacy offers a guarantee for a stable financial center and security for banking clients.

2.29. In accordance with the "Liechtenstein Declaration" of 12 March 2009, when 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 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 Global Forum's Peer Review. Until now, Liechtenstein has concluded 21 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 for the implementation of 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 2022, Liechtenstein's AEOI network comprised a total of 114 AEOI exchange partners. Liechtenstein has also joined the Inclusive Framework of the OECD to implement measures against Base Erosion and Profit Shifting (BEPS) and signed the Multilateral Competent Authority Agreement on Country-by-Country Reporting ("CBC MCAA") in 2016. After joining the OECD/G20 Inclusive Framework on BEPS in 2016, Liechtenstein moreover abolished its IP Box regime with a grandfathering period that ended on 31 December 2020. Furthermore, Liechtenstein ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) in 2019. Today, Liechtenstein does not have any harmful tax regimes as confirmed by the annual Peer Reviews by the Forum on Harmful Tax Practices (FHTP).

2.30. 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.

2.31. 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 EU's 5th Anti-Money Laundering Directive. The implementation of relevant standards in Liechtenstein has been acknowledged by international bodies. In 2021/2022, the regime in Liechtenstein on anti-money laundering (AML) and the combating of financing of terrorism (CFT) was again assessed by the Council of Europe Committee of Experts on the Evaluation of AML and CFT (Moneyval). An on-site visit was conducted in September 2021 in the framework of a mutual evaluation process aimed at assessing jurisdictions' technical compliance and effective implementation of international standards, in line with the 2013 methodology of the Financial Action Task Force (FATF). The report on the evaluation is scheduled for discussion and adoption at MONEYVAL's 63rd Plenary meeting in Spring 2022.

2.32. On 1 January 2020, the Token and Trusted Technology Service Provider Act (TVTG) – also known as the "Blockchain Act." – entered into force in Liechtenstein. With this new law, Liechtenstein was the first country to introduce a comprehensive regulation of the token economy. On the one hand, the law regulates civil law issues in relation to client and asset protection. On the other hand, adequate supervision of the various service providers in the token economy has been established. In addition, there are measures to combat money laundering by making service providers subject to rules on anti-money laundering and the combating of financing of terrorism. Furthermore, the law provides clarity and legal certainty with regard to digital securities.

2.33. There had been widespread legal uncertainty regarding business models on blockchain systems which are not covered by financial market legislation but nonetheless involve carrying out activities that are very close to the financial sector. With the Blockchain Act, Liechtenstein now defines the minimum requirements for these activities in blockchain systems and requires all of them to be registered with the Liechtenstein Financial Market Authority. The new law also contains a legal classification of elements on blockchain systems. The Blockchain Act defines the term "token" as a new construct to enable the transformation of the "real" world to blockchain systems while ensuring legal certainty, thereby opening up the full potential for application of the so-called token economy. The introduction of the legal construct of the "token" in Liechtenstein law requires that the legal consequences – such as ownership, possession, and transfer – must also be legally defined.

2.34. The applications of blockchain technology are not restricted to simple transactions of coins or tokens with an exchangeable value between private individuals. Rather, they provide the option for a large range of economic services, as assets or rights in general can also be recorded in blockchain systems. For the financial transactions, this provides the possibility to create a digital recording of means of payment or assets and the possibility to conduct transactions with no direct intermediary being responsible for the execution of such transaction. The low costs for digital transactions are likely to open up new opportunities beyond financial services in fields such as logistics, mobility, energy, industry, media, and many more. All these potential applications are grouped together under what is called the "token economy".

2.35. Because of the rapid pace and broad scope of the development of blockchain technology and its areas of application, Liechtenstein's Blockchain Act is formulated abstractly enough to ensure that it remains applicable for subsequent technology generations. That is why the law uses the term "transaction systems based on trustworthy technologies (TT systems)". As blockchain technology is actively used in Liechtenstein, the new law clarifies which requirements apply for important activities on TT systems (TT services). Customer protection is improved and the application of due diligence obligations is required in order to ensure compliance with international standards and extensive and effective fighting of money laundering. The law defines a legal framework for all applications of the token economy in order to ensure legal certainty for current and future business models. In particular, this involves rules on generating and storing tokens. For securities to be represented in a token on a TT system, and transferred therein, via a physical document without any detours, the legal concept of the book-entry securities ("Wertrecht") has been accepted in Liechtenstein legislation, and at the same time the necessary interfaces between the securities law and the Blockchain Act have been created. Book-entry securities are "dematerialized" securities where the functions of a certificate can be replaced by an entry into the book-entry register.

2.2.3 State activities

2.36. The Government of Liechtenstein provides neither traditional export subsidies or guarantees, nor subsidies to companies, with the exception of the agricultural sector, which mainly consists of family-owned micro-businesses. The main features of the playing field set by the Government's economic policy are free trade agreements, stability, durability and reliability of the policy measures, maintaining a high-quality educational system, a business-friendly tax regime, low administrative burden and a lean and customer-oriented public administration. In order to further facilitate the interaction with the public administration, the Government is currently advancing the digitalisation of most public services, for example including identification and payment services. For that purpose, a "Digitalisation Roadmap for the Liechtenstein Public Administration" was developed in 2020. The Roadmap, which includes more than 100 digitalisation projects across 29 public offices, is to be implemented in the coming years. In its e-Government Act, the government has stipulated that from 2023 onwards, all communication between companies and public authorities must be conducted electronically.

2.37. With the aim of further promoting an investor-friendly environment in accordance with relevant EEA law, the Liechtenstein tax legislation was completely revised in 2011 when 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 was 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 structures, the facilitation of taxation of asset management companies, or provisions on the tax treatment of national and cross-border restructurings.

2.38. The Central Entrepreneur Service of the Office of Economic Affairs provides advice related to new or expanding business projects, with a focus to start-ups, administrative management, formalities or dealing with authorities. In addition to that, there are a number of private initiatives helping young professionals and companies in the growth phase on business planning and management, and arranging contacts with financial institutions, investors or potential business partners. To promote innovation, research and development in the industry, the Liechtenstein Government has established, together with the authorities of the neighbouring Swiss Canton of St. Gallen, the "RhySearch" centre. RhySearch connects companies and research institutions and conducts high-level own research in the fields of optical coating and high-precision manufacturing. The Government also supports the newly founded Switzerland Innovation Park Ost which connects regional industry with research institutions, with a focus on health, mem-industry and digitalisation.

2.39. The Investor Summit Liechtenstein has been connecting start-ups and MSMEs seeking capital with top-class investors and decision-makers for several years. Company presentations are at the heart of these event which are sponsored by the Liechtenstein Government as well as numerous other partners. Capital-seeking start-ups and growth-oriented MSMEs are given the opportunity to present themselves to a high-calibre audience and make interesting contacts. Decision-makers and investors are thus given the opportunity to get to know a wide variety of interesting investment opportunities in a very short time.

2.40. Due to the country's small territory and in view of the high proportion of non-Liechtenstein citizens within the total resident and working population (34% and 70%, respectively), Liechtenstein is compelled to strictly regulate cross-border employment and immigration. Compared to the last Trade Policy Review of Switzerland-Liechtenstein, the share of non-Liechtenstein citizens within the resident and working population has further increased. Therefore, the Government does not see any leeway to ease restrictions concerning immigration and employment. 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 position and size and in order to respect its rural character and preserve access to real estate for the resident population, the Government restricts investment into real estate (also for non-resident Liechtenstein citizens).

2.41. Liechtenstein has established a comprehensive macroprudential policy framework, with a transparent division of responsibilities among the Financial Market Authority (FMA), the Financial Stability Council (FSC) and the Government. In light of the significance of the financial centre for the economy as a whole, macroprudential supervision and policy plays a key role in Liechtenstein. In absence of a national central bank in Liechtenstein, ensuring financial stability is legally defined as part of the FMA's mandate. Based on the findings of the FMA's financial stability analyses and the subsequent discussion between the FMA and the Government, the FSC proposes and publishes macroprudential measures, recommendations and warnings. In this context, the FSC has become a well-established institution in Liechtenstein. A comprehensive policy-mix composed of capital buffers as well as lender- and borrower-based measures is currently in place to improve the systemic resilience of the financial sector and to reduce the build-up of systemic risks. With a legislative revision in 2019, Liechtenstein has introduced an effective and transparent macroprudential capital framework for the banking sector. In light of the vulnerabilities related to the high indebtedness of private households, the policy-mix also includes various instruments to mitigate risks in the real estate sector.

2.3 Trade Policy Developments and Future Policy Directions

2.42. The framework of the trade environment of Liechtenstein is determined by the Customs Treaty with Switzerland, Liechtenstein's membership in 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)

2.43. 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. 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 with and 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. Both the monitoring and negotiating arms of the WTO need to be strengthened and further developed.

2.44. Liechtenstein is committed to further strengthening the multilateral system. It does not perceive the various initiatives launched by groups of interested WTO member States in recent years as a threat to that system but rather as a chance to revive the negotiating function of the WTO. For a very small member State of the WTO as Liechtenstein, the inclusiveness of such initiatives is key, however. Given that this prerequisite is guaranteed, Liechtenstein has thus joined the plurilateral Joint Statement Initiatives on Services Domestic Regulations, on E-Commerce, on MSMEs and on Trade and Gender and has been a co-sponsor of the Trade and Environmental Sustainability Structured Discussions, including the Initiative on Fossil Fuels Subsidies Reform.

2.3.2 The European Economic Area (EEA)

2.45. The European Single Market is the most important market for Liechtenstein's economic operators. Due to the EEA-Agreement with its four economic 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. Mid 2021, Liechtenstein had implemented 99.6% of the relevant internal market rules. Liechtenstein's legislation in the respective areas is therefore identical with European Union law.

2.46. The relationship between Liechtenstein and the EU is not limited to the EEA. Since 2011, Liechtenstein participates in the areas of Schengen and Dublin (open borders, visa, police cooperation, asylum, etc.). The association with Schengen and Dublin supplements and deepens Liechtenstein's integration in Europe in the areas of justice and home affairs.

2.47. 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 in the EEA to protect the functioning of this common market.

2.3.3 The European Free Trade Association (EFTA)

2.48. 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.

2.49. 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 29 Free Trade Agreements with a total of 40 partner countries and territories around the world.

2.50. 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.

2.3.4 Customs Union/Economic Integration with Switzerland

2.51. The close cooperation with Switzerland is reflected in more than 100 bilateral treaties, the most important of them being the Customs Treaty and the Currency Treaty. The Customs 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 (legal tender) in Liechtenstein.

2.52. The provisions of the Customs 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 also 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 Treaty. Switzerland is authorized to represent Liechtenstein in relevant negotiations and to conclude such treaties with effect in Liechtenstein.

2.53. The Customs Treaty facilitated the bilateral cooperation far beyond its originally envisaged 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 continuously foster the already existing close links. This is owed particularly to the innovative and specific adaptations that are foreseen for Liechtenstein in the EEA-Agreement which allow for a dual marketability of goods produced in Liechtenstein, meaning that goods are certified according to rules of the respective market to which they are exported, either the EU or Switzerland.