SUMMARY

1. Switzerland and Liechtenstein are among the top high-per capita income countries in the world and are very well integrated into international trade. They both benefit from strong democratic institutions, educated populations, and a specialization in value-added production. Their fiscal situation is sound and their unemployment traditionally low. Services account for about three quarters of the Swiss economy. One particularity of the Liechtenstein economy is the importance of manufacturing, representing 40% of GDP in 2019. During the review period, and prior to the COVID 19 pandemic, real GDP growth in Switzerland was positive, ranging from 1.2% in 2019 to 2.9% in 2018. GDP growth in Liechtenstein tends to be more volatile because of the small size of the economy. After three years of real GDP growth, Liechtenstein's GDP contracted by 2.3% in 2019. Because of the COVID 19 pandemic, real GDP growth fell by 2.4% in 2020 in Switzerland, and further in Liechtenstein. Thanks to strong financial buffers and a prompt response by the Governments, the pandemic is not expected to have negative effects on long-term economic prospects.

2. Switzerland has recorded fiscal surpluses in most years since 2016. The application of a debt brake rule has meant that government spending and liabilities remain far below the average OECD level. The impact of the COVID 19 pandemic resulted in a change from a fiscal surplus of 1.3% in 2019 to a fiscal deficit of 2.8% in 2020. In recent years, the Swiss National Bank pursued a very accommodative monetary policy, mainly through a negative interest rate and, where necessary, foreign exchange market interventions. It played an important role in crisis management in the context of the COVID 19 pandemic, for example, by intervening more strongly in foreign exchange markets to counter the upward pressure on the Swiss franc. Issues that have been raised regarding Swiss monetary policy include the increasing difficulty of achieving the price stability objective and the need to address certain structural factors that account for the persistent appreciation pressures faced by the Swiss franc since the 2008-09 financial crisis.

3. While Switzerland and Liechtenstein enjoy favourable economic conditions, they also face similar challenges, including the ageing of the population, low productivity growth, adaptation to digitalization, climate change, and risks posed by high levels of household debt.

4. Switzerland's current account remained in surplus but overall declined steadily between 2016 and 2019 and registered a very sharp decline in 2020. The long-term evolution of the structure of Swiss merchandise exports reveals a growing specialization in certain product sectors that are relatively unaffected by exchange rate movements. Chemical and pharmaceutical products now account for more than half of Swiss merchandise exports. While the trade goods balance reached a record surplus in 2020, the services trade balance continued its long-term decline. Europe continues to account for more than 70% of Swiss merchandise imports and more than 50% of its merchandise exports, although in the long term its share in Swiss merchandise imports and exports has declined somewhat. In the case of Liechtenstein, 78% of merchandise imports (excluding trade with Switzerland) originate in Europe and 61% of merchandise exports (excluding trade with Switzerland) are destined for Europe. Switzerland ranks among the world's top 10 economies in terms of inward and outward foreign direct investment (FDI) stock, with an inward FDI stock that is heavily concentrated in services. FDI inflows to Switzerland have fallen since 2015 and were negative in 2018-20. The recent negative FDI inflows reflect the conduit nature of Switzerland's annual FDI inflows, as FDI in Switzerland is made mainly through intermediate companies in European holding companies.

5. Given the two countries' limited domestic markets and export orientation, trade policy in both is focused on promoting and guaranteeing open markets, with an increased emphasis on sustainable development. Both countries are active members of the WTO, supporting the Buenos Aires Declaration on Women and Trade and participating in the joint statement initiatives (JSIs) on e-commerce, MSMEs, and domestic regulation of trade in services. In addition, Switzerland participates in the JSI on investment facilitation for development. Over the review period, Switzerland was involved in one WTO dispute settlement case as complainant. Both countries maintain a solid record of notifications to the WTO, with those outstanding only in the areas of tariff quotas and domestic support, for both countries, and subsidies for Switzerland. Notifications are also pending for some RTAs.

6. Switzerland and Liechtenstein form a customs union; they have a common currency; and their policies are aligned in various other areas. Both economies are members of the European Free Trade Association (EFTA) under the auspices of which they have concluded an extensive range of RTAs (29

RTAs with 39 economies). Liechtenstein is in a unique position due to its participation in the Customs Union with Switzerland (which covers goods) and its simultaneous membership in the European Economic Area (EEA). Over the review period, new EFTA RTAs entered into force with Georgia, the Philippines, Ecuador, and Indonesia, and existing EFTA RTAs with Israel and Turkey were revised. Switzerland concluded a new RTA with the United Kingdom (with application of goods aspects to Liechtenstein). Another RTA was concluded between EEA-EFTA members and the United Kingdom (with non-goods aspects applying to Liechtenstein)).

7. In May 2021, Switzerland announced its decision not to sign the Institutional Framework Agreement with the European Union, largely due to concerns about wage protection and state aid. Since this Agreement was to encompass and upgrade the extensive set of bilateral agreements in place, the failure to reach agreement on the framework has raised questions about the future of those bilateral agreements, including, for example, the mutual recognition agreement between Switzerland and the European Union-EEA.

8. Both Switzerland and Liechtenstein are open to investment, with few restrictions on FDI, although state monopolies operate in a few areas. The Swiss Federal Council is drafting a law on the control of foreign investments, which will be published for consultations at the end of March 2022.

9. Over the review period, Switzerland and Liechtenstein launched strategies to digitally transform government services and render them more efficient and cost-effective. Switzerland is also taking steps to reform legal and regulatory processes, including through the issuance of new regulatory impact assessment guidelines and the launch of consultations on a new Business Relief Act. Liechtenstein revised its Business Act to introduce simplified registration procedures for certain types of business activity.

10. A major customs reform initiative is ongoing in Switzerland; its objective is to meet future challenges of increased traffic and trade as well as to take advantage of digitalization opportunities. This will result in, inter alia, enhanced customs security measures and the introduction of a fully-fledged single window system (Passar) to replace the existing systems (e-dec and the New Computerized Transit System (NCTS)). Switzerland undertakes customs clearance operations, including the collection of taxes and duties, at Liechtenstein's customs posts on its behalf.

11. The Switzerland-Liechtenstein tariff is fully composed of specific rates. The simple average tariff in 2021 was 7.2% based on AVE estimates. High tariffs prevail on agricultural products (simple average applied tariff of 25.4%, with tariffs ranging from 0% to 671.3%). Highest tariffs apply to out-of-quota imports of fresh or chilled lollo lettuce. Tariff quotas apply to a number of agricultural products, comprising 3.7% of all tariff lines in 2021 (down from 3.8% in 2016). Seasonal tariffs apply to 95 products and are levied mostly on fruits and vegetables produced domestically, and most of which are also subject to tariff quotas. As at the time of the previous Review, applied MFN tariffs may exceed bound rates for certain goods due to fees levied on imports by compulsory stock organizations.

12. During the review period, temporary tariff reductions were granted on certain feed items, medical goods, and textiles and intermediate materials to respond to emergency situations or respond to industry needs. The Swiss Government has announced that all duties on industrial goods will be eliminated on 1 January 2024.

13. As at the time of the previous Review, Switzerland and Liechtenstein apply import and export prohibitions and restrictions largely for reasons of security, health, and protection of the environment. Additionally, some import and export prohibitions are applied related to sanctions. Temporary export controls were introduced between March and June 2020 for certain goods related to the COVID 19 pandemic. Neither Switzerland nor Liechtenstein has any specific legislation on contingency measures; they have no specialized authorities in place to initiate and conduct anti-dumping and countervailing investigations; and they have no anti-dumping, countervailing, or safeguard measures in place.

14. No export taxes or duties are levied. Switzerland Global Enterprise, a private non-profit association mandated by the State Secretariat for Economic Affairs, continues to help SMEs in Switzerland and Liechtenstein to export their products and services; over the review period, it formed new partnerships and expanded its services. Swiss Export Risk Insurance (SERV) continues

to provide export finance and insurance services to companies registered in Switzerland where there is a gap in private-sector provision; in response to the COVID 19 pandemic, it simplified certain processes to assist exporters. Export finance, insurance, and guarantees are provided only by the private sector in Liechtenstein.

15. During the period under review, Switzerland and Liechtenstein implemented new reforms to comply with international standards on corporate income tax. Consequently, the European Union withdrew both countries from its taxation grey list. While competitive corporate tax regimes have been one of the countries' strengths, both Governments raised concerns about the implementation of the future international corporate tax framework. However, they indicated that other features of their economies and additional measures will maintain their attractiveness for companies. Switzerland and Liechtenstein apply similar excise taxes on products causing a risk to human health or to the environment.

16. The mutual recognition agreement (MRA) between Switzerland and the European Union-EEA is based on harmonized technical regulations in 20 sectors. Switzerland regularly supports specific trade concerns (STCs) in the TBT Committee to raise concerns regarding planned or adopted measures of trading partners. Neither Switzerland nor Liechtenstein was subject to an STC during the review period. Liechtenstein follows Swiss and the relevant EU technical regulations, and it does not have its own regulatory mechanism for technical regulations.

17. In June 2017, Switzerland notified to the WTO the framework of legislative acts that entered into force along with its new food legislation, intended to harmonize Swiss law with EU law. Switzerland also applied a new regulation on plant health, which is aligned with the updated EU regulation. Under the Customs Union Treaty, Liechtenstein applies Switzerland's sanitary and phytosanitary measures. No STCs were raised during the review period regarding Switzerland's or Liechtenstein's sanitary and phytosanitary measures.

18. Switzerland amended its Cartel Law by introducing the concept of undertakings with relative market power and a new item on restrictions on procurement and amended the Law Against Unfair Competition by introducing a prohibition on geo-blocking by private parties. As previously, Switzerland's Competition Commission prioritized the fight against hard-core horizontal and vertical cartels as well as market foreclosures. The Government continued to consider the modernization of the Swiss system for merger control. Liechtenstein does not have a national competition law or competition authority, and it is subject to EEA competition rules that are applied by the EFTA Surveillance Authority. During the review period, no competition cases concerning Liechtenstein were referred to the EFTA Surveillance Authority.

19. Switzerland's regime of price surveillance and prevention of abusive pricing by public and private monopolies or enterprises with market power remained unchanged. Under the Law on Price Surveillance, the Price Supervisor is responsible for observing price developments and preventing abusive price increases or abusive price maintenance in any market where the price level is not the consequence of effective competition. At the federal level, Switzerland maintains administrative prices for medicines, electricity, gas, water, basic telecommunications services, airport taxes, and notary services. Liechtenstein maintains price controls on public transport, telecommunications, postal and medical services, and drugs and medical equipment.

20. Alcosuisse's monopoly on the importation of ethanol ended in 2019 with the liberalization of the ethanol market. Switzerland notified the WTO Working Party on State Trading Enterprises in December 2020 that imports of ethanol and spirits are allowed without restrictions and without the need for any permit. The Swiss cantons hold a monopoly on the import and sale of various types of salt. Plans have been announced for the privatization of PostFinance Ltd., a wholly owned subsidiary of Swiss Post, which is one of the five state-owned enterprises in Switzerland that are wholly or majority-owned by the Confederation. There were no major changes regarding state ownership and privatization in Liechtenstein.

21. Amendments to the Swiss Federal Law on Public Procurement and the implementing Ordinance that entered into force in January 2021 aimed to implement the revised Government Procurement Agreement and to achieve more harmonization of federal and cantonal laws on public procurement. The main changes concern the increased emphasis on quality and sustainability aspects of public procurement, the definition of technical terms and scope of application, the regulation of

additional/subsequent procurement, the prevention of corruption, and the introduction of more flexible instruments, such as dialogue, framework agreements, electronic procurement, electronic auctions, and shorter timelines. An important development at the sub-federal level was the adoption and entry into force of a revised Intercantonal Agreement on Government Procurement. Liechtenstein amended its Law on Sectoral Public Procurement and its Law on Public Procurement to implement four EU directives.

22. Switzerland is one of the world's most innovative economies and a net exporter of intellectual property. During the review period, Switzerland took further steps to implement its "Swissness" legislation. It reinforced the protection of the "Swiss Made" designation through amendments to the Federal Law on the Protection of Trademarks and to the Federal Law on the Protection of Coats of Arms and Other Public Signs and by adopting ordinances that extend the scope of the Swissness regulation to additional products, including watches and food products. The Federal Law on Copyright and Related Rights was revised to reflect technological developments and to address online piracy more effectively. In addition to FTAs with comprehensive provisions on intellectual property and an agreement on geographical indications concluded with Georgia, Switzerland became a party to the Geneva Act of the Lisbon Agreement on Appellations of Origin and Geographical Indications (December 2021), the Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled (May 2020), and the Beijing Treaty on Audiovisual Performances (May 2020). As a result of the customs union between Switzerland and Liechtenstein, Liechtenstein's intellectual property system is deeply integrated and intertwined with the Swiss intellectual property system. Liechtenstein amended its copyright law to implement two EU directives.

23. Switzerland is a net importer of agricultural and food products. Despite the small size of its agriculture sector, both in terms of its contribution to GDP (0.7% in 2020) and total employment (2.7%), Switzerland places great importance on agriculture due to its multifunctionality in terms of, inter alia, food security, environmental protection, and the maintenance of its cultural landscapes. In 2017, a new article was adopted in the Federal Constitution calling for a guarantee of sufficient food supplies for the Swiss population, in the long term. A complex and comprehensive set of trade instruments, including domestic support and border measures, continues to be implemented, with a view to ensuring the viability of Swiss agriculture. In 2018, the authorities decided to abolish export subsidies for agricultural products, and the related contributions were allocated to eligible producers as a market support measure for cereals and marketed milk. In Liechtenstein, agriculture is marginal, and Switzerland acts on its behalf on Customs Union matters, such as with respect to imports and exports of agricultural products.

24. Switzerland's Energy 2050 Strategy results from a decision taken in the early 2010s to progressively phase out nuclear energy and to promote energy efficiency and the production of renewable energy. To implement the strategy, a completely revised Federal Energy Law entered into force in January 2018 that sets out targets for energy production and consumption, defines energy efficiency standards, and provides incentives for investment in renewable energy production. As part of an Electricity Networks Strategy, a new Federal Law on the Conversion and Expansion of the Electricity Grid was adopted; most of its provisions entered into force in June 2019, and aim to facilitate the development of electricity networks. In 2020, Switzerland updated its Nationally Determined Contribution under the Paris Agreement to commit to reduce greenhouse gas emissions by at least 50% by 2030, compared to 1990 levels, and to achieve climate neutrality by 2050. Following the rejection by the Swiss electorate in June 2021 of a comprehensive revision of the Swiss CO2 Law, the Federal Assembly in December 2021 adopted a partial amendment to temporarily prolong some limited and unchallenged aspects of the CO2 Law during the period 2022-24. A new proposal for a comprehensive revision of the CO2 Law to continue to reduce greenhouse gas submissions beyond this period is currently the subject of consultations. Although Switzerland is closely integrated in the European electricity network, the conditions for electricity trade with the European Union are suboptimal because of the absence of a formal agreement with the European Union.

25. Liechtenstein adopted measures to increase energy efficiency, increase use of renewable energy, and reduce greenhouse gas emissions as part of its Energy Strategy 2020 originally adopted in 2012. In 2020, Liechtenstein adopted a new Energy Strategy 2030 and Energy Vision 2050, the purpose of which is to further increase the use of energy from renewable sources. Liechtenstein's CO2 Law derives directly from the Swiss CO2 Law but differs with respect to the allocation of the revenues from the CO2 tax. In its Nationally Determined Contribution under the Paris Agreement,

Liechtenstein has committed to achieve a reduction of 40% of its greenhouse gas emissions by 2030 compared to 1990 levels.

26. Switzerland and Liechtenstein have strong manufacturing sectors. The contribution to the Swiss economy (in terms of gross value added) of the manufacturing sector increased in recent years. The increase was particularly significant in the largest subsector, chemical and pharmaceutical products. Other prominent subsectors are computers, electronics, watches and clocks; machinery and equipment; and fabricated metals. Within Swiss manufacturing, there is a long term trend towards a growing share of high-end products. The Swiss Federal Council recently reiterated its opposition to the adoption of an industrial policy to support particular industry branches. Liechtenstein's manufacturing sector accounts for a share in GDP and employment far higher than in other developed countries. The sector is very diversified with the most important subsectors being mechanical engineering; vehicle construction; food production; and basic metals and fabricated metals. The Government recently identified research and innovation as a priority in its 2021-25 strategy.

27. Switzerland has a modern telecommunications sector using the latest technologies, including 5G. Prices of telecommunications services remain high by international standards although the gap appears to be narrowing progressively. There were no significant changes in the Swiss telecommunications services market during the review period in terms of the main actors, market shares, foreign ownership, and state ownership. The Swiss telecommunications regulatory framework was updated to adapt it to technological evolutions and to alleviate administrative burdens on operators to facilitate market entry. A comprehensive revision of the Telecommunications Law in 2019 that entered into force in January 2021 introduces many changes, including, for example, the adoption of the principle of Internet neutrality, the abolition of the general notification requirement for all providers of telecommunications services, new and strengthened transparency provisions regarding roaming services, and new methods to measure and publicize the quality of fixed and mobile Internet access.

28. The telecommunications services sector in Liechtenstein is based on a vertical separation regime agreed between the electricity supplier, which owns, operates, and maintains a major part of the fixed communications network, and the major provider of telecommunications services. The main changes made during the review period to the regulatory framework for telecommunications services resulted from the application of EU regulations and directives on telecommunications. These concerned, among other things, roaming services, the introduction of an obligation for the incumbent to offer VoIP wholesale services on non-discriminatory and transparent terms, national voice call termination prices, number portability, and universal service provisions.

29. Switzerland's financial services sector is mature and sophisticated, but its share in GDP has declined since the 2008 financial crisis due to factors such as changes in the international taxation framework and the global wealth management business and low interest rates. In view of this more challenging competitive environment, the Federal Council launched a new strategy for the financial services sector in 2020 that rests on three main pillars: (i) the creation of more favourable conditions for innovation; (ii) the promotion of international interconnectedness and open markets; and (iii) more emphasis on sustainability. The review period witnessed many changes in the general regulatory framework for financial services, with the adoption of the Financial Market Infrastructure Law, which entered into force in 2016, the Financial Services Law and the Financial Institutions Law, which both entered into force in 2020, and changes to legislation in the areas of money laundering and the financing of terrorism. In addition, there were changes in regulations that pertain more specifically to each of the subsectors of the financial services industry. For example, in banking, steps were taken to align Swiss legislation with the Basel III international banking standards.

30. Liechtenstein's financial services sector to a large extent faces the same challenges as the Swiss financial services sector, but its situation differs in two important respects. First, Liechtenstein's EEA membership means that the financial services sector has access to a very large market via passporting. Second, the absence of investment banking from Liechtenstein's financial services sector has made it more resistant to the low interest rate environment. Liechtenstein reinforced its rules on money laundering and terrorist financing and adapted its domestic legislation on banking, asset management companies, and collective investment schemes to implement relevant EU directives. In 2019, Liechtenstein became the first country to adopt comprehensive legislation on trustworthy technology (TT) service providers. The Token and TT Service Provider Law,

which entered into force in January 2020, is autonomous legislation that does not derive from an EEA transposition of the EU acquis.

31. During the period under review, Switzerland continued to improve its road infrastructure to alleviate transit problems. The domestic legal framework for road transport services remained largely unchanged. With respect to railway services, Switzerland continued to align its regime with that of the European Union by implementing key elements of the EU third railway package in 2020 and 2021. These include, inter alia, the creation of an independent body responsible for the allocation of train paths, and the strengthening of passenger rights regarding delays, cancellations, liabilities, and the transport of bicycles. Inland waterways transport, transport on the Rhine, and maritime transport stricto sensu constitute a somewhat important, though often neglected, activity. Registration of seagoing commercial vessels is subject to very strict requirements. A major development was the termination in 2017 of a 60-year-old policy whereby Switzerland was providing federal mortgage guarantees for the construction of Swiss-flagged ships. The air transport industry was severely affected by the economic consequences of the COVID 19 pandemic and was subject to several individual rescue plans for airports, airlines, and auxiliary providers both at the cantonal and federal levels.