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SWITZERLAND GLOBAL ENTERPRISE

Free Trade Agreement Report 2015

The Potential of Free Trade Agreements with ASEAN Countries and BRAZIL for Swiss Exporters

OFFICIAL PROGRAMS

SIPPO Swiss Import Promotion Programme

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Preface

Dear Readers

Helping Swiss and Liechtenstein SMEs to take advantage of free trade agreements (FTAs) is one of our main objectives as the center of excellence for internationalization in Switzerland. FTAs facilitate more trade for our export-oriented economy, reduce barriers and are associated with tangible advantages in international trade competition. This report summarizes our FTA-related activities in 2015.

First and foremost, we provided a large number of companies with information and advice on how to specifically apply FTA to their exports. S-GE has therefore extended its FTA-related services as part of its «Service Public». With around 230 enquiries answered by our ExportHelp specialists, S-GE's services for SMEs continue to enjoy increasing popularity. More than 100 SMEs attended the two FTA information events in November 2015 in Basel and Lausanne. Data on customs tariffs or import formalities of more than 100 countries can be found in S-GE's free online tools "Trade4Free" and the "Customs Database". Approximately 2,000 users have already registered with the latter service.

Estimating the savings potential for Swiss exporters of new FTA forms constitutes another pillar of our activities. To this end, S-GE has again been able to call on the expertise of Prof. Dr. Patrick Ziltener of the University of Zurich. He is one of the leading experts on free trade agreements in Swiss academia and has been assisting S-GE with studies and analyses for years. His studies explain which sectors and product categories could potentially benefit the most from a new agreement – valuable information for SMEs considering whether to invest in administrative efforts to apply an FTA. In 2015 for instance, Prof. Dr. Ziltener analyzed the advantages of a possible agreement with Vietnam, Indonesia and Malaysia while negotiations are still ongoing.

There is more to come: with the numerous free trade agreements which are currently at various stages of negotiation with different states, the Swiss economy will certainly benefit from further optimized conditions in international commerce in future years. It our mission to ensure that the export sector increasingly becomes aware of these opportunities and actively uses them to succeed in international trade.

That is why we are appealing to all exporting companies – the savings will improve your export margins and will make your international business more profitable, something which is very much needed in times of a strong currency. This report will show you the various means we offer to support you to do that – come and speak to us!

Further information can be found at www.s-ge.com/exporthelp.

We hope that you enjoy reading this report. Please do not hesitate to contact us, if you have any suggestions or queries. Further information can be found at www.s-ge.com/exporthelp.

Daniel Küng
CEO

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THE POTENTIAL OF FREE TRADE AGREEMENTS WITH ASEAN COUNTRIES AND BRAZIL FOR SWISS EXPORTERS

Ex Ante Evaluations of Savings Potential

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Contents

1. BACKGROUND 5

1.1. **Switzerland's FTA policy** 5

1.2. **Focus on Southeast Asia** 6

1.3. **Focus on South America** 6

1.4. **Rationale and Methodology of Ex Ante FTA Evaluations** 7

2. RESULTS 9

2.1. **Savings Potential of an FTA with Indonesia, Malaysia AND Vietnam** 9

2.1.1. Agriculture 9

2.1.2. Graph 3.1: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Unprocessed Agricultural Products, HS01-15 9

2.1.3. Graph 3.2: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Processed Agricultural Products, HS16-24 10

2.1.4. Industrial Goods 10

2.1.5. Graph 3.3: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Chemical, Pharmaceutical Products 11

2.1.6. Graph 3.4: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: MEM Products 11

2.1.7. Graph 3.5: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Instruments 12

2.1.8. Graph 3.6: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Watches 12

2.1.9. Total 13

2.1.10. Graph 3.7: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Total 13

2.1.11. Realistic Scenarios 13

2.1.12. Graph 3.8: Expected FTA Savings, Scenario 1 14

2.1.13. Graph 3.9: Expected FTA Savings, Scenario 2 15

2.2. **Savings Potential of an FTA with brazil** 16

2.2.1. Maximum Savings Potential 16

2.2.2. Graph 3.10: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Total 17

2.2.3. Graph 3.11: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: 17

Chemical / Pharmaceutical Industry 17

2.2.4. Graph 3.12: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Mechanical and Electrical Engineering Industry (MEM) 18

2.2.5. A Realistic Scenario 18

2.2.6. Graph 3.13: Expected FTA Savings, Scenario 19

3. CONCLUSION 20

4. REFERENCES 21

1. Background

In this chapter, a short introduction to Switzerland's FTA policy is provided (►1.1), followed by an overview of the current state of trade policy relations with Southeast Asia (more specifically, with Indonesia, Malaysia and Vietnam, ►1.2) and South America (Brazil ►1.3). In section ►1.4 the reader is familiarized with the rationale behind *ex ante* FTA Evaluations, how the maximum FTA savings potential is being calculated and how close-to-reality scenarios are built on the basis of assumptions of FTA utilization rates and projections of export growth rates.

1.1. SWITZERLAND'S FTA POLICY

In addition to the EFTA Convention and the FTA with the European Union (EU) of 1972, Switzerland currently has a network of 28 FTAs with 38 partners outside the EU. Switzerland usually concludes its FTAs together with its EFTA partners Norway, Iceland and Liechtenstein. The ongoing negotiations with the ASEAN countries Indonesia, Malaysia and Vietnam are taking place within this framework. Nevertheless, Switzerland is also able to enter into FTAs outside the EFTA framework, as in the case of Japan and the People's Republic of China.

By entering into FTAs, Switzerland aims to provide its businesses with a level of access to international markets, which is at least equivalent to the market access conditions enjoyed by its most important foreign competitors (SECO 2014). According to the foreign economic strategy of the Federal Council, the selection of prospective free trade partners is based on four main criteria:

- the current and potential economic importance of a partner;
- the extent of existing or potential discrimination that may result from the conclusion of FTAs between the prospective partner and important competitors of Switzerland;
- the willingness of the partner to enter into negotiations, and the corresponding prospects for success;
- other considerations such as the expected contribution of an FTA towards the economic stabilization and development of a partner or the compatibility with Swiss foreign policy objectives in general.

1.2. FOCUS ON SOUTHEAST ASIA[1]

Southeast Asia, the group of ten countries organized as the Association of Southeast Asian Nations (ASEAN), has been one of the most dynamic economic regions in the world for decades. The member countries have a combined population of approximately 625 million people, 8.8% of the world's population. In 2015, the organization's combined nominal GDP had grown to more than US$2.6 trillion. If ASEAN were a single entity, it would rank as the seventh largest economy in the world, behind the US, China, Japan, Germany, France and the United Kingdom. Switzerland has recently declared its interest in strengthening economic cooperation with ASEAN again[2]. Although ASEAN has a common trade policy and concludes trade agreements as a bloc, individual member states are able to opt for bilateral treaties.
EFTA's FTA with the city-state *Singapore* has been in force since 2003.

A Joint Study Group with *Indonesia* was established by the EFTA ministers in November 2005 to examine the feasibility of a comprehensive trade agreement. After meetings in Geneva and Jakarta, the Joint Study Group completed its work in 2006 and came to the conclusion that Indonesia and the EFTA States would benefit from a comprehensive trade agreement, which - in order to maximize the mutual benefits - should be built on the principles of comprehensiveness, liberalization, trade facilitation and cooperation, and consistency with the WTO Agreements. Consequently, the ministers responsible decided on the occasion of the World Economic Forum in Davos on January 27, 2007 to set up a working group on trade and investment to prepare the ground for FTA negotiations. In July 2010, the decision was taken to start FTA negotiations[3]. During the first round conducted in Jakarta from January 31 to February 2, 2011, the parties established the framework and modalities for the negotiations. Groups of experts conducted initial discussions, in particular on trade in goods, customs and origin matters, trade in services, and investment. A range of further topics, among them intellectual property rights and cooperation, were addressed at the level of heads of delegations. Since then, delegations have met for nine rounds of negotiations, the most recent one being in May 2014.

Based on a Joint Declaration on Cooperation from July 2010[4], FTA negotiations between the EFTA and *Malaysia* started in November 2012 in Kuala Lumpur[5]. Since then, five rounds of negotiations have taken place, the last one taking place in Oslo from October 6 to 9, 2015. A sixth round is planned for spring 2016 in Malaysia.

After completing a Joint Study Group Report[6], EFTA-*Vietnam* FTA negotiations started in May 2012. Since then, 13 rounds of negotiations have taken place, the most recent one being in Hanoi from October 20 to 23, 2015. According to the EFTA Secretariat, the FTA negotiations with Vietnam “have reached a decisive phase”. In the third chapter, the economic potential of these three possible FTAs for Swiss exporters is evaluated (►2.1).

Since a second round of their free trade talks in January 2006, EFTA's free trade negotiations with *Thailand* have been on hold.

1.3. FOCUS ON SOUTH AMERICA

A Joint Declaration on Cooperation between the MERCOSUR States[7] Argentina, Brazil, Paraguay and Uruguay, and the EFTA States was signed in Geneva, Switzerland, on December 12, 2000 and in Florianópolis, Brazil, on December 15, 2000. Both sides agreed “to create the most favorable conditions for expanding trade in goods and services” (Art. II.2). Switzerland pushed for FTA talks with MERCOSUR during visits to South America by Federal Councilor Johann Schneider-Ammann, accompanied by a large business delegation, in October 2011 and April 2014[8].

1 Main source: EFTA Secretariat, Geneva and Brussels (www.efta.int), 2016.
2 ASEAN Secretariat News, April 20, 2015: Switzerland to Explore Greater Cooperation with ASEAN.
3 Swissinfo.ch July 7, 2010: *Leuthard launches Efta deal in Indonesia*.
4 Art. Vd on the Joint Committee: “discussing the opportunities and benefits of a possible free trade agreement between Malaysia and the EFTA States and examining the feasibility of opening free trade negotiations” (www.seco.admin.ch/themen/00513/02655/02731/04225/index.html?lang=en).
5 Cf. AGEFI 2012, Dec. 12: *Dernière ligne droite vers le libre-échange Suisse-Malaisie*.
6 www.efta.int/media/documents/legal-texts/free-trade-relations/vietnam/EFTA-Vietnam%20Joint%20Study%20Group%20Report.pdf.
7 Venezuela acceded to MERCOSUR in 2012.
8 swissinfo.ch Oct 10, 2011: *Swiss seek improved trade with Brazil and Chile*.

MERCOSUR's purpose, as stated in the 1991 Treaty of Asunción, is to allow for free trade between member states, with the ultimate goal of full South American economic integration. As such, it would be the world's fourth-largest trading bloc after the European Union, the North American Free Trade Agreement (NAFTA), and ASEAN. MERCOSUR does sign FTAs with third countries, e.g. with Israel (2007), Egypt (2010), Palestine (2011) and, recently, Lebanon (2014)[9]. In recognition of the huge potential to enhance bilateral trade and investment flows, EFTA and MERCOSUR representatives agreed to initiate an exploratory dialogue with a view to possible future trade negotiations in March 2015[10].
In December 2006, the Swiss government approved a strategic plan to make the BRIC countries (Brazil, Russia, India, China) a priority and improve market access and promote investments by Swiss firms. Brazil, Switzerland's main trading partner in Latin America ahead of Mexico and Argentina, is now the world's seventh largest economy. As such, the economic potential of an FTA is of special interest for Swiss exporters (►2.2).

1.4. RATIONALE AND METHODOLOGY OF EX ANTE FTA EVALUATIONS[11]

S-GE has conducted several ex ante studies to evaluate the potential of FTAs, considering these as useful instruments to raise awareness among economic actors with regard to the things to come. If well publicized, ex ante evaluations of the potential of FTAs may prompt companies to undertake the necessary preparations and to develop their schedules. Consequently, ex ante evaluations may lead to higher utilization rates from the moment of enforcement. In particular, “big figures” may convince companies to consider utilizing FTAs where they have not done so yet. At the same time, they may help to avoid unrealistic or disproportionate expectations by policymakers, economic actors or the general public.

What is the potential of an FTA? Here we focus on the *savings potential* from trade in goods, since the elimination of tariffs is one of the main goals of FTAs, but obviously not the only one. We do not take into account benefits for companies resulting from other provisions in the FTAs concluded, such as those pertaining to trade in services, to sanitary/phytosanitary and technical barriers to trade, to investment (improvements of the legal framework conditions for investors), to intellectual property rights, to government procurement, as well as to cooperation between authorities, to the promotion of exports, or to measures against anti-competitive business practices. Also, other important effects such as the increase of the level of legal security, or the improvement of the general conditions for cross-border economic activity and the locational qualities through an extended FTA network are not considered in this study.

First, the *maximum savings potential* has to be calculated. The savings potential is defined as the duties currently being paid by any WTO exporter to that country, depending on the composition of its exports, less the duties that are not abolished through the FTA. We illustrate this with an abstract case - country 1 (C1) is trading with country 2 (C2):

2013 exports of C1 to C2 x C2 WTO MFN applied rates = total duties in 2013
- note that this may include a number of tariff lines with MFN=0

2014 Jan 1st, a bilateral FTA C1-C2 enters into force
2014 exports of C1 to C2 x C2 FTA rates (concessions in year 1) = total duties in 2014
- this includes a number of tariff lines >0 (not covered by FTA or only reduced tariff in the first year)
- C2 removes duties in 10 equal annual stages

2024 exports of C1 to C2 x C2 FTA rates (max. concessions in year 10) = total duties in 2024
C1 maximum savings potential 2014: total duties in 2013 - total duties in 2014
C1 maximum savings potential 2024: total duties in 2013 - total duties in 2024

Thus, we can calculate the maximum FTA savings potential for any year starting with the year of enforcement on the basis of information on country 1's exports in 2014, country 2's MFN applied rates (incl. tariff lines that are MFN=0), and country 2's FTA concessions schedule[12].

9 Daily Star, Lebanon, Dec. 18, 2014: *Lebanon signs Latin American free trade pact*.
10 www.efta.int/free-trade/news/efta-and-mercosur-agree-to-take-next-step-towards-closer-trade-relations-3796.
11 For a more thorough discussion of our approach and the one taken by others see Ziltener/Blind (2014), Ziltener (2015) and Plummer et al. (2010).

Second, 'maximum savings' means that the estimation is made on the assumption that all these products are of Swiss origin (according to the rules of origin) and the utilization rate is 100%. This means: the FTA *can be* and *is effectively applied* to all these products. Obviously, these are unrealistic assumptions. In reality, companies face quite a range of obstacles to utilizing FTAs (Schaub 2012). To build ex ante scenarios close to the expected reality, we have to introduce an FTA utilization rate, ideally one derived from ex post analyses of comparable cases. The *FTA utilization rate* measures the degree to which the FTA is successfully used to achieve duty-free exporting, i.e. a utilization rate of 60% means that 60% of all exports (according to value) in that year effectively made use of the FTA. For Swiss exports to Germany we found a utilization rate of 50%, another 40% being exported on a duty-free basis already, with the result that 90% of Swiss exports to Germany are effectively duty-free (Ziltener/Blind 2014). The utilization rate for Swiss exports to France is 37% (another 61% being duty-free already), to Mexico 51%, to South Korea 60% (ibid.). Therefore, FTA utilization rates as assumed in the scenarios for FTAs with three ASEAN countries (► 2.1.4) and Brazil (►2.2.2) are realistic.

Third, to get even closer to the expected reality, we can introduce realistic projections of *export growth*. In the scenarios of this study for three ASEAN countries (► 2.1.4) we assume an annual export growth of 5% and 9%. The fact is that the actual Swiss export growth rate over 7 years for Indonesia was 9.2%, for Malaysia 6.3%, and for Vietnam 24.5%. In scenario ►2.2.2 for Brazil we assume an annual export growth of 5%. In reality, Swiss exports to Brazil have decreased in 2013 and 2014 by -5.3 and -6.2% respectively[13].

12 Future unilateral tariff reductions on an MFN basis are not taken into account, as well as eventual progress of the WTO multilateral framework. Also, the volume and composition of bilateral trade might change over time

13 Source: SECO 2015.

2. Results

2.1. SAVINGS POTENTIAL OF AN FTA WITH INDONESIA, MALAYSIA AND VIETNAM

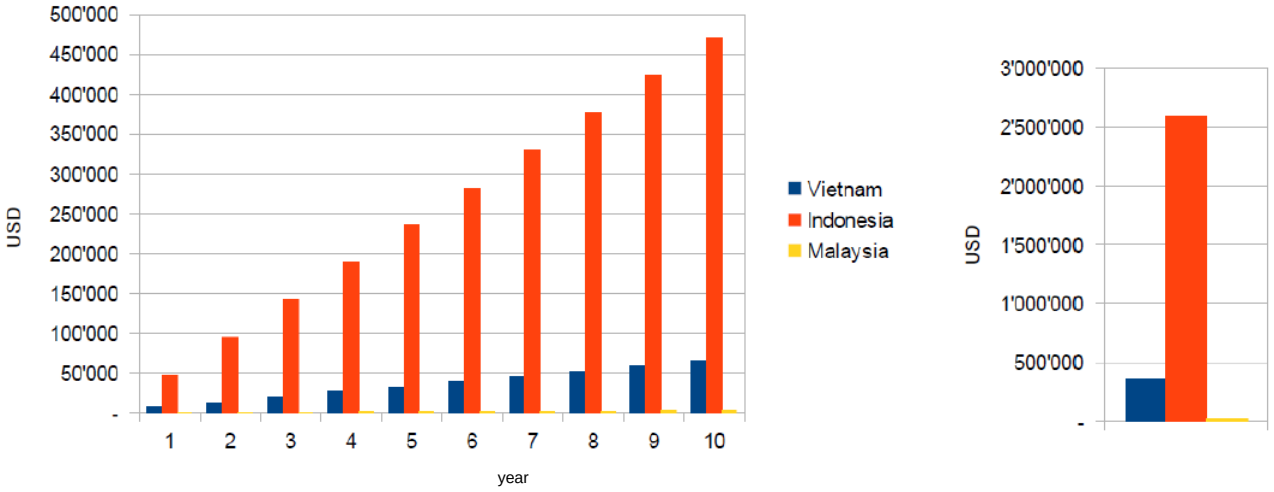
The negotiations on an FTA with Indonesia, Malaysia and Vietnam have not been concluded yet (►2.2). An estimation of the maximum savings potential of these FTAs cannot be made on the basis of a specific agreement, but we can assume that it will cover "substantially all trade" as required by GATT Article XXIV and that tariff dismantlement will take place over 10 years in 10 equal steps. If one of the FTAs should deviate from this very common template and provide for tariff abolishment on day 1 of enforcement, we can refer to the maximum savings potential values of year 10 as realizable in year 1.

2.1.1. Agriculture

For agricultural goods, the FTA savings potential is significant, depending on the volume of Swiss exports and the tariffs applied by the partner state. All three states have considerable tariff rates on agricultural imports, except Malaysia for unprocessed goods (►Graph 3.1). Since still very few unprocessed goods are exported from Switzerland to Vietnam, only the FTA with Indonesia will provide a highly significant savings potential for Swiss exporters. Accumulated over ten years, it amounts to more than 2.5 million USD (►Graph 3.1).

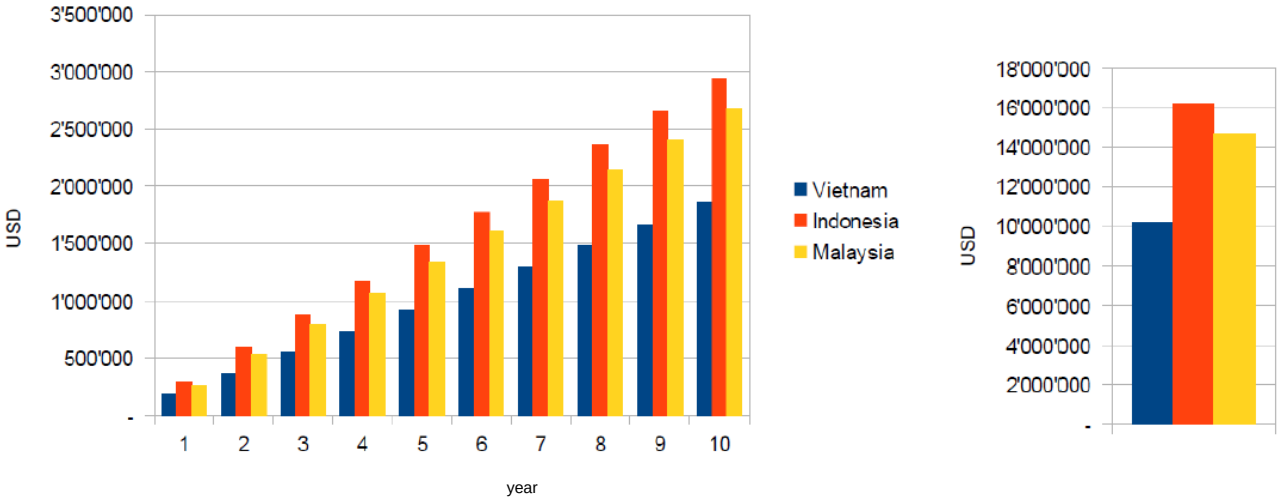
Significantly higher is the savings potential for exports of processed agricultural goods (►Graph 3.2). After phasing out of tariffs, it amounts to significantly more than 2.5 million USD annually (based on the export volumes of 2014) in the cases of Indonesia and Malaysia, less than 2 million USD in the case of Vietnam.

2.1.2. Graph 3.1: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Unprocessed Agricultural Products, HS01-15



Notes: Baseline: Swiss exports 2014, av. MFN applied tariff Vietnam 5.4%, Indonesia 4.8%, Malaysia 0.1%. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps, annual export growth rate 0%. Author's calculations. Data Source: UNCOMTRADE 2015.

2.1.3. Graph 3.2: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Processed Agricultural Products, HS16-24



Notes: Baseline: Swiss exports 2014, av. MFN applied tariff Vietnam 12.2%, Indonesia 11.4%, Malaysia 6.9%. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps, annual export growth rate 0%. Author's calculations. Data Source: UNCOMTRADE 2015.

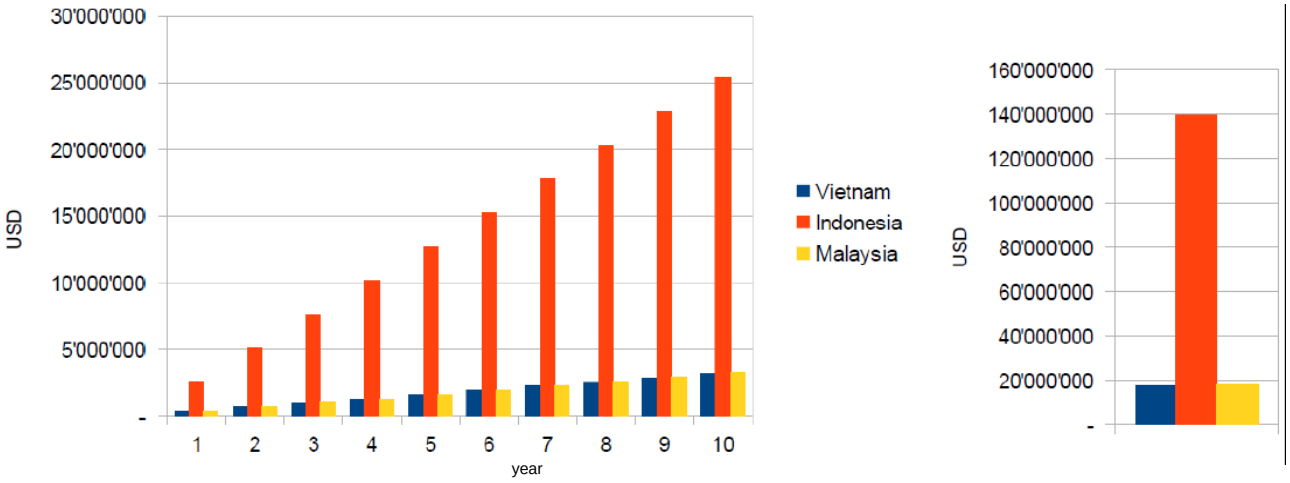
2.1.4. Industrial Goods

Among the three ASEAN countries under observation, only Indonesia imposes high tariffs on chemical/pharmaceutical products. Therefore, substantial savings for Swiss exporters are only possible in this case. After tariff phasing out, they may well reach a value of more than 25 million USD annually (►Graph 3.3).

In the case of the exports by the mechanical and electrical engineering industry (MEM), average tariffs of all three countries are rather modest, from Malaysia's 2.0% to Indonesia's 4.0% (►Graph 3.4). Annual savings amounting to almost 10 million USD (Malaysia) to over 14 million USD (Indonesia) may well be possible.

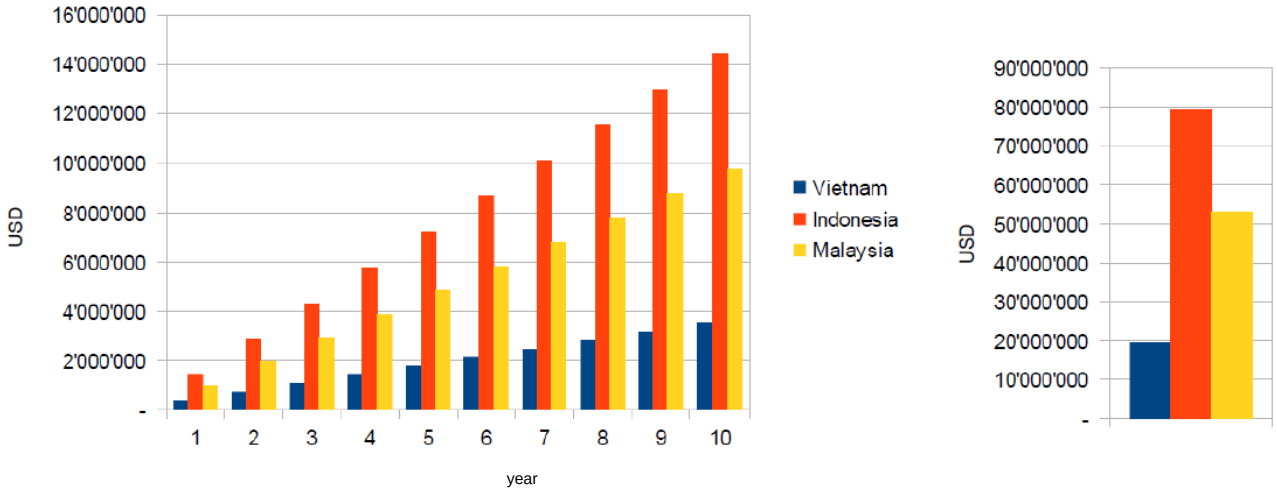
In the case of instruments (Graph 3.5), average tariffs applied by Malaysia and Vietnam are even lower, namely under 1%. Only Indonesia has significant tariffs (5%), which explains why the savings potential of an FTA is only substantial in this case: almost 8 million USD accumulated over ten years. With regard to Swiss watches, only Vietnam has high tariffs AND a high import volume, making it the most important case for FTA savings (►Graph 3.6). Malaysia does not currently impose any tariffs on watches at all.

2.1.5. Graph 3.3: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Chemical, Pharmaceutical Products



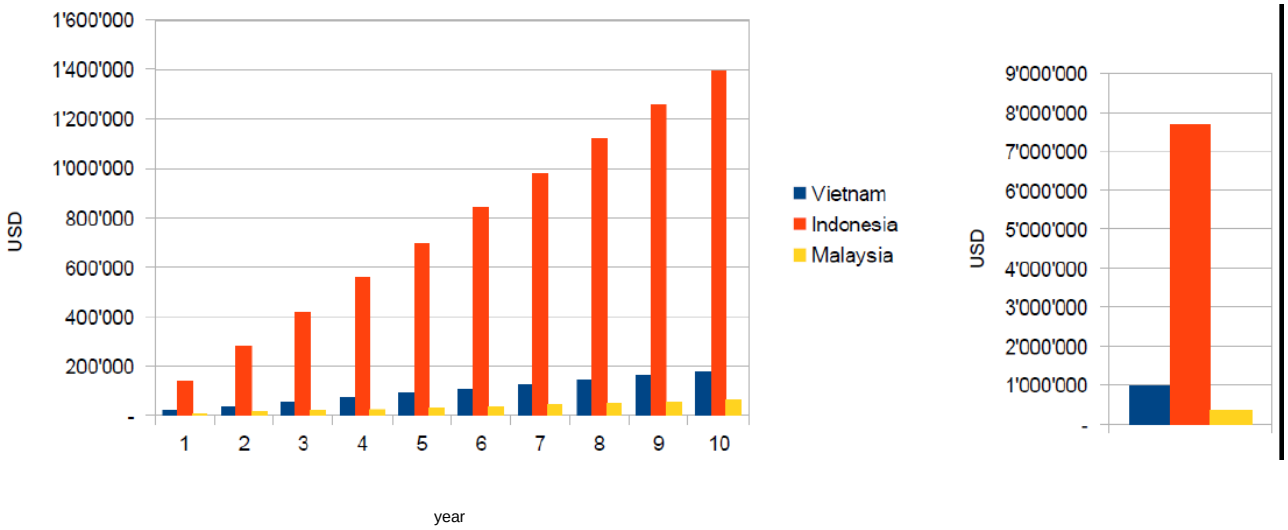
Notes: Baseline: Swiss exports 2014, av. MFN applied tariff Vietnam 2.2%, Indonesia 10.7%, Malaysia 1.8%. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps, annual export growth rate 0%. Author's calculations. Data Source: UNCOMTRADE 2015.

2.1.6. Graph 3.4: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: MEM Products



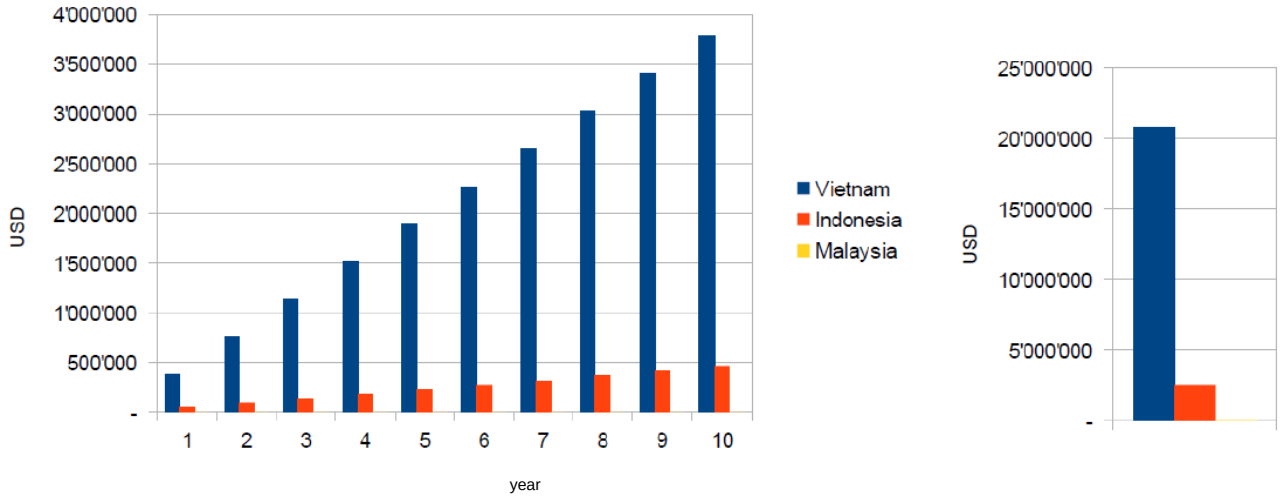
Notes: Baseline: Swiss exports 2014, av. MFN applied tariff Vietnam 2.2%, Indonesia 4.0%, Malaysia 2.0%. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps, annual export growth rate 0%. Author's calculations. Data Source: UNCOMTRADE 2015.

2.1.7. Graph 3.5: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Instruments



Notes: Baseline: Swiss exports 2014, av. MFN applied tariff Vietnam 0.5%, Indonesia 5.0%, Malaysia 0.1%. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps, annual export growth rate 0%. Author's calculations. Data Source: UNCOMTRADE 2015.

2.1.8. Graph 3.6: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Watches

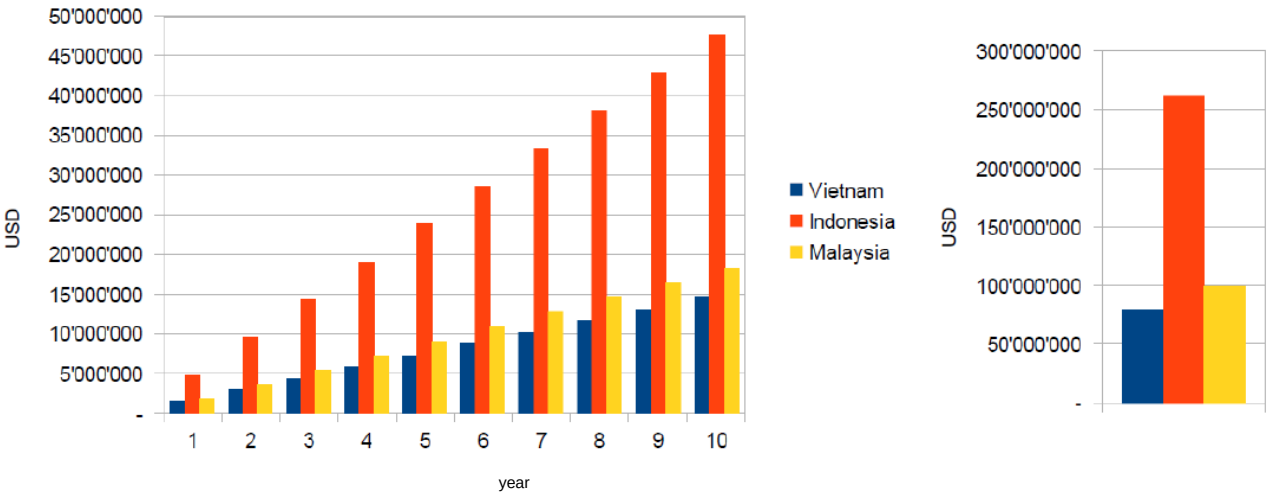


Notes: Baseline: Swiss exports 2014, av. MFN applied tariff Vietnam 15.7%, Indonesia 10.0%, Malaysia 0%. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps, annual export growth rate 0%. Author's calculations. Data Source: UNCOMTRADE 2015.

2.1.9. Total

Graph 3.7 depicts the overall annual maximum savings potential for an FTA with Indonesia, Malaysia (18.1 million USD), and Vietnam (14.5 million USD) respectively. The value for Indonesia is clearly the highest, reaching a maximum after a 10 year phasing-out of more than 47 million USD annually. If an FTA with Indonesia entered into force in 2016 and tariffs were phased out gradually over ten years, and Swiss exporters constantly made full use of the FTA in their exports to Indonesia, then they would have saved more than 250 million USD at the end of 2025. For Malaysia, this value is 100 million USD and for Vietnam almost 80 million USD.

2.1.10. Graph 3.7: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Total



Notes: Baseline: Swiss exports 2014, excl. HS71 billion, 97 art, 99 services. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps, annual export growth rate 0%. Author's calculations. Data Source: UNCOMTRADE 2015.

2.1.11. Realistic Scenarios

On the basis of the research on the effectiveness of Switzerland's FTAs (Ziltener/Blind 2014), we can now estimate how much of this savings potential might be effectively realized. The FTA utilization rate measures the degree to which the FTA is successfully used to achieve duty-free exporting, i.e. a utilization rate of 60% means that 60% of all exports (according to value) in that year were effectively exempted from customs duties (►2.4).

If Swiss companies utilize the FTA successfully for 60% of their exports (value) and exports increase 9% annually (►Graph 3.9) they will make the following savings:

- FTA with Vietnam: 6.1 million USD (year 5), 18.9 million USD (year 10);
- FTA with Malaysia: 7.7 million USD (year 5), 23.6 million USD (year 10);
- FTA with Indonesia: 20.2 million USD (year 5), 62 million USD (year 10).

Every 1% increase in the utilization rate means 1.5 million USD (Vietnam, Malaysia) and 4.5 million USD savings (Indonesia) on duties over 10 years (Scenario 2)

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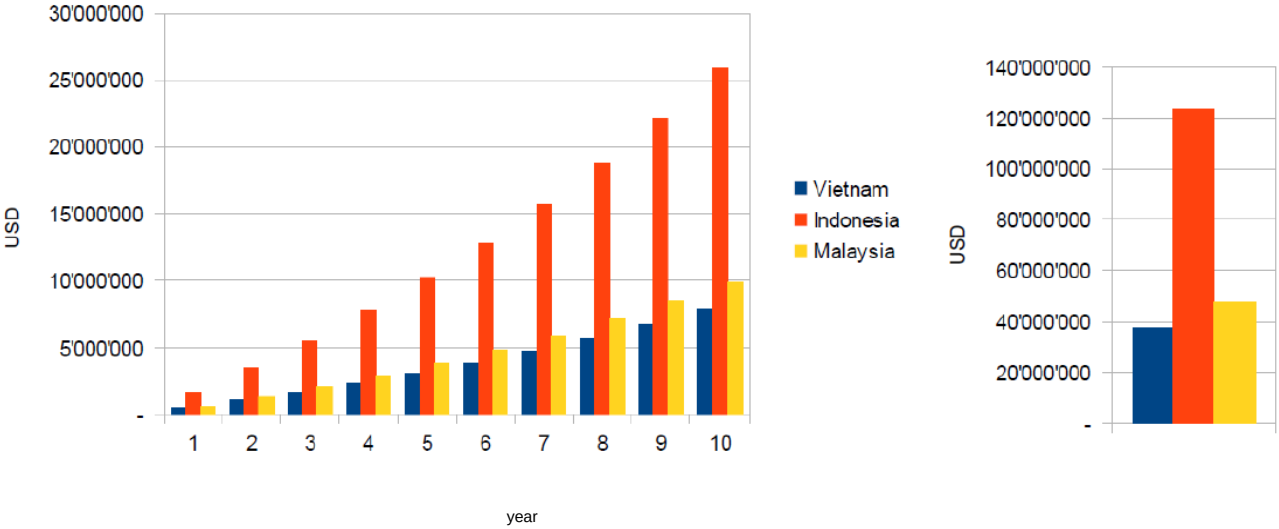
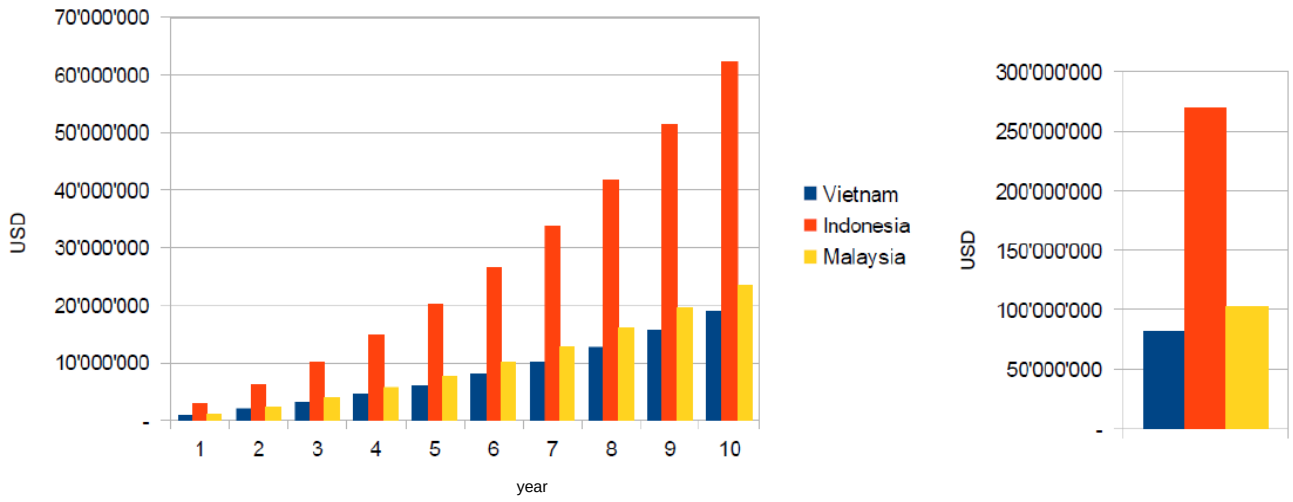
2.1.12. Graph 3.8: Expected FTA Savings, Scenario 1



Notes: Baseline: Swiss exports 2014, excl. HS71 billion, 97 art, 99 services. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps; 35% FTA utilization rate; annual export growth rate 5% (actual export growth rate over 7 years: 9.2% Indonesia, 6.3% Malaysia, 24.5% Vietnam). Author's calculations. Data Source: UNCOMTRADE 2015.

2.1.13. Graph 3.9: Expected FTA Savings, Scenario 2



Notes: Baseline: Swiss exports 2014, excl. HS71 billion, 97 art, 99 services. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps; 60% FTA utilization rate; annual export growth rate 9% (actual export growth rate over 7 years: 9.2% Indonesia, 6.3% Malaysia, 24.5% Vietnam). Author's calculations. Data Source: UNCOMTRADE 2015

.

2.2. SAVINGS POTENTIAL OF AN FTA WITH BRAZIL

2.2.1. Maximum Savings Potential

A hypothetical FTA with Brazil will also cover “substantially all trade” as required by GATT Article XXIV, and it is very likely that tariff dismantlement will take place over 10 years in 10 equal steps. Brazil still imposes comparatively high duties on Swiss products, making these products more expensive in Brazil than in many other countries in the world: 10% on most food products, 13-28% on dairy products, 20% on chocolate and leather products, 7-14% on pharmaceuticals, 18-35% on textiles, 14-20% on machinery and instruments, 18-20% on watches. On the other hand, Brazilian exports to Switzerland are, with a few exceptions in the agricultural sector (coffee and sugar, among others) and some textiles (50% less than MFN tariffs), already exempted from duties (on the basis of the WTO Generalized System of Preferences, GSP).

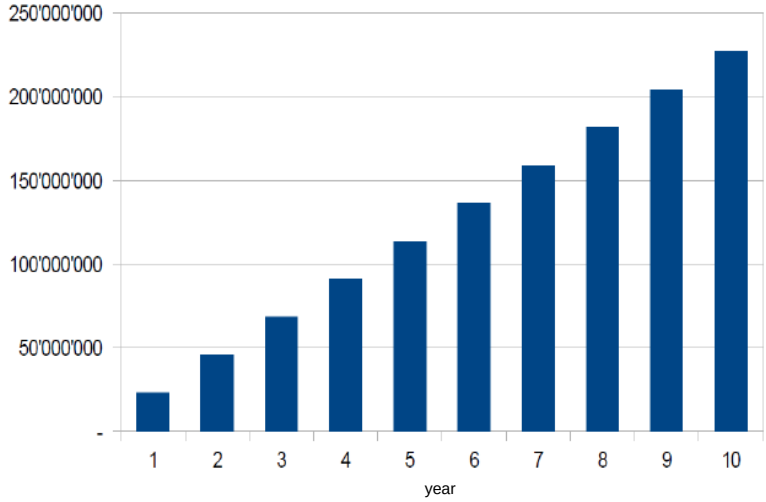
Therefore, free trade between Brazil would mainly exempt Swiss exports from duties. Prices of these goods in Brazil would very likely decrease under free trade conditions. Our calculations show that if a bilateral FTA were to bring an immediate tariff dismantling for Swiss products, importers and consumers in Brazil could save approximately 227 million USD annually; more specifically:

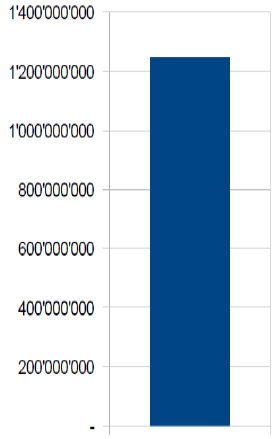
- 10.7 million USD on food products
- 102.6 million USD on chemicals/pharmaceuticals (►Graph 3.11)
- 71.7 million USD on metal wares and machinery (►Graph 3.12)
- 3.9 million USD on vehicles and parts
- 15.1 million USD on instruments, and
- 7.6 million USD on watches.

Taking into account that tariffs may be dismantled in equal steps over a period of 10 years (►Graph 3.10), *maximum potential savings* would be:

- 22.7 million USD in year 1,
- 113.5 million USD in year 5, and the aforementioned
- 227 million USD in year 10, 11, 12 etc.

2.2.2. Graph 3.10: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Total

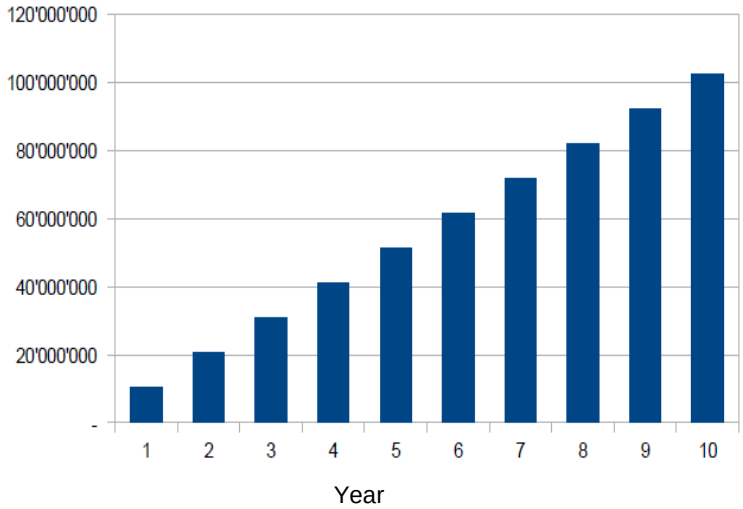


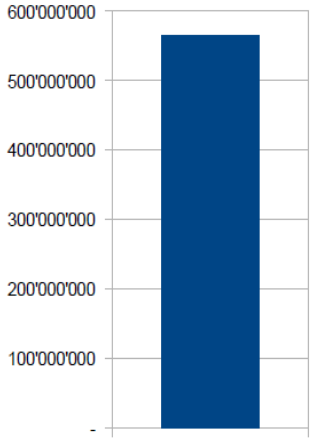


USD. Baseline: Swiss exports 2014, excl. HS71 billion, 97 art, 99 services. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps, annual export growth rate 0%. Author's calculations. Data Source: UNCOMTRADE 2015.

Accumulated over 10 years, the maximum potential savings of an FTA with Brazil amounts to more than 1.2 billion USD.

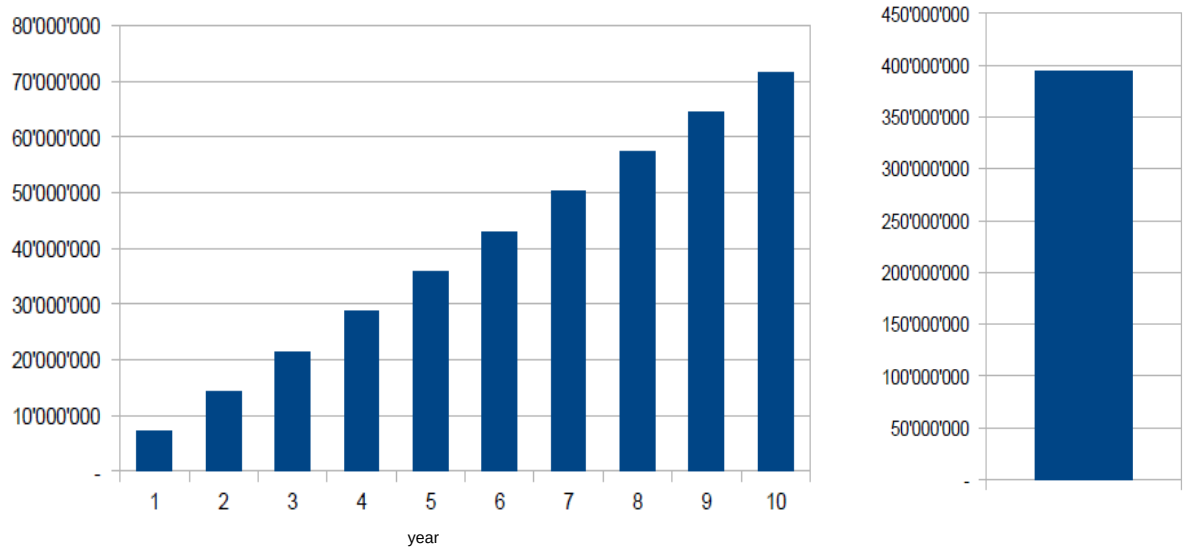
2.2.3. Graph 3.11: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Chemical / Pharmaceutical Industry





USD. Baseline: Swiss exports 2014 HS28-38. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps, annual export growth rate 0%. Author's calculations. Data Source: UNCOMTRADE 2015.

2.2.4. Graph 3.12: FTA Maximum Savings Potential for Swiss Exporters, by year / cumulative: Mechanical and Electrical Engineering Industry (MEM)



USD. Baseline: Swiss exports 2014 HS72-85. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps, annual export growth rate 0%. Author's calculations. Data Source: UNCOMTRADE 2015.

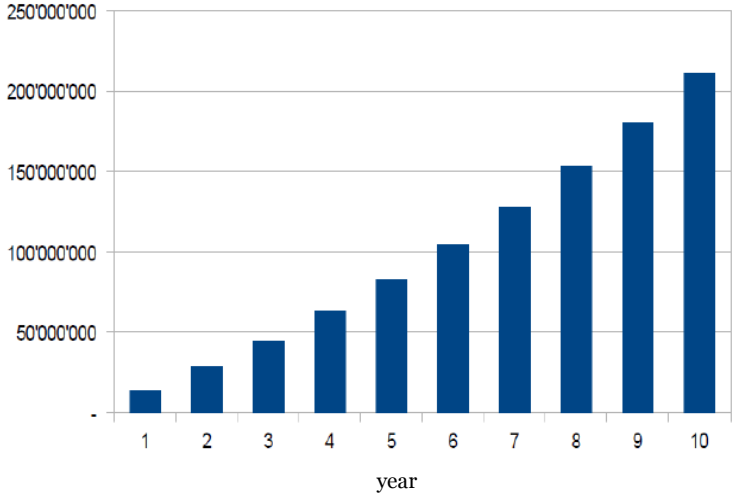
2.2.5. A Realistic Scenario

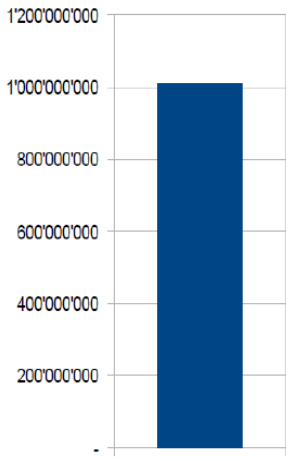
How much of this savings potential might be effectively realized? The following scenario takes into account (1) that tariffs may be dismantled in equal steps over a period of 10 years, (2) assumes that Swiss exports will increase by 5% per year and (3) the FTA utilization rate would be 60%. If so, the savings realized would amount to:

- 13.6 million USD in year 1,
- 82.8 million USD in year 5,
- 211.3 million USD in year 10, 11, 12, etc.

Accumulated over 10 years, this amounts to more than a billion USD. Every percent increase of the FTA utilization rate adds another 17 million USD to this cumulative value.

2.2.6. Graph 3.13: Expected FTA Savings, Scenario





Notes: Baseline: Swiss exports 2014, excl. HS71 billion, 97 art, 99 services. Assumptions: phasing out of tariffs over 10 years following enforcement of FTA in 10 equal steps; 60% FTA utilization rate; annual export growth rate 5%. Author's calculations. Data Source: UNCOMTRADE 2015.

3. Conclusion

The analysis of the savings potential for FTAs with three ASEAN countries (Indonesia, Malaysia and Vietnam) and Brazil has shown that there is much to gain for Swiss exporters from an extension of free trade towards the biggest trading partner within the South American continent.

Depending on the current Swiss export volume and the applied tariff rates by the partner country, the annual maximum savings potential ranges from 14.5 million USD in the case of Vietnam, 18.1 million USD for Malaysia, 47.6 million USD for Indonesia, and 227 million USD for Brazil. Swiss chemical/pharmaceutical companies would benefit most in the case of Brazil and Indonesia, followed by the MEM industry. An FTA with Brazil and Indonesia would also be of great importance for Swiss food exporters.

With Malaysia, the focus is on processed agricultural goods only. For the watch industry, the case of Vietnam is especially of interest, but this is also true of Brazil. In the case of Vietnam, this represents almost a third of the total FTA savings potential. However, it is also important to note that an FTA with Vietnam, with its extraordinarily high economic growth potential, would have significant higher long-term benefits.

It is also worth noting that the potential of an FTA with Vietnam is already comparatively higher than usual (►Table 4.1). In most cases the ratio of maximum FTA savings potential / GDP is 0.05-0.06‰ – in the case of Vietnam it is 0.08‰.

An FTA with Brazil would, compared to the country's GDP, provide opportunities for Swiss exporters to save even more, namely 0.10‰ (►Table 4.1). However, this is a prize which is beyond the reach of Swiss foreign economic policy, at least for the time being.

Table 4.1: Comparison of Market Size and FTA Savings Potential

1) Country	2) Gross domestic product 2014 (millions USD)	3) Max. FTA savings potential (millions USD)	4) Ratio 3/2
GCC	1628099	245.7	0.15‰
Central America (Costa Rica, Panama)	95766	5	0.05‰
PR China	10354832	582.3*	0.06‰
Indonesia	888538	47.6	0.05‰
Malaysia	338104	18.1	0.05‰
Vietnam	186205	14.5	0.08‰
Brazil	2346076	227	0.10‰

*1 CHF ≈ 1.0426 USD. Source: GDP: World Bank 2014; Author's calculations.

4. References

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