

What Connecticut can learn from Switzerland's oscillating economy¹

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Editors note: The following article was written by Jian Li a guest researcher at CERC during the fall of 2003. CERC appreciates his contributions to our work and is happy to present this analysis reviewing the problems facing Switzerland today and observing that there are some interesting similarities between the economies of Switzerland and Connecticut and that Connecticut may be able to learn from Switzerland. This article is based in part on the article "Fading Alpine Rose" in the October 16th issue of The Economist.

Since 1990, Switzerland's economic performance has oscillated. During most of the 1990's, the Swiss economy was Western Europe's weakest, with annual GDP growth averaging 0% between 1991 and 1997. The economic recovery, however, which began during the second half of 1997, has steadily gained momentum. But in 2001 Swiss economic growth stagnated again.

Although there are differences between Switzerland and Connecticut there are some important similarities. Both have a strong tradition in manufacturing, as well as a strong financial sector and overall relatively wealthy populations. An examination of some of the problems facing Switzerland provides some perspectives and insights into some of the issues also facing Connecticut.

1. Introduction

Switzerland lies in Central Europe and borders on France, Germany, Italy and Austria. It has an area of 15,942 sq. mi. and a resident population of 7,318,638², yielding an overall population density of 459 people per sq. mi., which is six times more dense than the U.S.

¹ The basis for this summary is "Fading Alpine rose", The Economist, Oct. 18th-24th 2003

² CIA, The World Factbook, 2003

Switzerland's GDP (US\$) was 231 billion in 2002, and GDP per capita was the sixth highest in the world at (US\$) 31, 653. The country's main industries are heavy engineering, machinery, precision engineering (clocks and watches), jewelry, textiles, chemicals, cigarettes, international finance and insurance services, and tourism.

Switzerland's basic economic profile is illustrated by the percentage of GDP accounted for by each economic sector: agriculture 2%, industry 34%, and services 64% in 2002.³

Today, Switzerland's economic is stagnating. Unemployment is rising, its airline still ails, and many Swiss insurers and banks are struggling. GDP growth dropped in 2001 to about 0.8% and to about 0% in 2002.⁴ Switzerland's economy was down by 1.0% by the second quarter of 2003. In the year to August, retail sales in Switzerland fell by 3.2%. Its industrial production also declined in the current year to the second quarter, by 2.8%. Unemployment has increased from 2.6% (in January 2002) to 3.7% (in September 2003).⁵ Last year, Switzerland saw the first labor unrest in 50 years. The SVP (Swiss People's Party) wants to keep foreigners out of Switzerland and Switzerland out of the European market.

2. Joining the European Union

What has gone wrong in a county that was once and example of prosperity and stable modern market economy with low employment and highly skilled labor force? Some argue that Switzerland's non-membership in European Union (EU) makes it less competitive. If it were in the EU, Switzerland would have to reform its protected

³ CIA, The World Factbook, 2003

⁴ Europe: Switzerland: Economy, NationMaster.com 2003

⁵ The Economist, Oct. 18th – 24th 2003

domestic market. But others say the country would lose what is left of its competitive edge, as well as being swamped by immigrants, if it joined the EU. Although Switzerland is not pursuing full EU membership in the near term, closer relations with the EU would result in major economic benefits: trade with the EU accounts for about 45% of Switzerland's GNP and 66% of all exports are destined for the EU. Along with the anemic economic conditions of Europe, Switzerland also suffers from longstanding structural rigidity in the labor market because of the overly generous welfare system. The September, 25,000 people marched in Bern against pension cuts.

Switzerland may yet regain its shine.

Switzerland will have to work harder at reforming its pension and labor market. That is a better cure than the isolationist fix that the SVP is campaigning for. Switzerland should conform its economic practices with the EU to enhance its international competitiveness, while keeping consensus politics in corporate Switzerland, once the basis of the economy's success. The aim of Switzerland's integration policy should be to prevent it from becoming politically, economically and culturally isolated. Switzerland will have to overcome inevitable opposition to change because of the power of the SVP. If the reforms succeed, and its economy picks up, Switzerland may yet regain its shine.

Besides strengthening relations with the EU, Switzerland should also keep the U.S. in mind. The United States is the second-largest importer of Swiss goods after Germany. And America exports more to Switzerland each year than to all the countries of the former Soviet Union and Eastern Europe combined. In addition, the United States is the largest foreign investor in Switzerland, and conversely, the primary destination of Swiss

foreign investment. Some 200,000 American jobs, it is estimated, depend on Swiss foreign investments. In 2000, U.S. bilateral trade with Switzerland increased again, surpassing \$20 billion for the first time.

3. Switzerland and Connecticut links

Europe was Connecticut's largest regional market for exports and saw the biggest increases in 1998-2001 compared to other export destinations. Exports to Europe were up 2.8%⁶, or \$835 million, with the vast bulk of the gains coming from Western Europe and the EU. Switzerland was ranked the 11th⁷ largest export destination for Connecticut with \$180.6 million, and also was one of the top 10 export destinations for Connecticut's industrial machinery products in 2001. Being so closely linked to Switzerland's economy, Connecticut can be influenced by Switzerland. There are similar policies that Connecticut and Switzerland should be analyzing to improve their economic performance:

- Looking at global economic practices as examples for enhancing its international competitiveness.
- Making liberal trade and investment policies, and promoting exports.
- Making labor markets more efficient, including introducing and promoting more flexible and diverse types of employment.
- Reforming the welfare system and unemployment benefits, including increasing job training and placement.
- Reforming worker's compensation and pension.

⁶ Connecticut Exports: Annual 2001 by Massachusetts Institute for Social and Economic Research (MISER)

⁷ "Dollar value of shipments in million, Connecticut Exports 2001 by MISER.