

## **Switzerland: Small, but Global**

Speech by

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I am pleased to be a guest here today at the Swiss-Chinese Chamber of Commerce and speak a few words to you. I am sure it is not necessary to convince any of you of the importance of globalisation and trade. You are living proof of our export sector's dynamism and willingness to adapt to changing circumstances. By your presence in China, you contribute not only to our country's influence abroad, but also to the expansion of its economy.

As you know, economic globalisation often gets bad press in Switzerland. Some of our fellow citizens condemn it, hoping that barriers to delocalisation might strengthen the situation on our labour market. But let's not be led astray by these scaremongers! Those who succumb to those fears fall victim to an illusion. A policy of inactivity is not synonymous with consolidation, but with decline. It is important to realise that Swiss investment abroad, particularly in low-wage countries, secures the high added value jobs we have at home. As a small country, we therefore have no other choice but to trade with the rest of the world if we want to prosper. This means that we will be continuously faced with the challenge of international competition.

Nevertheless, for many observers, Switzerland remains a tiny spot on the European map, a country of 7.5 million inhabitants completely surrounded by the European Union whose population has already grown to several hundred million. Our geographical position obviously puts the question of joining the European Union squarely in the centre of often heated debates. For our economy, however, the real challenge is not to become more European, but to open up further to global markets.

Today, Switzerland is more than merely a quaint little country for tourists; it is not only home to watchmakers and bankers or trains that run on time. This cliché is a thing of the past. Switzerland today is a global production platform with 4 million jobs within its borders and 1.8 million people working in Swiss companies abroad. This ratio is unique for an industrialised country. It is the result of a long tradition of Switzerland's presence abroad. We are all familiar with the big names in our industry which, as early as the beginning of the last century, courageously invested abroad with the goal of conquering new markets. Switzerland's identity in the world has often been better perceived through the activities of the International Committee of the Red Cross and through our big companies, rather than through diplomacy.

The internationalisation of the Swiss economy has not slowed down in recent years— on the contrary, it has amplified. Let's look at the figures: 20 years ago, our current account

surplus, i.e. foreign investment, accounted for 5% of Swiss GDP. Today, it amounts to 13%. It was also said at the time that one franc out of three was made abroad. Today, it is one franc in two!

The 1990s marked the real turning point in our economy's trend toward globalisation. Our commercial relations with China are exemplary in this regard. After having levelled off at approximately 900 million francs a year in the late 1990s, our exports to China grew at a rapid pace in more recent years, reaching 2.9 billion francs in 2004. With regard to Chinese exports to Switzerland, the trend is just as spectacular, but much more steady. Sales of products manufactured in China in the Swiss market have risen continuously for 20 years now, be it textiles, electronic equipment or – naturally – product components that are reintegrated into our domestic production. Owing to soaring exports to China, our trade balance with this country has thus flattened out steadily; toward the end of the 1990s, it was clearly negative, in 2004 we even had a slight surplus.

Despite the rapid expansion of our trade with China, its overall significance remains modest, amounting to just 2% of total Swiss trade. From a Chinese perspective, the relative importance of trade relations with Switzerland is even smaller. Switzerland accounts for less than 1% of Chinese imports and exports.

A similar picture can be observed with respect to Swiss foreign direct investment here. Despite a thirty-fold increase between 1993 and 2003, it still amounts to less than 0.6% of total Swiss investment abroad. All this shows that there is enormous potential for the expansion of bilateral economic relations between our two countries.

Many politicians in Europe seem to forget that China, like all the other emerging economies in Asia and South America, has become one of the dynamic poles in the global economy in recent years. By contrast, Europe has trailed behind in terms of growth.

This is precisely why globalisation makes sense for an economy open to international markets such as ours. For both historical and geographical reasons, our country is exposed to a considerable commercial risk in Europe: 60% of our exports are destined for European countries; accounting for 25%, Germany ranks first among our export markets. These European markets are no longer the most dynamic today, nor will they be in the future. It is essential that we step up the diversification process so as to ensure the expansion of our export sector. It is therefore in our own best interests to strengthen economic relations with Asia, in particular with China.

Business relations between industrialised countries and China currently take centre stage in political discussions. In particular, harsh criticism has been levelled at China because of its exchange rate policy of pegging its currency to the US dollar despite the fact that it has made considerable progress in terms of efficiency.

As a representative of a country that has had floating exchange rates for over thirty years now, I can only underscore the importance of an exchange rate regime that reflects the realities of the market. During the past three decades, the Swiss franc has been an essential factor in the development of the Swiss economy. However, it was never a reason for our exporters to sit back and relax. On the contrary, the franc put pressure on them to become more efficient and to specialise in those product areas in which we have a real competitive edge. Consumers also profited from the strong Swiss franc in that the prices for imported goods have fallen significantly. A currency that is accurately priced enables the economy to benefit from improvements in its terms of trade triggered by productivity increases. If a country's currency is undervalued, products are sold on the market at give-away prices, and productive resources are inefficiently allocated.

The functioning of a currency system, therefore, plays a pivotal role in the development of a country's prosperity, and monetary reform, as China is currently expected to tackle, is a very delicate undertaking. Unless new monetary rules and mechanisms can immediately convince the market of the appropriateness of the new regime, a risk of speculative pressure will emerge.

Switzerland has experience in this regard as well. We ultimately opted for flexible exchange rates, i.e. a system in which the Swiss franc's value is continuously in line with market forces. In my view, floating rates are not a panacea, they can be volatile in the case of market disruption. At times, the Swiss franc was pushed to levels no longer compatible with the economic reality of our country's fundamentals. These episodes lasted for only a limited time, however.

Another advantage of a flexible Swiss franc is that changes in the international monetary system have little bearing on our currency which is largely determined by Switzerland's economic realities. Consequently, the launch of the euro – a major event on the monetary scene in recent years – did not lead to the disappearance or the destabilisation of the franc as feared by some. Though the euro – for all intents and purposes – is accepted as a means of payment in Switzerland, there are not more euros in circulation now than there were French francs or German marks prior to the monetary integration. Furthermore, the

calm that has characterised the foreign exchange market in Europe since the disappearance of the national currencies mitigated the speculative pressures on the franc. Our currency is therefore less volatile than before. Last but not least, contrary to the pessimistic assumption that the Swiss National Bank would have to shadow the policy of the European Central Bank, it was able to set its interest rates according to the needs of the Swiss economy. On the whole, our monetary regime passed the test imposed by the change in the European monetary system with flying colours.

Even though Switzerland is a modest player on the international scene it carries more weight than one would imagine. The country's edge lies in its small size, leaving it no other option than to open up to international trade. Moreover, its liberal philosophy and sound financial standing have given it the necessary tools to conduct a policy of openness and to have a strong presence abroad.

Having chosen the option of free trade and free movement of capital, Switzerland is, in many respects, better prepared than others to take advantage of the greater opening of the borders brought about by globalisation. To be sure, this is not an easy ride, as international competition always necessitates painful adjustments, and Switzerland is no exception in this respect. When we take stock of the last few years, however, the bottom line looks favourable. We would certainly be in an even better position now, if we had built up a stronger presence in emerging economies. As you can see, contrary to what some people believe, globalisation is not the cause of the weak growth of the Swiss economy; indeed the opposite is true. Foreign trade is the engine driving our economy. It has expanded in recent years in step with the global economy. By contrast, our domestic market has stagnated and registered only limited gains in productivity.

And that, ladies and gentlemen, is where our problem lies.