

SWISS FOREIGN POLICY 2009: CRISES AND CHALLENGES

The foreign-policy crises of the past months raise questions as to Switzerland's international positioning and the government's institutional capacity to act. The framework conditions for Swiss niche strategies in the fields of financial and European policy have deteriorated. On both the global and the European stages, it is becoming increasingly difficult to preserve national interests without the support of a strong network of partner states. Given the Federal Council's decision to revisit the question of EU accession and the renewed attempt at institutional reforms, controversial but necessary debates lie ahead.



Foreign Minister Calmy-Rey and Federal President Merz at a media conference in Berne, 19 August 2009.

Over the last few months, Switzerland has been under an unusual degree of external pressure. The country is confronted with a string of foreign-policy crises. The controversy over its banking secrecy laws has received the greatest international attention. After Switzerland had been included in a so-called "grey list" of tax havens by the G-20 and the OECD, forced by the US to hand over data on UBS customers, and criticized unusually harshly by several European countries, the Federal Council agreed in March 2009 to make far-reaching concessions regarding improved information exchange on matters of taxation. However, criticism of Switzerland as a financial center continues to simmer, as does the conflict with the EU over cantonal tax regimes. This has been compounded by the crisis in relations with Libya, during which Switzerland long appeared to suffer from a lack of domestic coordination and a viable strategy on the international stage. Rarely has the

Federal Council been duped as it was in the conflict over the release of the two hostages being held in Tripolis.

The interplay of the various crises has promoted a sense of malaise in Swiss foreign policy. There is a widespread perception that the international environment is currently ill-disposed towards Switzerland, and that this small country can neither ward off the attacks of great powers on its legal system nor defend itself against the machinations of Libyan revolutionary leader Muammar Gaddafi. It would be a simplification, however, to speak of a crisis in Swiss diplomacy in this context. On the contrary, the Department of Foreign Affairs has recently achieved several successes both in the area of peace promotion (mediation in the conflict with Iran and between Turkey and Armenia, protective power mandates to safeguard Russian interests in Georgia and vice versa) and in crisis management

(defusing the conflict between UBS and the US government).

Instead, what may be identified is a crisis concerning Switzerland's status and sense of uniqueness (*Sonderfall*). International acceptance for core foreign-policy and European policy niche strategies is decreasing. The positioning as a niche actor is also increasingly linked to heteronomy, with Swiss laws, despite domestic rhetoric of autonomy, being ever more subjected to external influence. At the same time, the latest crises have exposed a need for reform in the country's political institutions. In a world shaped by increasing complexity and decreasing reaction time, reform of the government executive is urgently required in order to enhance the ability of the Federal Council to act and strategize.

Though the Foreign Policy Report published on 2 September 2009 is mainly conceived as a comprehensive statement of accounts, it does also illuminate conceptual aspects and key challenges in Swiss foreign policy. Accordingly, its relevant statements are taken into consideration for the following thoughts on Switzerland's positioning in the world and its capacity to act.

Decreasing acceptance of niches

Switzerland is a pronounced niche actor. In selected areas such as the finance and tax sectors, European policy, or peace promotion, it pursues approaches that are distinct, to varying degrees, from the positions of other states. While the niches

in foreign economic policy are owed to conscious strategies within the competition among business locations, the country's unique European policy and its independent peace promotion efforts are also based on domestic factors such as neutrality and direct democracy. All of these niches share the notion of Swiss exceptionalism. However, external acceptance of a Swiss *Sonderweg* (or special way), and thus the practicability of this course, have been in decline, particularly with respect to banking secrecy and taxation issues. Similar tendencies are looming with regard to the bilateral track vis-à-vis the EU.

As long as the process of globalization mainly implied deregulation and the creation of cross-border markets, Switzerland, with its foreign trade niches and its export-oriented economy, occupied a favorable position. Indeed, it has so far been among the winners of globalization. Against the background of the patent crisis-proneness of globalization, however, there is a discernible trend towards a politicization of the economic sphere and increased global coordination of regulatory frameworks between the major economic powers. Even if the scope of this tendency should not be exaggerated, it poses a challenge for Switzerland, especially as far as defending its interests as a financial center is concerned.

The rearguard action of the Federal Council concerning the banking secrecy laws long appeared to be an improvised and excessively reactive affair. Developing a strategy for long-term positioning in the areas of financial and taxation policy seems to be all the more urgent since the Foreign Policy Report points out that the pressure on Switzerland is likely to continue even after the decision to enhance cooperation in taxation matters. The report refers not only to numerous US legislative proposals, but also to possible new demands on the part of the EU, which is pushing for a revision of the agreement on taxation of savings income, and probably seeks an automatic exchange of information with Switzerland in the long term. It would also be advisable to review, in a timely manner, the significance for Switzerland of the emerging European supervisory body for banks, stock exchanges, and insurance companies. With regard to the conflict with the EU over the taxation schemes of individual Swiss cantons, the Federal Council faces the difficult task of find-

Basic documents

- ▮ Foreign Policy Reports: 2009 [↗](#); 2007 [↗](#); 2006 [↗](#); 1993 [↗](#)
- ▮ Europe Report 2006 [↗](#)
- ▮ Institutional reform [↗](#)

ing a solution that can dispel the EU's charges of discrimination while also being acceptable domestically in case of a national referendum.

The limits of bilateralism

Europe-wide, the Swiss *Sonderweg* is becoming increasingly difficult to sustain due to the greatly advanced harmonization of many policy fields within the EU (cf. CSS Analysis no. 37 [↗](#)). Unlike in the European Report of 2006, this issue is discussed with remarkable frankness in the Foreign Policy Report. The statements and illustrative examples that it cites suggest three conclusions: First of all, the Swiss strategy of selective participation in the European integration process is increasingly coming under fire. Its efforts to secure advantages of location through deliberate non-participation in regulation processes for selected policy fields are increasingly earning Switzerland a reputation for cherry-picking. The EU's criticism of the rules for corporate taxation in selected cantons is an example of how Brussels increasingly expects Switzerland to abide by EU standards even in those areas that are not covered by the bilateral treaties.

Secondly, the EU is no longer amenable to special arrangements under the aegis of the bilateral treaties. Rather, it is demanding that Switzerland commit itself to adopting the relevant EU legislation (*acquis communautaire*) when updating existing treaties and negotiating new agreements. Third, the EU's preparedness and ability to conclude bilateral treaties with Switzerland also seems to be on the wane. This is likely due to the increasing number of member states and rising heterogeneity within the EU as part of its Eastern expansion. Even if Switzerland's idiosyncratic European policy is less harshly criticized today than its banking secrecy, and the pressure to act seems to be lower, the Federal Council would be well advised to examine the long-term feasibility and desirability of the bilateral track as soon as possible.

The exception: Peace promotion

As far as the third policy niche, peace promotion, is concerned, there is no notable

restriction in the scope of action as in the matter of the country's status as a financial center or in European policy issues. Though there are occasional controversies in particular over the policy of dialog and mediation in the Middle East (cf. CSS Analysis 35 [↗](#)), Switzerland has succeeded in establishing itself as a provider of good offices. It is therefore understandable that the Department of Foreign Affairs has affirmed its determination to focus even more on the instrument of dialog in the future.

Yet, the repercussions of an active peace promotion policy for Switzerland's overall foreign policy should not be overrated. The Swiss mandate as a protective power for the US in Iran, which gives Berne access to the top levels of government in both Tehran and Washington, may have been useful in concluding the gas deal with Iran, and it may have played a role in the temporary easing of tensions with the US over UBS. That did not stop the US, however, from pressuring Switzerland into taking recourse to legal emergency measures and hand over UBS customer data. It is also unlikely that Switzerland's status as a protective power for Russia in Georgia will induce Moscow to lobby for Switzerland to be represented at the G-20 summits, as some hope.

Therefore, while any expansion of peace promotion efforts may be in Switzerland's interests, it would likely only contribute to a limited extent to resolving core foreign-policy challenges. Moreover, the fact that Switzerland's freedom of action in the area of peace promotion is largely owed to the country's non-membership in the EU should not predetermine the strategically more important question of its future stance vis-à-vis the EU.

Leveraging influence to protect interests

Switzerland's current position as a niche actor is challenged not only because of the decreasing practicability of important niche policies. A second major difficulty is the decreasing ability to influence international governance efforts in policy fields that are of crucial importance for Switzerland.

At the global level, the G-20 format is developing into the main steering body of the global economy. Unlike in the case of the G-8, the decisions of the G-20 may have direct and far-reaching effects for

Switzerland, since the legitimacy of this body is greater, and since its decisions have the potential to be of a more globally binding nature. The fact that Switzerland, despite its economic power and its importance as a financial center, is not represented among the G-20 is due not so much to its positioning as a niche actor as to the need to integrate more emerging countries instead. But the fact remains that other European countries of comparable weight are at least represented in the G-20 through the EU. If the discussions – dominated by the G-20 – on a redistribution of power in the International Monetary Fund should result in Switzerland losing its seat on the IMF Executive Council, it would be largely excluded from the political debates on reforming the global financial and economic system.

At the European level, too, Switzerland's ability to shape its environment is declining. The increasing outside influence of the EU on Swiss legislation is particularly palpable. It is also notable that other European organizations such as the OSCE and the Council of Europe are increasingly dominated by the 27 EU states. At the same time, their influence is declining, as the EU has to a certain extent taken over the functions that these bodies originally served. Also, EFTA – which has developed into an important cooperation for economic cooperation among European non-EU states with non-European economies in recent years – faces an uncertain future in view of Iceland's possible accession to the EU.

Which networks?

Against the background of the increasing complexity of the international system, the importance of networks is constantly on the rise. Since Switzerland is not part of a firm grouping of states, it seeks to secure its interests in particular through a mesh of bilateral relations and through issue-specific, variable partnerships. In the wake of global power shifts and due to the country's special status within Europe, Switzerland has been trying since 2005 to expand its relations with Russia and extra-European great powers such as the US, China, Japan, India, Brazil, and South Africa. At the same time, it is realigning the priorities of its external diplomatic network from Europe and the US towards Asia, Africa, and the Middle East. No figures are, however, available as to the extent and details of this realignment.

In view of the position Switzerland currently occupies in the world, these measures are certainly logical. However, Europe will continue to be the core sphere of interest for Switzerland. Unlike the EU states, which are today largely organized in Brussels, Switzerland will hardly be able to afford a substantial extension of its diplomatic representations in the capitals of Europe, where it must primarily secure its European interests. There is also a danger that the attempt to build a dense global network of representation will result in a reduction of staff at the individual missions. If Switzerland wants to retain its commitment to an autonomous stance, an increase of funding for its diplomatic instruments will be indispensable. Even then, however, the question arises whether Switzerland's bilateral and variable partnerships will allow it to persevere in the global competition. This

appears all the more doubtful since the Foreign Policy Report lays out how the neighboring European states are reacting to Europe's relative loss of global influence by also enhancing their cooperative stance vis-à-vis the outside world within the framework of the EU.

There are many indications that in the future, it will become even more difficult to protect national interests effectively outside of the uniquely dense EU network and the commitment to solidarity that it implies. While Gaddafi may be playing games with other European governments as well, he would hardly dare to take EU citizens hostage. The risk of retaliatory measures by the EU would be too great. Similarly, it is unlikely that the US would have acted as boldly towards an EU state as it did towards Switzerland.

The need for an EU debate

In view of the increasing difficulties in effectively securing interests as a small autonomous state, the decreasing viability of certain economic niches, and the increasing challenges of following an idiosyncratic path within Europe, a new discussion on the advantages and disadvantages of EU membership seems indicated at this point. The call for a debate on European policy, as voiced in the Foreign Policy Report, can be regarded as its main political statement. However, in addition to the suggested study by the Integration Office on Swiss European policy,

a serious debate will also require political leadership. A rhetoric on European policy that glorifies the bilateral track as the "gold standard", that treats the question of EU accession as a taboo, and that advocates competition with the EU over best policies as part of a "Eurocompetitiveness" effort is no longer adequate to the current state of play. Furthermore, European policy must no longer be seen, as was the case for decades, from the single-track perspective of market access for Swiss businesses.

The difficult issue of clarifying the matter of Switzerland's accession to the EU aside, it would be in the country's interest to signal a greater willingness to engage in cooperation and burden-sharing within the framework of European solidarity. In this context, enhanced foreign and security policy cooperation with the EU would be of

particular importance. However, Switzerland's longstanding skepticism towards an ESDP framework agreement and an administrative agreement with the European Defence Agency, the principled Swiss non-association with CFSP statements, and the recent rejection by Parliament of participation in the anti-pirate Atalanta mission of the EU are evidence that the willingness to engage in rapprochement with the EU over security policy is limited. The EU continues to be regarded in Switzerland more as a threat than as an opportunity.

Institutional reforms?

Effective safeguarding of interests is not only a matter of positioning, but also involves the ability to strategize and to act. Switzerland's shortcomings in this regard are partially due to the singular institutional features of its political system that contribute to the *Sonderfall*. Direct democracy intentionally imposes limitations on the Federal Council's strategic capacity. In turn, the governmental system, which is defined by the principles of collegial decisionmaking among the seven Federal Councilors and concordance (multi-party representation), serves to preserve the domestic balance and enjoys a great deal of legitimacy, but it severely restricts the Federal Council's capacity to act, especially in extraordinary circumstances. This factor has become more accentuated in recent years due to domestic political polarization, the personalization of political

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issues, the internationalization of almost all policy fields, and the concomitantly increasing complexity of foreign policy.

The opportunity for a reform of executive government is better than it has been in the past, not least because of the crisis developments in recent months and the reopening of the – long standing – reform issue in the Federal Council. At the substantial level, the main challenge is that on the one hand, far-reaching measures such as the transition to an oppositional system and the creation of a government leader position would hardly be compatible with the Swiss referendum democracy, as opposition parties would constantly use direct democracy instruments to block policies. On the other hand, smaller measures such as extending the mandate of the rotating *primus-inter-pares* presidency in the Federal Council from one to two years would not make much of a difference in terms of improving the government's capacity to act. Linking the federal presidency to the leadership of the Department of Foreign Affairs would not be very effective either due to the rotation principle.

However, measures to allow more frequent debates on fundamental issues in the Federal Council are both feasible and desirable. It is also worth considering the creation of a strategic planning unit in the Department of Foreign Affairs or at the level of the Federal Council that would consider essential foreign-policy issues dispassionately beyond the bustle of everyday operations and anticipate international developments. The example of Libya also shows that there is scope for improvement in cross-departmental crisis communication, which is not, however, a challenge that is limited to Switzerland.

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