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Global Economic Governance from the Perspective of a 'Small State': The Case of Switzerland

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South African Institute of International Affairs

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ABSTRACT

The paper introduces three key concepts, namely economic diplomacy, multi-actor and multi-institutional negotiations, and inter-ministerial economic policymaking. It applies these concepts to describe and analyse Switzerland's economic diplomacy behaviour and strategy in the field of financial services and in its relation to the Group of Twenty and other international organisations. The paper describes and analyses Switzerland's economic governance and economic diplomacy options in the field of international finance. It identifies the core Swiss interests and Switzerland's contribution to global economic governance, with particular reference to the Group of Twenty; and addresses the channels through which these interests are pursued, for example, through the Global Governance Group and other institutions.

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ABBREVIATIONS AND ACRONYMS

3G	Global Governance Group
BIS	Bank of International Settlements
DESA	UN Department of Economic and Social Affairs
DETEC	Swiss Federal Department of Transport, Communications and Energy
FAO	UN Food and Agriculture Organization
FATF	Financial Action Task Force
FDEA	Swiss Federal Department of Economic Affairs
FDF	Swiss Federal Department of Finance
FDFA	Swiss Federal Department of Foreign Affairs
FDHA	Swiss Federal Department of Home Affairs
FDJP	Swiss Federal Department of Justice and Police
FINMA	Swiss Financial Supervisory Authority
FOSS	Forum of Small States
FSB	Financial Stability Board
G-20	Group of Twenty
IDAG20	Inter-Departmental Working Group G-20
ILO	International Labour Organization
IMC	inter-ministerial co-ordination
IMF	International Monetary Fund
IO	international organisation
LDC	least-developed country
MOFA	Ministry of Foreign Affairs
OECD	Organisation for Economic Co-operation and Development
RIA	Regulatory Impact Analysis
SBA	Swiss Bankers Association
SECO	Swiss State Secretariat for Economic Affairs
SIF	Swiss State Secretariat for International Financial Matters
SNB	Swiss National Bank
UNFCCC	UN Framework Convention on Climate Change
WTO	World Trade Organization

INTRODUCTION

The paper briefly introduces three key concepts, namely economic diplomacy, multi-actor and multi-institutional negotiations, and inter-ministerial economic policymaking. It applies these concepts to describe and analyse Switzerland's economic diplomacy behaviour and strategy in the field of financial services and in its relation to the Group of Twenty (G-20) and other international organisations (IOs) like the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the Bank of International Settlements (BIS). The paper then provides an overview of Switzerland's core offensive and defensive interests in regard to its position as a financial centre. It discusses the influence of the international policy space by focusing on a small state's options in the international global governance arena. Before concluding, it identifies the main channels through which Switzerland's interests are pursued.

The paper does not discuss illicit financial transfers such as money laundering, banking secrecy, and push and pull factors relating to the capital flight from developing countries to developed countries. Instead, it describes Switzerland's use of strategic and tactical diplomacy in regard to global financial governance in general and particularly in relation to the political importance of the G-20.¹

Switzerland has addressed these contentious issues for quite some time already. It has participated and is engaged in OECD Committee work and discussions, where key countries such as the US and Mexico have questioned the functioning of the Swiss financial centre. Although an active and co-operative member of the Financial Action Task Force (FATF) since 1990,² Switzerland was nevertheless listed under the group consisting of 'financial centres with significant offshore activities', unlike the US and the UK and their respective offshore centres. Also not mentioned in the early OECD classification are the bilateral investment treaties, with their often unpublished fiscal incentives.³

ECONOMIC DIPLOMACY AND MULTI-INSTITUTIONAL- MULTI-ACTOR NEGOTIATIONS

The global economic governance structure obliges countries to negotiate on very different topics at different levels or playing fields. International negotiations in the context of economic diplomacy are concerned with economic policies related to organisations such as the World Trade Organization (WTO), the IMF and the BIS. Economic diplomats monitor and report on economic policies in foreign countries and advise the home government on how to best influence them. Economic diplomacy employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective.⁴

Faced with the complexities of multilateral organisations responsible for economic and financial policies (for example, the WTO, the IMF and the OECD), many governments have broadened the participation of ministries specialising in economic and financial matters, thereby decreasing or neutralising the influence and role of Ministries of Foreign Affairs (MOFAs). Efforts by specialised ministries to conduct policy-related international negotiations and to influence the structure and mechanisms of global governance architecture have eclipsed the previous prominence of MOFAs in economic and trade arenas.⁵

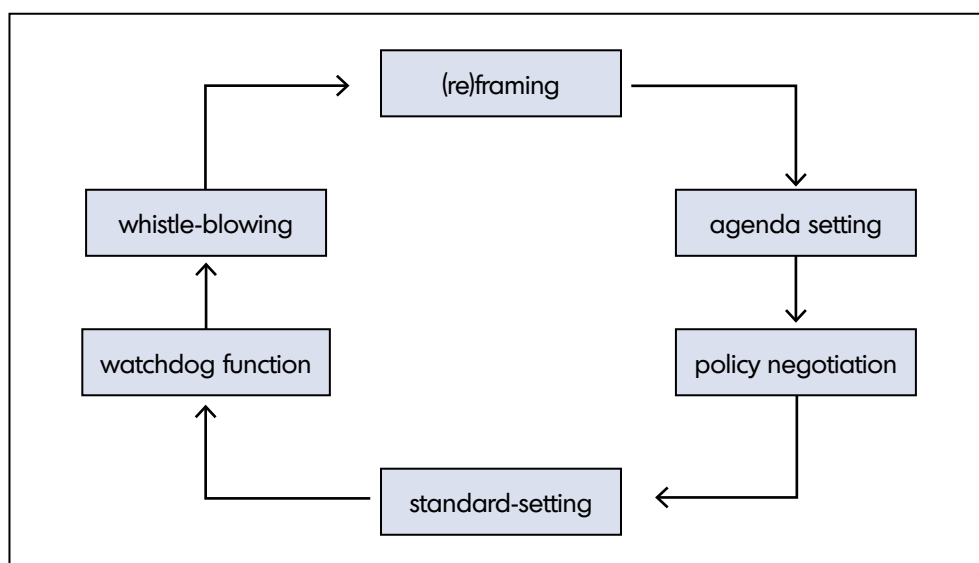
The rise of this non-traditional genre of multi-ministry international diplomacy is apparent in Geneva, where embassies of many industrialised countries to the WTO are staffed with more officials than the bilateral embassies to Switzerland in Berne. The greater number of staff is mostly due to an ever-increasing number of non-MOFA diplomats and government officials. The goal of economic diplomats is to competently influence multilateral economic policy by co-ordinating specialised ministries, shaping the negotiation process at economic standard-setting organisations, and by constructively including non-state actors as deemed useful and appropriate.⁶

In the actual system of complex international negotiations, there are multiple levels of interaction between actors: unilateral, bilateral, regional, plurilateral, multilateral, multi-institutional, and multi-institutional–multi-actor negotiations.⁷ The link between the different levels of economic diplomacy is important because agreements reached at one level can have implications for other levels. For example, principles adopted with a plurilateral perspective may be converted into binding commitments at a regional level. Or, regulatory standards (for example, in food safety) adopted in regional agreements can provide a model for a wider application in a multilateral agreement.

Small states and international economic relations

Seen from a system's point of view, the international policy arena can be subdivided into six processes with different combinations of stakeholders' interactions. This contrasts with the traditional understanding of policymaking as being of a linear nature. The processes described in this section do not always follow the path illustrated in Figure 1. Sometimes certain processes can be omitted or processes can take place concomitantly, but the basic circularity shown is observable.

Figure 1: Influencing the international policy space



Source: Saner R & M Varinia (eds), *Negotiations Between State Actors and Non-State Actors: Case Analyses From Different Parts of the World*. Dordrecht: Republic of Letters, 2010, p. 28.

Before interactions between stakeholders take place in the international policy space, a preliminary process is often initiated of framing or reframing issue areas; relevant concepts and working tools that link them; and possible opponents. As a result of this framing process, actors prioritise certain issues over others, thereby creating a perspective. Once an agenda has been created, specific issues within it need to be negotiated involving the different stakeholders. Standard-setting is usually a unilateral, non-interactive process, which for a long time was restricted to the economic sphere only. Another important process is monitoring and safeguarding, especially when it comes to the evaluation and re-evaluation of the implementation of existing agreements. Finally, whistle-blowing is a key process combining circularity with democratisation of the international economic policy space, since it connects the process of 'playing watchdog' with the process of (re) framing.

Within the UN system, there are two main instances through which the, at least, 100 countries that are deemed to be small states can get together to defend their interests. One is the special informal grouping in the UN called the Forum of Small States (FOSS), a loose non-ideological and non-geographical coalition of small states co-ordinated by Singapore. FOSS was established in 1992 in New York and meets regularly to exchange views and co-ordinate positions.

More recently Singapore also helped to form a Global Governance Group (3G), comprising of small and medium-sized states. According to Singapore's Ministry of Foreign Affairs, the 3G:⁸

was formed primarily to exchange views on issues concerning global governance in the aftermath of the emergence of the processes such as the G-20, including how this has impacted small and medium sized states and how we could better engage and feed our views into the G-20 process.

The record of small states at the UN has been at best mixed. Small states have not always succeeded in bringing their collective influence to bear on a particular issue because they face some challenges that prevent them from operating more effectively at the UN.⁹ One problem has to do with the delegation of resources and coverage because small states sometimes do not have the manpower to cover comprehensively all the issues and committees at the UN. Some of the larger member states may have two or three delegates per committee. Small states often count on only a few delegates and, hence, are hampered in regard to data gathering and influencing.

A second problem relates to the fact that small states are generally excluded from the 'real discussions'. Opportunities to influence the larger political process by small states include becoming a non-permanent rotating member of the UN Security Council; participating in the Green Room talks of the WTO in Geneva; and being invited to the General Assembly President's small consultations. The G-20 might also be listed among these organisations and institutions (see the Annex section for a description of G-20 policies and vulnerabilities in Commonwealth small states in Africa, the Caribbean and Asia-Pacific).

Finally, small states have little power unless they form alliances. Unfortunately though, they very often do not do so for different reasons: they lack resources, or have no viable strategy and hence remain weak, or unfocused, allowing themselves to be peeled

off individually by the 'big countries' and blocs comprising developed countries and increasingly also the BRICS.

In order to cope with these problems, small states need to identify their policy interests and take greater initiative; arrive at negotiations with a clear strategy; build an excellent negotiating team and bolster institutional performance; and strengthen consultations with private sector and other groups.¹⁰ In all these cases, the functioning of effective inter-ministerial co-ordination mechanisms (both at the national and international levels) is crucial in promoting and supporting the interests of the small states in the international arena.

According to the informal summary, and pursuant to General Assembly Resolution 65/94, the Secretariat circulated a note (DESA-11/0021 of 20 January 2011) to all member states, seeking their views on global economic governance and development. As of 30 August 2011, replies were received from 20 countries.¹¹ In addition, the 3G submitted to the Secretary General its recommendations on the interaction between the G-20 and the UN system. Some of the main positions related to the global economic governance system are reproduced as follows.¹²

- Most countries called for stronger global economic governance in support of a stable global economy and sustainable global economic development. There was an emerging consensus that a stronger system of global economic governance should be more transparent, inclusive and efficient.
- Many countries highlighted the importance of enhancing the coherence of the financial and trading systems through greater co-ordination and co-operation. Countries highlighted the unique role the UN could play to ensure better system-wide coherence of policies.
- Several countries called for the strengthening of the UN Economic and Social Council to meet its mandates fully, including international policy co-ordination for sustainable development.
- Several countries highlighted that retooling the UN in global economic governance was not an end in itself but should strengthen the UN's capacity to discharge its functions, particularly in the area of development.
- Several countries emphasised that global economic governance could be improved through better relations between the UN and the G-20. In this connection, they called on the G-20 to engage with the UN and its member states through predictable and regular channels, including consultations with the wider membership before G-20 Summits.
- Several countries called on the international community to join forces to create a free, open, fair and equitable trading system.

INTER-MINISTERIAL ECONOMIC POLICYMAKING IN SWITZERLAND¹³

Inter-ministerial co-ordination (IMC) becomes crucial when a country faces the new interconnected cross-sector challenges like climate change, migration, financial instability, refugees, conflict and war. Inter-ministerial trade policy co-ordination is based on three

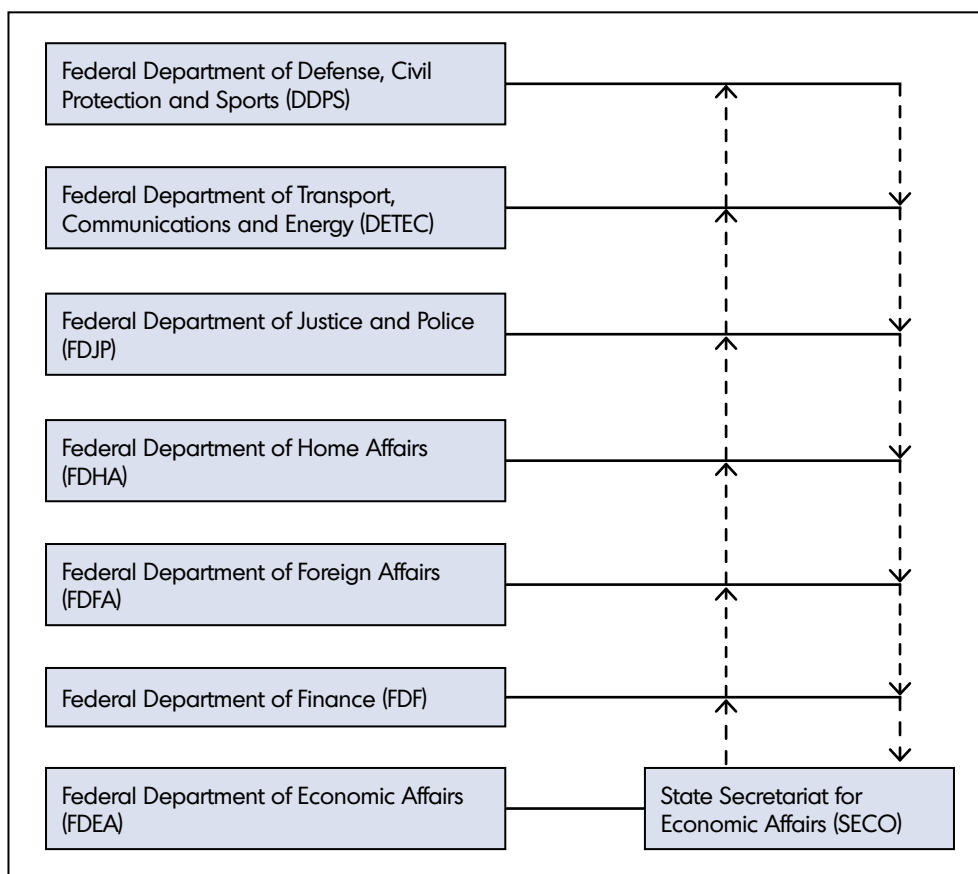
functions, namely eliminating policy and project redundancy; managing cross-cutting issues (for example, democracy and human rights, environment sustainability, gender equality and HIV/Aids); and integrating numerous international trade agreements and trade policies in a coherent manner.

The IMC and stakeholder consultations are essential in the five stages of policymaking: initiation, formulation, implementation, evaluation, and monitoring. IMC becomes crucial to bring coherence and complementarity to the policymaking process.

In Switzerland, it is the Federal Council within the federal government that is in charge of proposing and implementing economic policy decisions. The Federal Council appoints departments to implement policies, which then take the lead in refining these policies further.

Figure 2 describes the current Regulatory Impact Analysis (RIA) system in place in Switzerland. Switzerland introduced formal use of RIA in 1999, when the Federal Council decided to institutionalise it through the adoption of the Guidelines of the Federal Council on RIA from 1999. The adoption of RIA as a tool to improve the quality of regulations was a consequence of different parliamentarian interventions on administrative charges and the consequences of regulations on small and medium-sized enterprises.

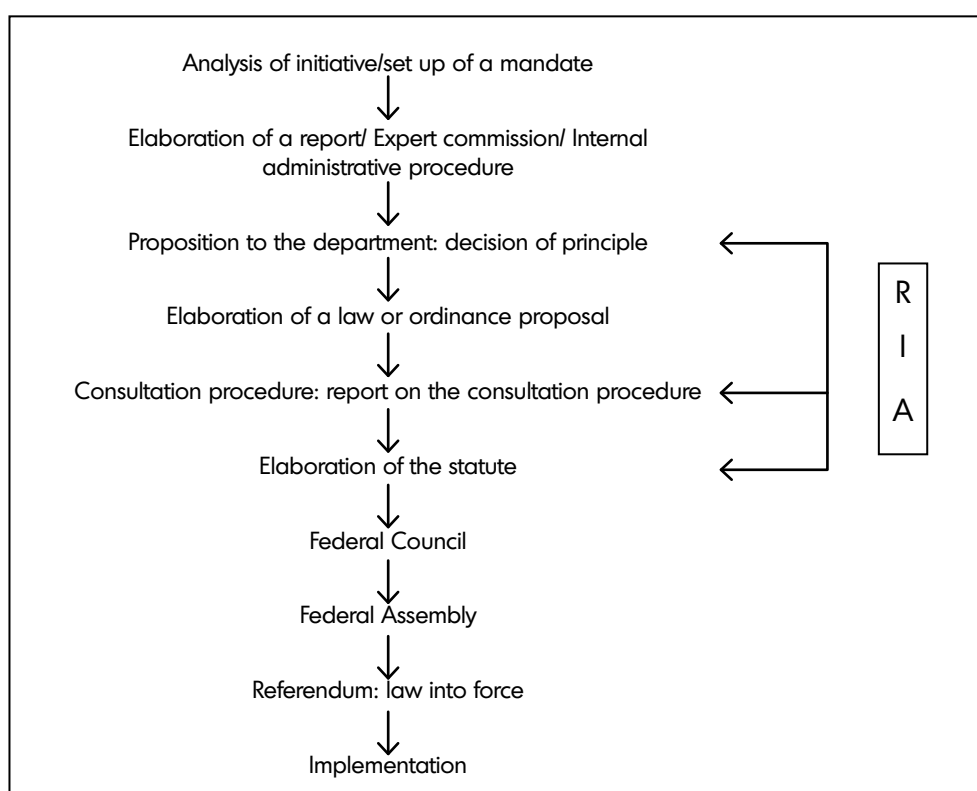
Figure 2: RIA: Federal Council and inter-ministerial consultation of economic policymaking



Source: Saner R, *Trade Policy Governance through Inter-Ministerial Coordination: A Source Book for Trade Officials and Development Experts*. Dordrecht: Republic of Letters, 2010, p. 33.

The 1995 *Recommendation of the Council of the OECD on Improving the Quality of Government Regulation* emphasised the role of RIA by systemically ensuring that the most efficient and effective policy options were chosen. The 1997 *OECD Report on Regulatory Reform* recommended that governments ‘integrate regulatory impact analysis into the development, review, and reform of regulations’.¹⁴ A list of RIA best practices is discussed in detail in *Regulatory Impact Analysis: Best Practices in OECD Countries*. The 2005 *Guiding Principles for Regulatory Quality and Performance* recommends that RIA is conducted in a timely, clear and transparent manner.

Figure 3: RIA in the legislative procedure: The case of Switzerland



Source: Raymond S, *Trade Policy Governance through Inter-Ministerial Coordination: A Source Book for Trade Officials and Development Experts*. Dordrecht: Republic of Letters, 2010, p. 42.

The Swiss government considers RIA as a tool to provide federal authorities (the Federal Council and Federal Assembly) with transparent and comparable information to help them in decision making. The main goal of RIA is to complete political, regional and sectoral information with a systematic evaluation of draft regulations according to a global view of the economy. Regulations are revised according to the following criteria.¹⁵

- The need and possibility of state intervention. The first step is to explain from an economic point of view the reasons that justify the proposed regulation.
- Consequences for different categories of actor. A second step includes a description

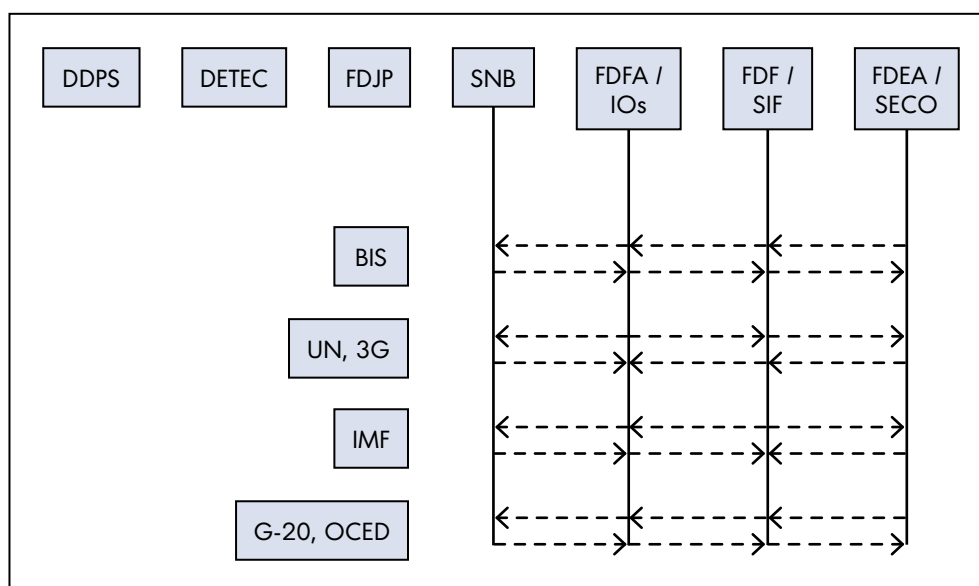
of the winners and losers of the proposed regulation, as well as a quantification of the costs and benefits for both parts, if possible. This should lead to a more comprehensive cost-benefit analysis, pointing out the possible distributional effects among societal groups and different costs to execute and implement the regulation.

- Implications for the economy as a whole. The third step is to explain the general effects of the proposed regulation, taking into consideration the adaptation process of actors, whether the new regulation positively contributes to market efficiency, side-effects on employment, investment, innovation, research, consumption, and the environment.
- Alternatives to regulation.
- Practical aspects of implementation. The final step should consider the administrative implications of implementation, consequences on co-ordination mechanisms, term of effectiveness, plain language, delegation of competences, appeal system, relationship and division of tasks between federal and cantonal governments, and communication to parties affected.

Multi-stakeholder policy process of Switzerland's financial policy sector

The RIA analysis and the multi-stakeholder process of Switzerland's financial policy sector involve four main bodies. These are the Swiss National Bank (SNB); the FDFA; the FDF; and the FDEA. Each of the three intervening ministries has a division or a secretary which leads the consultative process vis-à-vis the IOs. In the FDFA, the UN and International Organisations Division co-ordinates and implements the Swiss policy on the UN, its specialised agencies and other IOs. The State Secretariat for International Financial Matters (SIF) at the FDF is responsible for Swiss relations with the IMF. SECO of the FDEA is responsible for Swiss relations with the OECD.

Figure 4: Switzerland's consultative process: Inter-Departmental Working Group G-20



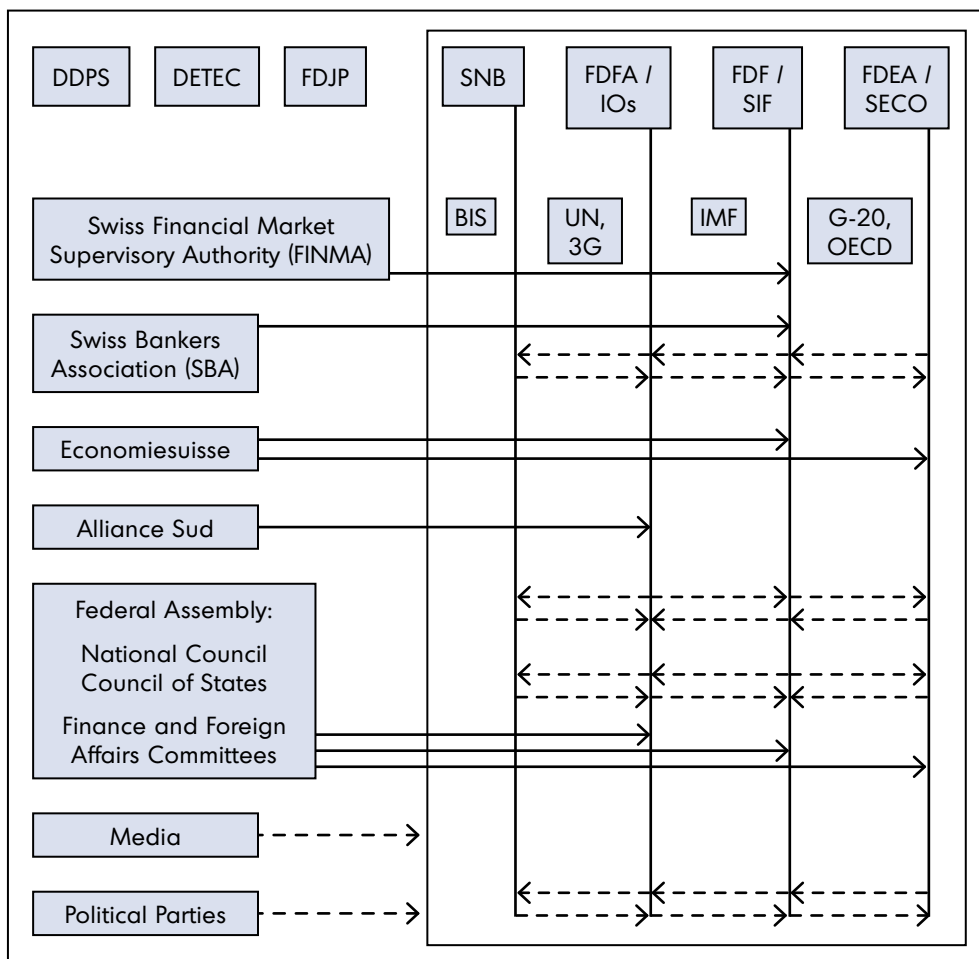
Source: Author's own elaboration.

Matters pertaining to Switzerland's relations with the G-20 group are co-ordinated through an inter-ministerial working group called the Inter-Departmental Working Group G-20 (IDAG20). IDAG20 is a working group composed of SECO (FDEA); SIF of the FDF; the Directorate of Political Affairs of the FDFA; and the SNB. They meet four to five times a year. There is no formal document regulating this inter-ministerial and inter-institutional co-ordination process.

SECO and SIF co-ordinate IDAG20 and alternate in chairing IDAG20 from one G-20 presidency to the next. For instance, SECO led IDAG20 during the French presidency and currently SIF is leading IDAG20 during the Mexican presidency.¹⁶

Other actors are also informed by the respective sector ministries as seen needed and useful and there are sectoral consultations on trade, finance, labour and the fight against corruption. As will be discussed, the most important issues for Switzerland that were addressed at the recent G-20 meeting in Los Cabos, Mexico, were taxation and the reinforcement of IMF financial and monetary policies.¹⁷

Figure 5: IDAG20 and different actors involved in shaping Switzerland's financial policy and economic diplomacy



Source: Author's own elaboration.

Ministries forming the IDAG20 interact with different state and non-state actors that are involved in shaping Switzerland's financial policy and economic diplomacy. These actors represent the Swiss Financial Supervisory Authority (FINMA), an independent supervisory authority that protects creditors, investors and policy holders, ensuring the smooth functioning of the financial markets and preserving their reputation;¹⁸ the SBA, a professional organisation with the purpose of maintaining and promoting the best possible framework conditions for the Swiss financial centre;¹⁹ Economiesuisse, the leading lobbying group of Swiss industries;²⁰ Alliance Sud, an alliance pressure group of leading Swiss NGOs involved in development aid;²¹ the Finance and Foreign Affairs Committees of the two parliamentary chambers (National Council and Council of States) of the Federal Assembly;²² and the media and political parties. These different actors are consulted by the government authorities in order to establish the Swiss financial policy based on broad political support.

SWITZERLAND AND GLOBAL ECONOMIC GOVERNANCE, THE G-20 AND UN MEMBERSHIP²³

The G-20 has established itself as the premier centre for global economic policymaking. This represents a challenge and a wake-up call for the UN to strengthen its economic competence (that is, through the establishment of a Panel of Experts on systemic risks whose mandate could be inspired by the Intergovernmental Panel on Climate Change).

Switzerland is member of the UN based 3G grouping which consists of 28 member countries in 2009 of very heterogenous backgrounds in regard to level of development, political make up and international alliances. Singapore and Switzerland are the two 3G countries which have distinct interest in the issues pertaining to the financial sector. The 3G group presented a letter (A/64/706) to the Secretary General with proposals to build bridges between the UN system and the G-20, including the following.

- Consultations between the G-20 and the wider UN membership through more predictable and regular channels before and after G-20 Summits.
- Formalisation of the participation of the Secretary General and his Sherpa at G-20 Summits.
- A 'variable geometry' approach allowing non-G-20 states to participate in ministerial gatherings and other working groups involving senior officials and experts on issues of specific concern to them.

Another proposal was to 'formalise' the informal meetings in the General Assembly organised before and after the G-20 Summit in Seoul. Switzerland recognises the importance of the G-20, along with its increasingly important impact on IOs within and outside the UN system. Switzerland hence carries out mandates and studies on behalf of the G-20 for the preparation of summits. This has become a challenge to existing legitimate governance arrangements. According to the document establishing the Swiss position, 'there is a risk that a governance structure of an informal nature is being created, with the G-20 shaping the priorities and defining mandates of the International Organizations in question in an unprecedented way.'²⁴ In Switzerland's view, the interaction between the

G-20 and the IOs should be made more transparent. The Swiss recommendations are reproduced here.

- After every G-20 Summit, the G-20 should publish all prospective mandates to be carried out by IOs and include information on the nature and scope of the mandate as well as its objectives, resources and timeframe. These mandates should be in line with the strategic objectives of the IOs concerned.
- Governing bodies of IOs should receive regular briefings by their secretariats on the status of implementation of G-20 mandates.
- Studies carried out by IOs on behalf of the G-20 should be submitted to all their member states. If appropriate, findings should be discussed with member states in a timely manner.
- Secretariats of IOs should disclose fully the budgetary implications of G-20 mandates to their governing bodies. The G-20 should ensure that the necessary funding is provided for the accomplishment of these mandates and that cross-subsidisation from core resources is avoided. If there is a funding shortfall, the respective governing bodies should decide on the way forward.
- Decisions relating to the governance, strategies, management and financing of IOs should be made in the respective governing bodies of the IOs in question.

All in all, convinced by the importance of moving closer to the G-20, Switzerland has organised to defend its economic and financial interests in key areas and to promote solutions for the World financial crisis. The Federal Council adopted in this sense, in early 2010, a strategy based on two axes: a proactive strategy to influence positions central to the agenda of the G-20; and a preventive strategy to strengthen Swiss positions in the IOs that are often mandated by the G-20 to prepare studies and policy recommendations.

POSITIONING OF SWITZERLAND'S FINANCIAL CENTRE

Switzerland has established a new financial market strategy in response to the challenges presented by the international financial and economic institutions (the OECD, IMF and the BIS). This policy was conceived by the FDF together with FINMA and the SNB to set out goals of financial market policy. In December 2009 the Federal Council adopted the report entitled *Strategic Guidelines for Switzerland's Financial Market Policy*.²⁵ The main elements for the implementation of this strategy are listed.

- Strengthening competitiveness is a horizontal responsibility that fundamentally affects all areas of policy and that is important far beyond financial market policy.
- Barriers to market access can be eliminated in a targeted manner with liberalisation agreements. Additionally, already existing market access can be secured under international law.
- Crisis resistance of the banks is improved in three ways: more equity capital; more liquidity (potentially with a progressive structure); and better risk diversification.
- Switzerland continues to participate intensively in numerous peer review processes of

the Financial Stability Board, the Global Forum, the FATF on Money Laundering, and other international bodies.

Another element considered by the Swiss strategy is to guarantee the protection of privacy of citizens and clients, in which Switzerland supports international co-operation in tax matters. For Switzerland, to ensure legal certainty and predictability means that:

- information exchange is granted to foreign tax authorities only upon request and in specific individual cases;
- 'fishing expeditions' are ruled out;
- the prohibition of retroactivity applies to new rules;
- in administrative assistance, the principles of subsidiarity and reciprocity apply; and
- legal protection of the person concerned must be guaranteed.

Since Switzerland's adoption of the OECD standard on administrative assistance in cases of tax evasion in March 2009, the country has negotiated double taxation agreements with 25 states in which the new standard has been incorporated on a bilateral basis. The new financial market policy seeks:²⁶

to create a good framework for the high-added-value financial sector, to ensure a high level of systemic stability and performance, to preserve the integrity and reputation of the Swiss financial centre, and to enable suppliers in the Swiss financial centre to continue to offer high-quality services for the national economy.

This new fiscal policy reflects the Swiss core interests in regard to economic and financial issues. Switzerland is also a very active member of the Financial Stability Board which develops and promotes the implementation of effective regulatory, supervisory and other financial sector policies. The secretariat of the FSB is hosted by the BIS in Basel.²⁷

Switzerland's offensive interests in the G-20, 3G, OECD, IMF and the BIS

To actively defend its economic and financial interests and to help solve international problems, Switzerland has tried, unsuccessfully, to become a member of the G-20 by promoting the importance of its financial sector.

According to the SBA's 2015 Financial Centre Strategy, the financial sector is the largest contributor to Switzerland, generating over 12% of GDP, accounting for 12–15% of the country's tax revenues and providing 195 000 skilled jobs. Following the SBA, banking in and from Switzerland is:²⁸

concentrated on two core business sectors: retail and corporate banking in the Swiss domestic market and international asset management provided in and from Switzerland. Furthermore, Switzerland – unlike competing financial centres – coped very well with the financial crisis. The government aid given to one bank has already been paid back together with a profit for the treasury. The very low level of government debt compared with other countries offers excellent growth opportunities.

In this context, the most relevant topics supported by Switzerland at the G-20 are the reform of the international monetary system, strengthening of financial regulation, volatility of commodity prices, development, employment, fight against corruption and governance. Switzerland used all available opportunities to improve its links with the G-20 and bring its economic and financial interests to bear in the work of this group. It participated in preparatory meetings held by the G-20 and contributed actively to IOs entrusted with implementation tasks by the G-20.

As will be discussed, Switzerland uses the 3G as an institutional channel to support the promotion of its core interests in regard to global economic governance. The main requirement of the 3G is for transparency of the G-20.

The governance relationship between the G-20 and IOs like the OECD is a central concern of Switzerland. Indeed, the mandates given by the G-20 have a strong impact on the priorities of IOs. For instance, the volatility of commodity prices has become a priority for the OECD, Food and Agriculture Organization (FAO) and the IMF. In addition, the link with the OECD is very important for Economiesuisse, which proposes that the pressure should be maintained on countries with protectionist trade measures, at the initiative of IOs such as the OECD and WTO.²⁹

Another crucial context for the promotion of Swiss financial policy interests is the IMF. The duties of the IMF include the promotion of international co-operation on monetary policy, stabilisation of exchange rates, lending and technical assistance. Switzerland leads a constituency which currently includes Azerbaijan, Kazakhstan, Kyrgyzstan, Poland, Serbia, Tajikistan and Turkmenistan. This constituency will have an overall voting share of 2.77% following the entry into force of the new quota and governance reforms – probably in 2014. Switzerland's share will fall from 1.45% to 1.21%.³⁰

The SNB organised, jointly with the IMF, a high-level meeting on the IMF reforms in May 2011. On the other hand, the FDF joined together with FINMA and the SNB to set out goals of financial market policy. In December 2009 the Federal Council adopted the report entitled *Strategic Guidelines for Switzerland's Financial Market Policy* (see the previous section).

Switzerland's defensive interests regarding financial governance issues

According to the SBA's 2015 Financial Centre Strategy, at the international level, the Swiss financial centre:³¹

faces huge challenges. In the wake of the financial crisis and the resulting high levels of government debt experienced by many major countries, the pressure has increased on internationally successful financial centres such as Switzerland to co-operate more closely on tax matters.

One of the landmark decisions of the G-20 was the April 2009 publication at the London Summit of a 'blacklist' of unco-operative tax jurisdictions developed by the OECD.³² Switzerland was on this list, prompting it to implement major changes in its fiscal policy. Switzerland has also been affected by the implementation of protectionist measures adopted by some members of the G-20, such as the EU, China, Argentina, India and Indonesia.³³ In the trade sphere, although the country maintains that it provides total free

market access for goods from the poorest countries, according to Alliance Sud, 'it fails to mention the hidden customs duty on rice, coffee and sugar imports with which it finances its emergency stockpiles.'³⁴

Another front in which Switzerland has had to defend itself relates to banking secrecy and the regulations of offshore financial centres. The country has faced a number of peer reviews at the OECD level, covering tax issues, the integration of migrants and their children into the labour market, health systems and economic policy.

For Switzerland with its important financial centre and its strong export industry, a stable international financial and monetary system is of prime importance. Aside from the implementation of a prudent national financial market policy, Switzerland therefore supports the international initiatives to overcome the financial crisis and its after-effects. It works on developing standards in the most important IOs and bodies of the financial sector. Along with analysing and dealing with the financial crisis, this also has to do with creating an effective framework for international financial market regulation.³⁵

Switzerland's prominent financial sector has been criticised by some NGOs (for example, the Tax Justice Network) owing to the country's implication among an array of tax havens hiding about \$21 trillion of offshore assets by the super rich worldwide.³⁶ According to them, important Swiss banks like the UBS and Credit Suisse have been identified as banks that help in hiding money from developing countries. One of the main elements being faced by the Swiss authorities is the criticism that the very:³⁷

existence of the global offshore industry, and the tax-free status of the enormous sums invested by their wealthy clients, is predicated on secrecy: that is what this industry really "supplies" as it competes for, conceals, and manages private capital from all over the planet, from any and all sources, no questions asked.

The fact that banks may not disclose any information about the financial affairs of private individuals to third parties can lead to abuse, endangering the reputation of Switzerland's position as a financial centre of integrity. According to the FDF, Switzerland is 'committed to combating cross-border financial crime. Moreover, it negotiates agreements with various countries. It offers support in the case of justified suspicion of tax fraud.'³⁸ Other measures implemented in 2009 have to do with the adaptation of the Swiss double taxation agreements in accordance with Article 26 of the OECD Model Convention.

Article 26 of the OECD Model Tax Convention provides the most widely accepted legal basis for bilateral exchange of information for tax purposes. According to the OECD:³⁹

Article 26 creates an obligation to exchange information that is foreseeably relevant to the correct application of a tax convention as well as for purposes of the administration and enforcement of domestic tax laws of the contracting states. Countries are not at liberty to engage in "fishing expeditions" or to request information that is unlikely to be relevant to the tax affairs of a given taxpayer. In formulating their requests, the requesting state should demonstrate the foreseeable relevance of the requested information. In addition, the requesting state should also have pursued all domestic means to access the requested information except those that would give rise to disproportionate difficulties.

In addition to the above-mentioned measures, the Swiss Federal Council is examining a final withholding tax, collected by Swiss banks on the investment income of foreign clients and forwarded to the relevant tax authorities. Switzerland rejects the automatic exchange of information.⁴⁰

All in all, the strong position held by the Swiss financial centre has benefited from particularly conducive conditions. However, growing international regulation and standardisation are diminishing the competitive advantage of Switzerland's traditional strengths as a financial centre. Targeted improvements of 'new' competitive factors will thus have to be made. Switzerland will in future adopt more international standards relating to regulation and supervision. This will, however, reduce the leeway for competitive advantages, which constitutes a risk for the Swiss financial sector.

CHANNELS THROUGH WHICH SWITZERLAND'S INTERESTS ARE PURSUED⁴¹

Switzerland uses the different channels identified in the previous sections to safeguard its financial interests. The different initiatives implemented based on Switzerland's strategy are related to different steps of the international policy space. Figure 6 identifies Switzerland's initiatives and its relation to the particular steps of the policy space.

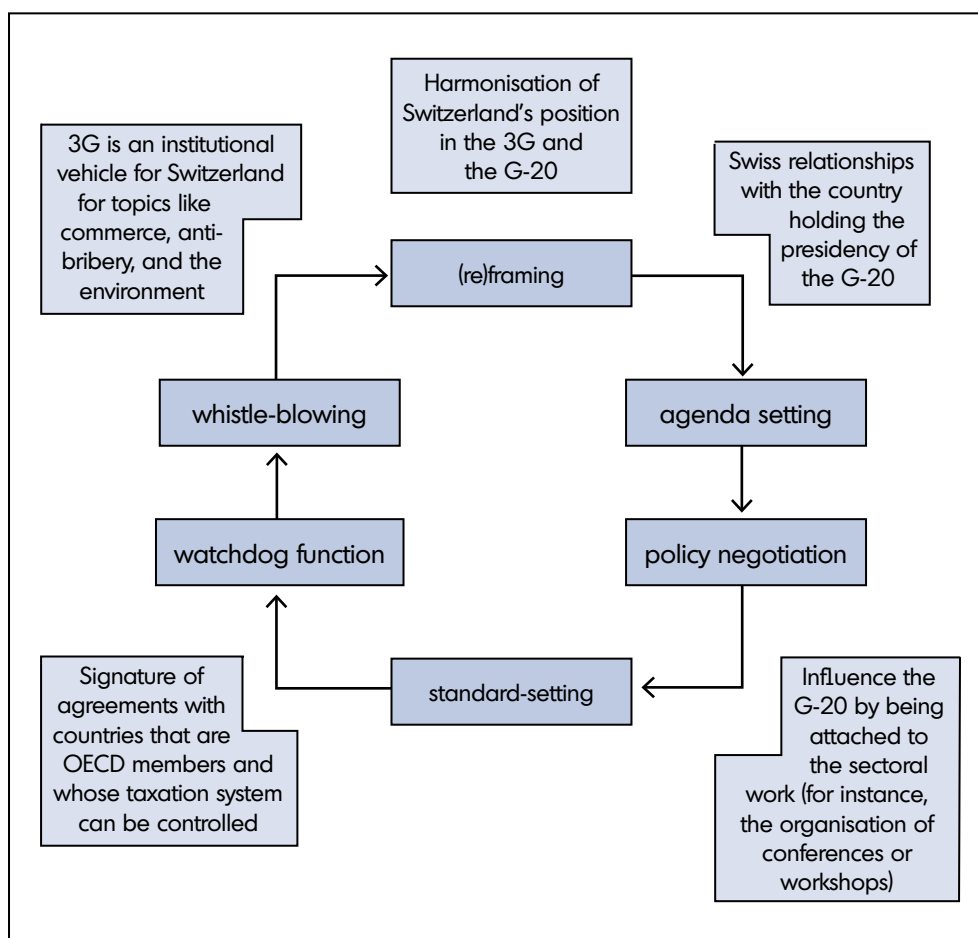
A successful channel to influence the G-20 was the Swiss relations with the French presidency in 2011. Although Switzerland is not member of the G-20, the alternative to influencing the group was to be attached to the sectoral work being undertaken (for instance, the organisation of conferences or workshops; Switzerland organised one on IMF reform in Zurich – see the Annex section for an overview of the G-20 meetings in which Switzerland has participated). Switzerland was invited to attend the sectoral meetings, like the one on Tourism. In the sectoral domain, Switzerland has also used its influence through IOs and bilateral or regional agreements.

As discussed, Switzerland's 'value added' of its accounting and financial sectors relies on the fact that Switzerland has signed agreements with countries that are OECD members and whose taxation systems can be controlled. This initiative is very much in line with the ideas of credibility and transparency promoted by the Swiss foreign economic policy.

The 3G is an institutional vehicle for Switzerland. Topics that offer some consensus among the members of the group include commerce, anti-bribery and the environment. 3G members are planning to establish a common declaration, an initiative initiated by Singapore serving as a bridge with the UN. The 3G requested the G-20 to invite the UN Secretary General to participate in the G-20 meeting. Singapore was subsequently also invited to a G-20 meeting (Switzerland was not). Chile and Colombia were recently invited to the Los Cabos, Mexico, meeting. However, it has been difficult to reach consensus in terms of 'substance' or specific topics between the members of the group because of their heterogeneity.

An important element for influencing the G-20 is the fact that Switzerland's positions vis-à-vis the 3G and the G-20 are harmonised. Although the 3G is less focussed on substance since members are not 'like-minded' countries, Switzerland uses this group for networking, influencing and alliance building. On specific issues such as trade or finance, Switzerland pursues other institutional channels and does not have to avail itself

Figure 6: International policy space: Switzerland's interests in the G-20



Source: Author's own elaboration based on Saner R & M Varinia (eds), *Negotiations Between State Actors and Non-State Actors: Case Analyses From Different Parts of the World*. Dordrecht: Republic of Letters, 2010, p. 28.

of the G-20 or 3G mechanisms. If there is a trade conflict with a member of the G-20, the channels of influence could be applied via the Dispute Settlement process of the WTO or the debates at the OECD Trade Committee. For financial issues influence can also be exerted through the Global Forum on Transparency and Exchange of Information for Tax Purposes of the OECD.

Finally, relations with other IOs are also most relevant for channelling Swiss interests. Switzerland uses the OECD to influence the G-20. The G-20 relies on the OECD to work in different specific areas in which Switzerland has competence and can contribute by providing substantive inputs. In addition, there is the bilateral approach, where links to the presidency of the G-20 are very important (at the presidential, ministerial, and operational levels). The OECD conducts a lot of work on behalf of the G-20. Contributing to such preparatory and analytical work offers excellent opportunities to shape issues and perceptions.

CONCLUSION

Switzerland has been able to navigate the international policy arena, particularly the financial governance system, and avoid pressures on its banking system (banking secrecy, tax fraud) by the large OECD competitors (financial service competitors) like the UK and the US while also trying to influence the G-20 in general (not only concerning the financial system). Key elements of this success have been its close links to the French presidency, the possibility to participate in and organise sectoral meetings, and its traditional 'neutral' approach, keeping the country out of foreign conflicts but also supporting a position of active solidarity to alleviate the impacts of the financial crisis.

'Lessons learnt' based on the case of Switzerland include the following.

- Being small and not included in the G-20 means that establishing informal and formal contacts with G-20 member countries are very important, as well as participation in and organisation of preliminary meetings.
- Being small and not included in the G-20 necessitates the need to maintain good informal relations with the G-20 presidency.
- 'Conference diplomacy' can be used as a tool to influence the G-20 agenda and deliberations.
- Meetings before the G-20 summits are crucial to preventive and proactive positions important to Switzerland (deletion, weakening or inclusion of topics).
- Banking secrecy and taxation are key factors of Switzerland's competitiveness of its financial sector. It has been and remains important for Switzerland to participate in reforms of the regulatory fiscal and financial sectors system without losing competitiveness by ensuring adequate participation of competitors in fiscal and monetary reform (for example, the US, the UK, Singapore and Hong Kong, among others).
- Participating in and shaping current and emerging agendas of various IOs is very important to ensure the safeguarding of national interests. The G-20 has an impact on discourse and policymaking of different IOs, not only the IMF and the OECD. Financial, fiscal and economic policies and agreements are often interdependent and linked to secondary and tertiary sectors falling under the governance of other IOs like the UNFCCC, International Labour Organization (ILO), the International Organization for Migration and the FAO. Actively and pro-actively participating in different IOs necessitates successful policy co-ordination and policy consultation involving many more ministries, federal offices and stakeholders. This in turn poses a formidable challenge to a government's policy coherence, irrespective of whether a country is small or large, and developing or developed.

All in all, the functioning of effective inter-ministerial co-ordination mechanisms (both at the national and international levels) is crucial in promoting and supporting the interests of a small state like Switzerland in the international arena of economic and financial global governance.

ANNEXURE

Annexe 1: G-20 policies (financial and fiscal sectors) and vulnerabilities of small states

Issue	Topic	Link to small states
Stimulus exit strategies	Fiscal and monetary stimuli	Faster fiscal consolidation will affect global growth but also its sustainability; if the global economy is more stable, small states face fewer shocks.
Financial regulation	Financial regulation	Stricter rules on banking capital adequacy ratios may reduce bank lending to small states, but will also reduce capital flow volatility. Financial services in small states are under pressure through more stringent regulations and in particular the focus on international financial centres, many of which are centred in small states.
G-20 growth framework	Rebalancing (trade, reserves, consumption, services productivity)	Different growth, trade and consumption patterns in the G-20 will affect small states (for example, some depend more on the US and the EU and less on Asia, so a shift in consumption matters).
G-20 growth framework	Flexible exchange rates	Depends on trade and finance structures of small countries; Africa as a whole would gain.
New issue: climate finance	Climate finance and low-carbon development	Small states are highly exposed to effects of climate change (for example, sea level), so more climate action will help the development of small states.
Development agenda	Financial inclusion	Small states are sometimes excluded from financial inclusion, for example, they have benefited less from debt relief than least-developed countries (LDCs).
	Trade	Duty-free and quota-free market access for LDCs might not be beneficial (or harmful) for non-LDC small states, and there are several political economy issues. Aid for Trade is particularly useful for small states. Support for regions such as the Caribbean Community Single Market Economy and the Pacific.
	Infrastructure	The G-20 could promote finance for infrastructure, ranging from aid, to Development Finance Institutions, foreign direct investment and portfolio investment. Many initiatives do not cover small states or do not account for their specific vulnerabilities.

Issue	Topic	Link to small states
	Knowledge sharing on growth and investment (especially including from emerging markets to low-income countries)	Small states will be interested in this because they seek to promote acknowledgement of diversity; some small states' networks exist and could be linked.
Financial safety net	Safety net so that poorest countries are protected from capital flows volatility	It is important to ensure that the smallest countries are included in this financial safety net, to extend shock absorbers to small states as they are highly exposed to (external) shocks.

Source: Commonwealth Secretariat and La Francophonie, *Development at the G-20 A Commonwealth role in facilitating, implementing and monitoring, with a focus on Commonwealth small states*. Commonwealth Secretariat, Marlborough House, Pall Mall, London, June 2011.

Annexe 2: Overview of Switzerland's core interests

	Switzerland's offensive interests	Switzerland's defensive interests
G-20	<p>Switzerland has tried unsuccessfully to become a member of the G-20 by promoting the importance of its financial centre.</p> <p>Topics: reforming the international monetary system, strengthening financial regulation, improving the volatility of commodity prices, development, employment, fighting against corruption and governance.</p> <p>Improving links with the G-20 and bringing Swiss economic and financial interests to bear in the work of this group. Participation in preparatory meetings held by the G-20 and active contribution to IOs entrusted with implementation tasks by the G-20. The appointment of Philipp Hildebrand as Vice-Chairman of the Financial Stability Board was particularly significant.</p>	<p>Switzerland's inclusion in 2009 in a 'blacklist' of unco-operative tax jurisdictions developed by the OECD resulted in major changes in its fiscal policy.</p> <p>Switzerland is affected by the implementation of protectionist measures adopted by some members of the G-20, such as the EU, China, Argentina, India and Indonesia (Economiesuisse).</p>
3G	<p>Switzerland is a member of the 3G. The group requests for transparency in the G-20.</p>	
OECD	<p>The governance relationship between the G-20 and the IOs is a central concern of Switzerland. Indeed, the mandates of the G-20 have a strong impact on the priorities of IOs. Volatility of commodity prices has become a priority for the OECD and FAO. The IMF, meanwhile, is strongly mobilised by the framework for strong, sustainable and balanced growth promoted by the G-20.</p> <p>The pressure on protectionist countries should be maintained, at the initiative of IOs such as the OECD and WTO (Economiesuisse).</p>	<p>Banking secrecy / Offshore financial centre</p> <p>A number of peer reviews of Switzerland, covering tax issues, the integration of migrants and their children into the labour market, health systems and economic policy.</p> <p>Since Switzerland's adoption of the OECD standard on administrative assistance in cases of tax evasion in March 2009, the country has negotiated double taxation agreements with 25 states in which the new standard has been incorporated on a bilateral basis.</p> <p>Switzerland probably has the largest number of direct employees in private banking, about 200 000, according to the SBA.</p>

	Switzerland's offensive interests	Switzerland's defensive interests
IMF	<p>The SNB organised, jointly with the IMF, a high-level meeting on IMF reform in May 2011.</p> <p>Switzerland leads a constituency which it currently forms together with Azerbaijan, Kazakhstan, Kyrgyzstan, Poland, Serbia, Tajikistan and Turkmenistan. The constituency will have an overall voting share of 2.77% following the entry into force of the quota and governance reforms – probably in 2014. Switzerland's share will fall from 1.45% to 1.21%. (Source: FDF website.)</p>	<p>For Switzerland with its important financial centre and its strong export industry, a stable international financial and monetary system is of prime importance. Switzerland therefore supports the international initiatives to overcome the financial crisis and its after-effects. It works on developing standards in the most important IOs and bodies of the financial sector. (Source: FDF website.)</p>
BIS	<p>The FDF has collaborated with FINMA and the SNB to set out goals of financial market policy. In December 2009 the Federal Council adopted the report entitled <i>Strategic Guidelines for Switzerland's Financial Market Policy</i>. This report can be found at http://www.efd.admin.ch/dokumentation/zahlen/00578/01622/index.</p>	<p>The strong position held by the Swiss financial centre has benefited from particularly conducive conditions. Growing international regulation and standardisation are diminishing the competitive advantage brought by Switzerland's traditional strengths as a financial centre. Targeted improvements of the 'new' competitive factors will thus have to be made.</p> <p>Switzerland will in future adopt more international standards relating to regulation and supervision. Only in that way can it achieve international recognition of the equivalence of its regulation and supervision. This, however, reduces the leeway for competitive advantages, which constitutes a risk for the financial sector.</p>

Sources: Jordan D, 'Le G-20 et la Suisse: un besoin réciproque de dialogue', *La Vie économique Revue de politique économique*, 2011; Switzerland, Swiss Federal Department of Finance Brochures; Economiesuisse, Des accords de libre-échange pour lutter contre le protectionnisme, Dossier politique, 13, 2012; Sansonetti R, 'La problématique des places financières offshore et la position de la Suisse', *La Vie économique Revue de politique économique*, 2001; Switzerland, Swiss Federal Council, Overview of the Foreign Economic Policy Report, 2011, <http://www.news.admin.ch/NSB-Subscriber/message/attachments/25340.pdf>.

Annexe 3: Overview of the G-20 meetings in which Switzerland participated, 2011

Meeting	Date, Location	Details
G-20 Summit	3–4 November, Cannes	
G8	26–27 May, Deauville	
G-20: Ministers of Finance	18–19 January, Paris	
	14–15 April, Washington	
	23 September, Washington	Joint meeting with Ministers of Development.
	14–15 October, Paris	
Seminars	29–31 March, Nanjing, China	High-level seminar on the financial system; Swiss participation by the Ministry of Finance and the Swiss Central Bank.
	27 June, Paris 30 July, Rio de Janeiro	Conference on export financing. Swiss delegation to the Rio de Janeiro Workshop on Monetary Policy.
	7 July, Paris	Workshop on new developments in the finance sector.
	13 September, Istanbul	Conference on the price volatility of raw materials; Swiss participation through the Ministry of Finance.
G-20/G8/AEN Ministers of Energy (nuclear security)	7 June, Paris	Swiss Participation through Swiss Minister Leuthard.
G-20: Ministers of Agriculture	22–23 June, Paris	
G-20: Ministers of Labour and Employment	26–27 September, Paris	
G-20 and other high-level conferences involving IOs (ILO, IMF, OECD, World Bank, WTO, UN Development Programme)	23 May, Paris	Participation by Swiss Minister Schneider Amman.

Source: Jordan D, 'Le G-20 et la Suisse: un besoin réciproque de dialogue', La Vie économique Revue de politique économique, 2011 (translated by the author).

ENDNOTES

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