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The Global Competitiveness of Switzerland

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Abstract

In this paper we consider the competitiveness of Switzerland, which has been a perennial leader in the Global Competitiveness report. We examine the key factors that underline Switzerland's success and identify issues that need to be addressed for the country to continue to be a leader in this area.

Keyword**s**: *competitiveness, Switzerland, institutions, business environment, innovations.*

Introduction

Competitiveness is a set of institutions, policies and factors that determine the level of productivity of a country [1]. Competitiveness is how countries create the best economic, social and environmental conditions for economic development. Striving for competitiveness is striving for raising prosperity, it means creating more opportunities to improve people life. A competitive economy is most likely to grow sustainably. There are 12 main elements that drive the productivity of a country:

- *Institutions.* The institutional environment is determined by the legal and administrative framework within which individuals, firms and governments interact to generate country's wealth.
- *Infrastructure.* Infrastructure is an important factor in determining the location of economic activity and the kinds of activities or sectors that develop within a country. Well-developed infrastructure reduces the effect of distance between regions, integrating the national market and connecting it at low cost to markets in other countries and regions.
- *Macroeconomic environment.* The stability of the macroeconomic environment is important for business and, therefore, is significant for the overall competiveness of a country.
- *Health and primary education*. Health and primary education are crucial to increasing labor efficiency and productivity.
- *Higher education and training*. These are crucial for economies that want to move up the value chain beyond simple production processes and products. They are necessary for innovative development.
- *Good market efficiency.* Countries with good market efficiency are well positioned to produce the right mix of products and services given their particular supply-and-demand conditions, as well as to ensure that these goods can be most effectively traded in the economy.
- *Labor market efficiency.* The efficiency and flexibility of the market are critical for ensuring that workers are allocated to their most efficient use in the economy and provided with incentives to give their jobs.
- *Financial market development.* An efficient financial sector allocates the resources saved by a nation's citizens, as well as those entering the economy from abroad, to their most productive uses.
- *Technological readiness.* Technological readiness measures the agility with which an economy adopts existing technologies to enhance the productivity of its industries.
- *Market size.* The size of the market affects productivity since large markets allow firms to exploit economies of scale.
- *Business sophistication*. The sophisticated business practices are conducive to higher efficiency in the production of goods and services.
- *Innovation*. Economic development depends on the element of innovation. [2].

All these elements are taken into account in the global competitiveness index (GCI), which is calculated by the method of the World Economic Forum (WEF). This index gives insight into development of a country, and also reflects the effectiveness of the policies pursued by all countries.

The paper is dedicated to the competitiveness of Switzerland due to the fact that it is a leader in the ranking of Global Competitiveness during 5 years. In 2013, its index was

5,7 points, the highest level among all countries [2]. So, what are the key factors of Switzerland success?

Research and Results

Despite the financial crisis in the euro area in recent years, Switzerland's has displayed an impressive growth performance. Switzerland economy is one of the most stable in the world, despite the many neighboring economies which continue to struggle in this area [2]. One of the many reasons for this is the use of a "debt brake" since 2003, which aims at maintaining a balance of government income and expenditure**.** After peaking at around 130 billion Swiss francs in 2005, Swiss national debt was cut to around 110 billion by the end of 2011 (Figure 1). Such fiscal instrument is oriented towards reducing federal debt [3].

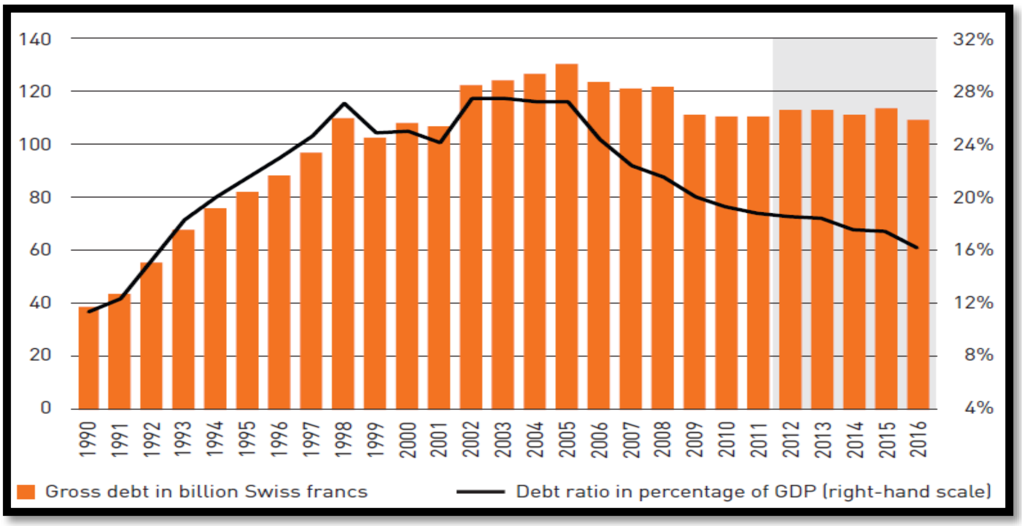

Figure 1- Development of Swiss national debt (1990 to 2016), gross debt in billion Swiss francs, debt ratio in percent of GDP.

The second important feature of a well-developed economy is a low inflation that shows us the stability of the economy. As you can see in Figure 2, there were2 years when inflation rate was even below zero (2009 and 2012).

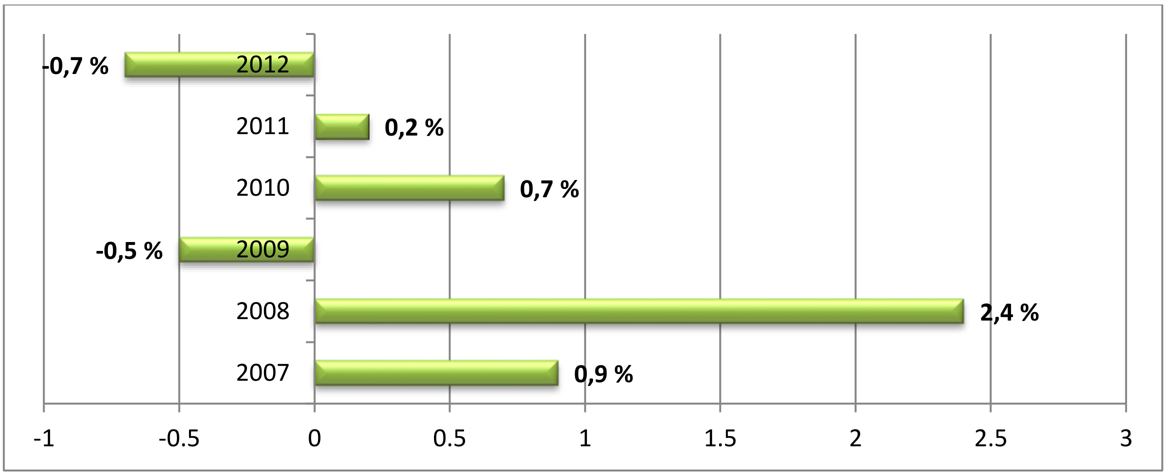

Figure 2 – Dynamics of Switzerland's inflation, %, 2007-2012 [13].

Until 2009, GDP per capita of Switzerland had been growing faster in comparison with the world; however, in 2010, there was a noticeable trend of slower economic growth in the Swiss economy. Experts attribute this process, first of all, to a significant strengthening of the Swiss franc against major world currencies and, accordingly, reduced growth of Swiss exports. Nevertheless, according to the rating of the IMF, Switzerland ranked 4th in the world in GDP per capita, amounting to $ 80,276 in 2013.

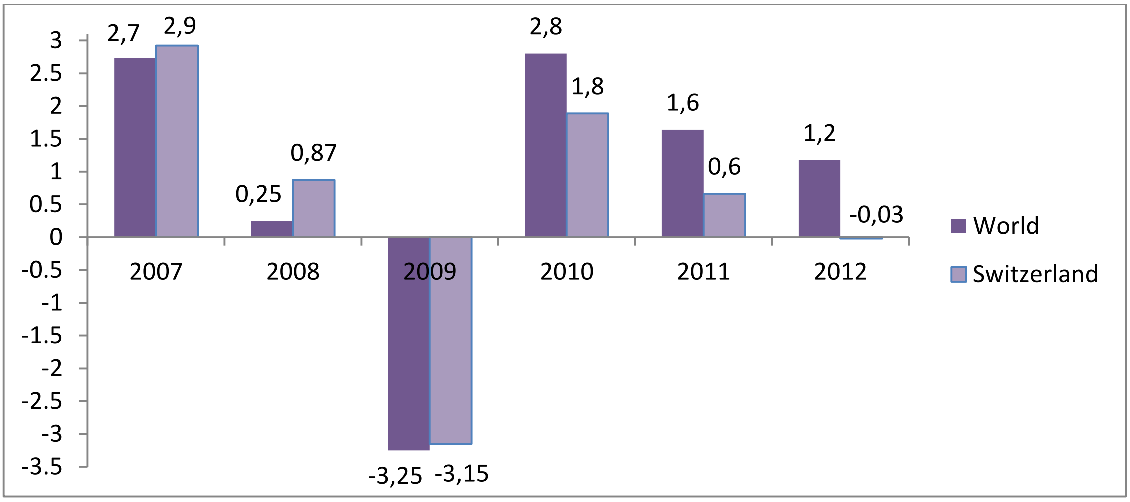

Figure 3 – Dynamics of GDP per capita annual growth (%) of Switzerland and World [10].

Although Switzerland is not a member of the European Union (EU), its economy is actually highly integrated with other European markets, particularly through existing bilateral agreements. An export of goods to the EU was about 56% of the total, import – 75% in 2012. Germany, Italy, France are the main trading partners, the shares in exports being 19,7%, 7,1%, 7% respectively. In imports their shares are a bit higher: Germany – 29, 3%, Italy – 10, 2%, France – 8, 4% [8].

The effects of the sovereign debt crisis in Europe on Switzerland’s monetary policy have also highlighted just how highly connected the Swiss economy is to its European neighbors [2]. The crisis affected the country's exports. Due to a significant inflow of foreign capital, the Swiss franc rose against the dollar.

In spite of such strong integration with the EU, which in recent years carried a negative effect, Switzerland has 3 main drivers of development that contribute to the economic stability of the country. These include: high quality institutions, the dynamism of the domestic market and the strong potential for innovation [2]. However, it should be understood that other factors also have contributed significantly to the development of Switzerland’s economy.

High quality of institutions. Government institutions in Switzerland are among the most efficient and transparent Switzerland is different from other countries as a result of its unique governance structure. In addition to its highly decentralized form of federalism, seven members of the Federal Council act as a collective head of state. A president is nominated each year from among the seven federal councilors, who takes on only representative functions. Another important feature is a strong collective culture, which is shared by all stakeholders (government, business and individuals). The main idea is that all sides work together for the benefit of the state and collectively make important decisions. Governance structure—including an independent judiciary, the rule of law and strong public sector accountability—ensures a level playing field, increasing business confidence, and thereby enhancing competitiveness [2].

As we can see in Table 1, Switzerland had high positions in many institution's indicators over the last 5 years. However, it should be noted that private organizations are faced with some difficulties. Although Switzerland has high corporate ethics, quite good level of auditing and reporting standards, investor protection index , which is calculated by the World Bank , fell from 127 rank in 2010(that was already bad) to 134 rank in 2013.

Indicators	2008	2010	2013
	Rank(1-134)	Rank(1-139)	Rank(1-148)
Property rights	1	1	3
Intellectual property protection	1	4	5
Public trust in politicians	5	12	12
Irregular payments and bribes	-	10	9
Judicial independence	7	4	9
Wastefulness of government spending	11	9	8
Efficiency of legal framework in setting disputes	-	10	6
Ethical behavior of firms	9	6	4
Strength of auditing and reporting standards	19	25	21
*Strength of investor protection, 0-10 (best)	-	127	134

Table 1 – The Global Competitiveness Index in detail: institution's indicators for 2008, 2010, 2013 [1], [2], [4].

A positive environment for doing business. Switzerland's economy benefits from a highly developed service sector, led by financial services, as well as a manufacturing industry that specializes in high-technology, knowledge-based production. Switzerland economy is a service economy, where service sector accounts for 72,5% of GDP while manufacturing and construction is about 26,8% of GDP in 2012 [8].

Accounting for 11,1% of GDP in 2012 and employing around 261,000 people (5,5% of employed population in Switzerland), the Swiss financial sector is one of the key economic sector. There are many different services, which can be used in such financial areas like private banking, asset management, wealth management and insurance. The banking sector alone accounts for CHF 34 billion of value added, corresponding to 6% of overall value added. The corresponding amount for the insurance sector is CHF 28 billion respectively 5%. Including indirect effects, the added value of the whole financial sector increases from CHF 62 billion to CHF 86 billion, which is equivalent to 15% of Swiss added value [9]. Switzerland' share in the international private banking is 27%, which makes it a world leader in this market [5].

As of year-end 2012 there were 297 banks, 3,294 branches residing in Switzerland (Table 2). In addition, banks in Switzerland disposed of 263 branches abroad. Banks in Switzerland managed around CHF 5,565 billion as the end of 2012, 51% of which came from abroad [9].

	Number of banks	Total assets in CHF billion	Proposition of total assets, %
Big banks	2	1,365	49,1
Cantonal banks	24	482	17,4
Foreign banks	131	406	14,6
Raiffeisen banks	1	165	6
Asset management banks	47	125	4,5
Regional and savings banks	66	104	3,7
Private bankers	13	62	2,2
Other banks	13	69	2,5
Total	**297**	**2,778**	**100**

Table 2 – Number of banks and total assets, 2012 [9].

The long history and stability of many Swiss banks are not the only features that made them popular places to store wealth. Another important reason that Swiss banking became so popular was the policy in place at most major Swiss banks. This was the policy of using numbered accounts. Instead of keeping records directly associated with the name of an individual or company, every account was issued a specific number. Someone at each bank always had access to the names associated with every account. However, this information was not widely known and was never disclosed to the public or even other employees. In most cases Swiss banking law prevented governmental authorities from accessing the names associated with an account unless it was proven that a crime had been committed. However, the anonymity of Swiss banking made it easy for both individuals and businesses to use Swiss bank accounts to hide assets. That is why in the past five years, tax authorities in the United States have prosecuted several Swiss banks with American holdings and won the right to gain access to formerly secret account records [5].

Competitiveness is also supported by a well-functioning labor market, which is the second in the world in 2013 [6]. In Table 3 you can see that the rate of unemployment is quite low. In 2013 it was 4,2%.

The healthy labor market is a result of an outstanding education system,, which produces a highly skilled labor force that continues to receive important on-the-job training. Unlike many other countries, Switzerland's labor force is growing, thanks to the migration of particularly skilled labor, and boosted by the bilateral agreements on free circulation with the European Union that entered into force in 2002 [2].

Switzerland is ranks first in the world in relation to the education system, quality of management schools, availability of research and training services and extent of staff training. Additionally, it ranked second and third on these same indicators in 2008. Growth was due to increased funding.. The state finances in education 5,3% of GNI annually since 2008 (2007 – 5,1% of GNI) [1], [2]. In 2011 it amounted CHF 30,9 billion [6]. Moreover, institutions are always in constant cooperation with companies and research centers. It allows for the hiring of higher-qualified workers for the jobs which are able to produce well-qualified products. Women as well as men have a quite high level of professional education (Figure 4). However, finding ways to integrate more women into the labor force will be important for enhancing the country's talent pool further.

	1991	2000	2011	2012	2013
Unemployed	39 222	71 987	122 892	125 594	136 524
Proportion of whom are long unemployed, as %	4,4	20,1	20,1	15,3	15,3
Unemployment rate, %	1,1	1,8	2,8	2,9	4,2
Men, %	1,0	1,7	2,8	2,8	3,2
Women, %	1,2	2,0	2,9	2,9	3,1
Swiss, %	0,8	1,3	2,1	2,1	2,2
Foreigners, %	2,1	3,7	5,2	5,5	6,0
15 – 24 years, %	1,1	1,8	3,2	3,2	3,4

Table 3 – Unemployment in Switzerland [6].

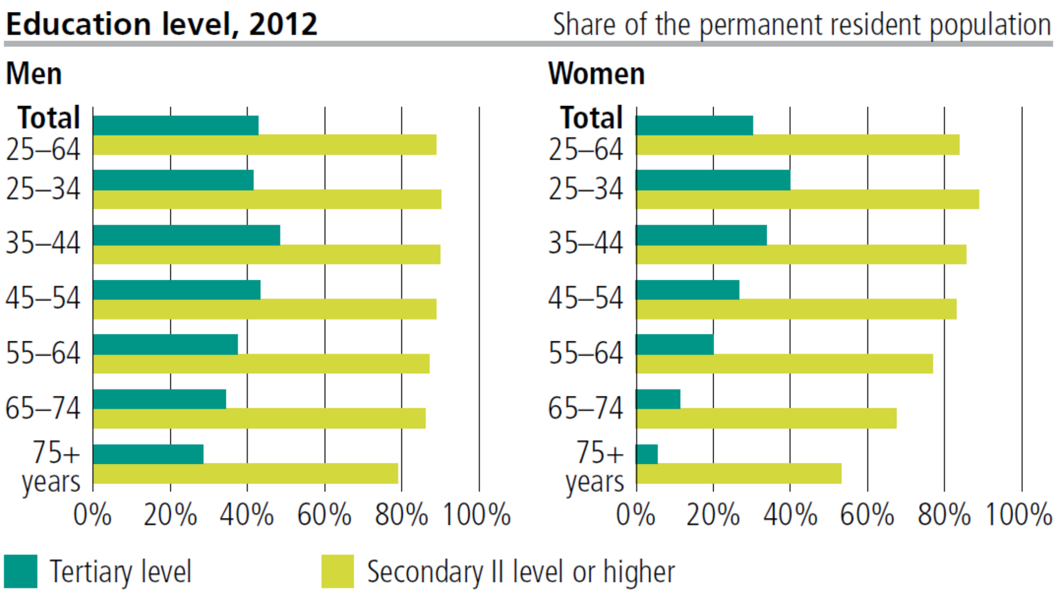

Figure 4 – Education level of Switzerland in 2012, %.

As a result, Switzerland has the highest quality of products and a very sophisticated products range. Indeed, financial and insurance services, as well as manufacturing watchers for industrial machinery and pharmaceuticals, have allowed the country to maintain the competitiveness of the first place ranking in spite of the strong depreciation of the national currency in recent years.

Nowadays, innovative potential is one the most important factors for a developing economy. In Switzerland, the great innovation system was created largely to attract highly qualified professionals. Today, it is a close relationship a universities, enterprises and research institutes that make Switzerland a major innovator. According to the report of Global Competitiveness 2013-2014, the country is a leader in innovative capacity of the market (5.8 points out of 7) and in the level of costs that companies spend in research and development of new products (6 points out of 7), the quality of scientific research institutions - 2nd place in the world (6,3 points out of 7). So strong innovative potential relates Switzerland on 2nd place in the world in patenting per capita (290 applications per million population). Thus, the main policy of Switzerland is the development of the educational system and innovative development [2].

The highest place ranking of Switzerland in global competitiveness is justified. Switzerland's economy is characterized by an excellent capacity for innovation, a well-qualified institutional environment, a very sophisticated business culture, a traditionally reliable financial sector, a very strong and effective education system, a productive labor market, as well as high spending on Research and Development (R&D). Switzerland's scientific research institutions are among the best in the world, and the strong collaboration between the academic and business sectors ensures that much of this research is translated into marketable products and processes, buttressed by strong intellectual property protection. This strong innovative capacity is captured by the high rate of patenting in the country.

Going forward, it will be important for Switzerland to resist drifting toward complacency. It is clear that, at present, it is a magnet for global talent and an excellent innovator. Its banking sector is, however, under scrutiny, and this traditional economic engine is necessarily undergoing great change. In the future, it will be important for the country to continue to build on its competitive strengths and resist overregulation and protectionism.

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