

## Analysis

### **Erosion Monitor #4**

#### **Report on the Status of Bilateral Relations between Switzerland and the EU: Focus on Western Switzerland and Ticino**

The erosion of bilateral relations between Switzerland and the European Union (EU) continues to spread. In the latest edition of its Erosion Monitor, the fourth in the series, Avenir Suisse zooms in on Western Switzerland and Ticino. Similar to the third edition, the investigation focuses on research cooperation, the agreement on technical barriers to trade and the free movement of persons. Even though the hurdles to exporting to the EU are increasing for Swiss companies and the competitiveness of Switzerland is being weakened as a result, so far there has been a lack of political pressure to turn the tide on European policy.

The creeping erosion of relations between Switzerland and the European Union has not been halted since the last Avenir Suisse Erosion Monitor in June 2022. On the contrary, what began with the EU's discontinuation of stock exchange equivalence in 2019 has since continued for many other sectors. The most recent example is changes in the processes for the certification of new railway wagons. After the medical technology and diagnostics sectors, the mechanical engineering industry, followed by pharmaceuticals, will be next; given the great importance of these two sectors for Switzerland as an industrial location, the costs of adapting business are likely to exceed the billion mark.

The fact that Swiss industry has so far overcome the additional market access hurdles with only minor damage is due to the forward-looking management of many export-oriented companies. They have prepared themselves for the erosion scenario and have looked for ways out to continue to be able to supply their customers in the EU single market efficiently. The positioning of many export-oriented companies in higher-margin segments is helping to cushion the increased costs of market access. Added to that, higher inflation in the euro area is working in favor of manufacturers in this country.

#### **Diversification Mitigating Effects of Erosion**

In terms of exports of goods, both Western Switzerland and Ticino are more diversified than the rest of the country. The exceptions are Geneva and Neuchâtel, which specialize in watchmaking and pharmaceuticals respectively – sectors that so far have not been greatly affected by export restrictions. It's a different story in the mechanical and electrical engineering industries. Here the erosion is already foreseeable: With the implementation of the EU's new Machinery Directive, companies will soon have to overcome new export hurdles. This mainly affects Ticino and Jura, where exports of machinery account for 22% and 30% of total exports respectively.

The greater diversification of exports from the Latin cantons reduces the effects of erosion. However, this doesn't mean the danger's over for Switzerland as a whole, which is heavily export-oriented. In 2021, for example, Western Switzerland was responsible for around a quarter (27.6%) of Switzerland's goods exports (excluding gold/metals; a total of CHF 256 billion), with a volume of around CHF 71 billion.

The findings from the analysis of Western Switzerland and Ticino exemplify the whole: The creeping process of erosion is generating too little pressure to prompt a courageous correction in economic policy toward cooperation with the EU. It's often more attractive for a Swiss company whose main sales market is the EU to build additional production capacity directly in the EU single market. All in all, this not only weakens the growth potential of Switzerland as a place for doing business, but also its prosperity.

**Analysis:** "Erosionsmonitor #4 – Report zum Stand des bilateralen Verhältnisses Schweiz–EU: Schwerpunkt Westschweiz und Tessin" (Erosion Monitor #4: Report on the Status of Bilateral Relations between Switzerland and the EU: Focus on Western Switzerland and Ticino), Teresa Hug Alonso and Patrick Dümmler, 55 pages, available online from 6.00am on 7 June 2023 at [www.avenir-suisse.ch](http://www.avenir-suisse.ch).

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