

Forum East-West: 14th Swiss Media Forum

Challenges to the Swiss Economy

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Media Center of the Federal Palace, Berne

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Overview

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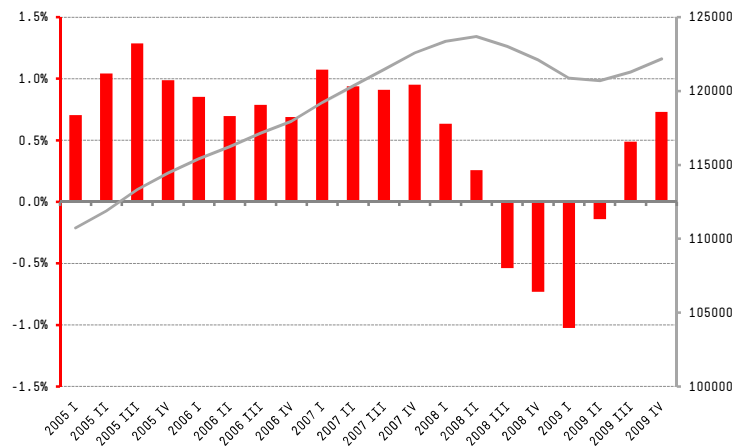
- Current situation in Switzerland
- Beyond the business cycle, going for growth

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Evolution of GDP

(q-t-q-change, real)

Source: seco (2010)

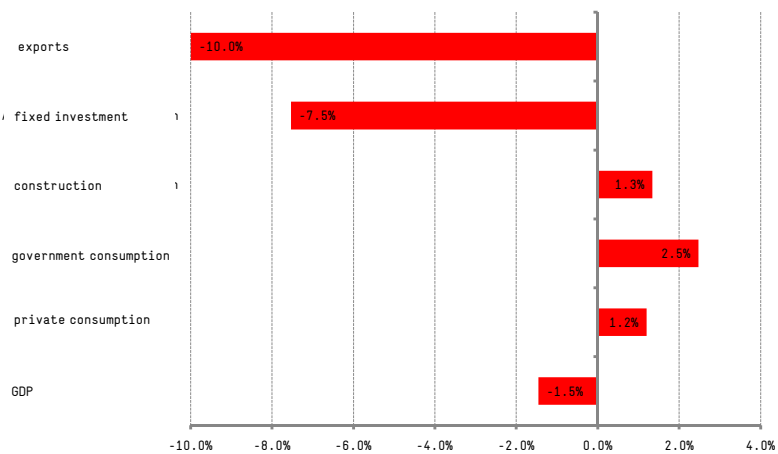


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Expenditure approach to GDP 2009

(decomposition of annual growth)

Source: seco (2010)

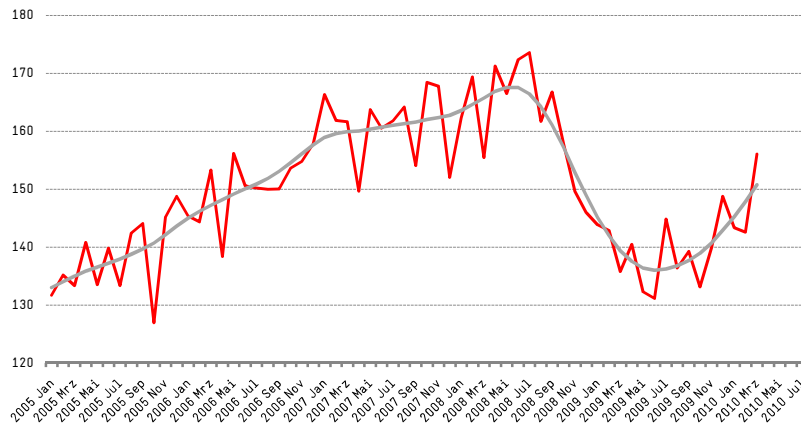


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Exports up to march 2010

(Index: 1997 = 100)

Source: EZV (2010)



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Unemployment and job Seekers

Source: seco (2010)

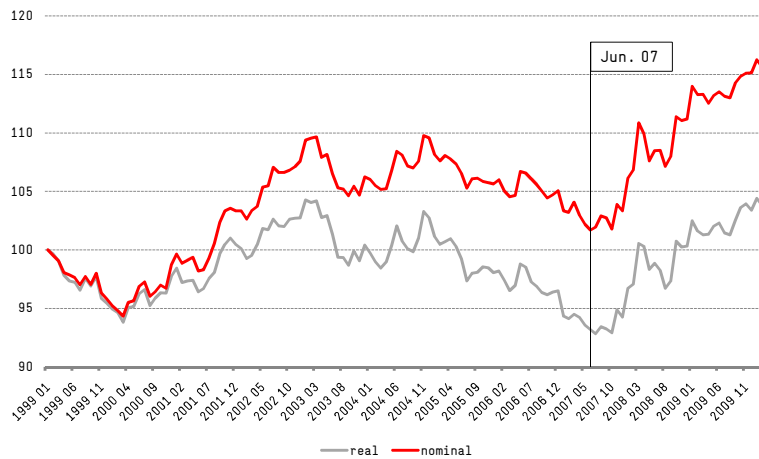


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Exchange rate CHF

(Index: january 1999 = 100)

Source: SNB (2010)



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Preliminary conclusion

- Switzerland so far
 - maneuvered swiftly through the crisis.
 - has not experienced a real estate bubble
 - still experiences massive immigration
- But costs:
 - Extremely expansionary monetary policy, extremely low interest rates, massive expansion of the central bank's balance sheet, build-up high inflation potential.
 - Contained fiscal expansion, relatively small increase of debts (low debt to GDP ratio).

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Chances and risks

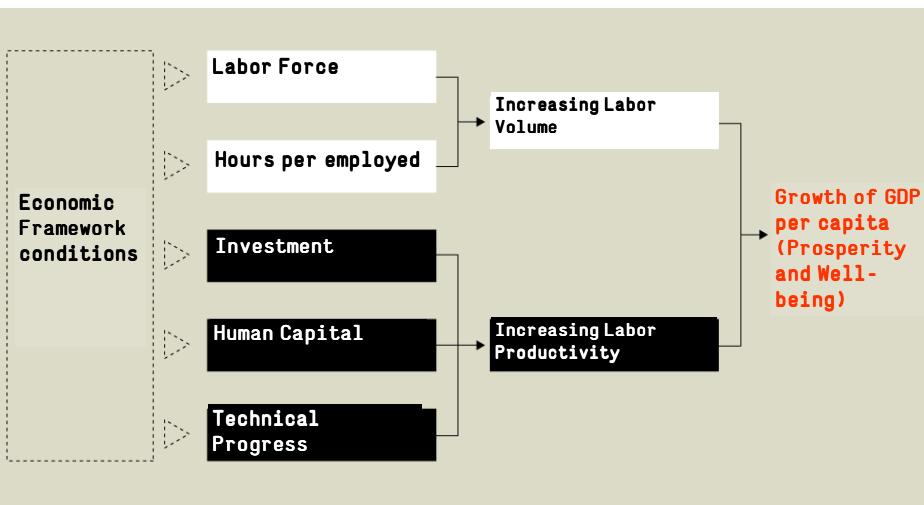
- Risks:
 - World business cycle,
 - Tensions in the Euroarea (Greece, Portugal, PIGS or GIPSI ...),
 - Exchange rate of the CHF,
 - LCFI (big banks).
- Chances:
 - Domestic consumption,
 - Construction (ambiguous),
 - Immigration.

Normalization or new normal?

- Exit strategy monetary policy,
- Normalization of the financial markets,
- Or the new normal:
 - Slower growth

Beyond the business cycle

The main Drivers of Growth



Labor market, labor input

Among the OECD-countries, Switzerland has

- One of the highest employment rates,
- One of the lowest unemployment rate,
- About average volume of hours worked.

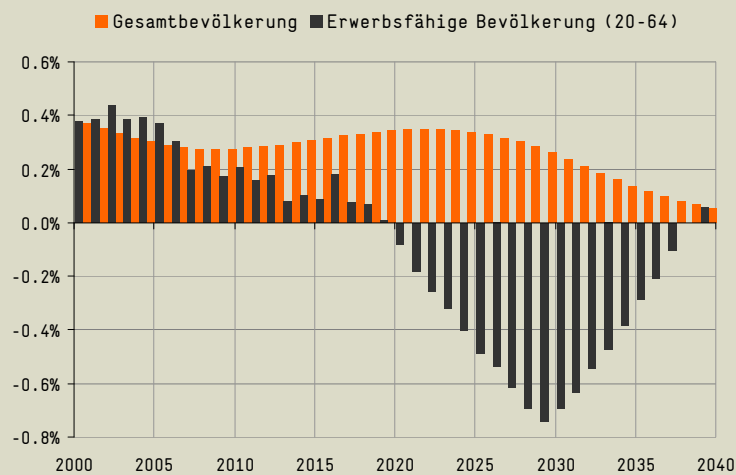
- ⌘ There is not much improvement possible
- ⌘ Desperate need for growth before the economic crises: aging population and shrinking work force.

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Population and Labor Force up to 2040

y-on-y Change

Source: Avenir Suisse 2001



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Necessity to improve Productivity

- Enhancing competition in product markets and services, market liberalizations,
- Schooling, human capital,
- International openness,
- Moderate taxation,
- Etc.

£ ... and of course innovation!

Innovation as a panacea

- Innovation is everybody's darling!
- Several approaches to an innovation policy

A top-down model of an innovation system

- State pays for science → science produces knowledge + technology items → economic sector takes items from science complex → companies transform items into economic value and jobs
- Illusion that Innovation can be managed, reproduced, controlled
- Picking of future winners!

The sorry fate of the Lisbon strategy

- EU-goal in 2000:
 - «...to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion».
- Barcelona 2002: agreement to increase R&D-spending with the aim of approaching 3% by 2010
- Research is always good, but misses the point:
 - lack of competition
 - poor incentives
 - wrong allocation of public money

Innovation from «below»/from outside

- The story of ICT (and biotech)
- The individual entrepreneur as «transformer»
- A new role for Joseph Schumpeter's «creative destruction»: sustaining vs. disruptive innovation
- Many (small and big) players: competition AND clusters
- An innovation market connects the science system and the economy

A view from the Venture-Capital side: Need for a Pull-strategy

- No lack of financing → no need for public support
- Lack of quality projects due to insufficient deal flow
- No national/local framework for sourcing
- Linear model of innovation (fundamental → applied research → pilot project → market-ready product) is replaced by simultaneous interactions between national and foreign actors at different levels
- Outsourcing innovation:
 - Financing start-ups
 - Using the creativity of the many

SMEs as base for innovation

- Key condition for innovation: entrepreneurial society
- A varied, competitive and prosperous SME-scene (plus a few global players)
- Easy access to capital and financial services
- Very high degree of specialization
- Export (world market) orientation
- Remove disincentives for entrepreneurs in the tax code

In the end: Innovation as result of a reasonable economic policy framework

- Open and (relatively) free labor market
- Stable and generous financing of universities and research institutions
- Well developed institutions and infrastructure
- Internationally competitive tax conditions due to tax competition between provinces and municipalities
- Cautionary fiscal policy, reasonable level of public debt
- Protection of intellectual property

WEF Global Competitive Report 2009-2010

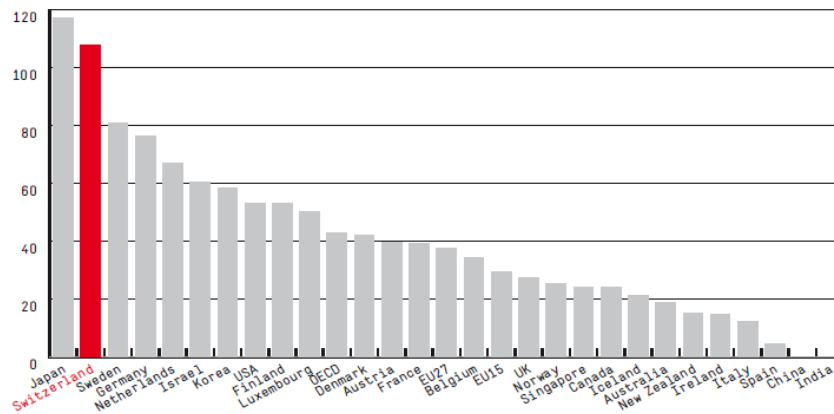
«Switzerland's economy continues to be characterized by an excellent capacity for innovation and a very sophisticated business culture [...]. Switzerland's research institutions are among the world's best [...]. This strong innovative capacity is captured by the high rate of patenting (148.27 per Mio inhabitants) [...].»

Innovative Switzerland: A small open economy based on exporting SME (and Global Players)

- 3rd in the WEF innovation index 2009-2010
- 1st in European Innovation Scoreboard 2009
- 5th in Gross Domestic Expenditure on R&D (as percentage of GDP, OECD 2008)
- 70% Expenditure on R&D by industry, 23% by public funds
- 99.5% of firms and 67.5% of workforce in SME category (< 250 employees)
- (By far) number 1 in global players per Mio inhabitants = 5/7.5 (see for instance FT Global 500)

Patent applications (per million inhabitants)

Source: OECD (2008)



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Repercussions of the current crisis to Switzerland

- Open markets, market access, rising protectionism (also with respect to innovation), etc
- Economic and political weights are diverging,
- Problems with financial sector
- Government system, Sovereignty
- Etc.

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*Thank you for your kind
attention!*

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