

Toward a US-Swiss Trade Agreement

The right deal could jump-start a stalled process.

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This paper examines the benefits and challenges of a potential free trade agreement (FTA) between the United States and Switzerland. Such an agreement would do more than boost both countries' economies. If done properly, it could jump-start stalled trade agreements around the world while demonstrating the value of agreements that stick to core issues.

A US-Swiss FTA would be worth more than that singular agreement. It would model a path forward for mutually beneficial agreements wide enough to improve wellbeing but narrow enough to exclude bureaucratic wish lists. We grant that there is a small risk that the simple agreement could add complexity to international trade law, but it is unlikely. On balance, the benefits of such an agreement likely far outweigh the costs.

Why this FTA?

FTAs are an important part of nearly every country's international trade policy. Even so, trade policy is currently stuck. The general consensus is that likely it will be years before either the US or Switzerland signs another significant FTA with any nation, whether bilateral or multilateral.

To jumpstart the stalled FTA process, pick the lowest-hanging fruit. A US-Swiss FTA is an excellent candidate, especially if it is based on the concept of mutual recognition. That is the idea that if a product or service meets one partner country's regulatory standards, it should get automatic approval in the other country. The agreement should also include select trade-related policies, such as tariff relief.

Both countries do have some FTAs percolating, but none of them would do much to reduce trade barriers. A US-Taiwan agreement is possible sometime soon, but tensions both countries have with China may either scuttle the agreement or water it down. The proposed Indo-Pacific Economic Framework for Prosperity (IPEF) between the US and several of China's neighbors is, as of this writing, dead in the water. Despite having achieved substantial agreement on the first component of the IPEF which is focused on "fair and resilient trade," the US withdrew from discussions in November 2023. The stumbling block

to the core element of the framework was the third component which is focused on "infrastructure, clean energy, and decarbonization." While the US did sign an agreement on supply chain resiliency, which is the third component, there is nothing to suggest the Biden administration is willing to go back to the table on trade-related topics.¹ The Biden administration is unlikely to begin negotiations on expected FTAs with the United Kingdom (UK) and the European Union.

Switzerland signed an FTA with Moldova in June 2023. Moldova borders Ukraine, and the FTA has diplomatic value in helping to keep Moldova out of an aggressive Russian orbit. But with only \$56 million of Swiss-Moldovan trade per year, its economic significance is small.² In January 2024, Switzerland and China agreed to update their 2013 trade agreement, though any action may take some time.³ Switzerland is also negotiating FTAs with India, Vietnam, Malaysia, and the MERCOSUR countries of South and Central America, though it will likely be some time before those agreements are completed.

By contrast, a targeted US-Swiss agreement, if it stays focused on core trade issues like mutual recognition and tariff relief, can pass quickly. The example it sets could help speed those other negotiations while simplifying the issues covered.

¹ See for example this analysis of the IPEF from the Council on Foreign Relations, Inu Manak, Unpacking the IPEF: Biden's Indo-Pacific Trade Play, November 8, 2023. Link from January 17, 2024, <https://www.cfr.org/article/unpacking-ipef-bidens-indo-pacific-trade-play>. Secretary Yellen broke the news that a deal on trade was unlikely to be found. See for example, Reuters, David Lawder and Ann Saphir, "Yellen: Indo-Pacific trade talks need 'further work'," accessed on January 17, 2024, <https://www.reuters.com/business/yellen-indo-pacific-trade-talks-need-further-work-2023-11-14/>.

² SwissInfo.ch, "Switzerland signs free trade agreement with Moldova," June 27, 2023, <https://www.swissinfo.ch/eng/business/switzerland-signs-free-trade-agreement-with-moldova/48622568>.

³ SwissInfo.ch, "China edges closer to free trade update with Switzerland," January 5, 2024, <https://www.swissinfo.ch/eng/politics/china-edges-closer-to-free-trade-update-with-switzerland/49128338>.

How to increase demand for free trade

When the price of a something goes down, people typically demand more of it. One way to pass more FTAs is to lower the cost of passing them. Negotiations might not cost very much money, but they can have enormous costs in time, effort, and political capital.

Economists' blanket term for these non-money costs is transaction costs. Transaction costs for FTA negotiations have grown enormously since the North American Free Trade Agreement (NAFTA) was signed in 1992 and implemented in the mid-1990s. Today's FTAs are longer and more complex than in previous decades, and routinely include trade-unrelated issues such as environmental provisions, labor and regulatory standards, intellectual property, and other issues. Negotiations take years.

Each additional trade-unrelated provision is an additional failure point in negotiations, and can add hours, days, or even weeks and months of haggling. The more trade-unrelated provisions there are, the higher the transaction costs of negotiating an FTA. Higher transaction costs mean not only that fewer FTAs will pass, but that fewer will be negotiated in the first place.

A US-Swiss FTA has some naturally low transaction costs compared to other agreements. This makes it a good starting point to set a precedent for new FTAs around the world.

While Switzerland is neutral in matters of war and peace, the US and Switzerland are as aligned as any two countries can be that are not technical allies. This makes for smoother negotiations than either partner would have with, say, Russia or China. Switzerland and the US also share relatively liberal economic and political institutions and a rich history of bilateral, direct foreign investment. Their similar policy starting points also make for lower transaction costs.

The agreement itself should be as simple as possible, and should stick to trade issues. A major reason for the recent FTA slowdown is that negotiators are trying to bite off more than they can chew. Their ambitions need to be more realistic. Separate issues should be negotiated separately. There is no compelling reason why all policy issues must be packed into a single mega-agreement.

The mega-agreement approach is worse on balance because it locks in its provisions for decades. High transaction costs for negotiations mean that FTA partners will typically avoid updating agreements for decades at a time. This partially explains the nearly three-decade interval between NAFTA and its 2020 replacement, the United States-Mexico-Canada Agreement (USMCA).

In some cases, a badly out-of-date agreement can be worse than no agreement at all. Simpler agreements, along the lines of what this paper advocates, would be easier to revisit as new issues arise, due to their lower transaction costs.

The case for mutual recognition

Mutual recognition is the idea that if one partner country's regulatory system approves a product, then it gains automatic approval in other partner countries. This can speed up approval and open new markets for pharmaceuticals, agricultural products, appliances, electronics, and many other products, with no negative effects on safety or reliability.

Mutual recognition should be a key issue of a US-Swiss FTA. It can lower the transaction costs of trade agreements, and of trade itself. There is also an additional benefit. Mutual recognition is a sign of trust that can strengthen diplomatic ties. It is the US and Swiss governments saying that they trust each other's regulatory systems enough where they can do away with the frictions that exist with less-trusted trading partners—in some cases, rightly so.

The trust that mutual recognition represents is important in an age of tensions with Russia and China. Liberal countries need strong alliances, not protectionist infighting. Mutual recognition can also open new markets for producers in all member countries, add competition to their domestic markets, and give consumers more options and lower prices. An anticipated side-benefit is the improved learning done by each country's regulators about the most effective ways to regulate. By its nature, regulation is extremely sticky, or difficult to amend, and subject to slow feedback loops. Mutual recognition can accelerate this slow learning process.

Mutual recognition case study: infant formula.

America's infant formula shortage of 2022 is a vivid example of how mutual recognition can benefit all trading partners. The United States has highly protectionist infant formula regulations. These include an average tariff of 17 percent, along with certain ingredient requirements and ever-changing labeling requirements that, by design, stymie foreign producers. There are also quantity restrictions that allow individuals to buy small amounts of imported formula, but often prevent retailers from buying enough to stock imported brands on their shelves to compete with domestic brands. The cumulative effect is that imports account for just two percent of America's formula market, far lower than in other developed countries.

Other non-trade formula regulations make the domestic infant formula industry highly concentrated. Roughly 40 percent of infant formula is paid for by the Supplemental Nutrition Assistance Program (SNAP), a federal food assistance program. Though federally funded, state-level governments set many of their own rules under SNAP. People may use SNAP benefits to buy infant formula, but only from a single brand that has won a winner-takes-all contract for a given state. This guaranteed business model keeps smaller competitors out of the market, to the point that the American infant formula industry has just four major producers.

A single factory in Michigan makes nearly half of America's infant formula. When a health inspection found problems in this factory and temporarily shut it down in early 2022, the resulting shortage left families paying triple or more for formula, when they were lucky enough to find any. Meanwhile, in stores just minutes across the Canadian and Mexican borders, shelves were full and prices were normal.

The Wall Street Journal told the story of how the shortage affected one mother:

For Meadow Burkhart, the hunt for formula begins when her 5-month-old son is on his last two cans of Similac Soy baby formula. At that point, the single mother in New Port Richey, Fla., starts calling around to see where she can buy more, not wanting to waste gas driving to stores where it is sold out.

If she can't find the formula nearby, Ms. Burkhart searches Facebook groups where hard-to-find formulas are sold, but like many others she has been the victim of online scammers who take her money but never deliver the goods.

*"I really don't recommend it, but I have no other choice at the moment," said Ms. Burkhart, who works in fast food. "I don't ever want to get caught without his formula."*⁴

Ms. Burkhart was not the only mother in dire straits. Her son was just one of the more than 3.66 million babies born in the US in 2022.⁵ Sensing the scale of the problem, Congress and the Biden administration temporarily relaxed import restrictions.⁶ Swiss producers came to the rescue. Zurich-based Nestle S.A. sent 12 million ounces of infant formula to Plainfield, Indiana in one shipment, with assistance from US military cargo planes as part of Operation Fly Formula.⁷

None of this drama was necessary. Infant nutritional needs do not vary from one country to another. If one trustworthy regulator, such as the Swiss government, finds a type of formula safe for Swiss children, then it is also safe for American children. It should be approved in America as well.⁸ A mutual-recognition-based FTA would codify that common-sense policy while helping to prevent another infant formula debacle.

⁴ Jesse Newman and Kristina Peterson, "Families Still Struggle to Find Baby Formula Nearly One Year After Shortages Began," *The Wall Street Journal*, October 17, 2022, <https://www.wsj.com/articles/families-still-struggle-to-find-baby-formula-nearly-one-year-after-shortages-began-11666004401>.

⁵ Brady E. Hamilton, Joyce A. Martin, and Michelle J.K. Osterman, "Births: Provisional Data for 2022," Vital Statistics Rapid Release, Report No. 28, Centers for Disease Control, June 2023, <https://www.cdc.gov/nchs/data/vsrr/vsrr028.pdf>.

⁶ 117th Congress, H.R. 8351, the Formula Act, <https://www.congress.gov/bill/117th-congress/house-bill/8351>.

⁷ Lawson Gutzwiller, "White House: Around 12 million ounces of baby formula being shipped from Switzerland to Indiana," WLWT5, August 20, 2022, <https://www.wlwt.com/article/baby-formula-shipped-switzerland-indiana-shortage/40062445#>.

⁸ Iain Murray and Michelle Minton, "Militarizing the Baby Formula Crisis Is Infantile," *Issues & Insights*, May 27, 2022, https://cei.org/opeds_articles/militarizing-the-baby-formula-crisis-is-infantile/.

The main reason for the shortage was that bad policies put too many formula containers in one basket. Allowing greater market competition through mutual recognition would give suppliers, and ultimately families, the ability to route around failure points when they happen. Parents would gain more choices and pay lower prices. Swiss producers would gain access to a new market in non-emergency situations.

Granted, mutual recognition's benefits go only so far. Under mutual recognition with Switzerland and other developed-country formula producers, American producers would likely retain most of their favorable government contracts for SNAP and similar programs. Solving such crony arrangements is beyond the scope of an FTA. A solution would require separate domestic actions at America's federal and state levels of government to eliminate the cartel-like effects of protectionist regulation. Trade is a powerful source of good, but it cannot solve every policy problem.

There are similar, if less dramatic stories, for other industries such as pharmaceuticals, health care, shipping, finance, and agriculture. A US-Swiss mutual recognition FTA would aid pandemic preparedness and lower medical costs, increase supply network resilience, lower shipping costs, give growing businesses more access to capital, benefit investors, open new markets for farmers in both countries, and give consumers more options at stores, restaurants, and in their personal financial and health care decisions.

Low transaction costs for low-lying fruit

There are two main requirements for low-transaction cost FTA negotiations. One, both countries should be allies or something like allies and already have relatively free trade policies. Two, the agreements should be as simple as possible. A US-Swiss mutual recognition FTA would set a valuable precedent, but it would not necessarily apply to partners that don't meet those conditions.

Liberal allies. The US and Switzerland are friendly nations with relatively liberal trade policies, despite the US raising trade barriers under the Trump and Biden administrations. The two countries have a long history of economic, diplomatic, and cultural friendship that should make for smooth negotiations.

They are also both economically free by global standards. In the most recent *Economic Freedom of the World* report jointly published by Canada's Fraser Institute, and the US-based Cato Institute, based on 2021 data, Switzerland scores 8.09 out of 10 on its Freedom to Trade Internationally component, and 8.47 overall, making it the world's third-freest economy, after Singapore and Hong Kong.

The United States scores 8.07 on Freedom to Trade Internationally and 8.14 overall, making it the world's fifth-freest economy.⁹ These high scores, along with their friendly diplomatic relations, put both countries in a favorable starting position for an FTA that could benefit both countries while setting a positive example for future agreements around the world.

Keep it simple. Agreements are easier to negotiate when they stick to a few select issues. More provisions mean more possible failure points in negotiations. That is why the bulk of a US-Swiss FTA should be on mutual recognition and tariff relief. Other trade concerns will almost certainly be included, but these should be minimized. Separate issues, such as labor and environmental provisions, should be treated separately in other agreements, or through other diplomatic means. The key is to keep transaction costs as low as possible.

Simplicity would also guard against possible contradictions or violations of other agreements to which either country may belong, which could jeopardize both a potential US-Swiss FTA and already-existing agreements.

At the very least, the US-Swiss FTA should contain a severability clause so that if individual provisions are invalidated, the rest of the agreement remains in force.

Free trade among free people

An FTA between the US and Switzerland would provide five main benefits. It would stimulate both economies. It would make their supply networks more resilient. It would help both countries better prepare for emergencies ranging from pandemics to wars. The precedent it sets could improve economic growth and trade flows around the world. This would be good not just for its own sake in a world in which nearly

⁹ James D. Gwartney, Robert A. Lawson, and Ryan Murphy, with Matanda Abubaker, Andrea Celico, Alexander Hammond, Fred McMahon, and Martin Rode, *Economic Freedom of the World 2023 Annual Report*, Fraser Institute and Cato Institute, September 19, 2023, pp. 167 and 182, <https://www.cato.org/economic-freedom-world/2023>.

a billion people still live in absolute poverty, but the positive externalities would benefit both Switzerland and the United States as well. Finally, it is a policy with clear moral implications. In free democratic societies, men and women—either alone or in combination as a business enterprise—are in a state of natural liberty free to make arrangements that better their condition, serve others, and do not harm anyone.

Stimulus. The United States is Switzerland’s largest trading partner. The cheapest way to ship goods between Europe and America is by sea. This is not an option for landlocked Switzerland, which sends about two-thirds of its exports by air, which is expensive by comparison. This is one reason why Swiss exports tend to be high-value, relatively compact goods.¹⁰ These include watches, pharmaceuticals, and textiles, as well as higher-end food products such as cheese and chocolate.¹¹

America’s biggest exports to Switzerland are capital equipment such as machinery, fuel, and minerals. In this way, American manufacturers contribute to making Swiss goods higher quality and more affordable. The benefit to Swiss manufacturers is obvious. Americans receive a double benefit, first as equipment manufacturers, who get additional export business, and again as consumers, who gain access to higher-quality, more affordable goods.

A combination of tariff relief and mutual recognition would help both countries. In fact, in early 2024, Switzerland unilaterally scrapped its tariffs on industrial product imports, which should make negotiations even easier.¹² Regulatory relief would further reduce the frictions American manufacturers face in exporting equipment to Switzerland. American consumers would benefit from better access to pharmaceuticals, fashion items, and foods. Swiss manufacturers could use American equipment to expand and diversify their products, and the fashion and food industries would gain better access to an eager market.

America has notoriously protectionist dairy regulations, both internally and externally. Domestic regulations have long favored dairy butter over vegetable spreads such as margarine, for example. Soon after margarine was invented in 1869, six dairy-intensive states banned it, including Wisconsin, whose state slogan is “America’s Dairyland.” The state of New Hampshire required margarine to be dyed an unappealing pink color, until the US Supreme Court struck that regulation down in 1898.¹³

Today, cheese remains heavily regulated, both by complicated tariff rules, and by strict definitions and ingredient requirements. The US dairy industry is further insulated by heavy subsidies and price supports.

This is where proportionality becomes an important part of the story. The US has a population of about 338 million, or almost 40 times Switzerland’s population of less than nine million.

A US-Swiss FTA that provides mutual recognition and tariff relief might reduce America’s domestic share of Swiss cheese by a small amount, perhaps a percentage point or so. This would be less than eight hours’ worth of supply per year. But this small amount would mean a great deal to Swiss exporters, who by proportion could experience a major boom. US consumers would gain access to more choices and better prices. Consumers also deserve better treatment than what their current dairy policies give them. While a US-Swiss FTA would put barely a dent in the current dairy apparatus, some reform is better than none.

Multiply this story across other foods such as chocolate, and other industries such as watches, capital equipment, textiles, and perfumes, and both economies stand to gain a small but noticeable stimulus, without either country having to increase spending or deficits. Additionally, if US businesses in need of capital can more easily turn to Swiss foreign investment, then even companies that do little or no business with Switzerland could benefit from a US-Swiss FTA.

¹⁰ This insight comes from the economist Armen Alchian, who wondered why people in New York had better access to premium-quality oranges than did people in California, where those oranges are grown. The reason is that when shipping costs are high, producers cram as much value as they can into the limited available space. This means that premium products get shipped, and lower-value goods don’t. Economists now call Alchian’s idea the “oranges principle.” This is one reason why Switzerland exports so many luxury goods. Armen A. Alchian and William R. Allen, *Exchange and Production: Theory in Use*, (Belmont, California: Wadsworth Publishing Company, 1969), pp. 78-79.

¹¹ Stefan Legge, Ronny Oberholzer, and Jason Rosenthal, “Swiss Trade Monitor, Edition 6: Goods and Services,” Universitat St. Gallen, July 25, 2023, <https://www.alexandria.unisg.ch/entities/publication/b7576495-a55e-494c-a688-b3a80d0357cf/details>.

¹² John Revill, “Switzerland scraps tariffs on industrial product imports,” Reuters, January 2, 2024, <https://www.reuters.com/markets/europe/switzerland-scraps-tariffs-industrial-product-imports-2024-01-02/>.

¹³ Kat Eschner, “The 1870s Dairy Lobby Turned Margarine Pink So People Would Buy Butter,” Smithsonian Magazine, May 23, 2017, <https://www.smithsonianmag.com/smart-news/1870s-dairy-lobby-turned-margarine-pink-so-people-would-buy-butter-180963328/>.

If a US-Swiss FTA succeeds, it sets a precedent. The indirect stimulus effects could be orders of magnitude higher than its direct effects, especially if major regional agreements take a low-transaction cost approach.

Supply Chain resiliency. Supply networks across the world took a beating during the COVID-19 pandemic. Many other problems were self-inflicted, as the infant formula case study above shows. Swiss producers also exported large amounts of personal protective equipment (PPE) during the pandemic. Almost none of that PPE went to America, in part because of trade barriers and shipping restrictions.

The key to resilient supply networks is adaptability. In the real world, markets fail all the time. Shortages, labor disputes, natural disasters, and equipment problems happen every year. There is not one big policy fix for these problems but there are thousands of little fixes.

The supply chain metaphor breaks down on closer inspection. A chain link is connected only to the link ahead of it, and the link behind it. Real-world supply chains are more like supply networks, where each point is connected, primarily through contract, to multiple other points in an ever-changing array of spokes and hubs.

When one of those hubs goes dark, people need to route around it quickly or suffer a combination of price increases, shortages, and fewer choices. Trade barriers and regulatory restrictions make that rerouting difficult. Policies like mutual recognition and tariff relief make it easier for people to find ways around failure points to prevent shortages. Policies that prevent goods from going where people need them during emergencies should not be on the books even during normal times.

A US-Swiss FTA is one of those many small improvements to supply network resiliency. If it paves the way for other small solutions, whether through FTAs or other reforms, its cumulative benefits can be large.

Pandemic preparedness. The COVID-19 pandemic caught governments around the world flat-footed. There are several ways countries can be better prepared for future health emergencies. Switzerland is a major producer of COVID-19 vaccines and other pharmaceuticals. To its credit, the US Food and Drug Administration (FDA) waived many of its usual requirements and delays for approving COVID treatments. But the delays it didn't waive still resulted in lives lost. Enacting a mutual recognition policy now, during normal times, better prepares governments for when the next health emergency strikes. Again, human biology does not vary across political boundaries. If a medicine is safe in America, it is safe in Switzerland, and vice versa.

Nobody knows who will invent the next medical breakthrough, or where it will happen. When it does happen, patients will benefit from rapid testing and approval and from fast, widespread distribution. Both the US and Switzerland have unusually innovative pharmaceutical industries. Patients in both countries would benefit from faster access to existing and future treatments. Mutual recognition can help that happen.

Mutual recognition can also lower costs. The FDA's prescription drug process costs more than \$2 billion per drug, and can take more than a decade.¹⁴ If a trustworthy regulator like Switzerland approves a drug's safety and effectiveness, duplicative regulatory processes waste resources that could have instead been used productively, possibly by a mix of increased research and development and lower consumer costs. As always with mutual recognition, this should apply both ways. Swiss patients would gain access to US-approved drugs not yet approved in Switzerland.

The result would be a slightly streamlined regulatory system. Regulations would be both more affordable and more responsive to surprise pandemics, as well as longstanding public health problems such as obesity, cancer, and heart disease. Further, if the drug-approval regulatory regime in either country innovates and improves its cost-effectiveness, producers and patients in both countries would benefit.

¹⁴ Joseph A. DiMasi, Henry G. Grabowski, and Ronald W. Hansen, "Innovation in the pharmaceutical industry: New estimates of R&D costs," *Journal of Health Economics*, Volume 47, May 2016, pp. 20-33, <https://www.sciencedirect.com/science/article/abs/pii/S0167629616000291>.

Hurdles to overcome

These benefits are substantial. But as with any policy, the benefits come with some tradeoffs, which this section discusses.

Spaghetti bowl argument. Switzerland is currently party to 33 FTAs, which include nearly every major economy except America's.¹⁵ The US is party to 15 FTAs.¹⁶ One rule of good public policy is that simpler is usually better.¹⁷ The economist Jagdish Bhagwati warns that FTAs can damage free trade by making the international trading system too complex.¹⁸ Agreements can overlap, contradict, and impede other agreements. It is a bedeviling task for regulators and businesses to keep them straight. Bhagwati calls this mess of agreements the Spaghetti Bowl.

One drawback to a US-Swiss FTA is that it would add another noodle to Bhagwati's Spaghetti Bowl. The simpler the agreement is, the less it would add to international trade law's excessive complexity.

Possible interference with other agreements and WTO rules. With Switzerland and America already part of a combined 48 trade agreements, it is possible that a US-Swiss FTA could violate at least one provision somewhere in at least one of those agreements. The simpler the agreement, the less likely this problem will emerge. This is another reason a US-Swiss FTA should stick to mutual recognition and avoid trade-unrelated provisions as much as possible.

The US and Switzerland both have an interest in close trading relations with Europe and the Pacific Rim not just for the economic benefits, but for providing diplomatic counterweights to Russia and China. Negotiations should keep this in mind so as not to adversely affect those efforts. Again, the simpler the contours of a US-Swiss agreement, the less likely these problems are to present themselves, and the easier they are to resolve.

It is also possible, though not especially likely, that liberalizing provisions in a US-Swiss FTA would

violate most-favored nation (MFN)-style provisions or World Trade Organization (WTO) rules. If these cannot be sorted out internally or among the affected parties, these would typically be decided in the WTO's dispute resolution system.

The WTO dispute system currently lacks the judges necessary to decide cases, due mostly to the Obama, Trump, and Biden administrations' blockade on new appointments. While this does introduce an anything-goes dynamic in world trade policy while the WTO is hobbled, the need to maintain at least the spirit of a rules-based international trading system is still something that generally rule-abiding countries like the US and Switzerland should take into account as they draft an FTA.

Trade-unrelated provisions and rent-seeking. Ever since NAFTA in the 1990s, trade-unrelated provisions have taken on a progressively greater role in FTAs. NAFTA contained a side agreement with labor and environment provisions. The USMCA that replaced it put those provisions into the main agreement, and grew to more than 2,000 pages.¹⁹ The Biden administration's proposed IPEF agreement is primarily organized around trade-unrelated provisions.

Growing complexity and trade-unrelated provisions are unhealthy for international trade. They manage trade instead of creating conditions for it to blossom. Trade-unrelated provisions make Bhagwati's Spaghetti Bowl problem far worse than it needs to be. They also increase negotiation transaction costs. Each trade-unrelated provision is an additional failure point in negotiations, making them longer, costlier, and more contentious than necessary.

The more a US-Swiss trade agreement can stick to trade issues, especially mutual recognition, the more smoothly the process will go. Future negotiations can learn from this example, making international trade freer while making more progress on long-stalled agreements.

¹⁵ Swiss State Secretariat for Economic Affairs, "Free Trade Partners of Switzerland," https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/Freihandelsabkommen/partner_fha.html, accessed August 14, 2023.

¹⁶ U.S. Customs and Border Patrol, "U.S. Comprehensive Free Trade Agreements and Other Trade Agreements," <https://www.cbp.gov/trade/priority-issues/trade-agreements/free-trade-agreements#:~:text=The%20United%20States%20is%20party,Trade%20Agreement%20with%20one%20country>, accessed August 14, 2023.

¹⁷ Ryan Young, "Principles of Law: Simplicity Is Beautiful," Open Market blog, Competitive Enterprise Institute, February 10, 2012, <https://cei.org/blog/principles-of-law-simplicity-is-beautiful/>.

¹⁸ Jagdish Bhagwati, *Termites in the Trading System: How Preferential Agreements Undermine Free Trade* (Oxford: Oxford University Press, 2008).

¹⁹ Emily Cochrane and Ana Swanson, "Revised North American Trade Pact Passes House," *New York Times*, December 19, 2019, <https://www.nytimes.com/2019/12/19/us/politics/usmca-deal.html>.

Even in the best-case scenario, protected industries are likely to lobby aggressively against the agreement, or to at least carve out exemptions so their special privileges remain intact. Some of these entreaties will almost certainly succeed, due to a mix of concentrated-benefit-diffused-costs problems, low public awareness of such shenanigans, and “Buy American” and “Buy Swiss” folk economic beliefs. Any real-world FTA will be more complicated and less liberalizing than free trade purists would prefer. Emphasizing the low-transaction cost model from the outset, along with explicitly rejecting trade-unrelated provisions can help to lessen these problems, even though they will likely not go away entirely.

Conclusion

The significance of free trade for Switzerland was well understood by perhaps the most important economist to live in Switzerland, the German market liberal Wilhelm Röpke. The intellectual force behind the reforms that liberalized the West German economy in 1948 and produced the German economic miracle, Röpke lived in Geneva from 1936 until his death in 1966 and taught at the Graduate Institute of International Studies. Among the many things that he admired about Switzerland was that it has abolished its internal customs barriers as early as 1848, and gradually opened itself economically not just to the rest of Europe but also the relatively globalized economy that emerged in the late-nineteenth century. Röpke saw no contradiction between Switzerland’s free trade inclinations and Swiss patriotism.²⁰ The Swiss, he believed, understood the benefits of free trade for all who choose it.

A low-transaction cost US-Swiss FTA would benefit both countries’ economies while setting a precedent for other countries around the world. Consumers in both countries would gain access to new choices, and at lower prices. Producers in both countries would gain access to new markets. Both regulatory systems would become a little simpler at the margin, though not radically so, and introduce a new mechanism for self-correction.

An agreement would also have diplomatic benefits. The US and Switzerland would strengthen their alliance. The low-transaction costs FTA model can make it easier for other liberal countries to strengthen their alliances. This is important at a time when tensions with Russia and China are high, and when Russia has already instigated the largest land war in Europe since World War II, not far from Swiss borders. Liberal countries need to present a united front by demonstrating our values through peaceful, rules-based engagement and trade.

The way FTAs are currently and commonly designed, most upcoming agreements are unlikely to be very effective, economically or diplomatically. The US-European Union FTA is likely years away in even the best-case scenario. The Biden administration is unlikely to even begin negotiations, leaving that job for a future administration. The US has shown no interest in rejoining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that it left early in former president Donald Trump’s term, despite the UK signing on in 2023. The IPEF agreement with most of China’s neighbors so far contains only trade-unrelated provisions. It instead foists US policy preferences on potential members. From those countries’ perspective, the US-led IPEF is not very different from Beijing’s own chauvinist approach towards its neighbors.

Trade policy is due for a reset. It will be a long and difficult process. One way to start is for the United States and Switzerland to set a precedent with a low-transaction cost trade agreement focused on trade and very little else.

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²⁰ See Wilhelm Röpke, « La Suisse est-elle en retard sur l’Europe, » *Gazette de Lausanne*, 12 Decembre, 1944 ; and “European economic integration and its problems,” *Modern Age*, 8 (3), p. 235. See also Samuel Gregg, *Wilhelm Röpke’s Political Economy* (Cheltenham: Edward Elgar Publishing, 2010, pp. 142-164.



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