



## **Building Bridges**

### *The Importance of the Transatlantic Relationship for Multinationals in Switzerland*

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Today's topic is about "Building Bridges", more specifically about building bridges across the Atlantic and between Switzerland and the United States. Bridges have always been important in this country. It should not surprise that the world's finest bridge builders were trained at the ETH. Recently, our company was fortunate to sponsor an exhibition celebrating – among others – Othmar Ammann, the Swiss engineer who designed and built US landmarks such as the Golden Gate Bridge in San Francisco and the Verrazano Narrows Bridge connecting Brooklyn and Staten Island. But more importantly, bridges to other countries played a vital role in the economic development of Switzerland. With scant natural resources, the road to prosperity was built on a highly skilled labor force and success in the export markets. These factors will be even more important in today's global economy.

In dealing with my topic, I draw on experiences and insights gained in the two positions that brought me here: as chief executive officer of Zurich and as chairman of the Swiss-American Chamber of Commerce. I will structure my talk in concentric circles, if you will, moving from small to large, from building bridges within Switzerland to structures spanning the Atlantic.

Let me begin by wearing my hat as CEO of Zurich and a look at the situation in Switzerland.

At first blush, it may sound peculiar to talk about building bridges in Switzerland. It is a small and tightly knit country. But as insurers we are very much aware of the importance of market segmentation. After assuming my position with Zurich, I was quick to learn how segmented the Swiss market actually is. I do not even need to talk about segmentation by language, which

is a factor in a country with four official languages. Given the scale of the country, it is indeed quite amazing how varied the characteristics of our customers can be. There is, I was told early on, not even a “homogenous Romandie.” Differences in customer patterns between urban centers such as Geneva, Lausanne or Neuchâtel on one side and rural regions in the Valais or the canton of Fribourg are just as large – or larger – as the cultural differences between Geneva and Zurich.

Clearly, cookie cutter approaches will not suffice if one wants to be successful in Switzerland. As a large multinational company, we have learned a long time ago that we may think globally, but must act locally. That’s precisely why we have to build bridges even in this small country. It allows us to even better implement our strategies in a local context.

In recent months you may have seen that our company is branding itself as “one Zurich – worldwide.” This derives from the desire to provide our customers with a uniform experience. No matter what their needs are and where they may be, our customers will receive the same sophisticated service level. Our agents are drawing from one uniform pool of expertise in underwriting and claims management, while their actions are backed up by the vast resources of a large global corporation. It enables us to be the most cost-efficient supplier, without any loss in quality in customer service.

But having one “Zurich Way” for doing things does not mean that we neglect our customers. They receive custom-tailored solutions whether they reside in Geneva, Switzerland, or Geneva, USA. Local service centers ensure that they are served with a local touch. Our customers in the Romandie, for example, are being served through a network of 20 agencies with roughly 1,000 employees. They are anchored locally and reporting into our headquarters in Lausanne. In that sense, Lausanne, and by extension also Geneva, are the pillars on which we have built a bridge within this country. It enables us to grow a strong and profitable business in Switzerland, which, in turn, is the basis from where we are building bridges to our other markets in the world.

This brings me to my second theme for today, to the bridges spanning the Atlantic. While many bridges have been built within Europe and with the European Union in particular, bridges to the US are, I regret to say, still far apart. This is even more surprising as the United States and Switzerland are known as “sister republics.” The Swiss constitution of 1848 drew on the US constitution, which, in turn, was influenced by the writers of the “Federalist Papers” who had known and been praising the political system of the Swiss republic in the late 18th century.

It is evident that bridges between Switzerland and its trade partners are vital for this country. That’s why Berne has always relied on the tools of diplomacy to open up foreign markets. In fact, it was said that Switzerland didn’t exercise high diplomacy, only trade policy. Starting in the early 1970s, several bilateral agreements were achieved with the European Union, which today cover a range of trade and economic policy areas. The bilateral agreements also provide for discussion and negotiation platforms, allowing representatives from both sides to meet and remove potential obstacles to harmony.

With respect to the United States, I am afraid the situation is different, although the US is a key trade partner for Switzerland. It is the number two export market after the European Union and the number one market for foreign direct investments from Switzerland. To be sure, there are excellent working relationships on a personal level and there are a number of agreements covering individual topics. But there is no comprehensive framework, and there is no standing body that would allow for a permanent dialogue and – if necessary – conflict resolution. I will get back to this, but first, I would like to open a parenthesis and explain why the US is an important partner for Switzerland.

To begin with the obvious, the US market is key for all companies with global aspirations. It is not only the largest integrated market of the world, it also continues to be the most dynamic and arguably the most competitive market for almost any product or service. If you succeed in the US, chances are good, to paraphrase Frank Sinatra’s ode to New York, that you can make it anywhere. Despite impressive growth rates in emerging countries such as China and India,

we should not forget that yearly nominal demand growth in the US is bigger than anywhere else in the world. In fact, it exceeds nominal demand growth of China, India and the EU 25.

In light of these dynamics it should not surprise that Swiss companies have invested about 120 billion dollars in the US. This makes the country the sixth-largest foreign direct investor in the US and the second-largest foreign direct investor in US manufacturing.

These capital links are key for the continued growth of Swiss multinational companies in the United States. But it is vital that the US market stays open for Swiss exports and that there is no discrimination of Swiss suppliers in the US market. This is not an idle concern. Today, companies from Australia, Canada, Chile, Mexico, and Singapore (just to name the most important ones) are receiving preferential treatment through bilateral trade agreements; South Korea and Malaysia are negotiating such agreements. I will come back to this point later.

I do not want to leave you with the impression that the relationship between Switzerland and the United States is a one-way street. Through direct investments, US businesses have become important for the well-being of the Swiss economy. With a share of 40%, Americans are by far the biggest direct investors in Switzerland, providing about 70,000 jobs directly and many more indirectly. Let me give you some figures on the importance of foreign direct investment in Switzerland based on research recently done by the Swiss-American Chamber of Commerce.

- Foreign companies make up 10% of the Swiss gross national product and were responsible for nearly a quarter of the growth in the last 10 years.
- Foreign companies with large European headquarters or R&D laboratories in Switzerland represent some of the largest and/or most dynamic US companies. Among them, they include P&G, HP, Caterpillar, Dow, IBM, Honeywell, eBay, Google, GM, Medtronic, Amgen, Pfizer, Philip Morris, Sun Microsystems, DuPont, Colgate Palmolive and many more. They have attracted highly qualified people to Switzerland and provide a basis for the transfer of management know-how and new technologies.

- Foreign companies also create specialized clusters and innovation centers, which, in turn, will attract other prominent companies to Switzerland. Although Amgen will build its new production center in Ireland, Switzerland continues to host world-class clusters in bio-tech, med-tech, pharmaceuticals, financial services, high-tech materials and many others.

Clearly, our two economies are closely connected, and we cannot avoid building bridges that are strong and wide enough to allow for rapid traffic expansion. To be sure, a few structures exist. Our countries have always been fortunate to benefit from first class diplomatic representations. US Ambassador Pamela Willeford in Berne, and her counterpart Christian Blickenstorfer in Washington, were just the two most recent examples of outstanding diplomats. They had political acumen, fine sensitivities for the realities of their host countries, and a knack for getting things done. They have recently left their positions to pursue other interests and assignments, and we are looking forward to working with their able successors.

But the interaction between countries cannot build on personal relationships alone. They must also be anchored on official structures, the point I would like to turn to next. Unfortunately, the official architecture is not quite as solid as our closely intertwined business activities are suggesting. The pylons supporting the bridges are few and all too quickly counted.

- First, we have the Joint Economic Commission or JEC in short, which was established in 2000 and has the US State Department and the Federal Department of Economic Affairs as partners. The cooperation under the commission invigorated bilateral ties through achievements in several areas, including consultations on anti-money laundering, counter-terrorism and pharmaceutical regulation. The JEC has been a useful, albeit limited instrument. Working sessions are not held regularly and normally limited to only one per year. Additionally, there is a panel discussion in Davos during the Annual Meeting of the World Economic Forum.
- Second, after efforts to reach a comprehensive free trade agreement had failed, then US Trade Representative Robert Portman and Federal Councilor Joseph Deiss agreed in January of this year to create a Swiss-US Trade and Investment Forum. The forum is entirely new for both countries. It is not clear yet what its task should be and how it will

evolve. I am encouraged that the Federal Council has approved the agreement on May 3. It now awaits approval from the White House, and a signature is expected later in May. While the steps are going into the right direction, the results will likely, and regrettably, be smaller than what a full-fledged free trade agreement (FTA) could have achieved.

- Third, the Federal Council, also in its meeting of May 3, has agreed to a Memorandum of Understanding establishing a Framework for intensified cooperation. It provides for a continuous political dialogue, which intends to cover the entire breadth of the bilateral relationship. On the Swiss side the Department of Foreign Affairs will be responsible for the coordination, while the State Department will assume this role for the United States.

That, in addition to a few technical and legal agreements, describes the official interaction between Switzerland and the United States. Despite the vigorous trade relationship and the strong flow of direct investment, which has led to a significant presence of Swiss and US companies in both countries, we do not have a framework of treaties that does justice to the robust business ties.

There is undoubtedly more work to be done. We recognize that Berne and Washington have identified gaps and are working toward filling them. They are engaged in a constructive dialogue, and my colleagues and I in the Swiss-American Chamber of Commerce will lend support whenever we are asked to do so and wherever we can.

Ladies and gentlemen, let me come back to my starting point and talk about bridges within Switzerland as they relate to foreign companies. As I said before: foreign companies in Switzerland – of which 40% are American – provide one-tenth of the economic value added every year and, over the last 10 years, they have contributed nearly one quarter to the growth of the Swiss economy. Yet, these companies have no political representation and no economic policy clout that would reflect their importance.

While it is unrealistic to call for political representation, I believe that teaming the efforts of Swiss and foreign companies would be in our mutual interest. By building bridges between Swiss and foreign companies in Switzerland we could achieve many positives. Let me give four

concrete examples where our interests coincide and where bridges may be built to our joint advantage.

- First, as many of the foreign companies are European headquarters based in Switzerland, comparing notes and combining our efforts could allow for a better understanding of the issues with the European Union and provide a stronger platform for our discussions with Brussels. There are many good reasons why these companies have chosen to do business in Europe from a domicile that is not located in the EU. My own company, Zurich, is also active in countries of the European Union without having its corporate headquarters under EU jurisdiction.
- Second, combining efforts between foreign and Swiss multinational companies will also help strengthen the political debate about the benefits of globalization and trade liberalization. Currently, the debate is dominated by voices representing the local economy such as agriculture or construction or retail banking and sectors that depend heavily on public procurement. The Doha trade round is threatened to fail because the noise of national and ultimately protectionist voices is louder than the arguments advanced by international corporations that ensure rising prosperity through their engagement in the global economy. It would behoove us to articulate our interests more clearly.
- Third, bridge building will also allow for a better exchange of best practice. Looking at the history of many blue chips in this country, I believe it is fair to say that Switzerland has grown rich in part through the adaptation of foreign know-how. This openness has paid fair dividends, and we must do everything to stay the course. It is bound to also improve our access in the global markets.
- Fourth but not least: Swiss multinationals have the same needs as foreign corporations that are headquartered in this country. We are dependent on the recruitment of sophisticated talent and we bring expats to work in our country. There is no difference between a Swiss and a foreign company based in Switzerland. Both are serving global customers from a Swiss location. That's why making Switzerland an attractive work place should give rise to joint initiatives in education, research and development, but also for cooperation on regulatory and fiscal topics.

Ultimately, these four examples amount to an agenda that will enable Switzerland to remain in the league of premier business locations. I have always seen this country as an excellent place to do business from. The last four years at the helm of Zurich have convinced me that my presumption was right. But the challenges of our global economy force us to keep improving. We cannot stand still. Switzerland as hub for international businesses is dependent on new ideas and strong partnerships. Building bridges with our friends in Switzerland and the United States promises to be a good start. Let us continue to work together.