



EMBASSY  
OF THE PRINCIPALITY OF LIECHTENSTEIN

**Liechtenstein Business Day at the University of Economics in Prague  
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**Liechtenstein's Foreign Policy, Foreign Economic Policy and bilateral Relations with the  
Czech Republic**

**Georg Sparber, Liechtenstein Embassy to the Czech Republic**

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Distinguished Vice-Rector,

Distinguished Co-Speakers,

Dear Students,

Let me start by expressing my gratitude to the University of Economics and in particular to Vice-Rector Mr. Dvořák for hosting the Liechtenstein Business Day and for the opportunity to present an outline of my country's foreign economic policy to you. It is exceptional that your distinguished institution, which ranks among the best European schools for economic studies, displays such an interest in the various aspects of Liechtenstein's history, culture and policy. At the same time, we have just heard by Mr. Juřík how deep, long-lasting and mutually enriching the history of Liechtenstein and the Czech Republic is. It is on the basis of this rich common heritage that we seek to enforce our ties, in particular also in the field of economic cooperation. I am convinced that the Liechtenstein Business Day will make a substantial contribution to that effect.

My presentation today intends to give you a brief overview of Liechtenstein's key foreign policy tenets with a particular focus on its foreign economic policy. Both Liechtenstein and the Czech Republic look back at a very particular path towards European integration and global economic cooperation and it seems to me that we share a number of important economic characteristics and foreign economic policy principles. As an example, I would like to mention both our countries' adherence to free market policies and European integration. I also intend to highlight concrete examples of very fruitful cooperation between our countries, including in the education sector, which we hope to build on and to develop further. Most importantly the aim of my presentation is to incite you to engage in a fruitful discussion and exchange of views on any of the topics raised today and I will try my best to respond to your questions at the end.

As a start, I believe it is useful to recall a number of general facts about Liechtenstein as they will help explain the principles of Liechtenstein's foreign policy. I would also encourage you to have a look at the brochures available in the room. They contain a country comparison between Liechtenstein and the Czech Republic and a collection of useful figures on different aspects of Liechtenstein economy and society.

Liechtenstein is a small country of 160 km<sup>2</sup> surface with a total population of around 37'000. That means it is almost 300x smaller than the Czech Republic or more than 30x smaller than Prague in terms of population. Liechtenstein is wedged in between Switzerland and Austria with its longest distance just below 25km. Liechtenstein has been a sovereign State for more than 200 years, including through the troubled history of the 20<sup>th</sup> century. On this basis one might ask what are the key policy principles to ensure Liechtenstein's

continued and prosperous development as an integrated and independent state in the heart of Europe. It might come as a no surprise that Liechtenstein's foreign policy for a long time focused on preserving the country's sovereignty and independence. To achieve these objectives, isolationism has never been a viable strategy. Quite to the contrary: Liechtenstein has a long history of strong and close partnerships with its neighbouring States and of successful integration into regional and global frameworks for economic cooperation. Beginning with its membership in the International Court of Justice in 1950 to its participation in the CSCE process from its beginning in the early 1970s Liechtenstein has actively contributed to the most important regional and international processes. In 1990, our membership to the United Nations represented the last of many important steps towards the recognition of the sovereignty of Liechtenstein by the international community.

Today, for a small country like Liechtenstein preserving its sovereignty also has a decidedly economic dimension. Liechtenstein does not have public debt. Sustainable economic growth and restrained budgetary policies have been important policy factors to preserve the country's independent policy making. They will continue to be important for the future, and the current economic situation in Europe is a case in point. In 2009 the economic and financial crisis hit our country hard. Our GDP shrank by 11% in just one year and tax revenue decreased even more such that rigorous cuts in public spending had to follow. The Government with the broad support of the population is well on track to achieve a balanced budget until 2017 at the latest and will have successfully cut spending by around 16% as part of its consolidation strategy. The Liechtenstein Government is keenly aware that constant efforts are needed to ensure sustainable and just public policies and a dynamic business environment. It therefore accords particular priority to ensuring the sustainability and intergenerational justice in all policy matters. But Liechtenstein's history is also a history of very close cooperation with its neighbouring States and countries of the region.

For over 90 years Liechtenstein forms a customs union with Switzerland, allowing for the free and unhindered exchange of goods and services between the two countries. The customs union with Switzerland is a very good showcase that close economic integration with another country has not limited Liechtenstein's sovereign policy options, but rather strengthened its economic development and thus its ability to take important foreign policy decisions that are tailor made to its specific interests and needs. Among the most important ones I would cite here Liechtenstein's accession to the common European market through its accession to the European Economic Area (EEA), despite the fact that Switzerland has chosen not to become part of the EEA. This year we celebrate 20 years of our EEA accession and public support for the EEA has never been stronger. 85% of the population consider the EEA as a positive development for Liechtenstein. Since 2011 Liechtenstein is also a member of the Schengen/Dublin accords allowing for the free and unhindered movement of its people in the Schengen space. At the same time an accession to the European Union is not considered desirable by a large majority of the population and across political parties and decision-makers. Nor is an accession to the Euro zone which is currently under discussion in the Czech Republic. In summary, Liechtenstein has today achieved a very deep level of European integration which also accounts for the very specific interests of a small country.

Through the EEA Liechtenstein contributes financially to European cohesion, including in the Czech Republic. The Czech Republic is the only country with a Liechtenstein diplomatic representation that receives direct payments, through the EEA financing mechanism. A main objective of the Liechtenstein payments is increased cooperation in the educational field,

including through student exchanges. This really is a success story. Over the years more than 40 students from the Czech Republic have studied in Liechtenstein. Given that the University of Liechtenstein only offers study programmes in economics and architecture this is a very impressive number. We have just received news that this year again six students from the Czech Republic will study at the University of Liechtenstein through the EEA grants. I encourage all of you present today to look into the possibilities that the EEA grants or other European exchange programmes such as Erasmus offer for an exchange stay in Liechtenstein. You are certainly most welcome in Liechtenstein and I would be happy to facilitate the necessary contacts if desired.

Through the customs union with Switzerland Liechtenstein has adopted the Swiss franc as its national currency. You might have read in the news that on 15 January the Swiss National bank has decided to lift its exchange rate ceiling with the Euro followed by a step appreciation of the Swiss franc in the range of 15-20%. It is fair to ask whether and how Liechtenstein's economy is affected by the strong Swiss franc. The short answer is that it is very deeply affected by these developments. Almost 40% of Liechtenstein's economic value creation is provided by the industrial sector. This share is even higher than in the Czech Republic, a prime example of an industry based economy. It is also the industry that is the main driver of Liechtenstein's job market. The domestic economy roughly creates as many jobs as there are inhabitants, which means that roughly 19'000 persons come to work to Liechtenstein on a daily basis from neighbouring countries. The unemployment rate stands at 2.4%.

Almost all industrial production is exported from the country as the domestic market for the goods produced is negligible. In 2013, Liechtenstein exported goods worth 2.8 billion EUR a year, or around 75'000 EUR per person. By large the greatest share of Liechtenstein's exports goes into the Euro zone. So, Liechtenstein exporters find themselves faced with a 15-20% decline in price competitiveness compared to their Euro zone peers. The same is the case for the tourism industry, another important sector of the Liechtenstein economy. Most affected are small and medium sized industrial and commercial enterprises as they lack the possibilities for currency risk mitigation that are available to Liechtenstein's multi-national industrial companies.

In a first reaction, the Liechtenstein government has decided to increase the budget for innovation and export promotion and has deferred previously scheduled additional levies. At this stage, no additional supportive measures are planned. The general perception is rather that the strong Swiss franc will incite the Liechtenstein industrial and commercial sector in the middle to long run to further increase its competitiveness through higher quality and innovation. Already now, the private and public investment in research and development amounts to 7% of the GDP, where the OECD recommends at least 3%.

This allows me to talk in more general terms about Liechtenstein's foreign economic policy principles. Liechtenstein adheres to a free and non-distorted market policy, with free and unhindered access to markets at its core. Liechtenstein's foreign trade policy is built on four main pillars, two of which I have already mentioned: the customs union with Switzerland and the EEA. The two other pillars are Liechtenstein's membership to the World Trade Organization (WTO), since 1995, and to the European Free Trade Association (EFTA), since 1991. Liechtenstein accords high priority to the negotiations in the framework of the World Trade Organisation as it is a strong supporter of the multilateral trading system. Liechtenstein fully subscribes to the WTO efforts to liberalize trade in all its aspects, in

particular through a timely conclusion of the Doha round. Unfortunately, we are all keenly aware that progress in this regard has been lacking for a long time, even if the agreements of Bali in 2014, in particular the trade facilitation agreement, have given rise to some optimism. Since 2013 Liechtenstein is also actively engaged in the plurilateral negotiations on the trade in services agreement (TISA). Nevertheless, we consider the WTO track of trade liberalization as lagging behind expectations and the actual needs of Liechtenstein's economy. Liechtenstein therefore pursues a very intense strategy of negotiating bilateral and multilateral free trade agreements in the framework of the European Free Trade Association (EFTA). The EFTA member States are – in addition to Liechtenstein – Switzerland, Norway and Iceland. In the EFTA Liechtenstein secures its interests in various trade areas, notably including trade in services and intellectual property. The EFTA States have concluded a large number of free trade agreements with third countries, in total 25 agreements with 35 countries. This is one of the largest networks of free trade agreements in the world. In the past years EFTA States focused their interest in particular on South East Asia. Negotiations are on-going with India, Indonesia, Vietnam, Malaysia and recently also with the Philippines. The most recent agreement has been concluded with Guatemala and negotiations will start with Georgia at end of summer. It is also interesting to note that the chapters on trade in goods of the free trade agreements concluded bilaterally between Switzerland and third countries also apply to Liechtenstein by virtue of the customs union. This is for example the case for bilateral free trade agreements between Switzerland and Japan as well as China. At the moment, the EFTA States follow with particular interest the negotiations between the EU and the US on a Transatlantic Trade and Investment Partnership (TTIP) as such a partnership might have far reaching consequences for trade and competition on the European continent.

In addition, Liechtenstein conducts an active policy of concluding comprehensive agreements to avoid double taxation and ensure full transparency and cooperation in the area of taxes. Last September, our Deputy Prime Minister was in Prague to sign such an agreement with the Deputy Prime Minister of the Czech Republic. This has been another milestone in the relationship between our countries. I understand that your University has taken a particular interest in the new double taxation agreement. The Department of Public Finance will host a one-day Double Tax Treaties Forum on 16 October this year. The Forum will include discussions on the new Liechtenstein-Czech agreement with the participation of Liechtenstein experts and representatives. We are very grateful for such initiatives which can have important practical impact on the day-to-day cooperation between our countries. They testify to the importance of academia's engagement in new developments at the political level.

The policy of signing comprehensive tax agreements is an expression of Liechtenstein's commitment to fully comply with relevant international standards in the area of taxation. Liechtenstein pursues this policy since 2009 and has successfully undergone reviews by the most important international bodies in this field, including the OECD and the FATF. Contrary to a stubborn believe Liechtenstein is not a country of mail boxes. Only 24% of Liechtenstein's GDP is generated by the financial sector. Still, there is a tradition of providing quality financial services in Liechtenstein that dates back to the middle of the 20<sup>th</sup> century and that now manifests itself as a vibrant market of service providers in the field of assets management and insurance and banking services. This market is paired with up to date regulatory mechanisms that live up to the high standards of the international community in the areas of crime prevention and international cooperation. Liechtenstein has gathered

substantial know-how and helps build expertise in the area of recovering assets stemming from criminal activity and corruption or other illicit sources. This fall the Czech Republic plans to host an important international conference on the fight against corruption and Liechtenstein envisages to actively contribute with high-level expertise.

Now, I would like to take the opportunity to talk more about the concrete cooperation that exists between our two countries in the economic field and possible areas where we see a potential for working together more closely. We have heard that the common historical and cultural heritage of our two countries is very rich and spans over 700 years. Still, direct diplomatic relations between Liechtenstein and the Czech Republic have been interrupted for the better part of the 20<sup>th</sup> century and only been reestablished in 2009. But even while diplomatic channels were silent, concrete economic cooperation between the countries existed and continues to exist to date. We certainly hope that the fruitful cooperation at the political level will pave the way to even deeper and more extensive economic activity. Already now, trade in goods between our countries is substantive. In 2013 Liechtenstein exported goods valuing over 16 Mio EUR to the Czech Republic compared to an import of goods valuing over 13 Mio EUR from Czech Republic to Liechtenstein. It is well known that an important driver of the Czech Republic's economy is its automobile industry. It is probably less well known though that Liechtenstein companies contribute to that industry and therefore also depend on it. The Liechtenstein company ThyssenKrupp-Presta produces, for example, the steering columns for the Škoda factories in the Czech Republic.

In addition, three of our international flagship companies operate in the Czech Republic. They provide 220 jobs and create around 30 Mio EUR of annual revenue. I am particularly pleased that two of them, the companies Hilti and Hoval, are represented today at the Liechtenstein Business Day by their CEOs in the Czech Republic, Mr. Zeidler and Mr. Bohuslav. Hilti and Hoval are companies that in many ways exemplify the virtues of the Liechtenstein economy: quality and innovation. Let me therefore talk briefly about a particularly important pillar of the Liechtenstein economy: education and training.

Liechtenstein has a so-called dual educational system which places a very high emphasis on multiyear in-depth vocational training. Trainees in Liechtenstein companies attend vocational school for three to four years. Moreover, it is possible with complementary schooling to pursue studies at university on this basis. Liechtenstein thus promotes and heavily invests in high-skilled workforce. The private sector takes its responsibility to provide good working and learning conditions for trainees very seriously. The educational sector figures among the highest spending positions of the State. The Government spends about 40% more money on education than on its general administration. University level education is highly internationalized. The biggest share of Liechtenstein students studies at Swiss or Austrian universities. Liechtenstein students have thus a natural affinity to international settings. At the same time the University of Liechtenstein offers programmes for economic and architectural studies that are popular with international students. Liechtenstein students only make up the fourth largest group of nationalities studying in Liechtenstein. It goes without saying that our University strongly focuses on international cooperations. The University of Liechtenstein and this University are partner institutions allowing for student and staff exchanges. As before I express my hope that the Liechtenstein Business Day will help further intensify this cooperation.

I am aware that the time allocated to this presentation has not allowed giving you a comprehensive overview on Liechtenstein's economic policy. I do hope though that some of

the points I raised have spurred your interest and I am happy to try and fill any gaps in the upcoming discussions. Once again I would like to thank you and the University of Economics very much for this excellent opportunity to present my country Liechtenstein to you and I look forward to your questions.

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