Explaining trade policy responses to Covid-19: Case of Switzerland

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Abstract

While the shock of Covid-19 has generated draconian containment policies in virtually all countries to limit the spread of the pandemic, it also brought a plethora of trade and investment policy responses that were broadly aimed at limiting cross-border commercial ties. This essay sheds light on the drivers of trade policy responses of European Free Trade Area (EFTA) members in the wake of Covid-19. I propose that while EFTA Members’ behavior by and large followed that of the European Union and its member states, Switzerland instead resorted to trade liberalizing policies. Switzerland’s reliance on imports led to supply difficulties, which was unusually affected by tourism shopping. The mobility limitations that restricted Swiss residents’ ability to buy products across the border translated into a disproportionately higher demand in the face of relatively low supply. In turn, Swiss producers requested trade barriers to be lowered and the government responded to their request. This episode highlights the importance of linkages between mobility and trade policy – showcasing how restrictions along borders can have unintended effects that ultimately shape trade policy.

Policy Recommendations

- Policymakers need additional measures to better capture the potential impact of border shopping on consumer demand. As border regions often involve shoppers moving back and forth between countries, policymakers need to better measure the extent of trade taking place. In turn, this will allow governments to consider possible changes in supply and demand that fluctuate with border restrictions.
- Interdependence between cross border mobility and trade should be better examined. In purchasing goods and services, many consumers rely on cross border transactions and movement along borders. In such cases, restrictions on individuals’ mobility might unintentionally lead to demand increases.
- Governments need flexible instruments to enact trade policies. Possible unintended economic effects of restrictions along borders are likely to take place in times of crisis. Governments will then need to quickly adapt to the situation and thus needs instruments at hand to respond to demand and supply shocks.
Introduction

The Covid-19 pandemic had a critical impact on the international trading system beyond a severe decline in cross-border trade and investment. In fighting the pandemic, many governments, especially among the developed European Union/European Free Trade Association (EU/EFTA) member states, introduced a range of nationalist-protectionist policies aimed at boosting domestic output, such as export licensing requirements and import restrictions. As warned by experts, in most cases such measures sparked retaliatory responses from trade partners and caused companies to lose access to imports necessary to produce their products to fight the pandemic in the first place (Baldwin and Evenett 2020, Fiorini et al. 2020).

A small yet growing literature in political science and economics attempted to explain the drivers of trade policy responses to Covid-19. Scholars have suggested that trade restrictions in response to Covid-19 were likely led by information asymmetries (Hoekman et al. 2021, Bown 2022) that the impact of the crisis on trade was exacerbated due to “relying too much on China” (Miroudot 2020), that Covid-19 is likely to change the political mobilization of trade-related interests (Wiebke et al. 2021, Rasmussen 2020), and that Covid-19 is likely to cause a long term change in the structure of world trade (Arriola et al. 2021, OECD 2022). The literature also highlighted significant heterogeneity in governments’ trade policy responses. Perhaps the most comprehensive dataset on trade policies enacted in the wake of Covid-19, compiled by Evenett et al. shows a striking heterogeneity in the timing, duration, and the policy instrument used by governments in response to Covid-19 (Evenett et al. 2021).

This essay builds on this literature. It focuses on the case of EFTA, which has yet to receive attention from scholars. Since EFTA members are all integrated into the Single Market of the European Union, scholars have so far treated trade policies of EFTA Members as aligned with EU trade policy. While this is a logical (and useful) assumption supported by empirical evidence, this was certainly not true in the case of Switzerland, which resorted to trade liberalizing measures in contrast to its EFTA (and other European) partners. From a theoretical perspective, this essay applies the insights from ‘bordering theory’ (Schimmelfennig 2021) to explain Switzerland’s trade policy responses to Covid-19. Bordering theory provides a unique theoretical lens to examine the dynamics of boundary making between countries in the aftermath of crises (e.g., Genschel and Jachtenfuchs, 2021). I thus apply the insights generated from this framework to shed light on EFTA Members’ trade policy responses to Covid-19, highlighting the unique case of Switzerland in doing so.

This essay proceeds as follows. I start by outlining trade policy responses of EFTA Members to Covid-19. The section that follows introduces bordering theory, which provides a useful framework to examine trade politics. The section that follows demonstrates the underlying mechanism of Switzerland policy responses – essentially showing that reliance on imports combined with restrictions on cross border shopping led to a surprising increase in demand. In turn, Swiss producers could not address consumers’ demands and requested trade barriers to be lowered. I conclude in the fourth section with the implications of this essay and potential avenues of future study.

EFTA Members’ trade policies in the aftermath of Covid-19

In fighting the Covid-19 pandemic, a large majority of governments introduced a range
of nationalist–protectionist policies aimed at boosting domestic output, protecting domestic industries, while facilitating imports of products necessary to fight the pandemic (Hoekman et al. 2020). The most straightforward example was the lifting of value added tax for personal protective equipment (PPE) and pharmaceutical products, while imposing export restrictions on the exact same products.

EFTA Members followed their European partners in imposing export curbs on various products. They enacted trade restrictive measures on PPE, in line with EU trade policy (and in line with EU members that behaved similarly before the EU-level policies were enacted). These measures were mostly aimed at allowing the entry of PPE equipment while restricting their exit. Norway and Iceland both imposed export curbs on certain medicines and Norway also introduced far-ranging licensing requirements on various pharmaceutical products – such as raw materials used in the production of medicines. These measures are outlined below in Table 1.

Table 1: EFTA Members’ trade policy responses to Covid-19

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade-restrictive measures</th>
<th>Trade-liberalising measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>*Export licensing requirement for PPE</td>
<td>*Import duties &amp; value added tax lifted for goods necessary to fight Covid-19</td>
</tr>
<tr>
<td></td>
<td>*Export licensing requirement for pharmaceutical products</td>
<td></td>
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<tr>
<td></td>
<td>*Export licensing requirement for medicinal raw materials</td>
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<tr>
<td>Iceland</td>
<td>*Export restrictions for medicine</td>
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<tr>
<td></td>
<td>*Export licensing requirement for PPE</td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>*Export licensing requirement for PPE</td>
<td>- Increase in tariff-rate quota for butter</td>
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<td></td>
<td></td>
<td>- Increase in tariff-rate quota for eggs</td>
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<tr>
<td></td>
<td></td>
<td>- Increase in tariff-rate quota for potatoes</td>
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</tbody>
</table>

*only original measures, meaning that if a measure was later replaced or extended by another policy instrument, I note it as a single one. The data is retrieved from Evenett et al. 2022 (Available via: Global Trade Alert www.globaltradalert.org and the Global Governance Programme of the Robert Schuman Centre for Advanced Studies https://globalgovernanceprogramme.eui.eu/covid-19-trade-policy-database-food-and-medical-products/)
As evident from Table 1, Switzerland was the only EFTA Member that lifted barriers on agricultural products. In other words, while the behavior of Switzerland was similar to that of its EFTA trade partners in restricting the exit of certain goods, it also introduced a number of trade liberalization measures. In the immediate aftermath of the pandemic, Switzerland relaxed its annual tariff-rate quota for agricultural products, including potatoes, butter, and then for eggs (WTO 2020).\(^1\) In fact, the measure for butter had to be revised several times in one year and the allowed quota more than tripled (IP Lait, 2021)\(^2\). In contrast, the other EFTA Members that have similar economic profiles to Switzerland – e.g., Norway – refrained from lowering trade barriers.

**Bordering theory & Switzerland’s trade policy responses**

Why did Switzerland enact trade liberalizing measures in the wake of Covid-19? I build on bordering theory to answer this question and propose that Switzerland’s reliance on imports and subsequent sectoral demand for trade liberalization resulted in its lowering of trade barriers in the wake of the pandemic.

Bordering theory suggests that boundaries – may they be in the economic, cultural, or security domain – are reconfigured in the aftermath of crises. Such reconfiguration can take the form of debordering: an opening of boundaries, or (re-)bordering: closure of boundaries. Boundary shocks, such as the Covid-19 crisis, change the constellation of boundary transactions – e.g., changes in the volume of imports and exports. In return, these changes in transactions lead to a demand for reconfiguration and subsequent debordering or (re-)bordering.

As an example, the bordering theory would lead us to expect the following from EFTA Members in terms of trade policy following the shock of the Covid-19 pandemic:

- An external shock in the form of Covid-19 triggers a bordering process.
- The shock results in altered boundary transactions including:
  - Supply disruptions caused by containment policies leads to changes in imports
  - Policies intended to protect public health leads to changes in exports
- In turn, changes in boundary transactions generates demands for boundary reconfiguration
  - Policymakers, organized interests, and the public voiced demands
- Boundary reconfiguration takes place following demand for reconfiguration
  - Various trade policies, including export bans and import restrictions leads to raising or lowering of trade barriers

Indeed, as the Covid-19 pandemic led to an unprecedented decline of cross-border commerce, nations faced pressure to adjust their economic borders. As expected, the initial shock of the pandemic not only generated draconian containment policies in

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\(^1\) See also: Verordnung über die Einfuhr von landwirtschaftlichen Erzeugnissen (Agrareinfuhrverordnung, AEV) 2022.280 – available via: https://www.fedlex.admin.ch/eli/oc/2022/280/de.

\(^2\) See also: Swiss Federal Office for Agriculture, Zollkontingent Butter wird um 1’500 Tonnen erhöht, available via: https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-82326.html.
virtually all countries to limit the spread of the pandemic, but also brought a plethora of trade policy responses that were broadly aimed at limiting cross-border commercial ties (Baldwin and Evenett 2020). Such responses were originally due to supply chain disruptions in China (Bowen 2022, Evenett 2020) and domestic health policy objectives (Cullen 2020).

At the beginning of March 2020, Norway, Iceland, and Switzerland all introduced export restrictions on PPE products, following many of their European counterparts. The initial panic instigated by the pandemic and the unpreparedness of many countries is likely to have contributed to such stark restrictive measures – following other policies that almost eliminated the cross-border movement of people. In a matter of few weeks by the middle of March 2020, however, EFTA – as well as EU – Members committed to de-bordering and lowering (previously erected) barriers between themselves and re-bordering vis-a-vis third country partners.

On March 15, 2020, the European Commission introduced re-bordering measures and imposed export restrictions on PPE products but decided that these restrictions will not apply to EFTA States. This meant that while exports of PPE to Iceland, Norway and Switzerland moved freely, extra-Schengen states were faced with additional barriers. In line with this policy, EFTA Members introduced additional export curbs on various medical supplies and equipment in collaboration with the EU and other European countries.

From the import side, EFTA Members resorted to specific import relief on PPE and other medical products. Iceland, Norway, and Switzerland all introduced VAT exemptions on medicines and goods necessary to fight the pandemic – following EU Member States and the European Commission. Yet, Switzerland moved a few steps further as it faced a demand for reconfiguration in favor of de-bordering in its dairy sector. In line with the bordering theory, changes in the Swiss economic borders were a result of domestic demand.

Two factors contributed to this demand. For one, as Figure 2 below suggests, Switzerland was by far the most reliant on foreign agricultural products. The figure shows how much of imported goods (in percentage) constitute the total production output of each EFTA Member in the agricultural sector. Switzerland is certainly the highest, its imports of agricultural products constituted 40% of its total output in 2018. It should be noted Norway, roughly 35% reliant on imports trails Switzerland closely behind and Iceland is the least dependent on imports with roughly 20%.

While Norway and Iceland were able to supply the (increased) demand in the wake of Covid-19, despite their dependence on imports, Switzerland was unable to do so. The reason is that while Switzerland faced a pressure of increasing demand, policymakers also miscalculated available supply. It turned out that due to the effects of so-called “tourism shopping” (e.g., Ramsey et al. 2019), Swiss residents were relying on dairy products purchased in towns bordering Switzerland. While tourism shopping is not an unknown

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4 See, Government of Iceland, “Export Controls – international cooperation” via:

5 Such a demand follows society-centred models of economic policy making in which organized economic interests formulate their demand to policymakers, who either follow them or steer a course between competing interests (e.g., Grossman and Helpman 1994, De Bièvre and Dür 2005, Yildirim 2020).
phenomenon, the impact of it on demand was not immediately clear. Because of Covid-induced mobility restrictions, the unusually high demand for home consumption of dairy products met with the inability of Swiss residents to shop across the border. In turn, this led to an additional pressure for an increase in imports to sustain demand – because as the Federal Office for Agriculture noted “... opportunities for shopping tourism largely disappeared” (FOAG 2021:17). The dairy industry’s demands mirrored this reality. Dairy sector association IP Lait (also known as BO Milch) noted that imports of dairy products needed to be liberalized further because “individuals have increasingly consumed at home on the one hand and on the other, shopping tourism fell to practically zero” in the wake of Covid-19 (IP Lait, 2021). The sector has expressed that it could not meet the demand and requested that import quotas are relaxed, which subsequently led to a three-time increase in tariff-rate quotas.

An obvious alternative explanation of why Switzerland resorted to debordering would be that Switzerland had higher trade barriers ex ante – i.e., before the start of the pandemic. In other words, Norway and Iceland did not liberalize trade in agricultural products simply because they already had very low barriers. While this explanation would be appealing, it is not true. In fact, for the dairy products where Switzerland resorted to liberalizing policies, Iceland and Norway both had higher tariffs than Switzerland – and all of them applied extremely high tariff rates. Iceland and Norway apply an average of over 300% applied tariff rate for dairy products, while Switzerland applies an average tariff rate of over 130%. In other words Switzerland’s dairy sector was (and still is) relatively more liberalized than Norway and Iceland. Yet, Switzerland continued to lower its trade barriers in the aftermath of the pandemic.

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7 See ‘Les contingents de beurre et d’oeufs sont relevés’ by - [https://www.agrihebdo.ch/news/les-contingents-de-beurre-et-d-oeufs-sont-releves/7537](https://www.agrihebdo.ch/news/les-contingents-de-beurre-et-d-oeufs-sont-releves/7537)


Source: Author’s own calculation from Trade in Value Added Dataset (OECD, 2022). The measure is calculated by looking at imports of agricultural products (sector classification 01 and 02) as a proportion of production in those sectors.

Concluding remarks

This essay sheds light on the drivers of trade policy responses of EFTA Members in the wake of Covid-19. I put forward that while EFTA Members’ behavior followed their European counterparts, Switzerland demonstrated a different behavior in which trade liberalizing policies were enacted in the dairy sector. I proposed that the reason why Switzerland resorted to such trade liberalizing policies was because of Switzerland’s reliance on imports led to supply difficulties, which was unusually affected by tourism shopping. The mobility limitations that restricted Swiss residents’ ability to buy dairy products translated into low supply and a subsequent demand from the dairy industry to provide it.

This essay contributes to two streams of literature. First, by examining the Swiss and EFTA governments’ trade policies in the wake of the pandemic, I contribute to the burgeoning literature on policy responses to Covid-19 (e.g., OECD 2020a, 2020b, Anderson et al. 2021, Elgin et al. 2021, Lacey et al. 2021). A large body of work has been examining the causes and consequences of the pandemic and this essay shows an empirical outlier, i.e., Switzerland, that took a divergent behavior from that of its other (EFTA) partners. Two, I contribute to the international political economy literature that examines the politics of international trade policies (e.g., Milner 1987, Poletti and De Biévre 2014, Kim 2017, Osgood 2016). Works in this tradition have convincingly shown the importance of the political mobilization of organized domestic interests, which is corroborated in this essay.

The behavior of Switzerland in the wake of the pandemic highlights the heterogeneity of policy responses to Covid-19. As noted by other scholars (Evenett et al. 2021), further political economy research would benefit from shedding light on such heterogeneity and examining if and why certain countries resorted to trade liberalizing policies beyond medical products that were necessary to fight the adverse health effects of the pandemic.
One alternative avenue would be to focus on the type of policy instruments used by governments – such as state aid or import relief to support struggling businesses or to examine the duration of policies implemented – e.g., why some countries lowered previously-erected trade barriers and others abstained from doing so?

Three policy recommendations can be drawn from the essay. One, the Swiss case shows the importance of measuring cross border shopping transactions. While the phenomenon of shopping tourism in border towns is not new, further data on consumer habits would be helpful in better understanding potential supply disruptions or demand shocks in the wake of border restrictions. Therefore, measures should be taken to capture the extent of tourism trade that takes place across borders. Second, interdependence between cross border mobility and trade should be examined. Indeed, many consumers rely on cross border transactions and movement along borders to purchase goods and services. In such cases, restrictions on individuals' mobility might have unintentional trade-related consequences. For instance, the ability of service providers to supply services is also likely to be dampened in case of mobility restrictions. In turn, this will cause policymakers additional challenges to provide such services to their residents. Further research should therefore investigate the relationship between cross border mobility restrictions and possible implications for trade in goods and services. Third, the Swiss case shows the importance of flexible trade policy instruments. Especially in times of crises, policymakers will need to react swiftly to previously unforeseen consequences of border closures on trade. Flexible arrangements, such as temporary quotas and tariff decreases are crucial to cushion the impact of border restrictions on trade.

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The author acknowledges the support of the European Union’s Horizon 2020 programme (ERC-AdG EUROBORD, grant agreement 101018300).

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