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The Prospering Relations of China and Switzerland: A Review after 10 Years of Signing Sino-Swiss Free Trade Agreement

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Abstract

The bilateral relations between China and Switzerland have solidified a lot, especially over the last century. In the mid-17th century, traders and missionaries from Switzerland established relationships with the Chinese people. In 1912, Switzerland and the Republic of China developed a Swiss trading hub in Shanghai. In 1918, they signed a friendship treaty. Just one year after Mao Zedong's proclamation of nationhood in 1949, Switzerland officially recognized the People's Republic of China. Since then, bilateral agreements, such as the Agreement on the Promotion and Reciprocal Protection of Investments (1986, new agreement in force since 2010) and a Double Taxation Agreement (1990, new agreement signed in 2013), have augmented the economic relations between China and Switzerland. Switzerland's foreign economic policy and market access is based on three main pillars: WTO membership, bilateral agreements with the EU, and Free Trade Agreements (FTAs) with partners from around the world. Having granted Beijing Market Economy Status (MES) in July 2007, the conclusion of the landmark Sino-Swiss Free Trade Agreement (FTA) in July 2014 further boosted the bilateral relations between these two countries to higher levels. The study being theoretical in nature has studied the existing academic literature and policy reports in an extensive way. The findings of the study indicates that Switzerland was attracted to China because of its market and the country's status as a rising power. In contrast, China saw an FTA with Switzerland as a legitimate way to formally enter the European market. Under this agreement, Switzerland agreed to exempt tariffs on 99.7 per cent of Chinese exports to Switzerland. Similarly, China agreed to exempt tariffs on 84.2 per cent of Swiss exports to China, for a period not exceeding fifteen years.

Keywords: China, Switzerland, Bilateral Relations, Foreign Economic Policy, Free Trade Agreement.

1. Introduction

The trade dynamics is changing with the passage of time and bringing various challenges in the context of investments (Arfaoui, N., 2024; Bashir, U., 2024; Dsouza, S., 2024; Kayani, U.N., 2023; Nasim et al., 2023). China has many strategic partners like the United States (US), the European Union (UE), Russia, and the Association of Southeast Asian Neighbors (ASEAN). While scholars have examined China's relationship with these countries (from a variety of perspectives), far less has been written about the Sino-Swiss relationship. In 2016, Xi Jinping, the current President of China, described visiting Swiss President Johann Schneider Ammann, as "an old friend of the Chinese people." Li Keqiang, the Prime Minister of China at the time, emphasized the importance of bilateral relations, and explained that China "[wanted] to deepen

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[their] partnership with Switzerland in trade, finance, and innovation.” He reiterated the country’s desire to “make bilateral cooperation a model in China-Europe relations” (Dadush, 2019).

The question of how to evaluate the Sino-Swiss relations is of prime importance (Hu, 2020; Ruth, 2016; Witch, 2019). In this study, the term “B&B” is used to define Sino-Swiss Relations: “B&B” refers to the capitals of the two nations, Beijing, and Bern. The success of the “B&B” model mirrors the accomplishments of the Sino-Swiss relations. Both nations share comparable foreign policy and similar objectives based on cooperation, commerce, economics, technology, and innovation. They respect each other’s fundamental interests, which is essential for a successful strategic relationship (Wang & Shen, 2020). Over the past few decades, the world has experienced a technological transition, as the developing countries are aiming to become technologically advanced countries and to achieve the swift and speedy industrialization, China introduced Made in China strategy (Aysan & Kayani, 2020 & 2022). It is also interesting to note that Chinese economy is quite resilient and even it did not undergo a period of recession during this COVID-19 pandemic, but instead it underwent a prolonged period of economic stagnation (Kayani, 2022).

While Switzerland officially recognized the People’s Republic of China in January 1950, it was not until the 1970s that bilateral trade experienced considerable growth. China and Switzerland’s 1974 bilateral trade agreement included “most-favored-nation” (MFN) status as well as the formation of a joint economic commission to further strengthen bilateral economic cooperation.

The bilateral trade between China and Switzerland began to flourish in the late 1970s due to Deng Xiaoping’s economic reforms. Bilateral commerce between the two nations progressively developed under the new Chinese regulations. By 1990, trade between the two countries had tripled (in comparison to 1978 figures), with more than ten Sino-Swiss joint enterprises. The 1990s saw China’s economy continue to grow. The establishment of several Swiss regional offices formed the foundations for the development of further joint ventures. Today, there are approximately 500 to 600 Swiss enterprises in China, with over 1000 subsidiaries. In 2012, Swiss direct investments in China totaled RMB 11.8 billion (CHF 1.7 billion) (Wang & Shen, 2020). When foreign companies bring their operations into the host country, they bring with them advanced technology, knowledge, and resources which ultimately stimulates the economic health of the country (Kayani et al, 2021). Foreign Direct Investment is a key indicator of country’s economic growth and China has become a one of the largest recipients of FDI among the developing countries (Kayani, 2017 & 2021).

Since the early 1990s, Switzerland has been developing a network of free trade agreements (FTAs) with several other nations, some located outside Europe. A vital objective in Swiss foreign policy is to enhance access to the global markets. WTO membership, bilateral agreements with the EU, and FTAs with trade partners around the globe are the three primary pillars of Switzerland’s foreign economic policy. After the 1972 FTA with the EU, the FTA with China is the second most significant trade deal Switzerland has ever signed. China is Switzerland’s third-largest trade associate in the world, after the EU and the US (Lanteigne, 2019). Among Asian countries, China is Switzerland’s most significant export partner. It is also the country’s foremost supplier of imported goods (Muff, 2019). The Figure 1 explains the Sino-Swiss Trade Trajectory from 1990 – 2018. The Chinese exports are dominating over the Chinese imports from the Switzerland.

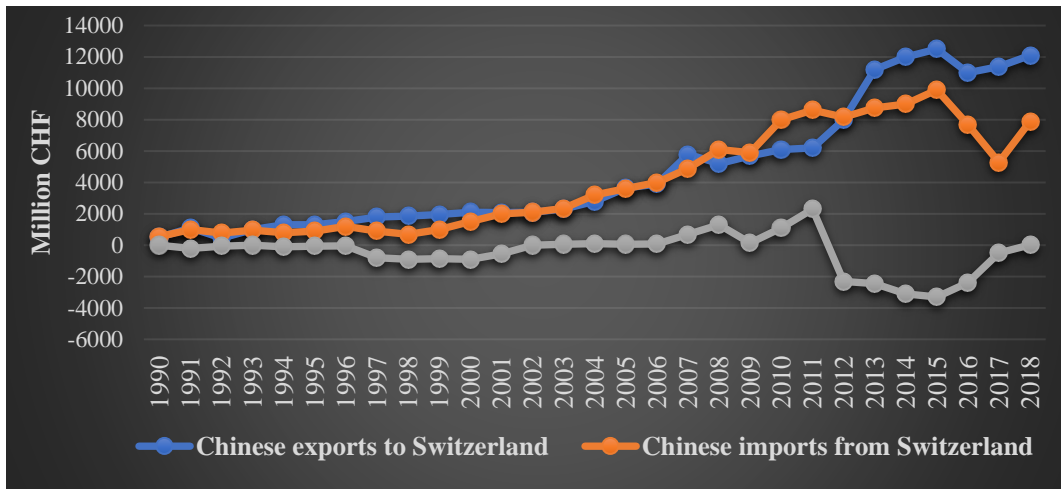


Figure 1: Sino-Swiss Trade Trajectory from 1990 - 2018 (Federal Customs Authority).

The current study explores why the Sino-Swiss is one of the best-known bilateral agreements of China with European country. The study's primary objective is to understand how Switzerland interacts with China. The article provides a historical overview of China-Switzerland relations, discusses the political relationship between China and Switzerland, and describes aspects of the Sino-Swiss Free Trade Agreement (FTA). It is imperative to explore the economic and political relations between China and Switzerland so that useful information can be made available for decision-makers, policymakers, and researchers across the world that could follow their example/lead. The rest of the paper is structured as follow; Section 2 presents the historical overview of Sino-Swiss Relations; Section 3 explains the China-Switzerland Free Trade Agreement (CSFTA) and finally the article has been concluded in the section 4.

2. Historical Overview of Sino-Swiss Relations

China and Switzerland have enjoyed productive cooperation for decades. The presence of Swiss goods in southern China have been linked back to the 17th and 18th centuries when Swiss timepieces and musical boxes were popular amongst the Chinese nobility. Later, religious messengers became part of the China-Switzerland relationship. Despite being one of Europe's wealthiest nations, Switzerland has never invaded China, unlike other European Nations. In 1950, Switzerland became one of the first European nations to establish official diplomatic ties with China. Since the 1980s, China's liberalization and introductory strategy have significantly improved Sino-Swiss ties. Until relatively recently, it was illegal for overseas firms to operate in the People's Republic or for Chinese citizens to make investments abroad. The establishment of the first strategic alliance in Shanghai in 1980, the Swiss Schindler Group and its Chinese allies, heralded the beginning of greater Swiss investment in China over the following decades. In 2001, Switzerland backed China's efforts to join the World Trade Organization (WTO), driven by the belief that this would improve Swiss tourist companies' access to China (Fung et al., 2021).

The relations between both countries have blossomed, particularly over the last ten years. In 2007, the two countries signed a Memorandum of Understanding (MOU) to increase political dialogue at the highest levels and develop bilateral ties in a variety of fields. In the same year,

Switzerland acknowledged China's form of capitalism. In recent years, bilateral visits between officials from these two countries have become more regular. In May 2013, Chinese Premier Li Keqiang visited Bern, Switzerland. During this visit, the People's Bank of China and the Swiss State Secretariat for Financial Matters signed an Accord; this act marked the beginning of strategic conversations on economic affairs between the two countries. Li returned to Switzerland in 2015 to address the Davos World Economic Forum. Just one year later, in 2016, the Swiss President visited China. In a joint statement, both countries expressed their appreciation for Swiss engagement as a spectator, in Chinese collaborations with other European nations. The Chinese President paid another official visit to Swiss state dignitaries in 2017, participating yet again in the Davos Forum. These visits indicate the strength of diplomatic ties with Switzerland. In addition to frequent formal interactions among Beijing and Bern, there has been an active flow of conversations between diverse specialists, research institutions, and artisan organizations in both cities (Wang, 2017).

Over the past few years, parties from both sides have collaborated in the development of environmental protection and global warming mitigation strategies, focusing on technology to offset environmental threats, climate adaptation measures, green technologies, and the exchange of information related to statutory climate provisions (Wang & Shen, 2020). In 2007, Switzerland became the first leading economy in the Organization for Economic Cooperation and Development (OECD) countries to grant China Market Economy Status (MES). Switzerland recognizes the significance of economic cooperation with China, considered the second-fastest growing economy in the world (Lanteigne, 2015). Today, a large share of the industrial products manufactured in Switzerland are exported to China. Following the European Union and the US, China is the third-largest market worldwide. Every country has the right to pursue the path of industrialization and enjoy a better living standard (Kayani et al, 2013).

Collaboration in research and development is a relatively recent, yet intriguing, development in Swiss-Sino ties. According to Wang Yi, Chinese Minister of Foreign Affairs, the two parties vowed to take advantage of Switzerland's technology and innovation-driven Chinese development. Swiss companies have developed several avenues for collaboration with Chinese counterparts in science, technology, and innovation. The Swiss' nationwide network for training, exploration, and entrepreneurship has played a crucial role in furthering the country's role as an international hub for research, youth development, and technological growth (Roussillat, 2015).

3. The China-Switzerland Free Trade Agreement (CSFTA)

China and Switzerland signed a Free Trade Agreement in July 2013, which came into effect a year later. As explained above, while Switzerland was eager to gain access to the Chinese market, China considered Switzerland a point of entry into Europe (Li, 2015). Under the FTA, Switzerland agreed to exempt tariffs on 99.7 per cent of Chinese exports to Switzerland. In a similar manner, China agreed to exempt tariffs on approximately 84.2 per cent of Swiss exports to China, for a maximum of fifteen years. While the CSFTA has had a visible influence on trade between China and Switzerland, at this point, it would be premature to pass judgment on its overall effect. Countries that sign these types of agreements often experience great surges in exports and productivity, at least initially (Kayani, 2022). However, whether these surges continue for the foreseeable future remains to be seen. For EU-China discussions to deliver real results, tariff reductions on cars are essential. European carmakers, such as Volkswagen and Daimler, may not have been as eager to remove China's import tariffs if they were not

already producing vehicles there (DİNÇER, 2020).

The CSFTA lowers tariffs on a wide variety of Swiss products. Exporters from China might save a lot of money by purchasing items such as magnets, vacuum cleaners, and bicycle parts. The duty-free import of Chinese intermediate components benefits the Swiss watch industry. Furthermore, Switzerland has taken considerable care to safeguard its agricultural and agribusiness industries, which include products like dairy, sweet goods, fruits, and grains as well as a variety of animal products and wines. The concessions made by China under the CSFTA in services trade are even more modest. As with China’s WTO accession protocol (where it should be highlighted that China made considerable promises in comparison to existing WTO member nations), the Sino-Swiss agreement’s service schedule closely resembles that of the WTO.

The Chinese government loosened joint venture regulations in several areas. Depending on the circumstances, Swiss companies can control a bigger percentage of joint ventures than other WTO members and, in specific areas, establish wholly owned subsidiaries. As a result of the extra financial concessions, Swiss corporations can trade stocks on behalf of qualified institutional investors (QDII) in China, offer guidance, and provide overseas custody. Companies based in Switzerland may also own up to 49% of joint ventures engaged in certain types of trade and underwriting. Under MFN WTO commitments, these joint ventures can only have a 33% share of ownership. Joint ventures in Switzerland are also permitted to participate in securities brokerage, proprietary trading, and asset management, provided they receive the necessary authorization (Yu, 2020).

Table 1 provides the overview of the historical development of Sino-Swiss Free trade agreement from 2007-2013. The events are reflected against each date. Similarly, Table 2 provides the chapter wise contents of the Sino-Swiss Free Trade Agreement.

Table 1: Overview of the Historical Development of Sino-Swiss Free Trade Agreement.

Year	Date	Event
2007	July 8 November	Switzerland recognizes China as a market economy. First contact, at the level of government officials, towards a possible Free Trade Agreement (FTA).
2008		Internal work on both sides on the feasibility of an FTA.
2009	April 27-28 and October 13-14 November 30	Industry workshops in Beijing and Bern. Federal Councillor Doris Leuthard and then Minister of Commerce Chen Deming launch the joint feasibility study.
2010		Joint feasibility study is finalized in the presence of then-Swiss President Doris Leuthard and Chinese President HU Jintao.
2011	January 28 April 7-9 July 5-7 November 8-11	Federal Councillor Johann Schneider-Ammann and then Minister of Commerce Chen Deming officially launch negotiations in Davos, Switzerland. 1st round of negotiations in Bern, Switzerland. 2nd round of negotiations in Xi'an, China. 3rd round of negotiations in Montreux, Switzerland.
2012	February 14-17 May 8-11 September 4-7 December 4-7	4th round of negotiations in Beijing, China. 5th round of negotiations in Beijing, China. 6th round of negotiations in Davos, Switzerland. 7th round of negotiations in Lucerne, Switzerland.

2013	February 27 - March 2 9-11 July 6	8th round of negotiations in Beijing, China. 9th round of negotiations in Bern, Switzerland. Federal Council Johann Schneider-Ammann and then Minister of Commerce Gao Hucheng sign the bilateral FTA in Beijing.
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Source: Swiss State Secretariat for Economic Affairs.

The Agreement consists of Chapters 1-16, with Annexes I to XI.

Table 2: Contents of the Sino-Swiss Free Trade Agreement.

Chapter 1	General Provisions	Tariff Schedules Referred to in Chapter 2
Chapter 2	Trade in Goods	Product Specific Rules
Chapter 3	Rules of Origin and Implementation Procedures	Referred to in Chapter 3
Chapter 4	Custom Procedures and Trade Facilitation	Certificates of Origin Referred to in Chapter 3
Chapter 5	Trade Remedies	Origin Declaration Referred to in Chapter 3
Chapter 6	Technical Barriers to Trade	Labeling of Textiles Referred to in Chapter 6
Chapter 7	Sanitary and Phytosanitary Measures	Trade in Services Referred to in Chapter 8
Chapter 8	Trade in Services	Schedules to Specific Commitments Referred to in Chapter 8
Chapter 9	Investment Promotion	Lists of MFN Exemptions Referred to in Chapter 8
Chapter 10	Competition	Plant Variety Protection Referred to in Chapter 11
Chapter 11	Protection of Intellectual Property Rights	Procedural Rules Referred to in Chapter 15
Chapter 12	Environmental Issues	Reimbursement of TCM under the Health System
Chapter 13	Economic and Technical Cooperation	
Chapter 14	Institutional Provisions	
Chapter 15	Dispute Settlement	
Chapter 16	Final Provisions	

Source: Swiss State Secretariat for Economic Affairs.

Significantly, in the chapter on environmental issues, both China and Switzerland acknowledged the basic principle of sustainable development. Both agreed that economic development, social development, and environmental protection are mutually supportive and important elements of sustainable development. China and Switzerland both reaffirmed their commitment to promoting economic development and bilateral trade in such a way that recognizes the aims of sustainable development.

4. Conclusion

Since the beginning of the 1990s, Switzerland has been busy in building a network of FTAs with different countries around the world. Switzerland has never been involved in any conflict with China, a fact which undoubtedly helped in the establishment of bilateral ties. Switzerland's neutrality and a non-colonial history mean it is an ideal partner for Chinese businesses and the government. As per institutional theory, the past serves as a foundation for bilateral or transnational relationships. Although Beijing has become more comfortable in dealing with

multilateral organizations over the last two decades, it still has great interest in developing bilateral economic relations under Chinese Economic diplomacy. After Iceland, the agreement between China and Switzerland was only the second such deal that China signed with any European state. Switzerland was attracted to China because of the size of its market size and the country's rising power status. For its part, China was interested in entering Europe in a more formal manner. Today, China is the largest Asian trading partner of Switzerland. China and Switzerland have a complete understanding of each other's goals, which provides a firm basis for the long-term development of bilateral cooperation. The Swiss supporters of the Sino-Swiss FTA consider it to be an important deal as it enables Swiss firms to access Chinese markets in a formal manner. The main limitation of this study is that it is contextual based. We suggest that a future study may be conducted by using quantitative analysis for examining the China and Switzerland economic relationship.

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