

The China-Switzerland Free Trade Agreement and Economic Identity-Building

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Abstract: The free trade agreement signed between China and Switzerland in 2013 was a watershed event in the economic policies of both states, a successful identity-building exercise for both actors in addition to an economic endeavour. In the case of Beijing, the Switzerland FTA was a crucial step not only in promoting its trade interests in Europe, including the European Union, but also in planning future FTAs and promoting China as a supporter of globalization and economic liberalisation. For Switzerland, the FTA further cemented that country's identity as a distinct European economic and political actor, including in its engagement of the Chinese market.

‘The Swiss army knife embodies Swiss craftsmanship. When I first got one, I was amazed that it has so many functions. I cannot help thinking how wonderful it would be if an exquisite Swiss army knife could be made for our world.’

- Chinese President Xi Jinping
Speech at the United Nations Office in Geneva, 18 January 2017

Introduction: Opening a Door

In July 2013, a free trade agreement (FTA) was signed between China and Switzerland, and activated one year later. The deal was the culmination of talks that began with a joint feasibility study in 2010 followed by nine rounds of negotiations between 2011-13,¹ reflecting not only warming relations between the two governments, but also a linchpin of Beijing's expanding economic diplomacy in Europe. The agreement was the second such deal China signed with a European state after Iceland, in April 2013,² and one of the largest of Beijing's free trade agreements with an Organisation for Economic Cooperation and Development (OECD) economy. During the Swiss negotiations, Beijing was also attempting to complete an FTA with another non-European Union member economy, Norway, but following the awarding of the Nobel Peace Prize that year to a Chinese dissident in 2010 and the subsequent diplomatic freeze, those talks were shelved until full diplomatic relations were restored in late 2016.³ These bilateral agreements were viewed as important steps towards a potential larger FTA between China and the European Union, an outcome that remains questionable given

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¹ James Shotter, “China Agrees Free Trade Deal with Switzerland,” *Financial Times*, May 15 2013, accessed June 12 2018, <https://www.ft.com/content/d584d6fc-bd6c-11e2-890a-00144feab7de>.

² Marc Lanteigne, “Iceland's ‘Small State’ Economic Diplomacy with China,” in *China and Nordic Diplomacy*, ed. Bjørnar Sverdrup-Thygeson, Wrenn Yennie Lindgren and Marc Lanteigne, (London and New York: Routledge, 2018), pp. 60-76.

³ Bjørnar Sverdrup-Thygeson and Marc Lanteigne, “China and Norway: Unpacking the Deal,” *The Diplomat*, December 25, 2016, accessed December 27 2016, <http://thediplomat.com/2016/12/china-and-norway-unpacking-the-deal/>.

ongoing trade differences between the two economies and the still-shaky economic health of the EU.

The completion of the Sino-Swiss FTA was a single step, albeit a significant one, in the overall progress of Beijing's still-evolving free trade diplomacy. Following membership in the World Trade Organisation in 2001, China turned its attention to bilateral and sub-regional agreements, signing FTAs with the Association of Southeast Asian Nations (ASEAN), Chile, and Pakistan, while also seeking agreements with advanced economies.⁴ China's first successful free trade pact with an OECD economy was with New Zealand in 2008, and since then Beijing signed FTAs with larger economies, including with Australia and South Korea in 2015.⁵ Beijing has also been in preliminary FTA discussions with Canada, and supports an ambitious accord known as the Regional Comprehensive Economic Partnership (RCEP), incorporating many economies around the Pacific Rim.⁶ In terms of attention, economic impact and as a case study, the Sino-Swiss FTA would appear to be but one step on China's longer road to liberalised trade with Europe and with other major Western economies.

However, the Sino-Swiss free trade agreement should be considered a milestone both in China's free trade diplomacy and in overall diplomatic and economic relations with Europe, not only in regards to economic benefits but also in terms of gains for both economies in building their free trade "brand" while positioning themselves as distinct actors in economic diplomacy. The reasons are not so much material in nature, as the financial impact on both China and Switzerland of the FTA, especially in the short term, is not profound when examined comparatively. Chinese total trade with Switzerland was estimated at CHF37.1 billion (US\$38 billion) in 2017, but Beijing lags far behind Germany, the United States and France on the list of significant Swiss trade partners.⁷ However, 2017 figures also indicated that China had become the third-largest export partner for Switzerland, after Germany and the US, representing 8.1% of exports and CHF24 billion (US\$24.5 billion).⁸

The benefits to both economies of the China-Switzerland FTA can be measured well beyond numbers when factoring in the contributions of the deal to the two countries' economic diplomacy and "branding", as well as structural power. By examining the deal via more identity-based and "post-structural" approaches,⁹ it can be argued this FTA was an

⁴ Ka Zeng, "Multilateral versus Bilateral and Regional Trade Liberalization: Explaining China's Pursuit of Free Trade Agreements (FTAs)," *Journal of Contemporary China* 19(66), (2010), pp.635-52.

⁵ Marc Lanteigne, "Commercial Diplomacy: Preferential Trade Agreements and Soft Power Projection," in *China in the International System: Becoming a World Power*, ed Xiaoming Huang, Robert G. Patman (New York and London: Routledge, 2013), pp. 71-88; Nicholas Stipp, "Harvest Year for China's Free Trade Agreement (FTA) Strategy," *Reuters*, April 7 2016, accessed May 15 2016, <https://blogs.thomsonreuters.com/answerson/harvest-year-chinas-free-trade-agreement-fta-strategy/>.

⁶ Mike Blanchfield, "Trudeau Confirms Canada Exploring Free Trade Agreement with China," *Toronto Star*, 22 September 2016, accessed 5 January 2017, <https://www.thestar.com/news/canada/2016/09/22/chinese-premier-li-keqiang-welcomed-to-parliament-hill-by-justin-trudeau.html>; Bhavan Jaipragas, "As Trump Kills the TPP, Can China-Backed RCEP Fill the Gap?" *South China Morning Post*, 9 January 2017, accessed 10 January 2017, <https://www.scmp.com/week-asia/geopolitics/article/2060041/trump-kills-tpp-can-china-backed-rcep-fill-gap>.

⁷ *Swiss-Impex Database, Federal Customs Administration – Switzerland*, June 2018, accessed 17 July 2018, <https://www.swiss-impex.admin.ch>.

⁸ "Key Figures of Swiss Foreign Trade 2017," *Federal Customs Administration – Switzerland*, June 2018, accessed July 17 2018, <https://www.ezv.admin.ch/ezv/en/home/topics/swiss-foreign-trade-statistics/daten/kennzahlen.html>.

⁹ Michael Merlingen, "Is Poststructuralism a Useful IR Theory? What About Its Relationship to Historical Materialism?" *E-International Relations*, May 8 2013, accessed December 20 2017, <http://www.e->

essential component to contributing to the identity, prestige and knowledge related to both countries' trade policies and greater economic diplomacy. While Switzerland has long nurtured an identity of being within Europe while also distinct from it, China under President Xi Jinping has begun to shape the character of Chinese foreign policy to reflect greater support for global liberalised trade. These areas are especially relevant given the concerns both governments have expressed regarding the current state of economic globalisation and concerns about protectionism and an emerging US-led "trade war" with Beijing during 2018.

In the case of Switzerland, the FTA contributed to the country's distinct approach to trade partnerships, including via the ability to act as a swift, reliable dealmaker as well as its distinct identity outside of the European Union, a specification of particular importance given the ongoing financial troubles of the Eurozone. For China, the Switzerland FTA is an important element in Beijing's plans to develop trade links across Europe, including via China's "Belt and Road Initiative" (一带一路), or BRI, trade route initiatives under development since 2013.¹⁰ China also remains hopeful about commencing free trade talks with the EU, and having a completed FTA with a state in the heart of Europe has further underscored that commitment.

There is the additional question of the degree to which a Sino-Swiss FTA might be a model for future Chinese free trade negotiations, such as those resumed with Norway but also with the European Union and potentially a United Kingdom free trade pact in the wake of Britain's planned withdrawal from the EU ("Brexit").¹¹ As well, with possibly greater isolationism and protectionism in the United States under President Donald Trump, and parallel trends in some European economies, such as the UK and Italy, towards protectionism and anti-globalism, China and Switzerland find themselves in a similar position as banner holders for improved trade access and preferential import/export agreements. Thus, the significance and weight of the Sino-Swiss FTA, embryonic though it is, should be measured not only in terms of potential new trade and material goods for both parties, but also in terms of identity building, since both states aspire to promote liberalised trade with its political as well as economic benefits, while demonstrating the possible effects on other economies, especially in Europe.

In understanding the benefits of the FTA negotiations and their outcome, framing this case study using post-structural approaches, notably the relationship between knowledge acquisition and power, (also known as a "*pouvoir-savoir* connection"),¹² and the subjectivity of identity over time for both China and Switzerland, also provides much additional information about the deal's benefits beyond hard economics. Beijing has been a latecomer to free trade agreements,¹³ but now feels confident in beginning the difficult process of combining various economic agreements into larger constructions such as the BRI. In so doing, Beijing requires political, social and economic information about key partners. FTA negotiations have provided one method of acquiring such knowledge while underscoring a

ir.info/2013/05/08/is-poststructuralism-a-useful-ir-theory-and-what-about-its-relationship-to-historical-materialism/.

¹⁰ Xi Jinping, "Work Together to Build the Silk Road Economic Belt," in *Xi Jinping: The Governance of China* (Beijing: Foreign Languages Press, 2014), p. 317; Peter Ferdinand, "Westward Ho- the China Dream and 'One Belt, One Road': Chinese Foreign Policy under Xi Jinping," *International Affairs* 92(4),(2016), pp. 941-57.

¹¹ David Charter, "The Swiss Trade on Their Independence," *The Times* (London), May 19 2016, accessed 11 February 2017, <https://www.thetimes.co.uk/article/the-swiss-trade-on-their-independence-j8x8grjd7>.

¹² Michael Foucault, *Power/Knowledge: Selected Interviews and Other Writings 1972-1977*, ed. Colin Gordon, (New York: Pantheon Books, 1980); Richard K. Ashley, "The Poverty of Neorealism," *International Organisation* 38(2), (1984), pp. 225-86.

¹³ Stephen Hoadley and Jian Yang, "China's Cross-Regional FTA Initiatives: Towards Comprehensive National Power," *Pacific Affairs* 80(2), (2007), pp. 327-48.

commitment to such practices and building an identity synonymous with these ideas. Switzerland views China as a vast potential market by which to promote both the diversification of its exports and the further burnishing of its cosmopolitan identity. In short, the China-Switzerland FTA has the potential to be greater than the sum of its parts in terms of economic gains and also in relation to each country's evolving economic identities, as well as a harbinger of the Xi government's economic diplomacy ambitions.

The Path to Economic Partnership

Switzerland has a lengthy history of engagement with China beginning well before the founding of the People's Republic, but the lens through which the two actors viewed and engaged each other has undergone a series of transformations. Jesuit missionaries opened the first formal contacts between Switzerland and Imperial China, which initiated trade between the two nations and would form the foundation of the bilateral relationship for many decades to follow.¹⁴ A Swiss commodities trading agency, Volkart Brothers, opened a branch in Shanghai in 1878 in response to pressure from Switzerland's business interests which, like others in Europe, were anxious to enter emerging Chinese markets. A Swiss consulate soon opened, and in 1918 a friendship treaty between Switzerland and the then-Republic of China was signed. Subsequently, in the wake of the 1919 Treaty of Versailles and a growing backlash in China against "unequal treaties" with foreign powers, the Sino-Swiss relationship began to unravel in the years before the 1949 communist revolution.¹⁵ However, Switzerland was one of the first Western European states to recognise the Mao Zedong government, in January 1950.

Swiss recognition of the People's Republic took place at a time when Switzerland was undergoing a series of crucial changes to its foreign policy following the Second World War, including revisiting its bedrock policies of neutrality developed over centuries as part of the Swiss national identity.¹⁶ When the Swiss state emerged from diplomatic isolation amid previous criticisms of its neutrality policies by Great Britain, the United States and their allies during WWII, the country sought to redefine its traditional neutrality by combining it with foreign policies consistent with "solidarity", including supporting the development of international cooperation regimes and peace initiatives, known as "active neutrality".¹⁷ The country sought to revive or develop diplomatic links with several countries outside of Europe and, in addition to China, Switzerland also viewed improving relations with other major powers, including the restoration of diplomatic relations with the USSR in 1946. . However this revised stance did not include joining many emerging post-war institutions, as Switzerland opted not to join the European Community/EU, or NATO, only becoming a

¹⁴ Cristof Dejung, "Bridges to the East: European Merchants and Business Practices in India and China," in *Commerce and Culture: Nineteenth Century Business Elites*, ed. Robert Lee (New York and London, 2016), p. 112; Howard Dubois, *Die Schweiz und China* (Bern: Frankfurt am Mein, 1978), pp. 10-12; Ariane Knüsel, *Framing China: Media Images and Political Debates in Britain, the USA and Switzerland, 1900-1950*, (London and New York: Routledge, 2016), pp. 62-3; Interview with Swiss Foreign Ministry Official, Bern, November 2013; Stanislav Južnič, "Central European Jesuit Scientists in China, and their Impact on Chinese Science," *Asian Studies III* 19(2),(2015), p. 97.

¹⁵ Ariane Knüsel, "Tricky Business: Swiss Perceptions of Informal Imperialism in China in the 1920s," *Journal of Modern Chinese History* 8(2), (2014), p. 212.

¹⁶ Gordon E. Sherman, "The Neutrality of Switzerland," *American Journal of International Law* 12(4). (1918), pp. 780-95.

¹⁷ Neville Wylie, "'The Importance of Being Honest': Switzerland, Neutrality and the Problems of Intelligence Collection and Liaison," *Intelligence and National Security* 21(5), (2006), pp. 782-808.

member of the United Nations in 2002 following a close referendum vote,¹⁸ and continuing its tradition of remaining remote from European affairs on the political level.

Sino-Swiss trade did not begin to flourish until the 1970s; and in 1974, the process was given much added vigour when the two economies signed a trade agreement and created a joint economic commission, both crucial steps towards granting China “most favoured nation” (MFN) trading status.¹⁹ Another watershed moment was reached in 1980 when the Schindler Group, a venerable Lucerne-based firm specialising in elevator and escalator manufacturing, established a joint venture with Hong Kong’s Jardine Matheson/Jardine Schindler and the China Construction Machinery Corporation, marking the first such agreement between a Chinese and a Western firm.²⁰ Subsequent bilateral deals were achieved in 1986, with a deal to promote and protect joint investments. Notably in 1990 a “double taxation” avoidance agreement was established and recently updated in 2013.²¹

China was encouraged when Switzerland agreed to grant Beijing market economy status (MES) in July 2007 after an accord was reached between Chinese Minister of Commerce Bo Xilai and Swiss Federal Councillor Doris Leuthard. The MES decision was seen as a vote of confidence in the bilateral relationship, recognition that Chinese economic reforms had progressed to the point where MES could be granted, and a sign that free trade talks should commence. As one Swiss official noted, the country chose to take a more narrow interpretation of MES guidelines compared to with the EU.²² A joint feasibility study was drawn up in 2010, a document which concluded that although the industrial structure of the two countries was dissimilar, with China as the “world’s largest developing economy”, focusing on production capacity and Switzerland being a specialist in “advanced technology and high value-added products,” the two economies were “complementary and competitive”.²³

¹⁸ Venelin Tsachevsky, *The Swiss Model: The Power of Democracy* (Frankfurt: Peter Lang, 2014), pp. 255-9; Rory Carroll, “Switzerland Decides to Join UN,” *The Guardian*, March 4 2002, accessed 16 September 2017, <https://www.theguardian.com/world/2002/mar/04/unitednations>.

¹⁹ “*Accord de commerce entre la Confédération suisse et la République populaire de Chine* [Trade Agreement between Switzerland and the People's Republic of China],” *World Intellectual Property Organization* (WIPO), 20 December 20 1974, accessed 16 September 2017, http://www.wipo.int/wipolex/en/treaties/text.jsp?file_id=183901.

²⁰ Konrad Specker, “*Aspekte der Beziehungen zwischen der Schweiz und China- eine historische Perspektive*” [Aspects of the Relations between Switzerland and China - An Historical Perspective], *Bulletin of the Swiss-Chinese Chamber of Commerce* 2, (2000), pp. 30-57; Carol Matheson Connell, *A Business in Risk: Jardine Matheson and the Hong Kong Trading Industry*, (Westport CT: Praeger, 2004), p. 69; Margaret M. Pearson, *Joint Ventures in the People's Republic of China: The Control of Foreign Direct Investment under Socialism*, (Princeton: Princeton University Press, 1992), p. 106.

²¹ “Agreement between the Swiss Federal Council and the Government of the People’s Republic of China for the Avoidance of Double Taxation with Respect to Taxes on Income and on Capital,” *Federal Department of Foreign Affairs Switzerland*, 25 September 2013, accessed February 21 2017, <https://www.eda.admin.ch/content/dam/countries/countries-content/china/en/32161.pdf>.

²² Lin Li, “Switzerland Recognizes China’s Full Market Economy Status,” *Xinhua*, July 9 2017, accessed October 6 2018, http://www.gov.cn/english/2007-07/09/content_678350.htm; Interview with Swiss Foreign Ministry official, January 2018.

²³ “Joint Feasibility Study on China-Switzerland Free Trade Agreement, Beijing, August 9 2010”, *Switzerland State Secretariat for Economic Affairs (SECO)*, February 2017, accessed 1 November 2017, https://www.seco.admin.ch/dam/seco/en/dokumente/Aussenwirtschaft/Wirtschaftsbeziehungen/Freihandelsabkommen/Partner%20weltweit/China/weitere_informationen/Joint_Declaration_China_Switzerland.pdf.download.pdf/Joint_Declaration_China_Switzerland.pdf.

By the time the FTA talks began, bilateral trade was continuing its upward trajectory. Total Sino-Swiss trade between 2000 and 2014 had grown from CHF3.7 billion (US\$3 billion) to just over 21 billion (US\$20 billion).²⁴ As well, more than five hundred Swiss companies had begun operations in China by the start of the talks, and several Chinese firms had begun to invest in Switzerland, traditionally seen by many countries as an optimal location for foreign direct investment due to the Swiss business climate, workforce and branding which focused on high-quality and luxury goods, innovation and research and development. In the years before FTA negotiations began, Chinese companies including those in resources, infrastructure, electronics and watchmaking had expressed interest in Switzerland. A majority of these firms entered the country via “greenfield” investment, meaning the investing firm builds its operations metaphorically from the ground-upwards, but some Chinese firms did enter the Switzerland market through acquisitions, with one example being the Swiss sesquicentennial watchmaking firm Eterna, purchased in 2012 by China Haidian, (now Citychamp of Hong Kong).²⁵ While the European Union is unlikely to be downgraded as Switzerland’s primary trade partner, Pacific Rim economies, including China, are drawing greater attention from the Swiss government and major corporations.

Switzerland’s engagement of the Asia-Pacific around the turn of this century was not without initial missteps. The country’s status as a small state made it difficult to attain the same level of visibility as the European Community/Union and other larger economies. When the Asia-Pacific Economic Cooperation forum (APEC) was founded in 1989, Switzerland, along with the EU, failed in its bid to become an observer. The country experienced similar problems when it initially sought to apply for membership in the Asia-Europe Meeting (ASEM) when that forum was established in 1996, (membership was later granted in 2012), and to become a dialogue partner with ASEAN.²⁶ At that time, Switzerland’s status of being within Europe but outside of the EU-building process was more of a liability than a selling point for its Asian economic diplomacy, especially when other large trading blocs like APEC and the North American Free Trade Agreement were coalescing. Therefore, it was recommended by Swiss policymakers in the early 1990s that the country should seek to better balance Europe by continuing its endeavours to liberalise trade with East Asia, a process accelerated when the EU began to seek out its own FTAs.²⁷

Deepening economic ties between China and Switzerland did occasionally run afoul of profound political differences, including in areas of human rights. One of the most notorious examples took place in March 1999 when then-Chinese president Jiang Zemin made a state visit to Switzerland, meeting with Swiss President Ruth Dreifuss in Geneva before traveling to Bern. During Jiang’s visit to the Federal Palace in the capital, he was confronted with hundreds of pro-Tibet protesters who had camped out near the parliament

²⁴ Swiss-Impex Database, *Federal Customs Administration – Switzerland*, February 2017, accessed 19 November 2017, <https://www.swiss-impex.admin.ch>.

²⁵ Ruth Rios-Morales, Louis Brennan and Max Schweizer, “An Assessment of Chinese Foreign Direct Investment in Switzerland,” *Uluslararası İlişkiler / International Relations* 13(49), (2016), pp. 95-6; Haig Simonian, “Acquisitions: Asians Set Sights on Swiss Once Again,” *Financial Times* June 9 2012, accessed 17 April 2017, <https://www.ft.com/content/6953d26c-a729-11e1-aae3-00144feab7de>.

²⁶ Laurent Goetschel, Magdalena Bernath and Daniel Schwarz, *Swiss Foreign Policy: Foundations and Possibilities* (London and New York: Routledge 2005), p. 111; “Chinese Premier Urges Asia-Europe Cooperation to Promote World Economic Growth,” *Xinhua*, November 7 2012, accessed October 6 2018, <http://la.china-embassy.org/eng/zlgxdbzgwj/t986486.htm>.

²⁷ Francesco Kneschaurek, “*Entwicklungsdynamik der Trade-Länder und Stellung der Schweiz als Exportland auf diesen Märkten*” [Development Dynamics of Trading States and the Position of Switzerland as an Exporting State in These Markets.], *NFP* 28 Synthese No.19. (1994) Einsiedeln, SNF. Interview with Swiss Foreign Ministry official, January 2018.

building. The Chinese President was incensed by what he considered a serious lapse in protocol, and reportedly openly challenged Swiss officials about their “capacity to run this country”, concluding his vitriol by stating “you have lost a friend today”. Jiang’s visit was the last to Switzerland by a Chinese head of government in an official capacity, despite the commencement of the FTA talks in February 2011. This changed when President Xi visited in January 2017 for the annual World Economic Forum conference in Davos, also marking the first time a Chinese leader had attended the event. Xi’s predecessor, Hu Jintao, did make a brief stopover in Lausanne in June 2003 while en route to Evian, France for a North-South dialogue conference, meeting privately with Swiss President Pascal Couchepin.²⁸

Despite that incident, bilateral economic ties continued to flourish, and moves towards FTA talks were assisted by Switzerland having considerable experience in negotiating free trade with a variety of different states and being willing to discuss liberalisation in service sectors in addition to goods. In the wake of China’s WTO admission, Beijing traditionally favoured economies such as that of New Zealand, with longstanding experience in conducting bilateral FTA negotiations. In December 2014, a few months after the Swiss FTA came into effect, President Xi called for more and better-quality free trade deals which would allow his country to participate more fully in the making of international trade rules and norms, noting that Chinese interests would no longer be content being ‘spectators and followers’ in the global economy.²⁹

Originally, interest in a Sino-Swiss FTA was uneven, in the sense that China was comparatively less interested in approaching Switzerland, while Switzerland was attracted to the size of the Chinese market and the country’s rising power status. As well, attempts to negotiate a Switzerland-US free trade deal failed in 2006.³⁰ In addition to the economic benefits for Switzerland in gaining preferential access to the second-largest economy in the world, the Sino-Swiss FTA also satisfied other Swiss criteria for a potential free trade partner. As noted in 2010 by Switzerland’s then-ambassador to the People’s Republic, Christian Etter, Switzerland’s negotiation partners are chosen based on several criteria. These include their current and potential economic importance, the presence of other FTAs concluded by the target economy, a high possibility that FTA talks would be concluded to the satisfaction of both parties, and the compatibility of a free trade partnership with established Swiss foreign policy objectives.³¹ Switzerland had also developed a greater familiarity with Chinese markets in the wake of a successful June 2011 FTA between Hong Kong and the four European Free Trade Area (EFTA) states, which include Switzerland along with Iceland, Norway and Liechtenstein. There was the additional benefit of the agreement allowing for access to the goods market of Liechtenstein, since the small principality (population: 37,500) has maintained a customs agreement with Switzerland since 1923, as well as an open border.

²⁸ Ester Unterfinger and Christian Raaflaub, ‘China’s First State Visit to Switzerland since 1999,’ *SwissInfo*, 6 January 2017, accessed 15 May 2017, http://www.swissinfo.ch/eng/looking-back-on-a-diplomatic-incident_china-s-first-state-visit-to-switzerland-since-1999/42816290; ‘China Protests at ‘Bad Manners’, *BBC News*, 26 March 1999, accessed 12 June 2018, <http://news.bbc.co.uk/2/hi/europe/304242.stm>; Tom Mitchell, ‘Xi Jinping to visit Davos for World Economic Forum,’ *Financial Times*, December 5 2016, accessed November 25 2018, <https://www.ft.com/content/08c2ce22-baec-11e6-8b45-b8b81dd5d080>; Robert Ash, ‘Quarterly Chronicle and Documentation (April-June 2003),’ *China Quarterly* 175, (2003), p. 877.

²⁹ “China’s Xi Demands Accelerated FTA Strategy,” *Xinhua*, December 6 2014, accessed November 3 2017, http://news.xinhuanet.com/english/china/2014-12/06/c_133837015.htm.

³⁰ Interview with Swiss Foreign Ministry Official, January 2018.

³¹ “Towards a Switzerland-China Free Trade Agreement: State of Play - Joint Alumni Conference Swiss Global Business Forum Rüslikon, 1 October 2010,” Presentation by Ambassador Christian Etter, State Secretariat for Economic Affairs (SECO) *Federal Department of Economic Affairs, Bern, Switzerland*, accessed September 3 2017, <http://www.news.admin.ch/NSBSubscriber/message/attachments/20677.pdf>.

Liechtenstein did not take part directly in the FTA talks with China, and instead agreed to allow Switzerland to speak on the microstate's behalf in the negotiations.³²

Switzerland, like Iceland and Norway, also had the advantage of being closely connected to the wider European economy without the complications of EU membership. In the tradition of its *Sonderfall* ("exceptionalist" or "special case") politics and foreign policy, as well as its neutrality,³³ Switzerland sought to maximize its distinctive role within Europe in the years before and after the China FTA was completed. For example, Switzerland was part of the negotiations to create a European Economic Area (EEA), but following a referendum in 1992 withdrew from that process. Switzerland did become a member of the Schengen Agreement in 2004, but encountered diplomatic conflict with the European Union in February 2014 after a Swiss referendum restricting immigration from EU countries was passed by a narrow margin. This led to a stalemate between Bern and Brussels until a compromise was finally reached in December 2016.³⁴ However, immigration policies, along with the question of the degree of EU oversight of Switzerland's trade, remain a sore point between the Swiss and EU governments, and cooled relations between Bern and Brussels are seen as one factor in Switzerland seeking to engage alternative trade partners, including China.³⁵

Switzerland's political status vis-à-vis the European Union made the country attractive as a negotiating partner in light of the inability of China and the EU to commence their own FTA talks. For more than a decade, there was agreement between China and the EU that free trade talks be explored, especially given rising Sino-European trade figures and Beijing's ongoing interest in developing Europe as an alternative economic pole to the United States. However, policy differences within the EU, and the refusal by the Union since 2004 to grant China market economy status, a prerequisite of Beijing for the start of any free trade talks, slowed the process considerably. The EU's stance on China's MES was viewed in Beijing as being motivated by political rather than economic reasons, especially since the EU awarded MES to Russia even before the country was accepted as a WTO member in 2012.³⁶

The start of the European debt crises in 2009, followed by the Greek debt crisis and Brexit, and ongoing questions about the financial health of the Union were also areas of

³² Walter S. G. Kohn, "The Sovereignty of Liechtenstein," *The American Journal of International Law*, 61(2), (1967), p. 553; "Vertrag vom 29. März 1923 zwischen der Schweiz und Liechtenstein über den Anschluss des Fürstentums Liechtenstein an das schweizerische Zollgebiet," [Treaty of 29 March 1923 between Switzerland and Liechtenstein Concerning the Connecting of the Principality of Liechtenstein to the Swiss Customs Territory.], *Government of Liechtenstein*, accessed November 29 2017, http://regierung.gmgnet.li/files/attachments/zollvertrag_635497644820055000.pdf; Interview with Trade Ministry of Liechtenstein Representative, November 2013.

³³ Kurt Imhof, "Sonderfall Schweiz," [Special-Case Switzerland], *Schweizerische Zeitschrift für Soziologie / Swiss Journal of Sociology* 32(2), (2006), pp. 197-223; Clive H. Church and Randolph C. Head, *A Concise History of Switzerland* (Cambridge and New York: Cambridge University Press, 2013), pp. 227-34; Eric Kaufmann, "Reflections on the Swiss Sonderfall," *Nations and Nationalism* 17(4), (2011), pp. 815-20.

³⁴ Ian Traynor, "Switzerland Backs Immigration Quotas by Slim Margin," *The Guardian*, February 10 2014, accessed December 2 2017, <https://www.theguardian.com/world/2014/feb/09/swiss-referendum-immigration-quotas>; 'Immigration de masse: le Parlement tient sa solution,' [Mass Immigration: The Parliament Holds the Solution], *20 Minutes*, December 12 2016, accessed December 2 2017, <http://www.20min.ch/ro/news/suisse/story/Immigration-de-masse--le-Parlement-tient-sa-solution-27354952>.

³⁵ Ralph Atkins and Alex Barker, "The Brexit Effect: Brussels Tries to Blunt the Swiss Model," *Financial Times*, October 2, 2018, accessed October 6 2018, <https://www.ft.com/content/574ce2e6-c49d-11e8-bc21-54264d1c4647>; "Switzerland Politics: China-Switzerland Strategic Talks Signal Closer Relationship," *Economist Intelligence Unit / Factiva*, April 23 2018, Document EIUCP00020180424ee4n00026.

³⁶ Zhang Zuqian, "China's Commercial Relations with Europe," in *China-Europe Relations: Perceptions, Policies and Prospects* ed. David Shambaugh, Eberhard Sanschneider and Zhou Hong, (New York and London: Routledge, 2008), pp. 237-40.

concern for Chinese officials, but the government of Xi Jinping has more than once called upon the EU to consider opening FTA talks.³⁷ However, the question of how to commence such talks is very much dependent upon the state of the EU economy and whether a broader agreement among the membership regarding negotiation with a rising China can be reached. With this in mind, Beijing opted to approach the EU's neighbour economies for FTA talks. China's agreements with Iceland and Switzerland, and potentially with Norway, would together provide a strong signal to the EU of Beijing's commitment to liberalised trade with Europe while illustrating the economic benefits of a China FTA.

The Deal and Afterwards

The Sino-Swiss free trade deal, signed in Beijing by Chinese Minister of Commerce Gao Hucheng and Swiss Economy Minister Johann Schneider-Ammann on July 6, 2013 was, at the time, one of the most comprehensive which China had co-authored. There were, however, some concerns raised about the negotiations from non-government organisations in Switzerland, including from Alliance Sud, a Lausanne-based social justice advocacy NGO which expressed concerns that the agreement did not strongly enough promote the subject of human rights. There loomed also the possibility of the agreement being challenged by one of the main political parties or cantonal governments. There was also a possible scenario of having the deal subjected to a national referendum along similar lines to the (failed) vote in March 2001 on opening EU membership talks. However, neither of those scenarios materialised, despite some concerns raised by politicians on both sides of the political spectrum, and the FTA was ratified by the Swiss Parliament with no significant governmental-level opposition, nor calls for a public vote. The centre-left, pro-EU Social Democratic Party (*Sozialdemokratische Partei der Schweiz*, or SP) in Switzerland, considered the party most likely to contest the agreement, ultimately concluded that the deal was of sufficient quality to go forward.³⁸

The final text of the agreement is composed of sixteen chapters and eleven accompanying annexes.³⁹ The main components were agreements to withdraw tariffs on a wide array of industrial products, reductions on tariffs for agricultural goods, specifics on "rules of origin", (the means of determining the originating country for a traded good), as well as safety and health measures. According to the agreement, the sections of the deal relating to trade in goods are relevant, according to Article 2.1.1 of the agreement, to the whole of the customs territory of Switzerland which, due to the 1923 treaty, also includes Liechtenstein, (relevant for goods trade only). Chapter 8 of the Agreement includes a comprehensive agreement on trade in services, in conjunction with the 1995 General Agreement on Trade in

³⁷ Tom Miles, "China Accuses EU of Taking WTO Back to 'Law of Jungle'," *Reuters*, May 15 2018, accessed 1 December 2017, <https://www.reuters.com/article/us-china-eu-trade-wto/china-accuses-eu-of-taking-wto-back-to-law-of-jungle-idUSKCN1IG1YW>.

³⁸ Interviews with representatives from the Swiss Embassy in Beijing, November 2013; "Switzerland Gives Go-ahead to Free Trade with China," *Neue Zürcher Zeitung / BBC Monitoring / Factiva* March 21 2014, Document BBCEUP0020140324ea3o003ju ; Isolda Agazzi, 'No Free Trade with China without Human Rights,' *Alliance Sud*, November 5 2015, accessed November 6 2017, <http://www.alliancesud.ch/en/politics/trade-and-investments/free-trade-policy/no-free-trade-china-without-human-rights>; Interview with Swiss Foreign Ministry official, January 2018.

³⁹ "Free Trade Agreement between the Swiss Confederation and the People's Republic of China," *Switzerland State Secretariat for Economic Affairs*, March 24 2016, accessed December 6 2017, <https://www.seco.admin.ch/dam/seco/en/dokumente/Aussenwirtschaft/Wirtschaftsbeziehungen/Freihandelsabkommen/Partner%20weltweit/China/Abkommenstexte/Texts%20in%20English/Switzerland-China%20FTA%20-%20Main%20Agreement.pdf.download.pdf/Switzerland-China%20FTA%20-%20Main%20Agreement.pdf>.

Services (GATS),⁴⁰ including financial services and regulation. Other key components of the FTA included investment promotion (Chapter 9), building on a 2010 Sino-Swiss investment treaty, and sections on the protection of intellectual property rights (IPR) (Chapter 11), promoting sustainable development (Chapter 12) and developing greater economic and technical cooperation in several sectors, such as industrial, environmental, labour, services and health (Chapter 13). A side agreement to the FTA also elaborated on the joint promotion of labour rights, a politically sensitive issue in Switzerland during the negotiations, including with the SP.⁴¹

Under the FTA, more than 99% of imports from China to Switzerland would be tax-exempt upon the initiation of the FTA, with approximately 84% of Swiss goods exported to China also exempt from tariffs within a timeframe ranging from immediately to fifteen years, with a majority of products subject to tariff removal within ten years.⁴² Of special interest to China when the talks began were the Swiss dairy and foodstuffs sectors, as well as services, (including financial and banking), pharmaceuticals and luxury goods, including opulent wristwatches. As noted by the government of Switzerland, by the time of the agreement, China had become the largest Asian buyer of Swiss industrial products, and the third-largest globally, after the EU and the United States. In 2013, Switzerland was exporting goods worth CHF 8.7 billion (US\$8.8 billion) to China, representing 4.1% of all Swiss exports. That year, Swiss imports from China totalled CHF 11.4 billion (US\$11.6 billion), or 6.1% of total imports.⁴³

The Sino-Swiss FTA, in addition to removing bilateral tariffs and trade barriers on goods and services, would also provide for intellectual property protection, (a key demand from Switzerland since the start of the talks), and be accompanied by parallel agreements on employment and labour.⁴⁴ Other provisions of the FTA include investment promotion, technical cooperation and environmental protection. Overall, the agreement provided a platform for future bilateral economic cooperation, notably in the area of banking. In July 2014, the two economies agreed to a three-year currency swap agreement worth approximately RMB150 billion (US\$24 billion) between the People's Bank of China (PBoC) and the Swiss National Bank (SNB), also allowing for the SNB to invest up to RMB15 billion (US\$2.3 billion) in Chinese bonds.⁴⁵ The agreement allowed China increased access to the

⁴⁰ "General Agreement on Trade in Services (GATS)," *World Trade Organisation*, accessed February 16 2018, https://www.wto.org/english/docs_e/legal_e/26-gats.pdf.

⁴¹ "Agreement on Labour and Employment, 5 July 2013," *Switzerland State Secretariat for Economic Affairs*, March 24 2016, accessed November 29 2017, <https://www.seco.admin.ch/dam/seco/en/dokumente/Aussenwirtschaft/Wirtschaftsbeziehungen/Freihandelsabkommen/Partner%20weltweit/China/Abkommenstexte/Texts%20in%20English/Agreement%20on%20Labour%20and%20Employment.pdf.download.pdf/Agreement%20on%20Labour%20and%20Employment.pdf>.

⁴² "China-Switzerland Free Trade Agreement Comes Into Force," *China Briefing*, July 3 2014, accessed September 21 2017, <http://www.china-briefing.com/news/2014/07/03/china-switzerland-free-trade-agreement-comes-force.html>; André Brunschweiler and Alexander Troller, "Insight Into the Swiss-Sino Free Trade Agreement— a Path to New Business Opportunities," *Jusletter*, June 16 2014, accessed September 21 2017, http://www.lalive.ch/data/publications/Swiss-Sino_Free_Trade_Agreement.pdf

⁴³ "Factsheet: Free Trade Agreement between Switzerland and China," *Switzerland State Secretariat of Economic Affairs (SECO)*, April 2014, accessed January 5 2018, <https://www.newsd.admin.ch/newsd/message/attachments/31348.pdf>.

⁴⁴ Interviews with Switzerland Embassy officials, Beijing, April 2016.

⁴⁵ Feng Jianmin, "China, Switzerland in Currency Deal," *Shanghai Daily*, July 22 2014, accessed 14 January 2018, <http://www.shanghaidaily.com/business/finance/China-Switzerland-in-currency-deal/shdaily.shtml>; "China Signs Currency Swap Worth 150 Billion Yuan with Switzerland," *Reuters*, January 21 2014, accessed

Swiss franc, which has been often been viewed as a stable alternative currency in comparison with the euro. This was especially the case since January 2015 when the decision was made by the SNB to allow the franc to appreciate against the euro after a four-year old exchange rate cap, which created a *de facto* currency peg of CHF1.2 to €1, was abruptly removed, resulting in a major increase in the value of the franc shortly afterwards. The Eurozone debt crises over the past decade periodically resulted in capital outflows from emerging markets, including China, and into “safe haven” currencies like the Swiss franc.⁴⁶

Also in January 2015, following months of anticipation, the decision was finalized to designate Zürich a trading hub for Chinese currency, joining a small number of cities, including London, Singapore, and Toronto, with that status. Shortly after that announcement was made, Swiss Finance Minister Eveline Widmer-Schlumpf announced that the China Construction Bank (中国建设银行), or CCB, would open a Swiss branch. In November of that year the Swiss franc joined a select group of currencies permitted to be traded directly for renminbi on the China Foreign Exchange Trade System (中国外汇交易中心), a decision touted by the SNB as ‘an important step in strengthening bilateral financial and trading relations’. The Zürich branch of the CCB, offering various renminbi-based services to Chinese and Swiss clients, opened in January 2016.⁴⁷ As well, in June 2015, Switzerland signed an agreement with China to become a founding member of Beijing’s Asia Infrastructure Investment Bank (AIIB), opening another door to bilateral economic cooperation as the institution began formal operations in early 2016.⁴⁸

Although the trade volume between China and Switzerland has been growing rapidly over the past decade, it is too early to measure the degree to which the Sino-Swiss FTA will boost overall bilateral trade in the longer term. However, the trading relationship between China and New Zealand in the decade since their FTA was signed might provide one useful indicator. In 2010, Sino-New Zealand trade stood as NZ\$10 billion (US\$7.6 billion), and that year the leaders of both states set a target to increase that figure to NZ\$20 billion (US\$15.1 billion) by 2015; the goal was reached ahead of schedule, in June 2014. According to a report by Statistics NZ, bilateral trade in 2017 had reached NZ\$26.1 billion (US\$18.4 billion), triple the figure of a decade earlier.⁴⁹

October 6 2018, <https://www.reuters.com/article/us-china-switzerland-currency/china-signs-currency-swap-worth-150-billion-yuan-with-switzerland-idUSKBN0FQ0H520140721>.

⁴⁶ Marc Lanteigne, “*Mistillit til euro: Sveitsernes valutasjokk forrige torsdag kan ses på som en mistillit til euroen*,” [Mistrust of the Euro: Switzerland’s Currency Shock Last Thursday Can be Viewed as a Lack of Trust in the Euro], *Dagens Næringsliv*, January 21 2015, accessed July 4 2017, <http://www.dn.no/meninger/debatt/2015/01/21/2156/Valuta/mistillit-til-euro>; Neil Maclucas and Brian Blackstone, “Swiss Move Roils Global Markets,” *Wall Street Journal*, January 15 2015, accessed October 6 2018, <https://www.wsj.com/articles/switzerland-scraps-currency-cap-1421320531>; Eswar Prasad, “Global Ramifications of the Renminbi’s Ascendance,” in *Renminbi Internationalisation: Achievements, Prospects and Challenges*, ed. Barry Eichengreen and Masahiro Kawai, (Tokyo and Washington DC: ADB Institute and Brookings, 2015), p. 93.

⁴⁷ “China, Switzerland to Sign Financial Deal on Offshore RMB Market in Zurich,” *China Daily / Xinhua*, January 21 2015, accessed January 23 2015, http://www.chinadaily.com.cn/business/2015-01/21/content_19364755.htm; ‘Swiss To Welcome Chinese Bank by Year’s End,’ *Swissinfo*, February 6 2015, accessed February 7 2015, http://www.swissinfo.ch/eng/renminbi-hub_swiss-to-welcome-chinese-bank-by-year-s-end/41258968; “Direct Trading Between Renminbi and Swiss Franc Launched,” *Swiss National Bank*, November 10 2015, accessed October 6 2018, https://www.snb.ch/en/mmr/reference/pre_20151110/source/pre_20151110.en.pdf; Discussions at China Construction Bank office in Zürich, January 2018.

⁴⁸ “Switzerland Signs the Founding Document of the Asian Infrastructure Investment Bank,” *Federal Council, Switzerland*, June 29 2015, accessed November 2 2017, <https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-57899.html>.

There have also been increased levels of interest in Swiss companies by Chinese firms which have been assisted by the FTA. However, at the same time Switzerland has been part of a much larger initiative by Chinese firms for greater investment in Europe as a whole, with figures suggesting Chinese firms had invested a record US\$23 billion in Europe, (including the EU and neighbouring economies Norway and Switzerland), in 2015.⁵⁰ For example, there is the purchase by the China National Chemical Corp. (中国化工集团公司 or ChemChina), of Basel-based Syngenta, one of the world's largest agricultural businesses, in a deal worth US\$43 billion, which represented the largest overseas purchase by a Chinese firm to date.⁵¹ The Syngenta sale has the potential to greatly alter the landscape in China for the acceptance of genetically modified foods in the country. Syngenta is one of the world's largest producers of GM crops as well as other agricultural technology including pesticides and had been hurt by market pressures and the high value of the Swiss franc and American dollar. The ChemChina deal faced extensive American and European antitrust scrutiny, but the merger was nonetheless completed in June 2017.⁵²

In addition to the Syngenta purchase, the number of high-level Chinese investment agreements with Switzerland firms has grown apace since the agreement went into effect, including a February 2016 deal which saw Haers Vacuum Containers (哈尔斯) of Zhejiang purchase SIGG, the Swiss manufacturer of aluminium bottles. In 2014, the University of St. Gallen published a report detailing the entry of Belcolor AG, a Swiss flooring firm, into the Chinese market. By 2016, overall Chinese investment in Switzerland had quadrupled from the previous year to reach CHF4.8 billion (US\$4.79 billion).⁵³ In April 2018, ChemChina announced it would add to its twelve percent stake in the Geneva-based commodity-trading company Mercuria, offering the Swiss firm greater access to the Chinese market.⁵⁴

The wild card predicting the trajectory of the Sino-Swiss FTA in the coming years, however, is not only the health of the Swiss and European Union economies but also that of

⁴⁹ Stephen Jacobi, "John Key Sets High Bar in Relationship with China," *New Zealand Herald*, December 21 2016, accessed December 23 2016, https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11770389; "New Zealand's Two-way Trade with China More than Triples Over the Decade," *Statistics New Zealand*, 2 March 2018, accessed March 3 2018, <https://www.stats.govt.nz/news/new-zealands-two-way-trade-with-china-more-than-triples-over-the-decade>.

⁵⁰ Claire Jones, "Chinese Investment in Europe Hits \$23bn Record," *Financial Times*, March 9 2016, accessed July 31 2018, <https://www.ft.com/content/c1155e72-e5e0-11e5-a09b-1f8b0d268c39>.

⁵¹ Chen Aizhu and Freya Berry, "ChemChina's Syngenta Swoop: a 12-year Crush, a 12-Month Courtship," *Reuters*, 4 February 2016, accessed February 28 2016, <https://www.reuters.com/article/us-syngenta-ag-m-a-chemchina-buildup-idUSKCN0VC2EK>.

⁵² Foo Yun Chee, "EU Set to Approve ChemChina's \$43 Billion Bid for Syngenta: Sources," *Reuters*, February 2 2017, accessed February 3 2017, <https://www.reuters.com/article/us-syngenta-ag-m-a-china-natl-chem-eu-idUSKBN15H1SQ>; Kosai Fukao, "ChemChina Completes Syngenta Takeover, Targets Emerging Markets," *Nikkei Review*, June 28 2017, accessed July 5 2017, <https://asia.nikkei.com/Business/ChemChina-completes-Syngenta-takeover-targets-emerging-markets>.

⁵³ "Chinese Corporate Spending Spree Benefits Switzerland," *SwissInfo*, February 7 2017, accessed February 8 2017, http://www.swissinfo.ch/eng/business/investment-explosion_chinese-corporate-spending-sprees-benefits-switzerland/42941634; "Haers Vacuum Containers Signs Agreement to Acquire Swiss Bottle Manufacturer SIGG," *Reuters*, February 3 2016; accessed February 4 2016, <https://www.reuters.com/article/idUSL3N15J1ON>; "The Successful Market Entry of Belcolor Ltd Flooring into China," University of St. Gallen, *AsiaConnect - China-Europe International Business School*, 2014, accessed November 17 2017, <http://www.acc.unisg.ch/~media/internet/content/dateien/instituteundcenters/acc/acc-hsg-belcolor-final.pdf?fl=en>.

⁵⁴ Neil Hume and David Sheppard, 'ChemChina to Increase Stake in Mercuria,' *Financial Times*, April 16 2018, accessed February 17 2018, <https://www.ft.com/content/f115ed8a-4105-11e8-803a-295c97e6fd0b>.

the Chinese economy, which began to show signs of slowing down after 2015. International observers were divided on Chinese moves to reduce the value of the renminbi, notably in August 2015 with a sudden and controversial decision made by the People's Bank of China to reduce the value of the renminbi against the dollar by slightly less than 2%. However, Swiss financial experts noted the policy should not be viewed as a threat to the development of a renminbi trading hub in Switzerland, stating that there remains enthusiasm for currency swaps, given the perceived longer-term viability of the Chinese economy.⁵⁵

In terms of specific sectors, luxury Swiss goods, especially watches, in China took the major brunt of an anti-corruption campaign which President Xi implemented shortly after taking office in order to better discipline the Party and reduce what he saw as a growing level of mistrust between governments and governed in China. This meant that the awarding of gifts such as Swiss watches, as part of Chinese business transactions began to decrease under greater governmental (and public) scrutiny. One notorious example was senior Shaanxi Province official Yang Dacai, who was shamed on Chinese social media and given the nickname "Brother Watch" (表哥) after being photographed wearing many different high-end wristwatches before being arrested for accepting bribes in 2012.⁵⁶ The Xi government continues to target high-level party members, colloquially known as "tigers" (老虎), engaging in corruption and money laundering, as well as to discourage ostentation and lavish spending among high-ranking Party officials.⁵⁷

The announcement in March 2016 by the Chinese Ministry of Finance that import taxes on certain luxury goods, including high-end watches, would be raised to sixty percent to protect domestic producers, was one more blow to the Swiss watch industry. In 2006, China implemented a 20% tariff on imported luxury watches, and in Beijing the tax was considered exempt from the FTA talks as it was a non-discriminatory tax since it covered all imported watches, (although a majority of high-end watches exported to China continue to be Swiss-made).⁵⁸ From 2017 onwards, sales of Swiss watches in China began a recovery process, and Switzerland sought to adjust to changing Chinese demands by offering hybrid mechanical/electronic products in light of competition from smart-watches, as well as mid-market options such as Swatch. As well, Vaud-based luxury watchmaker Audemars Piguet announced a partnership in April 2018 with Chinese online retailer JD.com (京东) to better access China's growing online market. Other major sectors of the Swiss economy, including chemicals, machinery, and pharmaceuticals, also recorded stronger sales in China during 2017. However, signs began to appear in late 2018 that the Sino-US trade war was pulling Chinese demand for luxury items downwards again.⁵⁹

⁵⁵ Matthew Allen, "Swiss RMB Hub Dream Unfazed by Currency Scare," *SwissInfo*, September 4 2015, accessed January 27 2017, http://www.swissinfo.ch/eng/currency-trading_swiss-rmb-hub-dream-unfazed-by-currency-scare/41643074; John Reville, "Swiss National Bank Fears Trade War Could Fuel Franc Demand," *Reuters*, March 16 2018, accessed March 17 2018, <https://www.reuters.com/article/us-swiss-snb-jordan/swiss-national-bank-fears-trade-war-could-fuel-franc-demand-idUSKCN1GR1F4>.

⁵⁶ William Wan, 'In China, Officials' Watches Get Watched,' *Washington Post*, September 14 2012, accessed 17 March 2018, https://www.washingtonpost.com/world/asia_pacific/in-china-officials-watches-get-watched/2012/09/13/4e9937f2-f8e4-11e1-8398-0327ab83ab91_story.html?utm_term=.0b65bee9c0d8.

⁵⁷ "Xi Jinping Vows 'Power Within Cage of Regulations'," *Xinhua*, January 22 2013, accessed November 15 2017, http://news.xinhuanet.com/english/china/2013-01/22/c_132120363.htm.

⁵⁸ Claudia Laubscher, "China-Schweiz: Chinesen erteilen Deiss eine Abfuhr," *Handelszeitung*, June 30 2006; Josh Spero, "Swiss Watch Exports in Sharpest Fall since Financial Crisis," *Financial Times*, January 27 2017, accessed January 29 2017, <https://www.ft.com/content/b9fedd5c-e3a5-11e6-8405-9e5580d6e5fb>; "China's New Import Tax Policies for Cross-border E-commerce Worth the Attention of the Whole Industry," *China Tax Alert - KPMG*, No 14, (March 2016), accessed March 1 2017, <https://home.kpmg.com/content/dam/kpmg/pdf/2016/04/china-tax-alert-14-cross-border-ecommerce.pdf>.

Intellectual property rights, including in the area of Swiss luxury items, will create another area of contention despite the FTA. Although open sales of counterfeit high-end Swiss watches have been curtailed to a degree, there is the growing problem of fake items sold online via various virtual shops which have proven to be much more difficult to trace and eliminate.⁶⁰ Contacts have increased between authorities from both countries to address these issues. For example, in November 2016 a meeting in Bern between senior representatives from China's Ministry for Industry and Information Technologies, the China Horologe Association (中国钟表协会), the Switzerland State Secretariat for Economic Affairs and the Federation of the Swiss Watch Industry (FH), resulted in several agreements to improve communications, joint efforts to combat internet sales of counterfeit items, and an offer by Swiss authorities to provide training to their Chinese counterparts. The scale of the problem, however, remains large, as it was reported by FH in December 2017 that approximately one million counterfeit Swiss watches had been seized that year, with a majority being produced in China.⁶¹

China has also been an avid purchaser of Swiss gold. Switzerland remains the largest refiner of gold in the world as of October 2018, with four of the largest gold refineries based in the country.⁶² In late 2016, there were reports of a dramatic spike in Chinese gold acquisitions from Swiss sources, possibly as a hedge against a rapid devaluation of the yuan and ongoing uncertainty about Sino-American economic and political relations. In December of that year, China purchased 158 metric tonnes of Swiss gold worth CHF5.81 billion (US\$5.77 billion), up from 30.6 tonnes in November and representing the largest single-month purchase by Beijing since records were first made available in January 2012. This sale also brought Chinese total Swiss gold purchases in 2016 to 442.2 tonnes, up from 288.1 the previous year. After a slower 2017, with China importing 299.8 tonnes of Swiss gold, gold purchases recovered in 2018 with the country importing 61.3 tonnes in June of that year; (as of October 2018, one metric tonne of gold was worth approximately US\$38.5 million on international markets).⁶³

⁵⁹ "Swiss Watchmakers Make Up for Lost Time as China Sales Tick Higher," *Reuters*, March 22 2018, accessed March 23 2018, <https://af.reuters.com/article/africaTech/idAFL8N1R47AE>; Peter Kenny, "Swiss Business Leaders Optimistic for More Sales to China in 2018," *Xinhua*, February 13 2018, accessed February 14 2018, http://www.xinhuanet.com/english/2018-02/14/c_136974308.htm; Vivian Chen, "Luxury Watchmaker Audemars Piguet Tests E-commerce in China with JD.com," *South China Morning Post*, April 11 2018, accessed April 12 2018, <https://www.scmp.com/magazines/style/watches/article/2141258/luxury-watchmaker-audemars-piguet-tests-e-commerce-china>; Cat Rutter Pooley, "Chinese Consumption Concerns Weigh on Luxury Groups," *Financial Times*, October 10 2018, accessed 11 October 2018, <https://www.ft.com/content/009fc808-cc60-11e8-9fe5-24ad351828ab>; Interview with FH representative, Biel, January 2018.

⁶⁰ Interview with SECO representatives, Bern, November 2016.

⁶¹ 'Meeting of the Watch Industry Working Group Swiss-China,' *Revue FH*, No.20, (December 2016), accessed 3 January 2017; <http://www.fhs.swiss/eng/revuefh.html>; Online correspondence with FH official, December 2015; "Swiss Customs Pick Up Fewer Fake Watches," *Swissinfo*, December 28 2017, accessed 30 December 2017, https://www.swissinfo.ch/eng/clocking-off_swiss-customs-pick-up-fewer-fake-watches/43785788.

⁶² Duc-Quang Nguyen, 'A discreet crossroads for the world's gold,' *SwissInfo*, February 10, 2018, accessed 30 November 2018, https://www.swissinfo.ch/eng/business/swiss-trade_a-discreet-crossroads-for-the-world-s-gold/42947890.

⁶³ Ranjeetha Pakiam and Eddie Van Der Walt, "Gold Exports to China Soar in Run-Up to Year of the Rooster," *Bloomberg*, January 28 2017, accessed January 29 2017, <https://www.bloomberg.com/news/articles/2017-01-26/china-s-gold-imports-from-hong-kong-rise-as-lunar-new-year-looms>; Von Gabriel Knupfer, "China deckt sich mit Schweizer Gold ein," *Handelszeitung*, [China Agreeable to Swiss Gold] February 17 2017, accessed February 19 2017, <http://www.handelszeitung.ch/konjunktur/china-deckt-sich-mit-schweizer-gold-ein-1344182>; Lawrie Williams, "China World's Largest Gold Consumer but Figures Understate," *Sharps Pixley*, February 5 2018, accessed February 10 2018, <https://www.sharpspixley.com/articles/lawrie-williams-china-worlds-largest->

The completion of the Sino-Swiss free trade agreement has had a significant economic impact on both economies, although it can be said the financial effects on Switzerland have been comparatively more profound in the near term. For example, by late 2018 there were signs of a growing political backlash in Switzerland against Chinese investment and associated economic influence, as well as concerns about ongoing obstacles Swiss firms face in Chinese markets. Former President Leuthard, before announcing her retirement from government in August 2018, stated that while China-Switzerland relations remained strong, China was expressing interest in ‘strategically sensitive’ Swiss firms, noting the recent purchases of Syngenta and SIGG, and recommended greater reciprocity and a dialogue, similar to discussions in Germany, on how to better manage future Chinese takeover bids in Switzerland.⁶⁴ Yet, in reference to the advantages of the FTA beyond hard economic gains, there have also been significant changes to the identity and perception of both parties to the agreement. The addition of Switzerland to Beijing’s growing list of free trade partners, especially those partners which are Western economies, has further underscored the commitment of the Xi Jinping government to liberalized trade and economic cosmopolitanism. For Switzerland, its status is enhanced by having preferred access to a Chinese market, which is still seen in many European halls of power as a necessary component of their future economic planning.

gold-consumer-but-figures-understate_276461.html; N.R. Sethuraman, “Swiss Gold Exports Slide in April as Shipments to Hong Kong Drop,” *Reuters*, July 27 2018, accessed October 6 2018, <https://www.reuters.com/article/us-china-gold-import/chinas-june-net-gold-imports-via-hong-kong-jump-to-15-month-high-idUSKBN1KG1Y7>; Correspondence with Switzerland Federal Customs Administration representative, February 2017.

⁶⁴ Kathrin Ammann, ‘Switzerland Ponders Response to China’s Expansion,’ *SwissInfo*, October 5 2018, accessed October 6 2018, https://www.swissinfo.ch/eng/politics/emerging-world-power_switzerland-seeks-response-to-china-s-expansion/44451844; Patrik Müller, “*Traditionsreiche Schweizer Firmen: Doris Leuthard warnt vor «Ausverkauf» nach China*,” [“Traditional Swiss Companies: Doris Leuthard Warns Against ‘Selloff’ to China”] *Aargauer Zeitung*, August 13 2018, accessed October 7 2018, <https://www.aargauerzeitung.ch/schweiz/traditionsreiche-schweizer-firmen-doris-leuthard-warnt-vor-ausverkauf-nach-china-132913955>.

Responses in Europe: Switzerland in the Mirror?

At the end of 2014, President Xi announced China would accelerate its free trade strategy and seek out new FTA partners in the coming years.⁶⁵ The rise of China as an economic power and its growing influence in Europe, coupled with its initial successes in finalising FTAs with Iceland and Switzerland and the revival of the Sino-Norwegian FTA talks, have become factors in the question of whether the European Union may more seriously consider adding China to its list of free trade partners in the near future. Will the Switzerland FTA, and to a lesser degree the deal with Iceland and the Norway talks, influence views towards liberalised trade with Beijing in other parts of Europe, including the EU?

Brexit could provide an emerging example of this question. Even before the 2016 vote on leaving the EU, the United Kingdom began to seek improvements to bilateral relations with Beijing, as evidenced by a widely publicized state visit by President Xi to London in October 2015 which saw a myriad of trade deals and the promise of a new ‘golden era’ of Sino-British relations.⁶⁶ Once the Brexit campaign began, “leave” supporters pointed to two major advantages of the UK departing the European Union, namely greater control over immigration and the ability to set trade policy as an independent state.

British Prime Minister Theresa May noted that as her country commenced the separation process from the EU, it would seek out a larger array of free trade partners in the hopes of creating an independent, “global Britain”.⁶⁷ As a *London Times* commentary suggested, the Sino-Swiss FTA was a ‘deal of Brexiteers’ dreams,’ given that Switzerland has been able to take advantage of its non-EU status and overall nimbleness to become the first continental European economy to strike such an agreement.⁶⁸ However, critics of the Sino-Swiss agreement noted that under the terms of the FTA, China was able to benefit from near-total tariff free trade with Switzerland shortly after the signing, but Beijing only agreed to eliminate less than ninety percent of its tariffs over a fifteen-year period to 2028. Thus, there was the question of whether Britain, freed from the EU, could negotiate an FTA with Beijing which would produce maximum benefits for the British economy.⁶⁹

In February 2017, after a meeting between then-British Foreign Minister Boris Johnson and his Chinese counterpart, Wang Yi, it was announced that as part of the developing ‘golden era’ between the two states, there would be a common push for “global free trade”.⁷⁰ However, given that the timetable and circumstances of a final divorce between Britain and the EU are far from being established, it remains unclear to what degree Beijing will seek to pursue a bilateral FTA, despite the size of the UK market. There is then the

⁶⁵ “China’s Xi Demands Accelerated FTA Strategy,” *Xinhua*, December 6 2014, accessed 30 November 2018, http://www.chinadaily.com.cn/china/2014-12/07/content_19036797.htm.

⁶⁶ Hua Xia, “Interview: ‘Golden Era’ of China-UK Relations to Benefit World at Large,” *Xinhua*, October 27 2015, accessed June 16 2016, http://news.xinhuanet.com/english/2015-10/27/c_134754374.htm.

⁶⁷ Steven Erlanger and Stephen Castle, “Despite ‘Brexit,’ May Says Britain Will Lead New Era of Free Trade,” *The New York Times*, January 20 2017. A10.

⁶⁸ David Charter, “The Swiss Trade on Their Independence,”

⁶⁹ Szu Ping Chan, “Would Britain Thrive Outside the EU?” *The Telegraph*, March 25 2015, accessed October 9 2016, <http://www.telegraph.co.uk/finance/economics/11415842/Would-Britain-thrive-outside-the-EU.html>; Simon Nixon, “Brexit Would Make UK Trade Less Free,” *The Wall Street Journal*, March 2 2016, accessed March 4 2016, <https://www.wsj.com/articles/brexit-would-make-u-k-trade-less-free-1456954539>.

⁷⁰ “China, Britain Agree to Promote Global Free Trade,” *Xinhua*, February 17 2017, accessed February 18 2017, http://news.xinhuanet.com/english/2017-02/17/c_136065082.htm.

question of whether the Swiss FTA would be a model for future free trade talks between Britain and China.

Moreover, should Brexit be achieved by the planned deadline of 2019, there would then be the question of whether Britain and Switzerland find themselves as economic rivals, especially since both countries house major financial centres.⁷¹ A major question is whether Switzerland would be able to retain its special status in the milieu of Sino-European economic relations under those conditions. To a similar degree, there is the question of how soon renewed talks between China and Norway will produce an FTA, and how that outcome could also affect Switzerland's status with Chinese trade. Sino-Norwegian FTA talks were revived in April 2017, with the eleventh negotiation round completed in Oslo in May 2018.⁷² Switzerland may still be able to retain its distinct status while all questions of a Chinese FTA with the UK, Norway, or perhaps even the EU, are being addressed, or at least have a window of opportunity to further build its identity as a special economic partner for China, given Switzerland's "first-mover advantage".

Conclusions: A Matter of Identity

President Xi's Switzerland visit in January 2017 was a boon for Sino-Swiss economic ties, as a flurry of new agreements and memoranda of understanding (MoUs) were signed between the two governments, including enhanced cooperation on energy issues, culture and education as well as a twinning agreement between the Chinese province of Jiangsu and Canton Vaud, and the creation of a joint strategic dialogue.⁷³ At the top of the list, however, was an agreement by Xi and then-Swiss President Doris Leuthard to augment the FTA in the spirit of both countries' opposition to economic protectionism,⁷⁴ a clear rebuke to isolationist trends lurking in the United States and parts of the EU. In an interview with a Chinese news service during the Xi visit, Swiss Economy Minister Schneider-Ammann noted the success of the bilateral trading relationship, adding, "that's why we fight for open markets, it's a win-win situation."⁷⁵ President Xi also penned an editorial for the Swiss news service *Neue Zürcher Zeitung*, calling for further improvements in the bilateral relationship including in the areas of cultural and high-level visitor exchanges, cooperation in international regimes, and promoting the Sino-Swiss FTA as a model for "free and open international trade and investment", including within the BRI.⁷⁶ In May 2017, Ms. Leuthard attended the Belt and Road Forum talks in Beijing along with twenty-eight other heads of state, and it was reported in September

⁷¹ Steven J. Evenett, "Has Brexit Cast a Shadow over Swiss Foreign Economic Policy?" *What To Do With the UK? EU Perspectives on Brexit*, ed. Charles Wyplosz (London: CEPR Press, 2016), pp. 143-52.

⁷² "The 11th Round of China-Norway FTA Held in Oslo," *China FTA Network, Chinese Ministry of Commerce*, May 18 2018, accessed May 20 2018, http://fta.mofcom.gov.cn/enarticle/enrelease/201805/37886_1.html.

⁷³ "State Visit by Chinese President Xi Jinping to Switzerland: List of MoUs, Declarations and Agreements," *Federal Council of Switzerland*, January 16 2017, accessed January 31 2017, <https://www.news.admin.ch/news/message/attachments/46930.pdf>.

⁷⁴ An Baijie and Mo Jingxi, "Beijing, Bern to Upgrade FTA," *China Daily*, January 17 2017, accessed 20 April 2017, http://www.chinadaily.com.cn/business/2017wef/2017-01/17/content_27971828.htm.

⁷⁵ Zhao Xiaona and Jeremy Allan Hawkins, "Interview: Swiss Economic Minister Praises China-Switzerland Win-Win Partnership," *Xinhua / Global Times*, January 20 2017, accessed 30 November 2018, <http://www.globaltimes.cn/content/1029816.shtml>.

⁷⁶ Xi Jinping, «*Das schönste Glück auf Erden*» ("The Best Luck on Earth"), *Neue Zürcher Zeitung*, January 13 2017, accessed 11 August 2017, <https://www.nzz.ch/meinung/china-und-die-schweiz-die-zusammenarbeit-vertiefen-ld.139500>.

2018 that Switzerland was seeking to begin negotiations for updating the FTA, with sectors such as medicine and clean energy of specific interest to Bern.⁷⁷

The Chinese leader also used his Swiss travels, and more specifically his keynote speech at the 2017 Davos conference, to take a stand for economic globalization and opposition to market protectionism. In his remarks, President Xi called for an invigoration of economic globalisation, improved economic governance, and a greater emphasis on more evenly distributed global development. He also stressed China's commitment to trade liberalisation, noting that, "pursuing protectionism is like locking oneself in a dark room. While wind and rain may be kept outside, that dark room will also block light and air. No one will emerge as a winner in a trade war."⁷⁸ These comments caught the attention of many observers, including China-watchers who debated the degree to which the country had developed a truly globalist identity, noting that Chinese markets remain only partially liberalised, and that the fairness of Chinese trade practices was still being disputed by Washington and other governments.⁷⁹ Nevertheless, the Davos speech, along with ongoing development of Chinese cross-regional diplomacy, including under the aegis of the BRI, underscored Chinese endeavours to position itself as the banner-holder for economic globalisation, especially should the United States and key European economies continue to turn inward.

Switzerland, via the Sino-Swiss FTA as well as the emerging renminbi hub, is well-positioned to serve as a centrepiece for Beijing's growing push towards promoting the expansion of liberalized markets and the side benefits such agreements can produce. As one 2016 Zürich-based report suggested, "Switzerland is well placed to be both a symbolic and financial bridge between China and the EU," including within the framework of the BRI's European tier.⁸⁰ In addition to the numerous agreements signed during Xi Jinping's 2017 Swiss tour, in April 2016 the two countries signed an 'innovative strategic partnership' which deepened cooperation in a variety of areas, including increasing the number of high-level exchanges, expanded cooperation in the financial sector, and promoted further dialogues on development, scientific cooperation, energy and the environment, as well as cooperation via multilateral projects including the AIIB and the BRI.⁸¹

The China-Switzerland FTA is still in its infancy, and there will continue to be various issues to be addressed as the agreement matures and talks begin about further augmenting its provisions. However, at this stage much can be examined not only with respect to the economic gains for both states, but also as to how the agreement has contributed to their

⁷⁷ Interview with Swiss Foreign Ministry official, Bern, January 2018; Liu Yukun, "Switzerland and China Updating Free Trade Agreement," *China Daily*, September 6 2018, accessed October 6 2018, <http://www.chinadaily.com.cn/a/201809/06/WS5b90e8baa31033b4f4654a5e.html>.

⁷⁸ "Shoulder the Responsibilities of Our Time and Promote Global Growth Together," *Xi Jinping: The Governance of China II* (Beijing: Foreign Languages Press, 2017), pp. 519-32.

⁷⁹ Howard LaFranchi, "Is China the New World Champion of Free Trade? Not So Fast," *Christian Science Monitor*, 19 January 2017, accessed March 9 2017, <https://www.csmonitor.com/USA/Foreign-Policy/2017/0119/Is-China-the-new-world-champion-of-free-trade-Not-so-fast>; Elizabeth C. Economy, "Beijing Is No Champion of Globalization: The Myth of Chinese Leadership," *Foreign Affairs*, January 22 2017, accessed February 2 2017, <https://www.foreignaffairs.com/articles/china/2017-01-22/beijing-no-champion-globalization>; Mark Wu, "Is China Keeping Its Promises on Trade?" in *The China Questions: Critical Insights into a Rising Power*, ed. Jennifer Rudolph and Michael Szonyi, (Cambridge, MA and London, 2018), pp. 141-7.

⁸⁰ Stephen Aris, "One Belt, One Road: China's Vision of 'Connectivity'," *CSS Analyses in Security Policy* 195, (2016), accessed October 1 2018, <http://e-collection.library.ethz.ch/eserv/eth:49702/eth-49702-01.pdf>.

⁸¹ "Joint Declaration between the People's Republic of China and the Swiss Confederation on the Establishment of an Innovative Strategic Partnership," *Switzerland State Secretariat for Economic Affairs (SECO)*, April 8 2016, accessed April 10 2016, <https://www.news.admin.ch/newsd/message/attachments/43593.pdf>.

ongoing identity-building processes. As one China specialist noted in early-2017, on the eve of discussions about Canada's own potential free trade talks with Beijing, "China sees FTAs as a geo-political strategy, good not just for enhancing economic interests but for advancing its long-term foreign-policy goals."⁸² One of these goals has consistently been the advancement of a rapidly developing identity based on support for economic globalisation and consistent with the ideas of open markets and new institutions to support that goal. Thus, as the Sino-Swiss free trade agreement continues to evolve, it should most effectively be studied not only in terms of the past and future material gains for both countries, but also by the means in which this FTA has helped to shape identities and knowledge for both states in the face of a global economic community which is becoming less predictable.

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⁸² Charles Burton, "With Beijing, It's Never Just About Free Trade," *The Globe and Mail*, February 17 2017, accessed February 18 2017, <http://www.theglobeandmail.com/opinion/with-beijing-its-never-just-about-free-trade/article34049806>.