



Background information

Bern

27 January 2009

The Minister of Trade of the People's Republic of China, Chen Deming, and Federal Councillor Doris Leuthard, the head of the Federal Department of Economic Affairs, signed a new agreement on the mutual promotion and protection of investments between Switzerland and China in Bern on 27 January 2009

The scope of existing bilateral agreements related to investment

Switzerland and China signed an Agreement on the Mutual Promotion and Protection of Investments (APPI) in 1986 that came into force in 1987. This agreement, which was concluded on the basis of the realities and constraints in China at the time, no longer met today's requirements. On the one hand, the agreement did not grant investors of the other party national treatment, and on the other hand, it gave foreign investors only limited access to the international arbitration mechanism. This mechanism allows investors to settle investment disputes directly with the host state (settlement of disputes between investors and states). Negotiations for a new APPI were therefore launched in December 2006 during State Secretary for Economic Affairs Jean-Daniel Gerber's visit to Beijing, and were brought to a successful conclusion less than a year later.

The main provisions of the agreement cover the handling of foreign investments by the host country, the transfer of capital and investment income, compensation for expropriation and dispute settlement procedures (between an investor and a contracting party, and between the two contracting parties).

This new APPI with the People's Republic of China will provide notable improvement, in particular concerning the settlement of disputes between investors and states. It will place Swiss investors among the first to benefit from a high level protection under international law on the Chinese market.

Our investment relations with China

The flow of foreign direct investment to China has placed China among the most popular FDI destinations in the world. FDI in China increased from USD 4 billion in 1991 to 40 billion in the mid-1990s, exceeding 80 billion at the end of 2007 when capital participation of foreign investors in Chinese banks was allowed. The current volume of foreign direct investment in China is estimated at USD 350 billion. Since the ground-breaking achievement of the company Schindler, which became the first joint venture created (1980) between Chinese and foreign partners, Swiss companies have been quick to take advantage of the potential of the Chinese market.

Swiss companies have a strong foothold in China: the more than 300 companies set up there have 700 branches and employ around 110,000 people (end of 2007). The volume of Swiss direct investment in China is currently close to CHF 5 billion, which makes Switzerland the 15th largest foreign investor in China. Chinese investments in Switzerland, on the other hand, which currently focus on trading houses and SMEs operating in the service and industry sectors, are still fairly modest, although this is expected to increase in the near future.

The role of investment protection agreements

Despite the importance of international direct investment for the world economy, there is not yet a universally recognised organisation in this field, comparable, for example, to the WTO for international trade in goods and services. Bilateral investment protection agreements aim to close this gap.

These agreements enhance legal certainty and protection against non-commercial risks, and thereby contribute to increasing the attractiveness and competitiveness of the country concerned in the eyes of foreign investors.

At present, Switzerland, which ranks among the most important direct investment source countries (in 2007, Switzerland ranked 7th in absolute terms and 1st per capita; the total volume of direct investments from Switzerland was nearing USD 700 billion and Swiss companies employed more than two million people abroad), has concluded bilateral investment protection agreements with around 120 countries.

For further information:

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<http://www.seco.admin.ch/themen/00513/00594/index.html?lang=fr>