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Towards a Switzerland-China Free Trade Agreement: State of Play

Joint Alumni Conference
Swiss Global Business Forum
Rüschlikon, 1 October 2010

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This speech was prepared with the support of Mr. D. Kurek and Mr. M. Zbinden, SECO

Ladies and Gentlemen

Today is a good day to talk about China, as today is the National Day of China, commemorating the foundation of the People's Republic of China. 2010 is also a good year to talk about Switzerland-China relations, as this year marks the 60th anniversary of diplomatic relations between Switzerland and China.

It is a great pleasure for me to share with you at the Global Business Forum of the Joint Alumni Conference 2010 a few thoughts on a significant recent development in Swiss foreign economic policy.

This morning, the Swiss Federal Council adopted the mandate for the negotiations on a free trade agreement between China and Switzerland. Let me tell you how it came about that China and Switzerland looked into the possibility of a bilateral free trade agreement and inform you about the intentions and expectations that will guide the negotiations from the Swiss side.

Before doing so, it might be useful to present the basic ideas behind the general strategy and orientation of the Swiss foreign economic policy, particularly regarding free trade agreements.

Switzerland's foreign economic policy aims at furthering sustainable prosperity of the people living in Switzerland. The Swiss economy is characterized by a high degree of internationalisation in trade and investment, as well on the export as on the import side. With a total population of below eight million people the domestic market is of limited size. At the same time, economies of scale of modern technologies of production and methods of business administration and marketing normally require much larger markets than this. Therefore, access to foreign markets for companies established in Switzerland, and for their employees, is vital. This is not only true for big companies selling their products to large numbers of customers, but also for small

and medium sized companies. Such companies often are highly specialized offering niche products, services or combined solutions that are more or less tailor made to the specific needs of specific customers. As there is, in each national market, only a limited number of customers for any such niche product or service, it is important that there is access to as many markets as possible without unnecessary obstacles to trade.

For these reasons, it is obvious that Switzerland's economy depends to a large extent on opportunities to trade goods and services internationally and to engage in cross-border investment. As a consequence, the main objective of Swiss foreign economic policy is to reduce obstacles to international trade and investment, to eliminate as far as possible discriminatory treatment on foreign markets, and to promote stable and foreseeable international framework conditions for economic exchange.

There are three priority instruments of Swiss market opening policy:

1. Membership in the World Trade Organisation (WTO);
2. The conclusion of bilateral agreements with the European Union (EU); and
3. The Negotiation of free trade agreements (FTA) with partners outside the EU.

The interests of Switzerland as a medium sized economy with a wide geographical diversification of export destinations are best served by multilateral trade liberalisation in the WTO. Unfortunately the Doha round of multilateral trade negotiations, which are intended to bring trade liberalisation among WTO members at a higher level, is lacking progress since several years. Hence, the prospects for improvements of market access on a worldwide scale in the foreseeable future are rather blurred. This does not mean that the WTO has lost its value. The WTO with its existing multilateral agreements, in particular the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS) and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) still constitute the basis of the quasi-universal trading system. Without these existing, and

as such well functioning, WTO-agreements countries such as Switzerland would have no assurance of participation in worldwide international economic exchange and could not make use of their comparative advantages to the extent it is possible now.

On a regional level, Switzerland has chosen to seek deeper integration with the European Union, by far the major trading partner of Switzerland, accounting for roughly 60% of Swiss exports and above 70% of Swiss imports. I won't go into the details of the network of bilateral agreements between Switzerland and the European Union established in the last 40 years. I just note that the more recent bilateral agreements concluded by Switzerland and the European Union are about harmonization of national legislation and regulations, with a view to provide single market conditions for Swiss and European Union economic operators on each other's territory.

Despite the predominant trade relations with the European Union, free trade agreements with partner countries outside Europe have become another significant instrument of Swiss foreign economic policy since the 1990s. Trade with partners outside the European Union accounts for 40% of Swiss exports, and the share is increasing. This trend is due, inter alia, to the shift in economic power from North to South and, in particular, from West to East. In order to make use of this tendency, it is important to improve market access to important partners around the world and to secure stable framework conditions with them.

Concluding bilateral and plurilateral free trade agreements has become a global trend. This is at least in part due to the lack of progress in the WTO-Doha round, referred to before. As it has become more difficult to find agreement among the 150-plus members of the WTO, countries with similar ambitions and similar interests regarding liberalization have increasingly entered into preferential agreements, i.e. free trade agreements providing for levels of liberalisation between two or a limited number of parties going beyond the WTO. The fast increasing number of free trade agreements around the world comes with an increased potential of discrimination. If

a trading partner of Switzerland concludes free trade agreements with main competitors of Switzerland, e. g. with the EU, the USA or Japan, Swiss exports are at a disadvantage, unless Switzerland also negotiates a free trade agreement with this trading partner.

Looking at the map of Switzerland's free trade agreements, there are agreements in force or under negotiation with South Eastern European and Mediterranean countries, with important partners in the Americas, in Asia, plus South Africa.

Recent Swiss free trade agreements, e.g. the ones concluded with Japan, South Korea, Singapore, Chile, the Gulf Cooperation Council, etc. not only cover trade in goods but a broad range of additional subjects, such as trade in services, the protection of intellectual property rights, investment, government procurement.

Most of the free trade agreements to which Switzerland is a party were negotiated in the framework of the European Free Trade Association (EFTA). EFTA is the trade association of the Western European non-EU-member countries Switzerland, Norway, Iceland and Liechtenstein. However, there is no obligation to do free trade agreements in the context of EFTA. E. g., Switzerland has negotiated the free trade agreement with Japan on a bilateral basis, and also the upcoming negotiations between China and Switzerland will be a bilateral process.

Free trade agreements do matter. Looking at Switzerland's trade statistics, growth rates of exports plus imports with free trade partners are considerably higher than the growth of overall trade flows of Switzerland. From 1988 to 2008 Switzerland's total trade flows with the world increased annually on average by 5.7%. By comparison, Swiss exports plus imports with free trade partners grew on average by more than 10% in the four years following the entry into force of the respective free trade agreements.

Similarly, free trade agreements seem to have a positive impact on foreign direct investment. Over the same period (1988 – 2008) worldwide Swiss foreign direct investment increased annually on average by 12.6%., while the annual growth rate of Swiss FDI directed towards free trade partners was on average 18% in the four years following the entry into force of the respective free trade agreements.

Being aware of the limitations of such statistical calculations, these figures show what appear to be significant positive effects of preferential agreements on trade and investment relations

How does Switzerland select prospective negotiation partners? The following four criteria are used by the Swiss government as guiding principles:

1. Current and potential economic importance of a prospective partner country;
2. Existing or potential discrimination resulting from free trade agreements concluded by a prospective partner with main competitors of Switzerland;
3. Prospects for successful conclusion of the negotiations;
4. Consistency with Swiss foreign policy objectives.

Looking at China, there is no doubt that one of the world's three largest economies and trading nations in the world fits the principle of economic importance without further question. In the last decade, China accelerated its industrialization and globalization at a very fast pace. The growth of GDP in the last decade exceeded an average of 9% annually. The Chinese GDP per capita has tripled over the same period. Nevertheless, compared to highly developed countries, average income levels in China are still relatively low. Given the recent growth rates and huge efforts in research and technology development by the Chinese economy this should be read as an indicator of future potential regarding further increase of productivity and wages.

For Switzerland, China is the most important trading partner in Asia. China is now Switzerland's third largest supplier of goods worldwide and the fourth market for Swiss exports (after the EU, the USA and Japan). That is why the negotiations with China are a top priority on the Swiss foreign economic policy agenda.

Regarding the second principle, China has also appeared on the map of Free trade agreements. China's accession to the WTO in December 2001 was the international mirror image of the Chinese policy of internal reform and opening up of the economy. This policy also paved the way for free trade agreements considered by China as an instrument of foreign economic policy. China negotiated free trade agreements first in Asia, with Hong Kong and Macau, and then with the ASEAN group of countries, later China concluded free trade agreements with New Zealand and Chile. Now China is negotiating free trade agreements with Australia, Norway and others, and is exploring negotiations with countries such as Korea, Japan, India and more. So it seems to be the right time that also China and Switzerland start working on a free trade agreement.

Considering the third principle, the prospects for a successful conclusion of a free trade agreement between Switzerland and China, a joint study group - composed of government officials of China and Switzerland mandated by the competent Ministers of both sides - came to the conclusion that such an agreement appears to be feasible. The Joint Study Group delivered its report in August 2010. The group found that the economies of Switzerland and China are both competitive and complementary. Therefore, a comprehensive free trade agreement would be mutually beneficial, significantly improving the framework conditions for economic exchange and cooperation between Switzerland and China. The Joint Study Group recommended that negotiations on a free trade agreement between the two countries should be launched as soon as possible.

When it comes to the fourth principle, it is important to note that, since many years, Switzerland and China entertain excellent bilateral relations in various fields of cooperation. As mentioned earlier, this year marks the 60th anniversary of diplomatic

relations between Switzerland and the People's Republic of China. Since then a rich texture of bilateral political and economic contacts has developed, with exchanges in trade and investment, science, technology and education, culture, with technical cooperation on environmental technologies and sustainable water management to name just a few examples, with dialogues on topics such as the protection of intellectual property rights, clean production, human rights, and on financial policy. Considering these broad activities, a free trade agreement would nicely complement, in the field of trade and economic exchange, the already intense bilateral relations.

The objectives of Switzerland pursued in the free trade negotiations with China is to ensure, to the extent possible, legally secured, non-discriminatory access for Swiss companies to the Chinese market and vice versa, by the elimination or lowering, as the case may be, of tariff and non-tariff barriers to trade. The Free trade agreement should provide enhanced opportunities for the further development of the Swiss-Chinese trade and investment relations and of cooperation in many fields, contributing to sustainable growth and employment in both countries.

More specifically, the objective is to eliminate tariffs on industrial products and to eliminate or lower tariffs on a number of agricultural products. The objective includes targeted improvements of market access for services, enhanced protection of intellectual property rights, promotion of investments, and cooperation on matters such as competition, government procurement and sustainable development.

What are the next steps? A little more than a month ago, in August 2010, Swiss President Leuthard and the President of the People's Republic of China HU Jintao when meeting in Beijing decided that negotiations on a bilateral free trade agreement between China and Switzerland should be started soon. Both sides are now preparing their negotiation mandates, which are expected to be ready before the end of this year. If everything goes as planned, a first meeting of the negotiators could then take place early next year. The rest is work, dedication, and imagination.

Thank you for your attention.