What the EU could learn from Switzerland’s free trade agreement with China

blogs.lse.ac.uk/europpblog/2015/05/05/what-the-eu-could-learn-from-switzerlands-free-trade-agreement-with-china/

5/5/2015

Switzerland signed a free trade agreement with China in 2013, which came into force a year later. **Marc Lanteigne** *writes on whether the Swiss experience could offer lessons for the EU. He argues that Switzerland’s success in negotiating a free trade agreement and building new financial links with Beijing illustrate some of the benefits that could be gained from the EU adding China to its own list of free trade partners.*

In July 2014, the free trade agreement signed between China and Switzerland formally took effect. 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. The agreement represented the second such deal by China with a European economy, (after Iceland, whose agreement also came into force in July of last year), and one of the largest of Beijing’s free trade agreements with an OECD member state.

Despite expectations that Beijing would complete a free trade agreement with another non-European Union member economy, Norway, those talks have been in abeyance since late 2010 as a result of the diplomatic *froideur* following the awarding of the Nobel Peace Prize that year to a Chinese dissident. The successful completion of the Sino-Swiss free trade agreement marks a significant economic and diplomatic achievement for Switzerland, and has factored into current debates within the European Union as to whether a China free trade agreement of its own should be sought.

What can the EU learn from Switzerland’s free trade agreement with China?

For more than decade, there was accord between China and the EU that free trade talks should be explored, especially given the growing trade volume between the two economies and Beijing’s interest in developing Europe as an alternative economic pole to the United States and East Asia. Yet the process has frequently been hampered by diplomatic and economic tribulations which have prevented it from evolving beyond the very preliminary stages.

Early obstacles included the EU’s refusal since 2004 to grant China market economy status (MES), a prerequisite for the start of any free trade talks as far as Beijing is concerned, as well as widely different levels of enthusiasm among EU member economies for a free trade agreement with China. Since that time, China and the EU have also been embroiled in a series of trade disputes, most notably over accusations that Beijing was condoning the dumping of solar panels onto the international market, adding to the level of mistrust between the two sides.

Despite the beginning of the European recession in 2008 and ongoing questions about the financial health of the EU, which have also been warning lights for Beijing, the Xi Jinping government has called upon the EU to consider opening free trade agreement talks. President Xi won a promise of sorts, during his visit to Brussels in March of last year, that the EU would return to the question of an agreement in the near future, but since that time there has been little progress, as the EU has focused on a host of internal problems, with the slow-motion calamity of the Greek debt crisis at the top of the list.

In addition, the EU has been much more focused of late on free trade talks with the United States, which if successful would result in the so called ‘Transatlantic Trade and Investment Partnership’ (TTIP). The question of how and when Sino-European Union free trade talks would begin is very much dependent upon the recovery of the EU economy and whether a broader agreement can be reached within the 28-member Union as to how to approach Beijing.

Switzerland, by contrast, in the tradition of its *Sonderfall* (exceptional case) politics and foreign policy, has sought to maximise the benefits of its agreement with China over the past two years. The agreement, in addition to removing bilateral tariffs and trade barriers on goods and services, also provides for intellectual property protection, which was a key demand from Switzerland since the start of the negotiations and a main reason why recent free trade talks between Switzerland and India have experienced delays. The deal was also accompanied by parallel agreements on employment and labour. Other provisions of the agreement include investment promotion, technical cooperation and environmental protection, and overall the deal has provided a platform for future bilateral economic cooperation, notably in the area of banking.

Shanghai, Credit: Bernd Thaller (CC-BY-SA-3.0)

In July 2014, a three-year currency swap agreement was signed, worth approximately US$24 billion, between the People's Bank of China and the Swiss National Bank (SNB), also allowing for the SNB to purchase up to about US$2.4 billion in Chinese bonds. The swap agreement has provided China with improved access to the Swiss franc which has been viewed as a safe haven currency in comparison with the euro, especially since January of this year when the decision was made by the SNB to allow the franc to appreciate against the euro after an exchange rate cap implemented in 2011 was abruptly removed.

Also in January, after many months of anticipation, the decision was finalised to designate Zürich as a trading hub for China's currency the *renminbi*, joining a small number of cities, including London, Luxembourg, Toronto and Singapore, that hold this status. Shortly after that announcement was made, Swiss Finance Minister Eveline Widmer-Schlumpf announced that the China Construction Bank would open a Swiss branch during 2015 in the wake of the hub agreement, and the bank formally applied for a license in April this year. Finally, in March, Switzerland joined a long queue of European economies seeking founding member status in Beijing's Asia Infrastructure Investment Bank, opening yet another door to economic cooperation.

The trade volume between China and Switzerland has been growing rapidly over the past decade, with Swiss exports to China rising from CHF 2.5 billion to CHF 8.8 billion, (US$2.7 billion to US$9.4 billion), between 2003-13, and Chinese imports in Switzerland jumping from CHF 2.5 billion to CHF 11.4 billion (US$2.7 billion to US$12.2 billion) during the same time period. It is too early to measure the degree to which the start of the Sino-Swiss free trade agreement will boost overall bilateral trade, but the trading relationship between China and New Zealand, which signed its own free trade agreement with Beijing in 2008, might be a 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 bring that figure to NZ$20 billion (US$15.1 billion) by 2015. That target was actually reached ahead of schedule, in June 2014. With the Sino-Swiss free trade agreement coming into effect, a similar rise in trade volume is expected in the coming years, to the benefit of many sectors. Even Swiss luxury watch sales in China, which softened during 2012-2013 as the incoming Xi Jinping administration announced sweeping government austerity measures, showed signs of recovery by 2014. According to a June 2014 report by Credit Suisse, China is expected to overtake Germany as Switzerland's largest trading partner by 2035, based on current figures.

At the end of last year, President Xi announced that China would accelerate its free trade strategy and seek out new free trade agreement partners in the coming years. The rise of China as an economic power and its growing influence in Europe, coupled with the initial successes in Switzerland in completing its free trade agreement and building new financial links with Beijing, should weigh considerably on the question of whether the European Union may more seriously consider adding China to its own list of free trade partners in the near future.

Please read our comments policy before commenting.

Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

Shortened URL for this post: **http://bit.ly/1EUiDKY**

About the author

Marc Lanteigne – *Norwegian Institute of International Affairs (NUPI)*
Marc Lanteigne is a Senior Research Fellow at the Norwegian Institute of International Affairs in Oslo and is a current researcher on Sino-European relations and economic diplomacy. He is the author of *China and International Institutions: Alternate Paths to Global Power* and *Chinese Foreign Policy: An Introduction*, and has also researched and written about China's developing Arctic policy, non-traditional security thinking, and free trade diplomacy with Iceland and Switzerland.

-