Joint Feasibility Study on a China-Switzerland Free Trade Agreement

Beijing, 9th August 2010

Executive Summary

The Premier of the People's Republic of China WEN Jiabao and the Swiss President Hans-Rudolf MERZ decided in January 2009 in Bern to conduct a Joint Swiss-Chinese Study on the feasibility of a bilateral free trade agreement. Following two successful bilateral preparatory workshops, held in April and October 2009 in Beijing and Bern respectively, the Chinese Minister of Commerce CHEN Deming and the Swiss Federal Councillor Doris Leuthard, head of the Federal Department of the Economy, instructed the Swiss-Chinese Joint Study Group to conduct the Joint Feasibility Study when they met in Geneva on 30 November 2009.

This report presents the findings and conclusions of the Swiss Chinese Joint Study Group. The Group analysed the economies of China and Switzerland, relevant economic policies and bilateral trade and investment relations, including broader aspects of the economic relations between the two countries, as well as the related existing framework of bilateral institutional arrangements and legal instruments.

Trade in goods and services was analysed for the economies of China and Switzerland as a whole as well as for specific sectors. Other areas related to Chinese Swiss trade and economic relations were also analysed, including intellectual property, investment, e-commerce, small and medium sized enterprises, competition, environmental policies and other fields of existing and possible future cooperation. The report addresses additional issues related to a free trade agreement, such as general and institutional provisions including dispute settlement mechanisms.

The report finds that both countries' economies are complementary and competitive. Potentials for the bilateral relations between China and Switzerland and for economic growth and welfare on both sides are identified. As the world's largest developing economy, China has a strong production capacity that covers a wide range of goods and services both for domestic and overseas demands. As a highly developed industrial and services economy, Switzerland has strengths in selected advanced technology areas and high value-added products, mainly targeting international high-end demand in addition to the limited domestic market.

The report concludes that a free trade agreement, established in conformity with the rules of the World Trade Organisation WTO, would permit both economies to benefit from enhanced cooperation and further gains of specialisation. The free trade agreement would further broaden the specific strengths and growth potentials of both sides, while differences in industrial development would be addressed by arrangements facilitating transition. A free trade agreement will enhance the framework conditions for economic exchange and cooperation in a wide range of relevant areas, benefitting both China and Switzerland. It will tighten the bilateral trade and economic relationship of the two countries, lead to increased growth of two way trade and investment, strengthen overall export capacity of both economies and enhance the growth potential of both sides. Therefore, the establishment of a free trade agreement will be mutually beneficial.

Based on these findings, the Joint Study Group recommends that negotiations on a Free Trade Agreement with a broad scope between China and Switzerland are opened as soon as possible.

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1 Background and Objective of the Study

On 8 July 2007, on the occasion of an official visit of a Swiss trade delegation to the People's Republic of China (hereinafter referred to as China), BO Xilai, then the Minister of Commerce of China, and Doris LEUTHARD, Federal Councillor and Swiss Minister of Economic Affairs, met in Beijing to sign a Joint Declaration on Economic Cooperation[1]. With this Joint Declaration the Swiss and the Chinese side, desiring to enhance the bonds of friendship and economic cooperation, engaged to enhance cooperation both in the areas of trade and investment, through, *inter alia*, improving the bilateral economic regulatory framework. By the same Joint Declaration, Switzerland recognized China as a full market economy country.

At the same meeting, China and Switzerland agreed that the Swiss and the Chinese governments would examine the feasibility of a Switzerland-China Free Trade Agreement (FTA)[2]. The two Ministers foresaw that, as a first step, China and Switzerland each would examine the issue internally. They did so accordingly.

As a second step, the two Ministers foresaw that the two sides would conduct a Joint Feasibility Study, which would constitute the basis for a decision on the possible start of negotiations on a FTA between China and Switzerland. On 27 January 2009, the Premier of the People's Republic of China WEN Jiabao and the then President of the Swiss Confederation Hans-Rudolf MERZ decided that the second step of a Joint Feasibility Study on a FTA between China and Switzerland would now be undertaken. The two leaders mandated the competent authorities of both sides to make the necessary preparations in the course of 2009. Subsequently, two preparatory Workshops on Industrial Exchange for a China-Switzerland Free Trade Agreement were held in April 2009 in Beijing and in October 2009 in Bern. The two Workshops were attended by representative delegations from governments and industry associations of both sides. On 30 November 2009, the Minister of Commerce of the People's Republic of China CHEN Deming and the Minister of Economic Affairs of Switzerland Doris LEUTHARD acknowledged the positive results of the two workshops and instructed the Joint Study Group to start its work and to conduct the Joint Feasibility Study on a China-Switzerland Free Trade Agreement, resulting in the present document. The two Ministers signed a Joint Declaration[3], by which the Joint Study Group was mandated to examine topics covered by free trade agreements with a broad coverage such as trade in goods, trade in services, investment, and other possible areas of existing and future cooperation between Switzerland and China.

The Joint Study Group is presenting hereby its findings and conclusions to the competent Ministers, with a view to allow both governments to take a decision on opening free trade negotiation as a way to further promote the economic relationship between the two countries. It is a basic assumption of the Study that a possible bilateral FTA between China and Switzerland would be consistent with WTO rules, and that both sides would build on their WTO commitments in all relevant areas.

[1] The full text of the Joint Declaration of 8 July 2007 is included in Appendix 1.

[2] The press releases issued by the Federal Department of Economic Affairs on 8 July 2007 and by the Ministry of Commerce of the People's Republic of China of 10 July 2007 respectively are included in Appendix 2.

[3] The full text of the Joint Declaration of 30 November 2009 is included in Appendix 3.

2 Overview of the Chinese and Swiss Economies and Foreign Economic Policies

2.1 Chinese Economy and Foreign Economic Policy

2.1.1 Chinese Economy

Recent Developments of the Chinese Economy

In the last decade, China accelerated its industrialization and globalization steps and has achieved a successful development. The average annual GDP growth rate between 2001 and 2008 exceeded 9%, and the GDP reached USD 4,932 billion in 2009[4]. China is now the world's third largest economy behind the United States and Japan. However, China's GDP per capita is still relatively low though it rose from USD 1,263 in 2001 to USD 3,731 in 2009[5].

Growth of value added of the industrial sector averaged more than 15% in 2006, 2007 and 2008[6], much faster than China's services and agriculture sectors. In 2009, the share of industry (including manufacturing, mining, and electricity generation) in GDP amounted to 46.8% and was higher than that of services (42.6%) and agriculture (10.6%)[7] .

Total employment of labour force was 774 million in 2008, with 39.6% in the agricultural sector, 27.2% and 33.2% in the industrial and the services sectors respectively[8].

Foreign Trade

Foreign trade plays an important role in China's economic development. The rapid growth in trade contributed greatly to the growth of GDP. In 2008, imports and exports reached USD 2563.3 billion, an increase of 17.9% from USD 2173.7 billion in 2007, and China became the third largest trading economy in the world. Imports and exports increased at a rate of above 20% between 2002 and 2007. China's exports amounted to USD 1430.7 billion in 2008, an increase of 17.5% from 2007. In the same year, imports amounted to USD 1132.6 billion，which is 4 times more than in 2001. In 2009, the exports and imports decreased by 16% and 11.2% respectively due to the global financial crisis (*Table 1*).

[4] National Bureau of Statistics of China, http://www.stats.gov.cn/tjgb/ndtjgb/qgndtjgb/t20100225_402622945.htm

[5] http://www.stats.gov.cn/tjgb/ndtjgb/qgndtjgb/t20100225_402622945.htm

[6] China Statiscal Yearbook 2002-2009.

[7] National Bureau of Statistics of China, http://www.stats.gov.cn/tjgb/ndtjgb/qgndtjgb/t20100225_402622945.htm

[8] China Statistical Yearbook 2002—2009

Table 1: Imports and Exports of China, 2002 – 2009 (USD billion)

Year	Total Imports and Exports	Rate (%)	Exports	Rate (%)	Imports	Rate (%)
2002	620.8	21.8	325.6	22.4	295.2	21.2
2003	851.0	37.1	438.2	34.6	412.8	39.8
2004	1154.6	35.7	593.3	35.4	561.2	36.0
2005	1421.9	23.2	762.0	28.4	660.0	17.6
2006	1760.4	23.8	968.9	27.2	791.5	19.9
2007	2173.7	23.5	1217.8	25.7	956.0	20.8
2008	2563.3	17.9	1430.7	17.5	1132.6	18.5
2009	2207.2	-13.9	1201.7	-16.0	1005.6	-11.2

Source: *China Statistical Yearbook, 2002 - 2009, the data of 2009 from Statistical Communiques of the National Bureau of Statistics of China.*

Foreign Direct Investment

Since 2002, China has always been one of the major recipients of foreign direct investment (FDI) coupled with transfer of technology and know-how. Most of the investment was channelled into manufacturing sectors. In 2007 and 2008, the FDI inflow reached about USD 74.77 billion and USD 92.4 billion, an increase of 13.59% and 23.58% respetively (*Table 2*).

China's direct investment abroad has increased dramatically since 2003. The outflow was only about USD 3 billion in 2003, and in 2008 it reached about USD 40.6 billion, an increase of 116.8% compared to 2007 (*Table 2*). Although in 2009 the global FDI flow decreased sharply due to the financial crisis, the outflow of China still recorded an increase of 6.5% and reached USD 43.3 billion. The key areas of China's FDI outflow are mining, transportation, wholesale and retail as well as business services. Hong Kong China, South Africa, British Virgin Islands, Australia, Singapore and Cayman Islands are the main destinations.

Table 2: The FDI[9] Inflow and Outflow of China, 2003 – 2009 (USD 100 million)

Year	Inflow	Rate (%)	Outflow	Rate (%)
2003	535.05	1.44	28.55	5.74
2004	606.30	13.32	54.97	92.54
2005	603.25	-0.50	122.60	123.03
2006	658.21	9.11	161.30	31.57
2007	747.68	13.59	187.20	16.06
2008	923.95	23.58	406.50	116.80
2009	900	-2.6	433.00	6.5

Source: *National Statistics Bureau of China, Department of Outward Investment and Economic Cooperation of MOFCOM of China.*

2.1.2 Chinese Foreign Economic Policy

China's foreign economic policy has remained unchanged, which is to serve the "reform and opening up" policy.

[9] FDI in this table refers to non-financial FDI.

Policy of Trade in Goods

China's policy with regard to trade in goods includes tariffs, licenses, rules of origin and customs procedures, SPS, TBT, trade remedies, etc (Chapter 4).

Policy of Trade in Services

Under the GATS, China made specific commitments in 9 of the 12 major sectors upon its accession to WTO in 2001, including business services, communication services, construction and related engineering services, distribution services, educational services, environmental services, financial services, transport services, tourism and travel related services.[10]

China's commitments of trade in services are also scheduled in free trade agreements like the CEPA, the China-ASEAN, the China-Pakistan, the China-Chile, the China-New Zealand, the China-Singapore and the China-Peru Agreement (Chapter 5).

FDI Policy

Major laws and regulations specificly related to FDI include: the Law on Chinese-Foreign Equity Joint-Ventures, the Law on Chinese-Foreign Contractual Joint Ventures, the Law on Foreign-Capital Enterprises, and their respective implementing regulations.[11] Under the three laws, types of foreign investment enterprises (FIEs) are equity joint ventures, contractual joint ventures and wholly foreign-owned enterprises (WFOEs). On 1st March 2010, the newly adopted Regulations for the Administration of the Registration of Foreign-invested Partnership Enterprises came into force. Since then, foreign enterprises or individuals in China can set up an enterprise in the legal form of a partnership[12].

The Catalogue for the Guidance of Foreign Investment Industries stipulates the basic principles concerning FDI in China. It classifies foreign investment projects into four categories: the encouraged, the permitted, the restricted and the prohibited. The current Catalogue for the Guidance of Foreign Investment Industries entered into force on 1st December 2007.

China also encourages outflow of FDI. In 1997, the "go-global" strategy was put forward for the first time and since then China has enacted a series of policies to encourage investment abroad.

The governmental agencies in charge of the administration of the FDI outflow include the Ministry of Commerce (MOFCOM), National Development and Reform Commission (NDRC), State Administration of Foreign Exchange (SAFE), etc. On 1st May 2009, the Measures for Overseas Investment Management enacted by MOFCOM were implemented. They stipulate the principles of management of overseas investment by domestic enterprises. In accordance with the Regulations on Foreign Exchange Administration of Overseas Investment issued by the SAFE in July 2006, China eliminated restrictions on foreign exchange with regard to FDI outflow.

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[10] WTO document GATS/SC/135, 14 February 2002.

[11] Other laws, regulations and rules related to FDI include: Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors; Provisions on Foreign Invested Investment Companies; Interim Provisions on Foreign Invested Joint Stock Limited Companies; Company Law; Contract Law; Insurance Law; Arbitration Law; Labour Law; Provisional Regulations on Value-Added Tax; Provisional Regulations on Consumption Tax; Provisional Regulations on Business Tax; and Law on Protection of Investment by Compatriots from Chinese Taipei (Invest in China online information. Viewed at: http://www.fdi.gov.cn/pub/FDI_EN/Laws/GeneralLawsandRegulations/BasicLaws/t20060620_50886.jsp [11 February 2008]).

[12] http://sousuo.mofcom.gov.cn/query/queryDetail.jsp?articleid=20100306818933&query=%E5%A4%96%E5%95%86%E6%8A%95%E8%B5%84

2.1.3 China's FTA Practice

Although the multilateral trading system remains the main channel to promote trade liberalization, China has been intensifying its pursuit of bilateral/regional free trade agreements with different trading partners over the last decade. For China, regional and bilateral trade arrangements serve as another driving force to promote free trade.

Currently, China is working on 14 FTAs with 35 economies, among which 9 free trade agreements have been signed. Another 5 agreements including *the China-GCC[13] FTA, the China-Australia FTA, the China-Iceland FTA*, the *China-Norway FTA* and the *China-SACU[14] FTA* are being negotiated or are under discussion. The joint feasibility studies of the *China-India RTA* and the China-Korea FTA have been completed. The studies of China-Switzerland FTA and China-Japan-Korea FTA are underway.

The concluded and signed FTAs or trade agreements with FTA features are the *Mainland and Hong Kong Closer Economic and Partnership Arrangement (CEPA Mainland-Hong Kong), the Mainland and Macao Closer Economic and Partnership Arrangement (CEPA Mainland-Macao), the China-ASEAN FTA (ACFTA), the China-Pakistan FTA, the China-Chile FTA, the China-New Zealand FTA, the China-Singapore FTA*, the *China-Peru FTA and the China-Costa Rica FTA*.

The CEPA Mainland-Hong Kong and the CEPA Mainland-Macao

In 2003, the Central Government of China signed the Closer Economic Partnership Arrangements (CEPA) with the Government of the Special Administrative Region of Hong Kong and the Government of the Special Administrative Region of Macao respectively. Supplement I, II, III, IV, V and VI were signed in 2004, 2005, 2006, 2007, 2008 and 2009 respectively. The *CEPA Mainland-Hong Kong*, the *CEPA Mainland-Macao* and the *Supplements* thereto cover trade in goods, trade in services and investment. The *CEPAs* were the first FTAs implemented in Mainland China.

According to the *CEPAs* and their *Supplements*, Mainland China eliminated gradually the tariffs on imports originated from these two Special Administrative Regions (SARs) from 1st January 2004 on, completed by 1st January 2006. Under these *CEPAs*, Mainland China has also gradually liberalized markets in various service sectors by relaxing market access restrictions.

The China-ASEAN FTA

On 4th November 2002, China and ASEAN signed the *Framework Agreement on Comprehensive Economic Cooperation*, which entered into force on 1st July 2003. Under the Framework Agreement, both Parties agreed to negotiate a *China–ASEAN Free Trade Area (ACFTA)* which was supposed to be fully established within ten years. Both Parties also promised to progressively eliminate tariffs and non-tariff barriers to the great majority of merchandises, simplify customs procedures, progressively liberalize trade in services, and establish open and competitive investment regimes to facilitate and promote investments.

The *Agreement on Trade in Goods* and the *Agreement on the Dispute Settlement Mechanism* of the *Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China were* signed in November 2004 and entered into force on 1st January 2005. According to the *Agreement on Trade in Goods*, China has been gradually reducing

[13] Gulf Cooperation Council: Saudi Arabia, Bahrain, United Arab Emirates, Kuwait, Oman and Qatar.

[14] Southern African Customs Union: Botswana, Lesotho, Namibia, South Africa and Swaziland

tariffs on thousands of goods to zero originated from ASEAN members. The *Agreement on Trade in Services of the China-ASEAN Free Trade Area* was signed in January 2007 and entered into force on 1st July 2007, under which China will lower the market access requirements of some service sectors including construction, environmental, transportation, sporting and business services, etc. In August 2009, the two Parties signed the *Agreement on Investment* which will facilitate the two-way investment and strengthen the relevant cooperation.

The China-Pakistan FTA

In April 2005, China and Pakistan announced the launch of FTA negotiations. The *China-Pakistan Free Trade Agreement* was signed on 24th November 2006 and entered into force on 1st July 2007. After its enforcement, China's overall average tariff on imports from Pakistan was 2 percentage points lower than the overall MFN average. On 21st February 2009, China signed the *Agreement on Trade in Service of the China-Pakistan FTA* which entered into force on 10th October 2009. According to the Service Agreement, China shall reduce restrictions on 6 service sectors including environmental services, tourism services, sporting services, translation services, real estate services, computer services, etc.

The China-Chile FTA

On 18th November 2005, China and Chile signed the *China-Chile Free Trade Agreement* which entered into force on 1st October 2006. Under the FTA, 63% of China's import tariffs were eliminated by two phases between 1st October 2006 and 1st January 2007. Most other tariffs are to be eliminated within five or ten years with the aim of 97% of Chinas' import tariffs being eliminated by 1st January 2015. Negotiations on trade in services and investment were launched in January 2007. The *Supplementary Agreement on Trade in Services of the Free Trade Agreement between China and Chile* was concluded on 13th April 2008. China will release market access restrictions in 37 service sectors including computer services, advertisement services, air transport services, sporting services, etc.

The China-New Zealand FTA

On 7th April 2008, China signed the *China-New Zealand Free Trade Agreement* which entered into force on 1st October 2008. The Agreement covers areas of trade in goods, trade in services and investment. The Agreement is the first FTA China signed with a developed country. Under the FTA, China will eliminate tariffs on 96% of imports originated from New Zealand. On 1st October 2008, when the FTA took effect, China immediately eliminated the tariffs on all the goods of which MFA tariffs were below 5%. The tariffs on other goods have been gradually reduced since 2008. China will also offer more favourable market access condition to New Zealand service suppliers in sectors of business services, environmental services, sporting services, transportation services, etc.

The China-Singapore FTA

The *China-Singapore Free Trade Agreement* (*CSFTA*) was signed on 23rd October 2008 and entered into force on 1st January 2009. The CSFTA covers trade in goods and in services. According to the *CSFTA*, China committed to eliminate the tariffs on 97.1% of goods imported from Singapore from 1st January 2010 and to further open up the market of the service sectors including health services, education services, accounting services, etc. on the basis of its WTO commitment.

The China-Peru FTA

The *China-Peru FTA* was signed on 28th April 2009 and came into force on 15th January 2010. Under the agreement, China shall eliminate the tariff on 90% of goods originated from Peru which include aquatic products, minerals, fruits, etc. China also took the commitment to further open up its service sectors of the mining services, consultation services, translation services, sporting services, tourism services, etc.

The China-Costa Rica FTA

Costa Rica is China's second largest trading partner in Central America while China is the second largest trading partner of Costa Rica globally. In recent years, bilateral trade between the two countries has grown steadily. In June 2007, China and Costa Rica established diplomatic relations. In November 2008, the Chinese President HU Jintao visited Costa Rica and announced together with the Costa Rican President Oscar Arias the launch of China-Costa Rica free trade negotiations. The China-Costa Rica FTA was signed on 8th April 2010.

2.2 Swiss Economy and Foreign Economic Policy

2.2.1 Swiss Economy

Switzerland has a record of economic performance allowing for high living standards and contributing to successful public policy management in the social and environmental fields and in establishing an economic and political balance between regional entities. Switzerland's economic performance in past decades can be explained by the interaction of a number of factors, among which a longstanding, stable political and institutional environment and a long tradition of vocational, technical and academic human capital building. Diversity (e.g. in linguistic, cultural and religious terms) requiring a continued quest for balance, the federal structure vesting significant power with regional and municipal levels of government, and political decision making by direct democracy at all levels of government have brought about a culture of consensus building and stability of the political system.

The constraints of being a landlocked country without many natural resources have historically encouraged Switzerland to adopt an open policy towards the world economy, putting comparative advantages at use as much as possible, specializing in markets allowing for high value-added per person employed. The openness to international trade and investment is reflected by the fact that the Swiss share in world exports (1.25% for goods, 1.99% for services, 2008 figures) is well above its share in global production (0.8%)[15].

Switzerland is geographically located at the crossroads of Europe, sharing frontiers with four EU Member countries, including three of the largest EU countries (Germany, France and Italy). Switzerland's main trading partner is the EU (two thirds of exports, four fifths of imports); however, the country has a long tradition of universal, worldwide trade and investment relations. Switzerland has always promoted diversification of its exports regarding products and export markets. As a consequence, MFN-tariffs are low by international comparison and non-tariff barriers have been reduced.

Even if the vast majority of Swiss companies are SMEs, Switzerland is also home to a significant number of large multinational companies (chemicals, pharmaceuticals, food industry, financial services, insurance, commodity trade, etc.). As a consequence, Switzerland is an important country of origin of foreign direct investment: In 2008, the stock of Swiss direct investment abroad amounted to the equivalent of 149% of the GDP of Switzerland[16]. Among

[15] Share in world exports from WTO Statistics Database, October 2009; share in global production from the World Bank (Swiss GDP as share in World GDP).

[16] Data from SECO and Swiss National Bank.

the key factors explaining the attractiveness as a hub for multinational companies are Switzerland's political and macroeconomic stability, the multicultural tradition, the quality of infrastructure, a highly qualified labour force, high quality of life, an efficient public administration and a moderate tax burden. Development of human capital is supported by high attendance rates at the level of secondary and tertiary education and by a well performing system of professional training. The Swiss labour force is flexible, which has helped unemployment to remain structurally low. Labour participation rates are among the highest in the OECD.

Table 3 provides an overview of the different sectors of the Swiss economy (industrial and services sectors). Even though the Swiss economy has developed to a largely services based economy, many industrial sectors have remained important.

Table 3: Employees per sector, **sectors II and III** (at the end of first quarter 2008)

Sector	**in 1000 (number of employees in full time equivalents)**	**% of total employment**
Total	**3,289.8**	100
Sector II	**979.4**	29.8
Preparation of food and drinks	54.4	1.7
Textile, clothing, shoes and leather	16.4	0.5
Pharmaceutical and chemical	65.2	2.0
Machinery	98.8	3.0
Electronics	58.2	1.8
Instruments and devices (incl. watches)	90.1	2.7
Building and construction	287.5	8.7
Other industry	308.8	9.4
Sector III	**2,310.4**	70.2
Retail and wholesale services	507.3	15.4
Hotel and restaurant	185.0	5.6
Transport and telecommunication	218.9	6.7
Financial services (incl. insurance)	195.1	5.9
Business services	401.3	12.2
Public administration	148.9	4.5
Education	177.4	5.4
Health and social services	347.8	10.6
Other services	128.7	3.9

***Source**: Federal Statistical Office*

In the agricultural sector (sector I) a total of about 161,000 persons were employed (end of 2009, provisional).

Innovation surveys show that 68% of Swiss firms produce innovations, making Switzerland one of the OECD's most innovative economies.[17] Switzerland has a strong and varied industrial research base, consisting of large, research and development (R&D) -intensive multinational companies as well as of a large number of innovative small and medium-sized enterprises (SMEs) with strong positions in global niche markets. Industrial research benefits from an excellent university-based public research sector, including the world-renowned Swiss Federal Institutes of Technology in Zurich and Lausanne. The number of patents per capita, which is the highest in the OECD, is another indication of the country's innovative capacity.

The Swiss National Bank (SNB), the Swiss monetary authority, is independent in conducting monetary policy. The main objective is to ensure medium term price stability, meaning an annual price rise of less than 2%. In meeting this target, the SNB also has to take the business cycle into account. With rare exceptions, Swiss inflation has remained remarkably low and stable.

Despite the sound overall economic performance, the Swiss trend growth rates of GDP and of labour productivity have been rather low during the 1990s and in the early years of the first decade of the 21st century (1% p.a.), calling for structural reform. While factor markets are flexible, capital supply is abundant and recruiting qualified personnel abroad is possible, the functioning of product and services markets has not always been satisfactory. Insufficient intensity of competition led, e.g., to relatively high cost of public services. Strengthening competition in product markets to raise productivity is a major challenge of Swiss economic policy. Another policy concern is to improve the long run sustainability of public finances, which are challenged by a highly developed social security system and an ageing population.

In April 2008, the Swiss government has enacted a Growth Programme of 20 measures regarding product markets and public finances. Much of this regulatory reform programme is geared towards strengthening competition in internal markets and further opening of the Swiss economy to international competition, with a view to promote productivity of domestic production.

Foreign Trade

Switzerland's trade in goods with the world in 2009 amounted to USD[18] 345.74 billion. Swiss imports grew from USD 124.7 billion in 2003 to USD 163.9 billion in 2009 (+24.7%), Swiss exports from USD 131.4 billion (2003) to USD 181.8 billion (2009, +38.4%).

Geographical Structure (*Tables 4a and 4b*)

Switzerland's main merchandise import partner is the European Union (EU27), accounting for 78.0% of Switzerland's total worldwide imports (2009), followed by the United States (5.8%), China (3.1%), %) and Japan (2.1%).[19]

The largest destination of Swiss exports is also the EU27, which in 2009 accounted for 59.7% of Switzerland's total exports to the world. Other important exports destinations include the United States (10.0%), Japan (3.8%), China (2.9%) and Hong Kong, China (2.9%).

[17] Source: KOF Swiss Economic Institute, Swiss Federal Institute of Technology, Zurich.

[18] Currency conversions refer throughout the report to average IMF rates in 2009: 1 CHF = 0,97 USD

[19] Figures do not include trade in precious metals, works of art and antiques.

Table 4a: Major trading partners of Switzerland - Imports (in USD bn)

Overall trade in goods with the world in **2009**:	**Imports** from the world (in bn USD)		Main **import partners in 2009** % share of total imports from the world			
	2003	2009	EU27	US	CN	JP
USD 345.74 bn	124.7	163.9	78.0	5.8	3.1	2.1

Source: *Directorate General of Swiss Customs*

Table 4b: Major trading partners of Switzerland - Exports (in USD bn)

Overall trade in goods with the world in **2009**:	**Exports** to the world (in bn USD)		Main **export partners in 2009** % share of total exports to the world				
	2003	2009	EU27	US	JP	CN	HK
USD 345.74 bn	131.4	181.8	59.7	10.0	3.8	2.9	2.9

Source: *Directorate General of Swiss Customs*

Product Structure[20]

Switzerland's **main import categories** are (share of total import value, 2009):

- ◊ chemicals and pharmaceuticals (20.7%)
- ◊ machinery and electronic devices (17.3%)
- ◊ precision instruments, watches and jewellery (9.1%)
- ◊ vehicles (8.9%)
- ◊ agricultural and sylvicultural products, fish and fisheries products (7.9%)
- ◊ metals and products thereof (7.3%)
- ◊ energy sources (7.1%)

Switzerland's **main export categories** are (share of total export value, 2009):

- ◊ chemicals and pharmaceuticals (38.3%)
- ◊ machinery and electronic devices (18.0%)
- ◊ precision instruments, watches and jewellery (17.3%)
- ◊ metals and products thereof (5.6%)

[20] Source: Directorate General of Swiss Customs.

2.2.2 Swiss Foreign Economic Policy

In general terms, the objective of Swiss foreign economic policy is to improve prosperity by allowing to make best possible use of comparative advantages and specialization through enhancing framework conditions for international economic exchange, with a view to promote international trade in goods and services and international investment.

Swiss foreign economic policy pursues the following three lines of action:

1. To contribute to the further development of a rules-based international framework providing favorable access conditions for Swiss suppliers to foreign markets, and protection of investments abroad.

2. To strengthen domestic framework conditions in Switzerland including import competition with a view to improve capacity of Swiss companies to participate successfully in global competition.

3. To support economic development of developing and emerging economies by contributing to capacity building for their successful participation in global markets and benefit from international division of labour.

Regarding market access abroad, Swiss foreign economic policy rests on three main pillars, i.e. membership in the World Trade Organization (WTO), a network of bilateral agreements with the EU, and the conclusion of free trade agreements (FTAs) and other agreements (such as investment protection agreements, IPAs) with partners outside the EU.

As a medium-sized economy, Switzerland has a vital interest in a reliable, universal set of international rules governing cross-border economic activities. The best means to achieve this objective is to further develop the multilateral system of the WTO, bringing together the vast majority of countries in the world and creating a coherent system of rules for international trade as well as providing a platform through which international trade can progressively be liberalized on a universal level. Therefore, Switzerland was heavily involved in shaping the agreements resulting from the Uruguay Round of multilateral trade negotiations and in establishing the WTO in 1995. Switzerland also supports a swift conclusion of the WTO Doha Round of trade negotiations.

Located in the centre of Europe, Switzerland has close economic and cultural ties with its European neighbours. Having chosen not to become a member of the EU or the European Economic Area (EEA), Switzerland's policy towards the EU is based on a network of bilateral Switzerland-EU-agreements. The Swiss-EU Free Trade Agreement of 1972 abolished customs duties and quantitative restrictions on trade in industrial products between the contracting parties. Since 1982, there is also a bilateral Switzerland-EU agreement on direct non life insurance. In 1999, a first set of additional bilateral agreements was concluded between Switzerland and the EU covering areas such as technical barriers to trade, public procurement, selected agricultural products, air and land transportation, and the association of Switzerland to the EU/EEA-regime on movement of natural persons. In addition, an agreement on research cooperation provides for the participation of Switzerland in EU research programmes. A second set of bilateral agreements between Switzerland and the EU was concluded in 2004, including agreements on the taxation of savings, on processed agricultural products, on audiovisual media, and on fighting fraud. Additional fields covered are cooperation in visa, border control and migration matters (association of Switzerland to the EU/EEA-Schengen/Dublin regimes), statistics, the environment and education.

Another element of Swiss integration policy into Europe is the membership in the European Free Trade Association (EFTA). Switzerland is a founding member of the EFTA of 1960. Since a major revision in 2001, the EFTA Convention provides for a similar level of economic

integration between Switzerland and the other EFTA States (Liechtenstein, Iceland, Norway) as established by the framework of bilateral agreements between Switzerland and the EU.

Pursuant to the Customs Union Treaty of 29 March 1923 concluded between Switzerland and Liechtenstein, the territory of Liechtenstein forms part of the customs territory of Switzerland. Accordingly, all provisions relating to trade in goods of the trade agreements concluded by Switzerland, including provisions on rules of origin, also apply to the territory of Liechtenstein. Trade statistics of Switzerland always refer to the customs territory of Switzerland, including the territory of Liechtenstein, and products obtained or sufficiently worked in the territory of Liechtenstein are originating in Switzerland under the trade agreements concluded by Switzerland.

Finally, preferential agreements, in particular FTAs, have gained importance in recent years for the advancement of trade and investment liberalization and for improving framework conditions for international economic exchange (Chapter 2.2.3).

2.2.3 Swiss FTA strategy

Besides membership in the WTO and the network of bilateral agreements with the EU, in its foreign economic policy, Switzerland negotiates FTAs with important partners around the world. FTAs serve as an important tool to strengthen, on a preferential basis, economic ties with important trading partners and to avoid and prevent discriminations of Swiss operators on foreign markets. In return, Switzerland offers its FTA partners similar access to the Swiss market as enjoyed by the other preferential partners of Switzerland. In the last 20 years, Switzerland has established a network of more than twenty free trade agreements, concluded either jointly with its EFTA-Partners - Norway, Iceland and Liechtenstein - or on a bilateral basis. Switzerland intends to dynamically continue this policy[21].

The conclusion of FTAs is important for ensuring market access for Swiss exporters to geographically diversified markets worldwide and to maintain and improve the competitiveness and attractiveness of Switzerland as a business location. Concluding preferential agreements with other trading partners is the only available means to avoid or eliminate discriminations resulting from similar agreements concluded by these partners with Switzerland's main competitors.

The main criteria governing the selection of potential FTA partners include the actual or potential economic importance of the partner; existing or potential discriminations Swiss economic operators face as a result of other preferential agreements concluded or planned to be concluded by the partner; the prospects for successful negotiations and conclusion of an FTA; and the coherence with the overall goals of Switzerland's foreign policy.

Of the currently 22 Swiss FTAs concluded together with its EFTA partners, 13 are with European and Mediterranean partners (Albania, Croatia, Egypt, Israel, Jordan, Lebanon, Macedonia, Morocco, Palestinian Authority, Serbia, Tunisia, Turkey and Ukraine) and nine with partners in other parts of the world (Canada, Chile, Colombia, Cooperation Council of the Arab States of the Gulf[22], Republic of Korea, Mexico, Peru, Singapore, Southern African Customs Union[23]).

FTAs negotiated and concluded by Switzerland on a bilateral basis (i.e. not involving the other EFTA States) include the Swiss-EU FTA of 1972, the FTA with the Faeroe Islands of 1995

[21] See list of Swiss FTAs existing and in preparation in Appendix 5.

[22] Gulf Cooperation Council GCC: Saudi Arabia, Bahrain, United Arab Emirates, Kuwait, Oman and Qatar.

[23] SACU: Botswana, Lesotho, Namibia, South Africa and Swaziland.

and the Switzerland-Japan Free Trade and Economic Partnership Agreement of 2009. The present feasibility study conducted jointly with China could lead to yet another bilateral FTA of Switzerland.

Switzerland is currently negotiating, together with the other EFTA States, FTAs with Algeria, Hong Kong China, India and Thailand. Preparatory work is underway for EFTA FTA negotiations with Indonesia and Russia, and the feasibility of an EFTA FTA with Vietnam is currently examined by way of a Joint Feasibility Study. Relevant contacts and Joint Declarations exist with a number of other partners world-wide.

The first FTAs concluded by Switzerland with partners in Europe and the Mediterranean region covered trade in goods (removal of customs duties and other restrictions to trade in industrial products, and removal or reduction of customs duties on a number of agricultural products), intellectual property rights (IPR), and competition. More recent agreements have a comprehensive coverage, including - in addition to trade in goods, IPR and competition - substantive provisions regarding trade in services, investment, and public procurement.

Free trade agreements have a positive impact on trade and investment relations between Switzerland and its FTA partners. Statistical data for the period from 1988 to 2008 show that Switzerland's worldwide international trade (total of exports plus imports) grew by an average of 5.7% per annum, while Switzerland's trade with its FTA partners grew by an average of more than 10% per annum (measured in the first four years after the entry into force of the respective FTA). Similarly, data for the period from 1988 to 2007 show that worldwide Swiss foreign direct investment increased on average by 12.6% per annum, while the average annual growth rate of Swiss foreign direct investment in FTA partner countries was 18% in the first four years after the entry into force of the respective FTA.

3 Bilateral Trade and Economic Relations between China and Switzerland

3.1 Overview of bilateral trade and economic relations

Switzerland was one of the first western European states which officially recognized the People's Republic of China and established formal diplomatic relations. The exact dates were on 17th January 1950 and on 14th September 1950 respectively. During the first two decades of diplomatic relations, economic and political ties between the two countries remained rather modest. Subsequently, dynamic economic relations allowed the two countries to conclude a bilateral trade agreement in December, 1974, by which a Joint Commission was established. The task of this commission was to examine ways of further expanding economic relations and cooperation and to make proposals to the two governments. Since then, the Chinese-Swiss Joint Commission has laid the groundwork for numerous high-level economic talks and exchange of visits of trade delegations.

From 1978, China's opening-up policy led to further intensification of bilateral relations between Switzerland and China in many areas, in particular in trade. In 1980, the Schindler Company started the first joint venture with a Chinese company. Ever since the late 1990s, the relationship between the two counties has been further developed. Especially in recent years, through frequent high-level exchange of visits and the expansion of the bilateral economic and trade ties, cooperation in various fields became increasingly closer. A number of bilateral agreements were concluded for the purpose of cooperation in the areas of culture, education, tourism, investment, taxation, etc.

The rapid development of bilateral trade and economic ties marks good communication and cooperation between China and Switzerland. According to China's Customs statistics, the bi-

lateral trade reached USD 9.56 billion in 2009, among which China's imports from Switzerland were USD 6.9 billion, while China's exports to Switzerland were USD 2.66 billion. China had a deficit in trade with Switzerland.

Swiss statistics show that China was the third largest trading partner of Switzerland with a bilateral trade volume worth USD 9.83 billion in 2009. The imports of Switzerland from China amounted to USD 4.73 billion accounting for 3.04% of Swiss total imports. The exports of Switzerland to China recorded USD 5.1 billion accounting for 2.95% of Swiss total exports. According to China's statistics, Switzerland had become one of major investors in China, ranking 22nd among all foreign direct investors in China in 2008.

On 30th November 2009, Chen Deming, Minister of Commerce of China and Doris Leuthard, Minister of Economic Affairs of Switzerland, decided in Geneva to launch a joint study to examine the feasibility of a FTA between China and Switzerland as a way to further promote the economic relationship between the two countries. The Joint Feasibility Study will examine the topics covered by free trade agreements such as trade in goods, trade in services and other possible areas of cooperation.

3.2 Two-way trade in goods

China's foreign trade with the world had steadily increased between 2002 and 2008, but decreased sharply in 2009. In 2002, China's total foreign trade was worth USD 620.8 billion. In 2009, China's total foreign trade reached USD 2.21 trillion (-13.9% compared to 2008). China's exports reached USD 1.20 trillion (-16.0% compared to 2008), while imports amounted to USD 1.01 trillion (-11.2% compared to 2008). China's main exports were machinery products and equipment, textile and apparel as well as metals and metal products. The main importers of Chinese products were the EU, the USA, Hong Kong China, Japan and the Republic of Korea. China's main imports were machinery products, mineral fuel, oils and ores. China's main sources of imports were Japan, the EU, the Republic of Korea, Chinese Taipei and the USA.

Swiss foreign trade with the world also had steadily increased between 2003 and 2009. In 2003, Swiss total foreign trade was worth USD 267.86 billion. In 2009, Swiss total foreign trade reached USD 345.74 billion (-13.8% compared to 2008). Swiss goods exports amounted to USD 181.82 billion (-13.2% compared to 2008), while imports reached USD 163.93 billion (-14.4% compared to 2008). The balance of trade surplus amounted to USD 17.89 billion (-0.11% compared to 2008). Swiss main exports were pharmaceutical products, machinery and watches. The main importers of Swiss products were the EU, the USA, Japan, China and Hong Kong China. Swiss main imports were machinery products, mineral fuel, oils and pharmaceutical products. Swiss main sources of imports were the EU, the USA, China and Japan.

According to China's Customs, the value of trade between the two countries increased from USD 2.67 billion in 2002 to USD 9.56 billion in 2009, representing an annual increase of 20%. In 2009, China exported products of USD 2.66 billion (-32% compared to 2008) to Switzerland, accounting for 0.22% of China's total exports. China imported USD 6.90 billion (-6.1% compared to 2008) from Switzerland, accounting for 0.69% of China's total imports. China had a trade deficit of USD 4.24 billion (+23% compared to 2008) with Switzerland in 2009, expanding significantly compared to that of 2002 which was USD 1.4 billion (*Table 5*). China's main imports from Switzerland were machinery, watches, electrical machinery, jewellery, instruments and pharmaceutical products. China's main exports to Switzerland were apparel, electrical machinery, ships and boats, jewellery and machinery.

Table 5: Bilateral trade between China and Switzerland (USD billion)

Year	2002	2003	2004	2005	2006	2007	2008	2009
CN Exports	0.64	0.84	1.51	1.95	2.51	3.60	3.90	2.66
CN Imports	2.04	2.68	3.61	3.88	4.25	5.85	7.35	6.9
Trade Volume	2.67	3.52	5.12	5.83	6.76	9.45	11.25	9.56
Trade Balance	-1.40	-1.84	-2.11	-1.94	-1.75	-2.25	-3.45	-4.24

Source: *General Administration of Customs P.R.C.*

According to Swiss Customs, bilateral trade in goods between Switzerland and China amounted to USD 10.34 billion in 2009, resulting in a slight trade surplus of USD 329.9 million in favour of Switzerland (*Table 6*).[24] In 2009, Switzerland exported goods worth USD 5.34 billon to China, an increase of 121 % in comparison with 2003 and a decrease of 10% in comparison with 2008. The decline in 2009 of exported Swiss goods to China is mainly caused by the financial and economic crisis.

Table 6: Bilateral Trade between Switzerland and China (2003-2009)

Year	CH Exports (USD Mio.)	Year-on-year variation (%)	CH Imports (USD Mio.)	Year-on-year variation (%)	Trade volume (USD Mio.)	Year-on-year variation (%)	Trade Balance (USD Mio.)
2003	2,410.6		2,350.3		4,760.9		60.3
2004	3,013.8	25.02	2,755.7	17.25	5,769.5	21.19	258.1
2005	3,362.8	11.58	3,277.0	18.94	6,639.8	15.08	85.8
2006	3,982.3	15.38	3,813.5	18.92	7,795.8	17.41	168.8
2007	5,256.9	18.42	4,638.8	21.64	9,895.7	26.94	618.1
2008	5,928.1	12.77	4,845.9	4.46	10,774.0	8.88	1,082.2
2009	5,336.0	-10.00	5,006.1	3.31	10,342.1	-4.01	329.9

Source: *Swiss Federal Customs Administration*.

The largest share, 38.7%, of all goods exported from Switzerland to China was machinery (USD 2.1 billion, a decrease of 10.7% in comparison with 2008). Other major Swiss exports were chemicals and pharmaceutical products (USD 1.25 billion, +12.6% in comparison with 2008), followed by watches and parts thereof (USD 679 million, -15.2% in comparison with 2008).

In 2009, Swiss imports from China consisted mainly of machinery, textiles, chemical products, watches and parts thereof as well as metals and metallic products, toys and games, sports equipment, furniture, etc. Since 2003, total imports of Switzerland from China increased by 113%.

[24] Bilateral trade statistics reported by exporting and importing countries often differ. Among the usual causes for such discrepancies are transportation cost, timing, difference in classification and different treatment of trade transiting though third countries.

3.3 Two-way trade in services

According to WTO statistics, China is a net importer of services. In contrast, Switzerland has trade surplus in commercial services in recent years (*Table 7*).

Table 7: Trade in services of China and Switzerland (USD billion)

	Year	2006		2007		2008	
	Service sectors	**export**	**import**	**export**	**import**	**export**	**import**
China	Commercial services (Services excl. government services)	91.42	100.33	121.65	129.25	146.45	158.00
	Transportation	21.02	34.37	31.32	43.27	38.42	50.33
	Travel	33.95	24.32	37.23	29.79	40.84	36.16
	Other commercial services (Commercial services - Travel and Transport)	36.46	41.64	53.10	56.20	67.19	71.52
Switzerland	Commercial services (Services excl. government services)	53.46	26.59	64.26	31.57	76.35	36.28
	Transportation	4.53	6.10	5.58	7.09	6.49	8.33
	Travel	10.81	9.25	12.18	10.12	14.46	10.97
	Other commercial services (Commercial services - Travel and Transport)	38.13	11.24	46.50	14.37	55.39	16.98

***Source**: WTO, IDB*

For Switzerland, the services sector accounted for 71.0%[25] of its GDP in 2008. However, Switzerland has not yet developed statistics on trade in services showing trade flows with different trading partners.

Aggregate figures on trade in services only are available in the *international balance of payments* released by Swiss National Bank. According to the balance of payments of the Swiss National Bank, the most important sectors for trade in services of Switzerland are financial, transport and tourism services.

According to China's statistics, bilateral trade in services between China and Switzerland increased steadily during the last two years with trade volumes of USD 1.99 billion in 2007 and

[25] Source: Federal Statistical Office; http://www.bfs.admin.ch/bfs/portal/de/index/themen/04/02/02/key/wirtsekt.html; provisional as of 23 June 2010.

USD 3.74 billion in 2008. China's exports to Switzerland in trade in services increased significantly from USD 0.93 billion in 2007 to USD 2.53 billion in 2008, an increase of 172.04%. Meanwhile, China's imports from Switzerland increased 15.09% from USD 1.06 billion in 2007 to USD 1.22 billion in 2008 (*Table 8*).

Table 8: Bilateral Trade in Services Statistics between China and Switzerland (USD 100 million)[26]

	Trade Volume		**Export**		**Import**		**Trade Balance**	
	2007	2008	2007	2008	2007	2008	2007	2008
Transportation	6.9	15.6	4.3	12.6	2.6	3	1.7	9.6
Insurance Service	2.3	2.2	0.3	0.4	2	1.8	-1.7	-1.4
Travel	1.2	1.4	0.7	0.7	0.5	0.7	0.2	0
Financial Service	0	0	0	0	0	0	0	0
Communication Service	0.2	0.8	0.1	0.7	0.1	0.1	0	0.6
Construction Service	0.2	0.2	0.1	0.1	0.1	0.1	0	0
Computer and Information Service	0.4	2.8	0.2	2.5	0.2	0.3	0	2.2
Fee for Patent or Royalty	2.2	2.9	0	0.3	2.2	2.6	-2.2	-2.3
Consultation	2.6	4.5	1.6	2.9	1	1.6	0.6	1.3
Advertisement and Publicity	0.6	0.2	0.4	0.1	0.2	0.1	0.2	0
Movies and Audio-video Products	0.7	0.8	0.6	0.8	0.1	0	0.5	0.8
Other Commercial Service	2.7	6.2	0.9	4.1	1.8	2.1	-0.9	2
Total	**20**	**37.6**	**9.2**	**25.2**	**10.8**	**12.4**	**-1.6**	**12.8**

Source: *State Administration of Foreign Exchange P.R.C.*

3.4 Two-way investment

In May 2007, a Memorandum of Understanding (MoU) was signed between Switzerland and China to establish a working group in the context of the existing Switzerland-China Joint Economic and Trade Commission to promote investments.

According to China's statistics, Switzerland has become a major foreign investor in China. Swiss foreign direct investment (FDI) in China reached USD 301.7 million ranking 6th among all European China amounted to USD 1.84 billion starting from 2002 till 2009 (*Table 9*).

Table 9: Swiss FDI-flows to China from 2002 to 2008 (USD million)

Year	2002	2003	2004	2005	2006	2007	2008	2009	**Total**
Swiss FDI to China	199.8	181.3	203.1	205.9	210.3	299.3	242.6	301.7	**1844.1**

Source: *China statistical Yearbook*

Also according to Swiss statistics, Switzerland is a major foreign direct investor in China. In 2008, the flow of direct investment from Switzerland to China grew dramatically with a total amount of USD 1.38 billion. By the end of 2008, accumulated Swiss direct investments in

[26] Governmental services are excluded.

China amounted to USD 6.57 billion (*Table 10*). With this figure, China ranked 4th among foreign direct investment destinations of Swiss investments.

Table 10: Swiss foreign direct investment (FDI) in China 2004-2008 (USD billion)

Year	export-flow	stock
2004	0.19	2.64
2005	0.80	3.43
2006	0.89	3.79
2007	0.75	4.66
2008	1.38	6.57

Source: *Swiss National Bank. Figures of Chinese investments in Switzerland are not available*

China's modern consumption pattern of certain groups is generating more demand for quality products and high-value consumer goods. In order to gain direct access to the growing Chinese market, more and more Swiss companies seek to invest in China to manufacture quality products.

Currently, about 300 Swiss firms have at least one presence in China with over 700 establishments, employing about 120,000 staff members in China. Besides those major Swiss companies, Small and medium-sized enterprises (SMEs) are also increasingly showing more interest in entering the Chinese market. A new trend is that more and more Swiss companies establish research and development centres in China and employ Chinese researchers and cooperate with Chinese universities.

There is no detailed statistics available for China's FDI in Switzerland. Since more and more Chinese investors look forward to investing abroad, foreign direct investments from China are increasingly growing. Although China's investments in Switzerland remain relatively modest, Switzerland will be a major FDI target country for China's large companies and SMEs in the services and industrial sectors due to the complementarities of the two economies.

3.5 Bilateral economic cooperation

3.5.1 Economic cooperation and development

In December 1974, the Chinese government and the Swiss government signed a *Treaty on Commerce and Trade* and established a Joint Economic Commission in line with that Treaty. The Commission has met regularly every two or three years, the venue alternating between China and Switzerland. At the 17th meeting of the Commission, which took place in Beijing May 2007, the two sides decided that the Commission would meet annually.

Financial cooperation between China and Switzerland has been continuously deepened and developed. By the end of 2008, five Swiss banks (Credit Suisse First Boston Bank, Credit Suisse Bank, UBS, Bank of Zurich, the Swiss subsidiary of European financial banking group in Switzerland Co., Ltd.) and three insurance companies (Winterthur Insurance Company, Zurich Insurance Company and Swiss Re-insurance Company) had set up seven representative offices and five branches in China.

In the late 1990s, bilateral cooperation was extended to promotion measures focusing on the private sector (mainly targeting SMEs) and on trade. With respect to bilateral cooperation for SMEs, the SECO and the China Development Bank (CDB) established the Sino-Swiss Partnership Fund (SSPF) as a foreign investment fund in January 1998. The SSPF aims at assisting SMEs from Switzerland and other OECD countries to invest in China. For a long

time, China had been a priority partner of cooperation for Switzerland. Since 2005, bilateral economic cooperation has covered increasingly more areas, such as IPR and investment promotion, with more frequent participation of business networks, like Swiss Chinese Chamber of Commerce.

3.5.2 Technology cooperation

Switzerland is one of the most important sources of China's contract-based technology imports. According to Chinese statistics, China has signed between 1979 and 2008 1705 contracts of technology-introduction with Switzerland amounting to USD 4.13 billion.[27] Over the past 20 years, the scientific and technological cooperation between China and Switzerland developed very fast and the fields of cooperation were also expanded. Different kinds of cooperation agreements were signed between the two governments, research institutions and universities.

3.5.3 Tourism cooperation

In July 2004, National Tourism Administration of China and State Secretariat for Economic Affairs of Switzerland signed the *Memorandum of Understanding on visa and related issues (ADS)*. As a country with ADS status, Switzerland is permitted to host Chinese tourists visiting Switzerland in groups. China is permitted to host Swiss tourists visiting China individually or in groups.

3.5.4 Cooperation in the field of environment

Many Swiss companies play leading roles in developing environmental and energy technologies, i.e. water treatment, air pollution control, measuring equipment and controlling systems, waste treatment and recycling, power generation, distribution and rehabilitation, etc.

In February 2009, under the framework of the Joint Economic Commission, the two governments signed *a MoU on Environmental Cooperation* and established *a* joint study group on environmental cooperation. The purpose of this MoU is to build a dialogue mechanism to facilitate exchange of information between the Swiss and the Chinese governments, Swiss and Chinese companies and their counterparts in the fields of energy conservation, environment protection and sustainable development. The first two meetings of the joint study group on environmental cooperation were held in Berne, Switzerland, in May 2009 and in Xiamen, China, in September 2009 respectively.

3.6 Existing legal and institutional framework of bilateral trade and economic cooperation

3.6.1 Legal and institutional framework of economic cooperation

The economic cooperation between China and Switzerland has developed very steadily since the 1970s. In 1973, the *Agreement on Civil Aviation* was signed between two governments. In December 1974, two governments signed a *Treaty on Commerce and Trade*. In July 1990, the *Agreement on the Avoidance of Double Taxation* was signed between the two governments. In October 1996, the two governments signed the *Memorandum of Understanding on the Establishment of Finance Fund for Sino-Swiss Joint Venture Project*. In May 2003, China Securities Regulatory Commission and the Swiss Federal Banking Commission signed *MoU Regarding Securities and Futures Regulatory Cooperation*. On 8th July 2007, China and Switzerland signed a Joint Declaration on Economic Cooperation (Chapter 1) with a view to further enhance cooperation both in the areas of trade and investment. By the same Joint Declaration, Switzerland recognized China as a full market economy country.

[27] Source: http://www.fmprc.gov.cn/chn/pds/gjhdq/gj/oz/1206_37/sbgx/

3.6.2 Legal and institutional framework of investment

The two governments signed the *Agreement on the Promotion and Reciprocal Protection of Investments* in November 1986. In January 2009, the two governments signed the revised *Agreement on the Promotion and Reciprocal Protection of Investments,* in order to better meet the growing need of economic and trade cooperation between the two countries. This revised Agreement entered into force on the 13th April 2010.

3.6.3 Legal and institutional framework of intellectual property

On the basis of the *Memorandum of Understanding on Protection of Intellectual Property*, signed at the 17th meeting of the Sino-Swiss Joint Economic Commission in 2007, Switzerland and China have initiated a bilateral dialogue to discuss general issues and specific cases related to intellectual property protection.

3.6.4 Legal and institutional framework of tourism

The *Memorandum of Understanding on Sino-Swiss Tourism* entered into force on 15th January 1998. In June 2004, the China National Tourism Bureau and the Federal Ministry of Economic Affairs signed the *Memorandum of Understanding on visa and related issues (ADS)*. It came into effect on 1st September 2004. The Approved Destination Status scheme aims at further developing the bilateral tourism cooperation between China and Switzerland.

3.6.5 Other legal and institutional frameworks

Since 1980s, cooperation between China and Switzerland developed very fast, especially in the fields of science and technology. In 1986, China Nuclear Energy Association and the Swiss Nuclear Association signed the *Scientific Cooperation Agreement on Peaceful Uses of Nuclear Energy*. In October 1988, the Ministry of Railways of China and the Swiss Federal Railways signed the *Agreement on the Technical and Economic Cooperation in the Railway Sector*. In February 1989, the *Agreement on Scientific and Technological Cooperation* was signed in Berne, which formally established the inter-governmental scientific and technological cooperation between the two counties. In April 1995, the Swiss National Science Foundation and the National Science and Technology Commission of China signed the *Memorandum of Cooperation in Science and Technology* in Beijing, which put bio-technology, environmental technology, information technology, basic medicine and medical research, technology assessment, etc. into priority areas of cooperation. In March 1999, the Chinese and the Swiss Governments signed the *Memorandum of Understanding on Higher Education*. In November 2003, the Federal Department of Home Affairs and the Ministry of Science and technology of China signed the *Memorandum of Understanding for the Strengthening of the Scientific and Technological Cooperation*. In April 2007, the Chinese and Swiss governments signed the *Joint Statement on Cooperation in the area of Science and Education*. The Chinese and Swiss governments in September 2007 signed the *Memorandum of Understanding on Promoting Dialogue and Cooperation*. In April 2009, the two countries signed the *Cooperation Agreement on Sustainable Use of Water Resources and Natural Disaster Prevention.*

4 Trade in Goods

4.1 Overview of trade policies applying to trade in goods

4.1.1 Tariffs

China

According to China's WTO accession commitment, all tariffs in China are consolidated in the WTO. The simple average final bound rate of China is about 10.0%, with agricultural products 15.8% and non-agricultural products 9.1%. In 2008, the simple average MFN applied rate of China was 9.8%, with agricultural products 15.2% and non-agricultural products 8.9%. There remain tariff quotas on some products.

Table 11: Tariffs Summary of China

Summary		Total	Ag	Non-Ag	WTO member since 2001		
Simple average final bound		10.0	15.8	9.1	Binding coverage:	Total	100
Simple average MFN applied	2008	9.8	15.2	8.9		Non-Ag	100
					Ag: Tariff quotas (in %)		5.0
					Ag: Special safeguards (in %)		0

Source: *WTO, IDB*

In the field of agricultural products, the highest tariff rates (MFN applied) are levied on sugar and confectionery (27.4%), cereals and preparations (23.9%), beverages and tobacco (22.9%) and cotton (22.0%). The lowest tariff duties (MFN applied) in this sector are levied on other agricultural products (11.5%), dairy products (12.0%), oil seeds, fats and oils (10.6%), coffee, tea (14.7%), animal products (14.7%) and fruit, vegetables, plants (14.8%).

With respect to industrial products, the highest MFN applied tariffs are levied on clothing (16.0%), leather products (13.4%), manufactures, n.e.s. (11.9%) and transport equipment (11.5%). The lowest tariffs on industrial products are on wood and paper (4.4%) and petroleum (4.5%).

For product groups of cereals and preparations, sugar and confectionery, beverages and tobacco, mineral and metal, chemicals and transport equipment, the tariff peak is 40 to 65%. For the other product groups, tariff peaks lie between 9 and 40% (*Table 12*).

Table 12: Tariffs of China by product groups

	MFN applied duties		
Product groups	**AVG** (%)	**Duty-free in 100%**	**Max** (%)
Animal products	14.7	10.1	25
Dairy products	12.0	0	20
Fruit, vegetables, plants	14.8	5.9	30
Coffee, tea	14.7	0	32

Cereals & preparations	23.9	3.4	65
Oilseeds, fats & oils	10.6	5.4	30
Sugars and confectionery	27.4	0	50
Beverages & tobacco	22.9	2.2	65
Cotton	22.0	0	40
Other agricultural products	11.5	9.4	38
Fish & fish products	10.7	6.2	23
Minerals & metals	7.5	8.4	50
Petroleum	4.5	20.0	9
Chemicals	6.6	1.7	47
Wood, paper, etc.	4.4	35.3	20
Textiles	9.6	0	38
Clothing	16.0	0	25
Leather, footwear, etc.	13.4	0.6	25
Non-electrical machinery	7.8	9.0	35
Electrical machinery	8.0	24.0	35
Transport equipment	11.5	0.8	45
Manufactures, n.e.s.	11.9	9.8	35

***Source**: WTO, IDB*

China applies tariff rate quotas on six kinds of agricultural products and two non-agricultural product including wheat, maize, rice (whether or not husked), sugar, wool, wool tops, cotton and chemical fertilizer (*Table 13*)

Table 13: **In-Quota Interim Duty Rate on imported Goods**

Description of Goods	**Number of HS-8 digit Tariff lines**	**M.F.N. (%)**	**In-Quota Duty Rate** (%)
Wheat	6	65	1~10
Maize (Corn)	5	20~65	1~10
Rice, whether or not husked	14	10~65	1~9
Sugar	6	50	15
Wool	6	38	1
Wool Tops	3	38	3
Cotton	2	40	1
Chemical Fertil-izer	3	50	4

With a view to developing free trade relations, flexible arrangements may consist of standstill, staging and transitional period for reduction and elimination of tariffs.

Switzerland

The Swiss Customs Tariff is based on the Harmonised System of 2007 (HS 2007). The 2009 version of the Swiss Customs Tariff contains 8,392 eight-digit tariff lines. 2,215 of these lines are agricultural products within Chapters 1 to 24, minus fish and fisheries products. The Swiss Customs Tariff consists exclusively of specific duties and does not contain ad-valorem duties.

The duty rates of 99% of the tariff lines are WTO bound rates. The exceptions concern fuels, in particular those of Chapter 27. The applied duty for these products is zero. They are subject to an internal consumption tax.

For specific agricultural products, tariff lines are divided between *in quota tariff lin*es and *out of quota tariff lines*. The corresponding duty rates are bound in the WTO Market Access schedules. The following table (*Table 14*) gives an overview of the existing WTO bound quotas[28].

Table 14: Overview of the existing WTO bound quotas

Description of Goods	Units	Number of 8 digit Tariff lines inside the TRQ	Min. out-of quota rate (CHF)	Max. out-of quota rate (CHF)	Min. in-quota duty rate (CHF)	Max. in-quota duty rate (CHF)
1) Live horses, asses, mules and hinnies	per unit	4	1281	3834	3	120
2) Live bovine animals	per unit	2	1275	2594	60	60
3) Live swine	per unit	3	1309	1309	10	63
4) Live sheep and goats	per unit	2	59.5	122	25	43
5) Animals for slaughter; meat mainly produced on the basis of coarse fodder	per 100 kg brutto	40	68	2212	20	375
	per unit	4	59.5	1309	25	95
6) Animals for slaughter; meat mainly produced on the basis of concentrated	per 100 kg brutto	46	55	3140	43	225
	per unit	2	1309	1309	40	63

[28] Latest notification (G/AG/N/CHE/13/Add.11) with indication of the tariff lines included in each TRQ and the corresponding minimum market access quantities.

Description of Goods	Units	Number of 8 digit Tariff lines inside the TRQ	Min. out-of quota rate (CHF)	Max. out-of quota rate (CHF)	Min. in-quota duty rate (CHF)	Max. in-quota duty rate (CHF)
fodder						
7) Dairy products, in milk equivalent	per 100 kg brutto	56	21	1642	18	1408
8) Casein	per 100 kg brutto	3	909	909	4	4
9) Birds' eggs, in shell	per 100 kg brutto	1	371	371	50	50
10) Dried egg products	per 100 kg brutto	3	500	1596	255	255
11) Egg products other than dried	per 100 kg brutto	3	134	420	79	79
12) Bovine semen	per usual unit	1	5	5	0.1	0.1
13) Cut flowers	per 100 kg brutto	6	1452	4225	13	25
14) Seed potatoes, potatoes for processing, table potatoes, potato products (in potato equivalent)	per 100 kg brutto	20	44	445	2	70
15) Fresh vegetables	per 100 kg brutto	165	0	1756	0	13.6
16) Frozen vegetables	per 100 kg brutto	5	170	170	55	55
17) Fresh apples, pears	per 100 kg	8	4	153	4	7

Description of Goods	Units	Number of 8 digit Tariff lines inside the TRQ	Min. out-of quota rate (CHF)	Max. out-of quota rate (CHF)	Min. in-quota duty rate (CHF)	Max. in-quota duty rate (CHF)
and quinces	brutto					
18) Fresh apricots, cherries, plums and sloes	per 100 kg brutto	12	5	255	5	12
19) Other fresh fruit	per 100 kg brutto	10	3	510	3	7
20) Fruit for cider	per 100 kg brutto	2	17	21	4	4
21) Seed fruit products (in seed fruit equivalent)	per 100 kg brutto	16	82	260	9	100
22) Grapes for pressing and grape juice	per 100 kg brutto	6	272	782	34	100
	per liter	0	3.47	4.3		
23, 24, 25) White wine and red wine	per 100 kg brutto	7			34	50
	per liter	0	2.42	5.1		
26) Durum wheat, undenatured	per 100 kg brutto	1	74	74	14	14
27) Bread grains, other cereals and cereal products suitable for use for human consumption	per 100 kg brutto	7	0	81	35	35
28) Coarse grains for hu-	per 100 kg	3	45.9	51	21	34

Description of Goods	Units	Number of 8 digit Tariff lines inside the TRQ	Min. out-of quota rate (CHF)	Max. out-of quota rate (CHF)	Min. in-quota duty rate (CHF)	Max. in-quota duty rate (CHF)
man consumption	brutto					

Source: *Directorate General of Swiss Customs*

Switzerland applies preferential tariffs to its FTA partners (Chapter 2.2.3) and forms a customs union with Liechtenstein (Chapter 2.2.2).

Switzerland's Generalized System of Preferences (GSP) provides, on an autonomous basis, for preferential duties on imports from developing countries as well as duty-free and quota-free market access for all products originating in least-developed countries (LDC). Non-LDC developing countries are granted, subject to graduation for specific products from specific countries, preferential tariffs on most originating industrial products. Since 30th July 1979, China is a beneficiary country under the Swiss GSP-scheme with the exception of goods of HS chapters 50 to 64 and lamp shades of HS sub-heading 9405.99. In 2009, the tariff incidence on imports from China was as follows (*Table 15*):

Table 15: Tariff incidence on Swiss imports from China

Tariff type	Value on importation (Mill. USD)	Customs revenue (Mill. USD)	Incidence (%)	Share of customs revenue (%)
Agricultural products	**99.6**	**4.6**	**4.7**	**4.9**
MFN	22.1	4.2	18.8	4.4
GSP	7.4	0.4	6.4	0.5
MFN duty-free	53.5			
GSP duty-free	4.4			
Industrial products	**4,906.6**	**90.6**	**1.8**	**95.1**
MFN	1391.6	90.0	6.5	94.5
GSP	10.2	0.6	6.2	0.6
MFN duty-free	1,455.2			
GSP duty-free	1,905.4			
Total	**5,006.1**	**95.2**	**1.9**	**100.0**
MFN	1,413.7	94.1	6.7	98.8
GSP	17.6	1.1	6.3	1.2

MFN duty-free	1,508.6			
GSP duty-free	1,909.7			

Source: *Directorate General of Swiss Customs*

In 2009, 38.5% (in terms of value) of Swiss imports from China were subject to GSP duty rates (agriculture 11.8%, industry 39.0%). 30.1% of imports were admitted MFN duty-free (agriculture 53.7%, industry 29.7%). 28.2% of imports were subject to MFN tariff rates (agriculture 22.2%, industry 28.4%). Overall tariff incidence on agricultural imports was 4.7%, and 1.8% on industrial imports. The highest duties were due on certain basic agricultural products and food preparations (incidence: between 12.2% and 40.5%) and on certain textile and clothing products (incidence: between 12.9% and 22.8%). The total value of customs tariffs collected on imports from China was USD 95.2 million (agricultural products USD 4.6 million, industrial products USD 90.6 million).

In FTA negotiations, depending on an overall balance of the outcome of the negotiations, Switzerland offers duty-free access for industrial products (HS chapters 25-97) with very limited exceptions relating to products relevant for agricultural policy, from the entry into force of the FTA. Switzerland expects an equivalent treatment by its FTA partners, taking into account different levels of economic development. Switzerland is willing to look into flexible arrangements for products which are particularly sensitive for the FTA partner.

4.1.2 Trade Policies of non-tariff measures

China

The import licensing regime is regulated by the Foreign Trade Law amended in 2004. Details of commodities subject to import licensing are published annually by the MOFCOM in the Catalogue of Goods Subject to Import Licence Administration[29] and the Catalogue of Goods Subject to Automatic Import Licensing Administration[30]. Licences are not transferable.

Non-automatic import licences were issued in accordance with China's obligations under international conventions. Applicants must apply for an import permit prior to applying for an import licence. The licence is valid throughout the calendar year, and can be extended once, for a maximum of three months.

Products that are not subject to import restrictions but require import monitoring for statistical purposes are subject to automatic import licenses, which involve no restriction in terms of import quantity or value.

Switzerland

Apart from tariffs, other policies relating to trade in goods include rules of origin (Chapter 4.2.1), customs procedures (Chapter 4.2.2), technical regulations and standards and sanitary and phytosanitary measures (Chapter 4.2.3), trade remedies (Chapter 4.2.4), import licensing systems for certain agricultural products subject to WTO quotas, compulsory reserve stock systems for certain commodities, and special regulations for products such as war material, weapons and their accessories, explosives and nuclear fuel.

[29] http://www.licence.org.cn/Web/zcfg/jk/4803.htm.

[30] http://www.licence.org.cn/Web/zcfg/jk/4797.htm.

4.2 Other trade policies affecting trade in goods

Other trade policies affecting trade in goods include rules of origin, custom procedures, TBT, SPS, etc.

4.2.1 Rules of Origin

China

China applies non-preferential rules of origin in accordance with the *Regulations on Rules of Origin of Import and Export Commodities*. For goods wholly obtained within one country or region, that country or region shall be regarded as the origin of the goods. For goods of which the production involves two or more countries or regions, the country or region where the last substantial transformation has been made shall be regarded as the origin of the product. Substantial transformation shall be determined based on the changes in tariff classification criterion. In cases where the changes of tariff classification cannot reflect the substantial transformation, the percentage of ad valorem, working procedures of manufacturing or processing, etc. shall be used as supplementary criteria. The *Regulations on Rules of Origin of Import and Export Commodities* also provides for the legal framework of China on administration of Rules of Origin matters.

Preferential rules of origin of China are applicable to products originating from countries or regions with which China has concluded preferential trade arrangements (PTAs), such as Free Trade Agreements (FTAs) and Regional Trade Arrangements (RTAs). The primary criteria of Preferential Rules of Origin are the wholly obtained and substantial transformation criteria. Substantial transformation criteria include change in tariff classification criterion, regional value content criterion, manufacturing process criterion, or combination of the criteria mentioned above. China's FTAs with ASEAN, Chile, Pakistan, Singapore, and RTAs/PTAs with APTA participant countries and preferential measures (Zero-tariff treatment) for least developed countries mainly use the regional value content criterion, while China's FTAs with New Zealand, Peru and Costa Rica mainly use the change in tariff classification criterion, supplemented by the regional value content and the manufacturing process criteria. Regarding the substantial transformation criteria adopted under various China's FTAs, a product-specific rules of origin list had been set out for products to be granted originating status. Besides, the imported goods must meet the direct transport rule to apply for preferential rules of origin.

Preferential rules of origin also cover related operational procedures, including issuance of certificates of origin, checking of certificate of origin and the goods at the time of importation and exportation, as the case may be, and verification based on negotiated procedures between the Parties.

In most FTAs signed by China, a Certificate of Origin serves as the certificating document of the origin of the imported goods.

Table 16: Preferential rules of origin of China (2010)

No	Agreement/Party	Rules
1	APTA	Products must be wholly obtained or produced in the member country, or the value of non-originating parts or components used in the manufacture must be no more than 55% of the FOB value of the product. The country of origin is defined as the country where the last processing operation takes place. In addition, goods must meet the direct transport rule.
2	ASEAN	Products must be wholly obtained or produced in ASEAN countries; or the content of products originating in any one of the ASEAN countries should be no less than 40% of total content; or the value of the non-originating parts or components used in the manufacture of the products must be no more than 60% of the f.o.b. value of the product. The country of origin is defined as the country where the last processing operation takes place. In addition, goods must meet the direct transport rule.
3	Least developed countries	Products must be wholly obtained or produced in the country of origin or the value of non-originating parts used in the manufacture of a good may be up to 60% of the FOB value of the product. In addition, goods must meet the direct transport rule.
4	Hong Kong, China	Products must be wholly produced in Hong Kong, China or have Hong Kong, China content of at least 30% of value added; in addition, the final stage of processing must be carried out in Hong Kong, China. Goods must enter into Mainland China directly.
5	Macao, China	Products must be wholly produced in Macao, China or have Macao, China content of at least 30% of value added or have resulted in a change in the HS 4-digit tariff heading; in addition, the final stage of processing must be carried out in Macao, China. In addition, goods must meet the direct transport rule.
6	Chile	Products must be wholly obtained or produced in Chile, or the value of non-originating parts or components used in the manufacture must be less than 60% of the f.o.b. value of the product. The country of origin is defined as the country where the last processing operation takes place. In addition, goods must meet the direct transport rule.
7	Pakistan	Products must be wholly obtained or produced in Pakistan, or the value of non-originating parts or components used in the manufacture must be less than 60% of the FOB value of the product. The country of origin is defined as the country where the last processing operation takes place. In addition, goods must meet the direct transport rule.
8	New Zealand	Products must be wholly obtained or produced in New Zealand, or products be produced in New Zealand, using non-originating materials that conform to a change

No	Agreement/Party	Rules
		in tariff classification(some products must also be conform to a regional value content or a process requirement). In addition, goods must meet the direct transport rule.
9	Singapore	Products must be wholly obtained or produced in Singapore; or the percentage of regional value content shall not be less than 40% of the product. In addition, goods must meet the direct transport rule.
10	Peru	Products must be wholly obtained or produced in Peru, or products be produced in Peru, using non-originating materials that conform to a change in tariff classification (some products must also be conform to a regional value content or a process requirement). In addition, goods must meet the direct transport rule.

Switzerland

Rules of origin (RoO) are an important part of any free trade agreement. Preferential treatment under a FTA is only accorded to products fulfilling the RoO inscribed in the respective FTA. RoO usually require that imported goods are wholly obtained, or sufficiently worked or processed in the territory of the other party. Sufficient working or processing may be defined by a value-added criterion, a tariff shift rule, a specific processing requirement, or a combination thereof.

In its FTAs Switzerland has developed a well-functioning and user-friendly system of RoO. Since 1997, Switzerland has participated in the system of the Pan-European cumulation zone of origin which was extended to Mediterranean countries in recent years[31]. With countries outside the Pan-Euro-Med cumulation system, Switzerland has negotiated appropriately modified RoO, conceptually based on the European model.

The Swiss approach regarding preferential RoO is based on the following elements:

Products need to be either "wholly obtained" or "sufficiently worked or processed" in the country concerned in order to be considered originating and to be eligible for preferential tariff treatment within the free trade area.

Regarding "sufficiently worked or processed" a product-by-product list sets out the product specific criteria required for products to be granted originating status. Such criteria include:

- change in tariff heading (a product is considered originating in the exporting country if it has been transformed in that country to be afterwards classified under a different heading at four-digit level in the Harmonised System);
- value-added criterion (the origin is determined in terms of the value that has been added to the product in the exporting country) subject to provisions concerning minimal operations;

[31] In the framework of the Pan-Euro-Med cumulation zone the accumulation (diagonal cumulation) is possible between Switzerland and the following countries and territories: the EU, Norway, Iceland, Egypt, the Faeroe Islands, Israel, Jordan, Lebanon, Morocco, Tunisia and Turkey. The following countries are destined to be part of this zone, however the necessary agreements have not been concluded yet: West Bank and Gaza Strip (the existing Interim Agreement between the EFTA States and the Palestinian Authority does not allow diagonal cumulation), Syria and Algeria. It is planned to extend this zone to the Western Balkan states.

- processing description (the origin is determined in terms of specific processing operations necessary to give the transformed product its characteristics).

The Swiss approach also includes provisions regarding administrative co-operation. In respect to the procedure of post verification of proofs of origin, Switzerland applies nearly identical procedures in all FTAs.

As proof of origin Switzerland's FTAs normally foresee a "Self-Declaration-System" for the origin declaration in combination with the concept of "Approved Exporters". The well-proven and reliable Self-Declaration-System represents an important and efficient instrument for the implementation of FTAs.

4.2.2 Customs Procedures

China

China joined *the International Convention on the Simplification and Harmonization of Customs Procedures* (hereinafter referred to as the *Kyoto Convention*) in 1988, and signed the *Protocol on its Amendment* in June 2000. The customs clearance, supervision and duty collection procedures adopted by China are consistent with the revised *Kyoto Convention*.

To enforce the revised *Kyoto Convention*, China Customs has been taking actions to simplify its clearance procedures. In 2005, China began to implement pilot projects in eleven local Customs to shorten the clearance time and enhance efficiency. The customs procedure reform in China brought considerable achievements and was advocated by the World Customs Organization (WCO).

China attaches great importance to international customs practice and is an active player in relevant international organizations including the WCO and APEC. China has fully implemented customs-related WTO Agreements and the Collective Action Plans under the APEC Sub-committee on Customs Procedures (SCCP CAP) items.

Switzerland

The original *Kyoto Convention* entered into force for Switzerland in 1974, and the Protocol, the body and the general annex of the revised Convention in 2004. Nine annexes (A - G and J - K) to the revised *Kyoto Convention* were accepted in 2008 fully or partly. The Swiss Customs legislation (customs code) was adopted in 2005 by the Swiss parliament and entered into force in 2007. It is fully in line with the revised *Kyoto Convention* and its annexes as applicable to Switzerland.

The area of trade facilitation and customs procedures has gained importance in trade regulations. The topic of trade facilitation has been part of the WTO Doha negotiations since 2004. Furthermore, the related topic of trade and security has also gained importance in recent years. Switzerland has signed a Mutual Recognition Agreement on Customs Security Measures with the European Union on 25 June 2009. Negotiations with Norway on a similar agreement are ongoing and will be signed later this year. Switzerland will, at the same time as the European Union, introduce pre-arrival and pre-departure notifications for goods coming or going to third countries (i.e. other countries than EU Member States) on 1st January 2011. The legal basis for the AEO status entered into force on 1st January 2010.

Customs rules and procedures should be transparent, user-friendly and simple, in order not to create unnecessary barriers to trade. The inclusion of provisions to that effect in a Switzerland-China FTA could be further examined during the negotiations.

4.2.3 SPS and TBT

China

Sanitary and phytosanitary measures

Since accession to the WTO, China has committed to comply with the *SPS Agreement* and ensure conformity with the *SPS Agreement* of all its laws, regulations, decrees, requirements and procedures related to SPS measures.

The General Administration of Quality Supervision, Inspection and Quarantine of China (AQSIQ) is responsible for inspection and quarantine concerning the entry and exit of plants, animals, their products, and food. Based on risk analysis, AQSIQ is authorized to determine whether the import of a product is permitted, to establish inspection and quarantine conditions for the entry of imported products, and to sign with related government authorities of other countries agreements on general SPS issues or for specific products. At the same time, AQSIQ has the right to raise certain requirements on entry inspection and quarantine, and to negotiate with related government authorities of other countries on general SPS issues or detailed inspection and quarantine requirements for specific products.

Technical barriers to trade

Since its accession to WTO, China has made great effort in modification of related laws and regulations in the areas of technical regulation, standards and assessment, in order to unify the catalogue of products, unify the compulsory requirements, standards and conformity assessment procedures, unify the label, and unify charging, in the quality and safety permission and certification system for imported products. By this way, China's measures are made consistent with the *WTO Agreement on Technical Barriers to Trade* (hereinafter referred to as the *WTO TBT Agreement)*.

According to the principles set out in the *WTO TBT Agreement* to protect human health or safety, animal or plant life or health, or the environment, prevent deceptive practice, and protect national security, AQSIQ established and published a catalogue of imported and exported products, which shall go through compulsory examination required by national technical regulations. Those examinations can be undertaken by bodies designated by AQSIQ.

The Standardization Administration of China (SAC), working under the AQSIQ, is responsible for exercising the unified management of standardisation work in China, formulating development programs, as well as drafting and revising national standards. SAC is also responsible for the examination, approval, numbering and publication of national standards, and for the coordination, guidance and registration of sector standards and local standards. It also represents China in the International Organization for Standardization (ISO), the International Electro-Technical Commission (IEC) and other international or regional standardisation organisations.

The Certification and Accreditation Administration of China (CNCA) under the AQSIQ is responsible for exercise of the unified management, supervision and coordination of certification and accreditation work in China. China Compulsory Certification (CCC) system is implemented by CNCA. Products listed in the Catalogue of Products Subject to Compulsory Certification can not be marketed, imported or used in any commercial activities without CCC marks. Currently, the Catalogue[32] covers 22 groups, consisting of 159 sub-categories, and includes, inter alia, electrical apparatus, motor vehicles and accessories, medical devices, agricultural machinery, ornaments, toys, etc.

[32] http://www.cnca.gov.cn/cnca/rdht/qzxcprz/rzml/images/20080701/4755.htm

Switzerland

In Switzerland, product legislation for all product areas is established at Federal level. For some laws, the implementation is ensured by Federal authorities while for others the implementation is delegated to authorities at the cantonal level. In the latter case, the Federal authorities ensure a coordinated implementation.

With regard to SPS and TBT, Switzerland's approach in FTAs is assimilated to the relevant WTO rules, including the principles of transparency, proportionality and equivalence. In recognition of the importance of SPS and TBT issues, and in order to promote transparency and co-operation, FTAs concluded by Switzerland normally provide for an information exchange process and establish contact points to facilitate rapid and direct consultations between SPS and TBT experts of both sides. In areas of mutual interest additional provisions may be examined.

Sanitary and phytosanitary measures

In the area of sanitary and phytosanitary measures (SPS), Switzerland is bound by the *WTO Agreement on Sanitary and Phytosanitary Measures* (hereinafter referred to as the *WTO SPS Agreement*) which requires that SPS measures not be maintained without sufficient scientific proof and that they do not constitute a disguised restriction of trade. The *WTO SPS Agreement* also includes provisions on transparency and an obligation to align national with relevant international standards. SPS measures must be notified unless they are based on international standards that are recognized not to create unjustified distortions to trade.

Switzerland is Member of the three standard setting bodies recognized by the WTO:

- the OIE (World Organisation for Animal Health), as the relevant organization for animal health and zoonoses,
- the Codex Alimentarius Commission, as the relevant organization for food safety
- the IPPC (International Plant Protection Convention), as the relevant organization for plant health

The relevant international standards, guidelines and recommendations have to be taken into account with regard to SPS measures adopted or maintained by WTO members.

Technical barriers to trade

Switzerland is a party to the *WTO Agreement on Technical Barriers to Trade* (hereinafter referred to as the *WTO TBT Agreement*), which requires that technical regulations, standards and conformity evaluation procedures do not create unnecessary barriers to trade. As with the *WTO SPS Agreement*, the *WTO TBT Agreement* contains clauses on proportionality and on transparency, requiring in particular notification of measures not in conformity with relevant international standards. In addition to multilateral obligations, Switzerland's TBT policy is following developments in the EU pursuant to the bilateral agreement between Switzerland and the EU on TBT. On 1st July 1996 the *Federal Law on Technical Barriers to Trade* entered into force. Article 4 of this law states that technical legislation has to be designed in such a way as not to create unjustified trade barriers. To this end, the product legislation has to be harmonized with the most important trading partners, i. e. in most cases with the regulations of the EU. Exceptions to this principle may be justifiable based on the internationally accepted grounds such as the protection of public health, safety or the environment.

In the area of TBT, sectors of interest of Switzerland for enhanced provisions and cooperation in FTAs include electro-technical products, medical devices and other precision instruments, pharmaceuticals, chemicals, machines, lifts, textiles and foodstuffs. In a Swiss-

Chinese FTA, ways could be examined to strengthen the role of international standards as a basis for technical regulations including conformity assessment procedures, to promote the accreditation of conformity assessment bodies on the basis of relevant international standards, and to facilitate the mutual acceptance of conformity assessment results of accredited bodies.

The free trade agreement should also build on existing arrangements between Switzerland and China relating to TBT issues, which are:

a) The *MoU on Metrology* between the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and the Federal Office of metrology and Accreditation (METAS) on cooperation in the field of metrology;

b) The *Cooperation Agreement between SAC and Standard Association of Switzerland*.

4.2.4 Trade Disciplines/Trade Remedies

Trade disciplines (or trade remedies) refer to trade policy tools that allow governments to take remedial action in exceptional situations against imports causing predefined difficulties to the domestic economy. Trade remedies mainly include anti-dumping measures, countervailing measures and safeguard measures. According to relevant WTO rules such measures are subject to procedural and substantive conditions (e. g. cause of serious injury to domestic industry).

China

Anti-dumping

China takes anti-dumping measures according to the provisions of *Foreign Trade Law of the People's Republic of China* and the *Regulations of the People's Republic of China on Anti-dumping.*

According to WTO statistics, as of 31st December 2008, there had been totally 677 cases initiated against China by other members of WTO, including India (120 cases), United States (87 cases), European Communities (84 cases), Argentina (61 cases), Brazil (37 cases), mainly targeting products of the chemical or allied industries (139 cases), base metals and articles of base metal (157 cases), machinery, electrical equipment and relevant parts (84 cases), textile articles (59 cases), plastics and rubber articles thereof (49 cases), and footwear. According to the statistics from WTO, as of 31st December 2008, China had totally initiated 151 cases, mainly targeting products of the chemical or allied industries (92 cases), plastics and rubber articles thereof (31 cases), etc.

In the FTAs China has signed, the issue of anti-dumping measures was addressed. The relevant parties usually promised that potential anti-dumping measures should be first handled through consultations and negotiations. Bilateral and multilateral anti-dumping measures should not be adopted simultaneously.

China has not initiated any anti-dumping investigation against Switzerland.

Countervailing measures

China undertakes countervailing measures under the provisions of the *Foreign Trade Law of the People's Republic of China* and *the Regulations on Countervailing Measures of the People's Republic of China.*

According to WTO statistics, as of 30th June 2009, 29 cases had been initiated against China by other members of WTO, including United States (16 cases), Canada (eight cases), Australia (three cases), India (one case), and South Africa (one case). The relevant products are

mainly base metals and articles of base metals (16 cases), products of the chemical or allied industries (three cases), articles of paper (three cases), machinery, electrical equipment and relevant parts (three cases). According to the statistics from WTO, as of 30th June 2009, China had initiated 1 countervailing investigation against Grain Oriented Flat-rolled Electrical Steel from USA.

In the FTAs China has signed, the issue of countervailing measures was addressed. The relevant parties usually promised that potential countervailing investigation should be first handled through consultation and negotiation. Bilateral and multilateral countervailing measures should not be adopted simultaneously.

China has not initiated any countervailing investigation against Switzerland.

Safeguard

China undertakes safeguard measures under the provisions of *Foreign Trade Law of the People's Republic of China* and *Regulation of the People's Republic of China on Safeguard Measures.* According to the statistics of WTO, in the aspect of global safeguard measures, as of 31st May 2010, there were 209 cases of Safeguard initiations by Reporting Member. China had initiated only one safeguard measure on steel products as of 31st May 2010.

In the FTAs China has signed, the issue of safeguard measures was addressed. The relevant parties usually promised that possible safeguard measures should be first handled through consultation and negotiation. Bilateral and multilateral safeguard measures should not be adopted simultaneously.

Switzerland

Switzerland's approach relating to trade remedies in FTAs is built on WTO rules, allowing for WTO-plus elements where appropriate (e. g. pre-emptive bilateral consultations, non-application of anti-dumping measures or other mechanisms aiming to minimize trade distortions), with a view to reflect the closer relationship established between the parties of a preferential agreement.

Switzerland only very exceptionally applies trade remedy measures[33].

A Switzerland-China FTA could refer to the standard provisions of the WTO on dumping and countervailing measures, as is done in the other Swiss FTAs. In addition, the FTA could foresee consultations in advance of the instigation of investigations under the auspices of the WTO in relation to anti-dumping and subsidies/countervailing measures, as well as other WTO-plus elements. As far as emergency safeguard measures are concerned, a FTA regulates the conditions under which such measures can be taken, their duration, and notification, consultations and compensation requirements. To that effect, provisions as the ones contained in previous agreements concluded by Switzerland and in the FTAs concluded by China with Chile and New Zealand could be examined.

Switzerland has not used anti-dumping measures during the last two decades and Switzerland has not initiated any anti-dumping investigation against China.

[33] Switzerland applied in 1999 a value based special safeguard measure for out-of-quota imports of certain meat of swine and pig fat free of lean meat. The measure was taken to address imports due to a large drop in prices in the internal market of the EU. The measure entered into force on 1 May 1999 and was ended on 31 December of the same year.

4.3 Trade in specific sectors

This section will display the industrial development, foreign trade and competitiveness of major products in the two countries' specific sectors, namely, agriculture; machinery, electronics, instruments and devices; pharmaceuticals and chemicals; textile and clothing; watch industry[34]. The Trade Specialization Index (TSI) is used by the Chinese side, to examine the comparative advantages of China and Switzerland in bilateral trade[35]. The TSI value is between -1 and +1. A positive value of TSI indicates export advantage (exports higher than imports) and a negative TSI indicates export disadvantage in a given product category (exports less than imports). The higher the positive TSI value, the higher the export advantage of a given sector. Often, an industrial sector comprises subsectors with positive and subsectors with negative TSI, reflecting the fact of intra-industry trade and of the international division of labour.

The Chinese side used the GTAP model (a typical Computable General Equilibrium Model) to simulate the impacts of China-Switzerland FTA on bilateral trade between China and Switzerland at sectoral level in the present report[36]. The simulation is based on GTAP 7 database and the simulating results are adjusted to reflect the real increase of both countries' trade volume between 2004 and 2008.

4.3.1 Agriculture

4.3.1.1 Description of the sector

China

Considering the trade interest of China and Switzerland, the agricultural sector is divided into 23 sub-sectors, based on the HS-Classification (HS) (*Table 21*).

China has always attached great importance to agricultural development. As showed in China's Statistical Yearbook 2009, China's population in rural area amounted to 721 million, accounting for 54.32% of China's total population. China is also one of the biggest agriculture product producers in the world, with the production of several kinds of primary agricultural products among the most in the world, such as cotton, pork, poultry, fruits and vegetables. However, there are still many problems and restrictions with China's agricultural production. Firstly, the level of China's per capita agricultural resource falls obviously behind and presents a decreasing trend, especially for the cultivated lands. In 2008, the cultivated lands decreased by 19300 hectares compared to 2007. Secondly, low-level of mechanization results in high agriculture production cost and low output. Thirdly, the productivity is also low due to the low technology level and shortage of skilled labour. Fourthly, agricultural production is highly affected by natural disasters. Fifthly, the level of peasants' income rises slowly. In 2009, per capita net income of rural area residents was merely USD 580.

China has played an important role in the international agricultural trade in recent years. In 2009, China's exports of agricultural products amounted to USD 31.4 billion and the main

[34] Regarding to the products coverage in agricultural sector, Chinese agricultural products are within Chapters 1 to 24 of Harmonised System minus fish and fisheries products. As for the other four sectors, the United Nations Central Product Classification (CPC) is used, which is adopted internationally.

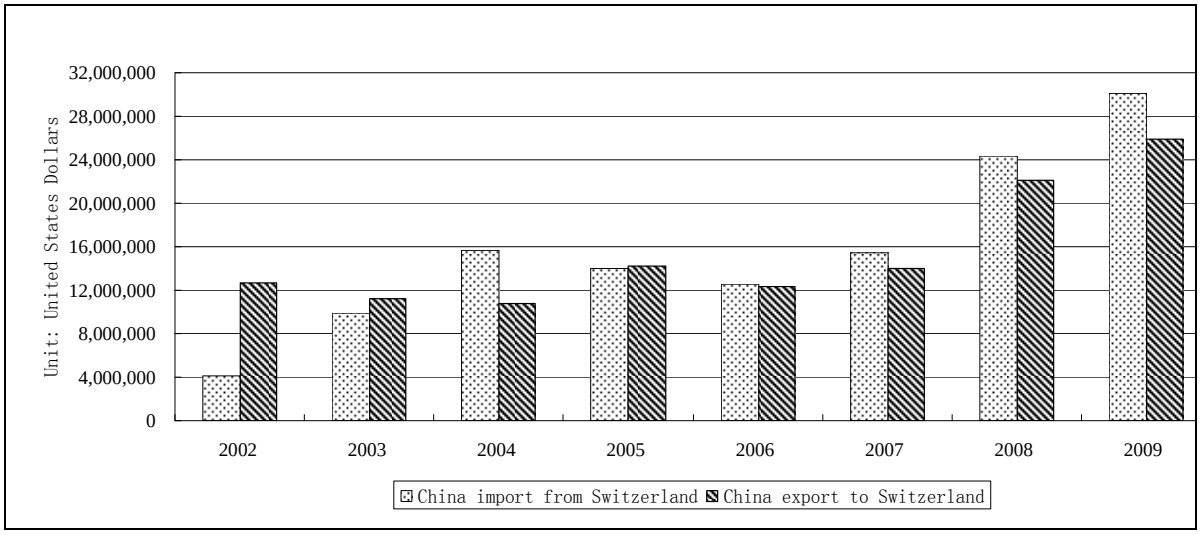
[35] See Technical Annex I for details.

[36] See Technical Annex II for details. The Swiss side expressed reservations on the use of simulation results due to the limitations inherent to CGE models.

importers were EU, Japan, the United States, Hong Kong China, Korea and Russia. China became the world's fifth largest exporter of agricultural products. The major agricultural products exported by China were "*Edible vegetables and certain roots and tubers*" (USD 4.8 billion), "*Preparations of vegetables, fruit, nuts or other parts of plants*" (USD 4.8 billion) and "*Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates*" (USD 4.6 billion), accounting together for 45.1% of China's total exports of agricultural products. Meanwhile, China's imports of agricultural products have reached USD 42.7 billion and China became the world's fourth largest importer of agricultural products. The major agricultural products imported by China were "*Oil seeds and oleaginous fruits; misc grains, seeds and fruit; industrial or medicinal plants; straw and fodder"* (USD 21.0 billion), "*Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes"* (USD 7.7 billion) and "*Residues and waste from the food industries; prepared animal fodder"* (USD 1.8 billion), accounting together for 71.7% of China's total imports of agricultural products. In 2009, China's trade deficit in agricultural products reached USD 11.2 billion.

Although Switzerland is not a major importing source and exporting destination of China's agricultural products, bilateral trade between China and Switzerland in agricultural products has increased steadily in recent years. In 2009, China exported USD 25.84 million of agricultural products to Switzerland (+ 16.9% compared to 2008), accounting for less than 0.1% of China's total exports of agricultural products. In the same year, China's imports of agricultural products from Switzerland was worth USD 30.11 million (+ 23.6% compared to 2008), accounting for less than 0.1% of China's total imports of agricultural products. China had a trade deficit of USD 4.27 million with Switzerland in 2009 (*Table 17*).

Table 17: Trade in Agricultural Products: China's Imports from and Exports to Switzerland



In the bilateral trade between China and Switzerland, China has a comparative advantage over Switzerland on *"Edible vegetables and certain roots and tubers"* and *"Preparations of vegetables, fruit, nuts or other parts of plants"*. China's trade surplus of the two before mentioned product categories reached USD 3.9 million and USD 5.2 million respectively. China has a comparative disadvantage on *"Sugars and sugar confectionery"*, "Preparations of cereals, flour, starch or milk; pastry cooks' products", *"Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included"*, and *"Cocoa and cocoa preparation"*. In 2009, China's imports from Switzerland increased significantly (in comparison with 2008) in these four products categories of *"*Sugars and sugar confectionery*"* (+ 52%), *"Preparations of cereals, flour, starch or milk; pastry cooks' products"* (+210%),

"Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included" (+236%) and *"Cocoa and cocoa preparations"* (+13%). China's trade deficit of these four products categories reached USD 5.3 million, USD 4.5 million, USD 2.7 million and USD 4.1 million respectively.

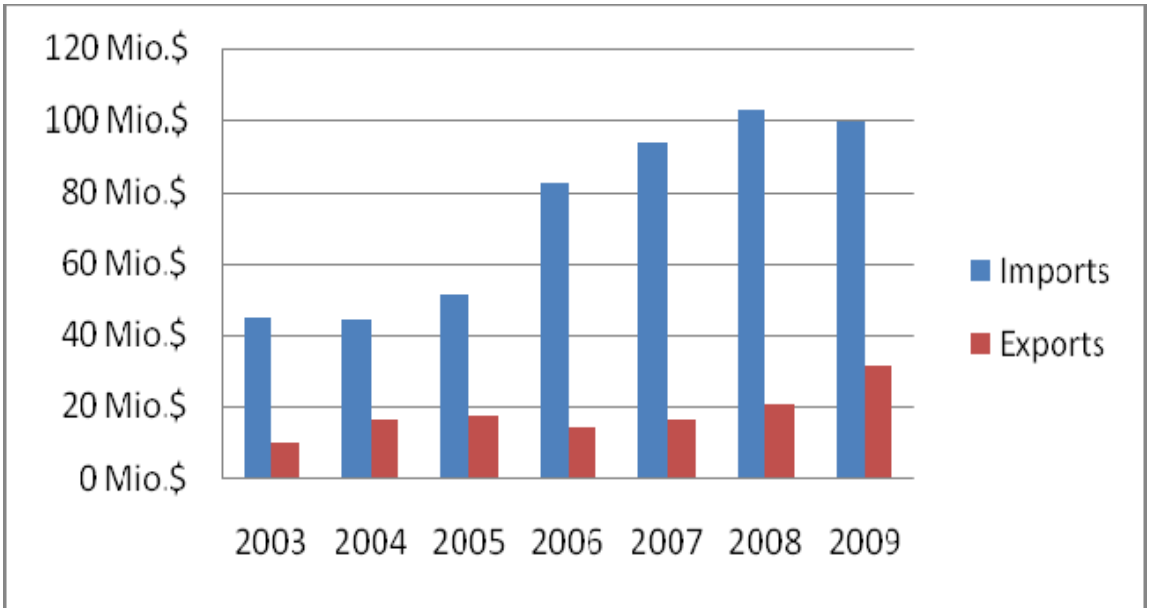
Switzerland

Switzerland aims at a sustainable agricultural policy and attaches great importance to the concept of multifunctionality of agriculture. Direct payments to farmers constitute a key instrument of Swiss agricultural policy. Direct payments are designed to compensate farmers for the services they provide to society as a whole, in particular related to ecology. Switzerland does not apply export subsidies relating to basic agricultural products.

Agriculture contributes 0.9% to the GDP of Switzerland. 2.2% of the labour force is directly engaged in this sector. One third of the surface of Switzerland is suitable for agricultural production, and a large part of the agriculturally used area can only be cultivated under harsh conditions (e.g. steep hills, high altitude, alpine climate). Due to this situation and the ensuing high production costs, Swiss agricultural product prices are in general significantly higher than in most other markets.

Concerning trade in agricultural products[37], China has a positive trade balance with Switzerland. As shown in *Table 18*, Swiss imports of agricultural products from China have doubled during the last five years, representing a value of USD 99.6 million in 2009. Swiss exports to China were stagnant on a much lower level, reaching USD 31.4 million in 2009. Chinese statistics differ from the Swiss figures. This difference may be explained by the reasons indicated in Chapter 3.2.

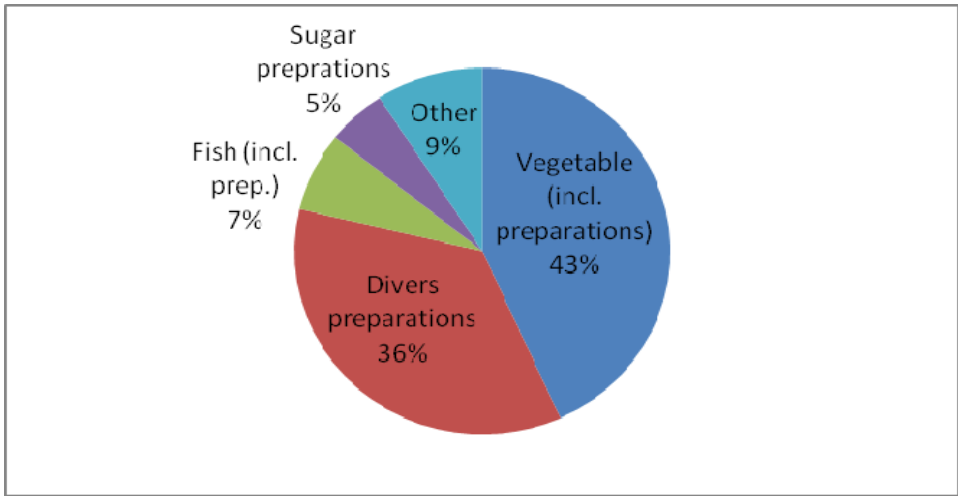
Table 18: Trade in Agricultural Products: Swiss Imports from and Exports to China



Tables 19 and *20* show the composition of imports and exports. As shown in *Table 19*, the most important groups of Chinese agricultural products imported by Switzerland are vegetables and vegetable preparations as well as diverse food preparations.

[37] Chapter 1 to 24 of the HS.

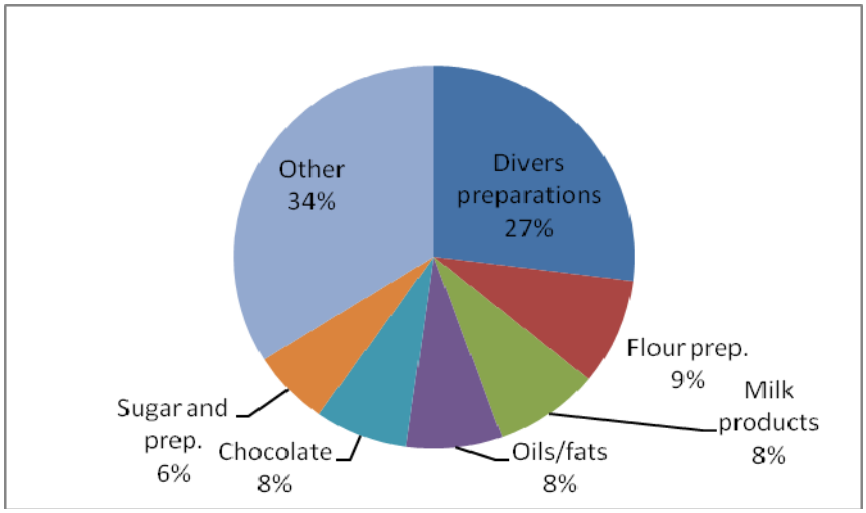
Table 19: Agricultural imports by Switzerland from China (2009)



Source: *Directorate General of Swiss Customs*

As shown in *Table 20*, the main agricultural products exported from Switzerland to China are processed agricultural products.

Table 20: Switzerland's agricultural exports to China (2009)



Source: *Directorate General of Swiss Customs*

Generally, it can be stated that China is exporting mainly basic agricultural products to Switzerland, while Switzerland is mainly exporting processed agricultural products to China.

4.3.1.2 Tariffs applying to agricultural products

China

In 2009, there were 1025 tariff lines of HS-8 digit in agricultural sector in China with 7 specific duties and 1018 Ad valorem duties. The simple average tariff of all 23 sub-sectors was 15.23%. The highest tariff rates (MFN applied) were levied on "*Cereals"* (33.89%), "*Sugars and sugar confectionery"* (29.89%) and "*Tobacco and manufactured tobacco substitutes"* (26.91%). The lowest tariff duties (MFN applied) in this sector were levied on "*Residues and waste from the food industries; prepared animal fodder"* (5.35%), "Live animals" (6.08%) and

"*Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage*" (8.17%), (*Table 21)*

Table 21: China MFN duty in 2009 (agricultural products)

HS-code	Description	Avg. tariff (%)	Range (%)	Number of specific duty	Number of AV duty
01	Live animals	6.08	0-10	0	51
02	Meat and edible meat offal	18.89	10-25	6	79
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	15.23	0-25	0	39
05	Products of animal origin, not elsewhere specified or included	12.33	0-20	1	43
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	8.17	0-23	0	30
07	Edible vegetables and certain roots and tubers	10.87	0-13	0	112
08	Edible fruit and nuts; peel of citrus fruit or melons	18.41	0-30	0	83
09	Coffee, tea, maté and spices	13.63	2-30	0	40
10	Cereals	33.89	0-65	0	28
11	Products of the milling industry; malt; starches; insulin; wheat gluten	25.36	5-65	0	36
12	Oil seeds and oleaginous fruits; misc grains, seeds and fruit; industrial or medicinal plants; straw and fodder	9.44	0-30	0	108
13	Lac; gums, resins and other vegetable saps and extracts	11.65	0-20	0	20
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	9.40	4-15	0	10
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	13.12	5-30	0	54
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	12.02	5-23	0	48
17	Sugars and sugar confectionery	29.89	8-50	0	18
18	Cocoa and cocoa preparations	11.00	8-22	0	11
19	Preparations of cereals, flour, starch or milk; pastry cooks'	19.09	10-30	0	22

	products				
20	Preparations of vegetables, fruit, nuts or other parts of plants	20.23	5-30	0	97
21	Miscellaneous edible preparations	21.95	3-35	0	21
22	Beverages, spirits and vinegar	21.76	0-65	0	27
23	Residues and waste from the food industries; prepared animal fodder	5.35	2-15	0	30
24	Tobacco and manufactured tobacco substitutes	26.91	10-57	0	11
Total		**15.23**		**7**	**1,018**

Source: *General Administration of Customs P.R.C.*

Switzerland

Switzerland is overall a heavy net importer of agricultural products[38]. In order to compensate for the cost disadvantages described in chapter 4.3.1.1, import tariffs are another important instrument of Swiss agricultural policy. Substantive tariffs apply to many agricultural products (*Table 22*), as the case may be subject to tariff rate quota and seasonal arrangements. Switzerland distinguishes between basic agricultural products (BAPs) and processed agricultural products (PAPs), using a similar definition as the EU. Due to the high costs of agricultural raw materials in Switzerland, domestic PAPs producers are at a disadvantage compared to competitors in other countries. For this reason, Switzerland applies a price compensation scheme equalizing the differences between domestic and world market prices for the relevant agricultural raw materials incorporated in PAPs. As part of these measures, Switzerland levies, in accordance with its WTO obligations, import duties on PAPs, which include the difference between domestic and world market prices for the relevant agricultural raw material contained in a processed product. In Switzerland's FTAs, the part of the duty reflecting this price difference remains in place, while the part of the duty not related to compensation measures (the so-called industrial element of the duty) is normally removed. With respect to exports of PAPs, the Swiss policy consists in the granting of refunds corresponding to the mentioned price differences according to the relevant raw materials actually used in the manufacturing of PAPs. Regarding BAPs, Switzerland negotiates in its FTAs, subject to the interests and sensitivities of both sides, preferential treatment for selected products.

Table 22: Swiss MFN applied ad valorem duty equivalents in 2007 (agricultural products)

HS-Code	Description	Avg. tariff	Range	Std-dev[39]
		(%)		
01	Live animals	50.3	0-363.6	86.2
02	Meat and edible meat offal	128.8	0.2-1,468.7	240.0
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	58.1	0-268.1	66.5

[38] Calculated on a calorific supply base, the self-sufficiency rate of Switzerland amounts to 60%.

[39] Standard deviation

HS-Code	Description	Avg. tariff	Range	Std-dev[39]
		(%)		
05	Products of animal origin, not elsewhere specified or included	3.0	0-29.6	7.7
06	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	11.2	0-94.9	22.0
07	Edible vegetables and certain roots and tubers	37.8	0-1256.2	95.8
08	Edible fruit and nuts; peel of citrus fruit or melons	12.9	0-258.1	33.9
09	Coffee, tea, maté and spices	0.8	0-7.1	1.7
10	Cereals	18.3	0-209.3	44.3
11	Products of the milling industry; malt; starches; insulin; wheat gluten	40.4	0-263	63.0
12	Oil seeds and oleaginous fruits; misc grains, seeds and fruit; industrial or medicinal plants; straw and fodder	7.8	0-104.5	20.5
13	Lac; gums, resins and other vegetable saps and extracts	3.2	0-36.1	9.5
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	0.5	0-2.9	1.1
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	39.6	0-209.7	46.2
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	17.6	0-94.2	25.7
17	Sugars and sugar confectionery	11.6	0-82.6	14.6
18	Cocoa and cocoa preparations	13.4	0-170.4	27.4
19	Preparations of cereals, flour, starch or milk; pastry cooks' products	21.1	0-81.5	15.1
20	Preparations of vegetables, fruit, nuts or other parts of plants	24.1	0-405.1	45.7
21	Miscellaneous edible preparations	11.3	0-48.4	9.5
22	Beverages, spirits and vinegar	28.5	0-507.9	84.6
23	Residues and waste from the food industries; prepared animal fodder	5.1	0-104.7	16.6
24	Tobacco and manufactured tobacco substitutes	13.4	0-73.1	19.3

Source: *WTO Trade Policy Review 2008*

4.3.1.3 Other trade policies affecting trade in agricultural products

China

China is currently imposing tariff quota on 6 kinds of agricultural products (for details: Chapter 4.1.1).

Switzerland

Switzerland is currently imposing tariff rate quotas on different kinds of basic agricultural products (for details: Chapter 4.1.1).

4.3.1.4 Impact of trade liberalization

China

A China- Switzerland FTA would further promote the development of bilateral trade in agricultural products. The results of a Chinese-Swiss free trade hypothesis for the agricultural sector in the GTAP model can be summarized as follows: With the elimination of tariffs on agricultural products in Switzerland, China's exports to Switzerland would increase and would, to some extent, replace other countries' agricultural exports to Switzerland. China's share in Switzerland's imports of agricultural products would increase mainly regarding products where China has a comparative advantage such as "*edible vegetables and certain roots and tubers* and *preparations of vegetables, fruit, nuts or other parts of plants"*. With the elimination of tariffs on agricultural products in China, Swiss exports to China would increase as well. The increase of Swiss exports to China would focus on "*sugars and sugar confectionery, preparations of cereals, flour, starch or milk; pastry cooks' products*, *dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included* and *cocoa and cocoa preparations"*.[40]

Agricultural processing industries in China and Switzerland are often relatively weak in production scale. Technology, skilled labor and productivity differ between counterparts. These industries should be given appropriate considerations and arrangements in a future Free Trade Agreement.

Products which are particularly sensitive for either FTA partner should be given appropriate consideration in the future FTA negotiations.

Switzerland

It is expected that a China-Switzerland FTA will result in preferential export conditions for both sides regarding selected products and will improve conditions for cooperation in the area of PAPs and BAPs production and policy.

4.3.2 Machinery, Electronics, Instruments and Devices

4.3.2.1 Description of the sector

China

According to the CPC, machinery industry can be divided into seven sub-sectors, namely *general-purpose machinery*, *special-purpose machinery*, *office, accounting and computing machinery*, *electrical machinery and apparatus*, *radio, television and communication equipment and apparatus*, *medical appliances, precision and optical instruments, clocks* and *transport equipment*.

[40] According to the GTAP-simulation by the Chinese experts, full bilateral agricultural trade liberalization would increase bilateral agricultural trade by USD 391 million. China's exports to Switzerland would increase by 308% (USD 334 million), and would replace the share of other countries' agricultural exports to Switzerland (USD 92 million). China's share in Switzerland's imports of agricultural products would increase from 0.5% to 2.02%. Swiss exports to China would increase by 94.64% (USD 57 million). The Swiss share in China's imports of agricultural products would increase from 0.09% to 0.18%.

Since 2001, when China entered into the WTO, China's machinery industry has developed steadily. After increasing gradually from 2002 to 2008, China's international trade in this sector decreased in 2009 due to worldwide financial crisis. In 2008, the exports reached USD 734.32 billion in this sector accounting for 12.7% of world's exports and the imports reached USD 523.0 billion, accounting for 9.2% of world's imports. In 2009, the exports and imports decreased to USD 643.13 billion and USD 477.28 billion respectively and China's trade surplus amounted to USD 165.85 billion. The major product categories with strong trade surplus in favor of China were "*radio, television and communication equipment and apparatus"*, "*office, accounting and computing machinery"*, "*electrical machinery and apparatus"*, "*special-purpose machinery*", "*transport equipment"* and "*general-purpose machinery"*. For China, the sub-sectors of "*medical appliances, precision and optical instruments, and clocks"* had comparative disadvantage and the deficit of trade balance was USD 27.05 billion in 2009.

The bilateral trade between China and Switzerland in machinery industry has increased gradually between 2002 and 2008 and decreased sharply in 2009 due to the financial crisis. China's machinery exports to and imports from Switzerland counted for USD 1.07 billion and USD 3.17 billion in 2009 respectively, with a trade deficit of USD 2.1 billion. Three sub-sectors had comparative advantage over Switzerland, namely," *transport equipment", "radio, television and communication equipment"* and "*apparatus, office, accounting and computing machinery"*. Meanwhile, there were four sub-sectors with a comparative disadvantage over Switzerland, namely "*general-purpose machinery"*, "*special-purpose machinery"*, "*medical appliances, precision and optical instruments*, *clocks"* and *"electrical machinery and apparatus"*.[41] Among these product categories, the trade deficit of "*special-purpose machinery"* ranked first with a deficit of USD 0.99 billion in 2009.

The sector has recovered currently due to the Central Government's revitalization plans in equipment manufacturing, automotive, marine and electronic information industry. However, it is still far from developed, with such problems as low-tech and labor-intensive products, lack of supporting industries, weak international competitiveness and low economic returns, especially in the major sets of technical equipment and high-tech products. The technology self-sufficiency rate is only about 60%. There is a great gap between China's enterprises and top-ranking multinational companies including those of Switzerland in terms of R&D and innovation.

Switzerland

Machinery, electronics, instruments and devices occupy a key position in the Swiss national economy. This sector is the largest industrial employer in Switzerland, with approximately 260,000 employees. The sector contributes 10% to Switzerland's GDP.

In 2009, the value of exports of machinery, electronics, instruments and devices was USD 52.1 billion, corresponding to 28.6% of the value of total Swiss manufacturing exports. In the same year, Switzerland imported goods of these categories worth USD 42.3 billion, representing 25.8% of total Swiss imports. About 80% of the products of the sector of machinery, electronics, instruments and devices are exported. Many companies of the Swiss machinery, electronics, instruments and devices sector are internationally successful in very specific niche markets.

In 2009, exports from Switzerland to China in this sector amounted to USD 2.6 billion, which corresponds to 49.5% of total Swiss exports to China. In the same year, Swiss imports from China in the machinery, electronics, instruments and devices sector amounting to USD 2.3 billion represented 46.1% of total Swiss imports from China.

[41] The results of TSI towards Switzerland has been consistently less than -0.6 since 2002.

4.3.2.2 Tariffs applying to machinery, electronics, instruments and devices

China

In 2008, the simple average rate of China's machinery sector was 9.09%. Among seven sub-sectors, the average tariff of *transport equipment* is the highest (11.7%) and the lowest is 2.8% for *office, accounting and computing machinery*. Most of the tariff lines (MFN applied) in machinery sector fall in the tariff range of 2-15%.

Table 23: Average Rate of Import Tariff in the Machinery Sector (2008)[42]

No.	CPC	Description	Average rate (%)
1	43	General-purpose machinery	7.96
2	44	Special-purpose machinery	10.02
3	45	Office, accounting and computing machinery	2.80
4	46	Electrical machinery and apparatus	9.37
5	47	Radio, television and communication equipment and apparatus	6.88
6	48	Medical appliances, precision and optical instruments, clocks	8.54
7	49	Transport equipment	11.70

Source: *The average tariff rates of CPC classification is calculated based on corresponding HS-8 tariff lines issued by General Administration of Customs P.R.C.*

Switzerland

Table 24: Swiss MFN applied ad valorem duty equivalents (machinery, electronics, instruments and devices) (2007)

HS-Code	Description	Avg. tariff	Range	Std-dev
		(%)		
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0.7	0-23.6	1.2
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	0.9	0-14.6	1.3
86	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signaling equipment of all kinds	1.0	0.1-4.3	1.0

[42] This table shows the average tariff rates based on CPC classification. The average tariff rates upon HS-2 digit tariff lines concerning this sector are showed in Appendix 6.

HS-Code	Description	Avg. tariff	Range	Std-dev
		(%)		
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	1.6	0-8.9	1.8
88	Aircraft, spacecraft, and parts thereof	0.2	0-0.8	0.2
89	Ships, boats and floating structures	2.2	0-22.7	5.3
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	0.5	0-7.7	0.9

Source: *WTO Trade Policy Review 2008*

4.3.2.3 Impact of trade liberalization

China

The simulation results for a China-Switzerland free trade agreement for the machinery, electronics, instruments and devices sectors (including the watch industry) in the GTAP model can be summarized as follows: The bilateral trade volume would increase substantially. Since China's import tariffs in these sectors are relatively high, while Switzerland has an average tariff of about only 1%, the import tariff elimination by China will mostly promote Swiss exports to China. To some extent Swiss exports to China will divert away exports of China's major trading partners, such as Japan, EU, Korea, Chinese Taipei and the United States. China's exports to Switzerland would moderately increase as well. China may gain new export capacity by importing cheaper components and investment goods from Switzerland and China's exports to the rest of the world would increase consequently[43].

The machinery industry is the top pillar in Switzerland's manufacturing sector and it is competitive for specific products in many world markets. For years, Switzerland has developed high-tech and high value-added mechanical and electrical products by attaching importance to research and development. Not only relatively big companies, but also numerous small and medium-sized companies engage in this area. Many Swiss mechanical products enjoy high reputation in the world, such as textile machineries, medical instruments and equipment, prosthesis, precision instruments, micro-motors, high precision molds, etc. A China-Switzerland FTA may help exchanges of technology between the two countries and help China's efforts in advancing and upgrading this sector as the Chinese machinery industry is experiencing a structural reform. However, it is difficult for China to catch up with Switzerland in all fields of high-tech products through independent R&D in a short period. This might affect the incentive of certain Chinese enterprises to invest in R&D. Products which are particularly sensitive for either FTA partner should be given appropriate consideration in the future FTA negotiations.

[43] According to the GTAP-simulation by the Chinese experts, the Chinese-Swiss trade volume would increase under bilateral free trade in the machinery, electronics, instruments & devices sectors by USD 3.161 billion. Swiss exports to China would increase by 67.54% (USD 3.021 billion), among which about 61.23% (USD 1.85 billion) comes from the former share of China's major trading partners. Meanwhile, China's exports to Switzerland would increase by USD 140 million and China's exports to the rest of the world would increase by USD 410 million.

Switzerland

The possible FTA will have a positive effect on the development of trade in machinery, electronics, instruments and devices, thereby contributing to the competitiveness of the sector in both countries, enhancing two-way trade and improving conditions for crossborder business-to-business-cooperations.

4.3.3 Pharmaceuticals and Chemicals

4.3.3.1 Description of the sector

China

According to the United Nations Central Product Classification (CPC), the pharmaceutical and chemical sector is divided into five sub-sectors, namely "*coke oven products, refined petroleum products"*, "*basic chemicals"*, "*other chemical products, man-made fibers"*, "*pharmaceutical products"* and "*rubber and plastics products"*.

The pharmaceutical and chemical sector has developed steadily in the last decade. China has become the major producer and consumer in this sector in the world. China was the third country in the world in terms of imports and exports in 2009. Although the international financial crisis bought negative influences on this sector, China's economic stimulus package has contributed to the recovery of most subsectors since the second half of 2009.

Both imports and exports of China's pharmaceutical and chemical products have increased steadily from 2002 to 2008 but decreased sharply in 2009 due to the financial crisis. The trade value reached USD 274.63 billion with a trade deficit of USD 39.02 billion in 2009. The result of TSI shows that although the competitiveness has been improved, China still has a comparative disadvantage with other countries in the following three subsectors, namely "*coke oven products, refined petroleum products"*, "*basic chemicals"* and "*other chemical products, man-made fibers".* The trade deficit of these three sub-sectors amounted to USD 58.08 billions. This may be due to a lack of competitiveness for the before mentioned products. The trade balance of "*pharmaceutical products, rubber and plastics products*" in China has been improving year by year, which recorded a trade surplus of USD 19.06 billion in 2009. This may be due to competitiveness for the above mentioned products.

According to China's Customs Statistics, the bilateral trade between China and Switzerland is small compared with China's total trade in this sector. In 2009, bilateral trade amounted to USD 1.51 billion, accounting for 0.61% of China's total trade in this sector. The trade between the two countries mainly focused on "*pharmaceutical products"*. In 2009, China imported from Switzerland pharmaceutical products worth USD 648.7 million and exported USD 121.2 million. The sub-sector of "*coke oven products and refined petroleum products"* in China had a positive trade balance against Switzerland with a TSI value of 0.96 in 2002 and 0.79 in 2009. Switzerland has maintained stable trade surplus against China in the other four sub-sectors. Overall, the trade surplus of Switzerland was USD 841 million in the pharmaceuticals and chemicals sector in 2009, among which pharmaceutical products are the most competitive, recording the largest trade surplus with China of USD 527.5 million.

Switzerland

The pharmaceutical and chemical sector is the second largest industrial employer in Switzerland with about 65,000[44] employees. 4% of Swiss GDP is generated by the pharmaceutical and chemical industry.

[44] Figures of 2008.

In 2009, exports of pharmaceutical and chemical products to China amounted to USD 1.25 billion which is 23.5% of total Swiss exports to China. In the same year, Swiss imports from China in the pharmaceutical and chemical sector amounted to USD 564 million, corresponding to 11.3% of total Swiss imports from China.

A high 90% of the Swiss chemical and pharmaceutical industry production is related to specialties. Producing more than 30,000 products, the sector is highly differentiated. The global annual demand for specialties produced by Swiss companies often is below a few metric tons.

The following are the major product groups of the Swiss chemical and pharmaceutical sector:

- pharmaceuticals and diagnostics
- fine chemicals
- vitamins
- flavors and fragrances
- crop protection agents
- specialty chemicals for industrial-technical purposes
- pigments, paints and lacquers.

4.3.3.2 Tariffs applying to pharmaceutical and chemical products

China

China's simple average tariff applying to pharmaceutical and chemical products was 7.09% in 2008 (Sub-sector's simple average tariffs are listed in *Table 25*). There are totally 1005 6-digit tariff lines in this sector, most of which fall into the tariff range from 5% to 10%. *Table 23* indicates that simple average tariff of pharmaceutical products (4.48%) was the lowest, while the average tariff of rubber and plastics products (10.72%) was the highest.

Table 25: China's simple average tariff in subsectors in the sector of pharmaceutical and chemical products (2008)[45]

CPC	Description	Simple Average Tariff (%)
33	Coke oven products; refined petroleum products	6.19
34	Basic chemicals	6.35
35	Other chemical products, man-made fibres (excluding Pharmaceutical products)	8.20
352	Pharmaceutical products	4.88
36	Rubber and plastics products	10.72

[45] This table shows the average tariff rates based on CPC classification. The average tariff rates upon HS-2 digit tariff lines concerning this sector are showed in Appendix 6.

Source: *The average tariff rates of CPC classification is calculated based on corresponding HS-8 tariff lines issued by General Administration of Customs P.R.C.*

Switzerland

Table 26: Swiss MFN applied ad valorem duty equivalents in 2007 (pharmaceutical and chemical products)

HS-Code	Description	Avg. tariff	Range	Std-dev
		(%)		
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	1.0	0-14.4	2.2
29	Organic chemicals	0.3	0-6.9	0.7
30	Pharmaceutical products	0.0	0	0.0
31	Fertilizers	1.8	0-7.7	2.0
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other coloring matter; paints and varnishes; putty and other mastics; inks	1.6	0-13.8	2.5
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar article	4.8	0-21	6.0
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modeling pastes, dental waxes and dental preparations with a basis	3.1	0-14	3.1
35	Albuminoidal substances; modified starches; glues; enzymes	23.9	0-302.4	74.0
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	4.5	0.3-11.4	4.2
37	Photographic or cinematographic goods	0.3	0-1.1	0.3
38	Miscellaneous chemical products	1.1	0-14.3	2.6

Source: *WTO Trade Policy Review 2008*

4.3.3.3 Impact of trade liberalization

China

The simulation results for a Chinese-Swiss free trade agreement for pharmaceutical and chemical products in the GTAP model can be summarized as follows: The bilateral trade between China and Switzerland would increase. Given the current lower import tariffs of Switzerland, China's exports to Switzerland would only moderately increase. Swiss exports to China on the other hand would increase more considerably given higher current import tariffs of China. Due to the price advantage created by a possible FTA over similar products originating in the EU, Japan, the US and Chinese Taipei, some part of exports from the above regions to China might be substituted by exports from Switzerland.[46]

Switzerland has made great effort on R&D and innovation in this sector and has mainly focused on developing highly differentiated specialties. Currently, many products of Switzerland have occupied a leading position in the international market. Switzerland has also had a significant trade surplus with China for years, especially in the subsector of "pharmaceutical products". China's domestic industry might be influenced by increased imports from Switzerland. Products which are particularly sensitive for either FTA partner should be given appropriate consideration in the future FTA negotiations.

Switzerland

The possible FTA will have a positive effect on the development of trade in pharmaceuticals and chemicals, thereby contributing to the competitiveness of the sector in both countries, enhancing two-way trade and improving conditions for crossborder business-to-business cooperations.

4.3.4 Textile and Clothing

4.3.4.1 Description of the sector

China

According to the United Nations Central Product Classification (CPC), textile and clothing sector is divided into four sub-sectors, namely "*yarn and thread, woven and tufted textile fabrics"*, "*textile articles other than apparel", "knitted or crocheted fabrics, wearing apparel", "leather and leather products, footwear"*.

Textile and clothing is a labour intensive industry with a high degree of dependence on foreign trade in China. This sector also has great contribution to China's employment. China has been a major producer and exporter of textile and clothing and holds strong trade surplus. Due to the international financial crisis, the growth rate of China's textile and clothing exports declined in 2009.

The average growth rate of exports, imports and trade surplus were 15.4%, 3.2% and 17.7% respectively in China's textile and clothing sector from 2002 to 2009. China's trade surplus

[46] According to the GTAP-simulation by the Chinese experts, the bilateral trade between China and Switzerland would increase USD 518 million in this sector after the establishment of the FTA. The elimination of China's import tariffs would further Switzerland's exports to China by 51.11% (USD 492 million). USD 282 of these additional Swiss exports to China would substitute exports from other regions of the world to China. China's exports to Switzerland, EU and the rest of the world would increase by USD 26 million, 16.53 million and 44.28 million respectively.

reached USD 190.02 billion in this sector in 2009. China has an obvious comparative advantage, among which the sub-sector of knitted or crocheted fabrics and wearing apparel is the strongest, recording a trade surplus of USD 109.08 billion in 2009.

As for the bilateral trade between the two countries in this sector, China also held strong trade surplus with Switzerland of USD 868 million in 2009. Among all these sub-sectors, "*knitted or crocheted fabrics, wearing apparel"* and "*leather and leather products, footwear"* are much stronger than the others. The TSI values of the above two sub-sectors were 0.99 and 0.94 respectively in 2002, while in 2009 they recorded 0.99 and 0.83. These two sub-sectors are the two largest items of China's exports to Switzerland, with a trade surplus of USD 625 million and USD 228 million respectively in 2009.

Switzerland

The textile and clothing industry is the fourth largest industrial sector in its exports to China. In 2009, Swiss exports to China amounted to USD 196.74 million (nearly 3.7% of total goods exports to China). In the same year, imports from China amounted to USD 839.9 million which is nearly 16.8% of total imports from China. The sector occupied 16'500 employees (2008)[47] and contributed 0.22% to the GDP of Switzerland.

The two pillars of the Swiss textile industry are high-quality yarns and specialized finishing of fabrics. The Swiss textile industry has a tradition of specialty products such as St. Gallen embroidery, Zurich silk, muslin, gabardine, organdie and voile.

The three main market segments of the Swiss textile industry are:

- textiles for clothing, haute couture (approx. 40%);
- home textiles, innovative creations (approx. 30%): Curtains, drapes, bed and table linen, textiles for kitchens and bathrooms, furnishing fabrics and carpets;
- technical textiles, high-tech fabrics (approx. 30%): Highly specialized textiles for use in technical and sporting applications.

4.3.4.2 Tariffs applying to textile and clothing

China

China's simple average tariff applying to textile and clothing was 12.2% in 2008. The simple average tariffs of these 4 sub-sectors was 9.34 % (yarn and thread, woven and tufted textile fabrics), 11.71 % (textile articles other than apparel), 15.22 % (knitted or crocheted fabrics, wearing apparel) and 14.78 %(leather and leather products, footwear) respectively. Generally, 82.08% of tariff lines in this sector ranged from 5% to 20%, 4.12% of tariff lines from 20% to 50% and others blow 5%. No product has the duty of zero.

[47] http://www.swisstextiles.ch/files/pdf/02_wirtschaft/content_wirtschaft/zahlenspiegel-2008.pdf

Table 27: China's simple average tariff in subsectors in the textile and clothing sector (2008) [48]

CPC	Description	Simple Average Tariff (%)
26	yarn and thread, woven and tufted textile fabrics	9.34
27	textile articles other than apparel	11.71
28	knitted or crocheted fabrics, wearing apparel	15.22
29	leather and leather products, footwear	14.78

Source: *The average tariff rates of CPC classification is calculated based on corresponding HS-8 tariff lines issued by General Administration of Customs P.R.C.*

Switzerland

Table 28: Swiss MFN applied ad valorem duty equivalents (textile and clothing) (2007)

HS-Code	Description	Avg. tariff	Range	Std-dev
		(%)		
50	Silk	1.9	0-5.7	1.9
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	1.8	0-7.4	1.7
52	Cotton	3.5	0-10.8	2.1
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	1.8	0-14	3.5
54	Man-made filaments	8.2	0.4-47.4	6.5
55	Man-made staple fibres	4.8	0.3-32.1	3.7
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	8.0	1.4-49	9.8
57	Carpets and other textile floor coverings	5.8	1.3-11.8	2.5
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	4.0	0.4-21.4	4.0
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	3.2	0.5-10.4	2.2
60	Knitted or crocheted fabrics	7.9	1.3-22.3	5.5
61	Articles of apparel and clothing accessories, knitted or crocheted	4.7	0.8-29.6	3.3
62	Articles of apparel and clothing accessories, not knitted or crocheted	5.0	0.5-21.4	3.7
63	Other made up textile articles; sets; worn	10.7	0-121.6	13.3

[48] This table shows the average tariff rates based on CPC classification. The average tariff rates upon HS-2 digit tariff lines concerning this sector are showed in Appendix 6.

HS-Code	Description	Avg. tariff	Range	Std-dev
		(%)		
	clothing and worn textile articles; rags			
64	Footwear, gaiters and the like; parts of such articles	2.8	0.8-6.5	1.4
65	Headgear and parts thereof	2.2	0.2-4.7	1.4

Source: *WTO Trade Policy Review 2008*

4.3.4.3 Impact of trade liberalization

China

The simulation results of a China-Switzerland free trade agreement for the textile and clothing sectors in the GTAP model can be summarized as follows: China's exports of textiles and clothing to Switzerland would increase substantially due to the significant import tariffs Switzerland would remove for Chinese imports. The improved access to the Chinese market would raise Swiss exports of textiles and clothing to China significantly as well.[49]

Switzerland

The possible FTA will have a positive effect on the development of trade in textile and clothing, thereby contributing to the competitiveness of the sector in both countries, enhancing two-way trade and improving conditions for crossborder business-to-business cooperations.

4.3.5 Watch industry

4.3.5.1 Description of the sector

China

Based on the CPC, watch industry may cover the following sub-sectors: watches, clock or watch movements, clock or watch parts. The coverage of the latter two sub-sectors contains some clock movements or parts, which cannot be identified from watch movements or parts.

Since the 1980s, China's watch industry has developed steadily and China has become the world's largest base of production and processing. In 2008, China's annual output of watches exceeded 600 million, accounting for 83% of world production, ranking first in the world. China's watch industry still faces some serious problems, such as low product price and brand value, industrial restructuring lagging behind the consumption structure upgrading, and so on. As for the core technique of watch movements, there is a very large gap between China and Switzerland. At present, there are about 200 watch brands in the Chinese market, including more than 60 foreign brands. Among the top ten leading brands, seven come from Switzerland. Switzerland watches have occupied China's high-end market.

[49] According to the GTAP-simulation by the Chinese experts, the FTA between China and Switzerland would increase bilateral trade in textiles and clothing by USD 755 million. China's export of textile and clothing to Switzerland would increase by 38.7% (USD 600 million), while Switzerland's exports to China would increase by 157.83% (USD 155 million). The trade surplus of China and Switzerland with the world would increase by USD 466 million and by USD 17 million, respectively.

China’s import and export of watches had steadily increased from 2002 to 2008 but decreased in 2009 due to the financial crisis. In 2009, China’s export of watch products reached USD 1.2 billion and China’s imports amounted to USD 1.05 billion. The trade surplus of China recorded USD 156 million. In the same year, China’s export of clock or watch parts reached USD 297 million, while its imports amounted to USD 200 million, with a trade surplus of USD 96.94 million. In 2009, China’s exports and imports of clock or watch movements reached USD 155 million and USD 281 million respectively. China's trade deficit amounted to USD 126 million.

While China’s exports to Switzerland have decreased continually in the watch industry from 2002 to 2009, China’s imports from Switzerland have increased from 2002 to 2008 but decreased in 2009. China’s exports to Switzerland reached USD 1.9 million in *watches* subsector, accounting for 0.16% of China’s exports. China’s imports from Switzerland were worthy of USD 847 million with an 80.9 % share of China’s imports and a deficit of USD 845 million in 2009. In the same year, China exported USD 1.93 million of clock or watch movements to Switzerland with a 1.24% share of China’s exports in this sector. China imported USD 10.5 million clock or watch movements from Switzerland with a 3.73% share of China’s imports in this sector, recording a trade deficit of USD 8.58 million. In 2009, China’s exports to Switzerland in clock or watch parts recorded USD 21 million with a 7.2% share of China’s exports and imported USD 12 million with a 6% share of China’s imports. China enjoyed a trade surplus of USD 9.5 million in 2009.

Switzerland

The watch and clock industry is Switzerland's third largest industrial exporter after the machinery, electronics, instruments and devices (Chapter 4.3.1) and pharmaceuticals and chemicals (Chapter 4.3.2).

Historically, the Swiss watch and clock industry has always had a horizontal structure in which specialized manufacturers, craftsmen and sub-contractors supply parts and movements to assemblers manufacturing the final product. A limited number of companies have developed a vertically integrated structure in which watches and clocks are made entirely inside the same company.

Approximately 40,000 people are employed by the Swiss watch and clock industry, due to heavy restructuring down from more than around 90'000 in the early 1970s. While the number of employees did not change much in the last 20 years, the number of companies decreased from about 1'600 in 1970 to about 600 today. The great majority of watch companies are small sized companies (employing less than 100 people). Less than ten companies have more than 500 employees each.

In 2009, Swiss watch manufacturers exported products to the world worth USD 12.1 billion. In the same year; Swiss exports in the watch sector to China amounted to USD 665.1 million, accounting for 12.5% of total Swiss exports to China. Swiss imports from China in the sector of watches amounted to USD 36.2 million representing 0.7% of total Swiss imports from China.

4.3.5.2 Tariffs applying to watch industry products

China

In 2008, the tariff lines of watch products are mostly located in the range from 10 to 20% in China with the simple average tariff of 15.31%. As for clock or watch movements, the tariff range is between 15 and 20% with the simple average tariff of 16%. The tariffs of clock or watch parts are between 10% and 20% with the simple average of 14.31%.

Table 29: Average Tariff in the Watch Industry (2008)[50]

No.	CPC	Description	Simple Average Tariff (%)
		Clocks and watches	15.18
1	4841	watches	15.31
2	4844	clock/watch movements	16.00
3	4849	clock/watch parts	14.31

Source: *The average tariff rates of CPC classification is calculated based on corresponding HS-8 tariff lines issued by General Administration of Customs P.R.C.*

Switzerland

Table 30: Swiss MFN applied ad valorem duty equivalents in 2007 (watch industry products)

HS-Code	Description	Avg. tariff	Range	Std-dev
		(%)	(%)	(%)
91	Clocks and watches and parts thereof	0.6	0-2.7	0.7

Source: *WTO Trade Policy Review 2008*

4.3.5.3 Other trade policies affecting trade in watch industry products

China

There are no other trade policies affecting trade in the sector besides of tariffs.

Switzerland

"Swiss made" legislation

According to Swiss legislation relating to the use of the "Swiss made" label in the watch industry, a watch may carry the indications "Swiss made" or "Swiss" or any other expression containing the word "Swiss" (or translations thereof) on the outside of the product only if it fulfils the following requirements: the movement of the watch is Swiss, the movement of the watch is encased in Switzerland and the final inspection by the manufacturer is carried out in Switzerland. A watch movement is considered to be Swiss if it is assembled in Switzerland, inspected by the manufacturer in Switzerland and at least 50% of the total value of the components is manufactured in Switzerland, without taking into account the cost of assembly.

[50] This table shows the average tariff rates based on CPC classification. The average tariff rates upon HS-2 digit tariff lines concerning this sector are showed in appendix 6.

4.3.5.4 Impact of trade liberalization

China

China and Switzerland both are major watch producers. Focusing on the low-end watch market in the past, China is now aiming at the mid-end market. Switzerland with its brands and technical advantages keeps focusing on high-end watch market.

Affected by the financial crisis, the watch exports of Switzerland to the world decreased by 22.33% in 2009, compared to 2008. Among its major export destinations, the decline of watch exports to China was small (-15.24%, ranging fourth after the Republic of Korea [+35.7%], Australia [+10.8%] and Singapore [-13.9%]). China was still the fifth largest export destination of Switzerland. In the same year, both China import's of watches from the world and Switzerland reduced by 15%, but Switzerland was still the largest importing source, accounting for more than 50% of China's total imports of watches. China-Switzerland FTA would increase Switzerland's exports to China

According to the research of China Watch Industry Association, China's watch market can be divided into three segments: the high-end segment (USD 1,440 or above)[51], the mid-end segment (USD 144~1,440) and the low-end segment (below USD 144). The high-end market is mostly occupied by Swiss brands, and Chinese domestic products can mostly be found in the low-end segment. For the mid-end market, there is a fierce competition between domestic and foreign brands. After the FTA entering into force, the imports growth of Swiss mid-end products will bring pressures to similar domestic products, such as other mechanical display electronic watches (91.02.11) and other auto-winding mechanical watches (91.02.21). Products which are particularly sensitive for either FTA partner should be given appropriate consideration in the future FTA negotiations.

Switzerland

The possible FTA will have a positive effect on the development of trade in watch industry products, thereby contributing to the competitiveness of the sector in both countries, enhancing two-way trade and improving conditions for crossborder business-to-business cooperations.

5 Trade in Services

Trade in services is becoming an increasingly important integral part of the bilateral economic and trade relations between China and Switzerland. This chapter provides an overview of the current status of the service sector and trade in services between China and Switzerland as well as related policies, and also provides an overview on the liberalization of trade in services and its impacts on some specific sectors.

5.1 Overview of trade policies applying to trade in services

5.1.1 Overview of Services Sectors

China

In recent years, China's services sector has experienced steady growth. The output value of China's services sector in 2002 was USD 623.736 billion, accounting for 41.5% of China's GDP that year. The output value of China's services sector in 2008 was USD 1736.118 billion,

[51] Calculation based on the average exchange rate in 2008: US$ 1= ￥6.94

accounting for 40.1% of China's GDP and representing an increase of 178.34% that of year 2002. In 2002, the number of people employed in China's services sector was 210.9 million, accounting for 28.6% of China's total employment, while in 2008, the figure reached 257.17 million, accounting for 33.2% of China's total employment, representing an increase of 39.62% over 2002.

Table 31: The Output Value and Employment of China's Services Sectors

Year	**Output Value** (USD 100 mio.)	**Percentage of the GDP** (%)	**Employment** (10,000 persons)	**Percentage of the Total Employment** (%)
2002	6,237.36	41.5	21,090	28.6
2003	7,000.59	41.2	21,809	29.3
2004	8,070.16	40.4	23,011	30.6
2005	9,179.11	40.1	23,771	31.4
2006	10,371.50	40.0	24,614	32.2
2007	13,813.78	40.4	24,917	32.4
2008	17,361.18	40.1	25,717	33.2

Source: *National Bureau of Statistics of China*

Switzerland

With a share of around 75% of all enterprises established in Switzerland, the services sector is the predominant branch of the Swiss economy. 71.0% of Swiss GDP is generated in the services sector. Seven out of ten people employed in Switzerland are working in the various services sectors. As far as trade in services is concerned, Switzerland ranks among the largest exporters of services, with a net export value of approximately 47 billion USD in 2008.

5.1.2 Policies concerning Trade in Services

China

Since its accession into the WTO in 2001, China has progressively liberalized its services sector in accordance with its commitments. The commitments cover 10 service sectors of 12 under General Agreement on Trade in Services (GATS), involving 100 subsectors of the 160, accounting for 62.5% of the total subsectors. The level of its specific commitments is similar to that of developed members. Among the 33 items that are listed in the schedule of specific commitments on services, market access conditions on banking, insurance and securities are further improved. Distribution services and professional services such as accounting, auditing and legal services are liberalized to a greater extent. Commitments on telecommunication, audiovisual service, gas, heating, water supply and sewage are also tabled in the schedule for the foreign service suppliers. After the endpoint of transitional period of China's accession, restrictions on most services sector for foreign investment, such as region, equity and scope of business have been phased out. Only those important and sensitive sectors vital to national security and national economy and the people's livelihood are still subject to necessary restrictions. China has already fully implemented its WTO commitments, including those in financial services sectors. The level of liberalization of China's services sectors is fairly high, taking into account the fact that China is still a developing country.

Recently, China has made numerous efforts to further liberalize trade in services in the framework of regional and bilateral trade arrangements on the basis of its WTO rights and obligations. China has signed seven agreements with commitments on liberalization of trade in services with its trading partners under the framework of FTA. On the basis of its commit-

ments under the WTO, China has made some additional commitments benefitting foreign service providers of FTA partners in eight sectors including professional and business services such as legal services, architectural design services, engineering services, medical services, computer and related services, research and development services, real estate services, rental/leasing services, advertising services, market research services, management consulting services, services incidental to mining, placement and supply services of personnel, building cleaning services, translation services, construction and related engineering services, distribution services, education services, environmental services, tourism services, sporting services and transport services.

China's service providers also enjoy opportunities of preferential commitments from China's FTA partners on the basis of their WTO commitments in many sectors. Those are business services like medical services, computer and related services, research and development services, management consulting services, services incidental to mining and services incidental to manufacturing, communication services such as courier services and telecommunication services, financial services, construction and related engineering services, distribution services, education services, environmental services, tourism services, recreational, cultural and sporting services and transport services, etc.

After China joined the WTO in 2001, China's trade in services grew steadily. Total value of trade in services rose from 86.27 billion US dollars in 2002 to 306.04 billion US dollars in 2008. The export value rose from 39.74 billion US dollars in 2002 to 147.11 billion US dollars in 2008 while import value from 46.53 billion US dollars in 2002 to 158.92 billion US dollars. China's trade in services has experienced trade deficit for 8 consecutive years, rising from 6.78 billion US dollars in 2002 to 11.81 billion US dollars in 2008.

Table 32: Balance of China's Trade in Services (USD 100 million)

Year	Total Value	Export	Import	Trade Balance
2002	862.7	397.4	465.3	-67.8
2003	1020.4	467.3	553.1	-85.7
2004	1345.6	624.3	721.3	-97.0
2005	1582.0	744.0	838.0	-93.9
2006	1928.3	920.0	1008.3	-88.3
2007	2523.2	1222.1	1301.1	-79.0
2008	3060.4	1471.1	1589.2	-118.1

Source: *National Bureau of Statistics of China*

More foreign direct investment has flown to services sectors since 2001. The figure was USD 30.983 billion in 2007 and reached USD 39.041 billion in 2008. China has also increased its overseas investment in services sector in 2007 and 2008, which reached USD 19.564 billion and USD 46.099 billion respectively.

Table 33: Foreign Direct Investment in China's Services Sector (USD 100 million)

Year	2007	2008
Inflows	306.86	381.20
Outflows	195.64	460.99

Source: *National Bureau of Statistics of China*.

Switzerland

In its FTAs, Switzerland builds on the rights and obligations of the existing multilateral framework on trade in services, i. e. the General Agreement on Trade in Services (GATS) of the WTO, including the definitions and the principles of market access and non-discrimination. As in the GATS, trade in services provisions of Swiss FTAs cover the four modes of supply: cross-border supply (mode 1), consumption abroad (mode 2), commercial presence (mode 3), temporary movement of natural persons supplying services (mode 4, chapter 5.3). In its FTAs, Switzerland aims to consolidate the rights and obligations of the GATS, while seeking to improve on these rights and obligations as appropriate, in order to enhance and strengthen the legal certainty for trade in services and for services suppliers. As in the services negotiations in the framework of the Doha Round, no services sector or mode of supply should be excluded a priori from the negotiations. In Switzerland's FTAs, like in the GATS, sectoral annexes contain provisions specifically relevant for certain sectors, in particular financial services and telecommunications services.

As far as specific commitments in FTAs are concerned, these should be based on the existing level of commitment under the GATS. In addition, improvements on the GATS commitments could be considered in specific sectors, depending on the level of the partner's specific commitments under the GATS and taking into account the relevant national legislation of the partner. In the framework of the ongoing WTO Doha negotiations, Switzerland and China are already engaged in a process of bilateral offers and requests regarding commitments on trade in services. Negotiations on a Switzerland-China FTA could build on this process, taking into account the specific interests of both sides.

5.2 Trends in specific service sectors

Taking into account the level of development of the services sectors of China and Switzerland and the complementarities of service sectors between China and Switzerland, the study on trade in services focuses on professional and business services in general, and specifically on architectural services, engineering services, medical and dental services, services provided by midwives, nurses, physiotherapists and para-medical personnel in the professional services, on maintenance and repair services of equipments, translation and interpretation services in business services, environmental services, construction and related engineering services, financial services, transport and logistics services as well as telecommunications services.

5.2.1 Professional and Business services

China

23 subsectors are subject to China’s binding commitments according to China’s accession to WTO, covering 50% of its business services sector, among which professional services cover eight sub-sectors, computer and related services three sub-sectors, real estate services two sub-sectors and other business services ten sub-sectors.

Switzerland

In the field of professional and business services, the Swiss economy is highly internationalized. Domestically, market access conditions relating to professional and business services are generally open to foreign suppliers under the modes of supply and the categories of natural persons as defined in the GATS schedule, where Switzerland has made specific commitments in 37 sub-sectors covering 80% of the business services sector. Only few activities are subject to licensing (e. g. health professionals, lawyers, auditors). Activities in regulated professions require diplomas recognized by the competent authority. Professional and business service providers exporting from Switzerland are mostly organized in the form of small

and medium sized enterprises, focusing on highly specialized niches, such as in the field of consulting, engineering or architectural services.

5.2.1.1 Professional Services

China

5.2.1.1.1 Architectural Services and Engineering Services

China's architectural and engineering service sector, as a growing industry, has been accelerating its presence in the international markets after China's accession into the WTO. China strengthened technical exchange and cooperation with its foreign counterparts, helping China's architectural and engineering enterprises better understand the internationally accepted patterns and standards of designing and project management. China's export of architectural services has been transformed from labor oriented to technology and management oriented. While strengthening cooperation with international counterparts, China's architectural and engineering industry put great emphasis on innovation and has made great progress. China's designing in many fields has reached the international level. Swiss architectural sector enjoys a good reputation internationally, and its architecture develops its own style, boasting a number of first-class architects and offices.

5.2.1.1.2 Medical and Dental Services, Services Provided by Midwives, Nurses, Physiotherapists and Para-medical Personnel

In recent years, China's health industry has developed steadily and total health resource has kept increasing. In 2008, China's total health labor force reached 6.169 million, among which 5.03 million were health personnel, increased by 5.1% over 2007. For those health personnel, 2.082 million were Clinical Medical Practitioners and Clinical Assistant Medical Practitioners, and 1.653 million were registered nurses. Since China's reform and opening up, traditional Chinese medicine technology has been further combined with modern western medicine technology. Chinese medicine, featured by physiocracy and little toxic and side-effect, became increasingly popular abroad. According to incompletely statistics, Chinese traditional medicine has been spread worldwide, covering more than 160 countries and regions. The total number of Chinese traditional medicine employees ranges from 300,000 to 500,000, among which some 100,000 are in Europe, some 20,000 in North America, and some 10,000 Chinese medicine doctors and acupuncturists in Canada.

5.2.1.2 Other Business Services

China

5.2.1.2.1 Maintenance and Repair Services of Equipment

China has become a major nation producing and exporting household electrical appliances, electromechanical equipments, and communication facilities. Cross border after-sale maintenance services and professional maintenance services become increasingly important due to large amounts of export of products and equipments. In Switzerland the same maintenance and repair services shall be given to the products and equipments made in China. It is therefore a key problem to be solved for those employees or professional maintainers of export and manufacturing enterprises in trade in services.

5.2.1.2.2 Translation and Interpretation Services

China's translation services sector emerged as a new competitor in the global translation arena. Estimates made by insiders showed that there were around 27,000 translation services agencies in all. Demand on translation services grew steadily with a sharp increase of cross-country personnel flows. The labor force of Chinese translation services was expanding owing to the improved quality of China's foreign language education.

5.2.1.3 Conclusion

Under the framework of a China-Switzerland FTA, possibilities could be explored on how to deepen professional and business services cooperation between the two countries, taking into account the specific interests and sensitivities of both sides.

5.2.2 Financial services

5.2.2.1 Banking and Securities Services

China

By the end of 2009, China's total banking sector is composed of 3,858 corporate bodies, 193,000 business outlets, with 2.845 million people employed. Types of corporate bodies include policy banks, large commercial banks, joint-stock commercial banks, city commercial banks, rural commercial banks, rural cooperative banks, urban credit cooperatives, rural credit cooperatives, postal savings banks, financial assets management companies, foreign banks, trust companies, enterprise group finance companies, financial leasing companies, money brokers, auto finance companies, village banks, finance companies and rural finance Unions.

China has made binding commitments in six sub-sectors of the banking services, covering 100% of the whole banking sector. By the end of 2009, 194 banks from 46 countries and regions have set up 229 representative offices in China. Banks from 13 countries and regions have set up 33 wholly foreign-owned banks, two joint venture banks and two wholly foreign-owned finance companies. Another 71 foreign banks from 24 countries and regions have set up 95 branches in China.

By the end of 2009, six Swiss banks have established their representative offices or business branches in China. They are the EFG Bank European Financial Group, the UBS, the Zuercher Kantonal Bank, the Credit Suisse Limited, the HSBC Private Bank (Suisse) and the EFG Bank.

Recent years also have seen a steady growth in China’s securities sector. By the end of 2008, there were 107 securities companies as well as 61 funds management companies and 439 types of securities investment funds in China. In 2008 alone, the capital raised from China’s stock market amounted to USD 52.0 billion. In the same year, 30 companies raised USD 14.4 billion by issuing corporate bonds, convertible bonds or warrant bonds. By the end of 2008, there were 109 companies issuing B-shares, 76 overseas organizations with QFII qualification, 5 foreign-funded banks which are allowed to operate QFII custodian bank business.

In 2008, China went beyond its WTO commitments by announcing that qualified securities joint ventures were allowed to extend their business to certain sectors. By the end of that year, 8 securities joint ventures and 33 funds management joint ventures were formed upon approval, among which foreign equity proportion of 16 funds management joint ventures reached 49%.

In May 2003, a Memorandum of Understanding on Securities Regulation signed between China Securities Regulatory Commission and Swiss Federal Banking Commission. In July 2005, ICBC Credit Suisse Asset Management Co., Ltd. was set up jointly by Credit Suisse First Boston Bank, Industrial and Commercial Bank of China and China Ocean Shipping (Group) Company (COSCO). It is the first asset management joint venture initiated and held by a state-owned bank in China.

Despite the steady development, China’s banking and securities sectors remain less competitive than its counterparts in developed countries.

Switzerland

By virtue of their direct and indirect contribution to value-added and employment, financial services are an important pillar of the Swiss economy. The sector's share in employment is approximately 5.9% (2008) and the share in GDP is 12.3% (2008) [52], which is the largest share among services sectors. Some 40% of value-added in the banking sector stems from wealth management services and approximately one third from retail banking. The remainder is generated by funds management, investment banking, commodities trade finance and the pensions fund business. As far as financial services in FTAs are concerned, Switzerland builds on the GATS Annex on Financial Services and includes additional elements, for instance, in the field of national treatment and domestic regulation.

Switzerland has a modern financial market regulation and supervisory structure for banking, securities and insurance services, with a view to safeguarding and maintaining institutional and systemic stability. The two financial supervisory bodies are the Swiss Financial Market Supervisory Authority (FINMA) and the Swiss National Bank (SNB), acting as the Swiss monetary authority.

With respect to banking services, the Swiss financial centre of today is characterized by financial institutions operating internationally in asset management and private banking. With respect to the wealth management business, the volume of assets under management in Switzerland amounts to about USD 11 trillion, an estimated 10% worldwide market share. Retail banking is important domestically in terms of employment and creation of value-added, but is less important internationally than asset management. Closely associated with the retail banking business is the management of funds. In addition, there is a whole range of other banking services in which Switzerland also maintains an important position on international markets, e.g. currency trading, commodities trading and trade finance.

Open markets for banking services (and other financial services), and in particular a level playing field in domestic and foreign markets are essential for Switzerland's internationally oriented financial service suppliers. As far as trade in financial services between Switzerland and China is concerned, Swiss banking services suppliers have been actively engaged in operations in China for more than 50 years. To date, Swiss financial services suppliers are active in China in the fields of commercial banking, investment banking and securities business as well as wealth management services. Switzerland has made binding commitments in the GATS/WTO in all financial services sectors (insurance, banking and other financial services) and its market is completely open to Chinese financial institutions.

5.2.2.2 Insurance Services

China

China's insurance sector has expanded at a fast pace over the past few years. By the end of 2008, there were a total of 120 insurance companies including 48 foreign insurance institutions in China. Among them were 16 foreign property insurers, 26 foreign life insurers and 6 foreign reinsurance companies.

In accordance with China's commitments in the WTO, foreign companies enter China by establishing foreign insurance agencies and holding shares of Chinese insurance companies. The foreign life insurers are permitted to hold 50% foreign ownership in a joint venture with the partner of their choice. Foreign non-life insurers are permitted to establish a wholly-owned subsidiary. And the wholly foreign-owned subsidiary is permitted to operate brokerage for insurance of large scale commercial risks, brokerage for reinsurance, brokerage for inter-

[52] Figure includes employees in the financial, insurance and banking sector.

national marine, aviation, and transport insurance and reinsurance. There are no geographical restrictions for foreign insurers, non-life insurers and insurance brokers to run business.

By the end of 2008, 3 Swiss insurance companies including Winterthur Insurance Company, Zurich Insurance Company and Swiss Re-insurance Company had entered China.

Despite the steady development, China's insurance sector remains less competitive than its counterparts in developed countries.

Switzerland

The Swiss insurance sector offers a wide range of services domestically and internationally, including life and non-life insurance services as well as reinsurance services. In Switzerland, the insurance market is generally characterized by a high insurance density on a per capita basis. Premium income of Swiss insurance companies worldwide was CHF 176.8 billion in 2008, of which approximately 28% stem from reinsurance, 35% from life insurance and 37% from non-life insurance. In 2008, Swiss insurance companies generated close to 70% of their premium income abroad, an indication of the high degree of internationalization of this sector in Switzerland. The orientation towards global markets is particularly high for reinsurance services, in which Switzerland is one of the world's largest suppliers. Therefore, open domestic and foreign markets and a level playing field are essential for Swiss insurance companies.

5.2.2.3 Conclusion

Under the framework of a China-Switzerland FTA, possibilities could be explored on how to deepen financial services cooperation between the two countries, taking into account the specific interests and sensitivities of both sides.

5.2.3 Environmental services

China

Environmental services sector covers seven sub-sectors, including sewage services, waste disposal services, cleaning services of exhaust gases, noise abatement services, nature and landscape protection services, other environmental protection services and sanitation services. According to the *Protocol of China's Accession to the WTO*, China makes binding commitments in all seven sub-sectors, covering 100% of environmental services sector (excluding environmental quality monitoring and pollution source inspection).

China is in the process of industrialization and urbanization and Chinese government attaches great importance to environmental protection, which forcefully pushes the market demand of environmental protection industry. Statistics show that total industrial revenue had raised from 6.6 billion US dollars to 113.67 billion dollars, accounting for 2.6% of GDP, with its average annual growth rate exceeding 15%, higher than that of GDP during the twelve years from 1997 to 2008. Modernized environmental protection enterprises whose output value exceeds 1 billion US dollars have emerged. China's environmental protection technology and products can basically meet the needs of markets through the combination of independent research and development and introduction of foreign advanced technology.

Switzerland

The expertise of Switzerland's suppliers of environmental services lies primarily in the field of engineering, consulting and monitoring, as well as in providing technological knowhow in the management and the monitoring of environmental resources. With respect to market access, the level of market access granted under the GATS provides a good basis to facilitate and enable bilateral trade in environmental services between China and Switzerland.

Conclusion

Under the framework of a China-Switzerland FTA, possibilities could be explored on how to deepen environmental services cooperation between the two countries, taking into account the specific interests and sensitivities of both sides.

5.2.4 Other services

5.2.4.1 Construction and Related Engineering Services

China

In the steady development of China's economy, the construction sector plays a pillar industry role of the national economy. Since 2002, the output value of the construction sector has maintained an average annual growth rate of around 20% and the construction sector employees accounted for more than 5.2% of the China's total employees. Nearly one-third of the migrant workers working in urban areas work in the construction sector. After China's accession to the WTO, the construction sector has made considerable progress in both domestic and foreign markets. In 2008, the output value of the construction sector accounted for 5.7% of GDP. Meanwhile, the sector also successfully acquired numerous foreign contract projects. The sector achieved 163,881 overseas contract projects in 2008 with contract value amounting to 113.015 billion US dollars. China's industrial and civil construction sector, project installation and assembly sector have the great potential to reach top international level in terms of quality of personnel, level of construction technology and level of equipment.

5.2.4.2 Transport and Logistics Services

Switzerland

International trade requires transport and logistics services providing efficient point-to-point supply and distribution chains. Transport and logistics services constitute an integral part of trade infrastructure and are a major determining factor of the competitiveness of an economy in global trade and investment. Swiss logistics and transport companies are actively engaged in such global supply chains. To efficiently and effectively offer their logistics services on a worldwide scale for the benefit of exporters and importers both in Switzerland and in its partner countries, Swiss logistics and transport companies depend on open markets for logistics services, and in particular on a level playing field domestically and abroad.

5.2.4.3 Telecommunications Services

Switzerland

Telecommunications services are an important infrastructure sector for the economy and for trade. That is why a regulatory environment for telecommunications services that is not only open and transparent, but also reliable and predictable is in the interest of the sector itself and of the economy as a whole. To take due account of this, Switzerland includes in its FTAs an annex on telecommunications services which corresponds to the GATS Reference Paper on regulatory principles for basic telecommunications services.

5.2.4.4 Conclusion

Under the framework of a China-Switzerland FTA, possibilities could be explored on how to deepen cooperation in the above mentioned services sectors between the two countries, taking into account the specific interests and sensitivities of both sides.

5.3 Temporary entry of natural persons

5.3.1 China's temporary entry policies

The *Law of the People's Republic of China on Control of the Entry and Exit of Aliens* which entered into force on 1st February 1986 and the *Rules for the Implementation* of this law which was amended and promulgated on 24th April 2010, are the main laws and regulations applicable to aliens entering, leaving and transiting the territory of the People's Republic of China and to those residing and travelling in China.

For entry into China, foreigners shall apply for visas from Chinese diplomatic missions, consular offices or other resident agencies abroad authorized by the Ministry of Foreign Affairs. Foreigners in case of an urgent need to travel to China and a lack of time to apply for visas to the Chinese diplomatic authorities may apply for visas to port visa Agencies authorized by the Ministry of Public Security of China. In cases where another country has special provisions for Chinese citizens entering and transiting that country, the competent authorities of the Chinese Government may adopt reciprocal measures contingent on the circumstances.

Till now, China has signed *Agreements on Visa Exemption* with 67 countries. Chinese citizens holding certain kinds of passport do not need to apply for visas in advance for shorttern visit to those countries.

In the China-New Zealand FTA both parties agree to undertake expeditious application procedures to temporary entry request of business visitors, contractual services suppliers, intra-corporate transferees, skilled workers or installers and servicers from the other side. Moreover, New Zealand agreed to provide more favourable conditions for temporary employment entry of Traditional Chinese Medicine Practitioners, Chinese Chefs, Mandarin Teaching Aides, Chinese Wushu Martial Arts Coaches, and Chinese Tour Guides.

The China-Peru FTA introduced transparency standards and simplified procedures for temporary entry of business persons, with a Working Group on Temporary Entry for Business Persons established which shall meet at least once every three years.

5.3.2 Swiss temporary entry policies

According to Swiss migration policy, highly qualified individuals and specialists and other highly qualified personnel from around the world are admitted subject to annual global quotas for short-term and annual residence permits. In the context of the Swiss-EU bilateral agreements (chapter 2.2.2) Switzerland is associated to the EU/EEA system of movement of natural persons, applicable to nationals of the EU and the EFTA States (active and inactive population), and to the Schengen visa regime.

In its FTAs, Switzerland covers temporary entry of natural persons in the context of the supply of services, using the same scope and categories as used in the GATS commitments of Switzerland and the Swiss offers in the WTO Doha negotiations under the GATS, including categories such as business visitors, intra-corporate transferees, contractual service suppliers as well as installers and maintainers. The commitments of Switzerland granted in its FTAs reflect the national policies and legislations regarding entry and temporary stay of natural persons.

5.3.3 Conclusion

Under the framework of a China-Switzerland FTA, possibilities could be explored on how to deepen cooperation relating to the temporary entry of natural persons between the two countries, taking into account the specific interests and sensitivities of both sides.

6 Intellectual Property

6.1 China's intellectual property policies

Overview

IPR protection has become a key factor in facilitating Chinese economic development and international trade. China is a member of World Trade Organization (WTO), the World Intellectual Property Organization (WIPO) and a party to various multilateral IPR agreements (*Table 34*). China joined the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty in March 2007. Now China has established a comprehensive legal system of IPR protection.

Administration of IPR in China is on two levels: administrative bodies under the State Council and local administrative authorities. The administrative bodies under the State Council are responsible for examining and granting or registering intellectual property rights while the local authorities administer and enforce them at the local levels.

Table 34: China's membership of international intellectual property rights conventions

	Convention	Date of accession
1	Berne Convention for the Protection of Literary and Artistic Works	1992
2	Budapest Treaty on the International Recognition of the Deposit of Micro-Organisms for the Purposes of Patent Procedures	1995
3	Convention Establishing WIPO	1980
4	Convention for the Protection of Producers of Phonographs Against Unauthorized Duplication of their Phonograms	1993
5	International Convention for the Protection of New Varieties of Plants	1999
6	Locarno Agreement Establishing an International Classification for International Design	1996
7	Madrid Agreement Concerning International Registration of Marks	1989
8	Nice Agreement Concerning the International Classification of Goods and Services for the Purpose of the Registration of Marks	1994
9	Paris Convention for the Protection of Industrial Property	1985
10	Patent Co-operation Treaty	1994
11	Protocol Relating to the Madrid Agreement concerning the International Registration of Marks	1995
12	Strasbourg Agreement Concerning International Patent Classification	1997
13	Treaty on Intellectual Property in Respect of Integrated Cir-	1989

	cuits[53]	
14	Universal Copyright Convention	1992
15	Agreement on Trade-Related Aspects of Intellectual Property Rights	2001
16	WIPO Copyright Treaty	2007
17	WIPO Performances and Phonograms Treaty	2007

Patent

Patent rights in China are protected under the *Patent Law* (amended on 27 December, 2008), its *Implementing Regulations* (amended on 1st January 2010) and rules promulgated by the State Intellectual Property Office (SIPO) to implement the *Patent Law*. Currently, patent rights for inventions are granted for 20 years of protection from the filing date of application (ten years from filing date for utility models and designs).

SIPO is in charge of the administration of patents nationwide, handling and coordinating IPR-related domestic affairs, as well as representing China in international fora on intellectual property rights. The State Patent Office under the SIPO is in charge of receiving patent applications and granting patents while local IPR administrative offices are responsible for patent disputes.

If a patent applicant is not satisfied with SIPO's decision, requests for re-examination could be made to the Patent Re-examination Board. If the Board finds that the decision taken by SIPO does not comply with the provisions of the *Patent Law* and its accompanying rules and regulations, it could revoke the decision and ask SIPO to continue the patent examination. If the patent applicant is still not satisfied with the Board's decision, he/she could appeal to a people's court.

Trademark

Trademark rights are protected under the *Trademark Law*, the *Regulations for the Implementation of the Trademark Law* and various rules issued by State Administration of Industry and Commerce (SAIC). Currently, trademarks are valid for ten years and renewable indefinitely for ten years each time.

The State Trademark Office, under the State Administration for Industry and Commerce (SAIC), is responsible for the registration and administration of trademarks and geographical indications. Local enforcement authorities are in charge of administration of trademarks and geographical indications at the local levels. All applicants are required to register their trademarks with the State Trademark Office. Foreigners and foreign enterprises are required to file an application in accordance with any agreement concluded between their country of origin and China, or any international treaty to which both are parties, or on the basis of reciprocity.

In the event that the Trademark Office decides to refuse registration, appeals may be made to the Trademark Review and Adjudication Board, or further to a people's court.

Geographical indications (GIs) are registered as collective marks or certification marks with the State Trademark Office under the same procedures as those for trade marks[54]. Data pro-

[53] China has signed that Treaty on the 1st May 1990. The Treaty has not yet been ratified by China.

[54] GIs are also registered in AQSIQ and MoA in accordance with their respective rules.

vided by the authorities show that, by the end of 2009, 771 geographical indications had been registered by the State Trademark Office.

Copyrights and related rights

Copyrights protection is granted under the *Copyright Law* (amended on 26th February 2010) and its accompanying regulations.

The National Copyright Administration of China under the State Council administers copyrights on a national scale. Local copyright administration offices (under the local governments of provinces, autonomous regions, and municipalities directly under the Central Government) are in charge of local copyright registration and administration. Protection for cinematographic and photographic works is granted for fifty years, and typographical designs for ten years. Protection for computer software is granted for the lifetime of the author plus 50 years from the date on which the development was completed.

Enforcement

Intellectual property rights in China are enforced by two means: administrative actions, and judicial measures. Administrative actions consist of mediation by the authorities, involving a large number of agencies. Judicial actions are taken through the public security authorities, procuratorial organs and the courts.

Customs is in charge of enforcing intellectual property rights at the border.

IPR Protection Practice in China

Under the Protocol on the Accession of the People's Republic of China, China is committed to bringing all measures related to IPR into full compliance with and full implementation of the *WTO Agreement on Trade Related Aspects of Intellectual Property Rights* (hereinafter referred to as the *TRIPS Agreement*). Consequently, amendments to *Copyright, Trademark and Patent Law*, as well as relevant implementing rules have been made. Meanwhile, for this reason, Chinese government attaches great importance to further strengthen the law enforcement of IPR protection.

Since China's accession to the WTO, various Chinese law enforcement agencies and authorities have been established and a series of special nationwide campaigns have been carried out to crackdown on all kinds of infringement activities. Every year, activities of various forms are organized like IPR week to commemorate the World Intellectual Property Day (April 26). Special training courses on IPR have been conducted by the Chinese Government tailored for senior officials including ministers, director-generals and provincial and municipal governors, as well as law enforcement officials and judicial personnel. Meanwhile, the Central Government has also set up 32 IPR education and research institutions and has incorporated IPR courses into primary and secondary school curricula.

6.2 Swiss intellectual property policies

The protection of intellectual property rights (IPR) is of major importance for domestic and international economic activity, as it plays a vital role in promoting and creating an environment for economic operators to engage in development, innovation and research. As a consequence, the protection of IPR has become increasingly important in FTAs and international trade law. Many large as well as small and medium sized companies of different sectors (machinery, chemicals and pharmaceuticals, etc.) depend on an international environment providing for appropriate levels of protection of IPR and for their effective implementation. IPR are also important for economic operators when engaging in cross-border marketing and distribution of products and services. Providing for security and predictabili-

ty, IPR protection is conducive to the enhancement of cross-border trade and foreign investment.

In order to address the global proliferation of counterfeits and pirated goods, Switzerland has set up a public-private platform to exchange relevant information and to coordinate joint initiatives (awareness building, etc.).

Switzerland and China are both members of the World Intellectual Property Organization (WIPO) and Parties to the *TRIPS Agreement*. The *TRIPS Agreement* lays down minimum standards for trade related protection and enforcement of IPR. In many areas, Switzerland provides protection that goes beyond the minimum requirements of the *TRIPS Agreement*. Swiss legislation protects copyrights and neighboring rights as well as the rights deriving from the registration of patents, plant varieties, trademarks, geographical indications, designs and topographies of integrated circuits, as well as from undisclosed information.

At the 17th meeting of the Swiss-Chinese Joint Economic Commission in Beijing, on 29 May 2007, Switzerland and China signed a Memorandum of Understanding (MoU) on the Protection of IPR. This MoU established the Chinese-Swiss bilateral dialogue on IPR between the competent authorities. Since 2007, three meetings of the working group have taken place. The fourth meeting is scheduled to take place in Switzerland in autumn 2010. Besides regular contacts at governmental level, the MoU allows for a participation of representatives from the private sectors, especially where this facilitates the exchange of information with regard to certain technical issues. Furthermore, experts, when needed, are consulting each other throughout the year. The negotiation of IPR provisions of a Switzerland-China FTA will be facilitated by the experience and knowledge on each others' IPR legislation acquired in the framework of this bilateral dialogue.

Switzerland's FTAs normally include provisions relating to adequate and effective protection of IPR. Principles thereto are national treatment (NT) and most favored nation (MFN) treatment. More detailed provisions cover international conventions, copyright and neighboring rights, patents, plant varieties, trademarks, designs, topographies of integrated circuits, geographical indications as well as undisclosed information, etc. Areas of particular interest for Switzerland include adequate and effective patent protection in all fields of technology including biotechnological inventions and medical devices, as well as a compensatory term of protection for pharmaceuticals and plant protection products, to compensate when necessary for delays resulting from marketing approval procedures, as well as protection of undisclosed information in the area of pharmaceutical and agrochemical test data.

General protection for all references to the geographical origin of products or services against illicit usage (false or misleading geographical indications; Article 47, paragraph 3, Trademark Law) without the requirement to be registered is provided by the Federal Law on Trademarks. The ordinance on the protection of appellations of origin and geographical indications for agricultural products and processed agricultural products of 28 May 1997 provides specific protection for agricultural products and processed agricultural products. It establishes a register for protected appellations of origin (PAOs/AOC[55]) and protected geographical indications (PGIs/IGP[56]). In a FTA between Switzerland and China, the protection of geographical indications (GI) could also be examined. The protection of GI and increased cooperation in the area of GI are of mutual interest of both Switzerland and China. These issues are already being discussed at the working group meetings of the bilateral dialogue on

[55] PAO: Protected Appelation of Origin; in french: AOC: Appelation d'origine contrôllée

[56] PGI: protected geographical indications; in french: IGP Indication Géographique Protégée

IPR. Switzerland would be prepared to enter into negotiations on a bilateral agreement on the protection of GI.

6.3 Conclusion

Switzerland and China both recognize the importance of cooperation for the protection of intellectual property rights between the two countries in the framework of a possible FTA.

7 Strengthening Bilateral Economic Cooperation

7.1 E-commerce

China

With the development of its infrastructure, human resources and technology, China is in a position to further explore the use of E-commerce. As of December 2009, the number of people using the Internet (also known as Netizens) had reached 384 million, and the rate of access to the Internet had reached 28.9%. E-commerce models of Chinese enterprises vary from setting up of websites for on-line expositions to on-line transnational project fairs, never-ending on-line fairs and information portals. Chinese companies have been developing new markets using on-line negotiations, on-line sales promotions and on-line trading. The use of on-line purchasing, on-line auctions and on-line bidding in China has increased steadily.

Chinese government puts emphasis on E-Commerce work. Legislation, policy and financial support made significantly progress. For example, *The Electronic Signature Law of the People's Republic of China* was adopted by the Standing Committee of the Tenth National People's Congress in August 2004, and came into effect in April 2005, stipulating the legal status of electronic signatures in China for the first time.

In 2007, the National Development and Reform Commission and the Information Work Office of the State Council have jointly released *E-Commerce Development Plan during the Eleventh Five-Year Period*. The Plan puts forward the general objectives of China's E-commerce development during the *Eleventh Five-Year* Period. Specifically, by 2010, a basic pattern of e-commerce development environment, support systems, technical services and applications shall be formed. E-commerce shall become an important industry and E-commerce applications should promote growth of national economy and social development.

Generally speaking, however, the E-commerce infrastructure in China is relatively weak, with laws and regulations incomplete, web insecure and technical standards heterogeneous.

Switzerland

Recognizing the importance of electronic commerce (E-commerce) in trade in goods and services, a Switzerland-China FTA would create new opportunities also for E-commerce.

7.2 Small and medium Enterprises

China

Establishment of SMEs has increased steadily in China in recent years and they have become an important part of the national economy. By the end of September 2009, there were 42 million SMEs, accounting for more than 99% of all registered enterprises in China, con-

tributing about 60% of GDP, half of total tax revenues, and providing nearly 80% of urban jobs.[57] SMEs have also employed more than 80% of workers laid off by SOEs.[58]

In recent years, Chinese government pays more attention to the development of SMEs. A legal and policy system aimed at promoting cooperation between SMEs has been established. For example, *the Law of the People's Republic of China on the Promotion of Small and Medium Enterprises* was promulgated in June 2002 and came into force on January 1, 2003. On 21 September 2009, the State Council issued another opinion on F*urther Promoting Healthy Development of SMEs*. This opinion mentioned 29 measures of 8 aspects on how to support SMEs' further development. These measures include alleviating financing difficulties for SMEs, increasing the intensity of fiscal support for SMEs, speeding up technological progress and adjusting structure of SMEs, improving the management level of SMEs, etc.

To improve the financing channels for SMEs, a SME Board was established in the Shenzhen Stock Exchange in 2004. End of December 2007, 202 SMEs were listed at the Stock Exchange, with total market value of USD 140 billion, and tradable market value of USD 51 billion.

In order to promote international cooperation between SMEs, China established the China International Coordination Centre for SMEs in 1985 and the International Cooperation Association of SMEs in 1990.

Switzerland

Small and medium sized enterprises (SMEs) are an important component of the Swiss economy, both in terms of their number and the proportion of the labour forces employed by them. According to Swiss legislation, SMEs are defined as companies with less than 250 employees (measured in full-time equivalents). In 2008, 99% of all businesses in Switzerland had less than 250 employees, accounting for 66.7% of the jobs in the private sector in Switzerland[59].

Many Swiss SMEs are participating in the globalization process and are important actors regarding innovation, research and development. Providing framework conditions supporting SMEs has always been high on the agenda of the Swiss Government.

Political initiatives particularly relevant for SMEs are:

- Easing the administrative burden;
- Developing e-Government;
- Encouraging start-ups;
- Improving business financing;
- Improving access to foreign markets;
- Encouraging innovation.

[57] http://www.chinanews.com.cn/cj/cj-gncj/news/2009/12-24/2036755.shtml

[58] WTO Trade policy review of China 2008

[59] Source: Business Census 2008, Swiss Statistics Web Site, maintained by the Federal Statistical Office (FSO).

As SMEs in Switzerland and other countries are becoming more actively involved in international business activities, they could, accordingly, be expected to take particular advantage of the opportunities created by a Switzerland-China FTA.

7.3 Trade and investment promotion

China

Trade promotion

Chinese government takes full-round measures to help Chinese enterprise, especially the SMEs involved in foreign trade.

1. Providing all kinds information channel, such as export / import Commodities Fair, to assist the Chinese enterprises in developing international market and in facilitating the Chinese enterprises' exchanges and cooperation with the other countries' companies.

2. Providing the enterprises with the information on trade partner countries' economic environment and the foreign enterprises' credit situation; establishing and maintaining foreign trade enterprise credit system.

3. Organizing import and export related trainings and the seminars on trade remedy; Helping Chinese enterprises to respond to the trade remedy investigations initiated by foreign governments.

The China Council for the Promotion of International Trade (CCPIT) is the most important and the largest institution for the promotion of foreign trade in China. It comprises individuals, enterprises and organizations representing the economic and trade sectors in China.

Investment promotion

China encourages inflow and outflow of FDI. The Investment Promotion Agency of the Ministry of Commerce, P.R.C. (CIPA) and China Council for International Investment Promotion are the important institutions for the promotion of investment both in China and abroad. Many provinces provide one-stop shop services to foreign investors, and have set up investment complaint service centres. Each province has set up an investment promotion centre China also promotes investment through, *inter alia*, the International Fair for Investment and Trade, China Central Expo, etc.

China has also established bilateral investment promotion agencies with other countries and regions in the world to promote bilateral investment.

Transparency

For promoting trade and investment, Chinese government has continued to adopt measures to increase the level of transparency of its trade and investment policies, practices, and measures. All information related to FDI, foreign trade-related laws, regulations, and rules are published in the *China Foreign Trade and Economic Gazette,* which is edited and published by MOFCOM[60]. Enquiry points and enquiry websites are set up by MOFCOM and the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and China makes regular notifications to the WTO. Newly promulgated trade-related laws and regulations are compiled and published by the Legislative Affairs Office of the State Council,

[60] The relevant information is also available at: www.fdi.gov.cn.

which also publishes the yearly collection of China's laws and regulations governing foreign-related matters.

Switzerland

Switzerland's approximately 150 embassies and consulates offer Swiss and Liechtenstein-based companies:

- Standardized information and advice;
- support for participation in trade fairs;
- assistance by establishing contacts with official bodies abroad;
- representation of interests of Swiss companies *vis-à-vis* foreign authorities as appropriate.

In particularly important foreign markets, Switzerland establishes Swiss Business Hubs. These Hubs offer a wide range of services to assist Swiss companies in their economic affairs. One of these Hubs is located in China. It is attached to the Swiss Embassy, in Beijing.

The services offered by the Swiss Business Hubs include:

- Information and advice when dealing with foreign authorities;
- establish contacts with potential business partners;
- export promotion;
- intervention vis-à-vis foreign authorities;
- promotion of Switzerland as a business location (investment promotion).

Trade promotion

Swiss export promotion policy facilitates access to foreign markets by arranging contacts and providing expert advice, especially to SMEs. Apart from providing general framework conditions for domestic and international companies the export risk insurance scheme constitutes a specific instrument of export promotion.

Investment promotion

Switzerland is a substantial investor abroad and receives significant amounts of inward investment. The Federal Government supports Swiss companies at home and abroad by promoting exports and by providing instruments of investment protection.

As of today, Switzerland has concluded over 100 Investment Promotion and Protection Agreements with countries in Africa, Latin America, Asia and Europe. These agreements include rules concerning:

- The treatment of foreign investment by the host state;
- the transfer of investment earnings and other investment related payments;
- compensation in the event of expropriation;
- the resolution of disputes.

Switzerland is among the ten biggest foreign investors (2008 stock of outbound FDI USD 785 billion) and is also an attractive location for foreign investments (2008 stock of inbound FDI USD 453 billion). The amount of Swiss capital stock in the Chinese economy

(USD 6.6 billion) shows that investment flows between the two countries have not yet exhausted their potential. With a view to increase the bilateral investment flows, the conclusion of the updated bilateral agreement on the promotion and protection of investments signed in Berne on January 27 2009 is an important step to further improve the investment climate. This agreement entered into force on the 13th April 2010.

In Switzerland's FTAs establishment regarding services sectors is dealt with in the provisions relating to trade in services (mode 3). In addition, in a number of FTAs concluded by Switzerland, provisions relating to establishment in non-services sectors have also been included.

7.4 Environment

China

China has always paid great attention to environmental protection. Recently, China has made great progress in environment management, environment economy, environment technology, and international cooperation on environment. The Government has formulated environmental protection strategy and changed the charge system for waste discharge, and established an integrated decision making mechanism.

On economic policies, charge for waste and wastewater disposal has been initiated, and consumption tax imposed on low emission automobiles has been lowered. The new technology regulations have been formed to manage the treatment of wastewater, garbage, as well as prevention and control of SO2, automobile and hazardous waste pollutions. The Government clearly encourages the development of environment industry and the adjustment of its structure. Policies on international cooperation have been refined gradually, trade policies related to environment, including waste import, technology export, have been adjusted.

China attaches great importance to international cooperation in the field of environment. China has signed agreements with 42 countries (including Switzerland) relating to bilateral cooperation on environmental protection. China is also a signatory to more than 50 multilateral agreements concerning environmental protection, such as the *United Nations Framework Convention on Climate Change* and the *Convention on Biological Diversity*.

Switzerland

Enhancing environmental conditions involves regulations as well as a broad range of technologies, such as e.g. the promotion of environment-friendly energy production, waste recycling and installations for eliminating waste gases. Traditionally, Switzerland is strongly commitment to protect and preserve the environment. As a result, public institutions and private companies based in Switzerland are leaders in developing environment-friendly regulations, technologies and know how, in areas such as:

- Water treatment;
- air pollution control;
- measuring equipment and control systems;
- waste treatment and recycling;
- power generation and distribution
- prevention and mitigation of natural hazards management
- related expertise in the mentioned fields.

As part of economic development policy, SECO, for example, has worked together with Chinese authorities in the fields of solid waste management, cleaner production and transfer of environmentally sound technologies. In addition, programmes of waste recycling, recycling of electrical and electronic equipment, and concepts to reduce the environmental footprint were successfully implemented. Now the focus should shift to the targeted strengthening of environmental technology exchanges between the two countries at company level. To this end, a joint working group was established to examine the potential for cooperation in the areas of technology transfer, energy efficiency, renewable energies and the efficient use of resources.

In 2003, the Swiss Federal Office for the Environment financed a study on the Chinese market for environmental technologies. The study aimed to identify possibilities for cooperation (technology transfer/capacity building) and market potential with a view to exploiting synergies between environmental policies and trade, and to promoting the optimal and sustainable use of resources.

With a view to enhancing bilateral environmental and economic cooperation and to taking into account the recommendations of the OECD in the Environmental Performance Review of China (2007), a MoU on the intensification of technical cooperation in the field of environmental technology was signed on 26 February 2009 by Swiss Federal Councillor Doris LEUTHARD and the Chinese Minister of Commerce CHEN Deming. According to this MoU, Switzerland will intensify the environmental cooperation with China relating to the more efficient use of resources (energy, water, raw materials) and the use of modern technologies. The objective of the MoU is to establish a dialogue, to facilitate the exchange and transfer of information, technology and experience in areas including environmental standards as well as training and education, thereby promoting, at central and local levels, the use of international standards and the production of environment-friendly goods and services by Chinese companies and government entities. The MoU also aims at cooperation on climate change issues.

Conclusion

Under a China-Switzerland FTA, both sides can enhance cooperation with a view to building an environmental friendly society and to promote sustainable development, aiming at meeting environmental requirements and improving environmental quality.

7.5 Competition

China

China's current competition regime comprises several pieces of legislation, including the *Anti-Monopoly Law*, the *Law against Unfair Competition*, the *Price Law*, the *Law on Bid Invitation and Bidding or Tendering*, and the *Foreign Trade Law*. In addition, regulations for certain sectors, such as aviation, electricity, postal and telecommunications services, also include provisions to introduce and encourage market competition. Furthermore, 27 provinces, autonomous regions, and municipalities issued local regulations against unfair competition.

In 21 November 2009, MOFCOM promulgated the *Measures on Notification of Concentration of Undertakings* and the *Measures on Review of Concentration of Undertakings*, which are the important part of the anti-monopoly legal system on the concentration of undertakings. This two Administrative rules provided several clauses on review of concentrations, such as the definition and calculation of turnover, the materials, files and requirements of notification, the withdrawal of notification. In 26 May 2009, the State Administration of Industry and Commerce (SAIC) promulgated the *Provisions on Procedures for Administrative Departments for Industry and Commerce to Investigate and Settle Cases of Monopolistic Agreements and Abuse of Dominant Market Position* and the *Provisions on Procedure for Industrial*

and Commercial Administrations to Stop Acts of Abusing Administrative Power for Excluding or Restricting Competition.

Currently, competition-related policies are enforced mainly by: MOFCOM, which is responsible for conducting anti-monopoly review on concentration of undertakings; NDRC (National Development and Reform Commission), which is responsible for investigating and punishing the pricing monopolistic conducts; and SAIC, which is responsible for the anti-monopoly enforcement of monopolistic agreement, abuse of dominant market position and abuse of administrative power to eliminate or restrict competition (except the pricing monopolistic conducts) and enforcing the Law *Against* Unfair Competition. Further, under *the Anti-Monopoly Law,* an Anti-Monopoly commission is established under the State Council. The commission is in charge of organizing, coordinating and guiding anti-monopoly work, whose duties include studying and drafting policies on competition, organizing investigation and assessment of competition on the market as a whole and publishing evaluation reports, formulating and publishing anti-monopoly guidelines, coordinating anti-monopoly enforcement agencies, etc.

In the aspect of international cooperation on competition policy, China has actively participated in competition-policy-related activities of APEC, the OECD, UNCTAD, and the WTO. In addition, China engages in exchanges and cooperation with competition authorities of European Communities, Japan, Republic of Korea, and the United States. SAIC signed the *Agreement for the Cooperation and Communication* in the Field of Anti Unfair Competition and Anti-Monopoly with Russia in 1996 and Kazakhstan in 1999. In 2004, MOFCOM signed the *Competition Bilateral Dialogue Agreement* with the European Communities.

Switzerland

In Switzerland, competition policy is primarily based on the instruments provided for by the Federal Act on Cartels. The competent authority for implementation is the Federal Competition Commission (COMCO), assisted by its Secretariat. The Competition Commission is an independent Federal authority. The tasks of the Competition Commission are to address harmful cartels and abuses of dominant market positions, to enforce merger control legislation and to promote competition in general.

The Competition Commission consists of 12 members who are elected by the Federal Council. The Federal Act on Cartels requires that the majority of the members of the Competition Commission are independent experts, usually law and economics professors. The other members normally consist of representatives of business associations and consumer organizations.

The Federal Competition Commission takes its decisions based on proposals of the Secretariat. Whenever a procedure results in the observation that competition is hindered in an unlawful way through concerted practices, abuse of dominant position or merger, the Competition Commission enacts directly against the initiator. Appeals against the decisions may be addressed to the Federal Administrative Court. The decisions of the Federal Administrative Court may be appealed to the Federal Supreme Court.

As far as competition is concerned, Swiss FTAs normally include provisions stipulating that certain anti-competitive practices are incompatible with the objectives of a FTA insofar as they affect trade between the FTA partners. The FTA provisions do, however, not create direct obligations for market operators, and anti-competitive practices are primarily to be addressed by national competition authorities.

A Switzerland-China FTA could provide for cooperation between competent authorities. Possible instruments of cooperation could include exchange of information, cooperation and

coordination between the competent authorities of Switzerland and China, in line with their respective laws and regulations.

7.6 Other related areas of cooperation

Government Procurement

Switzerland is a member of the plurilateral WTO Agreement on Government Procurement (GPA). China applied for GPA membership on 28 December 2007 and negotiations on the accession of China to the GPA started in 2008.

On a bilateral level, several visits between China and Switzerland starting in 2006 helped to understand specifics in the field of government procurement of both sides and they demonstrated the usefulness of mutual cooperation in this field. Information could be exchanged on this issue in the future negotiations.

Sustainable development

China and Switzerland have a longstanding tradition of cooperation in areas such as science, technology, research, environment, economic and social development (Chapters 3.5 and 3.6), which constitute important dimensions of sustainable development. The concept of sustainable development requires economic performance to be strengthened and prosperity to be increased, while keeping the use of natural and environmental resources at a level that is acceptable in the long term and maintaining and improving social cohesion.

Switzerland's FTAs generally include a reaffirmation of the principles set out in the relevant instruments of the United Nations and of the International Labour Organisation as well as in trade-related multilateral environmental agreements to which both sides are signatories.

In the framework of China-Switzerland FTA negotiations, the possibilities to enhance existing or create new cooperation mechanisms contributing to the objectives of sustainable development can be examined, including technical or other forms of cooperation.

8 General and Institutional Provisions, Dispute Settlement

Switzerland

General provisions

Transparency in legislation and regulation is an important principle for the smooth working of a FTA. The general provisions of a FTA between Switzerland and China could include provisions on transparency relating, *inter alia*, to the publication of laws and important measures and procedures concerning matters covered by the agreement.

The FTAs concluded by Switzerland contain an article on “regional and local governments”, which stipulates that each Party is responsible for implementing the agreement at all levels of government. Switzerland-China FTA negotiations would consider the issue of the links between national and local regulations and authorities.

Joint Committee

A simple and pragmatic approach in terms of institutional set-up should be foreseen in the framework of a Switzerland-China FTA. A Joint Committee would be established which could meet regularly at senior officials' level and would be in charge of monitoring the implementation, application and further development of the FTA. The Joint Committee could set up subcommittees as necessary. The functions and powers of the Joint Committee will be discussed during FTA negotiations.

The trade agreement concluded between Switzerland and China on 20 December 1974 established a Joint Trade Commission, which has since met every two or three years, alternating between China and Switzerland. At the 17th meeting of the Commission, which took place on 29 May 2007 in Beijing, the two sides decided that from now on the Joint Trade Commission would meet annually.

In the context of a Switzerland-China FTA, the relationship of the Joint Trade Commission with the Joint Committee to be established under a FTA would have to be discussed. A FTA between Switzerland and China will also have to discuss the question of its relationship with other institutions that exist in specific areas of cooperation, such as the Sino-Swiss Working Groups created in 2007 in the fields of intellectual property and the promotion of investment.

Dispute settlement

A FTA between Switzerland and China would include a mechanism for settling disputes concerning the application and interpretation of the agreement. This mechanism could foresee consultations with a view to finding amicable solutions before recourse may be taken to arbitration.

9 Impact of a Free Trade Agreement

In economic theory, the impacts on partners of a bilateral FTA can be described as follows: by reducing and eliminating tariffs and non-tariff measures with regard to trade in goods, by improving market access conditions with regard to trade in services, and by enhancing institutional certainty and legal predictability for bilateral economic ties, the trade and investment flows tend to increase between the FTA partners and to shift away - to a certain degree - from third countries which are not Parties to the respective FTA. As a consequence, the economic output of the parties to a FTA might increase, which influences broadly the economic and industrial development of the FTA partners. These effects will contribute to the creation of employment, to the improvement of living standards and to fostering sustainable development.

Reducing obstacles to trade in goods and services not only leads to increased growth of trade in goods and services, but also enhances - as a side effect - the attractiveness of the economies of the FTA partners for foreign direct investment (FDI), providing additional win-win situations for businesses, employees and consumers. An additional positive economic effect also results from enhanced cooperation in areas such as R&D and intellectual property rights.

9.1 Effects of Trade Liberalization in Goods

The results of the simulation of a China-Swiss FTA by a CGE model (GTAP) by the Chinese side[61] show that liberalization of trade in goods will promote trade flows between China and Switzerland. Trade creation effects will likely outweigh trade diversion effects in favor of third countries. The FTA will enhance development of related industries and help to deepen and to improve the bilateral division of labor which will help both countries to better utilize their own advantages. Growth will be spurred and social welfare enhanced. Therefore, a China-Switzerland FTA will improve both countries' economic welfare.

[61] See Technical Annex II. The Swiss side expressed reservations on the use of simulation results due to the limitations inherent to CGE models.

China will witness growth in most industries. The bilateral trade volume might increase by approximately 50%, up to some USD 16 billion. The impact on overall trade with third parties may differ for the two parties of the FTA. Duty free products from Switzerland will increase China's exports to other regions of the world, while Switzerland tends to shift the destination of its exports from other regions to China.

Bilateral Trade Effects: According to the GTAP simulations by the Chinese experts it is indicated that the liberalization of trade in goods will stimulate the trade flow between China and Switzerland. The bilateral trade volume will increase by 49.18%, up to USD 15.796 billion. China's exports to Switzerland will increase by 28% (about USD 1.15 billion) and imports from Switzerland will increase by 63% (about USD 4.06 billion). The China-Switzerland FTA will promote the increase of China's exports to other regions of the world as well. Since China's imports from the rest of the world will decrease USD 2.343 billion, the net increase of China's imports will be USD 1.71 billion. The main reason of China's increased imports from Switzerland is that Switzerland might partly take the market share from its main competitors, such as the USA, the EU and Japan once the FTA has entered into force. Meanwhile, import of cheap intermediate products from Switzerland will reduce domestic manufacturing cost, and will increase China's exports to other regions of the world by USD 0.42 billion. Swiss exports to China will increase USD 4.06 billion while its exports to other regions of the world will decrease USD 2.28 billion. The net increase of Swiss exports will be USD 1.77 billion. Due to its limited production capacity, Switzerland tends to transfer its exporting destination from other regions to China, where the tariffs are relatively low. Thus, China-Switzerland FTA will change the structure of Switzerland's destinations for its exports and improve China's position in the foreign trade of Switzerland.

9.2 Impact of Trade Liberalization in Services

Under the framework of the China-Switzerland FTA, the Chinese and the Swiss governments could deepen cooperation by improving the level of commitments in a broad range of services sectors and in various modes of supply (cross border supply, consumption abroad, commercial presence, movement of natural persons supplying services). This will not only contribute to the bilateral trade in services between China and Switzerland but also play an important role in promoting bilateral trade in goods. Moreover, it will also promote growth in bilateral direct investment including investments in services sectors.

10 Conclusions and Recommendations

This study aims at examining the effects of China-Switzerland FTA on the consolidation and development of bilateral economic and trade relationship between the two countries. The following conclusions and suggestions are made by the Joint Study Group.

10.1 General Conclusions

The study indicates that both economies are complementary and competitive. As the world's largest developing economy, China has a strong production capacity and its products can meet demands both from domestic and abroad. As a highly developed industrial economy, Switzerland has strengths in advanced technology and high value-added products, mainly targeting the international high-end demand in addition to the limited domestic market. Therefore, the industrial structure differs between the two countries.

The implementation of a FTA between China and Switzerland will result on both sides in additional growth of GDP, increased welfare and higher exports.[62] Overall, a FTA with a broad scope covering trade in goods, trade in services and economic and technological cooperation, which is consistent with WTO rules, will bring China and Switzerland substantial economic and trade benefits and strengthen bilateral economic and trade relations in the long run. While the FTA will further optimize the economic division of labour, it is difficult to fill the gap of industrial development between the two countries in the short term, while the gap in production capacity due to the size of the two economies will remain in the long term. The effects of trade creation brought by the FTA will be enough to offset the possible negative effects on certain sectors it may generate on both sides. Therefore, the establishment of FTA will bring about a mutually beneficial result.

10.2 Sector specific Conclusions

Trade in Goods

The study concludes that liberalization of trade in goods will tighten the bilateral trade relationship between China and Switzerland, i.e. will lead to increased two way trade growth. Import of cheap intermediate products from Switzerland will reduce China's domestic manufacturing cost, and will increase China's exports to other regions of the world.[63] Due to its limited production capacity, Switzerland tends to transfer its exporting destination from other regions to China, once the FTA is in force. China will substitute to a certain extent imports from major competitors, such as the US, the EU and Japan, by imports from Switzerland.

The study concludes that liberalization of trade in goods will promote the development of industries in both countries. Compared with the baseline, China will witness growth in most industries[64]. However, due to the export specialisation of Switzerland in certain machinery and in watch manufacturing, pharmaceuticals and chemicals, especially in the high-end segment, increased imports of these products from Switzerland might lead to competitive pressure on China's like industries.

Given the different tariff rates and structures between China and Switzerland, the benefit of a FTA would not be equally shared by all stakeholders, as a few sectors could be more sensitive than others. China will face greater challenges in reducing and eliminating tariffs in the future China-Switzerland free trade agreement. Both sides will contribute to the establishment of free trade relations. Negotiations should take into account interests and sensitivities and specific differences in economic development of both sides.

Trade in Service

This study reveals that trade in services has become an important component of China's foreign trade and of the bilateral trade between China and Switzerland. Based on the commitments in WTO, both sides could consider improving commitments in a wide range of sectors and various modes of supply. This will promote bilateral trade in services between China and Switzerland.

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[62] For simulation results see Technical Annex II.

[63] According to the simulation calculated by the Chinese experts, complete liberalisation would lead to an increase of total bilateral trade by 49,18 % to USD 15.796 billion. While China's exports to Switzerland would increase by 28.07%, its imports would increase by 62,55 %. Import of cheap intermediate products from Switzerland will reduce China's domestic manufacturing cost, and will increase China's exports to other regions of the world by USD 0.423 billion.

[64] For simulation results see Technical Annex II

Cooperation in other fields

The study also discussed the possible cooperation in temporary entry of persons, intellectual property protection, competition, e-commerce, development of SMEs, government procurement, environment, sustainable development and other related fields, which will enhance bilateral trade and economic cooperation.

10.3 Suggestions

This study shows that the FTA will be conducive to both countries' economic development and social welfare improvement. To ensure the interests of both sides and to consolidate the friendly relationship and bilateral economic ties, the Joint Study Group proposes to launch negotiation on a FTA with a broad scope as soon as possible The future negotiations should take into account the interests and sensitivities of both sides. Appropriate arrangements should be considered to address the sensitivities of each side and balance of interests and mutual benefit should be achieved.

Appendix 1

Joint declaration on economic co-operation

between

The Ministry of Economy of the Swiss Confederation

and

The Ministry of Commerce of the People's Republic of China

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The Ministry of Economy of the Swiss Confederation(hereafter referred as the Swiss Side), on the one hand,

and

the Ministry of Commerce of the People's Republic of China(hereafter referred as the Chinese Side), on the other:

Desiring to enhance the bonds of friendship and economic co-operation between Switzerland and China,

Building on their mutual commitment to the World Trade Organization (WTO),

Hereby declare the following:

I OBJECTIVES

The Swiss Side and the Chinese Side will seek to:

1. enhance bilateral economic co-operation, both in the areas of trade and investment;

2. enhance co-operation on issues related to the protection and the enforcement of intellectual property rights;

3. facilitate the increased involvement of the private sector, in particular of the smaller and medium-sized enterprises, in the bilateral economic co-operation;

4. further develop their bilateral economic co-operation in those and other areas, *inter alia*, by improving the bilateral economic regulatory framework.

II TRADE AND INVESTMENT

1. The Swiss Side and the Chinese Side shall seek concrete ways and means of

expanding their bilateral trade (both in goods and services) and investment relations, *inter alia*, by:

(a) exchanging information and implement concrete measures on the promotion of foreign trade (for goods and services);

(b) creating a special bilateral platform to provide strong and effective support for foreign investments;

(c) examining all available trade and investment policy instruments with a view to realizing the objectives of this Declaration.

(d) agreeing to explore the possibility to create a common website for economic and trade co-operation.

2. The Swiss Side and the Chinese Side shall encourage and stimulate business contacts, notably between enterprises and organisations concerned with foreign trade and investments, with the aim of developing their mutual co-operation.

3. The Swiss Side will encourage Swiss companies to invest in the Chinese Western region in order to support the "Go-West" Strategy of China and the Chinese Side will encourage Chinese companies to invest in Switzerland.

4. The Swiss Side and the Chinese Side shall explore measures to facilitate and speed up visa procedures.

III INTELLECTUAL PROPERTY RIGHTS

1. The Swiss Side and the Chinese Side, taking into account their international obligations, in particular the provisions of the TRIPS agreement, shall cooperate in the protection and the enforcement of intellectual property rights, *inter alia*, by:

(a) exchanging information and implementing concrete measures on intellectual property;

(b) holding, in accordance with their bilateral Memorandum of Understanding (MoU) on the establishment of a working group on intellectual property rights, a regular dialogue to discuss questions, advance cooperation and find satisfactory solutions on issues regarding intellectual property;

(c) examining available instruments with a view to realizing the objectives of this Declaration.

2. The Swiss Side and the Chinese Side shall encourage and stimulate bilateral contacts, notably between officials and organisations concerned by intellectual property

ngots, with the aim of developing their mutual understanding.

IV MARKET ECONOMY STATUS

Recognizing the People's Republic of China as a full market economy country, Switzerland will not apply Sections 15 and 16 of the Protocol on the Accession of the People's Republic of China to the World Trade Organisation (WTO) and Paragraph 242 of the Report of the Working Party on the Accession of China to the WTO.

V JOINT COMMISSION

1. The Swiss Side and the Chinese Side will make full use of the Swiss - Chinese Joint Commission established by Article 6 of the Trade Agreement between the Swiss Confederation and the People's Republic of China (of 20 December 1974), hereby referred as Joint Commission, in order to implement the objectives and measures of this Declaration.

2. The two MoUs of the said Joint Commission, the first on Investment Promotion and the second on Intellectual Property, done in Beijing on 29 of May 2007, represent a first concrete step towards the implementation of the main objectives of this Declaration.

3. The Ministry of Economy of the Swiss Confederation and the Ministry of Commerce of the People's Republic of China will stimulate and support with all possible means the work of the said Joint Commission and its working groups; which both (Joint Commission and working groups) should meet at least once each and every year.

DONE at Beijing, this eighth day of July 2007, in two original copies in the English and Chinese languages, both texts being equally authentic.

For the Ministry of Economy of the Swiss Confederation

Doris Leuthard
Minister

For the Ministry of Commerce of the People's Republic of China

Bo Xilai
Minister

Appendix 2

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Eidgenössisches Volkswirtschaftsdepartement EVD

Doris Leuthard discusses a possible Free Trade Agreement with China and signs a Joint Declaration on economic cooperation

Bern, 08.07.2007 - At her meeting in Beijing today with the Chinese Minister of Commerce Bo Xilai, Federal Councillor Doris Leuthard signed a joint declaration on economic cooperation. This document strengthens the relations between both countries on trade, investment and intellectual property rights. The Chinese side has also expressed its willingness to launch a process leading to a free trade agreement by conducting as a first step an internal feasibility study. As for Switzerland, it has recognized China as a market economy.

At their meeting in Beijing today, the Head of the Federal Department of Economic Affairs and the Chinese Minister of Commerce have decided to conduct internal feasibility studies towards a possible free trade agreement. These studies will show whether the conditions are in place for a free trade agreement between the two countries at some point in the future.

The two ministers have also decided to bolster the protection and enforcement of intellectual property rights (IPR) by setting up a regular dialogue through a working group consisting of representatives of their administrations and industry or business associations.

The mandate of the working group is to find solutions, advance dialogue on institutional and legislative aspects of IPR and their enforcement. Switzerland and China also reaffirmed their reciprocal obligations under the WTO agreement on Trade related Aspects of Intellectual Property Rights (TRIPS).

The ministers have also decided to set up a bilateral working group to promote investment. This working group will have the goal of assisting Swiss business to invest in China and of attracting Chinese investors in Switzerland.

Minister Bo Xilai meets with Swiss Minister of Economics

2007-07-10 08:34 MOFCOM

Minister Bo Xilai met with Swiss Federal Councilor and Minister of Economics Doris Leuthard on July 8 in Beijing. They exchanged views on subjects concerning bilateral trade and economic development. After the meeting, the two sides signed the Joint Declaration of Chinese Ministry of Commerce and Swiss Ministry of Economics. Switzerland recognized the full market economy status of China, and the two sides agreed to contribute to the assessment and research of China-Switzerland free trade zone.

Bo appreciated the comments from the Swiss side. Switzerland's attitude showed their objective and unbiased view on Chinese market economy, and thus laid a firmer foundation and created a fairer environment for the further development of China-Switzerland economic ties. It also gave the Chinese economic world more impetus to cooperate with Swiss enterprises.

Bo encouraged Swiss companies to participate in the rejuvenation of traditional industrial sites in northeastern China, and in the development of the central and western regions. Bo explained that China had noticed Swiss government and business's attention on China-Switzerland free trade zone, and that the two sides could conduct research and assessment concerning the problem and work toward the same goal of establishing the free trade zone.

Doris Leuthard said that Swiss government and enterprises attached much importance to economic cooperation with China and were fully confident about the prospect of Chinese economy. It was based on the perception of its promising economic reality that Switzerland recognized China's full market economy status, Doris Leuthard said, and such an attitude would be beneficial to the two countries.

The two sides signed Memorandum of Understanding on Establishing China-Switzerland Joint Committee Intellectual Property Team today.

Source:
http://boxilai2.mofcom.gov.cn/column/print.shtml?/activity/200707/20070704870576

Appendix 3

Joint Declaration

regarding the Joint Feasibility Study on a China-Switzerland Free Trade Agreement

by Doris LEUTHARD, Vice-President of the Swiss Federal Council, Head of the Federal Department of Economic Affairs

and CHEN Deming, Minister of Commerce of the People's Republic of China

Geneva, 30 November 2009

Recognizing the long standing friendship between the Swiss Confederation and the People's Republic of China,

Recognizing the already intense and fruitful economic exchange and cooperation between Switzerland and China,

Recalling the decision by Premier WEN Jiabao of the People's Republic of China and Swiss President Hans-Rudolf MERZ taken at their meeting of 27 January 2009 in Bern to establish a Joint Feasibility Study on a China-Switzerland Free Trade Agreement,

We acknowledge the successful results of the two Workshops on Industrial Exchange for a China-Switzerland Free Trade Agreement, held in Beijing in April and in Bern in October this year.

The two Workshops, through constructive discussions, enhanced mutual understanding on the complementarity of the Chinese and the Swiss economies and on the opportunities and challenges for intensifying economic exchange and cooperation under a Free Trade Agreement.

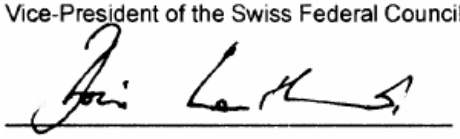
At the end of the second Workshop consensus was reached on launching a Joint Feasibility Study on a China-Switzerland Free Trade Agreement.

By successfully completing the two workshops, mandated by Premier WEN Jiabao and Swiss President Hans-Rudolf MERZ at their meeting in January this year, the preparatory phase for the Joint Feasibility Study on a China-Switzerland Free Trade Agreement is accomplished. We therefore instruct the Joint Study Group to start its work on the Feasibility Study and to examine the feasibility of a Free Trade Agreement between China and Switzerland as a way to further promote the economic relationship between the two countries.

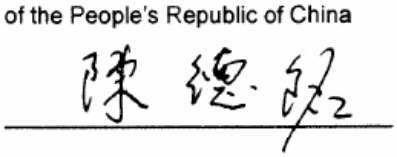
The Study Group will examine the topics covered by free trade agreements, such as trade in goods, trade in services, investment, and other possible areas of cooperation between China and Switzerland.

The Joint Study Group will present its findings and conclusions to the competent Ministers, with a view to offer suggestions to both Governments to take a decision on future negotiations on a China-Switzerland Free Trade Agreement.

Federal Councillor Doris LEUTHARD,
Vice-President of the Swiss Federal Council



CHEN Deming, Minister of Commerce
of the People's Republic of China



Appendix 4

List of bilateral agreements:

- Treaty on commerce and trade of 20 December 1974 (SR 0.946.292.491)
- Agreement on the promotion and reciprocal protection of investments of 12 November 1986 (SR 0.975.224.9)
- Agreement on the avoidance of double taxation of 6 July 1990 (SR 0.672.924.91)
- Agreement on civil aviation of 12 November 1973 (SR 0.748.127.192.49)
- Agreement on nuclear cooperation of 12 November 1986 (SR 0.732.924.9)
- Agreement on scientific and technological cooperation of 24 February 1989 (SR 0.974.224.9)
- Agreement on technical and economic cooperation in the railway sector of 11 October 1988
- Articles of Association of Sino-Swiss Partnership Fund of 11 December 1997
- Memorandum of Understanding (MoU) on higher education of 25 March 1999
- Agreement concerning China's accession to the World Trade Organisation of 26 September 2000
- MoU for the strengthening of the scientific and technological cooperation of 21 November 2003
- MoU on Tourism Cooperation of 15 June 2004
- MoU on Health Cooperation of May 17, 2005
- Joint Statement cooperation in the area of science and education, signed on April 24, 2007
- MoU on Intellectual Property of 29 May 2007
- MoU on Investment Promotion of 29 May 2007
- Joint declaration on economic co-operation of 8 July 2007
- Memorandum of Understanding on Promoting Dialogue and Cooperation of 25 September 2007

Appendix 5

Free Trade Agreements of Switzerland:[65]

Europe	**Status / comments**[66]
EFTA Convention	Entry into force: 3rd of May 1960
European Community (EC)	Entry into force: 1st of January 1973; bilateral CH-EC
Faeroe Islands	Entry into force: 1st of May 1995; bilateral CH-Faeroe
Macedonia	Entry into force: 1st of May 2002
Croatia	Entry into force: 1st of September 2002
Albania	Signed: 17th of December 2009
Serbia	Signed: 17th of December 2009
Ukraine	Signed: 24 of June 2010
Russia	Negotiations in preparation
Mediterranean basin	
Turkey	Entry into force: 1st of April 1992
Israel	Entry into force: 1st of July 1993
Palestinian Authority	Entry into force: 1st of July 1999
Morocco	Entry into force: 1st of December 1999
Jordan	Entry into force: 1st of September 2002
Tunisia	Application since 1st of June 2005 ; Entry into force: 1st June 2006
Lebanon	Entry into force: 1st of January 2007
Egypt	Application since 1st of August 08.2007. Entry into force: 1st of September 2008.
Algeria	In negotiations
Worldwide	
Mexico	Entry into force: 1st of July 2001
Singapore	Entry into force: 1st of January 2003
Chile	Entry into force: 1st of December 2004
Republic of Korea	Entry into force: 1st of September 2006
SACU[67]	Entry into force: 1st of May 2008

[65] Without indication, the agreements have been concluded within the framework of EFTA.

[66] As of January 2010

[67] South African Custom Union: South Africa, Botswana, Lesotho, Namibia and Swaziland

Canada	Entry into force 1st of July 2009
Colombia	Signed: 25 th of November 2008.
Cooperation Council for the Arab States of the Gulf[68] (GCC)	Signed: 22nd of June 2009
Japan	Entry into force: 1st September 2009; Bilateral CH-Japan
China	Joint Feasibility Study; Bilateral CH-China
India	In negotiations
Indonesia	Launch of negotiations 7th of July 2010
Peru	Signed: 24th of June / 14th of July 2010
Thailand	In negotiations
Hong Kong	In negotiations
Vietnam	Joint feasibility study in preparation
USA	Bilateral US-Swiss Trade and Investment Cooperation Forum

The EFTA States have signed Declarations on cooperation with the following additional partners: the MERCOSUR States (Argentina, Brazil, Paraguay, Uruguay), Malaysia, Mongolia, Mauritius and Panama.

[68] Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates

Appendix 6

China's MFN Average Tariff in the Machinery Sector based on HS-8 digit (2009)

HS-code	Description	Avg. tariff (%)	Range (%)	Number of compound duty	Number of AV duty
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	7.82	0-35		951
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	9.22	0-35	5	492
86	Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signaling equipment of all kinds	4.43	3-10.5		37
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	16.25	3-45		248
88	Aircraft, spacecraft, and parts thereof	2.14	0-5		18
89	Ships, boats and floating structures	7.61	3-10.5		42
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	8.01	0-25		245
Total				**5**	**2,033**

Source: *General Administration of Customs P.R.C.*

China's MFN Average Tariff in the Chemical and Pharmaceutical Sector based on HS-8 digit (2009)

HS-code	Description	Avg. tariff (%)	Range (%)	Number of specific duty	Number of AV duty
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	5.48	1-12		262
29	Organic chemicals	5.64	2-14		525
30	Pharmaceutical products	4.90	0-10		77
31	Fertilizers	8.64	3-50		29
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other coloring matter; paints and varnishes; putty and other mastics; inks	7.57	5-15		58
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar article	14.57	6.5-20		42
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modeling pastes, dental waxes and dental preparations with a basis	9.56	6.5-15		27
35	Albuminoidal substances; modified starches; glues; enzymes	9.57	3-20		21
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	8.27	6-10		11
37	Photographic or cinematographic goods	12.65	0-35	37	30
38	Miscellaneous chemical products	7.20	0-16		102
Total				**37**	**1,184**

Source: *General Administration of Customs P.R.C.*

China's MFN Average Tariff in the Textile and Clothing Sector based on HS-8 digit (2009)

HS-code	Description	Avg. tariff(%)	Range（%）	Number of AV duty
50	Silk	8.72	6-10	25
51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	12.35	5-38	59
52	Cotton	8.95	5-40	129
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	7.30	3-12	43
54	Man-made filaments	7.03	5-12	109
55	Man-made staple fibres	8.95	3-18	124
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	8.80	5-12	41
57	Carpets and other textile floor coverings	13.26	10-16	27
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	10.33	10-14	67
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	9.76	8-14	42
60	Knitted or crocheted fabrics	10.20	10-12	60
61	Articles of apparel and clothing accessories, knitted or crocheted	16.16	14-25	132
62	Articles of apparel and clothing accessories, not knitted or crocheted	15.85	14-20	169
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags	14.51	10-17.5	101
64	Footwear, gaiters and the like; parts of such articles	18.10	10-24	39
65	Headgear and parts thereof	17.08	10-24	13
Total				**1,180**

Source: *General Administration of Customs P.R.C.*

China's MFN Average Tariff in the Watch Sector based on HS-8 digit (2009)

HS-code	**Description**	**Avg. tariff** (%)	**Range**(%)	**Number of AV duty**
91	Clocks and watches and parts thereof	15.70	3-23	55
Total				**55**

Source: *General Administration of Customs P.R.C.*

Technical Annex I

The trade specialization index (TSI) was used in this joint study to analyze comparative advantage of China and Switzerland in bilateral trade. This index uses the following formula：

$$TSI_i = (X_i - M_i) / (X_i + M_i)$$

where X and M refer to China's exports and imports of goods contained in industry i in one particular year. The TSI value is between -1 and 1. A positive value of TSI indicates export advantage (exports higher than imports) and a negative TSI indicates export disadvantage in a given product category (exports less than imports).

The TSI was calculated based on Chinese Custom Statistics. Bilateral trade statistics reported by exporting and importing countries often differ. Among the usual causes for such discrepancies are transportation cost, timing, difference in classification and different treatment of trade transiting though third countries. There are considerable differences in China and Switzerland trade statistics, likely due to the presence of "entrepot trade" and other reasons.

In order to avoid an imbalance in bilateral foreign trade statistics, the two parties engaged in bilateral trade will usually have industries where the overall TSI value is positive and some where it is negative.

Technical Annex II

Nowadays, computable general equilibrium model (CGE model) has become the main methodology for evaluating economic effects of FTA. However, the Swiss side expressed reservations on the use of simulation results due to the limitations inherent to the CGE models.

According to general equilibrium theory, CGE model not only examines the trade flow and changes in the direction of trade after tariff elimination accruing from substitution effect between imported goods and similar domestic products and substitution effect among same products from different origins. They also take into consideration the input-output relationship and therefore reflect also the corresponding impacts on the related upstream and downstream sectors.

GTAP model is a multi-region and multi-sector global CGE model, which is internationally popular in simulating the economic effects of tariff elimination. Thus, the Chinese side applied the GTAP model to simulate the potential trade and economic effects of tariff elimination in a China-Switzerland FTA. The model structure covers 4 regions and 7 sectors (Table 9-1), with GTAP database of version 7 and standard static closure. This analysis focuses on economic effects on both countries of tariff elimination, without consideration of the trade liberalization in services. Since GTAP database version 7 is consistent with the world economy of 2004, the analysis of the bilateral and overall trade effects was based on adjustment according to trade growth from 2004 to 2008.

Although - like all the other CGE models - static GTAP model has its own limitations, the Chinese side expressed the view that it can help the researchers to demonstrate the potential effects brought by the liberalization of trade in goods and what can happen after the tariffs elimination under a FTA between China and Switzerland.

Table Regions and Sectors

Regions	**Sectors**
China Switzerland EU Rest of the World	Agriculture and Food Processing
	Textile and Apparel
	Chemical
	Electronics
	Machinery
	Other Manufactures
	Service

Results of simulation show that trade liberalization in goods will promote trade growth both in China and Switzerland. The closer bilateral trade relationship will thus enhance development of related industries. At the same time, deepening and improving bilateral division of labor will help both countries to better utilize their own advantages. Economic growth will be spurred and social welfare enhanced.

Macroeconomic Effects: Compared with baseline, GDP of China and Switzerland will increase by 0.01% and 0.23% respectively. Due to the decrease of import price and reallocation of resources, both countries' overall welfare will improve. Consuming the same quantity

of goods, China and Switzerland will save USD 0.214 billion and 0.29 billion respectively, compared with the situation before FTA and at the same price level. Therefore, a China-Switzerland FTA will improve both countries' welfare.

Industrial Effects: The result of simulation indicates that a China-Switzerland FTA will promote the development of industries in both countries. Compared with baseline, China will witness growth in most industries. The output of agriculture and food processing industry will increase by 0.04%, textile and apparel by 0.12%, chemical by 0.01%, electronics by 0.06% and other mining by 0.002%. In Switzerland, mainly the output of machinery industry will increase (by 1.9%). Other sectors will also benefit, e.g. textile and apparel by 1.07%.

Foreign Trade Effects: The simulation result indicates that China-Switzerland FTA will promote growth of foreign trade in both countries and by similar absolute amounts. China's total trade will increase by 0.13%, (about USD 3.288 billion), and exports to world will increase by 0.11%, (about USD 1.576 billion). Swiss external trade will increase by 0.58%, (about USD 3.063 billion) and exports will increase by 0.64%, (about USD 1.772 billion).

Bilateral Trade Effects: Trade relationship between China and Switzerland will become closer. The bilateral trade volume will increase by 49.18%, and reach USD 15.796 billion.

China's exports to Switzerland will increase by 28.07% (about USD 1.153 billion) and imports from Switzerland will increase by 62.55% (about USD 4.055 billion). Since China's imports from the rest of the world will decrease by USD 2.343 billion, the net increase of China's imports will be USD 1.712 billion. The main reason of China's increased imports from Switzerland is that Switzerland might partly take the market share of its main competitors, such as USA, the EU and Japan after the establishment of FTA.

The impact on overall trade with third parties differs for China and Switzerland. Import of cheaper intermediate products from Switzerland will reduce domestic manufacturing cost in China, and will increase China's exports to other regions of the world by USD 0.423 billion.

While Swiss exports to China will increase USD 4.055 billion, its exports to other regions of the world will decrease USD 2.283 billion. The net increase of Swiss exports will be USD 1.772 billion. Due to its limited production capacity, Switzerland tends to transfer its exporting destination from other regions to China, where the tariffs will no longer be a major obstacle. Thus, China-Switzerland FTA will change Swiss exporting destination structure and improve China's position in external trade.

Bilateral Trade Effects with the EU: The result indicates that trade diversion effects caused by a China-Switzerland FTA will change the bilateral trade relation of the EU with China and Switzerland respectively in different ways.

China's exports to the EU will increase by USD 0.15 billion. At the same time, China's imports from the EU will decrease by USD 0.587 billion, as part of the EU products will be substituted by Swiss products.

For Switzerland, since domestic resources and supply capacity are limited, Swiss exports to the EU will decrease USD 1.304 billion, as Switzerland increases its exports to China. Meanwhile, Swiss imports from the EU will increase USD 500 million. The overall effect of a China-Swiss FTA is that the EU trade balance will improve by some USD 1 billion.