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University of International Business and Economics

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Sino-Swiss Free Trade Agreement – 2018 Academic Evaluation Report

中国-瑞士自由贸易协定 – 2018 评估报告

Sino-Swiss Competence Center 中瑞经贸研究中心 (SSCC)

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Contributors:

Prof. Dr. Tomas Casas, Director, China Competence Center (HSG-FIM), Asst Professor, University of St.Gallen (HSG).

Dr. Yingxin Du, Asst Professor, China Institute for WTO Studies, University of International Business and Economics (UIBE).

Prof. Dr. Jian Han, Department of International Economics and Trade, School of Economics, University of Nanjing (NJU).

Dr. Stefan Legge, Lecturer in Economics (HSG-SIAW), University of St.Gallen (HSG).

Dr. Siqi Li, Asst Professor, China Institute for WTO Studies, University of International Business and Economics (UIBE).

Prof. Dr. Yue Lu, China Institute for WTO Studies, University of International Business and Economics (UIBE).

Prof. Dr. Peter Moser, University of Applied Sciences HTW Chur, Center for Economic Policy Research.

Prof. Dr. Xinquan Tu, Director, China Institute for WTO Studies, University of International Business and Economics (UIBE).

Prof. Dr. Patrick Ziltener, University of Zurich (UZH).

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Disclaimer: The views expressed in this report, and in each of this work's chapters, are solely the views of the authors, and do not reflect the official policy or positions of either the Swiss or the Chinese Government or of any of their agencies. Moreover, many results are not validated as they are the outcomes of exploratory work, the initial step in the context of a long-term research project.

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Preface

It is a pleasure to witness the launch of the Sino-Swiss FTA – 2018 Academic Evaluation Report of the Sino-Swiss Competence Center. The report illuminates one of the most significant cornerstones of our countries' economic relations and embodies a shared spirit for globalisation and innovation.

It escapes no observer that China's fundamental transformation has made it one of the most important shapers of the 21st century and the global free trade architecture. One of the first countries to recognise the People's Republic of China, Switzerland has been a committed partner to the country all along its dynamic transition. Embodying the spirit of innovation, entrepreneurship and openness, Switzerland has incessantly worked with China to foster commercial ties in meaningful and innovative ways, and against all the odds.

Switzerland is not only home to the company that closed the first JV with a Chinese enterprise in the 1980s. I am also proud that the Sino-Swiss FTA was the first free-trade agreement China closed with a continental European country and that Switzerland remains the only country to have a strategic partnership with China on innovation. All of these milestones have only been possible thanks to the unique Sino-Swiss spirit that frames challenges as opportunities.

In the current global environment where globalisation has been sidelined, the challenges China and Switzerland face in the promotion of free markets will not lessen, au contraire. These forces however will only be an incentive for even stronger Sino-Swiss collaboration. The continuous honing of the Sino-Swiss FTA and its implementation, enhanced by the valuable data presented in this report, will be part of this effort.

It is a pleasure that the launch event of the academic FTA Report in St.Gallen will also address the BRI. Switzerland has actively engaged with BRI and contributed our own strategic values and expertise in the global trading system. A more open, prosperous and diversified Chinese market will be a fundamental contribution to shared common prosperity.

I would like to express my sincere gratitude to the SSCC and its partners for your efforts to turn insights into impact, and I wish you all the best for your further research endeavours.

Dr. Jean-Jacques de Dardel

Swiss Ambassador to China
Embassy of Switzerland, Beijing

前言

尊敬的读者：

中瑞经贸研究中心提出让我也为《中国-瑞士自由贸易协定—2018评估报告》作一个序，我欣然接受这一邀请，因为中瑞自贸协定是一个高水平、高质量、互惠互利的协定，是两国经过三年九轮艰苦谈判取得的。

2016年2月担任中国驻瑞士大使以来，我一直关注并跟踪着中瑞自贸协定的实施情况，并很高兴地看到两国有关方面抓住了机遇，不断扩大投资贸易规模，在高端机械制造、生物制药、节能环保以及现代农业等诸多领域拓展合作，推动了两国经贸合作快速升级。

经贸合作全面升级，有力地带动了两国在金融领域的平台搭建，使金融合作成为两国关系中一个新的亮点；促进了人文交流，使文化、教育、旅游以及培训等成为两国民心相通的多层级阶梯；也推动了两国创新战略伙伴关系的建立，2016年4月，中瑞两国决定互视对方为重要战略伙伴，并以“创新”冠名。

今天我们不仅要对中瑞自贸协定四年以来的效果进行年度评估，还应对她释放的效应，特别是在当今国际上贸易保护主义甚嚣尘上的背景下，她产生的积极而重要的意义进行充分肯定。因此，希望来自中瑞经贸研究中心的双方专家团队经过深入研究，作出的评估报告能够为两国自贸协定的升级版提供有价值的参考。最后预祝评估报告发布会圆满成功。

耿文兵

中华人民共和国驻瑞士大使
中国驻瑞士使馆，伯尔尼

前言

尊敬的读者：

我很高兴见证中瑞经贸研究中心《中国-瑞士自由贸易协定 – 2018 评估报告》的发布。该报告阐明了我们两国经济关系中最重要的基石之一，并体现了全球化和创新的共同精神。

中国的根本性变革已使其成为21世纪和全球自由贸易体系结构最重要的塑造者之一，这是有目共睹的。瑞士作为最早承认中华人民共和国的国家之一，在中国动态转型过程中始终是其忠实的伙伴。瑞士体现了创新、创业和开放的精神，排除万难，持续与中国合作，以有意义和创新的方式促进商业关系。

瑞士不仅是在20世纪80年代与中国企业成立第一家合资公司的国家。而且，我也感到自豪的是，中瑞自贸协定是中国与欧洲大陆国家签订的第一个自由贸易协定，且瑞士是唯一一个与中国建立创新战略伙伴关系的国家。这些里程碑的实现都要归功于独特的中瑞精神——将挑战视为机遇。

在当前全球化被搁置的全球环境中，中国和瑞士在促进自由市场方面面临的挑战并不会减少。然而，这些力量只会激励中瑞更加紧密的合作。中瑞自贸协定的不断磨砺与实施，加上本报告中提供的宝贵数据，将成为这一努力的一部分。

令人欣喜的是，在圣加仑举办的FTA学术报告发布会也将涉及“一带一路”倡议。瑞士积极参与“一带一路”，并在全球贸易体系中贡献自己的战略价值和专业知识。一个更加开放、繁荣和多元化的中国市场将为共同繁荣作出重大贡献。

我要向SSCC及其合作伙伴表示衷心的感谢，感谢你们努力将见解转化为影响力，并祝你们进一步的研究工作一切顺利。

Dr. Jean-Jacques de Dardel

戴尚贤博士
瑞士驻华大使
瑞士驻华大使馆，北京

Preface

It is to my delight to accept the invitation, proposed by The Sino-Swiss Competence Center, to write the preface for the Report on Sino-Swiss FTA – 2018 Academic Evaluation, since Sino-Swiss FTA is a high-level, premium-quality and mutually beneficial agreement that was achieved after three years and through nine rounds of arduous negotiations between the two countries.

Since I took the position of Chinese Ambassador to Switzerland in February 2016, I have been following and attaching my close attention to the implementation of the Sino-Swiss FTA. It is to my great pleasure to see that the relevant parties in the two countries have seized the opportunity to continuously expand the scale of investment and trade, advance the cooperation in many areas including high-end machinery manufacturing, bio-pharmaceutical, energy-saving and environmental protection, and modern agriculture, which has pushed forward the rapid upgrading of economic and trade cooperation between the two sides.

The comprehensive upgrading of economic and trade cooperation has effectively promoted the establishment of platforms in the field of finance by the two countries, marking financial cooperation a new highlight in the bilateral relations; establishing multi-level steps composed by culture, education, tourism and training leading to the heart connection between the two peoples; as well as stimulated the establishment of Innovative Strategic Partnership between the two countries, that, in April 2016, China and Switzerland decided to treat each other as important strategic partners and named this partnership as "innovative".

Today, we not only carry out an annual assessment of the effectiveness of the China-Switzerland FTA over the past four years, but should also fully recognize the effects that it releases, especially the positive and important significance it generates in the context of today's rampant international trade protectionism. Therefore, it is hoped that the evaluation report by the teams of SSCC experts from both countries, on the basis of in-depth research, could provide a valuable reference for the upgraded version of the FTA between the two countries. Finally, I wish that the formal launch event in St.Gallen of this *Sino-Swiss FTA – 2018 Evaluation Report* on September 26, 2018 is a complete success.

GENG Wenbing

Chinese Ambassador to Switzerland
The Chinese Embassy in Switzerland, Bern

PART I

1.1 Editors' Foreword

Prof. Dr. TU Xinquan
Director, China Institute for WTO Studies
University of International Business and Economics (UIBE)

Prof. Dr. HAN Jian
Department of International Economics and Trade,
School of Economics, Nanjing University (NJU)

Prof. Dr. LU Yue
China Institute for WTO Studies,
University of International Business and Economics (UIBE)

Prof. Dr. Tomas Casas
Director China Competence Center, (HSG-FIM)
University of St.Gallen (HSG)

Dr. Stefan Legge
Lecturer in Economics (HSG-SIAW)
University of St.Gallen (HSG)

Prof. Dr. Patrick Ziltener
University of Zurich (UZH)

There is a generally widespread consensus in economics that aggregate trade increases welfare. At the same time, our world is switching narratives. From leaders of powerful states to bottom-up populist movements, the benefits of free trade are being questioned. An increasing number of economists blame globalization for job losses or income inequality. Trade wars with new barriers to trade threaten prosperity, competition among firms, as well as citizen welfare.

In the global context, the Sino-Swiss Free Trade Agreement (SSFTA) might seem modest. However, it is also a promising instrument that points to a promising path forward at a time when multilateral negotiations appear less fruitful in achieving unobstructed trade. The Free Trade Agreement (FTA) links China, the largest contributor to global GDP growth, with Switzerland, one of the wealthiest and most innovative economies. For both sides, this agreement was both a worthy endeavour, as well as an experiment.

The aim of this report is to shed light on this experiment by providing a research-based assessment of the trade agreement. There have been many opinions in the media regarding the SSFTA; ours is the result of 18 months of research by a team of academics at the Sino-Swiss Competence Center (SSCC). SSCC academics are affiliated with UIBE (WTO Institute), Nanjing University (School of Economics), and at the University of St.Gallen with the Swiss Institute for International Economics (SIAW) and the Institute of International Management Research (FIM). The findings show that the FTA has yielded significant benefits, while at the same time there is room for further benefits.

This report's various pieces examine the established and potential future benefits via a cross-disciplinary analysis. The centrepiece is the economic impact and the utilization analysis, which examine the extent to which the FTA is utilized by firms and created more bilateral trade. A survey of Chinese and Swiss firms seeks to address the firm-level perspective on the FTA. We also include a diverse series of insights that contextualize the FTA, including a link to the Belt and Road Initiative (BRI). With this part, we seek to explore the path forward for the FTA.

With the present report, the SSCC wishes to fulfil its aim at establishment and engage in an academic Sino-Swiss dialogue covering all FTA stakeholders, such as firm trading and investing, business associations and policy-makers.

We wish you a stimulating read and look forward to decisive action to further the Sino-Swiss economic relationship and bilateral friendship!

1.1 编辑前言

屠新泉教授，博士
中国世界贸易组织研究院，院长
对外经济贸易大学

韩剑教授，博士
国际经济贸易系
南京大学商学院

吕越教授，博士
中国世界贸易组织研究院
对外经济贸易大学

Tomas Casas 教授，博士
中国经贸研究中心，主任
圣加仑大学国际管理研究院

Stefan Legge 博士
瑞士国际经济研究院
圣加仑大学

Patrick Ziltener 教授，博士
苏黎世大学

经济学存在一个普遍共识，即贸易从总体上增加了福利。与此同时，我们的世界正在转变叙事。从强国的领导者到自下而上的民粹主义运动，自由贸易的好处正在遭受质疑。越来越多的经济学家将失业或收入不平等归咎于全球化。贸易战与新的贸易壁垒威胁到繁荣、竞争及公民的福利。

在全球背景下，中瑞自贸协定涉及的贸易体量看似不大。但在多边谈判难以在深层次方面取得实质进展的情况下，她是一个富有潜力的工具，指出了一条前景光明的道路。自由贸易协定将中国——全球GDP增长的最大贡献者，与瑞士——最富有和最具创新性的经济体之一连接在一起。对双方而言，这不仅是值得为之努力的协定，而且是一项重要的实验。

本报告旨在通过提供以研究为基础的自贸协定评估，使我们对这一实验有更清晰的理解。媒体上有很多关于中瑞自贸协定的观点；我们的观点是中瑞经贸研究中心（SSCC）的学术团队经过18个月研究的成果。SSCC的学者隶属于对外经济贸易大学（WTO研究院），南京大学（经济学院），以及圣加仑大学的瑞士国际经济研究院（SIAW）和国际管理研究院（FIM）。研究结果显示，中瑞自贸协定取得了显著效益，同时还有可以进一步获益的空间。

本报告的各个部分通过跨学科分析，考察了中瑞FTA已取得的收益和潜在的未来收益。其核心部分是经济影响和利用率分析，研究企业利用自由贸易协定并创造双边贸易的程度。一项针对中国和瑞士公司的调查旨在考察企业对自由贸易协定的看法。我们还提供了一系列在不同背景下理解中瑞自贸协定的见解，包括其与“一带一路”倡议的联系。我们尝试在这一部分探讨中瑞自贸协定前进的路径。

通过本报告，SSCC希望能实现其建立一个中瑞学术对话的目标，并使中瑞自贸协定的所有利益相关者，包括企业贸易和投资、商业协会和政策制定者等，参与其中。

我们希望您能够从本报告中获得鼓舞，并使您坚定地促进中瑞经贸关系和双方友谊发展。

1.2 Executive Summary

The first and immediate benefit of the SSFTA are practical opportunities resulting from exporters saving customs duties because of the substantial reductions in tariffs. The FTA created an annual savings potential for Swiss exporting firms worth several hundred million CHF (Ziltener, 2014), and well over a 100 million were realized in 2017, on both the Chinese and Swiss sides. These significant amounts are expected to increase in the year 2018 and beyond.

How much do companies already benefit? Every year since the FTA's implementation, Chinese companies have realized 40–45% of the FTA's savings potential. Most significant were savings for the machinery and textile sector. As specific examples, the report finds magnets (52.3 million CHF imports, Utilization Rate (UR) 84.1%), water heaters (UR 91.4%), bicycles (UR 79.8%), vacuum cleaners (UR 71.4%), and electric motors (UR 67.7%). Important for the Swiss watch industry's global competitiveness is the duty-free import of parts and components from China (Chapter 2.2).

For Swiss companies, the incentive to utilize the FTA in exports to China increases every year due to the fact that many tariffs phase out over a five- to ten-year period schedule. Especially successful already have been the Swiss watch, machinery and pharmaceutical industries. We approximate that three out of four watches now are successfully exported to China under preferential tariffs set out in the FTA. A vast majority of machinery exports also utilize the FTA. Likewise, medical instruments also greatly benefit and, for instance, close to all dental fittings exports make successful use of the FTA. On the other hand, sectors like Swiss agriculture, are just starting to experience savings (Chapter 2.2.).

The SSFTA, like all trade agreements, is only utilized by a certain number of firms active in bilateral trade. As the report describes in detail, Rules of Origin (RoO) are necessary, but limit the beneficial effects of free trade agreements. Many firms choose not to apply for preferential treatment. This is true for other Swiss FTAs as well. An important question is why firms do not make effective use of the FTAs. The report finds that between a quarter and one half of Swiss and Chinese firms had issues calculating the value of non-originating materials to meet RoO requirements or were uncertain about tariff reduction procedures (Chapter 2.3.). The report is also a call for FTA education and for upgrading the functionality of the FTA.

This brings us to the ultimate question of whether the FTA effectively increased bilateral trade. The answer is a resounding 'yes'. The results suggest large annual trade creation effects of more than a billion Swiss Francs both in exports and imports (Chapter 2.4.). The cumulative effects (Chapter 3.4.) are staggering.

As framework conditions for the bilateral exchange improve, there is evidence that the trade-creating effects of the SSFTA lead to a long-term competitive advantage for both Swiss and Chinese firms. That is, directly via reduced tariffs but also indirectly since firms become more competitive and their global value chains optimized. Since China's non-FTA default tariffs are still substantial and a FTA with China is out of reach for EU or the U.S. firms, Swiss exporters face a significant comparative advantage. This was corroborated by the survey in which over half of the Swiss respondents, and between a quarter and a third of Chinese, noted that the SSFTA has or will lead to strategic adaptation. Moreover, nearly all the firms of both countries that already utilize the FTA responded in our survey they will continue to utilize the FTA in the future, as in "once used, can't do without". Finally, one cannot obviate the fact that the FTA means reduced prices for consumers in both countries.

Further to the SSFTA stimulating effects on trade in general, strategic value and realized savings for firms and possibly better prices for consumers in general, the research report documents that more beneficial effects are likely to materialize over the coming years. This is because many Chinese import duties will be reduced further until 2023 and beyond. Combine this factor with the potential for improvement as noted by the editors who emphasize that utilization rates still have room to go up. Here, the report offers concrete inputs, for both firms and policymakers.

1.2 概要

由于关税的大幅削减，中瑞自贸协定的第一个直接收益即节约关税为出口商带来的实际机会。报告发现，中瑞自贸协定为瑞士出口公司创造了价值数亿瑞士法郎的年度关税节约潜力（Ziltener，2014），并且在2017年为中方和瑞方都实现了超过1亿瑞士法郎的关税节约。这一显著的数字预计在2018年及以后还将进一步上升。

企业已从中受益多少？自中瑞自贸协定实施以来，中国公司每年实现40%-45%的节约潜力。最显著的是机械和纺织部门的关税节约。从具体例子看，报告发现最为显著的有磁铁（5230万瑞士法郎进口，自贸协定利用率84.1%），热水器（利用率91.4%），自行车（利用率79.8%），真空吸尘器（利用率71.4%）和电动机（利用率 67.7%）。从中国免关税的零部件进口对瑞士钟表业全球竞争力具有重要意义（第2.2节）。

对瑞士公司而言，由于许多产品的关税经过5至10年的时间逐步削减，企业在对中国出口中利用自由贸易协定的激励逐年上升。数据显示，在利用自贸协定上已经特别成功的是瑞士手表、机械和制药行业。我们估计有四分之三手表的出口目前成功享受自贸协定中规定的优惠关税。绝大多数机械产品的出口也利用了自贸协定。同样，医疗器械也极大获益，例如，将近所有的牙科配件出口成功使用了自由贸易协定。而在另一方面，一些行业，如瑞士的农产品，才刚开始体验关税节约的效应（第2.2节）。

和所有的贸易协定一样，仅有在双边贸易中活跃的一定数量的企业利用了中瑞自贸协定。正如报告所详述的，原产地规则（RoO）是必要的，但限制了自由贸易协定的有利影响。许多企业选择不申请关税优惠待遇。其他瑞士的自由贸易协定也是如此。一个重要问题是企业为什么不有效地利用自由贸易协定。该报告发现，四分之一到一半的瑞士和中国公司在计算非原产材料价值方面（以满足原产地规则要求）存在问题，或者不清楚关税减让的程序（第2.3节）。该报告也对进行自由贸易协定的教育和提升自由贸易协定的运作发出呼吁。

这将我们带到了自由贸易协定是否有效增加双边贸易的最终问题。答案是响亮的“是”。分析结果表明，在出口和进口上都有超过10亿瑞士法郎的巨大年度贸易创造效应（第2.4节）。累积影响（第3.4节）十分巨大。

随着双边交流的框架条件的改善，有证据表明，中瑞自贸协定的贸易创造效应为瑞士和中国企业都带来了长期的竞争优势。这是通过降低关税直接带来的，但也是间接产生的，因为企业变得更具竞争且企业的全球价值链更加优化。由于中国非自贸协定的初始关税仍然很大，且对欧盟或美国公司而言，与中国的自由贸易协定遥不可及，因此瑞士出口商面临着显著的比较优势。调查证实了这一点，超过一半的瑞士受访企业，以及四分之一到三分之一的中国企业表示，中瑞自贸协定已经带来或将会带来战略性调整。此外，几乎所有已经利用自由贸易协定的两国企业都在我们的调查中回应，他们会在将来继续使用自由贸易协定，好比“一旦使用过就变得不可或缺（once used, can’ t do without）”。

中瑞自贸协定除了总体上刺激贸易，提升企业战略价值和实现关税节约，改善消费者面临的整体价格之外，研究报告还证实，中瑞自贸协定在未来几年会实现更多的有利效应。这是因为中国的进口关税将进一步削减，持续到2023年以后。将这一因素与改进的可能性（正如本报告编辑所强调的，利用率仍有上升的空间）结合起来，报告在此为公司和政策制定者提供了具体的建议。

1.3 Sino-Swiss FTA – Motivation

by Xinquan Tu, Yingxin Du, Patrick Ziltener and Tomas Casas

In Chinese, the idiom "同床异梦" (tong chuang yi meng) means "same bed, different dreams", and points to collaboration challenges when interests differ. The marriage metaphor also suggests that when dreams diverge, partnering is less fulfilling. Conversely, faithful commitment and agreed upon rules might see parties with different interests fruitfully complement each other in partnership.

Figure 1.1 and Figure 1.2 below put the SSFTA into context, summarizing what moved China and Switzerland to negotiate and implement an innovative trade relationship. Different and similar motivations appear to be all framed by trust.

Figure 1.1: Primary Chinese Motivations for the Sino-Swiss FTA

1 General	2 General	3 General	4 Swiss-specific	5 Swiss-specific
Trust	Complementarity	Commitment (of counterpart)	Learning	Signal to Europe
Mutual trust and understanding, based on diplomatic and political perspectives. Note: CH supported CN's market economy status, and is seen as having aligned political interests. (Kong 2012, Zeng 2016)	Mutual gains. Note: CN does not take industry perspectives (although feasibility studies identify sectorial beneficiaries). The FTA decision is centrally made –a macro, whole picture prevails. This contrasts with Western countries where negotiation groups drive/ block FTAs. (Kong 2012)	CN assess motivation and commitment of potential FTA Partner. Note: CH seen as very open and liberal, willing to sign, and easier to negotiate with than other advanced countries. (Kong 2012, Li 2014)	China gains negotiation experience with advanced/ European countries. Note: The SS-FTA was one of the most comprehensive CN FTAs, a template for negotiations with advanced countries. (Zhang, 2013)	China sends strong signals of further opening up and cooperation to Europe Note: Switzerland is seen as gateway to Europe, to ready CN for the EU market and for possible future EU FTA negotiations. (Wu et al. 2013, Lanteigne 2014, Xinhua News 2013)

Figure 1.2: Primary Swiss Motivations for Sino-Swiss FTA

1 General	2 General	3 China-specific	4 China-specific	5 China-specific
Exports	Global Competitiveness	Importance	Complementarity	Chinese Market Competitiveness
Increased CH market access. Note: "To provide Swiss companies with an unobstructed, stable and non-discriminatory market access (…)". (SECO 2018)	All trade, incl. CN imports, is economically beneficial for CH. Note: Swiss policy of "(S)trengthening Switzerland's competitiveness as a business location(; FTAs) enable Switzerland to secure its place within the global value added chains". (SECO 2018)	After the US and the EU, CN is CH's third largest trading partner. (SECO 2018) Note: SS-FTA savings potential higher than that of any other FTA outside EU/ Europe. (Ziltener 2014)	"True Win-Win situation" (SECO 2010, FDFA 2018) Note: The FTA got broad support from most industry associations in CH.	Non-export-related CN market positioning: Note: "(C)ompetitive advantage compared to other countries which do not have a FTA with China and prevents discrimination against Swiss economic operators compared to China's existing and future free trade partners." (FDFA 2018)

1.4 Sino-Swiss FTA – Methodology

by Xinquan Tu, Stefan Legge, Jian Han, Patrick Ziltener, Yue Lu and Tomas Casas

(I) Description of Trade Data

For the economic analysis of the SSFTA, we have been able to use comprehensive data from both China Customs and the Swiss Federal Customs Administrations. This allows us to explore in detail, what the two countries trade, how the FTA is utilized and the extent to which the FTA led to more bilateral trade. For each international shipment that arrives in China or Switzerland, the date, value, weight, and duties paid are recorded. In addition, the product category is noted using the so-called Harmonized System which comprises more than 10,000 different goods with unique eight-digit codes. For our analysis, we use yearly aggregate values for each product.

An important remark concerning the trade data is that we always use the respective information on recorded imports. That is, for Swiss exports to China we rely on Chinese customs data on imports. In turn, we use Swiss customs data on Chinese exports to Switzerland. This is in line with standard practice in academic research and justified by the higher quality of import statistics. Given that they are potentially subject to tariffs, the accuracy of recording of imported products is significantly higher. We highlight this aspect because reported exports and the respective imports differ markedly as shown in Figure 1.3 below.

The last column indicates the values we use throughout the report. Note how both countries report a trade deficit (i.e., more imports than exports) when using national statistics. This reflects the well-known phenomena of underreporting exports.

Two more remarks are worth noting. First, all Swiss imports are recorded in Swiss Francs (CHF) while Chinese imports are valued in US Dollar (USD) or Renminbi (RMB). As of July 2018, the CHF/USD exchange rate has been very close to parity. Hence, we treat 1 CHF = 1 USD. We translate all RMB-denominated values into CHF according to the exchange rate 6.5 RMB = 1 CHF.

The second remark concerns gold and undeclared goods (HS chapters 98 and 99). As shown in Figure 1.3, many Swiss exports to China are undeclared or gold which is not subject to any type of tariffs. Henceforth, we omit HS codes 7108.1200 and well as chapters 98 and 99 from all statistics.

Figure 1.3: Sino-Swiss Trade Balance, Reported Exports and Imports by China's General Administration of Customs (GAC) and the Swiss Federal Customs Administration (EZV)

Trade in 2017	Chinese Customs Data	Swiss Customs Data	Sino-Swiss FTA Academic Report
Exports	$3.2 billion	$11.1 billion	Chinese Exports: $13.3 billion
		($24.5 with gold)	
Imports	$9.5 billion	$13.3 billion	Swiss Exports: $9.5 billion
	($33 billion with gold)		
Trade Balance	-$6.3 billion	-$2.2 billion	-$3.8 billion
	(= Swiss Surplus)	(= Chinese Surplus)	(= Chinese Surplus)

Swiss Surplus of $ 19.7 billion with gold

Chinese Surplus of $ 3.8 billion excluding gold

Both surpluses based on customs import data

(2) Calculation of Utilization Rates

When examining the success of a FTA and estimating the effect of a trade agreement on bilateral trade flows, a key determinant of the effect's magnitude is whether the FTA is successfully utilized by firms. Pomfret et al. (2010) show that FTA utilization rates can be fairly low in the presence of bureaucratic complexities or multilateral trade liberalization. Furthermore, Nilsson (2011) as well as Keck and Lendle (2012) find that up to 37% of EU imports from China do not utilize the General System of Preferences (GSP), meaning that Chinese exporters pay more customs duties than they could.

In our study, we measure utilization rates for trade flows between China and Switzerland. This will show to what extent firms make use of the FTA. There are two different types of utilization rate: The General Utilization Rate (GUR) as well as the Adjusted Utilization Rate (AUR).

As shown by the AUR and GUR equations in Figure 1.4, the difference is that for the AUR we reduce the denominator by imports with zero most-favored-nation (MFN) tariff (for those there is no incentive to apply for preferential FTA treatment). For the utilization rate of Swiss imports from China a final remark is due: Before July 2014 (when the FTA came into force), we can calculate the utilization rate under the Generalized System of Preferences (GSP).

(3) Survey Design and Sampling

The survey design was structured on the basis of Kasunic (2005) and started by identifying the research objectives of the multiple survey stakeholders in China and Switzerland (official, SMEs, MNCs, service firms, etc). This consensus-seeking approach revolved around an iterative process of specifying the analysis goals (Czaja and Blair, 1996), involved the definition of the target audience (SSFTA users, actual and potential) and the data collection method (sampling plan). In line with Deming (1990), the questionnaire design integrated the views of experts with in-depth, practical knowledge.

The FTA Utilization Survey was programmed on Unipark's survey software by Questback for questionnaire design, testing and validation. Thereafter Unipark was deployed for the data collection.

The agreed upon questionnaire was distributed (both personalized and non-personalized versions) by the Swiss Center Shanghai with the support of the Swiss Business Hub in Beijing in cooperation with the HSG. UIBE distributed the survey through Chinese institutions. 1100 representatives at more than 600 companies received the link and the cut-off date of this on-going project for the purposes of this report was 7 September 2018. The report includes 63 answers from Swiss firms and 32 replies from Chinese firms. This survey sets precedent as for the first time a unified instrument was launched with the aim of gathering consistent data from Swiss and Chinese firms.

Figure 1.4: Calculations of the General Utilization Rate (GUR) and Adjusted Utilization Rate (AUR)

$$GUR = \frac{\textit{Imports benefitting from FTA}}{\textit{Total Imports}} \qquad AUR = \frac{\textit{Imports benefitting from FTA}}{\textit{Total Imports - Imports with Zero MFN Duty}}$$

(4) Impact on Trade

In the final part of our economic analysis, we explore whether the SSFTA has had a trade-creating effect—that is, do Switzerland and China trade more with each other today because of the trade agreement?

To answer this question, we must find the counterfactual: how much bilateral trade there would be in the absence of the FTA. Since this is not observable, we follow a series of statistical approaches to estimate the counterfactual. In additional to a visual inspection for trend breaks and a comparison of goods with and without tariff reductions, we compare how the bilateral trade evolved relative to trade with other countries. Subsequently, we use a state-of-the-art econometric approach to estimate how much more the two countries trade due to the FTA: the synthetic control method.

Following Abadie and Gardeazabal (2003), Abadie et al. (2010, 2015), as well as Born et al. (2017), we use the synthetic control method that was recently added to the toolbox of empirical macroeconomics. Under mild assumptions we are able to identify the causal effect of the SSFTA on bilateral trade.

The goal of this exercise is to estimate a "synthetic" counterfactual. To do this, we let an algorithm determine which combination of other economies matches with the highest possible accuracy the trends in trade of the Swiss and Chinese economy before the FTA came into force in July 2014. Which countries get selected and what weight they are assigned is entirely data-driven. The better our algorithm constructs a counterfactual for the bilateral trade as a weighted combination of trade with other economies before the FTA, the more precise our results will be.

Comparing the evolution of this synthetic counterfactual to actual data for Sino-Swiss bilateral trade directly quantifies the aggregate effect of the FTA. Identification of the true causal effect hinges on the assumption that the SSFTA is a natural experiment—unanticipated and unrelated to macroeconomic performance. Furthermore, no other policy change should uniquely affect Sino-Swiss trade in 2014 and afterwards. If these assumptions are met, the counterfactual continues to evolve in the way Sino-Swiss trade would have evolved in the absence of the trade agreement. Then, the difference between actual trade flows and trade flows for the counterfactual after July 2014 reflects the causal effect of the FTA.

The donor pool of trading partners consists of all countries from which more than 1 million USD is imported and GDP as well as population data are available for the period 2010 to 2017. For Swiss imports, we exclude all EU member states and end up with 93 countries while for Chinese imports, 150 countries are in the donor pool and imports of gold and undeclared goods are omitted. We use GDP, population size, as well as pre-FTA imports as predictor variables.

State-of-the-art econometrics

The analysis compares Sino-Swiss trade with Chinese and Swiss imports from almost all other countries to estimate how much bilateral trade was fostered by the SSFTA.

PART II

2.1 Sino-Swiss FTA – Background

by Stefan Legge and Patrick Ziltener

(1) Trade between China and Switzerland

The SSFTA is one of China's most important trade agreements so far (Ziltener, 2014) and in Switzerland it ranks second only to the FTA with the European Union. China is Switzerland's third biggest export destination and the sixth largest origin of imports. At the same time, for China, Switzerland is the 13th most important origin of imports. Since 2010, bilateral trade has almost doubled to 46.1 billion USD in 2017. Total Swiss exports to China are very volatile and an order of magnitude larger than trade flows in the opposite direction. To a large extent, this is driven by precious metals and non-classified goods. Leaving out these product categories as in Figure 2.1(a), we find that from 2010 to 2017 Chinese exports to Switzerland grew from 6.1 to 13.0 billion USD while Swiss exports increased from 8.4 to 9.8 billion CHF. Since 2012, we see that China has run a trade surplus with Switzerland. This is due to an improvement in Swiss customs accounting that started in 2012: essentially many Chinese goods that arrived in Switzerland after passing through the port of Rotterdam were counted as Dutch products before 2012.

One key question we seek to answer in this report is whether the SSFTA fostered bilateral trade after coming into force in July 2014. For reasons explained later, a simple overall chart like the one in of Figure 2.1(a) is not suitable to answer this question – we cannot simply compare the trend before and afterwards as many other things changed in 2014 and after. However, for the moment we can constitute that bilateral trade stabilized at about 22 billion USD in the years since 2014 when excluding precious metals.

To put the evolution of Sino-Swiss trade into perspective, we plot the two countries' total imports (again excluding precious metals) from all countries in Figure 2.1(b). Notice that the level of imports in 2010 is indexed at 100 to allow for comparison. We observe that after 2013 Swiss imports from China have been growing faster than imports from other nations. Furthermore, the plot shows that since 2014 when the FTA came into force, Chinese imports from Switzerland evolved similar to exports from other countries.

Among Swiss exports to China, the data reveal a marked increase for pharmaceutical products (from 504 million to 1'409 million USD between 2010 and 2017) as well as optical instruments (843 to 1'328 million) as well as clocks and watches (1'330 to 1'743 million). The key drivers of Chinese export growth to Switzerland were electrical machinery (1'198 to 3'457 million), mechanical appliances (1'031 to 2'320 million) as well as textiles (568 to 1'754 million USD)

(2) Products traded between China and Switzerland

Bilateral trade flows in today's world are typically concentrated in a few main industries. In the Sino-Swiss trade, gold accounts for 70% of the value of Swiss exports to China in 2017. Other key Swiss export product groups include mechanical appliances (3.1 billion USD), optical and photographic instruments including watches (3.1 billion), chemicals (2.2 billion), as well as plastics and rubber (0.3 billion). Together, these product categories cover more than 97% of Chinese imports from Switzerland.

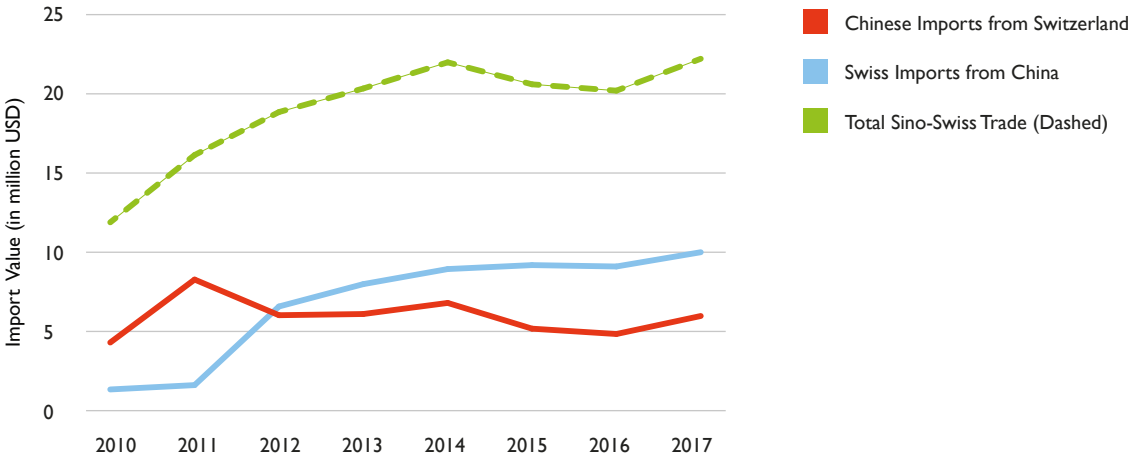
In the opposite direction, we find that mechanical appliances (5.7 billion CHF), textiles and apparel (1.8 billion), optical and photographic instruments including clocks (1.0 billion), chemicals (1.0 billion), as well as various manufactured articles including toys (1.0 billion) make up the lion share of Swiss imports from China.

(3) Illustrating the Trade Agreement

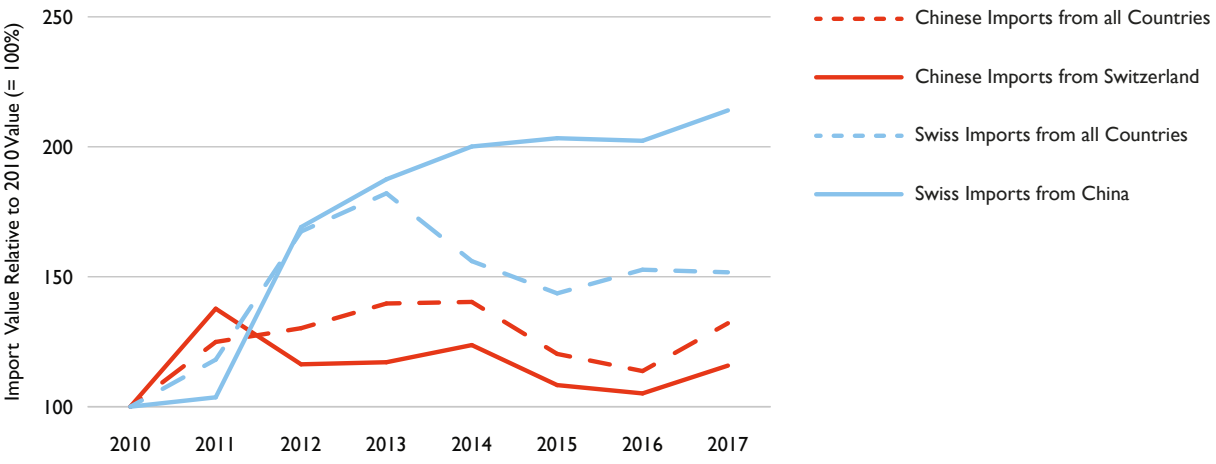
The trade agreement between China and Switzerland is one of the most important FTAs for China thus far and the second most important for Switzerland after the one with the European Union. The FTA includes a large set of tariff concessions. Both countries decided to set out preferential rates for the majority of products. Since both China and Switzerland are members of the World Trade Organization (WTO), all of their imports are by default subject to so-called most-favored-nation (MFN) duties which are determined by each country separately. Due to the SSFTA, firms from the two signing countries can import goods and apply for preferential treatment (i.e. lower tariffs) as specified in the SSFTA.

Figure 2.1: Trade between China and Switzerland, 2010 to 2017

2.1 (a): Sino-Swiss Trade (excl. gold and precious metals)



2.1 (b): Sino-Swiss Trade in comparison with oder trading partners



To quickly understand how the SSFTA altered tariffs, we provide the graphs in Figure 2.2 which shows the number of products (i.e. tariff lines) within ranges of customs duties. Two key aspects are important. First, before Swiss imports from China could benefit from the FTA, there were preferential duties as agreed in the General System of Preferences (GSP)—a scheme to promote exports of developing countries. The FTA replaced GSP and offered substantially lower tariffs. Simply put, except for agricultural products (up to HS section 24), all Swiss import duties on Chinese products were immediately set to zero. In the chart, we show the best possible tariff rate for each product—either under pure MFN, GSP, or FTA.

The second important remark concerns China's concessions in the bilateral trade agreement. Tariffs for many products were not lowered immediately but over a time period of 5 to 15 years. The result of the phase-out period of Chinese duties is that in 2018 we are about half-way in. Over the next years, Chinese tariffs will decrease further—benefitting both Swiss exporters and Chinese customers. Overall, non-weighted average Chinese import duties decreased from 9.8% (MFN level) to 3.7% in 2018, and 1.3% in 2023 with the FTA.

Because in 2018 the FTA is in force in its fifth year, many tariffs on Swiss goods have been completely phased out. For instance, the tariff on Swiss espresso makers was reduced from 32% to 25.6% immediately, in 2015 further lowered to 19.2%, and it will be completely phased out this year. The same applies to many types of machinery, such as cranes, pumps, turbines, engines and motors, driers, ovens and burners, most textile machines, and many tools. Duties for many categories of machinery, however, will phase out over ten years, which means that applied tariffs have by now been reduced by half. Most will completely phase out in another 5 years, e.g. the tariffs on air conditioning machines, freezers and heaters, sewing, weighing and packaging machinery, rolling mills, valves, recorders and players, and most machinery parts.

Which of the concessions were of greatest importance? Considering Swiss imports from China, the main beneficiary was the textile sector which was excluded from GSP benefits. While average Swiss tariffs on textiles under MFN are about 5–7% , the FTA removed these duties altogether. For Swiss exports to China, the main benefitting product was watches (HS-Section 91) with a total volume of 2.9 billion CHF and an average reduction of tariffs by 5.8 percentage points in 2017 due to the FTA. The machinery sector (HS Sections 84 and 85) with export volumes of 1.2 billion CHF and 670 million CHF benefitted from a tariff reduction of 4.7 and 4.0 percentage points, respectively.

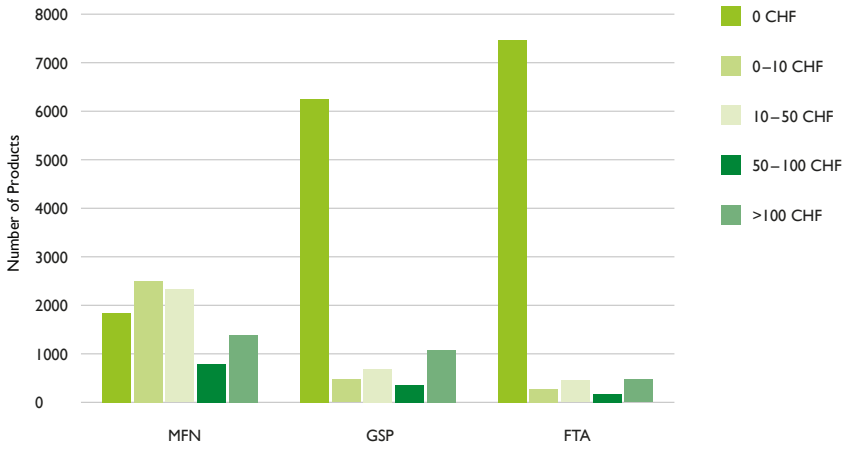
(4) Putting the Trade Agreement in Perspective

As illustrated above, the SSFTA reduced tariffs on bilateral tariffs substantially. This raises the question whether the duties specified in the FTA are low compared to other tariffs laid out in other FTAs that Switzerland and China signed. Swiss import duties on products from China are set to zero except for agricultural products. On average import tariffs for Chinese agricultural products are substantially reduced as a result of the SSFTA but not quite as low as, for example, for products from the European Union or from Japan.

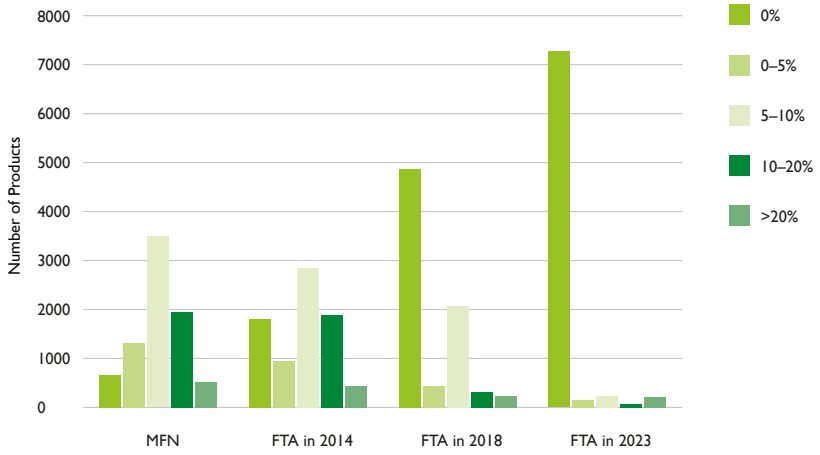
The tariff concessions that China grants to Swiss exporters generate a significant advantage compared to firms from EU countries. Due to the fact that the SSFTA lowers tariffs on Swiss products gradually, in 2017 import duties are still substantially higher for Swiss products compared to goods from ASEAN countries, New Zealand, or Iceland. For example, the single most important Swiss export by value, wrist watches with automatic winding (HS code 9102.2100), faces an import duty that decreased from 11% MFN to 6.8% in 2018 and will eventually be reduced to 4.4% in 2023. The FTA that China concluded with Iceland in 2013 reduced the Chinese tariff on this product to zero. Given that Swiss exports of this product were about 1.4 billion USD in 2017, the tariff revenue from this was about 100 million USD. The additional tariff reduction in the coming years to 4.4% will save 34 million USD per year. Notably, tariffs on Switzerland's second most important export good to China, a certain type of medication (HS code 3004.9090) is duty-free in the SSFTA but faces a 2.5% duty in the China-Iceland FTA. The fact that it is duty-free for Swiss exporters saves about 22 million USD annually.

Figure 2.2: Illustration of FTA Concessions

2.2 (a): Swiss Import Duties (per 100kg)



2.2 (b): Chinese Import Duties (% of Value)



2.2 Sino-Swiss FTA – Utilization Rate Analysis

by Stefan Legge, Patrick Ziltener and Jian Han

(1) Overall Utilization of the FTA

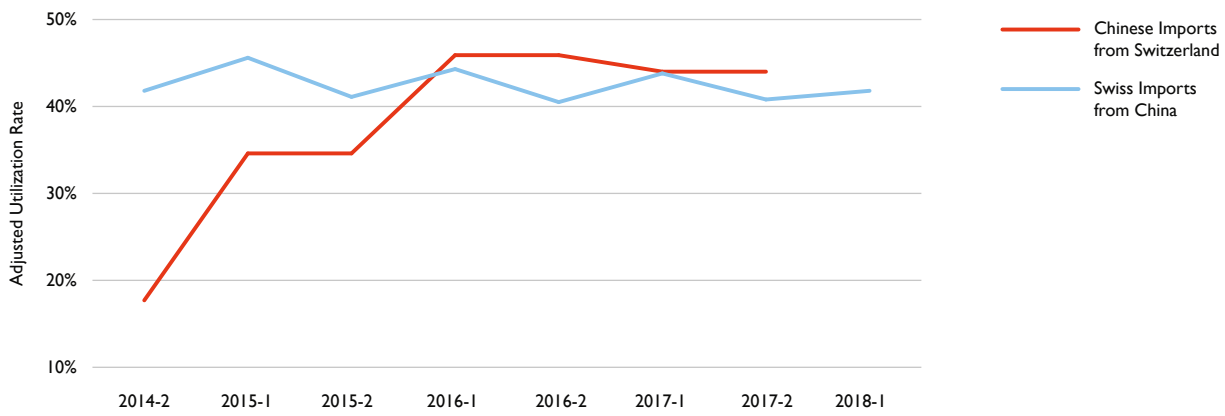
A FTA is no automatism. It can only have an impact if it is effectively utilized by companies. To do this, firms must apply for preferential treatment and meet FTA requirements in terms of rules of origin, documentation, and shipment. Simply put, utilization of an FTA comes at a cost to firms: dealing with bureaucratic tasks, adjusting shipments, altering production. For some companies the compliance costs are too large, and they choose not to apply for preferential tariff treatment. Therefore, it is unrealistic to expect a utilization rate of 100% for any FTA, even when complete tariff abolishment has been agreed upon.

The analysis of utilization rates, as detailed as possible, is an essential prerequisite for optimizing an FTA (Ziltener, Blind, 2014). In this chapter, we make a first attempt at evaluating the utilization of the SSFTA. When calculating the Adjusted Utilization Rate (AUR) as specified in Chapter 1.4 "Methodology", we divide the value of imports that benefits from the FTA by the total value of imports that are not duty-free according to MFN. The results reveal that about 42% of Swiss imports from China and about 44% of Chinese imports from Switzerland utilized the bilateral trade agreement in 2017. These numbers take into account the large share of trade that is not subject to any MFN duties and thus would not benefit from preferential treatment (41.6% of Swiss imports and 81.5% of Chinese imports).

The overall utilization rate has been stable in Switzerland and increasing in China. The latter is in line with the fact that many Chinese tariff reductions have a phase-in period. Hence, the incentive to utilize the FTA increases over time. In Figure 2.3, we show the AUR for both Chinese as well as Swiss imports from the implementation of the FTA in the second half of 2014. Notably, the AUR for Swiss imports has been stable throughout the period shown. This suggests that Chinese exporting firms were familiar with necessary customs procedures due to the fact that before the FTA came into force, Chinese exports to Switzerland could benefit from the General System of Preference (GSP). The AUR for Chinese imports shows a positive trend in the first two years – documenting that Swiss exporting firms improved their utilization of the trade agreement.

It is important to emphasize that a FTA can be very successful even if the utilization rate is significantly below 100%. Depending on the business conditions—which firms ship which products—there are very good reasons for why some firms at times do not apply for preferential treatment. This does not reflect a failure of the FTA but rather the realities of conducting business in a globalized world. For example, if a firm produces machines in Switzerland but purchases some complementary products from a supplier in Germany, it may ship both to China but not apply for FTA benefits for the German part of the shipment. Similarly, a Chinese export of textiles to Europe might not

Figure 2.3: Adjusted Utilization Rate since Enforcement of the FTA



have a clear destination country when leaving China—hence it will first be shipped to Rotterdam and imported into the European Union. When a portion of these textiles are then sent to Switzerland, the FTA cannot be utilized. This is a well-known disadvantage of strict Rules of Origin (RoO) and/or rules of shipment enforcement. However, such an enforcement is necessary to prevent third party countries to utilize the SSFTA.

(2) Potential and Realized Fiscal Savings

The reduction of tariffs on bilateral trade implies that the FTA came at a cost to both governments. The revenue they receive from import duties is lower than it would be in the absence of the FTA—which would mean that MFN duties are applied on all imports. In what follows, we intend to estimate this cost of the FTA—which, at the same time, is equal to savings to firms and consumers in both countries.

A clear indication of how large the potential benefits of the SSFTA are—how much firms can save in duties—and the extent to which the FTA is utilized is given by Figure 2.4. For Swiss imports from China, we observe that tariff revenue would be about 300 million CHF if all imports were treated with MFN duties—that is if Chinese exports would not benefit from either GSP or FTA. In contrast, under full utilization of the SSFTA, the total revenue in 2017 would be a mere 1.2 million CHF. The actual revenue at about 150 million CHF in 2017 shows that roughly half of all theoretically possible savings were realized.

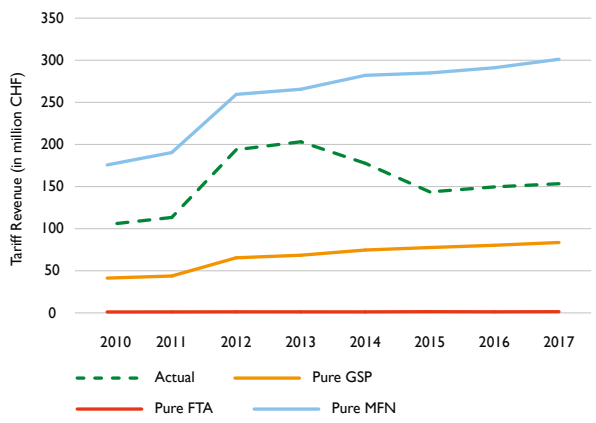
Concerning Chinese imports, we resort to statistics aggregated at the 6-digit product level. This creates uncertainty in the estimates due to the fact that there are numerous 6-digit product codes containing several 8-digit products with different import duties. We use the average tariff at each 6-digit level and estimate that total revenue in 2017 would be about 700 million CHF in the absence of the FTA. If preferential tariffs were applied to all Swiss exports, revenue would drop to about 300 million CHF if the 2017 duties are applied and just under 100 million if the 2023 duties are applied. These numbers highlight the significant savings potential created by the FTA and show how much improvement is yet to come.

From a technical point, it must be emphasized that the estimates of revenue under full MFN treatment represent an upper bound. They effectively assume that trade flows would not respond to tariff rates. We pretend that imports would have been exactly the same if treated with higher tariffs and apply the MFN duty to estimate the total revenue. This is for illustrative purposes to highlight the savings potential created by the FTA.

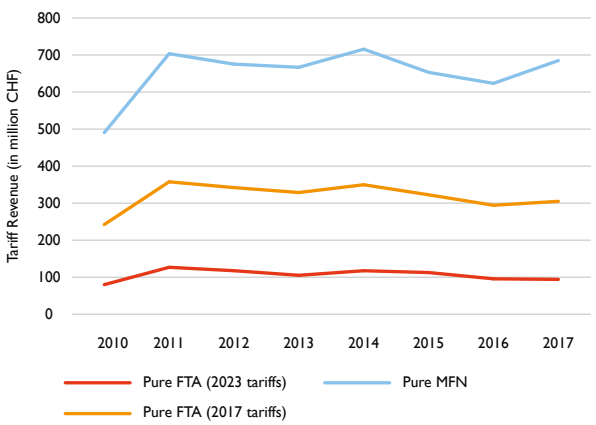
Finally, it is important to highlight that savings in customs duties can benefit both firms and consumers. The fact that the Swiss government collected about 150 million CHF less in tariff revenue could mean that Swiss customers had to pay less for Chinese products or that Chinese export firms and Swiss import firms could increase their profits. A detailed sector analysis would be necessary to explore the so-called tax incidence.

Figure 2.4: Actual and Estimated Tariff Revenue under Different Regimes

2.4 (a): Swiss Tariff Revenue on Chinese Exports



2.4 (b): Chinese Tariff Revenue on Swiss Exports



(3) Sector Analysis: Success Stories and Untapped Potential

Diving deeper into the utilization of the FTA, we now examine which sectors have been the main beneficiaries of the agreement. To this end, we explore the differences across sectors in potential and realized savings. In Figure 2.5, we show the main import sectors of both Switzerland and China. For each sector, we provide the key statistics on tariffs, utilization, and savings (where available).

Figure 2.5 reveals that there are substantial differences in the extent to which the FTA is utilized. Concerning Swiss exports to China, the statistics show that potential savings are strongly concentrated in a few sectors: watches (HS chapter 91), for machinery (HS 84), as well as for pharmaceuticals (HS 30). The product with the largest realized savings is wrist-watches with automatic winding (HS code 9102.2100).

The six most important chemical and pharmaceutical export positions are either completely duty-free on MFN basis or have AUR between 60 and 100%. Machinery exports have very high utilization rates and outstanding success stories can also be found among Swiss medical instruments. However, there are also areas with rather low utilization. This includes orthopedic appliances. Further research is necessary to determine why certain cosmetic and makeup export positions make little use FTA, even when covered.

Figure 2.5: Trade, FTA Utilization and Savings in Key Sectors

	Sector (HS Code)	Import Value (in million)	Imports Utilizing FTA (in million)	Average MFN Duty	Average FTA Duty	Potential Savings (in million)	Realized Savings (in million)	Adjusted Utilization Rate
Chinese Exports to Switzerland in 2017	Electrical Machinery (85)	3.406	384	1,5%	0,0%	14,5	8,9	50,3%
	Machinery (84)	2.286	290	1,2%	0,0%	7,8	4,9	54,0%
	Non-knitted Apparel (62)	1.008	214	6,8%	0,0%	82,9	29,3	21,3%
	Chemicals (29)	736	263	0,2%	0,0%	1,8	1,4	58,5%
	Knitted Apparel (61)	720	180	4,6%	0,0%	43,7	18,8	25,1%
	Rest	4.954	1.890	1,3%	0,0%	149,0	84,6	45,5%
	Total	13.110	3.222	3,5%	0,0%	299,6	147,8	**42,2%**
Swiss Exports to China in 2017, Approximation	Watches (91)	2.926		15,8%	10,0%	110,9		
	Machinery (84)	2.343		8,0%	3,1%	73,1		
	Pharmaceuticals (30)	2.180		4,5%	0,8%	42,1		
	Instruments (90)	1.576		6,5%	3,7%	23,5		
	Electrical Machinery (85)	1.089		8,7%	5,0%	35,6		
	Rest	2.754		11,3%	6,0%	152,1		
	Total	12.870	2.874	11,1%	5,9%	437,3		**44,0%**

On the Swiss import side, Chinese parts for Swiss watchmaking are highly relevant: cases and straps, for example, with a value of over 420 million CHF annually—imported mostly duty free thanks to the FTA. We find success stories mainly in the machinery sector: magnets (52.3 million CHF imports, AUR 84.1%), water heaters (AUR 91.4%), bicycles (AUR 79.8%), vacuum cleaners (AUR 71.4%), and electric motors (AUR 67.7%). However, most of Swiss imports from China still have utilization rates of under 50%, meaning that more than half still pay regular Swiss duties. This includes toys (45%), travelling-bags (43.8%), and electric lamps (43%). The biggest utilization problems are found in the textile and footwear sector: Only 18.3% of women's wind-jackets (annual value of 130 million CHF), 20 to 24% of pullovers, and 16.6% of men's trousers come into Switzerland duty-free. Only 11.1% of sports shoes (annual value of 50 million CHF), and only about one third of all shoes are exempted from tariffs effectively. There is significant savings potential left, to the amount of over 150 million CHF per year.

(4) Agricultural Products

Considering Chinese imports from Switzerland, most agricultural products are subject to tariffs phasing out over ten years. Some dairy products like butter became duty-free this year, others will only be tariff-free in five years. Chinese import duties on Swiss cheese are down from 12 to 7.4% but will remain at 4.8% from 2023 onward. The import duty on roasted coffee is reduced to 10.5% (from 15%) and will be 6% in another five years. Chocolate products became tariff-free either immediately or after five steps culminating this year.

The main Swiss agricultural exports to China include dairy products (about 9 million CHF in 2017), coffee (7 million), chocolate (32 million), and preparations of cereals, flour, starch or milk (121 million). For all of these products, we find low utilization rates, but still substantial savings.

On the Swiss import side, the main agricultural products from China include fish and crustaceans (7.7 million CHF in 2017, AUR of 32%), edible vegetables (17.2 million, 34%), coffee and tea (14.3 million, 4%), as well as preparations of vegetables, fruits and nuts (9.9 million, 83%). For selected Chinese food exporters we find particularly successful use of the SSFTA: For example, vegetables (HS 0710.8090) of Chinese origin, imported at a value of several million CHF annually, have an AUR of 73%. Other product categories also do well; for instance, chewing gum (AUR 77.9%), almost all mushrooms (99.6%), noodles (94.2%) and sesame oil (98.2%). Less successful is the export of sugar confectionery, syrups or certain food preparations, where the AUR is close to zero.

In 2017, Chinese and Swiss exporters saved well over 100 million CHF on each side

On the Swiss side watches, machinery and pharma benefited the most
On the Chinese side textiles and machinery benefited the most

(5) Determinants of Utilization

The fact that firms must apply for preferential treatment poses a strategic trade-off: are the potential benefits greater than the costs of utilizing the FTA? While the benefit in case of successful utilization can be easily calculated (the difference between MFN and FTA duties), the costs of utilization are rather opaque. First of all, firms must ensure that they comply with the RoO as specified in the FTA document. In several cases this might require a substantial change in production and input sourcing. Second, dealing with bureaucracy at the customs can be costly both in teams of staff filing document as well as potential delays in shipment. Depending on how urgent a shipment is or how stiff competition in a given sector plays out, firms may decide not to apply for FTA benefits. In sum, whether firms decide to utilize the SSFTA depends on the potential savings (incentive motive) as well as the associated costs. The survey in Chapter 2.3 provides insight on the use and non-use of the FTA.

For Swiss imports, the data show a clear positive correlation between the AUR and the savings potential for each good. This suggests firms utilize the FTA to a greater extent if potential savings are larger and the traded volume is bigger. This conclusion is supported by an analysis of Chinese imports from Switzerland. The latter positive correlation is important because Chinese import duties will decrease over the next years. This suggests that utilization of the SSFTA is likely to improve in the future.

Our analysis supports the idea that utilization of the SSFTA increases with savings potential (incentive to use) as with the volume traded. The latter could imply that larger firms, shipping goods more frequently, benefit more from the FTA than smaller, less export-oriented firms. However, further research is required to examine the determinants of the utilization rate – including the costs of complying with the RoO requirements, possible economies of scale, and sector variation in competition.

(6) Utilization Rate over Time and in Comparison

In a final step, we want to put the utilization of the SSFTA into perspective. To this end, we compare the utilization rates for Swiss imports with other major FTAs that Switzerland has signed. There is substantial variation in the AUR in 2017 for the different agreements: for the FTA with Mexico (in force since 2001) we find an AUR of 62%, for Korea (since 2006) we obtain 59%, for Canada (2009) the AUR is about 24%, and for Japan (2009) we find 27%. Notably, even for imports from Germany—by far Switzerland's biggest trading partner—we find an AUR of 71% for the FTA with the EU which has been in force since 1973.

Such differences have numerous explanations—above all is the fact that Switzerland imports very different products from these trading partners. The large sectoral variation in utilization drives the differences in the overall AUR for a bilateral trade relationship. Simply put, for some products the cost of utilization is much higher. Hence, if Switzerland imports a lot of such goods from a given country the utilization rate would be relatively low.

2.3 Sino-Swiss FTA – Users Survey

by Yue Lu and Tomas Casas

Following the Second Survey of the FTA by SwissCham Shanghai published in January of 2018 (SwissCham, 2018), and the survey of Chinese enterprises presented at the foundational academic event of SSCC in Beijing on May 12, 2017 by CCPIT and Nanjing University, a new survey has been designed aiming to both complement and extend the insights obtained in the previous ones.

The Chinese Embassy, the Swiss Embassy in Bern, the Swiss Centers China and UIBE research partners, reached out to firms trading and investing in the Sino-Swiss context. That is, to potential users of the SSFTA. Firms were approach primarily via direct contacts and to a lesser extend via social networks. This survey is positioned differently from previous ones in the sense that is covers firms in both countries. Thus it is explorative, and initiates a longitudinal research project, seeking to answer matters of strategy, investment and other areas of international business in the context of the SSFTA. Definitive answers to many of the research questions presented here will be available in 2020 after validation and two more annual survey rounds. The present 95 firms' answers, 32 Chinese and 63 Swiss, point to directions and insight—some of the most relevant or interesting of which are presented next.

(I) FTA Usage

The first question on FTA usage (Figure 2.6) has found that 40% of Swiss firms use the SSFTA, and 13% have the intention to do so. This is not too dissimilar from the results of the SwissCham Shanghai first (SwissCham, 2016) and second (SwissCham, 2018) surveys, which saw 38% and 54% usage rates. The Chinese sample saw positive SSFTA usage responses somewhat higher at 46%, and displayed also a greater enthusiasm on the intention to use the FTA at 31%. The usage results might appear similar to utilization rate numbers (Chapter 2.2), yet analysis comparing utilization (AUR) and usage (survey) rates is beyond the methodological scope of this report. Analysis of determinants of usage is a research direction, given its practical and then normative potential.

Figure 2.6: FTA Usage by Survey Respondents

39.62%

SWISS COMPANIES are using the FTA & 13.2% plan to do so

46.15%

CHINESE COMPANIES are using the FTA & 30.77% plan to do so

A high number in the Swiss firm sample in the survey (67.35%) have investments in China, and of these 43.75% actually use the SSFTA. That means that to a sizable number of companies that have invested in China the SSFTA is not that relevant. The reason might lie in evidence pointing to internationalization strategies where investments in China see local production aiming to serve the local market. Interestingly, this contrast with the perception of China Customs (Figure 2.7).

A surprising finding of the survey relates to the impact of the SSFTA on firm strategy. There is a segment of SSFTA user for whom the mechanism has strategic impact; 21% of Swiss and 26% of Chinese respondents, have strategically adapted to the SSFTA. The number of firms who in the future will adapt their strategy is not insignificant either, 23% and 17% respectively. This would be unexpected for those who see an FTA as a device for optimizing operations by reducing tariffs and cost savings. The follow-up research question is to inquire about the nature of the strategic adaptation.

(2) FTA challenges

One of the main purposes of the survey was to identify the causes of friction in Sino-Swiss trade. That is, why the FTA is not utilized by all of those who could. Asking potential FTA users about their understanding about key FTA processes is the first step in this direction (Figure 2.8). Only 63% and 68% of Chinese and Swiss FTA users were clear about Rules of Origin (RoO). Understanding worsened when it came down to application procedures (44% and 38%), or to calculating the value of non-originating materials to meet RoO (38% and 41%). Overall, it is fair to assume that the lack of a clear understating of the SSFTA might be related to perceived problems with its implementation, all of which impacts utilization rates.

Selected FTA problems on the Swiss side are presented in Figure 2.9. Moreover, survey results were analysed in an attempt to identify determinants of FTA usage (i.e., FTA usage by Swiss and Chinese firms being the dependent variable). While thought-provoking pointers emerged (incipient hypotheses, Figure 2.10), the regression results are tentative and can only be significantly established via the future survey rounds planned for the coming years. At this stage we offer preliminary directions, and we embed the SSFTA survey findings into the existing literature.

Figure 2.7: Strategic Adaption, Swiss and Chinese Respondents [Q: Has your company adapted its business strategy because of the SSFTA?]

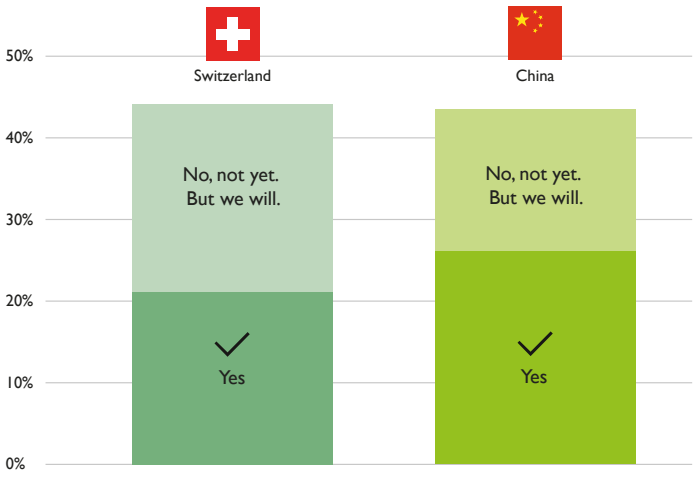


Figure 2.8: SSFTA Understanding, Swiss and Chinese Respondents [Q: Please indicate if the following processes are clear to your company?]

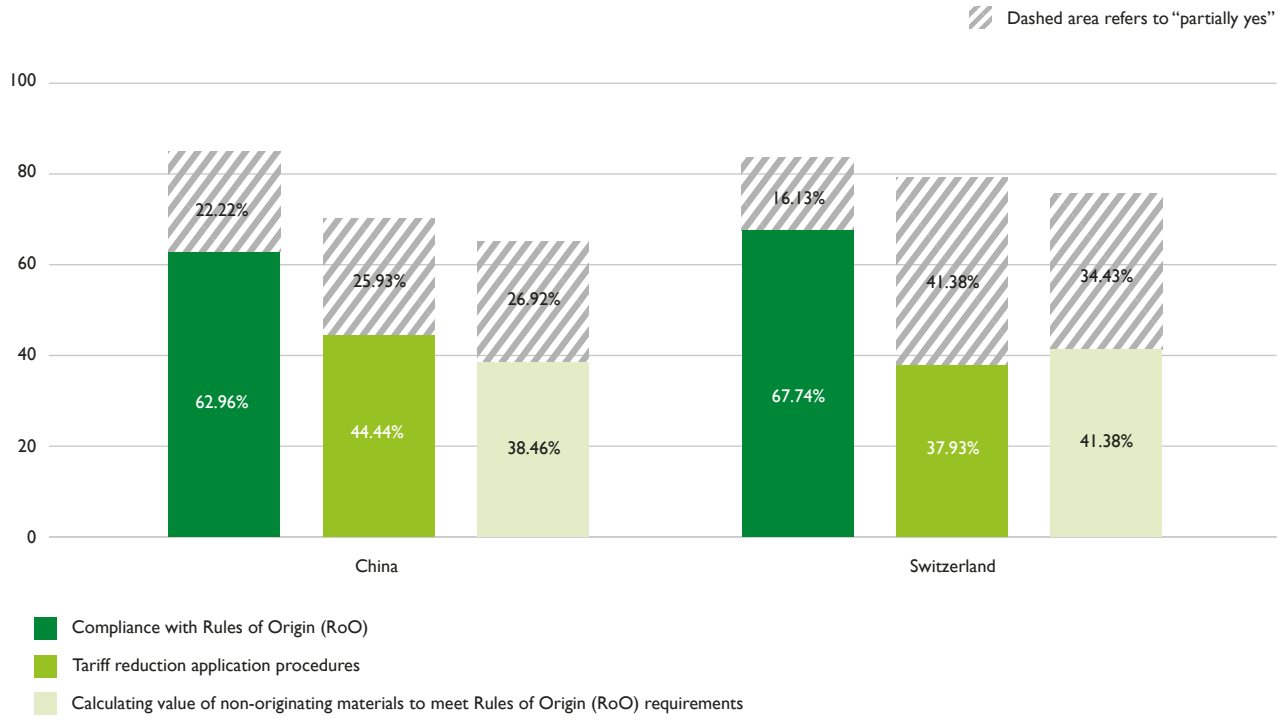
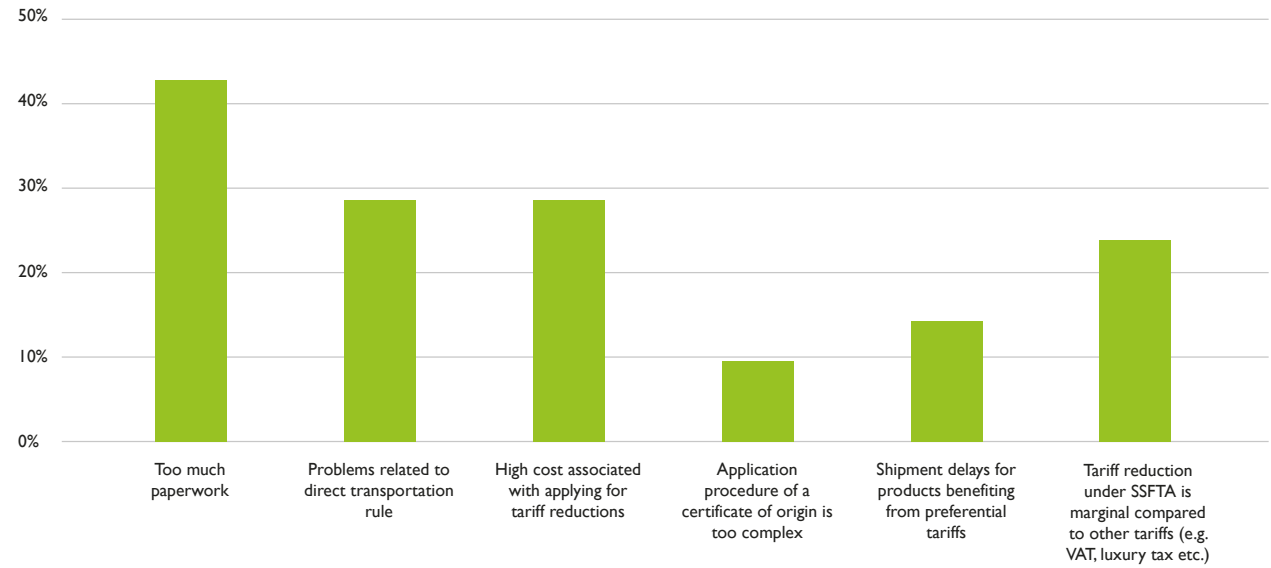


Figure 2.9: SSFTA Problems, Swiss Respondents. [Q: Which problems have you encountered with the FTA?]



(3) Survey Conclusions and a Paradox

The first report objective was to assess whether the SSFTA matters, which is being established in Part II. Relevant are then the levels of satisfaction of FTA users, as well as the practical question about whether the instrument is likely to continue to be used by firms who are already users.

Despite the usage and strategic impact that many Swiss firms report, the significant utilization rates, and the large accrued savings via lower duties, all which are not that distinct from those of their Chinese counterparts (Chapters 2.2, 2.3), the survey shows significantly more satisfied Chinese firms (Figure 2.11). This might be an issue of SSFTA expectations management on the Swiss side. At the same time, as tariff schedules see further customs duty reductions, and with the predicted increase of utilization rates and usage rates, Swiss satisfaction levels might raise in future surveys. Or not, in which case the paradox of dissimilar satisfaction rates might well a cultural one.

On one matter there is consistency. When asked the filter question about whether the respondent's company would "continue" to use the SSFTA, the rate was 100% for both Swiss and Chinese respondents. That is, once you use the SSFTA, you become hooked.

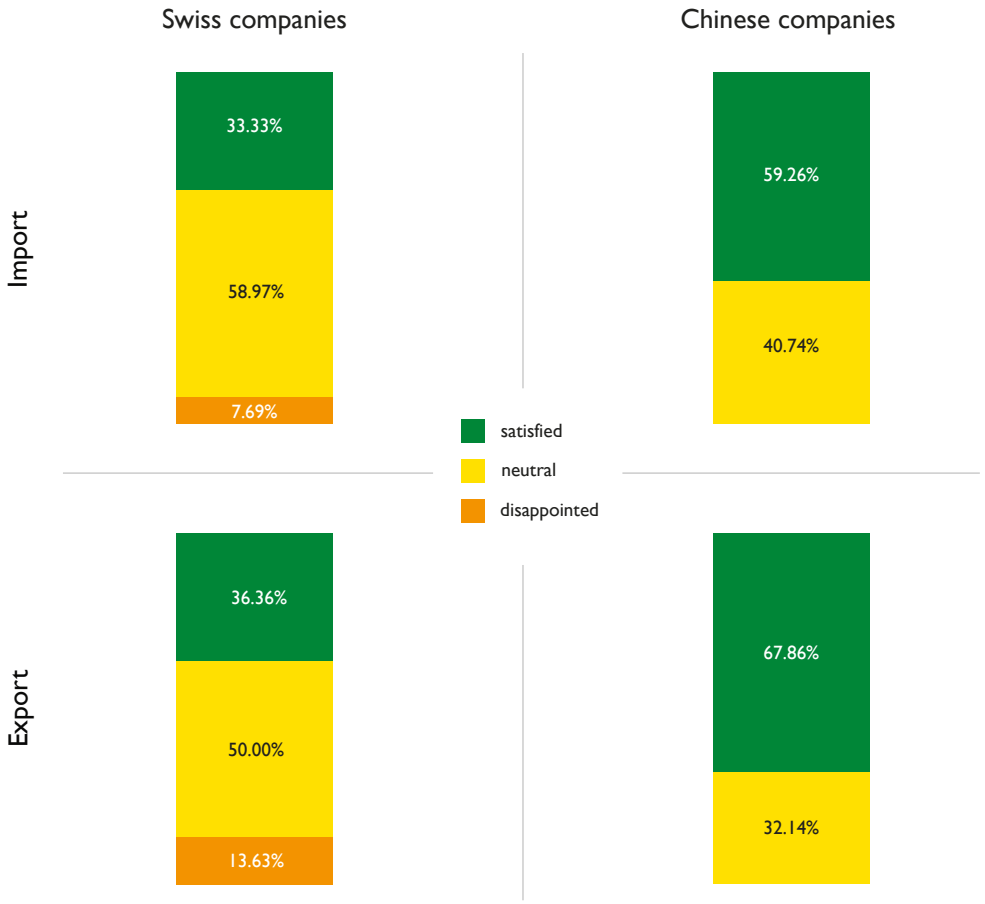
Figure 2.10: Three Hypothetical Determinants of SSFTA Usage

1.
Hiring intermediaries relates to SSFTA usage. This is consistent with extant literature (such as Antràs and Costinot, 2010 or Bernard et al., 2011), which examine the role of intermediaries (such as agents, consultants and other service providers) in facilitating the realization of trade gains.

2.
Firm size relates to SSFTA usage. Firm size (by number of employees) has a positive effect on FTA usage in consistency with the extant literature (such as Cruz et al., 2018 or Dai et al., 2018) showing that larger sized firms are more likely to use FTAs.

3.
Company age has a negative effect on SSFTA usage. Younger firms are more likely to use the SSFTA than older ones. Literature finds that the newly established still are developing competitiveness, and thus appear more open to government policy and support (Amiti and Davis, 2011, Cruz et al., 2018 or Dai et al.,2018). At the same time, the newly established might be more flexible, displaying higher acceptance levels for trade facilitation measures such as FTAs.

Figure 2.11: SSFTA Satisfaction, Swiss and Chinese Respondents [Q: How satisfied are you with the SSFTA?]



Disclaimer: The survey is of exploratory nature and statistical significance was not an objective in this first survey round. Thus with confidence estimates set at 90%, margins of error for Figure 2.7 at Swiss companies were ±8%, and at Chinese companies ±13%. For Figure 2.6 these were ±10.14% and ±14.50% respectively. The statistics for the hypothetical determinants of FTA usage saw the estimated coefficient for the intermediaries variable at between 0.187 and 0.225 depending on the number of control variables added to the regression model, pointing to a relatively robust relationship (n: 64). The estimated coefficient interval for firm size ranged between 0.076 and 0.086 (n: 56), and for firm age it was -0.101 (n: 56).

2.4 Sino-Swiss FTA – Impact on Trade

by Stefan Legge

(1) Counterfactual

When trying to answer the question whether the SSFTA had a trade-creating effect—whether the two countries trade more today because of the agreement—the challenge is to find the counterfactual: how much trade would be observed today if no agreement had been signed? Given that this is not observable, we use a series of established statistical approaches to provide some estimates of this counterfactual and hence how much trade was created by the SSFTA.

One important aspect that should be kept in mind is that the alternative for tariffs agreed in the FTA is trading under WTO rules and with the most-favored-nation (MFN) duties. While Swiss imports from China benefited from the general system of preferences (GSP) before July 2014, this preferential treatment was possibly to be scrapped in 2014 or 2015, much like in the European Union (Legge, Lukaszuk, Evenett, 2018). Thus, in the absence of the SSFTA, Swiss import duties on Chinese products would have increased after 2014.

A second relevant remark concerns non-tariff barriers. Estimating the counterfactual trade volume (in the absence of an FTA) is more difficult if the two countries use non-tariff policy tools to influence trade. Given our focus in this report on the SSFTA, we mainly examine the effect of tariff changes. However, we acknowledge that—like all governments around the globe—both the Chinese and the Swiss have passed legislation in the last couple of years that effectively altered bilateral trade.

(2) Comparison with other Countries

A first and simple test to see whether the SSFTA had a beneficial effect is to compare how bilateral trade evolved between China and Switzerland compared to other trading partners. Under the assumption that many factors such as exchange rates or the economic development affect trade flows from various countries similarly, such a comparison could provide an indication of whether the FTA enhanced Sino-Swiss trade.

We have performed such an analysis in Figure 2.12. The trade statistics from both China and Switzerland reveal that Sino-Swiss bilateral trade fared better since 2014 than their trade with other countries. From 2010 to 2017, total Swiss imports from all countries increased from 174 to 186 billion CHF (excluding precious metals). From 2014 to 2017 when the SSFTA was in force, total Swiss imports grew by a total of 4.0%. In comparison, imports from China grew by 7.0%. For China, the statistics show a decline in the total value of imports from all countries in recent years. While China imported 1,396 billion USD worth of goods in 2010, the number grew to 1,950 billion USD in 2013 but decreased subsequently to 1,588 billion USD in 2016. From 2014 to 2016, there is almost a 19.0% reduction. This compares to very stable imports from Switzerland.

(3) Products with and without Tariff Reductions

Focusing on trade flows between China and Switzerland, we can reckon any positive effects of the FTA by comparing products which saw a reduction in tariffs with those that did not experience a reduction. If the elimination and decrease of customs duties—which is the main aspect of the FTA—indeed led to more trade, we should see that imports of goods with a tariff reduction have grown faster since July 2014.

In our analysis, we divide all 2017 Swiss imports from China into four groups: 46% of the import volume that faces zero MFN duties, 33% that experienced a small (below average) tariff reduction, 21% that benefits from a large tariff reduction, and a very small amount that saw no preference in the FTA. Most importantly, we observe that from 2013 to 2017, products with a large preference (i.e. above average reduction in tariffs) saw a 16.5% increase. This is a much larger increase than for products with a small preference (+3.4%). For Chinese imports from Switzerland, we conduct the same analysis and find again that the largest increase occurred among products that benefitted from a substantial reduction in tariffs, in excess of five percentage points. These results suggest that the reduction of import duties in the SSFTA had a trade-creating effect.

(4) Synthetic Control Analysis

As explained in the Methodology Chapter (1.4), we use the state-of-the-art synthetic control method to identify the causal effect of the SSFTA on bilateral trade. The goal of this exercise is to estimate a synthetic "counterfactual" of the partner country. To do this, we let an algorithm determine which combination of other countries matches with the highest possible accuracy the trends in trade of the Swiss and Chinese economy before the FTA came into force in July 2014. Which countries get selected by the algorithm and what weight they are assigned is entirely data-driven.

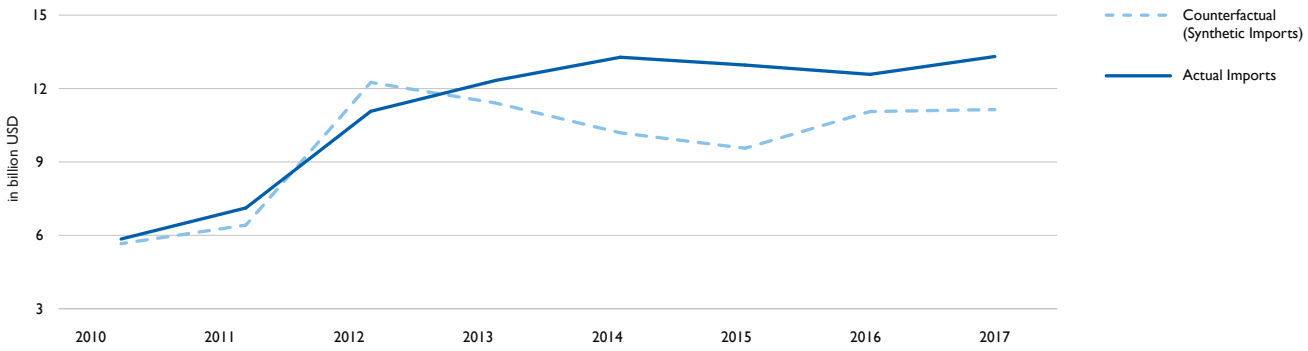
Comparing the evolution of the synthetic counterfactual to actual data for Sino-Swiss bilateral trade directly quantifies the aggregate effect of the FTA.

The results are shown in Figure 2.12 and suggest that both Swiss and Chinese imports benefitted from the SSFTA. Prior to the agreement, the two lines show a high degree of co-movement. This provides us with confidence that the synthetic counterfactual provides a meaningful counterfactual for the situation without the SSFTA. The magnitude of the estimated effect is surprisingly sizable: on average Switzerland imports about 2.5 billion USD more per year from China due to the FTA. In turn, Figure 2.12(a) suggests that Swiss exports to China were 1.3 billion USD larger in 2017 than what they would have been in the absence of the SSFTA. Notably, the positive effect of the FTA shows up quicker for Swiss imports. This is expected given that Switzerland reduced its tariffs immediately and Chinese exporters were experienced in using the GSP before the FTA came into force.

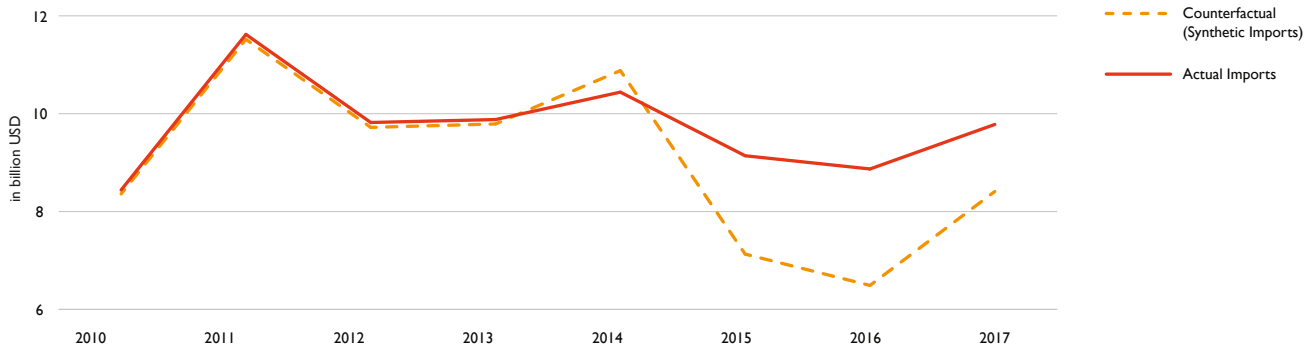
The estimated positive trade-creating effects are large and call for a discussion. It is important to note that most countries' exports are concentrated in a narrow range of goods. Hence, trade between China and Switzerland consists of goods that are substantially different from what, for example, Switzerland imports from the United States or China from Japan. In addition, to the extent that Switzerland and China imposed other policies in 2014 that affected its trading partners differently, the estimated "counterfactual" shown in Figure 2.12 reflects an imperfect estimation. For example, import substitution policies in China contributed to an almost 20% decline in Chinese overall imports after 2013. It is plausible that this did not affect imports from Switzerland in a similar way as imports from other countries. To conclude, while our empirical approach follows state-of-the-art methods and finds a clear positive effect on trade, the estimates must be interpreted with caution.

Figure 2.12: The Impact of the FTA on Bilateral Trade

2.12 (a): Swiss Imports



2.12 (b): Chinese Imports



PART III

3.1 Sino-Swiss FTA – Comparative Chinese Perspectives

by Siqi Li, Yingxin Du and Xinquan Tu

How deep and comprehensive is China willing to go with FTAs? Understanding China's other FTAs tell us about the country's thinking, and what future SSFTA upgrades might look like. We perform a text analysis to compare provisions of the SSFTA with those of (i) China's recent high-level FTAs, and (ii) with the (still to be ratified) Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) signed (after U.S. withdrawal from the original Trans-Pacific Partnership or TPP) by 11 countries this year. To many the CPTPP is the 21st century high-standard trade treaty. We present our results of this comparative analysis in a color coded table focusing on the main findings (Figure 3.2).

First, it becomes clear that not only does the CPTPP have in most areas more substantive and comprehensive provisions – it incorporates new and emerging trade issues. It also has cross-cutting issues such as those related to the Internet and the digital economy, the participation of state-owned enterprises in international trade and investment, or the ability of small businesses to take advantage of trade agreements.

Second, China demonstrates high levels of commitment in several traditional areas even though its FTAs do not have 'horizontal' chapters (meant to ensure that CPTPP fulfils its potential for development, competitiveness, and inclusiveness). Moreover, and relevant to Switzerland, China's recent FTAs also aim at deep integration (especially the Sino-Korean FTA) as seen from the text analysis of chapters tackling competition policy, financial services, environment or e-commerce.

Third, on depth or comprehensiveness, the SSFTA does not reach the level of the FTAs with Korea and Australia. Yet, as China accelerates and deepens its domestic reforms and opening up, the SSFTA is expected to be further enhanced in several areas. For example, China will further liberalize its services sector. In addition, the long-awaited negative list for service trade and investment will likely be introduced soon. China will also start negotiations on government procurement once China enters into the Government Procurement Agreement.

Lastly, what about the all-important issue of e-commerce? In the FTAs signed by China with Korea and Australia, there is a chapter on e-commerce. But the commitment does not go much beyond that of WTO Ministerial Decision. Contrast this with the e-commerce chapter in CPTPP, which sets a high standard and model for the world even as it reflects the demands of the U.S. Interestingly, China still lacks a model version for 2.0 provisions which would meet the demands of its own e-commerce industry and fulfill the vision for a "Digital Silk Road".

Figure 3.1: Explanation for Depth Comparison Table (Figure 3.2)

	WTO-plus Areas Areas under the current WTO mandate	WTO-X Areas Obligations outside the current WTO mandate
3	FTA mentioned provision, with commitment level much higher than WTO agreements	FTA mentioned provision, with very substantial requirements
2	FTA mentioned provision, with commitment level higher than WTO agreements	FTA mentioned provision, with substantial requirements
1	FTA mentioned provision, but commitment level is no higher than WTO agreements	FTA mentioned provision, but provision is "too general"
0	Provision not mentioned in FTA	Provision not mentioned in FTA
●	Dispute settlement provisions apply (legally enforceable)	
○	Dispute settlement provisions do not apply	

Figure 3.2: Depth Comparison Table: China's Recent FTAs and CPTPP*

	Sino-Swiss 2014.07.01	Sino-Korean 2015.12.20	Sino-Australian 2015.12.20	CPTPP 2018.05.08 (not ratified)
WTO-plus Areas				
1. Trade in goods				
Proportion of tariff-free trade (after N years) China	20% (0)-84.2% (15)	44% (0)-85% (20)	85% (0)-97% (15)	>80% (4~20)
Proportion of tariff-free trade (after N years) Partner	99.7%	52% (0)-91% (20)	81.5% (0)-100% (5)	
Market access of goods	2 ●	2 ●	3 ●	3 ●
SPS (Sanitary and phytosanitary measures)	1 ●	1 ○	1 ○	2 ●
TBT (Technical barriers to trade)	1 ●	1 ○	1 ○	2 ●
Trade remedies				
- Anti-dumping measure	1 ●	2 ●	1 ●	2 ○
- Countervailing measure	1 ●	1 ●	1 ●	2 ○
- Safeguard measure	2 ●	2 ●	2 ●	2 ●
2. Trade in services				
Cross-border trade in service	2 ●	2 ●	2 ●	3 ●
Financial services	1 ●	2 ●	2 ●	3 ●
Natural person movement	2 ●	3 ●	2 ●	3 ●
3. Intellectual property rights	2 ●	2 ●	2 ●	3 ●
4. Public procurement	1 ○	1 ○	1 ○	2 ●
WTO-X Areas				
1. Investment				
Market access of investment	1 ●	1 ●	2 ●	3 ●
Treatment of investment	1 ●	1 ●	2 ●	3 ●
Protection of investment	1 ●	2 ●	1 ●	3 ●
Investment and environmental measures	0	1 ●	0	1 ●
Investment, health et al. regulatory objectives	0	0	0	1 ●
Corporate social responsibility	0	0	0	1 ●
Investor-State dispute settlement	2	2	3	3
2. Competition policy	1 ○	2 ○	0	2 ○
3. Labor standards	1 ○	0	0	3 ●
4. Environmental policy	2 ○	2 ○	0	3 ●
5. E-commerce	0	1 ○	1 ○	3 ●
6. Telecommunication	1 ●	1 ●	2 ●	3 ●
Special Areas				
Content	Econ & tech cooperation	Film co-production	Trad. Chinese Medicine	'Horizontal' chapters

* Note on Figure 3.2: (i) The bilateral investment agreements (BIT) signed between China and Switzerland and between China and Australia are taken into consideration. (ii) Dispute settlement in the investment areas refers to Investor-State Dispute Settlement (ISDS). Despite being legally binding, ISDS in CPTPP is subject to exceptions. (iii) The proportion of tariff-free Sino-Swiss trade at the time the SSFTA entered in force is from the authors' own calculations based on 2012 China Customs data, and is 20%. This number goes up to 81% when calculated using 2015 or 2016 data. The proportions of tariff-free trade of the Sino-Korean FTA and the Sino-Australian FTA at the time the FTA entered into force, are from MOTIE (2014) and MOFCOM (2015) respectively. (iv) For detailed explanations on the rating criteria for each area of the FTAs, please refer to the Online Appendix (http://ciwto.uibe.edu.cn/2014en/news/news.html?page=../html/page.aspx?NewsID=194). (v) CPTPP is a signed yet-to-be ratified trade agreement and stands for 'Comprehensive and Progressive Agreement for Trans-Pacific Partnership' (or TPP11). It includes the states of Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

3.2 Belt and Road Initiative – Narrative of Global Public Goods

by Jian Han and Tomas Casas

The last years have been characterized by a relative stagnation in global trade, and trade-supporting multilateral institutions have even come under siege. Such retrenchment is ironic in a world where information is more globalized than ever (Figure 3.3). And yet the clouds of trade wars loom large over the horizon, incidentally making of bilateral FTAs beacons of hope. The closing up to trade might be counter-balanced by potent new narratives anchored in economic, financial and technological strength. Does China's Belt and Road Initiative (BRI) have the potential and wherewithal to deliver on global public goods like increases in trade?

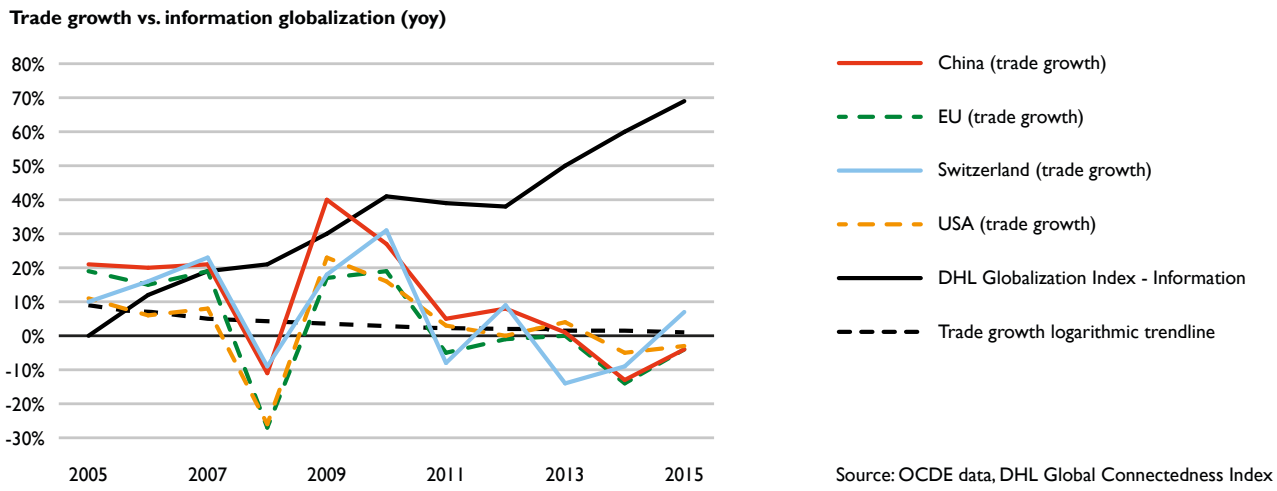
At a high-level BRI has been described as a "community with a shared future for mankind", one that will, as per President Xi Jinping's speech, usher "Peace, development and governance". In the West, BRI has evoked both enthusiasm and skepticism. Enthusiasm in business and finance circles aiming at BRI projects. Skepticism is voiced by those who see BRI as a unilateral story, primarily for China's benefit.

If BRI is about China's narrow interests, not rule-based and just about infrastructure projects, it will stall. Costs will skyrocket as a deal-making approach will invariable see some deals turn sour. Yet if BRI stalls, a signal of disorder would be send to a world quite disorderly as is. Failure of BRI would put China out of the market for axial narratives for maybe decades. In the late 1430's Ming civil servants stopped the treasure voyages, thereby sealing China's withdrawal from what would become an international system. BRI is in a way "all or nothing." We take the position that nothing is not an option, that China is sincere, and that the world actually needs the BRI as a complementary framework to existing ones. At the same time, BRI is to be refined and improved through a steep learning curve. That is, a non-linear process implying answers to issues like those suggested below:

1. BRI advocates institutional integration as an open platform for cooperation. At present, countries along BRI do not lack cooperation mechanisms; the Asia-Europe Meeting (ASEM), the Asia-Pacific Conference (CICA), the China-Arab Cooperation Forum, the Greater Mekong Sub-region (GMS) Economic Cooperation, the Shanghai Cooperation Organization (SCO), or the Central Asia Region Economic Cooperation (CAREC). There are also 76 bilateral FTA in BRI. This fragmentation is sub-optimal, while the value of consolidating part or all of these institutions is enormous. Can BRI be a force for multilateralism?

2. BRI advocates a regional trade and investment system compatible with existing multilateral systems. Will the BRI system contribute to deep and broad trade liberalization? Will new high-standards of international trade at BRI uphold the principles of openness, transparency and non-discrimination?

Figure 3.3: Lower Trade Growth as Information Goes Global?



Source: OCDE data, DHL Global Connectedness Index

3. Online exchanges are becoming a major force, and the WTO framework lacks cross-border e-commerce rules. The CPTPP covers cross-border e-commerce, but overall rules vary widely and standards are needed (e.g., for the supervision of e-commerce express mail, or for cross-border e-commerce customs clearance). Can China and Switzerland jointly innovate in the context of the Digital Silk Road?

4. On July 21, 2014, Swiss National Bank and People's Bank of China agreed on a 10 billion RMB bilateral domestic currency swap agreement. Future trade and investment between China and Switzerland will be settled directly in RMB/CHF (instead of USD). BRI is about offshore RMB business, equipment financing leases, and insurance of high-risk infrastructure projects. How can China and Switzerland cooperate to make BRI host of advanced finance?

Back to the skeptics, the European Think-tank Network on China (ETNC) finds the general public in the EU oblivious to BRI, while the Center for Strategic and International Studies (CSIC) in Washington, calculates that 89% of China's transport infrastructure projects are contracted to Chinese companies, prompting headlines like, "Beijing fails to share benefits (…)" (Kynge, 2018) or "China's Belt and Road Initiative is falling short" (Opinion The FT View, 2018).

Essentially BRI's vocation is that of a global institution, a mega coordinating instrument for trade, investment and technology exchange. Institutions coordinate top down via hierarchies, and bottom up via market mechanisms. There is a third way of coordination, one which the field of narrative economics (Shiller, 2017) is yet to theoretically tackle. Narratives according to Hagel (2011), "invite, even demand, action by participants and they reach out to embrace as many participants as possible. They are continuously unfolding, being shaped and filled in by the participants. (…) Stories are about plots and action while narratives are about people and potential." In the global market for narratives (Casas, Buckup, 2018), can BRI win?

With globalization and the 4th Industrial Revolution, people and potential are realized as parts of complex systems. Interestingly, complex systems don't follow linear but network-causality, their 'elements' are 'interconnected' and have a 'purpose', manifesting their very own, often unpredictable, patterns of behavior (Meadows, 2008). The point is that the more complex the system, the more hierarchies and markets need to be complemented by effective and legitimate narratives.

BRI's future lies beyond infrastructure projects or bilateral FTAs, but rather as a complex system delivering global public goods (as in Figure 3.4). An institutional set coordinated by a memorable, open, inviting, evolving multi-stakeholder narrative. All are invited, and over the next years Switzerland (Figure 3.5) will have the chance to shape the narrative.

Figure 3.4: BRI Makes it for Switzerland, When ...

- When Swiss public opinion perceives BRI as contributing to global prosperity and security
- When a Swiss insurer covers a Silk Fund financed power plant risk in, let's say, South Asia
- When an Appenzeller producer of fine foods doubles revenues on a global e-commerce platform using Digital Silk Road customs clearance rules
- When the President of the AIIB happens to be a Swiss national
- When Swiss trade increases with Kazakhstan are directly attributable to BRI institutions

Figure 3.5: BRI Makes it for China, When …

- When the BRI narrative is clear
- When BRI is not perceived as 'China strategy', but generally as a global public good
- When Switzerland contributes to the BRI narrative … and co-owns it too!
- When Switzerland extends BRI institutions into Western Europe as a new bridge to Europe's East
- When BRI financial cooperation mechanisms, with Switzerland's input, are transparent

3.3 Sino-Swiss FTA Development – Views from Academia

by Tu Xinquan, Zhou Nianli, Stefan Legge, Peter Moser, Patrick Ziltener

An FTA is construct that ought to be alive, one that ideally adapts, incorporates and is sensitive to the needs of the two countries' stakeholders. Reflecting this aspiration, in 2017 an intergovernmental process has been started. Two meetings for the joint study on upgrading the SSFTA were held, the last on in March 2018 in Beijing. One of the objectives of academic research is to impact practice, hence the authors suggest inputs for the discussion.

The inputs (in Figures 3.6 and 3.7 respectively) do not reflect policy, nor are they formal requests, but a synthesis from research reflecting the diversity of insight collected during the evaluation. The intention is to make the SSFTA even more valuable. These type of suggestions are not realizable even if economic rationale exists. For an FTA to develop sensitivity to all stakeholder interests, sincerity and a willingness to make concessions are assumed; the Sino-Swiss relationship possess all these positive qualities.

Since international trade and international investment are closely linked, a general suggestion is that FTA upgrade be considered simultaneously with BIT upgrade. The basis of the negotiations in both agreements could be reciprocity in the sense that both partners aspire to open up markets and investments possibilities comparable to the most open regulatory framework in either country. This could apply, for instance, to restrictions on foreign ownership.

Figure 3.6: Swiss Academic Authors' Inputs

Some of the members of the Swiss research team have extensive experience in applied FTA research. The five inputs reflect the report of this study but also conclusions from analyzing other FTAs in practice.

1. Complete and accelerate tariff elimination. Strive for complete tariff elimination after phasing out (e.g., certain chemicals at 2.6% duty, watches, clocks 4.4–9.2%, certain metal ware, machinery 2.4–4.2%, some water heaters, dryers at 14%) and reduce the phasing out periods.
2. Simplify rules for preferential origin and shipment. Policymakers face a trade-off. If RoO are applied tightly, it becomes costly for firms to apply for beneficial treatment. In contrast, a lax handling of RoO increases utilization but risks that companies from third-party countries would benefit from the FTA. Nevertheless, the SSFTA could benefit from less restrictive RoO especially for complex products in global value chains. Also storage and shipment of goods of preferential origin to be allowed in/from any country, as long as these activities do not change goods preferential origin.
3. Liberalize service trade based on reciprocity. Both country could liberalize service trade to the extent of the most liberal regime in one of the two countries.
4. Include public procurement. The content of the WTO Government Procurement Agreement, could be included in the SSFTA, adjusted to the characteristics in the two countries.
5. SSFTA data transparency. Exchange all relevant data, such as customs data, make it public and encourage research teams to evaluate the FTA. Then encourage an evidence-based public debate from a position of confidence.

Figure 3.7: Chinese Academic Authors' Inputs

The Chinese research team has identified the aspects below as crucial for the further development of the SSFTA.

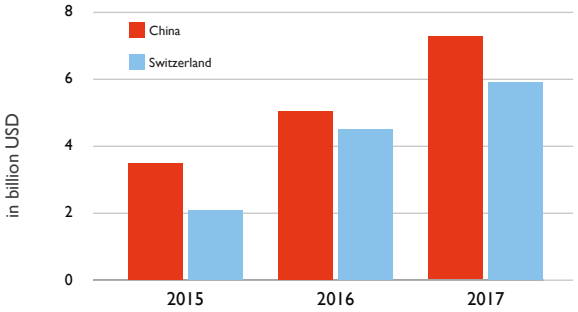
1. Agriculture. Switzerland grants preferential tariff treatment to 403 agricultural products and zero tariffs for 960 agricultural products. Yet China's main export areas (HS 1902, HS 2008, HS 2106, HS 2103, HS 0802, HS 1704, HS 0910) see its products receive less preferential tariff treatment than the average levels granted by Switzerland.
2. Introduce some "GATS+" mechanism in the liberalization of service trade. For instance, introduce a Non-Party Most-Favored-Nation (MFN) Clause where China and Switzerland extend to each other any preferences granted to any third country. Or, introduce market access commitment, or national treatment, on the basis of negative lists.
3. Promote movement of natural persons and mutual recognition. Includes market access for workers in traditional Chinese professions like Chinese teachers, chefs, or martial arts coaches.
4. Upgrade cooperation in specific areas. For instance, in traditional Chinese medicine (TCM), by granting market access to professionals such as doctors, and reduce or dismantle tariff and nontariff barriers on TCM medical products.
5. Introduce new topics like e-commerce. For digital trade, that includes regulations on consumer protection to build confidence in e-commerce, dispute settlement e-commerce mechanisms, or preferential tariff treatment for digital trade for goods with low values.

Disclaimer: The views expressed in this chapter, as those in other parts of this report, are those of the Swiss and/or the Chinese academic research team and do not reflect the official policy or position of either the Swiss or the Chinese Government or any of their agencies. The views of this chapter, being respectively the Chinese and Swiss author's own, are not intended to, and do not, follow from the previous chapters of the report.

3.4 Sino-Swiss FTA Report – Editor's Conclusions

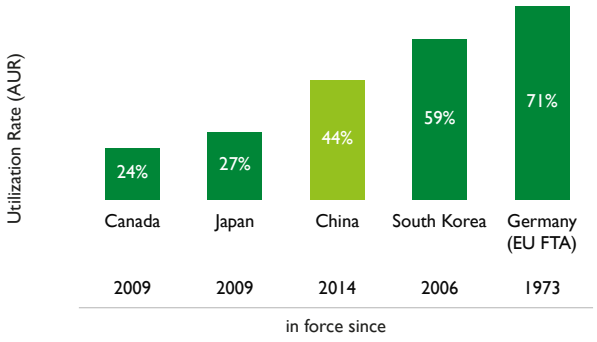
The editors of the *SSFTA – 2018 Academic Report* present in this chapter three closing insights that summarize their SSFTA research findings. The investigated phenomenon is thus contextualized, the subject of heuristic interpretation. We established that Sino-Swiss trade was positively affected by the FTA (Chapter 2.4). On the basis of that counterfactual analysis, and for the year 2017, Switzerland exported an extra 1.3 billion USD and China 1.7 billion USD. In Figure 3.8 we see that the cumulative gains for the last three years - these fall not short of spectacular.

Figure 3.8: SSFTA Impact on Sino-Swiss Trade, Cumulative Gains (2014–2017)



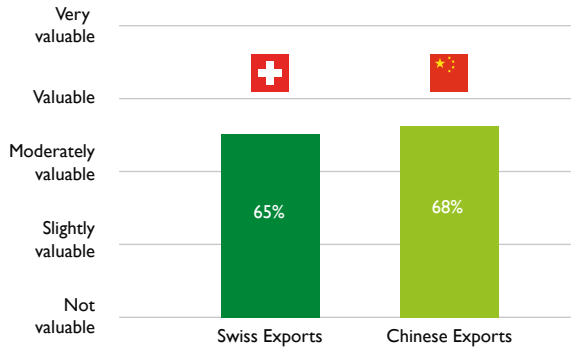
The SSFTA is being utilized and every utilization percentage point counts. At the same time utilization rates for FTAs (AUR) vary as the figure shows. What would be an objective benchmark for an acceptable SSFTA utilization rate after 5 years of coming into force? Maybe the 30% Japan and Canada have not achieved after nearly 10 years. The SSFTA's relative success (Figure 3.9) does not preclude aiming at higher utilization – the editors hold that reaching 60% over the next 5 years would be another excellent accomplishment.

Figure 3.9: Comparative Swiss FTA Utilization Rates (Imports), Including SSFTA



The basis for the figure is the question: "Please indicate on a scale from 1 to 100 how valuable the FTA is to your business in China/Switzerland." The results are seen in Figure 3.10. Of relevance to policy makers is the value perception of the SSFTA for its users. Value ought to be interpreted against itself, meaning that what matters are the changes in value perceptions over time. Hence this survey of SSFTA users is but the beginning of a long term research project.

Figure 3.10: SSFTA Users Value Perception of the SSFTA



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