

avenir debate

“Navigating Troubled Waters”

Three Options for Switzerland in its Dealings with China

The world seems to be at a turning point – and not just because of the war in Ukraine. Systemic competition between the United States and China is also intensifying. What can Switzerland do if relations between the West and China cool further? A new Avenir Suisse study entitled “Navigieren in unruhigen Gewässern” (Navigating Troubled Waters) outlines the strategic options.

How should Switzerland position itself in relation to China going forward? After the West’s experience with the war in Ukraine in recent months we’d be well advised to review our relationship with Switzerland’s third-largest trading partner. In the latest study from Avenir Suisse, “Navigieren in unruhigen Gewässern” (Navigating Troubled Waters), authors Patrick Dümmler, Teresa Hug Alonso, and Mario Bonato investigate Switzerland’s dependence on the major powers, particularly China, and outline the strategic options.

Long-Term Relations despite Differing Values

There’s no denying that there are fundamental differences in values between the West and China. On the other hand, Switzerland is bound to China by longstanding relations, albeit complicated ones, on a political, economic, social, and cultural level. Every year Switzerland sends exports worth CHF 31 billion to China, and imports the other way around come to CHF 19 billion. With 132,000 or so Swiss jobs profiting from the export of goods and services to China, Switzerland would be hard hit if this trade were to disappear.

China’s direct investment in Switzerland, on the other hand, is less significant, even though it always figures prominently in the media. While it’s true that Chinese direct investments more than doubled between 2016 and 2020, they accounted for a mere 1 percent of total foreign capital stock in Switzerland in 2019. By way of comparison, direct investment in Switzerland from the US accounts for 49 percent, and direct investment from the EU 27 percent. For this reason investment controls, especially those targeting China, fall wide of the mark.

Any threat to Switzerland isn't directly from China, but indirectly by way of deteriorating geopolitical relations. While in 2000 most countries' trade in goods with the US exceeded their trade in goods with China, China has now overtaken the US. China is doing everything it can to further extend its geopolitical influence. For a small, open economy such as Switzerland that's heavily dependent on multilateralism, shifts of this sort are grounds for concern.

Three Scenarios, Three Options

Things get delicate once the jostling for power between the US and China escalates into a trade embargo or even a military confrontation. In this scenario, Switzerland would have to seek to close economic ranks with the EU and US and risk the loss of its third-largest trading partner.

If deteriorating relations were to prompt calls from a major trading partner for Switzerland to take a stronger stance against China, this country would have the option of pursuing a two-pronged strategy, treating China both as a partner and as an economic competitor on the one hand and systemic rival on the other. If the political pressure on Switzerland increased, this strategy could become a necessity.

The best option is still a pragmatic approach: diplomacy and skillful communication. Businesses, and federal politicians, will have to be agile to make rapid decisions should the need arise.

Q&A with the media: Wednesday, 1 June 2022, 9.00am, via [Microsoft Teams](#) or www.avenir-suisse.ch, with Peter Grünenfelder, Patrick Dümmler and Teresa Hug Alonso.

Publication: "Navigieren in unruhigen Gewässern. Drei Optionen für die Schweiz im Umgang mit China" (Navigating Troubled Waters: Three Options for Switzerland in its Dealings with China). Patrick Dümmler, Teresa Hug Alonso, and Mario Bonato, with the involvement of Jan Averkin. 70 pages, [available online from 6.00am, 1 June 2022, at \[www.avenir-suisse.ch\]\(http://www.avenir-suisse.ch\)](#).

Further information: Peter Grünenfelder, (+41 79 458 08 63) and Patrick Dümmler (+41 76 532 53 16).