



University of St.Gallen

Institute for Law and Economics



SWISS TRADE MONITOR



Edition 10:
China+0 Strategy
An indispensable Nation?

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From insight to impact.

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Suggested Citation (APA 8th edition):

Legge, Stefan, Oberholzer, Ronny, and Rosenthal, Jason (2024). *“China+0 Strategy – An indispensable Nation?”*, Swiss Trade Monitor, 10th Edition, University of St.Gallen.

Date: February 21, 2024

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Publisher: Institute for Law and Economics
Tax & Trade Policy
Varnbühlstrasse 19
CH-9000 St.Gallen

Electronic Publication: <https://ile.unisg.ch/>

Key Findings

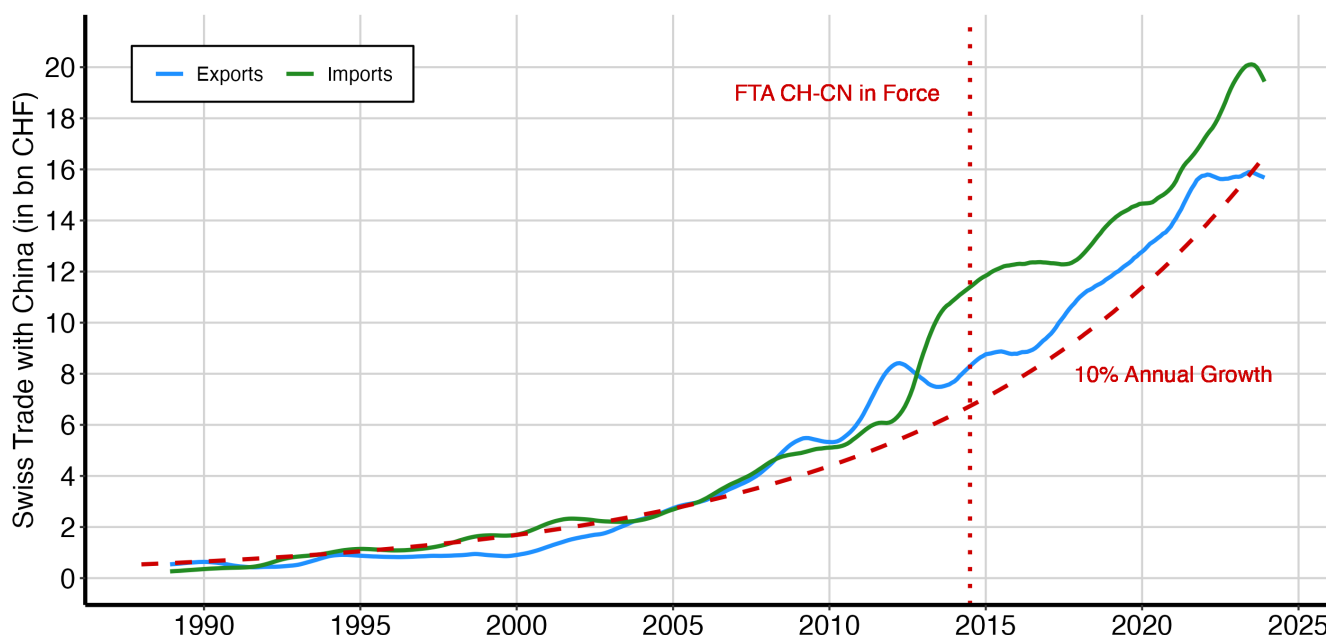
- Switzerland's imports from China constitute approximately 8% of its total imports, and over 5.5% of its exports go to China, indicating a significant but not primary trading partnership.
- For certain product categories, however, more than 50% of Switzerland's imports are sourced from China, particularly in telecommunications equipment and computing machinery, highlighting a heavy reliance on China for specific goods.
- Despite some growth in imports from alternative Asian countries (labeled "Altasia" and including Bangladesh, Brunei, Cambodia, India, Indonesia, Japan, Laos, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam), there is no systematic pattern of trade diversification away from China, with the share of Swiss imports from China remaining stable.
- The data suggest that China continues to be an indispensable trading partner for Switzerland, with any attempts at diversification not significantly reducing reliance on Chinese imports so far.

The Swiss Trade Monitor

Switzerland is a small open economy. The international exchange of goods and services is crucial for the nation's economic prosperity. The aim of the *Swiss Trade Monitor* is to document key trends in Switzerland's foreign trade. Its tenth edition first provides a quick overview of Switzerland's trade with China and explains the so-called China+1 strategy. It further analyzes if there is a systematic pattern in the trade data for Switzerland, supporting the notion that such a strategy is implemented. The data source for this report is the Swiss Federal Office for Customs and Border Security (FOCBS). Unless stated differently, the trade data exclusively considers goods trade without gold and other precious metals (the FOCBS refers to this as "Total 1"). In addition to the standard list we also remove HS-7113.1900 (articles of jewelry of precious metal other than silver) and HS-7114.1990 (gold- or silversmiths' wares or parts thereof, of precious metal other than silver).

Overview over Switzerland's Trade with China

Switzerland's trade relationship with China has been characterized by robust growth and increasing complexity over the past decades. There has been a significant upsurge in both exports to and imports from China, reflecting the deepening economic ties between the two countries. Swiss imports from China have exceeded exports to China for more than a decade. The sharp increase of imports in 2012 is due to a change in concept, whereby imports were no longer allocated to the country of production but to the country of origin.¹ The observed decrease in import levels in recent months is not exclusively attributable to Switzerland's trade interactions with China. Rather, a broader trend is discernible in Switzerland's international trade patterns for the year 2023, where there is a notable reduction in overall imports compared to 2022, contrasted by more stability in the country's export figures, which still also showing a reduction.²



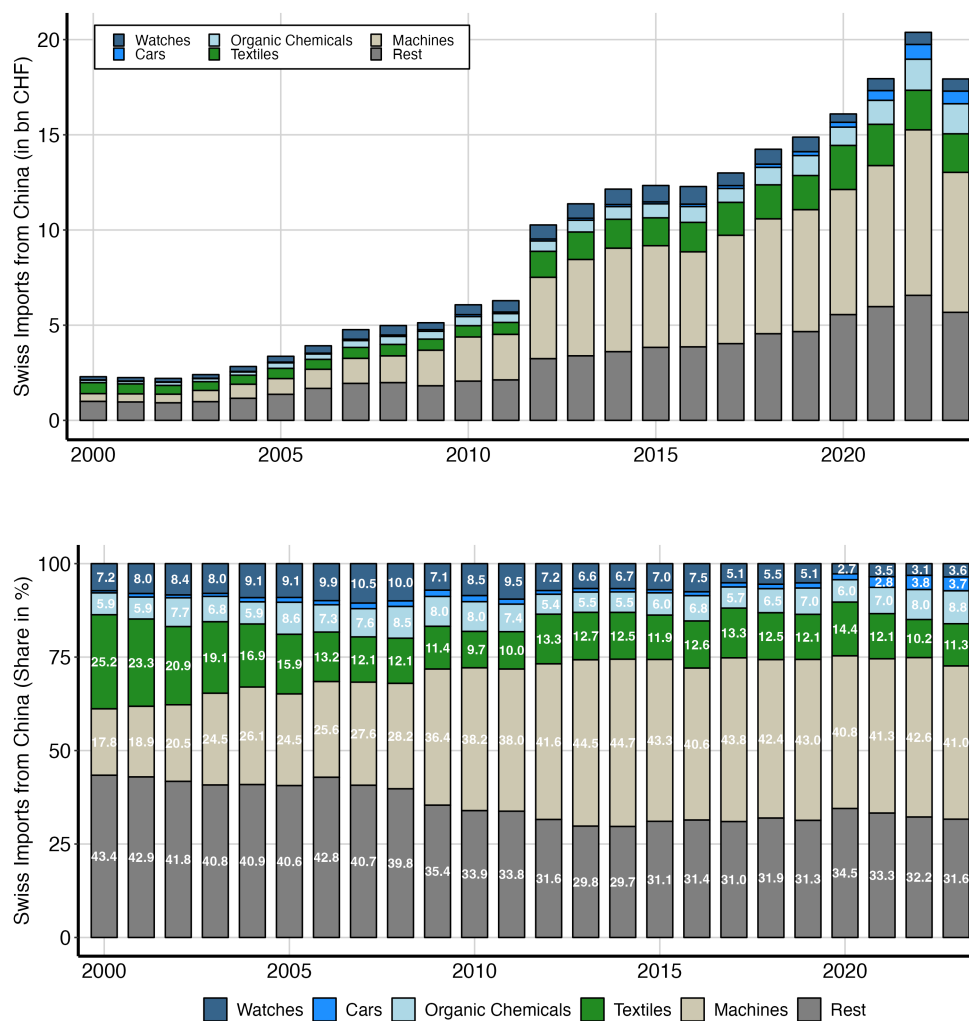
Note: The figure shows Switzerland's goods trade evolution with China for both exports and imports. Gold and precious metals are excluded.

¹In the old concept "country of production", the indications of geographical origin went beyond the mere definition of "country of origin". Here is an example: if a product originating from China was cleared through customs in Germany before being imported into Switzerland, Germany was included in the Swiss foreign trade statistics as the country of production. This led countries such as Germany and the Netherlands, with their important deep-sea ports, to be typical production countries (so-called Rotterdam effect). For more details, look at: BAZG, Ursprungsstatt Erzeugungsland: Auswirkungen auf die Ergebnisse in der Aussenhandelsstatistik, March 21, 2012

²In 2022 (2023) Switzerland's total imports amounted to CHF 237 billion (228) and exports to 280 billion (276), not including gold and other precious metals. More details can be found in the Swiss Trade Monitor's 4th Quarterly Report 2023: <https://www.alexandria.unisg.ch/handle/20.500.14171/119294>

Swiss Imports from China

In this report, we focus on Swiss imports from China. This is because for the China+1 strategy the imports are in focus. If we break down Swiss imports from China into the individual product groups and look at the five most important ones, it is noticeable that imports are dominated by machines (HS-84 & 85), in particular smartphones and laptops (HS-8471 & HS-8517). With a significant gap, organic chemicals (HS-29) and textiles (HS-61 & 62) are the next largest imported products. While machines account for over 40 percent of all Swiss imports from China, organic chemicals and textiles in sum just account for about 20 percent.



Note: The figures show Switzerland's imports in absolute trading volume from China (top) and as a share of total Swiss imports from China (bottom), sorted by the five most important product groups (by trading volume) and the rest. The product categories in the legend represent the following HS-Chapters: Watches = HS-91 / Cars = HS-87 / Pharma = HS-29 / Textiles = HS-61 & 62 / Machines = HS-84 & 85 / Rest = all other HS-Chapters combined. The sharp increase in 2012, as stated earlier, is due to a change in concept.

The increase in car imports should be emphasized, as more and more cars, especially electric vehicles, come from China, albeit on a small scale.³

³For more details, refer to the 5th edition of the Swiss Trade Monitor, published here: <https://www.alexandria.unisg.ch/handle/20.500.14171/117747>

Understanding the China+1 Strategy

In examining the trade relations between Switzerland and China, it is crucial to identify and analyze effective strategies that will sustain and enhance Switzerland’s economic resilience and development in the context of a multifaceted international trade landscape. This paper delves into one such strategy, termed China+1.

The China+1 strategy, the exact origin of which are difficult to pinpoint, represents a governmental and economic policy shift in response to the changing dynamics of global trade and manufacturing. Initially, China’s entry into the World Trade Organization in 2001 marked the country’s rise as a global manufacturing powerhouse, attracting significant foreign direct investment. However, as China’s economy grew, so did the costs of labor and operations, prompting governments and businesses worldwide to reconsider their heavy reliance on China for manufacturing and supply chain activities.

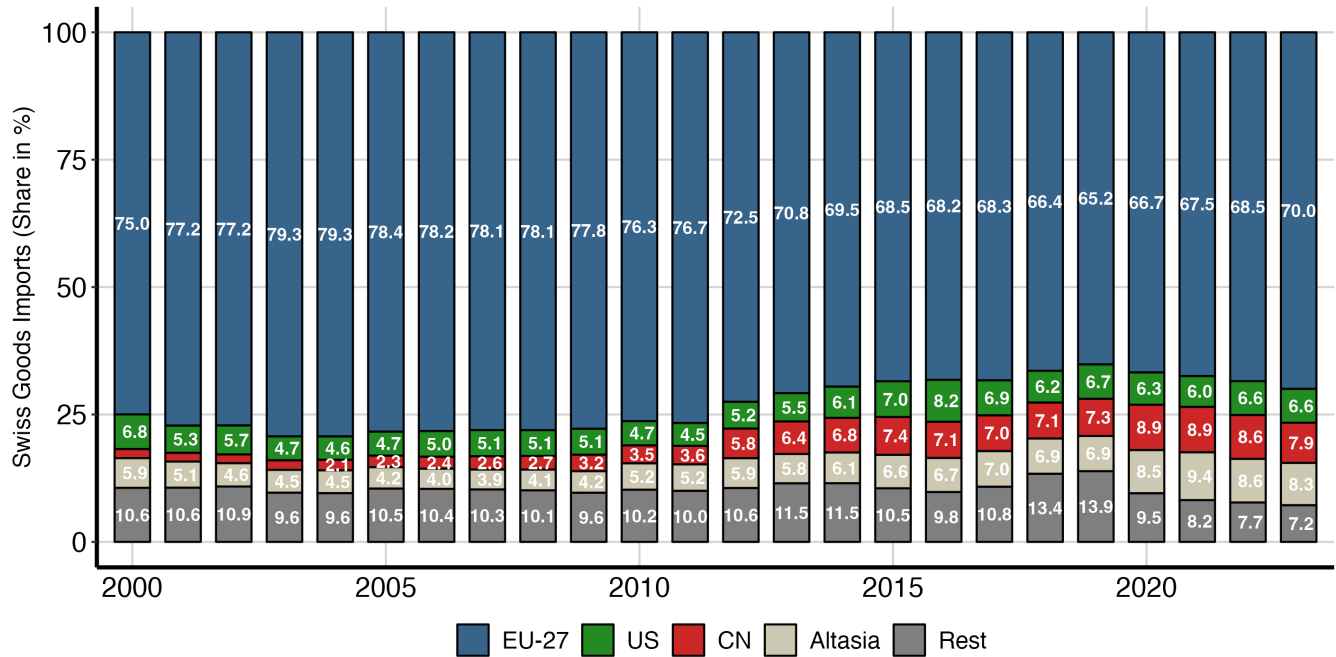
The increase of the manufacturing wages is only one reason the China+1 strategy has become more relevant. The trade conflict between China and the United States and additionally the COVID-19 pandemic, have heightened global awareness of the vulnerabilities inherent in international supply chains. Governments, particularly in the West, began to endorse the China+1 strategy as a risk mitigation tactic. This policy encouraged businesses to diversify their manufacturing and supply bases into other countries while maintaining a presence in China. The strategy was not only a response to economic factors such as rising costs in China but also a strategic move to mitigate geopolitical risks and over-dependence on a single nation for critical supply chain needs.

Countries like Vietnam, India, Thailand, and Malaysia became alternative locations, offering competitive labor costs and increasingly favorable trade and investment policies. This alternative Asian supply chain has been labeled “Altasia” by *The Economist*.⁴ The idea behind Altasia is to replace China, but not by one country (as no single country would suffice) but by a group of countries. This initiative extends beyond the mere focus on cost-effectiveness and large-scale manufacturing; it equally prioritizes quality. Consequently, the China+1 strategy integrates countries such as Japan and South Korea into the Altasia framework. Governments supporting the China+1 strategy facilitated this diversification through trade agreements, investment incentives, and diplomatic engagements aimed at strengthening ties with these alternative destinations.

⁴*The Economist*, “Global firms are eyeing Asian alternatives to Chinese manufacturing”, February 20, 2023. The list includes the following countries: Bangladesh, Brunei, Cambodia, India, Indonesia, Japan, Laos, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam.

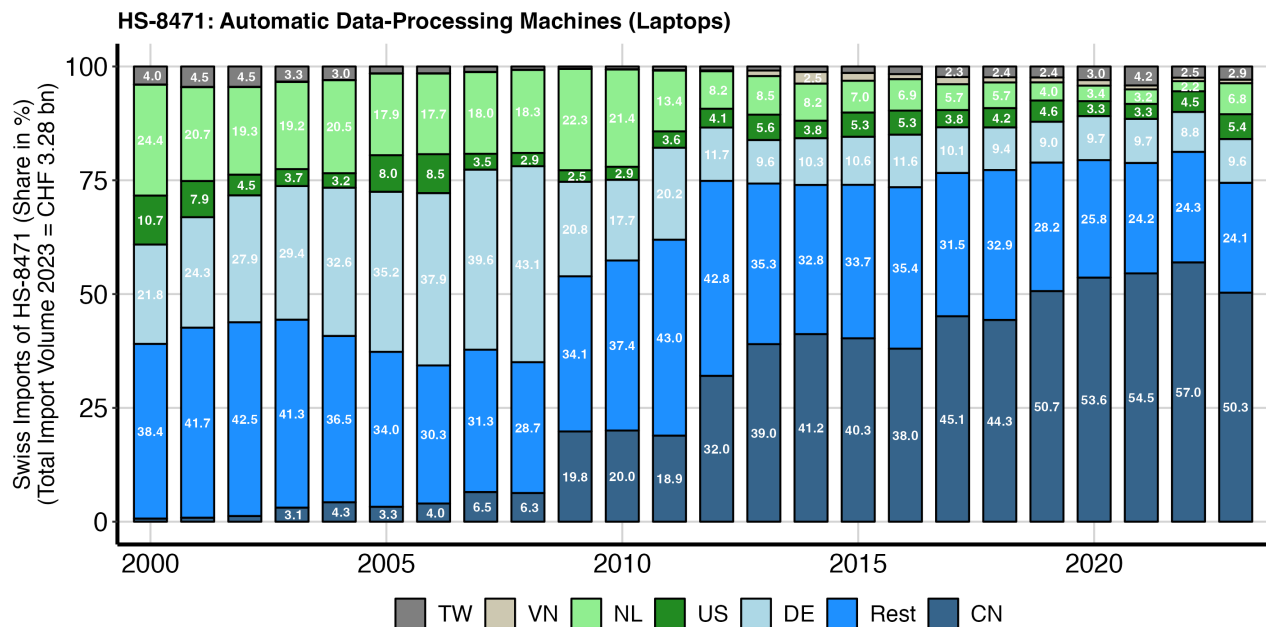
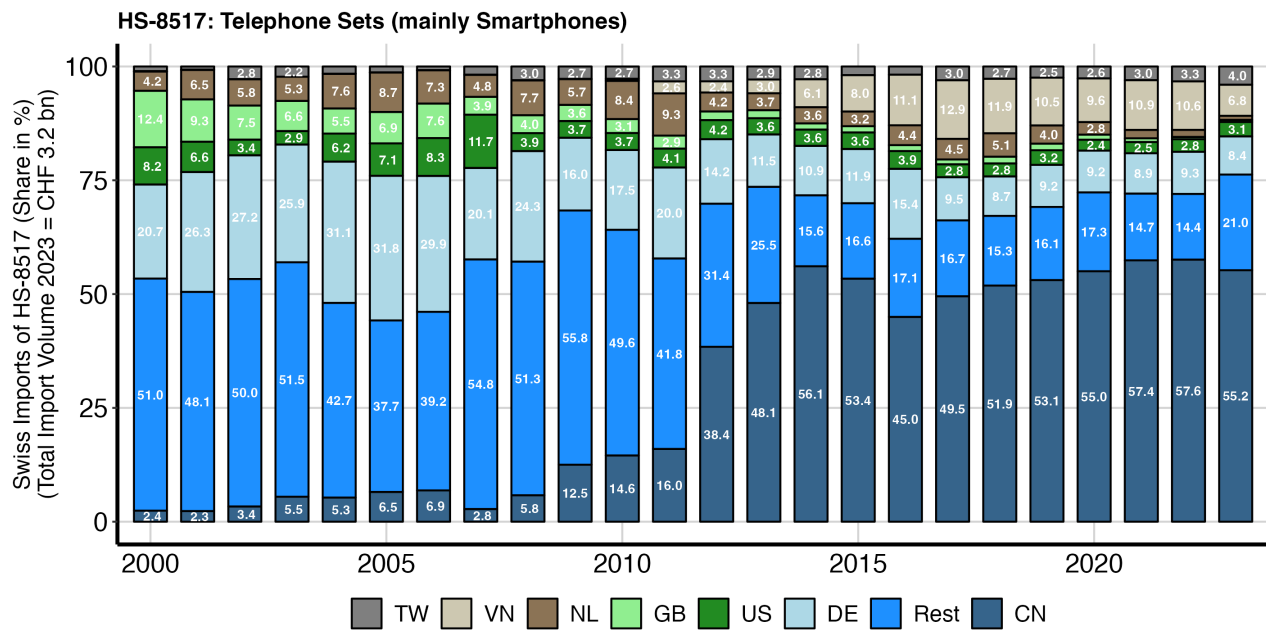
Is Switzerland implementing a China+1 Strategy?

Collectively, approximately eight percent of Switzerland's total imports originate from China. Consequently, while China may not represent Switzerland's primary trading partner, it would be misleading to suggest that Switzerland's economic dependency on China is negligible. This assertion stems from the uncertainty surrounding the feasibility of sourcing products, currently obtained from China, from alternative countries without disruption.



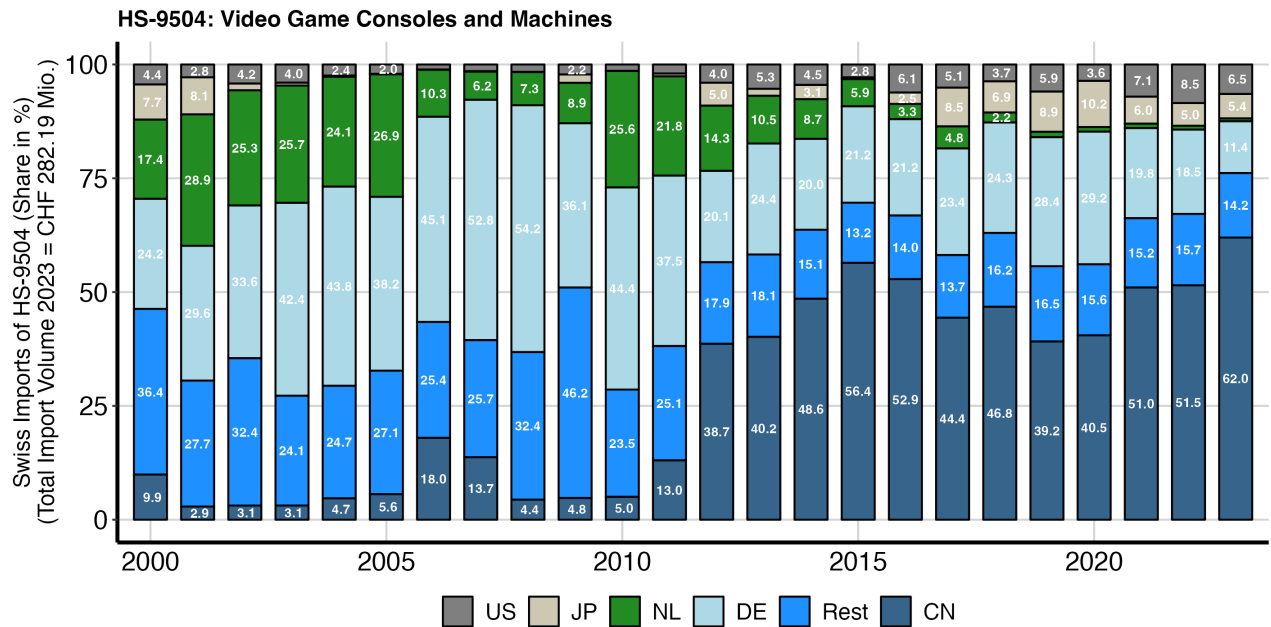
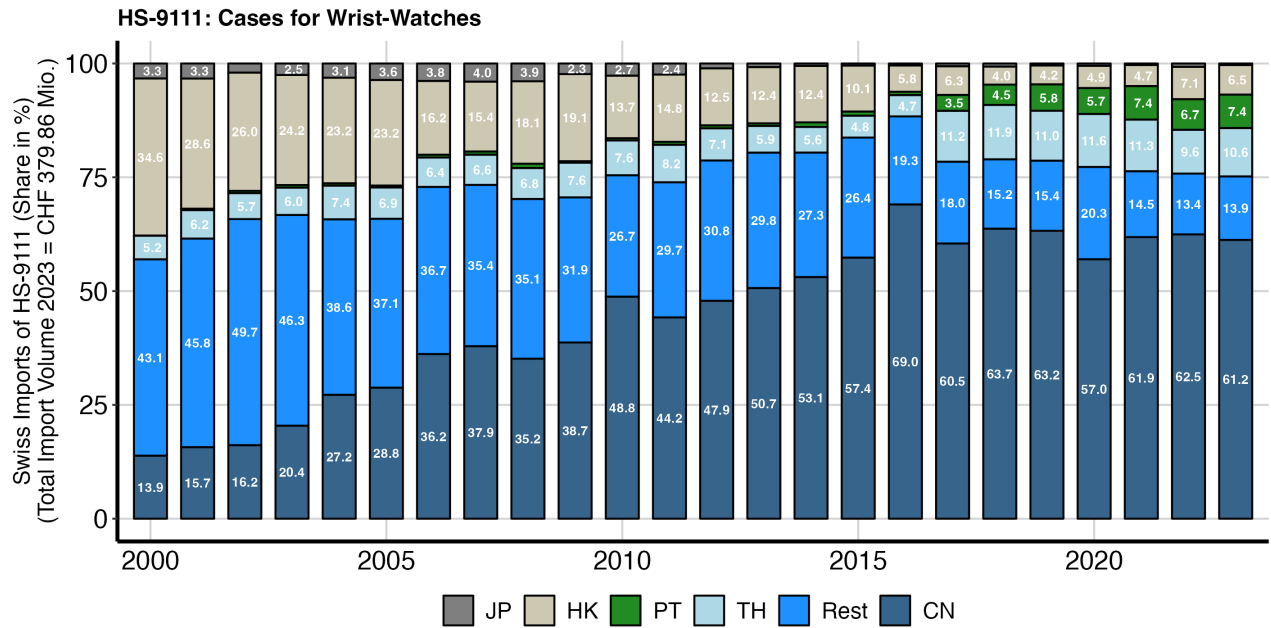
Note: The figure shows shares of Switzerland's total goods imports since 2000, separated by major partners (EU, USA, China, Altasia) and the Rest. Altasia consists of the following countries: Bangladesh, Brunei, Cambodia, India, Indonesia, Japan, Laos, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

A more detailed analysis reveals that for several product categories (4-digit HS headings), more than 50 percent of Switzerland's imports are sourced from China, even if we just look at product groups having a higher annual trade volume than CHF 150 millions. The by far biggest product categories falling in this selection are HS-8517 (telephone sets including smartphones) with a yearly import volume in 2023 of CHF 1.77 billion and HS-8471 (automatic data-processing machines - simply put, laptops) with a yearly import volume in 2023 of CHF 1.65 billion. For a long time, China's share was well below 10 percent but now exceeds 50 percent. For smartphones (HS-8517), Vietnam has become more important for imports since 2014, however with a significant decline in 2023. For laptops (HS-8471), Taiwan has risen slightly since 2017, albeit to a very limited extent. Therefore, at least for these two product groups we observe little systematic trade diversification toward Altasian countries (see charts on the next page).



Note: The figure shows shares of Switzerland's goods imports for the HS-chapter 8517 (top) and HS-chapter 8471 (bottom) for the most important countries and the rest of the world.

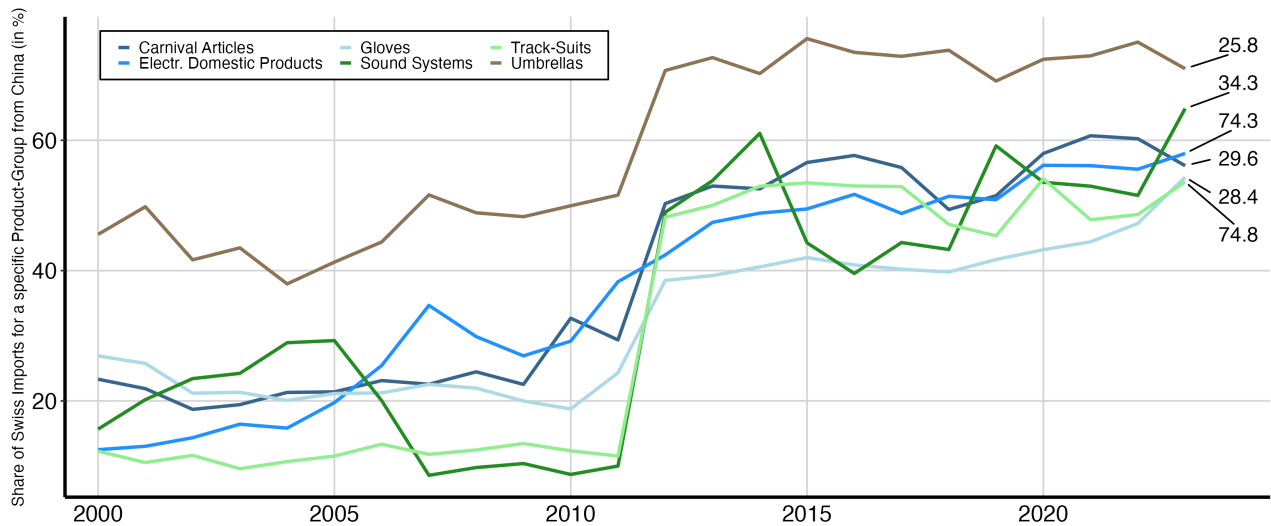
If we then look at the next two biggest product groups according to the yearly trade volume, Switzerland is also quite dependent on China when importing HS-9111 (cases for wrist-watches) and HS-9504 (video game consoles and machines). Even though these two product groups are significantly smaller than the previous two, the annual import volume for HS-9111 in 2023 is still a considerable CHF 232.7 million and CHF 174.9 million for HS-9504. For these two product groups the share coming from China is even bigger than 60 percent. For HS-9111 the only Altasian country that plays even a bit of a role is Thailand, becoming more important for Switzerland since 2017. For HS-9504 it is Japan, but with a quite small share of 5.3 percent in 2023.



Note: The figure shows shares of Switzerland's goods imports for the HS-chapter 9111 (top) and HS-chapter 9504 (bottom) for the most important countries and the rest of the world.

We can conclude that for the most important product groups where Switzerland appears dependent on China, we do not observe a systematic pattern to a diversification toward Altasian countries. Even if we observe for single product groups an increasing importance for an individual specific Altasian country, it is either not substantial or not specific to a certain event like the trade war between USA and China or the COVID-19 pandemic. Instead, these trends have been developing over a more extended period and vary across different product categories and as mentioned before, are more or less negligible.

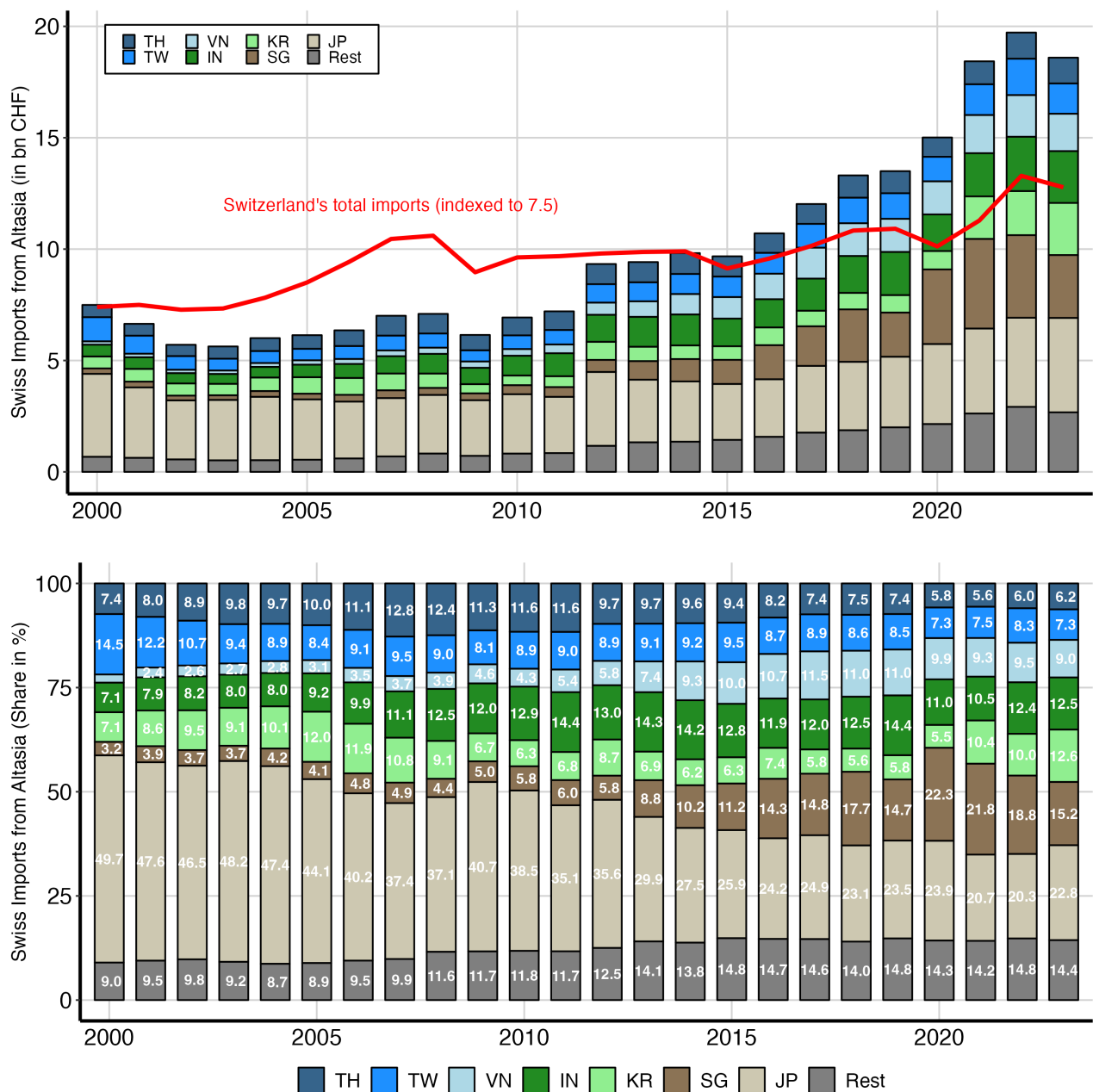
When we look at product groups with an annual import volume over 20 million CHF, there are a few more categories where more than 50 percent of all Swiss imports are sourced from China. For these, however, we also find no evidence that the share of imports that stem from China is declining:



Note: The figure shows shares of Switzerland's goods imports for all HS-chapter (4-digit) that have a higher annual trade volume than CHF 20 million and more than 50 percent of the product-group is sourced from China. The numbers on the right of the lines indicate the trade volume in million CHF (2023). The product categories in the legend stand for the following HS-Chapters: Carnival Articles = HS-9505 / Electronic Domestic Products = HS-8509 / Gloves = HS-6116 / Sound Systems = HS-8519 / Track-Suits = HS-6112 / Umbrellas = HS-6601.

Is Altasia getting more important for Switzerland?

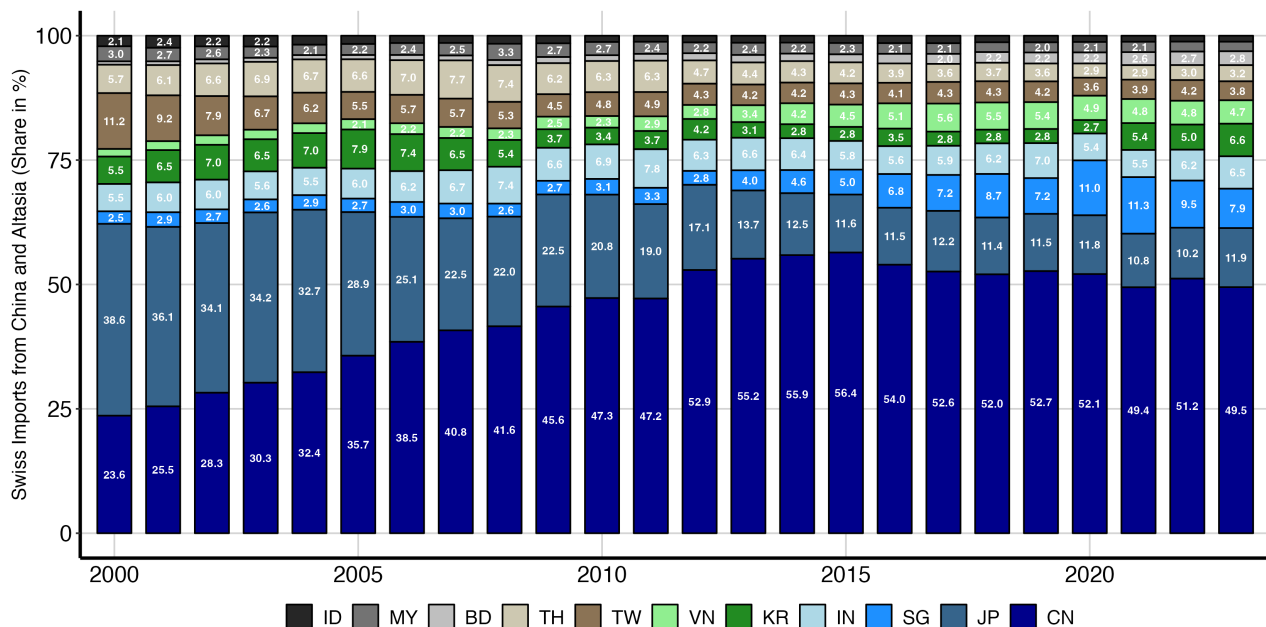
To analyze holistically if Switzerland is diversifying its trade to Altasian countries, we can look specifically at the evolution of imports coming from Altasian countries. This reveals a significant increase in Switzerland's total imports from Altasian countries, with volumes nearly tripling since the year 2000. A closer examination of the composition of these imports indicates that the majority originates from Japan and Singapore, with South Korea and India also contributing substantially. Notably, Japan's share fell from almost 50% in 2000 to less than a quarter in the most recent year.



Note: The figure shows Switzerland's total goods imports from Altasian countries since 2000 (top) and the share of the total trade with Altasian countries (bottom). For better illustration, the seven most important countries according to trade volume in 2023 are shown and all other countries belong to Rest.

The rising level of Swiss imports from Altasia must be put into context. The observed growth in imports from these nations could merely reflect a broader trend of rising import volumes. In the upper chart, a trend line is included (in red) which illustrates the evolution of Switzerland's total (global) imports. This line shows the increase of all imports over time, explaining a substantial part of the growth in imports with Altasian countries. Nevertheless, we can clearly see that the imports from Altasian countries grew considerably faster than from other nations — in line with the fact that these nations have experienced above-average economic growth.

When China is included in the evaluation of import shares from both China and Altasian countries, the results shown in the figure below hardly support the hypothesis of Altasia's growing significance in Switzerland's imports. For all the imports coming from China or Altasian countries, the share of China only fell slightly since 2012. In the past five years, the share hovered around 50 percent. This finding suggests that the increase in imports from Altasian countries does not necessarily indicate a strategic pivot towards diversification within this region. If one were to contextualize these findings within the framework of the China+1 strategy, a provocative characterization of Switzerland's approach would be a "China+0 strategy". This terminology suggests that, contrary to diversifying its trade and investment portfolio to include other countries alongside China, Switzerland's trade data draws a picture of continuation.



Note: The figure shows shares of Switzerland's total goods imports from China and Altasian countries since 2000. Brunei, Laos, Cambodia and Philippines are excluded from the graph as they each make up less than one percent of the share in 2023.

One of the reasons that we do not see a clear systematic pattern for a diversification to Altasian countries could be that China thus far is indispensable as a trade partner. While Switzerland's imports from Altasian countries have indeed grown, it is hard to find evidence that this increase comes at the expense of China and should thus be interpreted as a strategic shift away from China. The growth in trade with Altasian countries can largely be attributed to the global increase in trade volumes and the economic rise of these nations rather than a deliberate Swiss policy of diversification — if any such policy exists. Furthermore, the specific industries and sectors in which Altasian countries specialize may complement rather than substitute the trade ties Switzerland maintains with China.

The lack of evidence for a significant shift in Switzerland's import patterns towards Altasian countries, despite the nominal increase in trade volumes, underscores the enduring importance of China. The complexities of global supply chains, combined with China's entrenched role as a global economic powerhouse, suggest that any attempts at diversification must reckon with the reality of China's premier position as a trade partner. The apparent indispensability is driven by a combination of economic, strategic, and logistical factors that collectively ensure China's continued prominence in Switzerland's international trade portfolio.

Appendix: HS Sections — Descriptions

1	Live Animals	49	Printed Books, Newspapers
2	Meat	50	Silk
3	Fish	51	Wool
4	Dairy Products	52	Cotton
5	Products of Animal Origin	53	Other Textile Fibers
6	Live Trees and Plants	54	Man-made Filan-Made Textile Materials
7	Edible Vegetables	55	Man Mad Staple Fibers
8	Edible Fruit and Nuts	56	Wadding
9	Coffee, Tea, Spices	57	Carpets
10	Cereals	58	Special Woven Fabrics
11	Products of the Milling Industry	59	Impregnated, Coated or Laminated Textile Fabrics
12	Oil Seeds	60	Knitted or Crocheted Fabrics
13	Lac, Gums, Resins	61	Articles of Apparel (knitted)
14	Vegetable Plaiting Materials	62	Articles of Apparel (not knitted)
15	Animal and Vegetable Fats and Oils	63	Other Textiles
16	Preparations of Meat or Fish	64	Footwear
17	Sugars and Confectionery	65	Headgear
18	Cocoa	66	Umbrellas, Walking Sticks
19	Preparations of Cereals, Flour	67	Prepared Feathers
20	Preparations of Vegetables	68	Articles of Stone, Plaster, Cement
21	Misc. Edible Preparations	69	Ceramic Products
22	Beverages	70	Glass and Glassware
23	Residues and Waste of Food Industries	71	Natural or Cultured Pearls, Precious Metals
24	Tobacco	72	Iron and Steel
25	Salt, Sulfur, Earths, and Stone	73	Articles of Iron or Steel
26	Ores, Slag, and Ash	74	Copper or Articles Thereof
27	Mineral Fuels and Oils	75	Nickel or Articles Thereof
28	Inorganic Chemicals	76	Aluminum or Articles Thereof
29	Organic Chemicals	78	Lead or Articles Thereof
30	Pharmaceutical Products	79	Zinc or Articles Thereof
31	Fertilizers	80	Tin or Articles Thereof
32	Tanning or Dyeing Extracts	81	Other Base Metals
33	Essential Oils	82	Tools, Cutlery
34	Soap	83	Misc. Articles of Base Metal
35	Albuminoidal Substances	84	Nuclear Reactors, Boilers
36	Explosives	85	Electrical Machinery
37	Photographic or Cinematographic Goods	86	Railway or Tramway Locomotives
38	Misc. Chemical Products	87	Vehicles
39	Plastics and Articles Thereof	88	Aircraft, Spacecraft
40	Rubber and Articles Thereof	89	Ships, Boats
41	Raw Hides and Skins	90	Optical, Photographic, Precision Instruments
42	Articles of Leather	91	Clocks and Watches
43	Furskins and Artificial Fur	92	Musical Instruments
44	Wood and Articles of Wood	93	Arms and Ammunition
45	Cork and Articles of Cork	94	Furniture
46	Manufactures of Straw	95	Toys
47	Pulp of Wood	96	Misc. Manufactured Articles
48	Paper and Paperboard	97	Works of Art

Appendix: Trade Partners

ISO	Country	ISO	Country	ISO	Country
AE	Arab Emirates	GR	Greece	NI	Nicaragua
AF	Afghanistan	GT	Guatemala	NL	Netherlands
AL	Albania	GU	Guam	NO	Norway
AM	Armenia	HK	Hong Kong	NP	Nepal
AO	Angola	HN	Honduras	NZ	New Zealand
AR	Argentina	HR	Croatia	OM	Oman
AT	Austria	HU	Hungary	PA	Panama
AU	Australia	ID	Indonesia	PE	Peru
AW	Aruba	IE	Ireland	PH	Philippines
AZ	Azerbaijan	IL	Israel	PK	Pakistan
BA	Bosnia-Herzeg.	IN	India	PL	Poland
BD	Bangladesh	IQ	Iraq	PS	Palestine
BE	Belgium	IR	Iran	PT	Portugal
BG	Bulgaria	IS	Iceland	PY	Paraguay
BH	Bahrain	IT	Italy	QA	Qatar
BL	St Barthélemy	JM	Jamaica	RO	Romania
BO	Bolivia	JO	Jordan	RS	Serbia
BR	Brazil	JP	Japan	RU	Russia
BS	Bahamas	KE	Kenya	SA	Saudi Arabia
BW	Botswana	KG	Kyrgyzstan	SB	Solomon Islands
BY	Belarus	KH	Cambodia	SD	Sudan
CA	Canada	KR	South Korea	SE	Sweden
CD	Congo (RDC)	KW	Kuwait	SG	Singapore
CG	Congo, Rep. of	KY	Cayman Islands	SI	Slovenia
CI	Côte d'Ivoire	KZ	Kazakhstan	SK	Slovakia
CL	Chile	LA	Laos	SM	San Marino
CM	Cameroon	LB	Lebanon	SN	Senegal
CN	China	LK	Sri Lanka	SV	El Salvador
CO	Colombia	LT	Lithuania	SX	St Maarten
CR	Costa Rica	LU	Luxembourg	SY	Syria
CU	Cuba	LV	Latvia	TG	Togo
CY	Cyprus	LY	Libya	TH	Thailand
CZ	Czechia	MA	Morocco	TM	Turkmenistan
DE	Germany	MD	Moldova	TN	Tunisia
DK	Denmark	ME	Montenegro	TR	Türkiye
DO	Dominican Rep.	MG	Madagascar	TW	Taiwan
DZ	Algeria	MH	Marshall Isl.	TZ	Tanzania
EC	Ecuador	MK	North Macedonia	UA	Ukraine
EE	Estonia	ML	Mali	UG	Uganda
EG	Egypt	MM	Myanmar	US	USA
ES	Spain	MN	Mongolia	UY	Uruguay
ET	Ethiopia	MO	Macau	UZ	Uzbekistan
FI	Finland	MT	Malta	VE	Venezuela
FO	Faeroe Islands	MU	Mauritius	VG	Brit. Virgin
FR	France	MV	Maldives	VI	Amer. Virgin
GB	United Kingdom	MX	Mexico	VN	Viet Nam
GE	Georgia	MY	Malaysia	XK	Kosovo
GF	French Guiana	MZ	Mozambique	YE	Yemen
GH	Ghana	NE	Niger	ZA	South Africa
GP	Guadeloupe	NG	Nigeria	ZW	Zimbabwe