Emanuel Sebastian De Seta

Navigating the Age of Giants
The Switzerland-China Free Trade Agreement and Small State Grand Strategy in Times of Great Power Competition

Abstract: Globalisation and the post-Cold War international order are being eroded by great power competition and global economic fragmentation. These trends disproportionately affect small states, which are particularly dependent on international trade. In this context, bilateral free trade agreements (FTAs) entail important strategic implications. Drawing on small states theory, neoclassical realism and international trade theory, I assemble a theoretical framework to describe the grand strategies available to small states in times of great power competition. I then conduct a qualitative case study analysis of the FTA between Switzerland and China. I conclude that, in the current geopolitical and economic environment, bilateral FTAs represent an insurance policy guaranteeing continued market access. Therefore, FTAs can shift the grand strategy of a small state towards closer association with its trade partner. However, this shift must be contextualised within the small state's broader foreign policy, which is also influenced by other (often more significant) imperatives.

Keywords: Small States, Swiss Foreign Policy, Grand Strategy, International Trade, Great Power Competition

Emanuel Sebastian De Seta studied in Neuchâtel, Berlin, Basel, Tokyo and Reykjavík, obtaining an MA in European Global Studies (with a focus on East Asian geopolitics), a Postgraduate Diploma in Arctic Studies and a BA in Anthropology, Geography and History. After graduation, he worked at the Embassy of Switzerland in Nairobi, where he reported on political developments in Kenya, Uganda and Rwanda and represented Switzerland at UNEP meetings and UNEA-7 negotiations. He is currently studying in Riga.

Introduction

The era inaugurated by the fall of the Berlin Wall in 1989 is over. Its two pillars, namely a unipolar international order and economic globalisation, have significantly eroded over the last two decades.

The post-Cold War international order, based on liberal international institutions and American hegemony, is increasingly being eroded by pressure from both its architects and its challengers. In the US and Western Europe, the structural socio-economic divide between those who reaped the benefits of globalisation and those consigned to its margins was exacerbated by the 2008 financial crisis:[1] "Globalization became associated to [*sic*] deindustrialization, unemployment and income inequality."[2] Facing mounting domestic discontent, countries at the core of the international system started to "break with international agreements, institutions, alliances and the global economy to protect distinctly national interests and agendas."[3] In parallel, China and Russia, which had previously shelved their strategic ambitions to pursue integration into the global economy,[4] began openly expressing their dissatisfaction with the US-led international order and embracing distinctly revisionist foreign policies.[5] Overall, the international system appears to be shifting from unipolarity to multipolarity, fuelling the resurgence of global geopolitical competition among great powers.[6]

Great power competition is driving a gradual fragmentation of the global economy. As geopolitical tensions rise, major economic powers such as the US, China and the EU have gradually reframed international trade as a security threat and a source of vulnerability. In particular, these powers are seeking to reduce their reliance on foreign supply chains in sectors that are considered vital to national security (such as advanced technologies), potentially resulting in a gradual economic and technological 'decoupling' worldwide. The US maintains a policy of sustained economic competition with China: in addition to tariffs, Washington leverages heavy subsidies and trade restrictions in high-tech industries to preserve technological superiority through the

1 Dani Rodrik, "Populism and the economics of globalization", *Journal of International Business Policy* 1, nos. 1–2 (2018): https://doi.org/10.1057/s42214-018-0001-4.

2 Hubert Escaith, "From Hyper-Globalization to Global Value Chains Decoupling: Withering Global Trade Governance?", *Journal of Applied Economic Sciences* 17, no. 4 (78) (2022): 406, https://doi.org/10.57017/jaes.v17.4(78).11.

3 Norrin M. Ripsman, "Globalization, deglobalization and Great Power politics", *International Affairs* 97, no. 5 (2021): 1329, https://doi.org/10.1093/ia/iiab091.

4 Ripsman, "Globalization, deglobalization and Great Power politics", 1325–27.

5 Gerlinde Groitl, *Russia, China and the Revisionist Assault on the Western Liberal International Order* (Palgrave Macmillan, 2023), https://doi.org/10.1007/978-3-031-18659-2; Kai He et al., "Rethinking Revisionism in World Politics", *The Chinese Journal of International Politics* 14, no. 2 (2021): https://doi.org/10.1093/cjip/poab004.

6 Hanna Samir Kassab, *Globalization, Multipolarity and Great Power Competition* (Routledge, 2023).

decoupling of supply chains.[7] Since the late 2010s, the EU's position has also hardened: Brussels now considers Beijing a systemic competitor and has adopted measures to disentangle its economy from Chinese imports in critical sectors.[8] Meanwhile, China is seeking a higher degree of economic autonomy by boosting domestic demand (through its 'double circulation' strategy)[9] and reducing its reliance on technology imports (through the 'Made in China 2025' initiative).[10]

Small states are disproportionately affected by the repercussions of great power competition and global economic fragmentation. As I will illustrate, their reliance on international trade makes them especially dependent on geopolitical stability and economic globalisation, which are currently eroding. Understanding how small states navigate today's increasingly challenging global environment is therefore crucial for academics and policymakers alike.

I claim that small states may employ bilateral free trade agreements (FTAs) as a strategic instrument to navigate geopolitical tensions and economic fragmentation. More precisely, I interpret FTAs as an insurance policy aimed at guaranteeing continued access to the domestic market of major economic partners. From this perspective, I argue that the bilateral FTAs concluded by small states have profound strategic implications and must therefore be considered in the broader context of a small state's grand strategy. In particular, FTAs can shift the strategic positioning of a small state towards closer association with its trade partner, especially if the latter is directly involved in the great power competition. However, this shift is not necessarily spectacular, since the small state's foreign policy is also influenced by other – often more significant – strategic imperatives.

To test the validity of my reasoning, I have conducted a qualitative case study of the Switzerland-China Free Trade Agreement (SCFTA).[11] As a small country that benefits from economic globali-

7 David Capie et al., "The Economics-Security Nexus in the US-China Trade Conflict decoupling dilemmas", *Policy Quarterly* 16, no. 4 (2020): https://doi.org/10.26686/pq.v16i4.6627; Kevin Honglin Zhang, "U.S.-China Economic Links and Technological Decoupling", *The Chinese Economy* 56, no. 5 (2023): https://doi.org/10.1080/10971475.2023.2173399; Ze Zhang, "Mapping U.S.-China technological 'decoupling': Beyond U.S.-China relations", *Environment and Planning B: Urban Analytics and City Science* 50, no. 7 (2023): https://doi.org/10.1177/23998083231189938.

8 Zhongping Feng, "Internal and external factors affecting China-EU relations", *China International Strategy Review* 4, no. 1 (2022): https://doi.org/10.1007/s42533-022-00108-z; Duncan Freeman, "The EU and China: policy perceptions of economic cooperation and competition", *Asia-Europe Journal* 20, no. 3 (2022): https://doi.org/10.1007/s10308-021-00609-3; Shuxiao Kuang et al., "The rise and fall of the EU-China Comprehensive Agreement on Investment: 'open strategic autonomy' in action", *Journal of Contemporary European Studies* 32, no. 3 (2024): https://doi.org/10.1080/14782804.2023.2293779.

9 Justin Yifu Lin, "What does China's 'dual circulations' development paradigm mean and how it can be achieved?", *China Economic Journal* 14, no. 2 (2021): https://doi.org/10.1080/17538963.2021.1933053.

10 Derek Adam Levine, "Made in China 2025: China's Strategy for Becoming a Global High-Tech Superpower and its Implications for the U.S. Economy, National Security, and Free Trade", *Journal of Strategic Security* 13, no. 3 (2020): https://doi.org/10.5038/1944-0472.13.3.1833.

11 The abbreviation 'SCFTA', used here to improve readability, is not official.

sation but is not a member of any military alliance or customs union, Switzerland provides an instructive case for my analysis. Among Switzerland's bilateral FTAs, the SCFTA has the most far-reaching strategic implications. China is a key economic partner for Switzerland, ranking third (after the EU and the US) in terms of bilateral trade volumes.[12] At the same time, the geopolitical and economic rivalry between China and the US might make it challenging for Switzerland – whose partnership with the US extends far beyond trade – to maintain close relations with both great powers in the future, especially if technological decoupling intensifies.[13] By researching how the SCFTA relates to Switzerland's strategic positioning in the competition between two of its most important economic partners, I elucidate the relevance of FTAs for small states navigating similar strategic conditions.

My argument comprises a theoretical section and a case study section. In the former, drawing on small states theory, international trade theory and neoclassical realism, I assemble an interdisciplinary theoretical framework to describe the grand strategies available to small states in the context of great power competition and global economic fragmentation. In the latter, I analyse the concrete strategic implications of the SCFTA for Switzerland. My findings rest on a qualitative analysis of approximately 100 official documents published by Swiss authorities (including the text of the agreement, press releases, joint statements, policy papers, government reports and parliamentary debates), as well as publicly available trade data and interviews with two Swiss federal government officials involved in the negotiation of the SCFTA.

Theory: Small States, Trade and Grand Strategy

What are small states?

Before explaining why they are particularly disadvantaged by ongoing global trends, I will provide a working definition of small states and, drawing from the field of small states theory, briefly illustrate the importance of studying international affairs through the prism of state size.

Small states have long been understudied in international relations theory and are seldom defined precisely. Despite constituting the majority of the world's countries, small states are a

12 Source: own calculations; data: Observatory of Economic Complexity (OEC), "HS6 REV. 1992 (1995–2022)", dataset (2024): https://oec.world/en/resources/bulk-download/international (accessed 22 December 2024).

13 Sophie-Charlotte Fischer, "US-China 'tech decoupling': A Swiss perspective", *Policy Perspectives* 10, no. 10 (2022): https://css.ethz.ch/en/center/CSS-news/2022/09/us-china-tech-decoupling-a-swiss-perspective.html (accessed 22 December 2024).

defective category, as they are primarily defined by not being great powers.[14] In addition, every definition of small states is to some extent arbitrary, as there are no 'natural thresholds' in country size.[15]

My objective is not to propose a universal definition of small states, but rather to thematise the challenges and strategic options associated with smallness in the current geopolitical and economic environment. Smallness must be conceived not in absolute but rather in relational terms: a state can only qualify as 'large' or 'small' in comparison with other states.[16] Furthermore, smallness has an important subjective component: a state's position in the international order arises not only from material conditions (such as population, land area, GDP and military capacity) but also from psychological and performative factors (such as international prestige, internal cohesion and ideology).[17] Keohane integrates these nuances by defining a small state as one "whose leaders consider that it can never, acting alone or in a small group, make a significant impact on the [international] system."[18]

Crucially, defining small states as having little influence on international politics is simplistic: one must determine *in which specific contexts* they are capable or incapable of influencing world events. On a thematic level, states possess varying degrees of 'issue-specific power' depending on which particular global issue is at stake.[19] Indeed, even unambiguously small states can 'punch above their weight' in selected fields of international politics.[20] On a geographic level, the global power of a state is often a poor predictor of its ability to act effectively in a particular region, since regional dynamics often differ from global ones.[21] Furthermore, regions themselves

14 Iver B. Neumann and Sieglinde Gstöhl, "Introduction: Lilliputians in Gulliver's World?", in *Small States in International Relations*, ed. Christine Ingebritsen et al. (University of Washington Press and University of Iceland Press, 2006), 4–6.
15 Neumann and Gstöhl, "Lilliputians in Gulliver's World?", 6.
16 Neumann and Gstöhl, "Lilliputians in Gulliver's World?", 6–7; Baldur Thorhallsson, "Studying small states: A review", *Small States & Territories* 1, no. 1 (2018): 19–20, https://www.um.edu.mt/library/oar/handle/123456789/44443 (accessed 22 December 2024); Baldur Thorhallsson et al., "The Small State in International Relations", in *Small States and Shelter Theory: Iceland's External Affairs*, ed. Baldur Thorhallsson (Routledge, 2019), 15.
17 Robert O. Keohane, "Lilliputians' Dilemmas: Small States in International Politics", *International Organization* 23, no. 2 (1969): 295–97, https://doi.org/10.1017/S002081830003160X; Michael Beckley, "The Power of Nations: Measuring What Matters", *International Security* 43, no. 2 (2018): https://doi.org/10.1162/isec_a_00328; Thorhallsson, "Studying small states", 18–19; Thorhallsson et al., "The Small State in International Relations", 16.
18 Keohane, "Lilliputians' Dilemmas", 296.
19 Robert O. Keohane and Joseph S. Nye Jr., *Power and Interdependence*, 4th ed., Pearson, 2011 (1977); Neumann and Gstöhl, "Lilliputians in Gulliver's World?", 8.
20 William Mark Habeeb, *Power and Tactics in International Negotiation: How Weak Nations Bargain with Strong Nations* (Johns Hopkins University Press, 1988); Anders Wivel, "The Grand Strategies of Small States", in *The Oxford Handbook of Grand Strategy*, ed. Thierry Balzacq and Ronald R. Krebs (Oxford University Press, 2021), 498–99, https://doi.org/10.1093/oxfordhb/9780198840299.013.32.
21 Barry Buzan and Ole Wæver, *Regions and Powers: The Structure of International Security* (Cambridge University Press, 2003).

are not a priori defined structures, but mutable social constructions endogenous to international politics: such 'politics of scale' are an integral component of how a state performs its size.[22]

In light of these considerations, I propose the following definition: "*A small state is a state which, in addition to being considered small by most material metrics (population, land area, economy and military), is deemed capable (by itself and by others) of playing an influential role in international politics in only a few specific geographic and/or thematic settings.*" This definition will serve as the starting point of my reflections on the grand strategy of small states and is intimately tied to the concept of comparative advantage, which I discuss in the next subsection.

Small states and international trade

Having defined thematic and geographical specialisation as the main characteristic of small states, I now turn to international trade theory to investigate another crucial phenomenon: their *economic* specialisation. Integrating insights from international trade theory is more than a routine step in research on FTAs: trade is central to small states' strategic imperatives.

Small states' tendency to specialise in a few domains and their subsequent reliance on trade can be explored through Ricardo's classic model of international trade. This model shows that two countries (*Home* and *Foreign**) producing two goods with different levels of productivity benefit from mutual trade, because trade enables each of them to specialise in exporting the good it produces more efficiently and to import the good it produces less efficiently. In other words, trade creates wealth by exploiting relative differences in productivity. These differences, called 'comparative advantages', constitute the core principle of international trade. If Ricardo's model is applied to two countries which significantly differ in terms of size, the smaller country, *ceteris paribus*, has smaller production capabilities and is therefore more likely to use them to produce only the good for which it has a comparative advantage. As a result of this high degree of specialisation, the smaller country "tends to benefit relatively more from trade compared to a large country due to the fact that the relative free-trade price is closer to the opportunity cost of the large country."[23] In sum, the greater the difference in size between the two countries is, the more the small country specialises and the more it benefits from trade.

22 Miriam Prys-Hansen et al., "Regional powers and the politics of scale", *International Politics* 61, no. 1 (2024): https://doi.org/10.1057/s41311-023-00462-8.

23 Rolf Weder, "The Standard Ricardian Trade Model", in *200 Years of Ricardian Trade Theory: Challenges of Globalization*, ed. Ronald W. Jones and Rolf Weder (Springer, 2017), 63, https://doi.org/10.1007/978-3-319-60606-4_4.

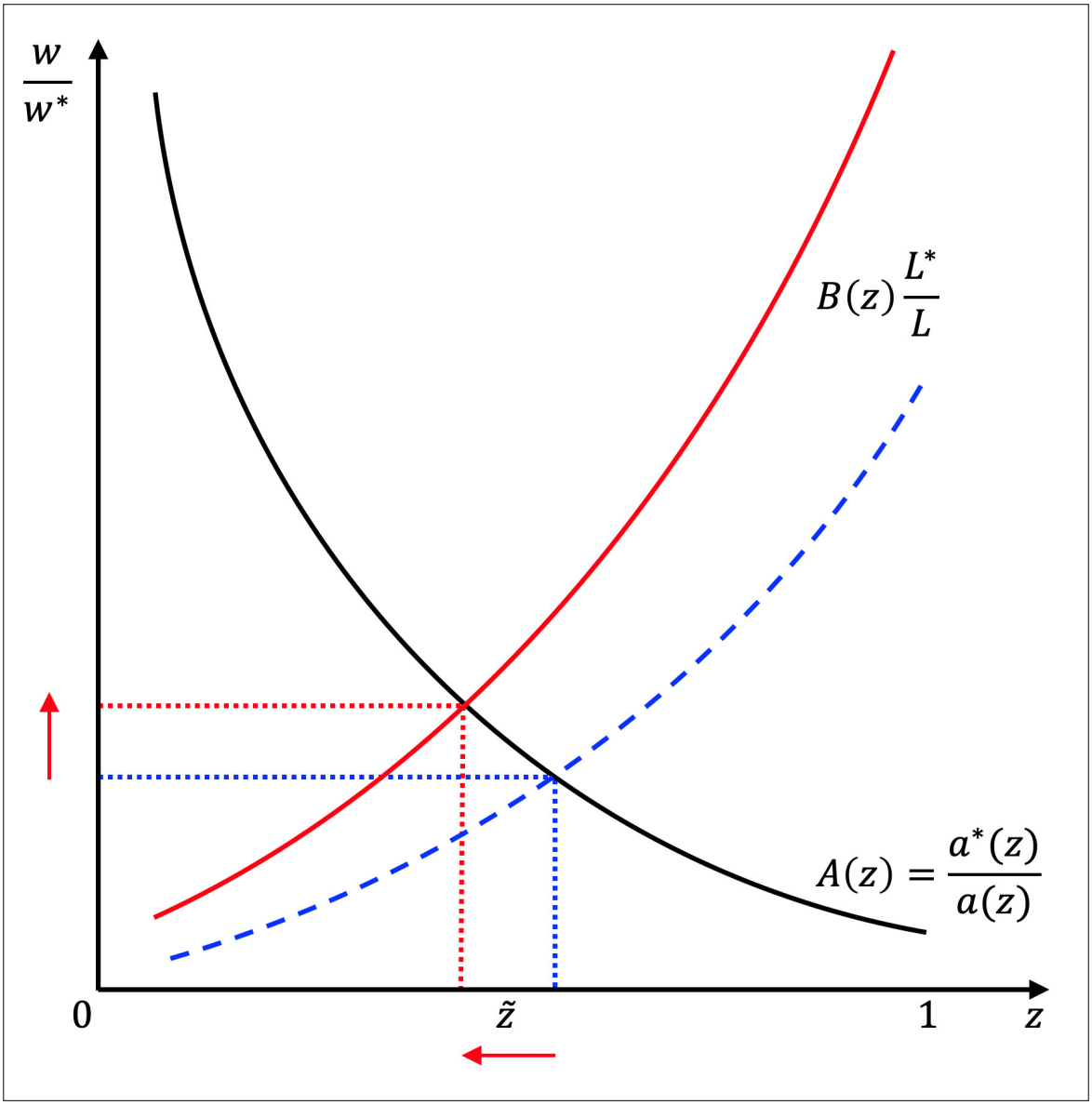


Figure 1: The effects of changing relative size on the Ricardian model of international trade for a continuum of goods. Source: own representation, adapted from Weder, "The Standard Ricardian Trade Model," 63.

The extension of Ricardo's model to a potentially infinite number of goods confirms that, upon trade liberalisation, *ceteris paribus*, a small country specialises in producing a small number of goods and benefits disproportionately from trade. (*Fig. 1*) Ricardo's classical model can be extended to a potentially infinite number of goods by indexing these by z on the continuous interval *[0,1]* according to *Home*'s diminishing comparative advantage *w/w**. This results in the continuous and monotonically decreasing function *A(z)*, graphically represented by the black line. If trade is liberalised and consumer preferences *B(z)* are homogeneous, the most efficient international allocation of labour corresponds to the product of *B(z)* and the relative size of *Home*'s labour *L*/L*, represented by the blue line. The equation *A(z) = B(z)L*/L* identifies the free-trade equilibrium (represented by the intersection of the black and blue lines), whereby goods in the

interval *[0,z̃]* are exclusively produced by Home, good *z̃* is produced by both countries and goods in the interval *[z̃,1]* are exclusively produced by *Foreign**. As depicted, if the relative size of the two countries is changed in favour of *Foreign** (substituting the blue line with the red line), the market equilibrium is altered. Since *L*/L* rises, *z̃* decreases and *w/w** increases. In other words, a smaller *Home* specialises in the production of a smaller number of goods, but, because it enjoys truly strong comparative advantages in those sectors, it becomes relatively wealthier compared to *Foreign**.

According to new trade theory, the actual benefits of trade liberalisation may far surpass those forecasted by classical models: this is particularly true for small states, which disproportionately benefit from trade-induced external economies of scale and competition. Regarding the former, new trade theory predicts that the creation of external economies of scale resulting from the geographic concentration of certain industries in highly specialised districts is favoured and accelerated by trade liberalisation.[24] I claim that such external economies of scale are even more advantageous in small states, since the internal economies of scale that domestic firms can exploit are more limited there. In small economies, international trade enables a few industries to create economic districts of worldwide importance. Regarding competition, new trade theory predicts that, in industries where the assumption of monopolistic competition holds, market opening results in a massive boost in productivity, since international intra-sector competition wipes out the least competitive domestic firms while rewarding the most competitive ones.[25] This principle is particularly powerful when applied to small economies. Indeed, in a small state under autarky, most economic sectors where there are economies of scale are likely to be dominated by very few firms, possibly even by a single monopolist, making an increase in intra-sector competition even more valuable.

While it partially offsets some drawbacks associated with small size, international trade itself constitutes a potential source of vulnerability for small states: I term this insight the 'small state trade strategic paradox'. Indeed, small states are not simply scaled-down versions of their larger counterparts but suboptimal economic units, since their production factors and domestic demand are insufficient to sustain a functional domestic market in most sectors. International trade theory shows that a small state can alleviate this handicap and even thrive by specialising in the few sectors where it enjoys comparative advantages. Specialisation, however, creates a double vulnerability: small open economies rely on foreign markets not only to sell their few

24 Paul R. Krugman et al., *International Economics: Theory and Policy*, 11th ed. (Essex: Pearson, 2018), 179–95.
25 Paul R. Krugman et al., *International Economics*, 198–220.

exports but also to import nearly everything else. In such economies, even slight variations in world prices can generate devastating shocks.[26] The small state trade strategic paradox is at the core of the strategic constraints and opportunities associated with smallness, which I analyse in the next subsection.

Small states and grand strategy

Having examined the characteristics of small states in international politics and economics, I introduce relevant key concepts from small states theory to illustrate how small states are able to mitigate their size-related problems and often even thrive in international affairs.

According to Thorhallsson, small states alleviate their size-related problems primarily by associating with larger entities, from which they 'seek shelter'. The challenges associated with smallness, indeed, are not limited to the small state trade strategic paradox described in the previous subsection but also extend to a country's politics and society. Politically, small states are at a disadvantage because of their vulnerability to military threats, limited diplomatic influence and reduced domestic institutional capacity.[27] Societally, small size "has profound disadvantages for states when it comes to technological, educational and cultural ideas and practices".[28] A shelter-seeking strategy has the chief objective of overcoming the downsides of smallness. This may take many forms, such as entering a military alliance with a great power, joining an international organisation or forming a confederation. Notably, shelter can be provided by both other states and international organisations. Shelter-seeking is often quite costly, as the small state usually surrenders part of its autonomy. Therefore, the costs of shelter must be compared with the costs of its alternatives, including internal compensation measures and alternative shelters.[29]

I argue that the degree of freedom and success with which small states pursue their interests largely depends on the level of shelter provided by the international system. My claim seeks to contextualise opposing theoretical attitudes towards small states. To simplify, realist scholars tend to be pessimistic with regard to them, since, in an anarchic world, smaller capabilities translate into greater vulnerability to coercion and conquest. Liberal authors, by contrast, stressing the mitigation of anarchy through trade and international institutions, deem small states able to

26 Harvey W. Armstrong and Robert Read, "The determinants of economic growth in small states", *The Round Table* 92, no. 368 (2003): https://doi.org/10.1080/750456745; Baldur Thorhallsson and Sverrir Steinsson, "A Theory of Shelter", in *Small States and Shelter Theory: Iceland's External Affairs*, ed. Baldur Thorhallsson (Routledge, 2019), 35–40.
27 Thorhallsson and Steinsson, "A Theory of Shelter", 26–35.
28 Thorhallsson and Steinsson, "A Theory of Shelter", 40–44.
29 Thorhallsson and Steinsson, "A Theory of Shelter", 44–49.

pursue prosperity through an active international agenda.[30] I contend that the validity of one or the other set of assumptions largely depends on the structure of the international system itself. Politically, realism/pessimism is more relevant in periods of instability and great power competition (when small states are concerned with their direct survival), whereas liberal/optimistic accounts more accurately describe periods of geopolitical stability (when small states thrive and multiply).[31] In other words, geopolitical stability and international institutions act as a worldwide political shelter. Economically, reliance on international trade explains why small states prosper when they are able to trade freely with larger entities, while usually suffering otherwise.[32] Economic integration moderates the small state trade strategic paradox by reducing the risks of market opening: liberalising trade multilaterally is less risky than becoming dependent on one or a few trade partners. In other words, globalisation constitutes an economic (and societal) 'supershelter'. Globalisation and the liberal international order have so far mitigated the downsides of smallness by allowing countries to engage in 'supershelter-seeking': small states must now devise strategies to cope with the erosion of these two pillars of the post-Cold War era.

The grand strategy[33] of small states is traditionally represented as a binary spectrum ranging from shelter-seeking to hiding. Shelter-seeking has already been described in depth. 'Hiding' is its antithesis and means somehow 'opting out' of the international system. This generally involves non-alignment, neutrality and prioritising national autonomy. Hiding takes many forms, but it must be maintained in the long term for it to be a grand strategy: not all types of neutrality equate to hiding. Since the actual foreign policy of a given small state is likely to combine elements of shelter-seeking and hiding,[34] the two policies can be represented on a binary spectrum. *(Fig. 2)*

30 Thorhallsson, "Studying small states", 23–25; Thorhallsson et al., "The Small State in International Relations", 16–19.

31 Tanisha M. Fazal and Ryan D. Griffiths, "Membership Has Its Privileges: The Changing Benefits of Statehood", *International Studies Review* 16, no. 1 (2014): https://doi.org/10.1111/misr.12099.

32 Alberto Alesina, "The Size of Countries: Does It Matter?", *Journal of the European Economic Association* 1, nos. 2–3 (2003): 309–12, https://doi.org/10.1162/154247603322390946.

33 By grand strategy, I refer to the fundamental principles organising a state's long-term military, diplomatic and economic policy. (Nina Silove, "Beyond the Buzzword: The Three Meanings of 'Grand Strategy'", *Security Studies* 27, no. 1 (2018): 39–42, https://doi.org/10.1080/09636412.2017.1360073.)

34 Wivel, "The Grand Strategies of Small States", 494–96.

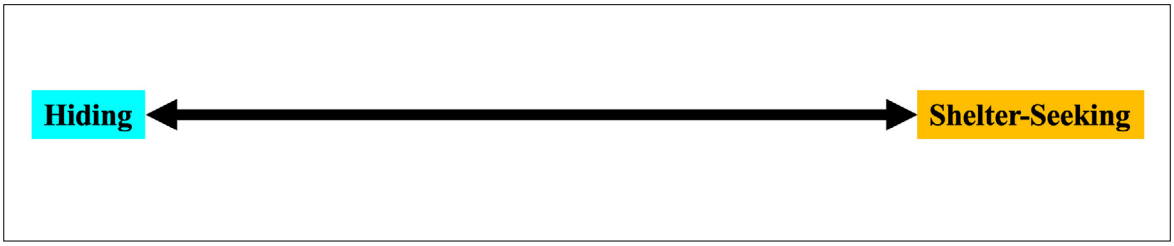


Fig. 2: The hiding vs. shelter-seeking binary spectrum. Source: own work.

The post-Cold War order has diminished the benefits of hiding and enabled small states to employ new combinations of shelter-seeking and hiding, a practice Wivel (building on previous literature) terms 'smart state strategy'.[35] A smart state strategy differs from traditional hiding and shelter-seeking in that it is not defensive, but offensive. In other words, it aims to advance rather than to simply preserve national interests. 'Smart' small states are passive ('hide') with regard to non-essential matters and focus their political capital on niche domains that are key to their idiosyncratic agendas. In so doing, they exploit their own smallness to their advantage: "Because [small states] are weak and viewed as nonconsequential to decision-making, they typically have more leeway to act as mediators, provide technical expertise, and champion solutions for the greater good than great powers".[36] As the post-Cold War order is declining, even 'smart' small states are faced with strategic decisions discussed in the next subsection.

Small states and great power competition

Drawing on neoclassical realist theory (which has dealt extensively with great power competition), I identify which grand strategic options are available to small states in the current international environment. I then position these options on a conceptual triangle which will serve as a basis for the analysis of the case study.

Drawing on Schweller and Kuik, I identify five grand strategies available to small states to navigate great power competition and economic fragmentation: distancing, balancing, bandwagoning, engagement, and hedging.[37] '*Distancing*' corresponds to the application of a hiding strategy to conditions of hegemonic struggle: weak powers attempt to isolate themselves from the negative effects of the rivalry by interacting as little as possible with the competing great powers.[38] '*Balancing*' and '*bandwagoning*' occur when a small state, in an attempt to insure itself against

35 Wivel, "The Grand Strategies of Small States", 498–99.
36 Wivel, "The Grand Strategies of Small States", 498.
37 I base this catalogue on the one proposed by Schweller in his study of hegemonic confrontation, which I modified by omitting two strategies exclusive to great powers ('preventive war' and 'binding') and adding 'hedging'.
38 Randall L. Schweller, "Managing the Rise of Great Powers: History and theory", in *Engaging China: The Management of an Emerging Power*, ed. Alastair Iain Johnston and Robert S. Ross (Routledge, 1999), 16–17.

the risks arising from its vulnerability, seeks shelter from one of the competing great powers. Balancing means cooperating with the current hegemon to maintain the status quo, while 'bandwagoning' means helping the rising revisionist power become the new hegemon in return for advantages.[39] '*Engagement*' "encompasses any attempt to socialize the dissatisfied power into acceptance of the established order",[40] hence mixing 'supershelter-seeking' and hiding (from frontal confrontation). Although their engagement attempts are hardly decisive in averting a hegemonic conflict, small states may use engagement for status-seeking purposes as part of a smart state strategy. A further mixed grand strategy, '*hedging*', was theorised in the 2000s to describe Southeast Asian countries tactically alternating balancing and bandwagoning strategies in the context of the rivalry between China and the US.[41] Hedging chiefly serves as a coping mechanism against systemic uncertainty: unable to forecast the outcome of the hegemonic competition, hedging small states display non-alignment (to minimise risks) while maintaining the possibility of seeking shelter (to maximise security).[42]

In the real world, the grand strategies listed above do not exist as discrete entities; rather, they lie on a continuum. For instance, building on earlier research, Grano and Weber propose to measure Switzerland's grand strategy in response to the rise of China on a binary spectrum ranging from balancing to bandwagoning.[43] Such a categorisation has the merit of introducing the idea of a seamless continuum, but should be extended to include hiding, which it ignores.[44] In fact, I argue that small state responses to the great power competition encompass not one but two dimensions: the level of revisionism (balancing vs. bandwagoning) and the level of involvement in the rivalry (hiding vs. shelter-seeking), which was discussed in the previous subsection.

39 Schweller, "Managing the Rise of Great Powers", 9–12.

40 Schweller, "Managing the Rise of Great Powers", 14.

41 Chien-Peng Chung, "Southeast Asia-China Relations: Dialectics of 'Hedging' and 'Counter-Hedging'", *Southeast Asian Affairs* (2004): https://www.jstor.org/stable/27913250 (accessed 22 December 2024); Cheng-Chwee Kuik, "The Essence of Hedging: Malaysia and Singapore's Response to a Rising China", *Contemporary Southeast Asia* 30, no. 2 (2008): https://www.jstor.org/stable/41220503 (accessed 22 December 2024).

42 Cheng-Chwee Kuik, "How Do Weaker States Hedge? Unpacking ASEAN states' alignment behavior towards China", *Journal of Contemporary China* 25, no. 100 (2016): https://doi.org/10.1080/10670564.2015.1132714.

43 Simona A. Grano and Ralph Weber, "Strategic Choices for Switzerland in the US-China Competition", in *China-US Competition: Impact on Small and Middle Powers' Strategic Choices*, ed. Simona A. Grano and David Wei Feng Huang (Palgrave Macmillan, 2023), 88–92, https://doi.org/10.1007/978-3-031-15389-1_4.

44 The balancing-bandwagoning spectrum has been theorised in the context of Australia, a strategically located middle power for which hiding is not an option. Hence, I argue that, when applied to small states, it should be revised to include hiding.

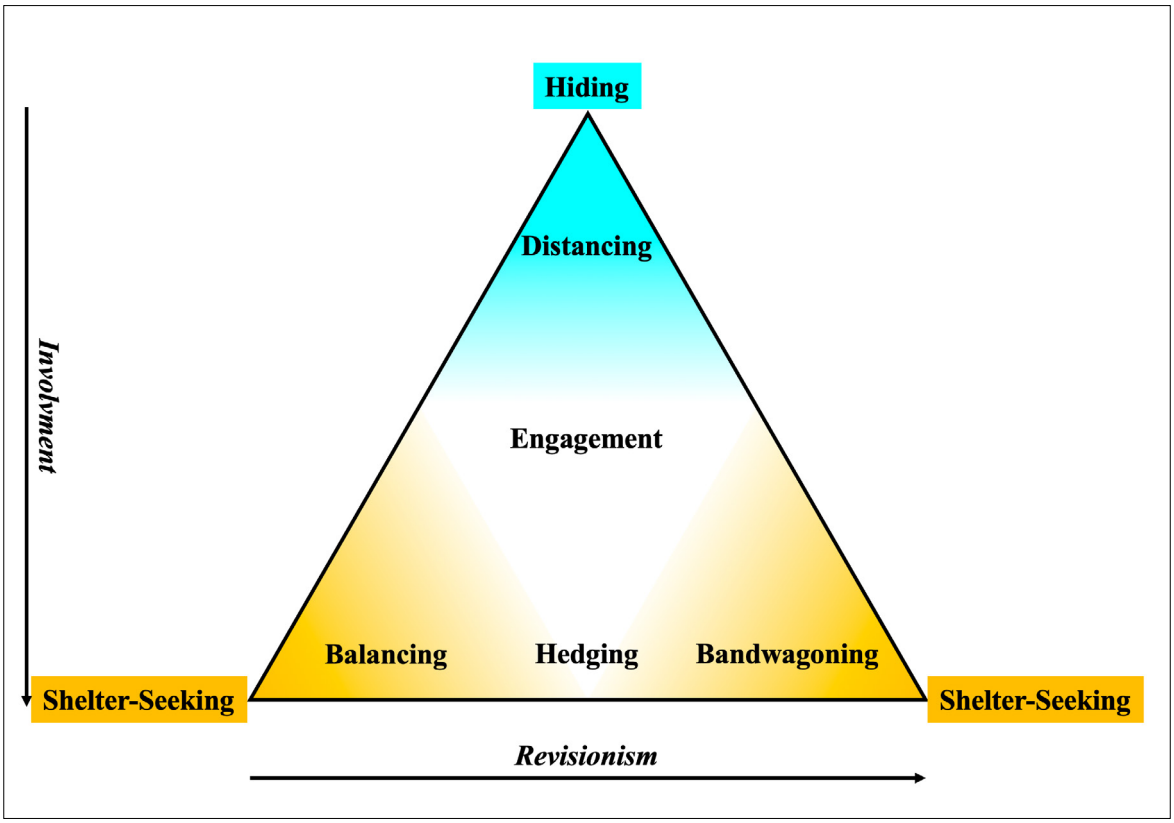


Fig. 3: The grand strategies available to small states in conditions of great power competition. Source: own work.

I propose using a triangle to illustrate the grand strategies available to small states in conditions of great power competition. (*Fig. 3*) The horizontal dimension of the triangle represents the small state's position with regard to the international system: the left side denotes support for the status quo, while the right side denotes revisionism. The vertical dimension displays the level of involvement of the small state in the great power competition: the lower section signifies a high level of involvement, while the upper section signifies a more passive stance. The grand strategies discussed earlier can be arranged on the triangle accordingly. The angles correspond to the broader strategic attitudes of small states: the upper one to hiding, the lower two to shelter-seeking. My triangle serves as a nuanced and exhaustive framework to classify the grand strategy of any small country with regard to present and past great power competition. In the case study section, I will use it to analyse Switzerland's positioning regarding the great power competition between the US and China.

Case Study: The Switzerland-China Free Trade Agreement

Switzerland: a small state in the global context

Having assembled a theoretical framework to describe the grand strategies available to small states in the current global context, I will now apply it to the case study. In order to introduce my analysis of the SCFTA, I briefly describe how Switzerland, given its small size, strategically positions itself in the global geopolitical and economic arena, especially with regard to trade.

Switzerland neatly fits my definition of a small state. The country's population and territory are unambiguously small, and its military capabilities are limited. Even the prosperous Swiss economy, which might qualify as mid-sized on a global scale, is, in typical small state fashion, driven by international trade. In terms of its performative size, Switzerland plays a relatively minor role at the systemic level with regard to most global issues. Most importantly, the Alpine country is deemed incapable (by Swiss elites themselves and by other countries) of tipping the balance of power in the great power competition between China and the US. Overall, the theoretical framework developed in the preceding section can therefore be applied to the case study without difficulty.

Switzerland responded to the challenges posed by its small size by adopting a smart state strategy combining hiding and 'supershelter-seeking'. Politically, Switzerland has maintained its permanent neutrality while carving out for itself a distinctive role in the international community in domains such as diplomatic mediation and humanitarian assistance. Economically, Switzerland refrained from joining economic blocs like customs unions or monetary unions, such as the European Union (EU), while advocating free trade multilaterally and developing a high level of expertise in niche economic sectors.

Switzerland's foreign economic policy strategy confirms the country's self-perception as a small state and is consistent with its smart state strategy. A policy paper asserts that, in the current context of economic fragmentation, "[n]o state-led or state-sponsored repatriation of production processes to Switzerland is to be attempted".[45] Instead, Bern aims to guarantee the resilience of supply chains through open markets, geographic diversification and large economic treaties, noting how other small economies "can also navigate their way successfully without being tied closely to large political blocs."[46]

45 State Secretariat for Economic Affairs SECO, *Switzerland's foreign economic policy strategy* (Federal Department of Economic Affairs, Education and Research EAER, 2021), 40, https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/aussenwirtschaftspolitik/aws.html (accessed 22 December 2024).
46 SECO, *Switzerland's foreign economic policy strategy*, 39.

Switzerland's smart state strategy is complemented by shelter-seeking towards the EU and (to a lesser degree) its bilateral trade partners. Switzerland's numerous and complex bilateral agreements with the EU demonstrate that the country does seek comprehensive shelter from Brussels, albeit in a less radical fashion than EU member states.[47] Bilateral FTAs, however, can also constitute a form of economic shelter-seeking. Indeed, for a small country in an uncertain global economic environment, institutionalising economic relations with a trade partner in order to stabilise international trade flows can be interpreted as a classic strategy of mitigating smallness-related problems. Admittedly, the shelter provided by an FTA is quite limited, but can be relevant, especially when the trade partner has a large economy and bilateral trade flows are substantial. As I demonstrate in the following subsections, this is precisely the case of the SCFTA.

Swiss-Chinese relations and the SCFTA

Before analysing the strategic implications of the SCFTA in the context of the Sino-American rivalry, I delineate the remarkable intensification of bilateral economic relations between China and Switzerland over the last three decades. The SCFTA is both a result and a catalyst of this process.

Economic exchanges have been at the core of Sino-Swiss relations ever since Switzerland's comparatively early establishment of diplomatic relations with the People's Republic of China in 1950. Starting in the 1970s, the reform and opening of the Chinese economy enabled the gradual intensification of exchanges with Switzerland, accelerated by a bilateral trade agreement in 1974.[48] Since the 1990s, bilateral trade volumes have grown exponentially, with a trade balance consistently in favour of Switzerland. (*Fig. 4*) In 2010, China became Switzerland's third most important bilateral economic partner by trade volumes (after the EU and the US), a position it has solidly occupied ever since.[49]

47 The economic shelter provided by the EU is clear: the bloc accounts for more than half of Switzerland's total trade volume. The EU, however, also provides political and societal shelter. In exchange for shelter, Switzerland accepts the loss of a significant degree of autonomy in several areas of decision-making.

48 Michele Coduri et al., "China", *Historisches Lexikon der Schweiz* (2009), https://hls-dhs-dss.ch/de/articles/003405/2009-04-29/ (accessed 22 December 2024).

49 Source: own calculations; data: OEC, "HS6 REV. 1992 (1995–2022)".

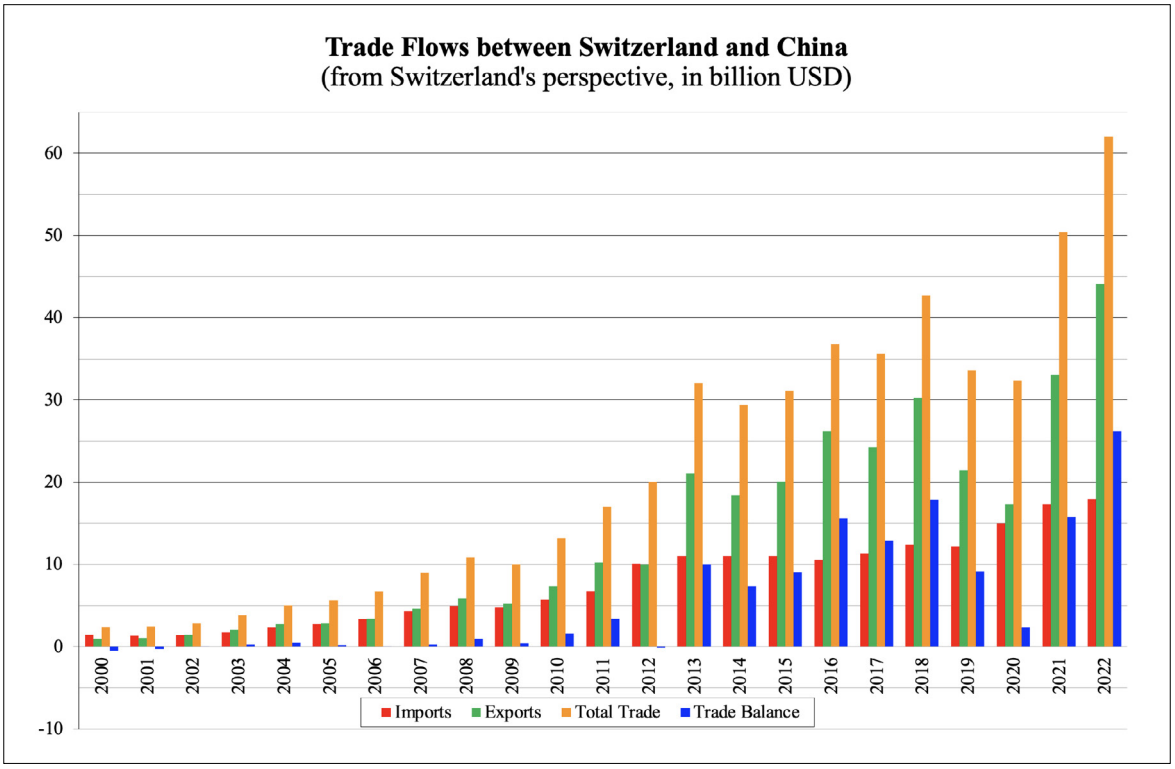


Fig. 4: Trade between Switzerland and China (in billion USD, import/export from the Swiss perspective). Source: own calculations; data: OEC, "HS6 REV. 1992 (1995–2022)".

This booming bilateral trade paved the way for the SCFTA. In 2007, Switzerland recognised China as a market economy and the two countries started exploring the feasibility of an FTA;[50] a Joint Study Group confirmed its feasibility in 2010.[51] On 6 July 2013, after nine rounds of negotiations, Switzerland's Federal Councillor Schneider-Ammann and China's Minister of Commerce Gao signed the SCFTA in Beijing.[52] In March 2014, the Swiss federal government, having obtained approval from the federal parliament, ratified the agreement, which entered into force in July 2014.[53]

50 Federal Department of Economic Affairs, Education and Research EAER, "Doris Leuthard discusses a possible Free Trade Agreement with China and signs a Joint Declaration on economic cooperation", press release (8 July 2007), https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-13594.html (accessed 22 December 2024).

51 Joint Study Group, "Joint Feasibility Study on a China-Switzerland Free Trade Agreement", study (9 August 2010), https://www.seco.admin.ch/dam/seco/de/dokumente/Aussenwirtschaft/Wirtschaftsbeziehungen/Freihandelsabkommen/Partner%20weltweit/China/chronologie/CH_CN_Finalised_jsg_report.pdf.download.pdf/CH_CN_Finalised_jsg_report.pdf (accessed 22 December 2024).

52 Federal Council, "Message relatif à l'approbation de l'accord de libre-échange entre la Suisse et la Chine et de l'accord sur la coopération en matière de travail et d'emploi entre la Suisse et la Chine du 4 septembre 2013", *Feuille fédérale* (2013): 7332, https://www.fedlex.admin.ch/eli/fga/2013/1592/fr (accessed 22 December 2024).

53 Federal Council, "Free trade agreement between Switzerland and China to enter into force on 1 July 2014", press release (30 April 2014), https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-52819.html (accessed 22 December 2024); interview with Swiss government official A, conducted by the author, 2 December 2024, semi-structured online interview, anonymised.

Sino-Swiss relations continued to intensify in the following years and reached their peak between 2016 and 2019. In 2016, bilateral relations were upgraded to an 'innovative strategic partnership'.[54] In 2017, Chinese President Xi paid a historic visit to Switzerland, during which the cordial nature of bilateral relations was repeatedly highlighted and the intention to upgrade the SCFTA was announced.[55] In 2018, the first bilateral 'strategic dialogue' was held[56] and Switzerland expressed its intention to participate in China's Belt and Road Initiative.[57]

Between late 2019 and mid-2023, Sino-Swiss relations took a downward turn. Bern became decidedly more critical of the human rights situation in China,[58] irritating Beijing. Notably, Switzerland's 2021 *China Strategy* explicitly argued that China's human rights situation had deteriorated and hinted at China's use of international institutions, digital technologies and the Belt and Road Initiative to undermine human rights.[59] High-level contacts and discussions of a potential upgrade of the SCFTA were delayed.

In late 2023 and 2024, Sino-Swiss relations improved again and negotiations to update the SCFTA were launched. After a pause of more than two years, high-level contacts resumed in the run-up to the 75th anniversary of bilateral relations.[60] The starting point chosen for this diplomatic reset was the innovative strategic partnership of 2016, signalling that the depth of relations had returned to its 2016 level (higher than in 2014 but lower than in 2019). In 2024, negotiations for

54 Federal Council, "Joint declaration between the People's Republic of China and the Swiss Confederation on the establishment of an innovative strategic partnership", joint declaration (9 April 2016), https://www.newsd.admin.ch/newsd/message/attachments/43593.pdf (accessed 22 December 2024).

55 Federal Department of Foreign Affairs FDFA, "Chinese President XI Jinping ends state visit to Switzerland", press release (18 January 2017), https://www.eda.admin.ch/eda/en/fdfa/fdfa/aktuell/news.html/content/eda/en/meta/news/2017/1/18/65299 (accessed 22 December 2024).

56 Federal Department of Foreign Affairs FDFA, "Switzerland and China hold first strategic dialogue", press release (3 April 2018), https://www.eda.admin.ch/eda/en/fdfa/fdfa/aktuell/news.html/content/eda/en/meta/news/2018/4/3/70291 (accessed 22 December 2024).

57 State Secretariat for Economic Affairs SECO, "Memorandum of Understanding on Developing Third-Party Market Cooperation between the Federal Department of Finance and the Federal Department of Economic Affairs, Education and Research of the Swiss Confederation and the National Development and Reform Commission of the People's Republic of China", Memorandum of Understanding (29 April 2019), https://www.newsd.admin.ch/newsd/message/attachments/56683.pdf (accessed 22 December 2024).

58 For example: Federal Department of Foreign Affairs FDFA, "Switzerland concerned about the situation in Xinjiang, China", press release (26 November 2019), https://www.eda.admin.ch/eda/en/fdfa/fdfa/aktuell/news.html/content/eda/en/meta/news/2019/11/26/77232 (accessed 22 December 2024).

59 Federal Department of Foreign Affairs FDFA, *China Strategy 2021–2024* (FDFA, 2021), https://www.eda.admin.ch/eda/en/fdfa/fdfa/publikationen.html/content/publikationen/en/eda/schweizer-aussenpolitik/China_Strategie_2021-2024.html (accessed 22 December 2024).

60 Federal Department of Foreign Affairs FDFA, "Switzerland and China renew high-level contacts and deepen relations in the run-up to 75th anniversary", press release (15 January 2024), https://www.eda.admin.ch/eda/en/fdfa/fdfa/aktuell/news.html/content/eda/en/meta/news/2024/1/15/99693 (accessed 22 December 2024); Federal Department of Foreign Affairs FDFA, "Official visit to People's Republic of China by Ignazio Cassis", press release (7 February 2024), https://www.eda.admin.ch/eda/en/fdfa/fdfa/aktuell/news.html/content/eda/en/meta/news/2024/2/7/99971 (accessed 22 December 2024).

the enhancement of the SCFTA were launched.[61] This occasion provides an opportunity to analyse retrospectively how the agreement relates to Switzerland's grand strategy.

Strategic implications of the SCFTA for Switzerland

Having outlined the strategic context and the chronology of Sino-Swiss economic relations, I now present my analysis of the strategic implications of the SCFTA in the context of the great power competition between China and the US.

I claim that the strategic implications of the SCFTA for Switzerland are significant, since the agreement itself is ambitious and involves a substantial liberalisation of bilateral trade with the Alpine country's third most important trade partner. The parties commit to eliminating or drastically reducing tariffs on a long list of agricultural and industrial goods,[62] not raising tariffs, granting each other most-favoured-nation status, liberalising trade in services and removing non-tariff barriers to trade.[63]

Because it has supported the continued growth and increasing complexity of bilateral trade with China, the SCFTA constitutes a form of economic shelter-seeking that intensifies Switzerland's small state trade strategic paradox. Indeed, since 2014, China's share of Switzerland's total trade has remained well above 5 percent; it even surpassed 8 percent in 2022.[64] Even excluding gold transfers, the trade balance is in favour of Switzerland,[65] which is remarkable, since most high-income economies have consistent trade deficits with China.[66] Flows are very diverse in both directions,[67] attesting to both the depth and the complexity of bilateral economic relations.

---

61 State Secretariat for Economic Affairs SECO, "Memorandum of Understanding between the Federal Department of Economic Affairs, Education and Research of the Swiss Confederation and the Ministry of Commerce of the People's Republic of China on Launching the Negotiations for the Enhancement of the Switzerland-China Free Trade Agreement", Memorandum of Understanding (1 July 2024), https://www.seco.admin.ch/dam/seco/de/dokumente/Aussenwirtschaft/Internationale%20Organisationen/WTO/20240702%20MoU%20English_signed.pdf.download.pdf/20240702%20MoU%20English_signed.pdf (accessed 22 December 2024); interview with Swiss government official B, conducted by the author, 16 December 2024, semi-structured online interview, anonymised.

62 The tariff reduction and elimination process envisaged by the SCFTA is bilateral, but not symmetrical, since China, due to its higher starting tariff rates, shall cut but not eliminate tariffs on certain industrial goods. (Federal Council, "Message relatif à l'approbation", 7342–43.)

63 State Secretariat for Economic Affairs SECO, "Free Trade Agreement between the Swiss Confederation and the People's Republic of China", international agreement (6 July 2013), https://www.seco.admin.ch/dam/seco/en/dokumente/Aussenwirtschaft/Wirtschaftsbeziehungen/Freihandelsabkommen/Partner%20weltweit/China/Abkommenstexte/Texts%20in%20English/Switzerland-China%20FTA%20-%20Main%20Agreement.pdf.download.pdf/Switzerland-China%20FTA%20-%20Main%20Agreement.pdf (accessed 22 December 2024); Federal Council, "Message relatif à l'approbation", 7340–67.

64 Source: own calculations; data: OEC, "HS6 REV. 1992 (1995–2022)".

65 Source: own calculations; data: OEC, "HS6 REV. 1992 (1995–2022)".

66 Interview with Swiss government official A, conducted by the author, 2 December 2024, semi-structured online interview, anonymised.

67 Source: own calculations; data: OEC, "HS6 REV. 1992 (1995–2022)".

Furthermore, as discussed, the agreement paved the way for an even closer partnership in the years following its signing. In light of these considerations, the SCFTA can be regarded as a form of economic shelter-seeking towards China. The economic shelter provided by China intensifies Switzerland's small state trade strategic paradox, as it enables Switzerland to better exploit comparative advantages while increasing dependence on trade with China. Admittedly, this dependence is not acute, considering Switzerland's extremely diversified trade relations.

The omission of human rights in the SCFTA, which was Switzerland's most significant concession, can be framed as a moral and reputational cost of shelter-seeking. In light of the importance Switzerland attaches to human rights in its foreign policy, not explicitly mentioning them in the SCFTA represents a substantial concession to China.[68] During discussions on ratification in late 2013 and early 2014, the omission of human rights generated a heated discussion and a minority of the Federal Assembly wished to send the agreement back for renegotiation.[69] This discussion can be interpreted as a strategic cost-benefit analysis of shelter-seeking: the majority of policymakers ultimately decided that the economic benefits of the limited economic shelter provided by China outweighed its moral and reputational costs.

Albeit costly, the SCFTA does not contradict Switzerland's 'supershelter-seeking' endeavours. In fact, the agreement attaches great importance to multilateral cooperation and international institutions.[70] Furthermore, as multilateral trade negotiations have remained stalled for decades, bilateral FTAs have become the mainstay of trade liberalisation.[71] China, as a WTO member, is a relatively unproblematic partner in this respect. Thus, there is no trade-off between limited economic shelter-seeking towards China and Switzerland's continued commitment to international law and multilateralism, which is central to its smart state strategy.

68 Federal Council, "Message relatif à l'approbation", 7339–40, 7372.

69 Federal Assembly, "Accord de libre-échange entre la Suisse et la Chine: Conseil national 09.12.2013 – Premier Conseil", *Bulletin officiel* (2013) : https://www.parlament.ch/fr/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=24286 (accessed 22 December 2024); Federal Assembly, "Accord de libre-échange entre la Suisse et la Chine: Conseil national 10.12.2013 – Suite", *Bulletin officiel* (2013) : https://www.parlament.ch/fr/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=24710 (accessed 22 December 2024); Federal Assembly, "Accord de libre-échange entre la Suisse et la Chine: Conseil des États 20.03.2014 – Deuxième Conseil", *Bulletin officiel* (2014) : https://www.parlament.ch/fr/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=30703 (accessed 22 December 2024); Federal Assembly, "Accord de libre-échange entre la Suisse et la Chine: Conseil des États 20.03.2014 – Suite", *Bulletin officiel* (2014), https://www.parlament.ch/fr/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=28957 (accessed 22 December 2024).

70 SECO, "Free Trade Agreement", preamble, Art. 1.2; Federal Council, "Message relatif à l'approbation", 7330, 7372–74.

71 Paul R. Krugman et al., *International Economics*, 297–300; interview with Swiss government official A, conducted by the author, 2 December 2024, semi-structured online interview, anonymised; interview with Swiss government official B, conducted by the author, 16 December 2024, semi-structured online interview, anonymised.

In light of the ongoing fragmentation of the global economy, the SCFTA can be interpreted as an insurance policy guaranteeing that China will continue to give Switzerland access to its massive market in the future. Indeed, Swiss policymakers have conceived the SCFTA from a future-oriented perspective, according to which China's role in the global economy is likely to continue growing.[72] From this viewpoint, securing continued access to the Chinese market represents a prominent strategic goal for Switzerland. The SCFTA contributes to this goal by increasing the legal hurdles – and, due to interdependence, the economic costs – for China to impose unilateral measures that curtail trade flows with Switzerland. This 'insurance policy' admittedly benefits both sides, but Switzerland needs it more, as its small size disproportionately exposes it to external trade shocks.

Against the backdrop of my theoretical framework, I argue that the SCFTA slightly shifts Switzerland's strategic positioning closer to China in the context of the Sino-American rivalry. In the case study, it was not the SCFTA itself that shifted Switzerland's grand strategy, but rather the framework conditions that surrounded its signing. The intensity of Sino-Swiss bilateral trade, the growing importance of the Chinese market and the fact that Switzerland accepted a small loss in prestige and an intensification of its dependence on China hint at the strategic significance of the SCFTA for Switzerland. At the same time, the strategic shift is relatively small. After all, Switzerland's shelter-seeking endeavours towards China remain almost exclusively limited to economic matters and are far less intense than its traditional 'supershelter-seeking' or shelter-seeking towards the EU.

In spite of the SCFTA, Switzerland remains economically and politically closer to Washington than to Beijing on a global scale. Economically, the US represents a more important partner for Switzerland than China. Despite the absence of a bilateral FTA, the US is Switzerland's second-largest trading partner worldwide, accounting for around 13 % of total Swiss trade volume, compared with China's 8 % (3 % excluding gold).[73] The contrast becomes even starker when trade in services is included: 17 % for the USA, 5 % for China.[74] Furthermore, the US remains Switzerland's largest

72 The reasoning of Swiss policymakers was strongly shaped by the consideration of future scenarios. For example, one of their main arguments was that, if China concluded an FTA with an economy whose comparative advantages were similar to Switzerland's (such as the EU), Swiss exporters would be discriminated against. The SCFTA guarantees that Swiss exporters are advantaged (or at least compete on the same level) compared to their peers in third countries. (Federal Council, "Message relatif à l'approbation", 7330, 7333, 7371; interview with Swiss government official A, conducted by the author, 2 December 2024, semi-structured online interview, anonymised; interview with Swiss government official B, conducted by the author, 16 December 2024, semi-structured online interview, anonymised.)

73 Source: own calculations; data: OEC, "HS6 REV. 1992 (1995–2022)".

74 SECO, *Switzerland's foreign economic policy strategy*, 35.

investment partner, accounting for 20 % of Swiss foreign direct investment (FDI)[75] (35 % of the entire Swiss FDI stock).[76] In fact, the US has been a shelter provider for Switzerland for longer than China and, crucially, provides not just economic shelter, but also political and societal shelter.[77] This difference is reflected in the wording used to describe bilateral relations in strategy papers. According to the Swiss government, "[r]elations between Switzerland and the United States are very good. They are based on close historical ties as well as economic, cultural and personal links of a depth not shared with any other non-European country."[78] This enthusiastic description contrasts sharply with the following, which is much more concise and politely highlights disagreements: "Bilateral relations between Switzerland and China are broad, multi-layered and constructive. Differences are addressed openly."[79]

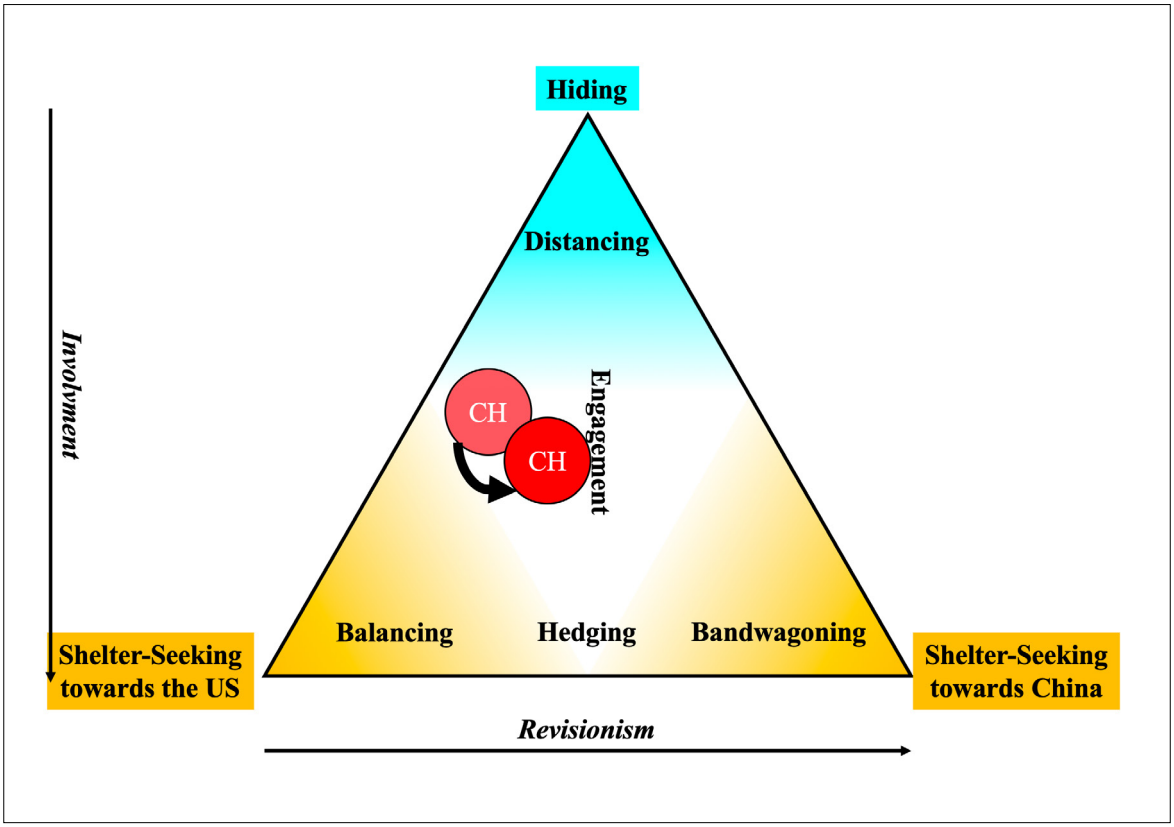


Fig. 5: Switzerland's shifting grand strategy in the context of the Sino-American rivalry. Source: own work.

75 Federal Department of Foreign Affairs FDFA, *Americas Strategy 2022–2025* (FDFA, 2022), 22, https://www.fdfa.admin.ch/publikationen/en/eda/schweizer-aussenpolitik/Amerikas_Strategie_2022_2025.html (accessed 22 December 2024).
76 SECO, *Switzerland's foreign economic policy strategy*, 35.
77 To cite a few examples, Switzerland modelled its parliamentary system on the American one, is heavily influenced by American culture, consumes large amounts of American media, is connected to the US by large mutual migration flows and, at the time of this writing, is buying F-35 fighter jets.
78 FDFA, *Americas Strategy*, 22.
79 FDFA, *China Strategy*, 15.

In light of these considerations, I claim that Switzerland's grand strategy in the context of the Sino-American rivalry, both before and after the SCFTA, can be categorised as a form of engagement. (*Fig. 5*) By maintaining close relations with both China and the US, Switzerland is clearly not adopting a pure distancing, balancing or bandwagoning grand strategy. According to Grano and Weber, "Switzerland's foreign policy strategy and orientation between the US and China seems firmly placed in the hedging zone".[80] The authors come to this conclusion because, as previously mentioned, they use a unidimensional spectrum as their analytical framework. Introducing the vertical dimension of conflict involvement makes it possible to distinguish between engagement and hedging as two separate grand strategies with different levels of entanglement in the hegemonic struggle. Within this framework, I contend that Switzerland's grand strategy constitutes a form of engagement, not hedging. Indeed, hedging would mean seeking a high degree of shelter from both rivals, for example by entering wide-ranging arrangements with both sides or by seeking economic shelter from one and security shelter from the other. This is not the case for Switzerland, whose primary source of shelter is the EU. In fact, Sino-Swiss relations can hardly be understood without taking into account EU-Swiss relations.

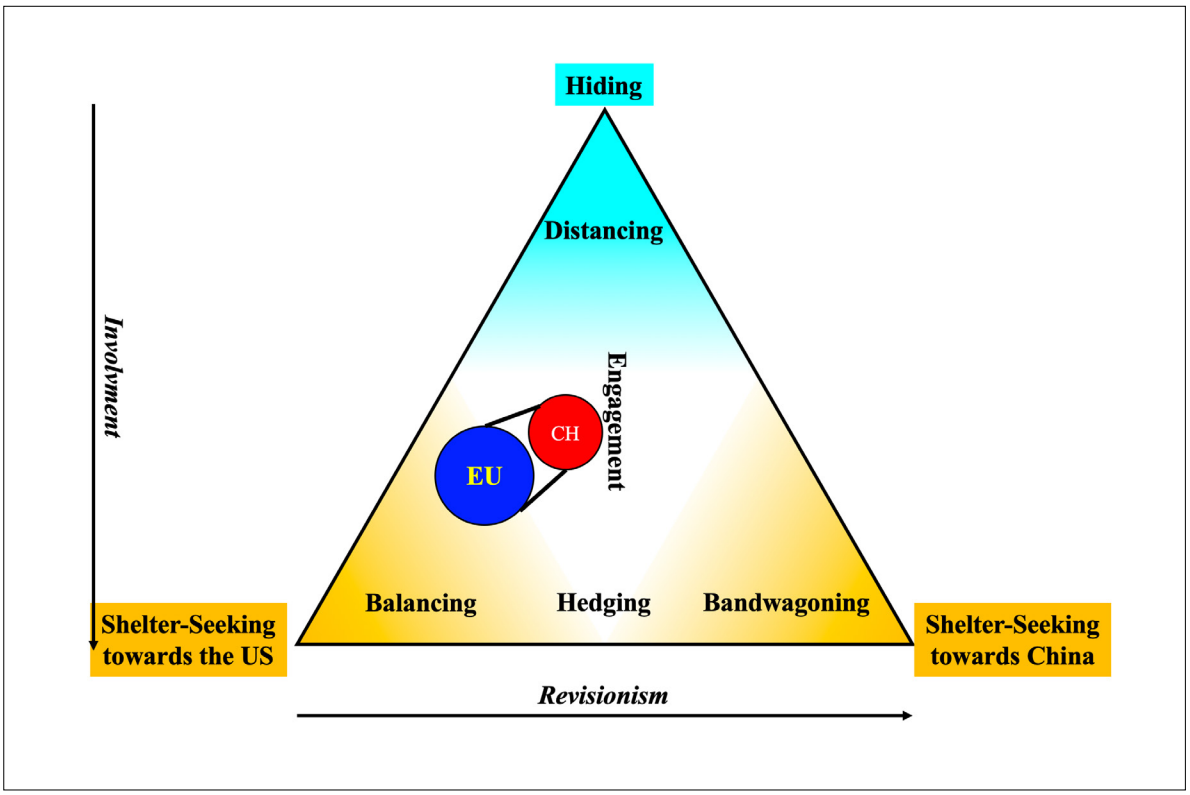


Fig. 6: Switzerland's shelter-seeking towards the EU in the context of the US-China great power competition. Source: own work.

80 Grano and Weber, "Strategic Choices for Switzerland in the US-China Competition", 106.

Considering that the EU provides comprehensive shelter to Switzerland, its own stance on China has important consequences for Sino-Swiss relations. (*Fig. 6*) In the last two decades, while Switzerland was deepening contacts with China, the EU has been growing increasingly dissatisfied with the large trade deficit with the Asian country and now pursues a higher degree of strategic autonomy through a partial decoupling of supply chains in key sectors.[81] Although Switzerland has so far been able to pursue a relatively independent policy towards China, there is a limit to how much Bern's stance on Beijing can diverge from that of Brussels without jeopardising Swiss-EU relations. In sum, a small state cannot navigate the great power competition in complete freedom as long as it is tied to its primary shelter provider by what I conceptualise graphically as a sort of 'leash' or 'safety rope'.

Conclusion

The analysis of the case study shows that the Switzerland-China Free Trade Agreement (SCFTA) carries significant implications for Switzerland's grand strategy. The SCFTA involves a substantial liberalisation of bilateral trade that intensifies Switzerland's economic dependence on China. The agreement was both a result and a catalyst of the sustained deepening of bilateral relations over the last three decades. Switzerland sought the SCFTA – and even accepted a small loss in prestige – because it considers China a pivotal economic partner. Against the backdrop of ongoing great power competition and economic fragmentation, I interpret the SCFTA as an insurance policy aimed at ensuring that China will continue to give Switzerland access to its market in the future. From this perspective, the SCFTA slightly shifts Bern's strategic position closer to Beijing in the context of the global competition between China and the US. However, when Swiss foreign policy is considered in its entirety – especially the close ties with the US – Switzerland's grand strategy can be characterised as a form of engagement. Concretely, the Alpine country maintains good relations and strong economic ties with both China and the US without aligning with either great power. Furthermore, Switzerland's primary economic and political partner remains the EU, whose stance on China has important consequences for Sino-Swiss relations.

I conclude that, in the context of great power competition and economic fragmentation, small states may employ bilateral FTAs as an insurance policy aimed at ensuring continued market access. Therefore, FTAs can shift a small state's grand strategy towards closer association with

81 Feng, "Internal and external factors affecting China-EU relations"; Freeman, "The EU and China"; Kuang et al., "The rise and fall of the EU-China Comprehensive Agreement on Investment".

its trade partner. However, this shift must be contextualised within the framework of the small state's broader foreign policy, which is also influenced by other – often more significant – strategic imperatives. Specifically, the grand strategy of a small state closely associated with an economic bloc is necessarily constrained by the bloc's global strategic positioning.

The set of interdisciplinary theoretical tools I assembled offers a comprehensive framework to analyse the grand strategies of small states navigating a global environment marked by great power competition and economic fragmentation. In particular, the strategic triangle I designed can be used to classify small states' positioning in the context of the Sino-American rivalry and to corroborate, refute or refine my conclusions on the strategic implications of FTAs. The main limitations of my framework are the omission of domestic politics and the limited attention to the relations between the small state and other great powers. Regarding the case study, further research might elucidate the role of internal political actors and EU-Swiss relations in shaping Sino-Swiss relations and the SCFTA. Beyond the case study, promising avenues for research include designing a quantitative study or examining how a small state's membership in a military alliance or a customs union affects its position in international trade and grand strategy. Ultimately, my work illustrates the often-underappreciated negative consequences of great power competition and economic fragmentation. By highlighting the theoretical and practical significance of the issue, this work aims to help policymakers and scholars in small states navigate the challenging environment they will face in the future.

Bibliography

Alesina, Alberto. "The Size of Countries: Does It Matter?" *Journal of the European Economic Association* 1, nos. 2–3 (2003): 301–16. https://doi.org/10.1162/154247603322390946.

Armstrong, Harvey W., and Robert Read. "The determinants of economic growth in small states". *The Round Table* 92, no. 368 (2003): 99–124. https://doi.org/10.1080/750456745.

Beckley, Michael. "The Power of Nations: Measuring What Matters". *International Security* 43, no. 2 (2018): 7–44. https://doi.org/10.1162/isec_a_00328.

Buzan, Barry, and Ole Wæver. *Regions and Powers: The Structure of International Security*. Cambridge University Press, 2003.

Capie, David, Natasha Hamilton-Hart and Jason Young. "The Economics-Security Nexus in the US-China Trade Conflict decoupling dilemmas". *Policy Quarterly* 16, no. 4 (2020): 27–35. https://doi.org/10.26686/pq.v16i4.6627.

Chung, Chien-Peng. "Southeast Asia-China Relations: Dialectics of 'Hedging' and 'Counter-Hedging'". *Southeast Asian Affairs* (2004): 35–53. https://www.jstor.org/stable/27913250 (accessed 22 December 2024).

Coduri, Michele, Hans Keller and Eleonore Baumberger. "China". *Historisches Lexikon der Schweiz (HLS)* (2009). https://hls-dhs-dss.ch/de/articles/003405/2009-04-29/ (accessed 22 December 2024).

EAER, Federal Department of Economic Affairs, Education and Research. "Doris Leuthard discusses a possible Free Trade Agreement with China and signs a Joint Declaration on economic cooperation". Press release (8 July 2007). https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-13594.html (accessed 22 December 2024).

Escaith, Hubert. "From Hyper-Globalization to Global Value Chains Decoupling: Withering Global Trade Governance?" *Journal of Applied Economic Sciences* 17, no. 4 (78) (2022): 404–18. https://doi.org/10.57017/jaes.v17.4(78).11.

Fazal, Tanisha M., and Ryan D. Griffiths. "Membership Has Its Privileges: The Changing Benefits of Statehood". *International Studies Review* 16, no. 1 (2014): 79–106. https://doi.org/10.1111/misr.12099.

FDFA, Federal Department of Foreign Affairs. "Chinese President XI Jinping ends state visit to Switzerland". Press release (18 January 2017). https://www.eda.admin.ch/eda/en/fdfa/fdfa/aktuell/news.html/content/eda/en/meta/news/2017/1/18/65299 (accessed 22 December 2024).

FDFA, Federal Department of Foreign Affairs. "Switzerland and China hold first strategic dialogue". Press release (3 April 2018). https://www.eda.admin.ch/eda/en/fdfa/fdfa/aktuell/news.html/content/eda/en/meta/news/2018/4/3/70291 (accessed 22 December 2024).

FDFA, Federal Department of Foreign Affairs. "Switzerland concerned about the situation in Xinjiang, China". Press release (26 November 2019). https://www.eda.admin.ch/eda/en/fdfa/fdfa/aktuell/news.html/content/eda/en/meta/news/2019/11/26/77232 (accessed 22 December 2024).

FDFA, Federal Department of Foreign Affairs. *China Strategy 2021–2024*. Federal Department of Foreign Affairs FDFA, 2021. https://www.eda.admin.ch/eda/en/fdfa/fdfa/publikationen.html/content/publikationen/en/eda/schweizer-aussenpolitik/China_Strategie_2021-2024.html (accessed 22 December 2024).

FDFA, Federal Department of Foreign Affairs. *Americas Strategy 2022–2025*. Federal Department of Foreign Affairs FDFA, 2022. https://www.fdfa.admin.ch/publikationen/en/eda/schweizer-aussenpolitik/Amerikas_Strategie_2022_2025.html (accessed 22 December 2024).

FDFA, Federal Department of Foreign Affairs. "Switzerland and China renew high-level contacts and deepen relations in the run-up to 75th anniversary". Press release (15 January 2024). https://www.eda.admin.ch/eda/en/fdfa/fdfa/aktuell/news.html/content/eda/en/meta/news/2024/1/15/99693 (accessed 22 December 2024).

FDFA, Federal Department of Foreign Affairs. "Official visit to People's Republic of China by Ignazio Cassis". Press release (7 February 2024). https://www.eda.admin.ch/eda/en/fdfa/fdfa/aktuell/news.html/content/eda/en/meta/news/2024/2/7/99971 (accessed 22 December 2024).

Federal Assembly. "Accord de libre-échange entre la Suisse et la Chine : Conseil national 09.12.2013 – Premier Conseil (Conseil national, Session d'hiver 2013, Neuvième séance, obj. 13.071)". *Bulletin officiel* (2013): 2067–80. https://www.parlament.ch/fr/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=24286 (accessed 22 December 2024).

Federal Assembly. "Accord de libre-échange entre la Suisse et la Chine : Conseil national 10.12.2013 – Suite (Conseil national, Session d'hiver 2013, Dixième séance, obj. 13.071)". *Bulletin officiel* (2013): 2081–84. https://www.parlament.ch/fr/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=24710 (accessed 22 December 2024).

Federal Assembly. "Accord de libre-échange entre la Suisse et la Chine : Conseil des États 20.03.2014 – Deuxième Conseil (Conseil des États, Session de printemps 2014, Treizième séance, obj. 13.071)". *Bulletin officiel* (2014): 348–51. https://www.parlament.ch/fr/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=30703 (accessed 22 December 2024).

Federal Assembly. "Accord de libre-échange entre la Suisse et la Chine : Conseil des États 20.03.2014 – Suite (Conseil des États, Session de printemps 2014, Quatorzième séance, obj. 13.071)". *Bulletin officiel* (2014): 352–62. https://www.parlament.ch/fr/ratsbetrieb/amtliches-bulletin/amtliches-bulletin-die-verhandlungen?SubjectId=28957 (accessed 22 December 2024).

Federal Council. "Message relatif à l'approbation de l'accord de libre-échange entre la Suisse et la Chine et de l'accord sur la coopération en matière de travail et d'emploi entre la Suisse et la Chine du 4 septembre 2013". *Feuille fédérale* (2013): 7325–76. https://www.fedlex.admin.ch/eli/fga/2013/1592/fr (accessed 22 December 2024).

Federal Council. "Free trade agreement between Switzerland and China to enter into force on 1 July 2014". Press release (30 April 2014). https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-52819.html (accessed 22 December 2024).

Federal Council. "Joint declaration between the People's Republic of China and the Swiss Confederation on the establishment of an innovative strategic partnership". Joint declaration (9 April 2016). https://www.newsd.admin.ch/newsd/message/attachments/43593.pdf (accessed 22 December 2024).

Feng, Zhongping. "Internal and external factors affecting China-EU relations". *China International Strategy Review* 4, no. 1 (2022): 74–90. https://doi.org/10.1007/s42533-022-00108-z.

Fischer, Sophie-Charlotte. "US-China 'Tech Decoupling': A Swiss Perspective". *Policy Perspectives* 10, no. 10 (2022): 1–4. https://css.ethz.ch/en/center/CSS-news/2022/09/us-china-tech-decoupling-a-swiss-perspective.html (accessed 22 December 2024).

Freeman, Duncan. "The EU and China: policy perceptions of economic cooperation and competition". *Asia-Europe Journal* 20, no. 3 (2022): 245–64. https://doi.org/10.1007/s10308-021-00609-3.

Grano, Simona A., and Ralph Weber. "Strategic Choices for Switzerland in the US-China Competition". In *China-US Competition: Impact on Small and Middle Powers' Strategic Choices*, edited by Simona A. Grano and David Wei Feng Huang. Palgrave Macmillan, 2023. https://doi.org/10.1007/978-3-031-15389-1_4.

Groitl, Gerlinde. *Russia, China and the Revisionist Assault on the Western Liberal International Order*. Palgrave Macmillan, 2023. https://doi.org/10.1007/978-3-031-18659-2.

Habeeb, William Mark. *Power and Tactics in International Negotiation: How Weak Nations Bargain with Strong Nations*. Johns Hopkins University Press, 1988.

He, Kai, Huiyun Feng, Steve Chan and Weixing Hu. "Rethinking Revisionism in World Politics". *The Chinese Journal of International Politics* 14, no. 2 (2021): 159–86. https://doi.org/10.1093/cjip/poab004.

Interview with Swiss government official A, conducted by the author, 2 December 2024, semi-structured online interview, anonymised.

Interview with Swiss government official B, conducted by the author, 16 December 2024, semi-structured online interview, anonymised.

Joint Study Group. "Joint Feasibility Study on a China-Switzerland Free Trade Agreement". Study (9 August 2010). https://www.seco.admin.ch/dam/seco/de/dokumente/Aussenwirtschaft/Wirtschaftsbeziehungen/Freihandelsabkommen/Partner%20weltweit/China/chronologie/CH_CN_Finalised_jsg_report.pdf.download.pdf/CH_CN_Finalised_jsg_report.pdf (accessed 22 December 2024).

Kassab, Hanna Samir. *Globalization, Multipolarity and Great Power Competition*. Routledge, 2023.

Keohane, Robert O. "Lilliputians' Dilemmas: Small States in International Politics". *International Organization* 23, no. 2 (1969): 291–310. https://doi.org/10.1017/S002081830003160X.

Keohane, Robert O., and Joseph S. Nye Jr. *Power and Interdependence*. 4th ed. Pearson, 2011 (1st ed.: 1977).

Krugman, Paul R., Maurice Obstfeld and Marc J. Melitz. *International Economics: Theory and Policy*. 11th ed. Pearson, 2018.

Kuang, Shuxiao, Jan Orbie and Sira Blancquaert. "The rise and fall of the EU-China Comprehensive Agreement on Investment: 'open strategic autonomy' in action". *Journal of Contemporary European Studies* 32, no. 3 (2024): 772–86. https://doi.org/10.1080/14782804.2023.2293779.

Kuik, Cheng-Chwee. "The Essence of Hedging: Malaysia and Singapore's Response to a Rising China". *Contemporary Southeast Asia* 30, no. 2 (2008): 159–85. https://www.jstor.org/stable/41220503 (accessed 22 December 2024).

Kuik, Cheng-Chwee. "How Do Weaker States Hedge? Unpacking ASEAN states' alignment behavior towards China". *Journal of Contemporary China* 25, no. 100 (2016): 500–14. https://doi.org/10.1080/10670564.2015.1132714.

Levine, Derek Adam. "Made in China 2025: China's Strategy for Becoming a Global High-Tech Superpower and its Implications for the U.S. Economy, National Security, and Free Trade". *Journal of Strategic Security* 13, no. 3 (2020): 1–16. https://doi.org/10.5038/1944-0472.13.3.1833.

Lin, Justin Yifu. "What does China's 'dual circulations' development paradigm mean and how it can be achieved?" *China Economic Journal* 14, no. 2 (2021): 120–27. https://doi.org/10.1080/17538963.2021.1933053.

Neumann, Iver B., and Sieglinde Gstöhl. "Introduction: Lilliputians in Gulliver's World?" In *Small States in International Relations*, edited by Christine Ingebritsen, Iver B. Neumann, Sieglinde Gstöhl and Jessica Beyer. University of Washington Press and University of Iceland Press, 2006.

OEC, Observatory of Economic Complexity. "HS6 REV. 1992 (1995–2022)". Dataset (2024). https://oec.world/en/resources/bulk-download/international (accessed 22 December 2024).

Prys-Hansen, Miriam, Alexandr Burilkov and Michal Kolmaš. "Regional powers and the politics of scale". *International Politics* 61, no. 1 (2024): 13–39. https://doi.org/10.1057/s41311-023-00462-8.

Ripsman, Norrin M. "Globalization, deglobalization and Great Power politics". *International Affairs* 97, no. 5 (2021): 1317–33. https://doi.org/10.1093/ia/iiab091.

Rodrik, Dani. "Populism and the economics of globalization". *Journal of International Business Policy* 1, nos. 1–2 (2018): 12–33. https://doi.org/10.1057/s42214-018-0001-4.

Schweller, Randall L. "Managing the Rise of Great Powers: History and theory". In *Engaging China: The Management of an Emerging Power*, edited by Alastair Iain Johnston and Robert S. Ross. 1st ed. Routledge, 1999.

SECO, State Secretariat for Economic Affairs. "Free Trade Agreement between the Swiss Confederation and the People's Republic of China". International agreement (6 July 2013). https://www.seco.admin.ch/dam/seco/en/dokumente/Aussenwirtschaft/Wirtschaftsbeziehungen/Freihandelsabkommen/Partner%20weltweit/China/Abkommenstexte/Texts%20in%20English/Switzerland-China%20FTA%20-%20Main%20Agreement.pdf.download.pdf/Switzerland-China%20FTA%20-%20Main%20Agreement.pdf (accessed 22 December 2024).

SECO, State Secretariat for Economic Affairs. "Memorandum of Understanding on Developing Third-Party Market Cooperation between the Federal Department of Finance and the Federal Department of Economic Affairs, Education and Research of the Swiss Confederation and the National Development and Reform Commission of the People's Republic of China". Memorandum of Understanding (29 April 2019). https://www.newsd.admin.ch/newsd/message/attachments/56683.pdf (accessed 22 December 2024).

SECO, State Secretariat for Economic Affairs. *Switzerland's foreign economic policy strategy*. Federal Department of Economic Affairs, Education and Research EAER, 2021. https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/aussenwirtschaftspolitik/aws.html (accessed 22 December 2024).

SECO, State Secretariat for Economic Affairs. "Memorandum of Understanding between the Federal Department of Economic Affairs, Education and Research of the Swiss Confederation and the Ministry of Commerce of the People's Republic of China on Launching the Negotiations for the Enhancement of the Switzerland-China Free Trade Agreement". Memorandum of Understanding (1 July 2024). https://www.seco.admin.ch/dam/seco/de/dokumente/Aussenwirtschaft/Internationale%20Organisationen/WTO/20240702%20MoU%20English_signed.pdf.download.pdf/20240702%20MoU%20English_signed.pdf (accessed 22 December 2024).

Silove, Nina. "Beyond the Buzzword: The Three Meanings of 'Grand Strategy'". *Security Studies* 27, no. 1 (2018): 27–57. https://doi.org/10.1080/09636412.2017.1360073.

Thorhallsson, Baldur. "Studying small states: A review". *Small States & Territories* 1, no. 1 (2018): 17–34. https://www.um.edu.mt/library/oar/handle/123456789/44443 (accessed 22 December 2024).

Thorhallsson, Baldur, Sverrir Steinsson and Thorsteinn Kristinsson. "The Small State in International Relations". In *Small States and Shelter Theory: Iceland's External Affairs*, edited by Baldur Thorhallsson. Routledge, 2019.

Thorhallsson, Baldur and Sverrir Steinsson. "A Theory of Shelter". In *Small States and Shelter Theory: Iceland's External Affairs*, edited by Baldur Thorhallsson. Routledge, 2019.

Weder, Rolf. "The Standard Ricardian Trade Model". In *200 Years of Ricardian Trade Theory: Challenges of Globalization*, edited by Ronald W. Jones and Rolf Weder. Springer, 2017. https://doi.org/10.1007/978-3-319-60606-4_4.

Wivel, Anders. "The Grand Strategies of Small States". In *The Oxford Handbook of Grand Strategy*, edited by Thierry Balzacq and Ronald R. Krebs. Oxford University Press, 2021. https://doi.org/10.1093/oxfordhb/9780198840299.013.32.

Zhang, Kevin Honglin. "U.S.-China Economic Links and Technological Decoupling". *The Chinese Economy* 56, no. 5 (2023): 353–65. https://doi.org/10.1080/10971475.2023.2173399.

Zhang, Ze. "Mapping U.S.-China technological 'decoupling': Beyond U.S.-China relations". *Environment and Planning B: Urban Analytics and City Science* 50, no. 7 (2023): 2002–05. https://doi.org/10.1177/23998083231189938.