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SCHOOL OF MANAGEMENT AND LAW

**FREE TRADE AGREEMENTS: HURDLES FOR SMALL AND MEDIUM-SIZED
ENTERPRISES IN SWITZERLAND TO USE THIS STRATEGIC ADVANTAGE**

MASTER'S THESIS

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Management Summary

The author of the following study aims to determine the hurdles that small and medium-sized enterprises in Switzerland face in relation to the usage of free trade agreements and define relevant improvement suggestions in accordance with these hurdles. In order to achieve this, semi-structured in-depth face-to-face and telephone interviews were conducted with companies and with the director of an association.

The findings of the study illustrate that the main hurdles can be split into internal and external hurdles. Know-how, effort and available resources, structure of the company, costs involved, retrieval of information, feedback and legal security, achieving approved exporter status, dealing with special shipments and experience are defined as the main internal hurdles. Complexity of the matter, the content of the agreements, foreign customs administrations and availability of information are the main external hurdles. In addition, the findings also illustrate that hurdles differ according to the company's level of involvement in exporting activities, with hurdles experienced when applying for preferential tariff treatments differing from hurdles experienced when trying to attain Approved Exporter status. The findings suggest that overall, hurdles decrease as time and involvement in export activities increases.

The main recommendations derived in accordance with these hurdles were split into recommendations for the government and policymakers and recommendations for small and medium-sized enterprises. The main recommendation for the government and policymakers is to facilitate the use of free trade agreements by implementing a more structured and simplified communication strategy. The main recommendation for small and medium-sized enterprises is to streamline processes and build up know-how by appointing one or two individuals within the company to become experts in the matter.

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List of Abbreviations

AFTA	Association of Southeast Asian Nations Free Trade Area
EDA	Eidgenössisches Departement für auswärtige Angelegenheiten (English: Federal Department of Foreign Affairs)
EFD	Eidgenössisches Finanzdepartement (English: Federal Department of Finance)
EFTA	European Free Trade Association
EU	European Union
EZV	Eidgenössische Zollverwaltung (English: Federal Customs Administration)
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
HS	Harmonized System
LDC	Least Developed Country
MSME	Micro Small and Medium-Sized Enterprise
NAFTA	North American Free Trade Agreement
R-30	Richtlinie 30
S-GE	Switzerland Global Enterprise
SECO	Staatssekretariat für Wirtschaft (English: State Secretariat for Economic Affairs)
SME	Small and Medium-Sized Enterprise
TRIPS	Trade Related Aspects of Intellectual Property Rights
TTIP	Trans-Atlantic Trade and Investment Partnership
TTP	Trans-Pacific Partnership
WTO	World Trade Organization

1. Introduction

Global trade, or more specifically world merchandise trade volume, is expected to expand by 2.4% in 2017 (World Trade Organization [WTO], 2017). However, the World Trade Organisation, an international organization dealing with the rules of trade between nations, sees a high level of uncertainty in terms of the direction of the global economy and government action on trade, fiscal and monetary policies (WTO, 2017). The WTO, established in 1995 and run by its current 164 member governments, believes that trade can strengthen global growth, especially if an unrestricted movement of goods and services is ensured (WTO, n.d.). It therefore aims to open trade for the benefit of all by reducing obstacles to international trade (WTO, n.d.). The 2.4% expansion of the world merchandise trade volume is linked to the assumption that accommodative fiscal and monetary policies are maintained by developed economies, that emerging economies experience a gradual proceeding of economic recovery and that restricted trade measures are avoided (WTO, 2017). Current WTO Director-General Roberto Azevêdo explained that trade would not be able to help increase growth if policymakers around the world attempt to address job losses in their home country with restrictions on imports (WTO, 2016a). Despite these fears and for the first time in several years, the world economy is expected to experience a harmonized upturn across all regions in 2017 and a further estimated expansion in 2018 by 2.1% to 4% (WTO, 2017).

1.1. Global Trade in Recent Years

In their World Trade Statistical Review, the WTO reports that the value of global merchandise trade and trade in commercial services in 2015 was nearly twice as high as in the year 2005 (WTO, 2016a). They explain that during this time period, North America, Europe and Asia accounted for 88% in total merchandise trade amongst the members of the World Trade Organization. The share of merchandise exports from developing economies, they add, rose from 33% to 42%. In 2015, merchandise exports of WTO members totaled USD 16.2 trillion and exports of commercial services by the members of the WTO totaled USD 4.68 trillion (WTO, 2016a).

1.2. Switzerland in the Context of Global Trade

International trade is considered a key driver of economic growth for a small and resource-poor country like Switzerland (Müller & Nussbaumer, 2016). Data by the WTO (2016a) reveals that in 2015, Switzerland was on rank 16 out of 195 economies in terms of exports in merchandise and 17 in terms of imports of merchandise. When excluding intra-European Union (EU) trade, Switzerland was on rank 11 for both exports and imports of merchandise. In terms of commercial services, data from the WTO (2016a) shows that Switzerland was ranked 13 for exports and 15 for imports. Excluding intra-EU trade in commercial service, Switzerland was on rank 7 for exports and 9 for imports.

The following table, which was created by the author with data from the WTO (2016a), shows the top 5 agricultural products exported and imported by Switzerland in 2015:

Tab. 1: Top 5 exported and imported agricultural products

Top Exported Agricultural Products	Top Imported Agricultural Products
Coffee	Wine of fresh grapes
Waters containing added sugar	Coffee
Chocolate and other cocoa food	Bread, pastry and other bakers' wares
Other food preparations	Other food preparations
Cheese and curd	Cheese and curd

The following table, also created by the author with data from the WTO (2016a), shows the top 5 non-agricultural products exported and imported by Switzerland in 2015:

Tab. 2: Top 5 exported and imported non-agricultural products

Top Exported Non-Agricultural Products	Top Imported Non-Agricultural Products
Gold	Gold
Medicaments in measured doses	Medicaments in measured doses
Human and animal blood	Motor cars for transport of persons
Other wristwatches	Articles and parts of jewelry
Articles and parts of jewelry	Human and animal blood

1.3. Free Trade Agreements as Promoters of Free Trade

The Swiss government believes that free trade between nations can improve economic relations with economically important partners (Staatssekretariat für Wirtschaft [SECO], n.d.). This, consequently, should lead to a stable, barrier-free access to foreign markets and a competitive advantage for Swiss companies compared to competitors from other countries (SECO, n.d.).

Switzerland's State Secretariat for Economic Affairs, (German: Staatssekretariat für Wirtschaft SECO) sees Free Trade Agreements (FTAs) as a means of achieving this (SECO, n.d.). A FTA is an international treaty signed between two parties (either individual countries or transnational groupings) in order to ensure and promote free trade (SECO, n.d.). The SECO believes that they improve business relationships by eliminating barriers to trade such as customs duties and non-tariff barriers (e.g. import quotas, packaging and labelling regulations or technical regulations). The regulations of trade in industrial products, processed agricultural products as well as fish are an essential component of the agreements (SECO, n.d.). The SECO adds that so-called second generation agreements include regulations for intellectual property rights, investments, public procurement as well as the increasingly important trade in services.

Over the course of the last 25 years, the amount of FTAs across the globe has skyrocketed (Müller & Nussbaumer, 2016). According to Müller and Nussbaumer (2016), the global reduction of trade barriers is said to be linked to the segmentation of global value chains. They explain that nowadays, individual production steps can occur in different countries or even continents, and it is not just the end product that is being traded but also the intermediate goods or sub-assembly. Every border crossing therefore constitutes a risk of a trade barrier (Müller & Nussbaumer, 2016). In order to reduce or even eliminate this risk, an increasing amount of agreements have been signed (Müller & Nussbaumer, 2016). This increase in agreements and their specific regulations have led to what is known as a "Spaghetti Bowl" displayed visually in the image below, which shows the amount of FTAs in 1990 versus 2014:

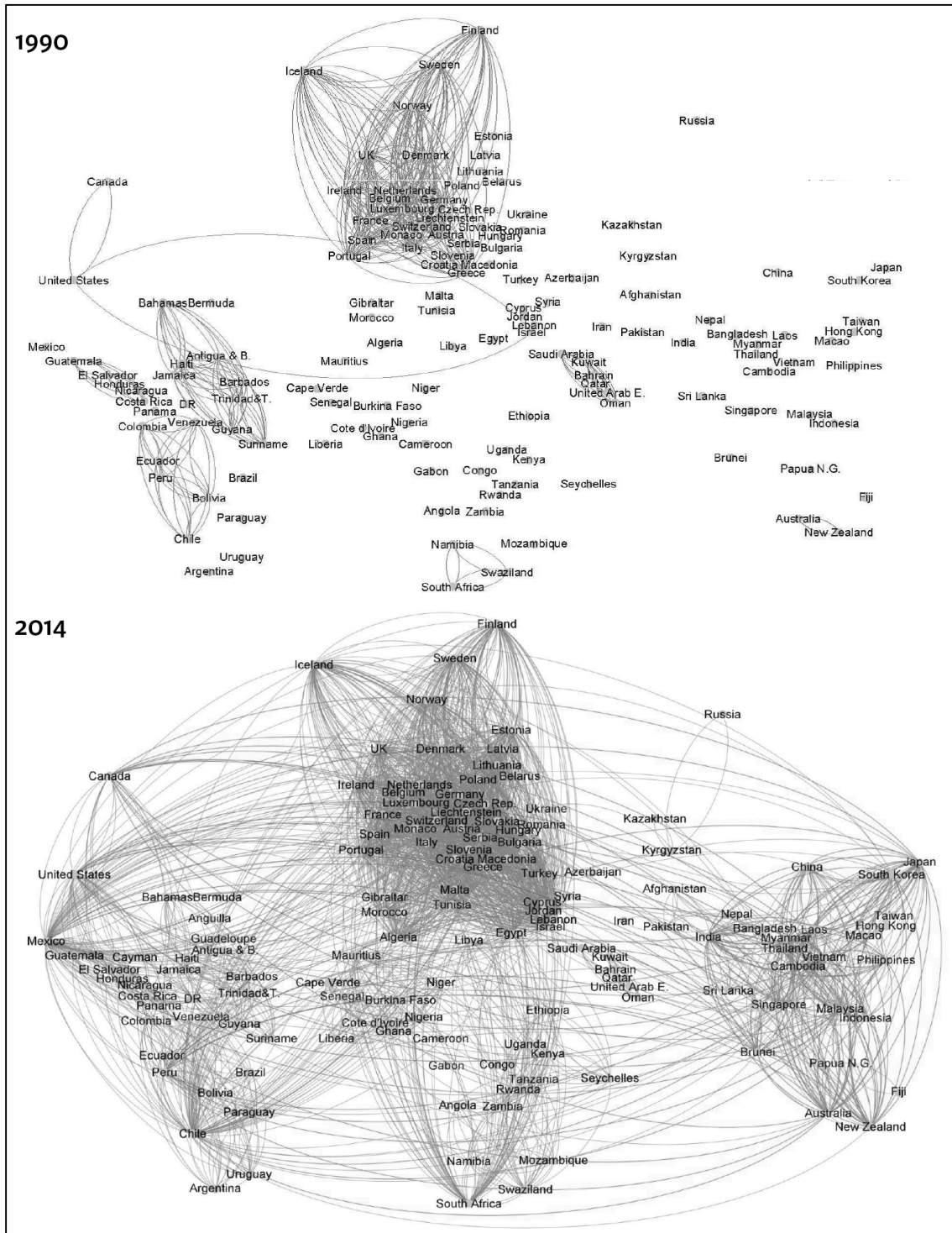


Fig. 1: Spaghetti Bowl (Müller & Nussbaumer, 2016)

Frankel and Lewis (2014) argue that the increasing amount of bilateral agreements between WTO members creates concerns about the commitment of the members to promote free trade on a global, multilateral level.

1.4. Switzerland's Free Trade Agreements

Switzerland currently has a network of 30 FTA partners (SECO, n.d.). The SECO (n.d.) explains that out of these 30 FTAs, 28 are agreements with 38 countries outside the European Union (EU). The other two are the agreements with the EU and the European Free Trade Association (EFTA) convention, which includes, along with Switzerland, the countries Liechtenstein, Norway and Iceland. They add that alongside these finalized agreements, Switzerland has signed two further FTAs that have not yet entered into force and is currently negotiating with 8 potential free trade partners.

The following table, created by the author with data from the SECO (n.d.), lists all current and potential free trade partners of Switzerland. All agreements have been concluded within the framework of the EFTA if not clearly marked otherwise (e.g. as bilateral):

Tab. 3: Switzerland's network of FTAs

Partner	Status / Comment
Albania	In effect. Entry into force on 1 November 2010
Algeria	In negotiations
Bosnia-Herzegovina	In effect. Entry into force on 1 January 2015
Canada	In effect. Entry into force on 1 July 2009
Central American States (Panama and Costa Rica)	In effect. Entry into force on 29 August 2014
Chile	In effect. Entry into force on 1 December 2004
China	In effect. Entry into force on 1 July 2014. Bilateral CH-China
Colombia	In effect. Entry into force on 1 July 2011
Cooperation Council for the Arab States of the Gulf GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates)	In effect. Entry into force on 1 July 2014
Croatia	FTA terminated on 01.07.2013 due to accession of Croatia to the EU
Customs union Russia -Belarus-Kazakhstan	In negotiations
Ecuador	In negotiations
EFTA Convention (Switzerland, Liechtenstein, Norway, Iceland)	In effect. Entry into force on 3 May 1960.
Egypt	In effect. Entry into force on 1 September 2008
European Community EC (EU 28)	In effect. Entry into force on 1 January 1973. Bilateral CH-EC
Faeroe Islands	In effect. Entry into force on 1 March 1995. Bilateral CH-Faeroe
Georgia	Signed (on 27 June 2016)
Hong Kong	In effect. Entry into force on 1 October 2012
India	In negotiations
Indonesia	In negotiations
Israel	In effect. Entry into force on 1 July 1993
Japan	In effect. Entry into force on 1 September 2009. Bilateral CH-Japan
Jordan	In effect. Entry into force on 1 September 2002
Lebanon	In effect. Entry into force on 1 January 2007
Macedonia	In effect. Entry into force on 1 May 2002
Malaysia	In negotiations
Mexico	In effect. Entry into force on 1 July 2001
Montenegro	In effect. Entry into force on 1 September 2012
Morocco	In effect. Entry into force on 1 December 1999
Palestinian Authority	In effect. Entry into force on 1 July 1999
Peru	In effect. Entry into force on 1 July 2011
Philippines	Signed (on 28 April 2016)
Republic of Korea	In effect. Entry into force on 1 September 2006
Serbia	In effect. Entry into force on 1 October 2010
Singapore	In effect. Entry into force on 1 January 2003

Partner	Status / Comment
South African Custom Union SACU (South Africa, Botswana, Lesotho, Namibia and Swaziland)	In effect. Entry into force on 1 May 2008
Thailand	In negotiations
Tunisia	In effect. Entry into force on 1 June 2006
Turkey	In effect. Entry into force on 1 April 1992
Ukraine	In effect. Entry into force on 1 June 2012
Vietnam	In negotiations

Switzerland normally enters into FTAs within the framework of the EFTA agreement together with EFTA partners Liechtenstein, Norway and Iceland (Switzerland Global Enterprise [S-GE], n.d.). These agreements are labelled as multilateral FTAs. The country is, however, able to conclude FTAs outside the EFTA framework (S-GE, n.d.). These agreements are called bilateral FTAs as they are concluded directly between Switzerland and a partner state, as was the case with Japan or China (S-GE, n.d.).

Potential free trade partners of Switzerland are chosen according to the following main criteria (SECO, n.d.):

- The present or prospective economic importance of a partner
- The level of competitive advantage that Switzerland could achieve over important competitors by concluding a FTA with the prospective partner
- The willingness of a potential partner to enter into negotiations and the corresponding prospects for success
- Other foreign policy related considerations such as the compatibility with Swiss foreign policy objectives

In Switzerland, a distinction is made between first and second generation agreements (SECO, n.d.). First generation agreements mainly include regulations concerning the trade in merchandise, covering the regulations of trade in industrial products and processed agricultural products as well as fish (SECO, n.d.). This includes the agreements with partners in the Euro-Mediterranean area, the Southern African Customs Union (SACU) and Canada (SECO, n.d.).

Second generation agreements also cover the regulations from the first generation agreements concerning the trade in merchandise but usually include further regulations for intellectual property rights, investments, public procurement as well as for the increasingly important trade in services (S-GE, n.d.). This includes the agreements with partners Bosnia-Herzegovina, Central America States, Chile, Colombia, GCC, Mexico, Montenegro, Singapore, South Korea, Peru, Ukraine as well as the bilateral agreements between Japan and China (SECO, n.d.).

The SECO (2016) explains that Swiss FTAs aim to increase foreign trade by reducing trade barriers, providing stronger legal certainty and avoid discrimination by other agreements that the trading partner may have entered or potentially could enter with countries other than Switzerland, such as the Trans-Pacific Partnership (TPP) and the TTIP, short for Trans-Atlantic Trade and Investment Partnership.

In the opinion of the SECO (2016), Swiss FTAs grant access to additional markets, increase trade in goods and therefore lead to economic growth. Newer, so-called second generation agreements facilitate more than just trade in goods and cover, as mentioned above, other important areas such as services. They argue that Free trade partners outside the EU/EFTA region constitute an attractive market with over 2 billion consumers and a GDP of approximately USD 25 trillion. The Gross Domestic Product (GDP) of these partners outside the EU/EFTA region increased on average by 3.6% between 1990 and 2014 (SECO, 2016). Accordingly, producers profit from lower prices for the goods used in their production process and consumers are faced with a more varied product range with attractive prices. The increased competition, they add, leads to gains in productivity. Switzerland is therefore able to participate in global value chains. The SECO (2016) reports that in the first four years after FTAs went into force with a partner outside the EU/EFTA region, exports increased on average per year by 8.5%. In addition, an estimated CHF 400 million in customs duties was saved in 2014 alone by companies trading with FTA partners outside the EU/EFTA. For companies trading with EU/EFTA partners, the amount saved is estimated to be approximately CHF 2.2 billion (SECO, 2016).

Overall, trade between Switzerland and partners within the FTA network is strong. The following table, created by the author with data from the SECO (SECO, 2014a, 2014b, 2014c), shows Swiss import activities with partners within the Swiss FTA network:

Tab. 4: Import activities with partners within Swiss FTA network

Country	Swiss Imports 2013		
	In MM CHF	% of Total Imports	% Development 2012/2013
Albania	14.1	0	56.7
Algeria	749	0.25	175.2
Bosnia-Herzegovina	74.7	0.04	25.9
Canada	700.4	0.37	9.5
Central American States (Panama & Costa Rica)	202.8	0.1	75.3
Chile	73.3	0.03	9.2
China	11428.2	6.1	11.1

Country	Swiss Imports 2013		
	In MM CHF	% of Total Imports	% Development 2012/2013
Colombia	172.7	0.09	-16.2
Cooperation Council for the Arab States of the Gulf (GCC)	972.9	5.2	N/A
Customs Union Russia-Belarus-Kazakhstan	2150.5	1.14	N/A
EFTA-Convention (excl. CH & FL)	299.9	0.14	1.8
Egypt	74.6	0.04	40.1
EU-27	1354475	72.7	-2.1
Faeroe Islands	1.4	0	37.5
Hong Kong	1823.6	0.98	1.2
India	1525.6	0.82	6
Indonesia	295.3	0.15	11.3
Israel	550.7	0.29	10.1
Japan	3528	1.89	-16.3
Jordan	2.4	0	-63.5
Lebanon	286	0.15	-3.6
Macedonia	74.4	0.04	0.8
Malaysia	504.2	0.27	18.9
Mexico	1296.3	0.69	45.1
Montenegro	2.6	0	66.3
Morocco	161.6	0.08	5.4
Palestinian Authority	0.4	0	-24.2
Peru	83.6	0.04	18.7
Republic of Korea	652.3	0.35	-20.4
SACU	1091.9	0.58	N/A
Serbia	96.6	0.06	-28.8
Singapore	1099.4	0.59	10.6
Thailand	994.3	0.53	1.9
Tunisia	148.6	0.07	7.6
Turkey	1194.2	0.64	5.7
Ukraine	123.5	0.06	-0.6
Vietnam	695	0.37	17.7

The following table, also created by the author with data from the SECO (SECO, 2014a, 2014b, 2014c), shows Swiss export activities with partners within the Swiss FTA network:

Tab. 5: Export activities with partners within Swiss FTA network

Country	Swiss Exports 2013		
	In MM CHF	% of Total Exports	% Development 2012/2013
Albania	31.9	0.02	2.9
Algeria	422.8	0.19	6.6
Bosnia-Herzegovina	49.5	0.02	-8.4
Canada	3239.1	1.52	0
Central American States (Panama & Costa Rica)	374.3	0.16	33.9
Chile	294.5	0.13	9.3
China	8758	4.1	11.9
Colombia	446.3	0.21	9.3
Cooperation Council for the Arab States of the Gulf (GCC)	6945.5	3.2	N/A
Customs Union Russia-Belarus-Kazakhstan	3482.8	1.3	N/A
EFTA-Convention (excl. CH & FL)	980.8	0.4	-4
Egypt	750.1	0.35	14.2
EU-27	116383.8	54.7	-1.5
Faeroe Islands	0.3	0	-61.7
Hong Kong	8200.8	2.86	-0.9
India	2012.1	0.94	-24.3
Indonesia	574	0.27	32.9
Israel	1102	0.51	9.6
Japan	6163.4	2.9	-11.4
Jordan	276.3	0.01	16.7
Lebanon	536.5	0.25	4.5
Macedonia	51.3	0.02	-6.4
Malaysia	762.9	0.35	5.7
Mexico	1524.7	0.71	11.6
Montenegro	11.5	0	13.6
Morocco	263.1	0.01	-4.6
Palestinian Authority	27.5	0.02	0.6
Peru	181.7	0.08	12.1
Republic of Korea	2538.6	1.19	5.3
SACU	706.1	0.33	N/A
Serbia	161	0.07	13.7
Singapore	3872.4	1.82	5.2
Thailand	1115	0.52	-9.8
Tunisia	209.7	0.01	4.6
Turkey	1994.4	0.56	8.5
Ukraine	519.6	0.2	2
Vietnam	337.5	0.15	4.7

These numbers reveal the following:

- Switzerland's largest trading partner within their FTA network (by both volume and percentage of total imports/exports) is the European Union.
- Within their FTA-network and after the European Union, imports and exports from China are the second highest, followed by Japan as the third largest partner.
- The smallest amount imported (0.4 Million CHF) is from the Palestinian Authority and the smallest amount exported (0.3 Million CHF) is to the Faeroe Islands.

1.5. Swiss Free Trade Agreements in Practice

Under a FTA, preferential tariff treatment, meaning a reduction or exemption of customs duties, can be ensured for certain products (Eidgenössische Zollverwaltung [EZV], n.d.). The two parties involved in signing the FTA agree to partially reduce or fully eliminate customs duties either immediately or as a step-by-step process (Credit Suisse, 2014). Switzerland Global Enterprise (S-GE) is a Swiss export promotion agency acting on behalf of the State Secretariat for Economic Affairs (SECO) and the Swiss cantons (Orlando, 2015). Orlando explains that S-GE is responsible for guiding clients on the path to new markets and, by doing so, promotes exports and investments. One of the main objectives of S-GE, he adds, is supporting Swiss companies to take advantage of FTAs. They appeal to all exporting companies to take advantage of the country's network of FTAs as the savings improve export margins and consequently make international business activities more profitable. They add that this is especially useful in times of a strong currency.

Exporting companies in Switzerland are responsible themselves for managing the process of attaining preferential tariff treatment for their goods (KMU Portal, n.d.). In order for a product to enjoy preferential tariff treatment under a FTA, it must fulfill the origin provisions of the corresponding agreement and a valid proof of origin needs to be supplied (Credit Suisse, 2014). A proof of origin can be issued for products that qualify as originating (Credit Suisse, 2014). In Switzerland, a product often qualifies as originating if it meets one of the following criteria (Credit Suisse, 2014):

- The product was wholly obtained in Switzerland

- The product was sufficiently worked or processed in Switzerland
- The product is composed of other products which have not been sufficiently worked or processed in Switzerland, but which originate in a contracting state (a process known as cumulation)
- The product was imported with proof of origin and is re-exported unaltered

Each free trade agreement defines the extent to which a product was sufficiently processed in Switzerland (Credit Suisse, 2014). In other words, goods may be accepted as being sufficiently processed in Switzerland under a FTA with one country, but changes may need to be made in order to qualify for a certificate of origin under an agreement with another country (Credit Suisse, 2014).

The respective FTA stipulates what is recognized as valid proofs of origin (KMU-Portal, n.d.). This is usually either a so-called movement certificate or an invoice declaration of origin (KMU-Portal, n.d.). A movement certificate is a form filled in by the exporter and submitted to the customs administration (KMU-Portal, n.d.). The invoice declaration of origin, as suggested by the name, includes the declaration of origin on the invoice and needs to be issued in the language specified and agreed upon in the FTA (KMU-Portal, n.d.).

1.6. Problem Definition

In a publication named “World Trade Report 2016: Levelling the trading field for SMEs”, the WTO (2016b) argues that in the past, international trade was considered a rather exclusive affair dominated by large companies that have the factors needed to access and supply foreign markets. However, they state that recently, international trade has been including a new kind of global trader commonly referred to as small and medium-sized enterprises (SMEs). From a global perspective, the inclusion of SMEs into the world of international trade has been stimulated by reduced trade barriers, improvements in information technology, enhanced transportation links and the rise of global value chains in which SMEs now have the ability to adopt a key position (WTO, 2016b). Their World Trade Report 2016 features an overview on the participation of SMEs in international trade and reveals that the share of exporting SMEs is small in comparison to large companies.

According to Ziltener and Blind (2014), as cited by the SECO (2016), Swiss FTAs are used to varying degrees. They explain that for exports to Italy, the United Kingdom, Germany and France, usage rates were between 75% and 95%, while for exports to Canada and Mexico, these rates were significantly lower.

The SECO (2016) explains that in Switzerland, whether or not and to what extent a company decides to trade under a FTA and consequently enjoy preferential tariff treatments can depend, amongst other factors, on the size of the company. In line with the findings of the WTO, they state that large companies tend to take advantage of FTAs more often than smaller companies do. Some companies, according to the SECO (2016), may decide to avoid trading under a FTA, meaning that they do not enjoy the benefit of preferential tariff treatments and therefore do not profit from the corresponding savings that could arise from greater margins. However, 99.8% of all registered companies in Switzerland are classified as SMEs, with the total number of SMEs in Switzerland amounting to 576'848 (University of St. Gallen, n.d.). The University of St. Gallen (n.d.) explains that the Federal Statistical Office considers companies with 249 or fewer employees to be SMEs. 92.4% of all the registered companies are so-called Micro SMEs (MSMEs) with up to 9 employees, and are therefore the most common type of SMEs. They add that 6.2% of all registered companies are small-sized enterprises with 10 – 49 employees and only 1.2% of all companies are medium-sized companies with 50 to 249 employees. Accordingly, companies with 250 or more employees account for the remaining 0.2% of all companies registered in Switzerland, and SMEs are therefore an integral part of the Swiss economy (University of St. Gallen, n.d.).

1.7. Research Objective

Based on the statements above by the WTO and the SECO, the objective of the following research project is to understand why FTA utilization rates are lower for SMEs compared to larger companies. This study therefore aims to determine and understand the hurdles that SMEs in Switzerland face in using the country's FTAs. Based on these findings, the author then aims to develop recommendations. These recommendations are meant to assist both sides involved in the matter, namely the creators of FTAs and the users of the benefits that FTAs constitute, which in the case of this study are SMEs. Eventually, understanding why FTA utilization rates are lower for SMEs compared to larger companies, gaining an overview of the hurdles faced by smaller companies and developing a corresponding set of recommendations would allow the parties

involved to introduce measures for increasing FTA utilization. In addition, it would allow for further research on the topic.

1.8. Research Question

In order to achieve this objective, the author has developed the following two research questions:

Research Question 1:

What are the most common hurdles that small and medium-sized enterprises in Switzerland face in relation to the usage of free trade agreements?

Research Question 2:

Which measures can be introduced to reduce the hurdles that small and medium-sized enterprises in Switzerland experience in relation to the usage of free trade agreements?

1.9. Domain Limitation

As suggested by the wording of the research question, the author will limit the scope of the following research project to SMEs in Switzerland and the FTAs that Switzerland has entered. The author will not, however, limit the research project to specific FTAs. All FTAs that the Swiss state has entered with partners across the globe are therefore taken into consideration. In terms of the definition of an SME, the author decided to follow the classification used by the Swiss Statistical Office, which considers SMEs to be companies with 249 or fewer employees. Due to the limited timeframe of the project, the author will focus on companies involved in merchandise trading, and will therefore focus on the hurdles in relation to the matter of preferential tariff treatment.

1.10. Background Information

The following section includes an example of a FTA in practice by providing an overview of the FTA in place between Switzerland and China.

1.10.1. Example of a Free Trade Agreement in Practice: the Free Trade Agreement between Switzerland and China

The Swiss Federal Department of Foreign Affairs, (German: Eidgenössisches Departement für auswärtige Angelegenheiten EDA), reported that on 6 July 2013, Chinese Minister of Commerce Chen Deming and Swiss Federal Councilor Johan Schneider-Ammann signed the comprehensive bilateral Free Trade Agreement between the People's Republic of China and the Swiss Confederation (Eidgenössisches Departement für auswärtige Angelegenheiten [EDA], 2014). The two parties held nine rounds of negotiations and several further intersessional meetings between April 2011 and May 2013 and signed the so-called notification of the completion of the internal ratification procedures on 29 April 2014, allowing the FTA to enter into force on 1 July 2014 (EDA, 2014).

Switzerland-China Trade Relations Prior to the Signing of the Free Trade Agreement

At the time of the signing in 2013, the value of exported goods from Switzerland to China amounted to CHF 8.8 billion, or 4.1% of all Swiss exports (EDA, 2014). The main products exported from Switzerland to China included chemical and pharmaceutical products, machines and instruments as well as watches (EDA, 2014). The value of exported goods from China to Switzerland amounted to CHF 11.4 billion, or 6.1% of all Swiss imports in 2013 (EDA, 2014). The main products exported from China to Switzerland included machinery, textiles as well as watchmaking products (EDA, 2014). Trade in services constituted an increasingly important aspect of the trade relations between China and Switzerland (EDA, 2014).

The Aim of the FTA between Switzerland and China

The core aim of the FTA is to enhance bilateral economic relations by allowing both parties to benefit from an improved market access for goods and services and to strengthen the protection of intellectual property rights (EDA, 2014).

Brunschweiler and Troller (2014) highlight that this is to be achieved through the partial or total dismantling of tariffs, either immediately or after a pre-defined transition period. They state that for trade in services, the two parties agreed upon a certain degree of liberalization through a more detailed set of rules compared to the General Agreement on Trade in Services (GATS) of the WTO, which should eventually lead to a facilitated market access for service providers. Moreover, in relation to intellectual property rights, the two parties agreed to strengthen the application of existing agreements such as the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) of the WTO and extend the protection in the area of copyrights to audio media according to the World Intellectual Property Organization.

The Structure of the Free Trade Agreement between Switzerland and China

The main part of the agreement contains 88 pages, structured as follows (Free Trade Agreement between Switzerland and China, 2013):

- Preamble
- Chapter 1: General Provisions
- Chapter 2: Trade in Goods
- Chapter 3: Rules of Origin and Implementation Procedures
- Chapter 4: Customs Procedures and Trade Facilitation
- Chapter 5: Trade Remedies
- Chapter 6: Technical Barriers to Trade
- Chapter 7: Sanitary and Phytosanitary Measures
- Chapter 8: Trade in Services
- Chapter 9: Investment Promotion
- Chapter 10: Competition
- Chapter 11: Protection of Intellectual Property Rights
- Chapter 12: Environmental Issues
- Chapter 13: Economic and Technical Cooperation
- Chapter 14: Institutional Provisions

- Chapter 15: Dispute Settlement
- Chapter 16: Final Provisions

The Annex is structured as follows (Free Trade Agreement between Switzerland and China, 2013):

- Annex I: Tariff Schedules
- Annex II: Product Specific Rules
- Annex II: Certificates of Origin
- Annex IV: Origin Declaration
- Annex V: Labelling of Textiles
- Annex VI: Trade in Service
- Annex VII: Schedules of Specific Commitments
- Annex VIII: Lists of MFN Exemptions
- Annex IX: Plant Variety Protection
- Annex X: Procedural Rules
- Annex XI: Reimbursement of Traditional Chinese Medicine under the Health System

The Free Trade Agreement between Switzerland and China in Practice

The FTA between the two parties applies to the Swiss customs territory (which includes the Principality of Liechtenstein) and the Customs territory of the People's Republic of China, excluding the special administrative areas of Hong Kong and Macao (Free Trade Agreement between Switzerland and China, 2013). Brunschweiler and Troller (2014) report that the agreement covers goods in chapter 1 to 97 of the customs tariff based on the international Harmonized System (HS), short for the Harmonized Commodity Description and Coding System. However, not all goods in chapters 1 to 24 will enjoy customs concessions. The table below, created by Brunschweiler and Troller (2014), summarizes the impact of the FTA on Chinese customs duties for the most frequently traded product categories:

Tab. 6: Impact of FTA on Chinese customs duties (Brunschweiler & Troller, 2014, p. 4)

Chinese Customs Duties (applying to goods exported from Switzerland to China)			
Tariff Line (HS)	Product Description	Import customs duty in PRC	
		Before FTA	After entry into force of FTA
Chapter 2: Meat	Meat of bovine animals, salted, in brine, dried or smoked	25%	Gradual tariff elimination within 5 years
	Cuts of unboned swine hams & shoulders, salted, in brine, dried or smoked	25%	No reduction
Chapter 4: Dairy products	Milk & cream with different fat rates, not concentrated or sweetened	15%	Gradual tariff elimination within 10 years
	Yogurt	10%	Gradual tariff elimination within 12 years
	Fresh, grated/powdered or processed cheese (Except blue cheese)	12%	Gradual tariff elimination within 10 years
Chapter 9: Coffee	Coffee (not roasted)	8%	Gradual tariff elimination within 5 years
	Coffee (roasted)	15%	Gradual tariff elimination within 10 years
Chapter 19: Cocoa	Chocolate, etc., in blocks, slabs or bars, not filled	10%	0% as from entry into force
	Chocolate, etc., in blocks, slabs or bars, filled	8%	Gradual tariff elimination within 5 years
Chapter 20: Preparations of fruits, etc.	Jams, fruit jellies, marmalades, etc.	30%	Homogenized: gradual tariff elimination within 5 years, non-homogenized of citrus fruits: 0% as from entry into force
Chapter 24: Tobacco	Cigars, cigarillos and cigarettes, of tobacco or of tobacco substitutes	25%	No reduction
Chapter 30: Pharmaceutical products	Various medicaments (including antibiotics)	6%	Gradual tariff elimination within 5 years
	Medicaments containing insulin (but not antibiotics)	5%	0% as from entry into force
Chapter 84: Machinery	Shaping Machinery	15%	Gradual tariff elimination within 10 years
	Other packaging and/or wrapping machinery	10%	Gradual tariff elimination within 5 years
Chapter 90: medical instruments	Medical instruments, including mechano-therapy appliances, etc.	4%	Gradual tariff elimination within 10 years
Chapter 91: Clocks and watches	Wrist-watches (different types)	11-16%	Depending on type of watch, gradual tariff elimination or mere reduction within 10 years; some tariffs will only be reduced to 5-8% but not abolished altogether.

It is important to point out that China levies its customs duties according to the value of the imported goods, meaning the complete shipping value including value of the goods, cost of freight and cost of insurance (Brunschweiler & Troller, 2014).

The table below, also created by Brunschweiler and Troller (2014), summarizes the impact of the FTA on Swiss customs duties for the most frequently traded product categories:

Tab. 7: Impact of FTA on Swiss customs duties (Brunschweiler & Troller, 2014, p. 5)

Swiss Customs Duties (applying to goods exported from China to Switzerland)			
Tariff Line (HS)	Product Description	Import customs duty in CH	
		Before FTA	After entry into force of FTA
Chapter 2: Meat	Meat of swine, salted in brine, dried or smoked, hams, shoulders and cuts thereof, with bone of wild boar	Approx. USD 59 / 100 kg	0 as from entry into force
	Meat of bovine animals, salted, in brine, dried or smoked (within the limits of the WTO tariff quota)	Approx. USD 422 / 100 kg	Approx. 250 / 100 kg
Chapter 4: Dairy products	Milk & cream with different fat rates, not concentrated or sweetened (within the limits of the WTO tariff quota)	Approx. USD 20-1450 / 100 kg	No or only a very limited tariff reduction
Chapter 24: Tobacco	Cigars, cigarillos and cigarettes, of tobacco or of tobacco substitutes	Approx. USD 800 – 1'500 / 100 kg	Approx. USD 650 – 1280 / 100 kg
Chapter 50/51: All silk/wool and other textiles	All sorts of textiles (silk, cotton and/or other woven fabrics) and clothing, footwear, etc.	Approx. USD 23 - 300 / 100 kg	0 as from entry into force
Chapter 82: Tools	Watchmakers' tools	Approx. USD 60 / 100 kg	0 as from entry into force
Chapter 84/85: Mechanical and electrical machinery	All sorts of machinery and mechanical appliances, electrical equipment and parts thereof, including photovoltaic cells whether or not assembled in modules or made up into panels	Approx. USD 20 – 130 / 100 kg	0 as from entry into force
Chapter 86 – 89: Various vehicles	Vehicles, railways, aircrafts, vessels and associated transportation equipment	Approx. USD 8 – 80 / 100 kg	0 as from entry into force

Switzerland, contrary to most countries, levies its customs duties in proportion to the gross weight of the goods and not their actual value (Brunschweiler & Troller, 2014).

In their report labelled “A Practical Guide to the New Free-Trade Agreement between Switzerland and China”, Swiss law firm Wenfei Law (2013) explains that with the signing of the Free Trade Agreement between Switzerland and China, Switzerland promised tariff reductions on 99.7% of goods imported from China and that China agreed to remove tariffs on up to 96.5% of Swiss imports. They stress the importance of pointing out that the tariff rates on almost all Chinese products will be eliminated immediately, but that Swiss exports to China are faced with a transition period of 5 to 15 years, meaning that it will take some time for Switzerland to experience the full effect of the FTA on export growth. Brunschweiler and Troller (2014) report that the Chinese authorities see the higher Chinese customs duties (on average 8.7% compared to 2.4% in Switzerland) as a justification for this fairly long transition period. Due to this discrepancy, Brunschweiler and Troller (2014) argue that China had a higher leverage and bargaining power than Switzerland and was therefore able to strike a deal with more favorable tariff concessions for Chinese exports than for Swiss exports. They also point out that Swiss exporters to China should still take the internal consumer taxes on luxury goods, the need to obtain business licenses and permits, the national product standards and certification requirements and the approval systems into consideration.

A Detailed Look at the Rules of Origin

Chapter 3 of the main agreement contains the rules of origin that need to be fulfilled by the exporter in order to attain preferential tariff treatment under the FTA (Free Trade Agreement between Switzerland and China, 2013). Brunschweiler and Troller (2014) report that this is the case for products which are either:

- Wholly sourced in Switzerland or China (e.g. unprocessed agricultural products)
- Produced in Switzerland or China with components or materials originating exclusively from one or both countries (e.g. machinery)
- Produced with components or materials originating neither from Switzerland nor China, but having undergone what is considered a substantial transformation in either Switzerland or China. Circumstances that qualify as a substantial transformation depend on the product category and are described in detail in the appendix to the FTA. In general, packaging, repackaging, filling, bottling, assembling or mixing does not suffice. Normally, a substantial transformation is achieved if the tariff code under the HS system changes or if an added value of 40-60% compared to the price of the former product is created.

A circular published by the Federal Department of Finance (German: Eidgenössisches Finanzdepartement [EFD]) in 2014 named “Entry into force of the bilateral Switzerland-China free trade agreement on 1 July 2014”, states that a correct certificate of origin needs to be produced as evidence of origin (EFD, 2014). For Approved Exporters, this declaration of origin can be attached to commercial documents (EFD, 2014). The certificate of origin needs to be issued in English and submitted to the authorities upon exportation. The EFD (2014) stresses the importance of the following considerations:

- The required certificates of origin need to be completed by Chinese exporters sending goods to Switzerland under the FTA in order to prove that the product qualifies as originating. It must comply with the specimen included in Appendix 1 to Annex III of the FTA. It is important to point out that the HS code and the origin criterion need to be entered for every item, contrary to other agreements.
- The origin certificate needs to be submitted to one of the following two approving authorities, including the General Administration of Quality Supervision, Inspection and Quarantine – Entry-Exit Inspection and Quarantine Bureaus (AQSIQ) or the China Council for the Promotion of International Trade (CCPIT)
- For companies with Approved Exporter status, an origin declaration on invoices or other commercial documents identifying the respective goods suffices, meaning that they can issue the origin declaration autonomously without having to go through any approval process for each of their shipments.
- For Swiss exporters sending goods to China, the English version of the special movement certificate EUR.1 CN needs to be ordered for CHF 0.40 and used. The exporter can only list products in the EUR.1 CN certificate that meet the rules of origin. Here too the exporter has to enter the HS code and origin criterion for every item. Sections 3 and 10 must be completed, despite being marked as optional.

In their circular, the Swiss Federal Department for Finance (EFD, 2014) explains that exporters must observe the direct transport rule, but consignments can be split up in non-party states. The FTA considers all states other than Switzerland and China as non-party states. When importing into Switzerland and when consignments are split up in the EU or Norway, an evidence of origin issued in China needs to be produced for every consignment (EFD, 2014). When importing into China and when consignments from Switzerland are divided in non-party states, an evidence of origin issued in Switzerland needs to be produced (EFD, 2014). The following figure from the circular by the Federal Department for Finance (2014, p. 2) illustrates the example of consignments from China split up in the EU:

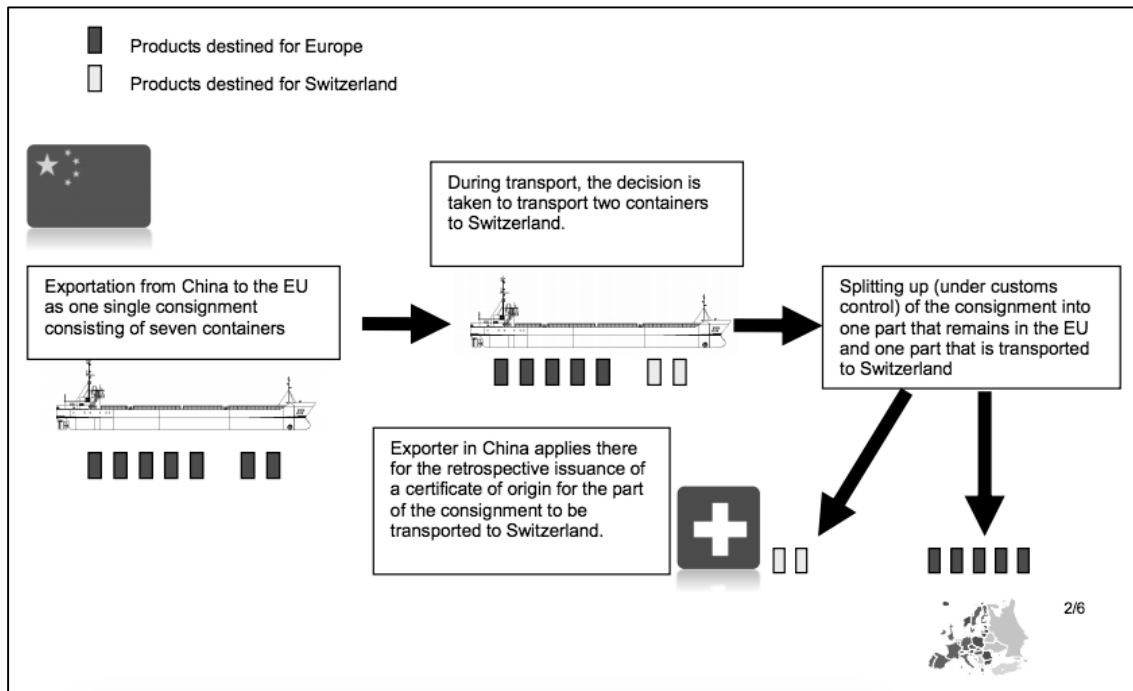


Fig. 2: Consignments from China (EFD, 2014, p. 2)

Switzerland-China Trade Relations after the Signing of the Free Trade Agreement

Aebersold Szalay (2017) reported that both companies and authorities in Switzerland agree that the signing of the FTA between Switzerland and China has had a positive effect on trade relations, despite initial difficulties. They also agree that the agreement has created a competitive advantage over the EU and USA. Exports to China, Aebersold Szalay adds, increased by 14% in 2015 and imports from China increased by approximately 2%. This is a strong figure given the slight slowdown of the Chinese economy and the declining rates of the country's foreign trade activities. Bilateral trade with China has experienced above-average growth compared to trade with other Swiss partners (Aebersold Szalay, 2017). Officially, however, it is difficult to consider these developments a direct consequence of the FTA, given its relatively short existence and the transition period imposed on many tariff reductions. S-GE is convinced that the savings potential after the transition period will amount to CHF 5.8 billion (Aebersold Szalay, 2017). In an interview with Swiss newspaper *Neue Zürcher Zeitung*, the SECO and S-GE also explain that the amount of requests by companies having difficulties in the application of the FTAs is declining (Aebersold Szalay, 2017).

2. Literature Review

The previous introductory chapter explained what FTAs are and how they work. The following Literature Review explains why they exist and what the underlying theories or driving schools of thought are upon which FTAs are based, including viewpoints on the advantages and disadvantages of FTAs. A deeper look at current and past literature concerning the notion of free trade should help understand why SMEs apparently do not take advantage of the benefits of FTAs as much as their larger competitors.

2.1. Defining Free Trade

Driesen (2000) stresses the importance of defining what precisely trade must be free of in order to be considered free. He sees the ambiguity of the definition and legal concept of free trade as the source of many debates, misunderstandings and confusion in relation to the topic of free trade. In his opinion, the terms and concepts of trade barriers and trade restrictions do not suffice as a definition of free trade, and that current trade law merges three varying concepts about what trade should be free of. He uses three models to explain these concepts, including a model based on the principal of non-discrimination, a model based on an international non-coercion principle, and a model based on a principle of laissez-faire governance. The model based on the principal of non-discrimination explains the concept of trade free from discrimination. Driesen (2000) defines discrimination as standards or restrictions on imports which a state would usually not impose on domestic companies, therefore implying a focus on tariffs, taxes, regulations, subsidies and import quotas. The model based on an international non-coercion principle explains the concept of trade free from coercion, ensuring protection from the outside. For the model based on a principle of laissez-faire government, trade is considered to be free from regulations, which would be the broadest form of free trade. To conclude, Driesen (2000) claims that the WTO can only administer a concept of free trade defined as trade free of discrimination as opposed to trade free from restraint or coercion, and sees this as key in ensuring the future legitimacy of the WTO. A common acceptance of this model as the definition of the concept of free trade would lead to a reduction of debates, misunderstandings and confusions, according to Driesen (2000).

2.2. A Brief Overview of the History of Free Trade

Acknowledging the existence of prior theories on international trade, Van Marrewijk (2017) sees Adam Smith's publication from 1776 named "An Inquiry into the Nature and Causes of the Wealth of Nations" as the root of modern theories on international trade. Adam Smith, as explained by Van Marrewijk (2017), developed the theory of absolute advantage, which stipulates that if an economic actor, such as a country, can generate the same amount of output with a smaller amount of input than another economic actor, then that economic actor has an absolute advantage over the latter. Following and based on Adam Smith's major contribution, David Ricardo published the theory of competitive advantage in his book named "Principles of Political Economy and Taxation" from 1817 (Van Marrewijk, 2017). Ricardo's theory of competitive advantage refers to the ability of a producer to generate output at a lower opportunity cost compared to another producer.

The history of the international trading system following these major contributions, in the opinion of O'Rourke (2005), can be divided into three main periods, including the nineteenth century (1815 – 1914), the period encompassing the two world wars (1914 – 1945) and finally the period since 1945. O'Rourke (2005) argues that the late nineteenth century from 1870 – 1914 was especially important within the first period of the international trading system from 1815-1914. This, he illustrates, was a period characterized by strong levels of globalization. The second period defined by O'Rourke (2005), which encompasses the two world wars from 1914 – 1945, was characterized by protectionism. This period, however, saw the rise of a neo-classical trade theory with Heckscher-Ohlin's type of free trade doctrine, including the notion of opportunity cost into the forces of supply and demand and subsequently creating a theory of free trade based on factor endowments (Sen, 2010). Sen (2010) concludes that the framework of old trade theories started being questioned by the developers of the new trade theory, which took into consideration the scale economies in production. O'Rourke (2005) argues that in the third period since 1945, global trade started to experience increased levels of integration, with a sharp increase in the last decade of the 20th century. He sees the formation of what he refers to as the multilateral international trading regime as an excellent achievement of international diplomacy after World War II. The formation of today's multilateral informational trading regime, he explains, is based on the GATT (General Agreement on Trade and Tariffs) and the consequent establishment of the WTO. The GATT, an international treaty signed by 23 countries to boost economy recovery after World War II, is the predecessor of today's WTO (Narlikar, Daunton & Stern, 2012). The primary

goal of the GATT was to eliminate various trade barriers through the reduction of tariffs, quotas and subsidies (Narlikar, Daunton & Stern, 2012).

2.3. A Brief Overview of Present-Day Arguments in Favor of Free Trade

There are various present-day arguments and theories that justify the importance of free trade (Ma, 2010). Root (2000) argues that free trade leads to a greater output and greater income through increased production and consumption compared than no international trade at all. In a situation of perfect competition, resources worldwide would be allocated more efficiently, he adds. From a global perspective, barriers to trade would therefore create an inefficient allocation of factors of production, a diversion between international and domestic prices for goods and lower world income levels (Root, 2000).

Ma (2010) explains that one very common argument in favor of free trade is the concept of economies of scale. The larger the amount that a company or country produces, the lower the relative production costs will be. In the opinion of Ma (2010), this can then lead to industry clusters, which in return again increase efficiency.

Specialization, Ma (2010) adds, is also a key argument. If two countries each specialize on the production of a different product and are able to trade these products freely with each other, then the product will have been produced at a lower cost and will, ultimately and ideally, be cheaper for the consumer (Ma, 2010). In other words, every country can utilize its productive factors in the most productive and efficient manner (Ma, 2010).

A further consideration in favor of free trade is the creation of competition, which leads companies to create and capitalize on a competitive advantage (Ma, 2010). This competition can then ultimately lead to price competition and non-price competition, with the latter having a positive effect on the overall quality of services and products, including the non-tangible elements of a product such as the service that may come with it (Ma, 2010).

Root (2000) states that few countries could become self-sufficient, and international trade has had a very positive impact on the development of many countries across the globe. He argues that due to geographical considerations, some economies are reliant on imports for basic foodstuffs. In addition, the inability to import certain raw materials would lead to the fact that inferior substitutes

would be used, decreasing the overall quality of production and ultimately, on a larger scale, lead to a decline in living standards when basic necessities of life are not able to be produced (Root, 2000).

In the opinion of Thompson (2000), protectionist measures only benefit some and cause losses for others, with those benefiting from protectionist measures obviously being in favor of them. He therefore argues that free trade raises overall income levels and creates a more even distribution of income. Specialization and trade based on the notion of comparative advantage, in his opinion, ultimately leads to higher overall benefits.

Free trade can therefore generate new wealth in a home country through the possibility to extend into foreign markets and create additional income which would have not been possible by merely operating in the domestic market (Cavusgil & Czinkota, 2001).

Appleyard, Field & Cobb (2010) summarize that trade restrictions in the case of a small country can leave the country less well-off. They argue that for larger countries, trade restrictions can in some cases lead to an increase in well-being, but only if the partner country refrains from retaliating. They conclude that retaliation and trade wars eventually leave everyone worse off.

2.4. A Brief Overview of Present-Day Arguments Against Free Trade

Gandolfo (2004) clarifies that protectionism is usually defined as any intervention by the government that creates a diversion between the domestic relative price and the world relative price of a commodity. According to Ma (2010) it was Adam Smith who explained that protectionist measures are often based on the notion that national defense is more important than opulence, and that self-sufficiency, as suggested by the name, reduces or even eliminates the dependency on other nations.

Appleyard, Field & Cobb (2010) claim that today, protectionist measures are often introduced to deal with market imperfections, as part of a social objectives package or as a response to actions by the trading partner. Protectionist measures are also introduced to protect new industries that need a certain level of temporary protection from foreign competition in order to grow (Ma, 2010, Gandolfo, 2004). Accordingly, producers can then eventually compete against competitors who

already enjoy economies of scale and have the time to improve production, marketing, technological application and management skills (Ma, 2010).

A further argument is the diversification-for-export-stability argument, which tries to avoid an over-specialization focusing on a very small amount of or even one single agricultural product or other natural resources sensitive to shifts in supply and demand by diversifying the domestic economy (Ma, 2010). Appleyard, Field & Cobb (2010) illustrate that protectionist theories see an opportunity to transfer foreign monopoly profit. They add that protectionist theories also see increased research development investments that can be achieved by protecting the domestic market as a means of increasing exports.

2.5. The Rationale for Free Trade Agreements

In their 2009 World Trade Report, the WTO (2009) explains that despite these arguments mentioned above, trade policies negatively affecting and restricting trade flows are still introduced. FTAs, accordingly, aim to limit such actions (WTO, 2009). The WTO illustrates that there are two main rationales for the existence of FTAs.

The first rationale, known as the traditional approach, is based on the thought that if FTAs did not exist, then some countries may be inclined to profit at the expense of its trading partners by altering the terms-of-trade (WTO, 2009). The WTO argues that some governments may be tempted to unilaterally introduce trade policies that create a strong benefit for them in relation to trade policies and terms-of-trade, resulting ultimately in what is known as the Nash equilibrium, or non-cooperative equilibrium. Such actions lead to inefficiency and reduce overall welfare, and FTAs are seen a means of avoiding such a situation through cooperation. Nevertheless, some countries may still have this temptation, and so respecting the agreement needs to be in both partners' own interest (WTO, 2009).

The second rationale for the existence of FTAs, known as the commitment approach, stems from the thinking that governments face difficulties in setting trade policies (WTO, 2009). The WTO (2009) explains that this is linked to a problem known as time-inconsistency, which stipulates that if policies that the government is planning on implementing are anticipated, then one is able to react to these plans and therefore reduce the impact they may have, ultimately making the trade policy inefficient. Based on this, governments should follow through with binding trade policy commitments (WTO, 2009). A FTA will then have a positive effect on the bargaining power of

governments against domestic pressures and avoid a deviation from liberal trade policies (WTO, 2009).

FTAs, in summary, make it possible for governments to avoid conflicts in relation to terms-of-trade through non-cooperative mannerisms by other governments and the private sector putting pressure on the government to move away from free trade policies (WTO, 2009).

2.6. Known Hurdles in Relation to the Application of Free Trade Agreements

A study conducted by Yi (2015) found that on a global level, many companies chose not to utilize FTAs. She reports that in the year 2000, the average utilization rate of the North American Free Trade Agreement (NAFTA) was approximately 64%. The ASEAN FTA (AFTA), she adds, had a utilization rate of under 10% in 2002. This underutilization leads to a devaluation of these FTAs and consequently makes nations reluctant to enter into new agreements (Yi, 2015). In addition, the so-called spaghetti bowl effect, meaning the increasing number and corresponding complexity of agreements, makes the rules of origin more complicated (Yi, 2015). Yi (2015) argues that the rules of origin are considered to be the primary reason for the underutilization of FTAs. She reports that research on the topic of utilization of FTAs and the rules of origin is very limited, if not still in its infancy. She conducted an analysis of various studies in relation to the topic of rules of origin and discovered that there is an interconnection between the administration and design of the rules of origin and the utilization of FTAs. For companies taking advantage of the benefits of FTAs, the rules of origin are often linked to restrictions, high costs and compliance burdens (Yi, 2015). According to Yi (2015), further reasons for underutilization include a lack of information, unattractive margin gains, potential delays and potential costs.

Baldwin (2005) reports that the reasons for underutilization, however, can vary from region to region. Baldwin claims that the underutilization of the AFTA, for example, is linked to the region's manufacturing climate. The region's manufacturing climate has led to a high degree of trade in components and parts within the region, and this interdependence in return led to the fact that many tariffs on certain components and parts were cut unilaterally. Accordingly, these tariff cuts have made the potential gains that could arise from the use of a FTA only marginally attractive. The cost of fulfilling and adhering to the rules of origin made the AFTA even less attractive for companies who were supposed to benefit from it (Baldwin, 2005). In some cases,

the cost of generating the preference may even be higher than the gains from the preferential treatment under the AFTA (Baldwin, 2005).

In their World Trade Report 2016: Levelling the trading field for SMEs, the WTO (2016b) argues that non-tariff restrictions and restrictions in the form of tariffs affect SMEs more adversely than larger companies. Despite their increasing presence in global trade, SMEs are still faced with disproportionately high barriers to trade (WTO, 2016b). In their report, they reveal that barriers to international trade are in fact mainly due to managerial skills, workforce capacity, the ability to adopt new technologies, border regulations, a lack of access to relevant information and foreign distribution networks (World Trade Report 2016).

Swiss bank Credit Suisse and S-GE commissioned a study in 2014 entitled Success Factors for Swiss SMEs: Prospects and Challenges for Exports in which they surveyed more than 2000 SMEs in Switzerland. The study determined that there are several factors influencing the degree to which Swiss SMEs profit from FTAs (Credit Suisse, 2014). They explain that FTAs can be ineffective for some industries or companies if the effort of producing a certificate of origin is greater than the benefit of attaining preferential tariff rates. A third of all non-exporting SMEs questioned in the study see the effort involved in producing a certificate of origin as a reason not to conduct exporting activities. This, according to the study, is especially true for smaller SMEs compared to larger SMEs. Other factors not related to preferential tariffs but that hinder SMEs from profiting from FTAs include the absence of contacts in the target country which could offer support, a lack of knowledge in the area of internationalization as well as unattractive margins. 33% of the SMEs in the industrial and services sector questioned in the study stated that FTAs are irrelevant to them. This does however include companies with products that are not covered by FTAs or with products that profit from other trade agreements such as the pharmaceutical agreement within the context of the WTO. The study also reveals that the higher the amount of exports in relation to total sales is, the more relevant FTAs become to a company.

Ralf Ruprecht (2014), confirms that exporting matters are accompanied by hurdles that are particularly high for SMEs. He sees a link between the success in mastering these matters and the experience and qualifications of the employees. To him, the largest hurdles in relation to these exporting matters include defining the correct terms of payment and delivery conditions, highlighting the complexity of the matter when aspects of a FTA, such as strict rules of origin, need to be considered as well.

Hulliger and Eberle (2015) report that many companies lack the awareness of the fact that FTAs even exist or the basic knowledge necessary to use these FTAs. They argue that some companies avoid the usage of such FTAs even when this knowledge is available. This, according to them, is mainly due to the fact that the scope and details of the standards and regulation seem like a complexity which is impossible to tackle. The rules of preferential origin in particular scare many companies away from FTAs (Hulliger & Eberle, 2015). Companies therefore often think that the usage of FTAs is too time and cost consuming, as employees need to build up knowledge in relation to customs regulations, coordination in relation to administrative efforts need to be undertaken and logistical processes need to be adjusted (Hulliger & Eberle, 2015). Hulliger and Eberle (2015) explain that time efforts add to this, because the modification of data or the application, provision and storage of documents takes time and may need additional human resources. Companies, therefore, might presume that the expenses outweigh the gains from applying these FTAs. Hulliger and Eberle conclude that effort do indeed need to be invested in order to reach an efficient and effective rules of origin management, and that the daily and continuous effort is not to be underestimated. The benefits and chances a company has through the usage of FTAs, however, are usually worth it as there is a strong potential for companies to optimize their supply chain and ultimately profit from an increase in earnings

In the opinion of Stephan Brugger (2013), it is the duty of the management board to ensure that all relevant departments of the company (including research and development, production, procurement as well as marketing and sales) are informed about their country's FTA-network, their importance, their potential benefits as well as the consequences that their company would face due to conscious or unconscious misconduct. These consequences, he adds, can be devastating. For example, misconduct in Switzerland in relation to the rules of preferential origin can lead to fines of up to CHF 40'000, and subsequent payments for customs duties or penalty fees may be levied. In his publication in the *Swissexport Journal*, Brugger (2013) lists the three most common examples of pitfalls:

- The administrative assistant in the exporting department producing the movement certificate is unaware of the legal consequences that even the slightest mistake may entail.
- The proof of origin was granted by an expert specialized in a specific free trade area such as the EU. In an attempt to reduce production costs, the company at some point decides that some components will no longer be ordered from the Swiss supplier but from a supplier in China. The amount of input from third party countries therefore increases, and may potentially lead to the fact that the product does not qualify as being

of Swiss preferential origin. The export department is not informed about the change in supplier, and the movement certificate is consequently produced with incorrect information, possibly leading to fines and subsequent payments.

- The proof of origin was granted by an expert specializing in free trade between Switzerland and the EU. The company then decides to export products to a country outside the EU, such as Canada, and is unaware of the fact that a new origin calculation needs to be undertaken.

2.7. Theoretical Solutions to Overcome these Hurdles

As reported in their World Trade Report 2016, the WTO (2016b) sees the solutions to these hurdles on a multilateral level by concluding that a more inclusive trading system with a level trading field needs to be established which would consequently lessen the constraints faced by SMEs and unlock their potential. On a global level, this can be achieved by establishing rules that ensure the reduction of both the variable and fixed costs of trade. In addition, improved transparency mechanisms would make it easier for SMEs to access vital information (WTO, 2016b). The report also states that the WTO is working to promote capacity-building, which has the aim of increasing trading opportunities, especially for SMEs in the developing member states. In their report, the WTO also explains that SMEs from the least-developed countries (LDCs) should benefit strongly from the preferential rules of origin for LDC exports, the duty-free and quota-free markets access as well as from the services waiver introduced in Nairobi, Kenya in 2015 at the WTO Ministerial Conference.

Müller and Nussbaumer (2016) also see the worldwide simplification of the regulations concerning foreign trade as one of the main solutions for achieving a more efficient usage of the Free Trade Agreements. Simplifying and modernizing customs proceedings in terms of imports are also of great importance. They justify this by claiming that facilitating imports has a positive effect on exports due to today's global value chains. Yi (2015) adds that policymakers need to recognize the impact that the design of the rules of origin may have on the administration of the rules and the compliance burdens that may arise.

In order for companies to avoid major pitfalls, Brugger (2013) suggests to appoint a designated preferential origin specialist and to define and consequently implement clear processes in the quality guidelines of the company. Constant monitoring of FTA regulations needs to be ensured, and he also suggests having the internal processes reviewed through internal and external bodies.

Swiss customs expert Meinrad Müller (2014) agrees that the application of the various FTAs is a highly complex matter. According to him, however, the Federal Customs Administration of Switzerland (EZV) is putting a lot of effort into simplifying the involved processes. As a first step, the EZV has improved the access to relevant information by publishing the legislative texts of all the FTAs in place and a wide array of relevant leaflets. Companies can also subscribe to a news service that regularly provides the subscription holder with relevant information. The customs directorates are of course also available for personal inquiries. Due to their interests and actions, Müller argues that the EZV is no longer just an institution protecting the Swiss economy, but sees them as an institution interested in supporting the companies and promoting international trade through their services.

In addition, Müller explains that the EZV is putting a lot of effort into making the entire process of attaining preferential tariffs as simple as possible by collaborating with the partner countries. The Swiss and the Chinese customs administration, for example, started collaborating long before the signing of this historic treaty. Relationships between the two administrations are excellent, and since 2007 several meetings for customs-related issues have taken place, strengthening ties and creating a solid base of trust ultimately leading to economic benefits. Müller clarifies that naturally, the FTA between Switzerland and China implicates a high amount of administrative efforts for both the customs administrations and the affected companies.

The two parties therefore agreed to introduce measures of simplification, such as a system of electronic data transfer with the Chinese customs administration, in which the exporter can send the page containing the proof of origin to the Chinese customs administration as a pdf-file via a secured internet application of the EZV, ultimately simplifying the process for exporters. This, however, only applies to exporters defined as so-called “Ermächtigte Ausführer”, or Approved Exporters in English, by the EZV. Due to their interests and actions, Müller argues that the EZV is no longer just an institution protecting the Swiss economy, but sees them as an institution interested in supporting the companies and promoting international trade through their services.

3. Theoretical Framework

The literature reviewed for this study allowed the author to develop the following theoretical framework presented below, which displays the current state of knowledge in relation to the problem under scrutiny. This framework is then revisited in Chapter 6.6, where the author aims to complement this framework with the findings of this study.

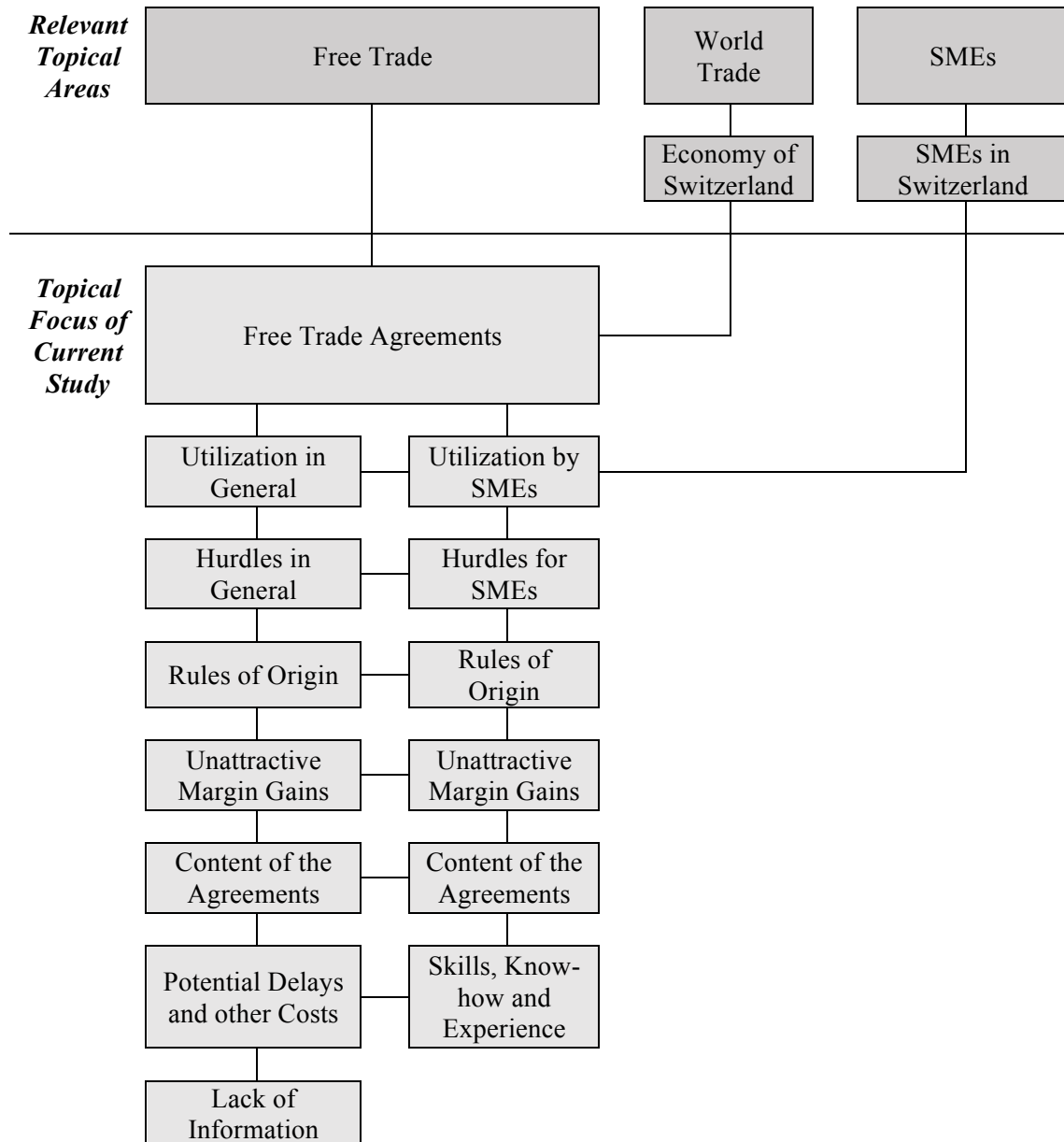


Fig. 3: Theoretical Framework

4. Methodology

The following chapter describes the methodological approach applied by the author for this research project. A detailed overview of the specific procedures and techniques used is given, explaining the overall research process, clarification of the research question, research design, sampling approach, data collection approach and the data analysis approach applied by the author.

4.1. Research Process

For this research project, the author decided to follow a research process based on the research process model by Cooper and Schindler (2006). Adjustments to the model were made to fit the parameters and specifications of this project, creating the following process:

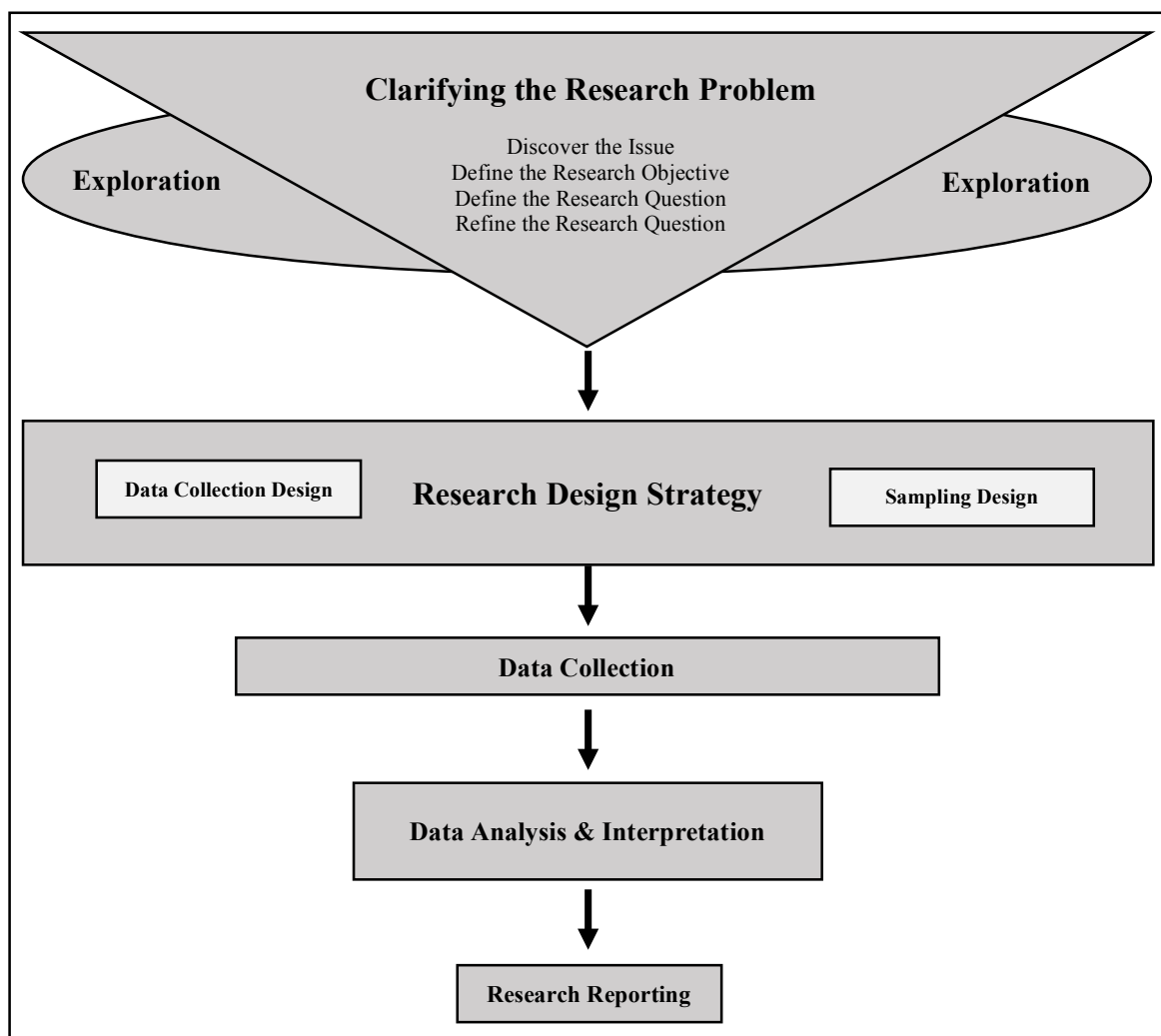


Fig. 4: The Research Process

4.2. Clarification of the Research Problem

As a first step, the author of this paper decided to clarify the research problem by getting an initial overview of the issue at hand, consequently developing the research objective and research question for this project. When dealing with the problem, the author followed the input by Ghauri and Grønhaug (2010) to answer two important questions, namely what the actual problem is and what the best way is to solve the problem. Knowing what to investigate, the author then determined the extent of the investigation, how the findings can be used and by whom, ultimately creating the research objective. The author then applied what Cooper and Schindler (2006) label as a multi-method strategy, which included an initial literature search alongside the input from experts from the university, to formulate the research question presented in Chapter 1.

4.3. Framing the Research Problem

Eriksson and Kovalainen (2008) explain that the research problem needs to be framed through the development of a literature review. The literature review, they add, is meant to identify concepts, facts and methods that are of relevance to the study, making it possible for the researcher to position and frame the problem under scrutiny. In this literature review, the author included relevant theory and literature that is of importance to the study gained from previous research publications, state-of-the-art articles or reviews, conference journals, online databases, respected websites or topical non-fiction hardcover books. Once achieved, the author then developed a theoretical framework representing the current state of knowledge, thereby simplifying the reduction of factors and showing relationships between the factors included. One of the aims of the study is to then revisit the framework and incorporate the findings, thereby accurately displaying how the findings of this study complemented the current state of knowledge of the problem under scrutiny.

4.4. Research Design

The research design, according to Ghauri and Grønhaug (2010), allows for solving the research problem as accurately as possible considering the given constraints. The constraints of this study are explained in further detail in Chapter 8.4. The nature of this research project is exploratory, as the researcher aims at uncovering and understanding a particular phenomenon by gathering information of importance to the problem under scrutiny.

Ghauri and Grønhaug (2010) argue that for exploratory research projects, qualitative methods are most suitable, as they then ideally uncover explanations. Qualitative methods, they add, are used to understand particular phenomena and are based on subjective insider views. They provide a holistic perspective and require the need for the researcher to step back and analyze the situation from above. This, they add, should be achieved by avoiding biases and, naturally, gathering reliable and valid information. They conclude that qualitative measures use a limited number of observations to describe different perspectives and aspects of the problem under scrutiny.

Based on the premise above, the author decided to employ the data collection design, sampling design and data analysis approach explained in the following sections.

4.5. Data Collection Design

Ghauri and Grønhaug (2010) stress the importance of determining what type of data is needed to answer the problem under scrutiny when deciding which data collection methods to employ. In order to uncover and understand the phenomena at hand, the author decided to gain primary data from Swiss SMEs affected by this topic. Gaining primary data would allow the author to tackle the current research problem and map reality. Research techniques, as explained by Ghauri and Grønhaug (2010), determine how the data is collected. They state that interviews, surveys and observations are the most common techniques used for business studies.

Based on this input, the author decided to use interviews for collecting the data. As the aim of the current project is to gain an in-depth understanding of the issue, the author decided to conduct personal interviews where possible and telephone interviews as a second option. The author aimed to conduct semi-structured interviews based on a set of predetermined questions referred to by Ghauri and Grønhaug (2010) as the interview guide. Using semi-structured interviews, the author was able to collect and analyze data simultaneously and interactively by collecting data that is analyzed, initiating new questions and as a consequence initiating additional data collection (Ghauri & Grønhaug, 2010). These semi-structured interviews were sectioned into 5 key parts and based on the following key open and closed questions, which would give the two parties the possibility to clarify and go into further detail on specific points, as suggested by Crowther and Lancaster (2008).

4.5.1. Interview Guide

Section 1 of the interview: Introduction

- Could you, in your own words, describe the company you work for
- Please explain how your company is or is not affected by preferential tariff treatments resulting from free trade agreements

Section 2 of the interview: Hurdles in the beginning

- Which hurdles did you face upon deciding that you would like to make use of preferential tariff treatments?

Section 3 of the interview: Current hurdles

- Which hurdles do you currently face?

Section 4 of the interview: Predicted hurdles

- Looking into the future, what kind of hurdles do you expect to face?

Section 5 of the interview: Suggestions for improvement

- Upon deciding that you would like to make use of preferential tariff treatments, what would you like to have had improved?
- What would you like to see improved given the current state that your company is in?
- Which improvements would you like to see happen in the future?

This technique, ultimately, allowed the author to gain qualitative data about the experiences, views and feelings, leading to an in-depth understanding of the issue under scrutiny. In the next chapter, the author explains who was to be interviewed, how these parties should be selected, referred to as the sampling plan, and how many should be included for the interview, referred to as the sample size.

4.6. Sampling Design

In order to solve the research problem in the best possible way and gain an in-depth understanding of the matter which consequently would lead to explanations, the author decided that the most suitable interview partners would be individuals working for SMEs in a strategic position which can or does influence the course of action of the company, especially in relation to export matters.

4.6.1. Sampling Plan

The sampling plan developed by author included several steps. The first step was to analyze the current SME landscape in Switzerland. The results of this analysis, as they are of relevance to the study, are presented in the introductory chapter of this report. The second step required the author to narrow down potential interview partners. The author did this by focusing on two strong industrial associations in Switzerland which are actively involved in promoting the interests of their members in relation to export matters, as their respective industries are of importance to the Swiss exporting industry as a whole. The two associations are Swiss Textiles and SWISSMEM. Swiss Textiles is an association for companies active in the textile industry, and SWISSMEM represents companies in the Swiss machine, electronics and metal industry. In the third step, the author approached some of these companies for an interview, explained in detail in the following section.

4.6.2. Sample Size

In the introductory chapter of this report, the author mentioned that there are 576'848 registered SMEs in Switzerland. Above, the author explains that the potential interview partners were narrowed down to the members of the two associations Swiss Textiles and SWISSMEM. Given the scope of the study, the author decided to narrow down potential interview partners even further to members based in and around the city of Zurich in Switzerland, where the author is based. In addition, the author decided to consider the actual associations as interview partners, as they would be able to provide an elevated view of the issue and have valuable, summarized information about the issues of their members. Accordingly, a total of 22 potential partners were contacted via phone by the author, including the two associations. During the phone-call, and if the author was able to reach anyone in the company, the author explained the current study being conducted and asked whether they would be willing to conduct a 30 to 60-minute long interview to provide insights into the issue under scrutiny.

Out of the 20 companies approached by the author, ten explained that they were not interested in participating or that they were not affected by the issue. Four companies did not pick up the phone, even after several attempts, which can potentially be explained by the fact that this study fell within the Swiss summer holiday period and some SMEs were potentially closed for business. Six companies agreed to conduct an interview, but two out of these six then revoked their readiness and cancelled the interview, due to reasons unknown by the author. Therefore, the

author was left with four companies willing to conduct a face-to-face interview. As for the associations, the director of Swiss Textiles kindly agreed to conduct a telephone interview with the author.

Accordingly, and to sum up, the author managed to eventually hold five interviews in total, with four interviews being conduct face-to-face and one via telephone. These figures are displayed in the table below, created by the author. According to Ghauri and Grønhaug (2010), lower numbers of interview partners are justified if the aim of the study is to gain an in-depth understanding or a detailed description, as was the case with this present study.

Tab. 8: Overview of numbers in relation to potential interview partners

Factor	Amount
Number of potential interview partners contacted by the author	22 (incl. 2 associations)
Number of potential interview partners not interested in participating	10
Number of potential interview partners who were not reachable	4
Number of companies willing to participate	6
Number of cancellations after confirming participation	2
Total number of final interviews	5

4.7. Data Analysis Approach

The purpose of this step, as explained by Ghauri and Grønhaug (2010), is to obtain meaning from the data that has been gathered by bringing order, structure and meaning to the mass of data collected. Through data analysis, the author aims to dissect, sort, reduce and reconstitute the data.

Ghauri and Grønhaug (2010) explain that there is no single, agreed-upon approach to analyzing qualitative data. As the aim of this current study is to gain an in-depth understanding of the matter, the author decided to follow Miles and Hubermann's approach of distinguishing between data reduction, data display and conclusion drawing:

Data Reduction Stage

In this stage, Ghauri and Grønhaug (2010) suggest selecting, simplifying, focusing and transforming the data appearing in the interview transcripts. Ideally, categories are generated and themes and patterns will be identified. Accordingly, an understanding or an explanation of the problem under scrutiny may emerge. Given the qualitative nature of the gathered data, the author refrained from using a computer software or statistical tool to analyze the data.

Data Display Stage

Ghauri and Grønhaug (2010) explain that in the data display stage, an organized and compressed assembly of information should then consequently allow for conclusion drawing and action taking.

Conclusion Drawing

Ghauri and Grønhaug (2010) explain that the conclusion drawing is now possible due to the completion of the two previous stages above.

5. Findings

In the following chapter, the results of the study are presented according to the methodological approach explained in the previous chapter. These findings stem from five semi-structured interviews conducted with four companies that wish to remain anonymous as well as with the director of the association Swiss Textiles. The anonymized transcripts of these interviews are included in the Annex of this paper. The data gathered from the interviews is transformed into categories representing the main themes and findings of the research conducted by the author.

5.1. Utilization of Free Trade Agreements

The companies interviewed by the author were all in different situations and stages and showed different success levels in relation to the utilization of the FTAs. One company interviewed by the author has been running since the first half of the twentieth century, exports 98% of its products and makes sure that every shipment is traded at reduced or eliminated tariff rates under the FTAs. Another company on the other side of the spectrum currently exports only irregularly and the possibility of trading under reduced tariffs has until recently been of no interest to the company due to other priorities such as quality and delivery time. The other two companies successfully conduct cross-border trade, but have had or still have some issues in dealing with the application of the FTAs.

5.2. Main hurdles in Relation to the Utilization of Free Trade Agreements

The following factors were identified as the main hurdles in relation to the utilization of FTAs.

Know-how

In all of the interviews, the aspect of knowhow played an essential role. Even for the company that claimed to not have any major hurdles when trading under FTAs, know-how played an important role, as it was the fundamental reason why they were not struggling with the application in the first place. Despite their small size, the high level of knowledge in relation to export matters that the people responsible for export activities have and that they were able to build up over the years make it possible for them to easily deal with the matter. For the other companies struggling to varying degrees with the application of the benefits of FTAs, know-how was stated as one of

the main reasons why they have either not started or are currently facing issues. In an interesting discussion concerning the aspect of know-how in relation to practical export activities, one interviewee was annoyed by the fact that no practical cross-border trade lecturing, in particular in relation to export activities, was conveyed in school or for free by the government, arguing that SMEs were left to themselves to deal with the lack of know how. Know-how is linked to all other main themes in one way or another, and especially for small companies with a very limited amount of employees, know-how, or the lack thereof, represents a serious competitive disadvantage to the large companies who can afford to employ a specialist in the field of export activities.

Complexity of the Matter (Especially Rules of Origin)

Complexity was the second most common factor mentioned throughout the interviews and is closely linked to the aspect of know-how. The main difference being that companies can influence know-how by building it up themselves, making the matter a little less complex for themselves, but the general level of complexity is something that they cannot change. All companies agreed that the whole topic of FTAs and their resulting preferential tariff treatments is a complex matter. The complexity starts at understanding that FTAs result in the possibility to trade under preferential tariffs, but also that they incorporate other aspects that could affect their business both directly and indirectly, including possible reductions for products not traded by their own company but by their competitors, and which may enjoy preferential tariff treatments. Certain aspects of it are more complex than others. The most complex aspect for many were the so-called rules of origin. For many, understanding what the rules of origin are and whether or not their own product qualifies as originating is a very difficult task. The interviewees state that the wording involved, in particular the abbreviations and legal jargon contained in the rules and documents, intensify the complexity of the matter. In addition, the fact that the rules of origin differ from one agreement to another results in SMEs not knowing how to cope with the so-called spaghetti bowl effect.

Effort and Available Personnel Resources

These two factors go hand in hand. SMEs are small companies, and resources are often therefore naturally more limited compared to large companies. Investing time into a topic on top of daily business can put a major strain on small companies, as stated by most of the interviewees. The effort involved in dealing with export matters, especially when trading under the preferential tariff treatments given by FTAs, is large. One representative explained that he invests additional time on top of his daily business which could be used for other purposes too. The companies need to

ask themselves whether investing this amount of time is going to be worth it financially, meaning whether the benefit of the reduced tariff rate is worth the cost involved in attaining it. Effort and available resources also go hand in hand with the next factor, structure of the company.

Structure of the Company

The structure of the company and the corresponding implications was also seen as a common hurdle. Not having an individual appointed for dealing with the matter means that processes are not streamlined and can therefore create inefficiency if everyone is involved only a little bit. In the case of the company which successfully trades at preferential tariffs, the company had one or two people appointed and specialized in the matter who were experts in dealing with the issue. Therefore, the other employees did not have to deal with the matter due to the standardized processes in place. Also, if there is one individual wanting to trade under preferential tariffs, but their supervisor or the person in charge of the company does not see the benefit, then that person will not be able to do so. Decisions made by one individual can have a very strong impact in SMEs.

Costs Involved

The costs involved with attaining preferential tariff treatments, explained above in terms of personnel, can also be high in other areas, especially in relation to fulfilling the rules of origin. Analyzing whether moving the production plant to another country in order to fulfill the rules and explaining to unknowing customers or suppliers what the benefits are can be a costly affair, and so are of course consulting sessions with external advisors who could suggest how to improve their cost structures. Delays are a further negative factor mentioned, as the goods may take longer to proceed through customs due to the increased bureaucracy involved. The interviewees confirmed that savings can be made, but the costs of achieving those savings both in monetary and non-monetary terms can be very high for SMEs with limited budgets. This then results in the decision to not deal with the topic and focus on other priorities such as the quality or speed of the delivery.

Content of the Agreements

Another interesting discovery was made during the interview with the director of the association Swiss Textiles, who explained that for the textile industry and in many FTAs, the HS codes as well as the rules of origin are outdated. Both products and value chains, especially in the textile industry, have evolved greatly over time. The usage of products from the textile industry has changed compared to when some of the FTAs were concluded, and so have the value chains.

Value chains, for example, are so globalized that practically every production step may happen in a different country, making it impossible for some companies to fulfill the rules of origin, which were agreed upon during a time when value chains were not as globalized. Accordingly, some companies may simply not be able to attain preferential tariff treatments because of the contents of the agreement.

Foreign customs administrations

One reoccurring factor was the fact that foreign customs administrations may not be fully aware of how to handle the tariff reductions or eliminations. The level of knowledge may vary from one customs office to another, and the person in the customs office checking the postage may not be aware of the fact that the documents used by the Swiss exporter are valid and therefore eligible to tariff reductions. This, naturally, is frustrating to the company, who may refrain from going through this hassle by just exporting at normal rates.

Available Information and Retrieval of information

Retrieval of information was a factor mentioned especially by the interviewees struggling with or planning to trade under FTAs. The interviewees explained that finding relevant information can be difficult, and that sometimes it is difficult to know where to start. The overload of information, missing structure and sometimes conflicting information from websites on the internet make it difficult for companies to find the information relevant to them. When the information is found, the wording can sometimes be too complicated, making it difficult to understand for someone not specialized in the area what exactly needs to be done if they want to export at preferential tariff rates.

Feedback and Legal Security

Two interviewees criticized the lack of feedback and legal security. Not knowing what the customs administrations actually want and whether the actions of the company were correct or not is frustrating. They added that if they knew what could be improved, then they would know what they are doing is correct or incorrect, reducing potential hurdles that they may face. One interviewee explained that he would like to physically follow one parcel on its way to the customer and ask every person who holds that parcel in their hands whether something could be improved in the process.

Attaining Approved Exporter Status

One company explained that they are aiming at attaining Approved Exporter status, and another company already successfully trades with Approved Exporter status. This, according to the companies, greatly simplifies most processes and ensures a smoother operation. They explain, however, that it is difficult to know what exactly needs to be undertaken to achieve this. Also, the costs involved, especially in terms of time, are high.

Declaring Special Shipments

Two interviewees explain the difficulty in knowing how to declare and handle special shipments. To give examples, one interviewee explained that their products are sometimes shipped abroad just for a photo-shooting, and then returned back to Switzerland. Another employee explained that the products are sometimes shipped to the customer for free, and the customer will only have to pay for the product if he or she stills wants it after 30 days. These special situations created uncertainty and difficulties in dealing with the matter, especially if export activities are irregular in the first place.

Experience

Finally, experience was a major factor throughout all of the interviews. Experience can lead to more know-how, more efficient process, higher certainty and therefore reduced costs. This, of course, is something that can either be built up over time or purchased in the form of an experienced employee. Not having the necessary experience makes the hurdles seem even greater, and so does not having the necessary financial means to recruit and pay for an employee experiences in the matter.

5.3. Main Suggestions for Improvement by the Small and Medium-Sized Enterprises

An important part of the interview was asking the interviewees about possible improvements. The following section summarizes the suggestions for improvement brought forward by the interviewees of this study. It is important to point out that these are the suggestions by the interviewees and not the author of this paper. The author of this paper presents the final recommendations in Chapter 8.

Notification and Feedback Mechanisms

Exporting matters are complex, and staying up to date with all the rules and regulations is time consuming. Especially for SMEs with a small workforce and a lack of experience in dealing with customs. These two factors make it difficult for companies to know which laws and regulations apply and whether something has changed. Having a system in place which allows SMEs to remain better informed was a suggestion by a couple of interviewees for improving their own processes and gaining legal certainty. For two interviewees, missing feedback mechanisms from the customs administration constituted a large burden. They explained that by not knowing whether or not they are proceeding as optimally as possible and what could be improved, they just proceed as always. The interviews added that in reality, the customs administration could profit from the fact that companies act as optimally as possible, as it would reduce their workload too. Accordingly, the suggestion came up that notification and feedback processes from the state, in particular the customs administration, could be improved.

Retrieval of Information

All companies agreed that finding the necessary information is a tedious matter. The overwhelming amount of different documents, websites, rules and guides make it difficult for companies to know where to retrieve the exact information that they need. The interviewees suggested that the provision and accessibility of information should be simplified, and especially through the use of simplified terminology. It is difficult for companies to follow guidelines that are formulated in a very complex matter and if the overview of the information is provided by different sources who explain the matter differently.

The HS Codes

The director of the association interviewed by the author explained that for the textile industry, the HS codes are outdated. In his opinion, these HS codes need a remake, and should be adjusted to the current state of the industry.

The Rules of Origin

As the findings above suggest, the rules of origin are a highly complex matter. In some agreements, the rules of origin were agreed upon decades ago and have not been updated since. In the opinion of some of the interviewees, these rules of origin should be updated and best case made the same for every agreement. This would therefore result in the fact that companies would be assured that their product qualifies as originating also for other agreements.

6. Discussion

The results of this study elicit highly interesting observations, which are discussed in the following chapter.

6.1. Distinction between Internal and External Hurdles

The findings indicate that the hurdles can be grouped into internal and external hurdles, and that there are relationships between the individual hurdles. Based on this, the author developed the following illustration.

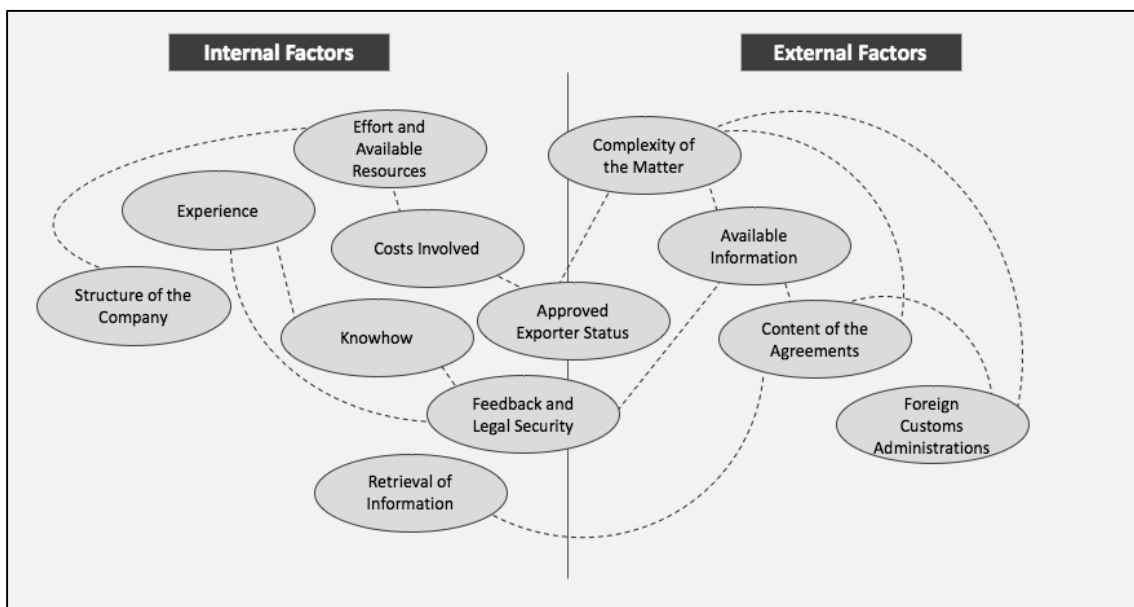


Fig. 5: Distinction between Internal and External Hurdles

The illustration excellently captures the complexity of the matter as a whole. The relationships and interdependencies between the factors are plentiful, suggesting that the companies are not faced with just one single hurdle, but several interconnected hurdles that differ between internal and external hurdles. In this current study, more internal than external factors were mentioned by the interviewees, but the external factors are nonetheless of fundamental importance, as the internal factors are in some way dependent on the external factors. If the content of the agreement is of no use or too complicated, if the foreign customs administration does not know how to proceed in accepting reduced tariff rates, if there is no information or if the information is too complex as a whole to process then internal factors are of secondary nature. In a similar manner,

lacking knowhow or experience can lead to uncertainty whether or not the company is proceeding in the right manner and dealing with the issue correctly. Also, the available resources, or the lack thereof, may lead to the fact that the costs involved in dealing with the matter can be too high for companies. The available resources within the company are in return linked to the structure of the company, which may prevent companies from dealing with the matter in an effective and efficient manner.

Dividing the hurdles into internal and external hurdles can facilitate the development of appropriate measures to reduce these hurdles, as some hurdles can be influenced more strongly than others.

6.2. Relationship between Hurdles and Time/Involvement

Looking at the findings from a different perspective, the author is of the opinion that the hurdles need to be adjusted and allocated to the different stages of involvement with export matters and trading under FTAs. The hurdles change as time and involvement in relation to the topic of preferential tariff treatments increases. The hurdles also seem to decrease the more the company gets involved. The author developed the illustration below to depict this discovery.

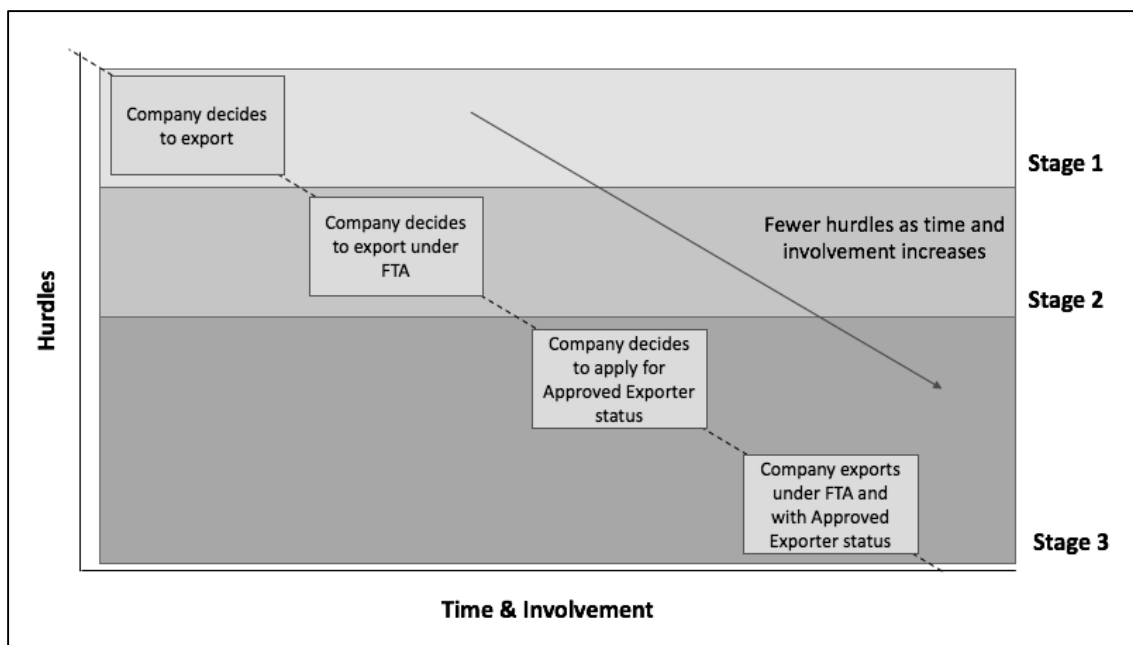


Fig. 6: Relationship between Hurdles and Time/Involvement

The illustration above shows that, in order to better understand the issues of the companies, export activities can be divided into three main stages. In the first stage, the company does not export yet, but decides to do so. Once exporting activities have commenced, the company may decide to export under a FTA and take advantage mainly of the preferential tariff treatments. This step, from exporting to exporting under FTAs, is prone to a large amount of hurdles including mainly retrieval of information, lack of know-how, costs involved and possibly also the contents of the agreements, which may prevent them from exporting under a FTA in the first place.

The hurdles from stage 2, where the company now exports under a FTA, to stage 3, where the company decides to apply for Approved Exporter status, now tend to differ from the previous hurdles. The company will tend to see the structure of their own company, the effort and available resources as main hurdles. Even after attaining Approved Exporter status, the company may experience the foreign customs administration as a main hurdle, because they may not understand that the company is now approved exporter. The company may have never had issues with them before but are now confronted with this hurdle.

As whole, however, the hurdles seem to decrease in relation to time and the level of involvement. This may, potentially, also be linked to the perception of hurdles, as the company should have been able to build up experience and know-how over time, hence mastering the hurdles more effectively and efficiently than during stage 1.

Similar to the discovery above of distinguishing between internal and external hurdles, diving and allocating the hurdles to the different stages of involvement also facilitates the development of measures to reduce these hurdles. In addition, precautionary measures can be undertaken by the SMEs when planning their future activities, as measures can be implemented during the step from the first to the second stage to prevent hurdles arising during the step from the second to the third stage.

6.3. The Importance of Information and Know-how

The findings stress the importance of information and know-how in relation to the topic of using FTAs to one's advantage, and suggest that know-how with all its influences and implications can be seen as both a large hurdle both but also as a key success factor in dealing with the matter. The company interviewed which stated that, despite its small size and large amount of exports, it generally did not have any issues with dealing with the matter, had employees with a large amount

of specialized know-how and a history of success in dealing with the matter which accumulated over several decades. The other companies, especially in the early stages of export matters, that had issues in dealing with matters stated that their lack of knowhow was a serious hurdle. Through know-how, a company will be able to deal with the matter more effectively and efficiently, reducing some of the hurdles which can be influenced. Know-how, however, is backed by information on the topic. Information therefore needs to be available but also retrievable and understandable, as companies who are totally new to the topic can be overwhelmed by the wording, structure and amount of information. The structure of the FTA between China and Switzerland included above allows a glimpse into the complexity of the documents. In addition, Tables 6 and 7 above listing the changes to the customs duties as a consequence of the signing of the FTA between China and Switzerland show how detailed and highly categorized the allocation of the individual duties is. The author developed the illustration below to depict this phenomenon.

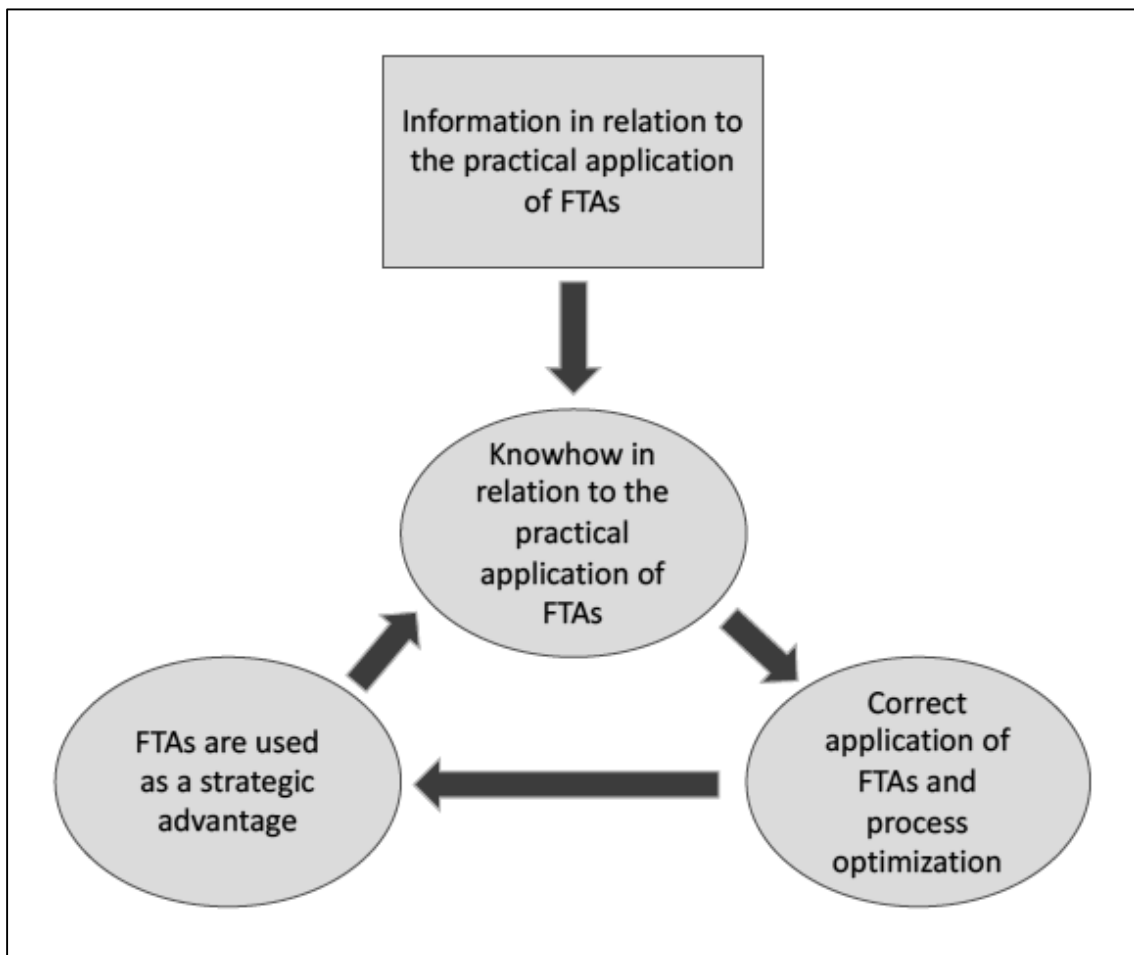


Fig. 7: Importance of Information and Knowhow

6.4. Implications from a Macroeconomic Perspective

The findings indicate that the complexity of the matter could potentially lead to negative effects on the Swiss economy. The topic of exporting at preferential tariffs is complex, a finding confirmed by all interviewees. The rules, especially in relation to the rules of origin, the agreements themselves, the regulations concerning the HS codes are topics that take a large amount of time to understand. For small companies made up of employees who have never dealt with the topic before, a lot of time needs to be invested in order to understand all the aspects of the topic and consequently attain these preferential tariffs.

One interviewee explained that their focus is on quality and speed, not cost, and that they therefore have not yet checked whether their exports, in principle, would be eligible for tariff reductions. This means that if their product were, in principle, eligible for tariff reductions, then they are paying the full tariff rate for their exports. This, in return, means that they are missing out on potential savings, which would increase their cost structure. The company did mention that their focus is not on cost, but they also mentioned that even just exporting normally is a challenge due to the fact they do not trade frequently enough to have implemented an automated process. After finishing a product and wanting to send it to the customer abroad as soon as possible, a lot of time is invested into the whole process of exporting the product. The company explained that due to the complicated nature of dealing with export matters, they may consider allowing one of their partners in the EU produce the product if the customer is also within the EU. They realize that this means that work which could, in principle, be done in Switzerland is then done abroad, in order to avoid these complications. This finding indicates that simplifying export matters could lead to business activities being kept within the country if they do not constitute a hurdle for companies.

6.5. Implications from a Managerial Perspective

The findings implicate that managers of SMEs are faced with an array of decisions that need to be made. Reduced tariffs are an integral and in some cases the main part of a FTA. Companies, however, are responsible themselves for making use of the reduced tariffs that can apply in connection with FTAs. Reduced tariffs, in theory, equal savings that can be made when exporting a product. In theory, this therefore means that consequently, higher margins can be achieved, or that the product can be sold at a lower price. This, ultimately, can constitute a major benefit, especially in times of a strong currency. In the opinion of the author, however, the benefits that

could arise are further reaching than just pure cost savings, as correctly adhering to the rules and implementing suitable measures takes a large amount of organization and diligence. These are virtues that in general are highly beneficial to a company, and so managers should consider making use, if possible and economically sensible, of the FTAs. These hurdles, however, imply that managers are faced with major challenges in implementing these measures. The hurdles imply that managers of SMEs, as a first step, need to decide carefully whether the economic benefit of the reduced tariff rates outweigh the costs of trying to achieve these reduced tariff rates, considering also the fact that it may take time until this is the case. If these hurdles are manageable, then managers should decide whether or not and how to start steering against these hurdles, undertaking appropriate measures to reduce them as well as they can. The measures could vary from one company to another, and the author has included general recommendations in Chapter 8.

6.6. Revisiting the Theoretical Framework

The author was able to update the theoretical framework presented in Chapter 3 as follows:

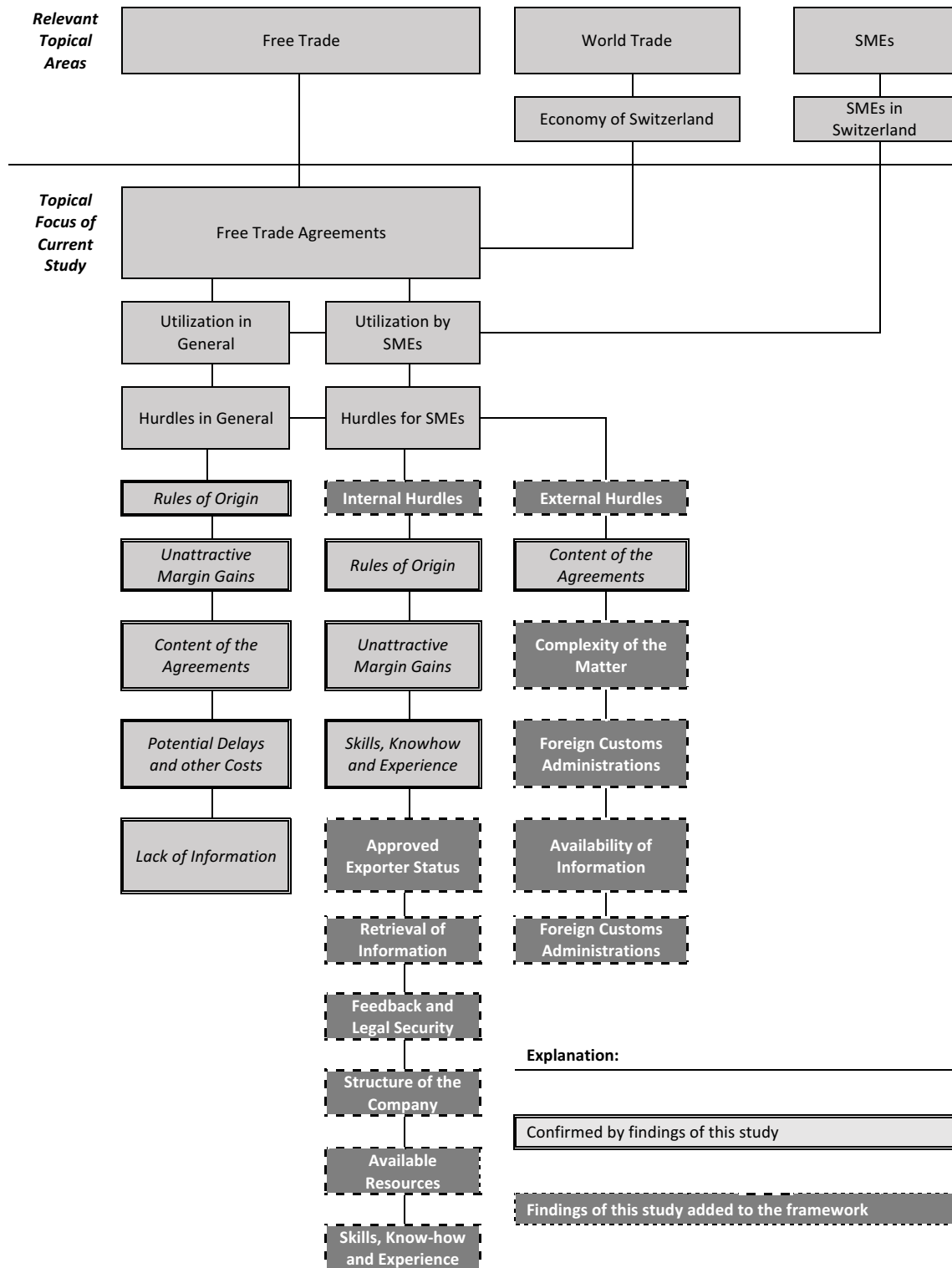


Fig. 8: Theoretical Framework with Findings of this Study included

In the illustration above, the hurdles which were confirmed by the findings of this study are in italic writing with a bold border and blue background. The findings of this study added to the framework are in bold writing with a dashed border and a green background. As seen in the illustration, the author was able to add several findings to the construct. A distinction is made between internal and external factors. The author can there confirm the findings from Yi (2015), Baldwin (2005), the WTO (2016b), Credit Suisse (2014), Ruprecht (2014), Brugger (2013) as well as Hulliger and Eberle (2015) concerning the hurdles that companies face in using FTAs.

7. Conclusion

The findings of this study illustrate a highly interesting but complex matter. The interviews with Swiss SMEs as well as the interview with the director of a respected association suggest that there are indeed hurdles for SMEs in Switzerland to use the FTAs in place with the country's free trade partners. Accordingly, the author is able to answer the initial research questions presented in the introductory chapter:

Research Question 1:

What are the most common hurdles that small and medium-sized enterprises in Switzerland face in relation to the usage of free trade agreements?

Research Question 2:

Which measures can be introduced to reduce the hurdles that small and medium-sized enterprises in Switzerland experience in relation to the usage of free trade agreements?

The results show that there are internal and external hurdles. The main internal hurdles are know-how, experience, structure of the company, effort and available resources, the costs involved, retrieval of information, dealing with special shipments, feedback and legal security as well as attaining Approved Exporter status. The main external hurdles are the complexity of the matter in general, the available information, the contents of the agreements and foreign customs administrations. These hurdles seem to take place in different stages. During the stage in which the company decides to start exporting under FTAs and at preferential tariffs, the hurdles are plentiful and include mainly the retrieval of information, lack of know-how, costs involved and in some cases also the contents of the agreement, as described in Figure 5. During the stage in which the company already trades under an FTA but wishes to attain Approved Exporter status, the main hurdles are structure of the company, the effort and available resources as well feedback and legal security, meaning assurance that they are proceeding correctly and according to the ideas of the customs administration. Once Approved Exporter status has been reached, the company may still experience hurdles, but the hurdles then often move towards external factors,

with foreign customs administrations often representing a potential hurdle. Hurdles therefore seem to decrease with time and the level of involvement in the matter, as know-how and experience can be built up and used to the company's benefit. This, in return, lets them capitalize on the actual benefits that a FTA is supposed to make available, and ultimately gives those companies mastering the matter a competitive advantage not only over those companies not exporting at preferential rates, but also over competitors from abroad.

In accordance with the hurdles listed above, steps need to be undertaken to support the SMEs struggling with the matter. When asked which improvements they would like to see, the interviewees explained that they would mainly like to see improvements to the notification and feedback mechanisms, to the retrieval of information, to the HS codes and to the rules of origin. In terms of the theoretical solutions, the author agrees with the WTO (2016b) that efforts on a multilateral level would definitely facilitate the reduction of these hurdles. The author also agrees with the suggestion by Müller and Nussbaumer (2016) to simplify the regulations concerning foreign trade and with the suggestion by Yi (2015) who stresses the importance of considering the impact of the design of the rules of origin. From a microeconomic perspective and linking the findings with the reviewed literature, the author tends to show the strongest amount of support for the suggestion by Brugger (2013) to appoint a designated specialist within the company to deal with the matter. The input by Müller (2014) explaining the system of electronic data transfer between the Chinese and Swiss customs administrations, enabling the transfer of pdf-files via a secured internet application is highly interesting. It highlights the possibilities that technologies could potentially create in reducing hurdles experience by SMEs. The effectiveness of this particular technology-based method would, however, take some time to measure.

According to the findings of this current study and the reviewed literature, the author developed a set of recommendations presented in the next chapter that summarize which measures can be introduced to reduce the hurdles that small and medium-sized enterprises in Switzerland experience in relation to the usage of free trade agreement.

The answers to these research questions imply that from a microeconomic perspective, managers need to make decisions on whether or not a company should make use of the reduced tariff rates, and which measures need to be undertaken to reduce these hurdles as well as possible. Coping with the current spaghetti bowl effect can constitute a considerable competitive advantage and in deed give access to attractive markets with over 2 billion consumers and increasing GDP growth rates, or ensure that goods can be purchased at lower costs.

From a macroeconomic perspective, the findings of this study allow the author to claim that falling utilization rates of FTAs could create a vicious circle, as they could ultimately lead to the avoidance of signing new FTAs, which in return could damage Switzerland's economy by putting companies at a competitive disadvantage compared to companies from abroad. In an eye-opening interview with one company, the author learned that while planning their supply and value chain, they may consider avoiding Switzerland due to complexity of the matter and that it may be cheaper and easier to work with a producer in the EU if the client is also in the EU. This is an example suggesting that trade barriers or complex implementation measures to take advantage of reduced tariff rates, especially in times of a strong home currency, could ultimately lead to Switzerland being damaged as a business location. The author agrees with the director of the association that the most effective means of simplifying and reducing these hurdles would be through actions on a multilateral level backed by the WTO. This, however, is currently unlikely given the policy uncertainty of major economies around the world and a seeming trend towards increased protectionism, illustrated in the very beginning of this paper. It is also unlikely, again backing the input of the director of the association, if specific industry sectors in countries promoting free trade in principle continue to persist on protecting their industries.

The author therefore sees FTAs as an instrument to increase the attractiveness of Switzerland as a business location and, theoretically, as an excellent means of improving the cost structures of a company. This is especially true for SMEs, who in principle could profit strongly from such savings. However, from a practical perspective and as proven by the findings of this study, hurdles do exist, and they do make it difficult for SMEs, who constitute an important part of the company and still make up approximately 99% of all registered companies, to profit from this potential strategic advantage. To conclude, the author is of the opinion that reducing the hurdles for Swiss SMEs to use FTAs could benefit not only the SMEs themselves but also the economy in general, consequently increasing the overall wellbeing of this already prosperous country even further.

8. Recommendations

Based on the findings of this research project, the author was able to develop a set of recommendations in relation to the problem under scrutiny. These recommendations were clustered according to different stakeholders and are presented in the following chapter, which is divided into recommendations for policymakers, recommendations for SMEs and further recommendations, especially for associations and educational institutions.

8.1. Recommendations for the Government and Policymakers

The findings of this study presented in Chapter 5 suggest that a distinction needs to be made between internal and external hurdles. The external hurdles, including the contents of the agreements and the availability of information, are factors which the SMEs themselves cannot influence. The government and policymakers, on the other hand, can and should take this into consideration, and the author has therefore developed two main recommendations for the government and policymakers which could, in the opinion of the author, lead to a reduction of the hurdles. These recommendations include implementing a more simplified communication strategy and ensuring the applicability of the agreements.

8.1.1. Implementing a More Simplified Communication Strategy

Discussing the findings, the author argued that many, if not all, of the internal hurdles for SMEs are in some form influenced by know-how and experience. Know-how, in return, is influenced by the availability of information. The interviewees agree that there is information available, but that the sheer amount, the structure, the potential costs of them if not retrieved from governmental sources and the underlying complexity of the matter can be daunting. The Swiss government currently has many information outlets which, in the opinion of the author, are very informative and helpful, but scattered across various sources, including the SECO, S-GE, the EZV and the KMU-Portal. For an individual with no prior knowledge of the topic, the amount of time needed to get acquainted even just with the terminology is a process that takes a lot of time. The availability of information applies in varying degrees to all of the stages of the model developed by the author depicting the relationship between hurdles and involvement. Some companies interviewed by the author stated that they would like to receive more support from the government

in dealing with the matter, and that a simpler provision of information could be the first step in achieving this.

This situation implies that the Swiss government does have excellent material in place to support SMEs but that this information, as mentioned above, is scattered across different outlets. Some SMEs seem to have issues in knowing which outlet to approach first, and the complexity of the structure as well as the terminology used makes the situation worse. The author is therefore of the opinion that simplifying the provision of information by official sources is a necessary first step in reducing the hurdles and consequently increasing the utilization rates of FTAs. This could be achieved by considering several factors. The companies agreed that the internet would be their first choice for retrieving information. The first factor would therefore be to streamline the information available online to create a single dominant source of information for SMEs. This has been achieved, to a certain extent, through the KMU-Portal or the website of S-GE, but lacks the second important factor, namely simplicity. The structure of this information available is complicated, and true practical applicability is not always given. Therefore, by using simpler terminology and including more practical tips, the SMEs can increase their involvement with the matter. Apart from a strong online presence for one-time research, the SMEs mentioned that they would like to be informed about current actualities and potential changes. This too can be difficult for SMEs to achieve given the scattering of information and outlets. Hurdles should therefore be able to be reduced directly and indirectly by improving the provision of information, mainly in the form of streamlining information available online.

8.1.2. Ensuring the Applicability of the Agreement

The following recommendation incorporates two main aspects, namely general applicability from the start of the agreement and update of the applicability. The interview with the director of the Swiss Textiles revealed that certain aspects of specific agreements, such as the one with the EU, are outdated. This can put Swiss companies at a competitive disadvantage if the applicability of the agreement is not ensured. These findings stipulate that policymakers should consider ensuring the applicability of the agreement. This is especially true, also, for the rules of origin. For many, the rules of origin are a serious hurdle, and given the current spaghetti bowl effect, this problem may intensify in the future. In order to avoid increasing complexity, policymakers should strongly consider taking the needs of the companies, including SMEs, into consideration when drafting the rules of origin.

8.1.3. Further Recommendations for the Government and for Policymakers

The study conducted by Swiss bank Credit Suisse revealed a further valuable input and desire by the SMEs. Out of all potential partners for a FTA with Switzerland, the United States of America was voted the most urgent and desirable by the SMEs. Trade between Switzerland and the United States is very strong, and creating an even stronger trade relation with reduced tariff rates would be an understandably attractive opportunity for many companies in Switzerland to improve their export cost structure.

The need for a FTA was especially strong in light of the potential threat of the TTIP, which most likely would have significantly reduced Switzerland's overall competitive advantage. Naturally, the implementation of this desire for a FTA with the USA brought forward by the SMEs will be difficult to implement in the next couple of years, given the current uncertainty in relation to policy measures in the United States and the prevailing sentiments in favor of protectionism by the current administration. Nevertheless, and from an elevated perspective, closely following and taking into consideration the needs of SMEs in terms of potential free trade partners can, in the long run, create a more favorable business environment for SMEs.

Studies like the one conducted by Credit Suisse in collaboration with S-GE are an ideal tool for implementing this recommendation or even simply understanding the ongoing needs of SMEs. Alternatively, regular and reoccurring questioning, for example in the form of online polls, of either SMEs or associations representing SMEs could help improve policymakers' understanding of the desires of SMEs as to which direction they would like the country's activities in relation to trade agreement to go.

8.2. Recommendations for Small and Medium-Sized Enterprises

The author has developed the following set of recommendations for SMEs to deal with the hurdles that they face in relation to the application of FTAs.

8.2.1. Building of Know-how through Streamlined Processes

As mentioned several times throughout this report, know-how is a key success factor in dealing with the matter and making use of the strategic advantage that FTAs can create. Accordingly, and in line with the findings from Brugger (2013), the author suggests appointing one or two individuals (or more depending on the size of the company) within the company to become experts in the field. This, accordingly, should streamline processes, reduce the amount of work for other employees and accelerate the buildup of knowhow, as this or these individuals deal with the matter on a reoccurring basis.

8.2.2. Aids for Small and Medium-Sized Enterprises

During the course of this research project, the author has come across a number of valuable leaflets, tools and guidelines provided by various institutions to help better understand the topic of FTAs and how they can or should be utilized. These aids can be a great help for SMEs, especially those affected by one of the main hurdles in the usage of FTAs determined in this paper that is the lack of know-how or resources to read up on the topic. Therefore, in the following section, the author will present some valuable aids for SMEs in Switzerland. In order to do so, the author has grouped the aids and split this section into helpful guidelines and reports for SMEs as well as helpful tools for SMEs.

Helpful Guidelines and Reports

The Swiss government has produced a guideline called Richtlinie 30 (R-30) which includes regulations and information concerning FTAs. The first part of the guideline walks the reader through the regulations in relation to the rules of origin within the context of FTAs. The second part includes important federal legal bases. The third part of the guideline features a table which links the reader to the relevant part of the respective FTA and includes information on different specifications of some the FTAs. The guideline, in the opinion of the author, acts as a solid assembly of important information. Although possibly somewhat complicated for first time users and users new to the topic of FTAs, it is helpful in gaining a good overview of the topic and finding the necessary information.

Helpful Tools for SMEs

S-GE developed an online tool named Trade4Free, which aims to help Swiss companies deal with the complexity of FTAs as well their practical application, especially in relation to the rules of origin and proof of origin. The tool walks the users through the following 6 steps and provides relevant background information for each of the points:

- Step 1: Target Country
Users check the status of the FTA between Switzerland and the target country (e.g. in effect, in negotiation, non-existent).

- Step 2: Customs Tariff Code
Users determine their product's customs tariff code by searching for it or having it determined by the Directorate General of Customs.

- Step 3: Normal Customs Rate
Users check the normal and preferential customs rate in the target country.

- Step 4: Benefits
Users decide whether or not to use the FTA.

- Step 5: Rules of Origin
Users check which rules of origin their product have to meet.

- Step 6: Proof of Origin
If the origin criteria are met, the users create proof of origin for their products.

The Swiss Federal Customs Administration has two E-Learning tools in place to aid Swiss companies deal with the complexity of the matter. They developed an electronic training system to support Swiss export companies in strengthening their knowledge in the area of FTAs, preferential origin and the Pan-Euro-Mediterranean origin protocols.

The first E-Learning system, available in German, French and Italian and consists of the following 8 learning modules, each focusing on a different knowledge area related to FTAs and the rules of origin:

- Chapter 1: Historical aspects and territorial scope
- Chapter 2: General rules of origin
- Chapter 3: Provisions in relation to the accumulation of goods of origin
- Chapter 4: Certificates of origin for input materials
- Chapter 5: Other rules of origin
- Chapter 6: Post-check of certificates of origin
- Chapter 7: Status of Approved Exporter
- Chapter 8: Details of specific industry branches

The second E-Learning system was developed as a tool to support companies in dealing with the Pan-Euro-Mediterranean origin protocols which were introduced in 1995 to increase the scope of the pan-European accumulation system to include further partner countries in the Mediterranean basin. The tool, which like the above is available in German, French and Italian, is split into 4 modules, followed by a test:

- Module 1: Origin protocols
- Module 2: Origin transfer
- Module 3: Certificates of origin
- Module 4: Country of origin and note concerning accumulation

8.3. Further Recommendations

Apart from the recommendations for policymakers and SMEs, the findings of this study allowed the author to develop further recommendations aimed mainly at educational institutions and corporate association. In this section, the author will accordingly first present the recommendations for educational institutions and recommendations for associations.

8.3.1. Recommendations for Educational Institutions

In one of the interviews, the interview partner criticized the fact that educational institutions, even in business related degrees, do not teach the practical application of issues related to tariffs. This, given the importance of cross-border trade to Switzerland, means that many graduates have a theoretical understanding of the concept of trade, but are unaware how to actually proceed as efficiently as possible when exporting a product from Switzerland into a foreign country.

Accordingly, including a more practical and realistic approach to trade education could improve the overall level of knowledge and therefore tackle one of the major hurdles in relation to the application of FTAs, which is the lack of knowledge itself. Students aware of how to apply for tariff reductions when trading with free trade partners are therefore able to bring this knowledge into the company, creating a benefit for many within the company. This would also raise awareness, improve cost structures and accordingly also increase the usage of FTAs, ultimately creating a virtuous cycle.

8.3.2. Recommendations for Associations

Associations like SWISSMEM and Swiss Textiles do an excellent job in promoting the interests of SMEs. Especially for MSMEs, these associations act as a means for accessing know-how which, due to the small and specialized nature of these MSMEs, may be extremely costly and difficult to access otherwise. By supporting and promoting the interests of the Swiss SME landscape, these associations can act as an aggregator for the voices of SMEs and can, in return, influence policy makers into taking the wishes of such SMEs into consideration.

The literature and especially the in-depth interviews have shown that the challenge for SMEs in the utilization of FTAs is not just an initial challenge which, once overcome, means that they can easily enjoy preferential tariff treatments. Keeping up to date with the developments is another major challenge and being informed about potential changes. If policymakers, for whatever reason, do not introduce a method of keeping these SMEs up to date about changes or potential changes then these associations can act as an excellent means of keeping SMEs informed, be it through the use of electronic newsletters or by incorporating the topic of FTAs into the regular meetings.

Like this, especially those SMEs which lack the know-how of either retrieving information or applying the FTAs can remain informed and act accordingly, ensuring a position of competitive advantage in the economy and strengthening the performance of the members of the association. This, in return, will also strengthen the performance and position of the association, creating a triple win situation for the companies, the state and the associations.

8.4. Limitations and Further Research

The author sees the fairly small amount of interviews as one of the main limitations of this study, despite the in-depth nature of the interviews and the premise that a limited number of insights is justified in qualitative research. An increased amount of time and financial means would have allowed for an increased amount of interviews with partners across various sectors, as these partners may have experienced different hurdles than the members of the Swiss Textiles and SWISSMEM associations. This, ultimately, would increase the generalizability of the study.

The study, given the scope, also only focused on the benefits of FTAs in relation to preferential tariff treatments, neglecting other potential benefits of the agreements linked to services and intellectual property rights. The hurdles experienced by SMEs who, in theory, could benefit from these aspects may differ greatly to the hurdles experienced by SMEs profiting mainly from reduced tariff treatments.

Tariff matters are sensitive as they are linked, amongst many things, to the margins of the company and to legal compliance related matters. By not receiving detailed insights into documents and relevant numbers of the interview partners, the author had to rely on the statements of the individual interview partners. Gaining insight into the cost structure of the products being exported, the forms being used or contractual agreements with carriers could have allowed for a more detailed understanding of the situation and identification of issues. This would then have allowed for a more detailed formulation of recommendations.

Furthermore, if a carrier was involved or mainly responsible for export matters, then the hurdles in relation to the FTA might just have been shifted to the carrier. In an ideal setting, the carrier of the SME being interviewed would have joined the interview to complement the statements of the company and explain which issues they may experience for the particular product being exported.

In addition, the complexity of the matter and limited timeframe prevented the author from extending the scope of the research. An analysis of the root cause of the issue at hand in detail by retracing the issues to their true source would have lead the author to the complexities of the global trading system and WTO-governance related issues.

Based on these limitations, the author suggests future research to increase the scale of this study. This would allow for a more detailed overview of the hurdles and the necessary steps to reduce these hurdles. This could take place, for example, by increasing the amount of interview partners and expanding the scope of the study to different industry sectors, which may face different, specific hurdles to use FTAs. This is especially true also for hurdles which companies may face in relation to the other contents of the so-called second generation agreements, such as trade in service or the protection of intellectual property rights. In addition, testing the applicability of these hurdles through quantitative analyses would increase their generalizability.

The author of this study focused on the hurdles in general, but is of the opinion that further research could focus on specific hurdles, such as the rules of origin and the aspect of cumulation, given the increasing complexity of the matter. Understanding and conducting detailed analyses on specific hurdles would allow for more in-depth insights into the specific factors. Also, the author suggests analyzing not just the hurdles as such, but the actual effects of such hurdles for SMEs in Switzerland on both the domestic and the international economy.

The findings of this study allowed the author to define a relationship between the hurdles faced by SMEs and time, showing that the hurdles differ according to the level of involvement and that the amount of hurdles generally declines over time. In order to reduce the hurdles as efficiently as possible, the author is of the opinion that further perspectives need to be taken into consideration for future research activities. One example would be to define the hurdles not just in relation to time, but in relation to the value chain of the product. Referring to the global fragmentation of production processes, hurdles for SMEs in Switzerland may vary according to stages of value creation in which they are active. This would allow for an even more detailed formulation of recommendations. Defining and tackling these hurdles could, in the opinion of the author, further strengthen potential competitive advantages, given the importance of global value chains in today's globalized world.

By focusing future research activities on gaining an even more detailed understanding of the hurdles, more specific recommendations can be formulated. More specific recommendations can then result in more effective measures to combat these hurdles and increase the usability of FTAs. This, ultimately, should give all companies, both large and small, the opportunity to benefit from FTAs more effectively by making use of the strategic advantage they meant to provide in the first place.

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10. Annex

10.1. Transcript of Interview Number 1

10.1.1. Interview Information

Industry	Textile Industry
Position of Interview Partner	Management Position
Place	Zurich, Switzerland
Date	8. August 2017
Timeframe	17:00 – 18:00
Note	Interview translated from German into English by Samy Shalaby. Questions by Samy Shalaby are in italic and bold writing.

10.1.2. Questions and Answers

Could you, in your own words, describe the company you work for?

We produce tailor-made apparel, with the USP that everything is done online. We have some resellers and stores that we work with, but most of our business happens exclusively online. Customers interested in ordering clothing items can access our website, pick a clothing item, measure themselves, enter the measurements and the tailor-made apparel is delivered home to the customer via postal service. This is our business model. We also try and produce as much as possible locally. We have a production site in Germany, but most of our products are produced in the Ticino. Sustainability and an ecological awareness is very important to us, and we know this is important to our customers too. Despite the fact that we offer tailor-made apparel, we can still offer them at interesting rates. We are not talking about H&M rates, but still interesting and competitive. Switzerland was always our main focus, but we started exporting to Germany 2 years ago. Germany was of course the first interesting international market as we did not need to change all our marketing activities, especially in terms of the language. We also started doing business in London, which is very interesting, but we will have to wait and see how this will develop as we only just started doing business there.

In general, how do FTAs, especially in terms of preferential tariffs, affect your daily business?

Our business model is easily scalable - we remain an online-shop. We need to increase our production, of course, but we do not need to open shops in different areas, so we rather quickly came up with the aim to export to different countries. In terms of tariffs, our activities are still all only in the European Union (including England for the time being). The European Union is an interesting market for us. In relation to our sales channel, we currently send everything to Germany. Let's forget about the production site in Germany for a second. Our jeans are produced in the Ticino and are then sent to Germany. This means that all topics concerning customs duties happen at the German border. We then ship the goods onwards from Germany for orders outside Germany or Switzerland. Theoretically, to all EU countries. This is interesting for us as because the fact that we have a production site there, and we are registered there with a German VAT number and worked intensively on building a model with our shipping partner which can help us deal with matters more efficiently. In terms of tariffs, I always only get bills from the German customs administration. This is an easy system for us, but only as everything was up and running did we realise what kind of bills are all coming in now. We didn't plan our expansion 2 years ahead but said we want to export to Germany and then sent the first parcel after 2-3 months. We did this consciously, and defined the whole process as we proceeded, together with our shipping partner.

When you first started dealing with the topic of tariffs, how did you proceed and what hurdles did you face at the time?

We really just sat down with our shipping partner and told them we want to export to Germany – what should we do? They then said you need this and this, you need to register there and there, and you need this and this number, and on your bills you need this and this text. So we proceeded with very little know-how or even none at all from our side and just gave it a go. After a certain period of time, we got an initial feedback in the form of a bill. We now saw that we pay these duties at customs and these import taxes in Germany. Only then, two months later, did we ask ourselves: what is with these expenses? They are really high! A total of 30%. Can't we somehow pay less? And then we really just informed ourselves on websites like the one of Switzerland Global Enterprise, which I visited a lot and I even had a personal meeting with them once, but that was later on and for activities in Norway. So we tried to find out: can we somehow reduce these rates? This is when I then started dealing with FTAs. And this a complex topic, as I soon found out that we need to be able to declare the preferential origin of the product in order for them

to qualify for reduced rates. We knew from the start that our products would qualify as originating, at least in line with the FTA between Switzerland the EU.

Looking back, what kind of support would you have wished for at the time, when everything was still new to you? What would you see as the ideal solution for SMEs that are in that situation?

Know-how. More of it. We were and still are a young, dynamic, start-up and it is normal that know-how can be missing at times for certain topics. We were, however, used to quickly building up new know-how. Start-ups that have been active in Switzerland for 15 years and then decide to export internationally will be in a different situation. Ideally, I would have been able to meet with someone who has done this already, a specialist in this field. This person could then support us in setting up everything. But we have a learning-by-doing mentality, we'll give it a shot and see if it works or not. If it doesn't work, we'll make adjustments. If we had said we'll get an expert then we would have had to spend several thousand Swiss francs, so we decided to do it ourselves. We definitely lacked know-how, and there was also the fact that one is not informed automatically how this all works and what we need to do. In all other cases, the authorities are usually pretty quick to inform you about something, but here this was not the case.

That is an interesting point about being informed automatically. What would the ideal solution look like to you in relation to being informed automatically?

Well the state already has a very good service with Switzerland Global Enterprise. I have met up with people from S-GE and it was very informative. But of course you need to know exactly what you want, because the work at the end of the day remains ours, and we need to implement everything at the end of the day. The state also has an e-learning platform. I do not have a background in business administration, of course everyone has heard of free trade agreements, but what if you have never learnt how to actually deal with them in practice? Knowledge is one aspect, but the practical implementation is the tricky part. Especially for the whole implementation to be successful and for it to be correct when someone comes and checks everything. We have implemented some things, but are yet to find an atomised system.

You mentioned the good service provided by S-GE. Could you explain in further detail why you were happy with the service provided by Switzerland Global Enterprise?

Their website is excellent, and it is easy to get in touch with them and have a first meeting with them. I guess if you actually carry on profiting from their service then you will have to pay for their services. They were also able to provide contacts, which of course is very valuable to a start-up.

You also mentioned the e-learning platform provided by the Swiss government. How happy were you with this service?

It was good to get an initial overview concerning the topic. But again, all this theoretical knowledge is not worth much if you don't know how to implement it and put it into practice. To provide an example: one can write a simple sentence on the bill if the product qualifies as preferential, and this needs to be signed by hand. We still do this with every postage, and it works, so we do not pay the corresponding tariffs anymore. The next step, however, is becoming a so-called Ermächtiger Ausführer (EA), or Approved Exporter in English. And when it comes to becoming an EA, the government has provided documents which need to be filled in and handed in. These documents say that it needs specific qualifications and people that are responsible for this topic within a company, who need to be schooled. And completing this e-learning seems like a great step in this direction. We have not applied to become an EA yet, so we still sign everything by hand. But it's a first step in the next direction, which would be becoming an EA. So whether the government will say yes, our company can attain EA status and can omit the signature (which of course would be an additional improvement to our efficiency as we always need someone doing this). There are always various stakeholders involved. Upon deciding that we want to export to a country, you need to involve a lot of different people: production, people responsible for documentation, which is linked to our IT-system. Everyone has gained experience, everyone is involved in this process, and so it is also extremely important that the communication process works. And at the end, you will only know if everything worked when the bill comes back. Whether or not the tariffs were deducted. This process, in my opinion, is still a little non-transparent and unclear. I would love to physically follow a parcel around and ask every person who holds the parcel in their hands, especially at the border, whether anything can be improved or simplified, because this is also our mentality: simplification. So we often ask ourselves: how can we make this entire process simpler?

How easy was the process of proving that your products qualify as originating?

There is a list, depending on the tariff code, which criteria needs to be achieved. We looked at this and knew that this would not be an issue and that our products qualify as originating as all our materials come from Italy or Germany. Nearly exclusively of preferential origin. We have all the statements and receipts and we know that they qualify as such, but would have to collect all of this and put it all together. This is also one of the reasons why we haven't applied for becoming an EA yet, because we first want a clear process to always prove that everything is of preferential origin. This is one huge non-transparent point, because we do not know what the state would want to see if they say we need to prove that our products are of preferential origin, so we want a system in the background through which we can prove this straight away. I would really like to know how other SMEs do this. How many SMEs have EA status? Or how do they proceed? I would like to know this.

So I think an important question is, do SMEs export and if so, do they do this as an EA? The hurdle of becoming an EA seems higher to me than just profiting from reduced tariffs. Reaching EA is a trade-off: we need more structure, but then the process at the border is easier. How do we declare apparel that is not exported for sale but just used for a photo-shooting session? The process of how things should be declared at the border is still not very clear.

So how do the hurdles that you are facing now differ from the hurdles you faced in the beginning?

I would love to see some guidelines. The document that is needed for attaining EA status of course lists some requirements, but I am yet to discover what best practices are for attaining EA status. If I knew what the government checks when they audit companies in terms of the rules of origin, then I would know exactly what I need to focus on. This concerns the EZV in Switzerland. We also need to consider the customs administration in Germany. The customs administration does not have a consulting function, they just tell us yes, this is good or no, this is not good and you need to send us this. So I wish sometimes that the customs administration had a consulting function so that we could speak to them and they would tell us how to handle cross-border trade most efficiently for them, so that things don't get stuck at the border. This information might be out there somewhere, but then we are back to the topic of knowledge provision. There are also private individuals or companies who act as consultants concerning this topic, and this might be a next step if we need further help, but this costs money of course. However, the Swiss EZV is

less interested in what is leaving the country compared to what is entering the country, and since we export to Germany, we deal a lot with the German customs administration. The Swiss EZV offering a service therefore seems a little odd, because they are mainly interesting in what is entering the country, not as a main point of reference in terms of what is leaving.

Interesting point. So do you think that more collaboration on an international level needs to happen in order to increase the overall efficiency of companies in cross-border trade?

The problem with international collaborations or large international organisations is that they are not really concerned with the implementation. They say these are the requirements, but the company is on their own. I expect that a lot of their decisions are trial and error. A year ago they restricted bundle-exports with one single tariff rate. So we approached our shipping partner and they were creative enough to come up with a solution. They give the guidelines and companies need to implement them and follow these rules. So it is like with laws, which are established, but the actual implications are only seen after they have been passed and time has gone by. The same applies to our exports, it works, but we get feedback in terms of costs or that one parcel did not arrive etc. The alternative would be to plan for 2 years, think of a system, but until then we would not have exported a single clothing item. That is not something that a Start-up does.

How, in your opinion, would more services by the government influence the productivity or cost-efficiency or successfulness of SMEs?

If there really are companies that do not use the reduced tariff rates even though they could, then I would be really interested in finding out why, because they can save money! Yes, more services would be good. Yes, their current services are good. But still, dealing with these issues is an additional burden to us. Who takes the time, in a company with 20 people, do deal with all of this? We know none of us are absolute experts in FTAs and their implementation. I can imagine other companies also ask themselves whether it makes sense or not to attain preferential origin status for their products.

How much work does this topic constitute for you at the moment?

I have currently neglected the topic a little because of the fact that it takes time. I need to invest additional time on top of my daily business to deal with this topic. Right now, if I wanted to reach EA status, I could do so and send it, and then I'll get feedback. But I want to take the time to do

this. Yes, it is a considerable time factor but now, it is not a huge project. The tedious part is involving all the different people, despite the fact that we are a small company. Internally, externally with our shipping company etc. It would probably take several months until we would get the status, but I think it would take us less than 50 hours to prepare everything, but then of course everything needs to work and EA status needs to be provided.

Looking into the future, let us assume you reach EA-status and you might start exporting to other countries outside the EU. What sort of hurdles do you expect to reach then?

I hope things would be easier then. Once we've set up something with one country, and we have a solid IT-system with a good process which linked bills to preferential origin etc., then we should be able to handle other FTAs more easily. But I couldn't quite say yet what other hurdles await us. If UPS tells us that we can export to the US, then we might try. The first few months might be hard, but we'll see what happens. These tariffs are very important, but only to save money. They don't stop us from exporting, they just make them more expensive and our margins suffer. So FTAs offer a possibility to keep the costs of cross-border trade lower, but it is difficult to profit from this possibility. It all takes time. It will always remain an issue.

Do you have any other inputs that you would like to share?

I would actually be very interested in knowing whether you ever dealt with this topic during your business administration studies on bachelor or master level?

We dealt with the topic of international trade and free trade agreements from a theoretical perspective. We never had a workshop or a practical schooling how I could one day benefit from the advantages of a free trade agreement and how to practically implement them.

You see, that's interesting. I only started dealing with this topic when I got a bill that was sent back from the German customs administration where 30% were added on top of the bill, and we are the ones paying this, not the customer. So I approached this topic from a very practical perspective. We have a problem: we are losing money - how can I avoid this? Then I started reading into this topic and realised it's a huge topic. It seems like most information is online, but you need to look for it. And I never found a clear guideline saying you get this and this piece of paper that you need to keep etc. It's all about linking theory and practice. It's about practical

implications. To sum up: the know-how was not available, but this can be learned. The process of the practical implementation needs to be done, and this costs time!

You mentioned that you do not have a background in business administration – what background do you have then if I may ask?

I am a pharmacist. The two founders are from the ETH, and I know them from there. I've always done a lot of accounting in my life, but I taught myself. I see parallels to the current issue: it's about a problem analysis. About detecting a problem and finding a way to solve this problem. It is a shame that some companies don't use the benefits as we are talking about a lot of money that these companies can save! But on the other hand, I can understand that some companies don't know what to do: daily business, you get a bill for sending something to Germany, this is paid and put away. End of story. So either you know it, or you don't that you can save money. Export activities can be set up, and they can work, without anyone ever saying "hey, this could be improved!". For the state, it's good that you export, but they do not profit directly from the export, but from the imports. So I guess this is the reason why there isn't a streamlined process for taking companies by the hand and telling them you need to do this and this and keep these documents.

End of the interview.

10.2. Transcript of Interview Number 2

10.2.1. Interview Information

Industry	Machine, Electrical Engineering and Metals (MEM) Industry
Position of Interview Partner	Management Position
Place	Zurich, Switzerland
Date	14. August 2017
Timeframe	17:00 – 18:00
Note	Interview translated from German into English by Samy Shalaby. Questions by Samy Shalaby are in italic and bold writing.

10.2.2. Questions and Answers

Could you, in your own words, describe the company you work for?

We are a service provider. We get orders from our customers to develop electrical equipment. Hardware, software, entire systems, mainly in the German speaking area, including Switzerland, Austria and Germany.

So you export the products that you produce?

Depends on how you look at it. We can hand the production process over to other service providers who know how to deal with export matters. The issues we have mainly occurred in the development phase, because the regulations apply here too despite the quantities being very small. The effort is disproportionately large compared to the value of the goods. Of course, as long we just produce documents we don't have any issues, we can exchange them electronically as we do not have a carrier within the loop. There, all the VAT and customs related issues are very easily handled via the billing process. We say the whole work package costed CHF 30'000 and the customer wires us the money, and the VAT is levied. The problem arises when goods pass through borders. This is the case when we send samples or when we send parts in small quantities between us and the customer. One sample without any value is easily declarable, but as soon as the quantities increase to 5 or 10 pieces then it is not easily declarable and we are then faced with an enormous workload.

What does this workload include and what are the main hurdles in dealing with this workload?

It's mainly a time-related effort. We can't just take a parcel to the post and the next morning it will arrive at the customer via overnight service. The whole thing needs to be planned a lot earlier, a courier needs to be used, which again is linked to additional costs. The courier charges more, but even here you've got deadlines as to when they can accept parcels. At the post I can hand it in until 20:00 and it will be delivered to the recipient by the next morning! This doesn't work when shipping across the border, and I need to plan everything further in advance. This, in a business where days or even hours play a major role, is a big competitive disadvantage. Extra effort! Another difficulty is that once it's like this, the other time is like that. Every shipping partner has different procedures and rules which need to be adhered to and the complexity just makes it so difficult if you don't do these things on a daily basis. Of course, if we had a large delivery department which sends 10 parcels a day to Austria, 20 to Germany and 70 in Switzerland then you've got a process and everyone knows what to do. We send something twice a week only! Usually under time pressure. The customer needs the goods tomorrow morning, we just finished it now. This is the classic case, it's 17:05, the product works, let's send it, and then it starts. How do I proceed again? I need different invoices, different export papers, I need to inform the courier - it's tiring. A parcel within Switzerland is fine and simple, sticker on it and send it.

Does this mean that the goods that you export abroad and which aren't or can't be declared as a sample are exported at a reduced or zero tariff? Or do you just pay the normal tariff rates (depending of course if the product would even qualify for a reduction or exemption)?

I'm just happy if the goods reach the recipient! The reduced tariff rates will apply when a device goes into production and we have an overlapping production. We have a project where this will be an issue. Part of the production process will happen in Austria, part in Germany, part in Switzerland. This means that we have shipments coming from Austria, from Germany. We've got products that go from Austria via Switzerland to Germany, are reprocessed there, come back to Switzerland, are then reprocessed again. The whole package then goes to Germany for further adjustments, comes back to Switzerland and is finalised, then it goes to the customer in Austria. I can tell you that we have not yet informed ourselves about how this is going to work, and we are anxious even just because of the sample shipments. The transport routes are going to increase, the duration of the transport will be increased and of course the costs!

How are you going to try and save costs in the form of indirect taxes when going through all of this?

We have not thought about this yet, it is still all driven by the technical requirements. The specialists involved are scattered geographically and we have not thought about the costs yet whether it would make more sense if one of the service providers would be in Italy? The important part for us here is that we have service providers that are highly specialised in their area and we can be happy that we found one in the first place. So everything is technologically driven.

Does this mean that if your goods, in principle, were eligible to a tariff reduction or exemption, you would still consider exporting at the normal rate if attaining these reductions would be too complicated?

Yes. In the beginning definitely. We would be willing to pay more because it needs to be done and we are not informed about the topic. Lack of knowledge, plain and simple.

Very interesting. In your situation right now, what kind of help would you like in order for you to better manage this topic?

Well there are several aspects that generate costs. One is the whole handling of small quantities. 100 – 200 francs. If you think that you have goods that cost 200 francs, you import them, pay 8% VAT, so 16 francs, and then you have 30 CHF costs for the courier and 20 CHF original commission (Vorlageprovision in German). This means I pay 16 plus 50 francs extra. One could say: well what are 50 francs? But during the course of such a development project, we have 30 to 50 shipments for materials etc. and this all adds up to a high amount. We are battling the strong Swiss franc already anyway, and these things mean a competitive disadvantage for us in terms of costs and time. We cannot bill the customer the original commission costs.

Let's assume you decide to tackle these problems in relation to customs duties. How would you proceed?

Well the first step would be to find out if there are reduced tariff rates in the first place. This means we need information. Which again is linked to time effort. We receive so much information all the time, we can't structure them so that on day X, when we need them, we know how to retrieve them. We get brochures, put them away, 2 years later you are in a situation where you

need exactly what was in that brochure but no one remembers that we got a brochure two years ago from the federal customs administration, for example. What I would like to see here is a platform along these lines: customs administration. Export. SME support. Click. I want to export goods. I enter my data, as a file for example. And now someone takes me as a SME by the hand and says we will provide you with all the information you need according to your situation and ready to use! So I get one PDF, maybe 10 pages, with exactly those documents that I need. The first one might be a sticker for my parcel that I want to send, the next documents are the export papers which you put into here, one paper for the statistics department, maybe even a barcode so that the people from export handling can scan it and we can send everything more efficiently. We would have two benefits: legal security, so knowing that we are doing everything correctly, and of course speed, which is linked to costs. So many processes could be easier, quicker and more transparent. This would be the ideal case. Automatically many hurdles would fall away, because we would know exactly how much to pay! The machine analysing my file spits out the relevant HS code, tariff rate and whether we can save money. It would improve a lot for many companies.

You mentioned many benefits that a simplification would have for your company: legal security, cost savings, process optimization within the company. What do you think are some of the other benefits that the entire SME landscape could profit from?

I think many SMEs would profit from this. I mean if I send a parcel today in Germany I have a web portal where I register, say I am the sender, give the specifications. They say it costs 6.80 Euros, paid by credit card, I get a paper, A4, can print it and stick it on my parcel like the Deutsche Post wants it. I get a tracking number, I take the parcel and put it in an automatic parcel-station. It's so user-friendly! This is how I imagine it with further modules as a service for the customs administration. The tariffs are reduced automatically or payed by credit card if I rarely use it, for example. I find it important to have two solutions: the ad-hoc solution for doing something once every 3 months, and I need a solution for the very frequent user. Other things have this: you take the tram where you can either have a single ticket if you only irregularly take the tram. If I do this more often, I can get a subscription. So a solution for the regular and irregular user. So yes, if the federal customs administration or other state institution took the time to implement a simpler process, then especially many SMEs would profit! A large company has its own departments. For a small company like ours with 13 people we don't have this manpower. This applies to many other aspects, not just indirect taxes. So we as SMEs have a competitive disadvantage because we don't know the benefits, and even if we knew them, we are reluctant to implement them because we often think the return on investment does not make sense! SME miss out accordingly.

Looking at the situation you are in now and in order for policymakers to understand your perspective, could you explain how you exactly would decide to proceed with your level of knowledge when you want to access relevant information?

I think I would visit the websites of the relevant institutions and would expect a section help for SMEs where I find a guide. If this is not the case, then the only other option is to go to a consultant for help, which however is linked to costs and is a strange business model. Others profit because policies are so complex that I don't know how to handle them. At the end of the day it is a competitive disadvantage again. The consultant has a fee, and with the value of my goods, I might not save that much money. So it wouldn't make sense.

So have you ever tried to inform yourself through the customs administration or helping institutions like S-GE?

No. We have not done this yet because it would not have made sense in terms of the volume. If I'm honest, we sometimes even try and avoid these issue by finding a producer where the customer is. So we supply the producer with the necessary information. Sometimes this doesn't work, but bottom line is we sometimes follow strategies of avoidance in order not to even deal with these issues. Therefore, we are willing to take on us the disadvantage of finding a producer who may be a little more expensive, but if he's in the country where the final good is going it makes things so much easier. At the end of the day this harms Switzerland as a business location, because work that could be done in Switzerland is now done in different countries because of all these formalities. It's not just about tariffs, it's about making and keeping Switzerland attractive as a business location. These strategies of avoidance mean Switzerland is losing business, and obviously we are not the only companies doing this, so many companies are doing this. Of course the volume is not big, but as a whole and from a macro-perspective it is important. We would love to have just local partners who are closer to us, but these hurdles costs so much. It's not worth the effort. Accordingly, I can understand that the European Union is prospering, despite of course many issue too, but precisely because all these barriers have been reduced or eliminated.

Do you have any final statement you would like to end this interview with?

Adhering to all the complex rules and regulations and using them to one's advantage is extremely difficult for SME, whether these are in relation to VAT, Tariffs or other aspects, which just generally negatively affect your business. So especially for SMEs the situation is very difficult. And things can only change if you actually give input and speak up.

End of the interview.

10.3. Transcript of Interview Number 3

10.3.1. Interview Information

Industry	Textile Industry
Position of Interview Partner 1	Management Position
Position of Interview Partner 2	Operational Position
Place	Zurich, Switzerland
Date	15. August 2017
Timeframe	16:30 – 17:30
Note	Interview translated from German into English by Samy Shalaby. Questions by Samy Shalaby are in italic and bold writing.

10.3.2. Questions and Answers

Could you, in your own words, describes the company you work for?

We work in the textile industry, where we procure textiles, have them weaved and then refined. We work with the whole textile industry in Switzerland and export 98% of our exports. A large part, maybe 30%, goes to the Middle East.

So you export to countries that have a FTA with Switzerland?

Yes, some of the destinations we export to have concluded a FTA with Switzerland.

And what impact, generally speaking, do these FTAs have on your business?

We can export our products at reduced or eliminated tariff rates. This is especially interesting when exporting to GCC countries. Within the Euro zone we also have FTAs but these are not as complicated as some of the others in my opinion. We use the EUR.1 Certificate for the GCC countries in order for them to import at reduced taxes.

You mentioned on the phone prior to this interview that you do not have any issues in using the FTAs. Why is that?

Laughs I'd need to speak to my in-house staff! They just do such a great job every day and have a huge amount of know-how. If I'm honest, I have some of the least amount of knowledge on this topic! I am the textile specialist. And everything they do works very well, and if there is a problem they solve it themselves and usually don't confront me with it. I can later ask for my colleague to join the interview if you like. Concerning the GCC FTA which we mentioned, we only started taking advantage of the benefits one year after it had enter into force. This is unfortunate, and we should have started earlier and reacted earlier to it in hindsight, but did our best in implementing the benefits straight away. The first thing I did was write to my clients that there is a possibility for you to import at reduced or eliminated tariff rates, and this is a competitive advantage, as the previous 5% do not apply anymore. So that's 5% less costs. We are expensive already as a Swiss supplier and this gives us a bit of a relief from this, so I try to implement this all the time. Some customers have not done anything, and other have said definitely, we need to do this so we can trade at eliminated rates. Now the system works well.

So do you have a standardised process in place for dealing with the matter of preferential tariffs?

Yes, we have an organised system with good people in the background, and I rarely hear of any cases where my colleagues have issues. Of course there are always exceptions, but as a whole it works well.

Were you ever in a situation in which you thought things could work even better than they do now?

Well, I started creating templates for things and organised myself internally as well as I could. Of course, every official form can be improved and made easier, but I can't influence the state to change the form. But I can organise myself internally to learn from previous processes to minimize the efforts. The fact that we have a very lean structure actually benefitted us in this situation, because we were forced to optimise.

Changing the perspectives, how content are your customers, especially in the GCC area, with the processes in place to trade under reduced or eliminated tariffs.

As a whole very content, of course you always have some who just don't understand it. But very positive when they know how to implement these measures. Many are a little overwhelmed with all the paperwork. Especially in the Middle East it is always difficult to deal with all the bureaucracy, and many initially want to avoid all bureaucracy, but once they get it that money can be saved, then they are happy to go the extra mile!

So you agree that trading under FTAs can be considered a competitive advantage?

Of course, especially compared to competitors from the EU and Asian companies. But it's always more expensive in Europe than in Asia so I need to compare myself to competitors from the EU in the textile industry. And through the use of FTAs I can trade at an advantage. A small advantage, but an advantage still. I will only be 40% more expensive then 45% *laughs*.

Do you have an Approved Exporter status under which you export?

I would have to ask my colleague about this because she deals with the operational side. *Interview partner 1 invites interview partner 2 who deals with the practical aspects*.

Yes, we have approved exporter status. We requested approved exporter status by the state. You need an amount of shipments per month and other aspects that need to be fulfilled. Being an approved exporter, you don't need to complete the EUR.1 form anymore for a certain value. We basically don't need to complete EUR.1 anymore, but the middle east started using it. But this was a decision made by the middle east. They wanted this. We could fill this in ourselves, but have a shipping partner with power of attorney. And this is a major benefit for us. It would be such a large effort to do this ourselves.

Were you involved in the process of attaining Approved Exporter status?

No, this happened before our time. Our company has been running since 1939, so a lot has happened during this time and we have always exported. But yes, being approved exporter is such a big relief as it reduces the effort drastically. There are certain states that still request forms, probably due to corruption and that they can track import taxes.

What hurdles do you see in relation to the second step of achieving approved exporter status?

Well, the more honest you are, the more likely you are going to be awarded with approved exporter status. Of course you need a minimum amount of shipments, but if you've always had issues with the customs administration beforehand then of course you will have issues in being awarded approved exporter status. So stick to the rules and regulations, and you should receive it.

What would you like to see improved right now?

Politically this will be difficult to implement, but would be so helpful for many companies. Have you heard of the term triangle-business (German: Dreiecksgeschäft)? So when three parties are involved. In our case, we get an order. The ordering company is in England, but we need to ship to Portugal. In this case, we can conduct a triangle business, meaning that all costs occur for the ordering company in England, who orders the textiles and pays the shipping. All other indirect taxes are deducted, and the recipient does not need to pay anything. There are no troubles. But if we have a Swiss customer who wants to do this we can't, because we are not part of the EU. Now I need to tell the customer that that they need to inform the recipient of the goods that indirect taxes need to be paid. If he does not have a VAT number, he needs to pay in cash. Not many shipping partners are willing to send a bill in 3 months. This means that the Swiss customers ordering from us have a competitive disadvantage in this situation because this is not part of an intra-community shipment. The Swiss customer would always have to have their own fiscal representative body with registration numbers, so that 3 countries are involved again. It would be ideal if we could do intra-community shipments from Switzerland without the Swiss company needing to have a fiscal representative body abroad. But this, of course, is because we are not part of the EU. We have bilateral agreements, EFTA has a FTA. But many other companies would profit from this, especially small businesses like us. Big companies have subsidiaries to conduct this, but small companies do not.

Interview partner 2 leaves the interview

Which countries would you like to see Switzerland sign a FTA with?

The USA. It's the largest market and purchasing power is high. We hardly do any business in the USA, we used to but that was linked to general conditions. I don't know the exact import tax situation, probably quite high. Trump wants to raise them even more anyway.

Any other countries?

Not really, we are increasingly exporting to Asia, but Swiss relations and FTA networks are good in that region, so I couldn't name any further particular countries other than the US.

Do you have any final statement you would like to end this interview with?

I reckon the point with the triangle business is the one most common for us right now. I still hear that we suffer from this from time to time, but this is linked to the topic of not being in the EU.

End of the interview.

10.4. Transcript of Interview Number 4

10.4.1. Interview Information

Industry	Machine, Electrical Engineering and Metals Industry (MEM)
Position of Interview Partner	Management Position
Place	Zurich, Switzerland
Date	21. August 2017
Timeframe	16:30 – 17:30
Note	Interview translated from German into English by Samy Shalaby. Questions by Samy Shalaby are in italic and bold writing.

10.4.2. Questions and Answers

Could you, in your own words, describe the company you work for?

We are a producer of sensors. We have 3 main markets that we deal with: building physics, where we have a measuring device. Our main customers here are in Germany, Austria and Switzerland. It's a system that costs around CHF 1'700. The second market is researchers at universities that buy small amounts of our sensors for measuring activities. And then the third market consists of companies producing laser sensors that use our sensors but integrate them into larger systems. We don't sell in every country worldwide, but we have customers in America, Europe and Asia.

When exporting to other countries, do you make use, if possible, of preferential tariff treatments?

If we sell something to Japan or China, where FTAs are in place, then we use a shipping partner. Our customer needs to pay for all the extra costs. So we transfer these costs to the customer.

Do you know if the shipping partner or the customer makes use of preferential tariff treatments?

As far as I'm concern the shipping partner deals with this. These are just assumptions from my side, but when we export to India, even a test product for free, then this can take 2 months until it arrives. Usually because the customer needs some sort of document to hand over to the customs

administration. And for Japan and China, we have distributors buying from us who are globally active, and I assume that they know which documents they need because they always emphasize the importance that the bills are filled in correctly. In China and Korea, we have many customers that say we should not put the bills into the parcel, but in the pouch outside, so I assume they know exactly what to do in order to profit from reduced tariff rates if they are applicable.

Who in your company is responsible for these matters?

I started in 2012 and we started selling in 2013. I used to organize these shipments, and in the beginning we had some troubles or things didn't make it to the customer and they asked for different documents. So I grew into it organically. I started doing research on the internet and if some things didn't work after 2-3 times then I tried to find out why. The topic itself is very complex and things are formulated very difficultly, but basically I'm the one responsible for these matters.

So in the phase in the beginning, what were the largest hurdles you experienced?

Well there is that sentence for the rules of origin, and we didn't know that we need to include this when exporting. And one of the distributors wasn't happy because then he had to pay customs duties. This was a long time ago. Sometimes we had some issues with VAT. I think in the first place the problem is that you don't know where to look or where to inform yourself or who to contact. And when you call the customs administration you need to hold the line, or eventually you find the information you need online. Trial and error. One of our employees knows another employee from a company based close to ours and we spoke to him and he confirmed that sometimes it is just a blackbox and for them too it was trial and error.

So what solutions would you have wished for back then? What would have made it easier for you?

Basically, the information is out there somewhere on the internet, but I find the page of the Swiss customs administration very confusing, or at least it was back then. And these things change all the time. They use this official language and the matter is very boring too *laughs*. I would have wished for a page which is simpler and easier to use, where one can retrieve the information one needs more efficiently.

Which hurdles do you currently face?

Right now we don't have any major hurdles. But looking at the time when we had our first orders of around 6'000 Euros we had to use the EUR.1 form. We used to deal with a customer and deliver a lot to him, and after a while we got an Email from him saying that the customs administration had some issues, and they need this document, but I hadn't heard of this document, and then we had to conduct research what this exactly is. Right now, however, we don't have any major hurdles. We know that there are certain documents that we need, which we then use, and usually it works

What role does your shipping partner have in all this?

Well the couriers in general have helped us in pointing out that the EUR.1 form had mistakes in it, which was helpful. This situation is a little strange, as the back of the EUR.1 form needs to include the sentence mentioning that all criteria has been achieved, and one time I phrased it a little differently and the courier pointed out that this was not correct, so things things are looked at.

Do you have approved exporter status?

No not yet. I think it would not make sense for us, our parts are as big as a fingernail. If you have large machines, things get more complex especially in terms of the rules of origin. We produce here so the value creation is all in Switzerland.

So how manageable do you find the rules of origin in your case then?

I looked at this once and asked my colleague from the production department, and in our case it's clear that there is no discussion, these are Swiss product.

Looking into the future and potential expansions into different markets – what kind of hurdles do you see lurking on the horizon?

We have one product which exists but is going to be developed further with aspects of cloud data and software components, and I'm not sure what effect this will have on export matters. Apart from that none.

What would you like to see changed right now or in the future?

Currently we are quite content with how things are. On a separate note, you need the HS codes of the product, and we sent in a product to have it categorized, got back a number, but the customer then claimed that he had to pay duties but that this product should have a different category. So we weren't sure who to believe, but we had an official letter from the customs administration. Our products are sold and we don't then get them back after having changes done to them. If there is a larger product which is more expensive then I can imagine that this is more complex in being categorized. I think we could have done this yourself but didn't know how to proceed then, so the customs administration helped us.

Did the hurdles faced in using these FTAs change but reduce over time?

Yes, definitely. We sometimes have the issue with special products like test products that are not just exported, but the customer gets the product for free for 30 days, if he likes it he pays. I don't know how to proceed here correctly and declare the goods – this is quite complicated especially with VAT but also with tariffs. These special cases are very complex.

What help would you like here?

Again, some pre-determined form which you could attach to the parcel and for it to be clear how to proceed in such a situation. Same applies to products for fairs etc. for which we need to pay VAT etc. And this can all get very complicated.

You mentioned a more simplified website by the customs administration. What would the ideal internet presence look like in your opinion?

In general, just a simplified overview with categories like I export to the EU, or I export to other countries. When I started dealing with the issue it happened so quickly that you were deep in the jungle and didn't know what you were actually looking for, so that was complicated. Maybe it's different now, but these are the most important points summarized.

What other methods of information provision would you find helpful in such a situation?

We sometimes get invitations from companies who conduct workshops, but you need to pay for them! I would find it good if the state levying these taxes would organize events to provide information on the basics of everything. I would find this very good.

Do you have a background in business administration?

Not at all, I studied Japanology and politics which is why I know that Switzerland and Japan has a FTA, but no background in administration.

Looking at all of this from a bird's eye view – what's your opinion on FTAs in general?

In principle it's a great thing – but in our case the customer pays the indirect taxes because we don't have the resources to deal with it, but yes it is a good thing it means that your products are a bit cheaper.

End of the interview.

10.5. Transcript of Interview Number 5

10.5.1. Interview Information

Industry	Textile
Position of Interview Partner	Director
Place	Zurich, Switzerland (Telephone)
Date	14. August 2017
Timeframe	16:00 – 16:30
Note	Interview translated from German into English by Samy Shalaby. Questions by Samy Shalaby are in italic and bold writing.

10.5.2. Questions and Answers

How, in your opinion, do FTAs affect the companies that are part of your association?

I am aware of the studies that have been conducted by the University of Zurich and by other institutions on the topic of utilizing FTAs. In my opinion, one has to be careful with the findings of such studies, especially in relation to the textile industry. It is not enough to just say many SMEs do not use the benefit of FTAs. The first relevant question here is can the FTAs be used in the first place i.e. does it cover whatever it is my company produces, and the second question should then be whether the FTA is being used or not.

Yes, the whole topic of utilizing FTAs is a very complex matter, but that is not the real reason why they are sometimes not used by SMEs. Let's say a company exports goods from Switzerland to South Korea. It is possible that not all goods fall under the FTA or are eligible for reduced tariffs under a FTA. And if it falls under a FTA, then the often very complex rules of origin need to be fulfilled. And fulfilling these rules is even more complex in the textile industry. There are, for example, a lot of exports from Switzerland which would not qualify as originating from Switzerland, and hence the FTAs cannot be used.

What are the main hurdles that members of your association often mention in relation to the utilization of FTAs?

In relation to the tariff reductions in particular, many companies have big issues with the rules of origin. There are several hurdles in relation to the rules of origin. Rules of origin are processing

rules, and the processes in the textile industry are very varied as the goods undergo several stages. Some of these stages only barely still or do not even exist anymore in Switzerland. So the rules concerning the goods in the HS chapters relevant to us are outdated. The EU is our most important trading partner, and the rules are still the same as in 1972 as we concluded the FTA. The industry, however, has progressed greatly since then, and there is strong focus on niche-products now. These rules, therefore, are not up-to-date anymore. The newer FTAs are definitely better in relation to this than the older ones. The second issue is that the rules of origin are different from one FTA to another, and this makes everything even more complicated. The products of an SME exporting to Europe may potentially not qualify for originating when exporting to the EU, but would qualify when exporting to the Philippines, for example. A further issue is the fact that the value chains within the textile industry are very globalized. It can well be that every single step is undertaken in a different country. So this is not like planting an apple tree, picking the apple and exporting the apple to a neighbouring country. You might have 20 stages in production, all in different countries, just to give an example. So every border crossing is a new hurdle. The fourth issue is in connection with the cumulation of origin rules and determining how this works. Which input materials can I get from which countries? How will everything add up? These are very difficult questions.

Apart from the rules of origin, the tariff codes are also a big issue. Every product falls into a tariff category, but the tariff categories are also outdated. The use of textiles has evolved greatly, for example for tissue/cell creation, and finding the right category is very difficult, especially if every country sees the categorization differently. Which leads us to our next issue: not every country is on the same level. It can be difficult when the other party does not know how to apply or implement the practicalities of the FTAs.

What, in your opinion, would be the most effective solution in reducing some of these hurdles you mentioned?

Well, in an ideal world, all agreements would be multilateral and not just bilateral. Bilateral agreements are just the second best solution, as the best solution would be to solve everything on a multilateral level like the WTO. But the WTO is blocked, the process of reducing tariffs is being blocked. The best and most effective solution, therefore, would be if all countries agree to reduce their rates multilaterally. But this is hardly going to be the case right now. So we need to use bilateral agreements. Now here it is important to modernise the rules of origin and try to simplify them, by having the same rules of origin for all the FTAs. There have been some activities on a

European level to simplify these measures with the Pan-Euro-Mediterranean protocols. But as a whole, things are getting more and more complicated.

How do you think will the whole topic develop in the future?

Well, the so-called spaghetti bowl is making it incredibly complicated already and things are just getting worse really. Some countries in Europe are still very defensive and have protectionist measures in place, or they are introducing even more. This is happening not only in Europe but across the globe, including the US. The topic of free trade and liberalization is suffering a little.

What is your final statement in relation to this topic?

I think we could just eliminate all our tariffs and we would profit from this. In my opinion, our agricultural policies, which are linked to high tariffs, are damaging the rest of the economy. We cannot go and negotiate with Brazil saying meat and other agricultural products are not going to get any concessions, because then Brazil is just going say, well, then we will not cooperate and you cannot export your machines and textiles and so on. This form of agrarian protectionism is very expensive and damaging.

End of the interview.