

# Beyond All Historical Barriers: Swiss Neutrality in the Forefront

Written by Christophe Farquet

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CHRISTOPHE FARQUET, JUN 8 2022

While Russian bombs are falling on Ukraine, the Swiss Confederation sees one of its political pillars shaking. For three months, the seemingly immutable neutrality of the country has been called into question. Yet from a historical perspective, the debate on Swiss neutrality appears to be less novel than public discussion would suggest. The current state of the foreign policy exemplifies longstanding tensions between the requirements of neutrality, the Confederation's proximity to the European Union, and the global role of its offshore economy. To an extent, the concept of neutrality seems more adaptable now than before, but the issues that matter most remain unchanged.

### New Neutral Tones

On 28 February, 2022, the Swiss government decided, after some hesitation, to adopt the European Union's package of economic sanctions against Russia. Although Swiss public opinion largely supported this choice, the decision was not politically innocuous, causing significant discussion among Swiss politicians and citizens alike on the meaning of Swiss neutrality, its extent, and its future. A general shift has occurred in the political field. While the left has radicalized its criticisms against neutrality, demanding tougher measures against Russia than those proposed by the European Union, the moderate right appears to be inclined this time to infringe the present line of Swiss foreign policy quite frankly. The president of the Centre (Christian-conservative) has become one of the fiercest advocates of exporting weapons to Ukraine, while the Radicals (liberal) have supported a closer collaboration with NATO.

Neutrality seems to have lost its seductiveness for all but the most committed nationalists among the Swiss SVP (populists). For a country in which neutrality was elevated to an almost sacred status after the Second World War—a status that influenced Switzerland's decision not to participate in the Bretton Woods institutions until 1992, the United Nations until 2002, or the European Union until now—the expression of this stance has been striking. Numerous intellectuals have quietly intervened in the discussion to explain that neutrality should be seen only as a useful tool to defend Swiss interests in international relations. Although no other practical steps have been taken to dismantle Swiss neutrality, the political debate that has accompanied Switzerland's adoption of the European sanctions against Russia seems to signify a rupture in the evolution of Swiss neutrality and is seen as such by most political experts.

Yet this interpretation must be qualified. When distanced from the hot reactions of the media, it becomes clear that the discussion to this point has indicated a change of tone more than a transformation of foreign policy. From an historical perspective, Swiss neutrality has not been an untouchable monolith during the last two centuries. Nor has Swiss neutrality been merely a malleable, elastic policy instrument, as some historians have suggested in an effort to legitimize present measures. The historical reality naturally lies between these two antagonistic views. Swiss neutrality has already experienced several transformations over time, and the Ukrainian war is a new episode of this complex evolution. To understand the evolution of Swiss neutrality, it is necessary to differentiate between three dimensions of what it means to be neutral in contemporary Swiss history. This distinction is essential to accurately identify the ruptures and continuities in the present crisis.

### Neutrality Distinguished

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Being neutral implies, first, to refuse to take part in hostilities with other countries or to join military alliances. Since 1815, Switzerland has been, along with Sweden, the only European country—excluding the micro-states like Lichtenstein—to remain neutral. If Sweden joins NATO, as seems likely to happen, the Swiss Confederation will be able to claim exceptionality in remaining unbound by a military alliance. It is disturbing how much the current debate has silenced this essential feature of Swiss foreign policy. Nonetheless, in this matter, the invasion of Ukraine seems not to have caused significant changes in Switzerland's experience of neutrality. It is possible that the invasion of Ukraine will prompt Switzerland to intensify the collaboration with NATO that began in 1996, when the Confederation entered into the Partnership for Peace, while continuing to eschew the formation of a military alliance with NATO. It is thus the remaining two dimensions of neutrality that deserve a closer look.

Being neutral means, secondly, to respect the rules of neutrality in international laws. It is on this precise matter that the rupture created by the Ukrainian war has been viewed as decisive. According to economists and business experts, the sanctions against Russia are a far-reaching concession granted by the Swiss liberal economy to the Ukrainian cause. It can be undoubtedly argued that the unilateral commercial embargo contradicts the requirements of the Fifth Hague Convention on the Rights and Duties of Neutral Powers. Indeed, the convention stipulates that restrictions against “anything which can be of use to an army” (art. 7) “must be impartially applied by it to both belligerents” (art. 9). If Switzerland agrees in the future to lift the general embargo on the export of weapons for Ukraine alone—even indirectly by authorising Germany to deliver Swiss-imported munitions with its armoured vehicles—the Confederation will more frontally violate the Convention.

It is certainly not the first time in contemporary history that Switzerland has committed such an infraction. During the two world wars, transgressions of these rules occurred. The most notorious case happened in 1940—1941, when Switzerland was compelled to reorient its war export industries, which previously had worked almost exclusively for the Allies, in favour of the Axis powers. As Germany was able to impose an embargo on the export of weapons to Britain and to secure state credits to finance its own military imports, this adaptative step in Swiss foreign policy represented a substantial break with the requirements of neutrality. The exceptional international situation of the time explains this move, but the Swiss Confederation has likewise violated its duties as a neutral power outside of the context of world wars. Between 1920 and 1938, Switzerland adhered to the League of Nations' economic sanctions scheme, implying formal adaptation of neutrality (“differential neutrality”). In 1951, during the Korean War, Switzerland restricted the export of strategic tools only to the Eastern Bloc. During the 1990s, the practices of sanctioning foreign countries, following United Nations' decisions, became more systematic, and, in 1998, Switzerland sanctioned Serbia, according to the European Union's restrictions. This approach was passed into law with the adoption of the Embargo Act in 2002.

Despite these previous decisions, the present situation indicates a slight caesura with the past. If Swiss neutrality has changed in response to the Ukrainian war, those changes concern the way that Switzerland approaches the duties of neutral powers. The list of sanctions against Russia, including an unprecedented package of financial measures, is significantly more extensive than any sanctions imposed by Switzerland in the past. Moreover, Swiss elites' attitude towards the current embargo diverges from their attitude on previous sanctions. The government and political leaders presented these sanctions not as a painful concession to foreign demands but as a voluntary move to support freedom and democracy. This change of perspective opens the door to a more proactive foreign policy stance in the future, even if it is true that, in concrete terms, Switzerland has simply followed the policy of the European Union in implementing the current sanctions.

In the third dimension of neutrality, as in the first, continuity of Swiss neutrality predominates in the present situation. Being neutral does not mean only that a state remains unengaged in armed conflicts and respects the obligations of a neutral power under international law. This narrow definition of neutrality is complemented by a broader one that encompasses the policy of neutrality. When Swiss historians refer to the malleability and elasticity of neutrality throughout the 20<sup>th</sup> century, they refer, above all, to this dimension. This broader definition of neutrality can be understood as an approach to foreign policy that relies on the principle of balance as well as a propensity for the neutral state to place itself in a position of either withdrawal or arbitration in the face of major international disputes. Yet it is clear that, even if these principles have guided the Swiss Confederation's foreign policy up to a point throughout the last century, they have consistently been adapted to meet changing international situations. Four

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distinct approaches to Swiss policy of neutrality can be identified from the beginning of the 20<sup>th</sup> Century to the present day.

Before the First World War, despite its non-adherence to either of the two main European alliances and its neutral status, which was reassessed when Switzerland signed the Hague conventions, the majority of Swiss German-speaking elites showed a clear pro-German tendency. However, the long years of the First World War demonstrated to Switzerland how profitable it is to remain unengaged in modern hostilities. Switzerland's foreign policy thus became substantially more neutral during the interwar period than during the Belle Epoque, even though the Confederation violated international rules of neutrality by agreeing to the economic sanctions scheme imposed by the League of Nations between 1920 and 1938. Preserving a balance between powers was the new motto adopted by Swiss elites to ensure that the country would stay out of any new European conflicts. As this goal was eventually achieved, albeit mainly on account of external factors, the neutrality of the Confederation had acquired almost sacrosanct status in Swiss foreign policy by the end of the Second World War. However, despite this deep feeling of exceptionalism in Switzerland, the Confederation's affiliation with the Western Bloc during the Cold War was never challenged. Neutrality became a tool for claiming a more independent path inside the Bloc relative to both the USA and the European powers.

Following Switzerland's pro-German orientation during the Belle Epoque, neutralism during the interwar years, and recognition by the Western world as a friendly neutral during the Cold War, the fall of the Berlin Wall marked the beginning of the fourth and final phase of Swiss foreign relations in the 20<sup>th</sup> century. While the end of the Cold War left room for embracing a more plurilateral policy, in which adopting a neutral stance could make sense, Switzerland's deepening interconnection with the European Union has rapidly surpassed this tendency in recent decades. Consequently, although few politicians are willing to admit it, the attitude of Swiss elites during the Ukrainian war is symptomatic of this latter interdependency, in spite of the recent tensions in bilateral relations.

## **Neutral, Globally**

The elements of continuity in Switzerland's foreign policy thus outnumber the signs of rupture at the present time. This conclusion is reinforced by an observation of the way financial sanctions against Russia have been implemented. This analysis will be the last point of this article.

Switzerland's positioning in the Ukrainian crisis results not only from the interplay between Switzerland's defence of neutrality and its simultaneous interconnection with Western powers. It is influenced by a third factor; namely, the specific role acquired by Switzerland during the 20<sup>th</sup> century as a centre of offshore financial activity. This role tends to reinforce the Confederation's neutral stance, but it could also hinder it. On the one hand, the attractiveness of the Swiss tax haven, which traces its historical roots to the neutrality of the country during the First World War, partly relies on its political independence and its high degree of financial deregulation, resulting for instance from Switzerland's non-adherence to the European Union. The defence of the Swiss financial centre thus often fits with the protection of neutrality. On the other hand, the international tensions caused by these offshore transactions and the diplomatic damages engendered by multiple financial scandals have presented a constant threat to the conduct of Swiss foreign policy for more than a century. These conflicts could eventually lead to the implementation of measures or granting of concessions that contradict the Swiss neutral stance.

The implementation of financial sanctions against Russia exemplifies the complex interaction between offshore activities and neutrality. This subject is of primary importance, as Switzerland, still the largest international wealth manager in the world, has become a hub for the oligarchs' fortunes and Russia's offshore manoeuvres since the 1990s. Before the invasion of Ukraine, Russian wealth in Swiss banks amounted to 150 to 200 billion CHF (=euros), a substantial sum if one considers that all the Russian foreign assets in the world, excluding the reserves of the central bank, reached around one trillion. The government's decision to block these assets, presented as a willing concession to its neutral policy in favour of democracy, thus also contained a pragmatic calculation: to prevent the eruption abroad of a campaign against Swiss financial opacity, which would call into question the motives behind Switzerland's defence of neutrality. On the whole, this diplomatic move has worked. Even if the United States, through the Helsinki Commission, has raised some concerns about the practices of Swiss banks, no challenges

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comparable to the recent debates on tax evasion have arisen in the relations with European countries.

Nonetheless, the implementation of these financial sanctions deserves a closer look. Only 6 to 7 billion CHF are blocked at the present time, a small amount of money in comparison with the whole fortune that belongs to Russian people in the country and with the wealth owned by sanctioned persons who have a connection to Switzerland. Indeed, the method used by the State Secretariat for Economic Affairs to block assets is essentially based on voluntary reports by Swiss private actors, and, for the targeted Russians, contains wide loopholes to legally avoid the sanctions. Swiss rules appear to have been designed by regulators who intentionally ignored the sophisticated functioning of the present offshore economy. Lawyers, who naturally play an important role as intermediaries, are not compelled to declare the wealth of their Russian clients. As for the interdiction against accepting new deposits of more than 100,000 CHF and the obligation to report existing deposits of such sums, the use of a simple foreign company or trust by a Russian is sufficient to avoid this measure; such schemes are explicitly not prohibited by official directives. Finally, the role of the economic and fiscal authorities of each canton has been reduced to a minimum in this procedure, although principles of Swiss federalism typically respect the essential autonomy of these authorities. The directive issued by the State Secretariat for Economic Affairs appears to have been designed to hinder the efforts of cantonal administrations.

## Conclusion

Beyond the debate on neutrality, Switzerland seems to be following the path it has taken recently on other financial issues: to accept international standards while allowing banks latitude in implementing those measures. Yet if the European Union tolerates this stance in the present situation, its acceptance may not simply be a sign that the EU approves the balance achieved by Swiss authorities between defending neutrality, maintaining good relations with neighbouring countries, and preserving the appeal of Switzerland as a financial centre. European tolerance may indicate something about the EU itself. European countries have achieved similarly meagre results in blocking Russian assets, although implementation of the sanctions in EU countries has theoretically been stricter than in Switzerland. While 35 billion euros in assets are being said to be frozen, this freeze is largely due to the blockage of the Russian central bank's reserve. The private wealth of sanctioned oligarchs has slipped through the cracks. This European hesitance to impose sanctions thus indicates a more ambiguous attitude towards economic sanctions in the European Union than is typically claimed on the international stage. What is clear is that this discrepancy between European policy and implementation legitimizes the Swiss approach.

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## About the author:

**Christophe Farquet** holds a PhD in Swiss history. During the past year, he taught at the University of Fribourg as well as the University of Geneva and was a Swiss National Foundation scholar with a project on the history of international relations. He now chairs neutrAL, the centre for analysis of Swiss foreign policy. His most recent book, *Histoire du paradis fiscal suisse*, addresses the history of the offshore economy in Switzerland throughout the 20<sup>th</sup> Century.