FACT SHEET: FOREIGN INVESTMENTS

→ FOREIGN INVESTMENTS: a success factor, not a danger for our economy

Introduction

Switzerland's prosperity is largely based on the openness of our markets and the international network of our companies. In this context, free flow of investment is essential. Direct investments contribute to supplying the economy with sufficient capital. They provide for more than one in ten jobs in Switzerland and strengthen export dynamics as well as our capacity for innovation. Overall, they increase the attractiveness of Switzerland as a business location.

Amidst global protectionist tendencies and in view of corporate takeovers in Switzerland by Chinese companies and sovereign wealth funds, calls for increased public control of foreign investments have been getting louder in Switzerland, as well as in other countries. A number of parliamentary motions specifically ask for the implementation of a governmental supervisory authority for foreign direct investments[1]. The lack of reciprocity between foreign investors in Switzerland and Swiss investors in the host countries has been an additional point of criticism. Against this background, the federal council has been tasked with the preparation of a report on the subject.

Particularly regarding Chinese corporate takeovers, there are fears of market distortions, loss of know-how and jobs as well as danger to public safety and order. However, there are neither signs nor evidence to support these fears that would justify a severe intervention in constitutionally guaranteed property rights and entrepreneurial freedom. In any case, Switzerland already has effective and targeted instruments in place to deal with foreign investors. Additionally, state controls of foreign investments could be easily misused to serve protectionist purposes instead of addressing legitimate security concerns.

One thing is clear: Switzerland's benefit from foreign direct investments is above average and consequently, the Swiss economy is highly sensitive to changes in the respective political framework. Swiss business views the introduction of a state control of foreign direct investments as detrimental. A study by Avenir Suisse[2] comes to the same negative conclusion. The present position paper highlights the positive effects of foreign investment in Switzerland.

The Swiss economy must remain attractive and open to foreign investors in the future. economiesuisse therefore strongly rejects state control of foreign investment.

Switzerland benefits significantly from foreign investments

Foreign direct investments do not harm Swiss competitiveness but strengthen it considerably. One in ten Swiss jobs is financed by companies that rely on foreign direct investment. Today more than 80 percent of the listed companies in Switzerland are under widespread foreign ownership, and Switzerland has yet to experience any negative effects. In fact, there have been systematically more jobs created than cut[3]. That Switzerland is among the world leaders in prosperity, competitiveness and

[1] List of parliamentary motions see chapter additional information.
[2] https://www.avenir-suisse.ch/publication/investitionskontrollen-der-ungebetene-schutz/
[3] https://www.economiesuisse.ch/de/dossier-politik/strukturwandel-der-schweiz-fakten-und-wahrnehmung

innovation, is not determined by Swiss companies' ownership structure. On the contrary: In combination with our excellent infrastructure and favorable political framework, foreign direct investment is a success factor for Switzerland.

Interference in property rights not justified, also not for foreign investors

To prohibit a Swiss company to collaborate with foreign investors is a severe intervention in constitutionally guaranteed property rights and entrepreneurial freedom. Respective regulations should therefore always be limited to system-relevant sectors and only be set in place based on compelling evidence, in a minimal, transparent and proportionate way.

- Firstly, there is no indication that, for example, Chinese investors or foreign sovereign wealth funds pose a bigger risk for domestic companies. On the contrary, they often demonstrate a more long-term investment perspective and rather refrain from intervening in company structures.
- Secondly, state control of foreign investment has so far not been proven to strengthen the competitiveness of a country.
- And thirdly, state intervention in the recent cases (for example Syngenta, Gategroup, Kuoni) are hardly justified by national security concerns or the protection of critical infrastructure. Rather, it is motivated by protectionist arguments.

Strong companies are internationally connected companies

Know-how and innovation do not develop in isolation but require networks and exchange beyond borders between science and economy. At the same time, their capitalization must be secured in the long term. Both developments occur in cooperation with international actors, amongst them international investors. Their involvement neither accelerates a drain of know-how nor does it facilitate technology theft. In the age of Digitization, there are simpler means for those purposes than long term investment in a company. Investment controls cannot prevent these activities. The central part of a company's know-how, the knowledge and skills of its employees, cannot just be moved to another country with a corporate takeover. In fact, a real danger exists that with investment controls in place, markets would lower their valuation of the companies in question. Which, ironically, would make them a target for corporate takeovers.

Switzerland already has effective and targeted controls in place

Already today, there are laws in place to protect the ownership structure of system relevant sectors and companies in Switzerland regarding national security or public order. This concerns amongst others the energy, transport and financial sector, but also data protection and counterintelligence. Moreover, all companies in Switzerland, regardless of their ownership structure, need to comply with Swiss regulations. Even if private providers took over parts of public companies, they could not abandon the fulfillment of a public mandate. The state has sufficient legal basis to prevent non-compliance – also in the realm of national security.

Investment controls increase risks for Swiss companies

With the introduction of a governmental supervisory authority for foreign investment in Switzerland, important trade partners could respond with reciprocal actions. They could increase the control or even limit activities of Swiss companies in their markets. The approximately 97'000 export-oriented companies in Switzerland are depending on a non-discriminating market-access: The advantages of the specialization in goods and services with high added-value is based on the possibility of investment and integration in international value chains. At the same time, there are certainly other places in Europe to invest in instead of Switzerland – with higher market potential. Already today, the inflow of foreign direct investments to Switzerland is decreasing. State controls on investment could adversely affect the availability of capital on top of the existing decline.

Yes to reciprocity, but not via investment controls

It is true that certain countries have stricter requirements with regards to direct investments. In this respect, the Swiss economy would highly appreciate to have improved market access. However, the expectation to achieve equal treatment of Swiss investors abroad via the introduction of state controls on investment in Switzerland is unrealistic. Contrary to the affected trade partners, Switzerland lacks the political muscle to demand reciprocity by retaliatory measures. Even the European Commission does not use such arguments in proposals concerning controls of foreign direct investment. Reciprocity is desirable from an economic perspective but should be pursued on a plurilateral or multilateral level, especially from the perspective of smaller economies. The EU is currently pursuing this path[4]. Plurilateral or multilateral solutions would prevent the discrimination of smaller economies through isolated bilateral agreements between large economies.

The Swiss economy does not need protection from foreign investors. Investment controls would be counterproductive for the attractiveness of the Swiss economy and go against the interest of an open and internationally connected economy. economiesuisse therefore strongly rejects the introduction of state control of investments.

The position of economiesuisse in short

- → Swiss prosperity, competitiveness and capacity for innovation are not a question of the ownership structure of local companies: Not the controls on foreign investors, but the political framework for business activity in general must be strengthened.
- → There are already effective, well-targeted instruments in place to protect security-relevant infrastructure and companies of particular importance to the economy.
- → The much discussed corporate takeovers by Chinese investors in Switzerland (i.e. Syngenta, Gategroup) in no way endanger public safety or order.
- → Reciprocal treatment of Swiss investors abroad is desirable but not achievable via state controls of investment.

[4] http://europa.eu/rapid/press-release_IP-18-6882_de.pdf

additional information

- publication on foreign investment supervision
  (full version only available in German and French)
  https://www.economiesuisse.ch/de/dossier-politik/auslaendische-investitionen-erfolgsfaktor-statt-gefahrenquelle-fuer-unsere
  https://www.economiesuisse.ch/fr/dossier-politique/investissements-etrangers-un-facteur-de-reussite-plutot-quun-danger

- information on International market access and export dynamics
  https://www.economiesuisse.ch/en/focus/international-market-access

- parliamentary motions regarding implementation of governmental supervisory authority for foreign direct investments (only available in German and French)
  https://www.parlament.ch/de/ratsbetrieb/suche-curia-vista/geschaeft?AffairId=20183021
  https://www.parlament.ch/de/ratsbetrieb/suche-curia-vista/geschaeft?AffairId=20183376
  https://www.parlament.ch/de/ratsbetrieb/suche-curia-vista/geschaeft?AffairId=20183233

- information on structural change in Switzerland
  (only available in German and French)
  https://www.economiesuisse.ch/de/dossier-politik/strukturwandel-der-schweiz-fakten-und-wahrnehmung

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