

10 REASONS TO DO BUSINESS IN SWITZERLAND

BY LYNNE CONSTABLE

In order to compete in today's global market, the choice of location for businesses has become increasingly important and the attractiveness of countries and markets needs to be carefully considered. Switzerland has unique advantages, economically, politically and socially. Here are the top 10 reasons to do business in a small, landlocked country



PHOTO: News Service, iStockphoto, Dreamstime

1 STRATEGIC LOCATION

Switzerland is situated not only at the geographical heart of Western Europe, but at its business and logistical heart too. It is an ideal base from which to conduct local and global business; its central location places it between some of the largest economies in Europe, including Germany, France, and Italy, making it an excellent starting point for businesses wanting to enter the European market. The country is also perfectly suited as a test market to gauge market acceptance of new products and services before taking the plunge into the rest of Europe.



Switzerland's main trading partner is the EU and it is currently the fourth largest trading partner of the EU: about 79% of its imports come from the EU and 61% of its exports go to EU countries. Although not a member of the EU, Switzerland is a member of the European Free Trade Association (EFTA) and has more bilateral agreements in place with the EU than any other country. As a result, most barriers to market access have been progressively eliminated, including the free movement of persons. No customs duties or other charg-

es are levied on cross-border transactions for industrial goods originating in EU or EFTA countries. Besides having such a strategic location, Switzerland also has the advantage of having full access to the European market (including Schengen) without facing all the regulatory disadvantages that the EU and the eurozone bring with them.

Switzerland's borders with five countries means it is at the geographical crossroads of major international trade routes and gives it the all important link between the North-South route in Europe. This and the country's superb transport infrastructure make access to European markets and elsewhere around the world easy and logical. Switzerland has a unique position in Europe, economically and geographically.

2 HIGHLY EDUCATED, HIGHLY SKILLED

Switzerland spends more money on education per student than any other country in the world. Both public and private schools enjoy an excellent reputation, and the educational structure in Switzerland is a reflection of the multicultural and multilingual country, with schools teaching in the three national languages of German, French and Italian, as well as English. The unofficial adoption of English as a fifth language, especially in the business world, eases the assimilation of Anglo-Saxon firms into the Swiss and European business environment. These linguistic abilities give Switzerland second place for language skills in the IMD's World Competitiveness Yearbook 2010.

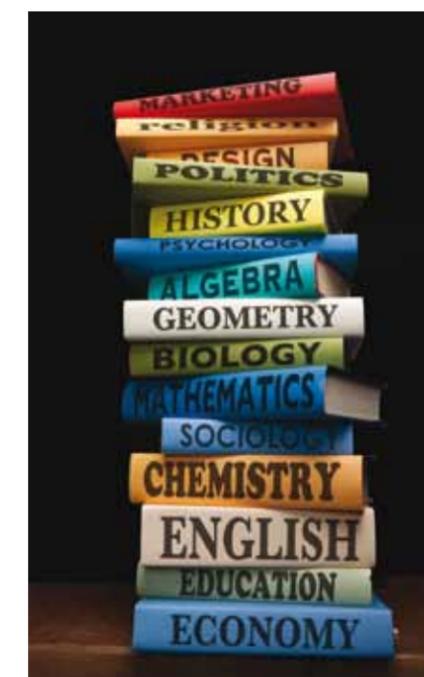
The highly developed system of apprenticeships and professional training ensures that businesses have a choice of well-qualified and practically trained employees in any given industry. This investment in preparing young people for work differentiates Switzerland from many of its competitors, and consequently it always achieves a high ranking in inter-

national benchmarks of skilled workforces. The Swiss are highly motivated workers and rank highest in Europe in terms of working hours per week. The availability of a highly educated and diverse workforce gives firms one of the key resources they need to successfully manage their businesses.

WORKER MOTIVATION

1. Switzerland	7.82
2. Denmark	7.80
3. Austria	7.77
4. Taiwan	7.68
5. Malaysia	7.46
6. Iceland	7.12
7. Singapore	7.03
8. Sweden	6.98
9. Netherlands	6.94
10. Norway	6.93
11. Japan	6.82
12. Hong Kong	6.76
13. Israel	6.70
14. Finland	6.69
15. Luxembourg	6.66

1 = low, 10 = high / Source: IMD
World Competitiveness Yearbook 2010



3

INDUSTRY CLUSTERS

For a tiny country, Switzerland has a rare concentration of well-established industry "clusters". The most well known, of course, is finance and it is an important element of the economy: Zurich and Geneva are lead-



ing world financial centres, with banking and insurance one of the most important industry sectors. Switzerland is also one of the world's most important commodities trading platforms, with an estimated third of the global oil trade in the free market taking place in the country.

Outside finance, the most important clusters are probably the pharmaceutical, life sciences and chemical industries: their focus on specialities is their key to success, and has given them a worldwide presence and often a market leadership. Extremely successful global conglomerates such as Novartis, Roche and Syngenta form a unique industrial cluster in north-western Switzerland. The country's reputation in research and development has attracted many companies leading to the establishment of several engineering and medical technology clusters of global importance, as well as precision engineering and information technology.

However, a "cluster" that is relatively unrecognised is Switzerland's appeal as a

centre for the global and regional headquarters for foreign companies. Today, more than 6,500 foreign companies are in Switzerland, of which over 1,000 are regional or global headquarters. It is not only European firms that have their global headquarters in Switzerland, many US companies have opened their regional headquarters here too, including 89 Forbes 2000 companies such as IBM, General Motors, Kraft Foods, Phillip Morris, Procter & Gamble, Dow Chemicals, Amgen, Baxter, DuPont, Nissan and Google. A key criterion in the choice of location is

ted 74% higher value added per employee and created more than 140,000 jobs.

The country's exceptional productivity in creating intellectual property means it files considerably more patents per capita than any other country, except Japan. Its outstanding universities and research institutes, such as the Federal Institutes of Technology, ETHZ in Zurich and EPFL in Lausanne, produce highly qualified experts and perform cutting-edge research. These institutions are among the world's best, and the strong collaboration between the academic and business sectors ensures that much of this basic research is translated into marketable products and processes, supported by strong intellectual property protection.

Almost 3% of the country's GDP is spent on research and development (R&D), much higher than Europe as a whole, and the extensive nature of Switzerland's innovation can be seen specifically in its high-tech clusters in the life sciences and micro and nanotechnology industries, and is reflected in the impressive percentage of employees working in R&D in Switzerland.

EUROPEAN INNOVATION SCOREBOARD 2008

- 1 Switzerland
- 2 Sweden
- 3 Finland
- 4 Germany
- 5 Denmark
- 6 United Kingdom
- 7 Austria
- 8 Ireland
- 9 Luxembourg
- 10 Belgium

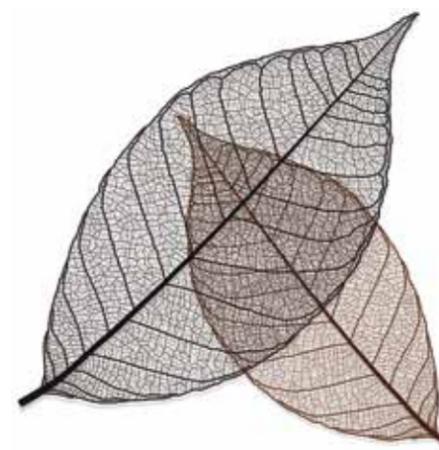
Source: www.proinno-europe.eu, 2009

Switzerland's economic neutrality – all the major European markets are comfortable with a Swiss main office.

4

CENTRE OF INNOVATION

Closely related to industry clusters is innovation, and Switzerland is, according to the Innovation Index of the Economist Intelligence Unit, Europe's most innovative country. Indeed, its wealth is heavily dependent on multinationals in highly innovative industries; these industries contribute 35% of the Swiss GDP, and in the 10 years from 1997 to 2006, they grew more than twice as fast as other industries (excluding public services), genera-



5

STANDARD OF LIVING/ INFRASTRUCTURE

The reasons why Switzerland attracts so many foreign businesses are many and diverse. But foremost must be the very high standard of living: an outstanding quality of life and a very safe environment are increasingly important factors for companies choosing an ideal location for their expansion. The quality of overall infrastructure in Switzerland is ranked highest in the world (Global Competitiveness Index, WEF, 2010/2011): it has good healthcare and an efficient public transport system. A close proximity to some of the most beautiful scenery on the planet attracts professionals and their families from all over the world, and this is reflected in three Swiss cities again in the top 10 cities in the Worldwide Quality of Life Survey (Mercer Consulting, 2010); Zurich and Geneva rank second and third, with Bern ninth.

However, one of the joys of living in Switzerland is that everything works: the trains, communications, the healthcare service. The punctuality and reliability of the public transport system means the Swiss are the most frequent rail travellers in all Europe. Every day, 9,000 trains run

on the 3,000km rail network operated by SBB. This and the extremely dense road network makes getting around the country very easy. In fact, it is actually difficult to find a place more than 90 minutes away from any one of the three main airports. Once in a city, the network of intra-city public transportation on buses and trams meshes seamlessly with the national rail system, unrivalled in Europe.

Swiss healthcare and communications are among the best in the world: about 11.5% of GDP spent on healthcare, and a network of hospitals, medical practices and pharmacies ensures universal access to out-patient and in-patient care. The post office network has more than 2,500 post office branches; in an international comparison with seven other European countries, Switzerland had the highest density of post office branches per area and the smallest average distance to the nearest post office branch.

6

SUSTAINABLE ENVIRONMENT

Perhaps the fact that two-thirds of the country is covered with forests, lakes and mountains has led the Swiss to pay particular attention to natural resources, or maybe the need to import most natural resources (the only indigenous natural resource is hydropower) has led to a greater appreciation of the environment's importance. This country generates a seemingly endless number of businesses, associations, academic initiatives and other enterprises focused on making use of resources in a bio-friendly manner.

A diversified energy supply with a large share of climate-friendly resources such as hydropower makes Switzerland much



less dependent on fossil fuels than many other countries. The hydropower market is worth about CHF2 billion and is therefore an important segment of the country's energy industry. Switzerland's role as the "moated castle of Europe" means that it is obliged to make special efforts in the area of water pollution control. The water that flows through all water pipes in Switzerland is so fresh and pure that it meets the purity requirements for mineral water, but is a thousand times cheaper.

The Swiss are Europe's champion recyclers: the country has one of the highest recycling rates in the world with an average, in 2006, of 76% of all recyclable items being recycled. According to the Swiss Federal Statistical Office, in 2006 money spent on the environment by the public and private sectors in Switzerland totalled nearly CHF6 billion, or about 1.7% of GDP.

ENVIRONMENTAL PERFORMANCE INDEX 2008

Switzerland	95.5
Austria	89.4
France	87.8
Slovenia	86.3
UK	86.3
Germany	86.3
Italy	84.2
Hungary	84.2
Spain	83.1
Ireland	82.7
US	81.0
Netherlands	78.7
Belgium	78.4

Source: Yale Center for Environmental Law & Policy, Columbia Center for International Earth Science Information Network, with the World Economic Forum, and the Joint Research Centre of the European Commission, Environmental Performance Index 2008, (epi.yale.edu)

7 BUSINESS TRANSPARENCY



A very sophisticated business culture, ranked second for its business sophistication, and among the most effective and transparent public institutions ensure a level playing field and enhance business confidence. Switzerland's cantons compete with each other to attract business and, as a result, although each region has its own unique attractions, all have business-friendly tax regimes and legal structures that make Switzerland one of the most competitive business locations worldwide. The country has a unique platform of hosting dynamic small and medium-sized enterprises, creating high added value. Small and medium-sized enterprises (SMEs) dominate the Swiss economic landscape; more than 99% of companies have less than 250 full-time employees.

Setting up a business, of whatever size, is a relatively straightforward and uncomplicated procedure. The legal system makes it easy to start operations within the country; incorporating in Switzerland can usually be accomplished within two weeks, and no special permits are needed to purchase real estate for business purposes.

Economic investment incentives (such as tax holidays) are offered by most cantons for projects that bring new industry and create jobs. The federal government also offers economic incentives for certain types of projects.

Swiss labour law is widely recognised (according to one's viewpoint) as much more liberal than that of most other European countries. A company's ability to hire and fire is very flexible, social contributions are comparably small, working hours per week are high and strikes are virtually unheard of. Employing staff or transferring workers to Switzerland from Europe is easy: since 2007, work and residence permits are granted without restriction to all members of the EU so long as an employment contract is forthcoming. However, it has become subsequently less easy to hire staff from non-EU or EFTA countries.

8 COMPETITIVE TAX

Switzerland is known worldwide for its attractive tax environment, but it is not a tax haven. It has more than 70 double tax treaties in place and should be regarded rather as a liberal business destination offering a favourable business environment for entrepreneurs. For the corporate investor, tax rates are among the most competitive for international onshore locations and the Swiss tax system is considered highly attractive by a broad spectrum of international investors. Taxes are levied on the federal, cantonal (state) and communal (municipal) levels and are low by European comparison, both for corporations and for individuals.

The reform of the income tax system in recent years has harmonised the formal aspects of the various cantonal tax laws – for example, determination of taxable income, deductions, tax periods, assessment procedures, etc. But the cantons and communes still have significant autonomy in setting tax rates, except for those taxes reserved exclusively for the federal government, and they vie with each other

to attract investment by cutting their tax rates. As a result, rates vary considerably for companies and individuals depending on their tax status and location. Under the general corporate tax rules, companies are subject to tax at maximum rates that range between 12.6% and 25%, depending on the canton and municipality of residence. Dividends and capital gains from substantial shareholdings are entitled to participation relief, thereby virtually eliminating tax on such transactions.

Switzerland enjoys an excellent reputation for its business-friendly relationship between tax authorities and taxpayers. Companies are encouraged to enter into discussions with the tax authorities and to obtain rulings on rule-specific tax practices. Extensive tax planning opportunities exist for holding, headquarter, management, trading, IP and finance companies: holding companies are basically exempt from taxation on dividend and capital gains income from their substantial shareholdings.

9 POLITICAL INDEPENDENCE

The country may be best known abroad for its political neutrality, but the central, defining feature of the country is its direct democracy, which makes it unique in a sea of European centralism. Switzerland is a country with strong local government: all 26 cantons have their own legislatures and governments, and as small, flexible political entities, they are able to compete with each other in various areas. As a result, the public sector remains lean and the cantons retain significant sovereign powers.

At the federal level, executive power is exercised by the **Federal Council**, which comprises seven members. Legislative power lies in the hands of the Federal Assembly, which is made up of two houses with equal powers: the Council of States (representing the cantons) with 46 members, and the National Council (representing the people), which has 200 members.

The constitution grants the people the right to participate in decision-making either through initiatives supported by a specified number of voters or through referendums on motions proposed by the government. The federal structure and the political rights of the people result in a closeness of politics to business and citizens, and contribute to the country's political and social cohesion.

Switzerland's neutrality and historical reputation as a safe haven means it is home to many international organisations, including the United Nations, the World Health Organization, World Intellectual Property Organization, the International Committee of the Red Cross, the World Trade Organization, CERN, the International Olympic Committee, FIFA, UEFA and many others.

POLITICAL STABILITY

1. Finland	9.90
2. Australia	9.54
3. Denmark	9.49
4. Switzerland	9.33
5. Sweden	9.21
10. Germany	8.33
11. US	8.05
14. UK	7.40

Source: IMD World Competitiveness Yearbook 2009



PHOTO: iStockphoto, Monika Flückiger

10

CURRENCY/PRICE STABILITY

The Swiss are generally a risk-averse people – perhaps that goes back to times when crop failure meant not just financial ruin but also starvation – and they are good savers. In 2005, Switzerland's gross national savings was 36.1% of GDP, compared with 13.5% for the US. Purchase power stability has been achieved traditionally through low inflation, a strong currency and sound public finances, resulting in a good investment climate and guaranteed economic prosperity and stability. Swiss banks put their emphasis on having a strong capital base to send a signal of security to their customers, and this large deposit base makes banks more resilient to any financial crisis.

High price stability and low inflation rates make the Swiss franc one of the most solid currencies in the world, and it was the fifth most traded currency on world markets in 2005 after the US dollar, the euro, the Japanese yen and the British pound. The efficient capital market and a highly professional international banking and finance system make the Swiss franc

the traditional safe-haven asset that investors seek during economic uncertainty. The banks manage some CHF5.2 trillion (US\$4.2 trillion) in securities holdings for their clients, both foreign and domestic.

Switzerland's per capita GDP is the fifth-largest in the world, or eighth largest when adjusted for purchasing power. At US\$56,651, the per capita GDP was considerably higher than the EU average in 2007 and outranked the UK by 23%, and France and Germany by 35% and 41% respectively. +

ECONOMIC FREEDOM (2008)

1. Hong Kong	9.05
2. Singapore	8.70
3. New Zealand	8.27
4. Switzerland	8.08
5. Chile	8.03
6. US	7.96
10. UK	7.81

Source: Cato Institute,
*Economic Freedom of the
World: 2010 Annual Report*



A budding Swiss-US springtime?

In spite of the many doom prophecies regarding Swiss-US business in the aftermath of the UBS affair, and with a difficult exchange rate development, Swiss-US business relationships are very healthy

BY MARTIN NAVILLE*

This year's WEF in Davos saw a resurgence of US participants. In the last two years, Americans were a very rare breed in the Swiss mountains. But this year, Davos welcomed a large US delegation led by former President Bill Clinton, Treasury Secretary Timothy Geithner and US Trade Representative Ron Kirk. The atmosphere in various Swiss-US discussions was relaxed and positive. And I had the pleasure of being introduced to Bill Clinton and to stick a Swiss-American Friendship Pin on Senator John Kerry's (Presidential candidate 2004) lapel.

It is not just the atmosphere at the WEF that leads to optimism. The Swiss-US trade figures for 2010 look very strong, indeed. Swiss exports to the US increased by just over 10% and reached CHF19.5 billion, the same record level reached before the crisis. In fact, measured in US dollars, Swiss exports to the US in 2010 reached a new record level. With this result, the US has solidified its position as second largest export market behind German (growth in 2010: +6.5%), but way ahead of Italy (growth +0.6%) and France (growth -0.6%). The early numbers for US exports to Switzerland, as well as for bilateral foreign direct investments, show a very positive trend. In spite of the many doom prophecies regarding Swiss-US business in the aftermath of the UBS affair and with a difficult exchange rate development, Swiss-US business relationships are very healthy.

Now every relationship has its question marks and its difficult moments. While the bilateral issues have mostly been resolved through last year's ratification of the Swiss-US treaty, there are many issues that might hinder the future development between the two countries. These issues are all of multilateral character, defining the relationship of



the US with all its trading partners. But as the only small country in the OECD that is not part of larger groups and with its trade and direct investments over-proportionally linked to the US economy, Switzerland will always be more exposed to such future developments. Issues currently on the radar screen are first and foremost FATCA (Foreign Account Tax Compliance Act; see *Swiss Business* Nov/Dez2010). Other issues include growing protectionism in the US, increased complexity to transact busi-

ness with US companies especially for small and medium-size companies, and overly complex reporting mechanisms. Key words of these developments are things like the Neal Bill, the Additional Reporting Requirement Act, the Foreign Manufacturers Liability Act, certain elements of the Dodd Frank Wall Street Act and the Health Care Reform Act, and many others. All these acts have worthy goals, but many of those will have severe secondary effects insufficiently considered in the rush to correct certain problems arising from the crisis.

As a close and faithful friend and business partner, we would like to call on the US to have a close look at the extraterritorial secondary effects of its legislation. And we dearly hope that the US will again take up the leadership of the free trade movement in the Doha Round negotiations. Maybe in January 2012, we will hear President Obama speak again about the US as the leader of free global markets, a sentence for which we were searching in vain during the State of the Union speech 2011. With this, the springtime development between our two countries need not only last a spring, but rather for a very long time.

*Martin Naville, CEO of the Swiss-American Chamber of Commerce.

PHOTO: iStockphoto, NEWS SERVICE