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An Assessment of Chinese Foreign Direct Investment in Switzerland

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An Assessment of Chinese Foreign Direct Investment in Switzerland

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ABSTRACT

China has emerged as an important source of foreign direct investment (FDI). In recent years, we have witnessed the reconfiguration of China's strategies as a global investor, moving from resource-seeking investment into more sophisticated and competitive market-sites for FDI such as Switzerland. Although Chinese FDI in Switzerland is still relatively small in magnitude, its rapid growth is worthy of reflective assessment from both the theoretical and international business perspective. This paper focuses on Chinese investment into Switzerland giving particular consideration to the assessment of these new entrants, aspects related to drivers and motivators, elements of difference, and considerations of resources and capabilities. Likewise, the challenges and opportunities for the Swiss economy stemming from Chinese investment are addressed.

Keywords: Foreign Direct Investment, Chinese Outward Foreign Direct Investment, Chinese Foreign Affairs, Switzerland.

Çin'in İsviçre'deki Doğrudan Yabancı Yatırımlarının Bir Değerlendirilmesi

ÖZET

Çin önemli bir dış yatırım kaynağı olarak ortaya çıktı. Geçtiğimiz yılarda küresel yatırımcı olarak Çin'in stratejilerinin kaynak arayışından İsviçre gibi karmaşık ve rekabetçi pazarlara doğru yeniden biçimlendiği görülüyor. Çin'in İsviçre'deki yatırımları görece küçük ancak hızla artıyor olması bu konuyu teorik ve uluslararası işletme perspektifiyle araştırmayı önemli kılıyor. Bu çalışma Çin'in İsviçre'deki yeni yatırımlarına, motivasyonlarına, bunların farklı olduğu taraflara ve kaynak ve yetkinliklerine odaklanıyor. Benzer şekilde Çin yatırımlarının İsviçre için sunduğu tehdit ve fırsatlarda tartışılıyor.

Anahtar Kelimeler : Doğrudan Yabancı Yatırım, Çin'in Doğrudan Yabancı Yatırımı, Çin Dış İlişkileri, İsviçre.

Introduction

There has been an extraordinary transformation in the economy of China in recent decades. The economic reforms of the late 1970s and the incorporation of China as a member of the World Trade Organisation in 2001 have led to the emergence of an economy based on openness and competition. A prominent aspect of China's international openness has been its attractiveness for foreign direct investment (FDI). In 2012, China became the largest recipient of FDI worldwide.[1] Another important feature of the Chinese economy is its economic competitiveness expressed in the outsized surplus of its balance of payments due to the outstanding performance of the export sector. The contribution of foreign direct investment and the remarkable performance of the export sector are reflected in the impressive growth of the Chinese GDP in recent decades.[2] This extraordinary economic growth has led China to surge as a significant source of outward foreign direct investment (OFDI).

Although China is a newcomer as a source of outward investment, China ranks ninth among the top investor countries in the world in 2011.[3] The most recent data reveals China to be the third largest source of outbound foreign direct investment (OFDI) in the world after the USA and Japan.[4] Chinese investment has been directed to the four corners of the world, where developed and developing countries have been recipients of Chinese FDI. While in the developing countries Chinese investors are directed towards resource-seeking investments to secure access to raw materials, in the developed world, Chinese investors are oriented toward market-seeking and strategic-asset-seeking investment to expand their markets and to have access to new technologies, brand names, distribution channels and managerial know-how.[5] Europe endows Chinese investors with opportunities to expand their markets, but most importantly, Europe provides access to new technologies, brands, sophisticated distribution channels and managerial know-how. Consequently, Europe has been the most attractive location for Chinese investment in the last past years.[6] This new trend also relates to Switzerland as Chinese investment in this small European country is growing faster than that from other investor partners and it is set to grow in the years ahead.[7]

Despite the major cultural, historical and political differences that exist between China and Switzerland, strong economic cooperation is emerging between these two countries. The growth of Chinese outward FDI in Switzerland emphasizes the need to further comprehend China as a major global investor. In the last few years, we have witnessed the reconfiguration of China's strategies as a global investor, moving from resource-seeking investment to more sophisticated and competitive market-sites for FDI such as Switzerland. Although Chinese FDI in Switzerland is still relatively small in magnitude, its rapid growth is worthy of reflective examination from both the theoretical and international business points of view. In contrast to the relative abundance of studies on China-EU relations, there is a paucity of studies on China-Switzerland relations despite recent developments in such relations in the form of a Free Trade Agreement between the two countries and Switzerland's

1 United Nations Conference for Trade and Development (UNCTAD), *World Investment Report: Global Value Chains and Trade for Development*, United Nations Publication, New York and Geneva, 2013.

2 World Bank, *Country Profile: China Overview*, Accessed on July 20, 2013.

3 UNCTAD, *China Overseas Investment Summit 2012: Global Economic Transformation and New Approaches to China's Overseas Investment*, Opening Ceremony Statement by Mr. Supachai Panitchpakdi, Hong Kong August 22, 2012.

4 United Nations Conference for Trade and Development, *World Investment Report*.

5 J. Clegg and H. Voss, *Chinese Overseas Direct Investment in the European Union, Europe China* Research and Advice Network Reports (ECRAN), London 2012.

6 A Capital, *The A-Capital Dragon Index for the Full Year 2012*, Press Release Beijing and Brussels, April 16, 2013.

7 L'Hebdo, *La Chine Plante ses Pavilions en Suisee*, Décembre 20, 2012.

exceptional characteristics. Switzerland is one of the most attractive locations for FDI in the world; possessing very stable economic, social and political systems. It has a unique economy based on capital and technology intensive production, luxury goods and services. It is positioned at the heart of Europe and is a non-EU member. Switzerland is indeed a good market site for investors as a hub and as a stepping stone towards the greater European market. Thus, Switzerland serves as an appropriate choice for a study that analyses China's investment relations with other countries.

The remainder of this paper is organised as follows: The next section assesses related literature on the emergence of Chinese outward foreign direct investment. Section 3 focuses on an evaluation of Chinese investment in Europe. Section 4 assesses Switzerland as a market place for foreign direct investment. Section 5 elaborates on Chinese foreign direct investment in Switzerland. Section 6 presents an analysis of the Chinese outward FDI in Switzerland. Section 7 draws conclusions.

Related Literature on Chinese Outward Foreign Direct Investment

The significant contribution of foreign direct investment to the economy of countries has impelled a large and growing body of academic literature on FDI. It is acknowledged that foreign direct investment has the potential to generate jobs, enhance exports and contribute to long-term economic development.[8] The acknowledged implication that FDI has a large multiplier effect in the economy of host markets has led many countries to increase their efforts to create a better climate for investment.[9] During the past decades, China has particularly focused on attracting foreign investment; FDI has been a central component of its economic policies. As a result, in 2012, China became the largest recipient of FDI inflows surpassing the long-standing position of the United States.[10] Although FDI inflows continue to be a most significant source of its economic growth, Chinese outward foreign direct investment has been increasing significantly during the last past decade. In Figure 1 we observe that while Chinese FDI outflows were practically non-existent during the 1970s, during the 1980s and 1990s FDI outflows started to grow at a modest rate, and while the developed world was experiencing financial difficulties during the past half-decade, Chinese OFDI started to rise notably (see Figure 1). Parallel to this development, the participation of China in the global economy has increased significantly; a major factor relates to the role of worldwide investor that China is playing in the global economy.[11]

A variety of reasons have been offered for the emergence of Chinese OFDI. Besides its economic dynamism, the emergence of China as a significant global investor must be attributed to the role of the Chinese government in shaping the path of OFDI.[12] In 1999, the Ministry of Foreign Trade and Economic Cooperation together with other Chinese departments launched the "Going Global" scheme to support the internationalisation of Chinese firms. Policies were designed to encourage Chinese firms to invest and set up factories overseas.[13] The Ministry of Commerce,

8 World Bank, *World Development Report 2005: A Better Investment Climate for Everyone*, Oxford University Press, September 2004.

9 R. Rios-Morales *et.al.,* "Innovative Methods in Assessing Political Risk for Business Internationalization" *Research in International Business and Finance*, Vol.23, Issue 2, 2009, p.144-156.

10 UNCTAD, *World Investment Report*.

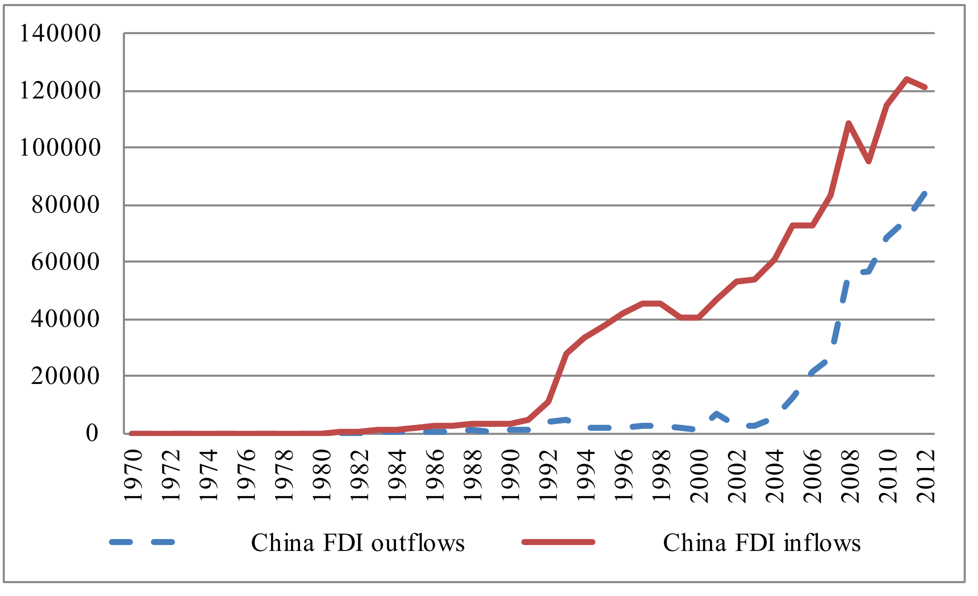
11 D. Greenaway, C. Milner and S. Yao, *China and the World Economy*. Basingstoke, United Kingdom, Palgrave Macmillan, 2010.

12 P. Deng, "Outward Investment by Chinese MNCs: Motivations and Implications", *Business Horizons*, No.47, 2004, p.8-16.

13 B. Ren, H. Liang and Y. Zheng, "An Institutional Perspective and the Role of the State for Chinese OFDI", I. Alon, M. Fetscherin and P. Gugler (Eds.) *Chinese International Investments*. Basingstoke, United Kingdom, Palgrave Macmillan,

formerly named Ministry of Foreign Trade and Economic Cooperation has been responsible for the policies and measures implemented to support and encourage the internationalisation of firms. This institution together with the Department of Outward Investment and Economic Cooperation have been providing relevant support and practical information about investment opportunities, market research and other types of necessary information in the assessment of foreign investment.[14] China has also been encouraging firms to go abroad through the provision of low-interest capital; this industrial policy seems to be impacting investment decisions overseas.[15] The increase of FDI outflows from China has also been driven by a combination of intense competitive pressure and favourable policies for FDI in recent years.[16]

Figure 1: China FDI Inflows and Outflows, 1970-2012



Source: UNCTAD (2013), FDI/TNC database (www.unctad.org/fdistatistics)

During the period 2011-2012, the growing trend in China's OFDI can be observed across all regions of the world with the exception of Asia (Figure 2). Traditionally, much of the FDI from China were directed to other Asian countries with geographical proximity and similar economic and cultural backgrounds. According to the Uppsala-model, firms tend to invest in near "psychic distance" markets with similar characteristics to its domestic market.[17] Over the period 2004-2012, the geographical distribution of Chinese OFDI has undergone a major shift. Asia was the largest recipient of cumulative

2012.

14 T. Apoteker, *Chinese Investment in the Greater Europe Zone*, Europe China Research and Advice Network Reports (ECRAN), London 2012.

15 T. Hanemann and D.Rosen, *China Invests in Europe Patterns, Impacts and Policy Implications*, Rhodium Group Report, June 2012.

16 R. Rios-Morales and L.Brennan, "The Emergence of Chinese Investment in Europe", *EuroMed Journal of Business,* Vol.5, Issue 2, 2010, p.215-231.

17 J. Johanson and J. Vahlne, "The Internationalization Process of the Firm - a model of knowledge development and increasing foreign market commitment", *Journal of International Business Studies,* Vol. 8, 1977, p.23-32.

FDI from China at the end of 2004, receiving 75 percent of total Chinese investment.[18] However by 2012, Asia was the smallest recipient of Chinese FDI (see Figure 2). In recent years, China has been seeking investment opportunities in the developed and developing countries. According to the Heritage Foundation, the ten top destinations for Chinese OFDI during 2005-2012 were: Australia, the United States, Canada, Brazil, Indonesia, Iran, Nigeria, Great Britain, Russia and Venezuela; countries which have major cultural, historical and political differences with China.[19] In 2012, Europe was the most important location for Chinese investment, obtaining 33 percent of total Chinese OFDI; followed by North America with 20 percent, South America with 17 percent, Oceania with 13 percent, Africa with 9 percent and Asia obtained 8 percent.[20] This shift also applies to the sectoral distribution of Chinese OFDI.[21]

By using the framework of the eclectic paradigm of John Dunning which identifies FDI strategies and categorizes these by market expansion seeking strategies, resource seeking strategies, asset-seeking strategies and efficiency seeking strategies, we observe that Chinese OFDI is expanding its market and asset strategy seeking investments. Chinese firms are now targeting not only resource-seeking investment that has greatly influenced the early internationalisation stage of Chinese OFDI, but also are targeting more sophisticated sectors and markets. While Australia, Brazil and Indonesia have mainly received Chinese FDI in the agricultural and steel industries, the United States, Iran, Nigeria, Russia and Venezuela have essentially received investment in the petroleum industry. Investment in these countries has been oriented to maintain Chinese added value industries, especially targeting suppliers of natural resources such as petroleum and minerals. Chinese OFDI in European countries has been oriented toward market-seeking and strategic-asset-seeking investment. The United Kingdom which is one of the ten top market sites for Chinese OFDI received investment across a broad spectrum of economic activities; Chinese firms have invested in the manufacturing sector, financial and business services, as well as in sales and marketing operations.[22] Similar trends have been recognised in other European countries. In the last two years, Europe has become the most attractive location for Chinese investment[23]. Europe bestows Chinese investors with opportunities to expand their markets, but also Europe endows Chinese OFDI with access to new technologies, established-brands, sophisticated distribution channels and managerial know-how.[24] It is also important to mentioned that China has also invested a considerable proportion of FDI in the Virgin Islands, Cayman Islands and the Bahamas[25]; given the status of these islands as financial havens and their prominence as destinations for China's OFDI, some critics have questioned Chinese FDI figures.[26]

18 Ministry of Foreign Trade and Economic Cooperation (MOFTEC), "Going Global" *MOFTEC website*, yearbook 2001, Beijing 2005.

19 Heritage Foundation, China *Global Investment Tracker*, the Heritage Foundation Research. Accessed 26 June 2013.

20 A Capital, *The A-Capital Dragon Index*.

21 Hanemann and Rosen, *China Invests in Europe Patterns.*

22 N. Burghart and V. Rossi, "China's Overseas Direct Investment in the UK", *International Economics,* Chatham House, Paper IE PP 2009/06, December 2009.

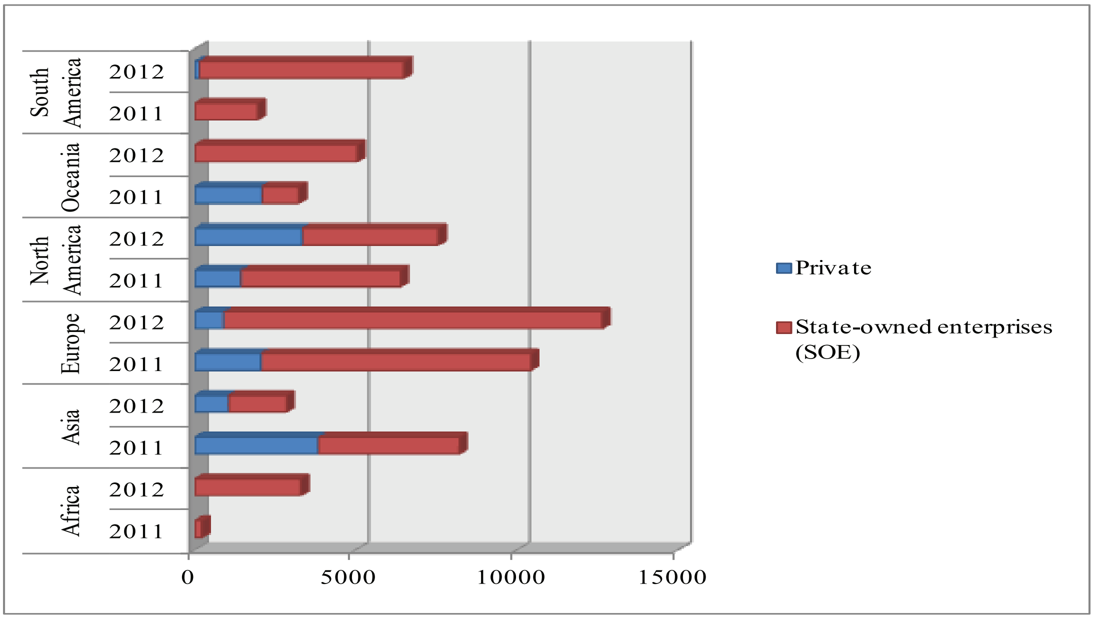
23 A Capital, The *A-Capital Dragon Index*.

24 Clegg and Voss, Chinese Overseas Direct Investment.

25 MOFTEC, *Statistical Bulletin of China's Outward Foreign Direct Investment 2007*, Beijing 2008.

26 F. Nicolas, "Chinese Direct Investment in Europe: Facts and Fallacies", *International Economics,* Paper IE BP 2009/01, June 2009.

Figure 2: Chinese Outward Foreign Direct Investment: 2011-2012.



Source: A Capital (2013), The A Capital Dragon Index for the Full Year 2012.

Brennan[27] has argued that the case of Chinese multinational enterprises (MNEs) and their investment strategy deserve special attention for a number of reasons. First there is the primacy attached to the goal of facilitating China's next stage of domestic economic development in relation to Chinese OFDI. Secondly, there is the degree to which China's MNEs remain deeply embedded in China's cadre-capitalism. Thirdly, there is a contrast between OFDI on the part of Chinese MNEs and some of the established theories. Chinese OFDI can be perceived as a new phenomenon that challenges main stream theories of international business. Although Chinese OFDI conforms to the stages of the internationalisation theory, two features of Chinese OFDI challenge the conventional understanding of internationalisation. These features are "psychic distance" and the political aspect of the internationalisation of Chinese firms.[28] Mainstream theories of internationalisation assume that dissimilarity in cultural, linguistic, institutional and developmental levels between the investor and the host country increases the cost of doing business which finally results in a competitive disadvantage.[29] However, the second feature is perhaps the most challenging aspect for main stream theories as these are mainly focused on economic and business considerations. The influence of the Chinese government in the internationalisation of Chinese FDI is probably the most distinctive feature.[30] The Chinese government has been instrumental in the internationalization process of Chinese firms.[31]

27 L. Brennan, *Southern Multinationas and Their Impact on Europe in The Emergence of Southern Multinatioanls: Their Impact on Europe*, Palgrave Macmillan, 2011, p.367-377.

28 Rios-Morales and Brennan, "The Emergence of Chinese Investment in Europe", p.215-231.

29 J. Child and S. Rodrigues, "The Internationalisation of Chinese Firms: A Case for Theoretical Extension", *Management and Organisation Review,* Vol.1, Issue 3, 2005, p.381-410.

30 P. Buckley *et.al.*, "The Determinates of Chinese Outward Foreign Direct Investment", *Journal of International Business Studies*, Vol.4, No.38, 2007, p.499-518.

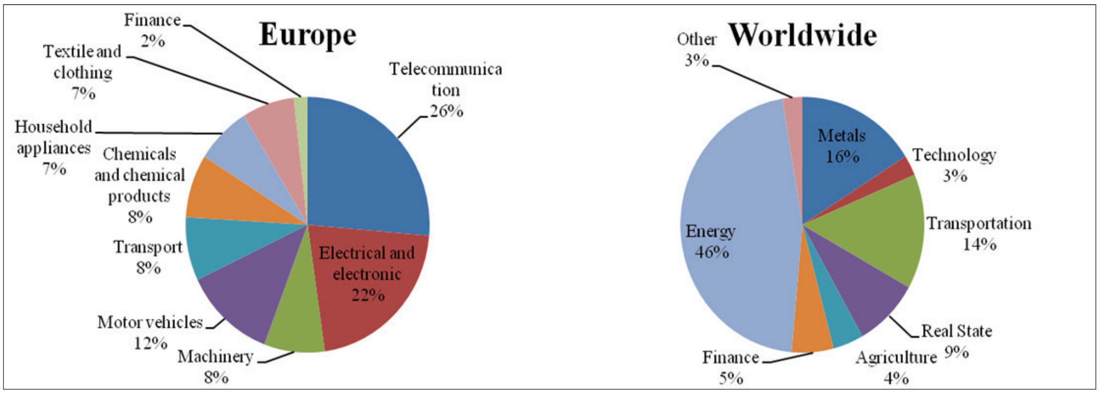
31 Deng, "Outward Investment by Chinese MNCs" p.8-16; Buckley *et.al.*, "The Determinates of Chinese Outward Foreign Direct Investment", p.499-518; S. Söderman, A. Jakobsson and L. Soler, "A Quest for Repositioning: The Emerging

For instance, the remarkable transformation of the internationalization of traditional Chinese family enterprises, during the last decades, is an obvious result of government support.[32] Nonetheless, the most extraordinary aspect of Chinese OFDI lies in the ownership and control of Chinese firms.[33] In Figure 2 we observe that investment from state-owned enterprises (SOE) continues to dominate Chinese OFDI worldwide.

Chinese Outward Foreign Direct Investment in Europe

Chinese investment directed to Europe has grown rapidly in the last couple of years; this trend promises to continue. In 2011 and 2012, Europe has been the largest recipient of Chinese investment, receiving 34 percent and 33 percent respectively of total Chinese foreign investment.[34] This represents a major increase in the proportion of Chinese FDI going to Europe. Unlike other regions that mostly receive Chinese investment in natural resources, Europe obtains Chinese investment in a wide range of industries. Chinese firms are locating their capital in the business and financial services, real state, telecommunication, energy, high technology and in other sectors such as healthcare and education (see Figure 3). Chinese OFDI in Europe demonstrates an expansion of its investment programme, moving from resource-seeking investment to a market-seeking and strategic-asset-seeking investment approach. This change of strategy has been confirmed by different surveys conducted on the motives of Chinese investment, including the survey conducted by the World Bank. These surveys have revealed that the primary motive of Chinese investment in Europe is the expansion of their market share in host countries, followed by the strategic-asset-seeking motives that provide access to new technologies, well-known brands, distributions channels and managerial know-how.[35]

Figure 3: Chinese OFDI by Sectors: Europe and Worldwide



Sources: The Heritage Foundation (2013), China Global Investment Tracker.

Internationalisation of Chinese Companies", *Asian Business & Management,* Vol.7, p.115-142; R. Morck, B. Yeung and M. Zhao, "Perspectives on China's Outward Foreign Direct Investment", *Journal of International Business Studies*, Vol.39, 2008, p.337-350.

32 C. Erdener and D. Shapiro, "The Internationalisation of Chinese Family Enterprise and Dunning's Eclectic MNE Paradigm", *Management and Organisation Review*, Vol.1, No.3, 2005, p.411-436.

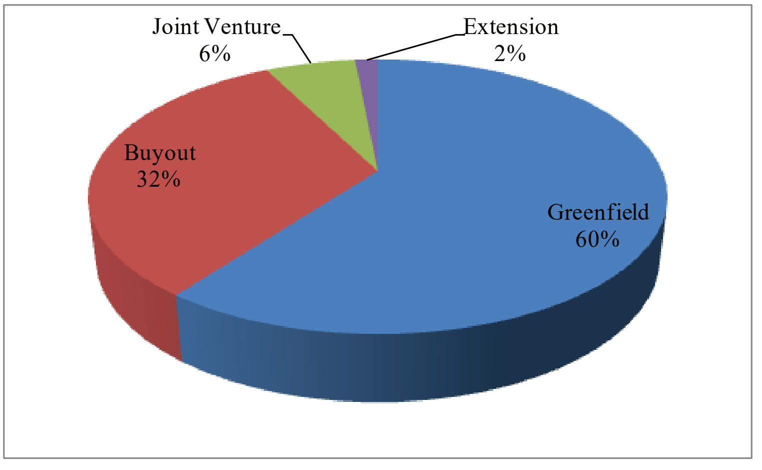
33 Söderman, Jakobsson and Soler, "A Quest for Repositioning" p.115-142.

34 A Capital, The *A-Capital Dragon Index*.

35 Nicolas, "Chinese Direct Investment in Europe".

Another characteristic of Chinese investment in Europe is framed by the business environment's opportunities.[36] During a period in which the Western economies have been facing severe financial distress in which the business environment has been characterised by liquidity pressure, asset write-downs and risk aversion, Chinese investors have been taking the opportunity to buy struggling European firms.[37] Figure 4 displays the entry modes of Chinese OFDI in Europe from 1980-2007 period in which 60 percent of Chinese investment in Europe is *greenfield* investment, while *buyout* constitutes 32 percent, *joint ventures* 6 percent and *extension* 2 percent. These have not differed greatly in recent years. It has been observed that *greenfield* investment continues to be a predomination entry mode of Chinese investment into Europe.[38]

Figure 4: Entry Modes of Chinese Firms in Europe: 1980-2007



Source: Hay and Milelli (2010), adapted from Table 9.1.

Although Chinese investment in Europe has been increasing rapidly in recent years, Table 1 shows that the share of Chinese OFDI in Europe is still rather small. In 2009, Chinese investment in Europe (27 members of the EU) amounted to €5.9 billion, increasing to €6.4 billion in 2010, rising to €15 billion in 2011 and peaking at £26.8 billion in 2012. Table 1 lists the ten top European partners in terms of FDI. China is represented among the ten top partners in terms of European investment in China. While China's FDI stocks in the EU-27 increased by 44% in 2012, China was still not among the top 10 investors (in terms of inward FDI positions) in the EU-27 despite Europe having been the most attractive location for Chinese FDI. In 2012, Chinese investment inflows accounted for 2.6 percent of total FDI inflows in Europe.[39] However, as displayed in Table 1 we observe that Chinese investment in Europe is growing faster than is the case for the other European partners, signalling this trend will continue to grow. It is expected that this expansion will be also fostered by the investment

36 Hanemann and Rosen, China *Invests in Europe Patterns.*

37 A. Berger, *China and the Global Governance of Foreign Direct Investment: The Emerging Liberal Bilateral Investment Treaty Approach*, German Development Institute, Discussion Paper No 10/2008; F. Nicolas, "The Global Economic Crisis: a Golden Opportunity for China", *Institut Français des Relations Internationales, Asie Visions,* June 15, 2009; The Economist, *Chinese Investment in Europe: Streaks of Red*, June 30, 2011, from Printed Edition.

38 Hanemann and Rosen, *China Invests in Europe*.

39 European Commission-Eurostat, Online Data: *Statistiques sur les Investissements Directs Etrangers*, Principaux résultats statistiques, 2013.

agreement negotiations agreed at the 14th European Union-China Summit held in Beijing in February 2012; the European Commission publically expressed its commitment to bringing this initiative forward in May 2013. The main aims of these investment negotiations, which are now in train, have at their core the improvement of the protection of investment, to reduce investment barriers and encourage investment flows.[40]

Table 1: European FDI Partners, 2010-2012 (in €billion)

	Outward				Inward			
	2010	2011	2012	Growth rate 2010-2012(%)	2010	2011	2012	Growth rate 2010-2012(%)
Extra EU-27	4,327.0	4,940.9	5,206.8	22.9	3,144.7	3,768.1	3,947.4	25.5
United States	1,266.9	1,598.9	1,655.0	30.6	1,247.7	1,526.8	1,536.4	23.1
Switzerland	555.5	683.5	679.0	22.2	394.8	482.6	505.2	28.0
Canada	197.7	228.6	258.0	30.5	146.1	139.0	142.6	-2.4
Brazil	198.9	248.2	246.8	24,1	90.4	96.9	98.1	8.6
Russia	130.6	169.4	189.5	45.1	50.3	57.2	76.6	52.4
Australia	120.2	128.0	141.6	17.8	30.4	35.9	34.3	12.8
Hong Kong	112.3	119.8	132.9	18.4	41.5	64.7	50.2	21.0
Singapore	109.5	124.8	118.7	8.3	56.5	60.3	68.6	21.4
China	81.0	103.0	118.1	45.8	6.1	18.5	26.8	338.0
Japan	98.1	100.5	98.8	0.8	133.4	147.0	161.5	21.1

Source: European Commission-Eurostat (2015), Online Data: Statistiques sur les Investissements Directs Etrangers.

Switzerland as a Market Location for FDI

Switzerland is one of the most attractive locations for FDI in the world. In the Global Opportunity Index 2012, Switzerland ranked eight among all countries. This index measures the attractiveness of a market site for FDI and ranks countries according to the criteria that mirror the countries' degree of economic openness and opportunity for foreign investment.[41] Switzerland's positioning amongst the world's most attractive locations for FDI is explained by a variety of factors, among the most important determinants of attractiveness for FDI are: the quality of its business environment and the stability of its legal, economic, political and social systems.[42] The highly qualified labor force that Switzerland possesses is also acknowledged as an important determinant.[43] Currently, Switzerland is considered as a global leader in innovation, scientific research and technology output[44]; features that have also been

40 European Commission, *Commission proposes to open negotiations for an investment agreement with China*, Press release: News Archive, Brussels, May 23, 2013.

41 Global Opportunity Index, *Attracting Foreign Investment, Global Opportunity Index*, Milken Institute, 2013.

42 P. Gugler and X. Tinguely, "Swiss Inward FDI and its Policy Context", *the Vale Columbia Centre on Sustainable International Investment*, June 1, 2010.

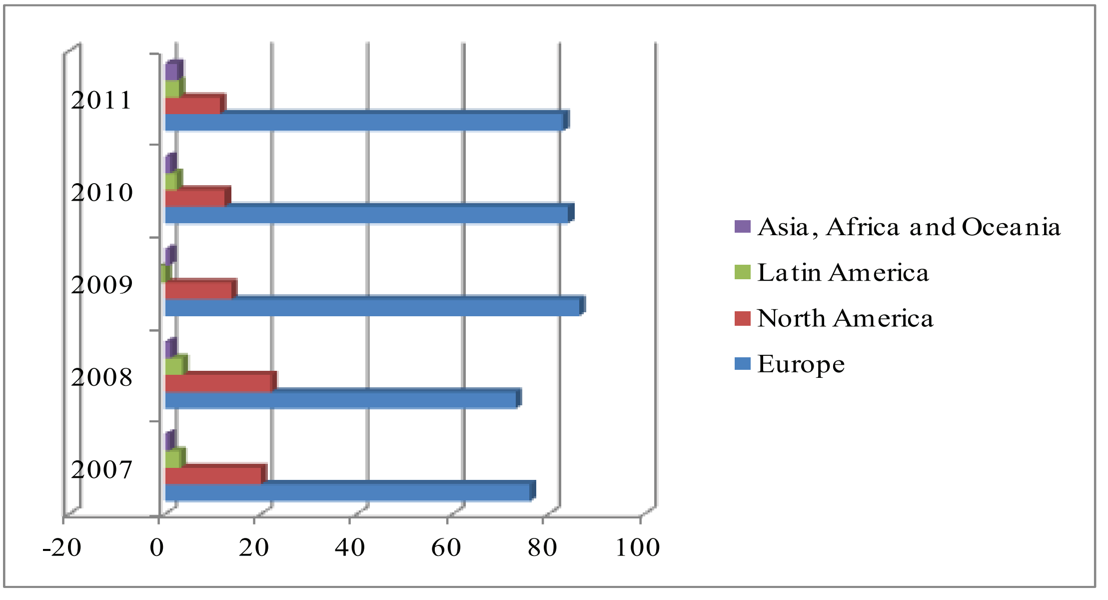
43 Swiss-American Chamber of Commerce & Boston Consulting Group (SACC & BCG), *Creative Switzerland? Fostering an Innovative Powerhouse*. Joint Study of the Swiss-American Chamber of Commerce & Boston Consulting Group, Zurich December 2008.

44 R. Rios-Morales, J. Crotts and M. Schweizer, "Policy Strategies for Innovation in Switzerland", D. Vontris and A. Thrassou (eds.), *Innovative Business Practices: Prevailing a Turbulent Era*, Cambridge Scholars Publishing, Newcastle Upon Tyne, 2013, p.195-210; Organisation for Economic Cooperation and Development (OECD), *Science, Technology and Industry, Country Profiles: Switzerland*, 2014.

instrumental in attracting high quality FDI. Its capacity for innovation has placed Switzerland as one the most competitive countries in the world.[45]

Foreign direct investment has been an important component of the development of the Swiss economy; foreign investment contributes to about 23 percent of the Swiss gross domestic product.[46] Foreign firms play a significant role in the export sector and job creation, employing around 10 percent of the Swiss labour-force.[47] A large proportion of inward FDI comes from Europe, contributing around 80.54 percent of total Swiss inward FDI during the period 2007-2011; followed by North America which has invested around 15.96 percent, Latin America has invested around 2.17 percent and Asia, Africa and Oceania having contributed with only 1.32 percent (see Figure 5). A large percentage of FDI is located in the services sector, representing 87 percent of total FDI inflows from which the financial services obtains 56.2 percent, commerce 17 percent, the banking sector 5.5 percent, insurances 3.9 percent, transportation 2.5 percent and other services 1.6 percent. The industrial sector attains around 13 percent of total FDI inflows from which 6.4 percent is located in the chemical industry, 3.7 percent in the electrical and electronics sector, 1.7 in the machinery sector and 1.2 percent in other industries.[48] However, FDI in the industrial sector incorporating manufacturing tends to be more labour intensive than FDI in the services sector.[49]

Figure 5: Share of Swiss Inward FDI by Regions



Source: Swiss National Bank (2013), Investissements directs étrangers en Suisse.

45 World Economic Forum, *The Global Competitiveness Report 2011-2012*, Geneva, Switzerland 2011.

46 Swiss-American Chamber of Commerce & Boston Consulting Group, *Creative Switzerland?*

47 Gugler and Tinguely, "Swiss Inward FDI".

48 Swiss National Bank, *Investissements directs étrangers en Suisse – Branches et secteurs,* Investissements Directs en 2011, BNS A19. FDI Statistics, 2013.

49 Gugler and Tinguely, "Swiss Inward FDI".

Chinese Outward Foreign Direct Investment in Switzerland

Since the establishment of large Chinese MNEs such as Lenovo, GMT Management and M.E. Times in 2006, Chinese investment directed to Switzerland has grown rapidly in the last few years. We observe that at present, Switzerland has received around 60 more Chinese firms (see Table 2). Although the availability of official data on Chinese OFDI to Switzerland is still relatively scant, we estimate that Chinese investment in Switzerland could have reached the sum of US$180 million in 2012. Whilst it is difficult to estimate with precision the number of state own enterprises and private firms, Switzerland is hosting both types of firms. We can also recognize that the great majority (71 percent) of these firms have chosen the *greenfield* entry mode which is known for their participation in job creation, while 26 percent of firms have chosen the *acquisition* mode and only 3 percent have chosen the *joint-venture* mode which characterised the early stage of the internationalisation of Chinese investment. These entry modes are consistent with the pattern observed earlier for Chinese investment into Europe generally.

Table 2: List of Chinese Firms Operating in Switzerland

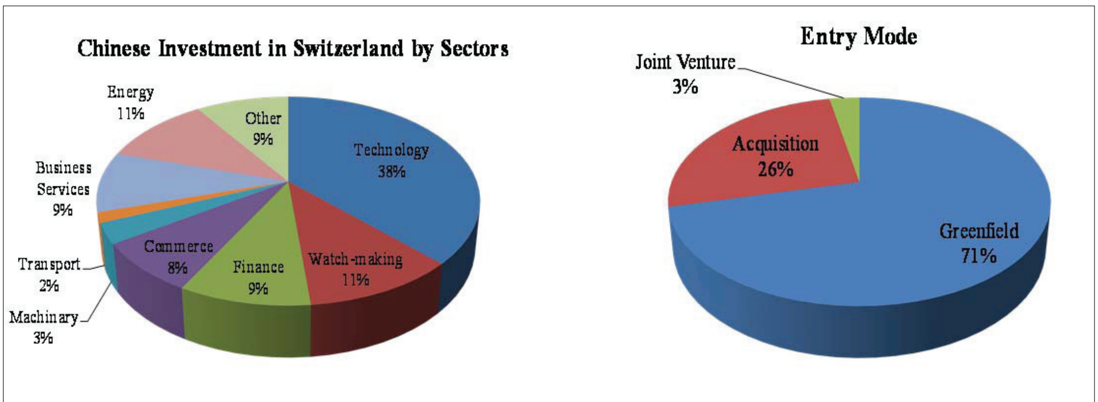
Year of Inv.	Company	Mode of Entry	Activity
2007	Absolut Invest	Acquisition	Software
2009	Addax Petroleum	Acquisition	Natural Resources
2009	Alfex	Joint-venture	Watch making
2007	Alibaba	Greenfield	e-commerce
2008	Bank of China	Greenfield	Bank
2009	Balin Precision Technology	Greenfield	Electronic components
2009	Brightoil Petr. Geneva Ltd	Greenfield	Natural Resources
2008	CBC Switzerland	Greenfield	Market research
2002	Cetronic	Acquisition	Electric equipment
2012	China Business House	Greenfield	Business service
2009	CCTV	Greenfield	Television
2009	China Equity Exchange	Greenfield	Finance
2011	CF Asset Management	Greenfield	Finance
2009	China Unionpay	Greenfield	Bank
2009	Chaarat Gold Holdings Ltd	Acquisition	Mine
2004	COSCO	Greenfield	Transport
2013	Duferco	Acquisition	Steel
2008	eBaoTech,	Greenfield	Software
2012	Eberli Holding AG	Acquisition	Construction
2010	Eoplly New Energy Technology	Greenfield	Solar energy
2012	Eterna	Acquisition	Watch making
2009	Eurosina	Greenfield	Watch making
2011	E&F Transpeed Trading	Greenfield	Natural Resources
2012	Fair Wind Europe	Greenfield	Infrastructure
1991	Gimelli Produktions AG	Acquisition	Electric equipment
2006	GMT Management	Greenfield	Infrastructure

2009	Great View Aseptic Packaging Europe	Greenfield	Commerce
2005	Hantec Europe	Greenfield	Finance
2008	Heritage Fund management	Acquisition	Bank
2013	Hôtel Europe Europaischer Hof	Acquisition	Hotel
2008	Huawei	Greenfield	Technology
2011	Hubei Chuyuan International	Greenfield	Commerce
2010	Jiangsu Akcome Solar Sci.and Tech.	Greenfield	Solar energy
2010	Jeanstar	Greenfield	Watch making
2010	Jing Mei Europe	Greenfield	Industry
2011	JinkoSolar	Greenfield	Solar energy
2008	Journey of Harmony	Greenfield	Business service
2007	Lavaro	Greenfield	Electric equipment
2010	LDK Solar Hi-Tech Co,	Greenfield	Solar energy
2006	Lenovo	Greenfield	Electric equipment
2010	Maipu Europe	Greenfield	Technology
2006	M.E. Times	Greenfield	Watch making
2010	Montres Chouriet	Acquisition	Watch making
2008	Neusoft Europe	Greenfield	Software technology
2013	Noble Resources	Joint-venture	Natural Resources
2009	OC Oerlikon	Acquisition	Textile
2011	Otian International	Greenfield	Business service
2013	Philip Morris China Holdings	Greenfield	Commerce tobacco
2005	Ruida Electronics	Greenfield	Technology
2011	Saia-Burgess	Acquisition	Electronic components
1980	Shanghai Overseas	Greenfield	Business service
2011	Solartech Intl - LDK solar	Greenfield	Solar energy
2009	Sources Orient Holding	Greenfield	Business service
2010	Steiger Participations	Acquisition	Machinery
2008	Suntech	Greenfield	Solar energy
2009	Swiss Chronometric	Greenfield	Watch making
2012	Swissmetal Holding AG-Factory	Acquisition	Metal products
2012	Switzerland Nylonkong International	Greenfield	Solar energy
2010	Touchroad International Europe	Greenfield	Divers
2011	Trenaco	Acquisition	Coal
2010	Trina Solar	Greenfield	Solar energy
1988	U-star Trading	Greenfield	Commerce
2010	VENTEC Europe	Greenfield	Electronic components
2013	Xorela	Acquisition	Machinery
2008	Yuanda Europe	Greenfield	Manufacturing
2011	ZTE	Greenfield	Telecom

Sources: L'Hebdo (2012) and data provided by Hay and Milelli.

Chinese investment in Switzerland has been allocated to different sectors of the economy ranging across a wide variety of activities. However, the sector that has attracted the highest proportion of Chinese firms is the technology sector, receiving around 38 percent of the total proportion of Chinese firms established in Switzerland. The natural resources sector and the watch-making industry are the second most attractive sectors for Chinese investment. Each sector accounts for around 11 percent of total firms. Investment in the Swiss natural resources sector differs from those undertaken in Latin America and Africa. Although Switzerland lacks natural resources, it does however have large MNEs operating in this sector. Chinese firms have acquired Swiss MNEs operating in natural resources, for instance, in 2009; Sinopec bought Addax Petroleum a large Swiss petroleum company. Other firms such as Brightoil Petroleum, and E&F Transpeed Trading that have been established as greenfield investments have based their headquarters in Geneva. The watch-making industry which is a traditional industry in Switzerland seems to have attracted a significant proportion of Chinese capital, followed by the sectors of finance and business services which each account for 9 percent, while commerce accounts for 8 percent, machinery 3 percent, transportation 2 percent and other activities account for 9 percent (see Figure 6). There is a contrast in the sectoral concentration of Chinese FDI into Switzerland with its concentration in sectors such as technology and watch making when compared to that of the traditional sources of FDI into Switzerland.

Figure 6: Chinese Investment in Switzerland by Sectors and Entry Mode



Source: Estimated from figures of Table 2

Although Chinese investment in Switzerland is still relatively insignificant, it has shown a clear upward trend over the past two years. Despite the major cultural, historical and political differences that exist between China and Switzerland, strong economic cooperation is emerging between these two countries. This dynamic cooperation started in 2009 with the signing of a bilateral investment agreement (BIT). This BIT entered into force in April 2010.[50] To broaden economic cooperation, China and Switzerland signed a free trade agreement (FTA) in July 2013. This accord addresses the protection of intellectual property, investment promotion, fair competition, transparency, trade-related environmental and labour issues. However, the main objective of this FTA is promoting the increase of

50 Secrétariat d'Etat à l'économie (SECO), *Entry into force of the Agreement between Switzerland and China on the Promotion and Reciprocal Protection of Investments*, Swiss Confederation Press Office, Bern 13 April 2010.

international trade of both signing parties.[51] While in 2012, Swiss exports to China accounted for around US$8.1 billion, representing 3.7 percent of total Swiss exports, China's exports to Switzerland accounted for around US$10.95 billion.[52] Whilst a steady increase of Switzerland's imports from China is observed, accounting for 3.86 percent of total imports in 2010, 3.99 percent in 2011 and 5.08 percent in 2012, Swiss exports to China remain relatively constant, accounting for 3.66 percent of total exports in 2010, 4.27 percent in 2011 and 3.70 percent in 2012.[53] Switzerland mainly supplies China with specialised industry machinery, luxury watches and electrical machines, China supplies Switzerland with manufactured products such as textiles, toys, apparel and electronic components.[54]

Assessing Outward FDI from China to Switzerland

Outward FDI from China to Switzerland is perceived as a new phenomenon. In the last few years, China has deepened its relationship with Switzerland through the bilateral investment agreement signed in 2009 and the free trade agreement completed in 2013. Although Chinese investment in Switzerland is still relatively small, a reflective examination from both the theoretical and international business perspective is necessary. Outward FDI from China to Switzerland conforms to the stages of the internationalisation theory. The evolution of internationalisation of Chinese firms to Switzerland has a trajectory background based on the evolution of trade. However, two features of outward FDI from China to Switzerland challenge the conventional understanding of internationalisation. These features are "psychic distance" and the political aspect of the internationalisation of Chinese firms.

According to the Uppsala-model of internationalization of FDI, firms invest in countries or regions with similar idiosyncratic features. Mainstream theories of internationalization assume that dissimilarity in cultural, linguistic, institutional and developmental levels between the investor and the host country increases the cost of doing business which finally results in a competitive disadvantage for the firm.[55] In the case of China and Switzerland, the 'psychic distance' between these countries is enormous. Although China is not the first country that has challenged conventional theory in this respect, the question is whether Chinese investment in Switzerland will integrate successfully. Different studies have revealed that Chinese firms have been unsuccessful with their investments abroad due to their ineffectiveness in integrating their companies' operations in foreign markets, especially in the developed world.[56] The challenge of "liability of foreignness" is however present and since local firms are more mature than those from the developing world[57]; Chinese investment in Switzerland carries an element of risk.

The other aspect of this case that challenges conventional theory is the political aspects of outward FDI from China. Mainstream theories remain largely focused on the economic factors of FDI that influence the decisions of foreign investors and fail to consider the influence of governments on FDI. In the internationalisation process of Chinese firms, government policies have played an

51 Secrétariat d'Etat à l'économie (SECO), *Federal Councillor Schneider-Ammann signs free trade agreement with China*, Swiss Confederation Press Office, Bern 6 July 2013.

52 Ibid.

53 Swiss National Bank, *Investissements directs étrangers en Suisse*.

54 L'Hebdo, *L'accord de Libre-échange révélateur d'une longue histoire d'amitié intéressée,* Juillet 11, 2013.

55 Child and Rodrigues, "The Internationalisation of Chinese Firms", p.381-410.

56 Nicolas, "Chinese Direct Investment in Europe"; K. Brown and P. Wood, "Chinese Overseas Direct Investment and the Economic Crisis: Reaching Out", *The World Today*, Vol.65, No.1, 2009, p.15-16.

57 M. Hitt, H. Li, and W.Worthington, "Emerging Markets as Learning Laboratories: Learning Behaviours of Local Firms and Foreign Entrants in Different Institutional Contexts", *Management and Organisation Review,* No.3, 2005, p.353-380.

important role. Since the implementation of the market economic model in the late 1970s and the launch of 'Going Global' scheme in 1999, Chinese firms have been encouraged to invest abroad and improve their global competitiveness.[58] The traditional Chinese firm oriented to the domestic market has evolved into a modern Chinese firm oriented to expand internationally.[59] While most governments nowadays are playing an active role in creating incentives by adjusting economic policies to encourage FDI[60], the degree of the involvement of the Chinese government in the internationalisation of firms is very high.[61] In contrast to its counterparts, China provides support in every aspect needed toward the internationalisation of its firms. The Chinese government supports the internationalisation of firms by providing quality information about investment opportunities, preparing market research and given training to nationals on topics related with international business and providing financial support.[62] The Government has also fostered intergovernmental cooperation through bilateral investment treaties, free trade agreements and regional trade agreements; these have been acknowledged as important facilitators of FDI in the global economy.[63]

A number of studies have posed the question as to whether Chinese firms would have been successful in their internationalisation process without the support received by the Chinese government, considering that Chinese firms have relatively weak competences in technological know-how, management skills and ability in integrating acquired firms, often with a very dissimilar corporate culture to that of Chinese firms.[64] Ren *et.al.*, suggest that the rapid increase of Chinese OFDI is the result of the state involvement in the process of firms' internationalization, shaping not only the trajectory of firms but also of China.[65] Since China becoming a member of the WTO in 2001, an opportunistic approach has characterised the internationalisation of Chinese firms. In the early years of Chinese OFDI, capital was oriented towards rich natural resource countries. The pull factors of Chinese investment were based on stable supplies of natural resources to support China's added value industries.[66] Subsequently, Chinese firms have moved to market-seeking strategies, targeting the developed world and more recently, moving to strategic-asset-seeking investment.

Drivers and Motivators of Chinese OFDI to Switzerland

As highlighted earlier in the paper, Chinese overseas investment is distinguished by a number of characteristics.[67] These include the primacy attached to the goal of facilitating China's next stage of domestic economic development in relation to Chinese OFDI and the degree to which China's MNEs remain deeply embedded in China's cadre-capitalism. The Chinese model of OFDI is different from that of other countries, with state-owned enterprises accounting for a large share of such investment

58 Ren *et.al.* "An Institutional Perspective".

59 Erdener and Shapiro, "The Internationalisation of Chinese Family Enterprise", p.411-436.

60 M. Blomström, "The Economic of International Investment Incentives", *Committee for International Investment and Multinational Enterprises OECD*, Series of Papers, 1 September 2001.

61 Ren *et.al.* "An Institutional Perspective".

62 M. Keller and L. Vanoli, "Chinese SWFs: at the Crossroad between the Visible and the Invisible Hand", I. Alon, M. Fetscherin and P. Gugler (Eds.) *Chinese International Investments*, Basingstoke, United Kingdom, Palgrave Macmillan, 2012; Hanemann and Rosen, *China Invests in Europe Patterns*.

63 Rios-Morales and Brennan, "The Emergence of Chinese Investment in Europe", p.215-231.

64 Deng, "Outward Investment by Chinese MNCs" p.8-16. Nicolas, "Chinese Direct Investment in Europe".

65 Ren *et.al.*, "An Institutional Perspective".

66 R. Gottschalk and D. Prates, "The Macroeconomic Finances of East Asia's Growing Demand for Primary Commodities in Latin America", *Institute of Development Studies*, Working Paper, October 2005.

67 L. Brennan, *Southern Multinationas,* p.367-377.

in contrast to the private sector-led investment of Western corporations. Thus the "political" in the political economy can and often does outweigh the "economic", as China's state capitalism is reflected in its OFDI initiatives in the form of state owned enterprises investing in other countries, not only with the government's support, but also as instruments of the government, acting in line with the government's political and economic priorities. This is illustrated by the following quote: "In no dimension of China's economic engagement internationally is the interaction between the economic and political systems more prominent and important than in respect of the surge in China's overseas direct investment (ODI)".[68]

The main motives of capital allocation in Switzerland for Chinese firms relates to strategic-asset-seeking motives. Switzerland offers access to sophisticated skilled labour force, managerial know-how, established brand names and international distribution networks. Switzerland has also been associated in the international market with the "*Swiss made*" label, which echoes in the international markets the production of top-quality custom-built equipment, the well-developed manufacturing sector, and products of precision engineering. Switzerland is also renowned for its exquisitely engineered luxury timepieces; the watch-making industry has earned world renown for their expertise, workmanship, and creativity. Moreover, Switzerland also possesses a favourable business environment.

The above distinctiveness of Switzerland, are some of the most important drivers and motivators of Chinese FDI. In our appraisal of Chinese FDI in Switzerland, we have identified that a sizable proportion of companies are investing in well-renowned and traditional Swiss sectors. For instance, in the technology sector, Chinese firms have placed their investment in the solar energy. The energy sector in Switzerland is traditionally well-known for its innovation, for centuries the physical energy of falling water has been the main source of the manufacturing sector; contributing to the development of pioneering engineering and advanced know-how in this industry. Nowadays, Switzerland is the world's leader in renewable energy.[69] The second most attractive sector for Chinese FDI in Switzerland is the watch-making industry. As mentioned above, Switzerland is the traditional world leader in this sector due to its expertise, workmanship and inventiveness. Chinese firms have also placed their capital in the natural sources sector, acquired Swiss MNEs operating in natural resources. For instance, in 2009, Sinopec bought Addax Petroleum a large Swiss petroleum company. A number of other Chinese firms such as Brightoil Petroleum, and E&F Transpeed Trading have based their headquarters in Geneva, Zurich and Basel taking advantage of the fiscal system and the networking system provided by these metropolitan cities. The sector of finance is another Swiss targeted sector by Chinese FDI; again, this is another traditionally well-developed sector in Switzerland. While there has been only one acquisition in this field, greenfield investment in the banking and investment sub-sectors are observed with the Bank of China which is a global leading investor (see Table 2).

A striking feature of Chinese FDI into Switzerland has been the role of small-medium sized Chinese firms that are placing their capital in the business services and commerce sector in contrast to Chinese MNEs who have tended to invest in well-renowned Swiss industries, We have identified that the majority of these small-medium size enterprises have a relative small social capital of about CHF50, 000 (approximately €40,575). These firms seem to have identified the need to provide support to Swiss exporting business to China and Asia, as well as providing information about investing in China

68 East Asia Forum Weekly Digest 2 April, 2012.

69 Rios-Morales *et.al.*, "Policy Strategies for Innovation in Switzerland", p.195-210.

and in the Asian region. Chinese firms located in the commerce sector are also small-medium sized enterprises, with similar social capital to those working in the business services sector. The machinery sector in Switzerland is also a well-established and renowned sector; although we have identified only two Chinese firms in this sector, one was an acquisition and the other is a greenfield investment (see Table 2). Similar to other Chinese firms, these firms have their headquarters in Switzerland, but their manufacturing plants are established in China; one of these firms has the following logo "*Swiss engineering Chinese manufacturing*". In the transportation industry, COSCO the Chinese State-own MNE has a presence in the Swiss market. Chinese investors have also placed their capital in sectors such as the hotel industry, television and other activities.

Opportunities and Challenges for Switzerland

Foreign direct investment has been acknowledged for its contribution to the host economy through job creation, increase in exports and long-term economic development. Recently, it has been argued that the indirect effects of FDI, also known as *spillovers,* bring to host countries a set of skills, management techniques, marketing strategies, production and distribution networks that benefit the host economy. For most countries, including Switzerland, creating a better climate for FDI has become a central part of their economic development policies in the last decades. However, turning FDI into an instrument of economic growth takes more than making a country an attractive market site for investment. The positive contribution of FDI in the host country's economy depends on many factors such as the host country's business environment, as well as the drivers, motives and consequent practices of investing firms. It also depends of the mode of entry of foreign firms and the types of FDI.

Considering that a large proportion of Chinese firms established in Switzerland are relatively small enterprises and those that have large capital have placed their production plants in China, coupled with the fact that Chinese FDI is still small, it is estimated that the contribution of Chinese FDI toward job creation in Switzerland is currently insignificant. Since products are not produced in Switzerland but rather in China, the contribution toward the export sector is also trivial. With respect to *spillovers,* the positive indirect effects would only take place from investment that has a superior set of skills that is not the case of Chinese investment in Switzerland. However, Chinese FDI could contribute with the on-going improvement of efficiency and competitiveness of the Swiss economy.

Although Switzerland has attracted Chinese FDI in various sectors, there is a tendency for Chinese firms to invest in sectors that have particular strength and advantage in the global market; sectors such as advanced-technology, watch-making, finance and machinery. These sectors are distinguished around the world for their top-quality, custom-built, efficacy and innovation. Investing in these sectors indicates the ambition of Chinese investors to attain strategic-assets that have been traditionally known in the international market for their high-value. Although this may well create a genuine competitiveness in the Swiss business sector, challenges with respect to price of products and their quality and unfair competition could develop. While Swiss products produced in Switzerland carry higher costs, "Swiss products" produced in China would be cost-effective.

The strategy of "*Swiss engineering Chinese manufacturing*" raises some apprehension with the possible leakage of critical Swiss technologies to China, the same concern has also been raised in other European countries. The other concern arising from this strategy adapted by some Chinese investors is related to the possible undermining of the long established "*Swiss made*" reputation. Given that Chinese products are internationally known for their generally low-quality levels, there is the possibility that this strategy could harm the reputation of Swiss products and mislead customers in the international markets. Notwithstanding these concerns, thus Chinese firms in Switzerland do not appear to face the same challenges as those investing in some of the other European countries in terms of having to overcome the Liability of Origin and gaining legitimacy[70]. Thus far the relationship between China and its investing firms and Switzerland has been harmonious with no overt major manifestations of opposition as experienced in, for example, the USA and Iceland.

Although the impact of FDI from China to Switzerland is still relatively insignificant, Chinese investment in Switzerland is expected to continue growing. While the Swiss government has shown enthusiasm in engaging commercially with China, it needs to be mindful that China is determined to have access to strategic-assets to ensure the long-term security of its economic advancement. Swiss authorities need to be aware of the challenges that Swiss firms might face in the future in terms of price competitiveness and when Swiss technology is transferred to China. Swiss authorities should also protect the long-well-renowned "*Swiss made*" label. They should also ensure that the investment and agreement treaties work both ways, it is observed that while exports from China to Switzerland have grown in recent years, Swiss exports to China have remained relatively constant. Long-term strategic vision is essential to guarantee the continuity of Switzerland's competitiveness in the future.

Conclusions

The impact of OFDI from China to Switzerland is still relatively insignificant; the main reasons are due to the still small share of total FDI in Switzerland, the establishment of a large proportion of small enterprises and that many of the large Chinese companies have established their headquarters in Switzerland but their plants are based in China. Although developed countries continue to be the most significant source of FDI in Switzerland, Figure 5 shows that the share of FDI inflows from the Asia, Africa and Oceania region, which China is part of, has increased more than threefold in the last few years. Chinese investment in Switzerland is expected to continue growing. Switzerland is a good market site for Chinese investment, positioned at the heart of Europe and as a non-EU member, offers investors a unique economy hub that can also serve as a stepping stone towards the greater European market. Investing in Switzerland indicates that Chinese investors are willing to compete at the global level and to take on the challenge of the 'liability of foreignness', which carries an element of risk. Nonetheless, it is worth noting that outward FDI from China to Switzerland has been influenced by political considerations including home government mandate and host country government' receptivity to Chinese investment.

While the Swiss government has shown enthusiasm in engaging commercially with China, it needs to be mindful that China is determined to have access to strategic-assets to ensure the long-term security of its economic advance. Swiss authorities need to be aware of the challenges that Swiss firms might face in terms of price competitiveness when Swiss technology is transferred to China. Swiss authorities should also protect the long-well-renowned "Swiss Made" label. Swiss authorities should also ensure that the investment and agreement treaties work both ways as it is observed that while exports from China to Switzerland have grown in recent years, Swiss exports to China have remained relatively constant.

70 L. Brennan and Tae Hoon Kim, "Europe's Response to Non-Traditional Sources of Investment" Louis Brennan (ed.), *Enacting Globalization: Multidisciplianry Perspectives on International Integration*, Palgrave Macmillan, 2013, p.298-311.

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