CHINAGOABROAD
Where China meets the world

SWITZERLAND AS A LOCATION FOR HEAD QUARTER AND MANAGEMENT FUNCTIONS, FINANCIAL AND TRADING SERVICES AND SPECIALTY MANUFACTURING

Chinese outbound foreign direct investment has over many years concentrated on commodities (raw material resources) and on energy, primarily in neighboring countries and Asia at large, as well as in Australia and Africa. However, in 2004 Sinopex, the Chinese oil refiner, acquired the Swiss oil explorer Addax in China's largest non-financial acquisition. A bell weather event?

Switzerland imports its commodities as it has practically no natural resources, and its energy exports, primarily based on its hydroelectricity production, are limited in scope and confined to neighboring countries. And yet, Switzerland is a world hub of oil trading (Geneva) and commodity traders (Zug, Geneva), the seat of the global diversified mining group Xstrata and of more than 1'000 regional and global headquarter companies of multinational groups such as Nestlé, Novartis, Roche, ABB, Addeco (all Swiss) and Hewlett Packard, Cisco, General Motors, Eaton, Dow Chemical, DuPont de Nemours, Philip Morris, Starbucks, Tetra Laval and Alibaba. Foreign companies number over 7'000 and provide 7% of the Swiss employment. The paradox has its reasons.

1. Stability

Switzerland has enjoyed a stable political situation ever since the establishment of the new federal system in 1848, i.e. for over five generations – as long as anyone can remember. Avoiding involvement in both World Wars of the last century, the country has benefitted from an unparalleled continuity in its political, economic and social development and from a unique independence from foreign influences.

Thanks to its stability and independence, Switzerland has become host to a large number of international institutions: The UN European Headquarter, the International Labor Office, the World Health Organization, the International Committee of the Red Cross and the World Economic Forum are located in Geneva, the International Olympic Committee in Lausanne and FIFA in Zurich, to name but a few.

2. Education and Skills

Swiss universities and the Federal Polytechnics Institute in Zurich and Lausanne (ETH / EPUL) rank among the highest internationally. But equally important are the knowledge and skills developed at the non-academic level. Vocational training has traditionally been held in high esteem, resulting in a skilled workforce that provides the basis for the clusters in microelectronics, precision engineering, biotechnology, medical technology, pharmaceuticals and, of increasing interest to Chinese efforts in climate control, 'cleantech' industries. In support of industrial development and international trade, Swiss banks have been in the vanguard of financial innovation, and foreign and multinational institutions, including the Bank of International Settlements, domiciled in Basel since 1930, have also been instrumental in making Switzerland a global financial center – and a good prospect to be the next basis (after Hong Kong) to progress the Renminbi into a global currency.

As a hub of research and learning with the highest per capita spending on R&D as well as the highest per capita number of Nobel laureates, Switzerland has traditionally attracted foreign scholars and scientists. It is thus no coincidence that Geneva has been chosen to house the European Organization for Nuclear Research (CERN) and that many cutting edge renewable energy technology companies such as SUNTEC and Trina Solar have established their European or world headquarters in Switzerland.

3. <u>Infrastructure</u>

Switzerland is landlocked, and yet it has maintained a merchant marine on the high seas and an international airline connecting the Swiss airports to all important destinations around the globe. Domestically, a dense rail network of 5'030km is complemented by an excellent road system. The logistical basis for transacting business across all borders is enhanced by the resident population's multicultural and multilingual background, allowing the country to become a powerhouse of insurance and reinsurance and a traditional center of international arbitration.

The families of the expatriate workforce enjoy very favorable living conditions: high quality of life in a safe environment. In addition, they are served by excellent international schools which are part of an increasingly integrated network ensuring the mobility of these global citizens.

4. <u>Swiss Economy</u>

Switzerland has one of the highest GDP per head of population, of which 20% is still derived from manufacturing. Jealously guarding its independence and institutions of direct democracy, Switzerland has to this day remained outside the European Union, but its economy is solidly embedded in the EU, which provides 75% of its imports and absorbs 60% of its exports – hence the current predicament of a Swiss Franc rapidly appreciating against the Euro.

Switzerland has concluded and is negotiating a number of important free trade agreements, including one with China, possibly as the PRC's first worldwide partner, which has received a boost during last year's visit of a large Swiss government and business delegation to Beijing and Shanghai. A member of the World Trade Organization and of EFTA, both headquartered in Geneva, the small country with less than 8mn inhabitants ranks number 16 in world trade.

5. Legislation and Government Practice

There are no general legal restrictions on Switzerland's books impeding capital transactions of foreign investors, except for a few industry specific licensing requirements for activities in financial services, radio and television, telecommunications and transportation. Public takeovers of Swiss companies are supervised by the Takeover Board and by the Financial Market Supervisory Authority (FINMA), which also issues the licenses to banks, fund managers and insurers.

The acquisition of residential real estate by foreign nationals and companies is subject to approval but the acquisition of commercial real estate is not, and these restrictions have not affected the influx of foreign institutions and companies.

Swiss government agencies have long been known for their pragmatic approach and interest in providing a benevolent regulatory regime and a predictable practice in dealing with foreign companies interested in investing in Switzerland or establishing their own presence here.

6. Taxation

Switzerland offers an attractive tax system to its tax payers, whether they are corporations or individuals. Due a differing tax legislation in each canton, the final tax burden depends on the tax payer's residence. For the purpose of optimizing the tax burden, it is thus important to choose the right domicile.

Individuals resident in Switzerland are generally taxed on their worldwide income and net wealth. The taxes are levied in the canton where the individual is resident. Income tax rates vary from canton to canton and so the maximum overall rates are between a low of 19% and a high of 40%. Expatriates can usually benefit from special deductions which help to substantially reduce the tax burden. There are tax planning opportunities, such as contributions to pension funds, which are fully deductible form the taxable income whereas payments made out of the fund on retirement are taxed at low rates. Employment income generated abroad may, depending on the circumstances, offer another opportunity, as such income may be exempt from tax even if it is earned in a country which does not levy income taxes.

It should be noted that the net assets of individuals are also subject to taxation raised at the place of residence. Asset tax rates vary between 0.15% and 0.8%.

Earnings of corporations are subject to taxes at maximum tax rates between 15% and 25% of profit before taxes. However, as most cantons offer attractive tax regimes to companies whose income is generated by business activities outside Switzerland, the tax burden of most foreign corporate residents will be much lower. If a special tax status is granted, the overall tax charges could amount to a modest 9% - 12%. It should also be noted that holding companies do not pay any taxes on profits at the cantonal level. But even without such special status, at the level of federal taxes dividend income from subsidiaries is usually exempt based on a 'participation exemption'.

In addition to profit taxes, a withholding tax of 35% is levied on dividend distributions. A full or partial refund is granted if the recipient of dividends is either resident in Switzerland or in one of a continuously expanding number of countries (currently over 70) with whom Switzerland has concluded a double tax treaty.

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