

**UNIVERSITY OF LJUBLJANA
FACULTY OF ECONOMICS**

MASTER'S THESIS

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**FDI CANTONAL INCENTIVES IN THE TOURISM INDUSTRY IN
SWITZERLAND: CASE STUDIES OF CANTONAL ECONOMIC
DEVELOPMENT AGENCIES**

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INTRODUCTION

Switzerland is one of the wealthiest countries in the world. In 2015, its gross domestic product per capita (hereinafter: GDP per capita) amounted to 80,945 US dollars, which puts the small Alpine country at the top of the world ranks (GDP per capita, n.d.). Besides its strategic location (in the heart of Europe), the country provides a high standard of living and is famous for its efficient healthcare, first-class infrastructure and globalized banking system. Over the last few decades, this small country with only 8 million of inhabitants developed a very efficient labor market, thanks to its skilled workers and its best quality of educational system. What is more, Switzerland has become a strong technology center, with its research institutes, companies' clusters and technology parks located mainly in Geneva and Zurich.

All aforementioned describes some of the main characteristics of Switzerland. However, the country provides even more – beside its economic stability, it is politically rather correct and environmentally friendly. Thus, many multinational companies are interested to invest into Switzerland. It seems that this alpine country is considered to be an attractive investment destination. Dunning (1998) stressed out that location is one of the most important factors of attracting foreign direct investment (hereinafter: FDI). But is Switzerland really a good choice for investors?

So far, foreign direct investment has had a significant influence on the country's economic success. Foreign companies in Switzerland, for instance, have employed over 457,000 people in 2015, and accounted for two thirds of economic growth in the last decade (Swiss National Bank, 2016). This fact is perhaps not surprising, since in 2015 Switzerland was ranked the 6th among the top FDI recipients worldwide (United Nations Conference on Trade and Development, 2015).

Switzerland is globally known for its very competitive and FDI-friendly pharmaceutical, food and banking industry. Another potential investment destination and an industry on a rise is the tourism industry. Only in 2016, the Travel and Tourism industry generated 598,000 (11.8% of total employment) (World Travel and Tourism Council, 2017). What is more, approximately 15.7 BN US dollars of Switzerland's export revenue came from the tourism industry itself (Swiss Tourism Federation, 2016). This economic fact is only one of the reasons why tourism industry seems to have FDI potential. Another reason is the Swiss national crisis in the accommodation sector. Swiss owners, usually rich families, are nowadays less financially able to transfer luxury establishments from one generation to another (Keller, 2012). In fact, 40% of the approximately 90 five-star luxury hotels are already in hands of a foreign investor (Schlittler, 2013). It is also said that the Swiss tourism offers reflect a bad price-performance ratio. In other words, the quality of services and products in the Swiss tourism industry does not justify the high price. Widely seen, foreign investments can diversify the supply of the tourism products and improve the local service standard (United Nations Conference on Trade and Development, 2010).

To attract foreign investors, Swiss authorities offer an array of fiscal and financial FDI incentives. The latter have been defined as any measurable advantages accorded to specific enterprises or categories of enterprises by (or at the direction of) a government, in order to encourage them to behave in a certain manner. They include measures specifically designed either to increase the rate of return of a particular FDI undertaking, or to reduce (or redistribute) its costs or risks” (United Nations Conference on Trade and Development, 2000a). In Switzerland, these incentives are normally available on the national, regional and cantonal level.

While there is a lot of information out there regarding the government incentives on the national basis, there is lack of information in terms of cantonal FDI support. With growing international and national competition between tourism destinations and investment projects, an attractive promotion is important in order to wake the interest of potential foreign investors. Economic development agencies can play an important role in the development of a country’s tourism industry. As the result, Switzerland established such agencies in each of its cantons in order to support foreign investors on a cantonal level. While all of the Swiss cantons resorted to offer cantonal incentives, the efficiency of these measures is often questioned.

The main purpose of this master's thesis is to research the investment climate in the tourism industry in Switzerland. To fully understand the complexity of the research subject, one of the first objectives is to outline the term FDI and its impact on economic growth. The second objective in this master's thesis is to get a clear picture of the position of Switzerland as a FDI destination among other countries worldwide and, in relation to that, to assess the investment climate in the Swiss economy. In order to provide a precise review of its FDI climate, another important objective is to analyze the level of the investment risk of its business environment. As a lot of literature suggests, tourism in Switzerland is an industry on a rise and is thereafter also an attractive FDI industry destination. A profound examination of the investment climate in the tourism industry is going to represent the main goal of this master's thesis, and this includes also an overview of the FDI nature in the Swiss tourism industry. Additionally, this thesis is aimed to reveal the available incentives for potential foreign direct investors, willing to operate in the Swiss tourism industry. In this research, I will focus on cantonal incentives, usually provided by Cantonal Economic Development Agencies. I am going to investigate what the role of the aforementioned agencies in terms of FDI is, and how they support the investors. The analysis also throws light on the efficiency question of these offered cantonal incentives, based on the experience of these agencies.

With this in mind, I am going to provide answers to the following research questions in this master’s thesis:

- What is FDI and what is its impact on economic growth in the host country?
- Where does Switzerland stand worldwide in terms of FDI and what is the investment climate in general?
- What is the level of investment risk in Switzerland?

- What is the investment climate in Swiss tourism industry and what is the nature of FDI in this industry?
- What kind of cantonal incentives do economic development agencies offer to potential foreign investors in the tourism industry? Are they considered to be efficient?

In terms of methodology, the master's thesis will be divided into two parts. The methodology of the first, theoretical part will be based on the review (description), analysis and synthesis of the already existing national and international literature. I will present the theoretical framework of FDI and include some findings of already existing empirical research. The second part, covering the analysis of the Swiss business environment, will be based on secondary data derived from official statistical databases such as World Economic Forum, Organization for Economic Co-operation and Development, International Monetary Fund, United Nations of Trade and Development, Central Intelligence Agency, World Bank and World Trade Organization (hereinafter: WEF, OECD, IMF, UNCTAD, CIA, WB and WTO). The methodological approach selected in the presentation of the Swiss tourism industry also bases on secondary data obtained from the databases of the Swiss National Bank, the Swiss Tourism Federation, World Tourism Organization and the World Travel and Tourism Council (hereinafter: SNB, STF, UNWTO and WTTC). The last part will present an empirical research, based on data obtained from interviews with some of the cantonal economic development tourism agencies in Switzerland. These interviews will be executed via phone and/or by sending the interview questions via e-mail to the FDI tourism-related contact person. The first five interview questions will reveal the role of the cantonal economic development tourist agencies in Switzerland. The next six questions cover the question of the available cantonal incentives for potential foreign investors, while the last three questions will lead to information about the perception of efficiency of the cantonal incentives in terms of attracting FDI in the tourism industry. Based on the given answers of the selected economic agencies' representatives, I will provide an answer to my research questions. I will conclude the master's thesis by providing results of the Swiss business environment analysis, followed by the key findings from the empirical research in form of interviews.

The master's thesis will be divided into 4 main chapters. After the introduction, the first chapter will be dedicated to the definition of the foreign direct investment, followed by the presentation of FDI trends among the developed countries. Furthermore, there will be a description of FDI benefits and its influence of economic growth. The first chapter will be closed with an overview of the factors of FDI attractiveness. The second chapter will present the role of the foreign direct investment in Switzerland, starting with examining the volume, direction and type of FDI flows and stocks, followed by the explanation of the FDI impact on growth in Switzerland, the analysis of the Swiss business environment (economic, political-legislative, sociological-cultural and technological), the advantages and disadvantages of the Swiss business environment, and at the end, the FDI policy in Switzerland will be presented. The fourth chapter will focus on the tourism industry in Switzerland, where it will be shown how important tourism is in terms of Swiss economy. The next paragraphs will talk about the tourism sectors, followed by a presentation of the main tourist regions in Switzerland. In the same chapter, a few words will be

designed for tourism infrastructure, the Swiss Tourism Policy and its laws. Last but not least, the chapter will examine the two most important aspects of the thesis – the impact of tourism on economic growth in Switzerland and FDI in the Swiss tourism industry. The fourth chapter will describe the research methodology and outline case studies of selected cantonal economic development agencies. The last chapter will contain research results.

1 FOREIGN DIRECT INVESTMENT

In order to understand the whole meaning of foreign direct investment and its purpose in Switzerland, the following text will present the FDI definition, its history and benefits, factors of FDI attractiveness and the FDI incentive policies.

1.1 Definition of Foreign Direct Investment

Foreign direct investment refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor (Foreign Direct Investment, n.d.). OECD (2015) defines FDI as a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy in an enterprise that is resident in an economy other than of the direct investor. In other words, it is an investment of foreign assets into domestic structures, equipment, and organizations (Ramady, 2011). This does not include foreign investments in stock markets. Instead, FDI refers more specifically to the investment of foreign assets into domestic goods and services (WTO, 1996). There is a threshold of ten per cent of equity ownership to qualify an investor as a foreign direct investor (IMF, 2003). “It is a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence (not necessarily control) on the management of the enterprise”. (OECD, 2015a, p. 11). FDI statistics documents FDI flows, FDI stocks and FDI income. FDI flows are cross-border financial transactions within a given period (e.g. year) between affiliated enterprises that are in a direct investment relationship (OECD, 2015a). FDI net inflows are, as shown in the balance of payments, the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital (WB, 2016). FDI stock is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprise (UNCTAD, 2007b). Whereas FDI income is, as defined by OECD (2015), the return on direct investment positions of equity (dividends and reinvested earnings). Sharma (2012) describes FDI as an indication of growing transnational ownership of production assets. It is the leading edge of economic globalization where the foreign ownership would have a direct impact on the production livelihood. FDI is a key element in the quickly evolving international economic integration (OECD, 2008).

FDIs can be classified as inward or outward FDIs. It depends on the direction of the flow of money. **Inward FDI** occurs when foreign capital is invested in local resources. The factors propelling the growth of inward FDI include tax breaks, low interest rates and grants.

Meanwhile, **outward FDI** refers to “direct investment” abroad and is backed by the government against all associated risk (Foreign Direct Investment, n.d.).

There are many ways on how a company may enter a foreign market. One of the entering possibilities is the **greenfield direct investment**. Galeza and Chan (2015) define it as a direct investment in which the direct investor provides funds to build a new factory, distribution facility or store, for example, to establish its presence in the host country. The majority of greenfield investments are made in the services sector (UNCTAD, 2014). If the company does not want to establish a new presence in the foreign market, it can choose the **brownfield direct investment**, in which the company invests in or takes over an existing local company. Brownfield investment means acquiring existing facilities, suppliers, and operations and often the brand itself (Galeza & Chan, 2015).

Shatz and Venables (2000) classify FDI into two main categories, the **vertical and horizontal FDI**. Vertical FDI occurs when a multinational corporation fragments the production process internationally, locating each stage of production in a country. The goal is to minimize the production costs. If the multinational company carries out the same production activities in different countries then the horizontal FDI occurs (Tsen, 2005).

Lately, there has been an increasing growth in **export platform FDI**. UNCTAD (2006, p. 76) defines it as FDI where foreign affiliates of transnational corporations export most of their output so that the local market in the host country is of no significance to the transnational corporation’s location decision. In other words, the foreign investors are using a host country as a platform for exports to neighboring countries (OECD, 2011).

Companies have many motives why to invest in a foreign country. These motives are as follows (The Levine Institute, 2016; Dunning, 1998):

- **Market seeking:** In order to find new buyers for their goods and services.
- **Resource seeking:** The company may find it cheaper to produce its product in a foreign subsidiary; less costly access to land, labor, capital and natural resources than at home.
- **Strategic asset seeking:** Companies seek to invest in other companies abroad to build, for instance, distribution networks or new technology – involving the establishment of partnerships with other companies which specialize in certain aspects of production.
- **Efficiency seeking:** Multinational companies seek investment opportunities abroad as a response of broader economic changes. For instance, the creation of new free trade agreements among some countries or lower tariff rates would be two of the reasons why a company would establish a holding abroad to benefit from it.

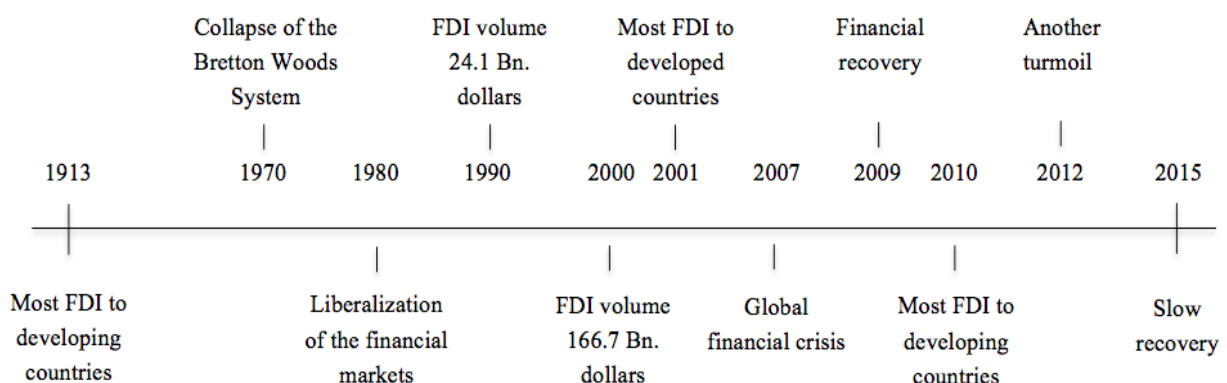
1.2 FDI Trends and the Position of Developed Countries

A history overview of the FDI flows shows that back in 1913 two thirds of FDI were flowing to

developing countries, such as Argentina, Brazil and Mexico, and only one third to developed countries (Te Velde, 2006). After the collapse of the fixed exchange rates system in the early 1970s, also called the Bretton Woods System, a bunch of limitations were lifted on the international capital flows, making the purchase of foreign securities or holding foreign currencies feasible (Levine Institute, 2016). With the progressive liberalization of financial markets starting in the 1980s by developed countries and then followed by developing countries in the 1990s, many countries experienced an enhancement of economic efficiency, a rapid development of the financial sector and a better macroeconomic policy discipline (IMF, 2012). The better world economic integration, especially between developed countries, caused a dramatic increase in cross-border private capital flows, such as commercial loans, official flows, foreign portfolio investment and foreign direct investment. FDI volume increased significantly from 24.1 BN USD in 1990 to 166.7 BN USD in 2000 in almost all regions (Penalver, 2002). The large FDI growth was mainly caused due to the financial liberalization, the fall of the Berlin wall, the lure of higher profits and the technology evolution (Levine, 2001). In 2001 the highest inward investment received the United States (6,277 BN USD), followed by United Kingdom (2,204 BN USD), Germany (1,866 BN USD), France (1,431 BN USD) and the Netherlands (1,024 BN USD). With its 521 BN USD, Switzerland was among the 15 top investment countries (Te Velde, 2006).

The global FDI flows continued to grow until they hit a record peak in 2007, followed by a sharp drop in 2008 due to the global financial crisis (see Figure 1). In 2009, the FDI flows started slowly to rise until 2012 when turmoil once again reached the world. The sudden drop was a consequence of the sluggishness of the Europe, slowing growth in China, and the volatility in the developed countries (OECD, 2014). Despite the quick recovery in 2013, the global FDI flows remained 30% below the peak in 2007.

Figure 1. FDI Trends 1913-2015

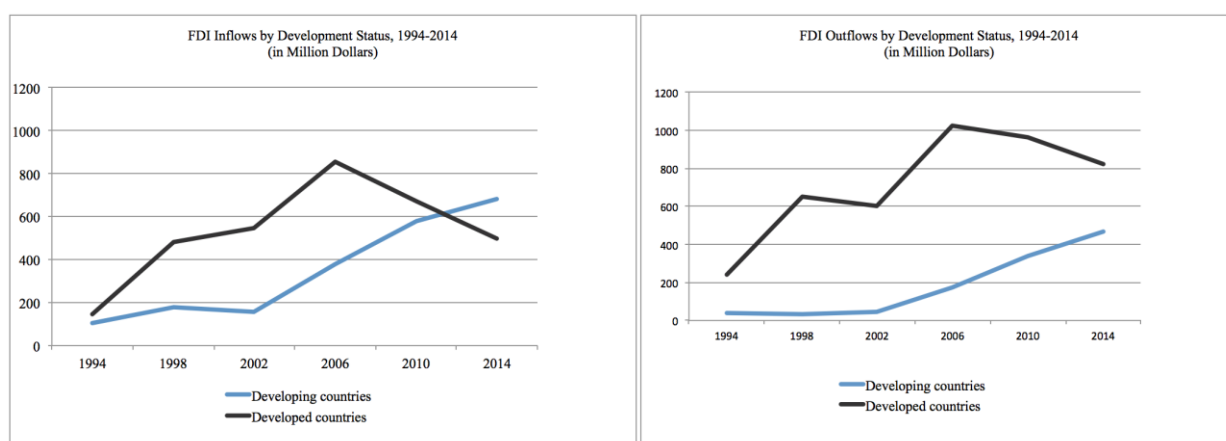


Source: Adopted from D. W. Te Velde, *Foreign Direct Investment and Development. An Historical Perspective*, 2006, p. 5; M. Penalver, *Globalization, FDI and Growth: A Regional and Country Perspective*, 2002, p. 6; OECD, *International Direct Investment Statistic*, 2014, p. 12; R. Levine, *International Financial Liberalization and Economic Growth*, 2001, p. 3.

In the period of 1994-2014, as seen in Figure 2, the main FDI inflows were experiencing developed countries, while the FDI inflows into developing countries were falling behind. The turn happened in 2010 when FDI inflows in developed countries were – for the first time – surpassed by the amount of FDI inflows to developing countries. The FDI inflows to developed countries started to shrink due to divestment and large swings in intracompany loans.

In response to this, developing countries started receiving more FDI inflows, which was a result of the foreign investor's behavior, looking for effectiveness in costs in the international production market (UNCTAD, 2011). Since then the investment recovery has been in good progress, showing a 38% growth in 2015 in global FDI (the highest level since financial crisis 2008/2009). The FDI inflows in developed countries again surpassed the developing countries (UNCTAD, 2016).

Figure 2. FDI Inflows and Outflows by Development Status, 1994-2014 (in MM USD)



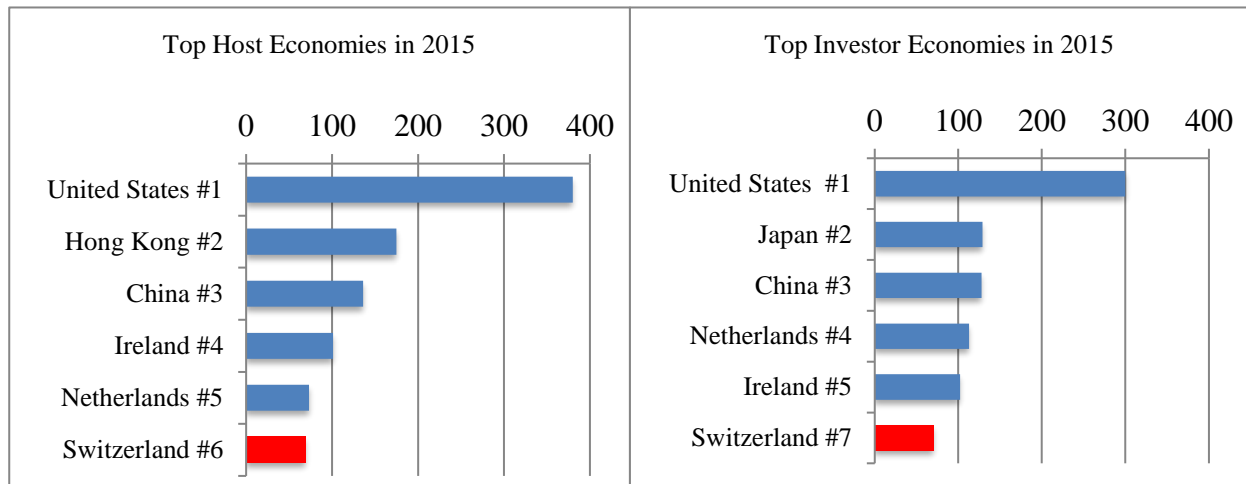
Source: UNCTAD, *World Investment Report 1994*, 1994, pp. 409-414; UNCTAD, *World Investment Report 1998*, 2005, pp. 361-371; UNCTAD, *World Investment Report 2002*, 2002, pp. 303-309; UNCTAD, *World Investment Report 2006*, 2006b, pp. 299-302; UNCTAD, *World Investment Report 2010*, 2010c, pp. 167-171; UNCTAD, *World Investment Report 2014*, 2014, pp. 205-208.

Regarding the FDI outflows, developed countries made the most FDI outflows during the years 1994 and 2014, although the outflows started shrinking slowly after 2007 when the financial crisis hit the globe (Figure 2). In 2015, the outflows of developed countries started to rise again (29% of growth) (UNCTAD, 2016).

These days, the top host economies are the United States, with its 380 BN USD of FDI, followed by Hong Kong (175 BN USD) and China 136 BN USD (see Figure 3). The first European country appears in the 4th rank (Ireland with 101 BN. USD). Switzerland is ranked the 6th with its 69 BN USD (UNCTAD, 2016). It is a huge success for Switzerland as it was only the 15th in 2014 (UNCTAD, 2015). Viewed broadly, the most FDI inflows in 2015 happened to be in Asia, followed by Europe and North America (UNCTAD, 2016).

As the Figure 3 illustrates, the United States are also ranked first among the top 20 investor economies in 2015 (300 BN USD), followed by Japan (129 BN USD) and China (128 BN USD). Switzerland with its 70 BN USD is found in the 7th place (UNCTAD, 2016). By region, Europe invested the most, North America and Asia followed (UNCTAD, 2016).

Figure 3. Top Host and Investor Economies in 2015 (in BN USD)



Source: UNCTAD, *World Investment Report 2016*, 2016, pp. 5-6.

However, UNCTAD (2015) has also listed a number of economic and political risks, which may hinder the recovery from the financial crisis. These include persistent volatility of the currency markets, as well as in the developed countries in general, the hesitant consumers demand, the ongoing uncertainties in the EU-zone and the geopolitical tensions. Among the developed countries, different FDI patterns are expected due to the different growth rates of United States, Europe and Japan. It is also unclear if the FDI flows will ever reach the same level of FDI volume as in 2007. SNB (2015) documented that the global financial crisis of 2007 and 2008 had a permanent effect on the investors' behavior all over the world. The consequence is that investors were undertaking less new FDI in the post-crisis period than in the pre-crisis period.

Now, the question is how these host countries profit from FDI. The answer will be given in the next chapter.

1.3 Benefits of Inward FDI

FDI is an important instrument when it comes to economic development. Leaving aside its specific impact on economic growth (to be discussed later), it leaves significant marks in foreign economy. There have always been mixed views whether FDI have more benefits or more downsides with regard to the host countries. This paper will examine both perspectives, first starting with the most common benefits of the FDI's:

A financial source. For many developing countries, FDI is a major source of external financing. It enables access to global markets and its currencies and is therefore an important substitute for bank loans (Denisia, 2010). With more jobs and higher wages, FDI can expand the country's income. Through the increased financial resources, FDI can play a crucial role in the economic development of an emerging country (Rajan, 2004).

Technology transfer. Most importantly, the FDI can enhance the efficiency of the host markets by bringing in new and modern technology, which otherwise these economies cannot produce by themselves (Kokkinou & Psycharis, 2005). Rajan (2004) added that FDI helps to transfer and generate technology in a foreign country. With the technological spillovers the domestic firms are able to improve their level of technology and increase their productivity (Johnson, 2005). As expressed in the literature of Feldstein (2000), FDI is a special mechanism for transferring technology which cannot be achieved through financial investments and through trade in goods and services. Evidenced by Romer (1994), technological progress is one of the main keys in economic growth.

Improved labor skills. The host economy cannot only benefit from FDI by spillovers of technology, but also by know-how, management experience, business practices and managerial skills (Kokkinou & Psycharis, 2005). With this accumulated knowledge, host economies, for instance, get to know new organizational techniques or innovative quality control processes. Feldstein (2000) also claimed that host countries often profit from employee training and this is usually not only for production workers but also for managers and executives. Strengthening the skills of employees is one of the most important aspects of FDI (Rajan, 2004).

Higher employment. For host countries, inward FDI can contribute to job creation and employment, which is often followed by higher wages and a better employees' lifestyle (Aitken, Harrison, & Lipsey, 1996). Goldberg (2004) emphasized, however, that not all types of FDI are associated with a higher employment rate. In many cases, greenfield investments lead to job creation. Employment is a significant aspect of the economic development of a country and FDI can play a crucial role in it. The research of Habib and Sarwar (2013) shows, that FDI was positively related to employment level in Pakistan during the period 1970-2011. With the inflow of FDI to Pakistan, new employment opportunities occurred. In contrast, the regression analysis of Wei (2013) has shown, that there was a non-significant positive relationship between FDI and employment overall in China between 1985 and 2011. In fact, FDI and employment rate differed by sector. Wei (2013) concluded that there is a significant positive relationship between FDI and employment for the primary sector, whereas for the secondary sector, there is no significant relationship between these two variables. For the tertiary sector, he argued that FDI has a significant negative relationship with employment.

Economies of scale. Important to mention, one of the FDI benefits is also the possibility of giving the parent companies the chance to exploit economies of scale in production (Feldstein,

2000). It is said that FDI increases the output, which leads to an increased production, causing a reduction in cost per unit.

Tax revenues. The FDI profits can, for instance, contribute to corporate tax revenues in the host economy (Feldstein, 2000). Additionally, the tax revenue rises also due to the new taxes imposed on employee income and the purchases.

Increased export. Through FDI's international involvement and by gaining new technology and management techniques, the domestic firms can benefit from a better access to the export markets (Kokkinou & Psycharis, 2005). Moreover, FDI can boost the export competitiveness by lowering the interest rates of host economies which leads to cheaper products and hence to an enhancement in exports. Regarding the import, FDI's goods and services can be a substitute for the up to now imported goods and services.

Enhanced local competitiveness. FDI is an important factor in propelling competitiveness of local firms (Blomstrom, Kokko, & Zejan, 1994). In the authors' study, the positive relationship between these two variables (FDI and local competitiveness) in the countries of Mexico and Indonesia was shown.

Improved allocative efficiency. It was evidenced that FDI fosters the allocative efficiency in the host economies (Blomstrom & Kokko, 2001). Indeed, the presence of foreign companies may spur local firms to a more efficient use of available resources (Goldberg, 2004).

Environment and social responsibility. For instance, by transferring "cleaner" technologies, FDI may have the power to address environmental issues (OECD, 2002). As written by French (1998), through FDI a host country may get access to cutting-edge technologies that minimize waste generation and the use of energy.

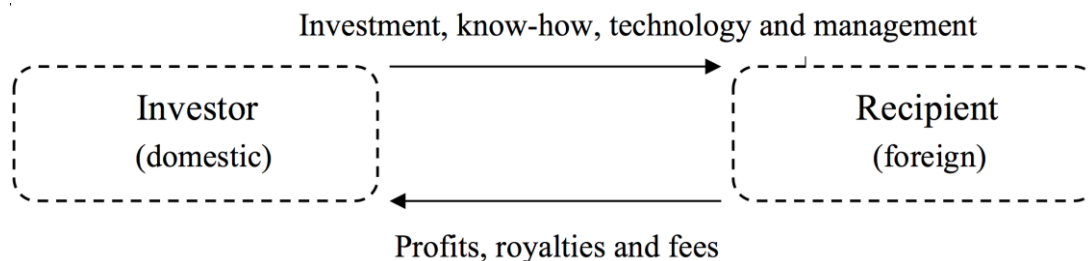
Infrastructure. In response to foreign investors' needs, the governments usually invest into infrastructure (mainly into transportation) that enables a higher efficiency in international trade and benefits the domestic firms (Moura & Forte, 2010). It also works the other way around, if, for instance, a foreign company has to invest into infrastructure facilities in order to be able to start operating in the host country.

Consumer benefit. On the side of consumers, FDI may bring new and innovative products, better quality and even lower prices of goods and services into the host market.

Improved corporate governance standards and legal traditions. Due to FDI inflows, the host economy is forced to ameliorate its governance standards and its legalization but it works also vice versa – in order to attract more FDI, the government is willing to improve its standards and legal traditions (Lipsey, 2006).

In short, the recipients benefit from FDI due to know-how, technology and management spillovers, whereas the investors profit in form of dividends, royalty payments, management fees and retained earnings (Figure 4).

Figure 4. FDI Benefits of the Investor and the Recipient



Source: The Levin Institute, *Investment and Globalization*, 2008, p. 3.

In order to fully understand the FDI phenomena, it is also crucial to address the downsides that FDI brings into a host economy.

Among FDI opponents the term “crowding out” is well known. It means that highly efficient multinational companies force less efficient local firms out of the market (OECD, 2001). Furthermore, investing abroad can lead to job creation in the foreign market, but it can also mean employment loss in the investor’s market. Another fact, multinational enterprises have been criticized worldwide for poor working conditions in the established factories abroad (e.g. H&M in Cambodia). Others addressed the issue of FDI destroying local capabilities and extracting natural resources without fairly compensating the developing countries (Te Velde, 2006). FDI used to be viewed as investment, which harms the host country’s environment. Indeed, due to some lenient environmental policies, developing countries did attract foreign manufacturers that produce dirty goods. This may have, for example, an effect on air pollution. Another complaint comes from people saying that large construction buildings damaged their homelands (French, 1998).

However, if the host country is able to take advantage of the positive spillovers, it may significantly contribute to its economic growth. In the next chapter, the focus will be on numerous econometric studies on the linkage between FDI and the economic growth.

1.4 FDI and Economic Growth

In general, FDI is considered to be an important driver of economic growth (OECD, 2002). Unlike other capital flows, it is a non-debt creating financial flow, which increases aggregate investment of a country (Velampy, Achchuthan, & Kajanathan, 2013).

However, the empirical studies about the relationship between FDI and economic growth are somehow mixed (see Table 1). Borensztein, Gregorio and Lee (1998), for example, examined the

FDI flows from industrial countries to 69 developing countries over the period 1970-1989. Their findings resulted in arguing that FDI has a strong impact on economic growth only if there is a certain level of human capital available in the host country. They claim that there is a strong correlation between FDI and the level of educational attainment. What is more, the authors in the same study suggest that the combination of advanced management skills and more modern technology in developing countries in particular lead most likely to a higher efficiency of FDI in a host country. A decade later, Wu Jyun-Yi and Hsu Chih-Chiang (2008), authors of the study “Does Foreign Direct Investment Promote Economic Growth?” applied the regression analysis on threshold variables, such as initial GDP, human capital and volume of trade, based on a cross-sectional study of 62 countries covering the period 1975–2000, and concluded that inward FDI can promote economic growth if the host country achieved a certain threshold of development, human capital and initial GDP. Other authors evidenced that in countries with closed capital accounts, there is no linkage between FDI flows and economic development (Reinhardt, Ricci, & Tressel, 2010). On a panel data of 47 countries, it was also discovered that only FDI in manufacturing has a significant impact on economic growth (Alfaro, 2003).

The most studies out there are focused on discovering the FDI impact on economic growth in developing countries, for example the studies of Zhang (2006), Djokoto and Dzaha (2012) and Ayanwale (2007), who concluded that there is a positive FDI-economic growth linkage in China and in Ghana, resp. almost a non-significant FDI impact in Nigeria.

Table 1. Overview of Reviewed Empirical Studies FDI-Economic Growth

Nr.	Authors (Year)	Country, Analysis Period	Findings
1	Borensztein et al. (1998)	69 developing countries, covering the period 1970-1989	FDI has a strong impact on economic growth if there is a certain level of human capital available in the host country.
2	Jyun-Yi and Chih-Chiang (2008)	62 countries, covering the period 1975-2000	FDI can promote economic growth if the host country achieved a certain threshold of development, human capital and initial GDP.
3	Reinhardt et al. (2010)	109 countries, covering the period 1980-2006	In countries with closed capital accounts, there is no linkage between capital flows and economic development.
4	Alfaro (2003)	47 countries, covering the period 1981-1999	FDI in the primary sector has a negative impact on growth, while FDI in manufacturing sector has a positive one. The FDI impact on economic growth in the service sector is ambiguous.
5	Tintin (2012)	125 countries, covering the period 1980-2010	FDI enhances growth and development in developing countries to a higher extent compared with developed and the least developed countries.
6	Johnson (2006)	90 countries, covering the period 1980-2002	FDI inflows enhance economic growth in developing countries but not in developed countries.

table continues

continued

Nr.	Authors (Year)	Country, Analysis Period	Findings
7	Ericsson and Irandoust (2001)	Sweden, Norway, Denmark, Finland, period not available	Causal relationship between FDI growth and output growth only for Sweden.
8	Mencinger (2003)	Slovakia, Slovenia, Estonia, Hungary, Latvia, Lithuania, Poland, Czech Republic, covering the period 1994-2001	FDI has a negative impact on economic development.
9	Szkorupova (2014)	Slovakia, covering the period 2001-2010	FDI is a positive force for the economic growth.
10	Asheghian (2011)	Canada, covering the period 1976-2008	FDI growth has no significant impact on Canada's economic growth.
11	Kornecki and Borodulin (2011)	United States, covering the period 1981-2007	FDI stock constitutes an essential factor of economic growth in the US economy.
12	Zhang (2006)	China, covering the period 1992-2004	FDI contributes to China's economic growth through direct effects (raising productivity and promoting export) and positive externality effects (facilitating transition and diffusing technology).
13	Ayanwale (2007)	Nigeria, covering the period 1970-2002	Country's low levels of education lead to almost non-significant impact on economic development.
14	De Mello (1999)	15 OECD countries and 17 non OECD countries, covering the period 1970-1990	FDI has a positive effect on economic growth in OECD countries but a negative one in non-OECD countries.

Not a great amount of empirical research is to be found in the field of developed countries. Nonetheless, De Mello (1999) published a FDI study, where he claimed that FDI has a positive effect on growth for OECD countries and a negative one for non-OECD countries. In 2003, another analysis on 8 EU-countries resulted in a negative linkage between FDI inflows and economic growth (Mencinger, 2003). Szkorupova (2014) came to a conclusion that FDI in Slovakia is a positive force for the economic growth. A study of Ericsson and Irandoust (2001), analyzing Sweden, Norway, Denmark and Finland, showed that only Sweden experienced a higher output growth due to FDI flows. Authors Kornecki and Borodulin (2011) discovered a positive correlation between FDI and economic development in the United States. In Canada, however, FDI growth had no significant influence on the country's growth (Asheghian, 2011). Probably the most important findings out there are that FDI enhances growth and development in developing countries to a higher extent compared with developed and the least developed countries (Johnson, 2006; Tintin, 2012).

Despite doubts whether FDI has more positive effects on economic development than negative, FDI has some beneficial impacts on the host country. Therefore, many countries try to establish a welcoming business environment for the foreign investors. Thus, the question of how does a welcoming climate for investment look like will be discussed in the next chapter.

1.5 Factors of FDI Attractiveness

Location is one of the most important factors of attracting FDI (Dunning, 1998). It can have a major influence on a firm's decision whether to invest in the country (Mallampally & Sauvart, 1999). The literature of John and Weston (2002) suggests seven groups of location-specific factors in terms of the FDI attractiveness of a country:

- **Economic and Financial factors:** Herewith including the country's GDP growth, infrastructure facilities, economic incentives for FDI, expected returns on investment and conditions for FDI resulting from the country's economic policies.
- **Political and Legal Factors:** It can be boiled down to political stability, the ease of protecting intellectual property rights and integrity of its legal system.
- **Cultural Factors:** Meaning, how similar is the culture in the host country to the firm's home country.
- **Market Factors:** These include the examination of the current market size, expected market growth and proximity to other countries to facilitate exports from the FDI venture.
- **Resource Factors:** It can be broken down to lower labor costs, availability of skilled workers, availability of competent management staff and availability of raw materials.
- **Factors Relating to International Joint Venture Formation:** Answering the question how easy it is to find a suitable joint venture partner and what the level of trustworthiness is.

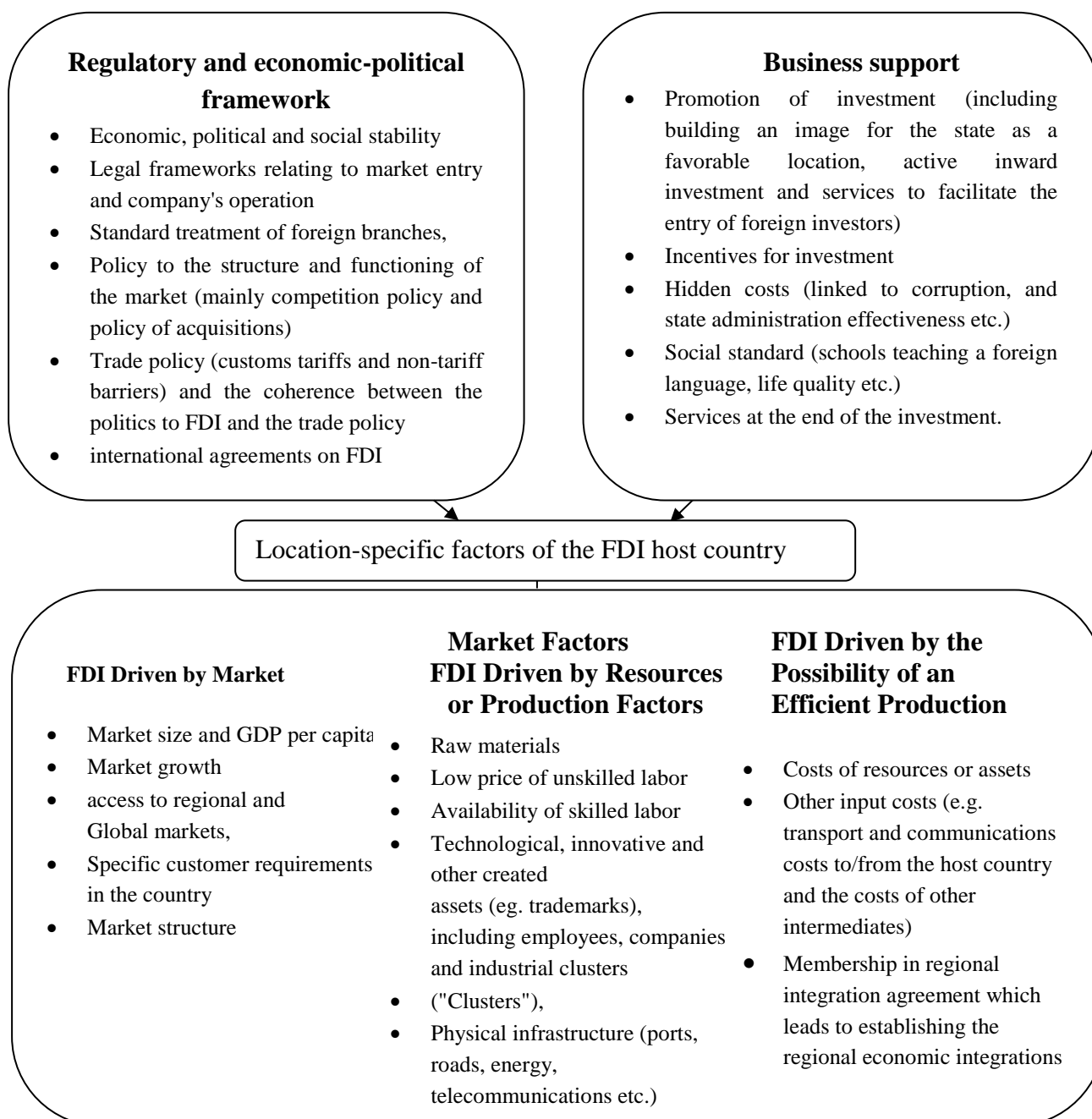
One of the ways government can attract the FDI is to use trade agreements – GATT/WTO and PTAs (see Appendix A for abbreviations) – by designing an economically liberal policy regime, which creates a favorable environment for FDI. What is more, the government can also promote its country by offering FDI incentives to potential investors. These usually appear in a form of financial incentives, (e.g. outright grants and loans at concessionary rates), fiscal incentives (e.g. reduced tax rates and tax holidays) or other incentives, such as subsidized infrastructure or services, market preferences, regulatory concessions, including exemptions from labor or environmental standards, etc. (UNCTAD, 2004).

Meanwhile, Rojec, Redek and Kostevc (2007) set up the key determinants for an investor if looking for a suitable business location (Figure 5). The most important FDI factors of the location-specific factors are the market factors. These factors include the market size, population growth, GDP size and growth, access/closeness to the export markets, as well as the cost factors such as cost/quality of labor, cost/quality of raw materials, and quality of the business infrastructure and the repatriation of the profit. The second important factors for FDI are the investment climate factors, such as political stability, macroeconomic stability, tax grades and

structure, regulator frame, regulation and labor market policy and production market. Finally, it is worth to mention the specific FDI policy, which includes the FDI legislation, country's marketing for FDI, investment incentives etc. (Rojec et al., 2007).

After a brief examination of foreign direct investment in general, this paper will now have a closer look into the investment climate of Switzerland, the world's richest country.

Figure 5. Classification of Location-Specific Factors, which Affect FDI Inflows



Source: M. Rojec et al., *Domet in možni elementi politike aktivnega spodbujanja tujih neposrednih investicij (TNI) v Sloveniji* [Range and Possible Elements of the Active Promotion of Foreign Direct Investment (FDI) Policy in Slovenia], 2007, p. 3.

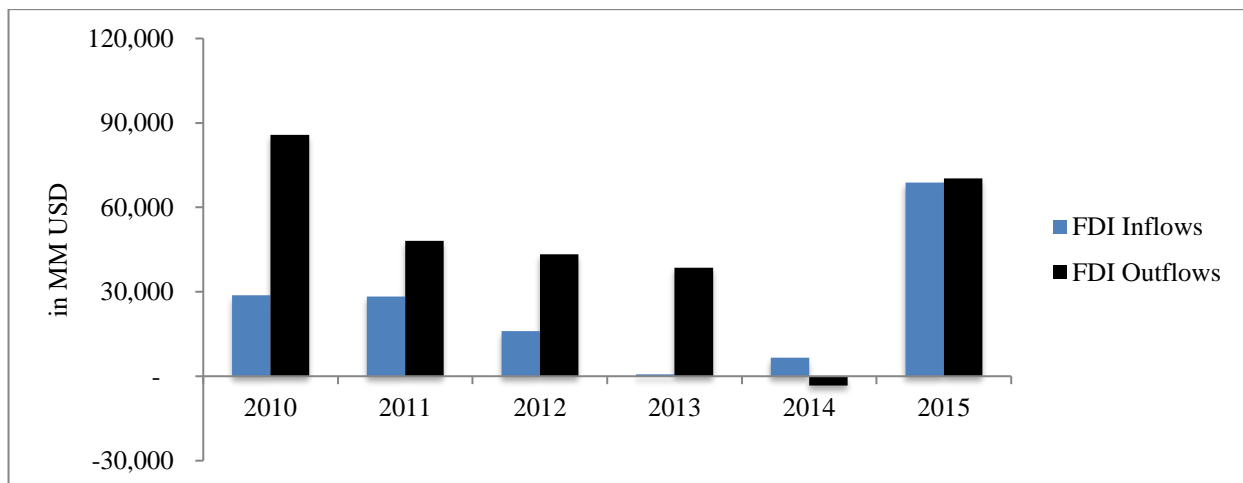
2 THE ROLE OF FDI IN SWITZERLAND

2.1 FDI in Switzerland

When thinking of Switzerland, first what comes to one's mind are probably its watches, cheese and chocolate. This is certainly not false, but Switzerland has an important attribute, which not everyone is keen of. This small Alpine country is one of the most attractive investment destinations worldwide (WTO, 2013). With its strategic location, it is home to many multinational enterprises. To pinpoint why exactly this small Alp country is appealing to so many foreign investors, this paper will analyze the most important factors in the Swiss business environment and identify which conditions are the most favorable in the country. But first, this paper will present the past and current FDI volumes and directions.

Switzerland is both, a great investor abroad and a host economy of choice. In regard of FDI amounts, Switzerland usually made more investments abroad than foreign companies made in Switzerland (UNCTAD, 2016). This is seen in Figure 6, as the volume of FDI outflows in the years 2010-2013 and then back in 2015 was surpassing the volume of FDI inflows. In 2013, after UK, France and Germany noticed a large decline in outward investment, Switzerland became Europe's largest direct investor (UNCTAD, 2014). This sensation was largely attributable to two happenings: Switzerland doubled the reinvested earnings abroad and increased the intracompany loans.

Figure 6. FDI Inflows and Outflows in Switzerland in the Period 2010-2015 (in MM USD)



Source: UNCTAD, *World Investment Report 2016*, 2016, pp. 5-6.

All until 2012, Switzerland, as a small country, has attracted a relatively high amount of foreign direct investment compared to other countries worldwide (28,744 MM USD in 2010) (UNCTAD, 2016). Suddenly, the inflows in mid-2012 fell to a negative value, as a consequence of the global financial turmoil and the Eurozone crisis, starting already in 2009. But the decisive

factor was that in years 2007-2011 the Swiss franc appreciated massively against the euro (by 48%) and the US dollar (by 47%), leading to dramatic increase in investment cost (EY, 2014). It is also said that controversial results of public referendums in 2013 and the initiative against mass immigration could have harmed Switzerland as a FDI destination (BAK Basel Economics, 2015). Afterwards, many investors put their planned investments on hold or rethought their investment direction. The sudden drop of FDI inflows was all forgotten, when Switzerland made one of the largest gains in 2015, with FDI inflows amounting to 68,838 MM USD (UNCTAD, 2016). This result ranked the country as the 6th of the top host economies worldwide. The rapid FDI increase came thanks to the Swiss National Bank's intervention, conducting attractive policies for investors (EY, 2014).

Breaking down the FDI inflows by countries, the main investing countries were Luxembourg, followed by the Netherlands and Austria (see Table 2). By region, the most inflows to Switzerland came from the EU, North America and Asia & Africa & Oceania (SNB, 2015). The main foreign companies, which established their presence in the Swiss market, are McDonald's Corporation, IBM, Altria Group, Johnson & Johnson and Protect & Gamble.

In terms of FDI outflows by countries, in 2015, Swiss companies mostly invested in Ireland, France and the Netherlands (see Table 2). By region, in 2015 the most outflows went to Europe, followed by Asia and Central & South America (SNB, 2015). Nestlé, Novartis, UBS and Credit Suisse belong to the biggest Swiss investors abroad.

Table 2. Swiss FDI Inflows and FDI Outflows by Top 3 Countries in 2015 (in BN CHF)

Swiss FDI Inflows by Investing Country		Swiss FDI Outflows to Host Countries	
Country	Amount	Country	Amount
1. Luxembourg	14	1. Ireland	41
2. The Netherlands	9	2. France	22
3. Austria	4	3. The Netherlands	15

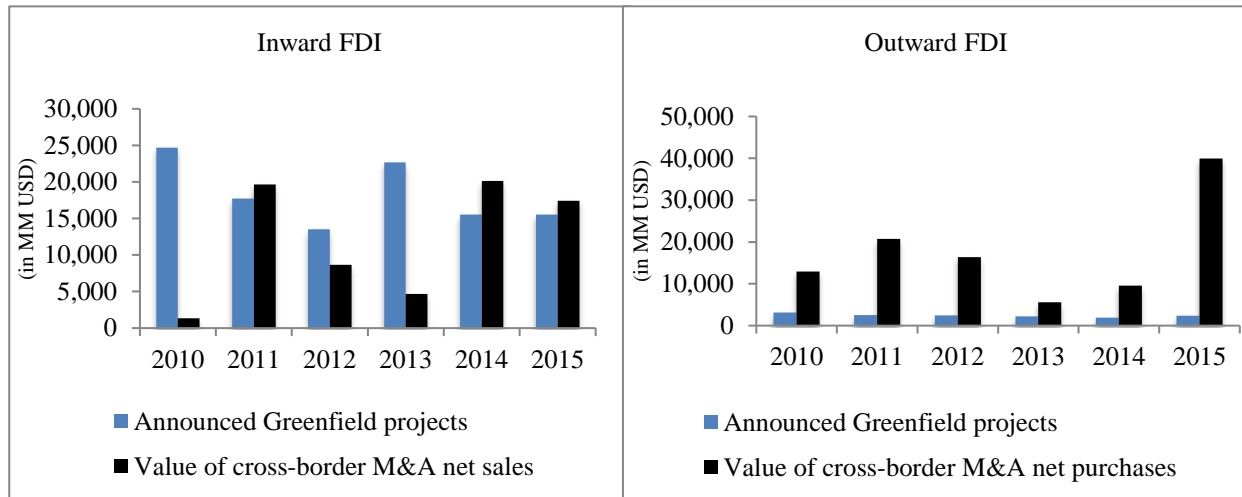
Source: SNB, *Direct Investment 2015, 2016*, pp. 6-13.

In regard of sector inflows, the main invested sectors in 2015 were finance and holding (64% of total), followed by trade (19% of total) and manufacturing (19% of total) (SNB, 2016). The banking sector belongs to the main invested sector, followed by electronics, energy, optical and watchmaking, and insurance sector (14.9% of total) (SNB, 2016). Outside Switzerland, there were app. two million people employed by Swiss companies in 2015 while in the same year, foreign companies employed 0.5 MM people in Switzerland (SNB, 2016).

There were 85 greenfield investments made in Switzerland in 2015, which is 73% less than before debt crisis in 2008 (UNCTAD, 2015). In the years 2014 and 2015 the trend shows higher net sales of M&A than it was for the announced greenfield projects (see Figure 7). Over the

period 2010-2015 Swiss investors abroad also preferred M&A investments over greenfield projects (Figure 7).

Figure 7. Announced Greenfield Projects and Cross-Border M&A Values in Switzerland in The Period 2010-2015 (in MM USD)



Source: UNCTAD, *World Investment Report 2016*, 2016, pp. 204-215.

In 2015, Switzerland was one of the top 10 host economies worldwide. This pleasing result is due to many profitable factors in the Swiss market but a very crucial role had its competitive and attractive business environment.

2.2 FDI Impact on Growth in Switzerland

According to the literature overview, FDI can have a positive impact on the economic growth of the host country. As a relatively open economy, Switzerland has been enjoying a great amount of FDI during all these years. In Switzerland, foreign companies have employed app. 457,000 people in 2015, which accounted for two thirds of economic growth in the last decade (SNB, 2016). Furthermore, it is said that FDI in Switzerland has mainly affected the trade balance and governments' tax revenues (Swiss-American Chamber of Commerce & The Boston Consulting Group, 2006). That is confirmed by the fact that foreign companies in Switzerland are responsible for two thirds of Switzerland's exports (Swiss Holdings, 2011).

According to WB statistics (2017), the FDI share of GDP in 2015 amounted to 17.8%, which is a relatively high number if compared to the average of OECD (2.6%), EU (3.4%) and high income countries (3.1%).

In the past, FDI contributed to the growth of many local service suppliers such as professional services, IT services, construction and real estate management, security services, transportation, travel and entertainment. The Swiss society benefited from FDI due to know-how, modern

technology and management spillover effects (Swiss-American Chamber of Commerce & The Boston Consulting Group, 2006). Due to the foreign companies' access to the know-how worldwide, they indirectly spur innovation activities in Switzerland (Swiss Holdings, 2011).

2.3 Business Environment as a Factor of Attractiveness

Switzerland is a developed economy that offers an array of market opportunities for foreign investment. But it is not enough to only attract investors by appealing businesses opportunities. Its business environment with various factors, such as political-legislative, socio-cultural, technological and economic factors, also play a crucial role for foreign investors.

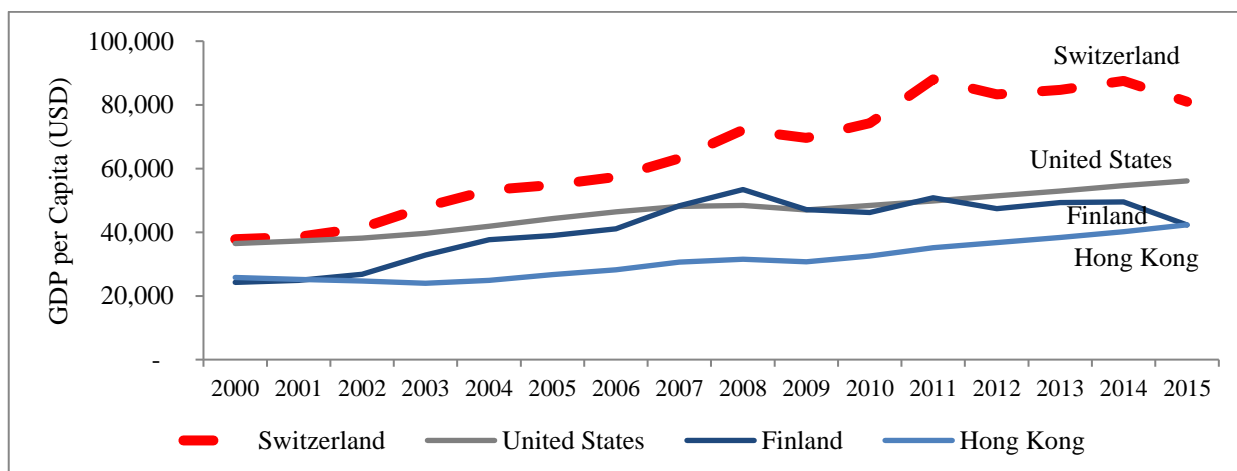
2.3.1 Economic Environment

A business environment is attractive if it has a stable economy and the growth rates in future are increasing. As stated by Calver (2013), countries with a lower economic risk (GNP outlook, unemployment rate, government finances, bank stability / risk, monetary policy, currency stability) will attract more foreign investors. Therefore, an analysis of Swiss economic indicators is very important.

2.3.1.1 Macroeconomic Factors

In the past, many studies have shown how important macroeconomic factors are in terms of attracting FDI (S. Malik & Q. Malik, 2013; Enu, Hagan, & Attah-Obeng, 2013; Calver, 2013; Shahzad & Al-Swidi, 2013). In Switzerland, the stability of macroeconomic environment is also crucial for future investments. The higher the per capita income, the more FDI flows a country receives (Schneider & Frey, 1985). Switzerland with its 80,945 US dollars in 2015 has one of the highest GDP per capita worldwide (WB, 2017).

Figure 8. GDP per Capita for Selected Countries in the Period 2000-2015 (in USD)



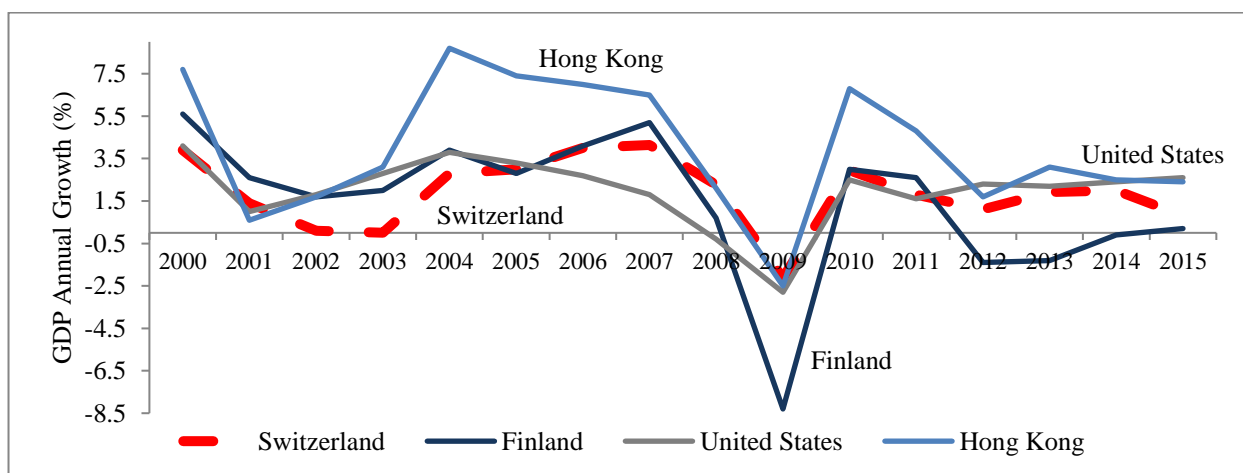
Source: *GDP per capita (current US\$)*, n.d.

Since 2000, Switzerland has been outperforming other top FDI host countries (United States, Finland and Hong Kong) in terms of GDP per capita (see Figure 8). Other countries, such as Luxembourg, Norway and Qatar are the top leaders in this field (WB, 2017). However, since 2008 Switzerland's real GDP per capita has been growing at a pace similar to the upper half of OECD countries (OECD, 2015b).

The Swiss GDP growth rate was one of the highest in Europe with its average of 2.1% over the period 2004-2015. According to Figure 9, the Swiss GDP growth rate had two sharp and one moderate drop over the years 2000-2015. The second drop, for example, was in the years 2008-2009, reflecting the global financial crisis; the third one lasted from 2010 until 2012, facing the consequences of the Eurozone's financial instability.

In 2014, the real GDP growth rate was 2% which are 2.1 percentage points less than in the peak time in 2007. In comparison to other FDI top recipients, Switzerland had a similar GDP growth rate as the United States over the years but it could not reach the successful rate of Hong Kong (Figure 9).

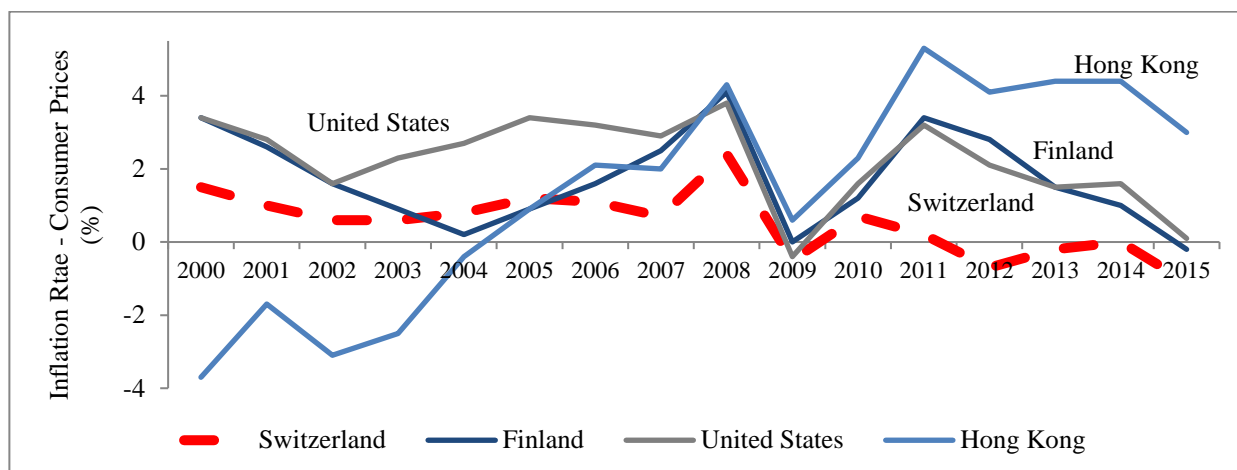
Figure 9. GDP Annual Growth Rate for Selected Countries in the Period 2000-2015 (in %)



Source: *GDP growth rate (annual %)*, n.d.

In case of inflation growth rates based on the consumer price index, the indicator was the highest in 2008 (2.4%) in Switzerland, then it dropped in 2009 (-0.5%), 2012 (-0.7%), and recently in 2015 due to the Eurozone financial instabilities (Figure 10). As seen in Figure 10, Hong Kong, United States and Finland had higher inflation growth rates than Switzerland in 2015 (3%; 0.1%; -0.2%).

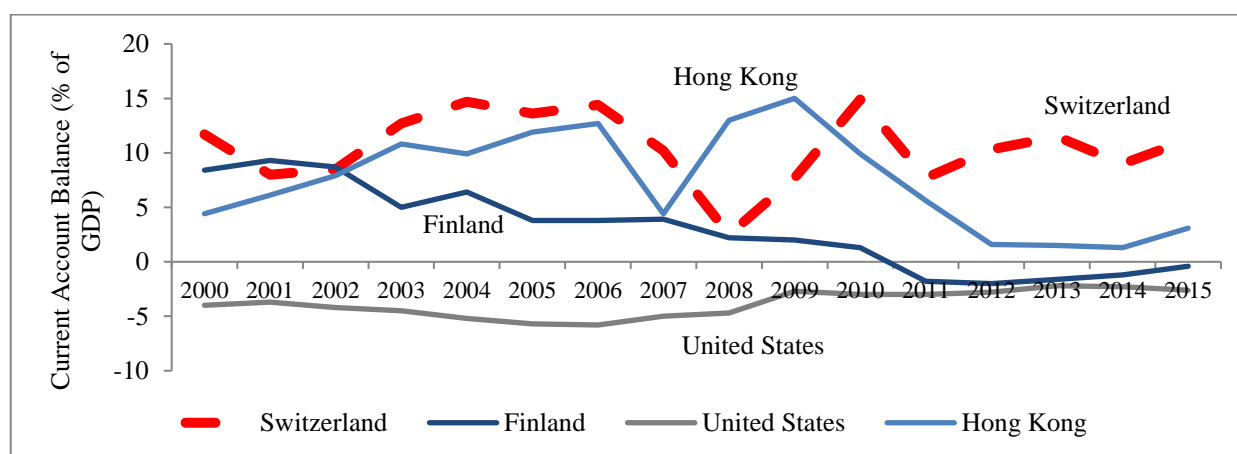
Figure 10. Inflation Rate - Consumer Price Change for Selected Countries between 2000-2015



Source: *Inflation, consumer prices (annual %)*, n.d.

Switzerland has a relatively high percentage of GDP in comparison to other selected countries in terms of the Current Account Balance (11.2% in 2015). Throughout the years 2000-2015, the highest current account balance was reached in 2006 (14.4%) and 2010 (14.9%), and the lowest was in time of financial turmoil in 2008 (see Figure 11). Surprisingly, Hong Kong's current account balance was one of the highest in 2008 (15%), but in the next years it also fell dramatically to 3.1% in 2015. During the 15-year period, Finland and the United States were showing a remarkably lower current account balance than Switzerland.

Figure 11. Current Account Balance as a % of GDP for Selected Countries
In the Period 2000-2015

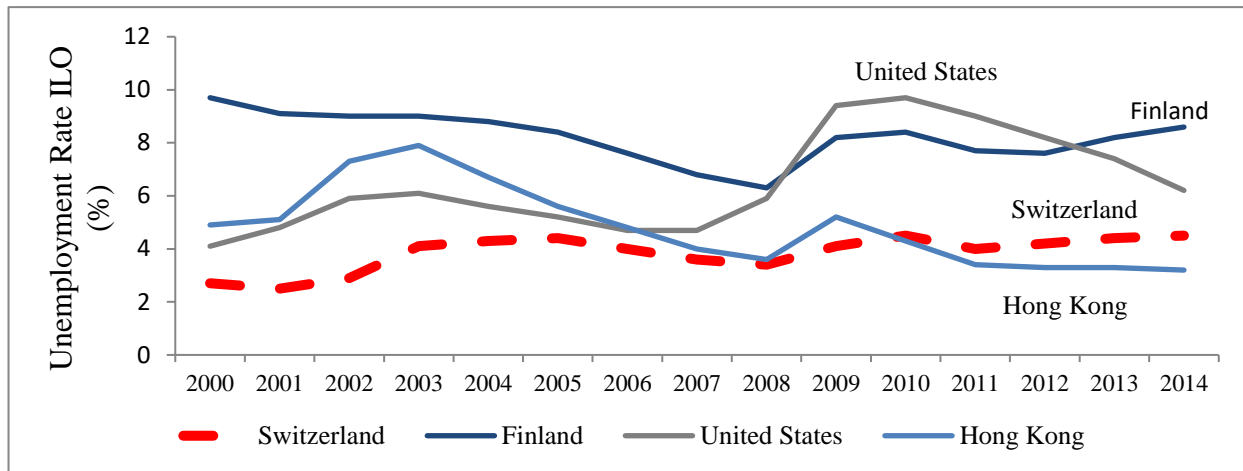


Source: *Current account balance (% of GDP)*, n.d.

As seen in Figure 12, Switzerland with its moderately low unemployment rate (4.5% in 2014) is outperforming almost all selected FDI top recipient countries with the exception of Hong Kong (3.2% in 2014). In the previous 10 years, Switzerland was one of the countries with the lowest

unemployment rates worldwide (WB, 2017). The youth unemployment in Switzerland in 2016 is slightly increasing but remains at a fairly low level of 8.4 % (OECD, 2015b).

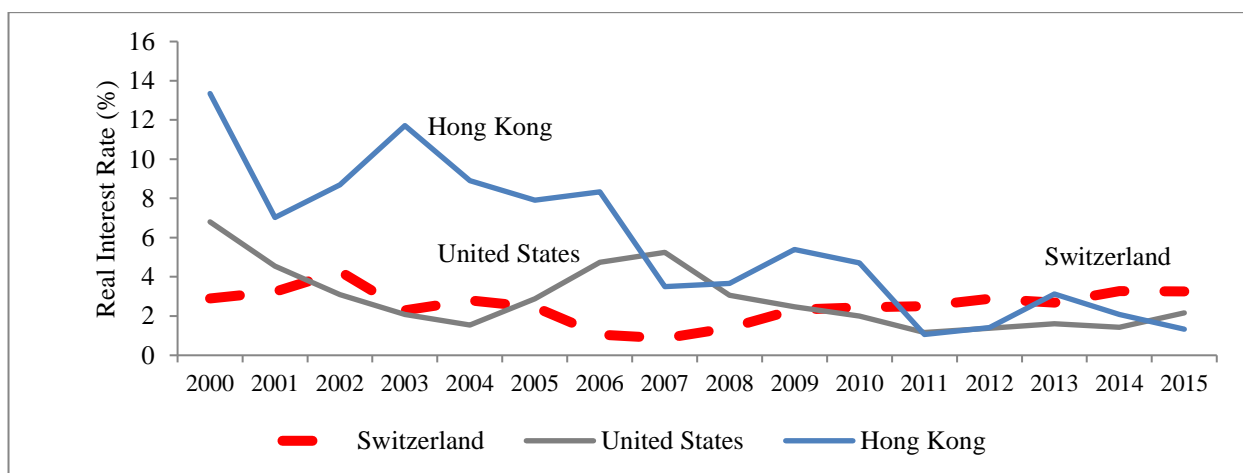
Figure 12. Unemployment Rate ILO for Selected Countries in the Period 2000-2014 (in %)



Source: *Unemployment, total (% of total labor force) (modeled ILO estimate)*, n.d.

In terms of employment, 80% have a paid job in Switzerland in the age group 15 to 64 years, which is 19 percentage points more than in Finland. The OECD average lies by 65% (OECD, 2015b). According to the data for 2015, only 45.7% of all the women in Switzerland have a job. What is more, only 30% of foreigners have a job in Switzerland and self-employed are as few as 7.3% (Swiss Confederation, 2016c).

Figure 13. Real Interest Rate for the Selected Countries in the Period 2000-2015 (in %)



Note: Data for Finland not available

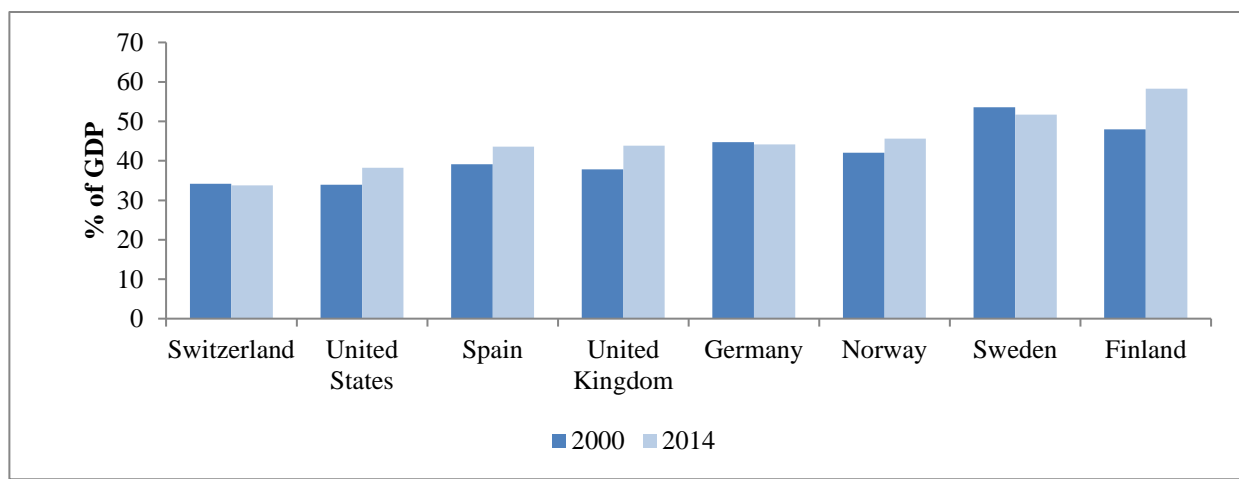
Source: *Real interest rate (%)*, n.d.

During the years 2000-2013, the Swiss real interest rate adjusted because of inflation, as measured by the GDP deflator, was on average 2.5%, with being the lowest in 2007 (0.9%) and

the highest in 2002 (4.3%). All these years, Hong Kong had on average higher real interest rates than Switzerland and the United States (see Figure 13).

Switzerland does not make a positive picture in terms of government spending as a % of GDP. In comparison to other developed countries, it is found at the bottom of the list (see Figure 14). With its 33.7% in 2014, the government spent 24.5 percentage points less than, for instance, the leader in this field – Finland.

Figure 14. Government Spending as % of GDP in Selected Countries in Years 2000, 2014



Source: *General government spending total, % of GDP, n.d.*

Switzerland is known for its strong currency, the Swiss franc. Among investors, it was considered to be a “safe heaven” asset. Hence, over a long period of time many investors stored their money in Swiss banks. What they did not know at the time is that their actions will increase the value of the Swiss franc (Why the Swiss Unpegged the Franc, 2015). But SNB was aware that an expensive franc would hurt Switzerland’s economy, because of its dependency on export. The bank created new francs and started to buy euros. As a consequence, the franc’s value fell. In mid-January 2015, after SNB announced that it would no longer hold the Swiss franc at a fixed rate with the euro, the currency soared. Since the high Swiss franc does not show signs of returning back to the value it had in 2014, many export-oriented Swiss companies try to find ways how to stay competitive in the international market during this challenging time.

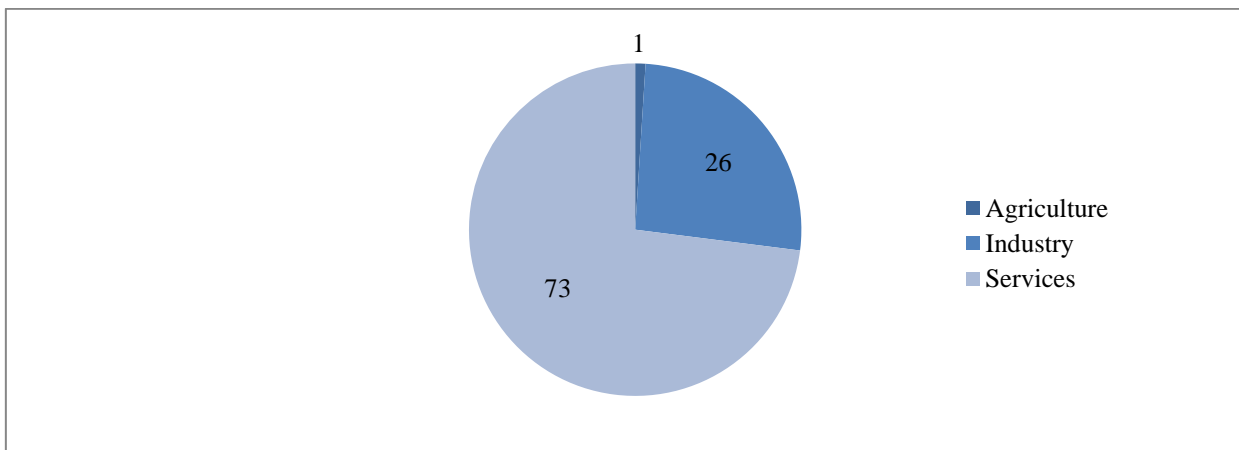
2.3.1.2 Sectorial Distribution

The services in Switzerland contribute approximately 73% to the entire GDP, while the industry sector owns 26.3% and the agriculture only 0.8% (see Figure 15).

Switzerland has a market economy based on financial services, chemicals, pharmaceuticals, watch industry and travel and tourism services:

Banking and Insurance. The financial industry is the most important element in the Swiss economy. With around 283 banks, 223 insurance companies and 1,957 pension funds mainly based in Geneva, Zurich, Basel and Lugano, Switzerland represents a competitive financial hub in Europe (Swiss Banks, 2016). In 2014, Swiss financial industry employed 209,000 people, of which 118,500 worked in financial institutions, 49,200 in insurance companies and 42,200 in other auxiliary institutions (Swiss Banks, 2016).

Figure 15. The GDP Sector Composition in Switzerland in 2016 (in %)



Source: CIA, *The World Factbook*, 2016.

Overall, the financial industry covered 5.9% of overall jobs in Switzerland. In 2014, financial institutions contributed 35.8 MM US dollars to the whole Swiss economy, while insurance companies added up to 28.4 MM US dollars (Swiss Banks, 2016). It all summed up to 64.2 MM USD, which is about 10.2% of the entire Swiss GDP (Swiss Banks, 2016).

The main companies in this industry are the Zurich Insurance Group, Credit Suisse and UBS AG. With the help of the Swiss Finance Institute, financial institutions and top universities collaborate in various research and education programs.

Chemicals, Pharmaceuticals and Biotechnology. Despite its small market size, Switzerland is a leading pharmaceutical market. The Basel area is a welcoming surrounding for the national and the international pharmaceutical companies with the big players in the field such as Novartis, Roche Holding, Amgen, Biogen Idec, Alliance Boots and others. In terms of exporting chemical and pharmaceutical products, Switzerland is the 7th largest export nation worldwide (Switzerland Global Enterprise, 2016). The chemical-pharmaceutical companies employed 67,000 people in 2009. The same year, the share of the sector in GDP amounted to 4% (Switzerland Global Enterprise, 2016). As far as biotechnology is concerned, there are over 225 biotech companies registered in Switzerland, which makes it the country with the most biotech companies worldwide.

Watch Industry. The companies working in the field of watches are primarily concentrated in the Jura region in Switzerland. Nearly 600 companies employ 48,500 people (Switzerland Global Enterprise, 2016). There are 95 % of all watches exported worldwide (Federation of the Swiss Watch Industry FH, 2016). In 2015, the total export value of watches amounted to 21.5 BN US dollars, with mainly exported partners such as Hong Kong, the United States and China (Federation of the Swiss Watch Industry FH, 2016). The world-best known is the company called Swatch Group. Other big watch companies are Rolex SA, LVMH Group and Richemont SA.

2.3.1.3 International Trade

Swiss economy is highly dependent on foreign trade and it is therefore open to trade (WTO, 2013). As discovered by Asiedu, (2002), openness to trade has a positive impact on FDI flows. In fact, economies, in which trade is important, have relatively higher FDI (Addison & Heshmati, 2003). Since Switzerland has no mineral resources, it must import products. According to the WTO Statistics (2015), the top import partners for Switzerland are the European Union (66.1%) with Germany and Italy on the top, United States (7.8%), China (4.8%) and Japan (1.4%). The value of commercial services imports in 2014 added up to 92,611 MM USD (WTO, 2015). Switzerland is the 19th largest importer in the world. The merchandise imports are led by manufactures (61.4%), fuels and mining products (7.0%) and agricultural products (5.1%) (WTO, 2015). The majority of imports represent gold (17%), packaged medicaments (6.2%) and cars (4.1%) (Hausmann et al., 2015). Import of goods and services amounted to 51% of GDP in 2015, while export was equal to 63% of GDP (OECD, 2015b).

The top export destinations of Switzerland are the European Union (45.1%) with Germany and France on the top, United States (10.1%), Hong Kong (7.8%), India (6.8%) and China (5.9%) (WTO, 2015). The commercial services exports in 2014 amounted to 113,300 MM USD. Switzerland is the 16th largest export economy in the world, and, according to the Economic Complexity Index (ECI), the 2nd most complex economy (Hausmann et al., 2015). By breaking down the merchandise total exports, which summed up to 311,203 MM USD in 2014, the lion's share goes to manufactures (68.1%), followed by fuels and mining products (3.3%) and agricultural products (3.2%) (WTO, 2015). The most recent exports are led by gold (30.2% of total), followed by packaged medicaments (10%) and human or animal blood (5.7%) (Hausmann et al., 2015).

2.3.1.4 Infrastructure

According to the Global Competitiveness Report 2015, Switzerland is the 5th best in terms of infrastructure quality (WEF, 2015). Breaking down the indicators that were assessed in this report, Switzerland was ranked high in the fields of Quality of overall infrastructure (1st), Quality of electricity supply (1st), Quality of railroad infrastructure (2nd), Fixed-telephone lines (6th), Quality of air transport infrastructure and Quality of roads (9th). It did not perform successfully

assessing the Available airline seat kilometers (29th), Mobile-cellular telephone subscriptions (40th) and the Quality of port infrastructure (44th). The Doing Business Survey (2017) also confirmed Switzerland's easiness of getting electricity, by placing the country according to the indicator in the 7th rank.

2.3.1.5 Market Size

Market size is a very important determinant whether a multinational company invests into a market or not (Shatz & Venables, 2000), because, larger host countries' markets are associated with higher foreign direct investment due to larger potential demand and lower costs thanks to scale economies (Resmini, 2000; Bevan & Eastrin, 2000). In comparison to the majority of other countries worldwide, Switzerland has a small market. The country in the heart of Europe was ranked the 39th in terms of its market size (WEF, 2015). Its FDI top recipient competitors, such as Singapore, Hong Kong, United States and Finland, were ranked the 31st, the 43th, the 1st and the 55th (WEF, 2015). The Swiss market is more attractive as far as the GDP purchase power parity per capita is concerned, since with its 58,647 USD it has one of the global highest (OECD, 2015b). The Consumer Price Index, however, has fallen for 2.3 percentage points in the last 5 years (Prices, 2016).

2.3.1.6 Economic Future

How does the future of the Swiss economic environment look like? The Swiss Confederation's economic forecast (Economic Forecasts, 2017) documents a clear upward trend in the first months of 2017. Therefore, in 2017, a growth of 1.6% in GDP is expected (in 2016 it was 0.8%). A year later the GDP growth rate is forecasted to be at 1.9% due to a higher domestic demand and a further recovery of the Eurozone. In terms of unemployment rate, it is forecasted to drop to 3.2 % in 2017 and to 3.1% in 2018 (Economic Forecasts, 2017).

The OECD (2015) recommends the Swiss Government to increase public spending on early childhood education and care in the next few years, especially for disadvantaged children with an immigrant background. What is more, it also suggests to reduce the drop-out rate in the university system and to boost the supply and attractiveness of fields of study that are in high demand in the labor market (OECD, 2015b).

The Swiss foreign policy strategy for the years 2016-2019 has been based on four main planks (Swiss Confederation, 2016):

- Relations with the EU and EFTA member states,
- Relations with global partners,
- Peace and security,
- Sustainable development and prosperity.

Switzerland has been willing to foster the relations with the neighboring countries by improving the cooperation regarding the traffic, environment, social insurance, taxation and medical care. It has also been taking care of building an appropriate institutional framework with respect to the needs of other EU countries. One of the actions has been made in terms of promoting peace, human rights, the rule of law and international security worldwide. Last but not least, Switzerland is deepening the strategic partnerships with the Balkan states, Russia and Turkey, as well as Armenia (Swiss Confederation, 2016).

Although Switzerland has relatively favorable economic factors, the fear about the volatility of the Swiss franc will remain. With that being said, there is a medium economic risk.

2.3.2 Political and Legislative Environment

Countries with a higher political risk welcome less FDI (Jun & Singh, 1996; Calver, 2013). In the following text it will be assessed if Switzerland is exposed to a political risk.

2.3.2.1 Political Overview

The formal name of Switzerland is the Swiss Confederation (Confederation Helvetica). Switzerland came into its form in 1848 when the country made it into a federal state giving it a central authority that counterbalanced and limited the power of the cantons (Swiss Confederation, n.d.). Politically, the country is divided into 26 cantons where almost all of them have its own federal government and parliament. Each canton has therefore its own regulations of tax, payment and infrastructure system (Swiss Confederation, n.d.). Because of its commitment to neutrality, Switzerland is not a member of the European Union (EU). In 1997, the majority of Swiss people voted against the EU membership (76.8% of total). Nonetheless, Switzerland is willing to keep a healthy relationship with the EU members, as the EU is very important to the Alpine country (Switzerland exports more than a half to the EU members), and so is Switzerland to the EU. Switzerland is, in fact, EU's fourth largest trading partner. After the referendum in 2014, the Swiss nation voted for limiting the freedom of movement of foreign citizens to Switzerland. This resulted in weakening the Swiss-EU relation by the EU excluding Swiss students and universities from the Erasmus program and the European Research Council grants.

Switzerland is also not a member of the EEA or NATO. It participates, though, in some of the NATO activities – it is a member of the Partnership for Peace and of the European Free Trade Association. There are a series of bilateral agreements between Switzerland and the EU (land, air and free movement of persons). What is more, Switzerland also became a member of the Schengen agreement in 2009 (Swiss Confederation, n.d.).

2.3.2.2 Political Stability and Legislation Framework

Various studies (Busse, 2004; Harms & Ursprung, 2002) have shown that political stability and democracy are important in attracting FDI. In Switzerland, the government is made up of seven members, elected by the Federal Assembly. The Swiss people enjoy the country's direct democracy, which means that they can influence the political affairs (Swiss Confederation, 2016).

According to the Corruption Perceptions Index, Switzerland is among the least corrupted countries in the world (ranked the 5th best out of 175 countries by the Transparency International, 2017). Since it was evidenced that corruption can have a negative impact on FDI flows (Gastanga, Nugent, & Pashamova, 1998; Wei, 2000), Switzerland has another reason to shine as a potential FDI destination.

One of main advantages of Switzerland as a potential FDI location is that the country has not been exposed to a long-lasting war since 1515. It remained its neutral status during the World War I and II and is doing everything to stay politically independent country (Switzerland during the War Years, 2016).

What is more, Switzerland's institutional quality is among the very best. In the Global Competitiveness Report 2015-2016 (WEF, 2016), the pillar was ranked the 9th, thanks to it glance of subfactors such as intellectual property protection (ranked the 4th) and property rights (ranked the 3rd). Indeed, Switzerland has a reliable protection of property rights. It is strongly enforced and its judicial system is considered to be independent and fair (The Heritage Foundation, 2017). These factors have an important role in terms of FDI, since the more the intellectual property of the foreign investor is protected, the more FDI flows occur (Lee & Mansfield, 1996).

One of the main focuses in investment decisions is the easiness of doing business in the FDI destination. The Doing Business Survey (2017) has shown that Switzerland lost 2 spots in 2017 compared to the previous year and is now positioned the 31th out of 190 economies (see Table 3). In 2017, the country decreased its performance in "starting a business" (by 5 spots), now the parameter is ranked the 71st. It lasts approx. 10 days to register a business in Switzerland (OECD high income average is 8.3 days), and as much as 25.3% of income per capita should be deposited in a bank or with a notary before registering a company (OECD high income average is 9.2%). When reviewing the number of procedures that are required to register a company, Switzerland is at 6 while the OECD high income average requires 4.8 days (WB, 2017). However, the country ranks high when it comes to getting electricity, registering a property easily and low taxes.

Table 3. Easiness of Doing Business - Ranking for Switzerland in 2017

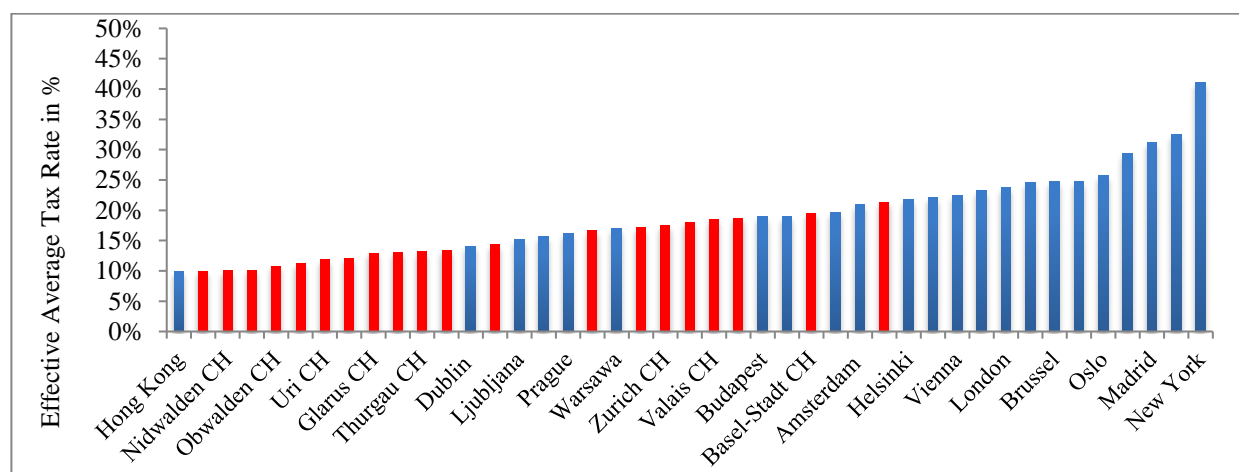
Topic Rankings	DB 2017 Rank	DB 2016 Rank	Change in Rank
Overall	31	29	↓-2
Starting a Business	71	66	↓-5
Dealing with Construction Permits	68	65	↓-3
Getting Electricity	7	6	↓-1
Registering Property	16	16	No change
Getting Credit	62	60	↓- 2
Protecting Investors	106	101	↓-5
Paying Taxes	18	17	↓ -1
Trading Across Borders	37	37	No change
Enforcing Contracts	39	38	↓ -1
Resolving Insolvency	45	44	↓ -1

Source: World Bank, *Doing Business Report, Equal Opportunity for All*, 2017, pp. 1-29.

2.3.2.3 Taxes

Each canton in Switzerland defines its own tax rates. The actual tax loads for companies in different Swiss cantons amount between 10% and 21.4% (BAK Taxation Index, 2015). Compared internationally, the majority of the Swiss cantons are among the destinations with the lowest tax rates. Only Hong Kong is able to position itself better than some of the Swiss cantons (see Figure 16). The Doing Business Survey (2017) has ranked Switzerland the 18th in terms of paying taxes.

Figure 16. Taxation Index for Corporations in Selected Destinations in 2015 (in %)



Source: Adopted from BAK Basel Economics, *BAK Taxation Index*, 2015, p. 1.

It is seen that Switzerland is offering low taxes not only on a national but also on the cantonal level. Nevertheless, the corporate tax system on cantonal level is feared to be aligned with the EU and OECD tax systems (so called Tax Reform III) in the near future due to international pressure. This will cancel out Switzerland's location advantage and most likely bring some uncertainty among potential investors (BAK Basel Economics, 2015).

Overall, Switzerland has a low political risk due to its political stability and low taxes. This is definitely one of the reasons why Switzerland gets a lot of attention from FDI investors.

2.3.3 Sociological and Cultural Environment

Not only political factors but also social factors such as population, religion, employment, wages, crime, and education attainment can influence the decision of a foreign investor. In the next section it will be shown if sociological factors are encouraging FDI into the country.

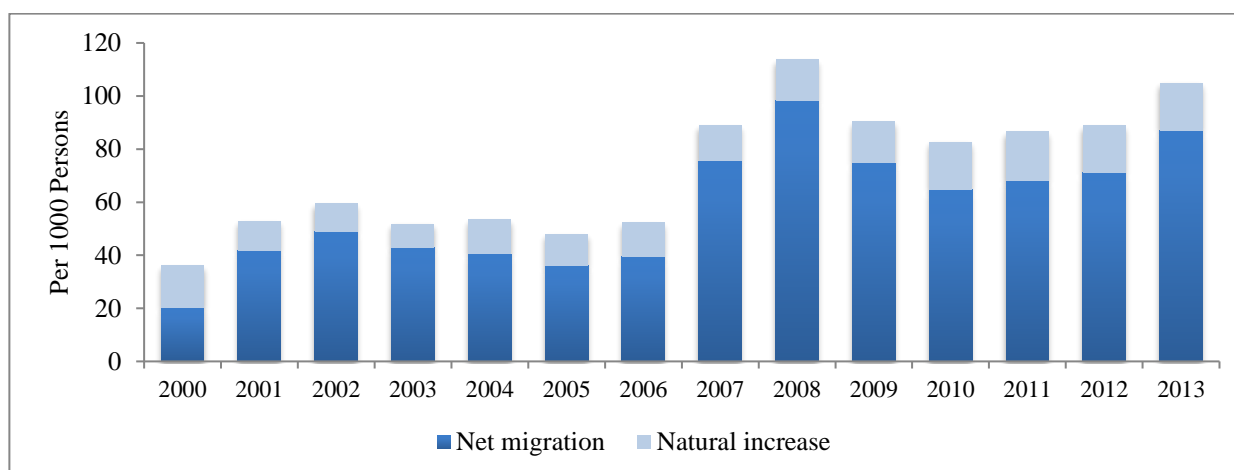
The country has 8,2 MM inhabitants and 73% of them live in cities. Most people live in Zurich, followed by Bern and Lucerne (Swiss Confederation, 2016c). According to the findings of Sathe and Handley-Schachler (2006), cities attract FDI while the countryside does not.

Regarding the gender disparity in Switzerland, female population represent 50.5% while men 49.5%. According to age groups, the highest proportion of people is in age group 40 to 64 years (35.3%), followed by the age group 20 to 39 years (26.7%). The average age is 41.9 years (Swiss Confederation, 2016c).

According to OECD (2015), the number of children per women in 2014 was 1.5, which is just under the EU average (1.6). Population growth represents only 1.2%, albeit it is one of the highest rates among developed countries. The average life expectancy age is 85.2 for women and 81 years for men. The average of 81 years is thereby three years higher than the OECD average of 80 years (OECD, 2015b). According to nationality, 75.7% in Switzerland are Swiss while as much as 24.3% are foreigners (Swiss Confederation, 2016c). Switzerland has one of the highest percentages of foreigners in the world.

The overview of the period 2000-2013 shows, that the amount of net migration was much higher than the natural increase of the population (see Figure 17). The highest migration growth was in 2008 when the financial crisis hit Europe. The most immigrants are Italians (16.3%), followed by Germans (14.9%) and Portuguese (12%). The majority of them are settled in cities such as Zurich, Basel and Geneva (Swiss Confederation, 2016c).

Figure 17. Net Migration and Natural Increase in Switzerland (per 1000 persons)



Source: *Net migration rate*, n.d.; *Natural increase rate*, n.d.

Although Switzerland is facing high levels of immigration, many studies concluded that foreign workers have a positive impact on host economies. They raise the competitiveness of firms by increasing labor productivity and innovation and this spurs the economic development (S. P. Kerr, W. R. Kerr, & Lincoln, 2013; Peri, 2012; Nicolaides & Sandu, 2014). What is more, Basten and Siegenthaler (2013) claimed that immigration reduces unemployment and increases the employment in the country.

Despite those studies showing a positive linkage between high immigration and economic development of host countries, on the 9th of February 2014, Switzerland accepted an initiative against mass immigration. As a consequence, the Swiss Federal Council is supposed to present an adapted Agreement on the Free Movement of Persons with the EU based on Switzerland's needs in the near future. Therefore, quotas for foreign employees are expected (BAK Basel Economics, 2015). This represents a potential risk for FDI in Switzerland as the small country needs highly qualified people from all over the world. So far it contributed to the business environment attractiveness. The changes in the Agreement with the EU will most likely affect its trade to the EU countries, which is an important parameter for investments. Last but not least, it has a negative impact on the country's reputation of being an open economy (BAK Basel Economics, 2015).

In terms of demographics, 46.1% of inhabitants is Roman Catholic, followed by 40% Protestants, 5% belong to other religion while 8.9% of population are unspecified (Swiss Confederation, 2016c). What is more, gender inequality is still a problem in Switzerland. In Appenzell women were entitled to vote only in 1971. On average, women earn twenty percent less than men. In the managerial positions, the difference is much larger – a woman is paid less than 31 % compared to men. Furthermore, women rarely occupy managerial positions or are members of the board (Swiss Confederation, 2016c).

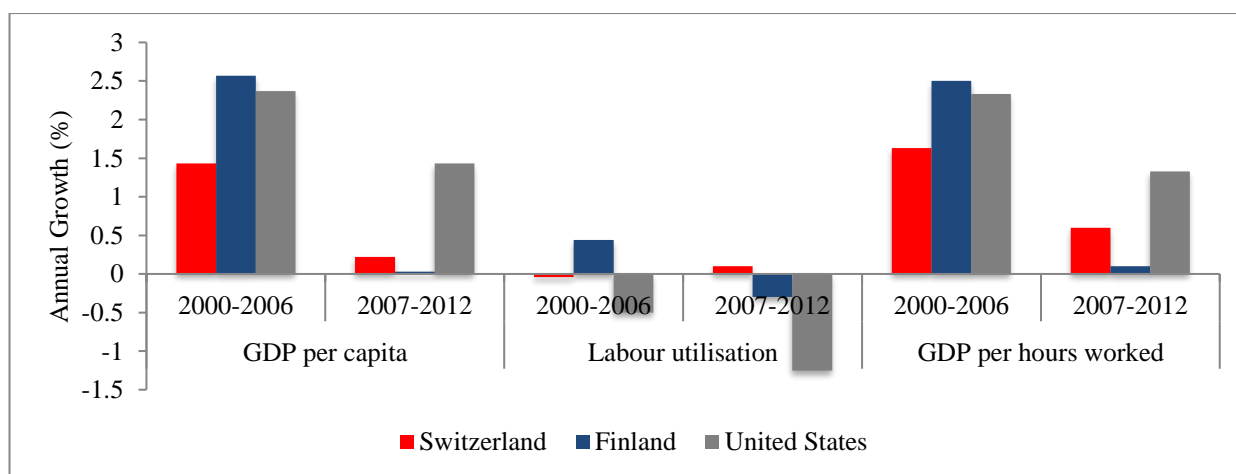
In 2014, the normal working week in hours accelerated to 41.7. Switzerland ranks somewhere in between as far as work-life balance is concerned (OECD, 2015b). Yearly average working hours in Switzerland amount to 1,844, compared to 1,601 in Germany and 1,562 in France (OECD, 2015b).

In Switzerland, the productivity growth, measured by GDP per capita growth (defined by labor utilization and GDP per hours worked), has been a lot weaker in the period 2007-2012 than in the period 2000-2006 (see Figure 18). The GDP per capita growth rates in the United States between both examined periods decreased by only 0.9 percentage points (hereinafter: pp.), while Switzerland noticed a fall of 1.21 pp.

As seen in Figure 18, The United States also performed better in terms of GDP per hours worked if comparing the two examined periods and the results of Switzerland and Finland (a loss of 1 pp. in US; Switzerland lost 1 pp., Finland 2.3 pp.).

Labor costs in Switzerland are composed of 83.7% for wages and salaries, 15% for social security contributions, and 1.3 % for other costs such as vocational training, staff recruitment costs and miscellaneous costs (Wages, Income from Employment and Labour Costs, 2016).

Figure 18. Growth Rates of Economic Aggregates for Selected Countries between 2000-2006 and 2007-2012 (in %)

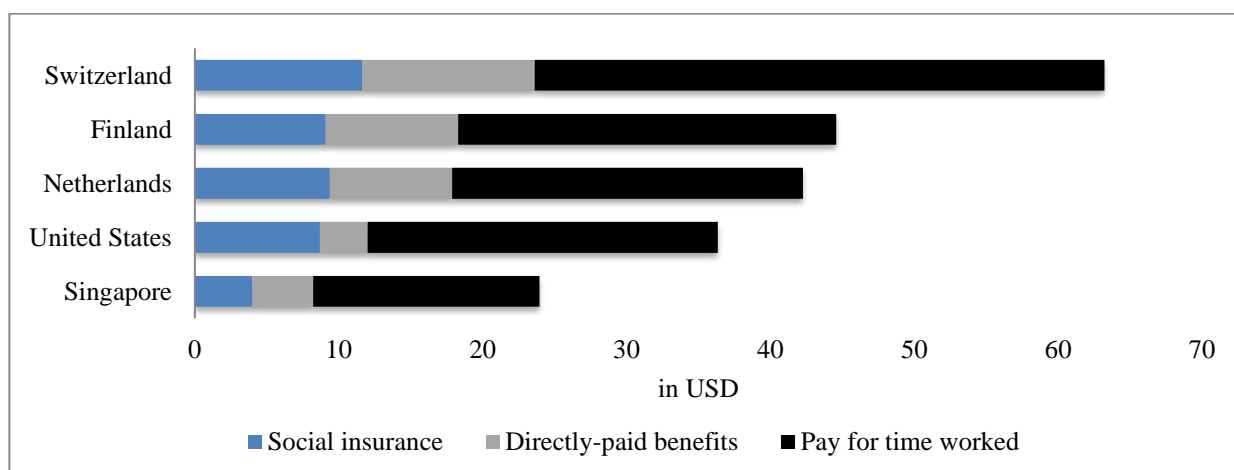


Note: Labor utilization: Hours worked per head of population

Source: GDP per hour worked, n.d.; Labor utilization, n.d.; GDP per capita growth (annual %), n.d.

For example in manufacturing, the Swiss hourly compensation costs in 2013 amounted to 63.23 USD, of which 11.63 USD went for social contributions, 11.98 USD for directly-paid benefits and 39.62 USD was the compensation for the time worked (Figure 19).

Figure 19. Components of Hourly Compensation Costs in Manufacturing in 2013 (in USD)



Source: The Conference Board, *International Comparison of Hourly Compensation Costs in Manufacturing 2013*, 2014, pp. 8-11.

In the private sector, the median Gross monthly salary in 2012 amounted to 6,118 CHF, 5,317 CHF for women and 6,118 CHF for men (Wages, Income from Employment and Labour Costs, 2016). With its average annual wage of 58,389 USD, Switzerland has the third highest salary worldwide after Luxembourg and US (OECD, 2015b).

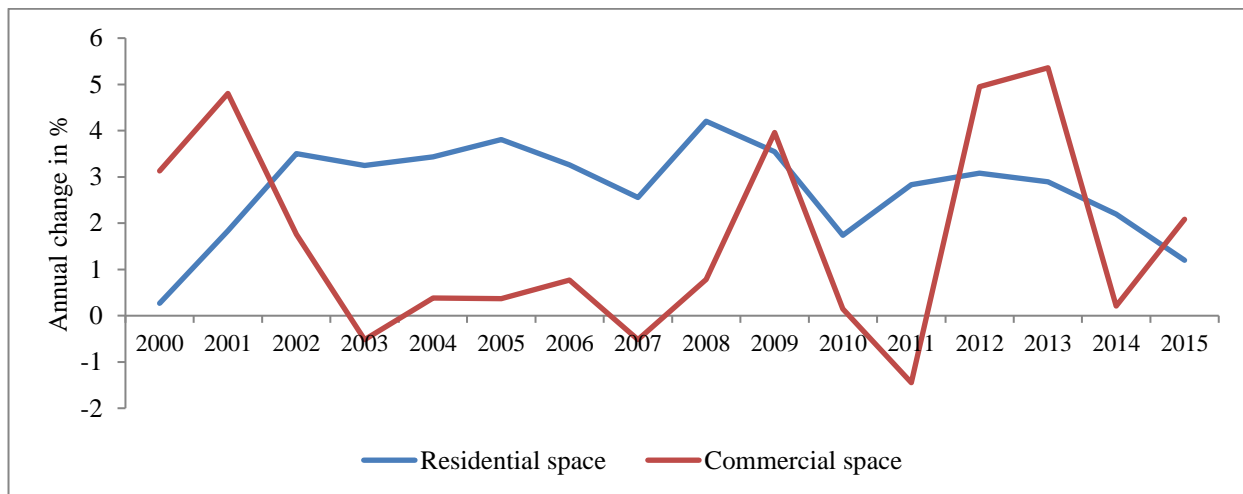
Switzerland is one of the safest countries in the world. The homicide rate is 0.7, lower than the OECD average of 2.1. The crime rate is low but it is slightly increasing. One of the concerns is also the air quality, especially in Zurich, the financial center. In comparison to other OECD countries, it is below the average (OECD, 2015b). What is more, life satisfaction in Switzerland is among the highest in the OECD. Overall, Swiss people are more satisfied with their lives than the OECD average (OECD, 2015b).

In terms of housing conditions, a large amount of the Swiss household's disposable income is spent on housing costs. This indicates a low housing affordability. A closer look at the real estate prices in Switzerland shows that in the period 2000-2015 the average prices of the residential and especially of the commercial space fluctuated widely (see Figure 20). The fluctuation in real estate prices can be unpleasant as far as the foreign investment is concerned.

The Growing Talent Competitiveness Index 2017 Report ranked Switzerland first for the best place to work (INSEAD, 2017). The report, encompassing 103 countries, focuses on the role of talent growth in enhancing countries in connection to competitiveness. Switzerland has a strong education system and a well-established apprenticeship program.

In terms of adults, aged 25-64 who have completed the upper secondary education the OECD average lies by 75%. With its 86%, Switzerland is outperforming the OECD average (OECD, 2015b)

Figure 20. Annual Growth Change of Real Estate Prices according to Space Type in Switzerland in 2000-2015 (in %)

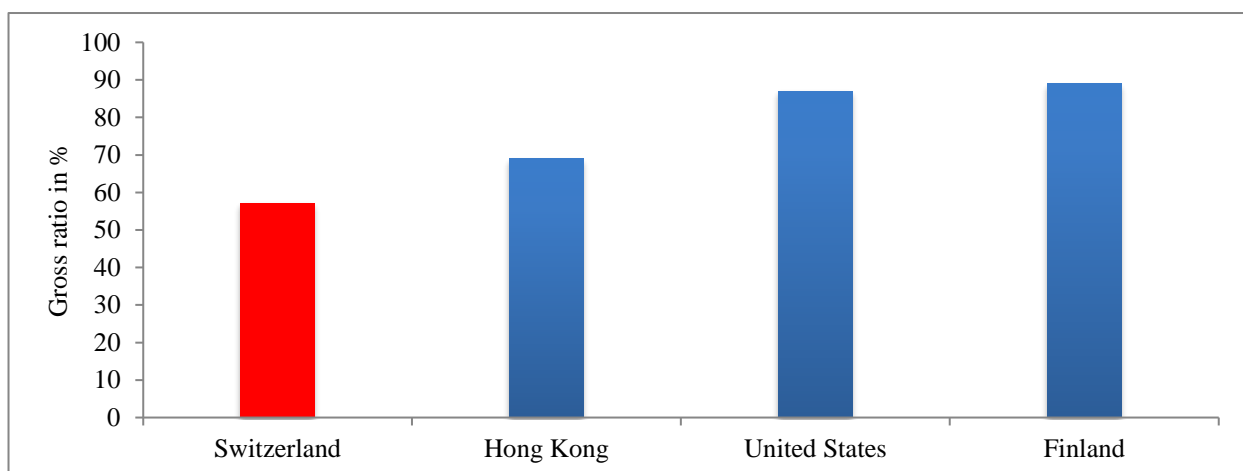


Source: *Real estate price indices*, n.d.

A performance overview of other developed countries show that United States accounted 89% of adults aged 26-64 who have completed the upper secondary education, the same is true for Canada, while Finland accounted to 85%, United Kingdom 78%, and the same number was reached by Denmark (OECD, 2015b).

Figure 21 shows that Switzerland is not ranked on the very top in terms of tertiary enrollment rate. In other great FDI recipients, such as Finland, the US and Hong Kong, there is a higher rate of people who study at the universities. However, in Switzerland the share of people, who obtained a tertiary diploma and who now work in the field of Economics or Technology, is notably higher than in other countries (Arvanitis, Hollenstein, & Marmet, 2005).

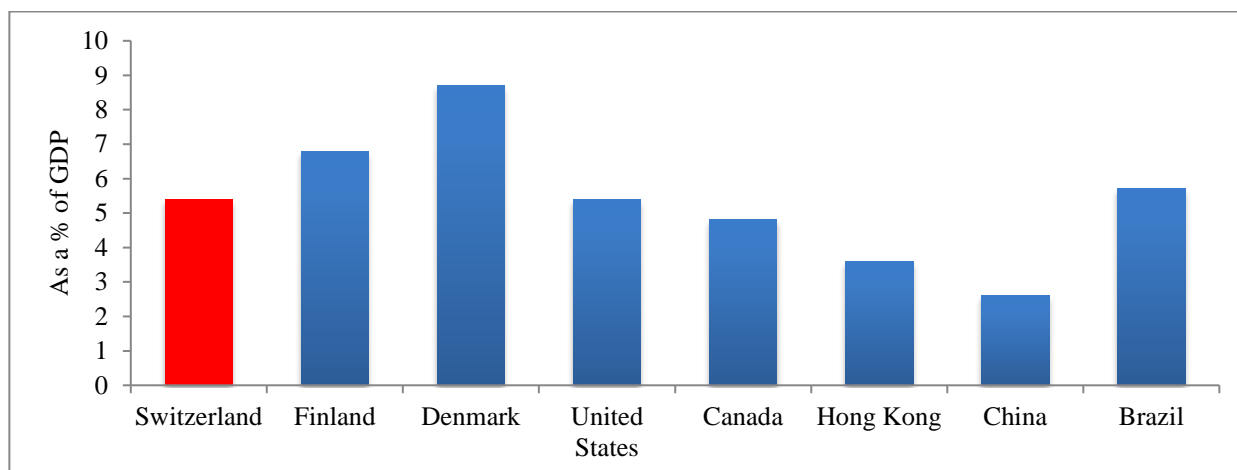
Figure 21. Tertiary Enrollment in the Selected Countries in 2015 (in %)



Source: *Gross enrollment ratio, tertiary, both sexes (%)*, n.d.

According to the total public expenditure statistics 2012 (Figure 22), Switzerland is not performing badly but is also not on the top. With its 5.4% of GDP, it is outperformed by many developed countries, such as Denmark (8.7%), Finland (6.8%) and even Brazil (5.7%) (Figure 22).

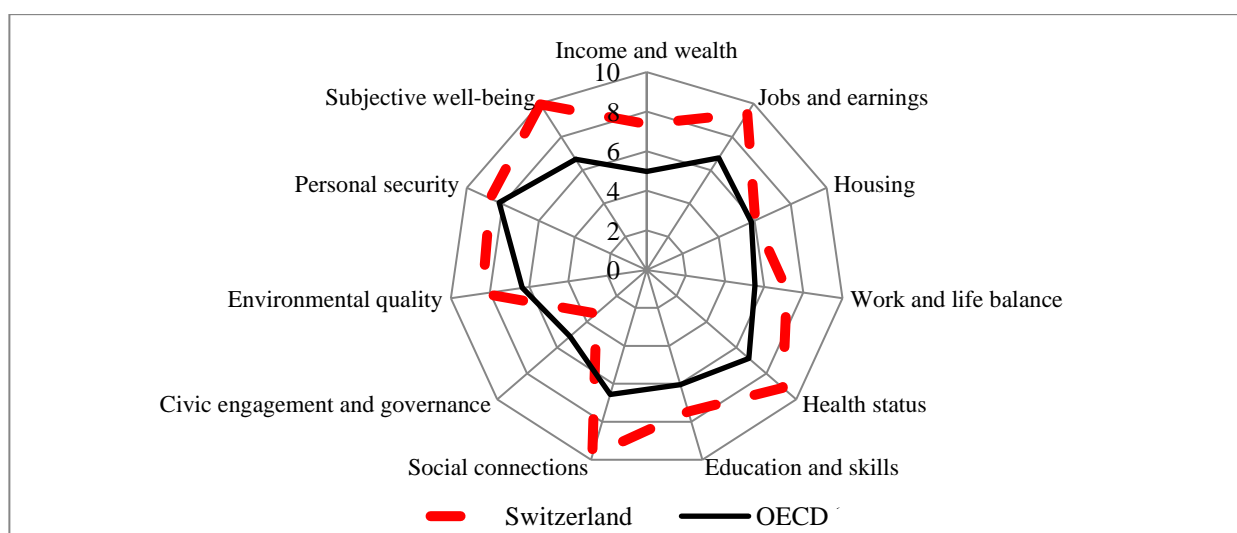
Figure 22. Total Public Expenditure on Education as a % of GDP in 2012



Source: *Expenditure on education, public (% of GDP)*, n.d.

Worldwide, Switzerland is known for its high quality of living, thanks to its high amount of jobs and earnings, a good health status, a nation with many social connections, environmental quality, personal security and a subjective well-being (see Figure 23).

Figure 23. Better Life Index in Switzerland and the OECD Countries in 2015



Source: *Better life index*, n.d.

Some of the OECD countries are outperforming Switzerland in Civic engagement and governance, since there are a disproportionately large number of national polls, which come with a relatively low average turnout. In terms of education and skills and housing, Switzerland has the potential to improve (OECD, 2015b).

After assessing the sociological and cultural risk, it becomes clear that the Swiss nation has a high-standard of living but lacks in gender equity, shows a slow productivity growth, has high labor costs, low tertiary enrollment rates and jumpy prices of commercial spaces. Most importantly, the risk may be hidden in outcomes of the public referendums, such as the aforementioned initiative against mass immigration. The overall risk can be determined as medium.

2.3.4 Technological Environment

Multinational firms are willing to operate in a highly innovative environment to be able to work closely with research institutes and to enjoy a first-class infrastructure. An assessment of the Swiss technological environment will indicate if the country offers an appealing technological playground for FDI investors.

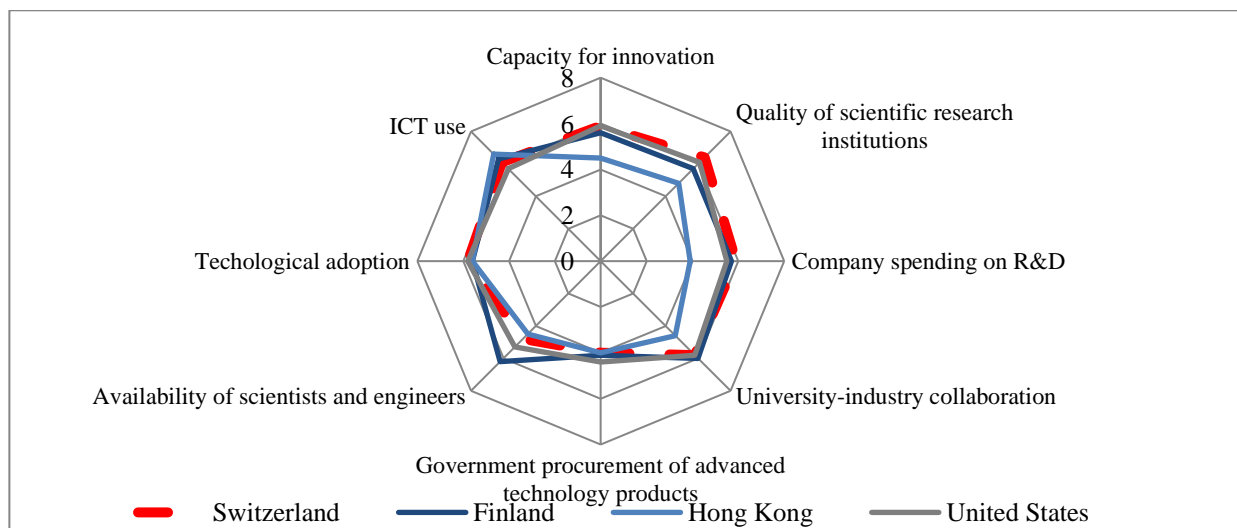
Regarding the high technology, Switzerland is among the very top. It shows a very strong performance in science, technology and innovation. Government spends nearly 3% of GDP on research and development (OECD, 2015b). The percentage of corporate revenues spent on research and development is higher than in most competitor economies, and Switzerland is the sixth-biggest spender on R&D as a percentage of GDP (KPMG, 2014). In 2014, there were 52,000 people employed in research activities, and 33,000 of those in private industry. In the same year, Switzerland has earmarked 13.1 BN CHF for research, of which 70% of the invested money came from the private sector. Most of the expenditures for R&D had the pharmaceutical industry, which amounted to 3.6 BN Swiss francs in 2014. In regard of high technology exports, there were 27% of manufactured exports made in 2013 (WB, 2015).

Switzerland has the highest number of patents per head of population. In 2014, there were 847,6 new patents filed per one million inhabitants, which was awarded by the European Patent Office (2015) with putting Switzerland first on the patent ranking, right before Finland (416.2 patents) and the Netherlands (405.5). Most of the patents in Switzerland belong to ABB, Nestlé, Roche and Novartis. What is more, the country has won more Nobel Prizes per capita than any other country (KPMG, 2014).

Figure 24 shows how successful Switzerland is in regard of science and innovation. In comparison to the world-average, it is especially strong in triadic patents and scientific articles per million population and patents with foreign co-inventors. There is improvement needed in regard of the number of researchers per thousand employers since the world-average is moderately higher (OECD, 2010). This is due to the fact, that the country attracts many foreign

students, evidenced in numbers; 40% of doctoral students are foreigners. But overall, Switzerland is outperforming most of the countries as far as science and innovation is concerned, and therefore raises the appetite of foreign investors.

Figure 24. Science and Innovation Profile for Selected Countries in 2015



Source: WEF, *Global Competitiveness Report 2015-2016*, 2015, pp. 92-373.

The Global Innovation Index measures the innovation efficiency of 141 economies. A view of the ranking in 2016 reveals that Switzerland was ranked first, followed by Sweden and the United Kingdom. In the previous two years, Switzerland always made it to the top of the ranking (INSEAD, 2016).

Annual assessment of the factors driving productivity and prosperity in 140 economies is captured in the Global Competitiveness Report. Switzerland topped the Global Competitiveness Index again in years 2014-2015 (WEF, 2014). With its first place for six years in a row now, it is a top innovator. The top-notch academic institutions (the 1st), high spending on R&D (the 1st), and strong cooperation between the academic world and the private sector (the 3rd) are the factors, which contributed the most to this success. What is more, its labor market is highly efficient (the 1st), with high levels of collaboration between labor and employers (the 1st), the Swiss public institutions are among the most effective and transparent in the world (the 6th), Switzerland's infrastructure and connectivity are excellent (the 6th) and the financial markets are highly developed (the 10th). But most importantly, the Swiss macroeconomic environment is one of the most stable worldwide (the 6th) (WEF, 2014).

With attractive technological facts, such as being the country with the most patents per head, Switzerland is gaining attention among the FDI investors. Employing highly innovative workers can be a significant advantage to the multinational firms in a host country. Furthermore, due to its international reputation as a competitive location for research and economic activities, and its

strong international links in research and innovation, Switzerland has a very attractive technological environment in the eyes of a foreign investor.

In spite of the fact that the country has a relative low number of available scientists and engineers, the technology risk in Switzerland is very low.

To attract more FDI, it is important to improve the overall business environment to reduce any risk. After a brief examination of the economic, political, socio-cultural and technological factors of the Swiss market, it is time to illustrate the advantages and disadvantages of its business environment.

2.3.5 Advantages and Disadvantages of the Swiss Business Environment

Each business environment has its advantages and disadvantages in terms of investment. Switzerland is one of the countries with an overall positive business climate (see Table 4).

The Alpine country is strategically positioned since it is located in the heart of Europe. It is an open gateway for European, Asian, African and Middle-Eastern markets. It is accessible to over 30 countries by car.

The small country is known for its economic stability. Due to its neutral status, it retained its economic soundness over the last decades. With its positive macroeconomic results, such as the low inflation and unemployment rate, its high GDP growth rate and a strong currency, it is an attractive investment location.

Political stability is also one of the advantages of the Swiss business environment. Its residents, for example, have not been exposed to a long-lasting war since 1515.

Moving within Switzerland from one business office to another can be pretty easy, thanks to its world-class infrastructure. In 2014, Zurich Airport was awarded with the World Travel Award due to excellent quality standards and customer friendliness and was therefore entitled as the Europe's leading airport (Schneider, 2014). As Switzerland's expenditures on public transport infrastructure are high, its citizens travel more kilometers in trains than any other nation. The country's efficient transport system offers travelling by airplane, buses, trains, trams and boats to its inhabitants. Loree and Guisinger (1995) stress out that the transportation infrastructure has a positive influence on inwards FDI flows.

The Alpine country is attractive to investors due to its highly skilled and well-educated workforce. The children can attend world-renowned high-schools, universities and technical institutes. Due to Switzerland's reputation of being a country with a high living standard, many foreigners are moving to Switzerland. Over the years, Switzerland became a multilingual nation.

The literacy rate is higher than ever before, amounting to 99%. What is more, its labor is also known for being reliable and relatively flexible.

Table 4. Advantages and Disadvantages of the Swiss Business Environment

Advantages	Disadvantages
<ul style="list-style-type: none"> - strategic location, - flexible labor market, - highly-skilled workforce, - quality of education system, - first-class infrastructure, - political and economic stability, - international integration, - financial support, - strong financial center, - globalized banking system, - competitive tax system and tax incentives, - high expenditure into R&D, - excellent protection of intellectual property, - strong technology center, - high quality of life, - business-friendly legal and regulatory environment, - high reputation, - professional support in start-ups, - world-leading clusters, - a solid currency, - purchasing power. 	<ul style="list-style-type: none"> - high competition in the Swiss market, - high costs: rental costs, real estates, labor, transport etc., - strict quality regulations, - unique Swiss requirements and standards, - low tertiary education enrolment rates, - weak labor productivity growth, - small market size, - cumbersome bureaucracy, - fairly low protection of investors, - longer time needed to start a business, - buyers are price insensitive, but sensitive to the quality, - distrust of foreign investors, - changes of demographic profile, - instability of the Swiss franc, - vulnerable to falling demand in the EU and - a slight gender inequality.

Switzerland is one of the most advanced countries in R&D. It has the highest per capita IT spending in the world (OECD, 2015b). Among investors, it is known as a good testing ground for the introduction of new high technology. Especially the proximity to research institutions makes the investment into the Swiss market a smart decision.

Most importantly, it offers a business-friendly legal and regulatory environment. Its secure legal system for high quality products and services makes it the location of choice for many investors. However, there are some disadvantages every investor should be keen of. A deeper examination of the Swiss investment climate has shown that investors may be discouraged by high rental and real estate costs. From 2006 to 2015 the prices of commercial space (office, business and retail space) rose by 36.2, 9.8 respectively 22.9 index points (SNB, 2015).

Investors are also concerned about the stability of the Swiss franc due to its recent appreciation. One of the weak points in the investor's eyes is the fact that Switzerland is a very competitive market. It is basically the epicenter of European and global competition. Shatz and Venables (2000) find that the market size is a very important determinant whether a multinational company invests into a market or not. Well, the Swiss market is very small.

Swiss market deals with very high labor cost. The Swiss average wage is among developed countries one of the highest. In 2013, for example, it accounted to 6160 CHF/month (Trading Economics, 2015). According to Janicky and Wunnava (2004), the labor costs are a key determinant for FDI inflows in Central and Eastern European countries.

Another factor that makes it difficult for foreign investors in the Swiss market is consumer preference for high quality products and innovative ideas. Furthermore, the business environment can be unattractive due to strict and unique Swiss requirement and standards. Switzerland has one of the most competitive markets because it has diversified into niche products and services that face less global competition.

2.4 FDI Policy in Switzerland and Its Incentives

The following laws govern the foreign investment in Switzerland: The Code of Obligations, the Lex Friendrich/Koller, the Securities Law and the Cartel Law. Foreign companies can enjoy FDI incentives at all levels – federal, regional and cantonal (Switzerland Global Enterprise, 2016).

The government encourages new business and foreign direct investment and does not impose any constraints. The federal government allows all 26 cantons to self-determine their policies for attracting foreign direct investment. R. James Breiding said in an interview with KPMG (2014) that Swiss managed to minimize the involvement of the government in the economy. Therefore, the Swiss success relies on strong industry and weak government. In general, the government has no real control of foreign investment, except telecommunication services, banking and insurance. In the last two it is required to obtain government authorization. The Government encourages investment in infrastructure for the areas such as tourism, telecommunications and education. It is possible to receive a subsidized loan and even up to 25% of all costs (KPMG, 2014).

In 2010, a federal strategy for the internationalization of education, research and innovation was adopted. A high amount of 31.9 MM USD was earmarked by the federal government to assure that Switzerland can participate in the EU Science and Technology program in 2013-2016 (OECD, 2014).

The Swiss government has set three priorities for the next years: first, to improve access to external markets and help to ensure the introduction of a coherent and observed set of international rules; second, to improve Switzerland's competitiveness by making its domestic

market more competitive; and third, to integrate the largest possible number of countries into the global economy by assisting the economic development of partner countries (WTO, 2016).

The innovation promotion agency, called CTI, operates on the federal level in Switzerland. Its goal is to foster knowledge and technology between businesses and universities in applied research and development projects (Switzerland Global Enterprise, 2016). Its activities are as follows:

- Market-oriented R&D projects carried out by companies and universities for developing products and services,
- The formation and development of science-based companies,
- Knowledge and technology transfer through platforms and networks.

In Switzerland, most cantons have their own economic development agencies. The cantons are allowed to offer various tax incentives, some of which even waive taxes for new businesses for a period of ten years. Besides, the agencies organize support for investors through regional offices and municipalities (Switzerland Global Enterprise, 2016).

What is more, at the cantonal level, it is possible to obtain subsidies for rent, waive the requirement of obtaining work permits and cheap energy (Switzerland Global Enterprise, 2016). Other forms of economic incentives vary from canton to canton and are a matter of cantons' economic interests (Switzerland Global Enterprise, 2016).

Table 5. Examples of Cantonal Incentives

Area of Assistance	Type of Assistance
Investment financing	<ul style="list-style-type: none"> - Granting or arranging bank loan guarantees, - Interest subsidies or assumption of interest costs, - Interest-free or subsidized-interest cantonal loans, - One-off contributions (non-repayable).
Procurement of land and premises	<ul style="list-style-type: none"> - Arranging for purchase or lease of business premises and land, - Cost contributions for planning and/or developing industrial sites, - Cost contributions for conversion of plant buildings,
Personnel	<ul style="list-style-type: none"> - Contributions to initial training or retraining costs.
Taxes	<ul style="list-style-type: none"> - Tax relief for start-up and development phase and for restructuring projects.

Source: Switzerland Global Enterprise, *Handbook for Investors, Switzerland as a Business Location*, 2016, pp. 152-155.

Switzerland, as an attractive business location, offers numerous technology parks, business incubators or start-up centers. While some work closely with universities and research institutions, others follow their own initiatives. Differing in their structures and goals, they all offer premises for the start-up companies. New businesses can profit from the shared

infrastructure, professional support and networking activities (Switzerland Global Enterprise, 2016).

While the UNCTAD definition of FDI incentives (as stated above) is outlined in a positive way, some critics articulate incentives also as “incentives, which reflect the coordination failure among governments and are, like most subsidies, a source of inefficiency” (Dadush, 2013, p. 1). As the majority of Swiss cantons resorted to offer cantonal incentives, the efficiency of these measures is being questioned and analyzed in the next chapter too.

So far, the master’s thesis presented the status of the Swiss economy, outlined the general FDI situation and examined the FDI supportive systems. In the next section, the focus will be on one industry only – the tourism industry and there will be an evaluation of its FDI potential.

3 TOURISM IN SWITZERLAND

Tourism as an economic activity needs capital, knowledge, infrastructure, access to global marketing and its distribution chains. Often FDI is seen as an important engine for further development of tourism activities (UNCTAD, 2007a). In this section it will be crucial to examine if the tourism characteristics of Switzerland are favorable to FDI.

3.1 General Characteristics

In Switzerland, an industry on the rise is the travel and tourism industry. This is also confirmed by the statistics – the industry directly contributed 9.1 % of the overall GDP in 2016 and is forecasted to rise by 3.4 % in 2017. In 2027, it is believed to be at 10.1% (WTTC, 2017). The main contributor to the growth is projected to be the investment into tourism infrastructure, higher demand of tourism services by locals and the digitalism of services (Swiss Confederation, 2016b). In 2016, the Travel and Tourism industry generated 598,000 jobs in total and is also expected to rise by 2.7% until 2027 (WTTC, 2017). The result placed Switzerland in the 56th rank globally, with a world average of 2.5%. Investment in Travel and Tourism in 2015 was 2.3%, which is below the world average (4.3%) and puts Switzerland in the 163th rank. In 2015, Switzerland was placed the 6th according to the Travel & Tourism Competitiveness Index (WEF, 2015). The country was praised for its world-class infrastructure, excellent staff (Switzerland has world’s best hotel management schools), stringent environmental regulation, safety and its rich natural resources. Nevertheless, the country did not get good marks on price competitiveness and its restrained international visa policy (WEF, 2015).

Going forward with the STF statistics in 2014, Switzerland recorded 35.6 MM overnight stays in total, of which foreigners accounted 44.6% of stays and Swiss people 55.4%. In comparison to 2007, the number of overnight stays is significantly lower (-0.8 MM), mainly due to the bad price-performance ratio of tourism services.

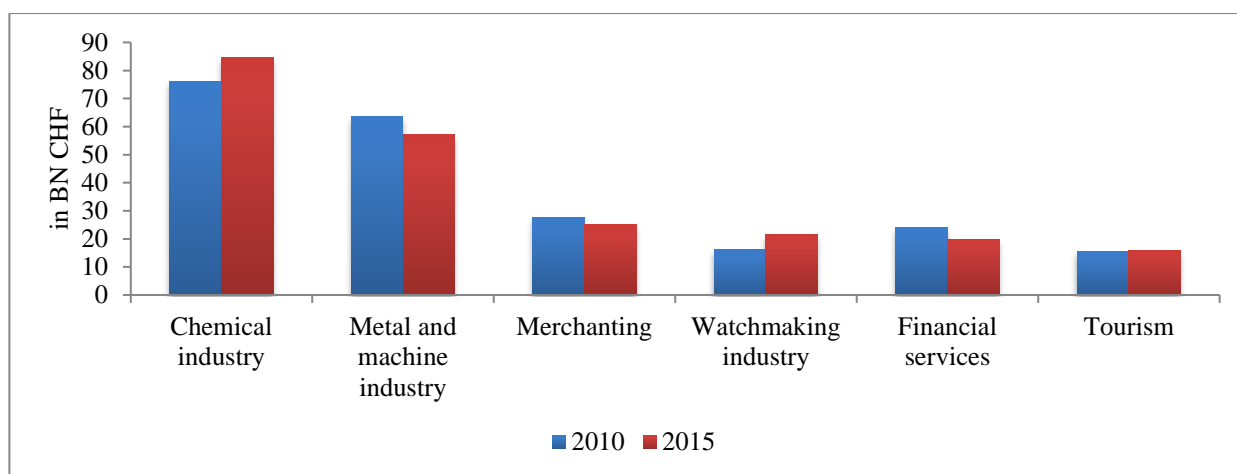
According to the Travel and Tourism Competitiveness Ranking Index 2015 (WEF, 2015), Switzerland took the 6th place, just after Spain, France, Germany, the United States and the United Kingdom. The high rank is due to its world-class infrastructure, well-developed and supportive business environment, geographical position and its effective environmental regulations. For example, Swissair and the Swisshotel Holding AG belong to the main travel and tourism companies.

When looking at the statistics of the most popular tourism destination in 2015, based on UNWTO (2016), Switzerland was ranked the 33rd with its 9.3 MM of international arrivals. France (84 MM international arrivals), the United States (77.5 MM) and Spain (68.2 MM) were at the top of the ranking.

The Alpine country obtained a much better ranking in terms of international tourism receipts (the 18th with its 16.2 BN USD in 2015). The United States (204.5 BN USD), China (114.1 BN USD) and Spain (56.6 BN USD) were the leaders of this ranking (UNWTO, 2016).

Domestic and international tourism is very important for the Swiss economy. In 2015, approximately 15.7 BN CHF of Switzerland's export revenue came from the tourism industry (see Figure 25).

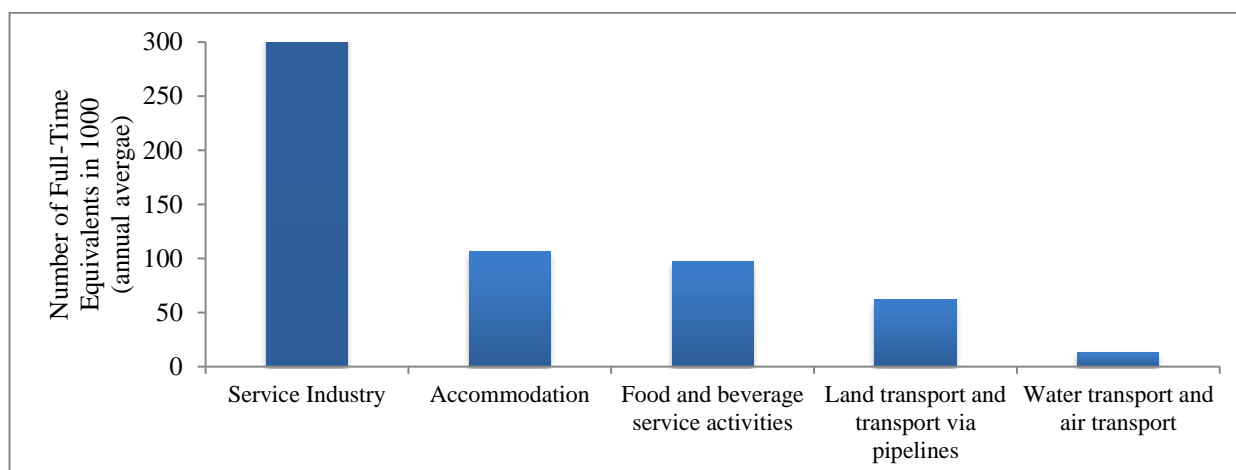
Figure 25. Export Revenue in Switzerland in Selected Industries in 2010 and 2015 (in BN CHF)



Source: STF, *Swiss Tourism in Figures 2010*, 2011, p. 6; STF, *Swiss Tourism in Figures 2015*, 2016, p. 8.

According to Figure 26, in 2014, the majority of full-time jobs in the tourism sector have been registered in the service industry (2.6 MM), followed by food and beverage services (0.1 MM) and the land transport via pipelines (0.01 MM).

Figure 26. Full-Time Equivalents According to Economic Sectors in Switzerland in 2014 (in 1000)

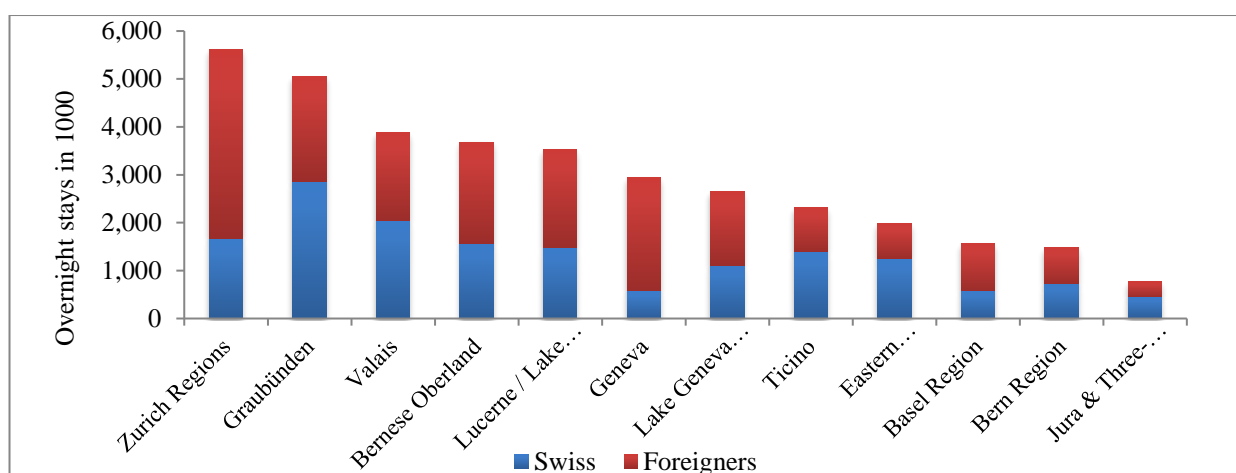


Source: STF, *Swiss Tourism in Figures 2014, 2015*, p. 12.

In 2015, the Swiss hotel industry recorded 0.8% less overnight stays than in the previous year (35.9 MM in 2014). The breakdown of guests by country of residence shows that those from Europe (Germany (3.9 MM) and the United Kingdom (1.6 MM)) registered most of the overnight stays. From America, the guests from the United States (1.7 MM) registered most of the overnight stays, while in Asia the guests were mostly from China incl. Hong Kong (1.5 MM) and the Gulf States (0.9 MM) (STF, 2016).

The Zurich Region with its 5.6 MM Swiss and foreign tourists overnight stays, Graubünden (5.1 MM), Valais (3.9 MM), Bernese Oberland (3.7 MM) and Lucerne with Lake Lucerne (3.5 MM) belong to the main tourist regions in Switzerland (see Figure 27).

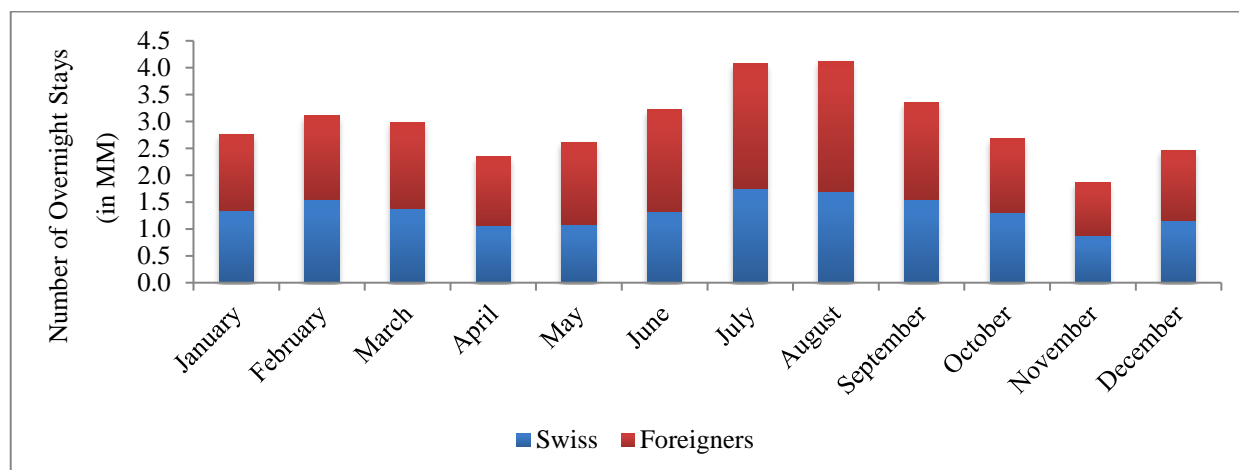
Figure 27. Tourist Regions in Switzerland in 2014 (in 1000)



Source: STF, *Swiss Tourism in Figures 2014, 2015*, p. 20.

Usually, summer is the busiest season, while April and November are the least travelled months. This is confirmed by the statistics. For example, in August 2015, there were 4.1 MM overnight stays (foreigners generated 58.8% and the Swiss 41.2% of total stays), while in April and November 2015 there were “only” 2.3 MM and 1.9 MM stays recorded (see Figure 28).

Figure 28. Overnight Stays per Month in Switzerland in 2015 (in MM)



Source: STF, *Swiss Tourism in Figures 2015, 2016*, p. 17.

According to STF (2015), 74.1% of total passengers were carried by the private road transportation system, followed by public transportation railways system (14.2%), public transportation road system (11.1%) and ship and air travel (0.6% in 2012). In Switzerland, the most important airport is Zurich Kloten Airport. Of all 460,978 flights in 2015, 50.1% flight movements were recorded from the Zurich Airport, followed by Geneve Cointrin Airport (31.8%) and Basel Mulhouse Airport (14.1%). Overall, all of the Swiss airports registered 49.5 MM passengers (STF, 2015). The railroad network of Switzerland consists of 2,102 kilometers of roads and 3,033 kilometers of railways. There are 118 transport companies, offering transportation with trams, trolley buses and normal buses (20,389 kilometer-long network). In 2015, Swiss Federal Railways carried 442 million passengers, with an average journey distance per passenger mounted to 41 kilometers. Beside the Swiss Federal Railways, another 39 railway companies operate in the public transport (STF, 2015).

The overview of the tourism statistics has shown that that the GDP contribution of the tourism industry as well as the job generation is growing and is forecasted to increase in the future. Nonetheless, a potential foreign investor should be also aware that the growth is not as fast as this is the case in some other countries worldwide. The fact that Switzerland is only the 33rd travel destination is also something that needs to be taken in account when thinking of investing in the Swiss tourism industry.

The given data also show that the majority of the overnight stays are registered by Swiss people and not as expected by foreigners. This means that it is crucial to continuously promote the

tourism activities to Swiss people. The hotel industry registered a small but positive growth of overnight stays in 2014 – a fact, which makes this industry interesting for a potential investment. As stated, the most favorable tourist destinations in Switzerland are the Zurich Region, Graubünden and Valais: potential foreign investors should look into those areas first. The infrastructure quality is always important when choosing a potential FDI destination. So, it is to an advantage of Switzerland that they own an efficient transportation network with numerous transport companies and a wealth of roads and railway tracks.

3.2 Regional Characteristics

The Zurich Tourist Region represents all of the cantons of Zurich, Zug, Aargau, parts of the districts of Baden, district of Höfe, cantons of St. Gallen, Schwyz and Schaffhausen and parts of the See-Gaster district. With its biggest and thus the most important airport in the country – the Zurich Kloten Airport, the Zurich Region is one of the most popular areas among tourists (5,6 million foreign and Swiss overnight stays per year) (STF, 2016). The center of the tourist region is the Zurich city, being worldwide known for its world-class infrastructure and its great array of cultural experiences. The city offers over 50 museums and more than 100 galleries, many shops with international labels and a vibrant nightlife (Tourism in Zurich, 2016). What is more, the city has a wide variety of accommodation, with around 250 hotels and 15,000 rooms (Tourism in Zurich, 2016). Aside of the Geneva, Zurich is also known as a business location since it is home to many multinationals, operating in the field of financial and insurance services. With its central location, Zurich is ideal for hosting business meeting, seminars and congresses (Tourism in Zurich, 2016). The fact that Zurich region offers many tourist and business activities and, as learned, is the area with the most overnight stays, makes it an attractive destination for FDI – especially for investments in the hotel industry.

Graubünden is a land of 150 valleys, 615 lakes and glaciers with its countless Alpine peaks and beautiful villages (Graubünden, 2016). With several hiking trails, mountain bike routes, cycling paths and ski slopes, the Canton of Graubünden offers foreigners and Swiss people a great outdoor adventure (Graubünden, 2016). In 2014, Graubünden recorded 5.1 MM overnight stays, which makes the region the second most visited tourist region in Switzerland (STF, 2015). Interestingly, Swiss visitors represent the greater share of tourists in comparison to foreign tourists, and this is as much as 56.8% of Swiss overnight stays (SNB, 2015). The main tourist spot in Graubünden is St. Moritz, known for its sophisticated hotels and its annual hosting of the Swiss Ski World cup race. This is definitely a region, which needs to be taken into account when looking for a FDI destination in the tourism industry.

In the Southern part of Switzerland, there is the 3rd most economically important tourist region in Switzerland called Valais. With its 45 mighty peaks, all over 4000 meters, Valais makes it a perfect setting for outdoor enthusiasts (Valais, 2016). The region with more than 300 days of sunshine a year hosts approximately 2,400 kilometers of ski slopes and many cross-country trails (Valais, 2016). In summer, visitors can enjoy more than 8,000 kilometers of marked hiking trails

and admire the mystical Alpine lakes and beautiful mountains. In 2014, Valais registered about 3.9 MM overnight stays, of which Swiss people generated as much as 52.7%. Along with Graubünden, Eastern Switzerland, Ticino, Jura & Three-Lakes and Fribourg, Valais is one of the regions where Swiss visitors present the majority of overnight tourists. These attributes are the reason why Valais is on the top list for FDI among potential investors.

Each January, Bernese Oberland hosts the Ski World Cup at Switzerland's third largest skiing area - Adelboden. Apart from the ski slopes, the region offers more than 350 kilometers of cross-country trails, 200 kilometers of winter hiking and snowshoe trails (Bernese Oberland, 2016). One of the Europe's highest railway stations is found at the majestic mountain called Jungfrauoch (3,454 meters above sea level) (Bernese Oberland, 2016). Furthermore, the Bernese Oberland is a land of 800 lakes, with its most popular crystal-clear lakes such as the Lake Thun or Lake Brienz. One of the highlights in this tourist region is definitely the spectacular suspension bridge, connecting two peaks on the Glacier. In 2014, the Bernese Oberland registered app. 3.7 MM overnight stays, of which foreigners generated for about 57.6 % (STF, 2015). With the great offer of outdoor activities and therefore region's high number of visitors each year, it makes a destination worth examining for its FDI potential.

Given these prospects, it seems that investing in the Swiss tourism industry is a good idea. But in order to check if this is really true, it is important to collect as many facts as possible. Further important facts and factors are presented in the next section.

3.3 Swiss Tourism Policy, Tourism Development Incentives and the Challenges of the Tourism Industry Development

In Switzerland, the Federal Council sets out the framework for tourism policy, which creates better conditions for the industry. For improvement matters, the policy is operating with 4 tools (Swiss Confederation, 2016a):

- pursue strategic issue management – this serves to identify key issues in the industry,
- improve interdisciplinary tasks – looking for synergies with other relevant policy areas,
- increase the attraction of the tourism offering – promoting Switzerland by creating attractive offers and
- strengthen Switzerland's presence as a tourism country – working on a coherent market presence by funding the Switzerland Tourism

The federal tourism policy with its instruments and players is an important subsidiary to the canton's work, its authorities and tourism related industries (Switzerland Confederation, 2016a). The Council is working closely with cantons and the tourist associations such as the Schweiz-Tourismus-Verband, hôtellerie suisse, GastroSuisse and Seilbahnen Schweiz. The federal government's center called SECO sets out a tourism growth strategy every 4 years. Their last

implementation strategy 2012-2015 was seen as a huge success, so now it is in hope to also achieve the goals in the program of 2016-2019 (Swiss Confederation, 2016b):

- Modernization of the accommodation industry,
- Reinforcement of quality and product development,
- Optimizing structures and strengthening cooperation,
- Gaining knowledge building and diffusion.

In order to reach these goals, a total of 210 MM CHF is available for this program (Swiss Confederation, 2016b). A significant role in this incentive has the so called Innotour program (with a budget of 30 MM CHF). This is a new legislative and financial instrument, created by the Swiss federal government in order to revitalize the Swiss tourism. The goal of it is to foster innovation and cooperation in tourism by modernizing the tourism structure and reducing bureaucracy (OECD, 2000). Herewith, the state is willing to offer financial support to players with innovative projects but it also expects contribution to a sustainable environment, job creation etc. in return.

Taking the growth strategy in tourism and the efforts of the state to offer attractive incentives into consideration, one might question why this is so crucial for a country. Tourism can, for instance, generate new employment opportunities, increase people's income, improve their living standards and spur the infrastructure development and tourism facilities. One of the positive spillovers is also the transfer of managerial skills (UNCTAD, 2010b). Nonetheless, as many other industries, tourism can have some negative impacts too. One of its effects might be an increase of housing and land prices as well as prices of food and services. It can also worsen the pollution and traffic and in fact, cause the market dominance of transnational corporations. A country can lose control over tourism development, which can lead to inappropriate form and scale of country's development (see Table 6).

Table 6. Possible Impacts of Tourism

Positive	Negative
<ul style="list-style-type: none"> - Improved standard of living, - Employment opportunities, - Improved infrastructure and tourism facilities, - Increased tax revenues, - Strengthened awareness and more resources for natural and cultural heritage, - Provision of capital, - Transfer of expertise and managerial skills, - Market connections, - Demonstration effect for local entrepreneurs. 	<ul style="list-style-type: none"> - Overdependence on tourism, - Increased costs for land, housing, food and services, - Pollution and traffic; congestion, - Tourism market dominated by TNCs, - Adverse impacts on cultural and natural heritage, - Sensitivity to business cycles or sudden changes in sentiment, - Little control over development of tourism.

Source: UNCTAD, *Promoting Foreign Investment in Tourism*, 2010b, p. 8, table 1.

With the assumption that the tourism industry has still more positive effects on economy than negative, it is interesting to find out, if Switzerland is trying to boost its economy also with attracting FDI in the tourism industry.

There is not much statistical information available. However, there are some online articles outlining the examples of FDI in the Swiss tourism industry. According to Schlittler (2013), FDI in tourism is happening mainly in the hotel industry – especially in the luxury league. As read, it got harder for Swiss families to keep the luxury hotels in hands due to investment-pressure from abroad and a strong Swiss franc. In fact, foreign investors already own 40 percent of all 90 five-star hotels in Switzerland. Many investors come from Germany, France, Austria, Israel, Egypt, Qatar, Thailand or the USA (Keller, 2012). While many five-star hotels are owned by investors from the Middle-East, many three-star hotels are being in Chinese hands. For example, the Grandhotel Belvédère in Davos is in hands of an Egyptian investor. Grandhotel Kronenhof in Pontresina is a Greek investment while the Hotel Eden Roc in Ascona is owned by a German investor. The investor of the Schweizerhof hotel in Berne comes from Qatar. The German investor Mr. Karl-Heinz Kipp built one of the most spectacular spas in Switzerland – a part of the Hotel Tschuggen in Arosa. The investor Mr. Daniel Borer amazed the hotel industry by building an impressive design hotel called Giardino Mountain in Engadine. Mr. Urs Schwarzenbach invested 0.5 BN CHF into the Hotel Dolder Grand, which is known for its spectacular location and offers one of the best views of Zurich (Keller, 2012). These were only a few examples of FDI in the Swiss tourism industry. UNCTAD (2010a) once stated that foreign investments diversify the supply of the tourism products and ameliorate the local service standard.

For many years, Switzerland was one of the overhyped tourist destinations, which wowed foreign visitors with its stunning mountainous areas, where quality of tourist services was one of the highest worldwide. The ski-resorts in Switzerland were once considered to be among the best in the world. Nowadays, they do not belong to the top ski resorts among ski enthusiasts. The infrastructure on the slopes is not the best out there and the hostels and hotels do not belong in the modern section. One of the main problems, which deprive the Swiss tourism actors' sleep during nights, is the price-performance ratio (Mehnert, 2015). In the past, Swiss people argued that their high prices represent high-quality products and services. Now, they cannot give this argument anymore. This crisis can be partly seen in the statistical data. The number of overnight stays dropped from 36.4 MM in 2007 to 35.9 MM in 2014 (STF, 2007; STF, 2014). The challenge of the Swiss tourism industry in the next year will be to work on their global competitiveness, offering tourists a modern accommodation, an updated infrastructure and a value-for-the-money-experience.

Despite the fact that the Swiss tourism industry is facing some challenges, one gets the impression that the state is working hard to improve the growth of the tourism industry. It seems there is some great FDI potential in the country – not only due to the pleasant business environment but also because the country is offering many FDI incentives on all levels (on a

national, regional and cantonal level), as outlined in the Chapter 3. These incentives are to be found in almost every industry, and, of course, also in the Swiss tourism industry. Nationally and regionally the incentives come in the form of tax holidays or reduced tax rates; subsidies on interest of bank loans are also available as well as loan guarantees. While there are many articles out there about the national and regional FDI incentives, there is a lack of information in terms of cantonal FDI support. There are apparently some organizations available to the potential foreign investor, which can help out in financial matters. These are, for example, Switzerland Global Enterprise (hereinafter: SGE), Swiss Funds Association and Swiss Bankers Association (Swiss-American Chamber of Commerce & The Boston Consulting Group, 2017).

However, there are so-called economic development agencies, established in each Swiss canton, with the mission to support foreign investors on a cantonal level. How such support by the economic development agencies in the most visited tourism regions in Switzerland looks like, will be presented in the next chapter.

4 CASE STUDY ANALYSIS

In the research section of this master's thesis, I analyzed the role of the economic development agencies in terms of foreign direct investment incentives in the tourism industry. I attempted to get the information what kind of cantonal incentives economic development agencies offer to potential foreign investors in the tourism industry and if they are also considered to be efficient. The research was conducted in September 2016 by interviewing representatives of three cantonal economic development agencies in the field of tourism investment.

The empirical research includes interviews of three cantonal economic development agencies which operate in the following Swiss tourism regions: Graubünden (Eng. Grisons), Schwyz and Berne. These cantons were chosen due to three significant facts. Firstly, these are the tourist regions with the highest number of overnight stays in Switzerland (The canton Schwyz is included in the Zurich region when looking at tourist regions). Secondly, it is officially known that there exist foreign investments in the hotel industry. Thirdly, these were rare economic development agencies that could provide some answers to my interview questions.

The research had the following goal(s):

- To understand what is the role of the cantonal economic development agencies in terms of FDI in Switzerland,
- To obtain information on how cantonal economic development agencies support potential foreign investors in the tourism industry in Switzerland,
- To find out if the cantonal incentives, provided by these cantonal economic development agencies, are efficient in attracting foreign investors.

As stated above, one of the goals of conducting these interviews was to find out what is the exact role of the cantonal economic development agencies when examining the FDI support environment in Switzerland. This would answer the question if these agencies were of a significant meaning for a potential investor who needs support in the Swiss business environment. Furthermore, it needed to be clarified who is agencies' exact target audience, how these institutions promote themselves and even how their internal organization is. What is more, to get the full picture of those institutions, it was important to find out if these agencies collaborate with other authorities in order to provide the best possible support.

Probably the most important goal was to obtain information on how cantonal economic development agencies effectively support potential foreign investors in the Swiss tourism industry. Firstly, it was key to get the information on available FDI incentives – more in a way in what kind of form they are offered and if there is any process behind. To understand this topic even better, it was crucial to get an overview of all the investment phases, in which an agency can help a client.

Last but not least, the goal was to find out if the cantonal incentives, provided by the economic development agencies, are perceived to be efficient in attracting foreign investors. Herewith, it was of interest to know what incentives are the most important ones in an eye of a potential investor, and, literally, also why do some of the clients despite all of the support still decide against investing in the Swiss tourism industry.

4.1 Methodology

In terms of research methodology, I decided to choose the qualitative research. The latter was conducted in the form of an in-depth interview, which enabled me to dive deeper into the research problem. In fact, the advantage of the qualitative research is that issues and subjects can be evaluated in depth and detail and the interviews are usually not restricted to specific questions. They can be guided resp. redirected by the researcher in real time (Anderson, 2010).

I chose to conduct an individual, semi-structured in-depth interview where I was able to engage in the interview and adapt the questions to the situation. If conducting a semi-structured interview, it is important to develop a keen understanding of the topic of interest in order to ask meaningful question in the right time.

However, there are limitations of the qualitative research. Sometimes the researcher's presence during data gathering can somehow affect the subject's responses. What is more, the research quality can be heavily dependent on the individual skills of the researcher (Anderson, 2010).

In my research part, the following aspects were addressed:

1. What is the goal of your economic tourist agency?
2. What is your exact target audience?
3. How do you promote your services to potential foreign investors?
4. Who is internally responsible for supporting potential investors?
5. Are you working closely with any other authorities, e.g. with the government? If yes, why and how do you collaborate?
6. What incentives are available to potential foreign investors?
7. What is the most frequent support that foreign investors use?
8. What is the process of supporting potential foreign investors?
9. In which phases do you support a foreign investor in the tourism industry?
10. What kind of support resp. service is the most challenging in your opinion?
11. How does your price setting for the support services look like?
12. Based on your experience, are these cantonal incentives efficient in terms of attracting FDI in the tourism industry?
13. Based on your experience, what FDI cantonal incentives are the most important for a potential foreign investor?
14. Based on your experience, why do you think some potential foreign investors decide against investing in the tourism industry in Switzerland despite being informed about all the incentives available?

I conducted three interviews. Two were executed in form of a telephone interview. To be able to write down all provided answers, I asked the participants for permission to record our conversation. The participants were friendly, ready to collaborate and they did not rush from one question to another. The third interview could simply be completed online by sending it out to the recipient by e-mail. The answers received were clear enough to understand, but in any case, I had the chance to get an additional clarification if needed.

In general, all the interviews went smoothly. However, I stumbled upon some difficulties prior to these interviews. I contacted numerous economic development agencies of various Swiss cantons. It turned out that some agencies do not have any interactions with foreign investors, as their clients are Swiss investors only. Other agencies, for example, did not offer incentives in the tourism industry, only in other industries. It took a while to receive the right addresses of those economic agencies and their contact persons, which met my interview criteria.

4.2 Results of the Interviews with the Economic Development Agencies

The first five interview questions revealed the role, the target audience and the scope of services of the cantonal economic development tourist agencies in Switzerland. The next six questions covered the question of available FDI cantonal incentives for potential foreign investors, while the last three questions led to information about the perception of efficiency of the cantonal incentives in terms of attracting FDI in the tourism industry. Table 7 summarizes the main findings, which are presented below the table more in detail.

A rough outline of the interview questions towards the three cantonal economic development agencies can be found in the Appendix D.

To fully present the interviewed agencies, the Economic Development and Tourism Agency of Canton Graubünden is a political-economic growth concept for the Canton Graubünden as an economic location, represented by a team, active in the industry and trade. The agency, based in the city of Chur, fights for the attractiveness of the Canton Graubünden in order to be an independent and competent economic and residential area (About us, 2016). The head of the agency is Mr. Eugen Arpagaus who I was able to conduct the telephone interview with.

The Office for Economy of Canton Schwyz is represented by a professional team, which promotes Schwyz as an attractive business location. For an entrepreneur, a domestic or non-domestic investor, interested in doing business in Canton Schwyz, this agency offers a variety of services to take advantage of (Economic Development, 2016). The representative of the agency, who I interviewed, is the project manager of the Tourism industry, Mr. Mathias Ulrich.

Potential foreign investors choosing Berne as an investment location may be supported by the Berne Economic Development Agency. A team of experts helps individuals or companies with comprehensive tailor-made advice, put them in touch with the right contacts and provide a financial assistance (Services, 2016). The interviewee at the agency was Mr. Martin Tritten, the Expert for the Tourism Industry.

What are the main tasks of the agencies? This can be easily explained by stating their goals of existence. The goals of these three economic tourism agencies slightly differ. Generally said, however, they all work towards an increase of the cantonal economic growth by offering support to all types of investors (individuals and companies). They assist foreign individuals and companies in gaining contacts in the field of knowledge and technology transfer.

Who can contact these agencies for further support? Asking the Agency in Graubünden about their target audience, their answer was: “Foreign and local individuals and companies, interested in investing in the tourism industry in canton Graubünden. But we also support communities that offer services to such potential investors.” Contacting the Agency in Graubünden can be of a significant meaning as it is based in one of the most visited tourist regions in Switzerland, which makes it an attractive FDI destination in the tourism industry.

The target audience list of the Economic Agency in Canton Schwyz is long, with potential investors, Swiss Tourist Office, hotels and banks being the most important. For the Schwyz Agency, the primary markets of targeting are Italy, Germany, Austria and Poland. When looking at the tourist regions, Schwyz as a canton usually belongs to the Zurich area. As mentioned in chapter 4, this area is the second most visited tourist region in Switzerland with a great FDI potential.

Meanwhile, the target audiences of the Berne Agency are small and medium-sized foreign and national companies in the Canton Berne. Besides that, the economic development agency in Berne offers services to all those who profit from the tourism industry, directly or indirectly. Direct audience includes all the companies in the hotel industry, gastronomy, mountain railways etc., while as indirect audience the companies are considered, which are not directly connected with the tourism actors, such as financial institutions.

How does a foreign investor get information on the available incentives? In Canton Graubünden, the services of the Economic Agency are marketed through their official website, which represents the only channel as far as active marketing is concerned. In terms of promotion, the agency in Canton Schwyz is partnering up with the Greater Zürich Area (hereinafter: GZA), which is responsible for promotion and marketing in the Zurich area.

The presentation of the Economic Agency Berne services is found on their website. In addition, the non-profit association – Switzerland Global Enterprise (promotes Switzerland as a business location), the Cantonal Administration Berne and the State Secretariat for Economic Affairs (hereinafter: SECO) are also spreading the words about the agency's package of services and lead a potential foreign investor to this address.

A potential foreign investor, interested in FDI in those three cantons, will most likely not have bigger problems in finding the right authorities to get the support. There is a lot of information available on the internet.

Can one expect a specialized team for tourism with a professional background? To understand better who is internally responsible for foreign “customers”, this was one of the important parts of the interview too. The Economic Agency in Canton Graubünden has a dedicated team for the tourism development area, people with know-how and experience in the Swiss tourism industry. There are three people dedicated to the Tourism section in the Economic Agency in Canton Schwyz – the Head of Department of Economy, and two project managers for business promotion. In the Berne Economic Agency, there are 8 people dedicated to the Tourism area: the Vice President, the Expert in tourism, project managers and administrative stuff. All three agencies seem to have a qualified team available to give answers on tourism related FDI topics.

The goal of the next question was to find out if any collaboration takes place between the agencies, authorities and other parties. This is good to know, as it shows the quality and the efficiency of the FDI services. In Graubünden, they are occasionally working with communities but less with the government, while in Canton Schwyz they established a partnership with the Switzerland Global Enterprise – a non-profit association, which supports entrepreneurs and foreign investors and promotes Switzerland as a business location.

The Economic Agency in Schwyz is organizing events with the members in the tourism industry. Meanwhile, the Economic Agency in Berne works together with the federal administration, other

cantons, cities and municipalities. For specialist areas of expertise, which they do not cover, they work with partners who offer specialized services.

Transfer of information, access to the contacts in the industry and FDI tax incentives are the most common cantonal incentives provided by the agency in Graubünden. The most important incentives that the Economic tourism agency in canton Schwyz is offering to their clients are FDI tax exemption for up to 10 years, low taxes for individuals and companies and they provide access to various national and international innovation funds (First Eagle Amundi International Fund, Horizon 2020, National Research Fund etc.). Among the most crucial FDI incentives, offered by the Economic Agency Berne, they provide contacts through regional Chambers and Commerce, knowledge and technology transfer, tax holidays, transfer know-how about the company and industry structures, financial contributions, setting up a company, real estate and commercial space organization, and help out with the work and residence permits.

Apparently, the most frequent support provided in Graubünden Canton is transferring know-how and the detailed information about the possible FDI incentives and the contacts in the industry. Meanwhile in Schwyz Canton, helping to connect with the local partners and finding a location for their business are considered to be the most popular services. The Agency in Berne claims that the whole project management has been the most essential support for the clients so far.

How does a process of FDI support look like? Graubünden agency kept it short with their answer; they only stressed out the importance of discussing the wishes and needs with the clients in order to set the right way of FDI support. The Agency in Schwyz outlined the first three stages of the support: initial conversation with the tourism department with the responsible project manager, followed by evaluation of needed support and determining the next meeting and support upon request. The initial step at the agency in Berne is a visit of the client at the office to discuss the project and find out the needs and expectations.

In what phases can a foreign investor expect support? In the Graubünden agency, they say it is usually the first stage when it comes to delivering information to clients according to investment facilities. In the second stage they proactively help the investor to find the FDI financial support, and, last but not least, they do their best to be helpful when dealing with the FDI legislation framework. The phases of support have been described by the Agency in Schwyz as follows: helping in finding a location for a project (initial phase); helping to connect to the local partners and authorities (set up phase); supporting in new projects and ongoing business development. The support in the agency of Berne usually starts with the application of individual procedures based on the respective project structure. Then it continues according to the type of the project.

When talking about the most challenging services the agencies need to deal with, the Economic Development Agency of Schwyz surprisingly pointed out that it is often expected to support the potential investor in selling of their services or products. This usually turns out to be difficult as it exceeds their capabilities in supporting the investor. The agency of Graubünden is sometimes dealing with doubts whether the potential investors are serious clients or only asking a lot of

questions out of curiosity. Interestingly, the agency in Berne informed about the tough competition among the Swiss cantons, offering attractive FDI incentives.

Does a potential investor need to pay for the support? The services of the Economic Agency in Schwyz are free of charge. Only third parties, e.g. lawyers and others, will reimburse their expenses. The same goes for the other two agencies – in general, no tariffing of the FDI services takes place as the federal and cantonal public authorities support the agencies.

When asking about the opinion about the efficiency of the FDI cantonal incentives, the answers differed among the interview participants. The Graubünden agency thinks it is to some extent helpful to an investor. However, there are already many providers in Switzerland who offer the same services. “Yes, they are efficient and they are in line with legislation of the canton Schwyz”, was commented shortly by the Economic Development Tourism Agency of Schwyz. The Berne economic development agency also believes in the efficiency of these incentives and points to the statistical reports to get a final proof.

What information would help a potential investor the most? According to the experience of the Graubünden agency, the most important for a potential foreign investor is to provide access and contact to the right people in the industry. Canton Schwyz stated that the tax incentive has been the most welcoming among investors so far. Meanwhile, the Berne economic agency is convinced that providing legal foundations of the FDI legal framework is the most crucial for an investor.

Last but not least, I asked the participants about the reasons why potential foreign investors decide against investing in the Swiss tourism industry. Interestingly, both, economic tourism agency in Graubünden and Schwyz, think Switzerland is not one of the top investment destinations for tourism. Based on agencies’ experience, the majority of the investors is turned away by very high purchasing prices of properties, high rents, significant labor and other FDI services’ costs, and are demotivated by the complex Swiss legislation framework.

Table 7. Main Findings

Question	Main Findings
What is the goal of your economic tourist agency?	Contributing to the cantonal economic growth by offering support to all types of investors.
What is your exact target audience?	Foreign and local individuals and companies, interested in investing in the tourism industry.
How do you promote your services to potential foreign investors?	Via website but also via Switzerland Global Enterprise (promotes Switzerland as a business location), which is usually one of the first contact addresses of an investor.
Who is internally responsible for supporting potential investors?	Dedicated team for the tourism development area, people with FDI knowledge and experience in the Swiss tourism industry.

table continues

continued

Question	Main Findings
Are you working closely with any other authorities, e.g. with the government? If yes, why and how do you collaborate?	Working with communities but less with the government; Partnering up with the Switzerland Global Enterprise. Organizing events with the members in the tourism industry. Working together also with the federal administration, other cantons, and collaborating with partners who offer specialized services.
What incentives are available to potential foreign investors?	Transfer of information, access to the contacts in the industry and FDI tax and financial incentives. Services such as helping out with commercial space organization and the work and residence permits are also available to investors.
What is the most frequent support that foreign investors use?	Contact information, transfer of know-how, and the detailed information about the possible FDI incentives and the contacts in the industry.
What is the process of supporting potential foreign investors?	Initial conversation with the tourism department with the responsible FDI project manager, followed by evaluation of needed support and determining the next meeting and support upon request.
In which phases do you support a foreign investor in the tourism industry?	In the first stage it is about delivering information to clients according to investment needs. In the second stage it is about FDI financial support, and the FDI legislation framework.
What kind of support resp. service is the most challenging in your opinion?	It is often expected to support the potential investor in selling of their services or products; dealing with doubts whether the potential investors is a serious client or only asking out of curiosity.
How does your price setting for the support services look like?	The services are free of charge. Only third parties like lawyers and others reimburse their expenses. In general, no tariffing of the services takes place as the federal and cantonal public authorities support the agencies.
Based on your experience, are these cantonal incentives efficient in terms of attracting FDI in the tourism industry?	To some extent perceived as helpful to an investor despite the tough competition among authorities and cantons. Sometimes it comes to motivation drop of the investor when outlining the overall investment costs.
Based on your experience, what FDI cantonal incentives are the most important for a potential foreign investor?	Providing access and contact to the right people in the industry, FDI tax incentives, clarifying the FDI legal framework.
Based on your experience, why do you think some potential foreign investors decide against investing in the tourism industry in Switzerland despite being informed about all the incentives available?	Usually the reasons are very high purchasing prices of properties; high rents, significant labor and other services' costs, and the investors are demotivated by the complex Swiss legislation.

CONCLUSION

Several econometric studies pointed out the importance of FDI for a host country. The literature review of the national and international literature has shown that a host economy can benefit due to FDI in forms of technology and know-how spillovers, creation of jobs, increase of exports, tax revenues and economies of scale, and this all can lead to economic growth in a host country.

This paper investigated the investment climate in one of the wealthiest countries in the world – Switzerland. The assessment of the Swiss economic environment has showed that there is a medium economic risk, which is mainly due to the volatility of the Swiss franc. Apart from the

currency issue, some other risks are also the fairly low protection of investors and the fact that Swiss are vulnerable to falling demand in the EU.

One of the findings of this study is that there is a low political risk in Switzerland. This statement is based on facts that there is very little corruption, there are low taxes, and the institutional quality is perceived as high. What is more, it is easy to start a business in Switzerland and the corporate taxes are low.

The technological environment assessment also showed a very low risk. This is mainly due to the high quality of scientific research institutions, capacity for innovation and the amounts that companies are spending on R&D activities. The only area to improve is a low number of available scientists and researchers.

The most robust finding in this section is probably the fact that Switzerland's issues do not necessarily hide in the economic and political environment, as may be the case in many other countries, but in the instability and vulnerability in the socio-cultural environment. In fact, the assessment has shown that foreign investors need to pay attention to the most discussed issues in Switzerland, such as the immigration problem. What is more, gender inequity is still a matter when comparing average Swiss salaries between men and women, the productivity is not growing as fast as expected, the labor costs are high, and the enrollment rate in tertiary education is low. These are all facts, which lead to the conclusion that the socio-cultural environment risk is at medium level.

Furthermore, this study has focused on examining the Swiss tourism industry. It was found that the tourism industry is on the rise when reviewing the GDP share and its employment rate. It is also expected to rise all until 2026 due to planned modernization of the Swiss accommodation industry, digitalism of tourism services, reinforcement of quality and development of new products. However, it was also found that the infrastructure in the tourism industry is not perceived as good as one might think. With high prices of accommodation and services, the quality seems not to be on an expected level, as perceived by foreign tourists. It was discovered that the biggest share of foreign owned hotels is in the areas of Graubünden, Zurich and Valais. Those regions are also the tourist areas with high overnight stays and low corporate taxes. Thus these areas show a FDI potential.

This study also attempts to evaluate the FDI cantonal incentives in the tourism industry in Switzerland. As the economic development tourism agencies are the most important key players in this field, the research focused on interviewing the representatives of these agencies. According to the interviewees and their experiences, among the most important cantonal incentives for potential investors are services such as providing access to the right people in the industry, outlining the foundations of the Swiss legislation and informing on tax incentives. It was said that the foreign investor usually needs help in the early stages of the investment process although the economic agencies offer support in all investment phases.

Overall, the services are perceived to be semi-efficient. Despite the fact that the agencies seem to be optimistic about their offered services, some interviewed participants mentioned the tough competitiveness among the cantons (regarding taxes and financial support), large density of private companies offering the same services and client's drop of motivation when outlining overall costs (high labor costs and real estate prices) of their potential investment.

My basic conclusion is that Switzerland needs to work towards the stability of its socio-cultural environment, provide easier access to tertiary education, stabilize the volatility of the Swiss franc, renew tourism facilities and infrastructure in order to improve the price-performance ratio, increase innovation of the tourism services, develop further financial and fiscal incentives to remain competitive in terms of FDI, and continue investing in the promotion of Swiss attractions.

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APPENDIXES

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APPENDIX A: Abbreviations

Table 1. Abbreviations

Abbreviation	Explanation
CH:	Switzerland
CHF:	Swiss Franc
EEA:	European Economic Area
EU:	European Union
FDI:	Foreign Direct Investment
FIN:	Finland
GATT:	General Agreement on Tariffs and Trade
GDP:	Gross Domestic Product
GNI:	Gross National Income
HK:	Hong Kong
IMF:	International Monetary Fund
M&A:	Mergers and Acquisitions
MM:	Million
MNC:	Multinational Company
NATO:	North Atlantic Treaty Organization
OECD:	Organization for Economic Co-operation and Development
R&D:	Research and Development
SECO:	Swiss Federal Office
SGE:	Switzerland Global Enterprise
SNB	Swiss National Bank
PTA:	Preferential Trade Agreements
UK:	United Kingdom
UNCTAD:	United Nations Conference on Trade and Development
UNWTO:	World Tourism Organization of the United Nations
US:	United States
USD:	US Dollar
VAT:	Value Added Tax
WB:	World Bank
WEF:	World Economic Forum
WTO:	World Trade Organization

APPENDIX B: Summary of the Thesis in Slovenian Language

Kratek povzetek

Glavna tema magistrskega dela so kantonske spodbude za tuje neposredne investicije v turizmu v Švici s pomočjo analize kantonskih ekonomskih razvojnih agencij.

Problematika in predmet raziskovanja

Švica je ena od najbogatejših držav na svetu. V letu 2015 je BDP na prebivalca v državi znašal kar 80.945 ameriških dolarjev, kar postavlja državo na drugo mesto WB mednarodne lestvice, in sicer tik za Luksemburgom (BDP na prebivalca, b.l.).

Švica s svojo strateško lego v središču Evrope rada privablja mednarodna podjetja. Dunning (1998) je dejal, da je lokacija ena od najpomembnejših dejavnikov za privabljanje neposrednih tujih investicij. Poleg svoje centralne lege država zagotavlja visok življenjski standard in je znana po svojem učinkovitem zdravstvenem sistemu, prvovrstni infrastrukturi in globalnem bančnem sistemu. V zadnjih nekaj desetletjih je ta majhna država z osmimi milijoni prebivalcev razvila zelo učinkovit in fleksibilen trg dela, zahvaljujoč usposobljeni delovni sili in njeni odlični kakovosti izobraževalnega sistema. Poleg tega je Švica s svojimi raziskovalnimi inštituti, grozdi podjetij in tehnološkimi parki postala močan tehnološki center.

To so le nekatere pozitivne značilnosti Švice. Poleg njene gospodarske stabilnosti Švica velja tudi za politično korektno in okolju prijazno. Vsa ta dejstva nakazujejo, da je Švica privlačna destinacija za tuje investitorje. Pa je temu res tako? Se morda skrivajo nekakšna investicijska tveganja v določenih predelih švicarskega poslovnega okolja?

Doslej so tuje neposredne investicije imele pomemben vpliv na gospodarsko uspešnost države. Tuja podjetja v Švici so zaposlila več kot 457.000 ljudi v letu 2015, kar je vsekakor pripomoglo k višji gospodarski rasti Švice v zadnjem desetletju (SNB, 2016). To dejstvo morda ni tako presenetljivo, saj se je Švica v letu 2015 uvrstila na šesto mesto na lestvici investicijskih destinacij z največ tujimi nesporednimi investicijami (v nadaljevanju TNI) na svetu (UNCTAD, 2015).

Švica je znana po zelo konkurenčni in TNI-prijazni farmacevtski, živilski in bančni panogi. Panoga v porastu pa je tudi turizem. Po statističnih podatkih WTTC-ja (2017) je panoga samo v letu 2016 ustvarila 598.000 delovnih mest, kar predstavlja kar 11,8% vseh delovnih mest v državi (WTTC, 2016). Še več, približno 15,7 milijard ameriških dolarjev prihodkov izvoza je Švica zabeležila samo od turizma (STF, 2016).

To dejstvo je le eden od razlogov, zakaj je vredno raziskati investicijsko klimo v turizmu v Švici. Drugi razlog za proučevanje švicarskega turizma kot investicijsko panogo je nacionalna kriza v

švicarskem namestitvenem sektorju. Švicarski lastniki so danes finančno manj sposobni prenesti posel z ene generacije na drugo (Keller, 2012). Dejstvo je, da je približno 40% vseh 90 hotelov s petimi zvezdicami že v rokah tujega investitorja (Schlittler, 2013). Rečeno je tudi, da švicarske turistične ponudbe odražajo slabo razmerje med ceno in izvedbo, z drugimi besedami, kakovost storitev in izdelkov v švicarskem turističnem sektorju ne upravičuje visoke cene. V splošnem velja, da tuje investicije lahko razširijo ponudbo turističnih izdelkov ter izboljšajo lokalne standarde storitev (UNCTAD, 2010a).

Da bi pritegnili tuje vlagatelje, švicarski organi ponujajo vrsto davčnih in finančnih spodbud za tuje vlagatelje. Te spodbude so v Švici navadno na voljo na nacionalni, regionalni in kantonski ravni. Medtem, ko je na voljo veliko informacij o spodbudah vlade na nacionalni ravni, primanjkuje nekaj več informacij o spodbudah kantonov za neposredne tuje investicije v turizmu. Obstajajo tako rekoč neke kantonske ekonomske razvojne turistične agencije, ki lahko potencialnim tujim investitorjem pomagajo pri nadaljnjih odločitvah. Vprašanje je, kako te oblike pomoči dejansko izgledajo in kakšna je učinkovitost omenjenih kantonskih spodbud.

Cilji magistrskega dela

Glavni namen magistrskega dela je raziskati poslovno okolje investicij v turizmu v Švici. Prvi konkretni cilj dela je vsebinsko razumevanje pojma TNI in navsezadnje tudi vpliv tujih neposrednih investicij na ekonomsko rast države gostiteljice. Drugi cilj magistrskega dela je pridobiti jasno sliko pozicije Švice kot prejemnice TNI v primerjavi z ostalimi državami sveta in v povezavi s tem oceniti investicijsko klimo švicarskega gospodarstva. Da bi bila ocena poslovnega okolja bolj razumljiva, je eden od ciljev analizirati tudi stopnjo investicijskega tveganja glede na dejavnike PEST analize.

V magistrskem delu v prvi vrsti ugotavljam, kakšna je investicijska klima v turizmu v Švici.

Poleg naštetega ugotavljam še, kakšne investicijske spodbude so na voljo potencialnemu investitorju z željo investiranja v švicarski turizem. Pri tem se osredotočim na spodbude kantonov, kiso običajno zastopane s strani ekonomskih razvojnih agencij.

V magistrskem delu so zajeta naslednja raziskovalna vprašanja:

- Kaj je TNI in kakšen je njegov vpliv na ekonomsko rast države gostiteljice?
- Kakšen je položaj Švice na področju TNI v primerjavi z ostalimi državami sveta in kakšna je investicijska klima?
- Kakšna je stopnja investicijskega tveganja v Švici?
- Kakšna je investicijska klima v švicarskem turizmu in kakšna je narava TNI v tej panogi?
- Kakšne spodbude kantonov so potencialnemu investitorju na voljo v švicarskem turizmu s strani ekonomskih razvojnih agencij? Kakšno je dožemanje učinkovitosti le teh?

Pregled metodologije

Magistrsko delo je razdeljeno na dva dela. Prvi del predstavlja teoretični del, ki sloni na že obstoječi literaturi. Predstavljen je teoretični okvir tujih neposrednih investicij in vključuje ugotovitve že obstoječih empiričnih raziskav. Naslednji del, ki vsebuje analizo švicarskega poslovnega okolja, temelji na sekundarnih podatkih, pridobljenih s pomočjo podatkovnih baz (na primer WEF, OECD, IMF, UNCTAD, CIA, WB, UNWTO in WTO, itd.). Prav tako podatkovna baza švicarske nacionalne banke služi kot osnova pri predstavitvi tujih neposrednih investicij v švicarskem turizmu. Zadnji del magistrskega dela predstavlja empirična analiza, narejena s pomočjo intervjujev, v katerem so povprašani predstavniki ekonomskih razvojnih turističnih agencij, vsak iz drugega kantona v Švici.

Struktura magistrskega dela

Magistrsko delo je razdeljeno na štiri glavna poglavja. Po uvodu sledi predstavitev pojma TNI. Predstavljena je njegova uradna definicija, njegove oblike, TNI trend med razviti državami in najpomembnejše, koristi tujih neposrednih investicij in njihov vpliv na ekonomsko rast države gostiteljice. Poglavje se zaključi s predstavitvijo faktorjev, ki vplivajo na privlačnost tujih neposrednih investicij v državo. Drugo poglavje se osredotoči na TNI v Švici. Predstavljen je njihov obseg v državi ter njihov vpliv na švicarsko gospodarsko rast. Temu sledi ocenitev švicarskega poslovnega okolja glede na ekonomske, politično-zakonodajne, socialno-kulturne in tehnološke dejavnike. Na koncu poglavja obravnava TNI politiko in njihove spodbude. Tretje poglavje je namenjeno proučevanju turizma v Švici. Predstavljene so njegove splošne in regionalne značilnosti, obenem pa se dotakne švicarske politike v turizmu, pomenu razvoja turizma v državi in trenutne izzive. V četrtem poglavju je predstavljena metodologija raziskovalnega dela, kateri sledijo rezultati intervjujev z ekonomskimi razvojnimi agencijami. Zaključek vsebuje najpomembnejše ugotovitve magistrskega dela.

Zaključek

Številne ekonometrične raziskave so dokazale pomembnost TNI za države gostiteljice. TNI med drugim prinašajo dobre koristi v države prejemnice – med te sodijo na primer prenos znanja in tehnologije, nova delovna mesta, porast izvoza, višji davčni prihodki, ekonomijo obsega, itd. Vse našteto pa navsezadnje vodi tudi v večjo ekonomsko rast.

Pregled literature je pokazal pomembnost privlačnosti poslovnega okolja v primeru odločanja investitorja o investicijski lokaciji. Raziskava investicijske klime švicarskega gospodarstva je pokazala nekolikšno tveganje v ekonomskem poslovnem okolju. V magistrskem delu je bilo to označeno kot »srednje tveganje«. Razlog za oceno leži predvsem v nestabilnosti švicarskega franka. Poleg tega je za oceno kriva tudi nizka zaščita investorjev in ranljivost švicarskega gospodarstva glede na padec povpraševanja držav Evropske unije. Analiza švicarskega političnega okolja je pokazala, da je Švica zaradi njene pretekle nevtralnosti, kakovosti ustanov,

nizkih davkov ter nizke stopnje korupcije, politično stabilna. Lahko rečemo, da je politično tveganje v Švici majhno. Prav takšna pa je tudi ocena tehnološkega poslovnega okolja. Gre za majhno tveganje zaradi visoke kvalitete znanstveno-raziskovalnih ustanov, velike zmožnosti na področju inovacij in rednih investicij v rast in razvoj države. Eno od najbolj zanimivih ugotovitev tega magistrskega dela pa je bilo spoznanje, da se slabosti poslovnega okolja v Švici ne kažejo toliko v ekonomskih in/ali političnih dejavnikih, temveč se skrivajo v socialno-kulturnem okolju. Analiza le tega je pokazala, da se je potencialnemu investitorju potrebno posvetiti dogajanju najbolj obravnavanih tem v Švici, kot je to na primer zakonodaja o priseljevanju tujcev v državo. Namreč pregled literature je pokazal, da sta dosedanje priseljevanje tuje delovne sile v Švico in obstoj tujih podjetij v Švici pripomogla k ekonomski rasti države. Nenadna prepoved tega dejanja lahko negativno vpliva na bodočo ekonomsko rast in s tem na investitorjevo sliko o Švici kot privlačni destinaciji za investitorje. Ocena tveganja socialno-kulturnega okolja je potemtakem nekje srednja.

V središču proučevanja je bil med drugim tudi turizem v Švici. Na podlagi statističnih podatkov se je izkazalo, da je turizem kot poslovna panoga v porastu. Vse do leta 2026 je v Švici napovedana rast te panoge, le ta pa naj bi bila dosežena s pomočjo modernizacije švicarskih turističnih nastanitvenih ponudb, digitalizacije turističnih storitev in z okrepitvijo kakovosti razvoja novih izdelkov. Navsezadnje pa je bilo ugotovljeno, da infrastruktura turizma v Švici ne velja za najbolj napredno. Zaradi visokih cen nastanitev in pripadajočih turističnih storitev se mnogokrat pričakuje, da bo potemtakem ponudba kvalitetna, a žal temu ni povsem tako.

Največji delež tujih neposrednih investicij je prisoten v hotelski industriji, in sicer v luksuznih hotelih s petimi zvezdicami. Med najbolj oblegane lokacije tujih investorjev pa štejemo kantone kot so Graubünden, Zürich in Valais. Ravno ti kantoni spadajo med regije z največ zabeleženimi nočitvami turistov, z vidika davkov pa veljajo prav za kantone z najnižjimi davki za podjetja. Lahko bi torej rekli, da so ti kantoni primerna destinacija za tuje neposredne investicije.

Magistrsko delo se je dotaknilo tudi kantonskih spodbud tujih neposrednih investicij v turizmu v Švici. Glavni akterji na tem področju so kantonske ekonomske razvojne agencije. Predstavniki agencij z dolgoletnimi izkušnjami v svetovanju so bili mnenja, da so med najpomembnejšimi kantonskimi spodbudami za potencialne investitorje prav posredovanje in vzpostavitev stikov v turizmu, šele nato sledi pomoč pri razumevanju temeljev švicarske zakonodaje in posredovanje informacij o davčnih spodbudah. Pomoč potencialnim investitorjem ponavadi poteka v vseh investicijskih fazah, najpogosteje pa je ta dobrodošla v začetnih fazah.

Navsezadnje se storitve in TNI spodbude ekonomskih razvojnih agencij med intervjuvanci smatrajo za učinkovite, kljub veliki konkurenci med švicarskimi kantoni z nizkimi davki in drugimi finančnimi spodbudami ter investitorjevi izgubi motivacije ob razkritju vseh stroškov investiranja (npr. visoki stroški delovne sile in visoke cene nepremičnin in najemnin).

Za Švico bo v bodoče pomembno, da poskrbi za večjo stabilnost socialno-kulturnega poslovnega okolja, omogoča lažji dostop do terciarnega izobraževanja, stabilizira švicarski frank, prenovi turistične objekte in infrastrukturo z namenom izboljšanja razmerja med ceno in izvedbo storitve, spodbuja inovativnost turističnih ponudb, razvija dodatne finančne in fiskalne spodbude za ohranjanje TNI konkurenčnosti in nadaljuje s promocijo švicarskih znamenitosti.

APPENDIX C: Macroeconomic and FDI Data

Table 2. FDI Inflows by Development Status, 1994-2015 (in USD)

Countries	1994	1998	2002	2006	2010	2014	2015
Developing countries	10,492	179,481	155,528	37,907	579,891	681,387	76,467
Developed countries	145,135	480,638	547,778	857,499	673,199	498,762	962,496

Source: UNCTAD, *World Investment Report 1994*, 1994, pp. 409-414; UNCTAD, *World Investment Report 1998*, 2005, pp. 361-371; UNCTAD, *World Investment Report 2002*, 2002, pp. 303-309; UNCTAD, *World Investment Report 2006*, 2006b, pp. 299-302; UNCTAD, *World Investment Report 2010*, 2010c, pp. 167-171; UNCTAD, *World Investment Report 2014*, 2014, pp. 205-208.

Table 3. FDI Outflows by Development Status, 1994-2015 (in USD)

Countries	1994	1998	2002	2006	2010	2014	2015
Developing countries	42,124	33,045	47,775	174,389	340,876	468,148	377,938
Developed countries	240,487	651,873	599,895	1,022,711	963,210	822,826	1,065,192

Source: UNCTAD, *World Investment Report 1994*, 1994, pp. 409-414; UNCTAD, *World Investment Report 1998*, 2005, pp. 361-371; UNCTAD, *World Investment Report 2002*, 2002, pp. 303-309; UNCTAD, *World Investment Report 2006*, 2006b, pp. 299-302; UNCTAD, *World Investment Report 2010*, 2010c, pp. 167-171; UNCTAD, *World Investment Report 2014*, 2014, pp. 205-208.

Table 4. FDI Inflows in Top Host Economies in 2015 (in BN USD)

	FDI Inflows
FDI Destination	2015
United States #1	380.0
Hong Kong #2	175.0
China #3	136.0
Ireland #4	101.0
Netherlands #5	73.0
Switzerland #6	69.0

Source: UNCTAD, *World Investment Report 2016*, 2016, pp. 5-6.

Table 5. FDI Outflows of Top Investors Economies in 2015 (in BN USD)

	FDI Outflows
Country	2015
United States #1	300.0
Japan #2	129.0
China #3	128.0
Netherlands #4	113.0
Ireland #5	102.0
Switzerland #7	70.0

Source: UNCTAD, *World Investment Report 2016*, 2016, pp. 5-6.

Table 6. FDI Inflows and Outflows in Switzerland in the Period 2010-2015 (in MM USD)

FDI Direction	2010	2011	2012	2013	2014	2015
FDI Inflows	28,744	28,309	15,989	646	6,635	68,838
FDI Outflows	85,701	48,145	43,321	38,557	-3,327	70,277

Source: UNCTAD, *World Investment Report 2016*, 2016, pp. 5-6.

Table 7. Inward FDI in Switzerland according to FDI Type in the Period 2010-2015 (in MM USD)

Type of FDI	2010	2011	2012	2013	2014	2015
Announced Greenfield projects	24,702	17,727	13,510	22,674	15,548	15,534
Value of cross-border M&A net sales	1,321	19,647	8635	4,659	20,140	17,416

Source: UNCTAD, *World Investment Report 2016*, 2016, pp. 204-215.

Table 8. Outward FDI in Switzerland according to FDI Type in the Period 2010-2015 (in MM USD)

Type of FDI	2010	2011	2012	2013	2014	2015
Announced Greenfield projects	3,167	2,486	2,464	2,206	1,906	2,341
Value of cross-border M&A net purchases	12,928	20,732	16,357	5,579	9,567	39,971

Source: UNCTAD, *World Investment Report 2016*, 2016, pp. 204-215.

Table 9. GDP per Capita for Selected Countries in the Period 2000-2015 (in USD)

Year	Switzerland	United States	Finland	Hong Kong
2000	37,813	36,450	24,253	25,757
2001	38,539	37,274	24,913	25,230
2002	41,337	38,166	26,834	24,666
2003	47,961	39,677	32,816	23,977
2004	53,256	41,922	37,636	24,928
2005	54,798	44,308	38,969	26,650
2006	57,349	46,437	41,121	28,224
2007	63,223	48,062	48,289	30,594
2008	72,120	48,401	53,401	31,516
2009	69,672	47,002	47,107	30,698
2010	74,277	48,374	46,205	32,550
2011	88,003	49,781	50,788	35,143
2012	83,295	51,457	47,416	36,708
2013	84,733	52,980	49,310	38,364
2014	87,475	54,629	49,541	40,170
2015	80,945	56,116	42,311	42,327

Source: *GDP per capita (current US\$)*, n.d.

Table 10. GDP Annual Growth Rate for Selected Countries in the Period 2000-2015 (in %)

Year	Switzerland	Finland	United States	Hong Kong
2000	3.9	5.6	4.1	7.7
2001	1.4	2.6	1	0.6
2002	0.1	1.7	1.8	1.7
2003	0	2	2.8	3.1
2004	2.8	3.9	3.8	8.7
2005	3	2.8	3.3	7.4
2006	4	4.1	2.7	7
2007	4.1	5.2	1.8	6.5
2008	2.3	0.7	-0.3	2.1
2009	-2.1	-8.3	-2.8	-2.5
2010	3	3	2.5	6.8
2011	1.8	2.6	1.6	4.8
2012	1.1	-1.4	2.3	1.7
2013	1.9	-1.3	2.2	3.1
2014	2	-0.1	2.4	2.5
2015	0.8	0.2	2.6	2.4

Source: *GDP growth rate (annual %)*, n.d.

Table 11. Inflation Rate - Consumer Price Index % Change for Selected Countries in the Period 2000-2015 (in %)

Year	Switzerland	Finland	United States	Hong Kong
2000	1.5	3.4	3.4	-3.7
2001	1	2.6	2.8	-1.7
2002	0.6	1.6	1.6	-3.1
2003	0.6	0.9	2.3	-2.5
2004	0.8	0.2	2.7	-0.4
2005	1.2	0.9	3.4	0.9
2006	1.1	1.6	3.2	2.1
2007	0.7	2.5	2.9	2
2008	2.4	4.1	3.8	4.3
2009	-0.5	0	-0.4	0.6
2010	0.7	1.2	1.6	2.3
2011	0.2	3.4	3.2	5.3
2012	-0.7	2.8	2.1	4.1
2013	-0.2	1.5	1.5	4.4
2014	0	1	1.6	4.4
2015	-1.1	-0.2	0.1	3

Source: *Inflation, consumer prices (annual %)*, n.d.

Table 12. Unemployment Rate ILO for Selected Countries in the Period 2000-2014 (in %)

Year	Switzerland	Finland	United States	Hong Kong
2000	2.7	9.7	4.1	4.9
2001	2.5	9.1	4.8	5.1
2002	2.9	9.0	5.9	7.3
2003	4.1	9.0	6.1	7.9
2004	4.3	8.8	5.6	6.7
2005	4.4	8.4	5.2	5.6
2006	4.0	7.6	4.7	4.8
2007	3.6	6.8	4.7	4.0
2008	3.4	6.3	5.9	3.6
2009	4.1	8.2	9.4	5.2
2010	4.5	8.4	9.7	4.3
2011	4.0	7.7	9.0	3.4
2012	4.2	7.6	8.2	3.3
2013	4.4	8.2	7.4	3.3
2014	4.5	8.6	6.2	3.2

Source: *Unemployment, total (% of total labor) (modeled ILO estimate)*, n.d.

Table 13. Current Account Balance as a % of GDP for Selected Countries
In the Period 2000-2015

Year	Switzerland	Finland	United States	Hong Kong
2000	11.7	8.4	-4.0	4.4
2001	8.0	9.3	-3.7	6.1
2002	8.5	8.7	-4.2	7.9
2003	12.7	5.0	-4.5	10.8
2004	14.7	6.4	-5.2	9.9
2005	13.6	3.8	-5.7	11.9
2006	14.4	3.8	-5.8	12.7
2007	10.2	3.9	-5.0	4.4
2008	2.5	2.2	-4.7	13.0
2009	7.7	2.0	-2.7	15.0
2010	14.9	1.3	-3.0	9.9
2011	7.7	-1.8	-3.0	5.6
2012	10.3	-2.0	-2.8	1.6
2013	11.5	-1.6	-2.2	1.5
2014	9.0	-1.2	-2.3	1.3
2015	11.2	-0.4	-2.6	3.1

Source: *Current account balance (% of GDP)*, n.d.

Table 14. Real Interest Rate for the Selected Countries in the Period 2000-2015 (in %)

Year	Switzerland	United States	Hong Kong
2000	2.9	6.8	13.3
2001	3.2	4.5	7.0
2002	4.3	3.1	8.7
2003	2.3	2.1	11.7
2004	2.8	1.5	8.9
2005	2.5	2.9	7.9
2006	1.1	4.7	8.3
2007	0.9	5.2	3.5
2008	1.4	3.1	3.7
2009	2.3	2.5	5.4
2010	2.4	2.0	4.7
2011	2.5	1.2	1.1
2012	2.9	1.4	1.4
2013	2.7	1.6	3.1
2014	3.3	1.4	2.1
2015	3.3	2.2	1.3

Source: *Real interest rate (%)*, n.d.

Table 15. Government Spending as % of GDP in Selected Countries in Years 2000, 2014

Country	2000	2014
Switzerland	34.2	33.7
United States	33.9	38.2
Spain	39.1	43.6
United Kingdom	37.8	43.9
Germany	44.8	44.2
Norway	42.0	45.6
Sweden	53.6	51.7
Finland	48.0	58.3

Source: *General government spending total, % of GDP*, n.d.

Table 16. Export Revenue in Switzerland in Selected Industries in 2010 and 2015 (in BN CHF)

Industry	2010	2015
Chemical industry	75.9	84.7
Metal and machine industry	63.6	57.3
Merchanting	27.7	25.0
Watchmaking industry	16.2	21.5
Financial services	24.0	19.9
Tourism	15.4	15.7

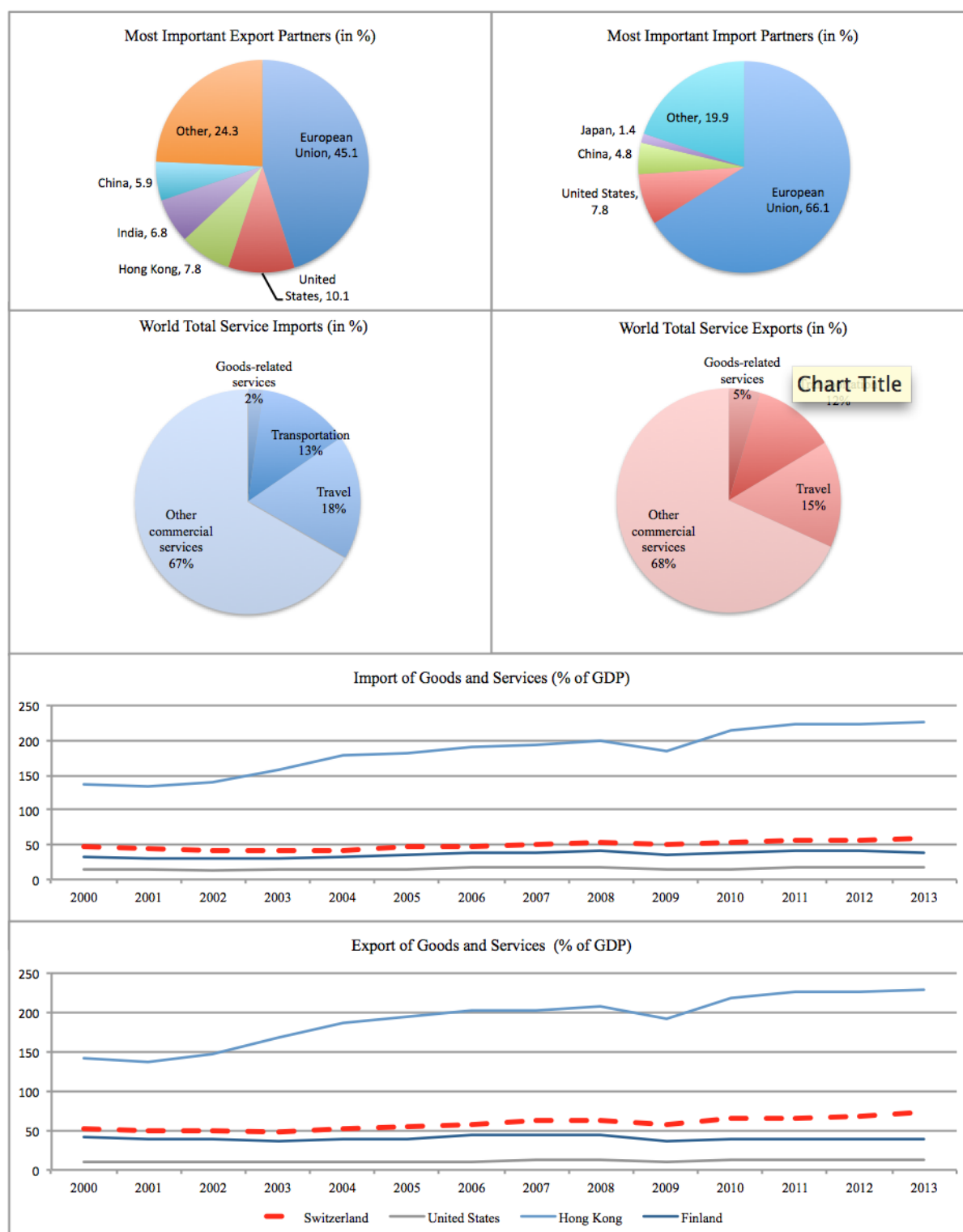
Source: STF, *Swiss Tourism in Figures 2010*, 2011, p. 6; STF, *Swiss Tourism in Figures 2015*, 2016, p. 8.

Table 17. Overnight Stays per Month in Switzerland in 2015

Month	Swiss	Foreigners	Total
January	1,337,392	1,428,158	2,765,550
February	1,541,223	1,574,187	3,115,410
March	1,373,686	1,613,509	2,987,195
April	1,055,142	1,289,196	2,344,338
May	1,081,986	1,534,819	2,616,805
June	1,324,897	1,891,936	3,216,833
July	1,755,638	2,320,088	4,075,726
August	1,699,618	2,424,041	4,123,659
September	1,540,442	1,820,161	3,360,603
October	1,315,229	1,371,635	2,686,864
November	869,733	997,128	1,866,861
December	1,157,195	1,311,437	2,468,632

Source: STF, *Swiss Tourism in Figures 2015*, 2016, p. 17.

Figure 1. Trade Profile of Switzerland, 2015



Source: *Switzerland and the WTO*, n.d.

APPENDIX D: Case Study Interview Questions

Interview with the Economic Development Tourist Agencies in Selected Cantons in Switzerland

Method: Conducting interviews with the representatives of 3 Cantonal Economic Development Tourist Agencies

Aim of the Interview:

- To find out what is the role of the cantonal economic development agencies in terms of FDI in Switzerland
- To obtain information on how do cantonal economic development agencies support potential foreign investors in the tourism industry in Switzerland
- To find out if the cantonal incentives, provided by these cantonal economic development agencies, are efficient in attracting foreign investors

Questions:

1. What is the goal of your economic tourist agency?
2. What is your exact target audience?
3. How do you promote your services to potential foreign investors?
4. Who is internally responsible for supporting potential investors?
5. Are you working closely with any other authorities e.g. with the government? If yes, why and how do you collaborate?
6. What incentives are available to potential foreign investors?
7. What is the most frequent support that foreign investors use?
8. What is the process of supporting potential foreign investors?
9. In which phases do you support a foreign investor in the tourism industry?
10. What kind of support resp. service is the most challenging in your opinion?
11. How does your price setting for the support services look like?
12. Based on your experience, are these cantonal incentives efficient in terms of attracting FDI in the tourism industry?
13. Based on your experience, what FDI cantonal incentives are the most important for a potential foreign investor?
14. Based on your experience, why do you think some potential foreign investors decide against investing in the tourism industry in Switzerland despite being informed about all the incentives available?

APPENDIX E: Case Study Interview Results

Interview 1 - Economic Development Tourist Agency in Canton Graubünden in Switzerland

Method: Telephone Interview with Mr. Eugen Arpagaus, head of the office at the Economic Development Agency of Canton Graubünden

1. What is the goal of your economic development agency?

The goal of the Economic Development Tourism Agency of Canton Graubünden is to optimize the framework conditions in tourism and other businesses. The goal is to boost the economy of our canton. It is important to market our business location and to develop the tourism and regional policies.

2. What is your exact target audience?

Our target audience is foreign or national individuals and companies. We can also say we target communities who are interested in investing and developing the tourism industry of the Graubünden canton.

3. How do you promote your services to potential foreign investors?

At our Economic Development Tourism Agency, we promote our services mainly via our website: <https://www.gr.ch>. Basically, we do not use any other channels.

4. Who is internally responsible for supporting potential investors?

We have a dedicated team who is responsible for the tourism development area.

5. Are you working closely with any other authorities, e.g. with the government? If yes, why and how do you collaborate?

In terms of collaboration, we usually work together with the communities, less with the government. We support each other by offering services which the other is the expert of.

6. What incentives are available to potential foreign investors?

At our economic agency in Graubünden, we provide support by giving individual advice in the first stage of an investment (purchasing real estate, types of companies, founding a company, employment market etc. Further, we help with evaluating the location (real estate), we support regarding the taxes and inform about the possible tax incentives. In terms of finance incentives, we try to assist in obtaining the crucial financial support. What is more and sometimes useful is to support the investor in applying for work and residence permits.

Most importantly, we assist in gaining contacts in knowledge and technology transfer. Last but not least, we are still available after the investment; we are there if any advice is needed for the companies, based in the canton of Graubünden.

7. What is the most frequent support that foreign investors use?

This would probably be the part of providing the right and on-time information to the foreign investor.

8. What is the process of supporting potential foreign investors?

Potential investor contacts the economic tourist agency in Graubünden, and then we discuss his wishes and needs. What comes next is hard to define as it depends on the type of the project. The process differs from client to client.

9. In which phases do you support a foreign investor in the tourism industry?

Most often in the first stage when it comes to answering clients' questions regarding the investment facilities. The next step is to proactively help the investor in finding the financial support and inform him about the legislation framework.

10. What kind of support resp. service is the most challenging in your opinion?

The most challenging part in our operation is when it comes to actively support the investor with his business or in other cases when our team needs to decide whether the client is serious with his intentions or he is only asking a lot of questions out of curiosity.

11. How does your price setting for the support services look like?

The services at the Economic Development Tourism Agency in Canton Graubünden are free of charge, only the services coming from our collaborating partners are chargeable.

12. Based on your experience, are these cantonal incentives efficient in terms of attracting FDI in the tourism industry?

It is difficult to answer this. They are definitely helpful for the potential investor as they are provided with crucial information about the investment incentives, investment costs, available services, contacts in the tourism industry. However, there are many other private companies out there, which offer the same services.

13. Based on your experience, what FDI cantonal incentives are the most important for a potential foreign investor?

Usually, the most important for the investors is that we provide the access (resp. contacts) to the right people in the tourism industry.

14. Based on your experience, why do you think some potential foreign investors decide against investing in the tourism industry in Switzerland despite being informed about all the incentives available?

Some potential investors normally go one step back when they are informed about the overall high prices in Switzerland (cost of living, real estate prices, mortgage costs, labor costs, costs of services) and when they hear about the complex legislation framework. Suddently, they see the investment as a high risk.

Interview 2 - Economic Development Tourist Agency in Canton Schwyz in Switzerland

Method: Telephone Interview with Mr. Mathias Ulrich, Project Manager for Tourism at the Economic Development Agency of Canton Schwyz

1. What is the goal of your economic development agency?

The goal of the Economic Development Tourist Agency of Canton Schwyz is to support a sustainable economic development of the Schwyz canton by performing, for example, an active location promotion. The business activities are in line with the cantonal strategy «Wirtschaft und Wohnen» (Eng. Economy and Living).

2. What is your exact target audience?

Just to name a few:

- *Foreign and national existing and potential investment companies*
- *Regional Development Associations (REV)*
- *Federal office (SECO)*
- *Switzerland Global Enterprise (S-GE) Greater Zurich Area (GZA,) Cantonal Organizations such as Pro Holz*
- *Banks, Chambers of Commerce, etc.*
- *Tourism boards: Schwyz Tourismus (SZT), Schweiz Tourismus and other tourism agencies*
- *Hotels and restaurants in canton Schwyz*
- *Many others*

3. How do you promote your services to potential foreign investors?

We are working in a close collaboration with Greater Zürich Area (GZA). Canton Schwyz is a member of the GZA and coordinates its activities. Primary markets for Schwyz are Italy, Germany, Austria and Poland. Beside that, the agency has its website too where our services are described: <http://www.schwyz-wirtschaft.ch>.

4. Who is internally responsible for supporting potential investors?

We have a dedicated team. Right now, there are three people in the team:

- *Head of Department of Economy*
- *2 Project Managers for Business Promotion*

5. Are you working closely with any other authorities, e.g. with the government? If yes, why and how do you collaborate?

The Economic Agency of Canton Schwyz mainly collaborates with the Switzerland Global Enterprise, which is a non-profit association, promoting Switzerland as a business location. We are participating in their activities, e.g. events and lead generation. Other than that, we have a network of banks, chambers, tourism boards, federal and other cantonal offices, which helps us providing answers to a potential foreign investor.

6. What incentives are available to potential foreign investors?

At the Economic Tourism Agency of Canton Schwyz we inform a potential investors of these main FDI incentives:

- *Tax exemption for up to 10 years*
- *Canton Schwyz is among cantons with the lowest taxes for individuals and companies*
- *Access available to various national and international innovation funds (IHG, Horizon 2020, NRP etc.)*

7. What is the most frequent support that foreign investors use?

That would be probably:

- *Helping to connect with local partners*
- *Finding a location for investor`s business*

8. What is the process of supporting potential foreign investors?

The processes may differ from investor`s needs and wishes but the first step usually looks as follows:

- *Initial conversation with the department of economy project manager*
- *Evaluation of the support needed*
- *Being available for the next meeting and support upon request*

9. In which phases do you support a foreign investor in the tourism industry?

- *Assisting in finding a location for a project (initial phase)*
- *Helping to connect to local partners and authorities (setup phase)*
- *Supporting with new projects and ongoing business development*

10. What kind of support resp. service is the most challenging in your opinion?

It is often expected to support them in selling their service / product. This is difficult as it exceeds our capabilities in supporting an investor.

11. How does your price setting for the support services look like?

Our services are free of charge. Only third parties, such as lawyers and others, will reimburse their expenses.

12. Based on your experience, are these cantonal incentives efficient in terms of attracting FDI in the tourism industry?

Yes, they are efficient and in line with legislation of the Schwyz canton.

13. Based on your experience, what FDI cantonal incentives are the most important for a potential foreign investor?

For a potential foreign investor, one of the most important cantonal FDI incentives is most likely low taxes for individuals and companies. The Schwyz canton has one of the lowest taxes in Switzerland. Therefore, it is a popular FDI destination.

14. Based on your experience, why do you think some potential foreign investors decide against investing in the tourism industry in Switzerland despite being informed about all the incentives available?

It is not easy to say. However, it is most likely because of the unattractiveness of the tourism market – Schwyz is not a top destination for tourism.

Interview 3 - Economic Development Tourist Agency in Canton Berne in Switzerland

Method: Telephone Interview with Mr. Martin Tritten, the Tourism Expert at the Economic Development Agency of Berne Canton

Economic Development Agency in the Berne Canton

1. What is the goal of your economic development agency?

The main focus of the Economic Development Agency in Berne is developing the Canton of Berne as a business location. We want to boost the economic growth of the canton by offering activities which support companies in operating in Berne canton.

2. What is your exact target audience?

The target audiences are small and medium-sized enterprises (SMEs) in the Berne Canton. Besides that, the economic development agency in Berne offers services to all who profit from the tourism industry directly or indirectly. Direct audience includes all the companies in the hotel business, gastronomy, mountain railways etc. Indirect effect usually happens in other areas of the tourism value chain.

3. How do you promote your services to potential foreign investors?

Promotion of the services is found on the agency's website: <https://www.berninvest.be.ch>. Agency's services to foreign investors are promoted also via the non-profit association Switzerland Enterprise, which promotes Switzerland as a business location. Apart from that, the services of the economic development agency are also promoted by the Cantonal Administration Berne and the State Secretariat for Economic Affairs (SECO), which is the federal government's center of expertise.

4. Who is internally responsible for supporting potential investors?

Tourism and Regional Development is an independent service area of the Economic Development Agency in Berne. There are 8 people dedicated to this area. The Vice President is Mr. Daniel Wüthrich, Mr. Martin Tritten is an Expert in Tourism, the others are project managers and administrative staff.

5. Are you working closely with any other authorities, e.g. with the government? If yes, why and how do you collaborate?

We work together with the federal administration, other cantons, cities and municipalities in the Canton of Berne. In specialist areas of expertise, which we do not cover, we work with partners who offer specialized services.

6. What incentives are available to potential foreign investors?

It depends on the type of the projects. We act according to investors' needs. We offer a wide range of services in form of professional advice and financial services.

These services are:

- *Advisory services*
- *Financial contributions*
- *Tax holidays*
- *Real estate*
- *Promotion of innovation*

As we collaborate with partners too, they help an investor with their services too:

- *Knowledge and technology transfer*
- *Support for start-ups*
- *A basis for contact via cluster organizations*
- *Contacts in the region through regional Chambers of Industry and Commerce*

7. What is the most frequent support that foreign investors use?

The most frequent support that foreign investors use is most likely our help in project management and general support in gaining knowledge and FDI information.

8. What is the process of supporting potential foreign investors?

Every investor is served individually, according to his inquiries. Therefore, every investor is a project with its own process.

9. In which phases do you support a foreign investor in the tourism industry?

It depends on the investor's inquiries and the investment phase he is already in when contacting our agency. We do not only support an investor in the initial phase but also throughout all the phases.

10. What kind of support resp. service is the most challenging in your opinion?

Overall, the most challenging in our business is the competitive situation in relation to other business locations.

11. How does your price setting for the support services look like?

In general, at the Economic Development Agency in Canton Berne, no tariffing of services takes place.

12. Based on your experience, are these cantonal incentives efficient in terms of attracting FDI in the tourism industry?

We do think those cantonal incentives are efficient, as the feedback from clients is quite positive. This fact is confirmed also by the results of the business location promotion statistics.

13. Based on your experience, what FDI cantonal incentives are the most important for a potential foreign investor?

The most important FDI cantonal incentives in our opinion are to provide the support of the legal basis of the statutory framework. Potential investors often struggle with the legislation.

14. Based on your experience, why do you think some potential foreign investors decide against investing in the tourism industry in Switzerland despite being informed about all the incentives available?

It may happen that potential investors sometimes decide against investing due to high prices in Switzerland (high costs) and regulatory constraints.