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FROM THE GREAT WALL TO THE ALPS: CROSS-BORDER INVESTMENT BETWEEN CHINA AND SWITZERLAND

Lukas Zuest and Qinqin Yao of the law firm VISCHER, Zurich, talk about Chinese investment in Switzerland and Swiss companies going to China – and what has changed in recent years.

Interview by Elisabeth Tester, SCCC

What is the current state of Chinese investment in Switzerland?
Lukas: In recent years, we've seen a decline in mergers and acquisitions (M&A) by Chinese investors in Switzerland, especially after the peak period from 2016 to 2019. However, there's been a noticeable increase in venture capital investments, in particular in the pharmaceutical, life sciences and medical device sectors. Some of these deals had lead investors from the US or Europe, with Chinese investors acting as co-investors. In select deals, such as Trustar Capital's investment in M.A. MedAlliance, Chinese companies or entrepreneurs were the sole investors.

How has Chinese investment in Switzerland developed since 2019?
Qinqin: After the outbreak of the pandemic, Chinese investment faced a downturn. We saw M&A activity drop to a very low level, one of the main reasons being the need for face-to-face interactions to integrate companies, which was no longer possible. A few new companies were established during the pandemic, where travel was not necessary because the local managers were known. Since the beginning of 2023, we have witnessed a surge in activity, with more enquiries and realizations in the pharmaceutical and medical device sectors, as well as an upturn in the establishment of trading companies. We have also seen a significant increase in interest in the set-up of family offices.

Lukas: Enquiries about investments in commercial property and machinery also picked up. In general, new company formation in Switzerland has returned to pre-pandemic levels, but M&A activity remains subdued. Instead of outright mergers and acquisitions, we are seeing more partnerships and collaborations, which is also linked to higher financing costs and geopolitical developments.

Why is there more interest in setting up family offices?
Qinqin: Wealthy Chinese entrepreneurs are thinking about diversifying their assets regionally. Having moved from Hong Kong to Singapore, quite some are now considering Switzerland. There are still challenges, and the strict approval process for transferring funds out of China must be followed.

Qinqin Yao,
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"I see a promising future for investment between Switzerland and China. New developments in the Free Trade Agreement, as well as new policies and strategies, are opening up further opportunities."
Qinqin Yao

Does China's domestic economic policy affect its investment activity in Switzerland?

Qinqin: Despite the focus on the domestic market, China remains open to foreign trade and investment. China's policy encourages bilateral trade, suggesting that the domestic focus is not in conflict with Chinese investment in Switzerland.

Do you see more restrictions on investment in Switzerland from the Chinese government compared to, let's say, five years ago?

Lukas: We don't see this. After the reopening in early 2023, there were many Chinese delegations and investors travelling abroad and promoting investment in China. A stance that was reaffirmed at the WEF 2024 in Davos, where Chinese officials reiterated the country's willingness to re-engage with the world. However, China's outbound investment approval mechanism remains in place and is firmly applied by the Chinese regulator.

What specific challenges do Chinese investors face in Switzerland, that do not apply to investors from other countries?

Lukas: Unlike most European countries, Switzerland does not have a foreign investment control law. Chinese investors, like any other foreign investor, must navigate through general rules and comply with specific restrictions in sectors such as financial services, residential real estate or energy as any other foreign investor. The Federal Council's 2023 draft of a foreign investment screening law, known as "Lex China", was prompted by prominent Chinese M&A activity in 2016. It proposes to focus on state-controlled investors and critical industries, potentially affecting future investments. However, it is not clear if and when it will be enacted.

Do you expect the "Lex China" to be similar to the European Union's FDI screening of China-European capital flows?

Qinqin: We expect the law, if it is enacted, to have a narrower scope and therefore potentially less impact. The Swiss ap-

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"Despite the geopolitical developments of recent years, there are still investment opportunities in both directions."
Lukas Zuest

proach to Chinese investment is more pragmatic than that of some other European countries, and Switzerland has a fairly independent strategy towards China. On a positive note, the Chinese government has adopted a visa-free policy for Swiss citizens and has indicated that it is willing to officially start negotiations with the Swiss side to upgrade the free trade agreement, which supports trade and investment.

How does the Swiss government foster Chinese investment activity?
Lukas: As Qinqin mentioned, the Swiss Federal Council maintains good relations with China. Local Swiss authorities treat Chinese investors neutrally. Work and residence permit applications for Chinese employees to be sent to Switzerland are processed without discrimination. However, compared to a decade ago, there isn't currently any active pursuit or special support for Chinese investment.

What are the key success factors for Chinese investors in Switzerland?
Lukas: Success for Chinese investors means adapting to the local business environment, understanding local customs, and striking a balance between micromanagement and giving Swiss management a degree of autonomy. Integrating Swiss management into the wider Chinese group is crucial. Sometimes there are communication issues, and Chinese companies in Switzerland should seek an effective communication strategy with locals.

Looking in the other direction, can Swiss companies still enter China's vast consumer market?
Qinqin: The boom in entering the Chinese consumer market that we saw until five years ago has slowed down. But there is still potential for Swiss consumer products. Swiss companies can tap into the Chinese market by establishing a presence in China through business setups and shops. While direct investment has slowed, the use of Chinese distributors offers a way forward, with high value consumer goods showing potential despite the current lower level of local consumption.

Do Swiss companies need a Chinese subsidiary to operate in China?
Qinqin: While working with distributors is an option, establishing a subsidiary is essential for companies considering China as a key market. This allows for better market integration and risk management.

What should Swiss companies consider when choosing a Chinese business partner?
Qinqin: Finding a partner who understands the Chinese market and its limitations is crucial. Some partnerships seem promising but fail to live up to expectations. This highlights the importance of a sound strategy, possibly developed with the help of China-experienced advisors.

How has the Chinese business landscape changed for Swiss companies by sector since 2020?
Lukas: Most Swiss companies with direct investments keep their investment at a table level. We have not seen a general trend of Swiss companies withdrawing their investments in China. On the other hand, Swiss companies that are strongly increasing their investments in China are rare. The high-end consumer goods sector is showing new potential, while the pharmaceutical and medical sectors are facing new challenges such as stricter regulations and the requirement for products to be manufactured locally, reflecting an evolving landscape for Swiss companies to navigate.

What are the keys to success in China's competitive market?
Lukas: Also for Swiss companies in China, success requires adapting to local consumer preferences and cultural nuances. International brands need to tailor their products and strategies to Chinese tastes and attract the right talent to build a strong brand presence.

For more information about how
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