



Commentaries and Insights from Allawos & Company

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“Switzerland and Mass Immigration, its effects on Business”

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Switzerland is slightly smaller than New Jersey, both in terms of its size and population. Median household income is higher than that of New Jersey who is ranked 2nd after Maryland in the United States. In fact Switzerland has the highest nominal wealth per adult (financial and non-financial assets) in the world according to Credit Suisse and eighth-highest per capita gross domestic product on the IMF list. Switzerland has 4 official languages and it has a direct democracy with its capital in Bern, Zurich being the largest city. Switzerland is home to the second largest UN office and the birthplace of the Red Cross.

Economic Consequences of the Mass Immigration Initiative for Switzerland:

The Swiss have recently voted for an initiative aiming to restrict the number of immigrants wishing to enter into Switzerland. Even if there was a slight majority (50.3%) it seems like the Swiss are ready to give up the present liberal system of freedom of movement of persons with the European Union (EU). This puts the cooperation with their most important trading partner to the test. The acceptance of the mass immigration initiative could affect Switzerland on many different levels. A lot depends on how the initiative will be implemented and on the results from the following negotiations with the EU. It is not yet completely possible to assess the actual influence or to even quantify its impact. What will be the consequences concerning the Swiss economy? I'm trying to assess the impact on different sector below:

Possible costs and implications for the economy:

How will the Swiss economy be impacted by this uncertainty? There will follow a period of great uncertainty regarding how to handle immigration and therefor the availability of skilled labor. Another important factor is the uncertainty on how the European

partners, particularly the EU itself, will react to these changes. Here, the economic effects can potentially reach far beyond the availability, or lack of workers.

The initiative will not come into force before 2015 but the uncertainty connected will hamper the economy. The outlook for 2014 and 2015 made before the referendum rely on the premise, that business investments will remain at its present level.

Noticeable effects are also expected concerning the establishment of new companies. There is some uncertainty because of international tax discussions and the nationwide reform concerning companies and the so called "Unternehmensreform III". With the approval of the initiative, the legal- and tax uncertainty for new companies wishing to establish themselves in Switzerland will largely be augmented. In a best case scenario, it would cause a delay in the decision making for firms wanting to move to Switzerland but would, in the worst case, lead to not establishing in Switzerland.

Who pays for the additional cost for this administrative process? The introduction of quotas will lead to additional costs regarding administration for the firms on the one hand but also for the state on the other hand. A lot depends on the implementation but it should be possible to keep the additional administrative costs within limits. Small and middle sized firms will suffer the most from these additional expenses as these additional costs will represent a larger portion of their overhead.

Losses in competitiveness and in potential structural growth? The availability of qualified workers is one of the most frequently stated factors by firms on how they decide on their location. In particular when considering the development of the dynamic Swiss economy and the attractive industrial location of Switzerland depend on the availability of well-educated labor.

The degree the availability of skilled labor will be restricted but the ultimate outcome remains to be seen. One thing is for certain; there will be restrictions imposed and this will have a negative impact on the competitiveness of Switzerland in a globalized economy, even if a well-considered implementation will not lead to a collapse of the present high level of attractiveness. The competitiveness of a nation is also strongly linked to its degree of innovation. Restricting cooperation on education with EU, in particular with Universities, will impede the level of innovation. And this ultimately will, in the long run, suppress the potential growth rate of the Swiss economy and the wealth of Switzerland.

Altogether, the possible costs which are potentially caused by the initiative are significant. They can be reduced to a big degree by implementing a well-considered way of handling future immigration.

Is cooperation with economic integration in Europe at risk? The freedom of movement act is an important building block of the cooperation between Switzerland and the EU. This act is at the same time also one of the central pillars of the European integration. It is to expect, that the Swiss decision will lead to many further consequences in their relation with EU.

The following topics can be affected:



The entire package of bilateral treaties, where their annulments (guillotine-clause) are tied to significant economic consequences.



Uncertainty about the future of current negotiations which are essential for the Swiss economy e.g. Energy



Future development of cooperation with the EU



Image of Switzerland and the readiness to accept individual solutions with Switzerland

The costs for the above are difficult to estimate. This can lead to significant impairments of growth and wealth in the long run. In addition, it has to be mentioned, that Switzerland can influence the extent of these costs only by a certain degree; a lot depends on the reaction of the different partners in Europe.

Will Switzerland lose its “good will” and its political stability? A location advantage of Switzerland is its good reputation and its political stability. By what degree will the positive view on Switzerland decrease? and in what manner will companies perception change regarding relocating or settling in Switzerland? It might be possible that Switzerland will be considered less attractive to locate to in view of this and other recent decisions. This change in perception might discredit the view of Switzerland from a business location standpoint even if the facts would tell a different story.

Which sectors will be affected?

The costs of the decision made by the recent vote cannot yet be quantified; however the costs will not be evenly distributed across the economy. A deterioration of the relations with Europe and a termination of the bilateral contracts would strongly impact the export oriented producing industries, specifically the mechanical and electrical engineering industries.

A possible reduced availability of foreign labor impacts most sectors, in particular healthcare, tourism, re-insurances and the agricultural sector. As the initiative also influences the frontier workers, the perspectives of regional and in boarder distance concentrated industries e.g. the watchmaking industry. Less directly impacted are research and innovation intensive industries like the pharmaceutical industry, as their demand for highly qualified personal should be matched even after the introduction of quotas. But already small changes of circumstances for firms in this industry can be critical, as location is highly competitive. This especially true for the important Swiss Life Sciences industry.

The Swiss financial sector is under a lot of pressure and has to develop a new business model. During this process of reorientation, a weakening of the relations to the EU could have a negative influence. This could for example lead to problems in finding a solution on how to manage the free market entry inside of the EU for Swiss banks.

Other sectors which will have to face challenges are the retail industry, a considerable amount of past years demand growth is attributed to immigration, the transport industry with its corresponding treaties and the real estate and the construction sector.

Conclusion

It's uncertain how this will affects the economy in the near future, while in the long run the free access to the European economic system might be at risk. Much depends on the final implementation and the reaction of the EU of the European partners for which the freedom of

movement of people represents a central pillar of Integration. To limit the damage it is essential to create clarity on how Switzerland desires to proceed and to erase any uncertainty as soon as possible.

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