



China: Biannual economic report – June 2012

1. Appreciation of the economic problems and issues

Key Messages

- At the NPC in March China's **growth target** for 2012 is set at 7.5% - i.e. the first time below 8% in 8 years. However, the growth target is rather a floor than a goal and the Government may in fact be leaning towards higher growth rates.
- Throughout the year 2011 the Chinese economy felt the chill of the Euro area debt crisis and the negative effects of a sluggish US economy as well as Japan's economic dive that followed the natural disaster in Fukushima. In the first quarter of 2012 **GDP growth** stood at 8.1%, i.e. the lowest rate in nearly 3 years.
- The **economic indicators** which were released in May disappointed across the board. In April the growth of industrial production (IP) decelerated to 9.3% compared to the previous year. This is the slowest rate since May 2009 and well below the 11.9% increase in March.
- On May 18th the PBOC cut the **reserve requirement ratio (RRR)** by 0.5% down to 20%. This was the third cut within 6 months and indicates that the economic policy is again increasingly shifting towards support of economic growth from containing property prices and fighting inflation.
- In the **real estate market** the sentiment has deteriorated since the last quarter of 2011 in the light of the government's continued campaign to cool the property sector. However, Banks are not foreclosing on developers, allowing them not to sell and prevent the market from clearing. Property sales are a very important source of income for the local governments so that calls to the central government to roll back measures to control the property market are getting louder.
- In the past 15 years, China has repeatedly resorted to **investment pushes** to cushion the economy during an export downturn. However, resorting to such measures appears risky in the present economic situation. Inflation reached record levels less than a year ago and many local governments and SOEs are still overleveraged from the last stimulus push of 2008 and 2009 and depend on banks rolling over the loans to stay liquid.
- The number of Chinese USD-billionaires nearly doubled in 2011. The development underlines China's problem of a **widening wealth gap** which creates risks for social unrests.
- China raised its official **rural poverty threshold** in late 2011, thereby more than quadrupling the number of residents eligible for income support. Government spending rose by 28% for education, 33% for healthcare and 61% for social housing.
- The government's ability to control **credit growth** through the state-owned banking sector means that quantitative controls on monetary and credit expansion are currently more important in policy terms than interest rates. The use of such means of controlling bank lending is not ideal, as it tends to penalize small and medium sized firms in the private sector that lack political connections.
- The IMF concluded that while **China's financial system** is robust overall, it faces a steady build-up in vulnerabilities: deterioration in loan quality due to rapid credit expansion; the rapid growth of shadow banks and off-balance sheet exposures; a downturn in real estate prices; and the uncertainties of the global economies.
- March 28th 2012, the State Council announced that city of Wenzhou, would become a pilot zone for the implementation for a broad package of **financial reforms** which could be a prelude to a national effort to liberalize China's financial system.
- China is slowly loosening its grip on capital flows as it strives to make the **RMB a global currency**, is the government's intention to further liberalize cross-border capital flows. The new free market mechanisms however also allow Chinese citizens direct overseas investments, enabling them to grasp global opportunities and achieve higher investment-profitability.
- In April the PBOC released a statement that it would allow the **currency** to fluctuate by up to 1% on either side of the so called parity rate - a midpoint price set by the PBOC every trading day. The widening of the **trading band** also signals that Beijing is increasingly confident that the RMB is fairly valued, a key requirement if it is to relax its grip on the currency.
- On the 5th trilateral summit meeting in May China, Japan and South Korea agreed to launch negotiations for a **three-way free trade pact**. The negotiations are expected to be long and complicated

A. China's economic policy outlook for the year 2012: China reduces its GDP growth target

A turbulent year 2011 left the Chinese leadership with concerns about inflation, a feverish property market, local government debts, rising inequality and social strains from protesting villages to ethnic tensions in western regions. It was in this context that the Central Economic Work conference, which is regularly being held at the end of the year since 1994 and brings together China's central and provincial bureaucrats, the heads of the biggest state companies and the army's top generals met in December 2011, in order to review the economic policy of the past year and set tone for 2012's macroeconomic control.¹

However, only very vague information is usually given on the outcomes of the meeting and it is not until the 2987 delegates of the **National People's Congress (NPC), the Communist Party-controlled legislature**, meet in March in Beijing's Great Hall of the People that official statements are being released, allowing for further reaching conclusions as regards the general policy trends. Although the **orderly proceedings and the pre-arranged outcomes tend to be predictable**, the NPC is not entirely irrelevant. Over the past years, the NPC has grown in staff and professionalism and has taken great strides in reaching out to social stakeholders and soliciting their input in the course of drafting legislation.

In the framework of this year's assembly, i.e. the 5th session of the 11th NPC (2008-2013), Premier Wen announced in his annual work report to the NPC that the **leadership aimed with a cautious and flexible approach at promoting a steady and robust economic development, keeping prices stable and guarding against financial risks by keeping the total money and credit supply at an appropriate level**. As the first priority for the year 2012 he named the expansion of the consumer demand through an improvement of relevant policies², such as an increase of the minimum wage and government support for the expansion of consumer credit and "new forms of shopping" (f.e. online shopping) as well as boosting the pension and health care system, encouraging Chinese citizens to spend more of their savings. However, the statement which caught probably the largest attention was Wen's announcement that China was lowering the real GDP growth target for 2012 to 7.5%. This is principally in line with China's 12th Five-year Plan, which was released one year ago and aimed at an average annual growth rate of 7% between 2011 and 2015, a 0.5% correction down from the development goal set in the country's 11th Five-year Plan.

In spite of the fact that the change of the **official growth target may be a rather symbolic gesture, since in the past the figure has rather served as a minimum acceptable floor than an actual target range, the government may in fact be leaning on growth slightly above the communicated benchmark**. Nevertheless, the new growth target is remarkable because throughout the past 8 years it stood at 8% and growth rates below that threshold were reported to jeopardize the sufficient creation of jobs to absorb the new entrants on the labour market. The adaption of the figure allows for a number of interpretations and conclusions. Beijing's acceptance of a lower growth target may be interpreted as a measure to manage international as well as domestic expectations. While the debt-ridden Euro zone is leering at China's rescue in cash and the United States in an election year continue exerting pressure on China with regard to trade and currency issues, China's own headwinds may give the country less external pressure and offer a breathing space for domestic exporters. Moreover, the lower growth target may also merely reflect the reality that growth is going to be slower as a consequence of a general global economic downturn. **The highest-value part of China's growth and around a quarter of its 800 million-strong workforce is dependent on volatile demand and capital from developed economies. Shifting that balance is a key goal of Chinese economic policy**. Also a reduced pace of investment in infrastructure, power generation and exports would likely mean slower growing imports of steel, concrete oil and other commodities, ending a commodity super cycle and potentially causing an economic blow to Brazil, Australia, the oil states and other commodity power houses, while it may also open up new opportunities in the service sector, both in China as well as abroad and help to ease global environmental preoccupations.³

B. Transition to a more sustainable pattern for economic growth

In either way, the announcement strengthens the perception that an era of exceptional economic expansion characterized by *extensive growth*, driven by rising inputs of labour and capital, is coming to an end and China is now **upon to enter an area of difficult transition to intensive growth, driven by improving skills and technology. This transition will imply both, lower growth as well as a different pattern of growth**. Moreover, this transition is likely to be not only an economic but also a political one and there will be interactions between the developments on both tracks in many complex ways. It is often argued that the past record of economic success, under the communist party

¹ The Economic Observer: "Central Economic Work Conference"; December 14th 2011

² The Economist: "Prudent and proactive China unveils its economic policy for 2012, sort of"; December 17th, 2011

³ The Wall Street Journal Asia: "China Lowers Growth View"; March 6th, 2012

rule, does not guarantee a comparably successful future. Interestingly this view not necessarily seems to be a red rag to the bull anymore. It was the outgoing Premier Wen himself who stated in his work report to the NPC that the reform in China has come to a critical stage and it was impossible to fully institute economic structural reform without a political reform. This view is also expressed in the well noticed report named *China 2030*, prepared by the World Bank and the *Development Research Center* under the Chinese State Council, claiming that China has reached a turning point in its economic development and should use the right timing to conduct deep reforms which help to rebalance between investment and consumption and to climb up the value chain in global trade.

Making this transition harder is the nature of China's extensive growth, particularly the extraordinary rate of investment and heavy reliance on investment as a source of demand. China is ceasing to be a *labour surplus country*⁴ in which subsistence income of surplus labour in agriculture set a low ceiling for wages in the "modern" sectors of the economy, rendering the latter extremely profitable. Provided the high profits were reinvested, as in the case of China, the rate of growth of the modern sectors and so of the economy would be very high. However, at some point labour would become scarcer in agriculture, leading to a rise of prices of labour in the modern sectors. Profits would be squeezed and savings and investment would fall as the economy matured. Before Deng Xiaoping introduced the economic reforms in 1979, China corresponded to the description of a surplus labour economy. However, today China does no longer fit into this picture, partly because growth and urbanization have been so rapid and seems to have reached a turning point. In the more developed coastal regions of China, the economic consequences of diminishing streams of cheap labour force from the Western provinces are being increasingly felt.

The difficulty of making the transition to economic growth, driven by technical progress or an overall increase of the productivity, i.e. total factor productivity⁵, rather than just a rise of the capital intensity⁶, is one reason why so many countries have fallen into what has come to be called the "middle-income trap"⁷. **China, now a lower middle-income country⁸, is determined to become a high-income country by 2030. That will imply deep reforms**, which were laid out in the afore mentioned report by the World Bank. However, those reforms will adversely affect vested interests, in particular those of local governments and state-owned enterprises (SOE) and may also create certain risks for a hard landing of the economy in the short run.

Other problems of **China's investment-oriented growth model relate to the role of SOEs and their privileged status in the Chinese economic system.** Over the past decade cheap capital has led to massive extensive expansion in commodity industries which negatively affected their profitability since businesses tried to survive through borrowing of cheap credits to fund expansion. This operating environment may also at least partially explain why the second-largest economy in the world has only few internationally competitive companies. SOEs have a very outspread reach and most private enterprises have to do businesses with them or the government. Such dealings subvert the market system, and favour the spread of corruption, impeding the development of technologies, brands and other corporate strengths necessary for successful global competition. **The imbalance between high investment and low consumption further aggravated when the government lifted the loan quota and authorized an avalanche of new infrastructure projects in the framework of the massive stimulus plan in 2008/2009 in order to fence away an economic downturn in the wake of the global economic crisis.** Although this explosion in lending was effective in terms of maintaining economic growth, it may also have lead to the creation of new problems through a misallocation of capital which could eventually trigger a wave of credit defaults down the road.

Ultimately, the purpose of investment is to serve consumption. World-wide, the share of saving and investment in income is remarkably stable. The **Chinese case is particular in the sense that the**

⁴ **Labour Surplus Country:** The term typically describes a situation in which a large reservoir of surplus labour in a traditional sector (typically in rural parts of a country) supplies the labour demand in a modern sector (typically in the urban parts of the country) during the process of industrialization. The surplus of labour allows manufacturers to hire more labour while expanding, without having to raise wages significantly. When the surplus labour pool dries up, wages have to rise and corporate profit margins fall.

⁵ **Total Factor Productivity:** In economics, Total Factor Productivity (TFP) is a variable which accounts for effects in total output not caused by traditionally measured inputs. If all inputs are accounted for, then TFP can be taken as a measure of an economy's long-term technological change or technological dynamism. Technology growth and efficiency are regarded as two of the biggest sub-sections of total factor productivity, the former possessing "special" inherent features such as positive externalities which enhance its position as a driver of economic growth. TFP cannot be measured directly. Instead it is a residual, often called the Solow residual, which accounts for effects in total output not caused by inputs.

⁶ **Capital to Labour Ratio:** At the level of either a production process or the aggregate economy, the proportion of the utilized production factors capital and labour may be estimated by the capital to labor ratio. With regard to specific industries, this relationship is often referred to with the term of "capital intensity", which describes the amount of fixed or real capital present in relation to other factors of production, especially labor.

⁷ **Middle-Income-Country:** The World Bank's main criterion for classifying economies is gross national product per capita (GNP). Based on its GNP per capita, every economy is classified as low income, middle income (subdivided into lower middle and upper middle), or high income. Economies are divided according to 2010 GNP per capita, calculated using the World Bank Atlas method. The groups are: low income 1005 USD or less; lower middle income 1006 – 3975 USD; upper middle income 3976 – 12,275 USD; and high income 12,276 USD or more.

⁸ China Daily: "China enters list of lower-middle-income countries", September 8th, 2009

government is the driving force behind the soaring investment rate. State-owned banks dominate the financial sector and SOEs monopolise key industries. Interest rates are controlled, and depressed prices for raw materials and energy further pad the profits of the state sector. In such an environment weak consumer demand for final products is irrelevant. But even for China, consumption must drive sustainable growth in the long run.

C. Indicators underline an economic slowdown in spring 2012

In this context it seems evident that China's economy is entering into a period of deceleration after years of extraordinary growth which are likely to be followed by an era of higher costs and slower growth. **Throughout the year 2011 the Chinese economy felt the chill of the Euro area debt crisis and the negative effects of a sluggish US economy as well as Japan's economic dive that followed the natural disaster in Fukushima. In the first quarter of 2012 GDP growth stood at 8.1%, i.e. the lowest rate in nearly 3 years.** The outlook for the real economy remains cloudy according to the latest surveys of China's vast factory sector and the burgeoning services industries that are crucial to rebalancing growth and generating more stable domestic-driven demand. In April China's economy slowed down with a broad range of official monthly data falling below expectations and showing a weakening industrial activity, retail spending and investment. The numbers, together with weak trade figures paint a picture of a continued deceleration in Chinese economic growth and the odds are that slowdown in the second quarter will be even more dramatic than in the first.

The economic indicators which were released in May disappointed across the board. In April the growth of industrial production (IP) decelerated to 9.3% compared to the previous year. This is the slowest rate since May 2009 and well below the 11.9% increase in March. The weakness in IP may partly be caused by an unexpected further drop in exports, especially exports to emerging economies. Trade data showed a pronounced slump, with imports growing just 0.3% in April from a year earlier, compared with an average monthly growth rate of 25% in 2011. **In addition, infrastructure investment did not rebound sufficiently to offset the weakening property investment, resulting in further slowdown in heavy industrial production.** Growth in fixed asset investment and retail sales also slowed to 20.2% and 14.1% from the same month a year earlier and down from 20.9% and 15.2 % the previous month respectively. Bank lending in April also came in a lower than expected, with 682 bn. RMB in new loans extended for the month, compared with 1'010 bn RMB in March. **In response the PBOC cut the RRR by 0.5% down to 20% on May 18th, freeing roughly 400 bn RMB into the financial system. This was the third cut within 6 months⁹, which underlined that the economic policy is again increasingly shifting towards support of economic growth from containing property prices and fighting inflation.** At least the latter provided a minimum of comfort, with 3.4% year-on-year in April, down from 3.6% in March. In 2011 the monthly inflation stood at 5.4% on average, which is high, considering that it averaged at just 2.2% from 2001 to 2010. The April figure lies within the target range of 4% set by the government for the year 2012. While that is the same target as last year, when high consumer prices - especially the cost of food caused unrest among consumers in China - this year it appears to be an actual goal rather than a theoretical benchmark.¹⁰

In the real estate market the sentiment has deteriorated sharply since the last quarter of 2011 in the light of the government's continued campaign to cool the property sector. Average property prices in 70 Chinese cities covered in a government survey fell in February for the fifth consecutive month, as sluggish sales continue to compel developers to cut prices. In February 45 out of the 70 property prices fell by 0.099% from a month earlier, compared with drops of 0.14% in January and 0.22% in December. However, the property market adjustment is still slow and far from finished. Although there is still a large gap between what speculators are willing to pay and what end users can afford, but local governments and property developers are unwilling to accept such a price adjustment. They hang onto inventories, hoping that the market will return. **Banks are not foreclosing on developers, allowing them not to sell and prevent the market from clearing. Property sales are a very important source of income for the local governments so that calls to the central government to roll back measures to control the property market are getting louder.**

As long as Chinese banks are willing to roll over loans for political concerns, the economic adjustment will be gradual. However, if at some point the economy should suffer a serious downturn it may not be very easily be brought back on track. **In the past 15 years, China has repeatedly resorted to investment pushes to cushion the economy during an export downturn. Such measures appear appropriate as long as investments in the economy are not overextended, inflation does not get out of hand and exports recover sufficiently fast. Those criteria, however, do not appear to be met in the current situation. Many local governments and SOEs are still overleveraged from the last stimulus push of 2008 and 2009. They therefore have problems meeting their debt**

⁹ Bloomberg: "China Lowers Banks' Reserve Requirements to Support Growth"; May 12th 2012

¹⁰ Financial Times Asia: "Fresh China data raise growth fears"; May 11th 2012

services and depend on banks rolling over the loans to stay liquid. Also the global economy is likely to remain weak for some more time and the outlook in the export sector does not paint a very rosy picture either. CPI Inflation, in the process of cooling down since fall 2011, will not cease to be a challenge for Chinese policy makers as the Chinese Economy remains prone to inflation, in particular in the light of rising food prices and rents whose development interestingly does not seem to follow the one of stagnating property prices.

D. China's growing wealth gap and risks for social unrest

However, stability, steady growth and spreading wealth are core justifications for the dominance of the ruling Communist Party which must navigate through the leadership handover since Premier Wen and President Hu will officially step down at the national parliament session early 2013 after the nomination of a new cohort of leaders by the end of 2012.

On a more political note Premier Wen highlighted in his speech the need to protect farmers' rights to the land on which they work and live. China has witnessed a spate of often violent protests in recent years over the seizure of farmland by local officials, who typically offer villagers token compensation, and then sell it on to property developers at market prices. The issue came to the fore last year when **residents of the village of Wukan in the southern province of Guangdong staged a revolt over an alleged land grab, forcing local authorities to sack village officials, freeze a property development, and hold fresh elections. One of the leaders of the Wukan rebellion was elected as village head in a democratic vote.** This was a remarkable turnaround which by some is believed to represent a potential new approach to social unrest whose containment continues to rank high on the political agenda of the Chinese leadership - in particular in the light of the widening chasm between rich and poor, with **the number of Chinese USD-billionaires nearly doubled to 146 in 2011.**¹¹ In 2004 former President Jiang Zemin invited private businessmen to join the Communist Party and it is not a secret that most of the richest Chinese maintain some affiliation with the latter: Out of China's 1000 richest people - according to Hurun's "China Rich List" - 152 individuals hold official political offices, including 75 delegates to the National People's Congress and 72 delegates to the CPPCC.¹²

However, in January 2012, for the eleventh year in a row, the **Chinese National Bureau of Statistics declared that it could not publish the Gini coefficient**¹³ **prompting criticism from experts who blame the government for de-emphasizing China's significant wealth gap.** The last time Chinese officials published a Gini coefficient was in 2000, when they announced that China's 2000 figure was 0.412. As a matter of fact, gathering data on high-income earners in China can sometimes prove difficult. A 2007 China Reform Foundation report found that 4.4 trillion RMB in urban residents' "grey income", amounting to 24 percent of China's total GDP, had not been accounted for. According to the *United Nations Human Development Report*, China's Gini index in 2001 was 0.447. A 2005 report from the *Chinese Academy of Social Sciences* (CASS) said the Gini coefficient was nearly 0.47 in 2005. As the first local government to integrate the Gini coefficient into its Five-Year Plan, the Chongqing Municipal government said it plans to bring down its Gini ratio from 0.42 to 0.35 in its 12th Five-Year Plan for 2011 to 2015.¹⁴

Certainly the risk of social unrest, which comes hand in hand with the growing inequality in terms of wealth distribution within the Chinese society, is not escaping the radar screen of the Chinese leadership. **Nationalist sentiment has long persisted as a hot topic on China's internet.** Issues like Sino-American or Sino-Japanese relations and the question of Taiwan have always invited fierce activity on the internet in China, even sometimes setting off mass rallies offline. On Chinese social websites such as Weibo or Renren, the Chinese equivalents to Twitter and Facebook respectively, which are not accessible in China without the circumvention of technical obstacles, many people still sympathetically push for greater Chinese nationalism, calling for a stronger China. **However, in terms of public attention, there has been a trend of nationalistic concerns falling behind issues relating to the welfare of the people since 2008. As social tensions in China have grown more serious, Chinese have devoted more attention to social development issues that are more concretely relevant to their lives.** The government is paying greater attention to social media and taking notice of this trend. In an attempt to reorient its economy toward consumption and allow its masses to share more of its record growth, China is quietly undertaking the largest social welfare project in human history. For a nominally communist country, China's lack of a social safety net is

¹¹Forbes: "China's Rich Lists Riddled With Communist Party Members"

¹²Hurun Report: "Property is biggest source of wealth for China's property is biggest source of wealth for China's rich"; 22.9. 2011

¹³**Gini Coefficient:** The Gini Coefficient can range from 0 to 1. Sometimes it is expressed as a percentage ranging between 0 and 100. A low Gini coefficient indicates a more equal distribution, with 0 corresponding to complete equality, while higher Gini coefficients indicate more unequal distribution, with 1 corresponding to complete inequality. When used as a measure of income inequality, the most unequal society will be one in which a single person receives 100% of the total income and the remaining people receive none (G=1); and the most equal society will be one in which every person receives the same income (G=0).

¹⁴Caixin: "Gov't Refuses to Release Gini Coefficient"; January 18th 2012

somewhat ironic. When Beijing dismantled the country's communes and privatized state-owned enterprises in the 1980s and 1990s, China's *iron rice bowl welfare system*¹⁵ collapsed. **The national savings rate rose during the 2000s as Chinese households struggled to pay for increasingly expensive housing, healthcare, and education while putting aside enough for retirement. Ordinary citizens had little choice but to deposit their savings into state-owned banks, earning negative real returns. The savings glut fueled the country's export- and investment-driven model, but household consumption lagged.**¹⁶

China raised its official rural poverty threshold in late 2011, thereby more than quadrupling the number of residents eligible for income support. Also Government spending rose by 28% for education, 33% for healthcare and 61% for social housing. The government will increase residential land supplies by more than 20 percent this year to further restrain property prices and plans to provide a total of 172'600 hectares of residential land this year, up 21.3 percent from 2011 and double the annual average of 87'300 hectares. Roughly 80% of the land supplies will be used for affordable housing development as the government plans to construct seven million affordable housing units in 2012, a project whose estimated cost amount to 1.3 trillion RMB, and aims to make 20% of the housing market "affordable" by 2015. In 2011 it implemented regulations that will provide basic pension and insurance coverage for all citizens and ramped up spending by 21.9% to 575 billion RMB. A new set of health care reform goals were set in the 12th FYP: universal health care, drug pricing reform, and public hospital reform.

Yet pushing through reforms will prove a significant challenge for China's fifth generation of leaders. The window for reform is rapidly closing and implementation will be hindered by entrenched interests and bureaucratic inefficiencies at the local level. China's economic growth is slowing and its demographic advantage is fading. The government acknowledges that while its revenues are projected to shrink, its expenditures will expand in order to finance these new social projects.¹⁷ The fiscal deficit was targeted at 1.5 percent of GDP, up from the 1.1 percent of GDP in 2011. However, in addition to the raise in social spending, China – whose military muscle contests with its regional neighbours appear to gain in both frequency and intensity - also increases its military spending. In 2012 military spending is budgeted to reach 670.3 bn RMB, i.e. 11.2% more than in 2011. According to official statements the figure comprises the total costs of the 2.3 million men strong army - nominally subordinated to the Communist Party and not Government. However, the accuracy of the official figures for military spending is questioned by certain foreign experts who estimate that they only cover about half of the actual costs.¹⁸ **However, a certain room for maneuver with regard to government expenditure is being created by an increase of tax revenues which surged by overall 22.6% in 2011.** Earnings from value-added tax (VAT) grew 15%, while revenues surged 30.5% from corporate tax, 25% for private income tax and 43.4% resource tax¹⁹ Overall the year 2011 China recorded a budget deficit of 519 billion RMB which is equivalent to 1.6% of GDP. However, this does not include a large amount of off-budget expenditures, which relates to the problematic of public debts in China. **Generally speaking public debts are much higher than expected and reflected in published figures, which do not take into account debts of the Ministry of Railway – China's largest "corporate borrower" – or the liabilities of local governments which by far exceed the debts of the central government. It is estimated that the debts of local governments nearly doubled between 2008 and 2010 as a consequence of the high infrastructure spending undertaken in the framework of the stimulus package that was launched by the Chinese Government in order to absorb the global economic downturn in 2008. Total public debts lie between 58% and 71% of GDP according to different estimates. This is higher than generally assumed, but principally still in the range of other transition economies. However, the situation is nevertheless problematic because the property sales - as mentioned before a very important source of revenues for the local governments - are yielding decreasing returns.**

E. The need for financial sector reforms

When analyzing the existing problems and challenges in the Chinese economic system, much eventually boils down to the necessity to reform the financial system. **The government's ability to control credit growth through the state-owned banking sector means that quantitative controls on monetary and credit expansion are currently more important in policy terms than interest rates. The use of such means of controlling bank lending is not ideal, as it tends to penalize small and medium sized firms in the private sector that lack political connections.** It is also looking ineffective as banks sidestep restrictions, which is a major source for concern because of the explosion in credit extended by non-bank financial institutions outside the official channels - the so

¹⁵ **Iron rice bowl:** "Iron rice bowl" is term which is particularly used in the context of Chinese socialism and refers to an occupation with guaranteed job security, as well as steady income and benefits.

¹⁶ China Media Project: "Three trends on China's internet in 2011"; January 16th 2012

¹⁷ The Jakarta Post: "China to up residential land supplies"; May 16th 2012

¹⁸ Neue Zürcher Zeitung: "Peking investiert mehr ins Militär"; March 5th 2012

¹⁹ China Daily: "China's tax revenues rise 22.6% in 2011"; February 15th 2012

called shadow banking market. China has a long history of shadow market financing flowing from small, informal and unregulated groups, to all sectors not well covered by banks. A number of formally incorporated entities, including trust companies as well as leasing and guarantee companies, have also emerged, with the scope to provide alternate financing. The increase in this shadow banking has increased dramatically over the last few years. **The PBOC estimates the size of shadow lending at over 20% of total outstanding loans in China, while other estimates reach far beyond that.** Whichever figure is right, the sums involved are undisputedly too big to ignore. Shadow banking challenges the government's tight control of credit and interest rates – two of the main policy levers it uses to manage the economy and concerns about systemic risk associated with this massive build up of debts. **The IMF concluded that while China's financial system is robust overall, it faces a steady build-up in vulnerabilities: deterioration in loan quality due to rapid credit expansion; the rapid growth of shadow banks and off-balance sheet exposures; a downturn in real estate prices; and the uncertainties of the global economies.**²⁰

Financing in China has historically been controlled by the state-owned banks, with the government using its control to regulate the country's pace of economic growth, directing it to pump out credit when required and restrict volume of new loans to prevent overheating. In a rapid and effective response to the global financial crisis in 2009, China's main banks were directed to lend vast sums of money to fund major SOEs - generally without any real concern for potential credit risk.

Although **the government is seeking to control inflation through the use of tough lending quotas and limiting loans to SOEs, the SMEs have had more difficulties in obtaining bank loans, even in 2009 when the government unleashed its stimulus package, leaving them little choice but to source private loans and finance in the shadow banking market.** With SMEs accounting for about 60% of China's GDP and 80% of the country's jobs, the extent of the practice is far reaching. Shadow loans are typically characterized through short maturities and high interest rates which often range from 14% to 70% or more. With the market slowing, there has been a raft of bankruptcies, leading recently to significant social disturbances in several cities, namely in the city of Wenzhou. At its height, private loans in Wenzhou are estimated to have reached 800 billion to one trillion RMB. A local credit crunch occurred due to a fast surge of non-performing loans which led to many cases of bankruptcy in the city. Reports from the end of 2011 spoke of one fifth of Wenzhou's SMEs having stopped operating and of many business owners fleeing or even committing suicide. In October 2011 the central government reacted by announcing emergency measures, including a rescue fund over one billion RMB for companies with problems to pay interest rates and a five billion RMB financial support for local banks.²¹

However, shadow banking by itself is not being identified as the main problem and state officials have upheld the legitimacy of private lending as an integral source of capital for SMEs as it performs a vital role in promoting an efficient allocation of capital in the market. The current day problems rather arise primarily from the rapid expansion of the shadow banking system and the fact that it is only lightly regulated. Beijing has announced plans to establish a monitoring system for private lending and has cracked down on banks by requiring them to include in their reserve requirement ratio letters of credit and deposits for bank acceptance bills. Despite the lack of monitoring, there are rules in place, as there is an existing regulation that the interest rate of private lenders cannot exceed 4 times that of the banks, although the enforcement of these rules remain less clear. According to the IMF's Financial Stability Assessment, regulatory policies applying to shadow banking and their interconnections need to be clarified and made transparent. Moreover, a more structured oversight, regulatory, and supervisory approach is needed to prevent and to manage systemic risks via cross-market products and institutional structures. The reform consists of 12 measures of which the most important are the following: guiding private capital into venture capital and private capital funds; developing local capital markets and opening these for SMEs; allowing private direct investment to be made overseas.

On March 28th 2012, the **State Council announced that the afore mentioned city of Wenzhou, would become a pilot zone for the implementation for a broad package of financial reforms which could be a prelude to a national effort to liberalize China's financial system,** allowing private investors to invest into local banks, establish loan companies and rural community banks. The State Council announced that it would allow private lenders in Wenzhou, whose legal status has been in limbo, to operate as investment companies to augment the financing available to small and medium-size enterprises. Smaller companies have long complained they have been starved for funds because China's state-owned banks favor other state-owned enterprises, whose ability to repay is considered guaranteed by the Chinese government.

²⁰ Press Release No. 11/409: "IMF Calls for Further Reforms in China's Financial System"; November 14th 2011

²¹ Swiss Consulate General in Shanghai: „Shanghai Flash No. 3 / May 2012“

F. Internationalization of the RMB

A further remarkable aspect of the pilot reform, which also underlines that **China is slowly loosening its grip on capital flows as it strives to make the RMB a global currency, is the government's intention to further liberalize cross-border capital flows. The Chinese Foreign Exchange Administration lifted the amount foreign institutions can invest in stocks, bonds and bank deposits from 30 bn USD to 80 bn USD, aiming at attracting new foreign direct investment. The new free market mechanisms however also allow Chinese citizens direct overseas investments, enabling them to grasp global opportunities and achieve higher investment-profitability.** Wenzhou's previous reform plan, which had been denied by Beijing as mentioned before, spoke of 200 million USD annually and 10 million USD per time a person could invest overseas. Details concerning the maximum amount for the recent reform have not been published yet by officials.²²

In a further move that extends earlier liberalizations aimed at **promoting the use of RMB in cross-border trade and investment**, banks in the southern Chinese city of Shenzhen have been given approval to launch cross-border RMB-remittance services for individuals. Shenzhen, which borders Hong Kong and is a burgeoning center for RMB trading, was one of the first five cities allowed by Beijing to experiment with RMB trade settlement in 2009. RMB internationalization started first by allowing businesses to settle trade in RMB before authorities have now started to bring down the walls also for individuals. At the time being, both, Chinese and foreign individuals have few approved channels to send their RMB funds abroad or bring them back to China. They usually have to convert their RMB holdings into foreign currency first before remitting them offshore.²³

Abroad the Chinese Government is often perceived as a monolithic block under the sovereign ruling of the Communist Party, however, the opinion of the leading elite is by no means unanimous in many respects, and divisions within China's different branches of government are known to persist in a no lesser extent with regard to the question on whether and how the Government should proceed with the internationalization of its currency. The PBOC appears to have a more liberal and reform-oriented stance, while other authorities pursue a largely cautious approach. The Chinese private sector, by and large, supports market-oriented financial reform, while state-owned sectors are more hesitant. In particular, state-owned banks, which for the past few years have been subsidized by negative real deposit rates, and SOEs, which have enjoyed monopoly privileges, strongly oppose aggressive domestic financial liberalization. Under China's controlled deposit and loan rates, banks receive a guaranteed spread of about 3% as a result of the ceiling on deposit rates and a floor on lending rates mandated by the PBoC. In turn, the banks lend at favorable terms to SOEs, often for large infrastructure investments. An estimated 90% of Chinese companies' financing comes from bank loans.²⁴ The government would also have to give up much of its influence over the domestic banking system, which has been one of its most powerful tools in steering the economy. Nevertheless, calls for liberalizing controls over interest rates are getting louder, as this could allow for more lending to small- and medium-sized firms.

In the short run, capital account controls can impede capital movements but they cannot indefinitely control financial flows which result from fundamental economic imbalances. Financial innovation will ensure that ways will be found to circumvent capital controls, once the pressure resulting from the fundamental imbalances gets too strong, so that capital controls will eventually become less effective. Ultimately there seems to be little choice than **opening the capital account. However, this requires that a series of financial sector reforms such as greater exchange rate flexibility, interest rate liberalization and an opening of the domestic capital market are sufficiently met.** Certainly, when moving ahead with those reforms, the authorities have to be mindful about associated risks such as capital market volatility, exchange rate fluctuations and the reduced effectiveness of monetary policy tools. Certainly the Asian Financial Crisis of 1997 or the recent global financial crisis which unfolded from the US subprime crisis in mid 2007 could have had devastating effects on the Chinese economy, had the capital account already been liberalized back then.

In spite of the existing risks, a series of statements by Chinese officials suggest that although there is never a perfect timing, the time has come that the benefits and chances of capital account liberalization outweigh the associated costs.²⁵ **Principally China is in a good position to profit from the benefits that capital account liberalization can provide in various respects: Opening the capital account will increase Chinese enterprises foreign investment opportunities, giving them access to advanced technology, resources and new markets.** This may also facilitate China's economic restructuring as it can help to transfer low-value added activities to countries with lower labour costs. Moreover, the opening of the capital account would push forward the

²² Swiss Consulate General in Shanghai: „Shanghai Flash No. 3 / May 2012“

²³ The Wall Street Journal: "China Takes New Step on Yuan Liberalization"; February 28th 2012

²⁴ <http://www.knowledgeatwharton.com.cn/index.cfm?fa=article&articleid=2597&languageid=1>

²⁵ China Daily: " 'Chance' to open capital account"; February 24th 2012

internationalization of the RMB by expanding channels for two-way flows, encourage the development of new RMB-denominated instruments **and promote de development of Hong-Kong as an offshore RMB center**. With Hong Kong already a leading global financial centre, closely monitored by Beijing but administered separately, it has provided an ideal laboratory for the RMB's introduction to global markets. Already now, China has become increasingly exposed to global markets, largely through stock listings of its SOEs and other companies, but more recently also through its currency and bonds traded in Hong Kong. With the RMB playing a greater role in pricing, payment and investment it will not be long before it becomes an international reserve currency. As a matter of fact, **a number of well above 10 countries and regions have already signed currency settlement agreements with China**. Also there are **plans to turn London into an off-shore trading hub for the RMB, enjoying similar privileges as Hong-Kong**.²⁶ However, seeking international exposure in exchange for economic and political seclusion creates vulnerabilities and adds complexity to the challenge for the Chinese to steer the country through its economic transition.

Principally the liberalization of the capital account can be expected to proceed very gradually and may easily take 10 years until its completion. Essentially the liberalization is likely to follow the general principle of "inflows ahead of outflows - direct investments ahead of indirect investments - institutions ahead of residents". Hence, in a first phase the reforms could include the relaxation of controls on direct foreign investments for Chinese companies. In a next phase there is likely to follow a relaxation of controls on commercial lending to progress RMB internationalization. Eventually, in a last phase there will be a relaxation of controls first on capital inflows and then on capital outflows. Also quantitative controls should in this phase be gradually replaced by price-based monetary management.

In April the PBOC released a statement that it would allow the currency to fluctuate by up to 1% on either side of the so called parity rate - a midpoint price set by the PBOC every trading day. The change is widely considered one of the most significant reforms since mid-2010, when China first allowed the RMB to be freely traded outside of its borders, leading to the creation of an offshore market in the city of Hong Kong. The magnitude of the trading-band expansion came at the top end of market expectations. **The last time the band was widened was in May 2007, when it was increased to 0.5% from 0.3%.** Beijing's trading partners have long criticised Beijing for keeping its currency artificially undervalued, fuelling a flow of cheap exports that have helped trigger huge trade deficits between some countries and China. China has repeatedly pronounced to gradually loosen its grip on the RMB as it moves towards full convertibility but it has rejected calls for a faster appreciation for fear of hurting its manufacturing sector, a key driver of its economy. Between 1997 and 2005 the exchange rate between the USD and the RMB was fixed at 8.27 RMB per USD. In July 2005 China removed the peg and allowed a controlled appreciation of the RMB. However China unofficially re-pegged the RMB at roughly 6.83²⁷ per USD when the global economic crisis hit in 2008 until June 2010, when the RMB again was allowed to float in a narrow margin around a fixed base rate determined with reference to a basket of world currencies, in which the USD is estimated to have a significant weight. Since the RMB was allowed to appreciate in 2005, it has gained roughly 30% in value towards the USD, although fluctuations in both directions started to occur in 2011. **Until recently, most businesses and investors had considered the RMB as a safe bet to rise in value, but that view has changed as China's trade surpluses have declined. Companies and investors are starting to use options in order to manage their RMB exposure.** These fluctuations of the RMB's value created new necessities for market participants: As another step towards the liberalizing of its foreign-exchange market, **China loosened the rules on RMB options on December 1st, 2011 - offering banks and businesses more ways to hedge currency risks, which have grown started to grow in 2011 with the increasing volatility in the RMB's value.** The new rules could be a stimulus for the nascent RMB-options market in Shanghai, virtually dormant since its launch in April 2011. They allow investors to buy and sell options simultaneously, while previously investors could buy options only from banks and selling them only to exit the position established by their earlier option purchase.

The widening of the trading band also signals that Beijing is increasingly confident that the RMB is fairly valued, a key requirement if it is to relax its grip on the currency. What happens next may largely depend on the market's vote on whether the RMB is overvalued, undervalued or close to its fair value. If the RMB trades at the upper limits of the band, it shows markets believe the RMB has room to rise. If the upward pressure is persistent, it could make Beijing reluctant to loosen further. A downward push, meanwhile, could indicate investor nervousness over China's slowing economy and the possibility of capital flight if China further loosens its capital restrictions.²⁸

²⁶ BBC Business News: "London seeks major role in Yuan trading"; January 17th 2012

²⁷ Federal Reserve Bank of Cleveland: "Pass-Through and the Renminbi's Appreciation"; January 24th 2012

²⁸ The Wall Street Journal: "China Loosens Grip on Yuan"; April 16th 2012

G. China takes a more assertive stance on the international stage

China's decision of widening the trading range of the RMB was cautiously welcomed by the US and the IMF as an important step into the right direction. China's currency policies have burdened the bilateral relations between the US and China and as such become a central issue in the US presidential election. Although it certainly prioritizes its own economic challenges, Beijing appears to factor in US presidential politics into its currency calculation. However, over the past year, there has been a certain shift of the focus of US - Chinese economic relations away from the currency towards business and trade-related issues, such as the reduction of hidden subsidies to Chinese SOEs or rules that require foreign companies to hand over intellectual property by registering their patents in China.²⁹

In January tensions arose over a trade issue between the EU and China. The EU required airlines to hand over emissions data required in the scope of a controversial carbon levy on air travel that took effect as of January 1st, 2012. According to official statements by the EU there had been a very high degree of compliance with the EU requirements, except for eight Chinese and two Indian airlines which refused. The two BRIC-states have attacked the EU scheme, calling it a unilateral trade levy disguised as an attempt to fight climate change. India last month barred its airlines from complying with the EU carbon tax, joining China in resistance. According to the EU the tax aims to help it achieve a goal of cutting emissions by 20 percent by 2020. The EU further stated that if the airlines failed to hand over the requested data until the new deadline mid-June, it would be up to the member states to apply penalties.³⁰

In December 2011 China celebrated the 10th anniversary of its WTO accession in 2001 which is widely believed to have substantially contributed to China's extreme growth over the past decade over which the bilateral trade with most nations in China's orbit has risen dramatically, overtaking Germany in 2009 to become the world's largest exporter. The other side of the coin is that China is being involved in a high number of cases brought up to the WTO for dispute settlement which, however, certainly relates to the fact that the scope for trade friction increases as countries trade more. In line with a broader shift of emerging markets - whose share of world trade is steadily increasing and thus show growing confidence using the dispute-settlement system WTO as a complainant - China exhibits an increasing propensity to bring disputes to the WTO. Although the average number of formal disputes per year has fallen since 2001, this is principally because rich countries spend less time fighting each other. Between the WTO's founding in 1995 and the end of 2000, America and the EU initiated exactly half of the cases brought to the WTO. But between 2001 and 2008 they brought only 27.2% of cases. Over half were initiated by developing countries³¹.

Not only within the WTO, but also in a broader context China has adopted a more forceful position on the international stage over a range of issues such as global warming, territorial claims over the South China Sea, since clouds are hanging over the Western economies since 2008/2009. Moreover, China shows growing efforts to get a louder voice in international fora and engage in regional and strategic partnerships. Last but not least, in December 2012, only 5 months after the USA retired their space shuttle program, China - still labeling itself as a developing country when opportunity arises - announced that its plans to land a man on the Moon some when after 2020.³²

On the 5th trilateral summit meeting in May, China, Japan and South Korea agreed to launch negotiations for a three-way free trade pact. According to a feasibility study of the three governments, the three nations are major traders, and together accounted for 19.6 percent of global gross domestic product and 18.5% of exports in 2010. China is the biggest trade partner of Japan and South Korea. According to the official Chinese news agency Xinhua, a free trade treaty could lift China's GDP by up to 2.9%, Japan's by 0.5%, and South Korea's by 3.1%. However, the three Northeast Asian neighbors are divided by political distrust, trade barriers, and diverging investment policies, as well as region wide worries about China's expanding economic and military power, so the negotiations are expected to be long and complicated. Also the proposed treaty may to some extent be competing with the United States' push for a broader Trans-Pacific Partnership (TPP), a trade liberalization initiative that has drawn in nine countries, with Japan also expressing interest. China and South Korea are not part of those negotiations yet. Policymakers in Beijing worry that U.S. influence could erode Chinese sway across the region.³³

²⁹ Reuters: "U.S. politics clash with reality over China currency"; April 13th 2012

³⁰ EU Business: "EU issues warning to carbon tax rebels China, India"; May 15th 2012

³¹ The Economist: "When partners attack China will test the WTO's dispute-settlement system"; February 11th 2012

³² The Guardian: "China plans manned moon mission"; December 30th 2011

³³ The China Post: "Asian powers to hold trilateral FTA talks" May 14th 2012

2. International and regional economic agreements

2.1 Country's policy and priorities

2.1.1. China as a member of the World Trade Organisation (WTO)

China celebrated its ten years accession to the WTO at the end of 2011, the only international system in which China has ceded its sovereignty. China's membership increased the universality of the organization and since its accession, the country has implemented almost all of its WTO commitments and has made significant progress in many areas. Foreign companies have continued to profit from reduced tariffs, the elimination of import licences and quotas, the opening of more sectors for foreign participation, and the easing of restrictions on business operations. **Nevertheless, concerns related to market access remain, but they are now focused on China's laws, policies, and practices that deviate from WTO's national treatment principle, the insufficient protection of intellectual property rights, the deficient transparency of legal and regulatory processes, and the opaque development of technical and product standards that may favour local companies.**³⁴ Indeed, SOEs enjoy more preferential treatment with low interest rates. A revised and improved offer on China's GPA³⁵ accession was reviewed on December 15-17th 2011 at the WTO's ministerial meeting. According to ICTSD³⁶, the offer mainly outlines China's proposal for which Chinese government agencies would be covered under the agreement and what thresholds would apply. It is estimated that the **overall public procurement market in China**, including central, sub-central and other government entities, amount to approximately **RMB 7 trillion, representing 20% of China's GDP**.³⁷ China's accession will yield market access gains in the range of 113 to 289 billion USD.³⁸

So far, **China has leant towards being an advocate of free-trade within the WTO**, demonstrating a strong engagement in issues typically affecting emerging markets such as the liberalisation of agricultural markets. China wants to give the image of an active WTO-member and many countries expect China to take more leadership, even though been criticized for not engaging hard enough to find a compromise on Doha.³⁹ China supports most emerging and developing countries in pressing the US and the EU to open their agricultural sectors. The WTO has not been able to prevent new trade measures against China. Penalties and enforcement are still relatively weak despite the changes to dispute settlement achieved in Uruguay.

While China keeps engaging in multilateral trade discussions and protecting its interests within the WTO, it has also started bilateral trade deals and free trade agreements (FTAs) with strategic partners. As China has become a dominant trading nation, the government sees bilateral agreements as a useful tool to pursue the country's strategic interest.

Since the signing of the Framework Agreement on Comprehensive Economic Cooperation with the original 10 member countries of ASEAN in 2002, China has signed 9 FTA Agreements with 17 countries and regions and established a FTA network covering three continents, 31 economies and a population of 2.18 billion. This network for free trade, with a GDP of 7.44 trillion USD accounted for 19.3% of China's foreign trade, 56.3% of overseas investment and 56.4% of foreign investment.⁴⁰ The global FTA trend involves almost all WTO members and half of the trade in goods takes place in FTAs.

2.1.2. China-ASEAN Free Trade Agreement (CAFTA)

With a population of 1.9 billion people and a combined GDP of \$6 trillion, CAFTA ranks as the world's largest free-trade area by population. In terms of economic value, this is the third-largest regional agreement, following the EU and the NAFTA (North-American Free Trade Agreement).

³⁴ Economist Intelligence Unit, China Hand, February 2008.

³⁵ Government Procurement Agreement is a legally binding and plurilateral agreement in the WTO established to eliminate discriminative laws and practices against foreign supplies and suppliers including a variety of goods ranging from commodities to high-tech equipments and services in government procurement among WTO member countries.

³⁶ International Centre for Trade and Sustainable Development, available at <http://ictsd.org/>

³⁷ European Union Chamber of Commerce in China (2011) - "Public Procurement Study: European Business Experiences Competing for Public Contracts in China," available at <http://www.europeanchamber.com.cn/view/media/publications/#ppstudy> .

³⁸ WTO Economic Research and Statistics Division, "Assessing the Value of Future Accessions to the WTO Agreements on GPA: Some New Data Sources, Provisional Estimates, and an Evaluative Framework for Individual WTO Members Considering Accession", R. D. Anderson, P. Pelletier, Kodjo Osei-Lah, A. Caroline-Müller, 6 October 2011.

³⁹ Centre for International Governance Innovation, John Walley: "Can the WTO Help China With Its Future Trade Policy Challenges?", 11 April 2011, available at <http://www.cigionline.org/publications/2011/4/can-wto-help-china-its-future-trade-policy-challenges> .

⁴⁰ China FTA Network : "Vice Minister Yi Xiaozhun's Speech in China-New Zealand FTA Workshop", 29 July 2010

In 2002, China and the Association of Southeast Asian Nations (ASEAN) signed the Framework Agreement on Comprehensive Economic Cooperation - an umbrella agreement providing general provisions on the establishment of an ASEAN-China Free Trade Area (CAFTA). Under the CAFTA, a zero-tariff market came into force in 2010 for China and the six original ASEAN members⁴¹ and will be expanded in 2015 by including the newer and less developed ASEAN members.⁴² Together with an agreement on trade in services that was signed in January 2007, the negotiation process with regard to CAFTA is completed. China and ASEAN have defined 11 major fields as directions for future cooperation, including agriculture, information and telecommunications, transport, tourism, Mekong River exploitation, energy, culture, human resource, and the environment.⁴³

Trade links between China and the original ASEAN members are still modest compared to the ones with their other trade partners, but they are expected to grow further in the future. While government officials from all parties emphasize the win-win situation expected from the CAFTA, some sectors which directly compete with Chinese products (such as textiles and garments, tires, steel and footwear) fear they cannot keep up with Chinese competitors.⁴⁴

It follows from China's tightening ties with ASEAN that the country would **press for further regionalism**. In the framework of ASEAN+3 (China, South Korea and Japan) efforts to strengthen regional financial stability in East Asia were intensified. In March 2010, the Chiang Mai Initiative Multilateralization Agreement between the ASEAN+3 members and Hong Kong came into effect. The multilateral currency swap totalling 120 billion USD shall address balance of payment and short-term liquidity difficulties in the region by supplementing the existing international financial arrangements.⁴⁵

China does not really appreciate the expansion of other powerful countries into the region, such as the participation of the US and Russia at the **East Asia Summit (EAS)**. Japan and ASEAN try to neutralise China's influence in including other powerful countries. Therefore, as a consequence of China's dominance in the **ASEAN+3** and on Japan's initiative, **ASEAN+6** (or EAS: Japan, South-Korea, China, India, Australia and New-Zealand) has been created, which has been expanded to **ASEAN+8** in 2010 thanks to ASEAN's ambitious endeavours, including the US and Russia. Japan thus favours the reinforcement of the **Comprehensive Economic Partnership for East Asia (CEPEA: ASEAN+6)**, whereas China privileges the **East Asia Free Trade Area (ASEAN+3)**.⁴⁶ ASEAN's challenge consists now in maintaining together with the big powers a common ASEAN-agenda.

The newly established **China-ASEAN Interbank Association** in October 2010 promises to further boost exchanges of financial institutions and enterprises to improve cooperation.⁴⁷ Provinces such as Hainan, for instance, benefit from the FTA, generating 1.43 billion USD in trade with ASEAN members in 2010, representing an increase of 31% on the previous year with Malaysia investing 378 million USD, Indonesia 12.94 million USD and Singapore 45.04 million USD in contracted foreign capital.⁴⁸

On January 1st 2010, the six richest ASEAN members eliminated remaining tariffs and barriers to investment on 90% of the products. Nevertheless, the poorest ASEAN members, namely Vietnam, Cambodia, Laos and Myanmar, will not have to cut tariffs and barriers to the same level until 2015. Furthermore, many firms in South-East Asia fear Chinese competition, in particular Indonesia. It is however quite common to exaggerate China's impact on ASEAN where trade is in fact highly diversified. In 2009, ASEAN traded more with both Japan and the EU than it did with China. South Korea, Australia and India are also important. In addition, ASEAN's deficit (by its own figures) with China is matched by a surplus with America.⁴⁹

On November 18th, 2011, the 14th ASEAN-China Summit was held in Bali, Indonesia. On this occasion, Chinese Minister of Commerce Chen Deming signed the Protocol on Enforcement of the Second Package of Specific Commitments under the Agreement of Trade in Services of the China-ASEAN Free Trade Area (CAFTA), which entered into force on January 1st, 2012. Compared with the first package, China made adjustments in commercial services, telecommunication, construction, distribution, finance, tourism and transportation. The Agreement on Trade in Services of CAFTA was signed in January 2007. The total value of bilateral trade in services has increased from 17.9 billion

⁴¹ Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand

⁴² Cambodia, Laos, Myanmar, Vietnam

⁴³ Global Times: "China-ASEAN ink investment agreement", 17 August 2009.

⁴⁴ L.A. Times: "Blaming China: Indonesian garment makers say free trade pact leaves them on brink of collapse", 26 April 2010.

⁴⁵ Bank of Japan, Joint Press Release: "Chiang Mai Initiative Multilateralization (CMIM) comes into effect", 24 March 2010.

⁴⁶ Report "Arbeitstreffen von Botschafter Beat Nobs mit Dr. Suri Pitsuwan, Generalsekretär der ASEAN", Zürich, 21. Mai 2011, Political Affairs Division II, Asia-Pacific.

⁴⁷ China Daily: "China, ASEAN to seek financial cooperation", 25 May 2011

⁴⁸ China Daily: "ASEAN becomes Hainan's 2nd largest trade partner", 9 May 2011

⁴⁹ The Economist: "The China-ASEAN free-trade agreement; Ajar for business, More breadth than depth", Tokyo, 7 Jan. 2010

USD in 2007 to 26.8 billion USD in 2010. In the first half year of 2011, the total bilateral trade value reached 17.4 billion USD, up by 34.9% year on year.⁵⁰

2.1.3. Other Free Trade Agreements

While multilateral trade has been developing rapidly, China is in negotiation for several bilateral free trade agreements to be signed in the coming years.

2.1.3.1. Already signed Free Trade Agreements:

The **China-Costa Rica FTA** entered into force on August 1st, 2011 and is the 10th FTA China concluded. The negotiations were launched in January 2009, the agreement was signed on April 8th, 2010 in Beijing and the implementation followed in the second half of 2010 after both governments have concluded their respective approval procedures.

Tariffs are being gradually eliminated on over 90% of the products⁵¹ traded between the two countries. The trade in services, based on the respective WTO commitments, covers 45 service sectors and sub-sectors of Costa Rica⁵² while China covers seven sectors, including IT, real estate, market research, translation and interpretation and sports. The two countries also reached agreements on issues such as IPR, rules of origin, customs procedures, TBT (Technical Barriers to Trade) and SPS (Sanitary and Phytosanitary Measures), dispute settlement, trade remedies, as well as health and plant inspection and quarantine. According to the Costa Rican Foreign Minister Rene Castro, Costa Rica just ratified a FTA with Singapore and is negotiating a free trade pact with South Korea.⁵³

China and **Pakistan** signed an agreement on trade in services in February 2009 which took effect in October the same year. The pact leads to a China-Pakistan comprehensive free trade zone including trade in goods, trade in services and investment (a free trade agreement on goods between the two countries was already signed in 2006). Specifically, Pakistan will relax its shareholding restrictions on China's investment in sectors of construction, telecom, finance, distribution, health care, environmental protection, tourism, transportation, research and development and IT education. The sectors that China will open mainly include mining, environmental protection, health care, tourism, sports, transportation, translation, real estate, computer, marketing consultancy.⁵⁴

China and **Peru** concluded negotiations for a free trade agreement in November 2008. The pact was signed on April 28th 2009 in the presence of Chinese Vice-President Xi Jinping and Peruvian Vice-President Luis Giampietri Rojas, and entered into force at the beginning of March 2010. It will gradually reduce tariffs on about 90% of goods traded between the two countries.⁵⁵ China is Peru's second biggest commercial partner and its investment in Peru has exceeded the amount of 1.2 billion USD, the largest among Asian countries.⁵⁶

China and **Singapore** signed the **China-Singapore Free Trade Agreement (CSFTA)** in October 2008, making the first comprehensive bilateral FTA between China and another Asian country. The agreement covers areas including trade in goods, rules of origin, trade remedies, trade in services, movement of natural persons, investment, customs procedures, technical barriers to trade and sanitary and economic cooperation. Flagship projects in bilateral cooperation, including Suzhou Industrial Park and Tianjin Eco-City, have seen remarkable achievements. Three changes arose from the CSFTA Amendment Protocol⁵⁷ signed on July 27th 2011, namely: 1) China will recognise Singapore companies' inventory management method for interchangeable finished products exported under preference; 2) China will recognise Singapore Custom's administrative practice of stamping "issued retrospectively" on the preferential certificate of origin three days after loading date and 3) ASEAN-China FTA Package 2 Services Commitments⁵⁸ is to be extended to Singapore ahead of ASEAN.

⁵⁰ http://fta.mofcom.gov.cn/enarticle/enrelease/201111/8414_1.html

⁵¹ For China, trade in goods covers products from textile and light industry, machinery, electronics, automobiles, chemicals, leather, vegetables and fruits. For Costa Rica, it covers coffee, beef, pork, pineapple juice, frozen orange juice, jam, fish powder, minerals and hides.

⁵² Including telecommunication and commercial services, construction, real estate, distribution, education, environment, IT and tourism.

⁵³ MOFCOM: China FTA Network: "Costa Rican FM hails FTA with China", 6 June 2010

⁵⁴ Ministry of Commerce: <http://fta.MOFCOM.gov.cn>

⁵⁵ Ministry of Commerce: <http://fta.MOFCOM.gov.cn>

⁵⁶ Ministry of Commerce: http://fta.MOFCOM.gov.cn/enarticle/enperu/enperunews/201003/2235_1.html

⁵⁷ Available at http://www.fta.gov.sg/csfta/csfta_amendment_protocol_factsheet.pdf

⁵⁸ The ACFTA Services Agreement mandated that a second package of specific services commitments be concluded in order to progressively liberalise the service industries. ASEAN and China have agreed on this package and the relevant documents are slated to be signed in August 2011 and will enter into force in January 2012.

According to the Singapore's Ministry of Trade and Industry (MTI), China is currently Singapore's third largest trading partner and the largest investment destination.⁵⁹ Singapore enjoys numerous FTAs with Australia, New Zealand, India, Japan, Korea, ASEAN, Hashemite Kingdom of Jordan, Panama, Peru, EFTA, US, and the Trans-Pacific SEP (Brunei, New Zealand, Chile).

China and **Chile** signed a supplementary agreement on free trade in services in April 2008 which entered into force on August 1st, 2010. Both states committed themselves to opening up their service sectors in accordance with WTO rules, under a supplementary agreement to their formal free-trade pact signed in 2005. The service free-trade agreement covers 23 sectors in China, including computers, management consulting, mining, sports, environment and air transport. Moreover the two countries have already completed six rounds of negotiation talks in regard of a FTA in investment.⁶⁰

In April 2008, China signed a FTA with **New Zealand**, marking the first such deal between the biggest developing country and a developed economy. Under the FTA which came into effect in October 2009 and which has been jointly reviewed in November 2010, New Zealand will phase out all tariffs on imports from China (textiles, clothing and footwear) until 2016 and will make an annual duty saving of 115.5 million USD, based on current trade. China will remove tariffs on 96% of its imports from New Zealand until 2019 with tariffs on some products (especially dairy products, meat, wool, etc.) being cut to zero. The agreement covers not just goods but also services, from insurance and banking to education and labour supply as well as investment. China sends more students to New Zealand than any other country and is its fourth-largest source of tourists. At present, China has become the 3rd largest trading partner, 4th largest export market and 2nd largest import source of New Zealand.

In January 2004, the **Closer Economic Partnership Arrangement (CEPA)**, the first regional trade agreement between China and **Hong Kong** as well as between China and **Macao**, came into effect. The CEPA initially covered the three areas of trade in goods, trade in services, and investment. It has since been expanded several times. Supplement VI went into effect on 1 October 2009, and shall give firms from Hong Kong and Macau greater and easier access to the mainland market for certain service sectors.⁶¹ The Supplement VII between Hong Kong and mainland China was signed on 27 May, 2010 and will enter into force on 1 January, 2011. It further relaxes Hong Kong's market access to the mainland in 14 service sectors such as medical services, technical testing, analysis and product testing and social services.⁶² The CEPA is a successful application of the "One Country, Two Systems" principle and is the first FTA to be fully implemented in the Chinese mainland.

China signed in October 2008 a trade deal with **Senegal** to offer zero-tariff treatment to more than 400 categories of goods imported from Senegal.⁶³

On June 21st 2011, the Ministers of Economy of the four **EFTA** countries (Switzerland, Iceland, Liechtenstein and Norway) signed a comprehensive FTA with **Hong Kong** including trade in goods (industrial and agricultural), trade in services, investments, IPR and environment.

2.1.3.2. Free Trade Agreements under negotiation

After having concluded a Joint Feasibility Study on a possible FTA in May 2010 and after a total of seven years of preparations, China and **South Korea** jointly announced the launch of the bilateral FTA negotiations on March 2nd 2012. The first round of negotiations took place in Mid-May 2012. While South Korea does not wish to rush the negotiation process, Chinese Minister of Commerce Chen Deming's ambition is to conclude the agreement within two years. If South Korea signs the FTA with China, it would be the only country in Asia to have signed bilateral agreements with all three major economic zones (USA, China and EU).⁶⁴ Furthermore, South-Korea has signed free trade agreements with more countries than any of its neighbors, including India, Chile, Peru, ASEAN, Singapore and EFTA.

According to a joint FTA research report, the bilateral trade agreement would induce an expansion of 0.395% for China's GDP and a 2.72% gain for South Korea. The combined growth will go up further to 0.584% for China and 3.31% for South Korea respectively. A separate study by the Samsung Economic Research Institute shows that South Korea's GDP will expand 2.72% after the FTA with

⁵⁹ China FTA Network: "Singapore, China hold 1st review of bilateral FTA", 17 April 2010.

⁶⁰ Ministry of Commerce: <http://fta.MOFCOM.gov.cn>

⁶¹ Xinhua: "Chinese mainland market opened wider to HK businesses", 9 May 2009.

⁶² South China Morning Post: "Cepa boosts six pillar industries", 28 May 2010.

⁶³ "China signs zero-tariff trade deal with Senegal", Africa Economic Development Institute, Africa Trade Agreements, Xinhua, 18 October 2009. available at http://africaecon.org/index.php/trade_agr/view_trade_agreement/34/0/_/0 ;

⁶⁴ Korea Herald, Song Sang-ho: "Korea moves on FTA talks with China", 9 January 2011

China takes effect, surpassing the projected gain of 0.56% from South Korea's FTA with the US and a boost of 1.02% from its FTA with the European Union.⁶⁵

The negotiations are divided into two phases, whereas both governments shall select a list of "Sensitive Items (SI)" in the first phase. Highly-sensitive Items (HSI) shall be removed from the negotiations (such as for instance rice), whereas "Normal-Sensitive Items" shall enjoy tariff protection of 10 years after which it will be partially or completely lifted. Both governments also agreed not to apply tariff to the manufactured goods from the offshore processing zone.

There is a strong resistance in the fishery and agricultural sectors, as according to the Korean Agricultural Economy Research Institute, a FTA with China will increase the agricultural import from China by 108 million USD and the domestic agricultural production would drop by 14.7%.

Like the recent FTA with the US, analysts in Seoul predict that only the electronics sector would stand to benefit for the Sino-Korean FTA.⁶⁶

China and **Australia** are currently negotiating a free trade deal. A framework agreement was signed in October 2003 and talks began in May 2005, after the conclusion of a feasibility study. Negotiations have been challenging, due to substantial stumbling blocks, namely in agriculture and industrial goods, as Australia insists on getting the same concessions China had offered to New Zealand. The 17th round of negotiations was held in November 2011 followed by the 18th round in May this year. Unlike other countries, Australia is seeking a FTA including all sectors from agricultural tariffs and quotas, manufactured goods, services, temporary entry of people and foreign investment. The Australian manufacturing industry is raising concerns related to an influx of cheaper Chinese imports as a consequence of tariff elimination and unions are worried a FTA could cause more Australian unemployment.⁶⁷ A Trade in Goods Chapter of the Agreement Establishing the **ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)** concluded on August 28th 2008 is being negotiated with its 2nd meeting held in November 2010 in Melbourne and the 3rd to be held shortly. The aim is to undertake a review of non-tariff measures (NTMs) affecting trade in goods among the Parties, with a view to considering the scope for additional means to enhance the facilitation of trade in goods.⁶⁸

Norway and China completed a feasibility study and launched the official Sino-Norway FTA negotiation in October 2008. The 8th round of negotiations took place in September 2010 and included discussions on commodity, trade in services, trade in goods, investment, rules of origin, plant hygienic standards, SPS/TBT, settlement of disputes, trade remedy, facilitation and IPR.⁶⁹ However, the negotiations have been suspended due to the Peace Nobel Prize incident.

FTA negotiations between **Iceland** and China began in April of 2007, and by May 2008 four rounds of negotiations were completed. Due to Iceland's application for EU membership in July 2009, no further talks are currently taking place.

In July 2004, China and the six-nation (Saudi Arabia, UAE, Kuwait, Oman, Qatar and Bahrain) of the **Gulf Cooperation Council (GCC)** announced the launch of FTA negotiations. Until now, five rounds of negotiations have taken place with the last round held in June 2009. An agreement was reached on the majority of issues concerning trade in goods. Negotiations on rules of origin, technical barriers to trade, sanitary and phytosanitary measures, economic and technological cooperation are also launched.⁷⁰ Nevertheless, the Chinese insist on making the first phase of the proposed deal restricted to goods, thus excluding services.

China is also a signatory to the **Asia-Pacific Trade Agreement (APTA)**, along with Bangladesh, India, Lao, ROK and Sri Lanka. The Asia-Pacific Trade Agreement (APTA) is a preferential trade arrangement among developing countries formerly known as the Bangkok Agreement, signed in 1975 as an initiative of the UNESCAP (United Nations Economic and Social Commission for Asia and the Pacific). Since September 1st, 2006, the outcome of the third round of tariff cut talks was successfully implemented by all APTA members. At present, the fourth round of negotiations is underway and it involves tariff concessions of trade in goods, trade in services, investment, trade facilitation, and non-tariff measures.

In June 2004, China and the **Southern Africa Customs Union (SACU)**⁷¹ announced the launch of free trade negotiations. So far, no negotiations have taken place.

⁶⁵ Samsung Economic Research Institute, Kwon Hyuk-Jae: "Obstacles to the Kora-China FTA", 8 May 2012, available at <http://www.seriworld.org/>

⁶⁶ "South Korea sets negotiations for China FTA", PressTV, 22 May 2012, available at <http://www.presstv.com/detail/240568.html>

⁶⁷ The Age, Cathy Alexander: "China-Australia free trade talks resume", 24 February 2010.

⁶⁸ Australian Government: Department of Foreign Affairs and Trade: "Invitation for submissions on non-tariff measures", available at <http://www.dfat.gov.au/fta/aanzfta/Non-Tariff-Measures-submissions.html>

⁶⁹ Ministry of Commerce: <http://fta.mofcom.gov.cn>

⁷⁰ Ministry of Commerce: <http://fta.mofcom.gov.cn>

⁷¹ South Africa, Botswana, Namibia, Lesotho, Swaziland

2.1.3.4. Free Trade Agreements under consideration

The trade ministers of **China, Japan and South Korea** agreed in May 2010 to complete a Joint Feasibility Study. At the 6th trilateral summit in Changchun in August 2011, the three parties not only discussed free trade in energy, fishery and IPR but also called for the opening of logistics and service markets. On December 16th 2011, a Joint Declaration on a regional FTA has been signed by representatives of the three nations. On Sunday May 13th 2012, the leaders of South Korea, Japan and China met at their annual summit in Beijing, where they agreed to start negotiations on a trilateral agreement this year. To this purpose, each Party will start the necessary domestic procedures and working-level consultations.⁷² During the annual summit, a **trilateral Agreement on promotion, facilitation and protection of investment**, the first economic deal between the three Asian powers, has been signed by Mr. Yamaguchi Tsuyoshi, Parliamentary Senior Vice-Minister for Foreign Affairs of Japan, Mr. Bark Tae Ho, Minister of Commerce and Foreign Affairs of South Korea, and Mr. Chen Deming, Minister of Commerce of the People's Republic of China.

The three countries' combined gross domestic product amounts to \$12 trillion, some 20 percent of the world's total. This FTA would become the 3rd largest after the EU and NAFTA and would be ranked before CAFTA. China, Japan and ROK are complementary trade partners, as China has advantages in agricultural products while ROK intends to export steel and automobile products among other. Trade among the three accounts for 11% of their total foreign trade volume, suggesting there is much potential for further development of trilateral trade.⁷³

While the trade ministers from China and South Korea urged their Japanese counterpart to restore the supply chain disrupted by the March 2011 triple catastrophe, they stressed that increased trade between the three countries play a vital role in Japan's recovery process.⁷⁴ China has a particular interest in this trilateral FTA in order to gain weigh opposing the US-led TPP although it was relatively reluctant at an initial stage and tried to protect its domestic industries by placing high tariffs on imports. In South Korea, industrial voices object a FTA that includes Japan, as South Korea is on the losing side of a more than 2 trillion yen trade imbalance between the two countries. Japan, on the domestic front, will have to conduct agricultural reforms before it is able to join the FTA.⁷⁵ Furthermore, the heavy historic legacy of the relations between the three nations as well as the slow motion of Japan to move ahead on this matter make it rather improbable that the negotiations will be launched this year as suggested.

In May 2010, China initiated feasibility studies for a FTA with **Mongolia**. China is the main importer of mineral products from Mongolia and wants to strengthen its cooperation with Mongolia in natural resources.⁷⁶

Canada is also considering launching FTA negotiations with China, this has however not been officially announced and stands still under investigation.

India and China established in 2003 a Joint Study Group to examine the potential bilateral economic engagement. The related feasibility study on their proposed China-India Regional Trading Arrangement (RTA) on trade in goods, trade in services, bilateral investment, trade facilitation and economic cooperation has been completed in fall 2007. It now awaits the approval of the leadership of the two countries to commence FTA negotiations. However, India is running a trade deficit close to 22 billion USD with China due to a sharp increase in flow of goods from the neighbouring countries and Indian Ministry of Commerce officials say China has to first address this issue before starting the negotiations.⁷⁷ China is willing to start the talks but Indian industries as well as government are opposed to a FTA with China because of the concern of cheap Chinese goods influx after the tariff barriers have been lowered.⁷⁸

It is difficult for China to join the **TPP (Trans-Pacific Partnership)**, a multilateral FTA between Brunei, Chile, New Zealand and Singapore, as well as five additional countries currently under negotiations to join, including Australia, Malaysia, Peru, US and Vietnam, due to specific terms such as IPR, government procurement and SOEs. Even if Japan seems not entirely convinced by the benefits of a TPP-participation, it recently joined the negotiations, which could negatively impact China's exporters

⁷² Korea Herald: "South Korea, China, Japan agree to start official FTA talks", 14 May 2012

⁷³ Ministry of Commerce: <http://fta.mofcom.gov.cn>

⁷⁴ BBC News: "China, Japan, South Korea seek trade pact", 25 April 2011.

⁷⁵ Daily Yomuri Online: "East Asian giants move closer on FTA / Positive signs from China heighten prospects of trilateral pact with Japan, S. Korea", Koichi Uetake / Yomuri Shimbun, 24 May 2011.

⁷⁶ People's Daily: "Free trade deal with Mongolia on the cards", 12 May 2010.

⁷⁷ The Wall Street Journal: "India-China FTA talks may stumble over trade deficit", Asit Ranjan Mishra, 15 December 2010.

⁷⁸ The Economic Times: "China-ASEAN FTA may hit trade balance: Scindia", 23 April 2010.

as they are in direct competition in the Asia-Pacific Region, including the US, with counterparts Japan and South Korea.⁷⁹ The latter, as well as Canada, the Philippines and Taiwan, have also expressed interest in the TPP.⁸⁰ On May 16th 2012, the nine participants to the TPP met in Dallas, where no consensus could be reached so far.⁸¹

During the first China-Eurasia Expo held in Urumqi, Xinjiang, in September 2011, Vice-Minister ZHONG Shan called for a FTA among **SCO (Shanghai Cooperation Organization)** founded in 2001) member nations (China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan with Mongolia, Pakistan, Iran and India as observer states).⁸²

2.1.4. Relations between China and Taiwan

After over ten years without any negotiations, cooperative meetings between Chinese and Taiwanese representatives have taken place since Ma Ying-Jeou took office as Taiwan's president in 2008 and renewed his mandate in January 2012. In 2009, different agreements to strengthen cooperation were signed in order to facilitate mainland investment in Taiwan's financial markets, increase flight connections, strengthen cooperation for crime fighting and cooperation in agricultural quarantine inspection, industrial product standards and inspection and certification.

Negotiations on an **Economic Cooperation Framework Agreement (ECFA)** started in 2010. Although the ECFA was highly controversial and widely discussed in Taiwan, the deal was signed on June 29th, 2010, after five rounds of negotiations. The ECFA is widely regarded as a **milestone in institutionalising Cross-Strait relations** as it provides for the first time a legal framework for the economic ties that have developed over the past three decades. Under the agreement, which took effect on September 12th, 2010, both sides agreed to gradually reduce and remove trade and investment barriers and to seek ways to further strengthen economic cooperation in areas such as financial cooperation, IPR, customs cooperation, etc.⁸³

In the short term, the most notable consequence of the ECFA is that over 500 goods from Taiwan to the mainland will have their tariffs eliminated while Taiwan drops the duties on 267 mainland goods. This will have several positive effects, including increasing business revenues, spurring growth in the nation's gross domestic product, and lowering the unemployment rate. Chinese mainland allows Taiwanese companies to enter 11 service sectors such as accounting, hospital, banking and securities, while Taiwan opens nine of its services sectors to mainland firms.⁸⁴ In the long term, ECFA redefines Taiwan's position in the Asia-Pacific region and dispels the fear that the economy of Taiwan is becoming marginalized.⁸⁵

Critics fear the agreement will lead to a flood of cheap Chinese goods, an exodus of well-trained professionals and especially a growing dependence on China. The Ma administration underlines that the ECFA will facilitate similar economic pacts with other countries.⁸⁶ An aggressive FTA strategy by South Korea, Taiwan's main trade competitor, has been causing concern in Taiwan which is looking at the effects that the South Korea- EU FTA has on Taiwan's economy after coming into effect on July 1st 2011. A trade treaty with the EU would thus also be one of Taiwan's priorities.⁸⁷ Negotiations for the so-called **ASTEP (Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership)** have been launched between Singapore and Taiwan in May 2011 with the ambition to conclude it within one year.⁸⁸ Taiwan is mainly focusing on the opening of Singapore's financial sector which has many restrictions on foreign financial service providers. Despite the fact that both economies are rather complementary than competitive, one of the obstacles might be agriculture since Singapore has virtually no agriculture sector. However, through the FTA with Singapore, Taiwan may be able to enter the ASEAN agricultural markets. Meanwhile, Taiwan will not benefit from tariff reductions as Singapore enjoys already zero tariffs on the

⁷⁹ Yonhap News Agency, "TPP may affect China's possible FTA with South Korea and Japan", 17 November 2011, available at <http://english.yonhapnews.co.kr/business/2011/11/17/76/0503000000AEN20111117005200320F.HTML>

⁸⁰ Office of the United States Trade Representative, "Trans-Pacific Partnership Announcement", December 2009.

⁸¹ Ambassade de Suisse au Japon : « Signature d'un accord trilatéral Japon-Chine-Corée du sud en matière de promotion et de protection des investissements », Tokyo, 18.05.2012

⁸² China Daily, "Regional free trade tops the agenda, 29 November 2011, available at <http://www.chinaembassy.org.sg/eng/gdxw/t883001.htm>

⁸³ Xinhua: "Landmark cross-Strait economic pact takes effect", 13 September 2010.

⁸⁴ Xinhua: "Mainland, Taiwan reduce import tariffs to implement", January 2nd, 2011.

⁸⁵ Taiwan Today: "The Challenges of ECFA", 2 July 2010.

⁸⁶ ECFA's Regional Impact and the Taiwan-Singapore FTA Negotiations, Netina Tan, Postdoctoral Fellow, Asian Institute, Munk School of Global Affairs, University of Toronto, publishing date unknown.

⁸⁷ Global Tax News, "Taiwan, Singapore Begin FTA Talks", Mary Swire, 27 May 2011, available at http://www.tax-news.com/news/Taiwan_Singapore_Begin_FTA_Talks_49584.html

⁸⁸ The China Post, "Taiwan, Singapore begin free trade agreement discussions, 23 May 2011, available at <http://www.chinapost.com.tw/taiwan/national/national-news/2011/05/23/303403/Taiwan-Singapore.htm>

importation of most industrial goods. Apart from Singapore, the Philippines and India have also taken steps towards initiating free trade negotiations with Taiwan.

2.2 Outlook for Switzerland (potential for discrimination)

As both the position of China as an economic partner for Switzerland and the number of FTA between China and other industrial countries will increase, the potential for discrimination will follow the same path unless progress is made in the Doha Round or Switzerland-China FTA plans materialize. On the occasion of the official visit of **Federal Councillor Leuthard to China in July 2007 a joint declaration on economic cooperation** was signed. The declaration shall strengthen the bilateral relations on trade, investment and intellectual property rights. Further, Switzerland **recognised China as a market economy** on this occasion.

In January 2009, Chinese Prime Minister Wen Jiabao made an official working visit to Bern during which the further strengthening of economic cooperation was also discussed. **Both sides agreed on the preparation of a joint feasibility study on a possible FTA between Switzerland and China.**

Both sides started to draft the Joint Feasibility Study at the beginning of 2010. The joint study group met three times between February and August and managed to conclude the study.⁸⁹ On the occasion of the visit of President Leuthard to China in August 2010, **a MoU was signed stating that the joint feasibility study was concluded and that both parties agreed to launch negotiations in the near future. The negotiations were officially launched on January 28th, 2011**, by Chinese Minister of Commerce Chen Deming and Swiss Economy Minister Johann Schneider-Amman at the margin of the WEF in Davos. The first round of negotiations was held on April 2011 in Bern, the second one followed in July 2011 in Xi'an, the third in Montreux in November 2011, the fourth and fifth in Beijing in February and May 2012 respectively. During the fifth round, expert level discussions continued and further exchanges of information on respective regulatory systems and FTA-practices took place with regard to the following areas: trade in goods, trade in services, rules of origin, customs procedures and trade facilitation, technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS), trade remedies, intellectual property rights, competition, investment promotion, government procurement, trade and sustainable development, economic and technical cooperation, dispute settlement as well as legal and institutional matters. Good progress was achieved in most of the groups during this round. Follow-up work was agreed in all areas. It is foreseen that some expert groups will hold intersessional meetings before the **next round** of negotiations which is scheduled for **fall 2012 in Switzerland**.

In January 2009 a **revised bilateral investment protection agreement was signed** which provides notable improvements especially with regard to the transfer of returns on capital and investment, compensation for expropriation and dispute settlement procedures. The revised agreement entered into force on 13 April 2010.⁹⁰

In February 2009, Federal Councillor Doris Leuthard and Chinese Minister of Commerce Chen Deming signed a **MoU on the intensification of technical cooperation in the field of environmental technology**, and so far three Working Group meetings have been held aiming at strengthening the two countries' exchange of environmental technologies. The fourth Working Group meeting is scheduled for July 2012 in China.

Foreign Trade

3.1 Development and General Outlook

3.1.1 Trade in goods⁹¹

A. Foreign Trade in 2011

On December 7th, 2011 the Chinese government published a **white paper on its foreign trade** right with the 10th anniversary of China's accession to the WTO highlighting some aspects of the trade development. Since the economic opening in 1978 China's foreign trade shows an impressive growth from a trade volume of 20.6 billion USD (32nd world ranking) to 2.974 trillion USD in 2010 making it the world's largest exporter and second-largest importer. During this development its structure of trade in goods has fundamentally changed.⁹² These developments underline the **importance of China's foreign trade growth for the world economy**. In particular during the international financial crisis,

⁸⁹ For the Joint Feasibility study, please refer to: <http://www.seco.admin.ch/themen/00513/02655/02731/04118/index.html?lang=de>

⁹⁰ For the agreement, please refer to: http://www.eda.admin.ch/eda/de/home/topics/intla/intrea/dbstv/data59/e_20092659.html

⁹¹ Data mainly based on China's Custom Statistics, October 2011, see Appendix 3 and Mofcom: Regular Press Conference of the Ministry of Commerce on November 16, 2011

⁹² Information Office of the State Council: White paper "China's Foreign Trade", December 7th, 2011

when global goods imports decreased by 12.8 % (2009), China's goods imports increased by 2.9 %, making it the only country to maintain growth among the world's largest economies.

China has been promoting foreign trade on all fronts, and established trade relations with the vast majority of the world's countries and regions. Meanwhile, **China is one of the developing countries granting the largest market access to the least-developed countries (LDCs)**. By July 2010, China had granted zero-tariff treatment to over 4,700 commodities from 36 LDCs which had established diplomatic ties with China. China has announced to further expand its preferential treatment to the LDCs having diplomatic ties with China.

However, in 2011, i.e. during the starting year of China's 12th Five-Year Plan period, the world economy's momentum of recovery was affected by several factors, such as increasing inflationary pressures worldwide, Japan's severe earthquake, a politically volatile situation in West Asia and North Africa, a deepening sovereign debt crisis in Europe and a slow recovery of the USA economy.

In China, enterprises with a strong exposure to the global markets and foreign trade came to feel the combined effects from the sluggish global markets and the domestically rising factor costs and financing difficulty for medium and small enterprises, leading to pressures and risks in their business and production operations. The Chinese Government showed its determination to respond to the challenges by adopting multiple measures to stabilize foreign trade growth such as speeding up transformation of the economic restructuring, enhancing the competitiveness of the Chinese industries and intensifying efforts to open up emerging markets. In specific the policy measures included intensified supports on export credits and credit insurances; export rebates; popularization of cross border RMB trade settlement; generally improved trade facilitation.

Nevertheless, the full years' trade volume hit another record of 3.642 trillion USD, increasing by 22.5% from 2.974 trillion USD in 2010. Exports stood at 1.898 trillion USD (+ 20.3%) and imports at 1.743 trillion USD (+ 24.9 %), leaving a trade surplus of 155.142 bn USD – down from 181.507 bn USD in 2010. However, although imports and exports rose in 2010 in terms of absolute figures, their growth rates were significantly lower than in 2010 (exports: + 31.3% / imports: + 38.3%), signaling a still positive but decreasing growth momentum.

In a more regional perspective, China's bilateral trade with South Africa, Russia, Brazil and ASEAN outperformed the overall trade growth, while Europe, the US, Japan and HK markets, which account for 45.1 % of China's foreign trade, fell by 1.8%.

Overall, China's share in the world merchandise trade was flat on the export side and increased on the import side. According to WTO statistics, in 2011 the value of China's merchandise exports accounted for 10.4% of the world total, i.e. the same share as in 2010 and the largest one among all countries for three consecutive years.

In terms of domestic distribution, **11 provinces and cities located in the eastern coastal area account for 88% of the total trade volume**, although the share of the Western and Central areas of the country increased by 1.5% in 2010.

As for trade entities, foreign invested enterprises (FIEs) accounted for 51.1% of the trade volume, i.e. 2.8% lower than in 2010. The share of private enterprises grew by 2.8%, up to 28% of the total volume, while state owned enterprises (SOEs) accounted for 20.9% - roughly the same figure as in 2010.

In 2011 it came to no major shifts as regards the ranking of China's most important trading partners. On the top of the list one finds the EU with a trade volume of 567.210 bn RMB, followed by the US (446.650 bn USD), ASEAN (362.850 bn USD), Hong Kong (283.520 bn USD), Taiwan (160.030 bn USD), Australia (116.630 bn USD), Brazil (84.200 bn USD) and Russia (79.250 bn USD).

The three most important export markets in the year 2011 were the EU (356.020 bn USD), USA (324.490 bn USD) and Hong Kong (268.030 bn USD). The three most important countries/regions in terms of Chinese imports were also the EU (211.190 bn USD), Japan (194.590 bn USD), ASEAN (192.770 bn USD). The US only account for 122.150 bn USD of Chinese imports which leads to a trade deficit for the US of 202.340 bn USD with China.

B. Foreign Trade in 2012

Although Chinese exports and imports are still growing in absolute terms, the growth figures follow a downward trend and the trade surplus is narrowing. The export growth rate fell from 20.6% in Q3 2011 and 14.2% in Q4 2011 to 7.6% in Q1 2012. This development appears to be mainly linked to the consequences of the unsettled European debt crisis. China's export growth to the EU slid from 18.2% in Q3 2011 to 6.5% in Q4 2011 and even fell by 1.8% in Q1 2012, in which exports to Italy

and Germany fell by 29.4% 2.9% respectively. The downturn in trade with the EU was to some extent offset by growing trade relations with the emerging markets. In Q1 2012 the trade volume with the other BRIC countries increased by 14% and by 9.2% with ASEAN respectively.

With exports standing at 430.02 bn USD and imports amounting to 429.35 bn USD the trade account was nearly in balance in the first quarter of 2012, after the trade surplus had been falling for two consecutive quarters. With exports scrambling before the Chinese Spring Festival and mass imports following after the Spring Festival, China even recorded a trade deficit of 31.48 bn USD in February.⁹³

3.1.2 Trade in services

According to the White Paper on China's foreign trade **China's international competitiveness in services trade has been enhanced**, especially since its WTO entry. From 2001 to 2010 **China's total services trade value (excluding government services) witnessed a more-than-five-fold growth from 71.9 billion USD to 362.4 billion USD.**⁹⁴ China's share in world total exports is 4.61% with 170.2 billion USD and its share in world total imports is 5.47%, worth 192.2 billion USD.⁹⁵

3.2 Bilateral trade

3.2.1 Trade in goods⁹⁶

As of January 1st 2012 the **Swiss Federal Customs Administration adapted its calculation concept with the aim to harmonize its foreign trade statistics with international standards**, newly taking into account the country of geographic origin, other than the country of production as it used to be the case prior to the change.

Under the former concept of the country of production, in international trade flows a good was attributed to the country where it was declared in, even though it was actually produced in a different country. Typically countries, in which important trade hubs for the Swiss international trade are located, such as Germany (f.e. port of Hamburg) or the Netherlands (f.e. port of Rotterdam), therefore accounted for a larger share of imports than it is the case under the concept of the country of geographic origin. For example: if a good was imported to Switzerland from China, whereas the freight was cleared at the port of Rotterdam, prior to being transferred to Switzerland, the good was considered as an import from the Netherlands, although the latter only served as a transfer hub. Under the new concept, however, such a good would be considered as an import from China, i.e. the country of geographic origin.

The regulation substantially impacts the Swiss trade balance with certain countries. For instance, when retroactively calculating the figures for the year 2011 according to the concept of the country of geographic origin, the imports from the Netherlands would stand 24.5% **lower** than they were actually published. The same outcome applies to Germany (-13.5%), France (-12.8%), Belgium (-15.2%) or Ireland (-16.6%).

On the other hand, the imports from other countries, typically countries which ship their products to Switzerland through international trading hubs, will rise under the new method. This applies for the US with +16.2%, Japan (+22.4), Turkey (+51.6%), India (21.2%). **In particular the same effect applies for China with an increase of 54.1%, leading to the consequence that according to the concept of the country of geographic origin, in the year 2011, Switzerland actually exhibits a trade deficit of 1.2 billion Swiss Francs instead of a trade surplus of 2.2 billion Swiss Francs, with the imports from China rising from 3.6% to 5.6% as a share of Switzerland's total imports.**

The introduction of this new calculation method bases on one side on a recommendation of the United Nations regarding the calculation of foreign trade statistics. On the other hand the change also results from a bilateral agreement between Switzerland and the European Union regarding the cooperation in the field of statistics, according to which Switzerland committed to harmonize its statistical norms in the field of foreign trade with those of the Union as of January 1st 2012.

Although certainly both calculation methods may have their specific advantages in terms of capturing certain economic realities, the change appears reasonable, since the production country concept may have biased the effective trade relations with certain countries. However, in the short term the change causes difficulties in terms of statistic consistency as it reduces the historic comparability between the old and the new trade figures.

⁹³ MOFCOM: "Report on the Foreign Trade Situation of China", Spring 2012

⁹⁴ Information Office of the State Council: White paper "China's Foreign Trade", December 7th, 2011

⁹⁵ WTO: Country Profile China October 2011

⁹⁶ Data mainly based on: Swiss Federal Customs Administration, October 2011, see Appendix 4

From January to December 2011, the volume of bilateral trade between Switzerland and Mainland China accounted for 15.1 billion CHF, which corresponds to an increase of 11.6% from 2010. In the same period the Swiss trade surplus stood at 2.5 billion CHF - that is 11.6% higher than in 2010. However, it is important to note that **these figures still base on the old calculation method**.

As for figures from January to March 2012 which were calculated according to the new method, i.e. the country of geographic origin, Switzerland experienced a trade deficit of 532 million CHF, with exports to China sinking by 9.29% and imports from China rising by 61.8% compared to the same period of time in the previous year. However, these figures do not allow for a meaningful interpretation, as they base on the comparison of figures calculated according two different methods. **Nevertheless, for the same period, i.e. January to March 2012, even under the concept of the country of geographic origin, Switzerland still records trade surplus of 1.54 bn CHF with Hong Kong.**

While Switzerland's exports of machinery, watches, pharmaceuticals and chemicals to China cumulatively account for roughly 85% of total exports in 2011, it imported mainly textiles, machinery, watches, furniture, toys, chemicals and pharmaceuticals, amounting for roughly 76% of total imports in 2011. To Hong Kong, in 2010 Switzerland mainly exported watches, jewellery, precious metals and stones (84%) and imported products of the same class (86%). This reveals an interesting feature of Sino-Swiss bilateral trade, which is that the two countries trade essentially the same products, but in different price classes⁹⁷.

4 Direct investments

4.1 Development and general outlook

The financial crisis negatively affected foreign direct investment (FDI) to China, not because of suppressed market prospects for China but because foreign investors were facing financing problems in their domestic countries. In 2009, FDI therewith fell by 2.6% to 90 billion USD.⁹⁸ However, FDI has recovered well in 2010: the number of newly approved foreign-funded enterprises in China went up by 16.94% compared to 2009, and actual used foreign investment increased by 17.44% year-on-year. **The FDI growth sustained in 2011, but turned weaker and even negative towards the end of the year.** For the entire year 2011 the number of newly approved foreign-funded enterprises in China totaled at 27'712, up by 1.12% from 2010 and the actual used foreign investment reached 116.011 billion USD (+9.72% year on year). The actualized FDI in the service sector was higher than in other sectors and grew faster in Western regions than Eastern regions⁹⁹.

According to Chinese statistics the top ten countries investing in China, accounting for 91.6% of foreign capital input in 2011 were: Hong Kong (77.011 billion USD), Taiwan (6.727 billion USD), Japan (6.348 billion USD), Singapore (6.328 billion USD), USA (2.995 billion USD), South Korea (2.551 billion USD), UK (1.61 billion USD), Germany (1.136 billion USD), France (802 million USD) and the Netherlands (767 million USD)¹⁰⁰. As for Switzerland, in 2010 the FDI in China stood at 260 billion USD (see section 4.2).

However, already in the last two months of the year 2011 FDI growth had turned negative and it remained negative in first months of 2012.¹⁰¹ From January to April 2012 the number of newly approved foreign-funded enterprises in China totaled at 7'016, down by 13.94% year on year. The actual utilized foreign investment reached 37.881 billion USD, down by 2.38% year on year. During the same time span, with 623 million USD, Switzerland ranked 7th among all countries in terms of actual utilized foreign investment.¹⁰²

Since 2006, China's FDI policy has shifted from export led growth to quality investment supporting domestic led growth. The shift is a result of the general economic policy adopted in the 11th Five Year Plan and set out in detail in the 11th Five Year Plan on the Utilization of Foreign Investment. Therewith, **China has decided to shift its policy of attracting foreign business from "quantity" to "quality" and to push its industry up the value chain.**

⁹⁷ Swiss Federal Customs Administration

⁹⁸ National Bureau of Statistics; "Statistical Communiqué of the P.R.C. on the 2009 National Economic and Social Development"; Feb. 26th 2010.

⁹⁹ Regular Press Conference of the Ministry of Commerce on May 17th, 2011:

<http://english.MOFCOM.gov.cn/aarticle/newsrelease/press/201105/20110507573980.html>

¹⁰⁰ MOFCOM: "Statistics of January-December 2011 on National Absorption of FDI"; February 2th 2012

¹⁰¹ Bloomberg: "China's Foreign Direct Investment Declines a Fifth Month"; April 17th 2012

¹⁰² MOFCOM: "Statistics of FDI in January-April 2012"; May 25th 2012

In a move to create a tax neutral FDI policy, the new Corporate Income Taxation Law (CIT), which went into effect on January 1st, 2008, removed many of the preferential treatments foreign companies previously enjoyed to create a more equal environment.¹⁰³

In April 2011 a new draft of the “Foreign Investment Catalogue” has been released and the final version was published in December 2011. The new version came into effect on January 30th, 2012, replacing the previous version updated in October 2007. Initially introduced by the NDRC and the Ministry of Commerce in 1995, the catalogue is usually being renewed in three to four year intervals.

Stipulating “encouraged,” “restricted” and “prohibited” categories that distinct foreign invested projects fall into, the Catalog has long been a major guideline of China’s market openness strategies. In order to **continue the promotion of “quality over quantity”**, the following five investment areas shall be further encouraged: high-end manufacturing industry, high-tech industry, modern service industry, new energy industry and energy-efficient and environmentally clean industries. Preferential policies for land use and tax breaks shall help to attract foreign investment into these encouraged categories.

The **new revisions have added more environmentally-friendly and high-end projects to the “encouraged” category.** New energy utilization is rising as one of China’s top interest while attracting foreign investment. New energy-related industries, including high-tech green battery manufacturing and the construction and operation of renewable water plants, have all become new additions to the “encouraged” Catalog. Energy efficient industries and green technologies are further highlighted in the “encouraged” list. The **newly added “prohibited” items are highly related to China’s current social issues and national interest**, such as foreign investment related to the real estate industry. Furthermore China is showing a special interest to **channel foreign investment to its central and western regions.** In order to enable these regions to experience a similar development as the coastal areas, tax breaks and labour intensive industries are now formally encouraged in the central and western regions. The final version of the catalogue will be issued and implemented over the course of this year¹⁰⁴.

The government also **allows local authorities to approve foreign investment projects up to an amount of 300 million USD.** Previously the cap was set at 100 million USD. Since the cumbersome approval through the central authorities has always been regarded as a major impediment, this change is expected to have an immediate positive effect. However, although there are proposals to improve the foreign exchange management for foreign invested enterprises, they do unfortunately not provide concrete instruction on how this should be implemented.

The government also proposes **to expand the scope of utilization of foreign capital** by for instance encouraging the participation of foreign capital in the reform and restructuring of domestic enterprises by means of equity participation and mergers and acquisitions (M&A) and allowing A-share listed companies to get investment from both domestic and foreign strategic investors.¹⁰⁵

At the beginning of March 2010, **the administrative measures for the establishment of foreign-invested partnerships (FIP)**, promulgated by the State Council in December 2009, became effective. China’s Partnership Enterprise Law has been in force since June 2007, but only Chinese domestic enterprises or individuals could become partners. The new measures now provide a framework for foreign-invested partnerships – partnerships between two or more foreign entities or individuals, or jointly with Chinese individuals, legal persons or other Chinese organisations – and therewith a new vehicle for foreign investment. The government will **encourage foreign companies and individuals possessing “advanced technologies” and “management experience” to establish FIPs in China.** The definition of these two features remains unclear. The current restrictions regarding foreign investments in certain industries also applies to FIPs, however for the allowed industries the FIP measures facilitate investment to China by eliminating the requirement for prior approval by the Ministry of Commerce or its local offices.¹⁰⁶ Partnerships, including FIPs, are not subject to statutory minimum capitalization requirements. The Partnership Enterprise Law provides for a more liberal scope of recognized capital contributions compared to the more restrictive rules for *Equity Joint Ventures (EJV)*, *Cooperative Joint Ventures (CJVs)* and *Wholly Foreign Owned Enterprises (WFOE)*. However, PRC regulations are unclear about the new structure’s approval processes and downstream investment options¹⁰⁷.

¹⁰³ “Five Major Changes of the New Corporate Income Tax law and the Impact on Foreign Investment in China”: 5 June 2008.

http://fdi.gov.cn:8080/pub/FDI_EN/News/Focus/Subject/News-The%20focus/taxlaw03/t20080605_93658.htm

¹⁰⁴ MOFCOM: “Several Opinions of the State Council on Further Utilizing Foreign Capital”; April 06th 2011

<http://english.MOFCOM.gov.cn/aarticle/policyrelease/announcement/201006/20100606982859.html>

¹⁰⁵ Several Opinions of the State Council on Further Utilizing Foreign Capital; April 6th 2011

http://www.fdi.gov.cn/pub/FDI_EN/Laws/Law_en_info.jsp?docid=120748

¹⁰⁶ Degree of the State Council of the People’s Republic of China No. 567; November 25th 2009

http://fdi.gov.cn/pub/FDI_EN/Laws/GeneralLawsandRegulations/RegulationsonForeignInvestment/P020091204372347037162.pdf

¹⁰⁷ The China Business Review; September – October 2010; Page 2

The adoption of China's first Anti-Monopoly Law (AML) in August 2008 was received with mixed feelings by many foreign businesses. Multinational companies feared the law could serve as a tool to allow for protectionist measures against foreign companies in China. A main concern is the broad and vague provisions which leave much scope for decision making to the responsible Chinese authorities. From 2008 to 2010, MOFCOM concluded 214 reviews of concentrations under the AML. The first eight months of 2011 saw 142 filings submitted, and the year-end number is expected to exceed 200¹⁰⁸. **Regulators seem to use a fairly conservative approach, not using the law exclusively against foreign companies.** So far, only Coca Cola's attempt to acquire Huiyuan – China's largest juice producer – was blocked.¹⁰⁹

At the end of 2010 the National Development and Reform Commission (NDRC) and the Administration of Industry and Commerce (SAIC) released additional rules that came into force in February 2011 and supply specific standards in determining the activities with respect to price monopoly, reaching monopoly agreement abuse of dominant market position, and abuse of administrative authorities. Additionally the rules also provide relevant authorities with the procedures for the investigation of monopoly-related cases¹¹⁰.

As of **March 2011 the Notice Regarding the Establishment of National Security Review Mechanism for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors ("NSR") came into effect.** It basically covers **all foreign invested M&A touching** either the military and related enterprises or other companies dealing with **national security in a broad sense**, encompassing also M&A that could cause risks to the domestic productivity, the sound economic development or the social order in China. Furthermore, it also includes investment in major products or projects in the fields of farming, resources, energy, infrastructure, transportation, technology and equipment manufacturing. Foreign investment subject to the review includes all transactions that in some way involve foreign investors obtaining "actual control" over domestic enterprises and goes beyond the simple case, where the investor secures the majority of the shares, and also includes cases such as the foreign investor exercising control through Intellectual Property Rights, etc.¹¹¹

It remains unclear whether this new regulation is only the written record of the practice unofficially followed in the past or just a new tool for blocking unwanted foreign investment, since both the scope of concerned enterprises as well as the criteria which qualify a foreign investor obtaining "actual control" over a domestic business, are kept fairly broad. In either way, **Foreigners are still excluded or confined to a minority participation in particularly sensitive or strategic sectors** of the economy.¹¹² Furthermore, the withdrawal of capital and profits from China is possible, but barriers remain and make the process complex and tedious for businesses.

Foreign companies are increasingly voicing concerns **that the business environment in China is deteriorating and foreign investment is no longer welcome.** Especially the State Council's attempt to promote "indigenous innovation" – a plan to support the creation and commercialization of domestic technology by requiring products to have Chinese intellectual property in order to qualify for the government procurement catalogue – was strongly criticized.¹¹³ In April the government decided to soften those rules and pledged that foreign companies shall not be discriminated in the Chinese market.¹¹⁴ **On different occasion, high-level officials underlined China's commitment to foreign investment.** In September 2010, Premier Wen Jiabao assured foreign investors that China is striving to create an open and fair environment for foreign investors. Wen promised that "all enterprises registered in China according to Chinese law are Chinese enterprises" and that equal treatment would be given to products from foreign and Chinese invested companies in government procurement.¹¹⁵

Nevertheless, China remains a top FDI destination. According to estimates from the CIA World Factbook, **by December 2010, China's accumulated FDI stock amounted to 579 billion USD**, well ahead of other large developing and transition economies such as Brazil (368 billion USD), India (189 billion USD) or Russia (297 billion USD).¹¹⁶ According to the Ministry of Commerce, FDI to China will continue to grow in the long-run due to increasing domestic demand and improving labour quality. However, concerns remain regarding how to maintain a high FDI growth rate in the short-term as China is adjusting its FDI policy in order to channel more investment into the service sector and to its

¹⁰⁸ Jones Day: "Antitrust Alert: China Publishes Two New Merger Decisions Under Anti-Monopoly Law"; November 2011

¹⁰⁹ Financial Times: "Life after China's Antimonopoly Law", 20 October 2010.

¹¹⁰ Wenfei Attorneys at Law Ltd.; China Legal Report April 2011, Page 2

¹¹¹ Hogan Lovells: China Alert on 14 March 2011 "MOFCOM releases implementing rules on national security review"

¹¹² http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=87372

¹¹³ Wall Street Journal: "Beijing revises procurement policy", 13 April 2010.

¹¹⁴ China Daily: "Wen assures Europe on trade, investment options in China", 30 April 2010.

¹¹⁵ People's Daily: "Premier Wen assures foreign firms in China", 14 September 2010.

¹¹⁶ The CIA World Factbook: "Stock of direct foreign investment - at home" (data retrieved on December 14th, 2011)

central and western regions.¹¹⁷ An UNCTAD survey shows that China will remain a top destination for inward FDI in the period of 2010-2012.¹¹⁸

Besides the foreign investment coming into the country, **China has also become a source of outward direct investments.** By the end of 2009, the total stock of Chinese offshore investment stood at about 230 billion USD, on a par with Denmark and slightly higher than Taiwan. According to MOFCOM statistics, the accumulated non-financial overseas direct investment amounted to 59 billion USD in 2010, which is an increase of 36.3% in comparison to 2009¹¹⁹. Chinese offshore investment began to take off in the past decade, primarily spurred by a drive to secure resources for its industry and need to productively deploy cash reserves, accumulated through exports and profits at home.¹²⁰ Chinese companies have taken over stakes in Australian mining enterprises and other outbound resource investment has gone to state-controlled companies, including large deals with Russian and Venezuelan oil companies. China's investment in Africa attracted attention again in May, when the country announced multi-million investments in the development of cement plants in South Africa and Mozambique, an oil refinery in Nigeria and the mining sector in Zambia.¹²¹

In the first half of this year, China's investment in Brazil topped 20 billion USD, more than 10 times all of China's previous investment in the country. That puts China on track to be Brazil's No. 1 investor for 2010, compared with 29th in 2009. The China Development Bank has given Petrobras, Brazil's main oil producer, 10 billion USD as a down payment on future business. In 2010 China became Brazil's biggest trading partner, replacing the United States¹²². However, tensions have surfaced after China last year also emerged as one of the biggest sources of cheap imports into Brazil, helped by a surge in the value of the Real, which is undermining the competitiveness of the Brazilian industry. This prompted finance minister Guido Mantega to call for a revaluation of the RMB. Seemingly the Brazilian government was even considering restrictions on FDI in mining, including imposing minimum domestic supply quotas and screening transactions based on "the investor's profile".

And with its growing foreign reserves, **the China's foreign outbound investment is likely to grow further in the coming years.** China's investments are also booming elsewhere - from Peru, where one third of the minerals sector is in Chinese hands, to Japan, where Chinese mergers and acquisitions quadrupled from 2008 to 2009. Even though the data on China's outbound foreign direct investment show that Europe accounts only for a relatively small portion of the country's stock of such assets,¹²³ this share is growing at a fast pace. As of today, China's interest in the region has been largely economic and disconnected from geopolitical goals. The EU is China's largest global trading partner and like the United States, European trade with China remains persistently imbalanced. However, Europe is likely to feel the force of China's outward expansion earlier than the US as European firms arguably have a greater need for cash than American ones and China's huge holdings of US Treasuries give it an incentive to its dollar assets, whereas the euro zone is the natural alternative.

However, since not only the large state-owned enterprises but also private Chinese companies are often closely intertwined with the Chinese government, **it is sometimes hard to see where the company stops and the country begins,** which often causes skepticism towards Chinese direct investments abroad, which to some extent may reflect the difficulties foreign firms are facing in China in terms of mergers and acquisitions: In particular the US and China seem to linger in a Cold War episode with regard to mergers and acquisitions as a series of planned acquisitions have died in the hands of bureaucrats or politicians in Beijing and Washington. Other ideas haven't seen the light of day because of fear they will also be blocked. In the context of the US Presidential and Congressional elections, due in November 2012, as well as the queued transition of power in China, which is expected to materialize also within the coming year, the time lying ahead could be a particularly rocky for Sino-US deal making, due to both countries entering a politically sensitive phase.¹²⁴

4.2 Bilateral investment flows

At present, about 400 Swiss firms with over 900 branches are represented in China, employing several tens of thousands people. According to Chinese statistics, Swiss direct investments in China in 2010 amounted to 260 million USD, a decrease of 13% from 300 million USD in 2009. The

¹¹⁷ China Daily: "Foreign investment slows down", 16 October 2010.

¹¹⁸ UNCTAD, World Investment Prospects Survey, September 2010.

¹¹⁹ MOFCOM: "Statistics of China's Non-financial Foreign Direct Investment in 2010"; 28.Januar 2011
<http://english.MOFCOM.gov.cn/aarticle/statistic/foreigninvestment/201101/20110107386833.html>

¹²⁰ Financial Times Asia: "Chinese offshore investment set for take-off"; 05.05.2011

¹²¹ Economist Intelligence Unit, Country Report China, May 2010.

¹²² Washington Post: "China invests heavily in Brazil, elsewhere in pursuit of political heft"; 26. July 2010

¹²³ The Economist; "Capital and companies from China are sidling into Europe"; June 30th 2011

¹²⁴ <http://www.reuters.com/article/2011/04/12/us-specialreport-china-merger-idUSTRE73B47V20110412>

cumulative Swiss investment in China grew by another 555 million in 2011. As of October 2011 the cumulative Swiss direct investments accounted to 4.08 billion USD, leaving Switzerland on the 6th rank among European countries.¹²⁵

As regards the **figures on Swiss direct Investments in China published by the Swiss National Bank, they differ significantly from the data released by MOFCOM** as shown by the fact that in 2010 Swiss direct investments to China amounted to 1.676 billion CHF while the stock of Swiss direct investments stood at 8.005 billion CHF in the same year according to Swiss statistics.¹²⁶

Switzerland has economic agreements with China regarding investment protection and avoidance of double taxation. **A revised investment protection agreement was signed in 2009 and came into force on April 13th, 2010.** This updated investment protection agreement will allow a higher protection of Swiss and Chinese investments in the respective host country. The main provisions of the agreement cover the handling of foreign investments by the host country, the transfer of capital and investment income, compensation for expropriation and the introduction of new dispute settlement procedures such as the possibility for a company to unilaterally submit disputes to international arbitration.¹²⁷

So far, Chinese direct investment in Switzerland is still modest but started to increase significantly in the past years. The state-owned Bank of China opened a private banking arm and an institutional management fund subsidiary in Geneva in November 2008. This is the first time a Chinese bank starts operating in Switzerland. Huawei, a Chinese telecom equipment manufacturer opened a branch in Switzerland in October 2008. In May 2009, Suntech, a manufacturer of solar photovoltaic cells and modules, announced to relocate its European headquarter from London to Schaffhausen. As of today there are about 60 Chinese companies established in Switzerland.

5 Trade, economic and tourism promotion “Country advertising”

5.1 Foreign economic promotion instruments

The Chinese leadership regulates all the country's economic activities to the detail and since the state remains the owner of whole areas of the industry, it is also one of the most important actors within the economy. **Regular contact with the authorities at every level is thus crucial for Swiss companies established in China. The official representations of Switzerland – the Embassy in Beijing and the Consulates General in Shanghai, Guangzhou and Hong Kong – therefore have to take on a particular role in the arrangement of such contacts.**

Swiss Business Hub China (SBH China)

The SBH China is part of the worldwide “OSEC Business Network Switzerland” and has been operational since March 2002 at the Swiss Embassy in Beijing with a branch at the Consulate General in Shanghai and one at the Consulate General in Guangzhou. The specially trained consular and local SBH-staff offer **services to Swiss SME in their endeavours of strengthening and developing their business relations with China** (services include: market and product analyses; search of distributors, representatives and import partners; individual consulting and coaching; reports on presentation and trade fairs).

Since the beginning of 2010, the Swiss Business Hub also assumes the mandate for foreign investment promotion. The SBH China now also manages the promotion of Switzerland as a business location for potential Chinese investors. The aim is to inform and build on the firm Sino-Swiss relationships which have been established and raise awareness of Switzerland as a first-class business location for setting up regional and European headquarters among the Chinese business owners, entrepreneurs and investors.

Swiss-Chinese Chamber of Commerce and SwissCham China

The Swiss-Chinese Chamber of Commerce and the SwissCham China are private organisations registered in Switzerland and China respectively. Among their members are the leading Swiss companies in the trade, industry and financial sectors. The network consists of about 800 companies and individual members. The Swiss-Chinese Chamber of Commerce was first set up in Zurich in 1980 and established a branch in Beijing in 1995. The latter obtained the status of an independent chamber of commerce according to Chinese law in 2001. As a result, two national organizations are operated today with three regional branches in Switzerland (Zurich, Geneva, Lugano) and three in China

¹²⁵ Ministry of Commerce / Chinese data on FDI differ from Swiss statistics (see the next footnote)

¹²⁶ Data on FDI are always collected on two sides, in the country that places the direct investment and the country where the direct investment takes place. Since the institutions collecting the data in both countries cannot exchange information on investments due to reasons of confidentiality, the figures issued by different countries cannot be aligned and may therefore vary substantially as it is the case for Swiss and Chinese data on FDI.

¹²⁷ http://www.eda.admin.ch/eda/de/home/topics/intla/intrea/dbstv/data_c/c_249.html

(Beijing, Shanghai and Guangzhou). **Their purpose is to promote and support the global success of the Swiss business community in China.** Simultaneously, SwissCham China assists a growing number of China-based enterprises in their dealings with Swiss partner companies. Besides the two Chambers, experienced private consultants offer similar services to interested clients.

5.2. Interest for Switzerland as a location for tourism, education and other services, potential for development

Presence Switzerland

Presence Switzerland is an office of the Swiss federal administration and as a unit it is part of the General Secretariat of the Federal Department for Foreign Affairs (FDFA). As such it is responsible for implementing the Federal Council's strategy on Switzerland's communication abroad.

Swiss awareness in China is raised through a number of projects. The image that is being depicted by Presence Switzerland is one of an innovating country in the heart of Europe, emphasising values such as quality and well-being. **Switzerland enjoys a positive, although largely stereotypical image in China.** The goals of Presence Switzerland are thus to bring further awareness and understanding of Switzerland to the population in China in order to create stronger relations while the country continues to gain importance in the global economy. Besides this, Presence Switzerland, in close cooperation with private and public institutions, is involved in several smaller projects positioning Switzerland as an innovative, technologically advanced, internationally minded country with a high quality of life and environmental awareness. Besides the House of Switzerland (2008 Beijing Olympics) and the Swiss Pavilion (2010 Shanghai World EXPO), the exhibition "Albert Einstein 1879-1955" of the Berne Historical Museum was the third major PRS project during the special campaign 2008-2011. In 2011, this exhibition has attracted over 800'000 Chinese visitors in Guangzhou, Hong Kong and Beijing where it was hosted by the respective science & technology museums. The exhibition was also very successful on its final destination in Wuhan in March 2012. Such platforms for Swiss communication abroad definitely helped strengthening Switzerland's image in China.

Tourism

A consequence of the growing Chinese economy and the rise of (urban) incomes is the **booming tourism industry** for travel outside of China: 70.25 million Chinese travelled abroad in 2011, up 22% compared to the previous year.¹²⁸ Therefore China is a key strategic growth market for the Swiss tourism industry. Switzerland was granted **Approved Destination Status (ADS)** by the Chinese Government in 2004. Following the implementation of the policy, there was a noticeable increase in accepting visa applications. New checks and guidelines were at the same time put into place to reduce the risk of travellers remaining in Switzerland illegally.

Switzerland Tourism operates two offices in mainland China, one in Beijing and one in Shanghai as well as an office in Hong Kong, covering Southern China. Switzerland Tourism reports 677'220 overnights from Chinese visitors (including Hong Kong) to Switzerland in 2011. **This is an increase of 41.8% compared to 2010 and corresponds to a share of 3.4% (2010: 2.4%) among all foreign markets.** From January to February 2012 the number of overnights of Chinese Tourists in Switzerland stood at 97'464, accounting for 2% among all foreign markets. Switzerland Tourism predicts a long-term annual growth rate of 10-15% in normal years.¹²⁹

Switzerland's entry to the Schengen-Agreements, which became operational at the beginning of December 2008, brings some advantages but also creates a competition for the easiest visa and complicates exact tracking of visitor numbers. In this line follows the remarkable increase of issued Visa. 72'208 visa have been issued totally in 2011, this means an increase of 57.4% compared to last year. For January to February 2012 the issued visa increased about 100.8% with regards to 2011 with 10'748 visas being issued. Chinese citizens can make their visa application to the offices in Beijing, Shanghai and Guangzhou.¹³⁰

Education

The **Swiss public education sector and its institutions have become increasingly attractive among Chinese students.** Despite the fact that Switzerland is mostly known for its private schools and hotel management education and that it is considered as one of the most expensive countries, the group of Chinese students in Switzerland is now one of the biggest groups of foreign students in our country. The good positions of our institutions in various rankings and the fact that more and more programmes on the Master level are taught in English contribute to this growing interest in China. The Swiss representations are actively involved in promoting Swiss education opportunities throughout China. This includes participation at the China International Education Exposition and other similar educational events such as conferences, workshops and presentations at the 38 top-universities in

¹²⁸ National Bureau of Statistics of China, "Statistical Communiqué on the 2011 National Economic and Social Development", 22 February 2012.

¹²⁹ Switzerland Tourism.

¹³⁰ Embassy of Switzerland in Beijing.

China. More and more, identification and selection of the top students become the main challenge. On the other hand, interest of Swiss students in studying in China is still limited. Apart from language and culture, a few Swiss follow classes in art, medicine and engineering. As more and more Chinese are looking into studying in Europe, this imbalance is likely to continue in the future.

A “**Memorandum of Understanding**” for educational exchanges, signed by Swiss Federal Councillor Calmy-Rey during her visit to China in 2006, ended in 2008. Currently, there is no framework agreement in the area of education. However, the exchange of scholarships continues and each year the Swiss – respectively Chinese – government offer more than 20 full-time scholarships to the partner country. In addition, 30 Swiss students are awarded a partial scholarship from the Chinese government to cover living costs. Both, the Chinese and the Swiss ministries of education expressed their wish to intensify relations on the basis of a new MoU.

Research

An increasing number of Swiss and Chinese scientists are engaged in joint research projects. Swiss and Chinese research institutes are collaborating more and more on an institutional basis, for instance by means of regular exchange of faculty and staff. Several funding instruments are promoted in this context, including the instruments of the Swiss National Foundation, the EU Framework program and others. The **Sino-Swiss Science and Technology Cooperation SSSTC Program**, a joint venture of the Chinese and Swiss government, is an additional bilateral instrument which aims at encouraging and strengthening academic cooperation between the two countries. The Swiss Federal Institute of Technology in Zurich (ETH) functions as the leading house of the program. The program is designed to promote lasting cooperation between Chinese and Swiss universities and research institutions in the priority areas of life sciences, environment, sustainable urban development, material sciences and medicine (2008 – 2011) as well as renewable energy/cleantech and nanotechnology (2012). On his visit to China in April 2011, Federal Councilor Burkhalter signed a **Joint Statement on Sino-Swiss Science & Technology Cooperation**, enhancing the scope of bilateral research-collaboration. The new badge for the program is planned for 2013 – 2016. With this development, the Swiss research community can be part of the rapid raise of China to become one of the leading S&T powerhouses.

swissnex

In order to **strengthen bilateral cooperation in the field of higher education, research and innovation**, a swissnex office was opened in Shanghai in August 2008. Swissnex is an initiative of the Swiss State Secretariat for Education and Research and the Ministry of Foreign Affairs and similar offices already exist in Boston, San Francisco, Singapore and Bangalore. The swissnex network is a key component of the Swiss strategic scientific policy for the promotion of bilateral cooperations set by the Swiss Federal Council. It is closely linked to the network of Science & Technology Counsellors and S&T Offices within Swiss Embassies. swissnex China's mission is to create and promote awareness of Swiss excellence in science, technology, innovation and culture, to connect academia and business and to facilitate cooperation between the two countries. Swissnex China has been mandated by various universities and institutions like ETH Zurich, University of Zurich, Universitätsspital Basel and others to fulfill a common mission in China. It is also responsible for the organization of a framework program called “E+” in the context of the Einstein exhibition tour in China.

5.3 Interest for Switzerland as a location for investment, potential for development

Switzerland's strengths as an investment location are currently promoted in China by the Swiss Business Hub (see section 5.1). Besides this, the cantons have their own investment promotion agencies. The Swiss Business Hub, who carries out systematic market analysis and development has organised some high-level seminars, elaborated brochures, manuals and presentations and assists cantons in their own endeavours in the very demanding Chinese market. Switzerland is most actively advertised with emerging globalizing Chinese companies as a location for international headquarters and business control centres. Cooperation opportunities with the very innovative export-oriented Swiss economy are also highlighted. With a number of recent Chinese investments in different parts of Switzerland **the joint efforts of Switzerland Trade and Investment Promotion, the cantons and the service sector have already generated results**. Main competitors in Europe include Belgium, France, Germany, the United Kingdom, the Netherlands and Sweden. Like in other Asian countries, Switzerland is perceived as a premium location in the heart of Europe, but high living-costs and barriers for entry of Chinese workforce are on the flip-side.

5.4 Interest for Switzerland as a financial location, potential for development

Switzerland's reputation as a financial location is still generally positive, especially within the Chinese Government, the National Bank and the regulatory bodies of the financial sector. The Swiss Banking Association has been conducting a yearly dialogue with Chinese financial authorities since 2006 on issues of mutual interest to Chinese and Swiss financial services industries. The leading Swiss banks,

which have acquired minority participations in Chinese banks and insurance companies, regularly receive Chinese officials and financial sector professionals for trainings and know-how exchange.

6 Useful internet Links (see Annexe 6)

Annexes

Annexe 1: Structure of the Economy

Annexe 2: Essential Economic Data

Annexe 3: Trading Partners

Annexe 4: Bilateral Trade Switzerland –China

Annexe 5: Foreign Direct Investment

Annexe 6: Useful internet links

Appendix 1 China: Structure of the Economy

China: Structure of the Economy												
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (Q I)
Distribution of GDP (%)												
Primary Sector	14.4%	13.7%	12.8%	13.4%	12.1%	11.1%	10.8%	10.7%	10.3%	10.1%	10.1%	6.4%
Secondary Sector	45.1%	44.8%	46.0%	46.2%	47.4%	48.0%	47.3%	47.5%	46.3%	46.8%	46.8%	47.6%
Tertiary Sector	40.5%	41.5%	41.2%	40.4%	40.5%	40.9%	41.9%	41.8%	43.4%	43.1%	43.1%	46.0%
Distribution of Labor (%)												
Primary Sector	50.0%	50.0%	49.1%	47.0%	44.8%	42.6%	40.8%	39.6%	38.1%	36.7%	n/a	n/a
Secondary Sector	22.3%	21.4%	21.6%	22.5%	23.8%	25.2%	26.8%	27.2%	27.8%	28.7%	n/a	n/a
Tertiary Sector	27.7%	28.6%	29.3%	30.5%	31.4%	32.2%	32.4%	33.2%	34.1%	34.6%	n/a	n/a
State Sector*	10.5%	9.7%	9.2%	8.9%	8.3%	8.4%	8.4%	8.4%	8.3%	8.3%	n/a	n/a

Source: National Bureau of Statistics

* *State-owned Units (Urban Employed Persons) are not taking into account Townships and Village Enterprises*

Appendix 2.1 China: Essential Economic Data

China: Essential Economic Data									
	2004	2005	2006	2007	2008	2009	2010	2011	2012 E
GDP (RMB billion) ¹	15'988	18'494	21'631	26'581	31'405	34'090	39'798	47'156	52'499
GDP (USD billion) ¹	1'932	2'257	2'713	3'494	4'520	4'991	5'878	7'298	7'992
GDP per capita (RMB) ¹	12'299	14'144	16'456	20'117	23'648	25'541	29'669	34'979	38'749
GDP per capita (USD) ¹	1'486	1'726	2'064	2'645	3'404	3'739	4'382	5'414	5'899
GDP growth (%) ¹	10.1%	11.3%	12.7%	14.2%	9.6%	9.2%	10.3%	9.2%	8.2%
Total investment (% of GDP) ¹	43.3%	42.1%	43.0%	41.7%	44.0%	48.2%	48.2%	48.3%	48.4%
Gross national savings (% of GDP) ¹	46.8%	48.0%	51.6%	51.9%	53.2%	53.5%	53.4%	51.0%	50.6%
CPI inflation (%) ¹	3.9%	1.8%	1.5%	4.8%	5.9%	-0.7%	3.3%	5.4%	3.3%
Population (billion) ¹	1'300	1'308	1'314	1'321	1'328	1'335	1'341	1'348	1'355
Unemployment rate (% of total labor force, in urban area) ¹	4.2%	4.2%	4.1%	4.0%	4.2%	4.3%	4.1%	4.0%	4.0%
Unemployed labour force (registered in urban areas, million) ⁴	8.3	8.4	8.5	8.3	8.9	9.2	9.0	n/a	n/a
Unemployment rate EIU estimation/forecast (% of total labor force) ³	9.9%	9.7%	9.5%	9.2%	9.2%	9.2%	6.1%	6.5%	6.4%
General government revenue (RMB billion) ¹	2'661	3'184	3'944	5'262	6'173	6'821	8'105	10'533	11'989
General government total expenditure (RMB billion) ¹	2'899	3'441	4'090	5'023	6'294	7'875	9'022	11'120	12'672
General government structural balance (% of GDP) ¹	-0.9%	-1.0%	-0.6%	0.3%	-0.9%	-3.4%	-2.6%	0.0%	0.0%
Current account balance (% of GDP) ¹	3.6%	5.9%	8.6%	10.1%	9.1%	5.2%	5.2%	2.8%	2.3%
External debt stocks, total (USD billion) ²	248	284	325	374	378	428	549	n/a	n/a
External debt stocks (% of GNI) ²	12.8%	12.5%	11.9%	10.6%	8.3%	8.7%	9.00%	n/a	n/a
Debt service on external debt, total (USD billion) ²	23.3	27.4	27.5	32.2	34.4	41.8	62.6	n/a	n/a
Total debt service (% of exports of goods, services & income) ²	3.4%	3.1%	2.5%	2.3%	2.1%	2.9%	1%	n/a	n/a
Total reserves incl. gold (USD billion) ²	623	831	1081	1546	1966	2453	2914	3201.71 ⁵	n/a
Reserves incl. gold in months of imports ²	11.9	13.0	14.2	16.7	17.9	24.2	21.4	n/a	n/a

Sources:

¹ IMF, World Economic Outlook Database April 2012

² World Bank, World dataBank, WDI & GDF, 2012

³ EIU, Country Reports, 2009, 2011, 2012

⁴ National Bureau of Statistics, Statistical Yearbook 2010

⁵ Sept 2011, Chinaability based on State Administration of Foreign Exchange

Appendix 2.2 China: Essential Economic Data – Definitions

China: Essential Economic Data - Definitions		
Figure	Explanation	Details
GDP (RMB billion)*	Gross domestic product, current prices (National currency)	Expressed in billions of national currency units. Expenditure-based GDP is total final expenditures at purchasers' prices (including the f.o.b. value of exports of goods and services), less the f.o.b. value of imports of goods and services. [SNA 1993] ¹
GDP (USD billion)*	Gross domestic product, current prices (U.S. dollars)	Values are based upon GDP in national currency converted to U.S. dollars using market exchange rates (yearly average). Exchange rate projections are provided by country economists for the group of other emerging market and developing countries. Exchange rates for advanced economies are established in the WEO assumptions for each WEO exercise. Expenditure-based GDP is total final expenditures at purchasers' prices (including the f.o.b. value of exports of goods and services), less the f.o.b. value of imports of goods and services. [SNA 1993] ¹
GDP per capita (RMB)*	Gross domestic product per capita, current prices (National currency)	GDP is expressed in current national currency per person. Data are derived by dividing current price GDP by total population. ¹
GDP per capita (USD)*	Gross domestic product per capita, current prices (U.S. dollars)	GDP is expressed in current U.S. dollars per person. Data are derived by first converting GDP in national currency to U.S. dollars and then dividing it by total population. ¹
GDP growth (%)*	Gross domestic product, constant prices (Percent change)	Annual percentages of constant price GDP are year-on-year changes; the base year is country-specific. Expenditure-based GDP is total final expenditures at purchasers' prices (including the f.o.b. value of exports of goods and services), less the f.o.b. value of imports of goods and services. [SNA 1993] ¹
Total investment (% of GDP)*	Total investment (Percent of GDP)	Expressed as a ratio of total investment in current local currency and GDP in current local currency. Investment or gross capital formation is measured by the total value of the gross fixed capital formation and changes in inventories and acquisitions less disposals of valuables for a unit or sector. [SNA 1993] ¹
Gross national savings (% of GDP)*	Gross national savings (Percent of GDP)	Expressed as a ratio of gross national savings in current local currency and GDP in current local currency. Gross national saving is gross disposable income less final consumption expenditure after taking account of an adjustment for pension funds. [SNA 1993] For many countries, the estimates of national saving are built up from national accounts data on gross domestic investment and from balance of payments-based data on net foreign investment. ¹
CPI inflation (%)*	Inflation, average consumer prices (Percent change)	Annual percentages of average consumer prices are year-on-year changes. Expressed in averages for the year, not end-of-period data. A consumer price index (CPI) measures changes in the prices of goods and services that households consume. Such changes affect the real purchasing power of consumers' incomes and their welfare. As the prices of different goods and services do not all change at the same rate, a price index can only reflect their average movement. ¹
Population (billion) *	Population (Persons)	For census purposes, the total population of the country consists of all persons falling within the scope of the census. In the broadest sense, the total may comprise either all usual residents of the country or all persons present in the country at the time of the census. [Principles and Recommendations for Population and Housing Censuses, Revision 1, paragraph 2.42] ¹
Unemployment rate (% of total labor force)*	Unemployment rate (Percent of total labor force)	Unemployment rate can be defined by either the national definition, the ILO harmonized definition, or the OECD harmonized definition. The OECD harmonized unemployment rate gives the number of unemployed persons as a percentage of the labor force (the total number of people employed plus unemployed). [OECD Main Economic Indicators, OECD, monthly] As defined by the International Labour Organization, unemployed workers are those who are currently not working but are willing and able to work for pay, currently available to work, and have actively searched for work. [ILO, http://www.ilo.org/public/english/bureau/stat/res/index.htm] ¹
General government revenue (RMB billion)*	General government revenue (National currency)	Revenue consists of taxes, social contributions, grants receivable, and other revenue. Revenue increases government's net worth, which is the difference between its assets and liabilities (GFSM 2001, paragraph 4.20). Note: Transactions that merely change the composition of the balance sheet do not change the net worth position, for example, proceeds from sales of nonfinancial and financial assets or incurrence of liabilities. ¹
General government total expenditure (RMB billion)*	General government total expenditure (National currency)	Total expenditure consists of total expense and the net acquisition of nonfinancial assets. Note: Apart from being on an accrual basis, total expenditure differs from the GFSM 1986 definition of total expenditure in the sense that it also takes the disposals of nonfinancial assets into account. ¹
General government structural balance (% of GDP)*	General government structural balance (National currency)	The structural budget balance refers to the general government cyclically adjusted balance adjusted for nonstructural elements beyond the economic cycle. These include temporary financial sector and asset price movements as well as one-off, or temporary, revenue or expenditure items. ¹
Current account balance (% of GDP)*	Current account balance (Percent of GDP)	Current account is all transactions other than those in financial and capital items. The major classifications are goods and services, income and current transfers. The focus of the BOP is on transactions (between an economy and the rest of the world) in goods, services, and income. ¹
External debt stocks, total (USD billion)**	External debt stocks, total (DOD, current US\$)	Total external debt is debt owed to nonresidents repayable in foreign currency, goods, or services. Total external debt is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit, and short-term debt. Short-term debt includes all debt having an original maturity of one year or less and interest in arrears on long-term debt. Data are in current U.S. dollars. ²
External debt stocks (% of GNI) **	External debt stocks (% of GNI)	Total external debt stocks to gross national income. Total external debt is debt owed to nonresidents repayable in foreign currency, goods, or services. Total external debt is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit, and short-term debt. Short-term debt includes all debt having an original maturity of one year or less and interest in arrears on long-term debt. GNI (formerly GNP) is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. ²
Debt service on external debt, total (USD billion)**	Debt service on external debt, total (TDS, current US\$)	Total debt service is the sum of principal repayments and interest actually paid in foreign currency, goods, or services on long-term debt, interest paid on short-term debt, and repayments (repurchases and charges) to the IMF. Data are in current U.S. dollars. ²
Total debt service (% of exports of goods, services & income)**	Total debt service (% of exports of goods, services and income)	Total debt service is the sum of principal repayments and interest actually paid in foreign currency, goods, or services on long-term debt, interest paid on short-term debt, and repayments (repurchases and charges) to the IMF. ²
Total reserves incl.gold (USD billion)**	Total debt service (% of exports of goods, services and income)	Total reserves comprise holdings of monetary gold, special drawing rights, reserves of IMF members held by the IMF, and holdings of foreign exchange under the control of monetary authorities. The gold component of these reserves is valued at year-end (December 31) London prices. Data are in current U.S. dollars. ²
Reserves incl. gold in months of imports **	Total reserves in months of imports	Total reserves comprise holdings of monetary gold, special drawing rights, reserves of IMF members held by the IMF, and holdings of foreign exchange under the control of monetary authorities. The gold component of these reserves is valued at year-end (December 31) London prices. This item shows reserves expressed in terms of the number of months of imports of goods and services they could pay for [Reserves/(Imports/12)].

Source: China's Custom Statistics

Appendix 3.1 Trading Partners of the People's Republic of China: Exports

Trading Partners of the People's Republic of China: Exports							
Exports to Country/ Region Jan - Dez 2011	Billion USD	Share %	Growth in % to a comparable previous period	Exports to Country/ Region Jan - March 2012	Billion USD	Share %	Growth in % to a comparable previous period
USA	295.2	15.5%	15.0%	USA	74.6	17.3%	13%
Hong Kong	239.9	12.6%	24.0%	Hong Kong	60.7	14.1%	5%
Japan	134.6	7.1%	23.0%	Japan	36.3	8.4%	10%
South Korea	76.5	4.0%	23.0%	South Korea	21.6	5.0%	12%
Germany	70.0	3.7%	13.0%	Germany	15.9	3.7%	-3%
Netherlands	54.3	2.9%	20.0%	Netherlands	13.0	3.0%	7%
India	46.4	2.4%	26.0%	India	10.4	3.0%	-1%
United Kingdom	40.2	2.1%	14.0%	United Kingdom	9.5	2.7%	8%
Russia	35.4	1.9%	33.0%	Russia	8.7	2.6%	14%
Singapore	32.5	1.7%	10.0%	Singapore	8.1	1.9%	-2%
ASEAN	170.1	8.9%	23.1%	ASEAN	41.1	9.6%	13.2
EU	356.0	18.6%	14.4%	EU	51.6	12%	-1.8
EFTA	7.6	0.4%	n/a	EFTA	1.4	0.3%	n/a
Iceland	0.077	0.0%	7.8%	Iceland	0.018	0.0%	-21.2%
Liechtenstein	0.013	0.0%	72.5%	Liechtenstein	0.003	0.0%	48.9%
Norway	3.786	0.2%	33.5%	Norway	0.601	0.1%	-34.2%
Switzerland	3.700	0.2%	22.1%	Switzerland	0.776	0.2%	0.7%
Total	1898.6	100%	20.3%	Total	430.0	100%	n/a

Source: China's Custom Statistics

Appendix 3.2 Trading Partners of the People's Republic of China: Imports

Trading Partners of the People's Republic of China: Imports							
Imports from Country/ Region Jan - Dez 2011	Billion USD	Share %	Growth in % to a comparable previous period	Imports from Country/ Region Jan - March 2012	Billion USD	Share %	Growth in % to a comparable previous period
Japan	194.6	11.2%	10.0%	Japan	43.2	10.1%	-10%
South Korea	162.4	9.3%	18.0%	South Korea	38.7	9.0%	4%
Taiwan	124.9	7.2%	8.0%	USA	32.2	7.5%	3%
Hong Kong	122.5	7.0%	15.0%	Hong Kong	28.5	6.6%	8%
USA	121.4	7.0%	20.0%	Taiwan	27.7	6.4%	-6%
Germany	92.8	5.3%	25.0%	Germany	22.4	5.2%	6%
Australia	82.1	4.7%	37.0%	Australia	19.9	4.6%	15%
Malaysia	62.0	3.6%	23.0%	Saudi Arabia	14.8	3.4%	31%
Brazil	52.6	3.0%	38.0%	Malaysia	13.8	3.2%	0%
Saudi Arabia	49.6	2.8%	51.0%	Russia	12.8	3.0%	52%
ASEAN	192.8	11.1%	24.6%	ASEAN	45.6	10.6%	5.9%
EU	211.2	12.1%	25.4%	EU	51.7	12.0%	9.8%
EFTA	32.4	2.3%	n/a	EFTA	6.3	1.5%	n/a
Iceland	0.756	0.0%	82.6%	Iceland	0.009	0.0%	14.2%
Liechtenstein	0.789	0.0%	14.5%	Liechtenstein	0.016	0.0%	27.4%
Norway	3.621	0.2%	12.1%	Norway	0.841	0.2%	-15.5%
Switzerland	27.21	1.6%	59.7%	Switzerland	5.38	1.2%	-23.7%
Total	1'743.6	100%	24.9%	Total	429.2	100%	n/a

Source: China's Custom Statistics

Appendix 4.1 Bilateral Trade Switzerland – China, Jan – Dec 2011

Bilateral Trade Switzerland - P.R. China, Jan - Dec 2010/2011									
Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
	Jan - Dec 2010	Jan - Dec 2011	in %	share %	Jan - Dec 2010	Jan - Dec 2011	in %	share %	Jan - Dec 2011
1 Agricultural products	126'625'508	123'097'104	-2.79%	1.95%	53'269'077	64'792'482	21.63%	0.73%	-58'304'622
2 Energy carriers	181'291	1'608'166	787.06%	0.03%	4'253'368	6'762'686	59.00%	0.08%	5'154'520
3 Textiles, apparel, shoes	901'511'949	947'971'752	5.15%	15.02%	153'636'569	156'724'287	2.01%	1.77%	-791'247'465
4 Paper, paper products, printed matter	39'408'521	40'876'594	3.73%	0.65%	21'094'594	32'084'410	52.10%	0.36%	-8'792'184
5 Leather, rubber, plastics	285'943'005	295'065'896	3.19%	4.68%	141'630'052	131'051'333	-7.47%	1.48%	-164'014'563
6 Chemicals, pharmaceuticals	714'583'169	716'315'592	0.24%	11.35%	1'257'598'300	1'416'179'753	12.61%	16.02%	699'864'161
7 Construction materials, ceramics, glass	81'874'285	83'937'125	2.52%	1.33%	28'469'161	40'487'045	42.21%	0.46%	-43'450'080
8 Metals and metal products	358'512'368	400'519'853	11.72%	6.35%	379'136'463	377'079'999	-0.54%	4.27%	-23'439'854
9 Machinery, apparatus, electronics	2'228'784'630	2'299'342'628	3.17%	36.44%	3'175'549'277	3'737'065'872	17.68%	42.27%	1'437'723'244
10 Vehicles	101'796'221	88'088'318	-13.47%	1.40%	49'476'237	48'755'004	-1.46%	0.55%	-39'333'314
11 Precision instruments, watches, jewellery	748'841'507	807'207'896	7.79%	12.79%	1'781'258'699	2'412'843'730	35.46%	27.29%	1'605'635'834
12 Furniture, toys	483'508'019	483'499'445	0.00%	7.66%	33'817'772	24'993'771	-26.09%	0.28%	-458'505'674
13 Precious metal, precious stones, gemstones	7'940'793	14'094'747	77.50%	0.22%	366'333'753	386'331'330	5.46%	4.37%	372'236'583
14 Objects of art and antiques	6'058'045	7'988'188	31.86%	0.13%	21'497'121	5'818'639	-72.93%	0.07%	-2'169'549
Total	6'085'569'311	6'309'613'304	3.68%	100%	7'467'020'443	8'840'970'341	18.40%	100%	2'531'357'037
Bilateral Trade Switzerland - Hongkong, Jan - Dec 2010/2011									
Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
	Jan - Dec 2010	Jan - Dec 2011	in %	share %	Jan - Dec 2010	Jan - Dec 2011	in %	share %	Jan - Dec 2011
1 Agricultural products	1'873'852	3'354'729	79.03%	0.19%	105'961'422	110'529'534	4.31%	1.39%	107'174'805
2 Energy carriers	482	Anteile nicht berechenbar			81'194	98'111	20.84%	0.00%	98'111
3 Textiles, apparel, shoes	37'879'047	34'037'822	-10.14%	1.94%	91'751'589	88'718'840	-3.31%	1.12%	54'681'018
4 Paper, paper products, printed matter	2'586'176	3'057'570	18.23%	0.17%	12'587'154	8'258'207	-34.39%	0.10%	5'200'637
5 Leather, rubber, plastics	8'164'998	11'834'901	44.95%	0.68%	63'819'640	70'622'720	10.66%	0.89%	58'787'819
6 Chemicals, pharmaceuticals	9'711'160	11'036'473	13.65%	0.63%	519'452'246	439'627'757	-15.37%	5.55%	428'591'284
7 Construction materials, ceramics, glass	2'611'252	4'523'239	73.22%	0.26%	20'208'691	21'207'627	4.94%	0.27%	16'684'388
8 Metals and metal products	12'519'419	12'921'943	3.22%	0.74%	54'782'618	63'825'641	16.51%	0.81%	50'903'698
9 Machinery, apparatus, electronics	119'917'847	100'677'821	-16.04%	5.75%	392'354'984	376'257'861	-4.10%	4.75%	275'580'040
10 Vehicles	2'945'850	3'257'160	10.57%	0.19%	1'378'576	3'214'251	133.16%	0.04%	-42'909
11 Precision instruments, watches, jewellery	908'479'675	1'010'457'046	11.23%	57.73%	4'014'068'274	5'111'491'457	27.34%	64.48%	4'101'034'411
12 Furniture, toys	11'165'158	11'385'999	1.98%	0.65%	21'042'937	22'147'599	5.25%	0.28%	10'761'600
13 Precious metal, precious stones, gemstones	491'005'943	505'516'359	2.96%	28.88%	1'201'246'470	1'570'736'726	30.76%	19.82%	1'065'220'367
14 Objects of art and antiques	27'493'649	38'267'831	39.19%	2.19%	36'182'345	40'099'551	10.83%	0.51%	1'831'720
Total	1'636'354'508	1'750'328'893	6.97%	100%	6'534'918'140	7'926'835'882	21.30%	100%	6'176'506'989
Bilateral Trade Switzerland - P.R. China incl. Hongkong, Jan - Dec 2010/2011									
Class of goods	Import in CHF		Δ		Export in CHF		Δ		Trade balance
	Jan - Dec 2010	Jan - Dec 2011	in %		Jan - Dec 2010	Jan - Dec 2011	in %		Jan - Dec 2011
Total	7'721'923'819	8'059'942'197	4.38%		14'001'938'583	16'767'806'223	19.75%		8'707'864'026

Source: Swiss Federal Customs Administration

Appendix 4.2 Bilateral Trade Switzerland – China, Jan – March 2012

Bilateral Trade Switzerland - P.R. China, Jan - March 2011/2012										
Class of goods		Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan - March 2011	Jan - March 2012	in %	share %	Jan - March 2011	Jan - March 2012	in %	share %	Jan - March 2012
1	Agricultural products	33'843'512	41'694'147	23.20%	1.67%	15'127'933	12'929'279	-14.53%	0.66%	-28'764'868
2	Energy carriers	437'374	328'428	-24.91%	0.01%	490'606	1'760'053	258.75%	0.09%	1'431'625
3	Textiles, apparel, shoes	231'860'374	519'445'400	124.03%	20.82%	34'070'702	37'940'512	11.36%	1.93%	-481'504'888
4	Paper, paper products, printed matter	9'888'974	13'931'702	40.88%	0.56%	7'235'170	9'012'791	24.57%	0.46%	-4'918'911
5	Leather, rubber, plastics	69'723'109	124'662'898	78.80%	5.00%	34'582'476	32'410'572	-6.28%	1.65%	-92'252'326
6	Chemicals, pharmaceuticals	198'210'047	205'807'397	3.83%	8.25%	298'377'493	509'667'509	70.81%	25.96%	303'860'112
7	Construction materials, ceramics, glass	18'342'014	31'931'848	74.09%	1.28%	9'772'722	11'805'192	20.80%	0.60%	-20'126'656
8	Metals and metal products	93'751'235	148'755'157	58.67%	5.96%	95'419'976	96'468'235	1.10%	4.91%	-52'286'922
9	Machinery, apparatus, electronics	544'100'391	923'700'506	69.77%	37.03%	1'061'797'058	532'422'063	-49.86%	27.12%	-391'278'443
10	Vehicles	35'655'008	34'375'637	-3.59%	1.38%	9'974'352	15'719'964	57.60%	0.80%	-18'655'673
11	Precision instruments, watches, jewellery	188'015'712	243'937'567	29.74%	9.78%	500'256'448	615'061'265	22.95%	31.33%	371'123'698
12	Furniture, toys	113'790'047	202'970'480	78.37%	8.14%	4'673'924	6'645'423	42.18%	0.34%	-196'325'057
13	Precious metal, precious stones, gemstones	2'067'192	2'339'447	13.17%	0.09%	92'287'389	80'232'393	-13.06%	4.09%	77'892'946
14	Objects of art and antiques	1'858'323	809'572	-56.44%	0.03%	194'097	1'098'085	465.74%	0.06%	288'513
Total		1'541'543'312	2'494'690'186	61.83%	100%	2'164'260'346	1'963'173'336	-9.29%	100%	-531'516'850
Bilateral Trade Switzerland - Hongkong, Jan - March 2011/2012										
Class of goods		Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan - March 2011	Jan - March 2012	in %	share %	Jan - March 2011	Jan - March 2012	in %	share %	Jan - March 2012
1	Agricultural products	2'467'343	182'307	-92.61%	0.05%	34'271'200	21'056'142	-38.56%	1.11%	20'873'835
2	Energy carriers	Anteile nicht berechenbar				22'592	29'532	30.72%	0.00%	29'532
3	Textiles, apparel, shoes	8'033'259	23'301'593	190.06%	6.39%	22'431'061	20'280'333	-9.59%	1.07%	-3'021'260
4	Paper, paper products, printed matter	883'087	474'388	-46.28%	0.13%	1'753'565	1'561'179	-10.97%	0.08%	1'086'791
5	Leather, rubber, plastics	2'385'902	3'346'618	40.27%	0.92%	17'031'861	17'412'115	2.23%	0.91%	14'065'497
6	Chemicals, pharmaceuticals	4'744'432	1'890'761	-60.15%	0.52%	96'873'030	96'968'184	0.10%	5.09%	95'077'423
7	Construction materials, ceramics, glass	790'315	850'828	7.66%	0.23%	4'484'847	5'660'359	26.21%	0.30%	4'809'531
8	Metals and metal products	2'988'777	3'408'398	14.04%	0.94%	14'067'659	14'321'602	1.81%	0.75%	10'913'204
9	Machinery, apparatus, electronics	26'243'391	25'276'783	-3.68%	6.94%	88'612'930	85'340'253	-3.69%	4.48%	60'063'470
10	Vehicles	514'805	640'452	24.41%	0.18%	257'631	1'087'892	322.27%	0.06%	447'440
11	Precision instruments, watches, jewellery	229'363'453	192'405'552	-16.11%	52.79%	965'814'978	1'366'079'924	41.44%	71.75%	1'173'674'372
12	Furniture, toys	2'921'608	2'683'531	-8.15%	0.74%	5'611'336	3'234'324	-42.36%	0.17%	550'793
13	Precious metal, precious stones, gemstones	157'190'156	105'124'000	-33.12%	28.84%	329'642'354	266'570'301	-19.13%	14.00%	161'446'301
14	Objects of art and antiques	17'822'602	4'878'464	-72.63%	1.34%	11'808'108	4'286'363	-63.70%	0.23%	-592'101
Total		456'349'130	364'463'675	-20.13%	100%	1'592'683'152	1'903'888'503	19.54%	100%	1'539'424'828
Bilateral Trade Switzerland - P.R. China incl. Hongkong, Jan - March 2011/2012										
Class of goods		Import in CHF		Δ	Export in CHF		Δ	Trade balance		
		Jan-March 2011	Jan-March 2012	in %	Jan-March 2011	Jan-March 2012	in %	Jan-March 2012		
Total		1'997'892'442	2'859'153'861	43.11%	3'756'943'498	3'867'061'839	2.93%	1'007'907'978		

Source: Swiss Federal Customs Administration

Appendix 5.1 China: Foreign Direct Investment

China: Foreign Direct Investment Inward														
Rank	Country / Region	FDI (mio. USD) 2010	Share (%) 2010	Variation (%) year on year	Rank	Country / Region	FDI (mio. USD) 2011	Share (%) 2011	Variation (%) year on year	Rank	Country / Region	FDI (mio. USD) Jan - March 2012	Share (%) year to date 2012	
1	Hong Kong	67'474	63.81%	24.97%	1	Hong Kong	77'011	66.38%	14.13%	1	Hong Kong	19'271	69.74%	
2	Taiwan	6'701	6.34%	2.10%	2	Taiwan	6'727	5.80%	0.39%	2	Japan	2'073	7.50%	
3	Singapore	5'657	5.35%	45.57%	3	Japan	6'348	5.47%	49.65%	3	Taiwan	1'954	7.07%	
4	Japan	4'242	4.01%	3.04%	4	Singapore	6'328	5.45%	11.86%	4	Singapore	1'687	6.11%	
5	USA	4'052	3.83%	13.31%	5	USA	2'995	2.58%	-26.09%	5	USA	893	3.23%	
6	South Korea	2'693	2.55%	-0.37%	6	South Korea	2'551	2.20%	-5.27%	6	South Korea	549	1.98%	
7	United Kingdom	1'642	1.55%	11.78%	7	United Kingdom	1'610	1.39%	-1.95%	7	Switzerland	368	1.33%	
8	France	1'239	1.17%		8	Germany	1'136	0.98%	21.76%	8	United Kingdom	327	1.18%	
9	Netherlands	952	0.90%		9	France	802	0.69%	-35.27%	9	Germany	297	1.08%	
10	Germany	933	0.88%	-23.96%	10	Netherlands	767	0.66%	-19.43%	10	Netherlands	215	0.78%	
	Switzerland	260	0.25%	-13.40%		Switzerland	555	n/a	134.61%					
	Total	105'735	100%	17.44%		Total	116'011	100 %	0.51%		Total	29'480	100%	

China: Foreign Direct Investment Outward														
Rank	Country / Region	FDI (mio. USD) 2010	Share (%) 2010	Variation (%) year on year	Rank	Country / Region	FDI (mio. USD) 2011	Share (%) 2011	Variation (%) year on year	Rank	Country / Region	FDI (mio. USD) Jan - March 2012	Share (%) year to date 2012	
1	Hong Kong	38'505	55.96%	8.16%										
2	British Virgin Islands	6'120	8.89%	279.63%										
3	Cayman Islands	3'496	5.08%	-34.85%										
4	Luxembourg	3'207	4.66%	41.26%										
5	Australia	1'702	2.47%	-30.92%										
6	Sweden	1'367	1.99%	16779.38%										
7	United States	1'308	1.90%	43.97%										
8	Canada	1'142	1.66%	86.30%										
9	Singapore	1'119	1.63%	-20.91%										
10	Myanmar	876	1.27%	132.44%										
	Switzerland	27.25	0.04%	29.82%		Switzerland	16.32	n/a	n/a		Switzerland	5.81	n/a	
	Total	68'811	100%	17.44%		Total	60'700	n/a	n/a		Total	16'550	n/a	

Source: Ministry of Commerce; the China Statistical Yearbook will be published in September 2012

Appendix 5.2 China / Switzerland: Foreign Direct Investment

China / Switzerland: Foreign Direct Investment									
Chinese FDI in Switzerland (million USD) ¹	2004	2005	2006	2007	2008	2009	2010	2011	Jan-April 2012
CN FDI in CH, flow	0.58	0.59	1.01	1.21	0.01	20.99	27.25	16.32	5.81
CN FDI in CH, stock	1.86	2.45	7.58	8.88	8.91	30.30	58.54	74.89	80.67
Swiss FDI in China (million CHF) ²	2004	2005	2006	2007	2008	2009	2010	2011	Jan-April 2012
CH FDI in CN, flow	n/a	n/a	920	776	1'401	1'198	1'676	n/a	n/a
CH FDI in CN, stock	n/a	n/a	3'916	4'801	6'555	7'422	8'005	n/a	n/a

Sources:

¹ MOFCOM, Statistical Bulletin of China's outward FDI, 2010; *the China Statistical Yearbook will be published in September 2012*

² SNB, Statistisches Monatsheft, 2011; *the statistics for 2011 will be published in August 2012*

Differences between Chinese and Swiss Statistics on FDI may exist due to different calculation methods

Appendix 6 Useful Internet Links

<h1>Useful Internet Links</h1>	
Organs composing the State Council	
Ministries	
Ministry of Commerce	http://english.mofcom.gov.cn/
Ministry of Commerce - FDI	http://www.fdi.gov.cn/
Ministry of Finance	http://www.mof.gov.cn/
Ministry of Foreign Affairs	http://www.fmprc.gov.cn/eng/
Commissions	
National Development and Reform Commission	http://en.ndrc.gov.cn/
Other	
National Audit Office	http://www.cnao.gov.cn/
People's Bank of China	http://www.pbc.gov.cn/english/
Organs directly under the State Council	
General Administration of Customs	http://english.customs.gov.cn/
National Bureau of Statistics of China	http://www.stats.gov.cn/english/
State Administration for Industry and Commerce	http://www.saic.gov.cn/english/index.html
State Administration of Taxation	http://202.108.90.130/n6669073/index.html
State Food & Drug Administration	http://eng.sfda.gov.cn/eng/
State Intellectual Property Office	http://www.sipo.gov.cn/sipo_English/
Institutions directly under the State Council	
China Banking Regulatory Commission	http://www.cbrc.gov.cn/english/index.htm
China Insurance Regulatory Commission (only in Chinese language)	http://www.circ.gov.cn/
China Securities Regulatory Commission	http://www.csrc.gov.cn/n575458/n4001948/
Development Research Centre of the State Council	http://www.drc.gov.cn/english/
Xinhua News Agency	http://www.chinaview.cn/; http://www.french.xinhuanet.com
Further useful www-sites	
China Chamber of International Commerce	http://www.cccic.cn/New_Folder/home.htm
China Council for the Promotion of International Trade	http://www.ccpit.org/
Chamber of Commerce	
American Chamber of Commerce in China (AmCham)	www.amcham-china.org.cn
Austrian Chamber of Commerce in China (WKO)	www.wko.at
British Chamber of Commerce in China (BCCC)	www.britcham.org
Canada China Business Council (CCBC)	www.ccbc.com
China - Australia Chamber of Commerce (AustCham)	www.austcham.org
China - Italy Chamber of Commerce (CICG)	www.cameraitalia.cn
European Union Chamber of Commerce in China (EUCCC)	www.euccc.com.cn
French Chamber of Commerce and Industry in China (CCIFC)	www.ccifc.org
German Chamber of Commerce in China (GCCC)	http://china.ahk.de/
Hong Kong Chamber of Commerce in China (HKCCCC)	http://www.hkcccqd.org/
Swiss Chinese Chamber of Commerce Beijing	www.bei.swisscham.org
Swiss Chinese Chamber of Commerce in Hong Kong	http://www.swisschamhk.org/
Swiss Chinese Chamber of Commerce in Switzerland	http://www.sha.swisscham.org/sha/
Swiss Chinese Chamber of Commerce Shanghai	www.sha.swisscham.org
Swiss governmental organisations	
Osec Business Network Switzerland	www.osec.ch
State Secretariat for Economic Affairs (Seco)	www.seco.admin.ch
Swiss Business Hub China (SBH China)	http://www.eda.admin.ch/eda/en/home/reps/asia/vchn/embbei/sbh.html
Swiss Export Risk Insurance (serv)	http://www.serv-ch.com
International and other governmental organisations	
Asian Development Bank (ADB)	http://www.adb.org/PRC/default.asp
Das Auswärtige Amt der Bundesrepublik Deutschland	http://www.auswaertiges-amt.de/diplo/de/Laenderinformationen/01-Laender/China.html
International Monetary Fund (IMF)	http://www.imf.org/external/country/CHN/index.htm
Office of the United States Trade Representative	http://www.ustr.gov/
Organisation for Economic Co-operation and Development (OECD)	http://www.oecd.org/country/0,3377,en_33873108_36016481_1_1_1_1_1,00.html
Japanese government related organization (Jetro)	http://www.jetro.go.jp
The World Bank	http://www.worldbank.org
The World Trade Organisation	http://www.wto.org