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Economic report: China

1. Appreciation of the economic problems and issues

Key Messages

- *The lineup for the politburo standing committee was unveiled on November 15th, with current Vice President Xi Jinping being confirmed as General Secretary of the CCP, i.e. the successor of President Hu Jintao, and newly elected Deputy Secretary General of the CCP, Vice Premier Li Keqiang, stepping into the footprints of Premier Wen Jiabao.*
- *The new leaders are making "the right noises on the need for economic reforms", however, the future will show whether the rhetoric will be followed by implementation and action. In either way, the policy directions to address the key economic and social challenges have already been laid out in the 12th five year plan.*
- *GDP Growth stood at 7.4% YoY according to official Chinese figures in Q3 2012 and marked the 10th quarter of a gradually shrinking real GDP growth since Q1 2010 when it reached 12.1% YoY.*
- *China's current account surplus has dropped below 3% of GDP in 2011 from the 2007 peak of 10% and is expected to stay below 3% in the coming years.*
- *Since 2011 the Chinese Government responded with a series of measures to curb down the soaring inflation, which peaked at 6.5% year on year in August 2011, as well as to the feverish property market, after which CPI inflation returned to 1.7% YoY in October 2012.*
- *Economic indicators from late fall 2012 suggest that the Chinese economy again shows some possible signs of a moderate recovery in the short run - or stop of a slow-down as some analysts put it more cautiously.*
- *Uncertainty about the development of the Chinese economy will prevail in the foreseeable future as several vulnerabilities to the systemic stability of the country, in particular within the financial sector, may not disappear very soon.*
- *In spite of economic indicators showing signals of improvement of the overall market sentiment, the stock market has continued to slide, declining by 11% from January to early December 2012. In fact, China's domestic A-share market is one of the worst performing equity markets in the world.*
- *Stability, steady growth and spreading wealth are core justifications for the dominance of the ruling Communist Party which must navigate through the ongoing leadership handover. Amid double-digit growth and dramatically rising living standards throughout the past three decades, China's economic reforms were little questioned. However, during the global economic crisis the new leftists gained a growing voice and called attention to a widening wealth gap, government corruption and what they see as exploitation of cheap Chinese labour, raising questions about the effectiveness of the current system and whether the party has drifted too far from its founding principles.*
- *A survey of 8'000 households, released in December 2012, shows the urban unemployment rate hit 8.05% in June, up slightly from 8% in August 2011 and nearly twice as high as the official 4.1% rate. The unemployment rate for China's army of 160 million migrant workers has risen sharply to 6% in June 2012, up from 3.4% in August 2011.*

A. Introduction

In the year 2011, the Chinese leadership was challenged 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. As measures to cool down the overheating economy started to grip in fall 2011 and a recovery of the global economy kept the struggling export sector waiting, **the focus of the economic policy was again shifted again towards supporting economic growth, after key figures started to look worrisome in spring 2012** and several unexpected turbulences rocked the boat on the political front ahead of the once in a decade leadership transition, which materialized at the 18th Party Congress concluded in November.

The lineup for the politburo standing committee was unveiled on November 15th, with current Vice President Xi Jinping being confirmed as General Secretary of the CCP, i.e. the successor of President Hu Jintao, and newly elected Deputy Secretary General of the CCP, Vice Premier Li Keqiang, stepping into the footprints of Premier Wen Jiabao. Xi and Li will officially be elected to their associated Government functions as President and Premier during the next session of parliament, i.e. the National People's Congress which will convene in March 2013.

It remains ambiguous what effect the leadership change will have on the speed of China's ongoing reforms and transformation. However, taken that there seem to exist hardly any alternatives to facing Chinas difficulties and pushing through necessary reforms in order to maintain economic growth, the new generation of leaders is expected to broadly speaking follow a reformist path.[1]

Li Keqiang was quoted as saying that China needed to accelerate an overhaul of its economy, improving state-owned firms and the taxation system and Xi Jinping openly addressed the growing problem of abuse of political power and corruption in a meeting with the press following his appointment.[2] A widely accepted perception is that the new leaders were making "**the right noises on the need for economic reforms", however, the future will show whether the rhetoric will be followed by implementation and action.[3] In either way, the policy directions to address the key economic and social challenges have already been laid out in the 12th five year plan and re-affirmed in President Hu Jintao's report at the Party Congress.** For the time being the leadership's policy appears to aim at ensuring recovery now and addressing imbalances over time.[4]

B. Economic Performance: Recent key figures suggest moderate recovery

In spring 2012 the National People's Congress set the official growth target at 7.5%. Even though the annually set target rather served as a minimum acceptable floor than an actual target range throughout the past decade, the correction of the growth target seems to contain a message since 8% growth was often named the necessary benchmark to reach in order to assure 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. Furthermore, lowering the growth target may also bear a symbolic meaning and signal to the local governments to some extent that in light of the global economic slowdown, the central government was striving for a more sustainable pattern of growth and mere economic performance was no longer to be maximized at any price. However, **in Q3 2012 real GDP growth YoY stood at 7.4%,[5] indicating that the newly set growth target may in fact turn into an actual goal. Q3 2012 marked the 10th quarter of a gradually shrinking real GDP growth** since Q1 2010 when it reached 12.1%. There are several factors underlying China's economic declining performance:

Firstly the slower growth may 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.[6] Chinese exports suffered from a weak global demand, in particular from China's most important export markets, such as the EU or the US. **Chinese foreign trade bottomed in the summer months and picked up again in October, when exports rose by 11.6% and imports by 2.4%, leaving a trade surplus to 32 bn USD, the largest since January 2009**[7]. This somewhat contrasts with one of the key goals of Chinese economic policy, which is balancing away

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[1] Economist Intelligence Unit: Country Report China; December 2012
[2] BBC News China: "China confirms leadership change"; November 15th, 2012
[3] CNBC: "Will China's New Leaders Walk Their Talk on Reforms?"; November 27th, 2012
[4] UBS Global Economics Research: China Weekly Economic Focus; November 15th, 2012
[5] Economist Intelligence Unit: Country Report China; December 2012
[6] The Wall Street Journal Asia: "China Lowers Growth View"; March 6th, 2012
[7] Reuters: "China Oct export growth 5-mth high, trade surplus swells"; November 10th, 2012

from the strong reliance of the Chinese growth model on exports and investments, which in a larger picture seems to in fact taking place: China's current account surplus has dropped below 3% of GDP in 2011 from the 2007 peak of 10% and is expected to stay below 3% in the coming years.[8]

Secondly the decline of economic growth appears at least partially self-induced, since in 2011 the Chinese Government responded with a series of measures to curb soaring inflation, which peaked at 6.5% year on year in August 2011, as well as to the feverish property market. After that, CPI inflation returned to 1.7% YoY in October 2012 while the producer price index (PPI)[9], which measures inflation at a whole sale level stood at -2.8%, falling for the 9th consecutive month, but edging up slightly from September, when the PPI stood at -3.6%. This indicates very slight improvement on a month to month basis, but also confirms that the real **economy remains skeptic about the arrival of a fast recovery.**[10]

Also in the real estate market the sentiment had deteriorated sharply since the last quarter of 2011 in the light of the government's continued campaign to cool down the property sector so that housing prices, in particular in the economically more developed coastal regions, have even shown tendency of a moderate decline since February 2012 until recovery set in summer 2012.

Although the Chinese government's interventions proofed effective as of fall 2011, it could not easily reverse its interventions or resort to new investment pushes when economic indicators began to look worrisome in spring 2012, due to the fear that inflation may again pick up or it could aggravate the already existing problem of outstanding non performing loans. Returning to an overly simulative approach would only appear appropriate as long as investments in the economy are not overextended, inflation does not threaten to easily get out of hand and exports recover sufficiently fast. In the past 15 years, China has repeatedly resorted to investment pushes to cushion the economy during an export downturn. However, in the current situation, many local governments and **SOEs are still overleveraged from the last stimulus push of 2008 and 2009 and therefore have problems meeting their debt 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. In the given context it seems that the economic adjustment will be gradual as long as Chinese banks are willing to roll over loans for political concerns[11].

Against the background of China's growth rate following a path of sustained decline, a public debate has been led whether the Chinese economy was going to experience hard landing. In fact as of today, no consensus seems to be reached on whether this scenario has already taken place, is currently taking place or will be taking place, with all three positions being represented among media, analysts and academics. Deciding on which scenario appears to comply the most with the actual state of play remains ambiguous since this equally implies a consensus on the future expectations. Even a rather significant drop in economic performance is arguably soft, if it was expected to be even worse, as it has been the case several times during the last two years.

However, the most supported view of the story points in to the direction that a actual hard landing has been successfully reverted as of today and the economic indicators from October suggest that the Chinese economy again shows some possible signs of a moderate recovery in the short run - or stop of a slow-down as some analysts put it more cautiously.

Chinese manufacturers faced poorer conditions in October compared with the previous month, but an increase in the Purchasing Managers' Index (PMI)[12] suggests that the worst may be over. Adjusted for seasonality, the **PMI reading rose from 47.9 in September to 49.5 in October, just below the 50-point mark dividing contraction from expansion. Stronger domestic demand, rather than a recovery in foreign orders, appeared to be the driving factor in the improvement. One-fifth of the survey respondents reported that new orders grew in October, but firms also said that demand from Europe and the US remained weak, with export orders declining for the sixth consecutive month**. China's official PMI data series, which is skewed slightly more towards larger and state-owned manufacturers, gave a more optimistic assessment of overall conditions, posting a

[8] UBS Global Investment Research; October 30th, 2012

[9] ***Producer Price Index (PPI):*** *The PPI measures the average change in selling prices received by domestic producers of goods and services over time. It thus measures price changes from the perspective of the seller. The producer price index is often used to calculate real growth by adjusting inflated revenue sources, and the consumer price index is often applied to calculate changes in the cost of living by adjusting revenue and expense sources.*

[10] Global Times: "China's October PPI drops 2.8 pct"; November 9th, 2012

[11] Caixin:" Only Reforms Can Revive Growth"; May 17th, 2012

[12] ***Purchasing Managers' Index (PMI):*** *The PMI is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A PMI of more than 50 represents expansion of the manufacturing sector, compared to the previous month. A reading under 50 represents a contraction, while a reading at 50 indicates no change.*

reading of 50.2, up from 49.8 in September and signaling a return to expansion. A pick-up in government infrastructure investment is likely to have boosted the index in October.

Retail sales growth reached 14.5% YoY in October, the highest level recorded since March and the HSBC Purchasing Managers' Index for October showed that manufacturers' inventories of goods were down for the first time in six months, suggesting that demand and therefore prices, may soon recover. The industrial production rose by 9.6% YoY, up from 9.2% in September. The pace of value added production growth of SOE has gradually recovered to 7%, after hitting a recent low of 4.3% in April. **The fast tracking by the government of a series of infrastructure and construction projects, combined with stronger commodity demand, is the principal reason behind the acceleration in factory output. Fixed-asset investment[13] (FAI) growth reached 20.7% in January-October, up from 20.5% in the first nine months of the year. Momentum is likely to build further in the coming months. Planned investment in newly started projects, a leading indicator of FAI, was up by 26.7% in January-October**, 1 percentage point above the expansion recorded in the first three quarters of the year. The acceleration in overall FAI in October came despite flat lining property investment growth, which averaged at 15.4% in the first ten months of the year, similar to the cumulative growth rate recorded in the previous four months. It therefore appears that property sales have been on an upward trend again since July. After in September and October high levels of inventory and the uncertainty generated by the government's house-purchasing curbs seemed to constrain developers[14], prices picked up strongly in November, when property sales grew by more than 30% YoY - the fastest pace since the unveiling of property tightening measures.[15]

Certainly the government's immediate priority will be to ensure that the recovery is sustained in the months ahead but to avoid igniting another property boom. Therefore it seems unlikely that a new stimulus will be launched post the once in a decade leadership transition of the Communist Party held in November, unless the economy deteriorates significantly. However supportive policies include for instance the easing of credit conditions and increase in infrastructure investment such as rail and urban transport or social housing[16].

However, in spite of the fact that economic indicators may lead to a slight improvement of the overall market sentiment, the **stock market has continued to slide, declining by 11% from January to early December 2012. In fact, China's domestic A-share market[17] is one of the worst performing equity markets in the world. Moreover, the Shanghai composite also underperformed the Hong Kong traded H-share index (HSCEI) by about 13% this year**. The assumption is that the Shanghai composite is revealing some deep insights about the overall economy. To some extent the bad performance of the Chinese stocks are certainly driven by fundamentals. Corporate earnings have dropped sharply in light of the economic slowdown in the past few quarters. The A-share market first dropped sharply and then turned negative this year, suggesting that the market is concerned about future earning potentials of the listed companies and possible write-offs.

Then, the drop of Chinese stock prices certainly also reflect structural and governance issues which continue to plague China's equity market. They include problems in the initial public offering (IPO) process, insufficient transparency in company disclosures, inadequate investor protection, insider trading and other market order issues. These issues may in part stem from the fact that the government often sees the stock market more as a source of financing for the economy rather than as a way to improve capital allocation. The China Securities Regulation Commission (CSRC) has launched new reform initiatives since 2011 to tackle some of these issues, which has been welcomed by the market but it will take time before we see major progress.[18]

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[13] ***Fixed Investments:*** *fixed investment is investment in physical assets such as machinery, land, buildings, installations, vehicles, or technology. Fixed investment contrasts with investments in labour, ongoing operating expenses, materials or financial assets.*

[14] Economist Intelligence Unit: Country Report China; December 2012

[15] UBS Global Investment Research; December 10th, 2012

[16] UBS Global Investment Research; November 23rd, 2012

[17] ***A-Shares versus B-Shares****: The key distinction is that A-shares are denominated in renminbi and B-shares in foreign currency (US dollars in Shanghai and Hong Kong dollars in Shenzhen). For a long time, the other main difference between the two, from a regulatory standpoint, was that the A-share market was closed to foreign investors while the B-share market was open only to foreigners. However in 2001, the Chinese authorities tried to boost the B-share market by opening it to individual Chinese investors. And in 2003, a scheme was introduced whereby select foreign institutions were allowed to buy A-shares. Some companies have their stocks listed on both boards, but their B-shares trade at a larger discount to their A-shares, which tend to see much larger trading volumes.*

[18] UBS Global Investment Research; December 4th, 2012

C. Vulnerabilities in China's Financial Sector Have Not Disappeared

Nevertheless, uncertainty about the development of the Chinese economy will prevail in the foreseeable future as several vulnerabilities to the systemic stability of the country may not disappear very soon. One of them is the shadow banking system, a complex network of financing channels outside the formal banking sector, which is experiencing a rapid growth as small and medium sized enterprises (SME) do not enjoy sufficient access to the credit market. Also real estate developers are looking for new sources of cash as the real estate prices started falling in the light of the government imposed measures to cool down the property sector and therefore turn to unofficial lenders. **Estimates on the size of shadow banking vary depending on definition. Less arguable, however is the fact that it is expanding: Trusts, the backbone of the shadow sector, had 6.3 trn RMB of assets under management at the end of the third quarter, up by 54% from a year earlier and five-times more than at the start of 2009**[19] when the government fueled the massive stimulus package which to a significant extent trickled down to the real estate sector.

However, even though not all actors in the Chinese economy enjoy sufficient access to credits, bank lending stayed below expectations in 2012. On May 18th the PBOC cut the RRR by 0.5% down to 20%, freeing roughly 400 bn RMB into the financial system. **After the PBOC had aimed for three years at sterilizing hot money inflows and containing inflation, this was the third cut within 6 months, underlying that monetary policy again shifted towards supporting economic growth from containing property prices and fighting inflation. The PBOC cut both benchmark lending and deposit rates by 0.25% on June 7th, which was the first reduction since 2008**. Then, less than a month later the PBOC lowered the benchmark one more time to 6% for the lending rate and 3% for the deposit rate respectively.[20]

In October banks extended loans worth 505.2 bn RMB. The monthly total was up by 15.9% year on year but down from 623.2 bn RMB in September. The broad measure of money supply, M2[21], averaged 13.5% year on year in January-October, staying below the PBC's target for 2012 of 14%. Total social financing (TSF) - a broader measure of credit that includes bond issuance, lending by trust companies and capital raised on the domestic stock market, as well as new RMB-denominated loans reached 1.3 trn RMB in October. The total was down from 1.7 trn RMB in September, but represented an increase of 63% compared to October 2011. The TSF measure is often considered a more accurate gauge of liquidity conditions in China than other indicators, as it also captures the growing amount of financing that is taking place outside the formal banking system. TSF have surged strongly this year, stepping into the breach as banks have become more reluctant to lend to property developers and local-government investment vehicles and loans from trust companies amounted to 145 bn RMB in October. Given that growth of this less tightly regulated lending activity poses some risks to China's financial system it may argued that it represents a step towards the development of a more sophisticated and competitive financial sector.

D. Slow but Gradual Currency Reform

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 as 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 criticized Beijing for keeping its currency artificially undervalued, fuelling a flow of cheap Chinese exports that have helped generating huge trade surpluses with various trading partners.

On the occasion of various talks with major trading partners as well as multilateral fora, 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 6.83 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

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[19] Financial Times Asia: "Uncertain foundations"; December 2nd; 2012

[20] Bloomberg: "China Cuts Benchmark Rates for Second Time in Month"; July 5th, 2012

[21] ***M2**: M2 is a measure for money supply representing money and "close substitutes" for money. M2 is a broader classification of money than M1 and it is often used when looking to quantify the amount of money in circulation and trying to explain different economic monetary conditions. M2 is a key economic indicator used to forecast inflation.*

in 2005, it has gained roughly 30% in value towards the USD, standing at about 6.3 RMB per USD in November 2012. Although the fair value of the RMB remains a controversial topic, after several years of appreciation the RMB now appears to be approaching its equilibrium value according to many experts and independent institutions.

As a matter of fact, since 2011 exchange rate fluctuations have occurred into both directions and with the USD and the Euro being more volatile, there is less clear pressure for the RMB to move either up or down. This could be considered a good time for China to further increase the trading band, which would allow its currency to become more responsive to market signals and move ahead with the latter's convertibility and internationalization.

However, **from China's perspective, considering its leadership has historically attached high priority on maintaining economic stability, the benefits from the RMB's internationalization are not obvious. It will inevitably lead to greater volatility as policy makers relax controls over capital movements, interest rates and exchange rates, which may eventually conflict with domestic needs**. Moreover, establishing the RMB as an international currency requires expanding its supply abroad by running current account and possibly even budget deficits.

On the other hand, internationalizing the RMB would directly or indirectly bring a series of advantages, such as the potential of a higher seigniorage[22], i.e. the profits by selling one's currency, which China has in fact heavily criticized the US for. Another benefit would be the possibility to price imports in RMB. However, an internationalization of the RMB would also appear beneficial in a more indirect ways as it would require a series of reforms of China's financial sector, which as such appear very necessary regardless of the position one may take as regards the debate on the internalization of the RMB.

Such reforms would include relaxing the capital controls although this appears delicate since it would imply that capital could escape China – a fear that has been increasingly debated in the course of the past year. The topic has also drawn attention in the light of Chinese gamblers, which have been flowing into the former Portuguese colony of Macao over the past years, which now generates more than five times the gambling revenue of the Las Vegas Strip. International authorities, including the US have raised concerns that wealthy Chinese were using the casinos to launder the proceeds of corruption and to illegally get money out of the country, since Chinese individuals are not allowed to move more than 50'000 USD out of the country, including to Macao, which like Hong Kong is of course considered a part of China, but nevertheless has its own financial system and legal. However, there are loop-holes offering ways to circumvent the existing provisions of Chinese law. **It is estimated that about 225 bn USD have flown out of China within twelve months from September 2011, capturing both the legal and the illicit capital outflow.**[23]

It remains debatable how liberalizing the control over capital outflows would affect such illicit outflows of capital, however, a positive side-effect would be that allowing for more capital outflows create more diversified investment options for Chinese firms and households away from domestic property markets and risky speculation in shadow-banking products. Furthermore allowing capital to flow abroad would also introduce more competition into domestic financial markets, which may speed up the latter's development. Eventually, a fully fledged internationalization of the RMB would also require a liberalization of the interest rates, although this reform seems harder to achieve in near term, since it cannot be implemented without well-developed capital markets which generate market-driven interest rates. The latter seems impossible to be achieved as long as the government continues to use its state banks as quasi-fiscal instruments to channel resources.[24]

While the speed of financial sector reforms is being slowed-down by the fact that the Chinese leadership is divided into different interest groups, with the PBOC appearing to the most liberal stance, China does not shy back from also looking into rather unexpected ways to increase its international outreach in the financial industry, leveraging on the countries' size and cultural diversity:

In the broader context of developing China's western provinces, Ningxia, one of China's most economically underdeveloped provinces, was selected to host a bonded area partly because of its ethnic minority status. The Hui ethnic group which accounts for more than one third of Ningxia's population and is China's largest Muslim minority, representing nearly one–half of the country's Muslims. The government is trying to promote Ningxia's ties with the wider Muslim world. **China's**

[22] ***Seignorage:*** When a government prints money, it is in essence borrowing interest-free since it receives goods in exchange for the money, and must accept the money in return only at some future time. It gains further if issuing new money reduces (through inflation) the value of old money by reducing the liability that the old money represents. These gains to a money-issuing government are called "seignorage" revenues.

[23] The Wall Street Journal: "Crackdown by China hits Casino Stocks"; Kate O'Keefe; December 5th, 2012

[24] The Wall Street Journal: "Beijing's Currency Choice"; December 4th, 2012

trade links with Arab countries are developing rapidly and trade flows were worth around 200 bn USD in 2011, up by 35%, however, with Ningxia in fact only accounting for a tiny proportion of this. In this framework, in addition to investment and trade, officials also tout the potential role of Ningxia in Islamic finance. The local Bank of Ningxia has developed sukuk[25], or Islamic bonds, since 2009 and has extended 700 million RMB in sharia-compliant finance to local Muslim exporters since then. Malaysia's Bank Muamalat recently announced plans to offer sharia-compliant loans and deposits through booths via its local partner, Bank of Shizuishan, by December 2012. There are also plans to set up joint Chinese-Arab investment funds to fund infrastructure and other products. **RMB settlement of trade with the Arab nations may provide an opportunity for Ningxia's financial services** and the establishment of regional oil futures has been mooted.[26]

E. China's welfare system – the challenge of equally distributing the pie

Stability, steady growth and spreading wealth are core justifications for the dominance of the ruling Communist Party which must navigate through the ongoing leadership handover. In his speech during the annual meeting of the NPC in March 2012, Premier Wen highlighted 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 had drawn particular public attention when residents of the village of Wukan in the southern province of Guandong staged a revolt over an alleged land grab in September 2011, forcing local authorities to sack village officials, freeze a property development, and hold fresh elections. This was a remarkable turnaround which some believe represents 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 doubling to 146 in 2011.[27] 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.[28]

Amid double-digit growth and dramatically rising living standards throughout the past three decades, China's economic reforms were little questioned. However, during the global economic crisis the new leftists gained a growing voice, according to analysts who have studied the movement. The new leftists have called attention to a widening wealth gap, government corruption and what they see as exploitation of cheap Chinese labor, raising questions about the effectiveness of current leaders and whether the party has drifted too far from its founding principles. As a charismatic politician and former candidate for the Communist Party's standing committee, Bo Xilai served as the new left's most prominent associate. From the southwestern city of Chongqing where he served as party chief from 2007 until March 2012, he launched popular social programs to help the city's poor, promoted an aggressive anticorruption campaign and restored Mao-era traditions like the singing of red songs. However, Bo was removed in March from his Chongqing post and subsequently expelled from the Communist Party in September[29]. The Bo case triggered a public debate, although rather in social than official media, about the abuse of political power and corruption by government officials and their family circle. The Chinese leadership has recognized the issue as a serious possible source of social unrest and started to address the problem in public. In his speech to the CPC in November, outgoing President Hu labeled combating corruption and promoting political integrity as a major political issue and stated that a failure to handle the problem could ultimately even cause the collapse of the party and the fall of the state[30]**.**

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[31] 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

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[25] ***Sukuk:*** *An Islamic financial certificate, similar to a bond in Western finance, that complies with Sharia, since traditional Western interest paying bond structure is not permissible under Islamic religious law.*

[26] Economist Intelligence Unit: Country Report China; December 2012

[27] Forbes: " China's Rich Lists Riddled With Communist Party Members"

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

[29] The Wall Street Journal Asia: "China's 'New Left' Grows Louder"; October 5th; 2012

[30] Reuters:" China's Hu says graft threatens state, party must stay in charge"; November 8th, 2008

[31] ***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).*

a matter of fact, gathering data on high-income earners in China can prove difficult. As the first local release of these figures in five years, the **International Institute for Urban Development report shows that the Gini coefficient for China reached 0.438 in 2010**. The Gini coefficient is an index measuring income inequality, and a country with a figure higher than 0.4 is deemed to have dangerous levels of wealth inequality[32]. 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.[33]

A survey of 8'000 households, released in December 2012, shows the urban unemployment rate hit 8.05% in June, up slightly from 8% in August 2011 and nearly twice as high as the official 4.1% rate. The unemployment rate for China's army of 160 million migrant workers has risen sharply to 6% in June 2012, up from 3.4% in August 2011 according to the survey. One important problem with official statistics is that China's official unemployment rate is based on urban residents registering for unemployment benefits. That measure leaves out key sections of the workforce - notably migrant workers, who go uncounted because they can't register for such benefits in the cities where they go to work. **For the last 15 years it has stayed in a tight range between 3.1% and 4.3%, failing to capture wrenching changes in China's labor markets. With no access to urban social benefits, migrant workers typically respond to job losses by either returning to the farm or accepting lower pay. A separate survey shows migrant-worker wage growth slowed to 1.7% year-on-year in 2012, from 23% in 2011**. However, in spite of a significantly higher rate of unemployment than reported by the government, China's labor market still appears to have weathered 2012's growth slowdown relatively well. A loss of around 4.5 million jobs for China's migrant workers in **the past year has taken their unemployment level to 10 million, still well below the 23 million out of work in 2009**.[34]

Unemployment and the growing social inequality certainly belong to the most important challenges for the Chinese leadership in terms of managing the risks for social unrest. On Chinese social websites such as Weibo or Renren, which are relatively hard to censor and became a popular forum of political discussion, issues related to the welfare of the people receive growing attention and the government appears to be closely following 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 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*[35] 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. [36]

In late 2011 China raised its official rural poverty threshold, thereby more than quadrupling the number of residents eligible for income support. Moreover, Government spending rose by 28% for education, 33% for healthcare and 61% for social housing. In 2011 the Government 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.

In 2009 less than 30% of China's adults were covered by the government's pension's patchwork. Since then pensions have spread at an extraordinary speed. In August China's national audit office reported that 622 million people, i.e. 55% of the adult population, were now enrolled in one scheme or another. However pension schemes vary enormously between urban and rural areas, Eastern and Western provinces as well as the private and the public sector. In some rural counties the basic pension can be as low as 55 RMB per month. Alike in other countries, China's system suffers from underfunding and the financial burden will increase as the country ages.

Although much progress on the welfare front has been made in the last years, taking the reforms to the next level will prove a significant challenge for China's fifth generation of leaders, which has come to power on the most recent, i.e. 18th, party congress. The window for reform is rapidly closing and implementation will be hindered by entrenched interests and bureaucratic inefficiencies at the local

[32] Global Times: "New Gini figures show instability risks, need for reform"; October 17th; 2012

[33] Caixin: "Government Refuses to Release Gini Coefficient"; January 18th 2012

[34] The Wall Street Journal: "Chinese Survey Shows a Higher Jobless Rate"; December 7th, 2012

[35] ***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.*

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

level. China's economic growth is slowing and its demographic advantage is fading. By 2035 almost 30% of Chinese will be 60 or over, compared with about 13% today.[37]

The government shows awareness of these problems and while its revenues are projected to shrink, its expenditures will expand in order to address the social challenges.[38] For the year 2012 the fiscal deficit was targeted at 1.5 percent of GDP, up from the 1.1 percent of GDP in 2011. In addition to the raise in social spending, China is increasing its military spending. In 2012 military spending was 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. 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.[39]

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 tax[40]. Throughout the year 2011 China recorded a budget deficit of 650 billion RMB which corresponds to roughly 1% of GDP for the same year. 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.

F. Chinese International Economic Relations

From concerns about the US "fiscal cliff" to a sharpening growth-versus-austerity debate, political tensions are weighing on the global economy. Despite more encouraging economic data in the US and signs that Chinese growth is reviving trading conditions remain difficult in many countries. **Political tensions are compounding the problems facing the global economy and policy cooperation remains stressed for many reasons. Anti-austerity protests, especially in euro-zone-countries have become common and the slow recovery from recession has sharpened ideological tensions between the political left and right, triggering protectionist reflexes in several parts of the world**.

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. At the same time the average number of formal disputes per year has fallen since 2001, in the first place 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 countries.[41]

In January tensions arose over a trade issue between the EU and China. The EU required airlines to hand over emissions data 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 companies, 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. In November, India barred its airlines from complying with the EU carbon tax, joining China in resistance. According to the EU the tax aims at helping it to

[37] The Economist: "Social security with Chinese characteristics"; August 11th, 2012
[38] The Jakarta Post: "China to up residential land supplies"; May 16th 2012
[39] Neue Zürcher Zeitung: " Peking investiert mehr ins Militär"; March 5th 2012
[40] China Daily: " China's tax revenues rise 22.6% in 2011"; February 15th 2012
[41] The Economist: "When partners attack China will test the WTO's dispute-settlement system"; February 11th 2012

achieve the 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.[42] However, Beijing remained firm on its stance of settling the carbon tax dispute with the European Union through a multilateral approach, when the EU sent a delegation to Beijing for discussions on the Emissions Trading Scheme, often called the carbon tax, during the third round of the EU-China Strategic Dialogue in July.

Another conflict arose in the light of Chinese companies increasingly looking for opportunities to expand abroad: In a report that **followed an 11-month investigation the U.S. House of Representatives Intelligence Committee recommended that the Committee on Foreign Investment in the United States, an inter-agency group that evaluates the national security risks of foreign investments, should block any deals involving Huawei Co Ltd, a globally leading Chinese supplier of telecom equipment solutions, and its smaller Chinese competitor ZTE Corp**. Moreover the panel stated that government contractors and private-sector companies should seek other vendors for their network equipment. Huawei countered that the purpose of the report was to impede competition and obstruct Chinese companies from entering the U.S. market. It further stated that it profoundly disagreed with allegations that it was directed or controlled by the Chinese government.

In 2008, Huawei and private equity firm Bain Capital were forced to give up their bid for 3Com Corp after a U.S. panel rejected the deal because of national security concerns. Then in 2011, the company was forced to relinquish plans to buy some assets from U.S. server technology firm 3Leaf after the Committee on Foreign Investment mandated that Huawei divest certain parts of the deal.[43]

Two-way trade between China and Japan totaled 342.9 billion USD in 2011. China is Japan's largest trading partner and Japan is China's fourth-largest. Following the announcement in September by Japan that it has purchased the islands – called Diaoyu in China and Senkaku in Japan – from private owners, for nearly a week thousands of protesters took to the streets in dozens of Chinese cities to demand boycotts, economic sanctions and in some cases even demolished Japanese shops and restaurants.

Operators in the tourism industry reported a sharp rise in cancellations on flights and hotel bookings into both directions. Japanese businesses such as Panasonic, Canon, Toyota and Honda temporarily suspended operations out of fears for the safety of their Japanese personnel. The dispute over the islands may have a number of negative economic effects over the medium term.[44] While Japan may in the first place suffer from lower exports to China, **Japanese investors may increasingly factor in political risks, which may eventually backfire on the Chinese labour market**.

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)

The global economic recession posed the most serious challenge to China's dependence on export-led growth. Meanwhile, Chinese exports also became the major target of worldwide protectionist measures. 49%, or 1053 of the 2197 import-distorting measures such as state bailouts, local content requirement and subsidies taken by countries during the current global downturn since 2009 directly or indirectly affected exports from China.[45] The crisis, however, also gave China the opportunity to introduce numerous structural reforms aimed at diversifying its economic structure, promoting private sector participation and competition in the economy and developing a more efficient capital market.

Since becoming a member of the WTO eleven years ago, China not only increased the universality of the organization but also implemented most of its WTO commitments. Foreign companies have continued to profit from reduced tariffs, the elimination of import licences and quotas, the opening of more sectors to 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**

[42] EU Business: "EU issues warning to carbon tax rebels China, India"; May 15th 2012
[43] Reuters: "U.S. lawmakers seek to block China Huawei, ZTE U.S. inroads"
[44] Global Post: "China: Anti-Japan protests cool, but economic effects could be long-lasting"; September 20th, 2012
[45] http://www2.lse.ac.uk/IDEAS/publications/reports/pdf/SR012/li.pdf

may favour local companies.[46] Indeed, SOEs still enjoy more preferential treatment with low interest rates.

A third revised and improved offer on China's 42-country GPA[47] accession is in the process of submission. According to ICTSD,[48] 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 requested by other parties that more entities, state-owned enterprises, and public utilities should be included in its offer and also that the thresholds for triggering international competition for its public contracts should be lowered.[49] 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**.[50] China's accession will yield market access gains in the range of $113 to 289 billion.[51]

So far, **China has leant towards being an advocate of free-trade within the WTO**, demonstrating a strong commitment in issues typically affecting emerging markets such as the liberalization of agricultural markets. China wants to give the image of an active WTO-member and many countries expect China to take over more leadership, even though Beijing has been criticized for not engaging hard enough to find a compromise in the paralyzed Doha negotiations.[52] 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. China's recent experience with the WTO's Dispute Settlement Body (DSB) suggests that the country is gradually internalizing the non-discrimination principle embodied by the multilateral trading regime, committing to comply with all DSB rulings and redress its WTO-inconsistent policies in a number of cases.[53]

While China keeps engaging in multilateral trade discussions and protecting its interests within the WTO, it is also actively exploring trade opportunities through bilateral 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, signing the Framework Agreement on China-Association of Southeast Asian Nations (ASEAN) Comprehensive Economic Cooperation in as early as November 2002. Since then, China has signed nine FTAs 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 accounted for 19.3% of China's foreign trade, 56.3% of overseas investment and 56.4% of foreign investment.[54] In addition, FTAs between China and GCC, Australia, Norway, Iceland, SACU, South Korea, Japan and Switzerland are being negotiated. Trading with emerging markets and FTA members allows China to recover some of the export losses resulted from lower demand in developed markets such as the EU and US. 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)

Including eleven countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) with a market for 1.9 billion people, a combined GDP of $6 trillion and a total trade volume of $4600 billion, CAFTA ranks as the world's largest free-trade area by population to date. In terms of economic value, this is the third-largest regional agreement, following the EU and the NAFTA (North-American Free Trade Agreement).

In 2002, China and ASEAN signed the Framework Agreement on Comprehensive Economic Cooperation - an umbrella agreement providing general provisions on the establishment of an

[46] Economist Intelligence Unit, China Country Report, 2012

[47] 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.

[48] International Centre for Trade and Sustainable Development, available at http://ictsd.org/i/news/bridgesweekly/139008/

[49] *Ibid.*

[50] 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 .

[51] 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.

[52] 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 ; http://yaleglobal.yale.edu/content/wto-doha-round-do-or-die

[53] http://www2.lse.ac.uk/IDEAS/publications/reports/pdf/SR012/li.pdf

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

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 members[55] and expanded by including the newer and less developed ASEAN members.[56] Together with an agreement on trade in services that was signed in January 2007, the CAFTA came into effect on January 1st, 2010.

CAFTA reduced tariffs on 7'881 product categories or 90% of imported goods to zero. This reduction concerns China and the six original ASEAN-member States (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. The average tariff rate on Chinese goods sold in ASEAN countries decreased from 12.7% to 0.6% on January 1st 2010. The average tariff rate on ASEAN goods sold in China decreased from 9.8% to 0.1%. The six original ASEAN members also reduced tariffs on 99.11 percent of goods traded among them to zero. 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 resources, and the environment.[57]

Recent customs data show a 7.7% increase in China-ASEAN trade in the first three quarters this year. Although it was lower than the annual rate of more than 10% seen in past years, it overtook China's combined foreign trade growth of 6.2% in the same period and contrasted with China's contracting trade with the EU and the US. China has kept its place as ASEAN's largest trading partner for three years and ASEAN is China's third-largest trading partner after the EU and US.

While government officials from all parties emphasize the win-win situation expected from the CAFTA, some sectors which directly rival with Chinese products (such as textiles and garments, tires, steel and footwear) fear they cannot keep up with Chinese competitors.[58]

A significant proportion of the ASEAN-China bilateral trade, amounting to $360 billion in 2011, is physically routed, arranged or financed through Hong Kong. Joining the CAFTA is thus in the intentions of Hong Kong whose participation would improve the efficiency of such trade, more generally the flow of capital, entrepreneurship, technology and people within the region, enhancing the overall competitiveness of the CAFTA. As the world's fifth largest and Asia's second largest provider of FDI in 2011 with total outflow amounting to $82 billion, being a preeminent offshore RMB-centre and with more than 3700 multinational companies having set their HQ or regional offices in Hong Kong, the proportion of investments going into ASEAN might increase significantly after Hong Kong becomes a party to the CAFTA.[59]

2.1.3. ASEAN+3 (or APT: ASEAN Plus Three)

It follows from China's tightening ties with ASEAN that the country would **press for further regionalism**. In the wake of the 1997 Asian Financial Crisis, the framework of **ASEAN+3** (China, South Korea and Japan) endeavoured to strengthen regional financial stability in East Asia by initiating new mechanisms for crisis prevention and resolution in the region.

The APT Heads of State first met in 1999 to enhance the "self-support mechanism of East-Asia", materialized by the respective Finance Ministers under the *Chiang Mai Initiative* in 2000 and coming into effect in the *Chiang Mai Initiative Multilateralization Agreement* between the APT members and Hong Kong in March 2010. Overdependence on short-term foreign currency-denominated financing was addressed by emphasizing **regional bond market infrastructure development and surveillance** in the *Asian Bond Market Initiative* signed in 2003.[60] Furthermore, APT countries engage in **BSA (Bilateral Swap Arrangements)** addressing balance of payment and short-term liquidity difficulties in the region by supplementing the existing international financial arrangements. The multilateral currency swap totalling $120 billion shall address balance of payment and short-term liquidity difficulties in the region by supplementing the existing international financial arrangements.[61] The **economic surveillance mechanism is based on the ERPD (Economic Review and Policy Dialogue)** in which members, as well as ADB and IMF experts discuss policy measures to mitigate risks in the *Technical Working Group on Economic and Financial Monitoring* meeting yearly.

Beyond financial and economic cooperation, central themes also include energy diversification, counter-terrorism, environmental protection, political security or even food security, the latter for instance addressed through the APTERR (*ASEAN Plus Three Emergency Rice Reserve Agreement*)

[55] Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand
[56] Cambodia, Laos, Myanmar, Vietnam
[57] Global Times: "China-ASEAN ink investment agreement", 17 August 2009.
[58] L.A. Times: "Blaming China: Indonesian garment makers say free trade pact leaves them on brink of collapse", 26 April 2010.
[59] http://www.tax-news.com/news/Hong_Kong_Looks_To_Join_ASEANChina_FTA____57532.html
[60] http://www.bot.or.th/English/AboutBOT/index/Pages/ASEAN3.aspx
[61] Bank of Japan, Joint Press Release: "Chiang Mai Initiative Multilateralization (CMIM) comes into effect", 24 March 2010.

signed on July 12th this year, an initiative initially proposed during the APT Agricultural Minister's Meeting in 2001.

Following the 21st ASEAN Summit, the **15th ASEAN+3 Commemorative Summit Meeting** took place on November 19th 2012 in Phnom Penh, Cambodia, reviewing the progress made since the 1999 and 2007 Joint Statement on East Asia Cooperation.[62] On November 19th, the **US-ASEAN Expanded Economic Agreement (E3) initiative** was also launched. E3 will focus on joint development of Investment Principles addressing essential elements of investment policies including market access, non-discrimination, investor protections, transparency and responsible business conduct. It will also focus on trade facilitation including simplified customs procedures and increased transparency of customs administration, as well as standards development and practices for SMEs, trade and environment, as well as the joint development of Information and Communications Technology principles guiding policymakers on the role regulatory bodies, cross-border information flows and localization requirements.

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 (Australia, China, India, South Korea, Japan 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).[63]

2.1.4. Regional Comprehensive Economic Partnership (RCEP or ASEAN+6) vs. Trans-Pacific Partnership (TPP)

After the adoption of the RCEP's Guiding Principles and Objectives for Negotiations by the Trade Ministers of each country this August, **RCEP negotiations were officially launched at the 21st ASEAN Summit on 20th November 2012. The RCEP would become the largest regional trading arrangement in the world to date encompassing 16 countries and almost half of the global market with 3 billion people as well as almost a third of the global economic output with 30% of world exports and a combined GDP of $19.78 trillion.**

RCEP is an ASEAN initiative aiming at a **partial WTO-plus arrangement** gathering the already existing FTAs with external trading partners to establish deeper economic cooperation in opening up more trade in goods and services, eliminating trade barriers, gradually liberalizing services and providing for greater FDI as well as covering intellectual property rights, environmental protection, labor, financial services, technical barriers to trade and other regulatory issues.[64]

Just before the ASEAN+6 leaders met to discuss the RCEP Agreement, US President Obama called a meeting of TPP members such as Brunei, Malaysia, Singapore, Vietnam, Australia and New Zealand on the sidelines of the EAS-Summit to push for progress on the US-led TPP negotiations, hoping that substantive elements of the TPP would be in place before the end of 2012 and targeting October 2013 for a date to conclude the agreement.

The TPP is a broad trans-pacific trade and investment pact currently involving **11 countries with a combined population of 658 million people.**[65] It was born out of an agreement between New Zealand, Chile, Brunei Darussalam and Singapore in 2005; the US, Australia, Peru, Vietnam and Malaysia have since become additional members, as well as Canada and Mexico who joined in October and June this year respectively.[66] In 2011, the total GDP of TPP countries was US$20.5 trillion, with the US accounting for three quarters of it.

The TPP negotiations call for deeper economic integration than RCEP and aim at establishing at least a regional FTA which will further liberalize trade in the Asia Pacific. For now, the US is strongly encouraging further expansion among APEC countries, possibly as a way to isolate China

[62] http://www.chinadaily.com.cn/world/2012-11/19/content_15942633.htm

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

[64] http://www.wto.org/english/tratop_e/region_e/con_sep07_e/kawai_wignaraja_e.pdf

[65] http://www.whitehouse.gov/the-press-office/2012/11/19/fact-sheet-us-asean-expanded-economic-engagement-e3-initiative

[66] http://www.international.gc.ca/media_commerce/comm/news-communiques/2012/10/09a.aspx?view=d

economically and geopolitically in reducing the Asian countries' dependence on China.[67] The US' ultimate goal is nevertheless to integrate China into the TPP in the longer term as it could subject China to new, higher standard rules and discourage China from trying to weaken the existing trade rules through other channels.[68] New Zealand is actually the most supportive country of China joining the TPP. On a general basis it will be challenging to maintain the TPP's consistency of standards since the involved economies are at different stages of development.[69] The **TPP and RCEP may come into conflict due to the tension between China and the US**, as both want to shape economic cooperation in the Southeast and East Asian regions in order to secure its economic interests. Rivalry between China and the US might indeed become a predominant factor in the development of the regional economic architecture and might undermine the crucial driving force role that ASEAN plays, especially if ASEAN does not respond effectively to any potential competition between the TPP and RCEP.[70] Chinese policy circles maintain that the TPP's current member countries are mainly US military allies.[71] Furthermore, in their view the TPP would result in trade diversion from a more efficient exporter towards a less efficient one, consequently posing a severe threat to China's exports to the US.[72]

Japan has also expressed interest in joining the talks, which would reportedly eclipse the North American Free Trade Agreement (NAFTA) in size and scope. However, if Japan joins TPP, RECP's combined GDP, population and trade volume would still be higher. Joining the TPP talks would draw generate more leverage for Japan in negotiating a trilateral Japan-China-ROK FTA. Compared to the TPP, characterized by some as the Japan's third great opening after Commode Perry's arrival and the American occupation after WWII, the trilateral FTA would nevertheless yield far greater trade benefits for Japan and would be less politically sensitive at home.[73] However, China's rise as regional and global power raises both economic and strategic fears among ASEAN countries already rooted on historical mistrust.[74] In this context, China is also leveraging monetary resources to attract ASEAN countries in offering generous packages in for instance technology transfer or maritime cooperation. In view of the difficulties to reach a comprehensive multilateral agreement, China opts for more accessible regional agreements.[75]

Although **South Korea** shows interest in joining the TPP in the medium-term, it prioritizes RCEP. Since South Korea has already signed FTAs with most current TPP members and is engaged in FTA negotiations with those remaining, most effects of the FTAs that it has worked hard to conclude would diminish significantly if it joins the TPP.

The **Philippines and Taiwan**, have also expressed interest in joining the TPP.[76] According to Supachai Panitchpakdi, Head of the UN Conference on Trade and Development, Thailand or Taiwan should be dissuaded to join the TPP and should rather concentrate on RCEP.[77] While most Asian countries prioritize on RCEP, Singapore, Malaysia and Vietnam focus on the TPP.

2.2. Other Free Trade Agreements

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

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[67] Yang Jiemian, „Meiguo Shili Bianhua yu Guoji Tixi Chongzu," (The Change of America's Power and Restructure of International System), Guoji Wenti Yanjiu (International Studies), No.2, 2012, p.57, http://mall.cnki.net/magazine/Article/GJWY201202008.htm

[68] Matthew Goodman, Former White House Coordinator for APEC and EAS cited in Wen Jin Yuan, The Tran-Pacific Partnership and China's Corresponding Strategies, Freeman Briefing Report, Center for Strategic & International Studies, Washington DC, June 2012, http://csis.org/files/publication/120620_Freeman_Brief.pdf

[69] Ibid.

[70] http://www.eastasiaforum.org/2012/11/28/will-rcep-compete-with-the-tpp/

[71] Song Guoyou, "TPP Dui Zhongguo You Naxie Yingxiang," (How will TPP affect China), Shenzhen Shangbao, November 13, 2011, http://szsb.sznews.com/html/2011-11/13/content_1821684.htm ; Li Xiangyang, "TPP, Zhongguo Jueqi Guocheng Zhong De Zhongda Tiaozhan," (TPP: A Serious Challenge for China's Rise), Guoji Jingji Pinglun *(International Economic Review),* No.2, 2012, pp.17-27, http://iaps.cass.cn/upload/2012/04/d20120404000752112.pdf

[72] Ibid.

[73] http://online.wsj.com/article/SB10000872396390443819404577632953734008664.html#

[74] Wen Jin Yuan and Melissa Murphy, "Regional Monetary Cooperation in East Asia – Should the United States be Concerned?", CSIS Report, November, 2010, http://csis.org/files/publication/101129_Yuan_RegionalCoop_WEB.pdf

[75] Susan S. Schwab, "After Doha -- Why the Negotiations Are Doomed and What We Should Do About It," *Foreign Affairs,* Volume 90, No. 3, May/June 2011, http://pagines.uab.cat/jbacaria/sites/pagines.uab.cat.jbacaria/files/16_Schwab_pp104_117_Blues.pdf

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

[77] http://www.bangkokpost.com/news/local/322261/asean-leaders-begin-rcep-negotiations

2.2.1. 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 products[78] traded between the two countries. The trade in services, based on the respective WTO commitments, covers 45 service sectors and sub-sectors of Costa Rica[79] 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.

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.[80] China's specific provisions of low tariffs and other exemptions to ASEAN countries have eroded the FTA preferences of Pakistani exporters in the Chinese market.

China and **Peru** concluded negotiations for a free trade agreement in November 2008. The pact was signed on April 28th, 2009 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.[81] China is Peru's second largest commercial partner and its investment in Peru has exceeded the amount of 1.2 billion USD, the largest among Asian countries.[82] A significant percentage of Peru's exports has enjoyed preferential access to China since the FTA went into effect; tariffs on 61.2% of the products that make up 83.5% of Peru's exports to China were reduced to 0% from day one. Furthermore, 94.5% of the products that make up 99% of Peru's exports to China now have access to this market at a lower tariff rate. Finally, 62.7% of the products that make up 61.8% of imports coming from China will enter Peru's market tariff-free.[83]

The **China-Singapore Free Trade Agreement (CSFTA)** was signed on October 23rd, 2008, after eight rounds of negotiations held over 2 years, 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, rules of origin, technical barriers to trade, sanitary measures, economic cooperation, dispute settlement. The CFSTA entered into force on January 1st, 2009. Flagship projects in bilateral cooperation, including Suzhou Industrial Park and Tianjin Eco-City, have seen remarkable achievements. Three changes arose from the CSFTA Amendment Protocol[84] 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 Commitments[85] is to be extended to Singapore ahead of ASEAN. 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.[86] 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).

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[78] 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.

[79] Including telecommunication and commercial services, construction, real estate, distribution, education, environment, IT and tourism.

[80] Ministry of Commerce: http://fta.MOFCOM.gov.cn

[81] Ministry of Commerce: http://fta.MOFCOM.gov.cn

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

[83] http://www.lexology.com/library/detail.aspx?g=acde30fa-d069-4d71-85f3-86df00996d65

[84] Available at http://www.fta.gov.sg/csfta/csfta_amendment_protocol_factsheet.pdf

[85] 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.

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

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.[87]

New Zealand and China are celebrating their 40th anniversary of diplomatic ties and their 5th anniversary of the China-New Zealand FTA's signature is coming soon in April next year. New Zealand Trade and Enterprise, the country's trade promotion agency, forecasts that over the next two decades the FTA will lift New Zealand exports to China by between 20% and 39%, or 260 million and 400 million NZ$ (US$317. 91 million), a year over and above what would be the case without an agreement.[88] The so-called New Zealand Inc Strategy launched by Prime Minister John Key aims at doubling exports by 2015. The Inc Strategies are plans of action for strengthening New Zealand's economic, political and security relationships with key international partners such as China, India, US, Australia, ASEAN, GCC and EU.[89] The agreement, signed in April 2008 and into effect since October 2009, marked the first such deal between the biggest developing country and a developed economy. Under this FTA 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, 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. Strong export incomes support New Zealand's gradual economic recovery. China is the fastest growing export market for New Zealand with exports accounting 14% of the total, up from just 7% three years ago. While bilateral trade with China is growing rapidly, New Zealand ran an unexpected overall trade deficit of $199 million.[90] New Zealand's exports to China are led by primary products – dairy (40%), wood, wool, seafood and meat. The export profile is diversifying, however, with machinery, aluminum, plastics, wine and high technology products (especially telecommunications products) featuring in New Zealand's non-agricultural exports to China. However, the challenge is how to better diversifying the exports and educate SMEs on the best way to benefit from the FTA. New Zealand's largest imports from China are electrical machinery and equipment, textiles, clothing and footwear, toys, and a wide range of light consumer goods.[91] Chinese investments in New Zealand, in particular the purchase of 16 dairy farms by the Shanghai-based *Pengxin Group Co. Ltd.* raised concerns among media wrongly claiming that China would own more land than anyone else in the country. The case ended in the High Court of New Zealand however in favor of China as it approved Pengxin's bid.[92]

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.[93] The Supplement VII between Hong Kong and mainland China was signed on 27 May, 2010 and entered 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.[94] 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.[95]

2.2.2. 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

[87] Ministry of Commerce: http://fta.MOFCOM.gov.cn
[88] http://www.chinadaily.com.cn/bizchina/2012-07/11/content_15569557.htm
[89] http://www.mfat.govt.nz/NZ-Inc/1-About/index.php
[90] http://www.stuff.co.nz/business/industries/6489292/Exports-to-China-booming
[91] http://www.mfat.govt.nz/Countries/Asia-North/China.php
[92] http://usa.chinadaily.com.cn/business/2012-12/04/content_15983720.htm
[93] Xinhua: "Chinese mainland market opened wider to HK businesses", 9 May 2009.
[94] South China Morning Post: "Cepa boosts six pillar industries", 28 May 2010.
[95] "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 ;

FTA negotiations on March 2nd 2012. Since then, four rounds of negotiations took place in Beijing, Jeju Island, Weihai and Gyeongju. The fifth round is scheduled to take place in China in January 2013.The negotiations are divided into two phases. During the first phase, both governments shall define the FTA's scope of application, as well as the tariff modalities in elaborating a list of three different categories divided into "Normal Sensitive Items" (NSI), "Sensitive Items" (SI) and "Highly-Sensitive Items" (HIS), whereas SI shall be discussed during the first phase, HSI (such as for instance rice) shall be removed from the negotiations and NSI shall enjoy a 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 zones. During the second phase, requests and offers will be exchanged and the concrete content of the chapters will be discussed. South Korea is geographically very close to China and is the second most important importer to China after Japan (Japan: 11.2% and South Korea: 9.3% of all imports). If the trend continues, Korea might overtake Japan and become the first importer to China. Furthermore, China faces some fishery disputes for illegal fishing in South Korean waters. Chinese agricultural and fishery products being much cheaper than the South Korean ones, there is a strong resistance in the threatened South Korean 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 and the domestic agricultural production would drop by 14.7%. 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).[96] 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 would go further up 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 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.[97] Great importance is attached to this bilateral FTA since it endeavors to become a model for ASEP and RCEP. Nevertheless, analysts in Seoul predict that like the FTA with the US, only the electronics sector would genuinely stand to benefit for the Sino-Korean FTA.[98]

A framework agreement was signed between China and **Australia** in October 2003 and talks began in May 2005, after the conclusion of a feasibility study. After more than seven years of negotiations, there are no new round scheduled in the near future since their 18th round held in March 2012. Unlike other countries, Australia is seeking a FTA including all sectors from agricultural and manufactured goods, services, temporary entry of people and foreign investment. China is Australia's most important trading partner since 2007 ahead of Japan, the US and New Zealand, whereas Australia is China's 8th trading partner. Australia's major exports to China are iron ores and concentrates, coal, gold and crude petroleum but the country should diversify in other categories such as services. Australia's major imports from China are telecom equipments and parts, computers, clothing, furniture, mattresses and cushions.[99] Chinese investments, in particular in infrastructures and in mining, have witnessed a 70% increase at the end of 2011 compared to 16% increase in services. The mining investments whose major sources are SOEs include of low-cost labour force packages working on site during the whole project, an offer mainly practiced in developing countries and which is unacceptable under Australian labour standards.

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.[100] However, the negotiations have been suspended due to the Peace Nobel Prize incident in 2010. Although the Sino-Norwegian relations seemed to witness some progress after the Norwegian Prime Minister Jens Soltenberg met his Chinese counterpart, Wen Jiabao at the 9th ASEM (Asia-Europe Meeting) on November 19th in Laos, no further rounds of negotiations have been scheduled.

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 took place until Iceland, facing some fishery disputes with the European Commission and thus delaying Iceland's accession to the EU, resumed the FTA-negotiations with China after Wen Jiabao's visit to Reykjavik in April 2012. The next round is scheduled for December 2012 in Iceland and the last round for January 2013 in Beijing. The objective is to sign the agreement while the Icelandic Prime

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

[97] Samsung Economic Research Institute, Kwon Hyuk-Jae: "Obstacles to the Korea-China FTA", 8 May 2012, available at http://www.seriworld.org/

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

[99] http://www.dfat.gov.au/geo/fs/chin.pdf

[100] Ministry of Commerce: http://fta.mofcom.gov.cn

Minister Johanna Sigurdottir and the Chinese Prime Minister Wen Jiabao are still in power, as there will be elections in April 2013 in Iceland and important leadership change in China.

In July 2004, China and the six-nations (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.[101] Nevertheless, the Chinese insist on making the first phase of the proposed deal restricted to goods, thus excluding services. During his visit to the Persian Gulf countries in January 2012, Premier Wen Jiabao called for a rapid conclusion of the FTA negotiations during his meeting with GCC Secretary General Abdullatif al-Zayani but no further round has been scheduled so far.[102] China however signed several important energy deals with the UAE.[103] Sino-GCC bilateral trade in the first semester this year increased by 29.1% to $77.72 billion and contributed to 70% of Sino-Arab trade. China is a major energy importer and producer of machinery, while GCC members are key energy exporters and buyers of machinery.[104]

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. In December 2009, the Participating States entered into the *Framework Agreement on the Promotion, Protection and Liberalization of Investment* and the *Framework Agreement on Trade Facilitation* and in August 2011 entered into the *Framework Agreement on the Promotion and Liberalization of Trade in Services*. Bangladesh, China, India, Republic of Korea, Lao People's Democratic Republic and Sri Lanka are signatories and Mongolia is currently in the process of accession to APTA. UNESCAP functions as the secretariat for the Agreement. 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.[105]

In June 2004, China and the **Southern Africa Customs Union (SACU)**[106] announced the launch of free trade negotiations. So far, no negotiations have taken place.

2.2.3. Free Trade Agreements under consideration

The trade ministers of **China, Japan and South Korea** agreed in May 2010 to complete a Joint Feasibility Study. On December 16th 2011, a Joint Declaration on a regional FTA was signed by representatives of the three nations. Despite recent territorial and long-lasting historical issues among the three countries, the **trilateral FTA negotiations were launched during the 7th East Asia Summit in Phnom-Penh on November 20th, 2012.** A preparatory meeting is planned in Japan in late February and the **first round scheduled in March or April next year** in South Korea with three rounds scheduled for 2013 and the conclusion targeted for 2015.[107] The three countries' combined GDP together accounted for 19.8% of worldwide GDP with approximately $12 trillion and 18.5% of exports in 2010. This FTA would become the 3rd largest after the EU and NAFTA and would be ranked before CAFTA. 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%. 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.[108]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. China has a particular interest in this trilateral FTA in order to gain weight **opposing the US-led TPP** since policymakers in Beijing worry that US influence could erode Chinese sway across the region. A **trilateral Agreement on promotion,**

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[101] Ministry of Commerce: http://fta.mofcom.gov.cn
[102] http://www.worldpoliticsreview.com/trend-lines/11359/global-insider-with-trade-booming-china-gcc-fta-would-change-little
[103] http://www.menafn.com/menafn/1093474686/China-GCC-must-ink-FTA-deal-Chinese-PM
[104] http://www.china.org.cn/business/2012-08/17/content_26260144.htm
[105] http://www.unescap.org/tid/apta.asp
[106] South Africa, Botswana, Namibia, Lesotho, Swaziland
[107] http://online.wsj.com/article/BT-CO-20121120-710607.html#
[108] Ministry of Commerce: http://fta.mofcom.gov.cn

facilitation and protection of investment, the first economic deal between the three Asian powers, was signed during the 6th trilateral Summit in August 2011.

In May 2010, China initiated feasibility studies for a FTA with **Mongolia** whose economy grew 17.3% in 2011. China is the main importer of mineral products from Mongolia and wants to strengthen its cooperation with Mongolia in natural resources, including coal, copper, uranium and rare earth minerals.[109]

Canada is also considering launching FTA negotiations with China. A survey was launched by the Asia Pacific Foundation of Canada at the *Canada China Business Council's 34th Annual General Meeting and Policy Conference* in Montreal, Quebec on November 28th, 2012 with results showing that of the respondents, 47% placed negotiations with China as a priority, followed by Japan (16%), India (15%), EU (11%), Korea (10%), and Thailand (2%).[110] 82% respondents supported potential FTA negotiations with 39% agreeing that such an agreement would give Canadian manufacturers and exporters significant opportunities to expand and build new business activities in China. Another 83% agreed that the conclusion of such an agreement would increase their business activity. Chinese investment in Canada has increased 36-fold in 10 years, reaching $10.7 billion at the end of 2011, while Canadian investment in China topped $8.3 billion, according to government figures. China is currently Canada's second-largest trading partner while Canada is 13th among China's business partners.[111]

In 2003, **India** and China established 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 with China despite the $73.9 billion bilateral trade figure due to a sharp increase in flow of goods from the neighbouring countries. The Indian Ministry of Commerce thus claims China has to first address this issue before starting the negotiations.[112] 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.[113] According to the NDRC (National Development and Reform Commission), this FTA would help a South-South Cooperation model as well as a greater role for both countries in the global economy.

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) which might even include Afghanistan.[114] SCO countries have a population of 1.5 billion, a combined GDP of $7.6 trillion and a trade volume that reached $90 billion in 2011. According to Sun Ping, vice-president of the Export-Import Bank of China, China's investments to the other five member countries accumulated to nearly $6 billion by 2011, while the investments in China from the other member countries reached $2 billion. During the 12th Meeting of the Council of Heads of Member States of the SCO held in Beijing June 6-7th this year, Vice-Premier reiterated that amidst a challenging recovery of the global economy, SCO should strengthen coordination in macro-policies and promote trade and investment exchanges as inked in the medium-term development plan.[115] In response to fluctuation of commodity prices and increasing trade protectionism, SCO countries consider establishing a *SCO Growth Fund* and a *SCO Development Bank*, which symbolize an important step in the internationalization of the RMB.[116] Potential multilateral financial cooperation, e-commerce and enlargement of home currencies in bilateral trade to boost regional trade and investment are also explored.

Launching a **China-US FTA** would be in line with China's strategy of FTA expansion. The Chinese market is indeed becoming more and more important for the US exports. During the past decade, the U.S. exports to China grew rapidly by 468%, while its exports to other countries only grew by 55%.[117] According to a primary estimation, if China and the U.S. had established a FTA and hence had reduced their tariffs by 10%, their economic growth rates could have increased by 3.93% and 0.45%

[109] People's Daily: "Free trade deal with Mongolia on the cards", 12 May 2010.
[110] http://thediplomat.com/the-editor/2012/07/27/canadas-asia-pivot/
[111] http://www.asiapacific.ca/sites/default/files/filefield/canadian_busineses_in_china_survey_2012.pdf
[112] The Wall Street Journal: "India-China FTA talks may stumble over trade deficit", Asit Ranjan Mishra, 15 December 2010.
[113] The Economic Times: "China-ASEAN FTA may hit trade balance: Scindia", 23 April 2010.
[114] China Daily, "Regional free trade tops the agenda, 29 November 2011, available at http://www.chinaembassy.org.sg/eng/gdxw/t883001.htm
[115] http://www.globaltimes.cn/content/730801.shtml
[116] http://usa.chinadaily.com.cn/china/2012-05/18/content_15325430.htm
[117] http://www.chinausfocus.com/finance-economy/china-us-fta-talks-should-be-initiated/

respectively in 2011.[118] The US-China Strategic and Economic Dialogue committed to promoting trade and investment, financial supervision, consumption and savings rates adjustment could include discussions on establishing a China-US FTA.

2.3. 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.[119] Taiwan and China will ink the service trade pact under ECFA in 2013.

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 into 11 service sectors such as accounting, hospital, banking and securities, while Taiwan opens nine of its services sectors to mainland firms.[120] 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.[121] 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.[122] 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.[123]

2.4 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. Additionally,, 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.[124] 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

[118] *Ibid.*
[119] Xinhua: "Landmark cross-Strait economic pact takes effect", 13 September 2010.
[120] Xinhua: "Mainland, Taiwan reduce import tariffs to implement", January 2nd, 2011.
[121] Taiwan Today: "The Challenges of ECFA", 2 July 2010.
[122] 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.
[123] 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
[124] For the Joint Feasibility study, please refer to: http://www.seco.admin.ch/themen/00513/02655/02731/04118/index.html?lang=de

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, the sixth in September 2012 in Davos and the seventh in December 2012 in Lucerne. Follow-up works were carried out in all areas of negotiations and half-a-dozen of intersessional meetings were held in Beijing in various expert groups. The seventh round allowed to hold in depth discussions in 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, dispute settlement, legal and institutional matters, economic and technical cooperation. While good progress was achieved in all areas under negotiation, further efforts will be needed with a view to conclude in a near future. Both sides agreed to hold further expert meetings in various areas before the next round foreseen in spring 2013.

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 April 13th, 2010.[125]

3. Foreign Trade

3.1 Development and General Outlook

3.1.1 Trade in goods[126]

A. Foreign Trade in 2011

On December 7th, 2011 the Chinese government published a **white paper on 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.[127] These developments underline the **importance of China's foreign trade growth for the world economy**. In particular during the international financial crisis, 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. 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. The policy measures included intensified support on export credits and credit insurances, export rebates, popularization of cross border RMB trade settlement and generally improved trade facilitation.

Nevertheless, the full years' trade volume hit another record of 3.6 trillion USD, increasing by 22.5% from 2.97 trillion USD in 2011. Exports stood at 1.9 trillion USD (+ 20.3%) and imports at 1.7 trillion USD (+ 24.9 %), leaving a trade surplus of 155.1 bn USD – down from 181.5 bn USD in 2010, 196.1 bn USD in 2009 and 295.5 billion in 2008. However, although imports and exports rose in 2011 in

[125] For the agreement, please refer to: http://www.eda.admin.ch/eda/de/home/topics/intla/intrea/dbstv/data59/e_20092659.html
[126] 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
[127] Information Office of the State Council: White paper "China0's Foreign Trade", December 7th, 2011

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, as foreign trade development faces complicated and severe situation at home and abroad, import and export growth slid to single digit. In this context, the Chinese Government adopted a series of policy measures to stabilize foreign trade growth and balance trade structure.

In the light of the difficult situation for Chinese exporters and rising imports China's trade statistics were nearly balanced in the first quarter of 2012. 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.[128] However, the momentum of a more balanced foreign trade structure was again in the later stages of the year 2012.

In the first three quarters of 2012, Chinese exports reached 1495.4 bn USD (+7.4 % YoY) and imports stood at 1347.1 bn USD (+4.8% YoY), resulting in a total trade volume of 2842.5 bn USD (+ 6.2% YoY) and leaving a trade surplus of 148.3 bn USD (+39.1% YoY). On a quarterly basis the total trade volume grew by 7.2% in Q1; 8.5% in Q2 and 3% in Q3. Due to a pickup in global market demand and progressive implementation of policy measures to stabilize foreign trade, the import and export growth in September rebounded with export rising 9.9% from 2.7% in August and import growth rising 2.4% from a decline of 2.6% in August, the monthly trade and export scale reached an all-time high.[129]

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.** [130] 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.[131]

[128] MOFCOM: "Report on the Foreign Trade Situation of China", Spring 2012

[129] MOFCOM: "Report on the Foreign Trade Situation of China", Autumn 201

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

[131] WTO: Country Profile China October 2011

3.2 Bilateral trade

3.2.1 Trade in goods[132]

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 under the concept of the country of geographic origin. For example: if a good was imported to Switzerland from China, but 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 on 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 **lower** than they were actually published. This applies for instance to Germany, France, Belgium or Ireland.

On the other hand, the imports from countries which typically ship their products to Switzerland through international trading hubs, will rise under the new method. This applies for example to the US, Japan, Turkey or India. **In particular the same effect applies to China 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 instead of a trade surplus, 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 follows a recommendation of the United Nations regarding the calculation of foreign trade statistics and also results from a bilateral agreement between Switzerland and the European Union regarding the cooperation in the field of statistics. In it, 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. In the case of China the new system generates a level shift of about 3 billion CHF per year, which needs to be taken into account when comparing 2012 with previous years.

From January to December 2011, the volume of bilateral trade between Switzerland and Mainland China accounted for 18.5 billion CHF, which corresponds to an increase of 9.4% from 2010. In the same period the Swiss trade deficit stood at 775 million CHF, compared to 1.9 bn CHF in 2010 and 2.6 bn CHF in 2009. These figures base on retroactive calculations according to the new method.

From January to October 2012, Swiss exports to Mainland China amounted to 6.6 bn CHF while imports stood at 8.5 bn CHF, resulting in a trade volume of 15.1 bn CHF and a Swiss trade deficit of roughly 2 bn CHF.

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 75% of total imports in 2011. In 2010, Swiss exports to Hong Kong mainly comprised of watches, jewellery, precious metals and stones (85%) and imported products of the same class (85%). 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 classes[133].

As for Hong Kong, even under the new method, i.e. the concept of the country of geographic origin, Switzerland still records trade surplus which in 2011 stood at 6.2 bn CHF at a trade volume of 9.7 bn

[132] Data mainly based on: Swiss Federal Customs Administration, October 2011, see Appendix 4
[133] Swiss Federal Customs Administration

CHF. From January to October 2012 the bilateral trade with Hong Kong amounted to a volume of 8.3 bn CHF and left a trade surplus of 5.3 bn CHF.

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.[134] However, FDI recovered well in 2010: the number of newly approved foreign-funded enterprises in China increased 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 became 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, a growth of 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 regions[135].

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)*[136]. As for Switzerland, in 2011 the FDI in China stood at 555 million USD (*see section 4.2)*.

However, already in the last two months of the year 2011, FDI growth had turned negative and remained negative in the first months of 2012[137]. From January to September 2012 the number of newly approved foreign-funded enterprises in China totaled at 18'025, down by 11.67% year on year. The actual utilized foreign investment reached 83.423 billion USD, down by 3.76% year on year. During the same time span, with 804 million USD, Switzerland ranked 9th among all countries in terms of actual utilized foreign investment[138].

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 which set out in detail 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**.

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[139].

In April 2011 a new draft of the "Foreign Investment Catalogue" was 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 renewed in intervals of three to four year.

Stipulating "encouraged," "restricted" and "prohibited" categories into which specific foreign invested projects fall, 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 friendly industries. Preferential policies for land use and tax breaks shall help 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 interests while attracting foreign investment. New energy-related industries, including high-tech green battery

[134] National Bureau of Statistics; "Statistical Communiqué of the P.R.C. on the 2009 National Economic and Social Development"; February 26th, 2010.
[135] Regular Press Conference of the Ministry of Commerce on May 17th, 2011;
http://english.MOFCOM.gov.cn/aarticle/newsrelease/press/201105/20110507573980.html
[136] MOFCOM: "Statistics of January-December 2011 on National Absorption of FDI"; February 2nd, 2012
[137] Bloomberg:"China's Foreign Direct Investment Declines a Fifth Month": April 17th, 2012
[138] MOFCOM:" Statistics of FDI in January-September 2012"; October 26th, 2012;
[139] "Five Major Changes of the New Corporate Income Tax law and the Impact on Foreign Investment in China": June 5th, 2008; http://fdi.gov.cn:8080/pub/FDI_EN/News/Focus/Subject/News-The%20focus/taxlaw03/t20080605_93658.htm

manufacturing and the construction and operation of renewable water plants, have all become new additions to the “encouraged” Catalog. 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 came into effect in January 2012.[140].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. Although there are proposals to improve the foreign exchange management for foreign invested enterprises, they unfortunately do 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, mergers and acquisitions (M&A) and allowing A-share listed companies to receive investment from both domestic and foreign strategic investors[141].

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**. Nevertheless, 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[142]. 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 options[143].

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 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, the 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 200[144]. **Regulators appear 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.[145]

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 cases[146].

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[140] MOFCOM: “ Several Opinions of the State Council on Further Utilizing Foreign Capital“; April 6th, 2011; http://english.MOFCOM.gov.cn/aarticle/policyrelease/announcement/201006/20100606982859.html

[141] FDI: “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

[142] 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

[143] The China Business Review; September – October 2010; Page 2.

[144] Jones Day: “Antitrust Alert: China Publishes Two New Merger Decisions Under Anti-Monopoly Law”; November 2011.

[145] Financial Times: “Life after China’s Antimonopoly Law”, October 20th, 2010.

[146] Wenfei Attorneys at Law Ltd.; China Legal Report April 2011, Page 2

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 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[147].

It remains unclear whether this new regulation is only the written record of the practice unofficially followed in the past or possibly 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[148]. 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[149]. In April 2010 the government decided to soften those rules and pledged that foreign companies shall not be discriminated in the Chinese market[150]. **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[151].

Nevertheless, China remains a top FDI destination. According to estimates from the CIA World Factbook, **by December 2011, China's accumulated FDI stock amounted to 711 billion USD**, well ahead of other large developing and transition economies such as Russia (546 billion USD), Brazil (539 billion USD) or India (232 billion USD) [152]. 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 central and western regions[153]. China's foreign direct investment inflows fell 3.8 percent in the first nine months of 2012 from a year ago, extending the longest run of declines since the depths of the global financial crisis[154]. However, the "Capital Confidence Barometer" released by Ernst and Yong China, demonstrated that the Chinese Mainland is still the most attractive investment region in the world, followed by India, the United States, Brazil and Indonesia[155]. According to the MOFCOM, China's inflows of foreign investments have entered an adjustment period, however the quality and structure of investment inflows have improved[156].

Besides the foreign investment coming into the country, **China has also become a source of outward direct investments (ODI)**. By the end of 2011, the total stock of Chinese offshore investment stood at about 366 billion USD, roughly on par with Sweden and about 40% higher than Taiwan[157]. From 2004 to 2011, China's outward investment grew substantially from 5.5 billion USD to

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[147] Hogan Lovels: China Alert on 14 March 2011: "MOFCOM releases implementing rules on national security review".
[148] FDI: "Decree of the State Development and Reform Commission, the Ministry of Commerce of the People's Republic of China, No. 57"; http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=87372
[149] Wall Street Journal: "Beijing revises procurement policy", April 13th, 2010.
[150] China Daily: "Wen assures Europe on trade, investment options in China", 30 April 2010.
[151] People's Daily: "Premier Wen assures foreign firms in China", 14 September 2010.
[152] The CIA World Factbook: "Stock of direct foreign investment - at home" (data retrieved on December 14th, 2011)
[153] China Daily: "Foreign investment slows down", 16 October 2010.
[154] Reuters: "China January-September FDI slips as officials warn on trade"; April 19th, 2012; http://www.reuters.com/article/2012/10/19/us-china-economy-idUSBRE89I07720121019
[155] People's Daily Online: "China still most attractive for FDI", May 22nd, 2012; http://english.peopledaily.com.cn/102774/7823013.html
[156] Reuters: "China January-September FDI slips as officials warn on trade"; April 19th, 2012; http://www.reuters.com/article/2012/10/19/us-china-economy-idUSBRE89I07720121019
[157] The CIA World Factbook: "China" (data retrieved 3. December 2012)

65 billion USD a year, and it is expected to reach 150 billion USD by 2015[158]. According to MOFCOM statistics, the accumulated non-financial overseas direct investment amounted to 58.17 billion USD between January and October 2012, which is an increase of 25.8% in comparison to 2011[159]. 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[160]. 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 2010, 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.[161]

With its growing foreign reserves, **China's ODI is likely to grow further in the coming years**. Overall, China's offshore investments are booming. For instance, one third of the Peruvian minerals sector is Chinese owned. Between January and October 2012, Chinese ODI grew 31% in ASEAN nations, 32% in Russia, 16% in the USA and 15% in Japan[162]. 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[163], this share is growing at a fast pace. For instance FDI flows from China increased from about 130 million USD in 2009 to 900 million USD in 2010[164]. 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 diversify away from its dollar assets, whereas the euro zone is the natural alternative. Surprisingly, China's ODI in the EU fell by 21% year on year to 1.58 billion USD between January and October 2012[165].

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 difficult 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 would also be blocked.[166].

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 cumulative Swiss investment in China grew to 555 million in 2011. As of October 2012 the cumulative Swiss direct investments amounted to 809 million USD, leaving Switzerland on the 4th rank among European countries and 10th overall.[167]

The **figures on Swiss direct Investments in China published by the Swiss National Bank, differ significantly from the data released by the MOFCOM** as shown by the fact that Swiss direct investments to China amounted to 1.824 billion CHF in 2010 and 4.554 billion CHF in 2011, while the stock of Swiss direct investments stood at about 12.500 billion CHF in the same year according to Swiss statistics.[168]

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[158] The Economist: "FDI with Chinese characteristics", September 6th, 2012: http://www.economist.com/blogs/graphicdetail/2012/09/focus

[159] MOFCOM: "Brief Statistics on China's Non-financial Direct Investment Overseas in January – October 2012"; November 23rd, 2012; http://english.mofcom.gov.cn/aarticle/statistic/foreigntradecooperation/201212/20121208463490.html

[160] Financial Times Asia: "Chinese offshore investment set for take-off"; May 5th, 2011.

[161] Economist Intelligence Unit, Country Report China, May 2010.

[162] Xinhua: "China's ODI surges 25.8% Jan.-Oct.", November 20th, 2012; http://www.economist.com/blogs/graphicdetail/2012/09/focus

[163] The Economist; "Capital and companies from China are sidling into Europe"; June 30th, 2011

[164] Economist Intelligence Unit: "Country Report China", December 2012.

[165] Xinhua: "China's ODI surges 25.8% Jan.-Oct.", November 20th, 2012; http://www.economist.com/blogs/graphicdetail/2012/09/focus

[166] Reuters: "Special Report: The US and China start an M&A Cold War", April 12th, 2011; http://www.reuters.com/article/2011/04/12/us-specialreport-china-merger-idUSTRE73B47V20110412

[167] Ministry of Commerce / Chinese data on FDI differ from Swiss statistics (*see following footnote)*

[168] *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*

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.[169]

So far, Chinese direct investment in Switzerland is still modest but started to increase significantly in the past years. For instance, 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 started 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 larger 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 (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.

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.

[169] EDA: "Bilaterale Abkommen"; http://www.eda.admin.ch/eda/de/home/topics/intla/intrea/dbstv/data_c/c_249.html (Updated December 6th, 2012).

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

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 hotel management education and that it is considered as one of the most expensive countries, the number of Chinese students in Switzerland has been growing steadily. In 2011 there were 1'358 Chinese nationals enrolled in Swiss education institutions[170]. 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 top-universities in China. Identification and selection of the top students is increasingly becoming the main challenge. On the other hand, interest of Swiss students in studying in China is also growing. Apart from language and culture, a few Swiss follow classes in art, traditional Chinese medicine and engineering. Chinese universities also host increasing numbers of Swiss students for semester long academic stays as part of university exchange programs. In 2011 the number of Swiss students pursuing university courses in China reached 673 (based on data of MOE)[171].

A "**Memorandum of Understanding" on Higher Education Cooperation** was signed by Swiss Federal Councillor Alain Berset and Vice Minister Du Zhanyuan in 2012. The declaration of intent aims to consolidate and intensify cooperation between the two countries in the fields of science and research. The memorandum concerns the promotion of academic exchange programmes for young researchers through government scholarships, The new memorandum raises the number of scholarships offered by both countries from 20 to 25 per year. Up to 30 tuition waivers will also be available.

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)**, 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. Focus of the upcoming call for project proposals will be the topic of translational biomedicine and medical technology , which is planned for early 2014. Other themes will be identified over the next few months. 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, 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

[170] Bundesamt für Migration

[171] Ministry of Education oft he People's Republic of China

various universities and institutions like ETH Zurich, University of Zurich, Universitätsspital Basel and others to fulfill a common mission 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 prime 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 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 an annual 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)

<u>Annexes</u>

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 (Q3)
Distribution of GDP (%)												
Primary Sector	14.40%	13.70%	12.80%	13.40%	12.10%	11.10%	10.80%	10.70%	10.30%	10.10%	10.00%	9.40%
Secondary Sector	45.10%	44.80%	46.00%	46.20%	47.40%	48.00%	47.30%	47.50%	46.30%	46.80%	46.60%	46.80%
Tertiary Sector	40.50%	41.50%	41.20%	40.40%	40.50%	40.90%	41.90%	41.80%	43.40%	43.20%	43.40%	43.80%
Distribution of Labor (%)												
Primary Sector	50.00%	50.00%	49.10%	47.00%	44.80%	42.60%	40.80%	39.60%	38.10%	36.70%	34.80%	n/a
Secondary Sector	22.30%	21.40%	21.60%	22.50%	23.80%	25.20%	26.80%	27.20%	27.80%	28.70%	29.50%	n/a
Tertiary Sector	27.70%	28.60%	29.30%	30.50%	31.40%	32.20%	32.40%	33.20%	34.10%	34.60%	35.70%	n/a
State Sector*	10.50%	9.70%	9.20%	8.90%	8.30%	8.40%	8.40%	8.40%	8.30%	8.30%	8.50%	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]	10.10%	11.30%	12.70%	14.20%	9.60%	9.20%	10.30%	9.20%	8.20%
Total investment (% of GDP) [1]	43.30%	42.10%	43.00%	41.70%	44.00%	48.20%	48.20%	48.30%	48.40%
Gross national savings (% of GDP) [1]	46.80%	48.00%	51.60%	51.90%	53.20%	53.50%	53.40%	51.00%	50.60%
CPI inflation (%) [1]	3.90%	1.80%	1.50%	4.80%	5.90%	-0.70%	3.30%	5.40%	3.30%
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]	4.20%	4.20%	4.10%	4.00%	4.20%	4.30%	4.10%	4.00%	4.00%
Unemployed labour force (registered in urban areas, million) [4]	8.3	8.4	8.5	8.3	8.9	9.2	9	9.2	n/a
Unemployment rate EIU estimation (% of total labor force) [3]	9.90%	9.70%	9.50%	9.20%	9.20%	9.20%	6.10%	6.50%	6.40%
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]	-0.90%	-1.00%	-0.60%	0.30%	-0.90%	-3.40%	-2.60%	0.00%	0.00%
Current account balance (% of GDP) [1]	3.60%	5.90%	8.60%	10.10%	9.10%	5.20%	5.20%	2.80%	2.30%
External debt stocks, total (USD billion) [2]	248	284	325	374	378	428	549	695	n/a
External debt stocks (% of GNI) [2]	12.80%	12.50%	11.90%	10.60%	8.30%	8.70%	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]	3.40%	3.10%	2.50%	2.30%	2.10%	2.90%	1%	n/a	n/a
Total reserves incl.gold (USD billion) [2]	623	831	1'081	1'546	1'966	2'453	2'914	3'254	n/a
Reserves incl. gold in months of imports [2]	11.9	13	14.2	16.7	17.9	24.2	21.4	19	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

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. Exchanges 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 - October 2012	Billion USD	Share %	Growth in % to a comparable previous period
USA	324.5	17.09%	14.50%	USA	289.3	19.41%	10%
Hong Kong	268	14.12%	22.80%	Hong Kong	252.6	16.95%	17%
Japan	148.3	7.81%	22.50%	Japan	125.3	8.41%	4%
South Korea	82.9	4.37%	20.60%	South Korea	73.6	4.94%	7%
Germany	76.4	4.02%	12.30%	Germany	57.8	3.88%	-9%
Netherlands	59.5	3.13%	19.70%	Netherlands	48	3.22%	-2%
India	50.5	2.66%	23.50%	India	39.3	2.64%	-6%
United Kingdom	44.1	2.32%	13.80%	United Kingdom	38.3	2.57%	6%
Russia	38.9	2.05%	31.40%	Russia	36.4	2.44%	14%
Singapore	35.6	1.88%	10.00%	Singapore	33	2.21%	13%
ASEAN	170.1	8.96%	23.10%	ASEAN	163.9	11.00%	19.4
EU	356	18.75%	14.40%	EU	276.9	19%	-5.8
EFTA	7.6	0.40%	n/a	EFTA	5.6	0.38%	n/a
Iceland	0.076	0.00%	7.80%	Iceland	0.074	0.00%	15.70%
Liechtenstein	0.013	0.00%	72.50%	Liechtenstein	0.013	0.00%	31.10%
Norway	3.786	0.20%	33.50%	Norway	2.559	0.17%	-6.80%
Switzerland	3.7	0.19%	22.10%	*Switzerland*	2.913	0.20%	-4.40%
Total	**1'898.60**	**100%**	**20.30%**	**Total**	**1'490.61**	**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 - October 2012**	**Billion USD**	**Share %**	**Growth in % to a comparable previous period**
Japan	194.6	11.16%	10.10%	Japan	150.2	8.99%	-7%
South Korea	162.7	9.33%	17.60%	South Korea	136.4	8.16%	2%
Taiwan	124.9	7.16%	7.90%	USA	106.8	6.39%	8%
USA	122.1	7.00%	19.60%	Taiwan	106.8	6.39%	3%
Germany	92.7	5.32%	24.90%	Germany	76.4	4.57%	0%
Australia	82.7	4.74%	35.30%	Australia	69.3	4.15%	3%
Malaysia	62.1	3.56%	23.20%	Malaysia	47.8	2.86%	-7%
Brazil	52.4	3.01%	37.30%	Saudi Arabia	45.2	2.71%	13%
Saudi Arabia	49.5	2.84%	50.70%	Russia	37.2	2.23%	13%
Hong Kong	15.5	0.89%	26.40%	Hong Kong	13.7	0.82%	6%
ASEAN	192.8	11.06%	24.60%	ASEAN	160	9.58%	0.70%
EU	211.2	12.11%	25.40%	EU	175.9	10.53%	1.80%
EFTA	31	1.78%	n/a	EFTA	20.7	1.24%	n/a
Iceland	0.076	0.00%	82.60%	Iceland	0.074	0.00%	29.30%
Liechtenstein	0.079	0.00%	14.50%	Liechtenstein	0.057	0.00%	27.40%
Norway	3.621	0.21%	12.10%	Norway	2.581	0.15%	-9.80%
Switzerland	27.21	1.56%	59.70%	*Switzerland*	18	1.08%	-16.50%
Total	**1'743.60**	**100%**	**24.90%**	**Total**	**1'670.90**	**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 – Oct 2012

Bilateral Trade Switzerland - P.R. China, Jan - October 2011/2012										
	Class of goods	Import in CHF		?	Import	Export in CHF		?	Export	Trade balance
		Jan - Oct 2011	Jan - Oct 2012	in %	share %	Jan - Oct 2011	Jan - Oct 2012	in %	share %	Jan - Oct 2012
1	Agricultural products	94'939'904	129'878'684	n/a	1.52%	53'224'698	50'864'582	n/a	0.78%	-79'014'102
2	Energy carriers	1'403'756	1'274'989	n/a	0.01%	5'256'786	7'600'797	n/a	0.12%	6'325'808
3	Textiles, apparel, shoes	751'405'721	1'660'106'686	n/a	19.48%	123'302'412	136'889'921	n/a	2.09%	-1'523'216'765
4	Paper, paper products, printed matter	31'909'532	54'676'143	n/a	0.64%	25'873'319	30'149'681	n/a	0.46%	-24'526'462
5	Leather, rubber, plastics	234'429'329	410'672'299	n/a	4.82%	108'102'753	108'499'871	n/a	1.66%	-302'172'428
6	Chemicals, pharmaceuticals	612'836'871	721'320'774	n/a	8.46%	1'184'400'199	1'570'443'801	n/a	23.96%	849'123'027
7	Construction materials, ceramics, glass	67'063'700	112'579'697	n/a	1.32%	31'919'150	35'700'335	n/a	0.54%	-76'879'362
8	Metals and metal products	321'085'594	476'648'185	n/a	5.59%	313'840'912	297'020'248	n/a	4.53%	-179'627'937
9	Machinery, apparatus, electronics	1'709'608'677	3'279'939'870	n/a	38.49%	3'224'286'055	1'800'125'888	n/a	27.46%	-1'479'813'982
10	Vehicles	77'717'260	96'092'197	n/a	1.13%	37'881'028	52'005'008	n/a	0.79%	-44'087'189
11	Precision instruments, w atches, jew ellery	658'950'363	894'260'929	n/a	10.49%	1'922'494'880	2'055'283'049	n/a	31.36%	1'161'022'120
12	Furniture, toys	374'713'417	666'660'033	n/a	7.82%	18'663'844	27'852'091	n/a	0.42%	-638'807'942
13	Precious metal, precious stones, gemstones	9'930'623	9'551'278	n/a	0.11%	326'916'900	377'280'392	n/a	5.76%	367'729'114
14	Objects of art and antiques	6'746'040	8'518'443	n/a	0.10%	3'918'440	4'847'149	n/a	0.07%	-3'671'294
	Total	**4'952'740'787**	**8'522'180'207**	n/a	**100%**	**7'380'081'376**	**6'554'562'813**	n/a	**100%**	**-1'967'617'394**

Bilateral Trade Switzerland - Hongkong, Jan - October 2011/2012										
	Class of goods	Import in CHF		?	Import	Export in CHF		?	Export	Trade balance
		Jan - Oct 2011	Jan - Oct 2012	in %	share %	Jan - Oct 2011	Jan - Oct 2012	in %	share %	Jan - Oct 2012
1	Agricultural products	3'164'213	1'887'224	n/a	0.13%	94'764'582	63'314'268	n/a	0.93%	61'427'044
2	Energy carriers			n/a		85'261	187'393	n/a	0.00%	29'532
3	Textiles, apparel, shoes	25'966'682	69'460'763	n/a	4.71%	70'194'532	71'933'356	n/a	1.05%	2'472'593
4	Paper, paper products, printed matter	2'632'519	2'203'690	n/a	0.15%	6'014'022	6'922'988	n/a	0.10%	4'719'298
5	Leather, rubber, plastics	9'683'917	10'879'749	n/a	0.74%	56'277'075	55'811'231	n/a	0.82%	44'931'482
6	Chemicals, pharmaceuticals	9'177'674	7'403'114	n/a	0.50%	379'659'670	409'006'036	n/a	5.99%	401'602'922
7	Construction materials, ceramics, glass	3'726'184	3'559'185	n/a	0.24%	17'747'499	17'513'215	n/a	0.26%	13'954'030
8	Metals and metal products	10'879'997	12'790'591	n/a	0.87%	53'504'759	59'351'542	n/a	0.87%	46'560'951
9	Machinery, apparatus, electronics	81'341'691	86'585'721	n/a	5.87%	309'824'039	333'683'534	n/a	4.88%	247'097'813
10	Vehicles	2'060'707	3'078'006	n/a	0.21%	2'395'513	1'829'482	n/a	0.03%	-1'248'524
11	Precision instruments, w atches, jew ellery	824'971'699	910'231'307	n/a	61.71%	4'007'064'556	4'691'281'734	n/a	68.67%	3'781'050'427
12	Furniture, toys	9'653'345	10'576'732	n/a	0.72%	18'791'305	15'410'126	n/a	0.23%	4'833'394
13	Precious metal, precious stones, gemstones	450'772'844	331'831'120	n/a	22.50%	1'326'203'658	1'074'865'927	n/a	15.73%	743'034'807
14	Objects of art and antiques	33'679'585	24'488'637	n/a	1.66%	34'181'462	30'702'472	n/a	0.45%	6'213'835
	Total	**1'467'711'057**	**1'474'975'839**	n/a	**100%**	**6'376'707'933**	**6'831'813'304**	n/a	**100%**	**5'356'837'465**

Bilateral Trade Switzerland - P.R. China incl. Hongkong, Jan - October 2011/2012								
Class of goods	Import in CHF		?	Export in CHF		?		Trade balance
	Jan - Oct 2011	Jan - Oct 2012	in %	Jan - Oct 2011	Jan - Oct 2012	in %		Jan - Oct 2012
Total	**6'420'451'844**	**9'997'156'046**	**n/a**	**13'756'789'309**	**13'386'376'117**	**n/a**		**3'389'220'071**

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 - October 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	57'434	62.61%
2	Taiwan	6'701	6.34%	2.10%	2	Taiwan	6'727	5.80%	0.39%	2	Japan	6'080	6.63%
3	Singapore	5'657	5.35%	45.57%	3	Japan	6'348	5.47%	49.65%	3	Singapore	5'604	6.11%
4	Japan	4'242	4.01%	3.04%	4	Singapore	6'328	5.45%	11.86%	4	Taiwan	5'250	5.72%
5	USA	4'052	3.83%	13.31%	5	USA	2'995	2.58%	-26.09%	5	USA	2'704	2.95%
6	South Korea	2'693	2.55%	-0.37%	6	South Korea	2'551	2.20%	-5.27%	6	South Korea	2'510	2.74%
7	United Kingdom	1'642	1.55%	11.78%	7	United Kingdom	1'610	1.39%	-1.95%	7	Germany	1'279	1.39%
8	France	1'239	1.17%	89.43%	8	Germany	1'136	0.98%	21.76%	8	Netherlands	1'010	1.10%
9	Germany	933	0.88%	-23.96%	9	France	802	0.69%	-35.27%	9	United Kingdom	833	0.91%
10	Netherlands	915	0.87%	23.40%	10	Netherlands	767	0.66%	-19.43%	**10**	**Switzerland**	**809**	**0.88%**
	Switzerland	**260**	**0.25%**	**-13.40%**		**Switzerland**	**555**	**0.48%**	**113.46%**				
	Total	**105'735**	**100%**	**17.44%**		**Total**	**116'011**	**100%**	**0.51%**		**Total**	**91'736**	**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 - Oct 2012	Share (%) year to date 2012
1	Hong Kong	38'505	55.96%	8.16%	1	Hong Kong	35'654	47.76%	-7.40%				
2	British Virgin Islands	6'120	8.89%	279.63%	2	British Virgin Island	6'208	8.32%	1.44%				
3	Cayman Islands	3'496	5.08%	-34.85%	3	Cayman Islands	4'936	6.61%	41.19%				
4	Luxembourg	3'207	4.66%	41.26%	4	France	3'482	4.66%	13085.61%				
5	Australia	1'702	2.47%	-30.92%	5	Singapore	3'268	4.38%	192.05%				
6	Sweden	1'367	1.99%	16779.38%	6	Australia	3'165	4.24%	85.96%				
7	United States	1'308	1.90%	43.97%	7	United States	1'811	2.43%	38.46%				
8	Canada	1'142	1.66%	86.30%	8	United Kingdom	1'420	1.90%	329.78%				
9	Singapore	1'119	1.63%	-20.91%	9	Sudan	912	1.22%	28.45%				
10	Myanmar	876	1.27%	132.44%	10	Russia	716	0.96%	26.08%				
	Switzerland	**27.25**	**0.04%**	**29.82%**		**Switzerland**	**16.32**	**0.02%**	**-40.20%**		**Switzerland**	**9.54**	**0.02%**
	Total	**68'811**	**100%**	**17.44%**		**Total**	**74'654**	**100%**	**7.83%**		**Total**	**58'170**	**100%**

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-Oct 2012
CN FDI in CH, flow	0.58	0.59	1.01	1.21	0.01	20.99	27.25	16.32	9.54
CN FDI in CH, stock	1.86	2.45	7.58	8.88	8.91	30.3	58.54	74.89	84.4
Swiss FDI in China (million CHF) [2]	2004	2005	2006	2007	2008	2009	2010	2011	Jan-Oct 2012
CH FDI in CN, flow	n/a	n/a	920	776	1'401	1'198	1'676	4'554	n/a
CH FDI in CN, stock	n/a	n/a	3'916	4'801	6'555	7'422	8'005	12'559	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

Useful Internet Links	
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 Regualtory 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.ccoic.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 (CCIC)	www.cameraitacina.com
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 (HKCCC)	http://www.hkcccgd.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 goverment related organization (Jetro)	http://www.jetro.go.jp
The World Bank	http://www.worldbank.org
The World Trade Organisation	http://www.wto.org