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Executive Summary

- China is undergoing a major **economic transformation** from export-led growth to a model increasingly driven by consumption and services. Structural reforms launched in 2015 as well as the 13th Five-Year Plan point to an increased emphasis on innovation, improved resource allocation, manufacturing, IT, services as well as low-carbon growth.
- Annual **GDP growth** has consistently slowed since 2010 (+6.7% YoY in 2016). However, quarterly output data points to a clear stabilization of the economy in 2016 and a more broad-based recovery in Q1 2017 (+6.9% YoY). Accommodative fiscal policies suggest that China's target growth rate of "around 6.5%" remains achievable and that economic stability will continue to occupy center stage.
- Chinese **foreign trade** contracted again in 2016 (-6.8% YoY) but recovered sharply in Q1 2017 (+15.0% YoY) amid a more benign external environment. Increasing industrial competition, geopolitical uncertainty and protectionist sentiments will challenge the sustainability of foreign trade growth.
- The Trans-Pacific Partnership's prospects have deteriorated, creating a new momentum for PRC-led **regional integration** initiatives including the Regional Comprehensive Partnership Agreement. During the first Belt and Road Forum in Beijing in May, China pledged significant funds to promote infrastructure, trade and connectivity along the "New Silk Road".
- **Sino-Swiss trade** has grown since the bilateral free trade agreement entered into force in July 2014, and continued to do so in 2016. That year, the total volume of goods traded with the Mainland stood at CHF 39.1 billion (+23.5% YoY). Exports from Switzerland increased by +39.0% YoY, the agricultural (+52.5% YoY) and pharmaceuticals (+35.6% YoY) sectors having particularly strong showings.
- In H1 2017, tighter capital controls and increasingly wary counterparties contributed to a slowdown in Chinese outbound M&A activity. **Cross-border acquisitions** plunged -67% during the first four months of this year, the biggest drop for a comparable period since the GFC. Tighter capital controls may have also contributed to a cooling investor sentiment towards Chinese inbound investors.
- The majority of Swiss companies in China continue to consider the country as a relevant investment destination. A recent survey revealed that the **investment appetite of Swiss companies** is still considerable: 57% of the Swiss companies surveyed plan to increase their investment in China and 48% consider China to be a top 3 investment destination.

Abbreviations

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
AML	Anti-Monopoly Law (of the People's Republic of China)
APAC	Asia-Pacific region
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CCB	China Construction Bank
CCC	China Compulsory Certification
CCP	Chinese Communist Party
CEIBS	China Europe International Business School
CFDA	China Food and Drug Administration
CHF	Swiss franc
CNAS	China National Accreditation Service for Conformity Assessment
CNCA	Certification and Accreditation Administration (of the People's Republic of China)
CPI	Consumer Price Index
CSSTA	Cross-Strait Services Trade Agreement
DSB	Dispute Settlement Body (of the WTO)
EUR	Euro
FCA	Federal Customs Administration (of the Swiss Confederation)
FDF	Federal Department of Finance (of the Swiss Confederation)
FDI	Foreign direct investment
FTA	Free trade agreement
FTAAP	Free Trade Area of the Asia-Pacific
FTZ	Free trade zone
GACC	General Administration of Customs (of the People's Republic of China)
GDP	Gross domestic product
GFC	Global financial crisis
GNP	Gross national product
GPA	Agreement on Government Procurement (under the auspices of the WTO)
HNA	Hainan Airlines
ICT	Information and communications technology
IMF	International Monetary Fund
IP	Intellectual property
IPR	Intellectual property rights
IPI	Federal Institute of Intellectual Property (of the Swiss Confederation)
JV	Joint venture
LGFV	Local government financial vehicles
M&A	Mergers and acquisitions
MFA	Ministry of Foreign Affairs (of the People's Republic of China)
MoF	Ministry of Finance (of the People's Republic of China)
MOFCOM	Ministry of Commerce (of the People's Republic of China)
MoU	Memorandum of Understanding
NBS	National Bureau of Statistics (of the People's Republic of China)
NDRC	National Development and Reform Commission (of the People's Republic of China)
OBOR	One Belt, One Road
ODI	Outward direct investment
OECD	Organisation for Economic Co-operation and Development
PBoC	People's Bank of China
PRC	People's Republic of China
PwC	PricewaterhouseCoopers
RCEP	Regional Comprehensive Partnership Agreement
RMB	Renminbi
R&D	Research and development
ROK	Republic of Korea (South Korea)
RQFII	RMB Qualified Foreign Institutional Investor
SAIC	State Administration for Industry and Commerce (of the People's Republic of China)
SAR	Special Administrative Region (of the People's Republic of China)
SBH	Swiss Business Hub
SECO	State Secretariat for Economic Affairs (of the Swiss Confederation)
S-GE	Switzerland Global Enterprise
Sinopec	China Petroleum & Chemical Corporation
SIPO	State Intellectual Property Office (of the People's Republic of China)
SME	Small and medium-sized enterprises
SNB	Swiss National Bank
SOE	State-owned enterprise
TBT/SPS	Technical Barriers to Trade/Sanitary and Phytosanitary Measures
TPP	Trans-Pacific Partnership
TRIPS	Trade Related Aspects of Intellectual Property Rights (administered by the WTO)
USD	U.S. dollar
VAT	Value-added tax
WIPO	World Intellectual Property Organization
WTO	World Trade Organization
YoY	Year-on-year
YTD	Year-to-date

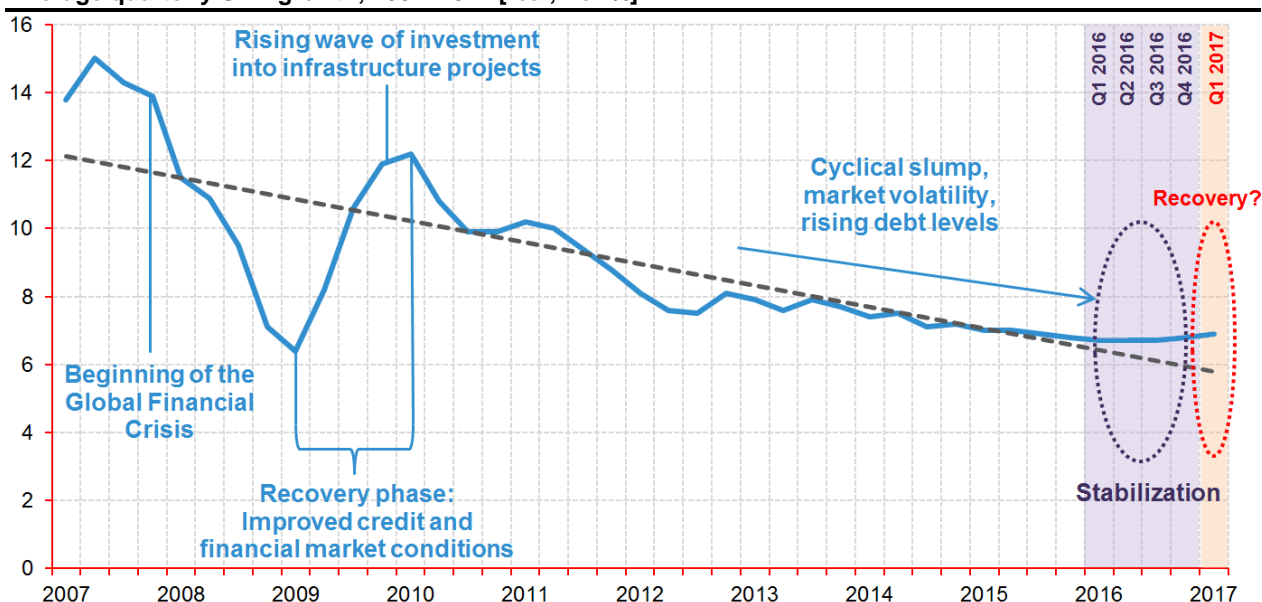
1 Economic Overview

1.1 Macroeconomic situation

China's annual GDP growth has consistently slowed since 2010.¹ It has been underpinned by a major economic transformation, which was conveyed by its leaders under Chinese Communist Party (CCP) General Secretary Xi Jinping during the 18th Central Committee's Third Plenum in 2013. The term "New Normal" was adopted during the Fourth Plenum in 2014 to describe the desired shift from government stimulus and export goods towards a domestic consumer demand-driven and services-oriented economy.

Economic rebalancing has been well under way. The services sector's share in GDP increased further to 51.6% in 2016, up 1.4 percentage points from 2015.² In Q1 2017, consumption accounted for 77.2% of overall economic growth.³ Internal demand now has a stronger positive impact on growth than exports.⁴

Average quarterly GDP growth, 2007–2017 [real, YoY%]



Source: NBS, Embassy of Switzerland in the PRC

In 2016, China recorded yet again its lowest annual growth rate (+6.7% YoY) since 1990. However, at +6.8% YoY in Q4 and +6.7% YoY in the preceding quarters of 2016, last year's quarterly output data points to a clear stabilization of the economy. Output growth was fairly steady in all sectors of the economy, secondary (+6.1% YoY in all quarters) and tertiary (+8.3% YoY in Q4, +7.6% YoY in Q3 and +7.5% YoY in H1) sector activity playing a crucial role in stabilizing the GDP growth rate.

Throughout 2016, growth continued to be particularly driven by government stimulus in the form of infrastructure investments, which went hand in hand with relaxed monetary and credit conditions. Property market developments, while often providing a volatile if not inconclusive picture, were another positive growth driver. Higher property investment during much of H1 and towards the end of the year as well as surging housing sales, especially during the first six months, served as buffers against deceleration. As in previous years, consumption growth further contributed to the stabilization.⁵

Twenty sixteen also saw an end to the persisting deflationary pressures of the previous years. Although the Consumer Price Index (CPI) dropped markedly in February 2017 due to seasonal food price fluctuations,⁶ the index has since experienced three straight months of gains.

¹ Unless explicitly stated otherwise, Chinese economic measures and policies mentioned in this report pertain to those of the Mainland of China.

² ADB (2017), *Asian Development Outlook 2017: Transcending the Middle-Income Challenge* (Manila: Asian Development Bank)

³ Kevin Yao (2017), 'Final Consumption accounted for 77.2 pct of China's Q1 GDP Growth', *CNBC*, 16 April, at <http://www.cnbc.com/2017/04/16/reuters-america-final-consumption-accounted-for-77-2-pct-of-chinas-q1-gdp-growth--stats-bureau.html>, accessed on 20 June 2017

⁴ ADB (2017), *Asian Development Outlook 2017: Transcending the Middle-Income Challenge* (Manila: Asian Development Bank)

⁵ Consumption's share of GDP continued to rise, accounting for 64.6% of GDP in 2016: Leslie Shaffer (2017), 'China's Q4 GDP up 6.8% on-year, beating expectation for 6.7%', *CNBC*, 19 January, at <http://www.cnbc.com/2017/01/19/china-economy-q4-gdp-slightly-above-expectations.html>, accessed on 15 February 2017

⁶ HSBC (2017), *China inside Out: A broader Recovery* (Hong Kong: The Hongkong and Shanghai Banking Corporation Limited)

Overall economic growth lurched forward in Q1 2017, quickening to +6.9% YoY. The latest increase is largely due to a recovering industrial sector (+6.5% YoY), aided by a more benign external environment. Stronger export order books, re-stocking for a new inventory cycle, rebounding manufacturing investment (which currently represents over a third of total investment) and record high steel production have been associated with the latest acceleration in growth.⁷ While the latter seems at odds with ongoing steel capacity reduction efforts, current steel inventories in China stand at a mere 55% of 2012-13 levels.⁸

Meanwhile, infrastructure and property investment surged ahead, reflecting a more broad-based economic recovery than in 2016 when they made up for plummeting industrial investment.⁹ The recovery will almost certainly be supported by the central government's accommodative fiscal policy stance—at least until the 19th Chinese Communist Party Congress this fall. It is widely anticipated that economic stability will continue to occupy center stage amidst the expected leadership reshuffle in Q4. Coupled with robust consumption growth driven by China's expanding middle class and capital controls locking in bank deposits of considerable magnitude, among others, the target growth rate of “around 6.5%” remains achievable.

Expansionary fiscal policies will likely result in additional infrastructure investments through state-owned enterprises (SOEs), among others. That said, overcapacity and rising debt levels remain key, longer-term risks. For now, quarterly total year-on-year credit growth has seen repeated, minor dips since Q3 2016.¹⁰

Moreover, private consumption will almost certainly lack the strength to compensate for overcapacity in heavy industries and real estate. Linked to construction, which accounts for over a sixth of China's GDP¹¹ and employed 60 million migrant workers in 2014,¹² the property market's systemic importance suggests that much of the stimulus will continue to end up here, stimulating demand even in areas still confronted with large inventory overhang.¹³

The scale of current urban development plans including the integration of Beijing, Tianjin and Hebei Province into the emerging Jing-Jin-Ji national capital region in the North and the Guangdong-Hong Kong-Macao Bay Area in the Pearl River Delta in the South could well surpass that of previous undertakings, more palpably weighing on aggregate national property market data. In April alone, 30% of a newly established RMB 100 billion fund for the enhancement of transport links in Jing-Jin-Ji had been earmarked for land development.¹⁴

Largely driven by local governments or regional initiatives, the property market will almost certainly continue to show significant variations across China's expanse, confronting policymakers with the need to temper growth targets with socially conducive price-to-income ratios. The latest housing tightening measures include the introduction of purchase limits across 45 Chinese cities.¹⁵ Shanghai and Chongqing launched pilot property tax schemes in 2011, although similar attempts have failed to materialize elsewhere.¹⁶

While external uncertainty risks persist, they have receded since the beginning of the year. As discussed in Chapter 3, Chinese foreign trade data improved sharply in Q1. Concerns that the U.S., which is China's most important trade partner by a long shot, will confront China directly over trade have somewhat eased since the first meeting between President Xi and U.S. President Donald Trump in April. In the longer term, gradually changing supply chain dynamics across the Asia-Pacific (APAC) emanating from the stronger integration of lower-cost manufacturers such as Vietnam will increasingly challenge Chinese exporters.

⁷ *ibid.*;

Elias Glenn (2017), 'Manufacturing and Retail Recovery drives China's Solid Q1 Growth', *Reuters*, 18 April, at <http://www.reuters.com/article/us-china-economy-gdp-q-idUSKBN17K0C4>, accessed on 20 June 2017

⁸ Richard Yetsenga (2017), 'China's not the Worry – but Australia is', *ANZ BlueNotes*, 31 May, at <https://bluenotes.anz.com/posts/2017/05/china-s-not-the-worry-but-australia-is>, accessed on 20 June 2017

⁹ HSBC (2017), *China inside Out: A broader Recovery* (Hong Kong: The Hongkong and Shanghai Banking Corporation Limited)

¹⁰ Société Générale Cross Asset Research (2017), *Little Policy Brake, Further Growth Momentum* (Paris: Société Générale Group)

¹¹ Shuli Ren (2016), 'Hang Seng slips 1.3% as Beijing plans to tighten Property Markets further', *Barron's Asia*, 11 October, at

<http://blogs.barrons.com/asiastocks/2016/10/11/hang-seng-slips-1-3-as-beijing-plans-to-tighten-property-markets-further>, accessed on 13 October 2016

¹² Hudson Lockett (2016), 'China's Workforce faces tough Year shifting Gears from Manufacturing to Services', *China Economic Review*, 8 January, at

<http://www.chinaeconomicreview.com/chinas-workforce-faces-tough-year-shifting-gears-manufacturing-services>, accessed on 13 October 2016

¹³ Société Générale Cross Asset Research (2016), *Global Economic Outlook: Cracks in the Policy Framework* (Paris: Société Générale Group)

¹⁴ Zhang Yu & Zhong Nan (2017), 'Fund aims to enhance Transport Connections', *China Daily*, 20 April, at

http://usa.chinadaily.com.cn/epaper/2017-04/20/content_29012499.htm, accessed on 20 June 2017

¹⁵ Gabriel Wildau (2017), 'China Property Tax languishes as vested Interests block Reform', *Financial Times*, 19 June, at

<https://amp-ft-com.cdn.ampproject.org/c/s/amp.ft.com/content/0d18d6b2-45b9-11e7-8519-9f94ee97d996>, accessed on 20 June 2017

¹⁶ *ibid.*

1.2 Structural economic reforms

China adopted its 13th Five-Year Plan on March 15, 2016, which outlines structural economic and social reform targets through to 2020. As a blueprint for the country's transition towards more balanced growth, it includes important financial sector reforms to promote private sector participation in the economy and to expand the provision of financial services. It also outlines (limited) reforms of the ownership structure of SOEs, the reduction of overcapacity, the promotion of competition, fiscal reforms and the internationalization of the renminbi (RMB), *inter alia*.¹⁷

By the end of H1 2017, China had made progress on structural reforms in many areas. It had started to implement stringent measures to cope with overcapacity in certain industries, including iron and steel, aluminum, cement, plate glasses or vessels. Local governments and central departments are prohibited from approving any new capacity-expanding projects in these sectors. Notable progress could also be achieved in the areas of urbanization, interest rate liberalization, and the internationalization of the RMB, *inter alia*.¹⁸ In the area of customs procedures for imports and exports, China has been extending a pilot paperless customs clearance scheme for certain products. Imports are generally classified into three categories: not restricted, restricted and prohibited.

With the revision of the Foreign Investment Catalogue in 2015, more foreign direct investment (FDI) has been encouraged in technology, advanced manufacturing, energy conservation and environmental protection, new power sources and service industries. Since 2015 also the pilot reform of the foreign investment system has been expanded, including the Shanghai Pilot Free Trade Zone, and the pilot free trade zones in Guangdong, Fujian and Tianjin. Limited liberalization of foreign market access has been noted in e-commerce and health services.

The promotion of innovation in China has become a guiding topic of recent reforms, as it is considered key to the successful management of the economic transition. In May 2015, the State Council unveiled the "Made in China 2025" plan, the national strategy to comprehensively upgrade the Chinese industry structure away from low-end, volume, labor intensive production towards manufacturing driven by innovation, quality, smart technology and added value. Drafted by the Ministry of Industry and Information Technology, the plan is often likened to Germany's "Industry 4.0" strategy. Since its adoption, the strategy has promoted high-end machine tools and robotics, modern railway equipment, energy-efficient technologies, biopharma and high performance medical devices. There have been concerns among the international business and diplomatic community of increasing protectionism in specific sectors.

China's new cybersecurity law, which came into effect on June 1, 2017, contains a number of cybersecurity requirements, including safeguards for national cyberspace sovereignty, protection of critical information infrastructure and data and protection of individual privacy. The law pays more attention to the protection of personal information and individual privacy and standardizes the collection and usage of personal information. Furthermore the law stipulates that sensitive data must be stored domestically. Depending on the severity, penalties for violating the law include the suspension or closing of business activities and revocation of business licenses.¹⁹

Since 2015, Chinese authorities have launched a series of reforms to modernize the agricultural sector through mechanization, increasing productivity, or the promotion of food safety. In 2015, they launched a pilot program to reform agricultural subsidies in five provinces (Anhui, Hunan, Shandong, Sichuan and Zhejiang) in order to harmonize the currently existing, parallel subsidies programs.

1.3 Implications of recent changes in fiscal policy

China completed a major reform of its taxation system in 2016. Since May of that year, the country has been taxing all businesses based on a value-added tax (VAT). Previously, VAT had only been imposed on tangible goods while services had been subject to a business tax. China had already gradually replaced the business tax with a VAT since 2012. The reform of its taxation system will reduce the overall tax burden for companies. For 2016 alone, the government expects that the switch to the VAT will "lighten tax

¹⁷ WTO (2016), 'Trade Policy Review: China', *World Trade Organization*, 20 and 22 July, at https://www.wto.org/english/tratop_e/tpr_e/s342_sum_e.pdf, accessed on 18 August 2016

¹⁸ *ibid.*

¹⁹ KPMG (2017), 'Overview of China's Cybersecurity Law', *IT Advisory*, June, at <https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2017/02/overview-of-cybersecurity-law.pdf>, accessed on 21 June 2017

burdens on businesses by about RMB 500 billion".²⁰ VAT reform will effectively result in a major tax cut. This fiscal stimulus can be viewed in the context of slowing economic growth as well as the government's efforts to advance economic development and reach the aforementioned target GDP growth rate of "around 6.5%".

Nonetheless, the completion of the tax reform could imply a short-term increase in China's debt. The new approach could lead to a rise in China's fiscal deficit to about 3% (from 2.3% in 2015) and pose a challenge to local governments. Previously, local governments had benefitted from the full amount of revenues attributable to the business tax (accounting for about 40% of local government revenue). Due to the tax reform, they will now have to share the VAT with the central government, which will reduce their revenues.

In 2015, according to the Ministry of Finance of the People's Republic of China (MoF), central government debt amounted to 38% of GDP. If, based on IMF estimates, local government financial vehicles (LGFV) are added, total government debt stands at 55% of GDP. Excluding LGFV, household and corporate debt stand at 38% and 120%, respectively.

Overall, China's debt (corporate debt included) is estimated to have exceeded 220% of GDP.²¹ It has risen substantially since China's deployment of fiscal stimulus in the aftermath of the global financial crisis (GFC). Local government debt, in particular, has risen quite rapidly during the same period.

Internationally, China is increasingly engaged in tax cooperation, for example, by joining multilateral efforts to tackle tax avoidance and evasion. In June 2016, the commissioner of the State Administration of Taxation, Wang Jun, signed an agreement on the exchange of country-by-country reports by multinationals on the occasion of the 10th meeting of the Organisation for Economic Co-operation and Development (OECD) Forum on Tax Administration in Beijing. China committed to its first exchange of information for tax purposes by 2018.

In December 2016, the Swiss Federal Department of Finance (FDF) initiated a consultation with China and a series of other countries on the introduction of the automatic exchange of information in tax matters. On June 16, 2017, the Swiss Federal Council adopted the dispatch on the introduction of the automatic exchange of financial account information. Implementation is planned for 2018, and the first sets of data should be exchanged in 2019.²²

2 International and Regional Economic Agreements

2.1. China's policy and priorities

China and the World Trade Organization

Since its accession to the World Trade Organization (WTO), China remains in the category of developing countries. In spite of its tremendous economic development, the country continues to benefit from associated, differential treatment provisions contained in WTO Agreements. Since becoming a member, China has actively participated in the daily operation of the WTO, respected the rulings of the Dispute Settlement Body (DSB) and proactively performed transparency obligations.

Since the outbreak of the GFC, China has supported the WTO in launching the monitoring and surveillance mechanism of trade measures, playing a crucial role in curbing protectionism. As of June 2017, 39 cases of violations of WTO rules had been filed against China before the DSB, mainly for illegally restricting access to its domestic market through anti-dumping duties or for granting illegal subsidies to its domestic industry.²³ Yet, China has experienced far less complaints than the U.S. (130)²⁴ or EU (84).²⁵ In

²⁰ The Economist (2016), 'A taxing Effort: VAT in China', *The Economist*, 2 May, at <https://espresso.economist.com/47edafe0901af79137b44288c8bbd099>, accessed on 20 December 2016

²¹ IMF (2016), 'People's Republic of China: Staff Report for the 2016 Article IV Consultation', *International Monetary Fund*, 7 July, at <http://www.imf.org/external/pubs/ft/scr/2016/cr16270.pdf>, accessed on 20 December 2016

²² FDF (2017), 'Federal Council adopts Dispatch on Automatic Exchange of Information with 41 States and Territories', *State Secretariat for International Financial Matters*, 16 June, at

<https://www.sif.admin.ch/sif/en/home/dokumentation/medienmitteilungen/medienmitteilungen.msg-id-67079.html>, accessed on 20 June 2017

²³ WTO (2017), 'Member Information: China and the WTO', *World Trade Organization*, at https://www.wto.org/english/thewto_e/countries_e/china_e.htm, accessed on 20 June 2017

²⁴ WTO (2017), 'Member Information: United States of America and the WTO', *World Trade Organization*, at https://www.wto.org/english/thewto_e/countries_e/usa_e.htm, accessed on 20 June 2017

December 2016, China launched dispute-resolution procedures against the EU and U.S. over their reluctance to treat it as a market economy under WTO rules. Under the terms of China's accession to the WTO in 2001, during the first 15 years, WTO members were allowed to consider antidumping cases against China, as it was not yet recognized as a market economy. This period ended on December 11, 2016. Nonetheless, the U.S. and EU have opted not to embrace the change.²⁶

FTAAP and RCEP versus TPP

The APAC trade policy architecture not only resembles a bowl of noodles,²⁷ encompassing over 100 free trade agreement (FTA) projects, of which almost three-quarters have been signed or entered into force, but also constitutes the world's most dynamic FTA activity zone.²⁸ A race between the PRC-led Regional Comprehensive Partnership Agreement (RCEP) and Free Trade Area of the Asia-Pacific (FTAAP) on one side and the U.S.-led Trans-Pacific Partnership (TPP) on the other has dominated the transpacific trade policy architecture of the past years.

With the election of Mr. Trump in the U.S., the TPP's prospects have deteriorated but not vanished entirely. On January 23, 2017, President Trump fulfilled one of his campaign pledges by signing an executive order to withdraw the U.S. from the TPP, making it impossible for the deal to take effect on the basis of the currently drafted text. Even if market access to the U.S. had been a key reason for many states to join the TPP, the trade ministers of the 11 remaining TPP countries have signaled commitment to continue talks. In a meeting in Hanoi in May 2017, they vowed to complete talks by November on the margins of the APEC summit in Vietnam. Japan initially considered the deal 'meaningless' without the expected benefit from enhanced trade with the U.S. but has signaled continuous cooperation.²⁹

The U.S. pullout has created new opportunities for China to take a leading role in negotiations of future trade deals and position itself as an advocate of new multilateral trade arrangements in the transpacific space. During the 21st Asia-Pacific Economic Cooperation (APEC) summit as well as the 2017 annual meeting of the World Economic Forum in Davos, Switzerland, President Xi proactively promoted free trade and globalization.

President Xi has also seized the opportunity to focus more strongly on the RCEP and the FTAAP. In the event that the Trump Administration pursues a more protectionist approach towards Asia, more countries in the region will likely turn to Chinese trade initiatives, in order to sustain their own economic growth.

The RCEP, like the TPP, is a comprehensive trade agreement to broaden economic integration in the Asia-Pacific region, but its level of ambition is much lower and scope significantly narrower. The RCEP aims at reducing tariffs on supply chains, liberalizing investment and introducing dispute-resolution mechanisms. Unlike the TPP however it will not require members to protect labor rights or improve environmental standards. The deal would cover almost half the world's population and between 30-40% of global trade.³⁰ In May 2017, the 18th round of RCEP negotiations took place in Manila. The 16 prospective member states of the RCEP have been accelerating efforts to enhance implementation. Progress has been made on the protection of and assistance to small and medium-sized enterprises (SMEs) as well as competition policy, but issues in particular in the area of trade services have remained unresolved. So far, progress on the RCEP has been slow.

APEC first proposed the establishment of a Free Trade Area of the Asia-Pacific (FTAAP) in Hanoi in 2006. Talks have only progressed slowly, but APEC's recently published collective strategic study on the realization of the FTAAP suggests that groundwork for the realization of the FTAAP has been advanced and that the agreement could be a major instrument for the promotion of regional economic integration. Meanwhile,

²⁵ WTO (2017), 'Member Information: The European Union and the WTO', *World Trade Organization*, at https://www.wto.org/english/thewto_e/countries_e/european_communities_e.htm, accessed on 20 June 2017

²⁶ Shawn Donnan, Lucy Hornby & Arthur Beesley (2016): 'China challenges EU and US over Market Economy Status', *Financial Times*, 12 December, at <https://www.ft.com/content/6af8da62-bf5d-11e6-9bca-2b93a6856354>, accessed on 14 December 2016

²⁷ That is, a plethora of overlapping agreements that add complexity and confusion.

²⁸ Christopher M. Dent (2013), 'FTA in the Asia-Pacific: Going Around Circles?', *The Evian Group@IMD Expert Perspectives*, at <http://www.imd.org/uupload/IMD.WebSite/EvianGroup/Web/982/Free%20Trade%20Agreements%20in%20the%20Asia.pdf>, accessed on 6 December 2015

²⁹ Kyodo Jiji (2017), 'Japan, Vietnam leaders vow Unity in Bid to bring TPP into Force', *The Japan Times*, 7 June, at <http://www.japantimes.co.jp/news/2017/06/07/business/abe-vietnam-leader-vow-unity-bring-tpp-force-rapidly>, accessed on 20 June 2017

³⁰ Karlis Saina & David Tweed (2016), 'China-championed Asia Trade Pact gains Traction in Jakarta Talks', *Bloomberg*, 9 December, at <https://www.bloomberg.com/news/articles/2016-12-09/china-championed-asia-trade-pact-gains-traction-in-jakarta-talks>, accessed on 15 December 2016;

Krisztina Binder (2017), 'From TPP to new Trade Arrangements in the Asia-Pacific Region', *EPRS Briefing*, May, at [http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI\(2017\)603953](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2017)603953), accessed on 22 June 2017

the report also highlighted that significant barriers to trade and investment persist and require further talks.³¹

China's FTA network³²

China³³ has concluded numerous bilateral FTAs, including with Australia (2015),³⁴ the Republic of Korea (ROK) (2015), Switzerland (2014), Iceland (2014), Costa Rica (2011), Peru (2010), Singapore (2009), New Zealand (2008), Pakistan (2007), Chile (2006), Association of Southeast Asian Nations (ASEAN) (2005), Macao SAR (2004) and Hong Kong SAR (2004).

MOFCOM's definition of FTAs "under negotiation" encompasses potential or upgraded ones. China is currently negotiating nine new FTAs with the Gulf Cooperation Council, Japan-ROK, Sri Lanka, Pakistan (second phase), Maldives, Georgia, Israel, Norway and RCEP. Feasibility studies have been announced, launched or completed with several countries including India, Columbia, Moldova, Fiji, Mauritius and Nepal. On the basis of a MoU signed in January 2017 during the state visit of President Xi Jinping to Switzerland, Switzerland and China have started discussions on enhancing the bilateral FTA that came into force in 2015. The enhancement process will commence with a joint study of potential areas of enhancement.

China has also expressed considerable interest in negotiating an FTA with the EU. However, this option will likely only be taken into deeper consideration once an EU-China bilateral investment treaty has been concluded and political hurdles including subsidies, export credits and cheap loans have been addressed.

Agreements between the Mainland and Taiwan

Relations between the Mainland and Taiwan intensified under the Administration of Ma Ying-jeou, including the signing of the Cross-Strait Services Trade Agreement (CSSTA) in 2013 that included a wide array of industries such as banking, healthcare, film, telecommunications, visa provisions and tourism. Alleged attempts by the Kuomintang to unilaterally pass the CSSTA led to a political crisis on the island in 2014 (so-called Sunflower Student Movement). The CSSTA has remained unratified since.

In large part due to its trade dependence on the Mainland, Taiwan has explored the possibility of signing more trade deals across the region, including with India, the Philippines and Malaysia. However, the One-China policy puts an effective damper on the signing of FTAs with such economies.

One Belt, One Road

The "One Belt, One Road" (OBOR) initiative, also known as the "New Silk Road", was launched by China to promote trade ties with Europe and countries along the original Silk Roads. OBOR has two main elements: (1) the "Silk Road Economic Belt", a land route designed to connect China with Central Asia, Eastern and Western Europe, as well as (2) the "21st Century Maritime Silk Road", a sea route that runs westwards from China's east coast to Europe via the South China Sea and Indian Ocean, and eastwards into the South Pacific. OBOR will support China's economic development in the fields of infrastructure, trade and the internationalization of the RMB. The declared objectives are to increase prosperity in the underdeveloped western parts of China, foster connectivity and economic development along the routes, enhance the integration between China and its neighbors and enhance energy security through the diversification of import sources.³⁵ OBOR encompasses 60 countries across Asia, Europe, the Middle East and Africa, which account for 70% of the world's population and 55% of global GNP.³⁶

According to the Asian Development Bank (ADB), there is an unmet demand for infrastructure investments across the Asian region, estimated at USD 8 trillion for the 2010–2020 period.³⁷ Combined ADB and the World Bank can only provide USD 30 billion per year. A number of funds and banks have recently been created to reduce this significant funding gap: the Asian Infrastructure Investment Bank (AIIB) with a capital stock of USD 100 billion, the Silk Road Fund with a capital stock of USD 54 billion, the New Devel-

³¹ Krisztina Binder (2017), 'From TPP to new trade arrangements in the Asia-Pacific region', *EPRS Briefing*, May, at

[http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI\(2017\)603953](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_BRI(2017)603953), accessed on 22 June 2017

³² An overview of China's FTA network can be found on this dedicated subpage of MOFCOM: <http://fta.mofcom.gov.cn/english/index.shtml>, accessed on 6 December 2015

³³ "China" herein refers to the customs territory of the Chinese Mainland.

³⁴ The date in brackets indicates the FTA's entry into force.

³⁵ For the political foundations of this project, see the official action plan: NDRC, MFA & MOFCOM (2015),

'Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road', *Xinhuanet*, 28 March, at

http://news.xinhuanet.com/english/china/2015-03/28/c_134105858.htm, accessed on 6 December 2015

³⁶ Figures vary depending on source; European Council on Foreign Relations (2015), "OBOR": *China's Great Leap Outward* (London: European Council on Foreign Relations)

³⁷ The Economist (2014), 'Why China is Creating A New "World Bank" for Asia', *The Economist*, 11 November, at

<http://www.economist.com/blogs/economist-explains/2014/11/economist-explains-6>, accessed on 6 December 2015

opment Bank³⁸ with a capital stock of USD 100 billion, the China Development Bank with a capital stock of USD 16.3 billion, the ASEAN Infrastructure Connectivity Fund with a capital stock of USD 20 billion as well as the Maritime Silk Road Bank with a capital stock of USD 810 million.

In May 2017, Swiss President Doris Leuthard visited Beijing on the occasion of the first Belt and Road Forum. Twenty-nine heads of state and representatives from more than 100 countries took part in the forum. The total volume of trade and investment in the ambitious strategy is estimated to reach USD 900 billion. On the occasion of the summit, President Xi announced an increase of the Silk Road Fund by RMB 100 billion or USD 14 billion to a total of USD 54 billion, and China's banks will provide another RMB 380 billion (USD 55 billion) for projects related to OBOR. In addition, China plans to provide RMB 60 billion or USD 8.7 billion to developing countries and international organizations over three years to promote social projects along the New Silk Road.

Asian Infrastructure Investment Bank

Switzerland officially joined AIIB on April 25, 2016.³⁹ As one of the first Western European countries to apply for membership in AIIB, Switzerland has been well-placed from the bank's beginning. It has participated in the editing of the bank's articles, which were signed on June 29, 2015 by representatives from 57 prospective founding members (of which 20 were extra-regional).

Activities of AIIB include the financing of infrastructure (primarily in the energy, transport and telecommunications sectors), urban and rural development as well as the environment. AIIB will grant loans, acquire shareholdings and provide guarantees. Switzerland plans to contribute a total of USD 706.4 million to the capital stock of AIIB, representing 0.87% of total votes. The country is part of a voting group composed of Denmark, Iceland, Norway, Poland, Sweden and the UK. AIIB has operated since the beginning of 2016 and has approved the financing of 16 infrastructure development projects.⁴⁰ In 2017, the AIIB has welcomed more than 20 new members. The bank accepts bids for tenders from companies from all countries, contrary to other multi-lateral development banks that restrict bids to companies from member states.

2.2. Outlook for Switzerland

After two and a half years of negotiations, the Switzerland-China FTA entered into force on July 1, 2014. The FTA contains chapters on Trade in Goods, Services, Rules of Origin, Customs Procedures and Trade Facilitation, Technical Barriers to Trade/Sanitary and Phytosanitary Measures (TBT/SPS), Trade Remedies, Intellectual Property Rights (IPR), Competition, Trade and Sustainable Development, Legal and Institutional Provisions as well as Economic and Technical Cooperation. Side Agreements on *Labor and Employment*, *Cooperation in the Area of TBT and SPS* and *Cooperation in the Area of Certification and Accreditation*, among others, were also signed on that occasion.⁴¹ These provide a legal framework for consultations and dispute settlement mechanisms.

A Joint Committee with equal representation monitors the implementation and discusses further developments of the agreement. The committee meets at least once every two years. The Joint Committee is assisted by a number of sub-committees (on origin issues, customs procedures, TBT, SPS, and services) and may appoint additional sub-committees and working groups if needed.⁴²

While China's trade with its most important trade partners decreased in 2016, its trade with Switzerland continued to grow,⁴³ showing that the Switzerland-China FTA still positively affects bilateral trade overall (Switzerland's trade with China has grown since the implementation of the FTA).

During the state visit of President Xi to Switzerland in January 2017, Beijing and Bern signed the *MoU on the Enhancement of the China-Switzerland Free Trade Agreement*. Both states have agreed to explore opportunities for extending the FTA and a first meeting to plan a joint study took place in Berne in May 2017.

³⁸ Formerly known as the BRICS Development Bank.

³⁹ Swiss Federal Council (2016), 'Switzerland completes Membership of Asian Infrastructure Investment Bank', *Federal Department of Foreign Affairs*, 25 April, at <https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-61495.html>, accessed on 18 August 2016

⁴⁰ AIIB (2017), 'Approved Projects', *Asian Infrastructure Investment Bank*, at <https://www.aiib.org/en/projects/approved>, accessed on 28 February 2017

⁴¹ Pertinent agreements can be accessed here: <http://www.seco.admin.ch/themen/00513/00515/01330/05115/index.html?lang=en>, accessed on 7 December 2015

⁴² SECO (2014), 'Free Trade Agreement between Switzerland and China', *China-Switzerland Free Trade Agreement*, 8 October, at

http://www.seco.admin.ch/themen/00513/02655/02731/04118/index.html?lang=en&download=NHZLpZeg7t,lnp6l0NTU042l2Z6ln1ad1Zn4Z2qZpnO2YUq2Z6gpJCGdYB3f2ym162epYbg2c_JjKbNoKSn6A--, accessed on 24 August 2016

⁴³ FCA (2017), *Swiss Impex*, at <http://www.ezv.admin.ch/index.html?lang=de>, accessed on 15 February 2017

Partial impact of the Switzerland-China FTA on selected sectors

Description	Category	MFN Rate %	FTA Preferential Rate % (Year)									
			1	2	3	4	5	6	7	8	9	10
Components for Wind Energy - Gears / gearing, ball screws	Cleantech	8	7.2	6.4	5.6	4.8	4.0	3.2	2.4	1.6	0.8	0
Electro-cardiographs	Medtec	5	4.0	3.0	2.0	1.0	0	-	-	-	-	-
Electric wristwatches mechanical display	Mid-end Watches	11	9.0	8.5	7.9	7.4	6.8	6.3	5.7	5.2	4.6	4.4
Enzymes & prepared enzymes	Biotech	6	4.8	3.6	2.4	1.2	0	-	-	-	-	-
Medicaments containing ampicillin	Pharmaceuticals	6	4.8	3.6	2.4	1.2	0	-	-	-	-	-
Sodium chlorates	Chemicals	12	10.8	9.6	8.4	7.2	6.0	4.8	3.6	2.4	1.2	0
Prefab buildings	Construction / City Planning	10	8.0	6.0	4.0	2.0	0	-	-	-	-	-
Engines, diesel for locomotive	Railway	6	4.8	3.6	2.4	1.2	0	-	-	-	-	-

Source: Sovereign China, based on FTA Annex I Tariff Schedules

3 Foreign Trade

3.1. Development and general outlook

Trade in goods

Lackluster external demand in 2015 resulted in the first annual Chinese foreign trade contraction (-8.0% YoY)⁴⁴ since 2009, although China remained the world's leader in merchandise trade (both by the sum of exports and imports as well as exports alone).⁴⁵ Chinese foreign trade contracted again in 2016 (-6.8% YoY).⁴⁶ As in 2015, the dip reflects both weaker global demand as well as the diminishing importance of exports as a growth driver. Imports decreased by -5.5% YoY while exports decreased by -7.7% YoY.⁴⁷

In Q1 2017, export (+8.2% YoY) and import (+24.0% YoY) growth on the Mainland recovered sharply. Total foreign trade increased by +15.0% YoY.⁴⁸ After trade with most of the Mainland's key trading partners shrank substantially in CY 2016, it experienced double-digit gains with a number of these economies, including Taiwan (+14.8% YoY), the ROK (+14.7% YoY), the U.S. (+14.4% YoY), Japan (+12.3% YoY) and Germany (+10.5% YoY).⁴⁹

During the same period, China's total trade also showed impressive growth rates for key ASEAN economies, including Singapore (+24.1% YoY), Vietnam (+16.6% YoY), Malaysia (+21.4% YoY) and Indonesia (+25.2% YoY). Trade with nations along the traditional Silk Road, including Kazakhstan (+59.8% YoY), the Russian Federation (+29.3% YoY) and Iran (+57.0% YoY) increased substantially.⁵⁰ Trade with ASEAN and the EU as a whole increased by +18.0% YoY and +10.5% YoY, respectively.⁵¹

Stronger external demand and re-stocking aside, the upside surprise for export growth has been widely attributed to commodity price hikes. After six consecutive quarters, contributions of net exports to GDP growth have returned to positive territory (+0.3%).⁵²

⁴⁴ GACC (2016), *China's Customs Statistics (Monthly Exports & Imports)*, Series No. 316

⁴⁵ By imports alone, China ranked second (behind the U.S.) while Switzerland ranked 16th by exports and 17th by imports;

WTO (2016), *World Trade Statistical Review 2016* (Geneva: World Trade Organization)

⁴⁶ GACC (2017), *China's Customs Statistics (Monthly Exports & Imports)*, Series No. 328

⁴⁷ *ibid.*

⁴⁸ GACC (2017), *China's Customs Statistics (Monthly Exports & Imports)*, Series No. 331

⁴⁹ *ibid.*

⁵⁰ *ibid.*

⁵¹ *ibid.*

⁵² Allan Zhang & G. Bin Zhao (2017), *China Economic Quarterly Q1 2017: What to expect from Made in China 2025 and China's First Belt and Road Forum* (Beijing: PricewaterhouseCoopers)

Whether this can be sustained will hinge on external developments. Even though global trade growth may rebound in 2017,⁵³ increasing industrial competition, geopolitical uncertainty, protectionist sentiments as well as the continued potential for direct trade confrontations worldwide will remain challenging.

Trade in services

Although the trade in merchandise weighs heavily on growth rates, the increasing significance of Chinese trade in commercial services should not be underestimated. In 2015, services represented 12.3% of China's total exports and 22.9% of its imports.⁵⁴ As part of its reform program under the "New Normal", the State Council has targeted an increase in the services trade to USD 1 trillion by 2020, which suggests upside potential for future exports of Chinese services in spite of the country's widened commercial services trade deficit (up +21% YoY in 2014 and +38% YoY in 2013).⁵⁵

According to MOFCOM, in 2016, China's total services trade reached RMB 5.25 trillion, growing by +14.2% YoY.⁵⁶ The services trade accounted for 18% of total foreign trade, up two percentage points from the previous year.⁵⁷

3.2. Bilateral trade

Trade in goods⁵⁸

The trade balance continued to be positive for Switzerland in 2016, amounting to a CHF 14.5 billion trade surplus with the Mainland. The total volume of goods traded with the Mainland stood at CHF 39.1 billion, up +23.5% YoY. Exports increased by +39.0% YoY, while imports decreased slightly by -0.6% YoY.

At the product type level, exports of pharmaceutical and agricultural products rose by +35.6% YoY and +52.5% YoY, respectively, while Swiss machinery and precision instrument & watch exports decreased by -2.2% YoY and -1.6% YoY, respectively. Interestingly, China sold more than twice as many machinery, apparatus and electronic products to Switzerland than Switzerland sold to China. This reveals an interesting feature of Sino-Swiss bilateral trade: the two countries trade similar products with each other (albeit at different price levels).

According to Chinese statistics, in 2016, Switzerland was China's 7th largest European trade partner, while Italy and Spain ranked 6th and 8th, respectively. Year-on-year, Switzerland was China's 8th most important foreign source of imports worldwide and most important source of imports from Europe after Germany. China imported more goods from Switzerland than from Russia or the UK and over twice and over five times as much from Switzerland than from Canada and New Zealand, respectively.⁵⁹

Trade in services

Services exports from Switzerland to China increased by +6.5% YoY in 2016 while imports increased by +3.6% YoY, leading to a positive trade balance of CHF 0.8 billion. This compares with a decrease in services exports by -0.3% YoY in 2015 and an increase in imports by +5.0% YoY.⁶⁰

⁵³ WTO (2017), 'Trade Recovery expected in 2017 and 2018, amid Policy Uncertainty', *World Trade Organization*, 12 April, at https://www.wto.org/english/news_e/pres17_e/pr791_e.htm, accessed on 20 June 2017

⁵⁴ WTO (2016), 'Trade Policy Review: China', *World Trade Organization*, 20 and 22 July, at https://www.wto.org/english/tratop_e/tpr_e/s342_sum_e.pdf, accessed on 18 August 2016

⁵⁵ Embassy estimates based on data gathered from WTO (2015), *International Trade Statistics 2015* (Geneva: World Trade Organization),

WTO (2014), *International Trade Statistics 2014* (Geneva: World Trade Organization) & WTO (2013), *International Trade Statistics 2013* (Geneva: World Trade Organization)

⁵⁶ MOFCOM (2017), 'MOFCOM Department of Trade in Services and Commercial Services Comments on China's Service Trade Development Situation in 2016', *Ministry of Commerce of the People's Republic of China*, 26 February, at

<http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201703/20170302524810.shtml>, accessed on 13 June 2017

⁵⁷ *ibid.*

⁵⁸ Figures include trade in gold and other precious metals: FCA (2017), *Swiss Impex*, at <https://www.gate.ezv.admin.ch/swissimpex>, accessed on 17 May 2017

⁵⁹ GACC (2017), *China's Customs Statistics (Monthly Exports & Imports)*, Series No. 328

⁶⁰ SNB (2017), 'Zahlungsbilanz und Auslandvermögen der Schweiz 2016', *Swiss National Bank*, at www.snb.ch/de/mmr/reference/bopiip_2016/source/bopiip_2016.de.pdf, accessed on 13 June 2017

4 Direct Investment

4.1. Development and general outlook

Outward direct investment

In spite of persistently weak global growth, Chinese outward direct investment (ODI) has seen strong activity as Chinese businesses continue to expand their footprint abroad. In 2016, China's non-financial ODI increased by +44.1% to USD 170.1 billion.⁶¹ During the same year, Chinese companies invested in 7,961 companies abroad.⁶²

Chinese companies struck 502 overseas mergers & acquisitions (M&A) deals in 2015, up from 325 in 2014.⁶³ Although global M&A activity decreased (following gains during the previous three years), the number of Chinese cross-border deals increased even further in 2016, outpacing U.S. M&A activity for the first time and reaching a record-breaking 932 announced takeovers. Year-on-year, outbound M&A surged +142% by volume and +246% by value to a record USD 221 billion.⁶⁴ Major acquisitions in 2016 include:

- *Chemical* acquiring *Agrochemical*: USD 46.7 billion between ChemChina and Syngenta AG (Switzerland) – February
- *Aircraft Leasing* acquiring *Aircraft Leasing*: USD 10 billion between Avolon Holdings Ltd (part of HNA Group) and CIT Group (U.S.) – October
- *Media, Internet and Entertainment* acquiring *Mobile Games*: USD 8.6 billion between Tencent Holdings Limited and Supercell Oy (Finland) – June
- *Diversified Conglomerates* acquiring *Luxury Hotels*: USD 6.5 billion between Hainan Traffic Control Holding Co Ltd (part of HNA Group) and Hilton Worldwide Holdings Inc (25% share) – October
- *Diversified Conglomerates* acquiring *Electronics*: USD 6.3 billion between HNA Group and Ingram Micro (U.S.) – February
- *Home Appliances* acquiring *Home Appliances*: USD 5.4 billion between Haier and General Electric's appliances business (U.S.) – January
- *Home Appliances* acquiring *Factory Automation*: USD 5 billion between Midea Group and KUKA AG (Germany) – May
- *Diversified Conglomerate* acquiring *Motion Picture and Media*: USD 3.5 billion between Wanda Group and Legendary Entertainment (U.S.) – January
- *Diversified Conglomerates* acquiring *Aviation Services*: USD 1.5 billion between HNA Group and gategroup (Switzerland) – April

During the same year, the Mainland's top overseas investment destinations for Chinese A-share listed companies by the number M&A transactions were Europe (35%), North America (33%) and Asia (22%).⁶⁵ By deal value, they were North America (49%), Asia (23%) and Europe (19%).⁶⁶ The acquisition of Swiss agrochemical giant Syngenta by ChemChina was the largest-ever foreign acquisition announced by a Chinese company. At the end of May 2017, ChemChina held 95% of Syngenta and said that it would further increase its ownership to above 98%.⁶⁷ The merger is expected to be completed in 2018.⁶⁸

In 2017, tighter capital controls and increasingly wary counterparties contributed to a slowdown in outbound M&A activity. Cross-border acquisitions plunged -67% during the first four months of this year, the biggest drop for a comparable period since the GFC.⁶⁹ Nevertheless, in May, HNA Group raised its stake in Deutsche Bank to 9.9%, making the Chinese conglomerate the single largest investor in the German banking giant.

⁶¹ Xinhua (2017), 'China's ODI up 44.1% in 2016', *State Council of the People's Republic of China*, 16 January, at http://english.gov.cn/archive/statistics/2017/01/16/content_281475543375328.htm, accessed on 20 June 2017

⁶² *ibid.*

⁶³ KPMG (2016), *KPMG China Outlook 2016*, at

<https://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/china-outlook-2016.pdf>, accessed on 20 December 2016

⁶⁴ PwC (2017), *PwC M&A 2016 Review and 2017 Outlook – January 2017* (Beijing: PricewaterhouseCoopers)

⁶⁵ KPMG (2017), *Chinese Listed Companies: Outbound Merger and Acquisition Update – February 2017* (Beijing: KPMG)

⁶⁶ *ibid.*

⁶⁷ Don Weinland (2017), 'ChemChina edges closer to sealing Syngenta Deal', *Financial Times*, 31 May, at

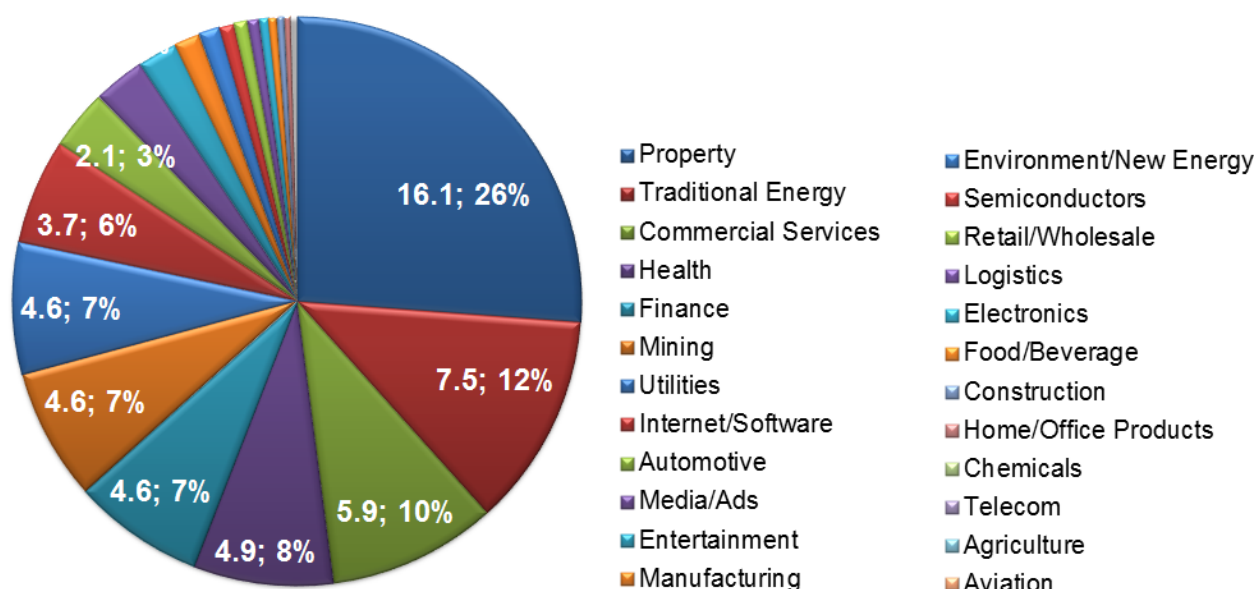
<https://www.ft.com/content/2dc58756-45dd-11e7-8519-9f94ee97d996?mhq5j=e3>, accessed on 2 June 2017

⁶⁸ *ibid.*

⁶⁹ Jack Sidders and Vinicy Chan (2017), 'China's \$246 Billion Foreign Buying Spree Is Unraveling', *Bloomberg*, May 11, at

<https://www.bloomberg.com/news/articles/2017-05-10/china-s-246-billion-takeover-sprees-crumbing-as-sellers-balk>, accessed on 20 June 2017

Total values of China's overseas deals by industry in 2017 (June 22, YTD) [USDb; %]



Source: Bloomberg

Inward foreign direct investment

Tighter capital controls may have also contributed to a cooling investor sentiment towards Chinese inbound investors (among other factors, including the impact of an interest rate hike by the U.S. Federal Reserve last December).⁷⁰ According to MOFCOM, year-on-year, non-financial FDI decreased by -4.5% in Q1, reaching USD 33.8 billion.⁷¹

As with ODI, FDI inflows are increasingly directed at the services sector. According to the National Bureau of Statistics (NBS), the services sector surpassed the manufacturing industry as the largest recipient of FDI in 2011.⁷² In 2015, FDI inflows into the services sector accounted for 61.1% of total FDI.⁷³ Investments flowed mainly from Hong Kong SAR (USD 24.6 billion), Taiwan (USD 1.7 billion), Singapore (USD 1.1 billion) and Japan (USD 950 million).⁷⁴

General outlook

Broken down into provinces and other geographic areas, inward FDI data points to a significant divergence between China's regions. The data shows that in spite of the "Go West" strategy, the OBOR initiative and efforts to promote development in the hinterland of agglomerations and growth triangles (e.g., that surrounding Chengdu-Chongqing), the most advanced coastal regions (i.e., the Rust Belt, the entire seaboard stretching from the Bohai Economic Rim to the Pearl River Delta and Hainan Island) have outperformed less developed and landlocked regions in terms of FDI growth.

Growing investment in China's services and ICT sectors, predominantly based in the coastal regions, is a clear indicator that China is no longer perceived as a low-cost labor country active in the global manufacturing value chain. Instead, China is being increasingly viewed as an end destination market, in which demand for high-quality goods and customized services is growing. On average, within the OECD, the services sector contributes 70% to GDP.⁷⁵ According to NBS, in 2016, China's services sector contributed

⁷⁰ Weining Hu (2017), 'FDI in China during 2017 shows more cautious Approach', *China Briefing*, 30 May, at <http://www.china-briefing.com/news/2017/05/30/fdi-trends-show-cautious-foreign-investment-china.html>, accessed on 22 June 2017

⁷¹ MOFCOM (2017), 'Investissements directs étrangers en Chine pendant les trois premiers mois de 2017', *Ministry of Commerce of the People's Republic of China*, 20 April, at <http://french.mofcom.gov.cn/article/statistique/geography/201705/20170502573904.shtml>, accessed on 2 June 2017

⁷² KPMG (2016), *KPMG China Outlook 2016*, at <https://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/china-outlook-2016.pdf>, accessed on 20 December 2016

⁷³ NBS (2016), *National Database*, at <http://data.stats.gov.cn/english/easyquery.htm?cn=A01>;

MOFCOM (2016), 'The Regular Press Conference of MOFCOM (January 20, 2016)', *Ministry of Commerce of the People's Republic of China*, 22 January, at <http://english.mofcom.gov.cn/article/newsrelease/press/201601/20160101244116.shtml>, accessed on 20 December 2016

⁷⁴ MOFCOM (2017), 'Investissements directs étrangers en Chine pendant les trois premiers mois de 2017', *Ministry of Commerce of the People's Republic of China*, 20 April, at <http://french.mofcom.gov.cn/article/statistique/geography/201705/20170502573904.shtml>, accessed on 2 June 2017

⁷⁵ OECD (2015), 'OECD Economic Surveys: China', *Organisation for Economic Co-operation and Development*, March, at <http://www.oecd.org/eco/surveys/China-2015-overview.pdf>, accessed on 20 December 2016

51.6% to its GDP and 56.5% to the country's total tax income,⁷⁶ showing clear potential for growth. In addition to the services sector, FDI increasingly targets advanced manufacturing sectors as well, which are also mostly concentrated across eastern China.

To maintain China's attractiveness as an FDI destination, authorities have made efforts to simplify the investment approval system. Smaller foreign investment projects could benefit from a more simple registration process if they are executed as part of a joint venture (JV) controlled by Chinese investors.⁷⁷ Moreover, a Foreign Investment Law (a draft version was released in January 2015) will likely relax foreign investment regulations and streamline the fragmented regulatory framework.⁷⁸ While, under current laws, most new foreign investments are subject to a complex and lengthy approval process, the draft law follows a "negative list" approach. Approval for projects that are not on the negative list will be shortened to a simple filing procedure.⁷⁹

Another notable change is the abandonment of the existing foreign enterprise structures through the introduction of the same incorporation scheme and governing body for both domestic and foreign companies. This measure could bring a more level playing field and reduce bureaucracy. Meanwhile, some uncertainties still remain regarding detailed rules as well as the law's implementation. National treatment bears the risk of providing more scope for the government to increase its scrutiny of foreign investors, which is particularly relevant to foreign investors engaged in politically sensitive areas.⁸⁰

4.2. Bilateral investment

Chinese direct investment in Switzerland

Around 100 private and state-owned Chinese companies are currently present in Switzerland. To date, the acquisitions of Geneva-based trading firm Addax by Sinopec (2009), the world's leading aircraft ground handling services provider Swissport by HNA Group (2015), Swiss sports marketing company Infront by diversified conglomerate Wanda Group (2015), Swiss agrochemical giant Syngenta by ChemChina (2016), and airline catering company gategroup by HNA Group (2016) are among the largest acquisitions made by Chinese companies in the world.

Furthermore, China National Cereals, Oils and Foodstuffs Corporation (COFCO), which recently acquired the international agribusinesses Noble Agri Ltd. and Nidera, signed an MoU in May 2017 on the establishment of a global corporate and trading headquarters in Geneva.

Acquisitions aside, among the Chinese companies currently present in Switzerland, around 90% are engaged in greenfield investments. A noteworthy greenfield investment is Tianjin-based traditional Chinese medicine company Tasly's opening of its European headquarters in Geneva in August 2015.

Swiss direct investment in China

The stock of Swiss FDI in Mainland China was CHF 20.0 billion (+CHF 3.3 billion) in 2015.⁸¹ While the majority of Swiss companies in China are located in the three main economic rims along China's eastern seaboard,⁸² a number of firms also operate in the hinterland and inland provinces.

The majority of the 850–1,000 Swiss companies including their representations in China continue to consider the country as a relevant investment destination. A survey conducted by the China Europe International Business School (CEIBS), the Swiss Center Shanghai, swissnex China, SwissCham and China Integrated revealed that, in spite of a slight decrease since 2015, the investment appetite of Swiss companies remains considerable: 57% of the Swiss companies surveyed plan to increase their invest-

⁷⁶ NBS (2017), 'Preliminary Accounting Results of GDP for the fourth Quarter and the whole Year of 2016', 24 January, at http://www.stats.gov.cn/english/pressrelease/201701/t20170124_1457667.html, accessed on 20 June 2017

⁷⁷ KPMG Global China Practice (2015), *China Outlook 2015* (Beijing: KPMG Global China Practice)

⁷⁸ Terence Foo (2015), 'China Proposes New Foreign Investment Law', *Clifford Chance*, 6 February, at

http://www.cliffordchance.com/briefings/2015/02/china_proposes_newforeigninvestmentlaw.html, accessed on 8 December 2015

⁷⁹ KPMG Global China Practice (2015), *China Outlook 2015* (Beijing: KPMG Global China Practice)

⁸⁰ Steven Elsinga (2015), 'China Releases Draft Foreign Investment Law, Signaling Major Overhaul for Foreign Investment', *China Briefing*, 21 January, at <http://www.china-briefing.com/news/2015/01/21/breaking-news-china-releases-draft-foreign-investment-law-signaling-major-overhaul-foreign-investment.html>, accessed on 8 December 2015

⁸¹ Swiss National Bank (2017), 'Direct Investment, 2015', *Swiss National Bank*, at https://www.snb.ch/en/i/about/stat/statrep/id/statpub_fdi_all, accessed on 16 June 2017.

⁸² (1) the Pearl River Delta surrounding Guangzhou, Shenzhen and Hong Kong; (2) the Yangtze River Delta surrounding Shanghai, Hangzhou and Nanjing;

(3) the Bohai Economic Rim surrounding Beijing and Tianjin

ment in China (compared to 72% in 2015) and 48% consider China to be a top 3 investment destination (compared to 64% in 2015).⁸³

5 Trade, Economic, Investment and Tourism Promotion

5.1. Foreign economic promotion instruments

Switzerland's official representations in the PRC, i.e., its Embassy in Beijing and its Consulates General in Shanghai, Guangzhou, Chengdu and Hong Kong, play a pivotal role in ensuring a favorable environment for Swiss businesses interested in or already actively doing business in China.

The Embassy, together with the respective Swiss Federal authorities, engages in a number of government-to-government dialogs in a variety of fields, including IP, financial services, TBT/SPS and health issues (e.g., in the fields of food safety, medicines and medical devices, cosmetics as well as chemicals). Moreover, the Embassy proactively initiates and pursues special projects to promote Swiss interests in China. In 2016, it reached important milestones in the areas of tourism and sports (Sino-Swiss cooperation on the Beijing Winter Olympics 2022) and innovation (Swiss night at the summer World Economic Forum in Tianjin). The Swiss Business Hub (SBH) China is integrated into the operations of the Embassy and Consulates General on the Mainland, while SBH Hong Kong is part of the Consulate General in Hong Kong. The SBH is the representative office of Switzerland Global Enterprise (S-GE), operating out of Beijing, Shanghai, Guangzhou and Hong Kong. S-GE's role as a center of excellence for internationalization is to foster exports, imports and investments, help Swiss companies develop new potential for their international businesses and strengthen Switzerland as an economic hub.

As part of its investment promotion activities, SBH organizes week-long road shows (Chinese company visits) in various cities across China and private dinners at the residence of the Ambassador for select high-level business people and participates in various public events to promote Switzerland as an investment location. The cantons and Swiss regional clusters also have their investment promotion representatives in China who regularly participate in SBH activities. In November 2016, the SBH launched its social media platform on WeChat.

The Swiss Week Shanghai, an annual, week-long event organized by consulting company SIM, is a good example for the promotion of Swiss products to the Chinese public. Around 15 Swiss companies are represented with their own booths around a "Swiss village market place" in Shanghai. SIM intends to organize a Swiss Week in Chengdu this year.

Cleantech Switzerland, formerly the official export platform for the Swiss Cleantech sector, was integrated into S-GE on January 1, 2016. Going forward, the SBH will selectively promote Swiss environmental technologies in the Chinese market and is now in charge of the ongoing cooperation with the Sino-Swiss Zhenjiang Ecological Industrial Park in Jiangsu Province. To further strengthen trade, investment and clean technology collaboration with Zhenjiang, an MoU was signed between the SBH and the industrial park in October 2016. SECO partner and other organizations such as the United Nations Industrial Development Organization and the International Institute for Sustainable Development have executed projects in cleaner production and voluntary sustainability standards in the park.

The introduction of the Green Building Platform, which includes 20 Swiss companies that are active in the green building field and have projects in China, by Keller Technologies is another recent development in the clean technology space.

To strengthen bilateral cooperation in the fields of higher education, research and innovation, a swissnex office was opened in Shanghai in August 2008. swissnex China takes an active role in strengthening Switzerland's leading position as a world-class location for science, education and innovation. Furthermore, by performing multiple networking activities and tasks, it promotes Switzerland as a nation known for its cutting-edge research, high quality, innovation and openness. swissnex is represented in Shanghai (swissnex office), Beijing (Embassy) and Guangzhou (Consulate General).

⁸³ CEIBS, Swiss Center Shanghai & China Integrated (2016), *2016 China Business Survey / 2016 Swiss Business in China* (Shanghai: CEIBS, Swiss Center Shanghai & China Integrated)

The Swiss Chinese Chambers of Commerce (SwissCham), separately registered in China and Switzerland, are non-profit organizations serving the Sino-Swiss business community. SwissCham China's network encompasses around 600 members representing organizations and individual members. It is a networking and information platform for Swiss companies in China as well as Chinese companies interested in Switzerland. Its main goals are to gather all members of the Sino-Swiss business community on a single platform, stimulate interaction between them and help develop business opportunities. Various private, Shanghai-based consultants (including China Integrated, SIM and CBC) who operate across China and actively support Swiss companies to develop their Chinese businesses further support these activities.

The Embassy, the Consulates General, the SBH, swissnex and SwissCham work very closely together to promote Swiss business interests across China.

5.2. The host country's interest in Switzerland

Tourism, education, other services

In 2016, Chinese outbound tourism to Switzerland decreased by 15.9% (1,277,977 overnights in Swiss hotels by Mainland and Hong Kong tourists), after the all-time record year 2015 (1,519,100 overnights). This makes 2016 still the second strongest year ever.⁸⁴

During his state visit to Switzerland in January 2017, President Xi and President Leuthard jointly launched the Switzerland-China Year of Tourism. It focuses on promoting cooperation in the areas of sustainable mountain tourism, hospitality and winter sports.

Strategic Sino-Swiss cooperation on the organisation of successive Winter Olympic Games (Lausanne 2020, Beijing 2022) and the promotion of sustainable winter sports among both countries' populations is a particular opportunity on various dimensions. Switzerland is not only known for being the 'Home of Snow Sports' and earliest winter sports tourism destination, it also leads commercial innovation and sustainability rankings in winter sports infrastructure. As the hub for international sports organizations (IOC, etc.) and regular organizer of mega sports events, Switzerland has accumulated unique expertise and built global networks for the effective organization of sports events.

According to policy documents, the Beijing Winter Olympics 2022 should stimulate the development of a USD 800 million winter sports market for over 300 million people across China.⁸⁵ China's ski industry is expected to grow rapidly in the next five to ten years, which will likely have a positive knock-on effect on international winter sports destinations (Switzerland included). Of the expected 170 million Chinese outbound tourists by 2020, and 300 million by 2030, an increasing number might opt for winter sport destinations.

Investments

Over the years, Chinese direct investment in Switzerland has gained momentum. The reasons for investing in Europe are manifold and tend to revolve around attractive valuations, use of surplus cash flow, the acquisition of technology, knowledge, know-how, management practices as well as the utilization of existing brands and distribution networks. Insights are usually gained with a view to applying them to the Chinese market, where growth prospects are still substantially higher than in Europe and organic growth alone might not suffice to move in tandem with the Chinese domestic market.

Concerning direct investment into Switzerland, Swiss strong points such as the country's strategic and central location in Europe, the strength of its quality-conscious industries, world-class R&D facilities and infrastructure, skills and talents of its well-trained and multilingual workforce, legal certainty, political stability as well as competitive corporate tax rates tend to be considered as well and viewed favorably for the establishment of their European headquarters or general structuring of their European activities.

Switzerland as a financial center

As the internationalization of the RMB opens up interesting new business opportunities in the financial sector, various international financial centers have intensified their efforts to position themselves as off-shore RMB hubs. China has also expressed a strong interest in learning from Swiss expertise in wealth

⁸⁴ Simon Bosshart (2017), *China: Market Analysis and Insight* (Zurich: Switzerland Tourism)

management and education. Following an intense phase of discussions on Sino-Swiss cooperation, a number of key arrangements have been agreed on to strengthen Switzerland as a competitive and full-fledged European RMB hub:

- In July 2014, the Swiss National Bank (SNB) and the People's Bank of China (PBoC) signed a currency swap agreement with a limit of RMB 150 billion (or CHF 21 billion).
- In January 2015, the PBoC decided to extend the pilot scheme of the RMB Qualified Foreign Institutional Investor (RQFII) to Switzerland with a quota of RMB 50 billion. Zurich-based Swiss Re was the first company to apply for a share of the Swiss quota.
- In January 2015, the SNB and the PBoC signed an MoU on the establishment of RMB clearing arrangements in Switzerland.
- The annual Financial Dialogue between the Swiss and the Chinese authorities explores ways of cooperation against the backdrop of RMB internationalization. The third round of this dialog took place in Beijing in early September 2015.
- The Swiss Financial Round Table, a private sector platform was created to discuss RMB-related topics and to find new forms of collaboration. The Round Table took place in Beijing in early September 2015.
- On November 9, 2015, the PBoC authorized direct trading between the RMB and the CHF.
- In November 2015, the China Construction Bank (CCB) officially entered the Swiss market. CCB has been authorized to use its Zurich branch as the RMB clearing bank in Switzerland.
- In January 2016, CCB opened its branch in Zurich.
- In February 2016, the G20 Finance Ministers and Central Bank Governors Meeting took place in Shanghai.
- In June 2016, the G20 Finance and Central Bank Deputies Meeting took place in Xiamen.
- In July 2016, the G20 Finance Ministers and Central Bank Governors Meeting took place in Chengdu.
- In November 2016, the fourth round of the Financial Dialog took place in Geneva.
- In November 2016, the Swiss Financial Round Table took place in Geneva.
- In April 2017, a delegation led by Swiss Federal Councilor Ueli Maurer paid a visit to Beijing, Hangzhou, Shanghai and Hong Kong.

* * *

6 Annexes

Annex 1: Economic Structure

China: Structure of the Economy													
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Distribution of GDP (%)													
Primary Sector	12.3%	12.9%	11.6%	10.6%	10.3%	10.3%	9.8%	9.5%	9.4%	9.4%	9.3%	9.1%	8.9%
Secondary Sector	45.6%	45.9%	47.0%	47.6%	46.9%	46.9%	45.9%	46.4%	46.4%	45.3%	44.0%	43.1%	40.9%
Tertiary Sector	42.0%	41.2%	41.3%	41.8%	42.9%	42.8%	44.3%	44.1%	44.2%	45.3%	46.7%	47.8%	50.2%
Distribution of Labor (%)													
Primary Sector	49.1%	46.7%	44.8%	42.6%	40.8%	39.6%	38.1%	36.7%	34.8%	33.6%	31.4%	29.5%	28.3%
Secondary Sector	21.6%	22.5%	23.8%	25.2%	26.8%	27.2%	27.8%	28.7%	29.5%	30.3%	30.1%	29.9%	29.3%
Tertiary Sector	29.3%	30.6%	31.4%	32.2%	32.4%	33.2%	34.1%	34.6%	35.7%	36.1%	38.5%	40.6%	42.4%
State Sector*	9.3%	9.0%	8.7%	8.6%	8.5%	8.5%	8.5%	8.6%	8.8%	8.9%	8.3%	8.2%	8.0%

Source: China Statistical Yearbook 2016

*State-owned units (urban employed persons) exclude townships and village enterprises

Annex 2.1: Essential Economic Data

China: Essential Economic Data										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E
GDP (RMB billion) ¹	31'717	34,643	40,658	48,086	53,474	58,974	64,070	68,393	74,539	81,267
GDP (USD* billion) ¹	4,565	5,072	6,005	7,442	8,471	9,519	10,431	10,983	11,226	11,795
GDP per capita (RMB) ¹	23,883	25,960	30,321	35,689	39,493	43,340	46,841	49,754	50,858	58,430
GDP per capita (USD*) ¹	3,437	3,800	4,479	5,524	6,256	6,995	7,626	7,990	8,166	8,480
GDP growth (%) ¹	9.6	9.2	10.6	9.5	7.7	7.7	7.3	6.9	6.7	6.6
Total investment (% of GDP) ¹	42.6	45.7	47.2	47.3	46.5	46.5	45.9	43.3	44.1	43.9
Gross national savings (% of GDP) ¹	51.8	50.5	51.2	49.2	49.0	48.0	48.0	46.0	45.8	45.2
CPI inflation (%) ¹	5.9	-0.7	3.3	5.4	2.6	2.6	2.0	1.4	2.0	2.4
Population (million) ¹	1'328	1'335	1'341	1'347	1'354	1'361	1'368	1'375	1'382	1'390
Unemployment rate (% of total labor force, in urban area) ¹	4.2	4.3	4.1	4.1	4.1	4.1	4.1	4.1	4.0	4.0
Unemployed labour force (registered in urban areas, million) ⁴	8.86	9.21	9.08	9.22	9.17	9.26	9.52	9.66	n/a	n/a
Unemployment rate EIU estimation (% of total labor force) ³	9.2	9.2	6.1	6.5	6.5	6.6	6.4	6.2	4.0	4.3
General government revenue (RMB billion) ¹	7'157	8'310	10'103	13'081	15'016	16,538	18,158	19,944	21,042	22,275
General government total expenditure (RMB billion) ¹	7,165	8,929	9,851	13,129	15,379	17,034	18,746	21,820	23,818	25,307
General government structural balance (% of GDP) ¹	-0.3	1.8	0.6	-0.1	-0.5	-0.5	-0.5	-2.4	-3.6	-3.7
Current account balance (% of GDP) ¹	9.2	4.8	4.0	1.8	2.5	1.6	2.1	2.7	1.7	1.3
External debt stocks, total (USD billion) ²	379	446	560	710	751	871	1770	1'418	n/a	n/a
External debt stocks (% of GNI) ²	8.3	8.8	9.3	9.6	8.9	9.2	17.2	13.1	n/a	n/a
Debt service on external debt, total (USD billion) ²	33.2	39.7	60.4	74.0	74.4	38.2	81.2	123.8	n/a	n/a
Total debt service (% of exports of goods, services & income) ²	2.1	2.9	3.4	3.5	3.2	1.5	2.9	4.7	n/a	n/a
Total reserves incl. gold (USD billion) ²	1'966	2'453	2'914	3'255	3'388	3'880	3'900	3'405	n/a	n/a
Reserves incl. gold in months of imports ²	19.2	25.7	22.6	19.1	19.1	19.5	18.8	17.6	n/a	n/a

Source:

¹ IMF, World Economic Outlook Database, April 2017 (estimates start after 2016; absolute GDP in current prices; GDP growth in constant prices)

² World Bank, World dataBank, WDI & GDF, 2016

³ EIU Country Reports China 2009-2015 and 2017-2021

⁴ NBS, Statistical Yearbook 2013-2016

Annex 2.2: Essential Economic Data (Definitions)

China: Essential Economic Data - Definitions

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

Source: China's Customs Statistics

Annex 3.1: Trade Partners of the People's Republic of China (Exports)

Trading Partners of the People's Republic of China: Exports							
Exports to Country/ Region		Billion USD	Growth in % to a comparable previous period	Exports to Country/ Region		Billion USD	Growth in % to a comparable previous period
Jan - Dec 2015		Share %		Jan - Dec 2016		Share %	
United States	410.0	18.0%	3.4%	United States	385.1	18.4%	-5.9%
Hong Kong	330.9	14.6%	-8.9%	Hong Kong	287.7	13.7%	-12.9%
Japan	136.0	6.0%	-9.2%	Japan	129.3	6.2%	-4.7%
South Korea	101.4	4.5%	1.0%	South Korea	93.7	4.5%	-7.5%
Germany	69.3	3.0%	-4.9%	Germany	65.2	3.1%	-5.7%
Netherlands	66.2	2.9%	3.6%	Vietnam	61.1	2.9%	-7.4%
Vietnam	59.7	2.6%	4.3%	India	58.4	2.8%	0.3%
United Kingdom	59.6	2.6%	-8.4%	United Kingdom	55.7	2.7%	-6.5%
India	58.3	2.6%	7.4%	Netherlands	57.5	2.7%	-3.4%
Russia	52.0	2.3%	6.3%	Singapore	44.5	2.1%	-14.4%
ASEAN	277.5	12.2%	2.0%	ASEAN	256.0	12.2%	-7.7%
EU	355.9	15.7%	-4.0%	EU	339.1	16.2%	-4.7%
EFTA	6.2	0.3%	3.2%	EFTA	5.9	0.3%	-4.0%
Iceland	0.125	0.0%	-13.0%	Iceland	0.134	0.0%	7.3%
Liechtenstein	0.028	0.0%	31.8%	Liechtenstein	0.037	0.0%	32.2%
Norway	2.857	0.1%	4.6%	Norway	2.599	0.1%	-9.0%
Switzerland	3.167	0.1%	2.5%	Switzerland	3.161	0.2%	-0.2%
Total	2'273.47	100.0%	-2.9%	Total	2'098.15	100%	-7.7%

Source: China's Customs Statistics, December 2016

Annex 3.2: Trade Partners of the People's Republic of China (Imports)

Trading Partners of the People's Republic of China: Imports							
Imports from Country/ Region		Billion USD	Growth in % to a comparable previous period	Imports from Country/ Region		Billion USD	Growth in % to a comparable previous period
Jan - Dec 2015		Share %		Jan - Dec 2016		Share %	
South Korea	174.7	10.4%	-8.2%	South Korea	158.9	10.0%	-5.9%
United States	148.9	8.9%	-6.5%	United States	134.4	8.5%	-9.1%
China*	143.4	8.5%	-1.0%	Japan	145.5	9.2%	1.8%
Taiwan	143.3	8.5%	-5.7%	Taiwan	139.2	8.8%	-2.8%
Japan	143.1	8.5%	-12.2%	China*	128.0	8.1%	-10.7%
Germany	87.7	5.2%	-16.6%	Germany	86.1	5.4%	-1.8%
Australia	73.7	4.4%	-24.6%	Australia	70.7	4.5%	-3.9%
Malaysia	53.4	3.2%	-4.2%	Malaysia	49.2	3.1%	-7.6%
Brazil	44.3	2.6%	-14.5%	Brazil	45.7	2.9%	3.7%
Switzerland	41.1	2.4%	1.6%	Switzerland	39.9	2.5%	-2.9%
ASEAN	194.7	11.6%	-6.5%	ASEAN	196.2	12.4%	0.9%
EU	208.9	12.4%	-14.5%	EU	208.0	13.1%	-0.4%
EFTA	45.4	2.7%	0.7%	EFTA	43.3	2.7%	-4.8%
Iceland	0.066	0.0%	10.6%	Iceland	0.094	0.0%	42.9%
Liechtenstein	0.104	0.0%	3.3%	Liechtenstein	0.111	0.0%	7.5%
Norway	4.146	0.2%	-7.2%	Norway	3.229	0.2%	-22.1%
Switzerland	41.099	2.4%	1.6%	Switzerland	39.889	2.5%	-2.9%
Total	1'679.56	100.0%	-14.1%	Total	1'587.42	100%	-5.5%

* Commodities originally made in China, which are exported to FTZs, HK, other countries, Export processing zones etc., and then re-imported by China.

Source: China's Customs Statistics, December 2016

Annex 4: Bilateral Trade Switzerland–China

Bilateral Trade Switzerland - P.R. China, Jan - Dec 2015/2016									
Class of goods	Import in Mio. CHF				Export in Mio. CHF				Trade balance
	Jan - Dec 2015	Jan - Dec 2016	Δ	Import in % share %	Jan - Dec 2015	Jan - Dec 2016	Δ	Export in % share %	
1 Agricultural products	151.50	159.80	5.5%	1.3%	99.86	147.27	47.5%	0.6%	-12.53
2 Energy carriers	0.27	0.60	125.3%	0.0%	19.62	16.40	-16.4%	0.1%	15.80
3 Textiles, apparel, shoes	2'083.48	2'201.88	5.7%	17.9%	140.75	126.46	-10.2%	0.5%	-2'075.43
4 Paper, paper products, printed matter	94.39	89.78	-4.9%	0.7%	28.56	32.29	13.1%	0.1%	-57.49
5 Leather, rubber, plastics	544.92	577.88	6.0%	4.7%	118.40	109.29	-7.7%	0.4%	-468.59
6 Chemicals, pharmaceuticals	958.67	1'064.03	11.0%	8.6%	3'358.05	4'343.09	29.3%	16.2%	3'279.06
7 Stone and Earth materials	128.70	142.36	10.6%	1.2%	51.18	55.77	9.0%	0.2%	-86.59
8 Metals and metal products	587.61	600.18	2.1%	4.9%	397.11	378.73	-4.6%	1.4%	-221.45
9 Machinery, apparatus, electronics	5'187.16	4'840.45	-6.7%	39.3%	2'167.98	2'120.23	-2.2%	7.9%	-2'720.22
10 Vehicles	207.70	168.76	-18.7%	1.4%	79.70	90.90	14.1%	0.3%	-77.86
11 Precision instruments, watches, jewellery	1'451.37	1'463.45	0.8%	11.9%	2'460.76	2'421.01	-1.6%	9.0%	957.56
12 Div. Goods, musical instrument, furniture, toys, etc	950.10	974.27	2.5%	7.9%	32.88	21.56	-34.4%	0.1%	-952.71
Total	12'392.22	12'315.12	-0.6%	100%	19'264.20	26'769.48	39.0%	100%	14'454.36

Bilateral Trade Switzerland - Hongkong, Jan - Dec 2015/2016									
Class of goods	Import in Mio. CHF				Export in Mio. CHF				Trade balance
	Jan - Dec 2015	Jan - Dec 2016	Δ	Import in % share %	Jan - Dec 2015	Jan - Dec 2016	Δ	Export in % share %	
1 Agricultural products	1.05	0.78	-25.6%	0.0%	71.41	80.21	12.3%	0.4%	79.43
2 Energy carriers	0.00	0.00	0.0%	0.0%	0.20	2.62	1211.4%	0.0%	2.62
3 Textiles, apparel, shoes	37.90	30.64	-19.2%	0.4%	77.30	66.15	-14.4%	0.4%	35.50
4 Paper, paper products, printed matter	2.50	1.97	-21.3%	0.0%	11.28	11.00	-2.5%	0.1%	9.03
5 Leather, rubber, plastics	14.54	12.46	-14.3%	0.2%	49.75	43.77	-12.0%	0.2%	31.31
6 Chemicals, pharmaceuticals	5.77	3.62	-37.3%	0.0%	327.23	353.27	8.0%	1.9%	349.65
7 Stone and Earth materials	7.20	4.36	-39.5%	0.1%	10.31	7.04	-31.7%	0.0%	2.68
8 Metals and metal products	14.61	10.91	-25.3%	0.1%	72.15	69.58	-3.6%	0.4%	58.67
9 Machinery, apparatus, electronics	94.47	83.36	-11.8%	1.0%	321.89	304.93	-5.3%	1.7%	221.58
10 Vehicles	1.92	2.56	33.2%	0.0%	2.99	5.01	67.4%	0.0%	2.45
11 Precision instruments, watches, jewellery	1'170.97	969.24	-17.2%	11.8%	4'784.76	3'900.20	-18.5%	21.3%	2'930.96
12 Div. Goods, musical instrument, furniture, toys, etc	15.22	12.24	-19.6%	0.1%	10.67	8.68	-18.7%	0.0%	-3.56
Total	2'610.00	8'180.29	213.4%	100%	24'237.28	18'290.72	-24.5%	100%	10'110.43

Bilateral Trade Switzerland - P.R. China incl. Hongkong, Jan - Dec 2015/2016							
Class of goods	Import in Mio. CHF			Export in Mio. CHF			Trade balance
	Jan - Dec 2015	Jan - Dec 2016	Δ	Jan - Dec 2015	Jan - Dec 2016	Δ	
Total	15'002.22	20'495.41	36.6%	43'501.48	45'060.20	3.6%	24'564.79

Source: FCA, General total: with gold bars and other precious metals, coin, precious stones and gems as well as works of art and antiques, 14.06.2017

Annex 5: Chinese Inward and Outward FDI

China: Foreign Direct Investment Inward									
Rank	Country / Region	FDI (mio. USD) 2015	Share (%) 2015	Variation (%) year on year	Rank	Country / Region	FDI (mio. USD) 2016	Share (%) 2016	Variation (%) year on year
1	Hong Kong	92'670	73.4%	8.1%	1	Hong Kong	87'180	47.6%	-5.9%
2	Singapore	6'970	5.5%	17.5%	2	Singapore	6'180	3.4%	-11.3%
3	Taiwan	4'410	3.5%	-14.9%	3	South Korea	4'750	2.6%	17.6%
4	South Korea	4'040	3.2%	1.8%	4	USA	3'830	2.1%	47.9%
5	Japan	3'210	2.5%	-25.9%	5	Taiwan	3'620	2.0%	-17.9%
6	USA	2'590	2.1%	-3.0%	6	Macao	3480	1.9%	291.0%
7	Germany	1'560	1.2%	-24.6%	7	Japan	3'110	1.7%	-3.1%
8	France	1'220	1.0%	71.8%	8	Germany	2'710	1.5%	73.7%
9	United Kingdom	1080	0.9%	-20.0%	9	United Kingdom	2210	1.2%	104.6%
10	Macao	890	0.7%	n/a	10	Luxembourg	1'390	0.8%	n/a
Total		127'560	6.4%		Total		183'100	43.5%	

Source: MOFCOM, UNCTAD, World Investment Report 2017

China: Foreign Direct Investment Outward									
Rank	Country / Region	FDI (mio. USD) 2014	Share (%) 2014	Variation (%) year on year	Rank	Country / Region	FDI (mio. USD) 2015	Share (%) 2015	Variation (%) year on year
1	Hong Kong	70'867	57.6%	12.8%	1	Hong Kong	89'790	66.21%	27%
2	United States	7'596	6.2%	96.1%	2	Singapore	10'452	7.71%	271.4%
3	British Virgin Isl.	4'570	3.7%	41.8%	3	Cayman Islands	10'213	7.53%	143.6%
4	Caymen Islands	4'192	3.4%	-54.7%	4	United States	8'029	5.92%	5.7%
5	Australia	4'049	3.3%	16.4%	5	Australia	3'401	2.51%	-16.0%
6	Singapore	2'814	2.3%	38.4%	6	Russia	2'961	2.18%	367.8%
7	United Kingdom	1'498	1.2%	5.5%	7	British Virgin Isl.	1'849	1.36%	-59.5%
8	Germany	1'439	1.2%	58.0%	8	United Kingdom	1'848	1.36%	23.4%
9	Indonesia	1'272	1.0%	-18.6%	9	Canada	1'563	1.15%	72.9%
10	Canada	904	0.7%	-10.4%	10	Indonesia	1'450	1.07%	14.0%
Total		128'500	3.7%		Total		135'610	5.5%	

Source: China Statistical Yearbook 2016