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China 2017 Final Economic Report

Executive Summary

- China's **economic rebalancing** from export-led growth towards a services-oriented and domestic consumer demand-driven economy is well under way.
- Improved external demand, reviving domestic consumption and rebounding manufacturing investment point to a more **broad-based recovery** this year.
- Growth dropped a notch in Q3 on the back of **housing and liquidity tightening** as well as tougher **environmental regulations** prior to the 19th Party Congress but remains robust at +6.8% YoY.
- The target growth rate of +6.5% YoY according to the 13th Five-Year Plan remains achievable and allows for **deeper structural reforms** in exchange for a more significant **deceleration in growth**.
- The **19th Party Congress** saw the addition of Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era, the BRI and supply-side structural reforms to the Party's constitution.
- Among others, the 19th Party Congress also saw the promotion of **green development** as an important basis for China's development, with a particularly strong focus on improving air quality.
- As repeatedly stressed during the recent Congress, the focus has increasingly shifted from quantity to quality, driven by **innovation**. China aims to rank amongst the world's leading innovators by 2035.
- Plans to reduce **systemic risks** including the containment local government debt have also featured large, suggesting a more determined approach towards managing lower but "higher quality" growth.
- A step towards the **opening of the financial sector** shows that reforms conducive to foreign companies remain on the agenda, although detailed implementing rules have not followed the announcement.
- **Chinese foreign trade** recovered sharply this year (+11.7% YoY, YTD at the end of Q3) amidst a more benign external environment and stronger internal demand.
- **Bilateral trade** has increased since the FTA entered into force and continued to do so at the end of Q3, YTD (+6.4% YoY) amid both export (+8.1% YoY) and import (+3.4% YoY) growth in Switzerland.
- **Chinese ODI** has continued to decrease significantly this year (-41.9% YoY, YTD at the end of Q3) due to the implementation of tighter capital control measures.
- A recent survey revealed that the **investment appetite of Swiss companies** is still considerable and growing: 61% of Swiss companies (vs. 57% in 2016) plan to increase their investment in China.

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
BRI	Belt and Road Initiative
CCB	China Construction Bank
CCC	China Compulsory Certification
CPC	Communist Party of China
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)
COFCO	China National Cereals, Oils and Foodstuffs Corporation
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
GACC	General Administration of Customs (of the People’s Republic of China)
GDP	Gross domestic product
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
IOC	International Olympic Committee
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
MEP	Ministry of Environmental Protection (of the People’s Republic of China)
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)
ODI	Outward direct investment
OECD	Organisation for Economic Co-operation and Development
PBoC	People’s Bank of China
PRC	People’s Republic of China
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
SIF	State Secretariat for International Financial Matters (of the Swiss Confederation)
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

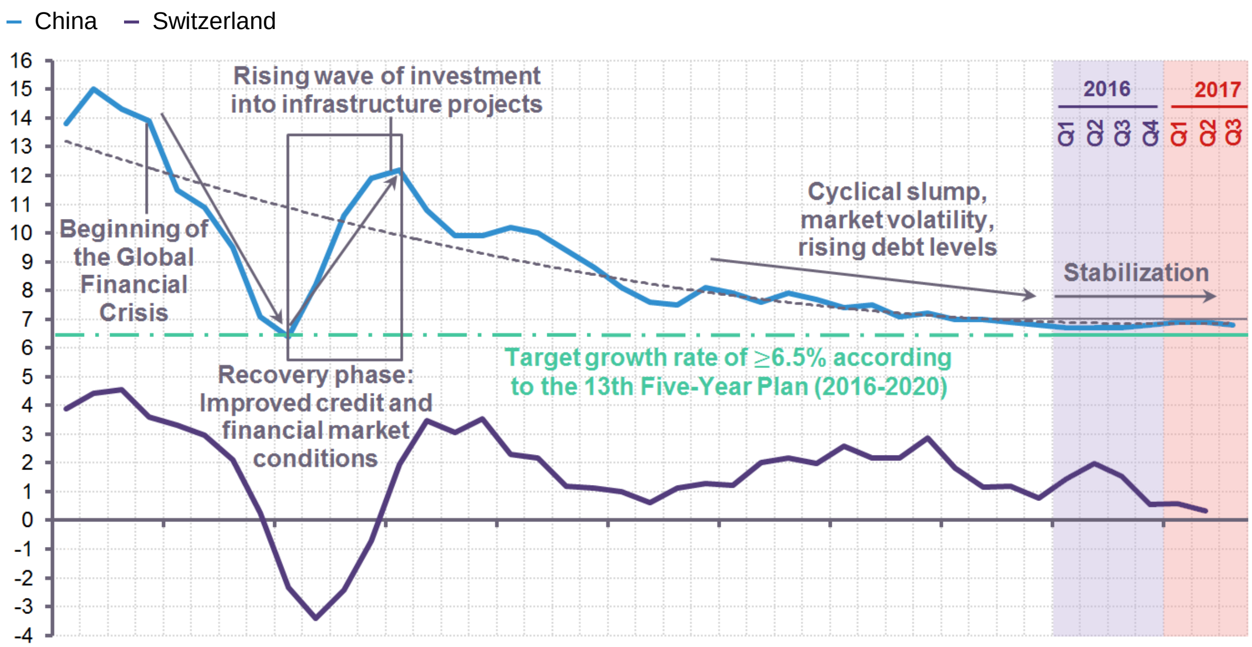
1.1 Macroeconomic situation

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 Communist Party of China (CPC) 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 services-oriented and domestic consumer demand-driven 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 H1 2017, consumption accounted for 63.4% of overall economic growth.[3] Retail sales and average per capita disposable income grew by +10.4% YoY and +7.3% YoY, respectively, during the same period.[4]

According to the Asian Development Bank (ADB), internal demand now has a stronger positive impact on growth than exports,[5] which looks more like a sustained development as China's growing middle class continues to provide a strong tailwind to domestic consumption.

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



Source: NBS, SECO

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.

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 experienced three straight months of gains immediately afterwards and has since continued to trend upwards, approaching almost 2% in October.

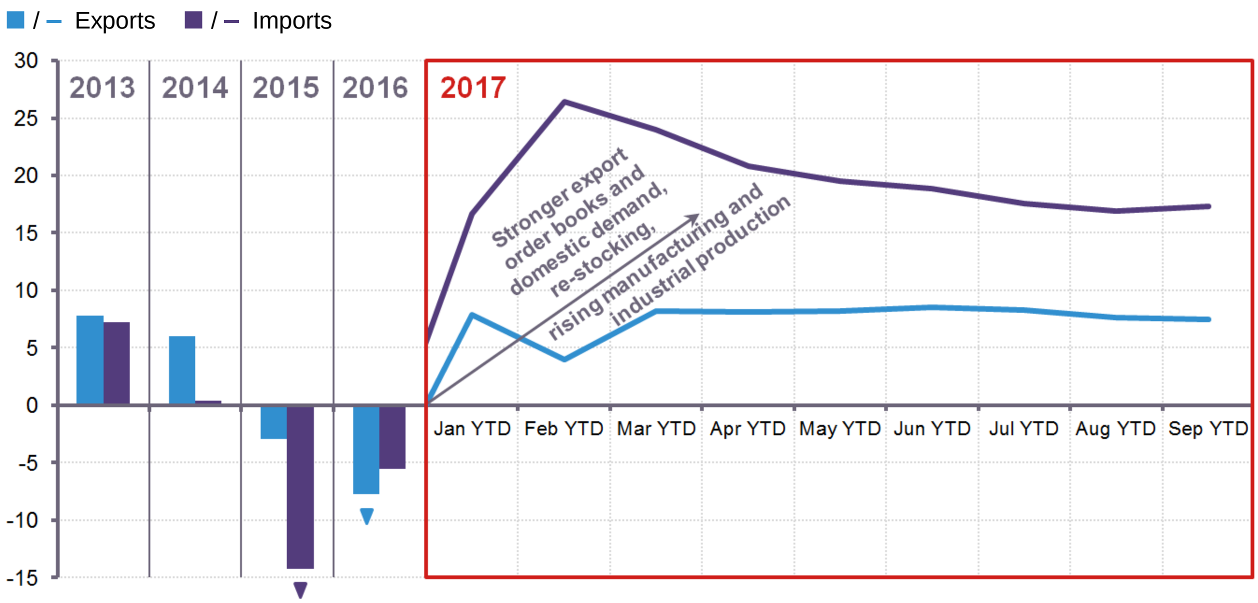
[1] Unless explicitly stated otherwise, Chinese economic measures and policies mentioned in this report pertain to those of the Mainland of China.
[2] ADB (2017), *Asian Development Outlook 2017: Transcending the Middle-Income Challenge* (Manila: Asian Development Bank)
[3] Kevin Yao (2017), 'Final Consumption accounted for 63.4 pct of China's H1 GDP Growth', *CNBC*, 16 July, at https://www.cnbc.com/2017/07/16/reuters-america-final-consumption-accounted-for-63-point-4-pct-of-chinas-h1-gdp-growth--stats-bureau.html, accessed on 7 December 2017
[4] State Council of the People's Republic of China (2017), 'Economic Indicators highlight steady Growth in H1', *State Council of the People's Republic of China*, 19 July, at http://english.gov.cn/policies/infographics/2017/07/19/content_281475739609854.htm, accessed on 7 December 2017
[5] ADB (2017), *Asian Development Outlook 2017: Transcending the Middle-Income Challenge* (Manila: Asian Development Bank)
[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 and remaining there in Q2. Although growth dropped a notch in Q3 as fixed asset investment slipped below +8% YoY on the back of housing and liquidity tightening as well as tougher environmental regulations prior to the 19th Party Congress, at +6.8% YoY it remains robust.

While, hand in hand with relaxed monetary and credit conditions, infrastructure investments and property market developments primarily drove growth in 2016 and surged ahead in H1 2017, improved external demand, reviving domestic consumption and rebounding manufacturing investment point to a more broad-based recovery this year.

More specifically, stronger export order books and domestic demand, re-stocking for a new inventory cycle as well as rising manufacturing and industrial production have left the strongest mark. Combined, these account for the spectacular recovery of both Chinese import and export growth in 2017. Alongside continually strong services growth, these developments provide a favorable backdrop for 2018.

Chinese foreign trade growth [value, YoY%]



Source: GACC

Drags on growth persist. The aforementioned factors that contributed to the slight deceleration in Q3 show that policymakers are willing to sacrifice growth to mitigate environmental, financial and other risks. The 19th Congress of the CPC in October saw the promotion of green development as an important basis for China's future development, with a particularly strong focus on improving air quality.

As elaborated in the June edition of this report, prudential market measures including purchase limits in over 40 cities have effectively tamed the property market in Tier 1 and 2 cities. In lower tier cities, newly constructed residential property price growth peaked out in May, presumably owing to already high prices in the absence of aggressive, across-the-board tightening.[7]

Environmental and housing considerations aside, plans to reduce systemic risks including the containment local government debt have featured large, suggesting a more determined approach towards managing lower but so-called "higher quality" growth as an inevitable outcome of the recent Party Congress.

In any case, the target growth rate of +6.5% YoY for the current 13th Five-Year Plan (2016-2020) remains achievable. It has remained comfortably above the target, allowing for deeper structural reforms in exchange for a more significant deceleration in growth.

[7] UBS (2017), *China Economic Perspectives: How do Subsidies matter for the Property Market?* (Hong Kong: UBS Securities Asia Limited)

1.2 19th Congress of the Communist Party of China (Oct 18-24, 2017)

Every five years, the CPC convenes a Congress to elect its leaders and set its priorities for the coming years. With the addition of Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era, the Belt and Road Initiative (BRI) and supply-side structural reforms to the Party's constitution, this year's 19th Party Congress has offered much insight into China's future economic and political development.

China is designing its own economic model. As repeatedly stressed during the recent Congress, the focus has increasingly shifted from quantity to quality, driven by innovation. China aims to rank amongst the world's leading innovators by 2035. As for economic reforms, supply-side policies will be an important priority. Supply-side policies in this context refer to government-driven investment, reduction of overcapacity in certain sectors and a push towards mixed-ownerships to increase private capital and knowledge in State-Owned Enterprises (SOEs), among others. SOEs will remain dominant in key sectors of the economy including telecommunications and the financial industry.

Political stability and Party control, other key aspects of the Congress, will almost certainly provide the backdrop for economic liberalization. To that end, the declared "doors wide open" may see restrictions in specific sectors and especially fall under the umbrella of the BRI, pilot free trade zones and other initiatives. Party cells, already active in the private sector including foreign enterprises, will be given more room for involvement in operational matters and investment decisions.

Given the emphasis on China's domestic industry and innovative capability, foreign enterprises may still need to contend with a business environment that is more favorable to domestic competitors, although a substantial and long-awaited step towards the opening of the financial sector in mid-November shows that economic reforms conducive to foreign companies are still very much on the agenda.

1.3 Structural economic reforms

In a centrally structured governance system, understanding the key ideological concepts that define regulatory changes is crucial. While Deng Xiaoping enabled China to leap forward economically, President Xi's "New Era" aims at making growth sustainable and innovation-driven in order to build a "Beautiful China" and to realize the "China Dream" of "National Rejuvenation".

The 13th Five-Year Plan adopted in 2016 mandated that China becomes a "moderately prosperous society" (*xiaokang*) and doubles its real GDP between 2010 and 2020. President Xi's revised reform agenda of his second term presses ahead with these targets, without significantly shifting policy direction. It redefines China's "principal contradiction" however, a key ideological concept that shapes China's approach to economic growth and the way policies are implemented – by aligning green development, environmental protection, industrialization, technological innovation, modern finance, social welfare, health care and urbanization with the real economy.

Financial sector

Deleveraging and reducing financial risks has become a key priority for national policy makers, as unregulated or uncontrolled market activities have become a systemic risk to China's real economy. These include "zombie enterprises", shadow banking, uncontrolled money lending practices and corruption. Financial sector reforms have accelerated with a focus on establishing a sound financial regulatory system, a multi-tiered capital market, twin-pillar regulatory policy framework (monetary policy and macro prudential regulation), deepening interest rate and exchange rate marketization reforms as well as promoting good corporate governance among domestic firms.

As domestic regulations tighten, the market has started to gradually open up to foreign players.[8] In November 2017, the People's Bank of China (PBoC) announced "both preemptive and reactive" measures to deal with "the causes and symptoms" of financial risks. Only a few days later the Ministry of Finance (MoF) announced long-awaited ownership rules for foreign financial institutions:

- Foreign securities and fund management companies will be allowed to raise their stakes to 51% in three years, before the cap is removed altogether.

[8] Bloomberg (2017), 'China Makes Historic Move to Open Market for Financial Firms ', *Bloomberg*, 10 November, at https://www.bloomberg.com/news/articles/2017-11-10/china-to-allow-foreign-firms-to-own-51-of-securities-ventures, accessed on 14 December 2017

- The existing 20% and 25% caps respectively for single and total foreign bank ownership were scrapped with immediate effect.
- Life insurance companies will see their current foreign ownership cap raised to 51% in three years and completely removed after five years.

Chinese authorities regard the increased participation of foreign financial companies in the market as an important impetus that provides much a needed boost to stagnant FDI flows, drives competitiveness, and promotes good corporate governance as well as risk management principles, without posing a significant threat to the dominant state-owned financial institutions.

While these announcements show promise, it is important to recognize that they follow against the back-drop of declining market shares of foreign financial institutions and precede the awaited publication of detailed implementing rules.

Innovation, technology and ICT

During the 19th Congress of the CPC the Party constitution was amended to include the aim of becoming a "world-class science and technology country", building on previous strategic initiatives such as "Made in China 2025" (2015) and the "Next Generation Artificial Intelligence Development Plan" (2017). Innovation in strategic sectors is seen as the strategic foundation for the modernization of China's economy and closely integrates cyber, artificial intelligence and big data across multiple sectors in the real economy.

This will have important and sometimes conflicting implications for foreign companies. The government has stepped up policies that favor "strategic" domestic technology players operating in advanced information technology, energy saving, power equipment, new materials, medicine, medical devices, agricultural machinery, robotics, railway equipment, aviation or new energy vehicles *inter alia*. This is accompanied by increased regulatory control of foreign firms and indirectly enhancing technology transfers, such as requiring foreign firms to localize data storage under the umbrella of the Cybersecurity Law. Despite an overall increase in R&D and JV opportunities, this regulatory environment has discouraged new foreign companies from entering the Chinese market and compelled those already present to self-limit innovation capabilities to mitigate risks.[9]

Environment & Clean Tech

President Xi's vision of a "Beautiful China" and an "Ecological Civilization" by 2035 aims at aligning economic development with environmental protection and societal health. Important regulatory shifts, stricter enforcement and institutional changes will have important implications for both domestic and foreign businesses.

These include a significant strengthening of the authority of the Ministry of Environmental Protection (MEP), and the inclusion of stringent environmental targets in five-year plans that no longer place GDP growth targets above all else. Predominantly focusing on curbing air pollution, the authorities are also attempting to reduce water and soil pollution, scrutinizing waste management and shutting down heavy industry to prevent "pollution relocation", leading to business disruption and disinvestment.[10]

Business opportunities have emerged for foreign companies that offer commercial solutions to meet environmental targets, such as in the area of clean tech and low carbon, green building technologies, energy efficiency, green finance, environmental protection, waste and water management, transport infrastructure and urban planning.

Health Care

Health care has become a key priority of the government in light of a fast aging population without the necessary young workforce to buoy increasing health costs. There is also increasing societal pressure on the government to improve the quality, reliability and equal accessibility of healthcare services. The prevalent focus on economic growth over previous decades has led to a significantly underdeveloped healthcare sector that lacks a consistent regulatory framework for pharmaceuticals, hospitals, nursing care and other health-related industries.[11]

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[9] APCO (2017), *Doing Business in China's New Era: Industry Implications of China's 19th National Congress of the Communist Party of China* (Beijing: APCO Worldwide)

[10] Srinivas Raman (2017), 'China's Pollution Crackdown and its Impact on Business', *China Briefing*, 11 December, at http://www.china-briefing.com/news/2017/12/11/chinas-pollution-crackdown-business-impacts.html, accessed on 14 December 2017

[11] Frederick Robinson & Lynn Yang (2015), 'China new Healthcare Reform 2020', *Norton Rose Fulbright*, May, at http://www.nortonrosefulbright.com/knowledge/publications/128859/china-new-healthcare-reform-2020, accessed on 14 December 2017

The government published its first national-level strategic health and wellbeing strategy, “Healthy China 2030” in October 2016. These plans aims to offer basic healthcare services to all 1.3 Chinese citizens by 2020. It also promotes the development of the healthcare sector in the medium and long-terms, and paves the way for fundamental regulatory changes that will promote market access and innovation within the sector.[12]

In October 2017, the State Council’s “Opinions on Deepening Reform of Review and Evaluation Mechanisms to Further Encourage Drug and Medical Device Innovation” speeds up the approval process for foreign medical devices and pharmaceuticals, in particular those that address urgent clinical needs and support innovation in the health care sector. In addition the China Food und Drug Administration (CFDA) has proposed a de-regulation of clinical trial requirements to accelerate market entry for drugs approved abroad, in order to enable Chinese patients to access modern therapies.[13]

The long anticipated regulatory changes have significantly opened the operating space for foreign companies in the healthcare sector. These positive developments stand in contrast to the government’s increasingly explicit support of domestic players, such as in the area of protectionist “buy in China” local procurement policies, preferential R&D programs, or cross-border data transfer regulations.

1.4 Implications of recent changes in fiscal policy

Overall, China’s debt (corporate debt included) is estimated to have exceeded 242% of GDP.[14] It has risen substantially since China’s deployment of fiscal stimulus in the aftermath of the global financial crisis. Local government debt, in particular, has risen quite rapidly during the same period.

According to MoF, central government debt amounted to 37% of GDP in 2016. If, based on IMF estimates, local government financial vehicles (LGFV) are added, total government debt stands at 62% of GDP. Excluding LGFV, household and corporate debt stand at 44% and 157%, respectively.

China completed a major reform of its taxation system on May 1, 2016. Ever since, 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 has reduced the overall tax burden for companies by around RMB 850 billion between May 2016 and June 2017 according to MoF estimates.

A consumption tax (in the form of an excise tax) has followed VAT reform, firstly adding luxury cars to the taxable items from December 2016 onwards. The reform seems to gather momentum. Refined oils as well as alcoholic products may be examined in the near future. The reform also aims at improving the monitoring of tax collection systems.

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.[15]

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[12] WHO (2016), ‘Healthy China 2030 (from vision to action)’, *World Health Organization*, at http://www.who.int/healthpromotion/conferences/9gchp/healthy-china/en/, accessed on 14 December 2017

[13] CMS Law Now (2017), ‘Significant Reform to encourage the Innovation of Drugs and Medical Devices’, *CMS Law Now,* 19 October, at http://www.cms-lawnow.com/ealerts/2017/10/significant-reform-to-encourage-the-innovation-of-drugs-and-medical-devices, accessed on 14 December 2017

[14] IMF (2017), ‘People’s Republic of China: Staff Report for the 2017 Article IV Consultation’, *International Monetary Fund*, 8 August, at http://www.imf.org/en/countries/chn?selectedfilters=Article%20IV%20Staff%20Reports#whatsnewhttp://www.imf.org/external/pubs/ft/scr/2016/cr16270.pdf, accessed on 21 November 2017

[15] 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

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 global financial crisis, China has supported the WTO in launching the monitoring and surveillance mechanism of trade measures, playing a crucial role in curbing protectionism. As of December 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.[16] Yet, China has experienced far less complaints than the U.S. (132)[17] or EU (84).[18] In 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.[19]

FTAAP and RCEP versus TPP

The APAC trade policy architecture not only resembles a bowl of noodles,[20] 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.[21] 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 Donald 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, preventing the deal to take effect on the basis of the text drafted under the previous US administration. 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 been renegotiating the deal and reached a partial agreement on core elements of the deal on November 11, 2017 in Da Nang on the margins of the APEC summit.[22]

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.

[16] 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 12 December 2017
[17] 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 12 December 2017
[18] 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 12 December 2017
[19] 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
[20] That is, a plethora of overlapping agreements that add complexity and confusion.
[21] 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
[22] Oliver Holmes (2017), 'Trans-Pacific Trade Pact revived despite Trump Withdrawal, *The Guardian*, 11 November, at https://www.theguardian.com/australia-news/2017/nov/11/trans-pacific-trade-deal-salvaged-despite-canada-u-turn-reports-say, accessed on 12 December 2017

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. RCEP aims at reducing tariffs on supply chains, liberalizing investment, promoting SMEs and introducing dispute-resolution mechanisms. Unlike the TPP, however, it does 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.[23] During the last RCEP summit on November 14, 2017 in Manila, the 16 prospective member states of the RCEP accelerated efforts to enhance implementation and to finalize the agreement by the APEC summit in Singapore in November 2018.

APEC first proposed the establishment of 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, the report also highlighted that significant barriers to trade and investment persist and require further talks.[24]

China's FTA network[25]

China[26] has concluded numerous bilateral FTAs, including with the Maldives (2017), Australia (2015),[27] the Republic of Korea (ROK) (2015), Switzerland (2014), Iceland (2014), Costa Rica (2011), Peru (2010), Singapore (2009), New Zealand (2008), Pakistan (2007), Chile (2006), the Association of Southeast Asian Nations (ASEAN) (2005), Macau SAR (2004) and Hong Kong SAR (2004).

MOFCOM's definition of FTAs "under negotiation" encompasses potential or upgraded ones. China is currently negotiating new FTAs with the Gulf Cooperation Council, Japan-ROK, Sri Lanka, Pakistan (second phase), 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 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. In November 2017, China concluded its upgrade negotiations after a dozen rounds with Chile on the margins of the APEC Economic Leaders' Forum in Da Nang, Vietnam.

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.

Belt and Road Initiative

The Belt and Road Initiative (BRI), also known as the "New Silk Road", was launched by China to promote trade ties with Europe and countries along the original Silk Roads. BRI 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

[23] Karlis Salna & 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, accessed on 22 June 2017

[24] 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, accessed on 22 June 2017

[25] 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 12 December 2017

[26] "China" herein refers to the customs territory of the Chinese Mainland.

[27] The date in brackets indicates the FTA's entry into force.

China's east coast to Europe via the South China Sea and Indian Ocean, and eastwards into the South Pacific. BRI 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.[28]

According to the ADB, there is an unmet demand for infrastructure investments across the Asian region, estimated at USD 8 trillion for the 2010–2020 period.[29] 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 Development Bank[30] 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 and participated in 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 BRI. 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 as one of the first Western European countries.[31] 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). By December 2017, the AIIB counted 77 members.

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 24 infrastructure development projects in Tajikistan, Bangladesh, India, Pakistan, Indonesia, Myanmar, Oman, Azerbaijan, Georgia, Egypt and the Philippines. During its last Board Meeting in December 2017, the AIIB's Board of Directors approved the first project in China with focus on improving air quality and replacing coal heaters in Beijing.[32] The bank accepts bids for tenders from companies from all countries, contrary to other multilateral 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 Insti-

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[28] 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

[29] 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

[30] Formerly known as the BRICS Development Bank.

[31] 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

[32] AIIB (2017), 'Approved Projects', *Asian Infrastructure Investment Bank*, at https://www.aiib.org/en/projects/approved, accessed on 12 December 2017

tutional 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.[33] 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. A number of sub-committees (on origin issues, customs procedures, TBT, SPS, and services) assist the Joint Committee and may appoint additional sub-committees and working groups if needed.[34]

While China's trade with its most important trade partners decreased in 2016, its trade with Switzerland continued to grow.[35] Drawing representative conclusions after only a little over three-and-a-half years, however, would be premature. In fact, the effect of an FTA cannot be gauged only based on trade statistics as those are influenced by factors other than the existence of an FTA, including exchange rates, economic and growth trends.

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.

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) since 2009.[36] Yet another contraction in 2016 (-6.8% YoY) reflected both weaker global demand as

[33] 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

[34] 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,lnp6I0NTU042l2Z6ln1ad1IZn4Z2qZpnO2Yuq2Z6gpJCGdYB3f2ym162epYbg2c_JjKbNoKSn6A--, accessed on 24 August 2016

[35] FCA (2017), *Swiss Impex*, at http://www.ezv.admin.ch/index.html?lang=de, accessed on 12 December 2017

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

well as the diminishing importance of exports as a growth driver (cf. Chapter 1.1 of this report).[37] Imports decreased by -5.5% YoY while exports decreased by -7.7% YoY.[38]

As mentioned in Chapter 1.1, by the end of Q3 2017, YTD, export (+7.5% YoY) and import (+17.3% YoY) growth on the Mainland had recovered sharply,[39] albeit at a slower pace than in H1 (+8.5% YoY and +18.9% YoY, respectively).[40] Total foreign trade increased by +11.7% YoY, YTD at the end of Q3.[41]

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 the U.S. (+13.5% YoY), Japan (+10.1% YoY), the ROK (+11.4% YoY) and Taiwan (+11.1% YoY), while Germany (+9.7% YoY) dipped below this threshold again at the end of Q3, YTD.[42]

During the same period, China's total trade also showed considerable growth rates for key ASEAN economies, including Vietnam (+20.5% YoY), Malaysia (+12.8% YoY), Singapore (+12.5% YoY) and Indonesia (+17.9% YoY). Trade with nations along the Silk Economic Belt including the Russian Federation (+22.4% YoY), Iran (+24.6% YoY), Kazakhstan (+35.2% YoY) and Mongolia (+41.8% YoY) saw considerable gains as well.[43] Trade with ASEAN and the EU as a whole increased by +14.1% YoY and +11.8% YoY, respectively.[44]

Stronger external and domestic demand as well as re-stocking aside, the upside surprise for export growth has also been attributed to commodity price hikes.[45] After six consecutive quarters, contributions of net exports to GDP growth returned to positive territory in Q1 (+0.3%).[46]

Whether this can be sustained will hinge on external developments. Even though global trade growth accelerated sharply in H1 2017,[47] 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 2016, services represented 11.6% of China's total exports and 22.1% of its imports.[48] 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.

According to MOFCOM, by Q3 2017, China's total services trade reached RMB 3.44 trillion, growing by +8.8% YoY.[49] In 2016, the services trade accounted for 18% of total foreign trade, up two percentage points from the previous year.[50]

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[37] GACC (2017), *China's Customs Statistics (Monthly Exports & Imports)*, Series No. 328
[38] *ibid*.
[39] GACC (2017), *China's Customs Statistics (Monthly Exports & Imports)*, Series No. 337
[40] GACC (2017), *China's Customs Statistics (Monthly Exports & Imports)*, Series No. 334
[41] GACC (2017), *China's Customs Statistics (Monthly Exports & Imports)*, Series No. 337
[42] *ibid*.
[43] *ibid*.
[44] *ibid*.
[45] Allan Zhang & G. Bin Zhao (2017), *China Economic Quarterly Q3 2017: Overall 2017 Economy likely to outperform Market Expectations, despite moderately slower Growth in third quarter* (Beijing: PricewaterhouseCoopers)
[46] 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)
[47] WTO (2017), 'WTO upgrades Forecast for 2017 as Trade rebounds strongly', *World Trade Organization*, 21 September, at https://www.wto.org/english/news_e/pres17_e/pr800_e.htm, accessed on 12 December 2017
[48] WTO (2017), 'Trade Profile: China', *World Trade Organization*, (n.d.), at http://stat.wto.org/CountryProfiles/CN_e.htm, accessed on 17 November 2017
[49] MOFCOM (2017), 'MOFCOM Department of Trade in Services and Commercial Services Comments on the Import and Export of Services in January-September', *Ministry of Commerce of the People's Republic of China*, 9 November, at http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201703/20170302524810.shtml, accessed on 13 June 2017
[50] 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/201711/20171102667866.shtml, accessed on 17 November 2017

3.2. Bilateral trade

Trade in goods[51]

The trade balance continued to be positive for Switzerland between January and September 2017, amounting to a CHF 7.93 billion trade surplus with the Mainland. The total volume of goods traded with the Mainland stood at CHF 26.6 billion, up +6.4% YoY. Exports and imports increased by +8.1% YoY and +3.4% YoY, respectively.

At the product type level, exports of pharmaceutical and agricultural products rose by +24.2% YoY and +21.6% YoY, respectively, while Swiss machinery and precision instrument & watch exports increased by +11.7% YoY and +19.6% YoY, respectively. Interestingly, China sold almost four times more 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, at the end of September 2017, Switzerland was China's 7th largest European trade partner, while Italy and Spain ranked 6th and 8th, respectively. During the same period, Switzerland was China's 12th most important foreign source of imports worldwide and its most important source of imports from Europe after Germany and Russia. China imported twice and over three times as much from Switzerland than from India and New Zealand, respectively.[52]

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.[53]

4 Direct Investment

4.1. Development and general outlook

Outward direct investment

Following considerable growth in 2016, Chinese outward direct investment (ODI) has decreased significantly due to the implementation of capital control measures. Between January and September 2017, China's non-financial ODI decreased by -41.9% to USD 78.03 billion.[54] During the same period, Chinese companies invested in 5,159 companies abroad.[55]

Between January and August 2017, Chinese companies struck 514 overseas mergers & acquisitions (M&A) deals, a -10% YoY reduction.[56] According to data from Reuters, year-on-year, the total value is 42% lower, due to measures taken by the Chinese Government to control capital outflows.[57] Major recent acquisitions include:

- *Chemical* acquiring *Agrochemical*: USD 46.7 billion between ChemChina and Syngenta AG (Switzerland) – February 2016
- *Aircraft Leasing* acquiring *Aircraft Leasing*: USD 10 billion between Avolon Holdings Ltd (part of HNA Group) and CIT Group (U.S.) – October 2016
- *Media, Internet and Entertainment* acquiring *Mobile Games*: USD 8.6 billion between Tencent Holdings Limited and Supercell Oy (Finland) – June 2016

[51] Figures include trade in gold and other precious metals: FCA (2017), *Swiss Impex*, at https://www.gate.ezv.admin.ch/swissimpex, accessed on 17 November 2017
[52] GACC (2017), *China's Customs Statistics (Monthly Exports & Imports)*, Series No. 337
[53] 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
[54] Zhong Nan (2017), 'China's non-financial Sector Outbound Investment declines', *China Daily*, 18 October, at http://www.chinadaily.com.cn/business/2017-10/18/content_33393688.htm, accessed on 12 December 2017
[55] *ibid*.
[56] Paul McClean (2017), 'Chinese Outbound M&A slumps in 2017', *Financial Times*, 16 August, at https://www.ft.com/content/f40ea726-82cb-364f-8e5f-03a35b49ad70, accessed on 23 November 2017
[57] *ibid*.

- *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 billion between HNA Group and Ingram Micro (U.S.) – February 2016
- *Home Appliances* acquiring *Home Appliances*: USD 5.4 billion between Haier and General Electric's appliances business (U.S.) – January 2016
- *Home Appliances* acquiring *Factory Automation*: USD 5 billion between Midea Group and KUKA AG (Germany) – May 2016
- *Diversified Conglomerate* acquiring *Motion Picture and Media*: USD 3.5 billion between Wanda Group and Legendary Entertainment (U.S.) – January 2016
- *Diversified Conglomerates* acquiring *Aviation Services*: USD 1.5 billion between HNA Group and gategroup (Switzerland) – April 2016

The Mainland's top overseas investment destinations in Q2 2017 for Chinese A-share listed companies by the number M&A transactions were Europe (40%), North America (29%) and Asia (15%).[58] By deal value (same period), they were Europe (46%), North America (19%) and Asia (16%).[59] In H1, the total value of M&A transactions in the U.S. decreased by -22% YoY.[60]

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%.[61] The merger is expected to be completed in 2018.[62]

Inward foreign direct investment

A relaxation of tight capital controls may have contributed to improved investor sentiment towards Chinese inbound investors. Year-on-year, non-financial FDI increased by +1.9% between January and October 2017,[63] reaching USD 92.1 billion, according to MOFCOM.[64]

As with ODI, FDI inflows are increasingly directed towards 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.[65] In the first 10 months of 2017, FDI inflows into the services sector accounted for 69.3% of total FDI.[66] Investments in the first three quarters of 2017 flowed mainly from Hong Kong SAR (USD 67.2 billion), Taiwan (USD 3.8 billion), Singapore (USD 3.7 billion) and the ROK (USD 2.6 billion).[67]

General outlook

The Chinese Government has tightened its regulation on Outbound Direct Investment (ODI) following the decrease of its foreign exchange reserves in December 2016. In August 2017, the State Council announced that ODI would be categorized into three categories: encouraged (e.g., investments linked to BRI), restricted (e.g., real estate, entertainment) and prohibited (e.g., gambling).[68] Authorities have asked pertinent companies to hold off on making transactions pending regulatory approval. The regulation mirrors concerns over debt-fueled acquisitions into non-core investment projects.[69]

Broken down into provinces and other geographic areas, inward FDI data points to a significant divergence between China's regions. Data shows that in spite of the "Go West" strategy, the BRI and efforts to

[58] KPMG (2017), *Chinese A-share Companies: Outbound M&A Update* (Beijing: KPMG Huazhen LLP)
[59] *ibid*.
[60] Maggie Zhang (2017), 'Chinese Merger and Acquisition Deals in US down in First Half of 2017', *South China Morning Post*, 6 August, at http://www.scmp.com/business/global-economy/article/2105632/mergers-and-acquisitions-mainland-us-just-tenth-2016-first, accessed on 23 November 2017
[61] 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
[62] *ibid*.
[63] Xinhua (2017), 'China reports Increase in Foreign Direct Investment in October', *China Daily*, 15 November, at http://www.chinadaily.com.cn/bizchina/2017-11/15/content_34555343.htm, accessed on 12 December 2017
[64] MOFCOM (2017), 'News Release of National Assimilation of FDI from January to September 2017', *Ministry of Commerce of the People's Republic China*, 20 October, at http://www.fdi.gov.cn/1800000121_49_4636_0_7.html, accessed on 8 November 2017
[65] 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
[66] Xinhua (2017), 'China reports Increase in Foreign Direct Investment in October', *China Daily*, 15 November, at http://www.chinadaily.com.cn/bizchina/2017-11/15/content_34555343.htm, accessed on 12 December 2017
[67] MOFCOM (2017), 'Investissements directs étrangers en Chine pendant les trois premiers mois de 2017', *Ministry of Commerce of the People's Republic China* , 20 April, at http://french.mofcom.gov.cn/article/statistique/geography/201705/20170502573904.shtml, accessed on 2 June 2017
[68] State Council (2017), 'Guideline tightens Control of Outbound Direct Investment', August 20, at http://english.gov.cn/news/top_news/2017/08/20/content_281475801674614.htm, accessed on December 14, 2017
[69] Kevin Ma (2017), Presentation by FTI Consulting, August 21

promote development in the hinterland of agglomerations and growth triangles (e.g., that surrounding Chengdu-Chongqing), the most advanced coastal regions (i.e., 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 information and communications technology (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.[70] According to NBS, in the first three quarters of 2017, China's services sector contributed 52.9% to its GDP,[70] and in 2016 it contributed 56.5% to the country's total tax income,[71] 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 coastal 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.[72] 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.[73] 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.[74]

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.[75]

Although these measures will not provide a complete level playing field, investment regulations have the potential to become more transparent and, consequently, improve the Chinese investment climate.

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 had previously acquired the international agribusinesses Noble Agri Ltd. and Nidera, established a global corporate and trading headquarters in Geneva in 2017.

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.

[70] 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

[71] 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

[72] KPMG Global China Practice (2015), *China Outlook 2015* (Beijing: KPMG Global China Practice)

[73] 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

[74] KPMG Global China Practice (2015), *China Outlook 2015* (Beijing: KPMG Global China Practice)

[75] 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

Swiss direct investment in China

The stock of Swiss FDI in Mainland China was CHF 20.0 billion (+CHF 3.3 billion) in 2015.[76] While the majority of Swiss companies in China are located in the three main economic rims along China's eastern seaboard,[77] 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 and, in fact, continues to grow: in 2017, 61% of the Swiss companies surveyed plan to increase their investment in China (compared to 57% in 2016) and 57% consider China to be a top 3 investment destination (compared to 48% in 2016).[78]

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. The Swiss Business Hub (SBH) China is integrated into the operations of the Embassy and Consulates General on the Mainland, while the 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 and investments, help Swiss companies develop new potential for their international businesses and strengthen Switzerland as an economic hub.

In 2017, Sino-Swiss cooperation on the Beijing Winter Olympics 2022 was further enhanced by a fact finding mission (a delegation of Swiss companies visited the locations of the Winter Olympics 2022) organized by the SBH and the participation of the Swiss Embassy at the World Winter Sport Expo 2017 in Beijing. Based on the Innovative Strategic Partnership established during the visit by the President of the Swiss Confederation to the PRC in 2016, SBH China organized a drug discovery event at the Novartis Campus in Shanghai to further promote the bilateral ties in innovation.

As part of its investment promotion activities, the 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. Following its presence on WeChat, the SBH launched its second social media platform on LinkedIn in October 2017.

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 also organized a Swiss Week in Chengdu this year.

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

[77] (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

[78] CEIBS, Swiss Center Shanghai & China Integrated (2017), *2017 China Business Survey / 2017 Swiss Business in China* (Shanghai: CEIBS, Swiss Center Shanghai & China Integrated)

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, a MoU was signed between the SBH and the industrial park in October 2016. In October 2017, SBH participated at the Plenary Forum of the Zhenjiang International Low Carbon Expo. 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).

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

To foster collaboration on all matters related to tourism between Switzerland and China, Swiss President Doris Leuthard and Chinese President Xi Jinping declared 2017 the Switzerland-China Year of Tourism in Davos last January. The focus of the year's activities were mountain tourism, hospitality and winter sports. In this context, various events were organized including President Leuthard's visit to the Great Wall and a Sino-Swiss hotel management seminar, among others. Switzerland was also the first guest country of honor at the World Winter Sports Expo in Beijing.

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

In 2017, the number of overnights attributable to Chinese guests (Mainland and Hong Kong) in Switzerland will exceed 1.4 million, making China the fourth most important foreign market for tourism in Switzerland after Germany, the U.S. and the UK.[79] By 2022, Chinese visitors are expected to account for two million hotel overnights in Switzerland.[80] The interest in overseas winter holidays is growing: 35% of Chinese skiers intend to spend a ski holiday overseas within the next two years.[81]

[79] Switzerland Tourism (2017), 'Switzerland - China Year of Tourism 2017: A Fruitful year of Collaboration comes to an End', *Switzerland Tourism*, 7 December, at http://www.sinoptic.ch/textes/eco/2017/20171207_Suisse.tourisme_Fin.de.l.annee.du.tourisme.sino-suisse-en.pdf, accessed on 14 December 2017
[80] *ibid*.
[81] *ibid*.

Investments
Over the years, Chinese direct investment in Switzerland 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 skills and talents of the country's well-trained and multilingual workforce, its strategic and central location in Europe, the strength of its quality-conscious industries, world-class R&D facilities and infrastructure, legal certainty, political stability as well as competitive corporate tax rates tend to be considered as well and viewed favorably for the establishment of regional sales offices. An important number of companies maintain R&D capabilities in Switzerland. Additionally, regional and global headquarters are being established in Switzerland.

In contrast to other foreign competitors, Chinese companies do not tend to overwhelmingly concentrate on a single region. Furthermore, they distinguish themselves in various ways and are active in different industries.[82]

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 offshore RMB hubs. China has also expressed a strong interest in learning from Swiss expertise in wealth management and education.

In January 2015, 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 November that year, the China Construction Bank (CCB) officially entered the Swiss market and has since been authorized to use its Zurich branch as the RMB clearing bank in Switzerland.

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. The Swiss National Bank (SNB) has signed agreements or MoUs with PBoC on currency swaps and RMB clearing arrangements in Switzerland, for example. Moreover, the annual Financial Dialogue between the Swiss and the Chinese authorities explores ways of cooperation against the backdrop of RMB internationalization. Earlier this month, the fifth round of this dialog took place in Beijing, which followed high-level visits to China by Swiss Federal Councilor Ueli Maurer in April and State Secretary Jörg Gasser in November this year.

* * *

[82] Esther Kessler, Markus Prandini & Juan Wu (2014), 'Chinese Companies in Switzerland', *Central European Business Review*, Vol. 3, No. 3

6 Annexes

Annex 1: Economic Structure

China: Structure of the Economy													
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Distribution of GDP (%)													
Primary Sector	12.9%	11.6%	10.6%	10.3%	10.3%	9.8%	9.5%	9.4%	9.4%	9.3%	9.1%	8.9%	8.6%
Secondary Sector	45.9%	47.0%	47.6%	46.9%	46.9%	45.9%	46.4%	46.4%	45.3%	44.0%	43.1%	40.9%	39.8%
Tertiary Sector	41.2%	41.3%	41.8%	42.9%	42.8%	44.3%	44.1%	44.2%	45.3%	46.7%	47.8%	50.2%	51.6%
Distribution of Labor (%)													
Primary Sector	46.7%	44.8%	42.6%	40.8%	39.6%	38.1%	36.7%	34.8%	33.6%	31.4%	29.5%	28.3%	27.7%
Secondary Sector	22.5%	23.8%	25.2%	26.8%	27.2%	27.8%	28.7%	29.5%	30.3%	30.1%	29.9%	29.3%	28.8%
Tertiary Sector	30.6%	31.4%	32.2%	32.4%	33.2%	34.1%	34.6%	35.7%	36.1%	38.5%	40.6%	42.4%	43.5%
State Sector*	9.0%	8.7%	8.6%	8.5%	8.5%	8.5%	8.6%	8.8%	8.9%	8.3%	8.2%	8.0%	8.0%

Source: China Statistical Yearbook 2017
*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]	31'994	34'988	41'071	48'604	54'099	59'696	64'718	69'911	74'540	81'268
GDP (USD* billion) [1]	4'604	5'122	6'066	7'522	8'570	9'635	10'535	11'226	11'218	11'795
GDP per capita (RMB) [1]	24'091	26'218	30'629	36'074	39'954	43'871	47'315	50'858	53'908	58'430
GDP per capita (USD*) [1]	3'467	3'838	4'524	5'583	6'329	7'081	7'702	8'167	8'113	8'481
GDP growth (%) [1]	9.6	9.2	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.6
Total investment (% of GDP) [1]	43.2	46.3	47.9	48.0	47.2	47.3	46.8	44.7	44.1	44.0
Gross national savings (% of GDP) [1]	52.3	51.1	51.8	49.8	49.7	48.8	49.0	47.5	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	1'383	1'391
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	9.82	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	19'949	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	-0.4	-0.1	-0.1	-0.5	-0.5	-2.5	-3.6	-3.7
Current account balance (% of GDP) [1]	9.1	4.8	3.9	1.8	2.5	1.5	2.2	2.7	1.8	1.3
External debt stocks, total (USD billion) [2]	380	448	734	1'044	1'138	1'472	1'771	1'418	1'429	n/a
External debt stocks (% of GNI) [2]	8.3	8.9	12.2	14.1	13.5	15.6	17.2	13.1	12.8	n/a
Debt service on external debt, total (USD billion) [2]	33.3	39.8	52.0	62.7	72.1	77.0	81.2	123.9	127.4	n/a
Total debt service (% of exports of goods, services & income) [2]	2.1	2.9	3.0	2.9	3.1	3.0	3.0	4.9	5.3	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	3'098	n/a
Reserves incl. gold in months of imports [2]	19.2	25.7	22.6	19.1	19.1	19.5	19.0	18.0	16.8	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, 2017
[3] EIU Country Reports China 2009-2015 and 2017-2021
[4] NBS, Statistical Yearbook 2013-2017

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

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, 2017

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 Jan - Dec 2015	Billion USD	Share %	Growth in % to a comparable previous period	Exports to Country/ Region Jan - Dec 2016	Billion USD	Share %	Growth in % to a comparable previous period
United States	410.0	18.0%	3.4%	United States	389.1	18.5%	-5.0%
Hong Kong	334.5	14.7%	-8.9%	Hong Kong	294.0	14.0%	-12.9%
Japan	135.9	6.0%	-9.2%	Japan	129.6	6.2%	-4.7%
South Korea	101.5	4.5%	1.0%	South Korea	95.8	4.6%	-6.0%
Germany	69.2	3.0%	-4.9%	Germany	66.0	3.1%	-5.0%
Vietnam	66.4	2.9%	4.3%	Vietnam	62.0	3.0%	-7.0%
Netherlands	59.7	2.6%	3.6%	India	59.4	2.8%	2.0%
United Kingdom	59.7	2.6%	-8.4%	Netherlands	58.1	2.8%	-3.0%
India	58.3	2.6%	7.4%	United Kingdom	56.6	2.7%	-5.0%
Russia	52.0	2.3%	6.3%	Singapore	47.5	2.3%	-11.0%
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 Jan - Dec 2015	Billion USD	Share %	Growth in % to a comparable previous period	Imports from Country/ Region Jan - Dec 2016	Billion USD	Share %	Growth in % to a comparable previous period
South Korea	174.7	10.4%	-8.2%	South Korea	159.2	10.0%	-9.0%
United States	149.8	8.9%	-6.5%	Japan	145.5	9.2%	2.0%
China*	144.6	8.6%	-1.0%	Taiwan	140.1	8.8%	-3.0%
Taiwan	145.0	8.6%	-5.7%	United States	135.1	8.5%	-10.0%
Japan	143.1	8.5%	-12.2%	China*	129.3	8.1%	-11.0%
Germany	87.7	5.2%	-16.6%	Germany	86.4	5.4%	-2.0%
Australia	73.9	4.4%	-24.6%	Australia	70.1	4.4%	-5.0%
Malaysia	53.2	3.2%	-4.2%	Malaysia	49.1	3.1%	-8.0%
Brazil	44.4	2.6%	-14.5%	Brazil	45.4	2.9%	2.0%
Switzerland	*41.1*	*2.4%*	*1.6%*	*Switzerland*	*40.0*	*2.5%*	*-3.0%*
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**	**1'587.93**	**100%**	**-5.5%**

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		Δ	Import	Export in Mio. CHF		Δ	Export	Trade balance
		Jan - Dec 2015	Jan - Dec 2016	in %	share %	Jan - Dec 2015	Jan - Dec 2016	in %	share %	Jan - Dec 2016
1	Agricultural products	151.50	159.85	5.5%	1.3%	99.86	147.27	47.5%	0.6%	-12.58
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%	118.39	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	142.37	10.6%	1.2%	51.18	55.77	9.0%	0.2%	-86.60
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	1'463.46	0.8%	11.9%	2'460.76	2'421.01	-1.6%	9.0%	957.55
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		Δ	Import	Export in Mio. CHF		Δ	Export	Trade balance
		Jan - Dec 2015	Jan - Dec 2016	in %	share %	Jan - Dec 2015	Jan - Dec 2016	in %	share %	Jan - Dec 2016
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	37.89	30.64	-19.1%	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		Δ	Export in Mio. CHF		Δ	Trade balance
	Jan - Dec 2015	Jan - Dec 2016	in %	Jan - Dec 2015	Jan - Dec 2016	in %	Jan - Dec 2016
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 5.1: 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	62.7%	-5.9%
2	Singapore	6'970	5.5%	17.5%	2	Singapore	6'180	4.4%	-11.3%
3	Taiwan	4'410	3.5%	-14.9%	3	South Korea	4'750	3.4%	17.6%
4	South Korea	4'040	3.2%	1.8%	4	USA	3'830	2.8%	47.9%
5	Japan	3'210	2.5%	-25.9%	5	Taiwan	3'620	2.6%	-17.9%
6	USA	2'590	2.1%	-3.0%	6	Macao	3480	2.5%	291.0%
7	Germany	1'560	1.2%	-24.6%	7	Japan	3'110	2.2%	-3.1%
8	France	1'220	1.0%	71.8%	8	Germany	2'710	1.9%	73.7%
9	United Kingdom	1080	0.9%	-20.0%	9	United Kingdom	2210	1.6%	104.6%
10	Macao	890	0.7%	n/a	10	Luxembourg	1'390	1.0%	n/a
	Total	**127'560**		**6.4%**		**Total**	**139'000**		**9.0%**

Source: Ministry of Commerce (MOFCOM), UNCTAD, World Investment Report 2017

China: Foreign Direct Investment Outward									
Rank	Country / Region	FDI (mio. USD) 2015	Share (%) 2015	Variation (%) year on year	Rank	Country / Region	FDI (mio. USD) 2015	Share (%) 2015	Variation (%) year on year
1	Hong Kong	89'790	57.6%	12.8%	1	Hong Kong	114'233	58.24%	27.2%
2	Singapore	10'452	6.2%	96.1%	2	United States	16'981	8.66%	111.5%
3	Cayman Islands	10'213	3.7%	41.8%	3	Cayman Islands	13'523	6.89%	32.4%
4	United States	8'029	3.4%	-54.7%	4	British Virgin Isl.	12'288	6.26%	564.6%
5	Australia	3'401	3.3%	16.4%	5	Australia	4'187	2.13%	23.1%
6	Russia	2'961	2.3%	38.4%	6	Singapore	3'172	1.62%	-69.7%
7	British Virgin Isl.	1'849	1.2%	5.5%	7	Canada	2'872	1.46%	83.7%
8	United Kingdom	1'848	1.2%	58.0%	8	Germany	2'381	1.21%	n/a
9	Canada	1'563	1.0%	-18.6%	9	France	1'500	0.76%	n/a
10	Indonesia	1'450	0.7%	-10.4%	10	United Kingdom	1'480	0.75%	-19.9%
	Total	**145'667**		**5.5%**		**Total**	**196'149**		**34.7%**

Source: China Statistical Yearbook 2017