瑞中经济协会

Swiss Re Corporate Solutions

Host

October 27th, 2017

First Chinese Market Fair

The first Chinese Market Fair provided a unique opportunity for Swiss and Chinese companies to learn about a number of Chinese Industrial/Technology Parks and Free Trade Zones and their benefits. In addition, high-profile keynote speakers, representatives of the Chinese Embassy and the Swiss federal government, and numerous expert panelists contributed to a rich environment for discussions and networking. Almost 300 participants enjoyed an intense day at the Swiss Re Centre for Global Dialogue and took home abundant food for thought.

INTRODUCTIONS

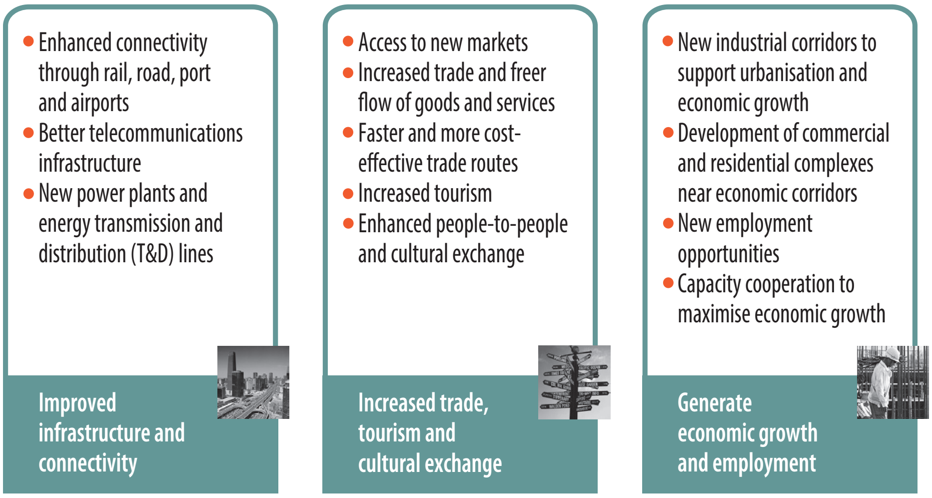
Mr. **Felix Sutter,** President of the Swiss-Chinese Chamber of Commerce, opened the conference and mentioned that following the 19th Party Congress in Beijing, all enterprises active in China have an updated platform on the basis of which they can pursue their business success in an exciting and growing market. Mr. **Fangcai CAI,** Economic and Commercial Counsellor of the Chinese Embassy in Switzerland, remarked that the balanced mix of conference participants shows how interwoven the business activities between China and Switzerland have become. Ms. **Christine Büsser Mauron,** Head of Section, Bilateral Economic Relations Asia/Oceania, SECO, explained that the Swiss government will continue to facilitate business activities in both directions for the mutual prosperity of economic relationships between the two countries. Mr. **Daniel Küng,** CEO Switzerland Global Enterprises, highlighted that through tailored support services, the market entry for business partners from the other country can become more successful in both Switzerland and China. Mr. **Lukas Huber,** Greater Zurich Area AG, welcomed the many representatives of Chinese companies in Switzerland and expressed his organization's desire to continue to support them even after a first presence in Switzerland has been established.

KEYNOTE SPEECHES

Mr. **Fred Kleiterp**, CEO EMEA, Swiss Re Corporate Solutions, as the conference host, first introduced the main services his company offers, namely direct insurance to mid-sized and large multinational companies. Swiss Re Corporate Solutions' motivation to expand in China are 1) to be a lead partner to multinational clients worldwide, which demands a presence in China, and 2) to benefit from the growth potential in China for the commercial insurance business. The Belt & Road initiative will support China's economic and financial integration with the rest of the world (see Exhibit 1) and will bring many opportunities and challenges to insurance companies. The demand for insurance against natural catastrophes, solutions to ensure food security (guarding against agricultural and adverse weather risks) and reducing trade-related risks should grow. In addition, large infrastructure investment projects need to be insured.

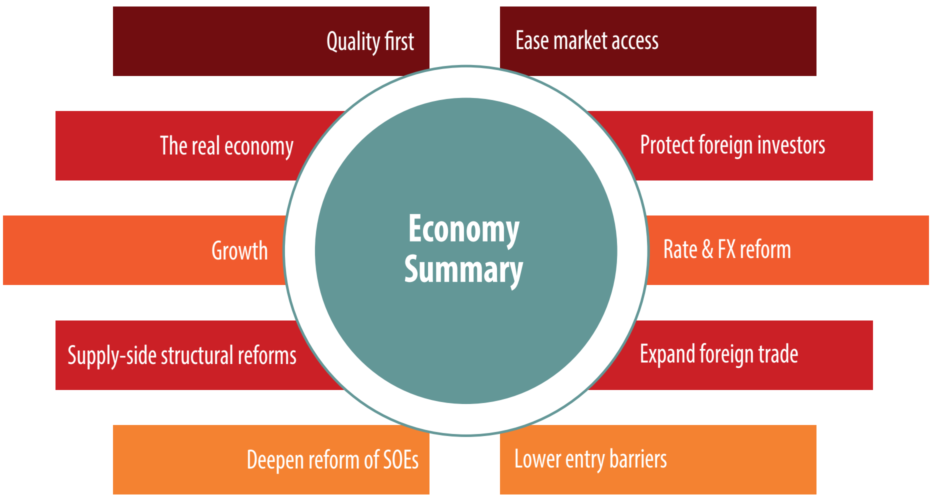
Mr. **Yu Bo,** Tax Partner at PwC based in Beijing, first elaborated on the 19th Party Congress, the cadre selection process of the Party and the newly constituted Standing Committee. In his view, President Xi has achieved two objectives in the first five years of his tenure: reducing corruption and controlling real estate prices (see also Exhibit 2 on the topic of recent achievements by the Chinese government). The key question going forward is whether China's government will take a more market-oriented approach. In general, not much change regarding economic policies is expected. SOE consolidation may continue in order to make the companies more competitive worldwide and to reduce the wasteful use of capital.

1 **Initative will improve China's economic and financial integration with the rest of the world**



Source: Swiss Re Economic Research and Consulting

2 **Highlights of Xi's Report on the Economy**



Source: PwC

EXHIBITORS

The following entities were represented as exhibitors throughout the conference:

– Pricewaterhouse Coopers (PwC), supporting clients with strategic consulting, M&A and tax advice
– SINOSWISS Technopark (SSTP), a private initiative which works in close collaboration with the Liangjiang New Area Special Economic Zone of Chongqing
– Sino-Swiss Zhenjiang Ecological Industrial Park (SSZEIP), a bilateral initiative between MOFCOM and SECO to promote bilateral cooperation
– Startup Factory, the largest business incubator for small and mid-sized European enterprises in China
– Swiss Centers China, a non-profit, Sino-Swiss, public-private partnership supporting Swiss companies in Shanghai, Tianjin and Beijing
– SwissRe Corporate Solutions, offering high-quality insurance capacity to mid-sized and large multinational corporations across the globe
– Taicang High-Tech Industrial Development Zone (TCHDZ), hosting more than 650 foreign enterprises
– Zhuhai – Pearl of Guangdong – Hong Kong – Macau, one of the original Special Economic Zones, located to the West of Hong Kong

Workshops on Digitalization

DIGITALIZATION – THE DIGITAL AREA

Moderator:
Ralf Schläpfer, *Vice-President SCCC, Deloitte*
Panelists:
Michael Bornhäusser, *Sallfort Privatbank AG*
Arndt C. Groth, *Smaato Inc.*

Digitalisation is here to stay. It has fundamentally changed the way business is done today. 89% of the Fortune 500 companies in 1955 are not on that list anymore, mostly because they did not adapt to the digitalisation age. A good example is the media sector: print media are almost vanishing, it is necessary for companies in that sector to think of new ways, such as the web, and to create applications for smartphones. Most people prefer to receive a push notification on their smartphone rather than reading a whole article on paper. Furthermore, it's very important to be aware of these facts if you want to open up a new business. The Chinese are masters in this, they are a well-educated work force which operates aggressively in a positive way. But as a foreign person who wants to start a new company in China or as an existing SME which wants to branch out to the Chinese market, it is difficult to attract the young Chinese generation that is required to be successful. They are aware of their market value and expect to get a lot of responsibilities and even some equity in the company.

DIGITALIZATION – THE FUTURE OF MOBILITY

Moderator:
Vincent Subilia, *VP SCCC Geneva Chapter, CCIG*
Panelists:
Thomas Christ, *DHL Switzerland*
Eric Schreiber, *ScanCorner AG, ABB Microunion Traction Equipment Ltd.*
Jianfeng Mu, *NIO*

Rapid urbanization combined with deteriorating driving conditions and more regulation have transformed China's urban mobility landscape. In big cities car ownership has become more expensive, less safe and thus less attractive. Public transportation and major infrastructure spending gave a basis for new mobility solutions such as car sharing. China's goal is to have a purely electrical future, therefore the Chinese government's ambition is to get more electrical vehicles on the road, both through policy incentives and improved infrastructure. From 2019 onwards car manufacturers have to sell 10% electrical cars with rising percentages in the following years. High-speed railways and urban metros are highly advanced. However, these systems still are functioning on a stand-alone basis. The merging of transport systems as well as the interconnection of cities and suburbs are ongoing. Online shopping is booming, which makes distribution challenging as more trucks to distribute the parcels physically are needed. But while there is more volume, there is less transport capacity as big cities don't allow diesel trucks. There is an increased need for e-trucks. Because of this capacity shortage, DHL had to produce them on its own. Maybe China has the solution for these challenges as they are years ahead regarding e-mobility concepts.

DIGITALIZATION – INDUSTRY 4.0

Moderator:
Ralf Schläpfer, *Vice-President SCCC, Deloitte*
Panelists:
Frank Brinken, *Starrag Group Holding AG*
Hans Hess, *Hanesco AG/SWISSMEM/ economiesuisse*

At the current exponential stage of technology cycles, digitalization, most prominently the internet of things (IoT), is rapidly changing the manufacturing landscape. It is therefore important that Swiss companies recognize the digital transformation opportunities emerging from this movement and acknowledge the risk of inaction in a timely manner. Underestimating the momentum of technological advances could be a strategic mistake and significantly affect a company's competitiveness. China has long evolved from a low-cost manufacturing country to a major pioneer of digitalization. In this aspect, Switzerland should draw inspiration from the Chinese determination to lead change, take the opportunity to learn from China's advances and quickly adopt a new mindset. Swiss companies enjoy an excellent reputation in China and already have strong business relationships with the Chinese manufacturing industry. However, to successfully venture into the Chinese market, it is essential for Swiss companies to find a communications platform, embrace a more dynamic company culture and build on trust with Chinese business partners. Furthermore, Swiss companies need to understand the long-term possibilities by adopting digital thinking competence and creating more room for innovation.

DIGITALIZATION – FROM PRODUCT TO PLATFORM

Moderator:
Ralf Schläpfer, *Vice-President SCCC, Deloitte*
Panelists:
Alain Graf, *Switzerland Global Enterprise*
Eric Li, *China Unicom*
Robert Hartmann, *DKSH Switzerland*

Disruptive companies have created vast platforms for mobile communication, analytics, cloud storage and social networks during the current decade. Of these, the social networks arguably have the broadest influence. A company does not need to establish a new platform, it can join the one best ▶

fitting its needs. E-commerce improved the feedback cycle, and there has been an enhancement in the life of the less wealthy European people through Chinese online shopping. It is hard to tell which company is the biggest player in China's online cross-border sales, as the market shares are shifting almost on a daily basis. On the other hand, Alibaba continues to be the domestic e-commerce leader. On 11/11 in 2016, the so-called «Singles' day», an invention of Alibaba founder Jack Ma, over 17.6 billion USD of revenue was generated. To be successful in China's online market, a company needs to allocate a lot of resources, both managerial and financial.

Workshops on Belt & Road and FTA

BELT & ROAD AND FTA – FINANCING

Moderator:
Andy Kollegger, *UBS*
Panelists:
Juerg Hobi, *China Construction Bank Zurich Branch*
Michael Knecht, *Credit Suisse*
Denis Ecknauer, *ABB*
Jingwei Jia, *Swiss Re Corporate Solutions*

The panelists emphasized that the perspective of the Belt & Road initiative is shifting towards projects and long-term financing rather than just B2B, in order to increase the trust between importers and exporters. Projects need to become more «bankable» since one of the biggest problems is the lack of funding. There is a funding pledge between Asia Infrastructure Investment Bank, Silk Road Fund, New Development Bank, Chinese Policy Bank, and Chinese Commercial Bank. Since the launch of the Belt & Road initiative, a lot of fundraising and institution-building has taken place. Currently only about 10% of the projects are really being financed. There is a big gap between the estimated needed budget of USD 6.4 trillion that has to be financed and the USD 2.8 trillion that are really being financed. Swiss companies need to bear in mind three factors if they want to participate in Belt & Road projects: being open-minded, being more collaborative and entering partnerships and accepting long-term investment horizons (40–50 years) in order to maintain a holistic view. More work needs to be done in the field of technology, and the agriculture and energy fields need contributions since logistics and transportation will become even more important.

BELT & ROAD AND FTA – ECONOMIC IMPACT

Moderator:
Roger Wehrli, *economiesuisse*
Panelists:
Philipp Boksberger, *CEIBS*
Tim Bethge, *Zurich Insurance Company Ltd.*
Joachim Rudolf, *ChinaIntelligence AG*

So far, trillions of US-Dollars have been invested into the Belt & Road initiative. The Belt & Road initiative is not something just developed during the last 10 years. Trade between China and Central Asia, for example, already had grown exponentially in the past decades. Are these investments really needed or will they lead to overcapacities? The countries which are part of the Belt & Road initiative cover over 60% of the world's population but only about 30% of the worldwide GDP. Since many relatively poor countries lie along the Belt & Road corridors, the necessity for infrastructure is high, infrastructure overcapacity in general is unlikely to occur. This demand for infrastructure is even higher than the Belt & Road funding currently in place. Overcapacity will not be the challenge; however, what type of projects are planned and how these projects will be implemented will largely determine the beneficial effects on the economic development. Unless the infrastructure projects are adapted to the local countries' needs, both in size and structure, their costs may exceed their economic benefits.

BELT & ROAD AND FTA – UPDATE ON THE FTA

Moderator:
Patrik Wermelinger, *Switzerland Global Enterprise*
Panelists:
Paavo Oestberg, *PwC Switzerland*
Christian Etter, *SECO*
Thomas Christ, *DHL Logistics (Switzerland) Ltd.*

Here is why Swiss SMEs should take advantage of the existing free-trade agreement (FTA): it reduces market entry costs for Swiss export goods and the tariffs associated with customs and trade. Both the Swiss and Chinese customs administrations are making efforts to streamline the way tariffs are levied. The FTA will dismantle tariffs fully, in some cases immediately and in some cases subject to transition periods of 5, 10, 12 or 15 years. Most companies which have Asia strategies are aware of the FTA and are thinking about using it, but the challenges are the administrative burden and implementation risks. There still is a learning curve for both countries. Swiss exporters face hurdles when transporting goods through the Milan and Frankfurt ports, as Chinese customs only recognize transport documents instead of the commercial invoice. It is always complicated to do cross-border trade and with 50,000 customs locations in China and the lack of instructions given, each customs officer might behave differently. Other risks related to the FTA include preferential tariff treatment based on Certificates of Origin and technical barriers to trade. The panelists offered some advice to prevent or overcome these challenges and concluded that, as the European pioneer of an FTA with China, Switzerland pays a price to test the market.

BELT & ROAD AND FTA – INTELLECTUAL PROPERTY RIGHTS (IPR)

Moderator:
***Bernhard Stefan,** Nestle SA*
Panelists:
***Zhang Yu,** In front*
***Ursula Siegfried,** Swiss Federal Institute of IP*
***Bryan Qin Xue,** China Ministry of Commerce*

Over the past 20 to 30 years, China has made progress in terms of IPR. China released a new policy on the new drug restrictions to set up patent leakage and patent restauration. What China is doing now is like the US FDA. Before 1993, China didn`t have any protection for drugs. There are a lot of changes and progress, but many challenges remain. There are still a lot of requests and concerns from the foreign investors as around 60% of all fake products come from China. IPR protection in e-commerce is another issue. If China can continue to improve the legislation, enhance the enforcement and educate people, more progress will be seen. IPR protection is a journey and it is never going to end. Swiss Companies need to have an IPR strategy in Switzerland to protect their rights in China. They need to have a good network, act quickly and also find someone who can help them, e.g. the Swiss-Chinese Chamber of Commerce. The internal management is also key, as there have been many cases where employees stole know-how from the company. It is very important to explore whether the industrial copyrights can also be protected under the copyrights system to give additional protection.

Workshops on Doing Business in China

DOING BUSINESS IN CHINA – LEGAL

Moderator:
***Paul Thaler,** Wenfei Attorneys-at-Law Ltd.*
Panelists:
***Fanyang Chen,** Wenfei Attorneys-at-Law Ltd.*
***Martin Liebi,** PwC Switzerland*
***Lukas Züst,** VISCHER AG*

After the registration and approval of a foreign direct investment (FDI) permit, you can start doing business in China. The old system was not well structured, but since September 2016, a new and faster system is in place. Regarding the transfer of foreign currencies, banking regulations change every day in China. E-commerce will continue to grow tremendously in China and in the world. There are two different types of e-commerce: local e-commerce and cross-border e-commerce. Both are subject to different laws. It is important to draft the respective contracts to your advantage. The first draft of the e-commerce law was published recently. The major players in e-commerce have agreed on data protection regulations. China has signed the Hague convention on the choice of court agreements. Misunderstandings have occurred between Swiss and Chinese companies. To avoid this, we have to understand the culture better. Because we have a good court system, more Chinese companies will be coming to Switzerland.

DOING BUSINESS IN CHINA – TAX

Moderator:
***Richard J. Wuermli,** Tax Expert International AG*
*Panelists: **Bo Yu,** PwC China*
***Véronique Schaller,** PwC Switzerland*

The recent 19th Party Congress stated the deepening of reforms of fiscal and tax systems from the central government to the municipal and local levels as a target. Local governments are attracting foreign investors with their budgets and it is advisable for foreign investors to start the negotiation with the authorities in terms of financial incentives before making any investment commitments. Three major challenges exist for foreign investors operating in China: 1. transfer pricing, 2. enterprise restructurings have no clear rule regarding whether an internal restructuring is tax free, which creates uncertainty, and 3. beneficial ownership tax arrangements. Nevertheless, the good news is that many foreign investors are starting to use the appeal procedures rather than simply accepting the new rule. Patience is key to success in China.

The new social security agreement (SSA) between Switzerland and China pertaining to companies in both countries deploying employees to a host country came into force on June 19th, 2017. Companies which had obtained the certificate of coverage may enjoy the benefits from the bilateral SSA that allow posted workers to be exempt for a maximum of six years from the obligation to contribute to the social security of the host country, potentially avoiding double coverage of social security contributions for temporary assignments in a host country. Employees posted from China to Switzerland will remain in the home social insurance system related to old-age during the period of their postings. The insured home social security system under SSA also covers joining family members of deployed person from Switzerland to China. The treaty will help facilitate cross-border movements of personnel between both countries, making it easier for companies to deploy employees overseas while enjoying tax benefits.

DOING BUSINESS IN CHINA – OPERATIONS

Moderator:
Andreas R. Herzog, *Bühler Management AG*
Panelists:
Markus Boehm, *SIG Combibloc Group Ltd.*
Axel Goth, *Bertrams Chemieanlagen AG*
Thomas Kaiser, *Customer Care & Solutions Holding AG*
Zhen Xiao, *Swiss Center China*

When a foreign company wants to do business in China, there is a growing tendency for a local setup. Partnerships are also very popular, for some industries even required (as a JV). The foreign side brings its product/technology/know-how while the Chinese side brings relationships, distribution channels, cultural and local business experience, as well as manufacturing capabilities and other facilities, if needed. Thousands of international firms establish a presence in China every year. Expansion strategies, however, can fail when trying to enter the entire market. Conquering targeted regions is the key to success. Companies must spend time researching which exact region they want to enter, and then focus on that region. Because China is such a huge country, it is almost impossible to enter the entire market without spreading resources too thin. DO adapt to the Chinese market: nobody is waiting for your product and chances are that if you don't adapt, a competitor will. DON'T enter the market with the mindset «my product/service has worked wonderfully around the world, the same will happen in China». Even if you are successful internationally, Chinese customers have different expectations, desires and tastes.

DOING BUSINESS IN CHINA – CYBER SECURITY

Moderator:
Vincent Subilia, *Vice-President SCCC Chapter Geneva, CCIG*
Panelists:
Daniela Gschwend, *Swiss Re*
Tomek Bugajski, *eBaoTech*
Kent D. Kedl, *ControlRisks*

The new Cyber Security Law in China imposes security obligations on network operators, which are broadly defined to include owners, administrators and operators of any type of information networks. This is valid for all companies that operate in China. Furthermore, the law specifies requirements related to the operational security, wich operators of critical infrastructure have to comply with, it stresses the importance of protecting critical infrastructure in industries such as public communication, media, energy, transportation, water conservation, financial services, public services etc. Moving forward, organizations will need a pragmatic and customized approach that enables them to effectively manage complliance. Due to the law's broad definition of the term «network operator» any company that offers online services will be affected. Any organization that provides services or conducts businesses using the internet can be considered a network operator. The situation is further complicated for listed companies that need to comply with IAS 315, in such cases the consultation of the auditors is advised.

Swiss-Chinese Chamber of Commerce

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