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 Assistant de Direction, Shanghai Overseas, Geneva

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Swiss Reinsurance

Anzeige
SiberHegner
SW



President's New Year's Message

As the Year of the Dragon comes to an end, let me take this opportunity to review the last twelve months and to provide a tentative assessment about what the future holds.

With regard to Swiss-Chinese official relations, the visit to China in September by our President, Mr. Adolf Ogi, has certainly been this year's highlight. Mr. Ogi was accompanied by representatives from both government and business, and his delegation was able to meet with senior leaders in China's government, in particular its President, Mr. Jiang Zemin. The warm welcome they experienced shows how, after a short period of cooler relations following President Jiang's trip to Switzerland in 1999, the dialogue between China and our country is now again on track, as can be expected between two old friends. The impact on economic relations in particular has been minimal. We started the new millennium on good terms and are confident that we will be able not only to maintain, but also to improve the open and frank relationship that has been our common tradition since 1950.

2000 has all in all been a positive year for China's economy. Exports and foreign direct investment have acted as powerful growth engines, and are part of this year's success story. China's stockmarkets have recorded the best performance worldwide over the last twelve months! This cheerful news notwithstanding, China's political and business leaders are aware of the necessity of increasing competition in their internal markets and of further opening them to foreign players – a development that may bring short-term discomfort for many of the weaker home-grown companies, but that certainly assures long-term benefits for the whole of the country and its international partners. After years of intense negotiations, and after having finally reached a breakthrough with Switzerland last September, accession to the WTO is now at reach. That we were able to master the many difficulties of such a trade arrangement shows our two countries' strong determination to co-operate on a bi- and multi-lateral level. I'm convinced that the People's Republic of China, with its impressive record of economic transformation, will also manage this further step of integration with the global trade system successfully.

Let's not forget, on the other hand, that open communication channels and friendly ties on a local level are equally important. The 18 year-old partnership between Zurich and Kunming has recently received strong support in a popular vote. An important confirmation indeed for all the people from the two cities engaged in this long-term project, and a clear demonstration of how, despite great distances in geography, traditions and political culture, an open and frank friendship can be maintained. The arts, the environment and issues in transportation and city planning are some of the areas where successful co-operation has been possible.

On this occasion I would also like to extend my thanks to all of you who have supported the Chamber in and outside Switzerland. The worth of an institution is defined by its members, and I'm proud to see how our Chamber successfully represents the interests of Switzerland's China business community.

And a particular thank you goes of course to our Managing Director, Ms. Susan Horvath, for her unrelenting efforts in organising and running the Chamber's many activities.

Wishing you all a prosperous and happy new year,

A stylized, handwritten signature in black ink, appearing to read 'Zobl'.

Manfred Zobl
President

Year of the Snake



1917 – 1929 – 1941 – 1953
1965 – 1977 – 1989 – 2001

People born in the snake years are associated with Dragons and therefore considered lucky. They are endowed with tremendous wisdom, are often clever, rather

changeable in nature and generous. Snakes are profound thinkers and prefer to rely on their own intellect rather than trust the judgment of others. Fired with intense determination, they hate to fail at anything. Snake persons are determined to achieve their goals. They seldom have to worry about money – they are usually rich. Yet, they can be stingy, and tend to procrastinate and be quite possessive.

Snake men are handsome, Snake women beautiful, and both are often vain. The flirtatious Snake is well-paired with the reliable, sensible Ox, while a liaison with a Dragon will make for a mutual admiration society. The Snake must never marry a Tiger who will destroy him.

Chinese Holidays 2001

January 24	Lunar New Year's Day
January 25, 26	Second, third Day of Lunar New Year
May 1	International Labour Day
May 2, 3	Second, third Day of Labour Day
October 1	National Day
October 2, 3	Second, third Day of National Day

Here for You

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New Members

since October 2000:

Zurich

JAKOB AG	Trubschachen
COPLAX AG	Einsiedeln
GROB HORGEN AG	Horgen
Alpine Sightseeing GmbH	Zurich
BRUNEL Worldwide Chauffeur Drive	Zurich
KUPFERSCHMID TRADING SA	Zuzwil

Geneva Chapter

Philippe Laurent	Morges
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Lugano Chapter

POLICHEM S.A.	Lugano
Marini Chiara	Lugano

Next Events

China: The Necessity to Combine Economy and Ecology

Panel Discussion with

Ambassador Wu Chuanfu
Ambassador Dr. Uli Sigg
Dr. Claude Martin

headed by Peter Achten

Wednesday, January 17, 2001

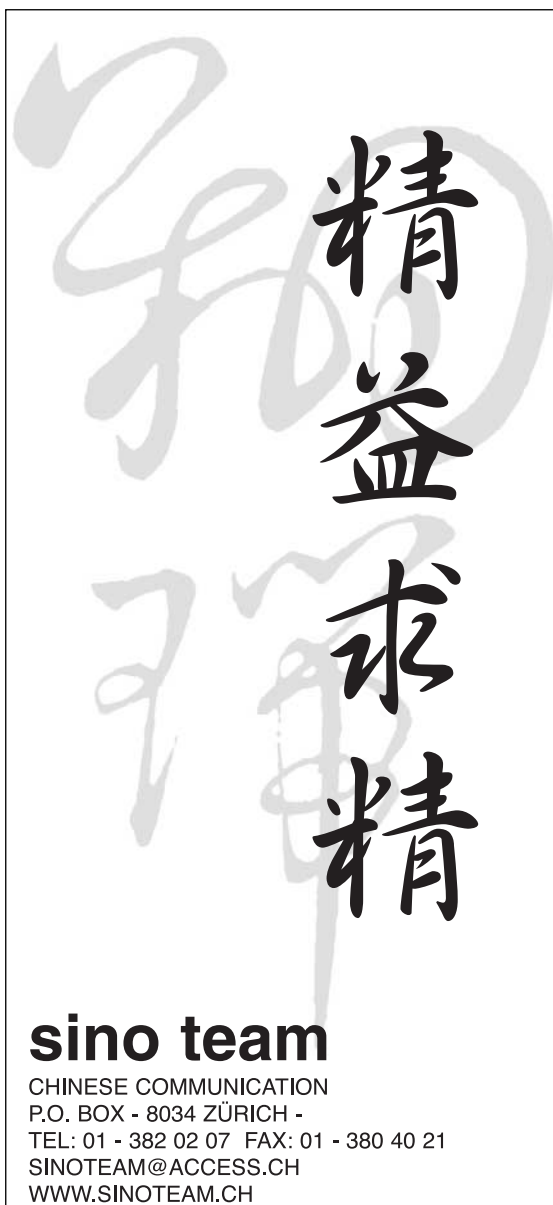
at Hotel Savoy, Zurich

China in Transition – Between Old Burdens and the New Economy

Two-day seminar

Friday, Saturday, January 19–20, 2001

at the Institute of East Asian Studies,
Zurich University



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General Assembly 2001

Followed by a speech by

Andreas W. Keller

Chairman of the Board of Diethelm Keller
Holding Ltd.
President of Zurich Chamber of Commerce

Wednesday, April 18th, 2001

09.00–10.00	Board meeting (Board members only)
11.00–11.30	General assembly
11.30–12.00	Apéritif
12.00–12.30	Speech by guest of honor followed by lunch

Location in Zurich to be announced with invitation.

New Swiss-Chinese Chamber of Commerce in China

A Milestone in the New Millennium

Since its inception in 1995 as a representative office of the Swiss-Chinese Chamber of Commerce, the Beijing Chapter has seen its membership grow to over 70 with active participation and a very high attendance rate at the monthly luncheons, various events and receptions of delegations and official visits.

In mid 1999, the Ministry of Civil Affairs organized a meeting with registered Chambers of Commerce in Beijing and briefed them on the proposed revision of the law governing Chamber activities in China. The current provisional regulations governing foreign Chambers were introduced in 1989 and have to be amended to cater to the present and future needs of foreign Chambers and NGO activities. The new rules will administer all non-profit organizations. However, under the current set-up, the Bei-

jing Chapter is categorized as an organization with a business nature which puts us in a rather ambiguous situation, even more so under the up-coming new law.

As the Beijing Chapter is not considered a Chamber of Commerce by the Chinese authorities we are not invited to participate in any meetings with other Chambers organized by the government. This does not only deprive us from first hand information but also means that we are perceived as less important and less representative than a regular Chamber.

At the Board meeting of the Beijing Chapter on 1 September 1999, the subject was thoroughly discussed. It was unanimously agreed that we should submit an initial application to register as a regular Chamber of Commerce with the Chinese authorities. Peter Ringele, the



The Board members of the Beijing Chapter: (top/down f.l.t.r.) Rolf Schaumann, Steven Zhang, Urs Buchmann, Ruby Chang, Walter Landolt, Markus Altermatt, Juerg Lauber, Paul Lau, Cyrill Eltschinger.

President of the Beijing Chapter at that time, contacted the Chamber in Zurich and also started to communicate with the Shanghai Business Forum (SBF) with regard to this matter.

The objectives of this move are to maintain our relations with Zurich and other chapters; to enhance our ties with SBF and other Swiss business communities in China; to promote further the Sino Swiss trade and economic relations; to widen our membership base and to include Chinese members. With this platform, we can provide better services to our members in China and Switzerland alike as we can formally conduct gatherings; organize events; recruit new members; receive membership dues and service fees to cover other costs; receive tax exemptions and allow more chapters to develop in China.

We are changing our Representative Office to an officially approved non-profit organization and legal Chamber in PRC; in order to involve more Chinese enterprises and nationals to achieve the goals and objectives of SCCC; exchange and share experience with other Chambers; create better awareness for the business relations between the two countries; better service the other SCCC chapters and members in Switzerland. However, what will not be changed are our strong ties and cooperation with SCCC in Zurich as well as with the different chapters in Switzerland and in China.

We have considered the alternative of not doing anything until the new law is announced but we have concluded that since many Chambers have been successfully approved, we will benefit from their experience and avoid repeating others' mistakes. It is to be expected that the new law, once implemented, will make the registration process much more complicated and time-consuming.

In June 2000, Dr. Urs Buchmann, Jürg Lauber and myself went to Shanghai and met with the representatives of the Board of SBF. We explained our objectives, answered their questions and agreed upon key issues and an action plan. The meeting laid a milestone for the formation of the Swiss Chinese Chamber of Commerce in China.

SBF organized an Extraordinary General Assembly and proposed to their members to participate in the Chamber if it succeeds in its application. The Beijing Chapter held an Extraordinary General Assembly on 25 July 2000 and agreed:

- to set up a new Swiss Chinese Chamber of Commerce under PRC provisions and regulations;
- the Statute of the new Swiss Chinese Chamber of Commerce;
- to empower the Members of the Board to execute all necessary procedures required to set up the new Swiss Chinese Chamber of Commerce;
- that the current Members of the Board of Beijing Chapter be appointed as Members of the Board in the new Swiss Chinese Chamber of Commerce until the next General Assembly of the Beijing Chapter;
- the dissolution of Beijing Chapter after all the assets and liabilities are settled and after transfer of the bal-



*Peter A. Marti
President of
SCBF Shanghai*

ance assets and funds the new Swiss Chinese Chamber of Commerce;

- to empower the Members of the Board to execute all formalities required to officially close the Beijing Chapter – Beijing Representative Office.

On 17 November, I was invited to attend a SBF dinner event to present the organizational structure, Articles of Association and progress of the application to all their members. It was very encouraging to see that the members in Shanghai showed great interests and actively participated in the Questions and Answers session.

I believe that realistic goals in operating in our host country, transparency and open communication will pave the way to future co-operation with other Chapters in China and Switzerland towards the SCCC's common goals.

Until the writing of this article, China International Chamber of Commerce, our sponsor, assisted us in obtaining the approval by MOFTEC. Our application is now being taken care of by the Ministry of Civil Affairs and we were informed that it has been approved by the Ministry of Foreign Affairs but still requires some more signatures. We look forward to receiving our final license before the end of December 2000. Our next step is to draft the by-laws for Beijing and Shanghai Chapters. We shall again invite all our members to contribute their valuable thoughts and to get involved in the process.

I take this opportunity to thank for the trust and support given to us by the members of the Beijing Chapter, the Zurich Legal Chapter, the Shanghai Business Forum, the Embassy of Switzerland in China and the authorities of our host country, without any one of them we could not have achieved this much within six months.

On behalf of the Board of Beijing Chapter, I wish all of our members a very prosperous and successful year 2001 and that they may benefit from this new legal set-up in China, which we all will be proud to have.

*Ruby Chang
Vice President, Beijing Chapter
Chief Representative,
Edward Keller (China) Ltd.
(Member of the Diethelm Keller Services Asia)*

GDP Powering Ahead at 8.2 Percent

Strong exports and a mild rebound in domestic spending helped China's economy expand at an annual rate of 8.2% in the third quarter, faster than expected. The performance puts the economy on track to beat the 7.1% growth posted in 1999.

From January to October, China's industrial output totaled US\$ 231.4 billion, an increase of 11.6% over the same period last year.

China's trade volume reached US\$ 387.1 billion in the first ten months of this year, surpassing that of the whole of last year. Trade increased 35% in January/October from the same period last year. Exports rose 32.2% to US\$ 205.1 billion and imports surged 38.6% to US\$ 182 billion, leaving a trade surplus of US\$ 23.1 billion. The growth of China's exports to Russia, South Korea and ASEAN nations led the upward trend with increases of over 45% in the first ten months. But exports to Hong Kong, the second largest trade partner, slowed down. Machinery, electronic products, furniture and steel continued to grow at a higher speed than the average. Labour-intensive products such as garments, cloths, shoes, bags and toys, which make up a large portion of China's ex-

ports, lost momentum. The growth in foreign companies' imports of equipments and goods as part of their investment in the country accelerated by 16% from last year.

In the first 9 months China approved 15,732 foreign-invested projects, up 23.3% from last year, according to MOFTEC. Contracted foreign capital increased 27.86% to US\$ 37.86 billion. Actual use of foreign capital decreased 8.7% to US\$ 26.6 billion. Taiwanese firms more than doubled their investments during the first half of this year compared to last year. The investment in 341 approved projects reached US\$ 1.1 billion, up 129.9%. The leading sectors were electronic appliances, chemicals, plastics, metals and the service industry.

The foreign exchange deposits of Chinese residents stood at US\$ 69.92 billion by October, growing 32.5% from last year, due to two factors: More Chinese nationals have come back and settled in China, and Chinese residents have received more remittances from relatives abroad.

A number of black spots remain. They include weak domestic consumption because of fears of retrenchment in the state sector and a lower than expected grain har-

Swiss-Chinese Trade January – September 2000 (in 1000 CHF)

Main Items	Imports		+/- of total		Exports		+/- of total	
	1999	2000	in %	in %	1999	2000	in %	in %
Landwirtschaftliche Produkte	59 575	75 552	26.8	4.4	1 717	1 568	-8.6	0.2
Mineralische Stoffe	440	1 140	158.8	0.1	27	3	-89.9	0.0
Energieträger	2	296	-	0.0	1 594	127	-92.0	0.0
Chemische Produkte (ohne Pharma)	131 681	177 223	34.6	10.2	92 288	155 911	68.9	15.8
Pharmazeutische Erzeugnisse	2 302	2 637	14.6	0.2	37 122	87 142	134.7	8.8
Kunststoffe, Kautschuk	28 692	35 583	24.0	2.1	9 879	19 265	95.0	1.9
Felle, Leder, Lederwaren	78 576	98 692	25.6	5.7	478	1 351	182.9	0.1
Holz, Kork, Flechtwaren	11 136	14 376	29.1	0.8	3 470	6 677	92.4	0.7
Papier und Papierwaren	5 975	7 109	19.0	0.4	6 945	3 660	-47.3	0.4
Textilien und Bekleidung	430 461	498 158	15.7	28.7	9 574	19 900	107.9	2.0
Schuhe, Schirme, Daunen usw.	70 040	88 017	25.7	5.1	54	190	255.7	0.0
Waren aus Steinen, Keramik, Glas	10 145	13 598	34.0	0.8	1 926	2 229	15.8	0.2
Edelmetalle, Bijouterie, Münzen	8 987	15 545	73.0	0.9	20 436	2 580	-87.4	0.3
Metalle und Metallwaren	43 082	63 441	47.3	3.7	14 885	21 680	45.6	2.2
Maschinen	199 934	300 899	50.5	17.4	425 255	555 488	30.6	56.2
Fahrzeuge, Flugzeuge usw.	7 649	11 831	54.7	0.7	2 751	8 012	191.3	0.8
Instrumente, Apparate usw.	28 403	35 561	25.2	2.1	33 287	56 836	70.7	5.8
Uhren	74 682	105 861	41.7	6.1	30 204	34 756	15.1	3.5
Waffen und Munition	43	23	-47.4	0.0	46	229	400.8	0.0
Möbel, Bettzeug usw.	41 552	47 077	13.3	2.7	613	414	-32.4	0.0
Spielzeug, Sportgeräte usw.	104 254	140 603	34.9	8.1	3 757	9 973	165.4	1.0
Total	1 337 611	1 733 223	29.6	100.0	696 308	987 991	41.9	100.0

Source: Oberzolldirektion

vest because of severe drought in northern China. Farmers' incomes in the third quarter rose by only 2.5% as compared to a hefty 8.4% increase of urban incomes. The drought and the falling grain output will intensify this trend.

A recent survey shows that while most entrepreneurs are optimistic about the economy, more than 70% of respondents feel pressure from China's WTO accession.

Summary by Paul Wyss

Hong Kong Business Confidence Survey 2000

The Hong Kong Business Council has completed its survey 2000 among its members (some of our members have responded to it too).

You can now download the survey report from their website:

www.asiarisk.com/swissbcl

Recent Foreign Investments / Joint Ventures

USA

MOTOROLA signed an agreement with MOFTEC and Tianjin Municipal Government calling for investment of US\$ 1.9 million which will bring Motorola's total investment in China to US\$ 3.44 billion, making it one of the biggest foreign investors in the country.

COCA COLA will move its China headquarters from Hong Kong to Shanghai. The company runs now 23 bottling plants and 27 factories in China with a total investment of US\$ 1.1 billion and 15 000 workers.

CHUBB INSURANCE CORP obtained a non-life insurance licence for the city of Shanghai, the fifth foreign insurance company to get such a licence. At present only Beijing, Shanghai, Guangzhou and Foshan are open to foreign non-life insurers, but further cities will be opened when China joins the WTO.

MICROSOFT and Haier Group signed a technological cooperation agreement on software for electrical home appliances, PC wireless communication and software development. The alliance will jointly develop personalized user software for Haier PCs.

GENERAL ELECTRIC opened a US\$ 30 million plastic compounding plant in Pudong's Waigaoqiao Free Trade Zone. The new plant, GE Plastics Shanghai Co. Ltd, will manufacture a full range of resins used in a variety of high-technology applications in computers, printers, copiers, cell phones, automobiles. GE now operates 30 joint ventures and wholly owned ventures in China.

JOHNSON & JOHNSON signed an agreement with the Ministry of Health and the State Drug Administration on a US\$ 6 million donation for 2000 through 2005 towards China's largest health care project of professional training and formulation of medical policies.

ADC TELECOMMUNICATION COMPANY will invest US\$ 40 million in its fully-owned subsidiary, ADC Nanjing, by 2004. The 6.000 m² factory will produce serial fiber-optic transmission systems, optical devices and radio frequency components for the Chinese and international markets.

DUPONT and Liabyungang Zhongshan Spandex Co. Ltd signed a contract with an investment of US\$ 100 million for the largest Spandex factory in China. Spandex is an elasticated fabric used in sportswear. Dupont will furnish the joint venture with the best technology and product innovation. To date, DuPont has invested US\$ 500 mio in China.

SUN MICROSYSTEMS established the first bonded warehouse in China in Shanghai's Pudong Waigaoqiao Bonded Zone. The warehouse will provide comprehensive technologies and services to help Chinese enterprises to go online and develop their e-commerce business.

BAKER & MCKENZIE filed an application for opening an office in Shanghai after China's entry into WTO. At present, each foreign law firm is only allowed to have one office in China. The firm opened an office in Beijing in 1993.

PROCTER & GAMBLE ceased all contracts with two of its biggest Chinese packaging suppliers for providing counterfeiters with P&G packaging used for shampoos. According to P&G estimates, counterfeiters currently account for more than 15% of the market, causing the company a loss of US\$ 150 million a year.

KENTUCKY FRIED CHICKEN (KFC) has established more than 370 fast-food restaurants across China, and this figure will increase to 400 by the end of this year. These restaurants will sell a total of 150 million chickens bred in China. KFC's annual purchases in China exceed US\$ 120 million. The company has 23.500 employees and 280 domestic suppliers.

SCHLUMBERGER, the oil-field technology service provider, inaugurated a technological center in Beijing which will analyze data collected from oil-fields to improve the efficiency of prospecting and exploration. The center has 24 researchers, mostly young Chinese scientific talents.

(continued on next page)

UNITED PARCEL SERVICE has gained new rights to fly to China, becoming the fourth U.S. carrier with such permission, joining United Airlines, Northwest Airlines and Federal Express. UPS was granted six of the ten new weekly round trips to China, whereof four will fly from Ontario and two from Newark.

TAIWAN

FORMOSA PLASTICS plans to invest US\$ 100 million to build a polyvinyl chloride (PVC) plant in Ningbo/Zhejiang province with an annual capacity of 300.000 tons.

HONG KONG

LANE CRAWFORD, Hong Kong's leading specialty store, opened a 2800 m² store in Shanghai Times Square which will sell high-quality international fashion brands as well as footwear, accessories, jewellery and home-ware.

AUSTRALIA

AIGL GROUP, market leader in air-conditioners for automobiles, jointly with Chongqing Changjiang Electric Supply Plant, will establish Air-Conditioner International (Chongqing) Co. Ltd. with a total investment of US\$ 100 million. AIGL will hold a 60% stake.

NEW ZEALAND

TOWER FINANCIAL SERVICES GROUP, one of New Zealand's largest financial service companies, announced plans to open a representative office in Beijing. Tower will be actively seeking a licence to sell insurance products in China.

JAPAN

SONY CORPORATION is setting up a new wholly owned company, Sony Electronics (Wuxi) Ltd, to produce mobile phone batteries with an initial investment of about US\$ 23 million. Production is due to start in April 2001 with a monthly capacity of about 2 million units.

AJINOMOTO has started full-scale production of what it claims is the world's biggest plant refining amino acids for the pharmaceutical industry. The US\$ 17 million plant will make about 800 tons of the liquid each year, mostly for sale in China.

CANADA

HUSKY CORP. and China National Offshore Oil Corp. (CNOOC) signed a contract to pump oil in Hainan Province. Husky holds 40% of the shares and CNOOC the rest.

GERMANY

SIEMENS is building a new factory in Xian for its joint venture Siemens Signalling Co. Ltd. From May 2001 the factory will produce signal systems for railways and subways.

BMW, encouraged by booming sales in the first half 2000, will expand its dealers network from currently 11 cities to 21. Plans for a production site in China are being accelerated.

TOEPFER is negotiating a joint venture with Nei Meng Gu Yili Group in Huhehot, capital of Inner Mongolia, for the production of milk products for babies. With an investment of DM 5.5 million the plant will produce 5.000 tons annually.

QUELLE, noted mail-order company, is withdrawing from the Chinese market after it found logistical problems too heavy. Quelle also realized that Chinese customers are reluctant to buy goods they have not actually seen.

LUFTHANSA and Air China signed a code-sharing agreement taking effect October 29. Under the agreement, the two carriers will offer joint flights between Frankfurt and Beijing, and Frankfurt and Shanghai.

FAIRCHILD DORNIER AIRPLANES signed a co-operation agreement to jointly develop and produce Dornier feeder-line planes with China Hainan Airplanes Co., China No.1 Aviation Industry Group Co. and China No.2 Aviation Industry Group Co. The joint venture will shorten the research and production time of the plane, minimize production costs and increase the products' ability to compete.

ALLIANZ plans to launch a wholly-owned property insurance branch in Shenzhen or Guangzhou if licensed by the Chinese regulatory authorities. Currently, the company has a joint life insurance company, Allianz-Dazhong in Shanghai, launched last year.

GREAT BRITAIN

PRUDENTIAL, Britain's biggest life insurance group, and CITIC founded the CITIC Prudential Life Insurance Co, in Guangzhou with a total investment of US\$ 24 million, each partner holding 50%. CITIC is a large State-owned Enterprise directly under the State Council.

VODAFONE, the world's largest mobile-phone firm in terms of subscribers, invested US\$ 2.5 billion for a 2% stake in China Mobile, Hong Kong, which is the listing vehicle for mainland-based parent company China Mobile Communications Corp.

(continued on page 14)

Anzeige
Danzas
SW

FRANCE

RHODIA plans to turn Shanghai into its silicone manufacturing centre in the Asia-Pacific region by closing plants in Australia and Malaysia. Rhodia Shanghai Silicones Company, fully owned by Rhodia, opened in 1997. The company has a total of 13 ventures in China with a combined investment of US\$ 200 million.

MICHELIN and Shanghai Tire and Rubber Corp. (STARC), leader in China's tire industry, recently established a joint venture in which STARC invested US\$ 45 million and received a 30% stake. On the other hand, the company transferred its production and marketing rights of its main product into the joint venture.

FRAMATOME GROUP, a connector producer, started construction on a US\$ 35 million production facility in the city of Dongguan, in the middle of the Pearl River Delta. The wholly foreign funded FCI (Dongguan) Ltd covering an area of 50.000 square metres, will start production in the middle of 2001 and employ up to 1.000 people.

HOLLAND

SHELL, China Offshore Oil Corporation and the Guangdong Investment and Development Company will set up a US\$ 4.05 billion joint venture in Huizhou, the largest Sino-foreign venture so far. Shell holds a 50% stake. The project will turn out 800.000 tons of ethylene and 2.3 million tons of petrochemical products each year. It will employ up to 20.000 people and generate annual sales of about US\$ 1.7 billion.

SWITZERLAND

WINTERTHUR LIFE, part of Credit Suisse's insurance operations, bought a strategic stake in Tai Kang Life, one of China's fastest growing life insurers. The size of the stake was not disclosed, but it is understood to include a cash injection and a contribution in the form of insurance expertise. Winterthur executives were invited to join the board of Tai Kang.

SHANGHAI SWISS CENTER was established in the Shenzhuang Industrial Zone (SIZ) with investments from 55 small to medium-size Swiss companies, the Swiss Government and SIZ. Its main purpose is to provide Swiss firms with information and consultation services. Additionally, SSC will establish an exhibition center for Swiss products.

SICPA GROUP (55%) and China Banknote Printing & Minting Unit, a subsidiary of People's Bank of China (45%) established SICPA Security Ink, with an investment of US\$ 9.5 million, to produce high-technology ink to fight counterfeiters.

GIVAUDAN, manufacturer of fragrances and flavors, has greatly increased its investment in Shanghai with

doubled production and the opening of Shanghai Givaudan Ltd. Sensory and Technology Centre. Givaudan also expanded its second-phase project, a factory in Pudong, Shanghai Givaudan Ltd, the result of a 1996 joint venture with Shanghai Sunve Pharmaceutical Corp.

FINLAND

UPM-KYMMENE CORP, which in 1997 founded UPM-Kymmene Paper in Changshu together with an Indonesian partner, bought the remaining 51% of the shares, making it the 100% owner of the mill which produces some 350.000 tons of printing and office paper a year for the domestic Chinese market and for export.

FINNAIR has agreed with AirChina to introduce the fourth non-stop flight per week between Helsinki and Beijing. In 1988 Finnair opened the first non-stop connection between Europe and China. This year marks the 50th anniversary of diplomatic relations between China and Finland.

Chinese Outward Investments

CHINA CONSTRUCTION BANK opened a branch in Johannesburg in October, bringing the number of its overseas branches to four. Other branches are located in Singapore, Hong Kong and Frankfurt.

Summary by Paul Wyss

Special Economic Zones (SEZ) Mark 20th Anniversary

A statue of the late Chinese leader Deng Xiaoping was recently unveiled by Chinese President Jiang Zemin in Shenzhen, China's first SEZ. The grand gathering included Tung Cheehwa, chief executive of Hong Kong Special Administrative Region, and Edmund Ho Hauwah, chief executive of Macao Special Administrative Region. Twenty years ago, Deng Xiaoping ordered to build special economic zones in China's coastal areas to boost the country's reforms and modernization. SEZ's have played an important role ever since. Over the past 20 years, Shenzhen's GDP has grown at an annual rate of 31.2%. In 1999 its GDP exceeded US\$ 17 billion, with exports hitting US\$ 28 billion. The population increased from a mere 30.000 to four million.

The "Special Economic Zone" name has produced similar success stories in Zhuhai, Shantou, Xiamen, Hainan and, most recently, in Pudong of Shanghai. In 1999 the combined GDP of all the four zones, plus Pudong New Area, was more than US\$ 44 billion. They exported US\$ 36 billion of goods and services.

Source: China Daily

Latest Legislative Actions

With Respect to Foreign Investment in China at the Entrance to WTO

With the conclusion of the agreement between Switzerland and the People's Republic of China ("China") regarding China's entry into WTO, which shall be the second last one China needs to reach before its entry to WTO, China is finally expecting its membership to WTO within an expectable short period of time. Bearing in mind that each member of WTO is obligated to keep its laws, regulations and administrative procedures in accordance with the WTO legal framework, Chinese legislators have started to revise Chinese law trying to fulfill the membership obligation. The relating latest effort is with regard to the legal form of foreign investment in China.

On 31 October 2000 the Standing Committee of the National People's Congress adopted two resolutions on revision of the Sino-Foreign Cooperative Enterprise Law and the Foreign Capital Enterprise (WFOE) Law. The revision draft for the Sino-foreign Equity Joint Venture Enterprise Law was resolved to be rendered to the fourth session of the Ninth National People's Congress, which is expected to be held in next spring.

According to the revision, the three types of foreign investment enterprises are no longer required to give domestically made products priority when procuring raw materials, energy and other resources. They are permitted to freely purchase in the global market. As to the pre-conditions for establishment of foreign capital enterprise (WFOE), the export-oriented or advanced technology is not mandatory condition any more. It is stipulated in the new law that to export its products or to be advanced in technology is "encouragable" for a WFOE, which releases the foreign investor from the indispensable fulfillment prescribed in the previous version.

It is believed that such recent legislative action is purposed to facilitate China's WTO entry and it demonstrates that in the aspect of granting nationality treatment to foreign investment, China is taking serious steps to adjust its legislation in accordance with the WTO legal framework.

*Wenbin Wei
Legal Chapter
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Unofficial Translation of the Law Revisions with regard to Foreign Investment in China

The Resolution of the Standing Committee of the National People's Congress on Amendment of the Foreign Capital Enterprise Law of the People's Republic of China, adopted by the 18th meeting of the Standing Committee of the Ninth National People's Congress on October 31, 2000.

The 18th meeting of the Standing Committee of the Ninth National People's Congress has decided to amend the Foreign Capital Enterprise Law of the People's Republic of China as follows:

1. Cipher 1 of Art. 3 shall be amended as: "To set up foreign capital enterprise shall contribute to the development of China's national economy. The country encourages the establishment of foreign capital enterprise which exports its products or which is leading in technology".

2. Cipher 1 of Art. 11 shall be deleted.

Cipher 1 of Art. 11 reads as: "The production and operating plan of a foreign capital enterprise shall be filed with the authority in charge".

3. Art. 15 shall be amended as: "foreign capital enterprises may according to the principle of reasonableness and fairness, purchase in the domestic or in the international market raw materials, fuel and other resources needed in the approved business scope".

4. Cipher 3 of Art. 18 shall be deleted.

Cipher 3 of Art. 18 reads as: "A foreign capital enterprise shall resolve itself the balance of foreign exchange income and expenditure. Where the products of a foreign capital enterprise are sold, pursuant to the permission of relevant authority, in Chinese domestic market and thus results in the imbalance of foreign exchange income and expenditure, such authority shall be responsible for resolving the imbalance".

Besides, the order of part of the provisions shall be adjusted according to this resolution.

This resolution shall take effect since its publication.

(continued on next page)

The Foreign Capital Enterprise Law shall be correspondingly amended and republished according to this resolution.

The Resolution of the Standing Committee of the National People's Congress on Amendment of the Sino-Foreign Cooperative Enterprise Law of the People's Republic of China, adopted by the 18th meeting of the Standing Committee of the Ninth National People's Congress on October 31, 2000.

The 18th meeting of the Standing Committee of the Ninth National People's Congress has decided to amend the Sino-Foreign Cooperative Enterprise Law of the People's Republic of China as follows:

1. Art. 19 shall be amended as: "Sino-foreign cooperative enterprises may, within the approved business scope, import materials needed by themselves and export products produced by themselves. Sino-foreign cooperative enterprises may according to the principle of reasonableness

and fairness, purchase in the domestic or in the international market raw materials, fuel and other resources needed in the approved business scope".

2. Art. 20 shall be deleted.

Art. 20 reads as: "A Sino-foreign cooperative enterprise shall resolve itself the balance of foreign exchange income and expenditure. Where a Sino-foreign cooperative enterprise cannot balance itself the foreign exchange, it may, in accordance with state provisions, apply to relevant authority for assistance".

Besides, the order of part of the provisions shall be adjusted according to this resolution.

This resolution shall take effect since its publication.

The Sino-Foreign Cooperative Enterprise Law shall be correspondingly amended and republished according to this resolution.

China's 10th Five-Year Plan 2001–2005

At the 5th Plenum of the 15th Central Committee of the Communist Party of China in October, Premier Zhu Rongji said that development will be the theme of the 10th Five-Year Plan. China should pursue economic restructuring, take reform and opening to the outside world as well as scientific and technological advancement as the driving forces. He noted that it is the first five-year plan in the new century. Therefore, it will be of great significance to formulate a plan that is practical and encouraging.

Reviewing China's economic and social achievements during the 9th Five-Year Plan period (1996-2000), Zhu said that with the successful implementation of the 9th plan, China materialized its strategic objective in the modernization plan. However, many contradictions and problems still exist in the social and economic life, including irrational industrial structures, imbalanced development among different regions, increasing unemployment pressure, deteriorating environment in some areas, and the increasing gap in income distribution.

He also pointed to the fact that there are still practices of corruption and extravagance, and the situation of public security is poor in some parts of the country. On strengthening agriculture's primary position, Zhu gave

special emphasis to speeding up the reform of the taxation system in rural areas, saying that township government staff must be cut and taxes and fees reduced to alleviate farmers' burdens.

On infrastructure construction and resource strategy, Zhu stressed the importance of handling the issue of water conservation from a strategic perspective. He said while many parts of the country, especially large and medium-sized cities in the north, are suffering frequent shortage in water, the practice of wasting water is running rampant elsewhere. Zhu called for great efforts to save water, in a bid to establish a society that is conscious of conserving water.

Zhu called for opening the market further and breaking the monopoly of some government departments and enterprises to establish a unified, fair and standard market system. New ways should be adopted to utilize foreign investment, including mergers, acquisitions, investment funds to utilize middle and long-term overseas capital. Efforts should be made to attract multinational companies to invest, set up R&D centers and participate in the restructuring of State-owned enterprises.

Chinese press summary by Paul Wyss

The Swiss Organisation for Facilitating Investments (SOFI) and the Instruments of the Swiss Government to Promote and Support Swiss Investments in China.

WTO accession. China "enters the world".

Investors still view the Asia-Pacific region as the primary growth area in the world. Despite the Asian crisis, they have a continued positive sentiment for Asia, the home of more than 60% of the total world's population.

There are currently clear indications that investors' interest is shifting towards North and Northeast Asia. Japan and South Korea have become significantly more open to the inflow of FDI's recently. China's accession to WTO will further boost the importance of China as an investment destination for foreign enterprises. FDI (foreign direct investments) inflows in ASEAN countries will grow comparatively slower over the next few years due to ongoing economic difficulties, slow pace of reforms and political/social instabilities.

Let's not lose sight of some very important facts. China is not only the largest country on the face of the earth. It is also the 7th largest economy in the world after the USA, Japan, Germany, France, Italy and the UK and the world's 9th trading nation. China is the world's second largest recipient of inbound foreign direct investment after the USA. And it is becoming an increasingly important trading partner for Switzerland.

China commands leading market positions for products such as textiles, certain raw materials (non-ferrous metals), toys, electronic components, and products in the light industry sectors. Its population is highly literate and draws on millennia of human experience in terms of technical progress, socio-political structures, economic development and pure cultural achievements. It contains extraordinarily well-educated and intelligent young individuals.

After growing by an estimated average of 8.3% a year in 1996-2000, China's GDP will grow by a more moderate 8% a year in 2001-05. Private consumption growth will pick up steadily during the next 3 years. Import growth will also strengthen, as market-opening measures related to China's entry to the WTO are implemented.

Little in China's economy will remain untouched by WTO accession. Agriculture will be most affected. Imports tariffs will be reduced drastically. Quotas will be phased out. Trade between private parties will be allowed. Subsidies will be eliminated. The consequences for 900m people living from agriculture in China will be profound. Labor-intensive sectors such as the textile, toy or shoe manufacturing sectors will benefit, as restrictive quotas on Chinese exports will be gradually lifted. The telecom and Internet sectors will be opened to foreigners for the first time. Restrictions on distribution will be gradually lifted. Foreign banks will be allowed to conduct business in local currency.

WTO accession will enhance investment conditions and strengthen trade. At the same time, the Chinese market will become increasingly competitive, sophisticated and challenging to new market entrants.

With most of the world's transnational companies firmly established, more and more medium-sized companies are exploring the possibility of establishing a presence in China. They enter China to:

- Manufacture components required by Chinese enterprises or existing foreign companies and thus exploit a low cost production base for exports in the Asia-Pacific region, the USA or Europe
- Sell goods and services to the local market
- Purchase in China and export elsewhere
- Research and explore the market

Is this the right time for Swiss companies to enter the Chinese market? My answer is a strong yes, because:

- **Switzerland's economy depends heavily and exports and strong ability to invest successfully internationally.** Today, we export to China (including HK SAR) more than we export individually to countries such as the Netherlands, Austria, Belgium or Spain. Almost as much as our total exports to Japan.
- **Competitive Swiss SME's must look for growth opportunities outside Switzerland to prosper and remain competitive.** In some sectors they must get closer to customers and operate from lower cost production bases.
- **Switzerland is already a very successful investor in China.** Switzerland is one of the top 10 investors in China with over 500 companies and over US\$ 3billion of foreign direct investments. Half of these Swiss investments are located in the Yangtze River Delta and 1/3 in the Shanghai region.
- **There are huge opportunities for competitive Swiss SME's in China.** In sectors such as pharmaceuticals, chemicals, electronics, and machinery and to sell capital goods and high tech components for high growth industries (automotive, chemicals, telecom, IT) and services.

Recurring issues facing new entrants

Our experience with several hundred contacts with potential Swiss entrants has taught us that the same issues recur when SME's establish operations, enter into JV's or acquire businesses in China. Most SME's lack the local knowledge and the necessary connections to the local Chinese authorities to adequately assess the market op-

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portunities and to structure and execute effective market entry strategies and operations. They consistently face issues such as:

- Lack of market information and understanding
- Lack of internal management resources
- Inability to handle effectively the bureaucratic hurdles

- Lack the critical size to exploit economies of scale
- Inadequate quality of supply of local components (high damage and loss rates, unreliable delivery times, pilferage)
- Lack of direct entry to financial resources
- Unreliable accounting records with widely different accounting standards.

The Instruments of the Swiss Government to Support the Market Entry and Expansion of Swiss Companies in China

SOFI (Swiss Organisation for Facilitating Investments)
<http://www.sofi.ch>

To complement financial measures of the Swiss Government to encourage and facilitate Swiss investments in developing and transition countries, SOFI was created in 1997 on the initiative of the State Secretariat for Economic Affairs (seco) and in co-operation with KPMG which provides staff, logistics and aids international network.

SOFI's objective is to encourage, facilitate and contribute to the effective implementation of investment projects between Swiss companies and counterparts from developing and transition countries, together with the associated know-how and technology transfers. SOFI is active in Asia (China, India, Thailand, Vietnam, Philippines, Indonesia), Europe (Bulgaria, Czech Republic, Slovak Republic, Hungary, Russia, Poland, Romania, Azerbaijan, Ukraine, Africa (Egypt, Ghana, Ivory Coast, Morocco, Tunisia, South Africa), and Latin America (Brazil, Chile, Colombia, Central America, Peru).

More specifically aiming at satisfying the needs of SMEs we provide the following services:

- We promote investments for our target countries (seminars, business missions).
- We provide updated information on general investment framework conditions for our target countries (economic, political, legal, investments incentives, market research, salary levels, costs of doing business).
- We provide matchmaking, partner search and selection services (database searches, direct contacts with professional associations).
- We provide investment consultancy services such as:
 - Investment strategy.
 - Market entry strategies
 - Pre-investment and feasibility studies
 - Project formulation, business plan
 - Negotiation support
 - Due diligence
 - Search for funds
 - Financial engineering
 - Support in the implementation phase
- We assist the management of contacts and relationships with bi- and multi-lateral institutions (World Bank, MIGA, ADB).

SOFI has developed a strong network of counterparts in 55 developing and transition countries and has entered into partnerships with over 100 private and governmental organizations. We are very closely associated with our embassies in all target countries.

Our clients have very diversified needs. They need information on market potential, legal considerations related to investments, partner search and selection. When our clients are in the market, we provide negotiation support and networking contacts, which are so vital for success in Asia. Most of our clients are SME (small and medium-sized enterprises). When expanding in Asia SME generally face difficulties in getting accurate and actionable market information. They have limited and stretched managerial resources and often face difficulties to finance their operations.

Market penetration in Asia is complex and requires a professional and systematic approach and preparation. Of crucial importance is the preparation to markets entry (market size and segmentation, competitive situation, sales and promotion, distribution channels, pricing strategy, business and financial planning), partner search and selection including due diligence, site selection (infrastructures, communications, logistics, access to electricity, gas, water, tax regime, investments' incentives) and human resources management (recruitment, management and motivation, training / coaching, quality and competencies of local and expatriate personnel). Some examples of the kind of support we have provided recently in China for Swiss companies:

- We have assisted a company active in the production of isolation material and components for electrical generators. This company has formed a joint venture near Shanghai and we have provided advisory services for business planning and financing. We also assisted in some critical negotiation phases.
- We have assisted a telecommunication company to improve its collection performance.
- We have searched and selected potential partners for various companies in the pharmaceutical and machinery sectors.
- We have helped a food processing company in their negotiations with their Chinese partners.
- We have guided and advised dozens of first time investors in their first contacts in China.

Are you thinking of investing in China?

Need assistance?

- Market entry strategy? Market research?
- Partner search and selection? Site selection?
- Project feasibility? Business plan?
- Negotiation assistance?
- Financial engineering and search of funds?
- Advice on availability of Swiss Government funds?

Call our experienced China Team (our team includes Chinese-speaking consultants) in Zurich at +41-1-249 28 88 for an initial advice with no obligation. Consult our website at <http://www.sofi.ch>.

The Sino-Swiss Partnership Fund (SSPF) <http://www.sofi.ch>

In China, SOFI is very actively involved since 1998 in supporting the Sino-Swiss Partnership Fund (SSPF) jointly with our partner in China, the China Development Bank (CDB), one of the largest and most influential banks in China.

The Sino-Swiss Partnership Fund (SSPF), a direct investment fund, is a new and unique (the first of its kind in China) instrument of the Swiss economic development co-operation programme in China. The State Secretariat for Economic Affairs of Switzerland (seco) and the China Development Bank (CDB) pursuant to a Memorandum of Understanding between the governments of the Swiss Confederation and the People's Republic of China jointly established it in 1998. The Fund has an initial registered capital of 31.25 million Swiss Francs of which 80% have been contributed by the Swiss government and 20% by the Chinese government represented by CDB, which also manages the Fund. Contact point of the SSPF in Switzerland is the Swiss Organization for Facilitating Investments (SOFI).

The purpose of the SSPF is to promote sustainable development in the People's Republic of China by facilitating the inflow of foreign capital and the transfer of advanced technologies and managerial expertise. Furthermore, the Fund aims at strengthening the business co-operation between China and Switzerland by fostering strong Sino-Swiss partnerships, mostly joint ventures, and assisting small and medium-sized enterprises (SME) from Switzerland and other OECD countries wishing to expand into the Chinese market.

The SSPF is providing financial and non-financial support to Sino-Swiss partnerships and intends to be, for a limited time, an active valuable partner to sponsors of investment projects. Financing is predominantly in the form of equity and quasi-equity, but loans and guarantees are also offered the Fund will never be the largest shareholder in a partnership and the maximum investment in any partnership by the Fund does not surpass five million Swiss Francs. The non-financial support offered by the fund manager may include, among others. Financial advisory services, counsel during partnership negotiations and post-finance by, for instance delegating a representative to the governing board of joint ventures.

Up to December 2000, the Fund has approved 6 investments totaling approximately SFr 20 million. The total investments for these 6 projects amount to SFr 197 million. Four additional projects are under review for a total investment of SFr 78 million with a SSPF participation of SFr 14 million.

The Fund invested in companies active in sectors such as insulation materials and components, automotive parts, construction material, food processing, pharmaceuticals and electronics. It is expected that the first tranche of the Fund's capital will be fully invested by mid 2001. Both governments will then have to decide on a possible capital increase. At a later point in time, after more experience has been gained with investment projects, an opening-up of the Fund to outside investors could be envisaged.

A good example of one of our first investments is the Taizhou Weidmann High Voltage Insulation Co., Ltd.

(continued on next page)

Taizhou Weidmann High Voltage Insulation Co., Ltd was established in 1998 in Taizhou, Jiangsu Province (distance: 300 km from Shanghai). It is a Joint Venture between the Wicor Group (Rapperswil) and Taizhou Insulation Materials Works (TIMW). Exports represent 20% of total sales. The JV manufactures and sells insulation materials and components for transformers. The JV has 486 employees and will be profitable in its second year of operation.

The Study Fund
<http://www.sofi.ch>

We can also assist companies in need of project preparation support. The purpose of the Facility is to promote investments in developing countries by facilitating and supporting systematic project preparation. Funds are available for the preparation of private investment pro-

jects, "build-operate-transfer" (BOT) and similar projects, and for certain public sector owned projects, which follow market principles.

Financing is available in the form of a loan for studies and pilot projects assessing private investment opportunities. The loan covers a maximum of 50 per cent (up to SFr 1 million) of the costs for studies or pilot projects. For BOT projects the upper limit is set at SFr 2 million. The projects promoters raise the other 50 per cent. The loan will either have to be repaid entirely (with interest) or will be converted into a grant. SOFI is the Fund Manager of the Study Fund.

In China, the Study Fund has so far participated in 4 projects in the precision engineering (manufacturing of pen balls), environment (micro-tunneling, rubber processing wastewater treatment, pulp mill effluents treatment) for a total of SFr 1.2 million.

Swiss Development Finance Corporation (SDFC)
<http://www.swiss-dfc.ch/>

SDFC, founded in March 1999, is a Zurich based, private equity investment company, managed by Swiss Emerging Markets Partners AG. Currently it has CHF 55 million of committed capital available to invest on behalf of a group of major Swiss based corporations and the Government of Switzerland.

SDFC offers a "one-stop-shop" financing service to corporations in selected developing and transition countries, in which primarily Swiss small and medium sized companies ("SME"), but also SME's from other OECD countries, act as direct investors or provide other means of support.

SDFC provides the crucial mezzanine (subordinated debt with warrants) or equity portion of the financing package itself and thereby strengthens the client's capacity to borrow senior debt. An integral part of SDFC's services is to attract other financial institutions and negotiate terms and conditions of senior debt on your behalf. Contacts, experience, skills and dedication, make us your uniquely well positioned partner.

Complementary services offered include:

- Structured finance advisory;
- Project and business plan preparation support for selected clients;
- Management of relationships with bi- and multilateral institutions; and
- Negotiation support in all project related aspects (legal, tax, concessions, etc.).

The potential target company in the emerging markets should be a privately held company with experienced management, undisputed and favorable reputation with a well-recognized market position. Further characteristics include reliable profitability and cash flow generation or strong profitability prospects. In addition, the investing company should be at least two years old.

Targeted industries are Power, Water, Telecommunications, Healthcare and Medical Service Industry, Food and Agribusiness, and Selected Manufacturing Industry.

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SWISS CENTER SHANGHAI
<http://www.swisscenters.com>

SOFI supports the creation of a Swiss Center in Shanghai. The objectives of the SCS are to:

- Facilitate market entry by systematically reducing market entry time, costs and risks
- Facilitate Swiss-China trade and investments
- Contribute to the further enhancement of Switzerland's image in China

The SCS will offer the following services to its members:

- Advisory services (strategic consulting, legal advisory, accounting, market research, recruitment, local relationship management, IT-web consulting)
- Exhibition services (possibility to exhibit, promote and sell products)
- Production start-up (small-scale start-up production)
- E-commerce business solutions (web consulting and design)

The SCS is strategically located in Shanghai, Minhang District in the Xinzhuang Industrial Zone. The local authorities have offered 8'000 sqm of fully equipped industrial land where the project initiators plan to build 3'000 sqm of office and exhibition space.

On September 14, 2000, the anniversary day of 50 years of diplomatic relations between Switzerland and the People's Republic of China, the President of the Swiss Confederation Adolf Ogi laid the first stone of the Swiss Center Shanghai (SCS).

China is a rewarding and fascinating market. But it is by no means an easy market.

I have discovered over time that a few simple basic principles should be respected to increase considerably your chances of success.

- 1 Thorough market research is a must.
- 2 Build and cultivate relationships with your Chinese partners.
- 3 Send your best people to China.
- 4 Show an interest in Chinese culture and history.
- 5 Be patient and set realistic timescales.
- 6 Have a long-term strategy.
- 7 Keep smiling and be graceful when things go wrong. Ability to keep cool is in my experience a key to success and a source of respect in Asia.

Pierre-Alain Avoyer

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The Sofi China Team



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Mr. Avoyer is responsible for SOFI's operations in China, Indonesia, Philippines, Thailand and Vietnam. He has 21 years of international management experience working for major U.S. and international companies mainly in Asia. He started his professional life as a Delegate of the International Committee of the Red Cross (ICRC) in combat zones in Africa (Chad, Angola) and Asia (Cambodia, Thailand) and at Procter & Gamble International.

Mr. Avoyer has been involved with Asia for over 25 years. He lived and worked 16 years in South East Asia (Thailand, Singapore, Malaysia, Indonesia, Vietnam, Cambodia) leading medium-sized companies. He has a broad experience in general management, marketing of consumer goods and start-up/turnaround situations. In addition to mainstream general management, he has developed an extensive experience in international consulting.

Mr. Avoyer earned a MSc in Experimental Psychology from the University of Geneva in 1979. He has been trained extensively in corporate direction and international business with major global US companies. He participated to a senior executive management program at IMD in Lausanne (PED/Program For Executive Development).

Mr. Avoyer is fluent in French, English, Italian and has a good working knowledge in German and Thai.



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Ms. Stahl-Wu began her education in an English boarding school in Hangzhou, China. On her outstanding records she was granted a scholarship which allowed her to study comparative literature in Leiden (Holland) and Law at the University of Zurich where she earned her lic.iur.

Ms. Stahl-Wu has been living in Europe for more than ten years. During that period, she has maintained close personal and business relationship with China. She joined SOFI/KPMG in September 2000 as a China consultant.

She provides partner search, consulting and networking services for China and she is fluent in Chinese, German, English and Dutch. She has a good working knowledge of French.

Swissmem's Division Successful in Beijing

Swiss Evening in Beijing Promotes Friendship

The creative diversity and high quality of the works exhibited meant that the jury's task of selecting four prizewinners was far from easy. 20 young fashion design students from four Chinese universities were competing to win trips to Switzerland sponsored by Swissair. Wang Xu (Beijing), Wu Bo (Beijing), Qian Meng-Yao (Suzhou) and Zhou Hong-Lei (Shanghai) were the lucky winners and received congratulations from deputy minister Du Yu-Zhou and ambassador Dominique Dreyer.

Swissmem's textile machinery division organized the unusual event to coincide with the anniversary of "50 years of diplomatic relations between Switzerland and the People's Republic of China" and the CITME 2000 trade fair which was taking place at the same time. "The first official Swiss commercial delegation to visit China in 1979 consisted of representatives of the textile machinery industry. Today, China is one of our industry's most important markets", explains division manager Heinz Bachmann, and goes on to say that the Young Fashion Contest was intended as a symbolic gesture, based on the view that the future belonged to creative young people. China is indeed now one of this industry's top five markets. In the first three quarters of 2000, Switzerland exported textile machinery worth CHF 128 million

to China (+79 % compared with the year-back period). After a dramatic plunge in recent years, the sector is back on a rising trend. Heinz Bachmann believes that China currently has huge growth potential and the twenty or so Swiss exhibitors at this year's CITME reported a very gratifying pace of business. "The dominant feeling in the second half of this year is one of optimism and great expectations for the years to come".

Just over 500 guests took up the invitation to Beijing's Swissôtel on 11 October and experienced a truly dazzling Swiss Evening. The models presented at the professionally structured fashion show impressed by their youthful openness and great enthusiasm for new things. The grey uniform look has long since become a thing of the past and in the world of fashion, as in other areas, China has thrown its doors wide open to western influences. After the contest, four students from the St. Gallen textile college (Textilfachschule St. Gallen) enthralled the audience with a varied and colourful show that gave the Swiss Evening a sense of strengthening ties between peoples. Since time immemorial, high-class textiles have played a very special part in our cultures, symbolizing high esteem and friendship. "Fashion promotes friendship" (in big letters) was China Daily's comment on the successful event.



(f. l. t. r.) Swiss Ambassador Dominique Dreyer, Chinese Vice Minister Du Yu-Zhou, Heinz Bachmann, President of the Textile Machinery Group and CEO of Saurer Textile Systems Ltd. (Arbon) and Philip Mosimann, CEO Sulzer Textile Ltd. (Rüti) at the Swiss evening at the Swissôtel in Beijing on October 11.



Swiss Evening in Beijing

Swiss Textile Machinery – Business Conditions – Consolidation on High Level

The global economic upturn has also reached the textile machinery industry, where its impact has been impressive. After a disappointing year in 1999, the sector got off to a brilliant start to the new Millennium. In the first three quarters of 2000, exports from Switzerland were up by 26% compared to last year's figure.

Encouraging Balance 2000

Swiss textile machinery manufacturers report a continuing rise in new orders and a backlog of work stretching well into next year. The most significant impact comes from the Asian markets, which exceeded expectations with impressive growth rates. The on-going upward trend is encouraging, showing a clear recovery of the sector. The current year will close strong and the outlook for 2001 as a whole is promising stabilization and consolidation on high level.

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Breakdown of export figures for three quarters 2000

(compared to same period of previous year)

Exports by region	million CHF	D %
World	1'738	+ 26
Europe	802	+ 16
Asia	564	+ 61
America	317	+ 7
Africa	50	+ 23

Exports by sector	D %
spinning machines	+ 34
weaving machines	+ 32
knitting / embroidery machines	+ 80
auxiliary machines / accessories	+ 16
finishing / processing machines	+ 17

Exports by country	million CHF	D %
Italy	178	+ 26
Germany	162	+ 18
USA	162	- 11
Turkey	160	+148
China / Hong Kong	128	+ 79
India	65	+ 10
Taiwan	62	+ 33
France	53	- 14
Japan	52	+104
Mexico	51	+ 36

The Chinese Banking Industry in Transition

1. Historical Background

The early roots of Chinese banking date back to the Tang Dynasty (618-907) when due to increasing trade along major trade routes institutions were established to act as money exchangers as well as bank note issuing and mint houses.

A modern banking industry in China started to develop from around 1850 (late Qing Dynasty). A number of foreign banks from countries with political and economic interests in China established outlets in China's coastal cities. In 1897, the Tongshang Bank was founded in Shanghai as the first Chinese commercial bank. This was followed by the establishment of a number of regional commercial banks. The foundation of Hubu Bank (= Treasury Bank) in 1905 as the first central bank to supervise the commercial banks and to act as note issuing bank represented a significant development in China's banking history. In 1908, Hubu Bank was transformed into the Daqing Bank (Great Qing Bank) with its head office in Shanghai. In the same year, Bank of Communications was established in Beijing with the funding of infrastructure projects as its main business objective.

The further development of China's banking industry occurred during the period of the Republic (1911-1949) and saw the restructuring of the Daqing Bank into the Bank of China (1912) as well as the establishment of commercial banks connected to crucial sectors of the economy, particularly in the fields of agriculture and infrastructure. The revolutionary forces under Mao Zedong founded their own state-in-state banking system with the First Farmers' Bank (1926, Hunan), the predecessor of today's People's Bank of China, and a few commercial banks. During the Anti-Japanese War, a large number of regional banks were established.

2. China's Banking System since the Founding of the People's Republic of China

During the early years of the People's Republic of China, most banks that had been operative in the first half of the 20th century were closed and a highly centralized system comprising only very few institutions was set up. Upon the resolution of the Central Committee of the Chinese Communist Party the People's Bank of China (PBOC) was founded in 1948 in Shijiazhuang, Hebei Province. Its main task was the issuance of the new currency, the Renminbi (RMB). In 1949 the Bank moved to Beijing and became the main pillar of the new banking system. It had the function of both a central (including duties as supervisor of the financial industry) and a commercial bank. The Bank of Communications was nationalized and its domestic business transferred into PBOC. The Bank of China (BOC) acted as the nation's foreign trade bank and partly also as a foreign exchange control authority. Up until the mid-80's it was the only bank entitled to deal in foreign exchange. The financial system was further complemented by the People's Insur-

ance Company of China (PICC), the Gongsu Heying Bank as well as a large number of Rural Credit Cooperatives. They all built an integral part of PBOC, thus representing a banking system typical for a planned socialist economy.

2.1. Developments of China's Financial Industry since the Implementation of the Open Door Policy

The open door policy initiated in 1979 imposed far-reaching changes on the banking system. The simplistic and inflexible banking system of the early years of the People's Republic of China could not meet the challenges of an economy that was becoming increasingly integrated into the global markets and embarking on a path of accelerated growth. Banks had to diversify and be integrated in a global interbank system.

Thus, in 1984, PBOC was split into an institution assuming the de facto role of a central bank (this status was legally confirmed in 1995) and the Industrial and Commercial Bank of China (ICBC), a new commercial bank focusing on retail banking and financial services to enterprises in urban areas. In 1979 the Agricultural Bank of China (ABC) and the People's Construction Bank of China (PCBC), the later China Construction Bank (CCB), were re-established as independent banking institutions.

The 80's saw the emergence of commercial banks owned by shareholders such as the CITIC Industrial Bank and the Bank of Communications. The Bank of Communications was revived as a national commercial bank with headquarters in Shanghai in 1987. At the same time, the specialization of the four large commercial banks (BOC, ICBC, CCB and ABC) on specific sectors of the economy was largely eliminated and those banks that had only been dealing in local currency moved into international business. The expansion of the Chinese banking industry continued into the 90's with the foundation of a number of regional banks such as the Shanghai Pudong Development Bank and the Guangdong Development Bank. In an effort to separate policy from commercial lending, three policy banks were set up in 1994. In 1996 China's first commercial bank with non-state enterprises as its key shareholders – China Minsheng Bank – was established.

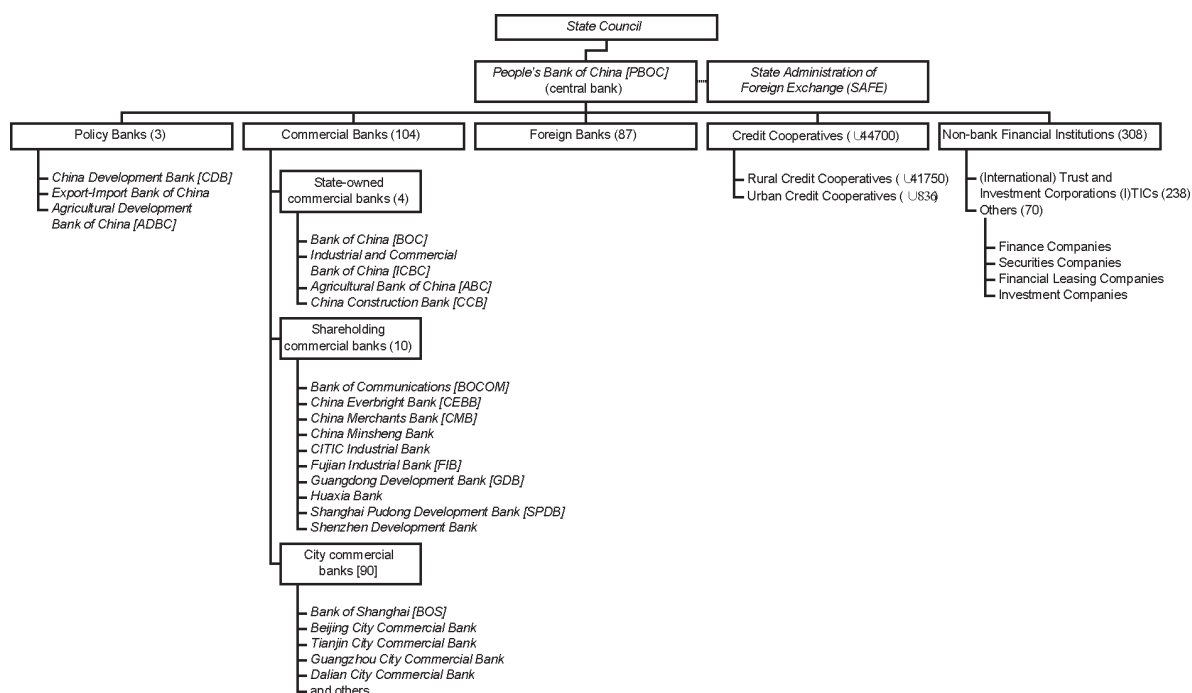
2.2. Structure of the Chinese Financial System

The above developments led to today's structure, comprising 107 domestic and 87 foreign banks, about 44700 credit cooperatives and 308 non-bank financial institutions.

At present the total assets of China's financial sector amount to RMB 15.25 tn (USD 2.14 tn, excluding security and insurance companies), of which the commercial banks share RMB 10 tn (USD 1.4 tn).

(continued on page 26)

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2.3. Major Sectors and Institutions

2.3.1. Policy Banks

The three policy banks were set up in 1994 to take over the role of policy lending. Their supervisory boards are nominated by the State Council. A "Policy Bank Law" has been under discussion since their establishment, but has so far not been promulgated.

- The China Development Bank focuses on lending to infrastructure, basic and pillar industries. Its relationship to government authorities such as the State Development and Planning Commission and the State Economic and Trade Commission is very close.
- The major objective of the Export-Import Bank of China is the financing of Chinese exports of capital goods, partly at government subsidized terms. Similar to the People's Insurance Company of China, it acts as China's export risk agency. The Bank can also on-lend foreign soft and mixed loans.
- The Agricultural Development Bank of China has taken over the agricultural policy credit business from Agricultural Bank of China, providing funds for the procurement of grain, cotton and edible oils as well as for agricultural infrastructure and poverty alleviation projects. The Bank has so far not commenced international business operations.

2.3.2. State-owned Commercial Banks

The four large state-owned commercial banks have retained a dominant position in China's financial industry, comprising about 62% of the total assets, 61% of the deposits and 56% of the lending. Their branch networks account for about 140'000 offices, and they employ roughly 1.6 mn staff.

– As mentioned below, *Bank of China* (BOC) was the only commercial bank authorized to engage in international financial transactions up to the mid 80's. Its central bank duties mainly included the management of the country's foreign exchange reserves. In 1995, this task was transferred to the State Administration of Foreign Exchange (SAFE), an entity attached to the People's Bank of China assuming all foreign exchange related central banking functions. Although other commercial banks have moved into international operations, BOC retains a strong position in this sector and with 26 overseas branches, 4 representative offices and 1 agency it has an extensive international network. BOC has in recent years undergone restructuring aimed at streamlining operations, improving risk management and achieving more client-oriented services. In the provinces, the branch network was consolidated by merging provincial branches with city branches. In Hongkong, BOC operated a large branch with 11 affiliated "Sister Banks". Half of them were directly owned by BOC Beijing and had their legal head offices in Beijing (administered by the BOC Head Office Banking Department); the others were associated with family clans maintaining strong ties to BOC and/or nominees of BOC Beijing. In December 2000, BOC announced to fully merge its Hongkong operations with 9 BOC Sister Banks in a new entity. 2 of the Sister Banks, Chiyu Banking Corporation and Nanyang Commercial Bank, will become subsidiaries of the new organization. There have been rumors that this new entity will seek a public listing in Hongkong.

– The *Industrial and Commercial Bank of China* (ICBC) was founded in January 1984 as a spin-off of the commercial banking business of the then People's Bank of China. It is the largest Chinese bank with a strong funding basis in local currency and an extensive do-

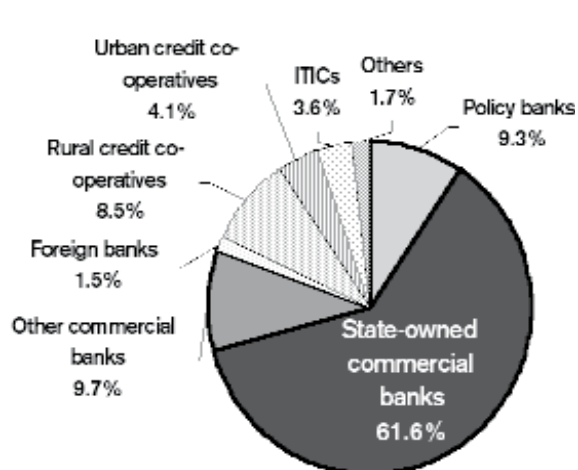
mestic branch network. In a global context it ranks No. 6 in terms of equity among the world's largest 200 banks (Euromoney ranking). In 1988 ICBC started engaging in international operations. Presently the bank has 7 overseas branches and 3 representative offices.

- In 1954 the People's Construction Bank of China, the present *China Construction Bank* (CCB) was established to specialize in mid- to long-term fixed asset loans needed for the implementation of the growing number of ambitious capital construction projects. In 1958, it merged with the Ministry of Finance. In 1979 CCB was re-established as an independent commercial bank. In 1983 China Investment Bank (formerly under the Ministry of Finance and mainly acting as on-lender of supra-national lendings) was integrated as a subsidiary of CCB. In 1999 CIB was fully merged with China Everbright Bank (CEBB). Presently, the CCB overseas network comprises 3 branches and 7 representative offices.
- The *Agricultural Bank of China* (ABC) has an eventful history. Established in 1951, it closed and re-

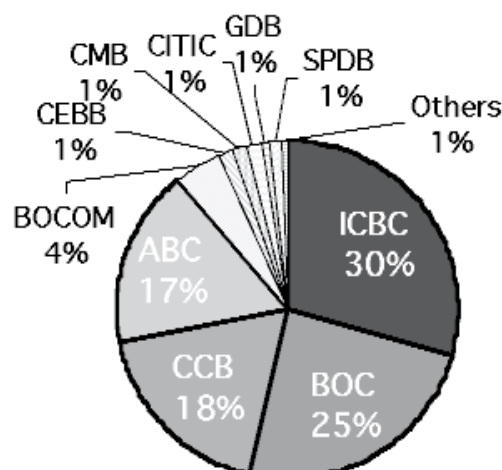
opened three times before it was finally re-established in 1997 as a commercial bank mainly focusing on agriculture and township enterprises. In 1988, ABC started international operations and has diversified into other sectors of the economy in its lending and international trade settlement business. Outside of China, ABC is represented by 2 branches and 3 representative offices.

2.3.3. Shareholding Commercial Banks

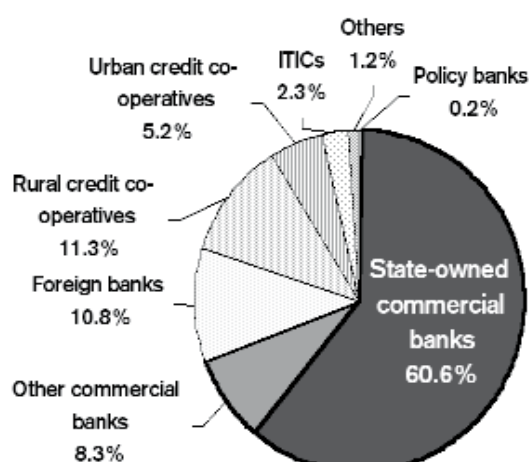
Since the 90's, the liberalization and the increased market-orientation in the banking sector have allowed for a more competitive environment. The state-owned commercial banks, giants in terms of staff and branch networks and still too driven by policy considerations rather than by market orientation and unaccustomed to providing real customer services, have met fierce competition from the other commercial banks. Due to their smaller size, the latter are easier to manage and more flexible. Since their establishment, they have followed a more market-oriented business strategy and were less affected by pure policy lending. As a result, some of them became more successful than the four state-owned banks.



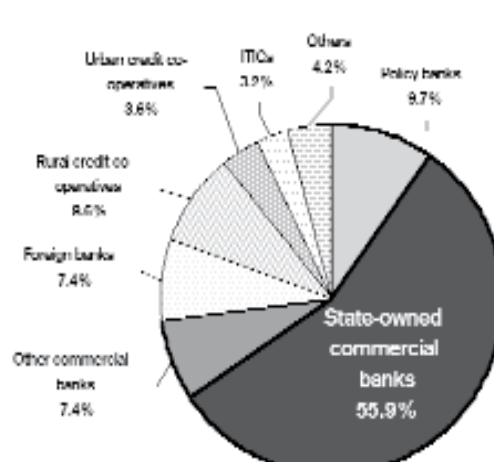
Total Assets by category
Source: PBOC



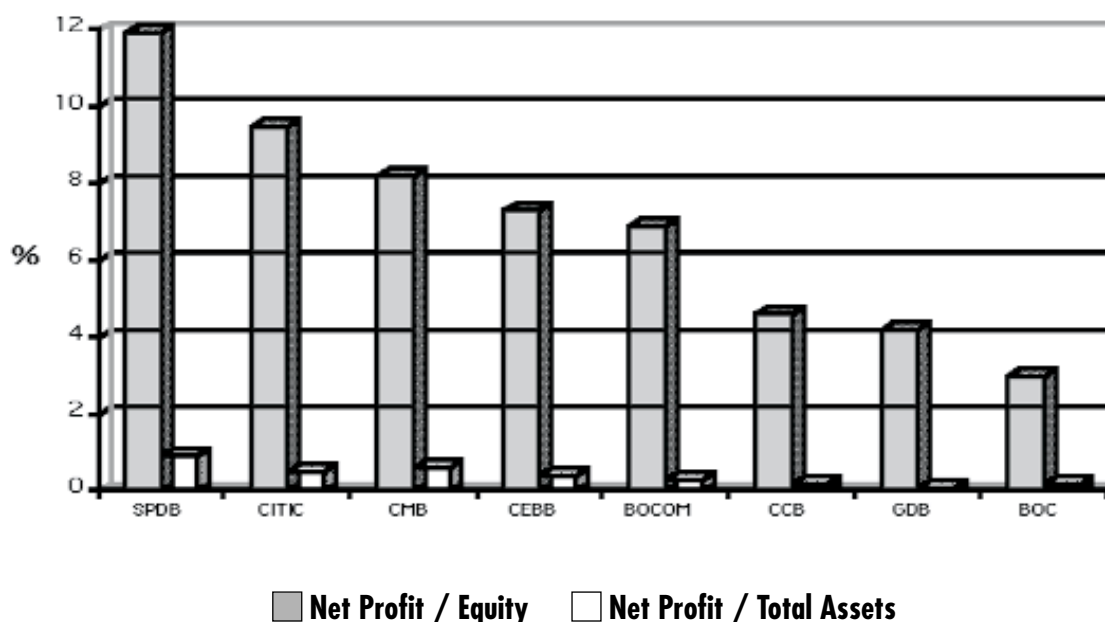
Assets of major Chinese banks
Source: Axiata



Total Deposits by category
Source: PBOC



Total Loans by category
Source: PBOC



The best performing Chinese banks

Source: Asiaweek

2.3.4. City Commercial Banks

Since 1996 the Urban Credit Cooperatives in many cities have been restructured into joint-stock City Commercial Banks. At present there are 90. They operate like the shareholding commercial banks. However, many are very small and cannot boast good asset qualities. The five institutions with total assets exceeding RMB 20 bn are the Shanghai (Bank of Shanghai), Beijing, Tianjin, Guangzhou and Dalian City Commercial Banks. The International Finance Corporation (IFC) has a 5% (about USD 100 m) stake in Bank of Shanghai. A number of them have established correspondent relationships with foreign banks.

2.3.5. Foreign Banks

Presently 87 foreign financial institutions from 22 countries and regions are authorized by PBOC to run 182 branches and representative offices in China. Among them, 32 have been granted a license to engage in RMB business. However, these RMB permits are still restricted to two selected areas: to Shanghai Municipality and the provinces of Jiangsu and Zhejiang for the foreign banks in Greater Shanghai and to Shenzhen for those established there. Their business activities are restricted to Foreign-Funded Enterprises (FFE). However, with a share of about 20% in the country's foreign currency lending market, they already play a significant role in this business area.

The activities of the above mentioned groups of commercial banks (pt. 2.3.2-5) are subject to the "Commercial Bank Law of the People's Republic of China", promulgated in 1995. The law is designed to protect the legal interests of commercial banks, depositors and bank customers, and to standardize the operations of commercial banks.

2.3.6. Credit Cooperatives

There are roughly 3200 Urban and around 41500 Rural Credit Cooperatives.

– The *Rural Credit Cooperatives* play an important role as bankers to China's farmers. Until a few years ago they only operated as "deposit-taking stations" for the Agricultural Bank of China. During the 1990s, however, they split and were authorized to provide loans. Lending was mainly channeled into township enterprises and real estate projects. As their employees are not trained in risk management, the asset quality of some of the cooperatives is extremely bad. The central bank has tried to merge failed cooperatives with more successful ones and injected more than RMB 60bn into the system. The process of mergers is still going on, and the number of credit cooperatives is decreasing year by year. Furthermore, the establishment of rural commercial banks is discussed.

– The *Urban Credit Cooperatives* have the same function for the urban population. They were originally in an administrative cooperation with the Industrial and Commercial Bank of China.

2.3.7. The (International) Trust and Investment Corporations (ITICs) and other Non-bank Financial Institutions

From the early 80's a number of non-bank financial institutions emerged. They comprised insurance, trust, securities and finance as well as financial leasing companies. In November 1998 the insurance companies were transferred from the supervision of PBOC to the China Insurance Regulatory Commission (CIRC). The other non-bank financial institutions remained under the su-

pervision of PBOC. Their activities are governed by the “Provisionary Regulations for Non-bank Financial Institutions”.

– Among the non-bank financial institutions, the (*International*) *Trust and Investment Corporations* (ITICs) played an important role. Following the model of the China International Trust and Investment Corporation (CITIC), they were established in large number by municipal and provincial governments to act as their funding arm in key infrastructure projects. In April 1986, PBOC promulgated the “Interim Regulations of the Administration of Financial Trust and Investment Companies”. Only 11 ITICs were authorized to engage in international business and a small number was entitled to raise funds in international capital markets. Some of them had their own window companies in Hongkong such as Guangdong Enterprises (Hongkong) Ltd. acting on behalf of Guangdong ITIC. In the 1990’s various ITICs engaged in property speculation as well as in high-risk foreign currency transactions, which were not yet clearly regulated by the Chinese foreign exchange authorities. As a result, some of them ran into severe financial difficulties. It came as a shock to foreign banks when in late 1998

one of the largest ITICs, Guangdong ITIC, was declared bankrupt. However, if the small market share of the ITICs in China’s financial industry is taken into consideration, the impact of their financial troubles on the system has been overstated. At the end of 1999 there were 238 ITICs. At present PBOC aims at further consolidating this sector.

– There are 70 *finance companies* and 15 *leasing companies*. Some of the finance companies are affiliated to large industrial conglomerates such as the Huaneng Group.

2.4. The reform of the state-owned banks

Up until the late 90’s, the commercial banks and in particular the four large state-owned banks were not in a position to operate on a purely market-oriented basis. To a certain extent they acted as cashiers of the central and provincial governments. They had a mandate to support state-owned enterprises, even if they were unprofitable and thus unable to repay loans. Furthermore, they were restricted by the credit plan and had to observe quotas. At this stage it was extremely difficult for Foreign-Funded Enterprises (FFE) to secure loans from Chinese commercial banks, particularly in their start-up phase. As

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long as the enterprise reform remained largely cosmetic, it was almost impossible for Chinese banks to realize fundamental changes in their credit policy and approval process and to improve their asset quality. During seminars organized by CSFB for Chinese banks on risk management, it was noted that the methods of modern credit and risk management were not difficult to understand, but impossible to implement in their daily work.

The call for thorough reforms was put forward again in November 1997 at the "Annual National Convention of the Commercial Banks" held in Beihai. In December of the same year the credit quota system was abolished. The banks were instead required to observe an asset and liability ratio. Furthermore, no more than 10% of a bank's capital could be lent to one borrower. The impending accession of China to WTO has also built a "catalyst" for the financial sector reform, as foreign banks will be able to move increasingly into the domestic sector.

In an endeavor to improve the capital adequacy ratio of the four state-owned commercial banks, the Ministry of Finance injected new capital in the amount of RMB 270 bn via a special bond issue in August 1998. In 1999 China made a significant step towards solving the heavy burden of non-performing loans (NPL) the four state-owned commercial banks were faced with. By that time the commercial banks had accumulated bad debt of over RMB 2 trillion. Following the example of the Resolution of Trust Corporation in the US, four Asset Management Companies (AMCs) were set up to take over part of these banks' problem loans. Each AMC was capitalized by the Ministry of Finance with RMB 10 bn. Each of them is associated with one of the four large commercial banks. They are Cinda Asset Management (CCB), Great Wall (ABC), Huarong (ICBC) and Dongfang (BOC). Cinda has also taken over NPLs from the China Development Bank.

Up to September this year RMB 1.3 trillion in NPLs were transferred to AMCs or 97% of the targeted volume. Debt-to-equity swaps by the AMCs is one approach to reduce the debt burden of state-owned enterprises. The AMCs have completed framework agreements with some state-owned enterprises under a debt-to-equity plan and the State Economic and Trade Commission has since recommended that about 600 state-owned enterprises undergo debt-to-equity swaps for debt worth RMB 400bn. As a rule, only loans that were granted before 1969 and loans that have some hope for recovery can be transferred to the AMCs. In a 10 years time frame a recovery rate of 30% is targeted. The government hopes for a higher rate in the long-term.

The consolidation of branch networks and a reduction of bloated staffing levels are further measures to improve efficiency of large state-owned banks.

During the last few years, credit management also has significantly improved. The China Construction Bank has restructured its credit approval and management mechanisms and set up a new credit committee. Bank of China signed an agreement with Reuters on June this year to use the Kondor+ Risk Management System and CITIC Industrial Bank has retained McKinsey's services. In addition, a national lending system network will be established which will allow banks to have access to credit and loan information on more than 1 million borrowers,

including their key financial figures, track record regarding repayment of loans as well as financial disputes. Black lists of loan defaulters have been published that bar them from obtaining new loans.

Furthermore, the classification of loans according to their recoverability is an effective measure of the regulators (PBOC) against NPLs. The introduction of this system also allows the identification of loans that need special attention before they become bad debt.

3. Outlook

The present banking reform in our opinion, is a move into the right direction. However, the transformation of the four state-owned commercial banks into institutions operating along purely commercial lines remains a formidable task and may take much longer than current forecasts. Going forward, a number of issues remain to be tackled. They include:

- Greater flexibility in the setting of interest rates and the pricing of risk.
- The classification of loans as overdue when interest is due. At present only loans where the principal is overdue are recognized as overdue.
- The possibility of the writing-off of bad debt in a more aggressive way. This largely depends on the policy set by the Ministry of Finance.

In this process the further development of a sound financial sector infrastructure, including a well-functioning legal system, a bank supervisory system and a market-oriented credit culture as well as reliable financial information and management information systems remains crucial.

E-banking is another field that will be of growing importance for Chinese financial institutions enabling them to providing improved service to both, retail and corporate clients. In the past few years the Chinese banks have invested a lot of efforts and resources into this sector to develop related facilities. China Merchants Bank could be considered a leader in this area.

The forthcoming accession of China to WTO will further support the reform process and will widen the choice of financial service providers, both domestic and foreign, for foreign companies active in China.

Written in November 2000 by

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China to adopt six major financial policies

China will introduce six major financial policies in the year 2001, including the issuing of middle- and long-term treasury bonds. To improve the country's social security system, China will increase spending on social security while studying the possibility of launching a social security tax, reducing the equities held by the state and increasing lottery issuance. The policies also include further adjusting the system of income distribution, improving taxation policy to boost export, encouraging the introduction of key technology and equipment and speeding up reform of taxation and fees in rural areas.

Source: Xinhua

Private banks to start business in China

Four privately-owned commercial banks are expected to open around the time of China's expected accession into the WTO. The four banks that are scheduled to be launched include the Taizhou-based Tailong Bank, Zhejiang Province, the Shenyang-based Ruifeng Bank, Liaoning Province, the Xi'an-based China Great Wall Bank, Shaan'xi Province and a Jiangyin-based commercial bank, Jiangsu Province, that is still unnamed.

Source: China Daily

China issues rules on banking assets management firms

The State Council issued an ordinance in late November 2000 to regulate the activities of companies that are obliged to deal with the bad loans of local banks. The or-

dinance is designed to guide companies, which have been set up by the State Council specially for handling bad loans, to manage the assets from bad loans. The statute defines the structure, obligations, financial sources, ways for handling debt rights and management of these companies.

Source: Xinhua

Banking reform outlook far worse than official picture

According to a senior researcher of Standard Chartered Bank, China's banking reform will take much longer than the official rhetoric has it. Asset management companies which have so far bought about RMB 1.1 trillion of bad loans to improve bank balance sheets will face great difficulties to find buyers for those assets. "The current re-capitalisation amounts merely to a transfer of bad debt from the banking system to the public sector." Under the present Chinese system creditors are provided with little legal recourse against borrowers. Only legal reform and a strong law enforcement could break the persistent "no-payback" mentality, which remains a key source of moral hazard in China's banking system. The state banks' excessive exposure to state-owned enterprises is the fundamental obstacle preventing free, cross-border portfolio flows because it inhibits the development of market-driven interest rates. The downside of this scenario is that a fully convertible Renminbi will have to wait until the bank restructuring process is completed – and this could be 10 years away.

Source: South China Morning Post

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Rapid Development in the Delta Region

Unprecedented development of the private sector in the Delta Region

1. The private economy is now booming in China – especially in the Yangtze Delta region. This is one of the most significant developments in the economic and political life of the Chinese people in the recent years.

As the most dynamic region in China during the nineties of the past century, the Yangtze Delta region has achieved a great deal of economic progress. The private sector is playing a more and more important role in it.

2. According to the Shanghai Private Enterprises Association, by the end of last November, 111,400 private enterprises were registered in Shanghai (in China as a whole: ca. 1.3 million) – an increase of more than 68 times compared with 1990 (see Appendix 1. below). They employed more than 1.18 million people (in China: ca. 18 million) – an increase of more than 44 times and totalled 77.88 billion RMB (exchange rate: 1 USD = ca. 8.3 RMB) of registered capital (in China: 820 billion RMB) – an increase of more than 1164 times.

In the first 11 months of 1999, private enterprises in Shanghai realised 107.73 billion RMB in turnover – an increase of more than 537 times compared with the whole year of 1990, and paid 3.063 billion RMB in taxes – an increase of more than 339 times.

Currently, Shanghai ranks third (behind Shandong and Henan) in the number of private enterprises and second (behind Guangdong) in total amount of registered capital. In Shanghai alone there are 14 private enterprises with registered capital exceeding 100 million RMB.

3. Private economy has also progressed significantly in other parts of the delta region. In the early eighties, the private sector gained a foothold in Zhejiang (south of Shanghai) and Jiangsu (north of Shanghai) Provinces. For many years, Zhejiang was renowned throughout China for its dynamic private economy, while Jiangsu enjoyed a similar reputation for its “Township Enterprises”, usually lead by one or two private entrepreneurs.

According to the statistics of the provincial Administrative Bureaux of Industry and Commerce Jiangsu Province registered 1.66 million self-employed households and 131,400 private enterprises with 77.52 billion RMB capital, employing 4.95 million workers (as much as 17% of the total work forces) at the end of 1999. In Zhejiang Province there were more than 1.5 million self-employed households and more than 100,000 private enterprises at the end of 1998.

In today's Zhejiang, some 65% of the total investment (185.4 billion RMB in 1998), almost half of the industrial production, 60% of the retail sales, and one fourth of the fiscal revenue of the local government are generated by the private sector. Tax revenues from Jiangsu's private enterprises reached 201 million RMB in 1999 – an increase of 105.3% over the year before.

4. Newspapers carry many case reports about the surprisingly fast expansion of private enterprises. The recent

article about the Zhengtai Group illustrates this development: Fifteen years ago, Mr. Nan Cunhui, a young man from Wenzhou, set up his small switch gear factory with 5 workers and just 50,000 RMB in assets (mostly borrowed against mortgage). The once small factory has now developed into a large electrical equipment group with 5,000 workers, 700 million RMB in assets and 2 billion RMB in turnover. The group has set up 5 branches and 30 sales offices abroad.

Many private enterprises are now so strong and aggressive that they are moving into the Shanghai market. According to an officer of the Shanghai Private Enterprises Association, one third of the private enterprises registered in Shanghai are owned by citizens from other provinces. Some of them are taking over State-Owned Enterprises (SOEs). For example, Wenzhou Renmin Electric Group Corporation invested 120 million RMB in Shanghai's Jiading District to build an industrial park producing electrical equipment. Some private companies were also involved in mergers of SOEs in Shanghai.

“Taking off the Red Hat”: the revival of the private economy in China

1. Status before the Ninth National People's Congress

For several decades after the Communist Party (CPC) take-over, private businesses were banned in China. Even during the economic reform and up to the late eighties, the private sector remained very weak and under the pressure of the old regime, as illustrated by the statistics below.

Based on the pre-1999 Constitution, the private economy was only regarded as the antithesis of the national economy. As a “stepchild” in a family, the private economy suffered from discrimination (in business scopes, financing, tax, etc.) under the system of so-called “socialist market economy”. Private enterprises had to struggle with limited resources for their access to the markets and for their survival in an economy which strongly favoured SOEs.

The private sector used to be classified into two categories: one of them was called Individual Households (“Ge Ti Hu”), self-employed business owners and businesses employing less than eight workers. The other one was called Private Enterprises (“Si Ying Qi Ye”), which had to employ more than eight and fulfil qualified business conditions.

In this adverse climate, some private enterprises had no other choice than to register in the name of State-owned, collective or foreign-invested enterprises in order to access to the market or succeed there. This kind of activities were called “Putting on a Red Hat”. It made it more difficult to use statistics to ascertain a true picture of the status-quo of private enterprises, and created hidden problems such as obscure property rights or ill-defined rights and obligations.

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2. Status after the Ninth National People's Congress

Spurred by growing calls for a legal umbrella for the burgeoning private sector and to show its "rule-of-law" stance, the CPC decided at its 15th National Congress in September 1997 to raise the status of the private sector. The Central Committee of the CPC proposed to amend some sections of the Constitution at the end of January 1999. The changes were passed by the Ninth National People's Congress in March 1999.

The constitutional amendment defines the private sector as an "important component", instead of a "complement", of the "Socialist Market Economy". This effectively means that the private economy is now not only protected, but also encouraged. It gave the private entrepreneurs a greater sense of security, and was seen as a milestone in Chinese history.

Thereafter, many local laws protecting private enterprises have been immediately enacted in Shanghai and all provinces of the delta region.

The "Solely-Funded Enterprises Law" ("Duizi Qiye Fa") – a special law actually dealing with private enterprises – was then promulgated by the National Congress. It went into force at the beginning of 2000. Under the new law, the conditions for business start-ups will be eased. The individual proprietorship was granted the same status as other forms of ownership.

With this law, China will for the first time categorise businesses as being of individual proprietorship, partnerships and corporations. This means a historic break with the orthodox idea of favouring State ownership, affecting not only banking services but also taxation and trade.

To promote the healthy development of private enterprises, a series of measures designed to remove obstacles in such fields as investment, going-public, tax, land use, foreign trade etc. will be worked out. (See speech of Mr. Zen Peiyan, Director of the State Development and Planning Committee, on January 4th, 2000).

3. The role of the private sector in the future of China's economy

Undoubtedly, the private sector will be playing a more important role in the development of China's economy, among others in the following fields:

1. Growth of the national economy.

The private sector will become the most dynamic "new growth point" for the national economy. This explains why local governments in Shanghai have set up so many "Economic Zones" or "Industrial Parks", exclusively for private enterprises.

It was reported, that more than 100 such zones were set-up in Shanghai for the convenience of private enterprises. They can benefit preferential treatment in terms of registration, taxes, land prices, etc. The zones are concentrated in the suburbs of Shanghai, such as Qingpu, Jiading, Songjiang and Baoshan.

It is interesting that many of those private enterprises have only registered in the zones, but actually set up their head offices downtown, where they find better business locations.

2. Solving the unemployment problem.

China has a enormous excess of labour forces in all public service organs and SOEs. The private sector is badly needed to create millions of jobs, not only for the laid-off workers, but also for the young people entering the labour market.

According to sources from the Shanghai Administrative Bureau for Industry and Commerce, the private sector created about 100'000 new jobs for the laid-off workers in Shanghai during the last two years.

In general, the stronger the private sector, the smaller the unemployment problem. In areas such as Wenzhou, Zhejiang Province, nobody complains about underemployment.

Basic Statistics of Private Sector in Shanghai*

Year	Enterprise	Employment in 1.000	Capitel Registered		Sales Volume annually in million RMB	Tax Paid annually in million RMB
			Total in million RMB	Average in 1'000 RMB		
1988	207	4.169	18.21	88	–	–
1989	1071	17.772	50.83	48	140	4
1990	1604	25.835	66.84	42	200	9
1991	2288	36.143	97.99	43	330	25
1992	4213	64.149	297.33	71	480	34
1993	8247	116.312	1733.15	210	1350	87
1994	17.214	210.866	7372.03	428	4810	205
1995	39.819	429.987	22951.12	576	21000	589
1996	54.583	579.483	32179.97	590	45220	1200
1997	69.421	733.388	41746.89	601	53060	1770
1998	94.705	940.398	60368.25	637	95970	2425
1999**	111.403	1176.453	77880.03	699	107730	3063

* Figures at the end of the year unless otherwise mentioned.

** Figures at the end of November (for tax: end of October)

Source: Shanghai Private Enterprises Association

3. Promoting China's exports and imports.

Since the beginning of 1999, more and more private enterprises (in Zhejiang Province: 157) are granted export and import rights by the government. In fact, the exports by private enterprises in the Yangtze-Delta region have grown rapidly for a number of years. After the removal of restrictions on private enterprises and also after China's entry into WTO, private enterprises will join foreign-funded companies to become powerful competitors to the State-owned foreign trade companies. This will boost China's exports and imports.

4. Attracting foreign investment.

China is gradually loosening its grip on contacts between foreign investors and Chinese private enterprises. According to the policies of the Shanghai municipal government, private enterprises are now allowed to set up joint ventures with overseas investors.

All "standardised" private firms meeting the requirements set forth in the "Company Law of the People's Republic of China", will be permitted to set up joint or co-operative ventures with overseas investors provided they have corporate status, retain no more than 50 per cent of their assets as investment in other firms, and have made their registered capital contribution. By these standards, the overwhelming majority (about 100,000) of Shanghai's private enterprises will qualify and generate at least one million RMB in turnover and 100,000 RMB in annual profits for three consecutive years before being allowed to link up with an overseas partner. Only 400 private enterprises fulfilled these requirements by the end of February last year.

In some ways, foreign investors will find it easier to launch co-operative projects with private companies than with State-owned enterprises because of the relatively clear property rights, coherence in management regimes and fewer social burdens.

5. Helping SOEs reforms.

According to the governmental strategy on reforming SOEs, a majority of small SOEs will be privatised, while large and medium-sized SOEs will mostly be restructured. They would be turned into shareholding companies in which the State owns the controlling stakes. The measures will allow private enterprises to participate in the reforms in different ways.

Mergers or take-over of SOEs by private enterprises have proved to be a good way to reform them. The private sector enjoys obvious advantages in ownership and the management quality of companies compared to the State-owned sector. However the State-owned sector has its own strong points in many fields. It owns a great deal of real-estate and industrial equipment, and employs qualified scientists and technicians, even though their capacities are not fully used because of the inefficient system. Through restructuring, these idle resources should be put to a better use. Two of the most famous take-over cases in Zhejiang illustrate this well: the Hangzhou Bearing Plant was taken over by Renben Group from Wenzhou; the Hangzhou Xizi Group was taken over by Delixi Group, again from Wenzhou.

唐人 Tang Ren Chineseische Schule für Sprache & Kultur

唐人 Sprachkurse am Tag,
中国人 Abend & Wochenende

中国 Intensivkurse: 2 Doppel-
语 lektionen/Woche

语言 Zeichenkurse: In kurzer
言 Zeit chin. Texte lesen

文化 Kultur & Philosophie-
学 vorträge

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校 tarische Küche

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thur, Tel / Fax 052 / 223 20 06
www.tangren.ch

6. Developing China's high tech.

In the last two years, private tech firms expanded sharply both in quantity and in quality. At the end of 1998, the number of such firms had already increased to 8,638. Among them 56 firms reached a turnover of 100 million RMB. A sharper drive in introducing new and high technology has become apparent in the private sector. Many private enterprises – especially those set up by technocrats – were born in serving the need for new and high technology. "Fuxing Group", founded by three university graduates in 1993, started with only 3,000 RMB. The group now employs 1000 employees, has fixed assets of 100 million RMB, and grabbed 40 % of the high-tech bio-pharmaceutical products market in China.

Problems and weaknesses of private enterprises

1. Still, China's private sector is underdeveloped. Despite the fact that the private sector has made great strides, there are still many problems and weaknesses in the private enterprises.

Registered Companies in Shanghai

	Newly Registered		Cumulatively	
	in 1999	%	end of 1999	%
Total Companies	43,388	100	270,313	100
State-Owned	8,739		145,748	53.92
Foreign Invested	1,470		14,967	5.53
Private	33,179	76.4	109,598	40.54
Registered Capital				
Total	60.997 billion RMB			
	2.077 billion USD			
Per Company				
State-Owned	5.043 million RMB			
Foreign Invested	3.290 million USD			
Private	0.710 million RMB			

Source: Shanghai Administrative Bureau for Industry and Commerce

Theoretically, private enterprises were put on an equal footing with State firms. In fact however, they are still facing many unfavourable factors.

Many people in China still do not yet have a correct understanding on the role of the private sector, due to the long inertia in people's thinking. China is a so-called "socialist market economy", in which, according to the constitutional amendment, the public-owned economy should still play the leading role and enjoy privileges. The all-important sentence "legal private property is sacred and inviolable" does still not appear in the Constitution. Therefore, frequent violations of the legal rights and interests of private enterprises still occur.

2. Lack of efficient support by the political and the financial systems, the private enterprises still have little access to the Chinese capital market through legal and formal means, namely banks and stock exchanges, which are strictly controlled by the government. There are neither a sound credit guarantee system to meet the loan needs of the private enterprises and to solve the credit risk for the commercial banks, nor a shareholding system, introduced for private enterprises, in which private enterprises are put under the supervision of shareholders and become more transparent in management and operation. Therefore, to develop their business, private enterprises have to rely on their own accumulated funds, or they have to spend a lot of time handling repayments of short-term debt.

3. Private enterprises still suffer from discriminating tax burdens due to the incoherence of different laws (the "Partnership Business Law", "the Provisional Regulations on the Enterprise Income Tax" and the "Individual Income Tax Law"). Besides, they also suffer from various fees or "indiscriminate punishments" overcharged by local authorities of different levels.

4. The quality of personnel within the private enterprises is also still a big problem. With few exceptions, quite a number of private enterprises owners are the people who

happened to become rich under very special historical circumstances during the short-supply economy. Inherent weaknesses remain with the companies, such as:

- Over-concentrated managerial power and nepotism, which often leads to miscalculated decisions.
- Lack of a standardised accounting management system that makes it impossible to get data about their real assets, sales revenues, taxes, or overheads.
- Based on their own experiences only and being short-sighted, they tended to rush into sectors they consider profitable, without any long-term view.
- Some of their business operations are out of line with national legal and regulatory requirements. Some of them even rely on fakery, forgery and imitation.

Generally speaking, the Chinese private sector still has a long way to go before being able to develop into a modern one. But it is indeed a hopeful sector, not only for China but also for its foreign partners.

Rongzhang Li
Commercial Section
Consulate General of Switzerland, Shanghai

Summary

The private economy is booming in the Yangtze Delta region. The registered private enterprises exceeded 100,000 each in Shanghai, Zhejiang and Jiangsu last year.

The status of the private sector increased dramatically since the constitutional amendment in March 1999, which defined the private sector as an "important component", instead of a "complement", of the national economy. This means that the private economy is now not only protected, but also encouraged. It gave the private entrepreneurs a greater sense of security, and was seen as a milestone in Chinese history.

The private sector will be playing a more important role in China's economy. The national economy will thus grow, the unemployment decline, China's exports and imports will increase, new foreign investment will be attracted, the right way of reforming the State owned enterprises will be paved and China's high technology sector developed.

However, there are still many problems and weaknesses in the private enterprises. They are still faced with considerably unfavourable treatments in financing, market access, tax/fee burden, etc. On the other hand, the private enterprises must improve their own quality of personnel and management. It is still a long way for China's private sector to become a modern one.

Shanghai's IT Development

Dear Readers,

Herewith I would like to introduce the following brief on Shanghai's IT development, a report established by Ms. Freda Wang from the commercial section of this Consulate General.

Amid the revolutionary influence of information industry, Shanghai, as always the economic frontier of China, is taking active measures to meet the challenges and thus mould its own information-oriented economy in the new century. The following report reviews the development and outlines the planning of Shanghai's information industry. Giving an interesting example, the

report also delineate the Shanghai Pudong Software Park, where a group of IT enterprises from home and abroad are already settled down. And it could be of interest to Swiss companies, who would like to develop software or take other forms of co-operation with the Software Park.

Sincerely yours,

The Consul General of Switzerland
Rolf Lenz

Information Industry – Forging the Golden Wings of Shanghai for the Flight into the 21st Century

The curtains of Shanghai's 2nd International Industries Fair (SIF) just drew down at the end of October. But people are still refreshing the strong impression left by the exhibition: from the team of organizers to the division of exhibition sections, from the display to the exhibits, all are quite different from its debut. China's Ministries of Information and Science & Technology joined in the organisation. In addition to the area for traditional industries, electronic information industry as well as overseas students businesses had their own zones. The centre of the exhibition hall was occupied by the Information industry, while the other parts were also spread with various products containing information technology. What's more, visitors found much less brochures and leaflets. Instead, brief on the exhibitors was given by the computer and visitors were encouraged to visit the websites and try the products at the site. Such an eye-catching view has sent out a clear message that Shanghai is tapping the trend of informationization by developing the information industry.

1. An overview of the development of the information world in Shanghai

1.1) Historical Background

Owing to its limited land space, dense population and scarce natural resources, Shanghai will get nowhere by developing traditional industries with high consumption. As China's economic center, Shanghai is distinguished for its superiority in information and human resources. This has made it possible for Shanghai to establish an information-based national economy, upgrade the overall quality of its economy and foster new development potential and competitiveness.

Recognizing that the role of information is changing the nature of economy, high-level decision-makers in Shanghai as early as the beginning of 1990s have given top priority to the application of information technology in the national economy and society, by going all out with a keen sense of urgency and tenacity to construct an international information harbor and build a new height of information industry. Mayor Xu Kuangdi stressed, „Without an information basis, there would be no modernization, nor future for Shanghai.“

1.2) Measures

Building an information based economy and society is a complicated project calling for a new concept about resources and joint efforts to ensure the whole city will work with one heart and one mind to achieve that end. The set-up of the *Leading Group of Shanghai Municipality for Building an Information-Bases National Economy and Society* and its administrative office, with Executive Vice Mayor Chen Liangyu as the leader thus overcomes the ills related to the compartmentalization of government leadership. The construction of an information world has been put well on the track of unified planning, joint construction, wide application, industrialization, strengthened management and shared resources.

Under the overall planning, Shanghai has been pushing ahead with the program for the construction of an information-based society in a variety of ways. For example, an information investment company was founded to invest in major projects involving more than one departments and industries. A unified purchase system has been established by the government so as to control the quality and selection of products and facilities needed by the construction of an information-based society. Then,

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18 preferential policies have been promulgated to promote the transformation of hi-tech research results into industrial products. Besides, the city encourages industries to join efforts with industry, universities and research institutions in carrying out projects and conduct joint brainstorming on key information technologies and develop products with independent intellectual property. Similar co-operation is between Shanghai and central government ministries.

To create a more flexible system for the development of high-and new-tech enterprises, a new approach – incubation mechanism – is more and more favoured and adopted. From 1998 to 2000, the municipal government has allocated RMB 600 million yuan (USD 72.6 million) as funds for venture capital and start-up capital and established new mechanisms for rolling inputs and recycling use. Support has been provided for the information technology and industry, which are still in their infancy, specially for the technical programs of network security and multimedia.

1.3) Achievements

The Outline of Development Plan of Shanghai Municipality for the Application of Information Technology in National Economy and Society has envisaged that, as the first step, by the year 2000, the framework of an international information harbor will be mainly established. The construction of this framework, also called **project „1520”**, has initially shaped in 1999. „1520” denotes the sub-projects of

- a wide-band information transmission network platform in accordance with the international standard, thus making it possible for all the networks in the city to become interconnected and resources to be shared
- five mainstay projects, that is, Shanghai information internet, community service network, social security network, international economic and trade electronic data network and golden card and commercial value added network, as well as
- 20 major information application systems, e.g. Shanghai Human Resources Information System.

Besides, IP wide-band test project and the Combination of networks of telecommunication, cable TV and computer are going well on.

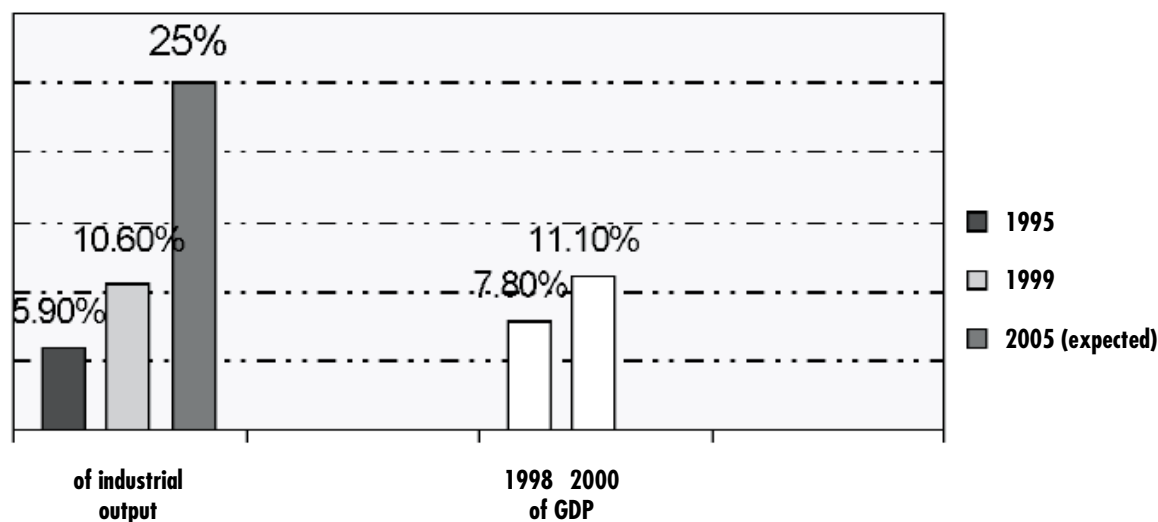
Developing information industry has also facilitated the innovation of traditional industries to build a new height. More than 100 medium or large sized industrial enterprises have established technological centers and newly developed products bring them chances to gain profit. For example, during January to September, Shanghai Bao Steel Group achieved a profit of RMB 2.6 billion (USD 31 million), increasing by 5.5 folds on the year-to-year basis, thanks to the computerized on-line control system installed on its modern production line.

Statistics show that during the past five years, i.e. in the city's 9th 5-year planning period, its information industry has been growing at an average rate of 40%, becoming a main economic catalytic as significant as other pillar industries of automobile and steel etc.

The industrial output value generated by Shanghai's information industry accounts for 1/7 of the output value of China's IT industry. Likewise, the profit and tax and VAT respectively account for 1/7 and 1/5 of the national level in the IT field. These figures prove that Shanghai tops the whole country in the development and utilization of information resources and the wide application of information technology. At the mean time, Shanghai and two other competitors, Beijing in the north and Shenzhen in the south, have divided the „cake” of the information market into three large pieces.

1.4) Prospects

The output generated by the information industry is anticipated to reach RMB 115 billion (USD 14 billion) by the end of this year, and RMB 400 billion (USD 48.5 billion) by 2005. In the following five years, 6 backbone State-owned or controlled groups in Shanghai will continue to push the development of the city's information industry by carrying out key projects. For instance, *Shanghai Guang Dian (Audio & Video) Group* will focus on the R&D of high definition screen-size television, tricolour display, multi-media network and auto electronics. Led by *Hua Hong Group*, the city's Integrated Chip Sector is going to complete 10 more scaled



chip production lines and 4 silicon wafer production lines.

Having caught up and even gradually replacing other economic growth points like automobile industry, the information industry is now playing a strategically important role in either social or economic development of Shanghai. As its planning outline expects that, by 2010, an information-based national economy and society will be in place in Shanghai and the overall level of informationization approaches that of developed nations. In the information world, Shanghai is forging its golden wings to take off to meet the dawning of the new era.

2. Pudong Software Park

Software technology, the core of the information industry, has caught much attention from the city. Shanghai's IT Base in Zhangjiang Hi-tech Park hosts the state-level software industrial base, namely *Shanghai Pudong Software Park*.

In September 1997, *Chinese Electronic Information Group Corporation* on behalf of present State Information Industry Ministry and *Shanghai Zhangjiang Hi-Tech Park Development Corporation* on behalf of Shanghai Municipal Government is jointly built *Shanghai Pudong Software Park Co., Ltd.* to assume construction and management of the *Shanghai Pudong Software Park*. The main task of the Software Park is to foster a batch of first-class influential IT enterprises, educate a batch of talented persons sophisticated in business and management and push out a batch of software product having autonomous copyrights.

The software park covers a planned land area of 150,000 square meters. The first phase involves a total investment of 1.5 billion yuan (USD 18 million) for the construction of 30'000 square meters. According to Mr. Huang Jun, assistant to general manager, more than 500 enterprises have registered at the software park, yet only 42 of them have physical offices there. The rest have not gained their due office space in the park. At the moment they are operating somewhere arranged by the Software Park Co., Ltd, enjoying the same policies as those in the park. Hence, the second phase of construction for the rest area is speeding up in hope to be completed by end of next year. This situation was even beyond the expectation of his company.

Especially small and private IT businesses, which actually account for 80% of the registered enterprises with average investment of RMB 1 million, are attracted by park for its both software and hardware advantages:

- *Convenient traffic access:*
It takes only 20 minutes to Pudong Airport by car.
- *First class communication infrastructure:*
In particular, the Digital Communication Center has independently exported digital frequency band providing fine digital communication conditions to the enterprises in the Park.
- *Fine technology support and other logistic systems:*
Software Training Center
- *Encouraging policy and pro-business approach:*
Certified hi-tech enterprises can enjoy pertinent in-

centives in light with 18 preferential policies promulgated by the municipal government;

Projects with specific aim and clear market orientation can be absorbed into the incubation plan upon approval by the Software Park Co., Ltd.

- *Network environment:* The conglomeration of IT enterprises in this area creates a useful competitive and supportive network among them and hence pushes the general industry.

Apart from the rising small companies, the Park still has called in some well-established big names from home and abroad. Such as 10 open labs jointly founded by Shanghai Information Office and IBM, Microsoft and Ericsson; Shanghai Fudan Kingstar Computer Co., Ltd.; China Software Ltd. Shenzhen Wellhope Information Co., Ltd..

Another interesting thing in the park is the *Software Offshore Business Union of Shanghai (SOBUS)*, a non-profit association formed early this year. With 30 corporate members engaged in software development and the *Pudong Software Park Co., Ltd.* as the chairman company, SOBUS aims to combine various strength into integrated advantage and expand market share by export promotion. The main business flow of SOBUS is to first gain software developing orders from foreign countries, to sub-contract and outsource via internet, to co-operatively develop by SOBUS members, to implement on-line quality test and evaluation and to deliver software over internet. Currently the technical team of 4'500 professionals mainly provide software development in such fields as MIS, CAD, WEB application, ERP, CRM, GPS, WAP, financial accounting, POS system, audio process, mobile calculation, industrial control, call centre, intelligent card system, middle wave and multimedia development.

Although this Consulate General has up to now no experience with SOBUS, it could be possible and beneficial to undertake sort of co-operation between Swiss companies and the SOBUS, for example, to order a customer tailored software for a certain Swiss enterprise. Should any party be interested in the park, please find the following contact addresses as:

Shanghai Pudong Software Park Co., Ltd.
498 Guoshoujing Rd., Shanghai 201203
GM: Mr. Hu Hongliang
Tel.: 3895 4510 Fax: 3895 4511
E-mail: spsp@public.sta.net.cn
<http://www.spsp.com.cn>

SOBUS
498 Guoshoujing Rd., Shanghai 201203
Ctc.: Ms. Bao
Tel.: 5080 0334 Fax: 5080 0546
E-mail: sobus@china.com
(underway): <http://www.sobus.net.cn>

Freda Wang
Commercial Officer
Consulate General of Switzerland
November 30, 2000

Is China Ready for E-Business?

Just one year ago the concept of e-commerce in China barely existed. There were only 2.1m Internet users (out of a population of 1.3bn) and accessing web sites was fearfully slow. It was a novelty, used seriously by a very few pioneers. How things have changed in the space of a year: every other article one reads about China in the last few months has extolled the potential for e-business and the prospects that WTO accession will bring. How soon will that happen? Will it be that easy?

Here are a few facts to set the scene, mostly courtesy of the China Internet Network Information Centre (CNNIC):

- At the end of 1999, the number of Internet users had increased to 8.9m and is roughly doubling every six months.
- These PRC surfers accessed the Internet through the 3.5m PCs that are connected to the net.
- The average age of the users was 25.4 years, while 90 per cent were under 30 years of age.
- Activity was highest in the areas of highest GDP (the east coast, including Guangdong province and the area around Shanghai and Beijing).
- Sixty per cent of usage was self-funded.
- The main objectives of users were to acquire information and to learn new technologies.
- The information sought was of a very basic nature: weather, share prices, research material, availability of software, travel and so on.
- Less than 10 per cent used the Internet for buying goods and paying on-line, perhaps partly because 65 per cent of users had an income of less than US\$ 3,000 a year.
- Looking forward, most users envisage accessing the Internet for information but would also like to purchase on-line, particularly books and magazines, consumables, tickets and to send flowers.

These statistics do not seem improbable. What do seem quite fanciful, however, are the forecasts that have been made in recent months of future Internet usage and of e-commerce that will be conducted in China in the future. The Yankee Group estimates that by the end of 2001 China will have about 40m Internet users and by 2005 will surpass the number in the United States. The Philips Group in London estimates that by 2005 China will have 85m Internet users. The International Data Group projects that China's on-line sales will reach US\$ 42m in 2000 and US\$ 3.8bn by 2003. China's state economic and trade commission (SETC) estimates that e-commerce transactions will grow from US\$ 41m in 1999 to US\$ 10bn by 2004, accounting at that time for 30 per cent of all transactions.

But one needs to tread with care when estimating the future in China, since there are many obstacles in the way of the development of the Internet, of e-commerce and e-business. For a start, we are talking about a relatively undeveloped country that is actually quite poor by world standards. In China there are only 2m people with an annual income in excess of US\$ 20,000. Over 800m are still below the poverty line.

What are the hurdles?

For some of these heady predictions to come to pass, there are some major obstacles that will have to be overcome:

Lack of commercial credibility.

One of the features that surprises and frustrates foreign companies doing business in China is the lack of a system of contract law. Traditional contracts are difficult to enforce. The Chinese typically get around this by developing relationships and building *guanxi*. It's pretty difficult to do this on the web with on-line contracts.

While surveys of users show that Chinese would like to shop on-line, about 80 per cent believe that e-commerce provides no guaranteed replacement or payment security. They still prefer traditional shopping, where goods are handed over or delivered in person, in exchange for cash. In recent years, the government has announced measures to try to improve contract law and to protect the rights of individual, as opposed to state property, but there is much to be done in terms of consumer attitudes.

A predominantly cash culture.

Credit cards have not yet caught on, and old habits – using cash all the time – die hard, even though some 100m debit cards have been issued since the mid-1980's. The more enthusiastic foreigners who have experienced Internet banking in their own country might claim that China is ripe for e-banking, since it can leapfrog the conventional banking practices of cheques and plastic cards which have been used in the West. But China's banking system urgently needs reform. There is also a serious shortage of web-enabled hardware, and the telecoms companies are just as difficult to deal with.

Lack of professionalism and poor service approach of Chinese web sites.

Most Chinese e-commerce web sites still retain their traditional means of retail management. Few have computerised supply channels to ensure efficiency and track orders. Prices of goods on-line are often the same as or higher than prices in retail shops. This leads to a low level of satisfaction of Chinese shoppers – 40 per cent compared to 90 per cent internationally.

A shortage of terminals.

One of the biggest problems facing the development of e-commerce and e-business in China is the shortage of terminals. Only one-quarter of China's PCs are connected to the Internet, compared to 75 per cent in the US, thus representing only 3.5m PCs that are web-enabled. This represents 16 computers per million in China, compared to 98,000 per million in the US.

The disparity in income levels between China and the West, and the relatively high cost of PCs, mean that the number of PCs will not support a significant increase in Internet activity, at least in the short term. When a PC

costs US\$ 2,000 and when you only have 2m people in the country with an annual income of over US\$ 20,000, you can understand the low penetration of PCs.

By contrast, the number of cable TV users in China is quite large – about 90m subscribers. So, too, is the number of mobile phone users – about 50m. From a standing start in the 1990s, the mobile phenomenon has taken China by storm. The traditionally poor telecommunications infrastructure would not support the growth of conventional hard-wired systems. It has been easier to put up cellular base stations, linked by fibre-optic highways.

In other countries, both cable TV and mobile phones are seen as means of accessing the Internet. But in China, there are special features associated with each that limit the scope for optimism. In China, cable TV has the advantage that it provides both the number of terminals and the bandwidth that are both absent from the present conventional PC-driven access in China. However, the first obstacle is that the telecom network, the computer network and the cable TV network currently exist in China side by side. They are regulated by different government agencies and each has its own technical standards and objectives, with interface a huge problem. Convergence between these three systems is structurally challenging and technically demanding.

The second problem is that only 10 per cent of the cable TV network in China is interactive. Upgrading the remaining 90 per cent of the system will cost, according to estimates made by Indosuez W. I. Carr Securities, nearly US\$ 50bn. Meanwhile, foreign investors, the main source of major funds for projects such as this, are still banned from investing in Chinese cable operations. Power struggles between the regulating government departments will not lead to an early convergence of these different networks.

So far as mobile phones are concerned, there is no doubt that Chinese people have taken to mobile phones in a big way. At the end of 1999, over 40m were in use and estimates at the end of 2000 are in the region of 70m. But these are voice and SMS only. China Mobile, China Telecom and China Unicom have all unveiled their WAP services in the major cities. According to forecasts prepared by MII (the ministry of information industry), by 2002 mobile Internet subscribers will exceed the number of customers who access the Internet via PCs. They forecast that China will have 65m Internet users, 30m of whom will have mobile access. In my view, these projections are over-optimistic.

At a cost of US\$500 per head, mobile phones may be cheaper than PCs, but the Chinese are extremely cost-conscious and only spend when there is clear value. It may be some time before WAP phones take hold in the Chinese market. However, in the medium to long term, it seems probable that the mobile phone will prove to be the commonest form of accessing the Internet in China in the years to come.

High access cost and slow speeds.

The cost of using the Internet in China is presently very high. On average Chinese pay 13 times more than Americans. Not surprisingly, over 60 per cent of respondents in a recent survey complained about the cost and predicted that this would restrict further development of the Internet in China.

Thrills and spills

- Plans are currently underway to regulate the on-line book retailing sector. In June the state press and publishing bureau announced that book retailers must obtain an operating licence and register with the state administration of industry and commerce if they wish to do business online.
- Siemens plans to team up with six mainstream Chinese web sites: Yahoo.com.cn; sina.com; Netease.com; china.com; 8848.com and Stockstar.com, making it possible for customers to view these sites via their mobile phones using WAP technology.
- sina.com is the most heavily used web site in China. As of May 2000, Sina.com had over 27m average daily page views and 6m registered users worldwide.
- Shares of Netease.com, the second most popular Internet portal in China, slid 19 per cent on its first day of trading on NASDAQ, the high-tech stock exchange in New York. This was the first China Internet company to experience a negative reception on its first day of trading.
- AsiaVOL.com (Asia Voice On Line), says it has successfully developed the world's first Chinese-language voice-access gateway to the Internet. The company's registered users can now send and receive e-mails and access information on the Internet using telecom devices.
- It is predicted that by the end of 2000 nearly all new mobile phones sold in China will be WAP-enabled. BDA China, an Internet consulting company, says China could have up to 6m wireless Internet users by 2002.
- China has initiated a nationwide technological project to help Chinese enterprises establish web sites on the Internet. The state economic and trade commission, major state-owned enterprises and industrial associations will jointly carry out the project.
- Following the lead of Shenzhen-based China Merchants Bank, most of the mainland's major banks have launched, or are preparing to launch, on-line payment services.

Compiled by Dan Margo

In addition, access speed is very slow, which increases the cost still further and does not make the Internet as attractive a medium as it is in the West. The current bandwidth of the sole international gateway is only 351Mb/s, which causes an enormous speed problem for Chinese Internet users wanting to access international web sites. Investment in infrastructure has not been sufficient to provide the bandwidths necessary to facilitate speedy access between networks.

Government ownership and control of the networks.

The high cost and inadequacies of the network are encouraged by the state ownership of the telecoms companies, which are regulated by the all-powerful MII, and by

the dominance of China Telecom, for years the only carrier. China Telecom still controls 95 per cent of the Internet in China through its network, ChinaNet. Foreign ISPs have no alternative but to use ChinaNet, which charges much higher fees for line rentals than in other countries. Last year, China Telecom's monopoly position of the telecommunications market was eroded when it was divided into four parts, leaving the original organisation in charge of the landline and Internet services sector, with China Mobile, China Star and China Unicom created to take responsibility for mobile, satellite and second carrier services. This is confusing, although accession to WTO should mean a separation of ownership and regulation and a gradual liberalisation of the telecoms sector. No one believes that this will take place quickly, despite WTO commitments. Dot.com companies have found the attitudes of the telecoms companies to be a big barrier.

Tight and confused regulation.

Perhaps the biggest single barrier to the development of e-commerce and e-business in China is government regulation (see next article). The Internet space is particularly complex, with many government institutions fighting over the right to regulate. Recently a state information leadership group has been established under the chairmanship of Vice-Premier Wu Bangguo and there are hopes that this will co-ordinate and manage national computer networks and alleviate competition between authorities.

However, incidents in the last 12 months have shown the adverse extent of Chinese regulation on this fledgling industry. The Chinese government attitude towards the Internet is ambivalent. On the one hand, officials have pledged to make the Internet a new growth pillar of the Chinese economy. On the other hand, the government has become increasingly concerned that information containing „inappropriate” political, pornographic, or other material for example including pro-independence Tibet and Taiwan sites, may run out of control on the Internet. For example, when Falun Gong members started sending e-mails to each other, the authorities closed the Internet in China for 24 hours.

In Brief

- The 88th China Export Commodity Fair in Guangzhou attracted 105.031 businessmen and closed with business of US\$ 14.9 billion concluded, up 9.6% over the previous fair. The European Union and the United States ranked first and second place.
- According to the latest statistics, cancer is causing one out of every five deaths in China. Over the past 20 years, the number of new cancer patients increased from 900.000 to 1.6 million annually, with annual cancer-related deaths rising from 700.000 to 1.3 mio.

Then, various departments see the Internet as a way of increasing their own revenues through licence fees. The finance minister recently announced that plans to tax e-commerce transactions.

The Chinese way of doing business.

To some extent, offsetting some for the problems is the ingenuity of the mainland Chinese for finding a way around regulations and for making money despite seemingly unscalable obstacles. Guanxi and nepotism work well in this society. Foreigners are disadvantaged unless they have valuable technology or huge capital sums to invest. Some dot.com companies with PRC connections, if not Chinese characteristics, have managed to obtain precious licences and privileges.

The prospects for e-business

So far, I have focused mainly on the development of the Internet in China and the prospects for e-commerce. Without these, it is difficult to envisage how e-business can develop in the country.

It is likely that the drive for the introduction for e-business will come from the foreign companies that invest in China. However, many have also come to the conclusion that with joint venture partners to convince and with regulatory hurdles to be overcome, in the short to medium term, a different solution is required.

E-commerce and e-business will, of course, come to China, but not as fast as the enthusiasts would like. There will be money to be made, but also to be lost. In China, things take time and it is the wise man or woman that remembers this.

This article, taken from China-Britain Trade Review, is based on a speech given by John Stuttard to the Foreign Policy Association, of which he has been made an honorary fellow, at the Union League Club in New York in June 2000.

- With 350 million smokers, China is the world's largest tobacco market. Chinese smokers outnumber the entire U.S. population. The state-owned China Tobacco Corporation, the largest tobacco producer in the world, posted US\$ 11 billion in sales in 1999, accounting for 92% of China's consumption, a full one-third of the global total.
- In the race for staging the 2008 Olympics between Beijing, Paris, Toronto, Osaka and Istanbul, an IOC delegation is slated to visit Beijing between February and April 2001 and the winners will be announced in July.

Beijing has earmarked US\$ 17 billion to tackle traffic congestion and pollution and some 50 projects will be started before the end of 2000.

- Building on the foundation of the successful flight of an unmanned spacecraft, China is setting its sight on achieving manned space flights to the moon and Mars. China has so far successfully launched 46 satellites, with a success rate of more than 90%.
- The Ministry of Information Industry (MII) released regulations forbidding telecom-related activities by the spouses and children of MII officials at and above the level of bureau or department director. Violations of these regulations must be corrected within a specified period by ceasing activities or the officials themselves quitting their posts.
- Roughly one of every two households in Guangzhou owns a computer, and the number of the city's cable-TV subscribers surpassed 1.4 million by the end of June 2000. The administration is online and is striving for a digitized city. Guangzhou leads all other Chinese cities in Internet user base.
- Hong Kong will accept a greater number of tourists from the mainland each day by increasing the limit by 500. The annual total will be increased from 540.000 to 700.000, meaning the daily total has risen from 1.500 to 2000. Furthermore, convenient visas for foreign tourists visiting Hong Kong will allow them to travel to Guangdong province.
- Taiwan will allow the first groups of mainland tourists to visit the two front-line islands of Quemoy and Mazu from December 2000. A daily maximum of 700 will be allowed to travel to Quemoy and 100 to Mazu. With an estimated US\$ 40 billion, Taiwan is one of the most important investors in mainland China.
- China and the United States have agreed to exchange sites for new embassies, a decision that the U.S. side hailed as good for the future relations.
- Plans to build the world's tallest building in Shanghai, the 94-storey, 460 metres high World Financial Centre, have been postponed indefinitely following financial difficulties facing the Japanese consortium led by Mori Building. Meanwhile, Hong Kong's Mass Transit Railway Corp. has plans for a 508-metre building.
- In a move to clean up its polluted air, the Beijing government plans to relocate Capital Iron & Steel Works out of the city. With 160.000 workers it is Beijing's largest industrial employer and biggest polluter. The move will happen over 3-5 years to a location yet to be chosen.
- China will strive to keep its population below 1.4 billion over the next ten years, the State Family Planning Commission said. The minister predicts that the population will increase by an average of 10 million a year over the next decade until a peak of 1.6 billion is reached in the middle of the century.
- Forbes magazine published a list of China's 50 richest men and women, featuring new entrepreneurs in the high-tech and internet sectors. The most prominent is Ren Zhengfei, 56, who heads Huawei, a telecommunications equipment company. Mr Ren is said to be worth US\$ 500 million. At the top, worth an estimated US\$ 1.9 billion, is Rong Yiren, 84, founder of the CITIC conglomerate. Next is Liu Yongxing, 52, worth about US\$ 1 billion, founder of the animal feed company Hope group.
- Bank of China will lay off 15.000 employees worldwide. In 2001, 10.000 employees now working at mainland offices will be let go while an additional 5.000 in Hong Kong and overseas will join them. The layoffs will be implemented mainly through early retirement, voluntary resignation and contract non-renewal.
- PetroChina Co. laid off more than 10.000 employees during the first nine months of this year. When it went public in early April, PetroChina said it would cut 10%-12% of its staff within the next five years.
- Guangzhou's information industry is expected to contribute 40 percent to GDP and employ 30% of the city's total work force within the next 10 years. One of every two households owns a computer, and the number of cable-TV subscribers surpassed 1.4 million at the end of June 2000. The city had 700.000 Internet users at the end of June, one third of the total users in Guangdong province. Guangzhou leads all other Chinese cities in Internet user base.
- The registered number of AIDS cases in China had risen to 20.711 by the end of September according to the Ministry of Health, but experts estimate the real number hit 500.000 at the end of last year. The majority of infected people doesn't come forward for fear of being despised by others. Most of the patients are in rural areas and 83% are male between 20 and 39.
- A national survey conducted by the Chinese Academy of Social Sciences found that government official is the most popular choice as a favourite career in China, but younger people ranked jobs requiring technological skills higher.
- A total of 138 mainland Chinese firms have obtained overseas stock listing until now. 117 are listed in Hong Kong, 21 in the United States, 7 in Singapore, 5 in the United Kingdom and 5 in Australia. Companies can be listed in more than one country.
- China now ranks first in the world in gross cotton output, total cotton-growing acreage and yield per unit area.

Summary by Paul Wyss

Growing Concern Over Future Water Shortage

A recent Forum on Water and Urban Development in Beijing addressed the looming water shortage that faces China in the 21st century.

At present, China's per capita water supply stands at approximately 2.220 cubic meters – three-tenths the world average and well below 3.000 cubic meters which are considered as a mild shortage standard. Currently, there are four types of water shortage.

1. Shortage in water resources. In northern China, the per capita water supply is only 988 cubic meters, lower than the severe water shortage standard of 1.000 cubic meters. Northern China's water supply is among the lowest of any

region in the world. Shandong's per capita supply is 180 cubic meters; Hebei's is 330 cubic meters; Beijing's is less than 300 cubic meters, and Tianjin's is only 150 cubic meters.

2. Ecological water shortage. The water standard of the vast area encompassing the provinces of Shanxi, Inner Mongolia, Gansu, Ningxia, Qinghai and Xinjiang is below the ecological balance standard. These provinces suffer from water shortage as a result of an ecological imbalance, which could be solved through large-scale water transfer.

3. Shortages caused by environmental factors affecting water quality. Jiangsu and Shanghai are located in the Yangtze River valley and endowed with plentiful rainfall. However, serious water pollution has caused a shortage of usable water resources.

4. Urban water shortages. Two-thirds of China's 668 cities face water shortages, many of which are in northern China. Tianjin, Harbin, Changchun, Qingdao, Tangshan and Yantai have declared water supply emergencies this year. By mid-21st century, China's urban population is expected to surpass 900 million, accounting for 60% of the total population. Urban water shortage is expected to become severe.

In spite of the severe shortage of water resources and worsening water pollution, an appalling amount of water still is wasted in China. The main culprits are:

Agriculture: Most of China's farms still use flood irrigation, which consumes 30% more water than sprinkling irrigation. Water used for farming accounts for 80% of China's total water consumption. Water wasted in farming accounts for one-third of the total water used in the country.

Industry: Due to the excessively low price of water and poor management, water waste in enterprises is common. While advanced industrial enterprises in other countries recycle up to 90% of the water they use, the majority of Chinese enterprises dispose of water after only one use.

Urban areas: Most urban residents are not adequately educated as to the importance of conservation and have not developed water-saving habits. In addition, many urban water pipes leak, more than 15% in some cities.

The Chinese Government has been paying increasing attention to water shortage, pollution and waste. The State Council convened a national conference in Beijing in September this year, which mapped out an overall plan on urban water supply, water conservation and on the prevention of water pollution.

Source: China Online

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- ☐ Informationen zur Reise- und Messeteilnahme – Vorbereitung für Neu-Einsteiger in China
- ☐ Mandate für Abklärungen und Projekte im Anlagenbau und für Industrierberatung in China

Successful Communication with the Chinese

Part four

Introduction

In the previous three parts of my report I have summarized pre-conditions for western business partner for a cooperation with Chinese counterparts, have introduced our Chinese partners and have emphasized on some typical behaviors and attributes of them.

Particularities of negotiations with Chinese business partners and customer relations are the subjects of this summary of my report.

This is the last of four papers to be published in the BULLETINS of the year 2000. Orders for the complete paper of 34 pages in A4 format, written in German, can directly be placed to the author. Price per document is CHF 15.-, including delivery within Switzerland (price for overseas delivery on request).

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Verhandlungstechnik

Wir haben in den vorangegangenen Kapiteln einiges über die Eigenschaften unserer chinesischen Geschäftspartner erfahren. Alle diese Eigenschaften kommen natürlich in den Verhandlungen in der einen oder anderen Form zum Ausdruck. Zusätzlich sind die chinesischen Verhandlungen aber von Besonderheiten geprägt, die wir bei uns nicht kennen.

Vorbereitungen

Eine erfolgsversprechende Verhandlung muss richtig vorbereitet werden. Das gilt ganz speziell für China. Es gibt so viele Unbekannte in diesem Land, die Sie noch genügend beschäftigen werden und da werden Sie froh sein darüber, zumindest das Vorhersehbare gut vorbereitet zu haben. Dazu gehört auch eine seriöse Reisevorbereitung. Besorgen Sie sich rechtzeitig die Einladung von Ihrer Partnerorganisation. Sie werden beruhigter in die Sitzung gehen, wenn Sie sich vorher über die möglichen chinesischen Teilnehmer informieren lassen

und Sie sich mit Ihrem Thema bereits zu Hause seriös auseinander setzten. Nehmen Sie Zeichnungen oder Muster mit, die Chinesen können sich dann besser vorstellen, was sie erhalten und lange Diskussionen können vermieden werden. Achten Sie darauf, dass bei mehreren Verhandlungen Ihr Team wenn möglich unverändert bleibt, Ihre chinesischen Partner gewinnen auf diese Weise Vertrauen in Ihr Team.

Der Einsatz von Übersetzern

Achten Sie darauf, dass eine Ihnen bekannte Person für die Übersetzungen besorgt ist. Diese Person sollte vor der Sitzung über Ihre Vorhaben informiert werden. Ihre zu übersetzenden Aussagen müssen einfach klingen. Sprechen Sie kurz und prägnant, der Übersetzer sollte nicht mit langen Aussagen konfrontiert werden. Erfahrungen zeigen, dass für Verhandlungen, welche übersetzt werden müssen, etwa drei Mal soviel Zeit eingerechnet werden muss, wie bei vergleichsweise einsprachig geführten Besprechungen. Wenn Sie selbst sprechen, müssen Sie diejenige Person anschauen, an die sich die Aussagen richten sollen, also nicht zum Übersetzer hin sprechen.

Die einheimischen Helfer

Oft benötigen Sie für bevorstehende Verhandlungen Informationen über den Kunden oder bestimmte Details des Projektes. In China ist sehr viel Information vorhanden, aber nicht so leicht zugänglich wie bei uns. Es wäre aber falsch, sich persönlich darum zu kümmern. Besser ist, einen Vertrauten der Firma zu bitten, diese Information zu holen.

Reden und Schweigen

Wenn Sie den Geschäftspartner nicht gut kennen, ist es besser, einmal etwas weniger zu sagen als zu viel. Wenn Sie aber mit Leuten zusammen sind, die gerne sprechen, können Sie mit Reserviertheit und Scheu dasselbe Gefühl erwecken. Sie müssen in der Lage sein, das Gesprächsklima herauszuspüren und sich entsprechend anzupassen. Vermeiden Sie es, Witze zu machen, diese könnten bei der unterschiedlichen Auffassung sogar beleidigend wirken. Ernstgemeintes Lob und aufrichtige Bewunderung werden gerne entgegengenommen, hingegen sind Schmeicheleien verpönt und könnten auch falsch verstanden werden.

Der Zeitfaktor

Rechnen Sie für Verhandlungen mit Chinesen genügend Zeit ein. Wenn Sie schon zu Beginn der Besprechung erwähnen, dass Sie ein sehr gedrängtes Programm hätten

und bald wieder gehen müssten, erzeugen Sie bei Ihren Gesprächspartnern ein Unbehagen. Die Chinesen wissen natürlich um die Ungeduld der Ausländer und setzen den Faktor Zeit auch bewusst als strategisches Mittel ein, dem „Gegner“ mehr Konzessionen abzurufen.

Der chinesische Verhandlungsstil

Da die Chinesen sehr personenbezogen sind, möchten Sie die Geschäftspartner zuerst von der persönlichen Seite her kennen lernen. Wenn Sie wollen, können Sie dies auch dahingehend interpretieren, dass die Chinesen diese Erkenntnisse während den Verhandlungen für die Erreichung ihrer Ziele einsetzen werden. Die Chinesen haben einen eigenen Verhandlungsstil entwickelt, der in einigen wesentlichen Punkten von dem bei uns Üblichen abweicht. (In der Zwischenzeit habe ich anlässlich eines Vortrages von Dr. Harro von Senger den Begriff der 36 chinesischen Strategeme kennen gelernt. Diese 36 Strategeme erklären einige meiner Beobachtungen und Erklärungen in meinen Berichten und öffnen die Tür für ein tieferes Verständnis der chinesischen Verhandlungstechnik.)

Verhandlungsrichtlinien

Vergessen Sie bei Verhandlungen nicht, dass die Chinesen von Natur aus Händler sind. Nur tun sie dies eben auf eine andere Art, als wir dies gewohnt sind, und das macht uns unsicher. Vergessen Sie, wie Sie zu Hause mit Ihren Partnern umgehen, versuchen Sie sich in einen Chinesen mit all seinen andersartigen Gefühlen und Denkart hineinzusetzen. Der zwischenmenschliche Aspekt zieht sich wie ein roter Faden durch die Geschäftsbeziehungen, unter Umständen ein Leben lang. Seien Sie sich deshalb bewusst, dass für Sie unscheinbare Details

ihre Wirkung gegenüber den Chinesen positiv wie negativ beeinflussen können.

Nach der gegenseitigen Begrüssung wird erwartet, dass der Gast mit seiner Präsentation die Verhandlungen startet, was natürlich der chinesischen Seite einen gewissen Vorteil bietet. Die Chinesen glauben, dass kein Zustand dieser Erde endgültig ist, und deshalb können gemeinsam gefasste Beschlüsse später wieder umgestossen und Änderungen verlangt werden. Unabhängig von den erreichten Verhandlungsergebnissen ist es üblich, dass der ausländische Delegationsleiter alle an den Verhandlungen beteiligten Personen zu einem Abendessen einlädt.

Die Bedeutung eines Vertrages

Ein chinesischer Geschäftspartner hat zu einem geschriebenen Vertrag ein anderes Verhältnis als wir. In China wird ein Vertrag eher als eine Absichtserklärung betrachtet. Alle Abmachungen sollten auf gegenseitiger Freundschaft basieren, was nach chinesischem Verständnis einen detaillierten Vertrag überflüssig macht. Kompliziert geschriebene Verträge stossen auf Ablehnung. Sie müssen versuchen, die Inhalte so zu schreiben, dass nicht ein juristisches Wissen zu dessen Verständnis notwendig ist. Ein Vertrag ist von chinesischer Seite erst anerkannt, wenn die entsprechenden roten Stempel auf dem Dokument sind. Der richtige Stempel ist in China viel wichtiger als eine Unterschrift. Die Chinesen erachten einen Vertragsabschluss eher als den Beginn einer lange andauernden Zusammenarbeit, während dieser Zeit kann das Vertragswerk den geänderten Verhältnissen angepasst werden. Seien Sie also auf eine intensive Zusammenarbeit mit Ihrem Kunden vorbereitet. Mit dem Wunsch Chinas, der internationalen Handelsorganisation WTO beizutreten, wird sich natürlich auch das chinesische Vertragswesen dem internationalen Standard anpassen müssen.

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Chinesische Kunden bei uns zu Gast

Ein geschäftlicher Kontakt mit Chinesen findet selten nur in China statt. Vielmehr möchten unsere Kunden die Zusammenarbeit mit uns nutzen, um uns und unser Land zu besuchen. Dabei sollten Sie solche Besuche nicht als lästige Pflicht abtun, vielmehr gilt es, unsere gemachten Anstrengungen und erhaltenen Sympathien in China nicht zu verscherzen, sondern zu festigen.

Beweggründe für einen Besuch im Ausland

Da Chinesen gerne ins Ausland reisen, scheint es angebracht zu sein, Ihre Kunden zu weiteren Verhandlungen in die Schweiz einzuladen. In der uns vertrauten Umgebung können wir unseren Heimvorteil ausspielen, gleich wie dies die Chinesen bei sich zu Hause tun. Für private Reisen ins Ausland fehlt den allermeisten Chinesen das Geld, zudem sind die staatlichen Schranken recht hoch, um überhaupt ins Ausland reisen zu können. Deshalb ist die Zusammenarbeit der Chinesen mit Ausländern eine der wenigen Möglichkeiten, eine Auslandsreise zu unternehmen. Diese Umstände sollten Sie für Ihre Vorhaben nutzbar machen.

Das Programm

Oft wird eine Materialinspektion beim Lieferanten in Europa als Rechtfertigung der Reise dorthin angegeben. Diese Kunden haben sich ihre Reise bereits zu Hause organisieren lassen und reisen oft in Kleinbussen, begleitet von Übersetzer und Chauffeur. Deshalb müssen Sie für einen solchen Besuch selbst nicht mehr allzu viel vorbereiten. Wenn die Gäste in Ihrer Nähe übernachten, ist es angebracht, diese zu einem Nachtessen einzuladen. Es gibt jedoch auch Besuchergruppen, welche zu Vertragsverhandlungen in die Schweiz kommen. Mit einer guten Vorbereitung des Programmes, inklusive Organisation von Besprechungen mit Fachexperten, können wir unsere Effizienz und Kompetenz unter Beweis stellen. Chinesische Besucher erwarten bei einem Besuch in der Schweiz, dass neben dem geschäftlichen Teil auch noch Zeit für Sightseeing bleibt. Gleich welcher Art ein Besuch ausfällt, Chinesen wollen das Gefühl bekommen, willkommen geheissen, gut betreut und aufgehoben zu sein. Es liegt an uns, den Heimvorteil zu nutzen und einen rundum positiven Eindruck zu hinterlassen, der sich später wieder auszahlen könnte.

Stärkung der Kundenbeziehung

Dauerhafte geschäftliche Beziehungen werden in China vor allem über persönliche Beziehungen aufgebaut. Durch die kulturellen Unterschiede und grossen Distanzen ist dies jedoch nicht so einfach und erfordert viel Zeit und Geduld. Gegenseitige Besuche sind jedoch eine gute Gelegenheit, eine Beziehung zu pflegen. Falls Ihnen der Kunde durch unsere Vertretung vor Ort bekannt-

Summary

Particularities of negotiations

A promising negotiation must be prepared well. This is even more true for negotiations with Chinese partners. In the western business culture, negotiations are mainly focussed on the subject, whereas personal relationship between partners and strategic considerations often come second. The Chinese, however, apply negotiation techniques, known as stratagems, which are unknown to most of us. This uncertainty is a major reason for our discomfort when meeting with Chinese. It is therefore important that you know about the very basic negotiation particularities before meeting your Chinese partners the first time.

Customer relations

Visits of Chinese business partners to our country offer a good opportunity to continue or to start a relationship with your partner. You can lose a lot when you do not treat your partner correctly. A carefully planned and honest relationship with your Chinese partner is therefore an essential part of your cooperation.

Retrospective view

With this article I have finished a subject which can never be concluded. The Chinese people and their culture are in a rapid motion. This is an ongoing progress with big challenges for all of us. But it is a fascinating world as well, with great opportunities for all of us. Let us work together!

gemacht wurde, ist es angebracht, auch unsere Vertretung über unsere Absichten zu informieren und in die Kundenbetreuung einzubinden. Eine sorgfältig aufgebaute Kundenbeziehung kann sich vielleicht erst nach einigen Jahren auszahlen.

Schlussbetrachtung

Mit meiner Artikelserie habe ich mich mit einem Thema befasst, worüber andere Autoren in ähnlicher Art auch schon geschrieben haben. Weshalb denn diese Mühe? Ich war der Meinung, dass meine Ausführungen zum Grundwissen jener gehören, welche mit China geschäftlich zu tun haben oder dies zu tun gedenken. Ich wurde jedoch von der Swiss-Chinese Chamber of Commerce eines anderen belehrt. Dies hat mich bewogen, Ihnen meine Diplomarbeit zu diesem Thema in verkürzter Form zu präsentieren. Ich habe während meiner Arbeit feststellen müssen, dass dieses Thema nie abgeschlossen sein kann. Das ist auch gut so. Die chinesische Kultur, unser Kontakt zu diesen Menschen ist einem ständigen Wandel unterworfen, bewegt und entwickelt sich. Das Faszinierende daran ist, dass diese Arbeit nie zu Ende ist, sie ist eine ständige Herausforderung!

Membership Card Values



The Membership Card of the Chamber is a gesture to say thank you and to give you a special status as a member of the Swiss-Chinese Chamber of Commerce. The Membership Card is valid for one year and will be renewed with every consecutive year after the payment of the membership fee.

The card not only identifies you as a legitimate member of the Chamber but also entitles you to benefit from services rendered by us and the Chapters in Switzerland and the People's Republic of China. Besides our events, members can take advantage of hotel-bookings, consumptions at Chinese restaurants and suppliers of Chinese goods at reduced rates.

Further services will be added according to new partner agreements and are regularly going to be announced in the Bulletin. Below you find the list of Chinese restaurants and suppliers in Switzerland, where you get 10–30 % off the regular price, when showing your personal membership card.

RESTAURANTS

Restaurant China-Palast

Petersgraben 21
CH-4051 Basel
Ø 061-261 31 13 Fax 061-261 99 46

China Restaurant Rhein-Palast

Untere Rheingasse 11
CH-4058 Basel
Ø 061-681 19 91 Fax 061-261 99 46

China Restaurant Astoria

Neumarktstrasse 38/rue du Marché-Neuf
CH-2500 Biel-Bienne 3
Ø 032-322 83 22 Fax 032-322 83 63

China Restaurant BAO TAO

Bernstrasse 135
CH-3627 Heimberg
Ø 033-437 64 63 Fax 033-437 64 62

Cheng's China Restaurant (mit Seeterrasse)

Marktgasse 15
CH-8640 Rapperswil
Ø 055-210 17 70 Fax 055-410 14 51

Restaurant Züri-Stube

Steinwiesstrasse 8
CH-8032 Zürich
Ø 01-267 87 87 Fax 01-251 24 76
E-mail: info@tiefenau.ch

BAMBOO INN

Culmannstrasse 19
CH-8006 Zürich
Ø 01-261 33 70 Fax 01-870 38 88
closed on mondays

Restaurant CHINA-TOWN

Bälliz 54
CH-3600 Thun
Ø 033-222 99 52 Fax 033-222 99 52

CHINA GARDEN

Schützengasse 12
CH-8001 Zürich
Ø 01-211 71 00 Fax 01-212 35 61

SHANGHAI

Bäckerstrasse 62/Helvetiaplatz
CH-8004 Zürich
Ø 01-242 40 39

ZHONG HUA

Zähringerstrasse 24
CH-8001 Zürich
Ø 01-251 44 80 Fax 01-251 44 81

SUPPLIERS

VU's Import Export GmbH

Verenastrasse 31
CH-8832 Wollerau
Phone/Fax 01-784 79 89

TRAVEL

CULTURE AIR TRAVEL S.A.

10a, rue Emile-Yung
CH-1205 Genève
Ø 022-839 81 81 Fax 022-839 81 80
E-Mail: Cultureair@swissonline.ch

FIRST TRAVEL ENTERPRISE

Winterthurer Strasse 698
CH-8051 Zürich
Ø 01-322 66 88, Fax 01-322 66 90
E-Mail: 106246.1313@compuserve.com

HOTELS

HOTEL TIEFENAU ZÜRICH

Steinwiesstrasse 8
CH-8032 Zürich
Ø 01-1-267 87 87 Fax 01-251 24 76

(For hotel-bookings in China (Beijing), please turn to the Chamber directly.)