**Impressum**

Publication:

Quarterly Information Bulletin of the Swiss-Chinese Chamber of Commerce

Circulation:

In print approx. 1'200 Ex. and also on the Website.
To the Members of the Chamber and of the Chapters in Geneva, Lugano, Beijing and Shanghai; among them the leading banks, trading companies, insurances and industrial firms. To Trade Organisations, Government Departments, leading Chambers of Commerce in Switzerland, Europe and China.

Responsible Editors:

Susan Horváth, Managing Director
Paul Wyss, Vice President

Swiss-Chinese Chamber of Commerce
Alderstrasse 49
CH-8008 Zurich
Switzerland
Tel. 01 / 421 38 88
Fax 01 / 421 38 89
e-mail: info@sccc.ch
Website: www.sccc.ch

Printing:

werk zwei
Print + Medien
Konstanz GmbH
P. O. Box 2171
CH-8280 Kreuzlingen
Switzerland

Advertising:

Conditions available at the Swiss-Chinese Chamber of Commerce

Deadline for issue:

3/01 October 1st
4/01 December 1st

# Contents

# Board of the Swiss-Chinese Chamber of Commerce

## Executive Committee:

**President:**

| | |
|---|---|
| **Dr. Manfred Zobl** | CEO and President of the Corporate Executive Board, Swiss Life, Zurich |

**Vice Presidents:**

| | |
|---|---|
| **Dr. Jörg Wolle** | CEO, SiberHegner Holding Ltd., Zurich |
| **Paul Wyss** | Erlenbach |

**Treasurer/Vice President:**

| | |
|---|---|
| **Dr. Daniel V. Christen** | Vice President at SGS Société Générale de Surveillance S. A., Geneva |

**Secretary:**

| | |
|---|---|
| **Franziska Tschudi** | CEO, Wicor Holding AG, Rapperswil |

**Members:**

| | |
|---|---|
| **Dr. Theobald Tsoe Ziu Brun** | Attorney-at-Law, Brun studio legale e notarile, Lugano |
| **Urs Hecht** | CEO, Edward Keller Ltd., Hong Kong<br>designated Head Asia, Edward Keller Ltd., Zurich |
| **Susan Horváth** | Managing Director of Chamber |
| **Esther Nägeli** | Attorney-at-Law, LL. M., Partner, KPMG Fides, Zurich |
| **Dr. Marc Ronca** | Attorney-at-Law, Partner, Schellenberg Wittmer, Zurich, Geneva, Zug |

## Honorary Members:

| | |
|---|---|
| **Dr. Uli Sigg** | former Swiss Ambassador to China, Mauensee |
| **Dr. Marc Ronca** | Past President of Chamber, Zurich |

## Board:

| | |
|---|---|
| **Maurice Altermatt** | Head of External Affairs Department,<br>Federation of the Swiss Watch Industry, Biel |
| **Ester Crameri** | Confiserie Sprüngli AG, Zurich |
| **Dr. Markus Dennler** | CEO, Winterthur Life & Pensions, Winterthur<br>Member of Executive Board CS Financial Services |
| **Markus Eichenberger** | Manager ExpoLogistics overseas, Natural AG, Basle |
| **Dr. Richard Friedl** | Vice President, ABB Switzerland, Baden |
| **Bruno W. Furrer** | CEO, BF Bruno Furrer Consultant, Zurich |
| **Michael W. O. Garrett** | Executive Vice President, Nestlé S. A., Vevey |
| **Alfred Gremli** | Managing Director, Credit Suisse Group, Zurich |
| **Peter Huwyler** | Head International Banking, Member of the Board,<br>Zürcher Kantonalbank, Zurich |
| **Dr. Beat In-Albon** | Vice President, Lonza Ltd., Basle |
| **Alexandre F. Jetzer** | Member of the Board of Directors,<br>Novartis AG, Basle |
| **Dr. Beat Krähenmann** | Director, F. Hoffmann-La Roche Ltd., Basle |
| **Pierre L. Ozendo** | Member of the Executive Board, Swiss Re Group, Zurich |
| **Nicolas Pictet** | Partner, Pictet & Cie., Geneva |
| **Dr. Erwin Schurtenberger** | former Swiss Ambassador to China, Minusio |
| **Erwin A. Senn** | CEO, T-Link Management Ltd.<br>Worldwide Transportation Engineering, Freienbach |
| **Dr. Kurt E. Stirnemann** | CEO and Board Delegate of AGIE CHARMILLES Group, Losone |
| **Peter G. Sulzer** | Executive Director, Wärtsilä NSD Corporation, Zurich<br>(former New Sulzer Diesel) |
| **Marco Suter** | Chief Credit Officer, Member of the Group Managing Board,<br>UBS AG, Zurich |
| **Thomas P. van Berkel** | President, Nitrex Ltd., Zurich |

# Geneva Chapter

**President:**

| | |
|---|---|
| **Dr. Daniel V. Christen** | Vice President at SGS Société Générale de Surveillance S. A., Geneva |

**Vice President:**

| | |
|---|---|
| **Maître Philippe Knupfer** | Lawyer, LL. M., HSCB Republic, Geneva |

**Secretary:**

| | |
|---|---|
| **Dominique Perregaux** | CLSA (S-E Asia) Ltd., Geneva |

**Treasurer:**

| | |
|---|---|
| **Bernard Büschi** | Chairman, Bernard Büschi & Cie., S. A., Geneva |

**Board:**

| | |
|---|---|
| **Marcel Ch. Clivaz** | President, Swiss Hotel Association, Crans-Montana |
| **Amy Qihong Li** | Négoce International, Credit Suisse, Geneva |
| **Nicolas Pictet** | Partner, Pictet & Cie., Geneva |
| **Jean-Luc Vincent** | President, Salon International des Inventions de Genève |
| **Herbert Schott** | Manager, Hôtel Intercontinental, Geneva |
| **Jean-Nicolas Thalmann** | Director, O. P. I. (Office de la Promotion Industrielle), Geneva |
| **Yafei Zhang** | Assistant de Direction, Shanghai Overseas, Geneva |

# Lugano Chapter

**Chairperson:**

| | |
|---|---|
| **Dr. Theobald Tsoe Ziu Brun** | Attorney-at-Law and Notary, BRUN Studio legale e notarile, Lugano |

**Executive Committee Members:**

| | |
|---|---|
| **Erich Bär** | Plant Manager, Agie Ltd., Losone |
| **Xujing Chen** | Lugano |
| **Walter Landolt** | Attorney-at-Law, Lugano |

# Legal Chapter Zurich

**Chairperson:**

| | |
|---|---|
| **Esther Nägeli** | Attorney-at-Law, LL. M., Partner, KPMG Fides, Zurich |

# Legal Chapter Geneva

**Chairperson:**

| | |
|---|---|
| **Maître Philippe Knupfer** | Lawyer, LL. M., HSCB Republic, Geneva |

# Here for You

## in Switzerland:

**Swiss-Chinese Chamber of Commerce**
Alderstrasse 49
CH-8008 Zurich

| | |
|---|---|
| Phone | +41-1-421 38 88 |
| Fax | +41-1-421 38 89 |
| E-mail | info@sccc.ch |
| Website | www.sccc.ch |
| President | Dr. Manfred Zobl |

**Chambre de Commerce Suisse-Chine**
Rue du Vieux-Collège 8
Case postale 3135
CH-1211 Genève 3 Rive

| | |
|---|---|
| Phone | +41-22-310 27 10 |
| Fax | +41-22-310 37 10 |
| E-mail | sccc@swissonline.ch |
| Website | www.sinoptic.ch/scccgeneva/ |
| Office hours | Monday–Friday, 9.00–11.30 h |
| President | Dr. Daniel V. Christen |

**Camera di Commercio Svizzera-Cina**
c/o Brun Studio Legale e Notarile
Via Ariosto 6
Case postale 2298
CH-6901 Lugano

| | |
|---|---|
| Phone | +41-91-913 39 11 |
| Fax | +41-91-913 39 14 |
| E-mail | info@brunlaw.ch |
| Chairperson | Dr. Theobald Tsoe Ziu Brun |

**Legal Chapter Zurich**
c/o KPMG, Zurich

| | |
|---|---|
| Phone | +41-1-249 30 07 |
| Fax | +41-1-249 23 23 |
| E-mail | enaegeli@kpmg.com |
| Chairperson | Esther Nägeli |

**Legal Chapter Geneva**
c/o HSCB Republic, Geneva

| | |
|---|---|
| Phone | +41-22-705 56 32 |
| Fax | +41-21-734 22 13 |
| Chairperson | Maître Philippe Knupfer |

## in China:

**Swiss Chinese Chamber of Commerce Beijing**
c/o Embassy of Switzerland
Sanlitung Dongwujie 3
Beijing 100600

| | |
|---|---|
| Phone | +86-10-6532 1515 |
| Fax | +86-10-6532 1515 |
| E-mail | scccbei@public.bta.net.cn |
| Website | swisschinacham.org |
| President | Dr. Urs Buchmann |

**Swiss Chinese Chamber of Commerce Shanghai**
c/o Credit Suisse Financial Services, Shanghai
17/F South Tower
Shanghai Stock Exchange Bldg.
No. 528 Pu Dong Road (S)
Shanghai 200120

| | |
|---|---|
| Phone | +86-21-6881 8418 |
| Fax | +86-21-6681 8417 |
| E-mail | peter.a.marti@csfb.com |
| President | Peter A. Marti |

Anzeige
Darier Hentsch & Cie
4c

# Beijing Wins Olympic Games 2008

When retiring IOC President Samaranch announced that Beijing had won the 2008 Summer Olympic Games bid, Chinese people knew their dream to host modern Olympic Games had finally come true. It was nationwide support that sustained the bid effort and led it to its final success. As festive ceremonies and fireworks rolled across the city, President Jiang Zemin sent a letter to IOC President Samaranch saying that the Chinese Government and people will make the 2008 games an event that "carries forward the Olympic spirit, promotes world peace and friendship among all peoples of the world".

The IOC's decision reflects the preference of most western governments to engage rather than to isolate China. The reaction of the Chinese public has been justifiably proud over the opportunity to show that their country can meet modern international standards of sportmanship, hospitality and openness. The nearly simultaneous preparations for the Olympics and the adjustments in the economy through membership in the WTO will entail big changes for China.

Turning the Olympic ideal into reality will present Beijing with huge challenges over the next few years.Thirty-seven competition venues will be used, whereof 15 stadiums and gymnasiums already exist.The city's government has vouched to build the other 22 by 2006. Air pollution is a headache. Traffic is not smooth. The language environment needs improving. US$ 20 billion are earmarked for Beijing's transformation. Advertising, tourism, retail, transport and real estate sectors stand to gain in the run-up to the Games. Foreign investment will also be boosted. Economic growth will gain between 0.3 and 0.4% in each of the next seven years. Under the Green Olympics plan, water conservation, large scale tree planting for erosion control, conservation of wetlands and forests will be enhanced. Within the urban centre, standards for auto emissions will be tightened. Use of coal will be greatly reduced and the consumption of natural gas will dramatically increase. The number of luxury hotels will be doubled over the next seven years in anticipation of a large influx of tourists. The city estimates that it will host 600.000 overseas visitors during the Games. A 3000 bed hospital will be built in the northern part of the city to provide first-class medical services to the visitors and the people living in the area.

The spotlight on China for the next seven years will create stronger incentives to conform to international norms.

May the 2008 Olympics be a source of pride not only for Beijingers, but for all Chinese people!

Paul Wyss
Vice President

# China Mission

Dear Members, dear Readers

As you may know, State Secretary David Syz (State Secretary of Economic Affairs/seco), State Secretary Charles Kleiber (Swiss State Secretary of Science and Research/GWF) and Director Eric Fumeaux (Swiss Federal Office for Professional Education and Technology/BBT) will make an official visit to China in the week of November 10–17 of this year. On their mission, they will be accompanied by a combined delegation of leading Swiss scientists and business representatives from the industry and services sector, including of course SMEs.

Several official visits and events are foreseen in Beijing and in Shanghai. Different high-level events, thematic workshops and direct contacts will allow the representatives of the Swiss delegation to meet with their counterparts on all levels: Swiss scientists will get a chance to interact with their Chinese colleagues, Swiss business people will have the opportunity to meet with potential clients for their products and services, and Government officials will have official meetings and present their current policies and instruments. This combination should provide an excellent opportunity for all participants to examine common interests between Swiss and Chinese academic and research collaborators as well as business representatives from the industry and services sectors of both countries. The main focus will be on environment and health technologies in a broad sense and related fields.

Therefore, Business representatives, representatives from R&D and Academic researchers engaged or interested in the following fields are most welcome to participate in the mission (final program in function of composition and interests of participants):

- Ageing and Age-related Health Technology
- Biotechnology
- Medical Devices
- Nutrition Technology
- Pharmaceuticals
- Environmental Sustainable Technology for Industry
- Environmental Cleaning Technology for Utilities
- Packaging and Environment
- Transport and Environment
- Financial Services / Project Financing
- Management Consultancy

The workshops on Ageing and Age-related diseases and on Biotechnology, which will only take place in Shanghai, are mostly geared towards scientific aspects, but they will also allow to evaluate possibilities to become involved in application-oriented science projects. Thus, they will be an ideal platform for all participants; those who are already collaborating with China as well as those interested to initiate collaboration, to directly discuss key issues for increasing future Swiss-Chinese Research and Development collaborations with all parties involved.

Hence, your presence and input to these events in specific and to the Mission in general would indeed be highly appreciated!

Susan Horvath
Managing Director
Member of the Executive Board

## China Mission

### Official Swiss delegation to China

led by State Secretary Dr. David Syz
together with State Secretary Dr. Charles Kleiber
and Director Eric Fumeaux

The delegation will also be accompanied by a Nobel Laureate.

**11th to 16th November 2001**
**Beijing and Shanghai**

*Don't forget to send in the registration form sent to you by mail in July 2001. Deadline for reply has been prolonged.*

For further information and registration forms, please contact the Chamber.
Phone: 01-421 38 88 E-mail: horvath@sccc.ch

# Next Events

## Ostasien – Neue sicherheitspolitische Herausforderung?

**Samstag, 20. Oktober 2001, 9.15–13.00 Uhr**
**Hotel Bern, Zeughausgasse 9, Bern**

Colloquium Sicherheitspolitik und Medien

Referenten/Podiumsteilnehmer:

Botschafter Philippe Welti, Stellvertretender Generalsekretär des Eidgenössischen Departements für Verteidigung, Bevölkerungsschutz und Sport, Chef Sicherheits- und Verteidigungspolitik

Stadtrat Dr. Thomas Wagner, Zürich, Präsident der Schweizerischen Gesellschaft für Aussenpolitik, Präsident der Schweizerisch-Chinesischen Gesellschaft

Dr. Emil Schreyger, Präsident der Schweizerischen Staatsbürgerlichen Gesellschaft, Komitee Colloquium Sicherheitspolitik und Medien

Dr. Heiner Hänggi, Genfer Zentrum für die demokratische Kontrolle der Streitkräfte, Genf (Leitung)

Prof. Dr. François Godement, Professor am Französischen Institut für internationale Beziehungen, Paris

Botschafter Georges Martin, Chef des Zentrums für Analyse und prospektive Studien des Eidgenössischen Departements für auswärtige Angelegenheiten

Prof. Dr. Hanns W. Maull, Professor für Aussenpolitik und internationale Beziehungen an der Universität Trier

Prof. Dr. Michèle Schmiegelow, Professorin für Politik- und Sozialwissenschaften und Direktorin des Zentrums für asiatische Studien an der Katholischen Universität Löwen

Urs Schöttli, Korrespondent der Neuen Zürcher Zeitung in Tokio

Dr. Erwin Schurtenberger, Schweizer Botschafter in China 1988–1995, Wirtschaftsberater

*Anmeldung mit pauschalfrankierter Anmeldekarte (siehe Einladung in diesem Bulletin).*

*Organisation und Auskunft:*
*Sicherheits- und Verteidigungspolitik, Dr. Felix Christ, Informationschef, Bernastrasse 28, 3003 Bern, Telefon 031 324 40 15*

# New Members

**since May 2001:**

### Zurich

| | |
|---|---|
| FINDLI AG | Kleinandelfingen |
| FREEMOBEL AG | Therwil |
| FRAISA SA | Bellach |
| MCT Ruttimann | Bremgarten/AG |
| Krause-Druck AG Zürich | Zurich |
| Immobilien Consulting | Zurich |
| CASA-VIVA SA | Berne |
| Water-Moon Communication | Hochfelden |
| Euro Travel Incoming SA | Lausanne |
| Swissfirst Bank AG | Zurich |
| Ye Nicholas W. | Zurich |
| SYNGENTA International AG | Basel |

### Geneva Chapter

| | |
|---|---|
| CHINA-MATCH | Verbier |
| ELECTROFUN | Genève |
| SACAL<br>Bureau de traductions spécialisées | Lausanne |
| Monsieur Daniel OGIZ | Bussigny |

### Lugano Chapter

| | |
|---|---|
| MED Development SA | Lugano |

### New Members in Beijing

Mr. Mike Imam

Oriental Plaza Hotel Beijing

Clariant International Ltd.

Sincere Consulting Co. Ltd.

# 3rd Zurich International Forum on Chinese Business Law

On June 28, 2001 the third International Forum on Chinese Business Law was held in Zurich. The seminar was jointly organized by the Chamber's Legal Chapter (Esther Nägeli) and the LL.M. Programme International Business Law (Dr. Andreas Kellerhals). The event was sponsored by KPMG Legal Zurich. The opportunity offered to the Chamber's members, its guests and friends to update China trading partners' and investors' knowledge on current developments was widely used. The impressive speakers' panel composed of leading academics, experienced lawyers and representatives of foreign investors not only allowed to address legal developments and their implications, but also entailed lively discussions about the dichotomy of building up a legal system in China and establishing a business in China under these rules.

The event was opened by Dr. Manfred Zobl, CEO and President of the Corporate Executive Board of Swiss Life/Rentenanstalt, with an outline of the development of the Swiss-Sino relations and China's anticipated economic development over the next years. With China having concluded its WTO negotiations with the US and the European Union, for the first time in a seminar held in Zurich on China Trade and Investment Law it was possible for Prof. Donald J. Lewis, Associate Professor at the Faculty of Law, University of Hong Kong, to assess the WTO implications for foreign investors and to give guidance as how China's trade partners and foreign investors could best position themselves. Prof. Peter Rhodes, former Dean and Associate Professor at the Faculty of Law, University of Hong Kong, and now a Consultant with Denton Wilde Sapte, Solicitors, Hong Kong, gave an even wider picture of China's potential development, when discussing the chances for emerging of a South East Asian Free Trade Area under China's lead. Having worked throughout the Asia Pacific region for more than twenty years, Prof. Rhodes provided the participants with thorough insights into the likely political and economic development of South East Asia.

Opportunities arising from legal developments pertaining to trade were addressed by Prof. Zhang Naigen, Professor at the Faculty of Law, Fudan University, Shanghai, who discussed "First Experiences with the Unified Contract Law and its Implications on Technology Transfer". Pertaining to the developments in the investment area, Esther Nägeli, partner with KPMG Legal and head of KPMG Legal, Zurich, focused on new investment opportunities for FIEs without having to rely

*The President of the Chamber, Dr. Manfred Zobl, opens the 3rd Zurich International Forum on Chinese Business Law.*

on the rather restrictive and high-threshold holding company vehicle. Wei Wenbin, Attorney-at-Law (University of Beijing), associate lawyer with KPMG Legal, Zurich, explained the various instruments available to foreign investors at the Shanghai and Shenzhen Stock Exchanges and the anticipated development of the regulatory background of China's stock markets. Sybille Dubois-Fontaine, associate lawyer with Freshfields Bruckhaus Deringer, Beijing, addressed current intellectual property and Internet issues and gave an overview of recent cases decided in China. Dr. Michael J. Moser, Hong Kong based partner of Freshfields Bruckhaus Deringer, discussed how to best manage China business disputes and gave a comparison of the most frequently used forum for China-related arbitration and arbitration clauses.

Foreign investors' sight reports were delivered by Hans-Ulrich Dätwyler, President and CEO of Zhongtian Dätwyler Co. Ltd., Shanghai, and Kurt van Schellenbeck, Vice President of the President's Office, Business Development International, ABB Switzerland, who had both contributed to and witnessed the successful establishment of joint ventures in China and Asia. Mr. Dätwyler shared his Pocket Guide to Business Operations in China with the audience, which has proved a valuable means for foreign investors. Mr. van Schellenbeck decided the event's academic dispute as to which foreign investment vehicle (EJV or WFOE) was going to prevail in future. He made it clear that ABB was going to continue its successful strategy of using both vehicles alike, depending on the situation. During the panel discussion the participants raised interesting questions regarding the various challenges they encounter in their China trade and investment projects.

The large number of participants in the seminar, their active involvement as well as their positive feedback indicate that the Zurich International Forum on Chinese Business Law meets the demand of the Chamber's members and other participants who wish to expand their business activities across the Chinese boarder. This obvious need for relevant information encourages the Legal Chapter Zurich to continue to organize seminars on current legal developments on a regular basis in line with rule no. 1 of the Pocket Guide to Business Operations in China: Everything is possible.

*By Esther Nägeli,*
*Attorney-at-Law, LL.M.*
*Chairperson Legal Chapter Zurich/*
*Member of the Executive Board*



# Your Logo on Beijing's Road for 1 Year

## History

The Swiss Chinese Chamber of Commerce had in 1998 initiated and supported a promotion project which was highly reflective of the Swiss commercial presence in China: The Swissbus.

The Swissbus is a double-decker bus of the route No. 3, from the Western Railway Station to the Lufthansa Center. It ran from July 1998 to July 1999, the second bus from August 1999 to August 2000. Due to funding problems it ceased in 2000; companies gave priority to the 50-year Switzerland-China programs.

As the Swissbus is an ideal advertising media and can be used for events, it serves the Chamber as well as the participants in promoting their presence in China.

## Swissbus 2001–2002

Impact reserved the same bus for a year's period starting from October 2001 under the condition that enough participants can be found.

If so, we suggest to make the painting of the bus itself a Chamber event: Chinese artists with a connection to Switzerland (through exhibition, travel etc.) paint the bus on a special occasion (visit of a delegation, tourism festival). The logos of the sponsors would already be in place on four sides: between the two decks, on the back and the roof of the bus.

The painting of the bus is organized as a media event, participants have the opportunity to distribute promotional materials to the media.

## Collateral

As with the previous bus, a poster for the participants will be produced. The same subject is used for printing a promotional postcard to be inserted in free publications (to be decided).
The Swissbus can also be used for company events.

Costs: US$ 5,500.00 per participant
Maximum 12 participants
Scheduled Departure: October 2001

*For more information please contact:*
*Impact Productions & Design, Walter Landolt*
*A-108 Kelun Building,12A Guanghua Road*
*Beijing 100020*
*Tel: 010 6581 84 59 / 60 /61*
*Fax:010 6581 84 55*
*e-mail: Walter.Landolt@impact-ad.net*

# Strong Economic Performance

Despite a gloomy world economic outlook, China's economy achieved a stable 8% overall growth in the first five months of the year.

Total foreign trade value reached $ 197.68 billion, up 13.5% from the same period last year. Exports stood at US$ 102.5 billion, up 11% from the previous year, and imports at US$ 95.18 billion, leaving a favorable trade balance of US$ 7.32 billion. Imports and exports with key trading partners such as the United States and Japan continued on a high level, with a total of US$ 30 billion and US$ 35 billion respectively.

According to MOFTEC, China approved the establishment of 9.421 new foreign-funded enterprises, 21.97% up from last year. Actual foreign direct investment (FDI) in January/May reached US$ 15 billion, up 17.98%, whilst contracted FDI registered US$ 25.97 billion, a hefty increase of 42.29%. As of the end of April, China had made use of US$ 359.6 billion in foreign direct investment. Industrial output rose 11.1% year-on-year to reach 1.041 billion yuan.

Fixed asset investment rose 17.6% year-on-year, while retail sales surged 10.3%. Manufacturing businesses in-

## Bilateral Trade between Switzerland and China

### January – June 2001 (in Mio. CHF)

| CHINA (mainland) | Exports from Switzerland | | Imports to Switzerland | |
|---|---|---|---|---|
| **Total** | **807,3** | **25.0%** | **1.132,7** | **4.7%** |
| Agricultural Products | 3,8 | –40.2% | 59,7 | –6.9% |
| Energy carriers | 0,1 | –39.6% | 0,3 | 5.6% |
| Textiles, apparel, shoes | 15,0 | 12.7% | 327,3 | –2.4% |
| Paper, paper products, printed matter | 2,9 | 11.3% | 4,7 | 24.7% |
| Leather, rubber, plastics | 7,9 | 48.8% | 76,3 | 3.9% |
| Chemicals, pharmaceuticals | 161,8 | -16.3% | 132,6 | 18.2% |
| Construction materials, creamics, glass | 4,8 | 428.0% | 11,1 | 12.6% |
| Metals and metal products | 25,4 | 19.2% | 53,7 | 7.0% |
| Machinery, appartus, electronics | 509,7 | 52.7% | 208,7 | 4.7% |
| Vehicles | 4,5 | –24.6% | 17,6 | 92.3% |
| Precision instruments | 47,0 | 41.4% | 32,4 | 43.9% |
| Watches | 16,8 | –25.2% | 90,5 | 9.0% |
| Other Goods | 7,6 | 5.0% | 117,8 | –0.3% |
| **Trade Balance** | **–325,4** | | | |

| Hong Kong | Exports from Switzerland | | Imports to Switzerland | |
|---|---|---|---|---|
| **Total** | **2.026,6** | **11,0** | **352,5** | **–9,3** |
| Agricultural Products | 14,2 | 4,6 | 1,6 | 18,9 |
| Energy carriers | 3,3 | –11,5 | 0,0 | –100,0 |
| Textiles, apparel, shoes | 37,0 | 37,3 | 28,6 | –13,4 |
| Paper, paper products, printed matter | 4,7 | –59,0 | 1,6 | 14,4 |
| Leather, rubber, plastics | 27,7 | 8,8 | 2,7 | –8,2 |
| Chemicals, pharmaceuticals | 216,0 | 4,8 | 3,3 | 55,4 |
| Construction materials, creamics, glass | 8,7 | 7,7 | 0,8 | –18,7 |
| Metals and metal products | 31,6 | 26,4 | 5,9 | 30,6 |
| Machinery, appartus, electronics | 185,6 | 17,4 | 43,0 | –17,1 |
| Vehicles | 1,1 | –18,7 | 0,4 | 61,1 |
| Precision instruments | 37,4 | 23,9 | 7,9 | 5,7 |
| Watches | 738,4 | 8,7 | 168,1 | 4,3 |
| Other Goods | 721,1 | 13,5 | 88,7 | –27,0 |
| **Trade Balance** | **1.674,1** | | | |
| **Total (China incl. Hong Kong)** | **2.833,9** | | **1.485,2** | |
| **Total Trade Balance** | **1.348,7** | | | |

*Source: Swissmem*

vested US$ 12 billion in January/May, a 27.1% year-on-year growth. This surge was coupled with the Government's continued input into infrastructure projects.

China's customs collected more than US$ 12.08 billion in tariffs and import duties by June 6, an all-time high and a 24% increase over the previous year.

The nation's fiscal revenues in January/May showed a year-on-year increase of 28.9% with US$ 78 billion, whilst expenditure totalled US$ 64.38 billion. The Finance Ministry attributed the growth to enhanced regulatory measures, but warned of a possible lower growth in the latter half of the year.

China now has over 1.7 million fully private enterprises (employing more than 8 people) with a total investment of US$ 132 billion and a work force of around 27 million, according to the latest statistics.

*Summary by Paul Wyss*

# China's Exports Shrink in June

China's exports fell 0.6% year-on-year in June because of weak demand from Japan and the United States, the first time export growth has been negative for two years. China had a trade surplus of USD 830 million in June, narrowing sharply from a surplus of USD 1.9 billion the same month a year earlier. In the first half of this year, China had a trade surplus of USD 8.14 billion narrowing nearly 34% from a year earlier. Exports rose 8.8% to USD 124.57 billion while imports jumped 14% to USD 116.43 billion. Despite the slowdown in export growth so far this year, China was still likely to record gross domestic product growth of near 8%, thanks to massive state investment and strong domestic consumption.

# Economic Experts 'Cautiously Optimistic' about 2nd Quarter

A recent report released by the State Council's Development Research Center says that there are many indeterminate factors in China's economic development this year. The dropping growth rate of the world economy, the slowing increase in world trade as well as slow growth in the consumption of China's low-income groups and public investments will affect the Chinese economy negatively. On the other hand, the 10th Five-Year Plan and the plan to issue RMB 150 billion of special government bonds for long-term constructions have entered their implementation phase. Other positive factors are the plan to raise the salaries of government employees and the increasing flow of foreign investment into China.

*Source: ChinaOnline*

## State assets up 8.7%

State-owned assets at the end of last year were RMB 9.9 trillion (USD 1.2 trillion), up 8.7% from 1999. Operating state assets reached RMB 6.86 trillion, making up 69.4% of the total. Assets in large-sized state firms were worth RMB 4.13 trillion. State assets had been boosted by more government investment in infrastructure and "a significant improvement in operating efficiency of state-owned enterprises".

*Source: Reuters*

# Recent Foreign Investments / Joint Ventures

## USA

**DENVER CITY** is the first US city to open a trade office in Shanghai. It will assist medium-sized companies in entering the Chinese market. The top Colorado industries exporting to China include electronics, semiconductors, computer and transport equipment.

**AMERICAN CABLE & SATELLITE COMMUNICATION CORP (AMK)** has invested US$ 29.9 million in a solely owned venture in Yantai in Shandong province. The new company, AMK (China) Satellite Cable Networks Enterprise Co Ltd, will focus on the wideband information Internet industry.

**WALMART** plans to set up an office in Shanghai to purchase goods from the local market for its retailing network in China. At present, Walmart's purchases in China account for about 6% of its global sales.

**EASTMAN CHEMICAL COMPANY** and Sinopec Tianjin Petrochemical Corp signed a letter of intent to produce 5.000 tons of a type of optically brightened polyester staple-fibre for China's textile industry.

**IBM** will start construction of a new US$ 300 million chip sealing and packaging facility in Shanghai's Waigaoqiao Free Trade Zone. The new factory will be capable of turning out US$ 340 million worth of products annually when the first-phase construction is finished in 2002.

**KODAK** has taken 63.1% share of China's film market, ranking first for the past three years ahead of Fuji with 26% and Lucky with 8% market share.

**SANTA FE ENERGY RESOURCES** and China National Offshore Oil Corp. (CNOOC) signed an oil explorationcontract covering an area of 6.546 square kilometres in the Pearl River Mouth Basin. It is the eigth contract between the two companies. Since it was set up in 1982 CNOOC has signed 147 oil exploration contracts with 70 oil companies from 18 countries and absorbed US$ 7 billion of foreign investment.

**HONEYWELL** opened its new US$ 10 million wax blending facility in Suzhou, Jiangsu province. Its capacity represents about 30% of the total worldwide production of Honeywell's specialty chemicals. It intends to increase production by 30% next year.

**AVIS CORP**., leading auto-rental company, and Shanghai Angel Car Rental Co. expect to receive approval for their joint venture in which both sides will hold 50%. Avis will invest US$ 10 million; the form of the Chinese investment is not yet clear.

**AOL TIME WARNER INC.** has chosen Legend Holdings Ltd., China's largest personal computer manufacturer, as its venture partner for entering the vast market for Internet services in China. The agreement involves each side contributing US$ 100 million to set up a new company, but Legend will own a 51% stake because of China's stringent rules limiting foreign ownership in the Internet sector.

## CANADA

**CANADIAN TOURISM COMMISSION** opened an office in Beijing to promote cooperation in the tourism industry. The office is part of Canada's efforts to become one of the top destinations for Chinese travellers.

**CANADIAN SUNWING ENERGY LTD** and PetroChina Company signed an agreement to begin detailed examinations of a potential natural gas and oil project in Sichuan province and Chongqing Municipality. The joint studies will assess the production potential and establish criteria for development projects.

## HONG KONG

**HSBC** will transfer hundreds of jobs from Hong Kong to Guangzhou and predicts other businesses would follow its example. Back-office staff earn 40% less in Guangzhou. The move shows an acceleration in the trend of basing low-end jobs in low-cost countries, aided by improvements in internet connections and falling telecom costs in the host countries.

## TAIWAN

Four Taiwan companies, Formosa Chemicals and Fibre Corp., Formosa Plastics Group, Nan Ya Plastics Corp. and Formosa Petrochemicals Corp. have begun preparations to invest in plants in mainland China for a total of about US$ 2.2 billion. The plans are being submitted to the Investment Commission of Taiwan's Ministry of Economic Affairs for approval.

**POLARIS SECURITIES GROUP**, Taiwan's third largest securities firm, established a representative office in Shanghai, becoming the 38th securities institution from outside mainland China to set up a presence in Shanghai.

## JAPAN

**MATSUSHITA** is making an additional investment of US$ 16.1 million in Tianjin Matsushita Electronic Components Co. in order to expand the production capacity of electronic components used in mobile phones, beepers, computers, TV sets, recorders and telephone switchboards.

**TOSHIBA** is shifting its entire Japanese production of standard television sets to a subsidiary in Dalian, investing US$ 2.4 million to renovate its facilities.The workforce in Dalian will be boosted from 1.200 to about 2.000, with an annual production target of 1.5 million sets against the current one million. About 800.000 units will be exported to Japan.

**HONDA MOTOR COMPANY** will make a new investment of US$ 31 million in Guangzhou Honda Automobile Co, its joint venture with Guangzhou Automobile Co to increase production from the 2000 level of 32.000 cars. As part of the expansion the number of Honda dealers will be increased from 68 to 120.

**CANON** will build one of the largest photocopier plants in Suzhou near Shanghai, setting up a wholly-owned company on a 230.000 square meter site. The first construction phase is to cost about US$ 84 million, and Canon will employ about 3.500 workers by 2004, with a projected monthly output of 20.000 copiers.

**OLYMPUS OPTICAL CO.** which has transferred nearly all of its traditional camera production into China, announced the establishment of Olympus (China) Investment Co. which will set up a series of operating systems for product research and development, design, promotion and after-sale services.

**KDDI**, Japan's second-largest telecoms operator, will form a roaming arrangement with China Unicom, the second-largest operator in China, which will allow each other's subscribers to use their mobile phones in their respective markets.

anzeige
cosco’s europe

## AUSTRALIA

**NEW SOUTH WALES**, Australia's most populous state, established a special trading district called the Southern Special Economic Zone, managed by Chinese-Australians, to attract more Chinese investment. The zone is home to 50 investment projects from China, including some from Hong Kong and Taiwan. Sino-Australian trade hit a record US$ 8.45 billion in 2000.

## SOUTH KOREA

**SAMSUNG FIRE & MARINE INSURANCE**, the largest non-life insurer in South Korea, established its first branch company in Shanghai. Named Samsung Fire & Marine Insurance Shanghai, it is the first South Korean insurance company to operate in China. Initially, the company will focus on offering property and liability insurance to South Korean-funded enterprises in Shanghai.

## SINGAPORE

**TAI-I (SINGAPORE) PTE LTD** and Shanghai's Huashan Hospital will establish the city's first sino-overseas hospital joint venture with an investment of US$ 29.5 million. Huashan Hospital invested US$ 8.55 million for the construction and preliminary preparation work for the 100-bed project.

## GERMANY

**INDEX WERKE GMBH HAHN & TESSKY**, a leading lathe manufacturer, established a joint venture with Dalian Machine Tool Group. INDEX Dalian Machine Tool Ltd will have an initial investment of US$ 2.4 million, with the German partner holding a 65% stake. The Dalian company has first-class manufacturing capabilities and strong marketing expertise.

**METRO** opened the first large foreign-funded superstore in Hangzhou, covering a business area of more than10.000 square meters, a parking lot for 300 cars and 20.000 varieties of goods. It is expected that other foreign retail giants will follow Metro into the Hangzhou market.

**AIRBUS INDUSTRIE** signed a memorandum of understanding with China Aviation Industry Corp. (AVIC), under which it will transfer to China the technology required to build the entire wing for its A320 aircraft.

**DEGUSSA** and Nanning Only Time Pharmaceuticals established an amino acids joint venture which will begin operation in 2003 in Nanning. It involves an investment of US$ 22 million and will export half of its production.

**JOH. BERENBERG, GOSSLER & CO**, Hamburg private bank, opened a representative office in Shanghai.

## GREAT BRITAIN

**ASTRA ZENECA**, one of the world's leading pharmaceutical giants, has invested US$ 100 million in a new plant in Wuxi, Jiangsu province. It is not only the company's largest project in Asia, but also among the largest multinational joint ventures in China. The annual production capacity will include 1.5 billion tablets, 70 million capsules, 2.5 million bottles of medicine.

**SANDERSON**, British textile producer, launched a joint venture with Shanghai Minguang Sheets Plant named Sanderson Bedlinen (Shanghai) Co Ltd which will produce textiles with designs provided by Sanderson. Minguang Sheets Plant ranks first in per capita profit among China's textile enterprises.

**BASS PLC**, looking to expand its hotel business, will buy the five-star Regent Hong Kong Hotel from New World for US$ 347 million. Bass will take over operations at the hotel, to be renamed the Hotel Inter-Continental, beginning June 1.

## FRANCE

**MICHELIN** and Shanghai Tyre & Rubber Co Ltd will establish a US$ 200 million joint venture to make radial passenger car tyres, steel cord and rubber mixing. The new company, Shanghai Michelin Warrior Tyre Co Ltd, with Michelin and STRC holding 70% and 30% respectively, is seen as a first step towards a long-term strategic cooperation.

**SCHNEIDER ELECTRIC**, a leading international company, launched its eigth joint venture in Tianjin, Schneider Electric Low Voltage (Tianjin) Co Ltd, with a total investment of US$ 25 million. It will engage in the research and production of a power distribution network.

**CARREFOUR** recently signed an agreement with Kunming Department Store (Group) Ltd, pledging to invest US$ 30 million into the joint construction of a supermarket in the city of Kunming.

**ACCOR**, Europe's largest hotel group, and Beijing Tourism Group, are establishing a new China-based travel agency with all functions of a domestic travel agency except overseas tours. According to stringent policies on foreign parties in a joint venture travel agency, the Chinese partner holds a stake of 51%.

## ITALY

**IVECO** and Changzhou Changjiang Bus Co launched a 50-50 US$ 99 million joint venture, the largest Sino-foreign bus manufacturing project, which will assemble large and medium-sized buses and use Iveco's technology. The initial capacity is 6.000 to 7.000 units a year.

## AUSTRIA

**RAIFFEISEN ZENTRALBANK** opened its branch in Beijing. The Bank set up a representative office back in 1995 and now received permission to open a branch.

**AUSTRIA TECHNOLOGIE & SYSTEMTECHNIK (AT&S)** Europe's largest and world's third largest producer of printed circuit boards, broke ground on a 121.000 square metre, Euro 145 million factory in Shanghai. AT&S plans to produce up to 50 million printed circuit boards for mobile phones annually starting from the middle of 2002.

## SWITZERLAND

**SYNGENTA**, global leader in crop protection and seeds, is to invest more than US$ 85 million in China's largest agricultural chemical joint venture. The project will focus on producing the popular Gramaxome weed-killer.

## SWEDEN

**ERICSSON MOBILE COMMUNICATIONS CO LTD (CHINA)** and Chongqing Mobile Communications Company set up Chongqing Ericsson Communications Co Ltd with a total investment of US$ 12 million. The new company will deal mainly with microwave transmission systems, data switching devices and other telecom facilities.

**VOLVO** completed negotiations with China National Heavy Duty Truck Corp (CNHTC) for a partnership which will manufacture heavy-duty trucks with engines larger than 12 litres. In the beginning, the joint venture will assemble imported parts with an annual output of 2000 vehicles.

**THE BANK OF SWEDEN** has become the first northern European bank to open a representative office in Shanghai. There are about 130 Swedish companies doing business in and around Shanghai and the bank will assist them with financial support.

## DENMARK

**A.P. MOLLER/MAERSK**, one of the world's largest shipping brokers, has opened an office in Shanghai. Maersk operates more than 300 ships and controls a large share of the world's shipping market. Maersk chose Shanghai as the natural beachhead from which to explore the Chinese market.

## SOUTH AFRICA

**SOUTH AFRICAN BREWERIES**, who owns 49% of a joint venture with China Resources Enterprises controlling 11 breweries in China, announced plans for entering two or three more provinces.

*Summary by Paul Wyss*

# New Census Figures Project New Market Trends

The characteristics of a country's population provide marketers important information on how to formulate the best marketing strategies for different products and services. The following figures provide insights into the possible changes in the consumption patterns of the vast China market.

### Increasing population

The total population is now 1.295 billion, having experienced an average annual growth rate of 1.07% over the last ten years. This huge population has always attracted foreign companies, hoping for just a fraction to become customers, but it is the changing structure of China's population which should be most closely observed.

### Ageing population

Those aged between 0-14 account for 22.9% of the total population, those aged between 15-64 account for 70.2%, and those aged 65 and over account for 7.0%. Compared to the 1990 figures, the composition of the youngest age group has decreased by 4.8%, while that of the oldest age group has increased by 1.39%. This ageing demographic structure has great implications for the way people support themselves through their retirement, and thus creates market potential for a variety of related service industries.

### Household number and family size

The total number of households now stands at 0.35 billion, a sharp increase of 25.8% compared with 10 years ago, and thus stimulating the demand for household products, such as electrical appliances and furniture. Average family size is down by 13.1% to 3.44 people per household, showing either that couples are less willing to have children or that they are no longer living with elder generations under the same roof. Either way, households are likely to have more disposable income to spend on consumer goods.

### Education

More people are now entering higher education, with over 3.6% people in tertiary education compared to just 1.4% 10 years ago. The increasing education level suggests growing consumer sophistication, with implications for marketing, and in particular, advertising.

### Urbanization

In the past 10 years there has been a population flux from rural to urban areas, with urban dwellers increasing from 26% to 36% of the total. The move towards better employment opportunities and living conditions is a reflection of changing consumption patterns, one of the number of trends revealed in the census which needs to be taken into account in consumer profiling.

*Source: Fiducia China Focus*

# 6 Problems Disrupting China's Market

Data collected by the National Leading Group for Rectifying and Regulating Market Economic Order show that six major problems exist in China's market economic system. The six problems are:

1. Regional production and marketing of fake and substandard goods
2. Industrial monopoly and regional protectionism
3. Unregulated trading activities
4. Illegal multilevel marketing
5. Behind-the-scenes operation and deception in the construction market
6. Tax evasion by violating financial discipline

*Source: ChinaOnline*

# China Replaces Japan as Asia's Economic Powerhouse

Japan's Economic Ministry METI has just published its annual White Book, concluding that China has replaced Japan as the engine of economic growth in East Asia. Expansion of China's economic activities, development of its infrastructure and improvement in its technical know-how have combined with Japan's continued stagnation to be the main reasons behind this change. An interesting observation: Japan today already imports more from China than it does from Europe.

*Source: Fiducia China Focus*

# Foreign Exchange Restraints to Stop Capital Flight

The government will take extra measures on foreign exchange dealings in an effort to combat capital flight, reports Reuters. The new rules should guarantee the stability of the Renminbi.

The State Administration of Foreign Exchange (SAFE) is preparing regulations to improve the monitoring of short-term, cross border capital flow, to set up a monitoring regime on large-sum transactions, and increase the supervision on foreign exchange dealings between banks and trading firms.

In addition, a greater crackdown on illegal currency transactions and strict rules on foreign currency transactions related to mergers, acquisitions and stock investments should limit the capital flight. Anecdotal evidence already suggested that border control on illegal money transferals had slightly increased over the year.

SAFE estimates that China faced a capital flight of US$53 billion between 1997 and 1999. Other analyst put this figure on US$98.8 billion. Last year there was a US$11.89 billion on errors and omissions of the country's balance of payments, seen as indicator of the level of capital flight. In 1999 the government statistics showed an US$14.80 billion on errors and omissions.

There is little risk that the capital flight will cause a devaluation of the Renminbi in the near future, because of a limited convertibility and vast foreign exchange reserves.

*Summary by ChinaBiz*

# More Trade Wars Feared after WTO Accession

China's upcoming accession to the World Trade Organization (WTO) is not going to ease down the current scene of trade wars with several countries. Trade disputes are likely to rise once the mainland joins the international trade body, reports the Asian Wall Street Journal (AWSJ).

As a country of cheap labor, and thus cheap exports, China is regarded as a threatening trade competitor by many countries. Beijing has reacted by restrictions on exports of Chinese goods by firm countermeasures. In June, Japan was hit by 100 per cent import tariff increase on its cars, mobile phones, air conditioners and dozens of other products after it imposed restrictions on the export of several farm products from China.

The rigid answers, also in response to actions from South Korea, United States, Mexico and several other countries, show China's frustration over their trading, according to the AWSJ. And entrance to the WTO won't make things any better: the WTO-members will be even more confronted with China's cheap goods and huge competitiveness. China will be in a better position to defend itself against unjustified high benchmarks. In the past prices of products in high-wage countries like Singapore could be used, since China's own planned economy could not be seen as a benchmark.

Joining the trade body will give China, as well as the other member countries, more tools to fight dumping disputes in an effective way and will not reduce the number of trade wars.

Worries are especially rising over the potential conflict with poorer countries, like India, Brazil, and South East Asian countries, which are unable to compete with China at all, reports Reuters.

*Summary by ChinaBiz*

# FIE's Can Become Trading Companies

Foreign invested companies can now export also other than their own products and foreign manufacturers can become effectively trading companies, writes the lawyer Howard Chao of O'Melveny & Myers in Shanghai in a memorandum to his clients.

The legal change was announced by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and is part of China's reform to address the upcoming accession into the World Trade Organization (WTO).

Traditionally foreign manufacturers can only export their own products.

The Notice, issued on July 2, stipulates some limitations. The FIE's should have annual export volume of at least US$ 10 million, should not have a record of committing any violation of tax, forex, import and export regulation. The company should also employ professional staff "engaged in international trade, to purchase and export any products that are not subject to quota or license control or government monopoly".

Companies can apply with MOFTEC or one of the local bureaus to apply for a change in business scope.

*Summary by ChinaBiz*

## More on Trading

A foreign firm can participate in domestic trade - subject to certain restrictions. With operations in a Free Trade Zone (FTZ), it can purchase materials or products in China in RMB or foreign currency. After having added value through processing, remanufacturing (e.g. with imported parts) or repackaging in the FTZ, it can resell the finished product in China in RMB or foreign currency. All one needs to do is to establish a warehousing and processing facility in an FTZ in China.

This option offers distinct advantages to foreign companies with subcontracting arrangements in China for their private label products. Import / export license arrangements are not required for this process, and even when transactions are in RMB, profits can be repatriated (after tax payment) in foreign currency.

*Source: Fiducia China Focus*

## Accounting Standards versus Accounting Practice

Consistent with the drive to internationally harmonize accounting standards, China has been promulgating the "Accounting Regulations for Listed Companies" since 1998. These new regulations are meant to close, or significantly narrow the gap between, Chinese standards and the International Accounting Standards (IAS).

But a recent research study conducted by the Hong Kong Ling Nan University provides evidence that accounting practices in China have undergone little change after the reforms in 1998.

Based on a sample of listed companies, the study found that the efforts made towards eliminating or reducing the gap have not been successful. The main reason was deemed to be the lack of effective supporting infrastructure, especially the training and education of accountants/CPAs.

Furthermore, according to the study, the practices in China of the Big 5 Accounting Firms (such as Pricewaterhouse, KPMG, Deloitte etc.) vary from the new Chinese standards (IAS). The study concluded that their China offices do not necessarily follow the same auditing practices as their international counterparts, and therefore do not perform an effective monitoring function in China.

*Source: Fiducia China Focus*

## Building Guanxi in Guangzhou

This spring's Chinese Export Commodities Fair has been described as a great success by fair organisers. Export orders increased by 15.6% year-on-year to US$15.8 billion, equivalent to 27% of first-quarter exports. It is interesting to observe that, in an age when the Internet is presenting itself as an alternative platform for trade exchanges, multinational companies such as Sears, Kmart and J. C. Penney still choose to come to Guangzhou.

The biannual event, also known as the Canton Fair, is China's window to the world. The 4000 exporters, all Chinese companies, were divided into product categories ranging from arts & crafts to machinery. The most prominent locations were awarded to China's best-known brands, notably the white goods manufacturers Haier, Kelon and the recently delisted Narcissus. Overall attendance at the fair was up 6.5% on last autumn, with 111,886 visitors from 181 countries, including a 25% increase in Taiwanese visitors. Buyers from Asia, Africa and the Middle East tended to haggle over prices, sample qualities and shipping schedules, whilst Western buyers appeared to be attending more for market observation.

In a bid to harness the Internet, the fair organizers are strengthening their website (www.icecf.com/en/index.html), and intend to eventually tie it into an e-commerce version of the fair. However, although the Internet may

be a more efficient way to find out the history and track records of potential suppliers, trade fairs cannot be replaced as a forum for inspecting product quality and building personal relationships. As business is most effectively carried out face-to-face, especially in China, it is likely that the Canton Fair will continue to be a great success.

*Source: Fiducia China Focus*

## Office Rental on the Increase

Shanghai's property slump is over. According to property consultants DTZ Debenham Tie Leung, prime office rentals in Shanghai have risen by 13% this year, whilst those in Beijing and Guangzhou rose by 10%.

Prime locations in Shanghai increased from US$15-US$18 per square meter year-on-year to US$20-US$28. FDPSavills predict that rents in Shanghai could double over the next 18 months.

Underpinning the recovery is a surge in office demand by both domestic and multinational companies as Shanghai gains in its status as a financial and trade center. Multinationals are starting to choose Shanghai over Hong Kong for their Greater China headquarters.

The major cities may have pulled out of the property slump, but it will take time until previous record rents of up to US$75 per square meter are reached again.

*Source: Fiducia China Focus*

## Giant Economic Data System Comes to Life

The State Economic Information System (SEIS), the largest national information system in China, is up and running. The SEIS is a large-scale information system focused exclusively on economic data. It consists of seven subsystems and one public network platform. The seven subsystems include a macroeconomic forecast system, an enterprise and product information system, a market and price information system, a world economic information system, economic laws and regulations system, foreign-loan project information system and government investment project information system.

*Source: ChinaOnline*

## Preferential Treatment for Environmental Industries

China will devise preferential policies to help environmental industries develop. The particular focus will be on environmental technology and equipment; environmentally friendly materials and medicines; comprehensive recycling of waste materials; and information services. The industry is expected to grow 15% annually and to have an output value of RMB 200 billion by 2005.

*Source: Economic Daily*

# In Brief

– On May 16 China successfully raised US$ 1.5 billion and Euro 550 million. Six banks were involved in the deal, with three US firms arranging the dollar leg and three European banks the Euro deal, China's first in the single currency. China has not tapped the bond markets since 1998.

– China Merchants Bank, the leader in internet banking, plans to raise around RMB 10 billion (US$ 1.2 billion) in China's largest ever domestic share issue to fund expansion and establish a presence abroad. The IPO, scheduled for the fourth quarter on Shanghai's A-share market, requires approval from China Securities Regulatory Commission which is said to regard the listing proposal favourably.

– Chinese banks should prepare themselves for tougher competition from their foreign counterparts after joining the WTO, says Liu Minkang, chairman and president of the Bank of China. The much anticipated listing of Bank of China on the Hong Kong stock market is set for November, with the aim of raising about US$ 5 billion.

– Chairman Liu Minkang also announced that the non-performing loans of the Bank of China amount to 28% of assets, compared with previous estimates of between 11 and 15%. The bank plans to recover RMB 20 billion in non-performing debt this year and RMB 25 billion next year through increasing pressure on defaulters and a system of reward and punishment for poor lending decisions by branch managers.

– Beijing aims to build its own "Wall Street" in the Xicheng district, a precinct of tall towers and blocks that

will take shape over the next five years at a cost of US$ 1.8 billion. A total of 2 million square metres in new office space is slated to come on stream and some 15.000 households will have to be relocated. Finance Street hopes to successfully compete with Shanghai since the head offices of the central bank and the insurance and securities regulator are all located in Beijing.

– The number of foreign bank offices and branches in China continues to grow. By the end of 2000 foreign banks operated 177 branches and over 200 representative offices, with total assets of US$ 34.6 billion. Foreign currency loans by these banks accounted for 22.7% of total loans of US$ 18.8 billion.

– The Civil Aviation Administration of China (CAAC) announced a plan to regroup ten airlines under its control into three groups. They will be Beijing-based Air China, Shanghai-based China Eastern Airlines and Guangzhou-based China Southern Airlines, and their combined assets will reach US$ 6 billion. The group would have 512 domestic flights and 94 international flights, 180 planes and 34.100 employees.

– A TV-radio broadcasting group, which will be the largest in China, made up of China Central Television (CCTC), China Radio (CNR) and China Radio International (CRI) is schedules to be put together. This is one of the steps of the government's reform programme for the industry to face up to the coming foreign competition when China enters the WTO.

– Air China is considering an overseas stock offer next year. Listings in Hong Kong and New York could be valued US$ 500 million. Leading investment banks are pitching to underwrite the deal. An offer by Air China would benefit from China's entry into WTO, which should boost cargo traffic.

– This year's Guangzhou spring fair closed with export contracts worth US$ 15.8 billion and a record number of 110.000 foreign visitors. Contracts for electronic household products hit US$ 1.7 billion, an increase of 19% over the previous fair. The biggest growth of sales was recorded with Gulf States, up 22%, and with Russia, up 25%.

– China has decided to relax price controls on domestic cars and allow manufacturers to set their own prices.The move is likely to increase competition and speed up the restructuring of the car sector ahead of China's WTO entry, which will see tariffs on auto imports fall to 25% by mid 2006 from the current 70-80%.

– China Securities Regulatory Commission announced that five overseas accounting firms have received temporary licences to audit Chinese financial institutions seeking public listing. They are Arthur Andersen & Co, Deloitte Touche Tohmatsu, Ernst & Young, KPMG PeatMarwick and PricewaterhouseCoopers. CSRC and MOF jointly issued a notice stipulating that banks and insurance companies seeking IPOs must hire both Chinese and non-Chinese accounting firms to audit their financial records.

– China's booming private school sector is to receive legal protection from the central government, strengthening its position and ecouraging further growth. New laws will put private schools on the same legal footing as state-owned ones and offer incentives for their construction. The greatest growth in private education has been in high schools, for ages 12-17, which have grown from 888 in 1994 to 2.593 in 1999.

– Make-up has become part of the daily life of Chinese women. Cosmetic sales in 2000 hit US$ 4.1 billion, 170 times the volume of 1982. They are expected to increase to US$ 9 billion by 2010. A large amount of foreign investment, totalling US$ 1.5 billion, has poured into China to establish some 450 foreign-funded firms, including Shiseido, Procter & Gamble, Unilever etc. Some 3.500 firms are licensed to produce cosmetics in China.

– Since the early 1990s, China has witnessed a steady rise in the number of divorce cases. In 1999, about 800.000 couples ended their marriages, a figure that zoomed to a record 1.21 million in 2000, official statistics indicate. Despite the surge, China's divorce rate remains low compared with other countries, ranking only 55th of 72 countries in recent United Nations statistics.

– At the end of 2000, 75 million Chinese had a driver's licence. Along with a command of English and of computers, a driver's licence is regarded as an essential qualification by many modern Chinese.

– Beijing is the only area in China where privately owned vehicles outnumber publicly owned ones. By the end of April, Beijing had a total of 1.6 million vehicles, more than half of which were registered by private owners. According to the transportation authority, private-vehicle purchases during the first four months made up 60% of total purchases.

*Summary by Paul Wyss*

# New Swiss Consul General in Shanghai

*Dr. Hans Jakob Roth*

Hans Jakob Roth, a citizen of Buchs/AG. was born in Basel in 1951, where he grew up.

After obtaining a Masters degree in History from the University of Basel and a Masters in Economics from the University of Geneva, as well as study programmes in London (one year), Beijing and Rome (each two years), he graduated with a Ph.D. in History of Economics in Basel.

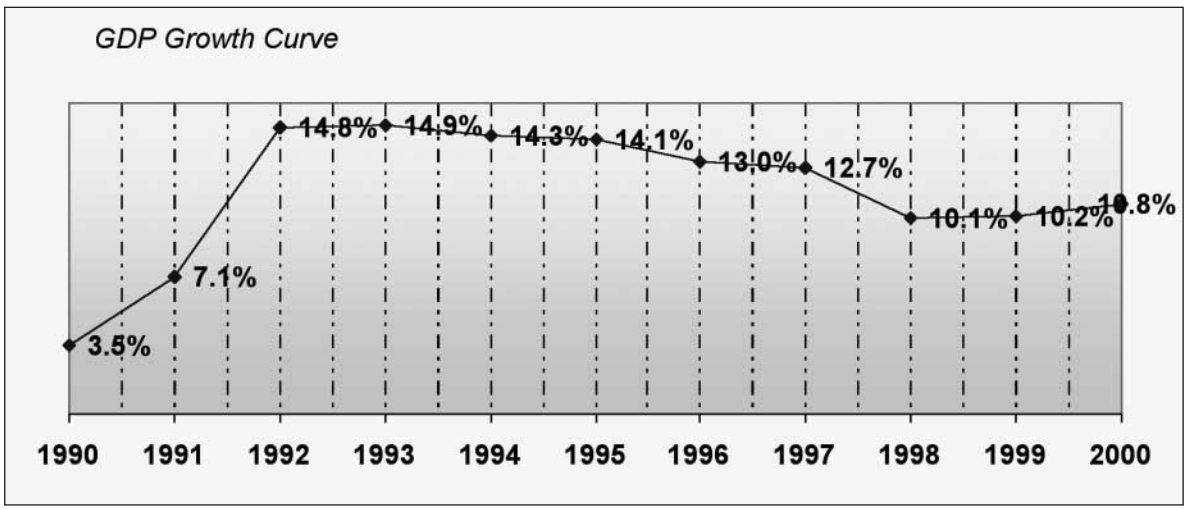
1982 Hans Roth joined the diplomatic corps of the Federal Department for Foreign Affairs. After training periods in Bern and London he was sent to Tokyo in 1984, where he handled the political affairs of the Embassy until 1988 and from 1988–1990 took over the Embassy's Culture and Press activities. He was sent to Beijing in 1990 as Representative of the Ambassador. From November 1995 to February 1997 Hans Roth was granted special leave in order to create the Swiss-Asia Trust in Zurich. On March 1st, 1997 he took over the Division Culture and UNESCO of the Political Department V of the Federal Department for Foreign Affairs. Hans Roth took over the Consulate General of Switzerland in Shanghai mid-August 2001 as Consul General.

## Development of Delta Region

The first quarter of this year showed that the economy of the Yangtse-Delta Region is growing faster than China's average. Hence, the Delta region continues to play the locomotive role of China's Economy. See the table below:

**Comparative Economic Development** (First Quarter 2001)

| | GDP | | added Industrial Production | | Export | | Foreign actual investment | |
|---|---|---|---|---|---|---|---|---|
| | Volume (Billion RMB) | growth | Volume (Billion RMB) | growth | Volume (Billion USD) | growth | Volume (Billion USD) | growth |
| China | 1989.5 | 8.1% | 586.8 | 11.2% | 59.30 | 14.7% | 7.98 | 11.7% |
| Shanghai | 108.2 | 9.8% | 47.55 | 14.5% | 6.46 | 28.3% | 0.90 | 39.7% |
| Jiangsu | 188.9 | 10.6% | 65.19 | 14.5% | 6.51 | 32.8% | 1.46 | |
| Zhejiang | 141.2 | 10.6% | | 14.9% | 4.86 | 28.5% | 0.396 | 22.5% |



## Economic Indicators of Shanghai (Year 2000)

| Indicator | value | over year 1999 |
|---|---|---|
| **GDP** | **CNY 455 billion (USD 54.8 billion)** | **+10.8%** |
| – Primary Industry | CNY 8.16 billion | 2.2% |
| – Secondary Industry | CNY 219.7 billion | 9.8% |
| – Tertiary Industry | CNY 228.26 billion | 13% |
| Social Retail Sales | CNY 172.2 billion | 8.3% |
| Fixed Assets Investment | CNY 186.1 billion | 0.2% |
| Added-Value by industries | CNY 199.1 billion | 10.5% |
| International Trade | USD 54.71 billion | 41.7% |
| – import | USD 29.36 billion | 48.1% |
| – export | USD 25.35 billion | 35% |
| Unemployment rate of urban population | 3.5% | |

*Shanghai Statistics Bureau*

# Delta Region Changes its Administrative Map

Along with the rapid economic development, China is speeding up the process of urbanisation. In addition to the Pear River Delta, the Yangtse River Delta Region is one of the most urbanised areas in China. In the past few years, most of the **Shanghai** suburb areas – which used to be called "Counties", like Songjiang, Jiading, Baoshan, Jinshan etc., became integrated "Districts" of the city.

Even more and greater changes have taken place in the **Province Jiangsu and Zhejiang**. After the municipal jurisdiction separating Taizhou from Yangzhou and Suqian from Huaiyin in 1996, Jiangsu is now facing for the second time the large-scaled rearrangement of the administrative area. According to the plan approved by the central government, the restructuring of the administrative system is focused on the areas of Nanjing, Suzhou, Wuxi, Yangzhou and Huaiyin. 222 central towns, identified in 1999 by the provincial government, will be reorganised so that only 120 remain, whereas the rights of the local authorities as well as the development spaces of the cities will be enlarged.

In **Zhejiang**, everything seems to be restructured. Following are just some examples:

– **Hangzhou:** Xiaoshan and Yuhang have become two districts of Hangzhou Municipality from two cities at county level* . They are directly integrated into the city of Hangzhou, and the urban area of Hangzhou is enlarged from 683 square km to 3 068 square km.

– **Shaoxing:** the urban area of Shaoxing City is enlarged from 101 square km to 336 square km; at the same time, the site of Shaoxing County Government moved from Shaoxing City to Keqiao Town.

– **Jinhua:** the former Jinhua County became today's Jindong District of Jinhua City.

– **Lishui** changed in June 2000 from a prefecture into a city already.

The number of "Zhen" (township) in the province was reduced from 1'006 in 1998 to 955 at the moment, and the number of "Xiang" in the rural area (at the same administrative level with "Zhen") reduced from 823 to 740.

The goal of the restructuring is to remove the obstacles on the way of developing the regional economy. Before the restructuring, the regional development plans and the infrastructure projects were always restricted or even blocked, because of the interest conflict between the central cities * (like Suzhou) and the surrounding counties (like Wuxian, Wujiang and Kunshan), and between the cities (like Wuxi) and the counties (like Xishan), whose government sites locate in the same town.

** The word "city" in China is a very confusing concept, not only for foreigner, but also for many Chinese citizen. Every city in China, just like every cadre, has a special rank. The cities are classified into four ranks: the rank on the provincial level (like Shanghai and Beijing), the rank on the quasi-provincial level (like Nanjing and Ningbo), the rank on the prefecture level (like Suzhou and Wuxi) and the rank on the county level (Kunshan and Xishan). So, it is very important to differentiate the ranks of the cities, while meeting a Chinese delegation with one or more Mayors.*

# Jiangsu No.1 in Textile Industry

Jiangsu, one of the economically strongest provinces in China, holds a leading position also in China's textile industry. The total sales of the textile industry of the province reached approximately 22% of China. According to statistics of the Customs of China, the province exported 5.36 billion USD textile and garment products (excluding silk) in 1999, which is 13.2% of the total national textile and garment exports and 29.6% of the whole export of the province. The following tables show more details.

### Capacity in 1999

| | Ring Spinning | Loom | Shuttleless Loom | Woollen Spinning | Chemical Fibre |
|---|---|---|---|---|---|
| Percentage in China | 12.3% | 14.2% | 22.1% | 31.3% | 27.1% |
| Rank in China | 2 | 1 | 1 | 1 | 1 |

### Production in 1999

| | Cotton Yarn | Woven Fabric | Yarn-Dyed Fabric | Wool Fabric | Chemical Fibre |
|---|---|---|---|---|---|
| Percentage in China | 17.1% | 13.1% | 31.5% | 49.6% | 27.8% |
| Rank in China | 1 | 1 | 1 | 1 | 1 |

# New Telephone Numbers in Zhejiang

Telephone numbers in Hangzhou, Ningbo and Wenzhou have changed, namely from 7 digits into 8 digits in May 2001 as follows:

**Hangzhou:** put 8 in front of the original number with the beginning of 2, 5, 6, 7 and 8;
put 6 in front of the original number with the beginning of 3 and 4.

**Ningbo:** put 8 in front of the original number with the beginning of 6, 7 and 8;
put 6 in front of the original number with the beginning of 2, 3 and 5.

**Wenzhou:** put 8 in front of the original number with the beginning of 2 and 8;
put 6 in front of the original number with the beginning of 2, 3, 4, 5 and 7.

## Shanghai Launches "Go-Out" Strategy

Shanghai has announced a "go-out" strategy that will boost its investment overseas to USD 500 million in the next five years. The city will foster a group of influential multinationals and establish a group of overseas production bases to boost its transfer of matured industries to overseas and the export of raw materials, equipment and spare parts. It also aims to greatly expand its share in the international civil engineering market and related labor. Shanghai's telecommunications, software, microelectronics, digital technology, biomedicine, new materials, automotive, garment design and other industries will set up development and research centers and design centers in developed countries. By the end of 2000, Shanghai had invested USD 320 million in 580 projects in about 70 countries and regions, and sent more than 30'000 people out to engage in labor services there.

## Capital for Shanghai from Other Provinces

Encouraged by the prosperous prospect of Shanghai, more and more businessmen come to the city and bring with them heavy venture capital. Among them, there are not only international businessmen, but also Chinese people from other provinces. According to *Xinhua Daily*, 9.6 billion RMB (ca. 1.16 billion USD, as registered capital) was poured into Shanghai last year – an increase of 165 % compared to 1999. The figure did not include 1.8 billion of smaller sharing investment in large projects in Shanghai. Among the total of 9.6 billion RMB, there were 5 big projects with a registered capital of more than 100 million RMB (ca. 12 million USD). The greater part of the investment was private.

*Source: Xinhua*

# Merger & Acquisitions of Shanghai Enterprises



As early as in 1998, Shanghai's first agency for international assets and equity exchange was set up. It was for the first time announced that foreign investors including foreign invested enterprises in China would be allowed to purchase Chinese enterprises. By the end of 1999, Shanghai Assets & Equity Exchange (SAEE) has handled 6'477 cases, with transactions exceeding CNY 100 billion (USD 12.7 billion). Yet, foreign investment were only involved in 140 of these acquisition and re-organisation projects and the transactions amounted CNY 429 million (USD 51.9 million). Last year, the amount of foreign investment in acquiring and merging with Chinese enterprises grew rapidly to CNY 2 billion (USD 241 million), 6 times of the total amount of previous years. However, compared to the total contractual foreign investment USD 6.4 billion, this is still a tiny proportion.

The writer once interviewed the SFIDB project manager Mr Wang Weicheng and inquired about pertinent laws or regulations. To my surprise, the answer was "no": "Unfortunately we don't have a law to regulate these activities". said Mr. Wang. "But we have a kind of guidance for FIEs concerning how to proceed with the merger or acquisition." This guidance is called "Approval and Registration Procedures of Shanghai Municipality Concerning Foreign Investment – To Merge Or Acquire State-owned Enterprises". It was jointly established by the Shanghai Municipal Foreign Investment Commission (SFIC) and the Shanghai Industrial and Commercial Administration Bureau (SICAB) in 1998. According to this document, SFIC is the authority to examine and approve the project while the SICAB is the authority where the new enterprise will register with and get business license.

Having realised the unclear situation, the municipal government thus decides to give a push rather than just a green light to foreign enterprises who want to purchase the ownership of Chinese enterprises. Recently the Shanghai Municipal Foreign Investment Commission (SFIC) declares that it will co-operate with Shanghai Assets & Equity Exchange (SAEE) by a new implementation policy, which is called "Faster Procedures For Foreign Investment Acquisition Or Via SAEE". In fact, this is not different very much from the previous general guidance. The biggest attraction is that the examination period will be shortened by at least $1/3$, since some required steps are omitted. This applies to the case on the following premises:

– the agency for the foreign or acquisition project is either Shanghai Foreign Investment Development Board (SFIDB) or Shanghai Assets & Equity Exchange (SAEE). Both are non-profit organisations with governmental background (addresses see below).

– the merger or acquisition project conforms to the Guideline Catalogue of Foreign Investment Industries and the transaction shall not exceed USD 10 million;

– the deal shall be realised through the SAEE.

For foreign investors, acquiring a local enterprise with similar production is the fastest way to snap some market share in a foreign country. Nestlé China is such an example: After having set up 2 offices and 8 factories, Nestlé has acquired 3 Chinese well-performed companies:

1. it acquired Shanghai Fuller Foods Co. Ltd. in 1997;

2. acquired Shanghai Drinks Beverage Co. Ltd and renamed it as Nestlé Sources Shanghai;

3. acquired 80% of the TOTOLE group, a seasoning manufacturer.

But this method is not favored by everybody, weighing the advantages and disadvantages. "The major benefit is as mentioned above market share. Obviously this is the fastest way to access to the local market. Besides, existent facilities and skilled workers are also the favourable factors." Mr. David Fan, general manager of Leica Microscope System Shanghai analysed. However, the other side of the coin is deterring. "For example, whether the existent facilities and whether the work approach of the current workers, though having certain skills, are up to the acquirer's requirement." Mr Zhanbing Ren, general manager of BOBST Shanghai, also agrees, "Truly the market and available venue and facilities look very attractive. But thinking about the various problems handed down, we can not risk these burdens. That will bite much of your time and efforts to solve, improve and reform." Among these concerns, the excessive laborforce of the former local enterprise was the no.1 headache. In the application of acquisition project, foreign investing enterprises are required to clearly state how they are going to deal with the excessive workers. "Things are changing a little." said Mr David Fan, "Flexible, you can take over the workers or refuse with some compensation. It depends on how to negotiate with the Chinese seller."

To sum up, a merger & acquisition approach is a shortcut to the market. Other factors regarding time, cost, system disparities and problems are all case by case but need to be carefully researched before making a strategic decision. And overall, the environment is changing as well. Though as Mr Wang from SFIDB admits that there is lack of a necessary law to guide and supervise the foreign merger and acquisition, the city government has seen the interest of foreign enterprises and that it can be a new trend of foreign investment, especially along with China's expected access to WTO and progress of the state-owned enterprises reform. Therefore, it is believed that more rational steps will be taken to attract more attention of foreign investors in this field.

*(continued on next page)*

*Shanghai Assets & Equity Exchange*
*Hailong Zhang, President*
*12/F Lucky Mansion 660 Shang Cheng Rd.*
*Shanghai 200120*
*Phone: (008621) 5831-0608*
*Fax: (008621) 5831-5335*
*E-mail: saeemail@online.sh.cn*

*Shanghai Foreign Investment Board / Shanghai Overseas Investment Board*
*15F, New Town Center,83 Loushanguan Rd.*
*Shanghai 200336*
*Phone: (008621) 6236 8800*
*Fax: (008621) 62368024, 6236 8026*
*Web: http://www.fid.org.cn*

*Source: Consulate General of Switzerland in Shanghai, by Freda Wang, Commercial Section*

# Who Wins in the Chip War: Shanghai or Beijing

Integrated Circuit (IC) is known as the food for information industry and the drive for upgrading traditional industries. In some developed countries, 65% of their GDP growth can be attributed to the IC. Such a figure may explain why there is a heated competition between Beijing and Shanghai for being the national micro-electronics base, or to be accurate, being the China IC Centre.

Project 909 was launched by the former Ministry of Electronics and the Shanghai Municipality in 1997, with Huahong Group founded first and then a joint venture with NEC formed. "909"stands for the key project in the Ninth Five Planning during the 1990s. Before China could only produce the chip with 6 inch in diameter and 0.6μ in wire width. The *Huahong NEC Company* makes IC of 8inch 0.35μ.

But this is not the end, since so far the output of China's IC can only supply 20% of the increasing demand, particularly the high-level. Even it is estimated that the demand for IC will grow from last year's 20 billion pieces to 33.5 billion pieces by the year 2003. Just in the last two months of 2000, another two large chip plants: *Grace Semiconductor Manufacturing Corp.* and *Semiconductor Manufacturing International Corp.,* laid down the groundstone at the Pudong Zhangjiang Hi-tech Park in Shanghai. This zone is a special zone that the city envisions as its ground-zero for becoming one of the world's major "information ports". With investment of over USD1 billion each, both of the wholly foreign-owned projects were directly approved by the central government. In fact, both have Taiwan fingerprints, although the investments come from Cayman Islands. When SMIC's full plans is realized years from now, it would build itself into China's largest producer of cutting-edge integrated circuits to supply the computer and communications industries.

While Shanghai is forging the Pudong Micro-electronics Base, Beijing is unwilling to lag behind. At the end of the last year, two chip projects were signed. They *are Beijing Xunchuang IC Co.,Ltd* and *Beijing Huaxia Semiconductor Co., Ltd*. Some inside news say that *Hongkong Asia* Pacific Science Development Co., one of the investors of the *Beijing Xunchuang IC Co.,Ltd,* originally chose to locate the plant in Shanghai, which has a comprehensive industrial basis, sound business environment and financial service. But the attraction offered by Beijing pulled them to the north. Beijing government not only promised reduction in land rent, but also 1%-1.5% discount in the loan interest.

In the mean time, at the official opening of the Shanghai Pudong Micro-electronics Base, Pudong government declared the newest measures to further encourage the development of software and IC industries. The policy confirms that certified IC and software enterprises can enjoy both the preferential policies stipulated by the country and the Shanghai government, and supportive policy on hi-tech industry as well as the latest policy itself. The policy grants support to IC and software enterprises in various aspects like financing, taxation, import & export, land use, human resource, reward system and intellectual property rights. What is most interestingly noticed is that during the Tenth Five Period (2001-2005), Pudong government in hand with Shanghai municipal government will also grant 1% discount interest for the IC production line established in Pudong and ranked as the key project by the Shanghai government.

If one looks at the objectives set by the two cities, one will find them surprisingly the same. Shanghai government strives to attract investment of 7 USD 10 billion in its IC industry, introduce 10 wafer plants and over 100 enterprises in the field of designing, manufacturing, sealing and testing to Pudong within 5 years. On the other side, with the above-mentioned two projects of USD 1.5 billion, Beijing also announces the start-up of its North Micro-electronics Base. And it claims to invest USD 20 billion in 20 IC production lines within 10 years.

**Logistics. Worldwide.**
With a strong presence on every continent, the Danzas Group is one of the world's leading providers of logistics solutions. Its 43'000 employees worldwide generate annual net sales of EUR 8.3 billion (USD 7.8 billion, CHF 12.9 billion) in 2000. Danzas is based in Basel, Switzerland, and belongs to the Deutsche Post Group.

DANZAS AEI
INTERCONTINENTAL

# Comprehensive global solutions.

## Intercontinental

Worldwide no. 1 in air freight and a leader in ocean freight, Danzas and AEI together offer a world-spanning network and truly comprehensive service: Starconnect covers all air freight requirements. On the high seas, Marconnect's scheduled general cargo services link the world's main markets. Full container loads are also handled worldwide. Intercontinental saves you both time and money by offering the best freight transport combinations as well as all logistics functions for large infrastructure and industrial projects.


Gruner & Brenneisen AG Basel

Danzas AG · St. Jakobs-Strasse 222 · CH-4002 Basel · Tel. +41 61 315 96 36 · Fax +41 61 315 96 40 · www.ch.danzas.com

# Comparative Table of Chip Projects in Shanghai and Beijing

## SHANGHAI

| Project | Investment | Investor | Construction Start Date | Product |
|---|---|---|---|---|
| Huahong NEC | US$1.2 billion | Sino-Japanese JV | 07.97 | 64M SDRAM, logic circuit. designing, R&D, manufacturing & Sale |
| Grace Semiconductor Manufacturing Corp. | US$1.63 billion | WFO , Grace emiconductor Manf. Company (a Taiwanese investment in Cayman Islands) | 11.00 | IC designing, R&D, chip, testing & packaging |
| Semiconductor Manufacturing International Corp. | US$1.46 billion | WFO, SMIC Corp. (a Taiwanese investment in Cayman Islands) | 12.00 | 8 inch, 0.25µ IC |

## BEIJING

| Project | Investment | Investor | Construction Start Date | Product |
|---|---|---|---|---|
| Beijing Xunchuang IC Co.,Ltd. | US$ 200 million | JV, – Beijing Electronics Co., Ltd. – Cayman Xingda Investment Holding Co. – Hongkong Asia Pacific Science Development Co. | 12.00 | 6inch, 0.35µ-0,8µ |
| Beijing Huaxia Semiconductor Co., Ltd. | US$ 1.35 billion | JV, – Capital Steel Group | 12.00 | 2 production lines: 8 inch IC |

Who will win this war? Some people say that Beijing is already a bit ahead of Shanghai, since its computer output leads first in the country. Taking way the word "National" from the name of the Pudong Micro-electronics Base, officials from Shanghai are keeping a low profile about the competition. But the silent attitude never means any give-up. The city is still quietly but firmly working in accordance with the blueprint of informationization. In fact, either from the view of industrial basis and infrastructure facilities, or in terms of soft environment e.g. service and market, Shanghai has more edge over Beijing. The special character of Shanghai determines its special role. As the chief consultant from a German business consulting company comments, "Even Beijing may have its Silicon Valley, Shanghai is the large-scale testing ground for the ideas it produces. Shanghai, rather than any other city, will determine whether the cyber-life will be the future in China."

*Source: Consulate General of Switzerland in Shanghai*

# Shanghai vs Hong Kong

The debate over whether Shanghai will eclipse Hong Kong rages on. Statistics are often banded around: Hong Kong's economy is 38% bigger and exports are 80% higher; Shanghai's economic expansion has been three times faster and export growth five times quicker over the past three years. But recently there have been notable

voices suggesting that the much discussed competition has been exaggerated.

The Hong Kong Trade Development Council wrote in their report on the subject that each city has their own unique role to play, bridging trade and investment flows to different regions of the mainland. Furthermore, when he addressed the Hong Kong General Chamber of Commerce this month, the Mayor of Shanghai, Xu Kuangdi, said that both cities actually benefit more from economic ties than suffer from head-to-head rivalry.

Whilst this may be largely true, competition does exist in the attraction of multinationals' management activities. In anticipation of Shanghai's increased centrality as the mainland market opens up, more and more Hong Kong-based multinationals have been relocating their China headquarters to Shanghai. AIA insurance moved theirs in 1998, Philips theirs in 1999, and Bayer recently announced that it was considering moving theirs. Dozens of other companies plan to make the jump soon, according to a survey by the American Chamber of Commerce in Hong Kong.

At the moment, this competition for multinationals' management activities appears to be limited to China headquarters, as regional headquarters remain firmly rooted in Hong Kong. This is down to business environments, for as big city rivalry increasingly becomes a rivalry between market openness, labour relations and the rule of law, Hong Kong clearly has the edge on Shanghai. This was confirmed in a recent survey by The Chinese University of Hong Kong and The Better Hong Kong Foundation, in which Hong Kong ranked ahead of Shanghai in almost every aspect of its business environment.

The question for Shanghai is therefore, not whether industrial production will boom, but whether institutional reform will match the pace of industrial reform. In particular, foreign companies should observe closely whether Shanghai's assurances of an equitable and sophisticated system of commercial law, and the enforcement of that system of commercial law, actually become a reality.

*Source: Fiducia China Focus*

# Success in China through Human Resources

## Cost-Saving by Outsourcing and Interim Management

*China will certainly stand to gain with the entry into the WTO. Competition will become keener, which in turn will apply pressure on the prices and at the same time on costs. In order to maintain a market share, companies have to find ways to reduce substantially their operating costs. One very effective way is to reduce overhead cost by concentrating on the core business of the company and to outsource non-core business. Another way is to save costs through the use of interim Management where in-house skills and expertise are lacking or where the needs are for a specific period of time. Interim Management is external, temporary professional support without long-term commitment.*

### Let a 3rd Party Handle your Payroll Administration

Many companies have come to grips with the issues related to payroll administration. Payroll administration is done once a month. Unless the people in charge of payroll administration have other duties and responsibilities, there will be peaks and valleys in the workload for these people. Even if they have other duties and responsibilities, it would almost be impossible to arrange the workload in such a manner the workload will be evenly spread out during a work month.

Furthermore, taxes in China are very involved. It behooves on all FIEs to abide by all the rules and regulations to the letter but where those rules and regulations permit certain benefits, the payroll staff normally are not tax experts and may not utilize such benefits to the full extent. Often, we have been asked how to treat the in-house housing funds and welfare funds which usually baffle the payroll staff. In fact, these can be viewed as a substantial tax saving if you have the right interpretation.

There are considerations of confidentiality. This will be especially sensitive in the joint venture environment in that the staff you have taken over from the Chinese partners are paid slightly higher than their State owned enterprise counterpart. However, when you have to recruit from the market, the salaries may be several times higher. If these are known to the existing employees, you will immediately have staff problems on hand which will be very difficult to explain or to rationalize. Where these people are personally involved, they will never take a detached and objective view. You give more to the newcomers for very good reasons but how can you explain. Your Deputy General Manager may be the first person to tell you that "the secretary you are hiring will be making more money than me (the Deputy General Manager)." If you run into problems similar to this, third party handling will save you all the trouble. In addition, the third party may help design the salaries for the newcomers in such a way that there will be apparent equity in base pay among all staff.

Payroll staff either under Human Resources or under Finance are normally not professionals but good technicians. They usually come short of the depth and breadth. They tend to be disgruntled when they see all the generous pay-outs for others. This has been identified as a most likely loophole for this sensitive information floating within an organization.

Management may not be aware of the workload involved. In some companies, payroll administration staff also handles the reimbursements for travelling by taxis and entertainment. The workload could be quite extensive. If they know the rules and regulations well and more importantly, the application aspect, great savings in taxes may result.

Payroll administration in any company should be professionally handled but this has proved to be a missing link in good management. When your payroll administration is outsourced to a third party, the cost of this administration will be known beforehand for which budget will be provided and the whole administration will be more transparent, professionally performed and management will not be bothered with the day-to-day administration. The standard of performance will be upheld and maintained at all times as you are dealing with a professional firm rather than individuals.

### Interim Management

Interim Management has been a very common practice for companies in many countries with good results. Any company can face exigencies such as sudden sickness of a key staff, need for certain skills and expertise for a specific period of time. In order to maintain a smooth operation and not to adversely affect the business, the company needs to have an immediate professional replacement. If a replacement cannot be provided from in-house, then an external solution is required. The interim management will allow the company to fill the

Partners of Horton International China will be presenting articles dealing with human resources management in China. Horton International China which is based in Shanghai is an international consulting firm specializing in Executive Search and Human Resources Consulting. The topics to be covered in the series of articles will include discussions in areas of staff recruitment, intercultural differences, staff retention, compensation and benefits, business ethics, termination and downsizing, interim management support, staff and payroll outsourcing, policies and procedures and other general management and human resources management consulting. Their belief is "When you solve people problems, most of the other problems will disappear."

"void" in a expeditious and professional way within a reasonable timeframe but without long term commitment. One additional advantage for resorting to interim management, is that the professional interim specialist can bring the situation under control right away and make all the necessary changes and turn over a clean "shop" to the regular manager.

### Summary

Companies who are making full use of outsourcing and interim management will have a definite competitive advantage over those who still use yesterday's tools in solving new economy age issues and they can save costs and they will have more time and energy in minding their "business of the business". Who will likely be the winners in this new economy age? The answer is obvious.

*For further information, please contact:*
*Hans Rusch*
*hans.rusch@hortonchina.com*

# Revision of Human Capital Policies

China will revise its policies on human capital in various ways, minister of personnel Zhang Xuezhong made clear in an interview with China Daily. Especially the sectors of information technology (IT), biotechnology, foreign trade, banking and corporate management will profit from new regulations, he said. The minister pointed out that there still is a severe lack of skilled people in especially the IT and biotechnology sector.

According to Zhang, the government will put more effort and money in forming lab infrastructures and research facilities, and remove seemingly unnecessary and delaying rules and processes for venture start-ups and operations. Personnel policies will be revised as well, Zhang added, without explaining in detail how.

Complaints regarding the current policies seem on the rise: people and companies get stuck in myriad of rules and regulations, salaries that depend on seniority rather than ability and performance, and the rigid permanent permit systems. Free flow of labor and talent is blocked by e.g. the household registration system, which permits people to work only in the area their resident permit is valid. "Such policies have stood in the way of fluid transfer of skill where needed, and they should be further revised to benefit professional people", Zhang told China Daily. In some cities tests are currently going on, allowing persons qualified to a certain level to work there without a resident's permit.

But the hunt for a better job is giving China also its place in the global work place. The worldwide battle for the best workers is increasingly hitting China, Zhang admits. Competition and pressure is on the rise as countries such as Germany, Japan, South Korea, the United States and Singapore are adjusting their policies to encourage the free flow of professionals worldwide and attract large number of well-educated Chinese.

Though Zhang remains positive, as more and more Chinese students who study abroad, return to China. "The number of overseas students returning is growing every year. This is very encouraging because they can bring back advanced technology and ideas that China urgently needs". Of the 330,000 Chinese students who left to study abroad since 1978, 110,000 have returned so far.

*Source: China Human Resources Newsletter*

# Foreign Headhunters to Enter the Market

China will allow foreign headhunters to enter the mainland human resource market, according to an unnamed high-ranking official with the Ministry of Personnel. The ministry is drafting regulations that will initially allow foreign firms to set up joint ventures on the mainland.

*Source: Beijing Morning Post*

# Legal Framework to Develop Private Schools

China will set up a legal framework for the development of private schools. The National People's Congress (NPC) will examine a law draft that provides in equal treatment as government-run schools, and some preferential treatment in the form of loan, tax, and financial measures. The draft further calls for the protection of the rights of private schools' educators and students, and the permission for private school to gain a reasonable profit.

The proposed law is expected to increase the growth of private schools within China, whose numbers have been going up already in recent years. The need for more private schools remains is huge as government-run schools can't fulfill the needs of China's huge population and many students go abroad for finding a decent school.

According to figures of the Education, Science, Culture and Health Committee of the NPC China counted 54,000 private schools by the end of last year, educating 6.93 million registered students. The private school sector includes kindergartens, primary and high schools, colleges and job training centers.

*Source: China Human Resources Newsletter*

# Tourist Guide VIEW SWITZERLAND

## Edition 2001/02

In May, just in time for this year's tourist season, the new edition has been made available for distribution. VIEW SWITZERLAND is published annually by RUCKSTUHL MEDIA PROMOTION and is distributed in China through major Tour Operators, Travel Agents, Airlines, Switzerland Tourism Offices and Swiss Consulates. It is targeted at Chinese people travelling to, or who may be interested in Switzerland. The aim will always be to provide the Chinese readers with the best guide of its kind.

VIEW SWITZERLAND is produced to the highest standards, utilising handy A5 format. It covers Switzerland's history, geography, picturesque landscapes, Swiss culture, its people, and highlights the major places of interest. Additional useful information for travellers include maps on Switzerland and major cities, and the "must visit" tourist resorts and attractions.

Members of the Swiss-Chinese Chamber of Commerce are entitled to a limited number of free copies. The guide has also proved extremely popular with advertisers to a market of people enjoying increasing prosperity and the freedom to travel.

*Please direct your enquiries for copies or advertising to:*

*RUCKSTUHL MEDIA PROMOTION*
*P.O. Box 11, CH-6044 Udligenswil, Switzerland*
*Phone +41 41 371 06 63*
*Fax +41 41 371 03 55*
*Email pius@ruckstuhl-media.ch*

# Three New Shangri-La Hotels in China

Shangri-La Hotels and Resorts, the largest Asian-based luxury hotel company with 37 properties in the region, has announced three new management agreements within China in Nanjing, Zhongshan and Zhengzhou, further strengthening the group's dominant position in the mainland, where it already has 15 hotels and 7,000 rooms.

Opened in July 2001, the five-star 460-bedroom **Shangri-La Dingshan Nanjing** is situated 40 minutes from Nanjing international airport and within close proximity of the business and cultural districts. Nanjing, the former capital of China for five dynasties including the renowned Ming dynasty, is the capital of the Jiangsu province with a population of more than 5 million people.

Located in a garden setting, the hotel will have expansive views across the Yangtse River and the city, with many of the rooms, which range from 40-60 square metres, featuring balconies. There will be a variety of Chinese and international restaurants, numerous meeting rooms and a 1,200 square metre grand ballroom divisible into three sections. Recreation facilities include a state-of-the-art health club, gymnasium, sauna, swimming pool and two tennis courts. In addition to the hotel, there will be 120 service apartments and long-stay residences as well as a 100-room four star hotel within the complex.

The 264-bedroom **Shangri-La Hotel Zhongshan** in southern China, opening late 2001, is only one and a half hours by ferry from Hong Kong and 15 minutes from the ferry port. Its central location means that it is within an hour's car ride to Shenzhen, Guangzhou and Zhuhai airports. Located at the heart of the Pearl River delta, Zhongshan is the birthplace of Dr Sun Yat Sen, the founder of modern China. The hotel's recreation facilities are extensive with two squash courts, a 16-lane bowling alley, an outdoor swimming pool, eight outdoor tennis courts, four badminton courts, a gymnasium, games room, sauna and steam room.

The 14-storey **Shangri-La Hotel Zhengzhou**, situated in the heart of the capital of Henan province in the centre of China, will open early 2002. It is strategically located in the central commercial district, convenient to the north/south and east/west expressways and 40 minutes from the international airport, making it ideal for the business traveller. There will be 280 spacious guest rooms and suites, a ballroom, meeting and breakout rooms as well as a wide range of leisure facilities.

Chief Executive Giovanni Angelini, spearheading the projects, said: 'These three new hotels in China reinforce Shangri-La's dominant position as the luxury hotel group in China. We see huge potential in China, which is benefiting both from the major growth in domestic travel as well as the increase in business and leisure travellers visiting the mainland. As Shangri-La has been in China for over 16 years with an established brand name, we are well placed to capture much of this new business in the secondary cities, which should increase further with China's imminent entry into the WTO.'

Shangri-La Hotels and Resorts is the largest Asian-based deluxe hotel group in the region and regarded as one of the world's finest hotel management companies. The group has two brands: Shangri-La and Traders hotels. Shangri-La properties are primarily five star with the majority having over 500 bedrooms, whereas the resort properties tend to be slightly smaller. Introduced in 1989, Traders is a three to four star brand of mid-priced hotels consisting of five hotels in Beijing, Manila, Singapore, Shenyang and Yangon.

In 2001 Shangri-La celebrates 30 years of Asian hospitality representing a tradition of service excellence which has earned the group international awards and recognition from prestigious award-issuing magazines as

well as industry partners. It began in 1971 with the opening of the Shangri-La Hotel, Singapore. The hotel's 15 acres of landscaped gardens, beautifully appointed guest rooms and gracious Asian style set a new standard for hotel excellence in Asia.

Over the years the company has grown rapidly with deluxe hotels and resorts in Asia's capital cities and most sought after leisure destinations. Today there are 37 properties spanning 10 countries – China, Hong Kong SAR, Taiwan, Singapore, Philippines, Malaysia, Thailand, Indonesia, Myanmar and Fiji Islands.

*For further information on Shangri-La's conference, meetings and incentive facilities, call Caroline Coyle, Groups Sales Manager – UK, Shangri-La Hotels and Resorts on 020 8747 8484. Website: www.shangri-la.com*

# T-Link Expands with Fair-Management

The T-LINK Group has announced the foundation of T-LINK FAIR-MANAGEMENT LTD. This new member of the T-Link family will act mainly as Swiss and European agent for international fairs and exhibitions organizers. First contracts have already been signed, mainly for the Middle East and various places China.

T-Link Fair-Management Ltd. with its headoffice in CH-8807 Freienbach and subsidary in CH-8600 Duebendorf can offer in cooperation with their sister companies T-Link Transpo-Pack Ltd. and T-Link Management Ltd. a unique package of services from the booking of space for the booth at the exhibition up to the arrival of the exhibits on the stand including transport-packing and freight-forwarding besides other services in this growing industry.

*For further infomation please contact:*
*Peter Hunziker*
*Phone: +41-1-822 00 32*
*Fax: +41-1-822 00 82*



# ABB Launches Transformer Venture

ABB has launched a new focused factory called ABB Distribution Transformer (Hefei) Ltd. The plant specializes in manufacturing oil-filled distribution transformers in the 50 to 400 KVA range, up to the 15kV high voltage level. The production output is 12'000 units annually, making the Hefei plant the largest producer of distribution transformers in China. The new Hefei factory is intended to become a production model that will be copied by ABB transformer factories elsewhere in the world. ABB has established 26 companies in China, maintains a sales network in 22 major Chinese cities and employs more than 5'500 people in the country. The Hefei factory is the first wholly-owned ABB company in China outside Hong Kong.

*Source: ABB press release, 26 June*

# In the Land of Rice and Fish

*By Mark Davies*

A quarter of a century ago, it took some 30,000 labourers a million working days to construct, yet in 1998 the Qingshan polder in China's central Hunan province slipped beneath the waters of Dongting Lake in a matter of hours. Today, the polder remains submerged, abandoned to nature. Rice and cotton fields are inundated, farmhouses damaged beyond repair. Despite the loss of their livelihoods and homes, few local farmers lamented the polder's disappearance.

"Each year we reinforced the dykes, each year the floodwaters rose higher," explains Tang Daiqin, a fisherman who as head of a local Production Brigade helped to mobilise construction labourers in 1975 – and countless times since. The backbreaking work to pump and maintain the polder, and deal with seasonal flood damage, was a thankless task. Agricultural production on the 11 $km^2$ of reclaimed land was scarcely profitable, despite the naturally fertile silt which the Yangtze River provided.

The polder was born out of China's drive to modernise and industrialise, begun in the 1950s, when Mao sought to catapult the nation into the 'First World' at breakneck speed. This now infamous 'Great Leap Forward', coupled with a burgeoning population, placed a huge strain on agricultural production. Self-sufficiency in rice and grain became a national obsession, with central government decreeing that huge tracts of forest and floodplain be turned over to agriculture. To this day, each province must meet artificially high grain production quotas.

The social and environmental costs were felt nowhere more acutely than along the Yangtze's middle reaches, where dramatic floods struck with increasing severity and frequency. In part this has been due to deforestation upstream in Sichuan, where logging has caused massive soil erosion, but just as important has been the breakdown in Nature's own system for dealing with floods.

Historically, the vast Dongting and Poyang lakes in this region, and many other smaller ones, have provided a natural overflow during the Yangtze's summer floods. Reclamation projects such as the Qingshan polder fragmented the wetlands and reduced the storage capacity of the lakes at an alarming pace. Dongting Lake, which covered some 4,500 $km^2$ in the 1950s, had shrunk to 2,600 $km^2$ by the 1990s. In all, some 57 billion cubic metres of floodwater capacity disappeared from the region – equivalent to around 6% of the Yangtze's total annual flow.

These wetlands also form a habitat of immense biodiversity, including rare species such as the Chinese alligator, the Yangtze dolphin and many types of freshwater fish. Huge flocks of migrating waterbirds from across Asia spend the winter in the region. The loss of vital habitat to human settlement, combined with poaching and the overuse of pesticides, has brought some species close to extinction.

*Migrating waterbirds are returning to areas from where intensive agriculture had driven them away.*

The floods of 1998, in which thousands of lives and millions of homes were lost, prompted a massive government rethink on agriculture, forestry, conservation and flood control. The link between the devastating floods and the previous decades of land reclamation was finally accepted. Since then, millions of hectares of land have been earmarked for return to their natural wetland status. Qingshan Polder was among the first sites to be restored, its 5,500 inhabitants abandoning their former homes in 1999 and resettling on higher ground, partially aided by government grants.

A driving force behind the change of policy was the World Wide Fund for Nature's (WWF) China Programme Office, which launched the ambitious 'Living Yangtze' initiative in 1999. With the support of international donors and central and provincial governments, over the next twenty-five years WWF aims to restore the unique yet fragile ecosystems of the mighty 6,000 km river. Much of this effort will concentrate on the central 950 km stretch, with a catchment of 680,000 $km^2$, where arguably the greatest ecological disruption has occurred.

As elsewhere in the world, WWF is seeking to shake off its image of only caring about animals and Nature while ignoring the plight of people. A key strategy for the Living Yangtze programme is to help local people adapt to their changing environment and develop sustainable livelihoods suited to wetland ecology.

"Of course, we want to conserve and protect the endangered species which are found in the central Yangtze, but we have to do this by harnessing human potential, and by promoting sustainable economic development", says Dr Lei Guangchun, WWF's Yangtze Team Leader. "When you leave people out of the equation, particularly farmers living on the poverty line, the risk is always there that they pursue short-term livelihood options which perpetuate environmental damage."

In fact, Lei's team of researchers found that local people themselves had the solution to the area's problems, as they knew how agriculture had been practised in the area for centuries before the land reclamation schemes were imposed. In local tradition, the region was known as the land of rice and fish, precisely because seasonal, rather than year-round, agriculture was the norm. When Dongting Lake's floodwaters rose, the people lived from the abundant supply of fish; when they receded, the fertile silt was perfect for rice-growing. "For generations, people had made use of the floods, not fought against them", says Lei.

Letting nature take its course in this way is at the heart of the WWF project. Working with partner organisations the China Youth Development Foundation and several universities, WWF has helped displaced villagers to identify, research and implement alternative income-generating options. Training and working capital are provided to set up poultry, cattle and pig farming activities, while others such as Tang Daiqin are returning to their former vocation of fishing, using floating cages and equipment supplied via WWF loans.

In 2000, the first full year of operation, former residents of Qingshan polder and nearby Xipanshanshou polder have seen their average household income almost double from CNY3,180 (US$384) in 1999 to CNY 5,200 (US$628). There has been good news for the environment, too: some 500 swans, over 20 Eurasian spoonbills, four Oriental white storks, and thousands of geese and ducks were reported to have wintered on the abandoned polder, where birdlife had been scarce in previous years.

WWF's role is also one of capacity-builder for the local government, which is hampered by a lack of resources and trained staff to implement the wetland restoration policy adequately. WWF field staff have helped to designate and monitor natural reserves in the restored areas, providing training and expertise in conservation techniques. They also act as 'honest broker' in relations between the local community and the government, for example in negotiating fishing rights and monitoring fish stocks in the wetlands. Success in the pilot restoration sites will be key to encouraging large-scale replication

throughout the region, which may ultimately require the resettlement of half a million or more people if WWF is to meet its target of restoring 15% of the central Yangtze's wetlands. If that sounds ambitious, it is sobering to think that around 80% of the region's former wetlands were converted to agriculture in the last fifty years.

Meanwhile, public education and advocacy to support the programme's goals take place in universities and cities along the Yangtze basin. The river occupies a place in China's heart as the 'cradle of its civilisation', so it often comes as a shock to ordinary Chinese to discover the numerous threats which confront the Yangtze. Industrial pollution has reduced fish stocks and made drinking water drawn from the river unhealthy, while illegal sand-dredging to support China's construction boom is undermining river banks. WWF has collaborated with China Central Television to produce environmental education programmes highlighting such issues. It is also exploring innovations such as ecotourism, with the establishment of a visitor centre in Qingshan dedicated to promoting awareness of wetland ecosystems and offering bird-watchers a chance to observe migrating waterfowl.

At national level, WWF reports back to a plethora of interested ministries and agencies on progress, and lobbies the government to encourage wetland conservation efforts via legislation and policy development. It is currently seeking to treble the number and area of protected wetland sites under the international wetland treaty known as the Ramsar Convention. Currently, China has seven such sites, including both Dongting and Poyang.

As with so much else in China, gaining national acceptance of an issue is the easy part: the hard work begins with translating that recognition into local action. Obstacles such as local protection of factories which cause pollution in conservation areas remain to be resolved. But Lei Guangchun remains an optimist, pleasantly surprised by the degree of cooperation between the international NGO and the various levels of Chinese government.

"Few of us were predicting such early success", he says, "and we already have other villages spontaneously copying activities in our pilot sites. WWF's resources will only stretch so far, so it is heartening to see local communities organising themselves and asking the government to help with alternative livelihoods. Now we have other counties and provinces wanting to set up protected wetland areas."

*For further information about the Living Yangtze campaign, visit http://ld.panda.org or e-mail wwfchina@mailhost.cinet.com.cn*