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.

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Printing:

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Print + Medien
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CH-8280 Kreuzlingen
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Tel. 0049/7531/999-1850
www.werkzwei-konstanz.de

Advertising:

Conditions available at the Swiss-Chinese Chamber of Commerce

Deadline for next issue:

3/02 November 22

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China and ASEAN

EDITORIAL

Much has been written recently about the implications of China's entry into WTO, but another important event has passed almost unnoticed, namely China's systematic economic expansion in Asia, challenging the United States' position as the region's economic engine.

In November 2001 the leaders of ASEAN signed a landmark agreement to create within ten years a free trade zone with China that would create a trading bloc of 2 billion people and a combined gross domestic product of US$ 2 trillion and US$ 1.23 trillion in two way trade between China and ASEAN countries. Plans to include Japan and South Korea will be considered at the ASEAN summit meeting next year. ASEAN now includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Burma, the Philippines, Singapore, Thailand and Vietnam.

The free trade bloc is expected to increase exports from Chinese and ASEAN countries substantially and add growth of about one percent to the combined GDP of ASEAN nations. Fears of some ASEAN members of being inundated with cheap Chinese goods and farm produce were played down by Chinese prime minister Zhu Rongji, argueing that the free trade area would be beneficial to both sides. China has a large demand for timber, mineral products and agricultural produce.

At a time when Southeast Asia is suffering from falling exports to the US, ASEAN believes a FTA with China will further open a potentially large market, with China growing rapidly. China has identified five important areas for cooperation under FTA, including agriculture, information technology, human resources, direct investments and development of the Mekong river basin. ASEAN is now China's fifth largest trade partner, while China ranks sixth on ASEAN's import export list.

Within the next five years, China's overseas investments are expected to increase substantially and many Chinese enterprises are likely to turn their eyes to Southeast Asia. With more capital flowing into the region, cooperation between China and ASEAN countries in local development and technological cooperation will be enhanced. Closer economic ties will function as a lubricant in the political ties among East Asian countries as well.

Paul Wyss
Vice President

Promising Cooperation with China

State Secretary David Syz (right) and Mr. XU Fangming of the Chinese Ministry of Finances signing the framework agreement on the mixed financing of environmental projects during the opening ceremony of the Swiss Innovation Week in Beijing.

A Successful Close to the "Swiss Innovation Week" in China

The pilot project launched under the auspices of the State Secretariat for Economic Affairs (seco), the Swiss Science Agency and the Federal Office for Professional Education and Technology (OPET) has come to a successful end. It took 90 Swiss businessmen, scientists and researchers on a trip to Beijing and Shanghai from 9th to 14th June.

The Chinese welcomed the innovative mix of economy, science, research and technology. The Swiss presentations on environmental technology, the life sciences and public transport met with great interest in China, also in the media. State Secretaries David Syz (seco) and Charles Kleiber (OPET) conducted negotiations with several high-ranking government and administrative partners. They were impressed by the fast pace of China's development, boosted by its membership in the WTO.

The first contacts made by the Swiss Science Agency, the Federal Office for Professional Education and Technology and representatives of Swiss academic institutions concerning the exchange of teachers, researchers and students proved very promising. The plan is to set up a joint platform for this exchange in Beijing or Shanghai.

The delegation successfully consolidated long lasting bilateral relationships, made new contacts and was brought up to date on latest developments. It signed a framework agreement on the mixed financing of environmental projects worth CHF 20 million. These credits, part of economic and financial cooperation, enable China to acquire Swiss technology at easy terms. The partners also signed agreements concerning solid waste recycling and the introduction of sustainable, environmentally compatible production processes. China currently has a great demand for modern environmental technology.

If they prove realistic, flexible and adaptable, Swiss companies, especially small and medium sized ones, have excellent opportunities in the fertile Chinese market. This was well illustrated by the visit of three Swiss companies that have settled in the rapidly growing industrial zone of Kangqiao in Shanghai. For direct investments in Shanghai, now one of the most dynamic cities in the world, Switzerland is already in 6th position, just behind Germany.

A further presentation of Swiss know-how is planned

for November of this year, when a mixed Swiss delegation on technology transfer will visit Finland.

State Secretariat for Economic Affairs (seco)
Communication / Information

Information: Alan E. Kocher, Head of Information. Phone: 031 322 29 02 and 079 422 72 35
Claudio Fischer, GWF, Head of the International Department, State Secretariat for Science and Research. Phone: 031 322 68 36

Next Events

Tuesday, October 1st 2002
16.00–18.00h in Lausanne

"PME suisses à vocation internationale : comment entamer le marché chinois?"

Conference organized by the Geneva Chapter at the premises of the Chambre Vaudoise du Commerce et de l'Industrie in Lausanne.

For further information please contact the Geneva Chapter (022-310 27 10 mornings) or consult their direct website at: www.sinoptic.ch/scccgeneva (where you can register online).

Wednesday, October 23rd 2002
9.30–16.30h in Zurich

"Merger & Acquisition in China"

with main topics on:

– Legal framework for M&A in China
– Search for valuable companies in China
– Business due diligence
– Understand and ascertain company value
– Successful Negotiation of M&A deals in China
– Financing M&A deals

Full-day workshop organized by the Chamber at the Zunfthaus zur Zimmerleuten in Zurich, in cooperation with Fiducia Management Consultants (Beijing, Shanghai, Shenzhen, Hong Kong) and the Legal Chapter of the Chamber.

The invitation will follow in due time.

New Members

Since May/June 1st 2002:

Zurich:

CASTOR CONSULT AG	Zug
CHIMIA AG	Zurich
ACUTRONIC Schweiz AG	Bubikon
IFS Financial Support GmbH	Zug
Carmen Eggensperger	Dübendorf
POSALUX SA	Biel

Geneva Chapter:

FRORIEP RENGGLI	Geneva
M. Daniel COMMENT	Fontenais
Dr. Zhengping Huang	Geneva
Mme Hongyan Zhang	Versoix

November 2002
Late afternoon, in Zurich

"Human Resources Management in China"

Expatriate versus local employees
– how to decide for an expatriate or local employee (on management or high specialist level) for your branch / subsidiary in China and Switzerland
– pros and cons; criterias of managers why they decided for an expatriate or a local employee
– case studies

Salary evaluation
– which criterias define the salary (for all levels) in China / Asia and Switzerland
– examples of salaries for different employee levels

Further details will follow with the invitation.

New Executive Secretary at Geneva Chapter

Pierre Hagmann

Born in 1975, Pierre Hagmann, Swiss, graduated from Geneva University (Arts), majoring in Chinese studies. He spent 15 months in China (Beijing University and Nanjing Normal University). He is currently finishing postgraduate studies at the Graduate Institute of International Studies (GIIS) in Geneva . His research focuses on commercial relations between China and the EU. Since the beginning of the year, he has been actively involved in a working group aiming at setting up an interfaculty master's in Asian studies at the University of Geneva.

The Chamber gives a warm welcome to Mr Hagmann and would also like to extend is thanks to Mrs Catherine Jelk who has – in the same function – actively supported the Geneva Chapter and its members during the past two years. We wish both every success and satisfaction in their new endeavours.

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Swiss Architects Win Competition for Beijing Olympic Games 2008.

The two Swiss Zurich based architects Heinz Moser and Roger Nussbaumer, leading the Burckhardt+Partner Zurich office of architecture, have won the international competition for the Wukesong Cultural and Sports centre for the Beijing 2008 Olympic summer Games (China).

The international jury was convinced by the high quality of the project and its modern audio-visual technology. Thousands of spectators can gather around the large stadium and follow the events on the external audio-visual giant screens placed on its façade.

The vast site is a 700 m x 700 m square including various sport facilities such as baseball and softball fields, football field and the Olympic basketball stadium, together with a wide range of ancillary services. After the Olympic Games, the site will remain as a Cultural and Sport Centre giving service not only to the neighbourhood but also to the city of Beijing.

For the last five years Roger Nussbaumer and Heinz Moser have successfully lead the Burckhardt+Partner Zurich office of architecture as managing partners.

In this short time the two architects have constructed remarkable projects obtaining an international reputation. The success of these two architects from Zurich makes their office a point of attraction for young Swiss architects and from all around the world.

Team for the Wukesong Cultural and Sports Center Competition, Beijing Olympics 2008

Lead: Burckhardt+Partner Architects Zurich
Nussbaumer, Roger. Dipl. Arch. ETH/SIA; MBA HSG, Partner
Moser, Heinz. Dipl. Arch. Associate Partner

Project Manager:
Plagaro-Cowee, Natalie. Dipl. Arch. ETSAM

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Economy up 7.8% in January/June

China's economy grew a year-on-year 7.8% to US$ 548.6 billion in January/June, the National Bureau of Statistics announced, placing the country in a strong position to reach its 2002 growth target of 7%. The government has continued to carry out a pro-active fiscal and sound monetary policy.

The industrial output, led by automobiles, electronics and telecommunication products achieved a year-on-year growth of 11.7% to US$ 174.2 billion. The state's investments in roads, airports and other infrastructure projects rose 24%. The average income of urban residents reached RMB 3.942, up 17.5%. The average of rural residents grew 5.9% to RMB 1.123.

Retail sales rose 8.6% to US$ 234.9 billion. Sales in urban areas jumped 9.7%, while rural sales rose 6.7%. Food sales increased 12%, retail clothing 10.4%. Telecommunication equipment, automobiles and furniture were among the retail goods with the highest growth. Increased incomes of urban and rural residents contributed to the growth. The consumer price index declined 1.4% during the period.

Foreign trade reached US$ 270.7 billion, up 12.3%. Exports rose 14.1% year-on-year to US$ 142 billion. Imports totalled US$ 128.7 billion, up 10.4%. China-USA trade surged 11.7%, topping US$ 41.9 billion. Foreign exchange reserves at the end of June stood at US$ 242 billion.

Actual foreign direct investment amounted to US$ 24.58 billion, up 18.7% from 2001. China approved 15.155 foreign invested companies in January/June, with contractual investments of US$ 44 billion, a rise of 31.5% from the previous year. Nearly a third were Hong Kong-funded. Taiwan's investments rose 12.9% to US$ 1.54 billion, attracted by an easing of restrictions by Taipei.

China's overseas investments soared 149.2% year-on-year to US$ 523 million in January/June according to MOFTEC. China set up 148 non-financial companies overseas, up 5% from last year. Besides setting up new plants and companies abroad, Chinese enterprises have started buying shares in overseas companies. Asia, Africa and Latin America made up 85% of overseas investments.

The robust economic growth is driving mergers and acquisitions in China to record levels. The number surged from below 150 in 1999 to 445 in 2000, ranking fourth in Asia. Money spent on M&A in January/June 2002 totalled US$13.4 billion.

It is estimated that by the end of 2002, the number of mobile-phone users in China would reach 210 million and that of fixed-line users 212 million. The number of mobile subscribers would surpass that of fixed-line users at the beginning of 2003. It is also predicted that by the end of this year China would have 45 million internet users.

China is now the second-largest foreign holder of U.S. Treasury securities with US$ 82.0 billion or 16% of the total. Japan remains the largest holder with US$ 317.3 billion.

Summary by Paul Wyss

Bilateral Trade between Switzerland and China

January – June 2002 (in Mio. CHF)

	Export Mio CHF	Export ± CHF%	Export Share	Import Mio CHF	Import ± CHF%	Import Share
Total selected	**891,2**	**10,7**	**100,0**	**1.089,1**	**–5,1**	**100,0**
Agricultural products	5,3	37,5	0,6	42,1	–29,9	3,9
Energy carriers	0,0	–36,8	0,0	0,0	–92,2	0,0
Textiles, apparel, shoes	13,2	–11,6	1,5	287,2	–12,5	26,4
Paper, paper products, printed matter	4,3	47,3	0,5	3,3	–29,0	0,3
Leather, rubber, plastics	16,7	110,1	1,9	71,5	–8,3	6,6
Chemicals, pharmaceuticals	168,0	3,7	18,8	143,5	5,4	13,2
Construction materials, ceramics, glass	1,4	–70,4	0,2	10,2	–8,6	0,9

January – June 2002 (in Mio. CHF)

	Export Mio CHF	Export ± CHF%	Export Share	Import Mio CHF	Import ± CHF%	Import Share
Metals and metal products	41,2	61,0	4,6	53,4	–2,5	4,9
– Iron and steel	0,8	–29,7	0,1	0,6	82,8	0,1
– Non-ferrous metals	5,6	291,8	0,6	5,0	–11,8	0,5
– Articles of metal	34,7	51,2	3,9	47,9	–2,0	4,4
Machinery, apparatus, electronics	535,7	5,2	60,1	218,9	2,0	20,1
– Industrial machinery	396,4	–4,8	44,5	27,1	–4,0	2,5
– Engines non-electrical	24,4	83,9	2,7	0,1	–85,5	0,0
– Construction machinery	2,7	517,8	0,3	0,0	–76,3	0,0
– Machinery engineering	369,2	–8,3	41,4	26,9	–0,8	2,5
– Pumps, compressors, fans, etc.	26,2	13,7	2,9	4,3	1,6	0,4
– Process engineering, heating, cooling equip.	22,5	0,9	2,5	3,6	13,7	0,3
– Lifting and handling equipment	10,4	–12,8	1,2	1,4	–12,6	0,1
– Machine-tools metalworking	61,7	–11,8	6,9	1,6	–13,3	0,1
– Machine-tools for mineral materials	3,3	63,3	0,4	1,2	904,3	0,1
– Plastics-, Rubber machinery	31,2	2,1	3,5	0,0	–77,3	0,0
– Machine-tools for wood, cork, etc.	5,1	223,2	0,6	1,5	163,1	0,1
– Other machinery	44,9	–19,7	5,0	1,1	101,9	0,1
– Hand held tools	2,5	–16,2	0,3	4,6	4,6	0,4
– Welding machines	11,3	36,4	1,3	0,8	–9,3	0,1
– Printing and paper machinery	42,1	–11,9	4,7	0,5	–71,3	0,1
– Textile machines	95,3	–4,9	10,7	0,5	–36,5	0,0
– Food processing equipment	6,4	–57,9	0,7	3,0	54,6	0,3
– Filtering and purifying machines	2,6	–50,7	0,3	0,3	–13,4	0,0
– Packaging and filling machines	3,7	–34,8	0,4	2,5	–48,5	0,2
– Agricultural machines	0,1	–96,9	0,0	0,1	191,8	0,0
– Household appliances	1,5	–61,4	0,2	81,2	–3,2	7,5
– Entertainment electronics	1,3	–62,2	0,1	52,4	–10,6	4,8
– Household machines	0,2	–55,7	0,0	28,7	13,9	2,6
– Office machines	3,3	–53,0	0,4	40,6	28,3	3,7
– Electrical machinery and electronics	134,2	69,5	15,1	70,0	–1,4	6,4
– Power generation, electric motors	15,5	126,7	1,7	20,6	–22,8	1,9
– Telecommunications	8,3	–40,4	0,9	12,7	40,2	1,2
– Electric and electronic articles	110,5	89,0	12,4	36,6	4,0	3,4
– Defence equipment	0,2	45,7	0,0	0,1	–	0,0
Vehicles	1,6	–64,5	0,2	12,9	–27,2	1,2
– Road-vehicles	0,8	714,1	0,1	11,1	–30,3	1,0
– transport of persons	0,2	805,4	0,0	8,1	–37,5	0,7
– transport of goods	0,0	–	0,0	0,0	–	0,0
– Special purpose vehicles	0,0	63,7	0,0	1,0	8,2	0,1
– Spare parts	0,6	896,4	0,1	2,0	–3,0	0,2
– Railway vehicles	0,7	–81,1	0,1	1,0	120,0	0,1
– Aircraft and spacecraft	0,1	–90,0	0,0	0,3	–13,1	0,0
– Vessels	0,0	–	0,0	0,5	–48,2	0,0
Precision instruments	58,3	29,7	6,5	38,3	16,9	3,5
– Optical instruments, photo	7,5	91,9	0,8	28,0	33,7	2,6
– Surveying instruments	0,4	31,5	0,0	1,5	–41,7	0,1
– Medical instruments and appliances	16,2	32,6	1,8	1,3	39,4	0,1
– Mechanical measuring, testing, control equip.	34,2	19,8	3,8	7,4	–10,0	0,7
Watches	35,2	109,2	4,0	92,3	–2,0	8,5
Other goods	10,3	47,1	1,2	115,4	0,2	10,6

Source: Swissmem

Recent Foreign Investments / Joint Ventures

USA

AMERICAN EXPRESS TRAVEL will start a corporate travel joint venture with China International Travel Service (CITS). The Chinese corporate travel market, now worth US$ 4.3 billion annually, is growing at 15–20% a year and corresponds to about 40% of the travel market. The joint venture was granted a licence for domestic ticketing services, enabling it to issue domestic tickets directly to customers instead of through third-party agents.

AIG, world's largest insurer, expects its insurance premiums in China to grow by 20–25% after reaching US$ 200 million in 2001. AIG has operating units in Beijing, Shanghai, Guangzhou, Foshan and Shenzhen.

DAIMLER CHRYSLER, the US-German vehicle group, plans to invest about US$ 226 million. over the next few years in its joint venture with Beijing Automotive Industry to finance production of a series of new products. The first move will be production from 2003 of 10.000 Pajero Sports cars a year.

DUPONT, now employing 3.000 people in China, launched its 20th venture, a wholly owned soy protein producing company in Zhenzhou, capital of Henan province. The launch of another soy protein company is planned in a joint venture with Shineway Group Co, a sausage maker in the city of Luohe.

OFFICE 1 SUPERSTORE, a leading group of office product stores, received approval to set up its China headquarters in Shanghai. The first phase investment surpassed US$ 12 million in an office building with a floor area of 6.000 square meters. Office 1 offers not only stationery, but also provides companies with small business machines, office furniture and even interior design services.

OGILVY PUBLIC RELATIONS bought Beijing Xian Consulting Co, becoming the first overseas company to acquire a Chinese public relations firm since China's WTO entry. Ogilvy will operate separately from the new company, Beijing Xian Aomei Information Consulting, but the 2 firms will cooperate to help Chinese business go abroad and foreign companies to operate in China. The Chinese PR market is worth some US$ 240 million.

ORACLE, the world's second biggest software vendor, will set up its second research and development centre in Beijing after having launched its first centre in Shenzhen already employing 100 people. The new centre will focus on the localization of business applications for the public sector, which is controlled by the central government.

R. R. DONNELLEY & SONS CO and Shanghai Press and Publishing Development Company will form the first printing joint venture which will print books, magazines and catalogues. Under current Chinese law, foreign investors are not supposed to own more than 49% of a media-printing joint venture.

KODAK is speeding up its expansion into western China. By shifting its headquarters from Shanghai to Chongqing, the company is giving priority to the western market. Local entrepreneurs are encouraged to open Kodak Express Stores. Kodak donated US$ 150.000 in education funds to the Chongqing municipal government and 3.000 cameras to students in the city.

MICROSOFT announced plans to invest about US$ 750 million in China during the next three years. Microsoft signed a memorandum of understanding with the State Development Planning Commission. A separate three-year investment of US$ 24 million will be made in Chinese educational and research institutions, plus a US$ 480.000 investment to set up a software college in Shanghai.

IMAX CORPORATION is introducing its cinematic technology in China with the opening of its Asian headquarters in Shanghai. Chinese people can now enjoy films on big screens measuring 19 metres high and 24 metres wide, enhanced by a special six-channel, multi-speaker sound system. Imax completed several agreements to open such theatres across China.

HONG KONG

KOWLOON BUS, North China Bus Group and three other bus companies will set up a joint venture taxi company with an investment of about US$ 30 million. North China Bus-Kowloon will be the biggest taxi company in Beijing. A fleet of high-grade taxis, equipped with GPS positioning system, will hit the streets within a year.

PACIFIC CENTURY CYBERWORKS and China Telecom will form a joint venture to provide information technology services to Chinese banking, insurance and securities industries.

HUTCHISON WHAMPOA and Qingdao Huanghai Rubber group signed a preliminary agreement to set up a joint-venture tyre factory with an Italian company in Qingdao. The venture involves a total investment of US$ 72 million.

HSBC, the global banking group, is in talks with Ping An Insurance to take a minority stake in the Chinese insurer in an effort to establish itself in every branch of financial services in China. Ping An had 28.7% of China's life insurance market at the end of 2001. HSBC's stake in Ping An is likely to be 10%. Insurance premiums in China totalled US$ 25.5 billion in 2001.

(continued on page 14)

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BANK OF CHINA HONG KONG, the SAR second largest banking group, issued a US$ 2.5 billion IPO , the first such move by an arm of one of China's big four state-owned banks. The issue was largely oversubscribed, but ended at US$ 8.10 on the first day of trading, down 4.7% compared with the IPO price of US$ 8.50.

CATHAY PACIFIC AIRWAYS, is applying to authorities for a licence that will allow it to resume flights to the mainland. Cathay once flew to Beijing and Shanghai, but in 1990 handed over these rights to Dragonair under a "one airline one route" policy.

JAPAN

MATSUSHITA COMMUNICATIONS and **NEC** are setting up a Shanghai-based, three-way joint venture with Huawei Technologies called Cosmobic. Cosmobic will licence 3G technologies developed by MCI and NEC and develop 3G software.

SAGAWA EXPRESS signed an agreement with Shanghai Dazhong Transportation Group to launch its first joint venture in China to get a slice of the Chinese logistic market. The venture, Shanghai Dazhong Sagawa Logistics Company, has a registered capital of US$ 4.2 million and will put its first 90 vehicles into service.

OMRON, famous electronics manufacturer, opened a subsidiary, the Omron Electronic Components (Shenzhen) Co Ltd. It is expected that the output of the Shenzhen company will reach US$ 120 million in 2004 and it will create 4.000 jobs. According to a recent survey, 13% of Japan's enterprises are shifting their production bases to other countries, with China being the best choice.

KAO, leading maker of household cleaning products and toiletries, has brought its three joint ventures in Shanghai under the umbrella of a holding company, Kao China Holding, which will manage consumer items and chemical products. The company plans to step up marketing and focus on fewer brands. Sales in China in 2001 amounted to US$ 125 million.

INDIA

TATA CONSULTANCY SERVICES (TCS), India's largest software exporter, launched its wholly owned subsidiary in China. The company will set up a research and development facility in Shanghai Pudong Software Park to engage in high-end consulting services for multinationals. Another R&D centre in Hangzhou will also serve the needs of multinational customers.

CANADA

SUN LIFE ASSURANCE COMPANY and the China Everbright Group established Sun Life Everbright Life Insurance Co. Ltd, the first life insurance joint venture in Tianjin. A recent survey showed that about 40% of Chinese surveyed favour foreign insurance companies and believe they offer high quality services.

GREAT BRITAIN

CADBURY SCHWEPPES, chocolate and soft drink manufacturer, is in talks with canned food company Shanghai Maling Aquarius to acquire a controlling stake in Shenfeng Food Co, Shanghai's leading chocolate maker. 75% is owned by Maling.

ROYAL DUTCH SHELL expects to finalize negotiations over a joint venture with PetroChina to build the US$ 5.6 billion west-east gas pipeline. A preliminary agreement was reached in December 2001 to jointly build the 4.000 kilometre pipeline to trench natural gas from Xinjiang Uygur Autonomous Region in the west to Shanghai in the east, starting in early 2004.

MG ROVER has formed a joint venture to build cars in China. The 50:50 joint venture with China Brilliance Industrial Holdings will develop, manufacture and export a new medium-sized car and, later, a smaller model. China Brilliance will export the cars to Asia and Africa, with MG Rover having rights for the rest of the world.

EXEL, a leader in supply-chain management, and Sinotrans, each owning 50% of their joint venture, Exel-Sinotrans Freight Forwarding Company, will expand their business scope by reaching out to businesses in the fields of automobiles, consumer retail and health care. Exel has developed an automated customs declaration procedure together with Beijing customs authorities.

BOC GROUP, leading gas producer, and Sinopec Yangzi Petrochemical Corp. established a 50:50 US$ 100 million joint venture in Nanjing which will produce 2.600 tons of oxygen and over 2.000 tons of nitrogen a day by 2004.

MANCHESTER UNITED plans to open a café in Beijing and more restaurants in China over the next years. Manchester United has a huge following in China.

GERMANY

DEGUSSA will establish a wholly foreign-owned investment company in Beijing with a capital of US$ 35 million. Since 1988, Degussa has opened a total of 11 sites in China. With this new investment, Degussa, the world's largest producer of specialty chemicals, will further strengthen its presence in China.

VOLKSWAGEN plans to invest another EUR 2.5 billion in China over the next five years. The company expects its sales in China to grow by more than 21% in 2002 to more than 400.000 cars. Volkswagen expects that the passenger car market in China will grow to about 1 million units annually in the next two years.

ALLIANZ, German insurance giant, signed a deal to set up a joint venture management company with Chi-

nese brokerage Guotai Junan Securities. It appears to be the first capital tie-up between a foreign and a Chinese company under new rules which took effect July 1. Guotai will own 67% and Allianz 33%.

SIEMENS moved the Asia-Pacific headquarters of its mobile phone division from Hong Kong to Shanghai. Accompanying the move will be Siemens' adjustment of its strategy in this region, where China has been defined as the "key focus" for the coming years in both sales as well as research and development.

BMW received approval from the State Council for a joint venture with Chinese carmaker Brilliance Auto. The annual production capacity is planned at 30.000 units of BMW's 3 and 5 series sedans. The factory will be in Shenyang, capital of Liaoning province. BMW sold 3.933 vehicles in China and Hong Kong in the first half of 2002, an increase of 32.2% over 2001.

FRANCE

ALCATEL launched a partnership with Shanghai Bell, one of China's biggest telecom equipment manufacturers, to create Alcatel Shanghai Bell. The company is expecting sales of US$ 2 billion in the first year of operations. With a registered capital of US$ 600 million, the new company will integrate Alcatel's 17 local joint ventures Alcatel will hold 50% plus one share, Shanghai Bell the rest.

ELECTRICITE DE FRANCE, second largest foreign investor in China's power sector, opened its Asia-Pacific branch in Beijing. Currently, EDF owns and operates power plants in China for a total investment of US$ 2.8 billion.

VIVENDI WATER announced a 50:50% joint venture to provide water services for 50 years in Pudong. The company will pay US$ 239 million for its share in Shanghai Pudong Vivendi Water Corporation which will be responsible for water production and distribution.

CARREFOUR has been told by the Chinese government to sell at least a 35% stake in two wholly owned supermarkets in the north east. This highlights the vigilance of Chinese authorities towards foreign participation in the market. Carrefour announced it will reorganize its operations to bring them in line with regulations.

PEUGEOT, which 6 years ago fell flat with its joint venture with Guangzhou Automotive Industry Corp, will resume vehicle production in China by 2004. The company will introduce a model made by Dongfeng Citroën, a joint venture with Dong Feng Motor Corp.

LAFARGE, leading building material producer, is taking advantage of China's go-west preferential policies. It announced the inauguration of a US$ 158 million cement plant near Chengdu, capital of Sichuan province. It also announced the US$ 40 million acquisition of a cement plant in Chongqing.

DASSAULT AVIATION signed a contract with AVIC, under which the Chinese company will manufacture parts of Dassault's 350 Falcon business jets. Dassault has yet to sell any business jets in China where only a few very big companies use such planes, but it is a growing market.

ITALY

BENETTON, Italian clothing retailer, plans to open its first Chinese megastore in Shanghai in October.

HOLLAND

AEGON GROUP, ranking seventh among insurers in terms of assets and net income, will set up an insurance joint venture with China National Offshore Oil Company (CNOOC). The company will develop business in both life insurance and pension systems. Headquarters will probably be set up in Shanghai.

ING GROUP will launch a life insurance joint venture with the local Capital Group in Dalian, with a capital base of US$ 24.15 million. Each partner will hold 50% of the equity, but ING will play a management role.

SWEDEN

VOLVO CONSTRUCTION EQUIPMENT has decided to invest US$ 15 million to set up a wholly-owned facility for manufacturing crawler excavators in Shanghai. It is the first time that China has approved a solely foreign-invested company to make and sell high-end construction equipment. Some 10.000 crawler excavators are sold in China annually.

SWITZERLAND

SR TECHNICS wants to invest in China's Aircraft Maintenance, Repair and Overhaul (MRO) industry in the near future. The company has been in contact with several MRO companies and major airlines in China.

SWISS RE, leading re-insurers, received the green light from Chinese authorities to prepare for a wholly-owned branch in China. The approval will allow the branch to develop property, casualty and life reinsurance which is a rapidly growing business in China. Munich Re is the only other foreign re-insurer to have received such a licence.

BURCKHARDT & PARTNER, Zurich architects, have won a first prize in a submission for Beijing Wukesong Cultural and Sports Center at the 2008 Beijing Olympic Games. An American firm also won a first prize to be shared with the Swiss architects.

Summary by Paul Wyss

China Drafts New Acquisition Rules

The China Securities Regulatory Commission has issued a draft of new rules aiming to regulate the acquisition of a controlling stake in a listed firm. The rules require an individual or group of investors holding 30% or more of a listed company to make a public announcement of any further stake increases. They also state that investors with a controlling stake in a firm cannot transfer control of the company within 12 months of the takeover, and that the listed company may not provide financial assistance to the controlling shareholder. CSRC did not say when the rules would take effect.

Source: Wall Street Journal

Law to Promote Growth of SMEs

The implementation of the law on the promotion of small and medium-sized enterprises (SMEs) on January 1 next year will help increase confidence and promote the further development of SMEs in the future, officials and economists said. "That the government is implementing such a law suggests that it is trying to improve the investment environment and business operations for SMEs and provide them with the same judicial protection as State-owned enterprises (SOEs) enjoy", said Li Xiaochao of the National Bureau of Statistics.

The government is also trying to increase financial assistance and provide favourable policies on taxation to encourage SMEs, said Li, deputy director of the bureau's comprehensive statistics department.

A survey by the State Information Centre and China Entrepreneurs Survey System suggests that China had 29.2 million SMEs by the end of 2001, employing 174 million people and generating more than 50 per cent of the country's gross domestic product. The SMEs also contributed about 60 per cent of the country's exports and 43.2 per cent of its tax revenue. "The further development of SMEs will help ease unemployment pressure, which has been a problem for the government during the process of the country's fast economic development", said Niu Li, a senior economist with the State Information Centre.

China's SMEs have enormous opportunities, now that China has become a member of the World Trade Organization. The government has already promised to open up important markets such as telecommunications, retail business and banking to both foreign investment and SMEs, said Hu Shaowei, another senior economist with the centre. The reduction or removal of the restrictions on SMEs will help these companies more freely participate in the ongoing economic restructuring, expand their share of foreign trade, gain access to foreign funds and increase exchanges with international enterprises and with research and development institutions.

But the three agreed that the translation of law into reality is no easy task in the short run. SMEs also have certain "congenital deficiencies" such as vaguely defined property rights, a lack of funds and technology, limited scale and capabilities, and inadequately developed internal management mechanisms.

Source: China Daily

Lobbying is the Latest Trend

Private-equity funds launched the latest professional lobby group for their industry in June; the China Venture Capital Association, the Wall Street Journal (WSJ) reports. Fifty firms, both domestic and foreign, overlooking more than US$ 25 billion in equity, have grouped to pursue the interests of their industry. "Within the industry we need to have a minimal level of code of conduct so we don't have people who ruin the reputation of the industry", said chairman Chang Sun to the WSJ. Apart from setting the standards the group also wants to influence key government policies.

The emergence of those industry-related lobby organizations signal a major change in the way business is conducted in China. The number of lobby organizations is increasing very fast: direct mail, logistics, banks, insurance companies, most of the major industries would have a budding entity, sometime government-driven, sometimes independent, to keep an eye on the interest of a specific industry.

It used to be different as the government would not allow any organizations that were not clearly guided by the communist party and de facto part of the government. China still has no legislation to cover these non-governmental organizations, but is mostly condoning them and sometimes even encouraging their emergence. This means a profound change in the ways in which business was being done.

In the past, companies had to rely on themselves. Within industries, there would be no or little coordination on what would be the right government policies. More than once companies would rush to their embassies and consulates when China would announce new government policies. In government-to-government negotiations all parties would enter an exercise in damage control. More than once, the Chinese government would look at the interest of the domestic companies first, not surprising as government departments were often also running those companies.

Now, the Chinese government is retreating on its core business: governing. The industries, domestic and foreign, are in the process of reshaping their relationship with the Chinese government. Government and industry organization will learn to cooperate and learn to clash with each other, just like in any other market economy.

Source: Wall Street Journal

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80% of German Firms in China Intend to Expand

According to the German Chamber of Commerce in China, there are more than 2'000 German companies in China, with more than 80% of them hoping to expand their business. 51% of the German companies have earned expected profits, 27% have earned more than they expected, 12% made money within one year of establishing their business in China and 48.3% took three years. The survey also shows that information collection and payment are two major problems faced by German firms in China, with 71% of the firms saying they had difficulty in collecting market information and 40% noting customers' negative stance toward making payments.

Source: ChinaOnline

Purchasing Center for Worldwide Retailers

For international retailers, China has become a "buyers' paradise" offering quality products at good prices. Jean Voynet, Carrefour's regional director for global purchasing, compared the Chinese market to a piece of "fresh cheese" in an interview last June. "We'll be the champions if we seize it", he said. Voynet attended a fair that highlights household goods and daily consumer commodities. The fair has attracted senior purchasing officers from nine other international chainstore retailing giants including Metro of Germany.

The France-based Carrefour Group is the number one retailer in Europe and second largest in the world, with more than 9,200 outlets in 31 countries. Its turnover hit 78 billion euros (72.5 billion U.S. dollars) last year. Since 1995, Carrefour has opened 28 outlets in 16 Chinese cities and set up global purchasing centers in 11 cities including Beijing, Shanghai, Guangzhou, Wuhan and Dalian, making China its largest purchasing base in Asia.

Global purchasing is a cost-saving practice for many transnational retailers. According to a Carrefour report, 61 percent of the group's purchases in Asia came from China in 2001. Chinese products also accounted for 65 percent of all the Asian products in Metro's global purchasing network last year. At the end of last year, the world's largest chain retailer Wal-Mart moved its global purchasing center to Shenzhen, a boomtown in south China's Guangdong Province.

"Tariff removal following China's entry into the World Trade Organization has encouraged many transnational retailers to purchase in China", said an expert. They have flooded into the Yangtze River Delta – a major manufacturing base backed largely by small and medium-sized businesses, who have clinched partnerships with many transnational retailers in recent years. "These enterprises respond rapidly to the market demand," said Voynet, "their products – of high quality but very low prices – are needed in large quantities at the supermarkets and discount stores of the Carrefour Group."

Source: ChinaBiz

Private Companies Drive up Employment

Private companies are stepping up and increasing their workforce as state-owned companies continue to lay off workers the latest ministry figures show. But key economic data on the private sector is missing according to researcher Rupert Hoogewerf. According to data of the Ministry of Labor and Social Security China's private companies added 2.5 million new jobs in 2001. That is about one third of the total increase in urban employment, which rose with 7.89 million people to 239.4 million by the end of last year. The total number of people employed by private companies hit 36.6 million by the end of 2001.

Figures on how much of China's GDP is coming from the private sector, varies between 28 and 52 percent, depending on the sources. "The official figure is 28 percent", says Rupert Hoogewerf, who publishes the Forbes top-100 list of richest Chinese business people. "According to the World Bank it is 50 percent, it is all a matter of how you define the private sector." Hoogewerf expects a boost for the private sector after the 16th party congress, planned for September. "If you look at the world, the biggest companies are private companies", he says. "In China the largest companies are still state-owned. That is going to change and I expect it to change very fast."

Contrary to the employment growth in the private sector, the decline of jobs in the state sector continues. By the end of last year, state-owned enterprises had laid off 5.15 million workers in total, 1.42 million fewer than in 2000. The number of people employed by state-owned enterprises, collectively owned firms and government departments fell by 4.5 million to 111.7 million workers at the end of last year. The total number of rural and urban employed persons reached 730 million at the end of the year, a growth of 9.4 million, the ministry's data says. However, all together the urban unemployment rate rose from 3.1 percent in 2000 to 3.6 percent at the end of 2001, the government estimates.

About 4.6 million unemployed people received retraining for employment while 240,000 were given training to start their own businesses.

Hoogewerf is not too impressed by all the official figures. "What we as researchers really need is key economic data", he says. "How profitable is the private sector. Figures from the end of the 1990s suggest that the private companies had a profitability of 20 percent, the foreign invested joint ventures broke even and the State-owned companies lost money. That is the kind of information I want."

Source: ChinaBiz

Taiwan's Main Export Market

China's mainland became Taiwan's leading export market, taking up a record 25 percent of its exports last May, according to the Associated Press (AP). The mainland hereby surpassed the United States, which for decades has been Taiwan's largest export market. In the first five months of this year, Taiwan's exports to China's mainland totalled US$ 12 billion, or 23.5 percent of the total exports. In the same period, the United Stated made up for 20.6 percent of the Taiwanese exports, AP writes, referring to data of Economics Ministry.

Over the years, the share of goods exported to the mainland has grown significantly: from 9 percent in 1991, and 16.5 percent in 1996, to 25 percent in May 2002. Taiwan mostly exports parts and components for computers and electronics to the mainland.

In the first five months of this year, Taiwan's imports from the mainland amounted to US$ 2.875 billion, an 18 percent year-on-year growth. In those months, total trade between Taiwan and the mainland rose 24.5 percent year-on-year (to US$ 14.87 billion). Taiwan's mainland-bound investment totalled US$ 12.72 billion in the five months to May, an increase of 13 percent year-on-year.

The Taiwanese government is very gradually easing strict restrictions on trade and investment on the mainland, mainly as a result of pressure from Taiwanese businessmen. The Taiwanese government is wary of too much dependence on the mainland market, fearing close economical ties might give China more political control over the island.

Source: Associated Press

Study Warns "Little dragons" on China

Investment bank Morgan Stanley says Asia's "four little dragons" – Hong Kong, Taiwan, South Korea and Singapore – need to shift their focus from manufacturing to avoid lapsing into a Japanese-style economic trough. Morgan Stanley said the "little dragons" basically relied on the export of goods to support their economies, which exposed them to risks from China's growing strength. It said Japan offered an example of the type of recession

that a production-based economy could encounter, and urged caution in the face of China's gathering economic strength. The four economies' competition with China was "even more intense than their competition with Japan in the past", the report said.

As China's supply and demand was externally driven, advantages like large capital inflows and the introduction of new technology from overseas could benefit its economy. The huge difference in labour costs between China and the "little dragons" was also a disadvantage to these economies, Morgan Stanley said. "Labour costs in China accounted for only one-eighth to one-tenth of those in the 'four little dragons', while the labour population in China was up to 25 times their total", it said. "No matter when we compared their labour costs and economies of scale, China was more advantageous than the 'four little dragons'."

The report pointed out that China's new openness enabled interested multinationals to invest there directly, instead of doing so by appointing middlemen in Hong Kong, Taiwan, Singapore and South Korea, as in the past. "The larger economic system and lower investment requirements in China offered more favourable investment conditions for foreign investors", which undermined the attractiveness of the other economies, the report said.

To create a more competitive environment, the Morgan Stanley report suggested the "little dragons" to follow the example of the US in the 1980s by transforming their economies to counter their disadvantages. This could help minimise the risk of stagnant economic growth, deflation, strong currencies and low interest rates – the very problems now hampering Japan's recovery. The report suggested the "little dragons" devalue their currencies to minimise the "China effect". It also suggested they introduce related measures, for instance diverting capital focus from manufacturing to the development of intellectual property and service industries. Furthermore, Singapore should develop its service industries rather than focusing on manufacturing. "Singapore should make use of its independent sovereignty to provide taxation and securities services to foreign investors, as well as use its capital to make overseas investments, to enhance its advantages", the report concludes.

by Michael Ng
The Standard

Causes of Accounting Manipulation in China

At the end of last year, the China Securities Regulatory Commission (CSRC) pushed hard for Western standards in response to a string of scandals in which listed Chinese companies issued grossly inaccurate financial reports not corrected by their local auditors. The most notorious case concerned a biochemical company, Guangxia, which reported a net profit of 417 million RMB, but which, according to CSRC investigators, had actually lost 150 million RMB in 2000. Other cases that have come to light in China included offences like forging sales and bank deposits as well as falsifying debt, profit and loss.

However, the root causes of China's accounting fraud plague are structural and historical. First, China's mostly small accounting companies are locked in fierce competition at a time when audit business in Western economies is increasingly concentrated among the large accounting companies. An accounting company risks losing a client if its qualified opinion results in a customer's failure to gain a listing or suspension from trading. Second, China's accounting fraud is also a legacy of its planned economy, under which accounting was viewed more as a paper game to meet official targets rather than a solid book-keeping exercise.

More than 40 percent of Chinese accountants are older than 50, meaning they were trained under the planned economic system. Also to blame is official leniency towards wayward accountants. While company officials increasingly face the threat of criminal prosecution in fraud cases, administrative sanctions remain the main regulatory weapon against accountants. Chinese courts are ill equipped to handle complex cases involving allegations of creative accounting.

But as Ernst & Young's China executive partner Alfred Sham put it: "China's endemic accounting fraud is no different from the early days of the US securities market. There must be an educational period before the market works. It's just that we don't give them time."

Source: Fiducia China Focus

China's Bang for the Buck

The falling dollar could be bad news for many countries that count on the U.S. as a prime export market. A depreciating dollar will make imports more expensive, while U.S. exports to the rest of the world become comparatively cheaper. Surprisingly, however, the decline in the dollar could greatly benefit China, says Stephen L. Jen, chief currency economist at Morgan Stanley. Since early 1998, China has unofficially pegged its currency, the yuan, to the dollar at an exchange rate of about 8.28 to 1. That means as the dollar has deteriorated against the yen, euro, and other currencies this year, the yuan has declined as well.

The implication: If Beijing continues to tie the yuan to the dollar, a depreciating dollar won't slow U.S. imports from China, says Jen. Nor is it likely to narrow America's trade deficit with China, the largest for the U.S. among its trade partners in 2001.

And riding the depreciation of the dollar, China's exports to the rest of the world will become more competitive as well. After the U.S., China's biggest destinations for its goods and services include Japan, South Korea, and the euro zone. Already, both the Japanese yen and Korean won have climbed better than 8% against the dollar this year, while the euro has gained 10%. The stronger

currencies will only add to China's already growing global trade surplus.

Jen forecasts a 20% depreciation in the dollar by the end of 2003. If that is matched by a similar decline in the yuan, China's improving trade balance might not be the country's only bright spot. More foreign corporations may take advantage of the weakening yuan and already inexpensive cost of labour, sending even more business China's way.

Edited by Michael J. Mandel
for Business Week Online

New Branch Offices in Free Trade Zones

The State Administration of Industry and Commerce (SAIC) recently issued new regulations permitting Foreign Invested Enterprises (FIEs) based in Free Trade Zones (FTZs) to establish branch offices outside the FTZs.

Most operational companies within FTZs will be interested in the news. The branch office option will have no geographic restrictions, allowing companies FIEs to expand their legal presence throughout China, and thereby improve their regional presence.

However, there are limits to what the branch offices will be allowed to do. They will only be able to function as liaison offices, and not as operational offices. As such, they will not be a trading entity with income, and they will not be allowed to open foreign exchange cash accounts or enjoy the same preferential tax treatment. The expenses of operating the branch offices will be included in the FTZ FIE's accounts.

The procedure for establishing branch offices will conform to normal registration procedures. The effective term of the registration is currently set at one year, intended to limit unexpected problems for the Chinese authorities, although FTZ FIEs can apply for extensions thereafter.

Source: Fiducia China Focus

China Sanctions Foreign Mergers & Acquisitions

An era of mergers and acquisitions is expected during the next decade in China giving impetus to the economic development. Spurred on by growing globalisation and the country's entry into the World Trade Organisation, China's merger and acquisitions could get a boost as a result of increasing foreign involvement.

Together with the new WTO amendments, China recently significantly lifted prohibitions and restrictions on various forms of foreign investment e. g. merger and acquisition. By purchasing the property rights of local enterprises, knowledge and distribution systems, mergers can change a firm's legal position and save time for access into the domestic market. However, many foreign companies tend to set up an equity joint venture with a Chinese partner first, before taking them over later. This allows the investor to evaluate the qualities of the Chinese counterpart and to test the market before investing in it heavily.

Up to now merger and acquisitions are still presently underway in many industries with powerful multinationals as major players. However, if a merger is likely to create a monopoly in a certain industry, the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) can organise hearings to ensure healthy competition in the domestic market. Nevertheless, there is no standard definition on mergers and acquisition either in China or overseas. Industrial experts say such mergers are mainly fuelled by market demand which leads to the enhancement of the value of the investors assets.

Future mergers will also occur between top Chinese enterprises which will involve enormous amounts of capital. This will produce China's own giant conglomerates, improve its industrial structure, optimise the allocation of resources and sharpen the competitive edge of the nation's economy.

Source: Fiducia China Focus

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Overseas-funded Firms Dominate Shanghai's Exports

Overseas-funded enterprises in Shanghai, the biggest business and commercial center in China, became the city's dominant exporter for the first time, official statistics have shown. According to information released by the Shanghai Municipal Foreign Trade and Economic Cooperation Commission, overseas-funded firms exported 7.095 billion U.S. dollars worth of products during the first five months of this year, 60 percent of the total for the city.

Overseas-funded firms have reported a more than 50 percent annual growth rate in exports since 1998 with 15.96 billion US dollars in total exports last year. Exports by foreign-funded firms in Shanghai totalled 645 million US dollars in 1991, and made up 37 percent of all exports in 1996. Commenting on the performance of foreign invested enterprises, Jiang Yiren, executive vice-mayor of Shanghai, said they are the main contributors to the growing Shanghai export sector.

Information technology products have the fastest growth rate of all products exported by overseas funded firms. During the first five months of this year, exports of integrated circuits and micro-electronic parts, parts for automatic data processing equipment, and mobile phones rose by 56.6 percent, 364 percent and 108 percent respectively over the same period last year. Shanghai recorded increased exports to the United States, Malaysia, and Thailand but not to the European Union.

Shanghai has approved a total of 25,900 overseas-funded firms by the end of May, with about 5,100 of these being exporters. Philips, Siemens and Intel were the top three overseas-funded exporters in Shanghai last year in terms of volume.

Source: Xinhua News Agency

Shanghai Economy in Daily Figures

Shanghai's economy has been growing rapidly for more than 10 years, with the city registering a two-digit growth rate in the first half of this year. The economic expansion can be seen in the following daily figures on the average.

Each day, the city had RMB 1.4 billion of GDP, RMB 500 million of investment in fixed assets, and RMB 400 million of tax revenue. Exports through Shanghai Port were valued at USD 200 million every day and the number of TEU (20-foot equivalent) containers handled by the port was 21'000, growing by 10% and 31% respectively on a yearly basis. In the six months, Shanghai approved seven foreign-invested programs each day, with 30 million US dollars in contractual foreign funds flowing into the city. Shanghai is also attractive to domestic investors who poured RMB 98 million into the city each day during the first half year.

As a national financial center, Shanghai also cheered the booming financial industry with RMB 13.2 billion traded on the securities market each day. Moreover, the daily RMB deposits and loans with Shanghai-based Chinese-funded financial institutes totalled RMB 630 million and RMB 356 million, up 23% and 17% respectively over the same period last year. Daily insurance premium income exceeded RMB 68 million, soaring by 29%, and individual housing loans hit a record RMB 120 million daily.

Every day, more than 7'300 overseas visitors came to

Shanghai, and there were two international exhibitions held in the city in every three days on average. According to statistics, the average daily income for three-member families in the first six months was RMB 113, up eight yuan from last year. Each day, people in Shanghai spent a record RMB 220 million on food, RMB 75 million on clothes and RMB 250 million on other daily necessities. They bought 36'000 square meters of residential houses and 70 private cars each day, and spent RMB 1.1 million on the lottery and RMB 390'000 on movies.

Source: People's Daily

Shanghai to Build New Ring Road

Shanghai will start to build the city's third ring road this year, according to Shanghai Morning News. The 75km ring road, called the Middle Ring-Rong, is to be built between the Inner Ring-Road and the Outer Ring-Road to help relieve the ever-increasing traffic burden on the two ring roads. The cost of the road has not been declared. The project will be carried out in stages, according to road designers from the municipal Construction Engineering Research Institute.

Source: China Daily

Lufthansa and Shanghai Airlines Strengthen Cooperation

Lufthansa German Airlines and Shanghai Airlines announced in June the signing of a Memorandum of Understanding (MoU) that lays the foundation for closer cooperation between the two airlines and further enhances service quality and customer satisfaction. The agreement was signed by Mr. Zhou Chi, Shanghai Airlines' Chairman & CEO and Mr. Wolfgang Mayrhuber, Lufthansa Group's Deputy Chairman & CEO Passenger Airlines in Shanghai on May 31, 2002.

The MoU reinforces the airlines' commitment in strengthening their cooperation in areas such as frequent flyer programmes, joint system development, the harmonisation of products and services, special pro-rate agreements (SPA), sales and marketing activities as well as network connectivity. Both airlines will work in close consultation with each other in prospective areas to explore the feasibility of joint cooperation, which will set out a framework for the two airlines to move towards a code-sharing agreement, subject to government and trade approvals.

The MoU demonstrates that Lufthansa and Shanghai Airlines has successfully built upon a relationship that dated back to 1998 when both airlines concluded an interline agreement. The cooperation with Shanghai Air-

(continued on next page)

lines will further strengthen Lufthansa's expanding breadth of services to and beyond Shanghai. Lufthansa currently operates daily flights between Shanghai and Frankfurt; and three weekly flights between Shanghai and Munich.

The partnership with Lufthansa will complement Shanghai Airlines' well-established code-sharing agreement with Air China signed in 2001. Shanghai Airlines already has a comprehensive alliance agreement with All Nippon Airways (ANA) since April 2002. The MoU with Lufthansa, therefore, represents the second cooperation agreement that Shanghai Airlines has concluded with a Star Alliance member.

Source: Press release Lufthansa

Railway Linking China and Singapore

Seven Asian countries including China plan to build a railway linking southwest China and Singapore, hopefully to bring prosperity to the area. The idea of the Pan-Asia railway was first put forward by Malaysian Prime Minister Mahathir at the fifth ASEAN summit meeting seven years ago. The railway starts from Kunming, capital city of southwest China's Yunnan province, and runs through Vietnam, Cambodia, Myanmar, Thailand, and Malaysia before reaching Singapore.

The railway is like a ribbon connecting China and Southeast Asian countries and providing golden opportunities for multi-lateral trade and investment. China declared at a recent ASEAN 10+1 meeting that it will invest 5 million US dollars to dredge the upper Mekong River and kick off the railway project in 2003.

The China Railway Engineering Company will be responsible for building the first section, which is in Malaysia. It will be over 270 kilometres long and cost 1.2 billion yuan (144 million US dollars). It will cut the journey from Kuala Lumpur to Singapore by half.

Zhai Kun, an expert on Southeast Asia from the Modern International Relations said, "China is substantiating its commitment to build a free economic zone with Southeast Asian countries by the railway. China and ASEAN countries are complementary in many fields such as natural and human resources. Bilateral trade between China and Malaysia has risen to 9.4 billion dollars in 2001, 4.2 billion more than in 1999. The Pan-Asia railway will play an important role in communications and trade."

Source: People's Daily

Australia Wins Deal to Supply China with Gas

China granted an Australian consortium an A$25bn (€ 13.6bn) contract to supply the first liquefied natural gas to the country, in a move that underscores China's growing diversification of energy sources. The decision to award the contract to the North West Shelf group, a consortium led by Woodside Petroleum, surprised industry experts, who had expected BP's $2.5bn Tangguh project in Indonesia to win.

However, Chinese officials have quietly written to Tony Blair, UK prime minister, and Megawatt Sukarnoputri, the Indonesian president, assuring them that Tangguh is the preferred bidder for a second LNG supply contract due to start a year later.

Behind the headlines about announcement of this deal is a larger story about China's search for energy security to support its fast-growing economy, a trend which will have a big impact on global markets over coming decades. China, which has long relied on coal for up to 85 per cent of its power needs, is keen to increase LNG imports – in part due to its strategy of reducing greenhouse gas emissions from its largely coal-fired power stations. LNG, which is super-cooled gas that can be transported in ships over long distances, forms part of the new energy policy China is building on two pillars.

The first is a partially privatised oil industry, which is investing heavily overseas as the country's oil imports rise. The second is gas, which will provide about 8 per cent of China's energy needs by 2010. This will make China the world's fastest-growing LNG market in this decade, lifting its use by 50–60bn cubic metres in the period. The market is expected to double again in the decade 2010–20. The Australian resource, which will enter the country through China's first dedicated LNG terminal in Shenzhen, will be followed by other deals through Fujian and, later, Shanghai.

Beijing is using the leverage it gains from large contracts to make deals with foreign suppliers to take equity stakes in their fields. China has already bought stakes in oilfields in places like Kazakhstan, Venezuela and Iraq, and invested in large iron ore and aluminium projects in Australia. In doing so, China is mimicking the strategy of north Asia's leading economies, Japan, South Korea and Taiwan – resource-poor countries which invested overseas to secure energy during rapid development.

Australia, which built its post-war economy around resource exports to these countries, is attempting to harness itself to China's growth in the same way. And so far, the strategy is working. Even before this LNG deal, Australian exports to China had been rising by an average 20 per cent a year for nearly a decade, with the biggest contributor being growth in iron ore sales for steelmaking.

Australia's record of political stability and image as a reliable supplier to north Asia was crucial in winning the Chinese gas contract. The North West Shelf LNG project has been operating since the late 1960s. Its main rival in the bid, BP Gas of Indonesia and the Tangguh field, is an

untested green-fields project. BP has a one-sixth stake in the North West Shelf consortium. Other members include Royal Dutch/Shell, Chevron Texaco, BHP Billiton and Japan Australia LNG.

At home, China has a number of massive projects of its own on the drawing board. There is a $1bn, 4,000 km gas pipeline from the west of the country to Shanghai, and a scheme to transport oil and gas overland from Russia. In all of its oil and gas projects China is tying itself both to foreign partners and global markets, to ensure it obtains the best technology and prices not artificially inflated by state controls.

Source: Financial Times

Reporting by Richard McGregor in Shanghai, James Kynge in China, Matthew Jones in London and Steven Wyatt in Australia.

New Flexible Visa Rules for Foreign Professionals and Investors

China has adopted flexible new visa rules to make it convenient for foreign professionals and investors to work and invest in the country. According to the rules, qualified foreigners may apply for a special multiple-entry visitor's visa which is valid for 2–5 years, allowing a maximum of 12 months' stay per visit, Xinhua news agency reported in mid July. For foreigners who need to work in China, they may also apply for a special work visa which allows one to stay in the country for 2–5 years with multiple-entry rights.

The new rules, jointly formulated by nine central government departments, including the Public Security Ministry, the Science and Technology Ministry and the Foreign Economic Relations and Trade Ministry, are aimed at attracting high-level professionals and investors from abroad.

Foreigners who fit the qualifications described below can apply for such visas:

– Senior advisers invited by government institutions at the provincial and ministerial level and high-tech professionals and senior managerial personnel who come to carry out science and technology cooperation projects, key project agreements or professional personnel exchange programs in the country.

– Those who have made outstanding contributions to China or who come to carry out inter-governmental agreement on aid given gratis.

– Professors and researchers invited by research institutions and key universities or colleges at the provincial and ministerial level.

– Those invited by Chinese enterprises or institutions to hold a position of deputy general manager or higher, or other senior managerial personnel and essential technical personnel who enjoy the same treatment.

– Those who invest a minimum of US$1 million in the western areas of the country or in poor counties in the central part of the country, or invest a minimum of US$3 million in other parts of the country.

– Ethnic Chinese who have won important international awards for science and technology achievements.

– Spouses of the aforesaid foreigners and their children under the age of 18.

A circular issued by the General Office of the State Council calls on all relevant government departments to effectively carry out the rules by cutting red tape, streamlining procedures, and improving efficiency.

Source: Shanghai Daily News

Shanghai Issues "Green Cards"

China's leading industrial city Shanghai has issued "green cards" to more than 240 overseas residents since it started the initiative to attract overseas investors and talent in June. About 90 percent of the "green card" holders are returned Chinese students, many with U.S. green cards. The rest are foreign nationals and Chinese from Taiwan and Hong Kong, according to Chen Jintian, an official with the city's personnel administration.

The "green card", or permanent residence permit, allows the holder to engage in scientific research activities, start a business and send his/her children to school under the same conditions as local children, while enjoying preferential taxation treatment. Shanghai Vice Mayor Zhou Yupeng said the new residence permit system marked a breakthrough in the city's bid to attract domestic and overseas talent. Zhao Jian, a Chinese Canadian now working as the chief executive officer of a computer technology firm in Shanghai, is among the first foreign nationals to get a permit. "This residence permit system is a very advanced idea. It is good for Shanghai to take the first step. I have many Chinese student friends in Canada and the United States. They are very interested in this policy", he said.

Source: Xinhua News Agency

In Brief

– Shanghai-based China Europe International Business School (CEIBS) in a recent worldwide survey by Financial Times was listed among the world's top players in executive education, securing top position in Asia.

– New parking fees were introduced in Beijing in a bid to relieve traffic congestion. Beijing has at least 1.75 million motor vehicles, but only 800 public parking lots that can accommodate about 70.000 vehicles. In some downtown car parks the hourly fee will now be 10 yuan ($ 1.20).

– China's entry into WTO at the beginning of the year has been followed by a fierce price battle in the automobile market. China cuts its tariffs on auto imports from between 70 and 80 percent to between 43.8 and 50.7 percent.

– A batch of 250 Chinese cars was recently shipped to the US in what Tianjin Auto Group heralded as the first vehicle export to the prized American market. State-owned Tianjin Auto Group signed an agreement with a Florida distributor to export at least 25.000 cars known as the Xiali over the next five years. The group has a joint venture with Toyota. Observers predict that in a few years China will become a major car exporter.

– A national training project was launched to help management staff from domestic enterprises get familiar with WTO knowledge. About 6.500 high-level managers are expected to receive the training over the next 2 years. WTO rules, market economy knowledge and case studies are part of the training.

– Star Alliance, world's biggest airline network, is interested in having a Chinese airline join the alliance. So far China's three main airlines – Air China, China Eastern and China Southern – have shied away from global alliances. Air China says whether or not it will join any alliance depends on what benefits such a deal would bring.

– Representatives from 14 world-famous commercial streets – such as New York's Fifth Avenue and Paris's Champs Elysees – have been discussing opportunities for cooperation with Beijing's Wangfujing Street, China's most famous commercial street. It has attracted many multinational corporations, famous chain stores and management groups.

– China has allowed its most successful special economic zone, Shenzhen, to accelerate market access for foreign investors beyond Beijing's commitments to WTO. The central government agreed to open up 20 key service sectors ahead of the WTO timetable, including financial services, securities, ports, hospitals, procurement centres, tourism and logistics. More than 20 multinationals, all of them Fortune 500 companies, have expressed interest.

– By 2005 China will have 75.000 kilometres of railway track High-speed trains will be able to travel at 120 to 160 kilometres per hour along some 16.000 kilometres. Western regions will get priority in railway construction over the next few years. During the Five Year Plan period 2001-2005 some US$ 42 billion will be spent on railway construction.

– China requires more foreign professionals and is updating immigration laws to allow long-term and permanent residence for skilled foreigners working in such industries as information technology, biotechnology, new materials, aviation and aerospace. The government will provide foreign professionals with high pay, special laboratories and research facilities.

– An English-language legal service hotline is available for foreigners in Beijing. Sixteen lawyers fluent in English will be at the other end of the hotline to answer questions. The 1600148 hotline is open from 9.00 a.m. to 5.00 p.m. Monday through Friday. Beijing has the largest foreign population among Chinese cities.

– To meet increased traffic between Hong Kong and China and speed immigration procedures, ferry services will be launched between Hong Kong airport and Shenzhen, Guangzhou, Zhuhai and Macau. Passengers will not have to go through immigration until they reach their destinations.

– The World Tourism Organization reported that China welcomed 33.2 million tourists in 2001, making it the fifth largest destination in the world, while France remains the world's No. 1 tourist destination.

– China will relax limitations for Sino-foreign cooperation in the technology, equipment, capital and human resources areas of gold exploration, smelting and processing, as part of the opening up of the gold industry. China will also allow foreign investors to carry out risk exploration of gold resources in the western regions. China's gold production was 118 tons in 2001, making it fourth in the international market.

– Domestic companies registered in Shanghai can now apply for exporting rights online. The reason behind the website is to improve the work efficiency of the

Foreign Trade Commission and boost Shanghai's total export volume. Online applications will save considerable time and energy to both applicants and the Trade Commission.

– Potala Palace in Lhasa is undergoing its largest ever face-lift over the next five years. The 1.300-year-old palace will be reinforced to strengthen it against wind erosion and insects. The project will cost about US$ 40 million which will come from the central government.

– China plans to raise the foreign ownership limit for domestic airlines to 49% from 38% in an effort to attract more foreign investment. The new rules also will allow foreigners to hold the posts of president or chief executive of a domestic airline.

– Germany signed a landmark tourism agreement with China National Tourism Administration which is expected to open the way for tens of thousands of Chinese visitors to go to Germany. It is the first such deal China has made with a European Union country.

– Shanghai is due to start building a 5.3 kilometre, US$ 422 million Formula One race track. The Shanghai International Circuit Company which will oversee the project is optimistic about welcoming racing cars in 2004 and getting the go-ahead from the International Automobile Association. The project has been backed by the city government.

– Shanghai authorities have launched a project to install recorders on all of the municipality's 18.000 buses by the end of 2003. The device will record the performance of the driver and the speed of the bus. In 2001 103 people were killed in bus accidents.

– China has launched the first of five weather satellites that are to provide advanced weather forecasting for the 2008 Beijing Olympics. Four more satellites will be launched over the next 6 years.

– Some 25 million people across the world are studying Chinese as a foreign language, and 2.100 universities and colleges in 85 countries offer courses of Chinese language, according to the National Office for Teaching Chinese as a Foreign Language.

Summary by Paul Wyss

Regulations for Guiding Foreign Investments

New regulations on foreign investment have broadened the range of sectors that are now classified as encouraged or permitted for FDI.

The Regulations on Guiding the Direction of Foreign Investment took effect on April 1. The regulations repeal provisional regulations that were issued in June 1995.

The new regulations apply to all forms of foreign investment in China. Like the 1995 provisional regulations, the new rules set forth four categories of foreign investment project: "permitted", "encouraged", "restricted", and "prohibited". The regulations broadly define the scope of these categories. Whether a specific foreign investment project falls into a particular category should be determined with reference to the Guideline Catalogue of Industries for Foreign Investment (the latest version was issued on March 13) and the Guideline Catalogue of Favourable Industries for Foreign Investment in Central and Western China. Those projects that do not fall within the "encouraged", "restricted", and "prohibited" categories are classified as belonging to the category of "permitted" foreign investment.

Clarification of restrictions

The structure of certain foreign investment projects may be restricted, regardless of which category applies. The Guideline Catalogue of Industries for Foreign Investment may stipulate that foreign investment projects should be "limited to equity joint ventures and co-operative joint ventures", "controlled by Chinese parties' shareholding" or "relatively controlled by Chinese parties' shareholding". Unlike the 1995 provisional regulations, however, the new regulations help to clarify these restrictions by providing the following definitions:

"Limited to equity joint ventures and co-operative joint ventures" means that only Sino-foreign equity and co-operative joint ventures are allowed.

"Controlled by Chinese parties' shareholding" means that the investment of Chinese parties should account for 51 per cent or more of the total investment in the project.

"Relatively controlled by Chinese parties' shareholding"

Project categories

Encouraged

- projects that involve new agricultural technology, comprehensive development of agriculture and energy industries, transport and important raw materials;
- projects that involve new and high technology or advanced technology, capable of improving the function of projects, increasing technological efficiency and economic performance of enterprises, or capable of producing new equipment or new materials that cannot fully satisfy demand through domestic production capacity;
- projects that meet market demand and can upgrade product quality, open up new markets and enhance the international competitiveness of products;
- projects that adopt new technology or new equipment and are capable of saving energy and raw materials and comprehensively utilising natural resources and renewable resources, and are capable of preventing and controlling environmental pollution;
- projects that are capable of bringing into play advantages in human and natural resources in central and western China and are in compliance with the state's industry policies.

Restricted

- projects that are backward in technology;
- projects that are detrimental to saving natural resources and improving the environment;
- projects for the exploration and mining of specially designated minerals for which protective mining is required by the state.

Prohibited

- projects that endanger the national security or harm the public interests;
- projects that pollute or damage the environment, harm natural resources or pose threats to human health;
- projects that utilise large tracts of farm land, and are unfavourable to the protection and development of land resources;
- projects that endanger the security of military facilities and their effective use;
- projects that utilise production processes or technology indigenous to China.

means that in a foreign investment project, the percentage of total investment by Chinese parties should be higher than the investment percentage of any foreign party.

Like the 1995 provisional regulations, the new regulations state that "encouraged" foreign investment projects that involve the construction and operation of energy and transport infrastructure and which require a large investment with a long payback period shall receive preferential treatment and may expand their relevant business scopes upon approval. The new regulations have added urban utilities to this category of infrastructure projects, including projects related to coal, oil, natural gas and electricity, railways, highways, ports, airports, city roads and sewage and waste treatment.

Incentives for exporters

The regulations also encourage foreign investment projects to export by upgrading their categorisation based on export volume. "Permitted" foreign investment projects that export all of their products will be deemed to be "encouraged" projects. "Restricted" foreign investment projects whose export sales account for 70 per cent or more of their total sales will be deemed to be "permitted" projects upon approval by the competent local authorities.

The regulations provide that "permitted" or "restricted" projects that can truly bring into play the advantages of China's central and western regions may have relevant restrictions relaxed. Those that are listed in the Guideline Catalogue of Favourable Industries for Foreign Investment in Central and Western China may enjoy preferential policies for "encouraged" foreign investment projects.

The most significant development is the elimination of the "restricted category (A)" and "restricted category (B)" distinction contained in the 1995 provisional regulations.

The new regulations simplify matters by providing that all "restricted" foreign investment projects that fall within the approval limits shall be examined and approved by the relevant competent department of the province, autonomous region or municipality. However, these local authorities must still file their approvals with the competent department at the higher level and the department in charge of the industry.

Source: China Economic Review, May 2002

Article written by Scott Silverman, an associate at Freshfields Bruckhaus Deringer. He can be contacted by e-mail (Scott.silverman@freshfields.com).

Setting up a Holding Company

Setting up a holding company in China is an expensive proposition for multinationals, but there are substantial advantages to be derived.

Despite the recent global economic downturn, China is still a powerful magnet for foreign investors. On a recent trip to Japan, our electronics clients told us that while they were trimming back their investments in Japan and the US, they were expanding heavily in China. The reason is simple: China is the most cost-effective place in the world to manufacture. Those companies that want to export their VCRs, cameras, copiers and other products find that China offers an unbeatable combination of high-quality labour, low wages, tax incentives and a stable environment.

Pressure on prices

Of course, companies also invest in China to sell to the potential 1.3bn domestic customers. Here the story is more mixed. On one hand, these companies will also continue to invest heavily because China is perceived as the last growth market. But they are often in a loss position. The Chinese market is hyper-competitive and no one wants to quit first. This results in price-cutting, promotions and other give-aways that can force prices below costs.

As one angry manager told me: "I don't know how these guys do it. The price in China is less than half the world price." Pepsi-Cola recently admitted that it had lost money during the 20 years it has been in China, because of low margins in the soft drinks sector and heavy spending on advertising and promotion.

Strategic advantage

As they seek to expand domestic sales, many multinationals are considering setting up a China holding company (CHC). The most important reason for doing this is that the CHC allows multinationals to undertake certain crucial activities that would otherwise be difficult, if not impossible. This creates a strategic advantage over competitors who find themselves blocked from such actions.

However, setting up a CHC is an expensive proposition and there are only a few multinationals willing to make the investment. It requires a minimum registered

capital of US$30m, which should be paid up within two years. There are also significant tax and operational burdens. For example, a CHC will pay tax at the full statutory rate of 33 per cent while other types of FIEs will be taxed at a far lower rate. Despite this we are seeing more interest in the CHC. This article explains why.

There is less than one CHC for every 1,000 foreign investment enterprises (FIEs) in China. However, while the list of companies that have CHCs is quite small, it does include some of the best known names in the world, including BASF, Caterpillar, GM, IBM, Microsoft, Nestlé, Ericsson, Sony, Coca-Cola and General Electric.

In certain industries, it has become the norm for companies to have a CHC. For example, nine of the 14 semiconductor companies in China have established CHCs, including Toshiba, Philips, Sanyo, Samsung, Motorola and NEC. All of these CHCs are located in Beijing.

PwC has found that almost 90 per cent of CHCs are located in either Beijing or Shanghai. While Beijing still outranks Shanghai, it should be noted that many Beijing CHCs actually conduct a fair amount of their activities from their Shanghai branch. (Headquarter city for China holding companies: Beijing (67.1%), Shanghai (20.2%), Guangzhou (2.0%), Shenzhen (2.0%), Tianjin (2.0%), other cities (6.7%).)

CHCs, like other FIEs in China, are granted approval by the Ministry of Foreign Trade and Economic Co-operation (Moftec). In April 1995, Moftec promulgated provisional regulations that lay down the basic guidelines for those foreign investors wishing to establish a CHC. It sets out the qualifications (such as minimum worldwide assets of US$400m), application requirements and procedures, and the allowable business scope.

In 1999 and 2001, Moftec issued new guidelines that expanded the scope of permissible activities available to CHCs. Today, they can do just about everything except manufacture or freely import.

What are the benefits?

National selling Restrictions imposed on businesses in China mean that an FIE that has been licensed to manufacture shoes cannot later start to sell socks. Nor can it sell shoes manufactured by another FIE. Thus, a consumer goods company with FIEs scattered across China uses multiple sales forces to sell to the same customers.

A CHC allows a multinational to get around this problem, as it is permitted to buy and sell the products of its investee companies. This allows the CHC to sell the products manufactured by all the FIEs, be they socks or shoes. Thus the CHC can present a single face to the market and employ a single sales force, brand name, invoicing system and so forth.

Shared services A multinational with five FIEs in China would not want to have five information technology, finance or human resources departments. Ideally, it would like to create a single department to serve all five FiEs, and a CHC can do so through a shared services centre. Such a centre can yield the following benefits: significant cost savings, knowledge sharing, standardisation of systems across business units and greater focus on operations for the business unit. Almost all holding companies in China provide some type of shared services to their investee companies.

Other functions A CHC can perform purchasing, R&D and a range of other useful services. For example, a CHC can source materials in China from third parties that can then be exported to related parties overseas. In addition, we have seen multinationals that use the CHC to set up a China design centre to customise global products to better meet the tastes and budgets of the China market. Since the CHC has a much better understanding of the local market, it makes business sense to consolidate group R&D functions at the CHC level to achieve efficiency and cost-effectiveness.

Political liaison Government relationships are relatively important in China because new initiatives generally require approval from the authorities and the criteria for such approval is not always clear. The CHC is a good vehicle through which to conduct government relationships.

Financial and tax planning Even though a CHC pays tax at a higher rate than a manufacturing FIE, there can still be financial and tax benefits. In China, multinationals are not allowed to consolidate tax returns, meaning that they cannot offset the high profits of one FIE against the losses of another. A CHC allows the multinational to blend these income streams and thus utilise the losses. There are also mechanisms the CHC can use to reduce its business tax consumption taxes.

Reputation Having a CHC puts a company in an exclusive club. This can have obvious benefits in China.

Despite these advantages, the decision to set up a CHC is not an easy one to make, particularly in such a complex and competitive market. Some major multinationals have decided against setting up such a structure. The costs and benefits must be weighed up carefully.

Source: China Economic Review, May 2002

Article written by Glenn De-Souza, PhD, economist and national transfer pricing director of PricewaterhouseCoopers based in Shanghai. The above information is not intended to be comprehensive or final. Professional advice is strongly recommended before entering into any arrangements that are discussed in this article. He can be contacted by e-mail at glenn.desouza@cn.pwcglobal.com.

Nestlé in Greater China Region "Good Food, Good Life"

The Swiss-based Nestlé Group – the world's largest food company – has a long-established presence in China. Nestlé branded products have been well known and trusted by the Chinese consumers for a century. Nestlé opened its first sales office in Shanghai in 1908. Nestlé was one of the first leading international companies to enter the Chinese market in a fully committed way. In the early 1980s, Nestlé entered negotiations with the Chinese authorities to invest in the establishment of local production centers and to transfer to China its best know-how and vast expertise in nutrition and food processing. Nestlé is helping China to replace imports in foreign currency by locally manufactured products of equally high quality. The first of many Nestlé joint ventures in Mainland started local production in 1990. Today, 99% of Nestlé products sold in Mainland are locally manufactured.

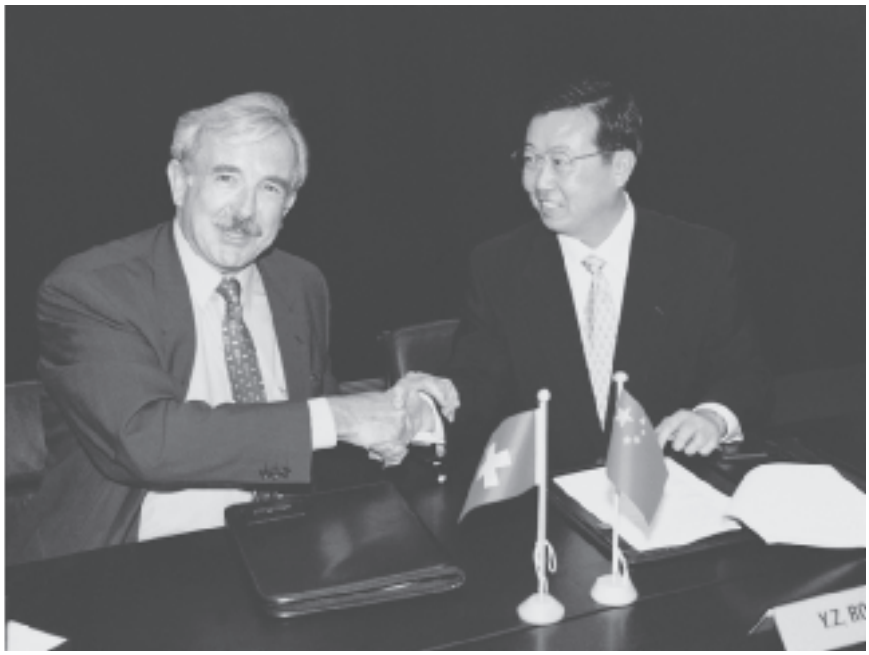
The Nestlé Group: a truly multinational company

Worldwide, in 2001, the Nestlé Group achieved total sales of Swiss Franc 84.7 billion (RMB 419 billion) and a net profit of Swiss Franc 6.7 billion (RMB 33 billion), operating 468 factories in 84 countries and employing some 230,000 people. Nestlé is the world's largest manufacturer of soluble coffee, chocolate and confectionery, powdered and condensed milks, infant nutrition, mineral waters, bouillons and seasonings, prepared frozen dishes, as well as petcare. The Chairman of the Nestlé Group is Mr. Rainer Gut, its Vice Chairman & CEO is Mr. Peter Brabeck-Letmathe and the Executive Vice President for Asia, Oceania and Africa is Mr. Michael Garrett.

The origins of the Nestlé Group date back to 1866. Henri Nestlé, of German origin, founded the Nestlé company in Vevey, Switzerland, on the shores of Lake Geneva. The name of Mr. Nestlé in his original German language means "small nest". It continues to be used today on all Nestlé products as the corporate logo, which in Chinese is translated as "QUE CHAO". Not only does the bird's nest refer to the founder's name, it also conveys an idea of security, warmth, mother's love, nature and nutrition. Today, Nestlé still adheres to its founder's beliefs and principles and is, therefore, very much people-oriented, committed to servicing consumer needs through the world of all life stages, life styles and cultures.

Nestlé transforms perishable raw materials into finished products that meet consumers' expectations for safety, quality, convenience and value. Therefore, the Nestlé Group gives top priority to product quality which is supported by over 135 years of experience and its continuous drive towards the latest know-how and expertise in nutrition and food processing, the use of high quality raw materials, investment most advanced manufacturing facilities, qualified and experienced staff and a considerable effort on research & development. In 2001 the Nestlé Group spent Swiss Franc 1.2 billion (RMB 5.8 billion) in research & development at its scientific research center in Lausanne, Switzerland, and at both its research and development centers (of which one is located in Shanghai) and highly specialized product technology centers around the world.

(continued on page 34)



Nestlé has forged powerful partnerships in the culinary sector in China with two entrepreneurial local companies: Totole (1999) and Haoji (2002). Mr. Josef M. Mueller, the Head of Nestlé Greater China Region, with Mr. Rong Yaozhong, the founder of Totole (right).

雀巢 Nestlé

优质食品 美好生活

Good Food, Good Life

The first Nestlé factory in China (opened in Shuangcheng, Heilongjiang Province, in 1990), with state-of-the-art production technology, produces a wide range of value added dairy-based products meeting all national and international quality standards.

Nestlé expanded internationally more than 100 years ago and is today one of the few truly multinational companies in all aspects. Nestlé operates in all countries of the world, with very few exceptions. Nestlé has great respect for the cultures and traditions of the countries in which it operates. Nestlé believes that its activities in any country can only be of long-term benefit to the Company if they are at the same time beneficial for that country. The continuous and well proven success of the Nestlé Group is based on the merit of its long-term strategy rather than aiming at short-term only benefits.

Nestlé in Greater China Region

In the Greater China Region, the Nestlé Group has made foreign direct investment from Switzerland amounting cumulatively to RMB 6.7 billion (about Swiss Franc 1.3 billion) over the last 13 years. Today Nestlé operates 21 plants in the Greater China Region, of which 4 are located in the Shanghai area, 4 in Guangdong Province, 3 in the Tianjin area, 3 in Sichuan Province, 2 in Shandong Province, 1 in Heilongjiang Province, 1 in Shaanxi Province, 1 in Jiangsu Province, 1 in the Beijing area, and

Mr. Josef M. Mueller, the Head of Nestlé Greater China Region, with Mr. Yan Junbo, the founder of Haoji (left).

1 in the S.A.R. of Hong Kong. In 2001, Nestlé's annual sales in the Greater China Region amounted to RMB 7.5 billion (about Swiss Franc 1.5 billion); Nestlé made annual payments of about RMB 800 million (about Swiss Franc 160 million) for various taxes in the Region. Nestlé's headquarters for the Greater China Region are located in Beijing and the Head of Nestlé in the Greater China Region is Mr. Josef M. Mueller, a Swiss citizen with a successful international career spanning some 30 years in the Nestlé Group. He has now spent some 20 years in Asia and has had considerable exposure to the Chinese people in this time.

Nestlé offers attractive employment to more than 9,000 regular local staff in the Greater China Region and provides considerable training, both within Nestlé in the Greater China Region and worldwide. Every year, many local Chinese executives participate in overseas training courses and workshops throughout the world, including the ones conducted at the Nestlé International Training Center in Switzerland.

The well trusted Nestlé brand, QUE CHAO in Chinese, is one of the most established and trusted foreign brand names in the Greater China Region, covering a large range of products manufactured according to the highest international quality standards. Such products include milk powders, liquid milks, yoghurts, infant formulae, infant cereals, sweetened condensed milk, growing up milk, breakfast cereals, soluble coffee, coffee creamer, ice cream, chocolate and confectionery, bottled water, beverages, chicken bouillon and seasoning. ALCON, which belongs to the Nestlé Group, also manufactures and sells ophthalmic products in the Greater China Region.

Nestlé's involvement in the culinary market was significantly enlarged in 1999 and 2002 through two major successful acquisitions. In 1999, Nestlé in China commenced its partnership with the Totole Group, famous in Shanghai and East China, and in 2002 commenced operation of a joint-venture with the Haoji Group, famous in Sichuan Province and Southwest China.

In 2001, Nestlé established a research and development center in Shanghai. It is engaged in applied science, and nutrition research as well as the development of affordable and nutritious food products that are adapted to the taste and liking of Chinese consumers.

Wherever possible and economically feasible, Nestlé helps the rural population in buying and processing their agricultural produce. This is a key contribution from Nestlé to the local community in China. As a good example, Nestlé has pioneered in helping develop fresh milk production in Heilongjiang Province and in Shandong Province, where Nestlé now collects over 1000 tons of fresh milk every day from some 25,000 small farmers, thus providing them with a growing and sustainable daily income. In Yunnan Province, Nestlé has set up an experimentation and demonstration coffee growing station, helping farmers to grow high-quality coffee and buy their locally grown green coffee beans. As a result of Nestlé's technical assistance, and through the existence of its many factories spread across the country, the population also at grassroot level benefits in many ways, directly and indirectly, from Nestlé's activities in China.

Nestlé is strongly committed to the Greater China Region and its people and, together with the Chinese people, will make its best contribution towards a promising future.

For further information, please contact Nestlé's headquarters in the Greater China Region:

Nestlé (China) Ltd., Beijing, PRC
Mr. Thierry VAPPEREAU or Ms. SUN Li
telephone: + (8610) 6438 9328 or
e-mail: ncl@cn.nestle.com

High quality green coffee beans from Yunnan Province form the basis of Nescafé produced in Nestlé's Dongguan factory (Guangdong Province).

Insight into the Chinese Shipbuilding Industry

Switzerland has a considerable size of an own merchant fleet and it is an interesting location for ship-owners, also non-Swiss, to operate their vessels. These companies are operating in an industry, which is active very globally and can be considered as service companies in a true sense.
Commercial ships nowadays are mainly built in Asia. China is the world third biggest shipbuilder in terms of output every year. The Chinese shipbuilding industry is controlled mainly from the government and its target is to be the number one shipbuilder in the world in a few years time.
The following article gives an insight into the Chinese shipbuilding industry. Christian Schmidli, Dipl.-Ing., MBA, has worked several years in this industry in China after a career as a senior officer at sea. He discusses his company Proftech, and their marine-related services. The article reflects on his many years of experience of building ships for European and American companies in China.

China's statistics reveal there are more than 1300 shipyards on the mainland of China. Shipbuilding is considered one of the key industries of China. Previously controlled from Beijing under CSSC (China State Shipbuilding Corporation) it is now divided into two groups the CSSC and the CSIC (China Shipbuilding Industry Corporation). The two groups traditionally controlled about 60 shipyards, which have various levels of experience in building ships for export. Some yards, such as the Shanghai Shipyard, have more experience and have attracted well-known ship owners to build their vessels. Other yards have more specific capabilities in providing components or various parts.

Chinese shipbuilding industry has entered a period of rapid change – for example splitting up of the groups (CSSC/CSIC), or merger of specific yards, and entering of new markets and building of "higher-technology ships".

Given the large number of shipyards and the development path followed by the Japanese and Korean shipbuilding industry, one can expect (and the Chinese Government is planning) that Chinese yards will have a larger share of the world shipbuilding market.

The Chinese shipbuilding industry depends on local factors, such as supply of low-cost workmanship, local steel industry development, logistics improvements and many more factors undergoing continuous change within China. External factors influencing the development of Chinese shipbuilding come from ship owners, designers, classification societies, suppliers and similar interest groups who are putting their requirements on local yards.

Launching at Xingang shipyard.

"mv Unterwalden" built a shipyard in Shanghai.

Shipbuilding Projects

The first shipbuilding project, which Christian Schmidli was involved, was the building of a series of freighters for a Swiss company. The first ship was named "mv Unterwalden" and still operates seven years after its delivery for an owner from Fribourg. The vessel is equipped with one of the famous Sulzer engines that have been built under licence in Shanghai.

Several projects followed and in the end of the year 2001 eleven large commercial ships for different owners were built.

Key issues in shipbuilding in China

Shipbuilding is very complex. Many stakeholders take place in a project, such as:
- Ship-owner
- Financial institute
- Shipyard
- Project Manager
- Designer
- Classification society
- Supplier
- Other stakeholders

Key issues must be clearly recognized, such as:
- Ship design
- Engineering
- Imported equipment – selection, importation, logistics
- Suppliers – choosing the "best cost" answer
- Main engine building
- Project management – bringing together of all the other factors
- Communication
- Potential for delay

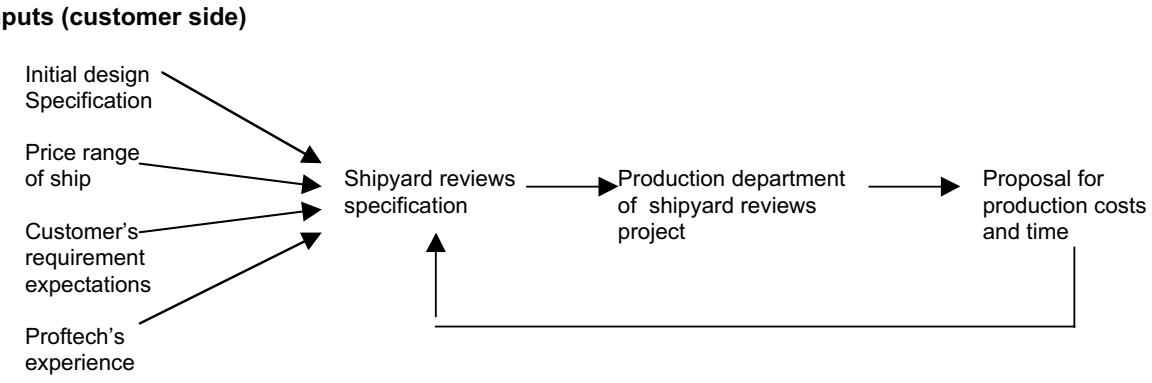
The above aspects can be seen as part of a chain of inputs into a shipbuilding project that in the case of China is even more complex. The successful completion of such a project must have the contribution of each involved stakeholder. A vessel in its final stage has to be recognised as a moving factory and warehouse, which easily in a true sense moves 20 years around the world. The smooth interacting of the above key issues can so be understood much better.

Project management

Western ship-owners have projects to build ships in China usually lasting around two years or less. In a typical case, the owner will form teams to oversee the production. We usually see a mixture of companies' own staff, and sometimes local Chinese normally are employed. These teams work far from their head-offices overseas, and usually do not have any China relevant experience. Working and building ships in China must involve those knowing the laws, business practices, and the language of the host country. We find these are largely underestimated by ship-owners.

Usually for all the companies the same objectives can be identified i.e. "…to build a ship at high quality…"

(continued on next page)



Whereas this is a bald statement and could be categorised as "Management by objectives" it gives usually raise of controversy as it is not always clear what quality standards are to be applied and individuals involved try to influence other team members.

This approach can cause tremendous friction between the stakeholders of the project i. e. the shipyard, supervisors, designers, classification societies and ship owners. The decentralisation and distance of the building team can further aggravate these problems.

A ship-owners key conditions are the budget for his ship and critical specifications. These specifications are usually very detailed and are part of the final contract. A yard has to be selected which is a "best fit" to the project.

Typically, there is also a "give and take" process, whereby the yard tries to match its capabilities to the requirements of the owner – again, at a price and time schedule suitable to both sides. The different stakeholders have different opinions and valuing systems.

In any project, one must identify "a number of possible solutions" and "decide on the best solution". Setting/prioritising objectives and "identifying and appraising options" should be applied. This also helps to reach an ideal solution and to accept possible trade-offs.

We find that without proper analysis (which is often not done in great detail) and not possible without proper experience operating in China, owners and stakeholders are often negotiating blindly. Reaching compromise for the sake of "giving face" should not have to be an option.

In sum, the entire negotiating and building process may not be "black and white" but certainly, the "best solution" using the above visualisation of the decision making process will help clarify the trade-offs by the involved parties. This method helps to avoid unnecessary costs and delays and allows to achieve a win/win situation.

The process has to involve all stakeholders in order to prevent bias. The customer's "pre-selection" of issues especially in the complex environment of the Chinese shipbuilding project needs to accept and consider the inputs from the shipyard which with the above can result in acceptable solutions for all parties.

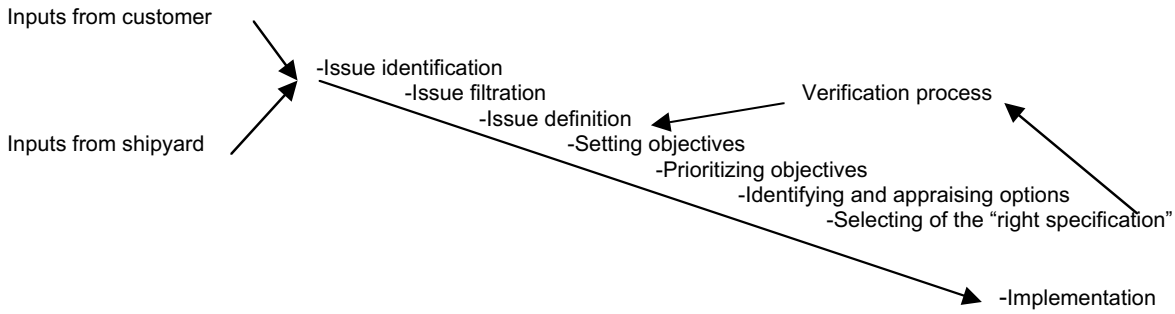
We always made the experience that our products have been built at a comparable high standard, which can compete against any other ships built outside of China.

The sad thing about projects like this is that after establishing own standards and working relations in China the job is finished after a certain time and starts all over again in a new environment.

Multipurpose vessel at the Zhonghua shipyard

Our most recent project in China was for Genchart of Rotterdam, consisting of four multipurpose vessels with the following dimensions:

Length overall	143m
Breadth moulded	21.5m
Summer draught	9.7m
Speed	15.4knots
Range	15'000 nautical miles
Register	LR
Deadweight	17'500mt
Container capacity	962TEU
Main engine	7800kW
Two holds with twin-decks	
Three cargo cranes	60mt at max. 16m



Inserat COSCO EUROPE GmbH

Most of the equipment for these vessels has been imported from Europe.

This project had a total value of about 80mUS$ and was very successful, all the ships are operating to the full satisfaction of the ship-owner. We were able to have a very good co-operation with all the involved parties and all the ships were delivered without any delay.

Summary

More and more ship-owners are building their ships in China. Beyond building, Proftech offers the unique handling many activities connected to the life-cycle of a vessel.

- Building (includes planning, financing, designing and supervising)
- Operation (includes crewing and maintenance)
- Repair (includes repair and dry-docking)
- Demolition (environmental friendly disposal)

We call it the BORD-Plan. It is part of the value-added services available from Proftech. Proftech's network and management experience can be applied to nearly any marine-related project.

In addition, Proftech is developing a MarinePool©, which offers marine equipment suppliers a marketing platform in China and Asia. This has attracted a lot of interest especially for SME's without a proper set-up in China. The MarinePool© member will have continuous access to the major shipyards in China, and will have the benefit of sharing costs, while maximizing contact with end-users. Furthermore, our goal with MarinePool© is to offer integrated solutions – so the components will support each other.

Proftech's aim is to offer an expert service in China utilising an extensive network, at competitive prices in the following fields:

- Shipbuilding and Marine platform design and supervising
- Supervising of components also for export
- Suppliers representation
- Marketing activities
- Business consulting

Shipbuilding takes place in the environment of heavy machinery and is connected to many different other industries. This multi functioning and the expert knowledge obtained can be transferred into other fields.

Our multicultural staff of local Chinese and Western expatriates has a sound network to different industries and organisations.

by Christian Schmidli

Please visit also Proftech's web site at www.proftech.org to find out more about our services.

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Christian Schmidli

Tourist Guide VIEW SWITZERLAND

New Edition 2002–2003

In May the new edition in Chinese language – 2002-03 – has been made available for distribution. View Switzerland is published annually by Ruckstuhl Media Promotion and distributed in China through major tourist operators, travel agents, airlines, Switzerland Tourism Offices and Swiss Consulates. It is targeted at Chinese travelling to, or 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, using handy A5-format. It covers Switzerland's history, geography, landscapes, culture, its people and highlights the major places of interest. Additional useful information for travellers also includes maps on Switzerland and major cities as well as the "must visits" tourist resorts and attractions.

The guide is a valuable handout also for Chinese delegations visiting Swiss companies. Members of the Swiss-Chinese Chamber of Commerce are entitled to a limited number of free copies. The guide has also proven to be very popular among advertisers in presenting the Swiss market to people enjoying increasing prosperity and the freedom of travel.

Please direct your enquiry for copies or advertising directly to:

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News from Shangri-La

First Hotel Outside Asia

Shangri-La has signed a management agreement with UAE-based Al Jaber Group to operate a deluxe five-star Shangri-La Hotel in Dubai. This will be Shangri-La's first hotel in the Gulf, a region the group has targeted for expansion, and it will also be the Al Jaber Group's first deluxe hotel project. The 43 storey hotel, which forms part of a twin tower multi-purpose complex, is currently under development and will feature 301 guestrooms and suites, along with 126 service apartments. The complex is located near Dubai's World Trade Centre and the commercial districts.

This is the first of three new properties Shangri-La Hotels and Resorts is opening in the Gulf in the next three years. Following the opening of the Shangri-La Hotel, Dubai, Traders Hotel, Dubai will open in July 2003 and Shangri-La's Barr Al Jissah Resort, Muscat, Oman, will follow in early 2005.

Hong Kong based Shangri-La Hotels and Resorts has appointed Lore Koenig as Director of Sales for the new Shangri-La Hotel, Dubai, due to open March 2003. Ms Koenig took up her new role in July 2002, initially in pre-opening offices before transferring to the property in Sheikh Zayed Road.

Ms. Lore Koenig, Director of Sales of the new Shangri-La Hotel, Dubai.

Ms Koenig joined Shangri-La in 1994 as Director of Sales – Germany, Austria and Switzerland, based in the Regional Sales Office, London. In this position she raised Shangri-La's profile across the German-speaking markets and generated increased business from the region into the group's 38 properties in Asia. In her new role Ms Koenig will be responsible for inbound sales to the hotel from the immediate locality, Europe and worldwide. She will be assisted by a nine-strong team.

Commented Ms Koenig, "I am delighted to have been offered such an exciting opportunity and at such a critical, formative stage in this new hotel's development. The Shangri-La Hotel Dubai will be our first hotel outside Asia and I am looking forward to establishing the Shangri-La name and legendary Asian hospitality in a totally new market. While my European sales experience will be of great benefit in a region where 30% of business is from Europe, I am also excited at the prospect of establishing our presence in Dubai in the minds of our Asian customer base and welcoming them to the Gulf."

Shangri-La Hotels and Resorts currently manages 38 hotels in the Chinese mainland, Fiji, Hong Kong SAR, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Taiwan and Thailand, with a rooms inventory of almost 20,000.

Launch of Exclusive Wine Collection

Shangri-La Hotels and Resorts has created its own exclusive wine collection in collaboration with the most famous Chinese wine producer, The China Great Wall Wine Company Ltd.

Established in 1983, The China Great Wall Wine Company is a Sino-foreign joint venture, specialising in manufacturing and marketing various types of wine, using modern wine producing equipment imported from France, Germany and Italy. The wines are marketed in 20 different countries and regions around the world, including the U.S.A., the U.K., Japan and France.

The Shangri-La Wine Collection features Cabernet Sauvignon 1992, renowned for its rich, fruity flavour. The Collection has been produced with its own dedicated labels, illustrating Shangri-La's hotels in mainland China. With nearly 20,000 rooms in Asia, Shangri-La is the largest deluxe hotel company based in the region and currently operates 16 properties on the Chinese mainland, with a further two scheduled to open in 2003.

This is the first time the Shangri-La Group has created its own wine collection and the launch party was held at the Terrace Garden of the Pudong Shangri-La, Shanghai, to celebrate the co-operation between two of the leading companies in China. With their classic character and artistic design, the Shangri-La wines are acknowledged as one of the finest wines ever produced on the mainland, destined to become a collector's item as well as complementing the dining experience at Shangri-La hotels across the region.

For more information on Shangri-La or hotel reservations, please visit www.shangri-la.com

Philippe Caretti, general manager of Pudong Shangri-La together with Liu Ying, deputy director of Hua Xia Winery Co.

Hong Kong Five Years Later

Lawrence Ho is a child of the great escape. His parents fled from Hong Kong to Montreal in the early 1990s, joining the mass exodus of thousands who feared disaster as China's authoritarian rulers regained control of the former British colony. Lawrence was born in Canada and holds a Canadian passport. But today, several years after his family moved back to Hong Kong for business reasons, the 10-year-old boy has become a patriot of his ethnic motherland. He sings the Chinese national anthem and cheers for the national soccer team. When his mother hesitates to buy a Chinese-made product because she distrusts its quality, he indignantly insists they should support Chinese goods. "I'm Chinese", he said. "China is our own country."

Five years after it returned to China's rule, Hong Kong slowly is knitting itself together with the world's most populous nation. Even if it means sacrificing some of their political freedoms and postponing the arrival of democracy, most Hong Kongers accept that their future lies within China, in the bosom of an emerging superpower.

In perhaps the most unexpected twist, it is Hong Kong that wheedles for help from its once-impoverished neighbour. Its business tycoons and politicians lobby for concessions to lure investors and tourists from the mainland's booming economy.

It was the People's Liberation Army (PLA) that provoked much of the jitteriness during the handover. Many Hong Kong residents were terrified that the soldiers would march in and impose a police state. The PLA did march in, for a ceremonial parade, but has since remained quietly in its barracks.

To the astonishment of many, Hong Kongers have come to respect Beijing's rulers, especially its pro-business Prime Minister, Zhu Rongji, who has presided over an economic boom. Five years ago, only 30 per cent of Hong Kongers were satisfied with Beijing's leaders; now the figure is about 60 per cent. "It's a dramatic reversal", said Michael DeGolyer, director of the Hong Kong Transition Project, a group of scholars examining the shift in control. "Zhu Rongji is a hero to most people in Hong Kong."

Maggie Wong, a 26-year-old student at Hong Kong City University, remembers being scared to cross into the mainland as a child because she was frightened of gun-wielding Chinese border guards. She worried when the PLA marched into Hong Kong; friends advised her to leave. But today she feels calmer about Beijing's control and enjoys her new mandatory university courses on Chinese civilization. "We haven't seen our freedoms taken away", she said. "And when you cross into China, you don't see those police with guns any more."

Thousands of Chinese Hong Kongers who fled to Canada in the 1990s have returned, reassured by the stability of their home city – though they keep their Canadian passports, just in case. Canadian officials estimate

(continued on next page)

that about 200,000 people with Canadian passports live in Hong Kong. Dennis Wong Sing-wing, a sociologist at City University, was one of the few members of his family who remained in the city throughout the 1990s. Three of his brothers and sisters moved to Canada and Singapore; two have returned. "We feel safe and stable here", he said. "We're proud to be Chinese citizens. I want my children to have a Chinese national identity. China is a capitalist country now – it's not a North Korea. "It seems more open and welcoming. We're not afraid of it. We want to see a strong China and a strong Asia."

A steady stream of Hong Kongers take the short commuter train ride to the border to shop for cheap goods at malls on the mainland. Hundreds of Hong Kong manufacturers have shifted their factories into southern China. And it is increasingly fashionable for wealthy Hong Kong women to fly to Shanghai to shop. Before the handover, Hong Kong was seen as the "golden goose" that would enrich China. Now, as one Chinese newspaper wrote, "The golden goose is sick, and it's getting a blood transfusion from China."

With an annual per-capita income of $24,000 (U.S.), Hong Kong remains a wealthy city. But its seven million residents are stuck in a prolonged slump. Since the handover, unemployment has soared to a record 7.4 per cent, from less than 3 per cent. Personal bankruptcies and suicides are rising. And the property market has crashed, dealing a heavy blow to the city. As many as 100,000 families have "negative equity" – unpaid mortgage debts higher than the market value of their homes.

With China a global trader in the World Trade Organization, Hong Kong cannot prosper from its traditional role as a middleman. Western investors often prefer to set up shops in cheaper cities such as Shanghai in the mainland. But Hong Kongers are nothing if not pragmatic, and they see the mainland as their best hope for jobs and business. They used to laugh at naive Chinese tourists gawking at their glittering skyscrapers; now they plead with Beijing to send more tourists. The tycoons used to sneer at their impoverished Chinese neighbours; now they see them as a lucrative source of business. "They want sweetheart deals", said Emily Lau, a member in the Hong Kong legislature. "They see China as a big pot of gold. They want to force China to trade with us."

Some analysts say a liberal faction in the Chinese government has been frustrated by Hong Kong's stagnation because it wanted the territory to be a robust model for economic and political reform for the mainland. Instead, it has retrenched, postponing its move toward full democracy and restricting the rights of protesters.

Some local leaders, however, are pleading for the world's patience and understanding. As a free city in an authoritarian state, Hong Kong is trapped in a dilemma that other places haven't had to face. "It's hard to explain how painful it is to us", said Christine Loh, a former legislature member who heads a think tank. "It tears at us. We have to do things that we have no sympathy for, yet we are proud of other things about China. We need more time to understand what it means to be part of a nation."

By Geoffrey York

Hong Kong's Success Buried in the Past?

This city's ports handled 17.8 million freight containers last year in a whirling, computer-choreographed ballet of cargo ships, trucks and gantry cranes that made Hong Kong the busiest harbour in the world. But down at dockside, the mood is dour. Hong Kong's container traffic slipped nearly 2 percent in 2001 from a year earlier – the first drop in volume anyone can remember – in part because of growing competition from other Chinese ports.

In recent years, cargo volume at half a dozen large ports along China's eastern seaboard has been growing in double-digit percentages, and Shanghai is expected to overtake Hong Kong as the world's biggest container port before 2015.

China's rapid rise has provoked a bewildering sea change in Hong Kong, the commercial enclave that glittered for decades as the financial gateway to the communist-controlled mainland. As China's leaders embrace markets and open their economy to outsiders, Hong Kong's monopoly in China is crumbling. Hong Kong's banks and brokerages are shifting clerical jobs to Chinese cities where workers of comparable skill can be hired for half the pay. Foreign multinational corporations are moving regional offices from Hong Kong to the mainland, where many have already built large factories. Hong Kong developers complain that the spread of cheap housing across the border in Shenzhen, a special economic zone, has undercut their rents. Even feng shui geomancers are struggling to fend off mainland rivals.

When this former British colony reverted to Chinese sovereignty on July 1, 1997, many residents feared that Beijing would crush it by stripping away political freedoms – muzzling the press, arresting dissidents, dismantling the British-style legal system. Those things never happened. But five years after the transfer, the source of distress in Hong Kong isn't communism, but rather too much capitalist competition.

In the 1960s and '70s, millions of Chinese risked their lives crossing the border into Hong Kong in search of opportunity. These days, Hong Kong's savviest entrepreneurs are headed in the opposite direction. Take Vincent Lo, a Hong Kong property and construction mogul. In the 1990s, Lo balked at Hong Kong's sky-high real estate prices and began investing in Shanghai, eventually shifting most of his assets to the mainland. In Hong Kong, fellow tycoons scoffed. But while their investments cratered, Xiantiandi, the upscale shopping and entertainment complex built by Lo's Shui On group in Shanghai, is booming – and generating business opportunities for Lo elsewhere in China.

Betting, winning, losing. Horse racing is a part of daily life – and life, as far as it goes, is also a game. Just like their English equivalents, Hong Kong Chinese study the racing news, many among them are masters of the art of betting. The horses start to race, inner tension begins to rise; win, lose, all part of life… Chinese love games. Often there are large sums at stake. The weekly horse racing meets in Happy Valley or in the casinos of the neighbouring island of Macao.

Foto by Christoph Gysin
Text by Christian Platz

Ironic Turn of Fortune

Meanwhile, Hong Kongers who used to lord it over their poorer mainland cousins have lost their swagger. Scarlett Li, China general manager for Star television's ultra-hip Channel V music network, says she was taunted mercilessly by schoolmates in Hong Kong after her family arrived there from the gritty industrial city of Wuxi. "Everyone was so proud to be from Hong Kong", she recalls. "They all looked down on me because I was from the mainland and couldn't speak Cantonese", the dialect of China's southern Guangdong province. When Li returned to Hong Kong in the 1990s after college in Australia, things were different. "People started to wake up", she said. "They saw how fast China was growing and all that buying power across the border, and suddenly there was this sense of envy and admiration." Now Li lives in Shanghai and is getting the last laugh. When she returns to Hong Kong, she is besieged by eager Hong Kongers begging for mainland jobs with the music network.

It is an ironic turn of fortune. This enclave, wrested by the British from the Qing dynasty in the 1840s as a spoil of the Opium Wars, owes its existence to Beijing's traditional antipathy to foreign trade. After Mao Zedong's communists swept to power in 1949, Hong Kong transformed itself from colonial backwater to global commercial hub by exploiting its role as economic middleman between China and the world. But in the last five years, as that role has been eclipsed, Hong Kong's stock market has wilted and its bankruptcy rates have soared.

Consumer prices have fallen for three years running. Unemployment has reached a record 7.4 percent. Property prices, a key source of Hong Kong's wealth, have plunged 60 percent from their 1997 peak. Tens of thousands of Hong Kong residents now occupy homes that are "underwater" – worth less than the balance due on the loans incurred to buy them. Times are so tough that the developer of one luxury residential complex recently promised a new Mercedes to anyone who would sign a lease.

The government's official forecast is for Hong Kong's economy to grow 1 percent this year, following last year's 0.1 percent increase. Private analysts are slightly more optimistic, but no one envisions a return to the giddy growth rates of the years before Hong Kong reverted to China.

Hong Kong's problems stem from more than China's rise: Trouble started only a day after Britain's Prince Charles lowered the Union Jack. On July 2, 1997, officials in Thailand devalued their national currency, the baht, triggering a regional financial crisis. Hong Kong managed a fleeting recovery in 2000 but lapsed into another recession last year in the global technology slump. Increased competition from the mainland has served to highlight Hong Kong's weaknesses, including its high costs and shortage of educated workers. The fact that Hong Kong continues to flounder despite a U.S. rebound that has buoyed Asia's other export-led economies has convinced business and government leaders here that they are in the throes of something far more serious than a dip in the global business cycle.

Difficult Restructuring

Hong Kong is in for a "difficult restructuring", the city's Beijing-appointed chief executive, Tung Chee-hwa, proclaimed in a recent address to the local chamber of commerce. "I have to emphasize that this will go on for some time to come", he warned. "We are talking about years." Hong Kong's business barons echo Tung's assessment that the city is in for its most wrenching adjustment ever. But there is no consensus on what needs adjusting, or how it should be changed.

This city has shown a knack for reinvention. In the 1960s, when millions of Chinese immigrants flooded across the border seeking refuge from Mao's Cultural Revolution, Hong Kong harnessed their energy to become an export dynamo, churning out cheap toys, textiles and electronics. In the 1980s, when Chinese leader Deng Xiaoping began experimenting with market reforms, manufacturing jobs migrated from Hong Kong to Guangdong, the Chinese province directly to the north. Hong Kong responded by shifting into services such as shipping and investment banking that bolstered its role as comprador, or middleman, linking China to the rest of world. But Hong Kong's reaction to its current economic challenges has been timid and uncertain.

The city is betting heavily on tourism as a source of added jobs and revenue. Thanks to Beijing's recent decision to ease the travel restrictions on mainlanders, Hong Kong is welcoming Chinese tourists in record numbers this year. To keep them coming, Hong Kong has taken a majority stake in a joint venture with Walt Disney Co. to build a US$4 billion theme park on outlying Lantau Island. The development is expected to open by 2006, draw 5 million visitors a year and create 36,000 jobs. But analysts say tourism alone can't keep Hong Kong's economy afloat. And even if it could, tourism, like Hong Kong's other industries, faces stiff competition from across the border. Disney hasn't ruled out the possibility of building parks in other Chinese cities. Officials in Shenzhen have been holding discussions with executives of Universal Studios about opening a theme park there.

Bilateral Trade between Switzerland and Hong Kong

January – June 2002 (in Mio. CHF)

	Export Mio CHF	Export ± CHF %	Export Share	Import Mio CHF	Import ± CHF %	Import Share
Total selected	1.463,7	4,7	100,0	324,9	6,2	100,0
Agricultural products	14,1	-0,7	1,0	1,1	-34,6	0,3
Energy carriers	0,1	-97,3	0,0	0,0	–	0,0
Textiles, apparel, shoes	46,2	24,1	3,2	28,3	-1,0	8,7
Paper, paper products, printed matter	10,6	122,5	0,7	0,8	-49,7	0,2
Leather, rubber, plastics	25,0	-10,0	1,7	2,7	1,1	0,8
Chemicals, pharmaceuticals	209,0	-3,3	14,3	5,9	79,9	1,8
Construction materials, ceramics, glass	6,4	-26,2	0,4	0,7	-8,4	0,2
Metals and metal products	23,5	-25,4	1,6	4,9	-15,4	1,5
Machinery, apparatus, electronics	179,3	-3,4	12,2	32,5	-24,8	10,0
Vehicles	0,1	-89,7	0,0	0,1	-62,4	0,0
Precision instruments	36,0	-3,7	2,5	5,4	-30,0	1,7
Watches	714,6	-3,2	48,8	129,0	-23,2	39,7
Other goods	198,9	116,0	13,6	113,5	168,4	34,9

Source: Swissmem

Hong Kong: island, city, sea. A place where myths are born – like Manhattan or the isle of Avalon. And of course the best way to approach is by sea – with the respect due to a legend, a tiger or dragon. The old town surrounded by the lapping waves of the South China Sea is all three: legend, tiger, dragon – and at the same time a place of myth and transformation…

Foto by Christoph Gysin
Text by Christian Platz

And Las Vegas mogul Steve Wynn has grand plans for a luxury resort and casino just across the Pearl River delta from Hong Kong, in the former Portuguese colony of Macau.

Lofty talk about transforming Hong Kong into "the Silicon Valley of Asia" remains mostly that – talk. The government has backed construction of two large-scale research and technology parks in hopes of luring businesses from fields such as software design, telecommunications and biotechnology. But it will take more than real estate deals to make Hong Kong a global competitor in high technology. For starters, the city must revolutionize its educational system. Hong Kong lacks a world-class university; only 13 percent of the population holds college degrees. Western executives gripe that it is easier to find skilled engineers, as well as English and Mandarin Chinese speakers, in Shanghai than in Hong Kong.

Hong Kong's restrictive immigration policies compound that problem, thwarting efforts by universities and employers to import top talent from the mainland. More than half of Hong Kong's 6.8 million citizens were born on the mainland or have parents who were. But many fear that if borders are opened too quickly, mainlanders would overrun the city, dragging down wages and swamping public services. Hong Kong's conflicted approach to education and immigration reflects broader disagreement about how the city should respond to the challenge of the mainland's economic rise. At the heart of the debate: complex questions about whether Hong Kong can become a more important part of China without becoming more like it.

(continued on next page)

Squandering its Uniqueness?

Under terms of the 1997 reversion agreement, Hong Kong was to be granted a "high degree of autonomy" from Beijing. In accordance with a doctrine dubbed "one country, two systems", Chinese leaders promised that Hong Kong could keep Western-style political freedoms and capitalist economic institutions. Since the handover, many people here have argued that the key to continued prosperity in Hong Kong is expanding on the freedoms that made the city different, while expanding the commercial and cultural ties that draw it closer to the rest of China.

Critics accuse Tung's government of doing the reverse. During his first five-year term, Tung, an unpopular shipping tycoon appointed by 800 pro-Beijing electors, demonstrated unswerving fealty to his communist overseers. He dragged his feet on democratic reforms envisioned in the 1997 accord. Late June 2002 he pushed through legislative changes granting the chief executive broad authority to hire and fire civil servants. Tung says the changes make Hong Kong's British-inspired civil service system more "accountable". Detractors say that means they are more accountable to Beijing.

Tung's administration has resisted proposals that would speed circulation of goods, capital, people and ideas. One of its first acts was to prod more Hong Kong schools to teach in Cantonese, putting Hong Kong out of sync with other big Chinese cities, where students learn in Mandarin and are pushed to master English.

Meanwhile, the border separating Hong Kong from Guangdong closes every night; in the daytime, lines at immigration and customs checkpoints often back up for hours. Gordon Wu, founder of Hong Kong's largest infrastructure development firm, has waged a noisy but futile battle to persuade the government to open borders around the clock and build a highway connecting Hong Kong's airport to Macau's casinos and to the city of Zhuhai. "Trying to isolate ourselves from the mainland", he fumed, "is the stupidest thing we could possibly do."

The danger, many here fear, is that Hong Kong is squandering the things that make it special, even as it neglects policies that could help it profit from the rest of China's wealth. At this rate, warns Martin Lee, leader of Hong Kong's opposition political party, "Hong Kong is going to wind up just another big Chinese city, the same as Shenzhen, just more expensive and a little bit further south."

by Clay Chandler
Washington Post Foreign Service

Fotos on page 45 and 47 and many more are currently exhibited in Basle or via Internet at www.lookat-hongkong.com with over 100 fascinating black and white photographs of Hong Kong and its people.

Look at Hong Kong

The web site **www.lookat-hongkong.com** serves as an introduction to the many moods of Hong Kong and at the same time is a homage to this unusual city that exists in the space between traditional and modern and changes daily. A city that shortly before its reunion with China excited great international interest and from which we are currently not hearing a great deal. Hong Kong remains, however, one of the world's most interesting urban conurbations – a true melting pot.

The city – captured by Swiss graphic designer **Christoph Gysin** – unfolds in a series of black and white photographs documenting the everyday life of a city in Asia over a period of a number of years. "In the '90s of the last century I lived and worked as a graphic designer in Hong Kong. During that time I developed a strong relationship to the city. This fascination drew me back to the city again and again. Armed with a camera and film, I tried to capture images that would express the spirit of this unique metropolis."

The author of the texts is **Christian Platz** – another Asia pilgrim, who already has a fair number of journeys to this continent tucked under his belt.

The photographs are also exhibited at the
Gundeldinger Kunsthalle
Baumgartenweg 11
4053 Basle
until September 14th 2002.
Opening hours:
Thurs/Fri 14–19h, Sat/Sun 11–17h.

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