

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, in-
surances and industrial
firms. To Trade Or-
ganisations, Govern-
ment Departments,
leading Chambers of
Commerce in Switzer-
land, Europe and
China.

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Printing:

werk zwei
Print + Medien
Konstanz GmbH
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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:

2/03 June 30

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SARS: Economic Impact



One month after first hitting the international headlines, the economic impact of SARS is spreading well beyond airlines, hotels and conferences to virtually all businesses within the region, and beyond. It is now endangering supply chains and depressing consumer demand. SARS threatens to reduce product quality, delay new ranges and, if production is forced to move, raise manufacturing costs. **Nestlé** said that the overall impact of SARS should be limited, but could hurt the company's ice cream and catering business in Asia. China is one of the company's strongest growing areas, with double-digit growth rates. Switzerland-based **Logitech**, the world's biggest manufacturer of computer mice, has not seen any negative impact from the epidemic on their production. About half of Logitech's production is in China. Nike, the world's biggest sports-goods group, is ready to shift production out of Asia, probably to Latin America, if the disease is not brought under control in the next six to 12 months. **Adidas-Solomon** is considering moving some of its production from Guangzhou to Vietnam or Indonesia. **Nissan** Motor Co. said the public health crisis could hold up the launch of its Sunny model in China in June, because it may delay the arrival of support staff and engineers needed to begin production in Guangzhou. **Toyota** plans to evacuate virtually all its Japanese employees and their dependents from Beijing due to fear of a spread of SARS. Airbus may not meet its goal of delivering 300 planes this year because the onset of SARS is causing Asian carriers to push back orders.

Perhaps the most concrete impact of SARS so far is the cancellation or postponement of major trade shows. The **Canton Trade Fair**, once the single most important event in China's economy, "is effectively dead," say observers. According to official information, the first phase of its 93rd edition ended with total transactions worth USD 3.31 billion, down roughly 60% from last year. The **China International Machine Tool Show** (16–22 Apr.) in Beijing started successfully but saw a sharp decline in visitors and closed a half day earlier, after the Chinese

government admitted the actual level of the SARS crisis in Beijing. The **Auto Shanghai Fair** – planned from 21 to 27 April – was shut down before it opened for the public. The prestigious car show in Shanghai was expected to get about 400,000 visitors and was initially pushed ahead by the local government, despite doubts of foreign participants. Shanghaiex 03 – originally scheduled for early June – has just been postponed to December.

An immediate impact on the Chinese economy will also be felt due to a sharp decrease of **travelling and consumer spending**. Central government ordered that Labour Day holidays be limited to 5 days and discouraged students and workers from travelling at all. Beijing's government also closed the city's theaters, cinemas, Internet cafes and other public entertainment venues in an attempt to stop the spread of SARS. Credit Suisse First Boston said May retail sales could show negative growth versus 9.2% growth in the first quarter. Citigroup estimated Labour Day holiday receipts would fall as much as 60% compared to last year's, which amounted to nearly CNY 40 billion. Some analysts predict that more than 40% of China's annual USD 67 billion in tourism-related income may be lost this year. Although revenue from foreign tourists is tiny compared to domestic travellers, it is significant that the number of tourists visiting China fell 6.5% in March on the year, the first monthly decline in two years, and well before the crisis really broke.

Recent surveys of companies with **manufacturing operations** in Guangdong found the disease had so far had minimal effects on their production. However, the current crisis threatens to make itself felt in months to come. Usually between February and May buyers come to place orders for the goods that will be under the Christmas trees eight months from now. Toy retailers bring over new molds. Watch sellers arrive to see which strap goes with which model. Clothes retailers are checking quality control for the fall season lineup. Small companies hooking up with small traders do the bulk of this business. That's all been put on hold, and come fall the repercussions for the Pearl River and Yangtze River manufacturing areas will be huge.

If the virus – or the panic – can not be contained within weeks, **investor confidence** will be a SARS victim, and that would have far greater consequences for China's economy. Foreign direct investment, along with trade-related industrial production and state spending, is one of the key drivers of Chinese economic growth. Analysts keep downgrading their forecasts for growth of the Chinese economy. Citigroup revised downwards its 2003 **growth forecast for the mainland** for the second time in less than a month, from 7.3% to 6.7%. Just a month ago, they estimated the mainland economy would grow 7.6%. JP Morgan Chase cut mainland growth forecasts

from 8% to 7.4%, while Credit Suisse First Boston cut the growth forecast from 7.9% to 7.3%. Morgan Stanley Dean Witter revised its forecast from 7% to 6.5%. In their latest reports – which had been drafted before the full extent of SARS was revealed by China's health authorities – the World Bank and the OECD seem more concerned about public debt, the increasing wealth gap and the lack of support to a nascent private sector than about SARS. The World Bank predicts China's growth will slow to 7.2% this year from 8% in 2002. The OECD forecasts growth of 7.7% this year, slowing to 7.1% in 2004.

Even if the virus can be prevented from spreading around the world, events in China alone will have considerable **fallout on the world economy**, i.e. on global trade, foreign multinationals with large exposure to Asia and global investment flows. Last year, China's trade expansion alone accounted for more than one fifth of the increase in world merchandise exports and imports. More than half of the world's silicon chips and 85% of its personal computers are assembled in Asia. Foreign fund houses hit the panic button over the SARS outbreak and cut their exposure to Asia. Asset allocators in London and New York were deciding to sell first and ask questions later about the impact of the outbreak on regional economies and corporate earnings. Fund managers worldwide are concerned that Asia's new growth locomotive, China, was being derailed as it came clean about the extent of the SARS outbreak.

One analyst said the SARS emergency highlights the struggle of China's leaders to reconcile their secretive, authoritarian politics with the needs of an increasingly international, market-driven economy. Moreover, the current crisis also draws attention to the price China inevitably has to pay for its one-sided focus on economic growth. For years, the government has paid little attention to its rural health-care system, which has been run down even as the country grew wealthier. Last October, Vice-Premier Li Lanqing told a national rural health conference: "The possible spread of contagious diseases and endemic diseases would cause consequences that are too dreadful to think of; and such diseases not only mean a catastrophe for the families of sick peasants but will also cause great harm and heavy losses to the state and society."

*Jürg Lauber, Counsellor
Embassy of Switzerland Beijing
(end of April 2003)*

Information on SARS

Severe Acute Respiratory Syndrome (SARS)

General sources

Swiss Federal Office of Public Health

www.bag.admin.ch/infekt/d/sars.htm (german)

www.bag.admin.ch/infekt/f/sars.htm (french)

World Health Organisation

www.who.ch

Site with up-dates of various sources

www.sinoptic.ch/sante/ (various languages)

For Swiss community in China & Hong Kong

Embassy of Switzerland Beijing

www.sinoptic.ch/embassy/sars/de/ (german)

www.sinoptic.ch/embassy/sars/ (english)

www.sinoptic.ch/embassy/sars/fr/ (french)

Swiss Consulate General Shanghai

www.sinoptic.ch/shanghai/sars/

Department of Health Hong Kong

www.info.gov.hk/dh/ap.htm

www.info.gov.hk/info/ap/pdf/v_german.pdf

Foreign Affairs Office, Municip. of Beijing

(SARS-cases in Beijing listed by districts
and information on the measures introduced)

www.bjfa.gov.cn/index.html

Repatriation

The media reported that "Rega" is not repatriating Swiss patients with SARS symptoms.

MedAire could offer such service. Consult their website or office directly:

MedAire

Special site on SARS

www.medair.com/

www.medaire.com/travel_alert.html

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Dear Readers



Since our last Bulletin many things have changed. Representing the companies and members involved or interested in China, the Chamber was contacted by and has dealt with various sources for information and advice almost unceasingly – mainly due to SARS.

Planning has become difficult and in order not to waste resources, decisions had often to be made by intuition. We had to cancel an event for Zurich, Lugano and Geneva in order to avoid empty seats for example. We had to give many interviews to the media without getting into the trap of speculations, we had to watch the daily developments, check out the sources etc. etc.

Yet, the year has started very promisingly. Our joint all-day seminar with SIB on “China for SMEs” with 87 participants late January was a great success. The visit of H.E. Swiss Ambassador Dominique Dreyer in Zurich in February attracted about 300 participants. Hong Kong government and trade representatives welcomed together with the Chamber about 150 guest to the Chinese New Year reception at the Grand Hotel Dolder in March. The first draft of the Bulletin was filled with great reports and positive outlooks. Well, everything had to be reviewed and many topics and plans had to be deleted or at least postponed.

Without moving, nothing is going to move; simple, yet some times difficult to put into reality. On the other hand, why not use the time to review things, to look at them from a different angle. It's surely the time for proactive changes too. This issue also includes an article on how you can boost your immune system instead of watching all those negative figures or news. And in this spirit, I wish you all the necessary strength and success in handling the present challenges!

Looking forward to seeing you soon at the General Assembly, I remain with warm regards

Susan Horváth
Managing Director, Member of the Executive Board

Next Events

Annual General Meeting

followed by a speech by our guest of honour

Dr. Kurt E. Stirnemann

Chairman of the Executive Committee of Georg Fischer AG
Chairman of the Board of Directors of Agie Charmilles Holding AG

Tuesday, 27 May

10:30 a.m. to 2 p.m.

Zunftthaus zur Zimmerleuten

Limmatquai 40

8001 Zurich

“Herausforderung China”

Chancen und Risiken aus wirtschaftlicher und interkultureller Sicht

**with Counsellor Jürg Lauber
and Consul General Hans Jakob Roth**

All-day seminar in Zurich

Thursday, June 19

Zunftthaus zur Zimmerleuten.

Invitation to follow in due time.

Zurich Legal Chapter

Wednesday, 20 August

Wednesday, 19 November

Time: 10:30h till 13:00h (sandwich lunch)

Venues and topics to be announced later.

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Members of the Chamber can publish articles about their company for free. Look for deadlines on page 1 in each issue.

The Bulletin is also available in China and on the Chamber's website: www.sccc.ch

New Members

Zurich since January 2003

Kerr-McGee Pigments International GmbH	Zurich
Rüedi, Marc	Bubikon
Leica Microsystems (Schweiz) AG	Heerbrugg
Dr. Wickihalter, Rolf L.	Zurich
Dr. Meier, Volker	Thalwil
Aronsky, Martin	Zollikerberg
Jamont GmbH	Dürnten
Brothers & Sisters GmbH	Zurich
TSN AG	Muttenz
Marcel's Maschinen AG	Höri
Encotex Group	Ziegelbrücke

Geneva since December 2002

Solo Fours Industriels SA	Porrentruy
Glion Institute of Higher Education (G.I.H.E.)	Glion-sur-Montreux
Orloff, Alexandre	Pully
Claudon, Wenqi	Chavorney
Banque Cantonale de Genève	Geneva
Gao-Plumez, Zhuoyan	Geneva
Sunlight Act S.A.	Geneva
Valsider S.A.	Yverdon-les-Bains
Colmar, Yvette	Ollon
Europe-China Management Improvement Foundation (ECMI)	Carouge
Ubbesen, Chris	Pully
Minotel	Lausanne
Veillard, Adrien	Jouxten-Mézery
Publigroupe S.A.	Lausanne
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*If you have any further questions, please contact Ms. Selena Lin: +86 21 2890 3330.
Your Swiss-ASIA Consulting Team.
www.swiss-asia.com*

New Safety Mark

The China Compulsory Certification System (CCC) which should have become effective on May 1st 2003 has been postponed to August 1st 2003 for both domestically made products and for imports.

This Product Safety License System is administered by The State Administration of the People's Republic of China for Quality Supervision, Inspection and Quarantine and it replaces existing certificates, including CCIB and CCEE. The Chinese Government claims that the new regulations will raise product quality standards in the affected categories closer to those of the US and Europe.

Currently 19 product groups ranging from electrical apparatus to automobiles are covered by this scheme of mandatory certification and individual products need to bear the certificate prior to market access. Imported products without the CCC mark may be held at the border by Chinese customs and be subject to penalties.

Industry sources say that the system is bureaucratic, overdone and costly because, for example, mandatory certifications in foreign countries (e.g. EC norms) are only partly recognized, thus making it necessary for imports to be re-examined and re-approved. This also applies for goods not made in China, e.g. Porsche cars. Additionally, inexperience and shortage of staff for the mandatory factory inspection in the home country make implementation challenging.

*For a list of the first catalogue of products subject to compulsory certification see:
www.fiducia-china.com/information/library*

Economy 2002 – Strong Year of the Horse



China's 2002 GDP grew 8% to US\$ 1.23 trillion, driven by robust domestic consumption, booming exports and a rush of foreign investments. Industrial output hit US\$ 380 billion, registering a 12.6% year-on-year increase. The growth of heavy industry was 13.1%, that of light industry 12.1%. The output of state-owned enterprises rose 11.7% and that of overseas-funded companies grew 13.3%.

Seven major industries, including electronics and telecommunications, transportation equipment, chemical products, textiles and machinery accounted for 58.5% of industrial output. Exports handled by the industrial sector increased 23.4%.

China's foreign trade reached US\$ 620.79 billion. Exports rose 22.3% to US\$ 325.57 billion, and imports grew 21.2% to US\$ 295.22 billion, resulting in a trade surplus of US\$ 30.35 billion. Bilateral trade between China and Japan hit a record of US\$ 101.91 billion, making Japan China's largest trade partner for the 10th consecutive year. Foreign exchange reserves stood at US\$ 286.4 billion at the end of 2002, an increase of US\$ 74.2 billion over the previous year.

Foreign direct investment in China reached a record US\$ 52.74 billion, an increase of 12.51% over 2001, as the country's membership in WTO helped attract international investors. Pledged foreign investment increased 19.62% to US\$ 82.77 billion. China's booming car mar-

ket attracted a strong share of foreign investment, with foreign car makers fighting for position and increasing production.

Foreign companies are not only bringing funds, technology and management experience to China, but also provided 5.5 million new jobs in the past five years. Jobs provided by foreign companies increased from 17.5 million in 1997 to 23 million currently, according to MOFTEC. In the past five years, 50,000 new companies set up offices in China, bringing the total number of foreign companies to 424,196 with actual investments of US\$ 447.96 billion. As China gradually lifts restrictions in line with WTO agreements, more foreign investment will come into such fields as banking, tourism, commerce, hospitals and education.

China's tax revenue rose a year-on-year 12.1% to US\$ 204 billion in 2002, according to the State Administration of Taxation. The revenue was equivalent to 16.7% of China's GDP. Revenue from value-added taxes stood at US\$ 75.6 billion, while that from consumption taxes reached US\$ 12.6 billion. Personal income tax was US\$ 14.5 billion, up US\$ 2.5 billion from the previous year. Enterprise income tax paid by foreign-funded firms climbed by US\$ 1.3 billion to US\$ 7.4 billion.

*Summary by Paul Wyss
Vice President SCCC*

China's First Quarter Results

China's economy grew 9.9% (GDP) to CNY 2,356 trillion in the first three months of this year. It was the fastest growing quarter since 1997.

China's total foreign trade volume was USD173.66 billion, up 42.4% compared with the same period last year. Imports stood at USD87.34 billion, up 52.4%, while ex-

ports reached USD86.32 billion, up 33.5%, resulting in the first quarterly trade deficit (USD1.03 billion) in seven years. Actual foreign direct investment hit USD13.09 billion, up 56.7% from a year earlier. Contracted foreign investment, an indicator of future trends, rose 59.6% to USD22.98 billion.

Advertisement
DiethelmKellerSiberHergner (DKSH)

Fixed asset investment, China's benchmark measure of capital expenditure, rose 27.8% year on year to CNY616 billion.

Tax revenue rose 26.6% to CNY500.7 billion. Income from all major types of tax increased, with VAT and business tax up 20% to CNY288.1 billion. Income tax revenue from Chinese companies, foreign-funded companies and foreign individuals rose 29% to CNY110.8 billion. Import tariff revenue jumped 70.2%.

Industrial output reached CNY834 billion, up 17.2%, with SOE production rising 16.4%, and foreign enterprises production up 20%. Six major industries including telecommunications, computers, electronics and transportation equipment led the fast rise. Industrial output is an important indicator of China's economic development as it contributes about 60% to GDP.

Forex reserves reached USD316 billion, up 38.8% from the same time last year. China's consumer price index (CPI) rose 0.5% in the first three months, the first positive growth since November 2001. Retail sales rose 9.2% over the same period last year to reach CNY1.1 trillion, with most of the growth coming from urban spending on housing, automobiles, medical and entertainment services.

Per capita disposable income of China's urban residents stood at CNY2,355 (up 8.4%) and that of rural people stood at CNY737 (up 7.5%) (source: PRC Government and media).

The first-quarter results beat market forecasts, which centered on a rise of 8.2%, and also clearly surpassed the 8.1% increase of GDP in 4th quarter of 2002. Officials refer to the strong economic growth as a result of the central government's efforts to boost domestic demand, and they see indications that the Chinese economy has entered a new period of accelerated development. They admit, however, that some problems still exist, such as over-investment in some industries and consistent over-capacity and oversupply in others. Also, rural consumption levels are still too low. Worried about sustaining growth, the government continues funnelling massive funds into state banks, thereby undermining the banks' discipline in according loans to non-performing SOEs. Clearly, the Chinese economy still depends to a large extent on fixed asset investment for growth, whereas consumption lags behind. This unhealthy growth structure is hardly sustainable.

*Summary by Jürg Lauber, Economic Counsellor
Embassy of Switzerland, Beijing*

Recent Foreign Investments / Joint Ventures

USA

FORD MOTOR CO opened its first car factory in Chongqing and began assembling its Fiesta compact sedan. Ford lags behind the leader in China, Volkswagen, which has 41% of the market, and behind its arch-rival General Motors with 10% of the Chinese market. The Ford factory is relatively small, being able to turn out 50,000 cars initially, to be expanded to 150,000 units. Ford plans to open 26 dealerships in 18 Chinese cities by June.

GENERAL MOTORS plans to roll out a new car in China after sales doubled to 100,000 cars in the first 11 months, placing Shanghai GM among the top three domestic passenger car makers with a market share of 8.6%.

ENGELHARD CORPORATION, mineral and chemical firm, spent 100 million yuan on full control of state-owned Anping Kaolin Company, a key kaolin producer in Shanxi province. Kaolin mineral products are used to produce nylon, rubber, plastic, electrical wires. Anping Kaolin Ltd. currently has an annual capacity of 18,500 tons which will be expanded to 30,000 tons in three years.

NEWSWEEK INC. plans to launch a Chinese language edition in China and Hong Kong starting sometime in 2003. Newsweek Select will be published

monthly in cooperation with SinoWorld CNW Publishing, a subsidiary of Hong Kong's Vertex Group. The magazine will be printed in Hong Kong.

CITIGROUP signed a deal with Shanghai Bading Property Development Co Ltd to move its headquarters to Pudong's Lujiazui zone. Construction of the 42-floor building, to be named Citigroup Tower, is expected to be completed by 2005. Citigroup will take four floors; a Citibank retail branch will be opened on the building's ground floor. After Hong Kong and Shanghai Banking Corp. (HSBC) this will be the second building named after an international financial institution.

CITIBANK has won approval to buy 8.26% of the Shanghai Pudong Development Bank for US\$ 112 million. The deal will allow Citibank to use Pudong's network of 272 branches in 30 Chinese cities to promote credit cards and other products.

NEW YORK LIFE INSURANCE CO, largest U.S. mutual life insurer, won approval to sell life insurance in Shanghai with local partner Haier Group, China's largest electric appliances maker. The two companies invested a combined US\$ 24 million in Haier New York Life Ltd, with each owning an equal stake. For now, foreign in-

(continued on page 12)

Bilateral Trade between Switzerland and China

January – December 2002 (in Mio. CHF)

CHINA (mainland)

	Exports from CH	change %	share %	Imports to CH	change %	share %
Total	2,044.9	22.7	100.0	2,197.5	-2.2	100.0
Agricultural products	11.6	27.3	0.6	69.2	-36.5	3.1
Energy media	0.1	-41.1	0.0	0.2	-35.3	0.0
Textiles, apparel, shoes	25.8	6.3	1.3	630.3	-9.2	28.7
Paper, paper products, printed matter	7.7	54.9	0.4	8.9	-13.2	0.4
Leather, rubber, plastics	32.6	90.3	1.6	130.4	-7.0	5.9
Chemicals, pharmaceuticals	317.3	1.3	15.5	266.0	6.2	12.1
Construction materials, ceramics, glass	5.4	-22.1	0.3	22.5	10.2	1.0
Metals and metal products	82.3	39.4	4.0	106.1	6.7	4.8
Machinery, apparatus, electronics	1,260.3	19.5	61.6	438.4	5.7	19.9
Vehicles	62.9	137.8	3.1	19.4	-20.0	0.9
Precision instruments	128.2	25.6	6.3	72.3	11.5	3.3
Watches	94.2	161.4	4.6	183.4	2.3	8.3
Other Goods	16.5	28.4	0.8	250.4	4.4	11.4
Trade Balance	-152.6					

Hong Kong

	Exports from CH	change %	share %	Imports to CH	change %	share %
Total	2,996.7	4.9	100.0	576.6	-2.5	100.0
Agricultural products	29.6	-9.8	1.0	1.8	-44.2	0.3
Energy media	0.2	-94.3	0.0	0.0	-	0.0
Textiles, apparel, shoes	99.6	20.3	3.3	68.9	7.0	12.0
Paper, paper products, printed matter	17.9	59.2	0.6	1.5	-44.9	0.3
Leather, rubber, plastics	49.5	-10.1	1.7	4.6	-9.9	0.8
Chemicals, pharmaceuticals	424.5	1.1	14.2	7.1	52.3	1.2
Construction materials, ceramics, glass	14.2	-17.7	0.5	1.2	0.8	0.2
Metals and metal products	48.5	-19.0	1.6	9.6	-17.2	1.7
Machinery, apparatus, electronics	350.1	-3.6	11.7	71.6	-9.4	12.4
Vehicles	0.2	-81.3	0.0	0.3	-49.0	0.0
Precision instruments	68.5	-7.7	2.3	11.7	-14.2	2.0
Watches	1,546.8	2.6	51.6	243.1	-20.2	42.2
Other Goods	347.1	51.9	11.6	155.2	54.0	26.9
Trade Balance	2,420.1					
Total (China incl. Hong Kong)	5,041.6			2,774.1		
Total Trade Balance	2,267.5					

Source: Swissmem

insurance companies can set up businesses in fewer than ten Chinese cities and they must have a Chinese partner.

FORBES MAGAZINE will set up an editorial bureau in Shanghai to launch its Chinese edition.

ROHM & HAAS, one of the world's largest manufacturers of specialty chemicals, set up a scholarship at Shanghai East China University of Science and Technology. The scholarship, which will award US\$ 12,000 to university students every year, aims to foster professionals for the chemical industry.

NASDAQ established a Representative Office in Shanghai in October 2002, just at the time it announced it was pulling out of Japan. The establishment of the Shanghai office and the cooperation agreement reached with the Hong Kong Security Regulatory Commission indicate the importance of China within Nasdaq's expansion strategy.

KORN/FERRY INTERNATIONAL, leading executive recruitment firm, got approval from the Chinese government to launch a joint venture in Beijing with China International Economic Consultants Co Ltd. International recruitment firms have been waiting for permission to do business in China.

UNITED PARCEL SERVICE (UPS) intends to increase the number of its regional offices to around 20 by the end of 2003. The world's leading express carrier aims to establish a national service network centred in Shanghai. It currently has offices in Shanghai, Qingdao, Shenzhen and Xiamen.

ETHAN ALLEN INTERIORS INC., largest U.S. furniture retailer, opened its first 14,500 square-foot showroom in Tianjin as part of an agreement with Markor Furniture International. Two more stores will open in Beijing and Urumqi next year. Urumqi-based Markor will operate the stores as a licensee.

KENTUCKY FRIED CHICKEN (KFC) recently opened its first drive-in restaurant in Beijing, a city with 620,000 private cars. Designed exclusively for drivers, the restaurant has a 100 meter drive-in lane, separate windows to order and pick up food. A driver would only need four minutes to order, pay the bill and pick up his food, an executive of KFC said.

AVIS, through Avis Europe, established a car rental joint venture with Shanghai Automotive Industry Sales Corp. (SAISC). The new venture, Anji Car Rental & Leasing Co. Ltd., is jointly owned (50:50%) by the two partners and has a registered capital of US\$ 22 million. The company will take over about 1,000 vehicles from SAISC and operate under the brand of "AVIS".

CORNING, the world's largest producer of fibre-optic and cable products, established a new joint venture: Beijing CCS Optical Fibre Cable Co. Ltd. Based in Beijing's Economic and Technological Development Zone, BJCCS is the product of Corning's acquisition of Beijing Lucent Technologies Fibre-Optic Cable Co. Ltd.

MORGAN STANLEY and two Chinese partners will pour about US\$ 22 million into the Inner Mongolia-based Mengniu Dairy Company. Morgan Stanley will be the largest shareholder with an investment of US\$ 18 million. Mengniu has the fourth-largest market share in the dairy sector.

AMERICAN EXPRESS, which opened a business travel centre in Shanghai in December 2002, is to open another in Guangzhou. Amex estimates that Chinese companies and multinationals with operations in China already spend US\$ 4-5 billion a year on business travel. It expects that figure to grow strongly over the next five years.

KODAK (CHINA) CO has announced sales of one million cameras in China in 2002, more than anywhere else in the world. The company has more than 5,000 outlets in Chinese cities, and plans to open another 10,000 this year.

GOLDMAN SACHS, U.S. investment bank, announced that it had completed the purchase of US\$ 230 million of non-performing loans in a venture with Huarong Asset Management Company. Goldman Sachs did not say how much it paid to take over the bad debts, but it is likely to be about ten percent of the face value.

GENERAL ELECTRIC POWER SYSTEMS, a unit of General Electric, will set up a US\$ 13.6 million oil and gas equipment service joint venture with a state-owned enterprise in Shenyang, Liaoning province. Once completed, this transaction will mark the first investment project for GE Power Systems in China.

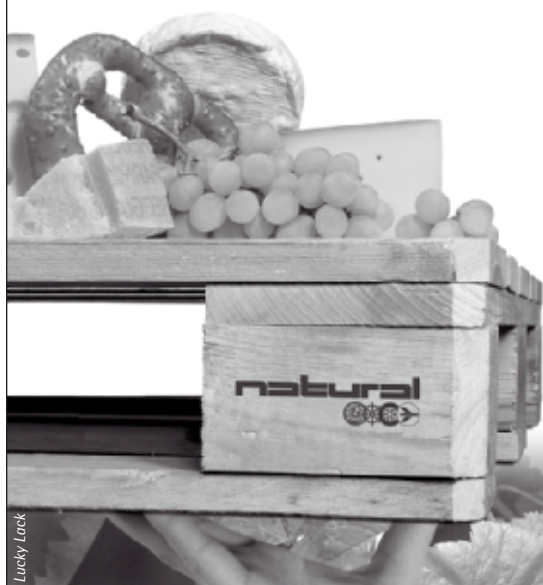
CANADA

CAE INTERNATIONAL HOLDINGS and China Southern Airlines launched China's first joint venture aviation training center, the Zhuhai Xiangyi Aviation Technology Co Ltd. The two partners invested 51% and 49% respectively of the total US\$ 29.8 million. The center will provide services to both domestic and international airlines.

HONG KONG

STAR TV has won approval for a big expansion in China, bringing Mr. Murdoch a step closer to his ambition of broadcasting Chinese language programmes across the country. The deal provides permission to beam the Mandarin language entertainment channel to all hotels above three stars and into residential compounds where foreigners and overseas Chinese live.

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TAIWAN

TAIWAN SEMICONDUCTOR MANUFACTURING (TSMC) became the first Taiwanese chipmaker to win approval of Taiwan's ministry of economic affairs to invest in a fabrication plant in China. The government had conditionally removed restrictions last year and TSMC applied in September to invest US\$ 200 million in a wafer plant in Songjiang near Shanghai.

KOREA

SAMSUNG ELECTRONICS is cooperating with Beijing Wanhai Technology Co Ltd to explore China's laser printer market. To guarantee the quality and enhance after-sales service, Wanhai-Samsung Club was set up. Samsung laser printer agencies register as members of the club and operate in accordance with its specific requirements.

IN 2001, for the first time, South Korea invested more money, US\$ 830 million, in China than in the United States. Also for the first time, China replaced the U.S. as South Korea's largest trading partner, with two-way trade

exceeding the US\$ 100 billion mark. In 2001, also for the first time, more Chinese, 444,113, visited South Korea than Americans.

JAPAN

HONDA MOTOR plans to double its output in China in 2003. Guangzhou Honda, the joint venture with Guangzhou Automobile Group, will produce and sell 110,000 vehicles, up from 59,000 in 2002.

NIPPON LIFE INSURANCE CO. looks set to become the first Japanese life insurer to sell policies in China. Osaka-based Nippon Life, the largest life insurer in Japan, is negotiating with Shanghai SVA Information Industry Co. Ltd., a leading electronics manufacturer, to establish a joint venture life insurance company in Shanghai. The 50:50 company is expected to be set up with an initial investment of US\$ 41.9 million.

(continued on next page)

THAILAND

CHAROEN POKPHAND GROUP, owned by one of Thailand's richest families, plans to spend about US\$ 650 million in three years opening 100 Lotus Superstores in China that may surpass investments by larger overseas rivals such as the French Carrefour. Charoen Group has been investing in China since 1979, so it has very good relations with the government, giving it an edge over other foreign retailers.

CHIA TAI GROUP announced in Chegdu that starting from next year it will invest US\$ 100 million in wine grape production, food processing, the beverage industry in Sichuan. Chia Tai Group was the first foreign firm to invest in Sichuan province after China started reforms in the late 1970s. Since 1985 the group has established 11 solely funded firms.

GERMANY

VOLKSWAGEN expects to sell more cars in China than in the U.S. this year for the first time. January/November sales topped 416,000 vehicles and this year's total is expected to reach 500,000. Volkswagen was the first foreign carmaker to set up a plant in 1985. It will introduce its Golf and Polo models next year and expects to double annual sales to 1 million units by 2007.

SCHENKER and Beijing International Technological Cooperation Centre reached an agreement to establish a logistics joint venture in Beijing operating with a Class A licence for international forwarding. The new company will be among the first to apply for foreign majority holding in the industry. 70% of the capital will come from Schenker. The company will build a 6,000 square metre logistics centre near Beijing International Airport.

BAUSPARKASSE SCHWAEBISCHE HALL and China Construction Bank received approval from the People's Bank of China to establish Sino-German Housing Savings Bank Co Ltd in Tianjin Municipality. It will have a registered capital of US\$ 18.1 million, with CCB owning 75.1% and Schwaebische 24.9%. The new savings bank will adopt the central bank's fixed interest rate.

MESSER GROUP, one of the world's oldest gas production companies, which began investing in China in 1994, has set up 14 enterprises with a total investment of US\$ 172 million. Its latest move is the construction of a new air separation unit by its joint venture in Hunan province called Xianggang Messer Gas Products Co. Ltd. involving an investment of US\$ 10.8 million, the project will be operational by the first quarter of 2004. Demand for natural gas is on the rise in China with double-digit growth.

TUI, German tourism giant, will set up a joint venture travel agency in Beijing with China Travel Service (CTS). TUI will hold the majority of the shares. The company brought 40,000 tourists to China in 2001. CTS already has a joint venture agency with American Express.

TRANSRAPID CONSORTIUM (Siemens, Thyssen Krupp, the German Government), after the successful first run of its magnetic levitation train between Pudong and Shanghai's financial district, announced China had agreed to extend the line southward to Hangzhou and northwards to Nanjing, totalling an estimated 306 km at a cost of US\$ 5 billion. The test track was built in a record time of 2 years.

DEUTSCHE POST announced that it is considering buying a share in logistics firm China National Foreign Trade Transportation Group, known as Sinotrans. The Chinese Government is planning a Sinotrans initial public offering, and if it is possible for foreign companies to participate, Deutsche Post is interested. Deutsche Post subsidiary DHL is already a market leader in the express business segment in China with a market share of about 40%.

FRANCE

VIVENDI UNIVERSAL S.A. and local partners agreed to build a US\$ 870 million theme park in Pudong/Shanghai. State-owned Waigaoqiao Group and hotel firm Shanghai Jinjiang Group will hold a majority stake. Vivendi will hold a share of about 30%. Vivendi Universal is also in talks about a theme park in Beijing which officials hope to complete by 2008 when the city hosts the Summer Olympic Games.

SCHNEIDER ELECTRIC, leading power specialist, engaged in China since 1979, now has 3 branches, 26 regional offices, 12 joint ventures, 3 logistic centres, 2 training centres and one research centre. It recently inaugurated a new workplace, Schneider Shanghai Distribution Centre.

HOLLAND

ING GROUP announced that its life-insurance joint venture with Beijing Capital Group, named ING Capital Life Insurance Co. Ltd. in Dalian, has started business. ING and Beijing Capital Group each own half of the equity of initially US\$ 24 million. ING's Dalian operation is the company's second life insurance joint venture in China. The group has already launched Pacific Antai Life Insurance Co. Ltd. with Shanghai-based China Pacific Insurance Co.

ABN AMRO ASSET MANAGEMENT has agreed to buy a 33% stake at an undisclosed price in a Shanghai-based fund management company, an acquisition that puts the Dutch group on course to become the first foreign fund management company to conduct business in the US\$ 500 billion A-share market.

DENMARK

LEGO, maker of the famous building blocks, won a landmark court case against the Chinese company it accused of copying its products. Lego filed suit in 1999 against Coko Toy Co of Tianjin and won a favourable judgement from Beijing High People's Court, a ruling that could have positive implications for other companies in China as it confirms copyright protection of industrial design and applied art.

FINLAND

STORA ENSO, leading producer of magazine paper, fine paper and boxboard, is shifting its Asia-Pacific headquarters to Shanghai from Singapore as it considers a new US\$ 1.6 billion investment in China. In 1998 Stora Enso acquired a majority holding of the Stora Enso Suzhou Paper Co Ltd. The Suzhou company is one of the largest and most technically advanced paper manufacturers in China.

MPS, human resources company will establish a joint venture with Shanghai Weiye Human Resource Development Co. Since April 2002 Shanghai has officially al-

lowed overseas-funded joint ventures in the human resource sector to be set up. So far no timetable has been set for foreign firms to establish wholly-owned companies.

SWITZERLAND

NESTLE celebrated the 10th anniversary of its NESCAFE factory in Dongguan, Guangdong province. The factory is part of Nestlé Dongguan Ltd., a company now wholly owned by Nestlé which has committed more than 50 million Yuan to technical assistance for coffee growing in Yunnan province since 1992.

LEICA GEOSYSTEMS, surveying and geomatics technology group, with annual sales in China worth about CHF 40 million, 26 service centers and seven repair centres, recently built an R&D centre in Shanghai.

INTERNATIONAL RED CROSS, humanitarian organization based in Geneva, will open a regional delegation office in Beijing, covering South and North Korea and Mongolia.

Summary by Paul Wyss

First Sino-Foreign JV Fund Management Co.

Active Utilization of Foreign Fund to Develop Chinese Enterprises

Sino-Swiss Venture Capital Fund Management Co., Ltd. officially starts operation in Beijing

Sino-Swiss Venture Capital Fund Management Co., Ltd. (SSVC), the first Sino-Foreign joint venture fund management company established in China, held its official opening ceremony on March 19, 2003 in Beijing. Being the Chinese partner in this new joint venture Company, China Development Bank (CDB) evolves its practice in direct investment that has developed a new way to support Chinese enterprises with foreign funds, which symbolizes the new break-through of the overall operation exploitation of CDB. Dominique Dreyer, Swiss Ambassador to China, and Chen Yuan, the Governor of China Development Bank attended the opening ceremony.

SSVC was established jointly by the China Development Bank and the State Secretariat for Economic Affairs of Switzerland (SECO). Registered in Beijing, the Company has the registered capital of ten million Renminbi subscribed by CDB and SECO with their respective contribution of 67 percent and 33 percent. Its business involves in managing the Sino-Swiss Partnership Fund (SSPF) and providing the relevant advisory services.

Both shareholders expressed that SSVC will take the advanced management experience of the international venture capital funds for reference and regularly operate

pursuant to the principle of honesty and trustworthiness so as to be qualified as a first-class direct investment fund management company and actively develop opportunities to qualify itself for initiating new funds.

As the initiators of the SSVC, CDB and SECO are also the initiators of the Sino-Swiss Partnership Fund, the first Sino-Foreign direct investment fund in China. SSPF was established in accordance with the Memorandum of Understanding signed between the Government of the People's Republic of China and the Government of the Swiss Confederation aiming at enhancing the cooperation and the transfer of technologies between Chinese and Swiss companies so as to strengthen the economic development and business cooperation Between China and Switzerland. The establishment of the SSPF was approved by the People's Bank of China and it obtained the business license in January 1998 in Beijing. In its first tranche of the registered capital, which was CHF 31.25 million, SECO and CDB contributed 80 percent and 20 percent respectively. After establishment, the SSPF has made investment in a number of Sino-Swiss and Sino-German

(continued on next page)



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joint venture companies located in cities of Shanghai, Beijing and Zhejiang, Jiangsu, Sichuan, Anhui, Guangdong and Shanxi provinces. The investments are involved in the sectors including electric component, building materials, medicine, medical devices, auto parts, light industry products and new materials and so on. By now, some investments have generated good economic benefits and shown satisfactory prospects. The first tranche of the registered capital has been fully invested so far. Both shareholders are now in the process of arranging the contribution of the second tranche of the capital, CHF 31.25 million. Before the establishment of SSVC, the SSPF was managed by the China Development Bank.

Dominique Dreyer, Swiss Ambassador to China, stressed in the opening ceremony that the Sino-Swiss Venture Capital Fund Management Company is another pioneer achievement in Sino-Swiss economic co-operation and

a contribution to the further development of the excellent bilateral relations between Switzerland and the People's Republic of China..

Chen Yuan, Governor of China Development Bank expressed in the opening ceremony that it is the mutual objective of two shareholders to make SSVC become a first-class fund management company and accumulate experience and expertise in managing direct investment funds so as to actively contribute to the development of direct investment funds in China.

For further information, please contact:

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Zurich, Switzerland
(direct phone +41-1-249 28 88)
www.sofi.ch*

Changes in Foreign Exchange Management

China's State Administration of Foreign Exchange (SAFE) has announced significant liberalization of the foreign exchange system for foreign companies operating in China. The rules come into effect from 1 April 2003 and represent an improved investment climate. Major measures being introduced are:

New accounts system is introduced into the banking system

In addition to the Settlement and Capital Accounts, foreign investors will now be allowed to open Multi-Currency Investment Accounts for the purpose of undertaking construction and engineering contracts, exploration of natural resources and risk investments (portfolio investors and venture capitalists). Specialized accounts are also to be permitted for acquisition of assets, expenditure related to market survey, planning and provision of guarantees.

A new category of Offshore Accounts is introduced to facilitate the transfer of investment funds from a foreign investor into an existing foreign invested enterprise. Such transfer will not require SAFE approval if a capital receipt certificate has been issued. The new bank accounts system will benefit foreign companies without a presence in China but with business dealings in the domestic market.

New sources of foreign capital

In the past, foreign investors' contribution of capital would only be confined to convertible currencies, imported equipment, intellectual properties and RMB profit after tax. From April 2003 on, they will be allowed (subject to SAFE approval) to contribute new investments in the form of reserve funds from the original foreign invested enterprise, undistributed profits, unrealized investment returns, proceeds from the sale of shares or assets for re-investment as well as their own foreign exchange maintained in a domestic bank account onshore.

Foreign investors can pay for the acquisition of new shares in Chinese companies by remitting capital from abroad or by utilizing RMB profits generated from China operations and other legally owned assets. This is subject to approval from SAFE.

New Approval for Investment under 25% Foreign Equity

Retrospectively from January 1, 2003, foreign invested enterprises (FIEs) in China (which include those invested by investors from Taiwan, Hong Kong and Macao) with foreign equity under 25% now will be able to be classified as FIEs, a new category known as – "FIEs with foreign investment of less than 25%". Previously only companies with foreign equity participation of 25% or above were able to be classified FIEs.

The Ministry of Foreign Trade and Economic Cooperation (MOFTEC), the State Administration of Taxation, the State Administration for Industry and Commerce and the State Administration of Foreign Exchange have jointly issued the "Notice Concerning Issues Relevant to the Strengthening of the Examination and Approval, Registration, Foreign Exchange and Taxation of Foreign Investment Enterprises".

New FIEs which seek the new classification should go through MOFTEC approval but are not entitled to any preferential taxation treatment. Enterprises which were established prior to this Notice and have foreign equity participation under 25% can apply to MOFTEC and complete the relevant examination and approval registration procedures within 6 months. Enterprises that fail to meet the deadline will be penalised according to Article 63 of the "Regulations for the Administration of Company Registration".

This new category of investment will provide foreign investors with more flexibility to determine their own level of investment and risk exposure.

*For further information please contact:
Fiducia Management Consultants
www.fiducia-china.com*

In Brief

- China overtook Britain and Germany in 2001 in the number of overseas tourist arrivals, according to the World Tourist Organisation. China was the world's fifth most popular destination with 33 million visitors, up 6.2% from 2000. The International tourism income reached US\$ 17.8 billion.
- Also the domestic tourism sector remained strong, before China was affected by the SARS virus. By the end of 2001, the total number of domestic tourists reached 784 million. 2001 also saw the number of Chinese tourists going abroad reaching 12 million, up 11% from 2000.

- In the first nine months of 2002 China overtook the United States as the world's largest steel importer, with 23 million tons compared with 22 million tons imported into the U.S. The gap is expected to widen in 2003.
- China in 2002 replaced the United States as the largest exporter to Japan with soaring shipments of personal computers and television sets. It also topped the 4.51 trillion yen from the European Union.
- The United States is working closely with China in fighting terrorism by establishing a US Federal Bureau of Investigation (FBI) Office in the US embassy in Beijing. China reserves the right to establish a corresponding institution in the United States.
- The Beijing city government has banned spitting in public and littering as part of a campaign to spruce up the capital. Anyone posting unauthorized leaflets or advertisements can be fined 1,000 Yuan. Those caught spitting or littering can expect to be fined between 20 and 50 Yuan.
- Shanghai has won a hard-fought competition to host the 2010 World's fair. The city estimates it will directly invest some US\$ 3 billion in the site, with spin-offs for other businesses such as telecommunications and construction projects. Shanghai hopes to attract 70 million Chinese and foreign visitors to the fair.
- The Chinese media industry has overtaken the tobacco industry with annual profits of over US\$ 12 billion to become the fourth largest industry in China. Advertising income from TV, newspapers and magazines reached new highs of US\$ 8.1 billion, US\$ 2.9 billion and US\$ 200 million respectively. Broadcasts now cover 93% of the population and TV is available throughout 94% of China, creating an audience of over 1 billion people.
- The number of Chinese telephone users had reached 413 million by the end of November 2002, the Ministry of Information Industry said. Fixed-line telephone users stood at 200.3 million, an increase of 4.5 million from October, and the number of mobile phone users was 212.7 million, an increase of 3.7 million from the October figure.
- China's fast-growing car market will get a boost with the passing within months of regulations approving the establishment of local and foreign auto financing firms. China's passenger car sales topped 1.1 million vehicles in 2002, an increase of more than 50% over 2001. A number of foreign car makers have already applied for auto financing licences.
- China and Hong Kong will allow people to cross their second-busiest border around the clock. Lok Ma Chau in northwestern Hong Kong will be open 24 hours from January 2003. The move will cut waiting times at the checkpoint. The 24-hour border is also expected to boost Hong Kong's tourism. In October 2002 almost 670,000 people from China visited Hong Kong.
- China will launch a system to improve its overseas investment with appraisals jointly carried out by MOFTEC and the State Administration of Foreign Exchange. The annual appraisals will assess the efficiency of capital operations and asset quality. In the past, the lack of a tracking system, among other reasons, caused some investments to perform badly. China has signed double-taxation agreements with 66 countries and investment-protection agreements with 103.
- According to the Minister of the State Family Planning Commission, China will work hard to ensure its population does not exceed 1.4 billion before 2010. He predicted that the population will increase by an average of 10 million a year by 2010. The number would not fall until it reached a peak of 1.6 billion in the middle of the 21st century. Family planning projects financed by the United Nations have been implemented in 30 counties and cities.
- By the end of November 2002, 52 companies had filed a total of 117 bidding papers for the 2008 Olympic facilities in Beijing, of whom 25 were mainland bidders, 9 from Hong Kong and Taiwan, and 18 were from Europe, the U.S. and Canada. Applicants were asked to submit all required documents to the Olympic Projects Office before December 28.
- There are now more than 300,000 expatriates living and working in Shanghai, and the number is rising all the time.
- China plans to become the third space-faring nation by launching a manned capsule into orbit by the end of 2003. Such an expedition, if successful, would symbolise China's rising technological prowess and international prestige.
- China Construction Bank, China's leading housing lender, has reported a 65% increase in mortgage loans in 2002. Mortgage loans will exceed 300 billion Yuan, up from 187 billion Yuan in 2001. People are being forced to buy their own homes because their work units no longer provide subsidised housing.
- China is likely to build a US\$ 2 billion nuclear power plant in Zhejiang province in 2004, to feed the area's growing electricity demand. If the project goes ahead, it will be China's seventh nuclear power plant. The coastal provinces of Shandong and Guangdong could also be the sites of new plants, under plans being reviewed by the State Council.
- From this February, China imposes a full commercial fishing ban along the Yangtze River. The ban will cover ten provinces and municipalities along the river which has been divided into upper and lower areas. From February to April the ban will take effect in the upper reaches, and from April to June in the lower reaches. It is hoped the ban will help reverse decades of over-fishing and pollution on the river.
- Workplace accidents claimed the lives of 124,581 Chinese people between January and November 2002 in

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980,689 separate accidents. Once again it was coal mine accidents that topped the list of tragedies. Currently there are 2,800 coal mine safety supervisors across China, each responsible for the safety of at least 10 pits.

- New aviation regulations set to take effect in May 2003 pave the way for private and corporate owners of small planes to get permission to fly around the country, an important step in opening China's small-plane market. In the past, the lack of flight regulations for small planes prevented the private-jet market from taking off in China, as many potential buyers held off until they found out where and how they could file flight plans.
- China will phase out a jobs-for-life system for the country's 30 million civil servants. It will be the end for a lifelong system that guaranteed most government officials a salary, pension, medical insurance, education for their children. The government will put into effect a system under which civil servants work according to contracts and can be dismissed if they fail to perform in line with a set of goals.
- Foreign companies from 82 countries and regions have started up 8,397 businesses in Shanghai's Pudong since the district was set up in 1990. Those businesses brought total investments of US\$ 42 billion. Among them, 174 of Fortune magazine's top 500 companies had invested in 328 projects.
- Construction resumed on the Shanghai World Financial Centre, five years after work on the skyscraper came to a halt due to the Asian financial crisis. Shanghai will be home to the world's highest building when the 492 m tall building opens in the middle of 2007.
- Hong Kong remained the largest overseas investor in the Chinese mainland in 2002 with a total investment of US\$ 19.1 billion. The British Virgin Islands ranked

second with US\$ 6.1 billion, followed by the United States, Taiwan, Japan, the Republic of Korea, Singapore, the Cayman Islands, Germany and Great Britain.

- China's first special trading center for timepieces was established in Shanghai's Pudong district. The center will focus on international trade and trade agencies for watches, clocks and parts. Omega, Tissot and Rolex have agreed to be members of the center. China abolished quotas on imports of clocks and watches early this year.
- Foreign investors will be allowed wider access to the media business this year as newspapers and book markets in a number of big and middle-sized cities will be opened to foreign-funded businesses. The State Press and Publication Administration will issue relevant regulations.
- Foreign firms that conduct safety tests and quality inspections will be allowed to take a controlling stake in China-based joint ventures by the end of this year, as announced by the State Administration of Supervision. By 2005, foreigners will be able to launch wholly owned enterprises to provide testing and certification services.
- The Ministry of Foreign Trade and Economic Cooperation has implemented new rules that allow foreign freight companies to hold controlling stakes in China. Their share may be as much as 75%. Previously they were restricted to a 49% share.
- China overtook Japan as the world's second-biggest market for personal computers in 2002, after Japan's PC sales shrank by 11%, while China's market is en-

(continued on next page)

joying accelerated growth. 2002 PC sales are estimated to have topped 10.8 million, still far behind the United States' 47.8 million.

- A survey conducted by the National Bureau of Statistics shows that most Chinese people feel confident about the economic prospects for 2003. Nearly 97% of 3,000 residents in the country's eastern, central and western urban regions expressed optimism about the country's economic prospects this year.

- 46 expatriates in Beijing became the first foreigners in the city to get a new long-term residence permit from the Public Security Bureau. The Bureau said foreign investors and experts, as well as their families, can now get multiple visas and residence permits with a validity of between two and five years. In the past, foreigners had to renew their residence permits every six or twelve months.

Summary by Paul Wyss

National People's Congress

From 5 to 18 March 2003, the 10th National People's Congress (NPC) convened for its 1st Session in China's Capital. The assembly elected a new political leadership and approved important changes in the organization of government. There was little room for surprise in any of the NPC's decision, as the most important questions had been answered four months earlier by the 16th Congress of the Communist Party of China. Nonetheless, the new government slightly shifts focus from all-out to balanced development, recognizing urban unemployment and rural development as critical challenges for China's social stability. 2003 macroeconomic objectives are cautiously optimistic. From the point of view of foreign companies doing business in China, the results of the NPC's Session are positive.

Smooth transition from 3rd to 4th generation leaders completed

China's top legislature elected a younger generation of leaders, the last major step in a sweeping transition that has been in the making for some time. The election of the president and vice-president of the People's Republic of China, the chairman of the Central Military Commission, the chairman and vice-chairpersons of the NPC Standing Committee followed the single-candidate system. All the newly elected top leaders received landslide votes from the legislators.

(continued on page 22)

President	Hu Jintao, 60, claims the post of president four months after ascending to the No. 1 position in China's Communist Party, the most powerful position in the land.
Vice President	Zeng Qinghong, 64, has been Jiang Zemin's closest aide for more than a decade – dating to Jiang's days as mayor and party boss in Shanghai.
Premier	Wen Jiabao, 60, the No. 3 man in the CPC, follows in Zhu Rongji's footsteps. He has to lead the government through the next stage of restructuring and to continue the opening the economy to the outside world.
State Council	Members: Huang Ju, Wu Yi, Zeng Peiyan and Hui Liangyu as vice-premiers; Zhou Yongkang, Cao Gangchuan, Tang Jiaxuan, Hua Jianmin and Chen Zhili as state councilors; Hua Jianmin as secretary-general.
NPC Chairman	Wu Bangguo, 61, the No. 2 man in the CPC, succeeds as Chairman of the NPC, a ceremonial post that nonetheless reflects his power in the inner-circle hierarchy.
Head of Military Commission	Jiang Zemin, 76, stayed on as leader of the government's military commission and is expected to wield significant influence from behind the scenes. Some observers suggest that Mr. Jiang's decision to keep that post may put into question the new party hierarchy and the stability of Mr. Hu's leadership.

Government Reorganization for improved efficiency

A restructuring aimed at streamlining decision-making and taking government further out of micromanaging the economy was the most significant non-personnel decision approved by the NPC. It is the second such government revamp in five years and reflects China's continu-

ing efforts to adapt its state planning apparatus to an economy in which private and foreign companies play an increasingly important role. The planned changes mainly clarify bureaucratic responsibilities. Nonetheless China is keeping a level of economic planning that is far greater than the norm in most market economies. Also, the restructuring does not represent a challenge to the political control of the ruling Communist Party. Some of the most important changes concern the following agencies:

State Asset Management Commission

SAMC will take over the daily management of state-owned enterprises. There are an estimated 180,000 SOEs worth CNY6 trillion, but reforms have stalled in recent years because of complicated cross-ownership of many of these firms. A key point concerns the division of state assets between the central government and local authorities. Some cities and provinces are reported to have already started selling off state assets out of fear that they could be put under the control of SAMC and its branches at the local level.

China Banking Regulatory Commission

CBRC takes over the regulatory role from the People's Bank of China. The bank will now only be responsible for monetary policy. CBRC will exercise unified supervision and control of banks, property management companies, trust and investment corporations as well as savings deposits financial institutions.

State Development and Reform Commission

SDRC replaces the State Development Planning Commission and several similar departments. SDRC's main responsibilities are: drafting and organizing the implementation of national economic and social development strategy, long-term program, annual plan, industrial policy and price policy, monitoring and regulating national economic operation, keeping a balance of economic aggregate, optimizing major economic structures, arranging major State construction projects, and guiding and advancing economic system reform.

Ministry of Commerce

China's division between domestic and foreign trade was a copy of the former Soviet Union's system and did not conform to the WTO requirements. Hence, MoC will take over the duties of MOFTEC as well as the price supervisory duties of the SETC. Its main responsibilities are: studying and formulating policy regulations on standardizing market operation and circulation order, expediting the establishment and perfection of a market system, deepening the reform of the circulation system, monitoring and analyzing the conditions of market operation and commodities supply and demand, organizing and carrying out international economic cooperation, organizing and coordinating matters relating to anti-dumping and anti-subsidies and investigation into industrial damages. Lu Fuyuan, 58, became the country's first commerce minister. He moved into the central government in 1993, when he was appointed director general of the auto industry department of the Ministry of Machinery Industry; most recently he served as party secretary and deputy head of MOFTEC.

State Food and Drug Administration

SFDA's main responsibilities are: continue to exercise the function of the SDA, supervise the management of safety of food, health products and cosmetics, organize and carry out investigation and prosecution of major accidents.

State Administration of Work Safety

The existing agency will be upgraded into an institution directly under the State Council and will take charge of comprehensive supervision and management over safety production and strengthen supervision over coal mining safety.

2003 Budget and Economic Performance Targets

China's deficit for 2003 is budgeted to be CNY10 billion more than in 2002. The total receipt of the central finance is budgeted to be CNY1.194 trillion, up 5.1%, and the total expenditure is budgeted at CNY1.5138 trillion, up

4.7%, leaving a deficit of CNY319.8 billion. The deficit, plus the domestic and foreign debts overdue, will bring the total debts of the central finance up to RMB 640.4 billion. Putting the budgets of the central and local finances together, the total national receipt in 2003 will be CNY2.0501 trillion, up 8.4%, and the national total ex-

penditure will be CNY2.3699 trillion, up 7.7%. The government clearly declared its intention to continue supporting economic growth by deficit deepening fixed asset investment. Meanwhile the budget also signifies a slight shift toward creating a welfare net to ensure social stability in the face of worsening unemployment. While a rein has been put on the deficit, the spending mix has also been altered with major allocations to poverty alleviation rather than big-ticket construction projects. Budget allocations for poverty relief includes CNY43.5 billion for projects such as rural tax burden reform as well as benefit rises for both retiring state firm employees and urban welfare recipients.

Although the government's debt ratio stands at about 30% of GDP, considered low among developing countries, the real debt ratio could be as much as 70% to 100% of GDP according to a World Bank report. Taking into account the sum the government owes to retired workers in the form of social security benefits, together with the burden of non-performing loans at state banks, the nation's debt is likely to be at least 50% of GDP. The Asian Development Bank estimates China's implicit pension debt to be as high as USD1.5 trillion or 150% of GDP.

The outgoing Government announced the macroeconomic regulatory targets for 2003. Nevertheless, they will be the basis for the new team's policies and the yardstick for their success:

- Economic growth rate at 7%
 - Over 8 million new jobs for urban residents; registered urban unemployment rate under 4.5%
 - Rise in the consumer price index of no more than 1%
 - Fixed asset investment growth will fall 4.1 percentage points on-year to 12% in 2003
 - Increase in the total import and export volume of 7% (compared with 21.8% for 2002)
 - M2 broad money supply and M1 narrow money supply will increase by about 16% on-year
 - Rural income growth: 4% (2002: 4.8%); Urban income growth: 6% (2002: 13.4%)
- (2002 per capita disposable income is CNY7,703 for urban residents, CNY2,476 for rural residents)

New Government underlines need for balanced development

In their reports, members of the outgoing government mentioned the challenges they had left behind for the next administration: weak domestic demand, irrational supply structure, insufficient growth in rural incomes, rise in unemployment, delayed expansion of the consumer market, income inequalities, tough reforms for state-owned industries, chaotic order of the market economy, industrial accidents, degradation of the environment and waste, red tape and "extravagance" by officials. Observers would add to the list the looming crisis in China's banking sector, the lacking security system and the fiscal revenue gap.

Newly elected Premier Wen Jiabao confirmed that his government would continue strategic restructuring of the economy and opening up to the outside world. In order to maintain sustainable and comparatively rapid development of the national economy, the government will

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stick to the policy of expanding domestic demand through proactive fiscal policy. Wen Jiabao also stressed the necessity of giving priority to the development of the rural economy, and of promoting coordinated and well-balanced development between urban and rural areas. China will strive for a proper balance among development speed, dimension of reform and social bearing capacity in order to realize the perfect integration of reform, development and stability, he said. Furthermore, he pledged to support the growth of enterprises in the non-public sectors. Private enterprises shall be treated like enterprises in the public sector with regard to market access, taxation, bank loans and import and export, said Wen.

Analysis

In November of last year, the 16th Congress of the Chinese Communist Party already decided all the important questions with regard to the impending leadership change. This year's NPC session merely confirmed the remarkable fact that the People's Republic accomplished the first orderly transfer of authority since its inception in 1949. Stability remains the paramount principle, much to the satisfaction of a majority of the Chinese people, many of whom have suffered terribly during the PRC's more tumultuous past. The fact that the outgoing President retains potentially strong influence does not necessarily challenge the new leadership's authority, but may be seen as an additional guarantee for continuity.

During the NPC sessions, it became clear that the economy remains the priority of the new central government. While they will basically continue the policies of their predecessors, they may refocus on more balanced development in order to ensure social stability. Following the logic of stability, the new government will hardly resort to drastic measures of reform, and we may see a slow-down in economic restructuring to allow more time for the government to rollout an adequate social safety net. Naturally, the declarations of the new Premier remained very general so far, and it remains to be seen what

kind of measures the new leadership will take to implement its policies and tackle the challenges ahead.

The new government accepts the importance of the private sector, which currently contributes an estimated 30% of GDP, and of small and medium-sized enterprises as the main source of job creation. In spite of the governments proclaimed good intentions to improve the business environment of the private sector, it remains to be seen how successful it will be in creating a level playing field for private and state owned enterprises. The reorganization of various government agencies looks like a step into the right direction. Away from multiple layers of badly coordinated and often contradicting regulating bodies to a more streamlined bureaucracy which should facilitate administrative procedures for the market players. In an immediate future companies may experience even more uncertainties and delays, as the bureaucrats scramble for position and influence within the new set-up. Eventually, we may see a more decentralized and efficient bureaucracy excluded from economic micromanagement and restrained to regulatory functions.

By and large, the results of the 2003 NPC sessions are good news for foreign companies doing business in China. The government stands for political continuity, pursues social stability and pledges continued reform and opening up of the economy, all of which is important for the development of a foreign business in China. Just like local entrepreneurs, foreign companies will enjoy the government's increasing respect for the private sector as well as any improvement of the bureaucracy's efficiency and predictability. Meanwhile, some foreign investors may be disappointed about temporary setbacks in the reform process, induced by the government's new focus on balanced development. Furthermore, the end to discrimination of foreign market players may still be a long way off, in particular when dealing with local governments and courts of law.

*Summary by Jürg Lauber, Economic Counsellor
Embassy of Switzerland, Beijing*

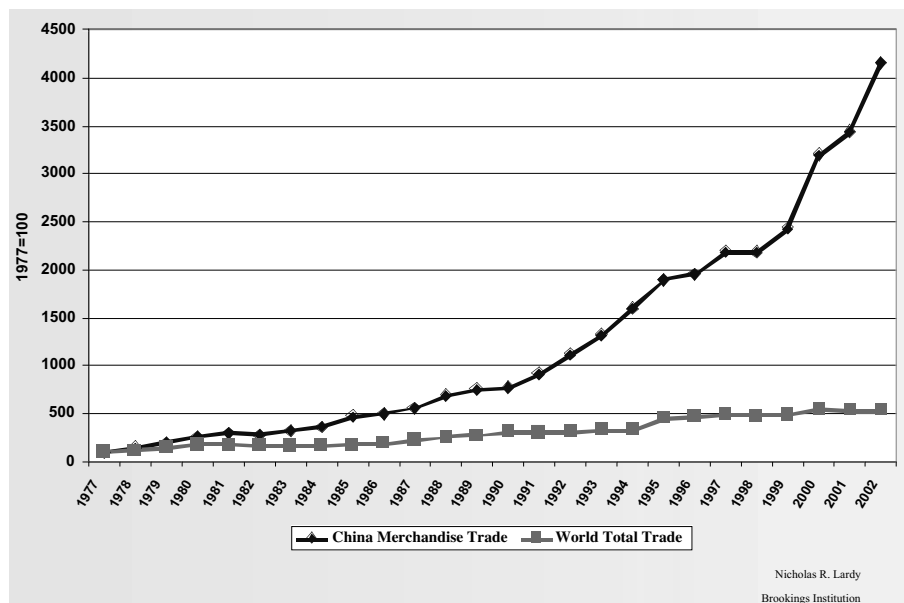
Zhu Rongji's Economic Legacy

Nicholas Lardy talks on China's economic outlook at the University of St. Gallen

At a Community of European Management Schools Seminar on "The Chinese Challenge in the 21st Century" held at the University of St. Gallen on 24 January 2003, Nicolas R. Lardy, senior fellow at the Brookings Institution in Washington D.C., gave a lecture on China and its economic outlook. Lardy is an expert in Asia and has written numerous articles and books on the Chinese economy. His most recent book, *Integrating China into the Global Economy*, was published in January 2002 and explores whether reforms

of China's economy and its foreign trade and exchange rate systems following China's WTO entry will integrate it more deeply in the world economy.

In his speech Lardy first showed some graphs which illustrate China's excellent long-term economic performance. According to official data China's GDP in the year 2002 was almost 9 times the GDP in 1978 when China started its "Open Door" policy under Deng Xiaoping. GDP growth particularly gained momentum in



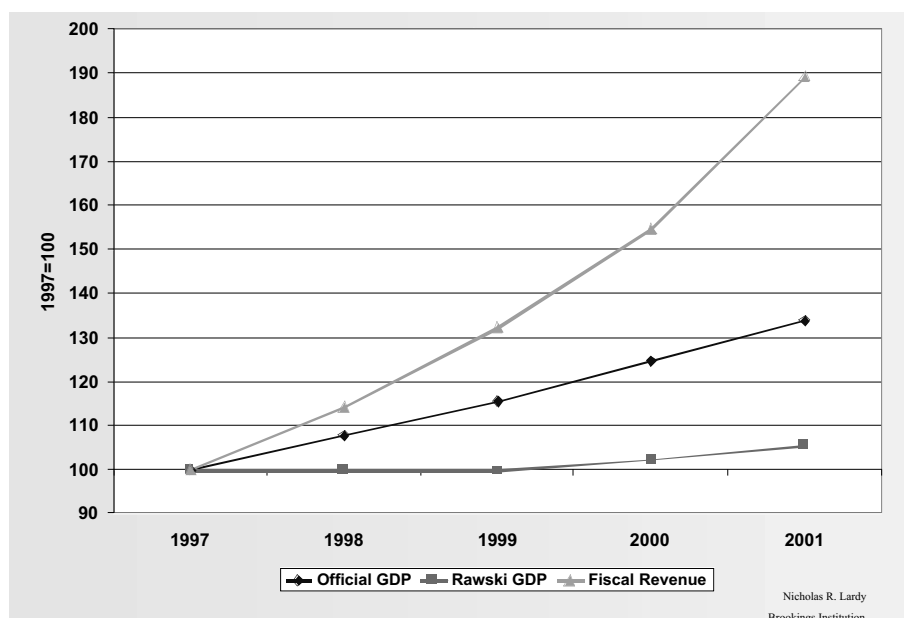
Growth of China Trade vs. World Trade 1977–2002

the early 90s and has sustained at around 7% to 8% on a yearly basis even until today. China's trade growth over the same period has been even more dramatic. In 2002 the value of goods and services traded to and from China was more than 40 times the value of 1977. Comparing the growth of China's Trade with the growth of World Trade, Lardy shows that in recent years – with a sluggish world economy – China has accounted almost for all growth in global trade (see chart 1). Furthermore, in 2002, China has outpaced the United States as primer recipient of Foreign Direct Investments (around US\$ 50 bn) for the first time.

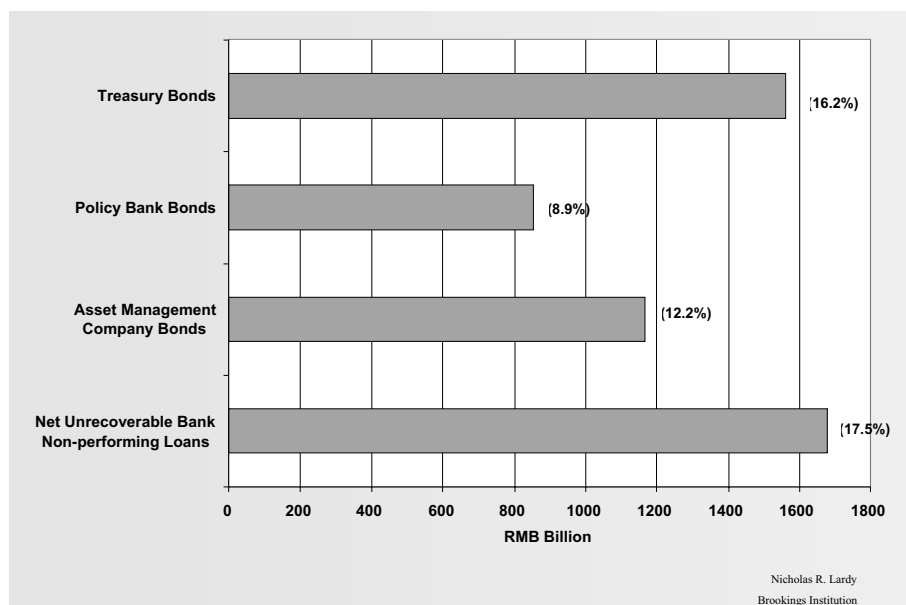
GDP Growth in China

When addressing the issue of China's recent growth dynamics, Lardy compared the official Chinese GDP sta-

tistics and the much more pessimistic Rawski GDP estimations¹ with relevant national growth figures like fiscal revenue, money supply, consumer price, and import growth. Assessing this analysis, Lardy concludes that rather the official data – though probably slightly white-washed – than Rawski's estimations seem to reflect the effective economic growth over the last two decades in China. As a matter of fact, not only fiscal revenue growth but also import growth have by far excelled officially stated GDP growth. Taking into account that the Chinese government has little incentive to overstate these figures, such growth speaks definitely in favour of the more optimistic official GDP data. Most notably, the analysis indicates that over time the Chinese government has become more and more successful in collecting taxes (compare chart 2) – a crucial prerequisite in order to finance ongoing/outstanding economic and social reforms.



China's Growth of GDP and Fiscal Revenue 1997–2001



Estimated Government Debt 2001

Lardy explained China's ongoing FDI inflows not only with the repeatedly mentioned future potential of the "Chinese market" but also highlighted rising profits by foreign affiliates. Even though, on average, returns on assets of foreign funded enterprises still remain low, companies are making profits in China. Furthermore, continuous growth in Chinese outlays on foreign patents and licensing and rising value added in Chinese export processing seem to have attracted FDIs.

Medium Term Risks

The two most frequently mentioned medium term risks for China, WTO-induced collapse and financial sector meltdown, are quite unequally judged by Lardy. While he sees little reason for a directly WTO triggered collapse of the Chinese economy, the financial sector dominated by the burdened big four state-owned commercial banks seems to pose a real threat for China.

In general, China's economy seems to be well prepared for WTO-entry. Average import tariff rates are already at a low level and the overall importance of the inefficient state-owned sector has already diminished substantially – in the year 2001 private sector output in manufactured goods accounted for more than 50% of total output (about 30% state-owned enterprises; 20% foreign affiliates). But according to Lardy, financing of banking sector "clean-up" might become a fiscal problem. In contrast to officially stated government debt of around 16% of GDP in 2001, he estimates overall government debt (including policy bank bonds, asset management company bonds, and non-performing loans of state-owned banks) to be somewhat more around 50% to 60% of GDP (compare chart 3). Having in mind the proposed opening-up of the Chinese banking sector within five years of WTO entry (effective 1 February 2007), especially the removal of remaining bad debt from the four big banks,

to make them fit for foreign competition, will most probably need a second costly state effort.

Summary by Mike Imam²

For further information on Nicholas R. Lardy please visit:

<http://www.brook.edu/scholars/nlardy.htm>

For further information on the Swiss Institute for International Economics and Applied Economic Research (section of International Economics):

<http://www.siaaw.unisg.ch/org/siaaw/web.nsf/wwwPubln-halteEng/International+Economics?opendocument>

¹ THOMAS G. RAWSKI is a Professor of Economics and History at the University of Pittsburgh. His research focuses on the nature and implications of recent developments and long term changes in the economy of China.

² Research Associate, Swiss Institute for International Economics and Applied Economic Research (SIAW), St. Gallen. The author is currently writing a doctoral thesis on the impacts of WTO-entry on the Chinese commercial banking sector.

China's Giant Construction Projects

China's pro-active fiscal policy was introduced in 1998 as an effort to offset the negative impact of the Asian financial crisis. The central government has so far issued a total of US\$ 79.5 billion worth of long-term treasury bonds and plans to issue another US\$ 16.9 billion in bonds this year. Expanding domestic demand has been a basic aim of this policy. Meanwhile, the economy has been enjoying an excellent growth rate of 7.3% in 2001 and 8% in 2002. After several years of investing in expressways, harbours and airports, the government will now push some other giant infrastructure projects partly already under construction or soon to be started.

China's top leaders, many of them trained engineers, are about to construct the world's largest dam. They want to pump 48 billion cubic metres of water each year from south to north, transport natural gas from Central Asia to the southeast coast and construct the world's fastest train and highest railroad. A direct railway ferry will link the mainland to Hainan Island.

The Three Gorges Dam, designed to tame the mighty Yangtze River and generate the power of 18 ordinary nuclear power plants, was for years considered the world's most expensive project with a price tag of US\$ 30 billion. It has now been eclipsed by the latest colossus, a US\$ 60 billion system of channels and pump stations to divert water from the Yangtze in the central part of the country to the northern regions including the cities of Beijing and Tianjin and part of Jiangsu and Shandong. In late December, Chinese officials broke ground on the first phase of the project, which they say will alleviate desertation and drought. Three canals will run about 1,300 kilometres across the eastern, central and western regions of the country. Foreign companies are invited to take part in the project.

In July 2002 China started the mammoth US\$ 9 billion pipeline project to transport natural gas from Xinjiang Uygur Autonomous Region to Shanghai. The 4,000

kilometre pipeline will run from the Tarim Basis through eight provinces and regions and cross China's two largest rivers -the Yellow and the Yangtze rivers-before reaching Shanghai. The project is the largest so far opened to foreign co-operation. Petrochina signed an agreement with a foreign consortium, including Royal/Dutch Shell, Exxon Mobil and Russia's Gazprom. The pipeline will help to reduce air pollution due to the burning of coal along the eastern coast.

After the successful inauguration of the Shanghai magnetic levitation train running at 400 kilometres, Chinese railroad officials are studying plans for a US\$ 22 billion high-speed track from Beijing to Shanghai. Meanwhile, work is progressing on the 1,000 kilometre Qjinghai-Tibet railroad, which will operate at elevations as high as 5,000 metres on its way to Lhasa. The track will scale a formidable mountain pass notorious for fierce winter blizzards. The existing road along the same route was built with heavy casualties by the Chinese army in the 1950s. It currently carries 85% of imports into Tibet and is often cut by bad weather.

A century-old dream of travelling by train from the Chinese mainland straight through to Hainan Island became a reality at the end of 2002. China's first-ever maritime rail service was launched from the southern tip of Guangdong's Leizhou Peninsula and reached Nangang Port of Hainan's capital Haikou after a voyage of 50 minutes across the Qiongzhou Straits. The ferryboat can carry 40 railway cargo cars or 18 passenger carriages, in addition to 50 motor vehicles and 1-360 passengers. The building of a second ferry boat costing US\$ 25 million is underway.

Beijing's commitment to these giant projects shows its determination to enhance the infrastructure of the vast country.

Summary by Paul Wyss

China Becomes World's Leading Mobile Phone Market

As China's economy continues to outperform all other world markets, we see China emerging as the world's leading mobile phone market, currently with around 200 million users it is expected that the mobile phone market will grow by 13-20% in the next three years to reach 300 million by 2005. As with most growth, growing pains are

sure to follow. There is the mobile phone war between network operators where aggressive use of subsidies is a strong tool to lure China's mobile subscribers to sign up. The increased competition between foreign handset

(continued on next page)

makers and the rising market share of domestic makers, as well as the demand and development of 3G rollout have all played a part in the development of this lucrative market.

Subsidy policies are paying off!

A new predator has been introduced into the market to lure mobile phone subscribers away from their competing rivals; this predator goes by the name "handset Subsidies".

The increased drive between China Unicom and China Mobile to lure customers away from each other has brought on aggressive handset subsidies, competition in which analysts' fear could turn ugly in the future. China Unicom, whose network runs CDMA (code division multiple access) announced at the end of 2002 it had 6.3 million subscribers, an increase of more than 50% from September. The average subsidy per CDMA handset is 1600 yuan (US\$193), however, Goldman Sachs estimates the average subsidy is as much as US\$300 a phone, while each service yields about US\$20-25 per month in average revenue per user.

China Mobile's low profile attitude has caused subscribers to turn to Unicom, as they have been lured by cheap subsidies. It's predicted that China Mobile is no longer going to sit on the sidelines and is set to offer their own subsidies for their GPRS service, which will in turn put pressure on China Unicom. A price war is sure to follow.

It is expected that Mobile operators should phase out their subsidies after the market is initiated, as with such subscriber growth, it is important that money be reserved for improved services. Otherwise there will be no winners in the long run, for the service providers or the customers.

Who will rule the handset market?

Handset makers will have their profit margins squeezed as competition heats up in the mainland market, and the ultimate winner will depend on their management style and products. The top three makers, Motorola, Nokia and Samsung, have been experiencing increased competition from each other, as well as a growing threat and increased competition from domestic handset makers.

Motorola who dethroned Nokia in 2001 as China's top selling product saw market share drop from 31 percent down to 27 percent but has still posted an excellent year with sales in China reaching US\$5.7 billion and expects that to increase to double digits in 2003. In a move which shows Motorola's continued commitment and desire to tap the Chinese market they recently chose Shanghai as the location to introduce 8 new handsets rather than in America or Europe.

Nokia, now in second place for market share, is set to intensify their focus on China in a bid to regain the lead. Nokia's market share in the third quarter of 2002 fell to 19 percent from 31 percent in the first. They have been reorganising their distribution system in China and adding partnerships with local companies to improve availability of their phones to areas outside of the big cities.

Samsung has been importing phones into the Chinese market, but only recently have secured approval from Beijing to directly sell GSM handsets in China rather than relying on import agents. The move will allow them to compete head-to-head with the likes of Motorola and Nokia. Samsung's total sales in China were expected to hit US\$5.8 billion.

A greater threat to these mobile phone giants are the local manufacturers. Local Chinese companies such as TCL, Legend, Hai'er and Ningbo Bird have claimed 30 percent of the domestic market and have been lifting sales by selling cheaper phones assembled from ready-made parts purchased abroad. We are more likely to see in the future further cut throat competition as mobile phone makers vie for larger shares of the Chinese market.

China GSM Handset Supply(million Units)	2002	2003
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Motorola	15.66	19.71
Nokia	11.25	14.59
Siemens	5.54	6.24
TCL	6.3	9
Ningbo Bird	6.2	10
Philips Sa Fei	1.83	1.75
DBTEL	2.85	5
Ericsson Beijing	1.68	1.12
Alcatel	1.32	1.28

Standards and 3G!

A development in the mobile market which should soon be at our doorsteps is the Third Generation (3G) phones and systems. Chinese telecom departments have been speeding up the development of 3G mobile standards such as TD-SCDMA and WCDMA. As experiments with 3G conclude, it is expected that commercial operation should begin sometime in 2003. It is predicted that the value of 3G systems will come to one trillion yuan by 2010. Further to this China has also placed the development of G4 on its agenda as a further step in continuing with the growth of China and its mobile phone market.

For further information please contact:

*Fiducia Management Consultants
www.fiducia-china.com*

The Chinese and their Watch Buying Destination Hong Kong



Thierry Dubois

How are the watch markets of Hong Kong and China placed today? The Director of the FH centre in Hong Kong takes stock.

In the month of February, the sound of Chinese gongs and music accompanying the dance of the lion has been ringing out in most of Hong Kong's stores and shopping centres. In the run-up to the Chinese New Year, the number of tourists from China visiting Hong Kong has increased considerably and is obviously welcomed by local watch retailers.

Indeed, for many months Chinese tourists have been playing a very important role for Hong Kong's watch re-

tailers, some of whom go so far as to say that 50 to 60% of their sales are to Chinese from China, who very often make their purchases in cash (such tourists can often be seen taking wads of American dollars from their wallets and handbags to buy watches)!

Hong Kong's watch retailers, who for a long time considered Christmas to be the busiest time of the year, are now tending to revise their position in favour of the Chinese New Year period.

It is apparent in fact that the Hong Kong consumer is keeping a tight hold of the purse strings, and will probably continue to do so during the first half of this year on

Hong Kong Key Economic Indicators

	2000	2001	2002	2003
GDP (USD billion)	165.2	164	163	1671
GDP per Capita (USD)	24,800	24,400	24,011	24,163
Real GDP Growth (%)	10.2	0.6	2.3	31
Inflation (%)	-3.8	-1.6	-3	-0.51
Unemployment (%)	4.9	5.1	7.3	unavailable
Budget Deficit (% of GDP)	0.6%	5.2%	5.5%	3 ¹
Current Account Balance (% of GDP)	5.5	7.5	unavailable	unavailable
Foreign Debt (% of GDP)	nil	nil	nil	unavailable
Debt Services Ratio (% of exports)	nil	nil	nil	unavailable
Reserves (months of imports)	18	20	21.9	unavailable

¹ IMF projections

Source: Census and Statistics Department, HKSAR
IMF

Major Swiss Companies Operating in Hong Kong

ABB Asia Pacific Ltd.
 Adecco Personnel Ltd.
 Agie Charmilles China (HK) Ltd.
 Ascom Asia Pacific Ltd.
 Atlantic Forwarding (China) Ltd.
 Audemars(Hong Kong) Ltd.
 Bally Hong Kong Ltd.
 Bobst (Far East) Ltd.
 Buhler Hong Kong Ltd.
 Ciba Specialty Chemicals (Hong Kong) Ltd.
 Clariant Ltd.
 Credit Suisse First Boston
 Desco (Hong Kong) Ltd.
 Edward Keller Group
 Firmenich Hong Kong Trading Ltd.
 Givaudan-Roure Ltd.
 Golay Buchel & Co (HK) Ltd.
 Habasit East Asia Ltd.
 Hilti (Hong Kong) Ltd.
 Kaba Ltd.
 Kolb (HK) Ltd.
 Kuehne & Nagel (HK) Ltd.
 Kuoni Travel Ltd.
 Leica Geosystems Ltd.
 LGT in Liechtenstein AG
 Lindt & Sprungli (Asia-Pacific) Ltd.

MDM Geneve (Far East) Ltd.
 Metalor Technologies Ltd.
 Mettler-Toledo (Hong Kong) Ltd.
 Mövenpick Asia Pacific Ltd.
 M + R Forwarding (HK) Ltd.
 Nestle Hong Kong Ltd.
 Novartis Pharmaceuticals Ltd.
 Panalpina China Ltd.
 Rieter Asia (Hong Kong) Ltd.
 Roche Hong Kong Ltd.
 Rolex (Hong Kong) Ltd.
 Schindler Lifts (HK) Ltd.
 SGS Hong Kong Ltd.
 Siber Hegner Ltd.
 Sika Hongkong Ltd.
 Swatch Group (Hong Kong) Ltd.
 Swiss International Air Lines Ltd.
 Swiss Reinsurance Company, HK Branch
 Syngenta Corp Protection Ltd.
 TAG Heuer HK Ltd.
 UBS AG – HK Branch
 Zuellig Pharma Ltd.
 Zurich Insurance Company (Asia) Ltd.
 Zurich Life Insurance Company Ltd.

Source: Consulate General of Switzerland, Hong Kong

account of the difficult economic situation in Hong Kong, but also as a result of the climate of instability that holds sway in the Middle East and the Far East. The situation could improve however, in terms of retail sales, in the second half of the year.

Retailers, for their part, have in most cases overstocked for fear of seeing their neighbours offer models or brands they themselves don't have. Consequently, they are today facing "sell-out" difficulties.

Fortunately, as has already been mentioned, there are the buyers from China who on average spend more per trip to Hong Kong than tourists from Europe or the United States.

In China, the situation continues to develop. The economic news is good and the big cities are booming. It is here, as in the country's northeast, that watch retailers are busiest. Presentation quality is increasing and great store has been placed by the introduction of personalized corners.

Several companies already have coordination offices in China, providing valuable, if not indispensable support to retailers and distributors. In this respect, Shanghai seems to be adopting the position of a national "con-

trol point" from where brands cover China (with Hong Kong still the nerve centre for the region as a whole).

With the continued development of China and, above all, the ever increasing spending power of the Chinese, the happy sound of gongs should continue to please Swiss watch companies this year.

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Localisation: The Magic Triangle



Rainer Thomm

*Below you find an extract from the new publication **China in Your Hand** by Rainer Thomm. The book is about real-life experience and R. Thomm comments: "As much as I love China (which has been my home for most of the past 15 years), this does not mean there is no need for caution, especially when dealing with strangers. For reasons best known to themselves, it seems to be an undeniable fact that some people here are past masters at obfuscation.*

Great things – and good business – can be done in this country. The trick is to find reliable people to deal with. That's all."

The cost of keeping expats in China is high. Little wonder that many foreign-invested companies are bringing their executives home and going for local expertise. Unfortunately, what sounds like a logical response to a weighty problem ignores quite a serious challenge: potential hidden costs.

Back in 1988, for example, one of our company's drivers owned a mobile phone (costing close to US\$ 5,000 in those days) while we did not even have a fax line. On a salary of 300 yuan per month, his jacket was bulging with 100 yuan notes. 'Make hay while the sun shines,' must have been his motto. His official duties were mostly limited to driving staff to and from work. That left most of the day and night free for attending to aspiring deal-doers who had a pressing need to get around, at a time when private cars were unheard of in Beijing. Who was paying for his extra-curricular activities? Our company, with its fleet of barely used limousines for its executives.

Now let's move to the present. Have you ever wondered how someone on a US\$ 6,000 salary can send her son to a private school that charges US\$ 10,000 p.a.? Own three fancy apartments, plus membership in as many golf

clubs, and drive a black Audi? Easy, the lady is in charge of TV advertising, promotional printing and small gifts at a company such as yours. Like many a marketing director, product manager or other person with power to represent your company, she is not averse to receiving tangible benefits when negotiating contracts.

Just imagine how rewarding it can be to be in charge of organising your company's annual sales convention in mainland China. Several hundred people will be gathered at some fancy hotel. Airline tickets and rooms will have to be booked, food and beverages to be ordered, plus the whole paraphernalia that surrounds such events. The mind boggles at the opportunities!

A popular scam in the FMCG (Fast Moving Consumer Goods) area is for your salespeople to do deals with distributors/retailers on the basis of "Buy 10, get 2 free!" The natural result is that many dealers will overstock. Here is what happens:

1. Your salespeople reach or exceed their sales targets.
2. They then leave your company (having been paid their bonuses).
3. The dealers return their surplus stock (keeping the free samples, which they then sell, sharing the proceeds with your former sales staff).

A similar game is played in the medical industry. Your salespeople may ask doctors to put in inflated requests for free samples. These can then be sold to retailers, with the proceeds being split between the doctors concerned and your own sales staff.

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Yet another ploy involves sponsorship. A member of your sales team has good relations with a hospital director. The hospital asks your company to sponsor a seminar, roadshow or similar event. The request is for, say, US\$ 50,000, but the actual cost is only US\$ 5,000 – so there is room for manoeuvre.

Moreover, as the organiser of a roadshow, exhibition or any other marketing-related event, for example, you would do well to show some tangible recognition to the people in your prospective clients' purchasing department – if you want their business, that is.

So far so bad, but when it's all over and the time has come to say good-bye to your trusted employees, you may find one last potentially devastating problem: Your erstwhile loyal staff may take your entire client data and technical documentation with them. It will certainly be a good idea to have some backups that are under your own control. You would also be well advised to keep photocopies of the personal documents (ID cards, residence registrations, passport) of all of your key staff in a place under your own personal control. One European friend of mine neglected to do so. He is now chasing the US\$ 40,000 his customer relations officer collected (with fat chance of recovery).

In any case, it will pay you not even to think of firing anyone with access to your company's confidential information. Why? Because you may have been violating some regulation or other. That's an easy thing to do, as the rules are getting ever more complex all the while, and

shortcuts may at times appear to be the only option. The most obvious example has always been using a representative office to actually do business in China, rather than just act as a rep office. One thing you can be sure of: Those activities are bound to come to light on your employee's departure.

Sounds tough? Sure. It's not easy for a foreign company to know who it is they are dealing with in mainland China, and to make a sound assessment of people who apply for key positions. Hiring returnees (people who have studied and worked overseas) is not necessarily the answer, either. It's only too easy to be taken in by someone's knowledge of just the right kind of Anglo-American jargon and cross-cultural communication skills.

Whoever it is you are wanting to work with, you are always faced with having to match the three sides of a magic triangle: finding employees that are smart, ethical and reliable.

From China in Your Hand by Rainer Thomm, published by The Open Polytechnic of New Zealand (2003).

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Shanghai's Real Estate – A Bubble Ready to Pop?

The statistics tend to confirm what is visually obvious, that the real estate market in Shanghai is soaring. Property investment has risen 14.2% year-on-year to RMB 72 billion (EUR 8.1 billion), commercial and residential realty sales by 16.3% to RMB 81 billion (EUR 9.1 billion), together resulting in an overall increase in prices of 10%. This development has raised the concern that, once again, a bubble is forming in the Shanghai property market. Back at the height of the Asian crisis, 50% of Shanghai's 3.2 million square meter capacity was empty, and grade A rents slumped by 75% during three years.

To prevent this from happening again, the government has toughened real estate regulations by increasing the minimum deposit requirement for mortgages, strengthening the control of land supply, and intensifying supervision over real estate loans. Moreover, title deed tax has been doubled from 0.75% to 1.5%, and income tax deductions for home purchasers will end in May.

On the other hand, the real estate developers are playing down the talk of another bubble. They argue that with Shanghai's economy flourishing, and the upcoming

World Expo in 2010, it is natural that real estate prices are rising.

Even though capacities have grown as much as 14-fold since the early 1990s, the total capacity today roughly only equals that of Frankfurt in Germany, a considerably smaller place than Shanghai. With an increasing domestic demand for real estate and the expected extension of lease-terms, rents will be less cyclical and there will be a downward trend in vacancy rates.

Whilst the debate will undoubtedly continue and a degree of consolidation in the near term is likely due to slight oversupply, the market will stabilize in the mid to long-term. As such, there is, and will be, no bubble to pop.

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Ming Style – An Enduring Tradition

The ancient Chinese knelt or sat cross-legged upon woven mats surrounded by low tables, screens and armrests. Changes in seating were introduced by foreign customs and the influence of Buddhism. The Han Emperor (206 BC to 220 AD) was fascinated by the folding stool, which was commonly used by nomadic tribes for mounting horses. It was easy to carry over the shoulder and it quickly became a popular seat for travelling or hunting.

By the time of the Tang dynasty (618-907) stools and chairs had become common amongst the elite and those of rank. Low platforms were used as honorary seats by officials and religious dignitaries during ceremonial rites. Prototypes of the yoke chair as well as the round back chair appear in contemporary paintings and wall murals.

The classical Ming period (1368-1644) was nurtured by the taste and temperament of the literati. The furniture, which is characterized by simplicity and restraint, set the standard for generations of collectors and designers.

Ming furniture types include tables for poetry composition and painting, comfortable chairs with separate foot rests, elevated stands to display seasonal arrangements, cabinets and bookshelves to house prized collections.

Within the study, pieces were arranged in perfect symmetry to reflect balance and order of the scholarly elite. After a ban on imports was lifted in 1567, furniture of a classical style was abundantly produced in durable trop-



Beautiful chair from the Ming dynasty.

HuangHuaLi – Rare Asian Wood for Furniture

Ming and early Qing furniture are highly collectable and one reason for this is the deep colour and beautiful grain found in the hard, dense make up of such woods as Zitan, Ju, Tiele, etc. This article will focus on the rare HuangHuaLi.

During the golden age from 1555 to 1750, most of the finest furniture was made from **HuangHuaLi** wood. Favoured by collectors, it is a rich red brown colour with a black grain, and has a greatly varying and sometimes distinct patina.

The term **HuangHuaLi** is not found in early texts; only *huali* and *hualu* are mentioned. Later, *huang* was affixed to *huali* to distinguish it from *xinhuali* (new *huali*), a wood which gained popularity and is now used in limited quantities for making quality furniture. *Hualu* is mentioned in texts as early as the Tang dynasty, in Chen Cangqi's *Bencao shiyi*. A very hard and attractive wood, *Hualu* is found in Annam and Hainan and when made into beds and tables it resembles a deep red *zitan*.

The 1462 edition of Cao Zhao's *Geguyaolun* (*The Essential Criteria of Antiquities*), revised and enlarged by Wang Zuo, 1388, states: "*Huali* is found in Guangdong and southern lands. It is purplish red and has a fragrance very much resembling that of truth-bringing incense. *Huali* with a devil's-face grain is very valuable, while that with a coarse grain and light colour is inferior." The Qing edition of *Qiongzhoufu zhi* (*Gazetteer of Qiongzhoufu* [Hainan Island]) has the following entry under "wood" in the section on natural products: "*Huali* wood is purplish red in colour with a slight fragrance resembling that of truth-bringing incense. It grows in the Li mountains."

Other sources tell us that Hainan Island is the main source for **HuangHuaLi** wood. The *Guangzhou zhiwu zhi* (*Record of the Plants of Guangzhou*), compiled by Hou Kuanzhao and published in 1956 under the genus, *Dalbergia*, includes a species called *huali* produced in Hainan. It was renamed *Dalbergia hainanensis* (*Hainantan* or *huali* wood from Hainan Island). It is described in the following way: "This is a special wood from Hainan Island. The tree grows in forests, especially in rather wet ravines sheltered from the sun. The wood is excellent. The outer wood is rather light in colour with a loose grain. The middle part, being more reddish, much harder, and with a fine, attractive grain, is suitable for sculpture and furniture. In Hainan the wood is called *huali*, but this confuses it with the *huali* wood of an entirely different species, which is still very popular among Guangdong timber merchants. Therefore, I had to give it a new name."

In 1980 Cheng Junqing, the principal compiler of *Zhongguo redalji yaredai mucai (Tropical and Sub-tropical Woods of China)*, revised Hou Kuanzhao's classification, giving it the new name of *Dalbergia odorifera (jiangxiang huangtan)*. He reasoned that: "This kind of *Dalbergia* is the only one yet known in China in which the colours of the pith and the outer wood are quite distinct. The unevenly coloured pith is dark red, even purplish, and often has a black grain. The outer wood is a greyish-yellow or light yellow. Thus the difference is very clear. Originally it was grouped with *Dalbergia hainanensis* whose colour varies but insignificantly."

This splendid wood has a rich history and the fine qualities and classic beauty of *HuangHuaLi* pieces have become highly desirable among collectors.

ical hardwood. The use of these hard, dense woods advanced joinery techniques allowing the creation of open, elegant forms previously not possible in softer wood.

Ming rooms which had walls of plain white plaster and floors tiled in pale grey were furnished with day beds, alter tables, chairs in wood such as zitan, huanghuali, tiele, jichi and hongmu.

The Ming wished to blur the distinction between indoors and out and craftsmen responded by making folding stools, chairs, even game tables that could be used in the house or garden or even taken to the country. The rich glow of the wood and the clean lines and sophisticated joinery (far in advance of what was being done in the West) combine to produce objects of tremendous presence.

Fine woods deserve special care and woods develop a beautiful patina with use and actually improve with age. Ming furniture has soul and a grace that is perfectly suited to contemporary taste and modern painting.

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After 4 years of planning and constructing the charming and romantic “Claridge Hotel Tiefenau”, Zurich’s leading “Boutique Business Hotel”, opened its doors again in March 2002. The buildings located right off the Museum of Fine Arts in the center of the city (yet in a privileged and very quiet residential street) date back to 1835. All major attractions, the Zurich Opera, theatres, business districts and shopping areas are within easy walking distance.

The superior and deluxe guest rooms are all furnished in a truly personalized and cozy manner according to the style of the French King Louis XV. They all consist of very homey rooms with lounge corner or sitting areas, all with minibar, TV & radio, in-room safe and self dial phone with alarm clock system. Each of them seems almost as large as a junior suite with plenty of space to relax and read or write letters at the writing desk with a business center (fax machine, voicemail, copier and different modem hook-ups and high speed wireless LAN). The bathrooms are equipped with scale, hairdryer and even in-room shopping.

Orson’s – New Swiss-Asian Fusion Restaurant

The restaurant and bar, designed by famous architect Pia Schmid, is the home of the redesigned “Züri-Stube” with local specialities and of the new trendy Restaurant “Orson’s” with Swiss-Asian fusion cuisine.

With enthusiasm, new ideas and attention to the details, Chef Orson P. Matysiak and his team create dishes from traditional European Cuisine merged with the most interesting influences from Asia. Whenever possible, they use fresh products and naturally produced ingredients and seasonings only.

During summer all à-la-carte meals are also served outside in a delightful and romantic little garden tucked against the yellow facade of the Tiefenau Hotel. An oasis of peace and quietness right in the heart of bustling Zurich.

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It was the famous architect Pia Schmid’s biggest concern to keep the world known ambiance of these buildings with its long tradition and combine it with a contemporary elegant lobby and front desk area. At the lobby guests can also use the Business Corner which among other services offers free access to the Internet.



The sun shining through the many windows makes you feel right at home in the comfortable rooms.



The new trendy restaurant “Orson’s” designed by famous architect Pia Schmid.

Strong Immune System Fights SARS

The fact of the mysterious pneumonia has been spread, which drives me to do a written review on the suspected cause (i.e. coronavirus) of the SARS (Severe Acute Respiratory Syndrome). As a biomedical researcher, let me show you my concern and make the following suggestions.

The basic mechanism of viral attack is that the viruses replicate themselves using the host's (in this case "our") DNA genetic replication system. By doing so, our body can't function well due to the massive viral replication. Let's assume the immune cells in our body will fight off the infected viruses quickly. However, the viruses are so smart that they could be able to produce some chemical substances to cause our immune cells to die. Besides, this coronavirus is a new kind of virus which belongs to a mutated strain and our body cannot recognize it. No antibiotics have been proved to be 100% effective in treating a viral infection so far. The only way to fight viral injury is by having a strong immune function, since viruses cannot kill all the immune cells in a healthy individual. Therefore, the degree of sickness after infection and the rate of recovery mainly depend on how strong your immune function is.

Boost up your immune system

You cannot avoid the infection unless you avoid infected individuals and areas. But you can try to boost up your immune function by several means. Make sure you are "extremely healthy" at least during this critical period. A stronger immune function could keep the viral damage minimal and could delay the onset of any detrimental effects from the viral infection. The following suggestions aim to strengthen your immune function within a short period of time.

1) Antioxidant nutraceuticals: Antioxidants are chemicals found in foods which exert a great value in strengthening our immune system. Boost up your immune function by taking a cocktail of antioxidant supplements.

- Vitamin E 1000 IU per day. Alpha-tocopherol is the biological active form of vitamin E. There are two forms of it: d-tocopherol and dl-tocopherol. d- is the natural form and dl- is the synthetic form. Try to get the d- form because it is absorbed faster by our bodies.
- Vitamin C (ascorbic acid) 1000 milligram (mg) daily. Instead of taking supplement, you can take 2 pieces of citrus fruit (e.g. oranges) a day to get the vitamin C.
- Beta-carotene, not more than 10,000 IU daily
- Selenium, 200 microgram daily
- Zinc, not more than 500 milligram (mg) daily

– Lipoic acid, 50 mg daily

– Glutathione, 50 mg daily

No adverse effects have been reported from the above suggested supplementation dose.

2) Let green tea to be your daily beverage because it contains tremendous amount of antioxidant flavonoid, catechins.

Eat more tomatoes, broccoli or fruits and vegetables in red and dark green colour. They carry a huge amount of antioxidant carotenoids, lycopene and carotene.

3) No intense physical activities during this critical period! It has been shown that intense exercise will suppress your immune function (related to the upper respiratory infection) even several days following your workout. Instead of intense exercise, light-to-moderate workout helps if you have been training regularly.

4) Make sure you get enough carbohydrate foods (e.g. rice, food concentrated in starch etc.) because carbohydrate is the primary food for immune cells. Drink some Gatorade or Pocari if needed since they are both good sources of carbohydrate.

5) Make sure you get enough sleep and don't make yourself so stressful! Anxiety, depression, and tiredness will influence your body's stress hormones (e.g. catecholamine and glucocorticoids) and thus suppress your immune status.

6) Mouth-mask helps although it is not 100% effective. But it can still decrease the chance of infection.

All the above information is supported by peer-reviewed biomedical literature, that means they are credible and reliable.

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