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Responsible Editors:

Susan Horváth, Managing Director
Paul Wyss, Vice President

Swiss-Chinese Chamber of Commerce
Höschgasse 83
CH-8008 Zurich
Switzerland
Tel. 01 / 421 38 88
Fax 01 / 421 38 89
e-mail: info@sccc.ch
Website: www.sccc.ch

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Konstanz GmbH
P. O. Box 2171
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Here for You

in Switzerland:

Swiss-Chinese Chamber of Commerce
Höschgasse 83
CH-8008 Zurich

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

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

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

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

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

Legal Chapter Zurich
c/o KPMG Legal, Zurich

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

Legal Chapter Geneva
c/o HSCB Republic, Geneva

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

in China:

Swiss Chinese Chamber of Commerce Beijing

Phone	+86 10 6432 2020
Fax	+86 10 6432 3030
E-mail	info@bei.swisscham.org
Website	www.bei.swisscham.org
President	Cyrill Eltschinger

Swiss Chinese Chamber of Commerce Shanghai

Phone	+86-21-6276 1171
Fax	+86-21-6276 0856
E-mail	info@sha.swisscham.org
Website	www.sha.swisscham.org
President	Ren Zhanbing

China After SARS

EDITORIAL

From June 24, when the World Health Organization (WHO) removed Beijing from the list of SARS infected areas and lifted its travel advisory against the city, foreign investors' confidence in China's economic future quickly revived. China National Tourism Administration lifted restrictions on inbound, outbound and domestic tourism. Retail and tourism industries quickly recovered and attracted the attention of overseas investors. The increased awareness of Chinese people to risks caused by the sudden SARS crisis raised the prospect of an increasing volume of insurance premiums.

Despite SARS China had foreign direct investments of US$ 30.6 billion in the first half of this year, up 34.33% year-on-year. Contracted FDI increased 40.25% over 2002 to US$ 50.96 billion, and the number of newly approved foreign-invested companies rose 22.3% to 18.877 in this period. Exports rose a year-on-year 34% to US$ 190.3 billion.

While the growth of gross domestic production (GDP) was down sharply in the second quarter from an extraordinary expansion of 9.9% in the first quarter, it still reached 8.2% for the first half of the year. Fixed assets investment grew a year-on-year 31.1% during the first half to US$ 232.5 billion. At the end of June, foreign exchange reserves stood at US$ 346.5 billion.

Rising exports and foreign investments have led to rapid money supply growth and to increasing foreign pressure for a revaluation of the yuan. However, the Governor of the Bank of China and the Minister of Commerce said the currency will remain stable at the current stage, though the possibility of adjusting the rate will not be ruled out in the future. The yuan has been pegged to the dollar for almost a decade, currently within a band of RMB 8.276-RMB 8.280 to the dollar.

The Chinese government is aware of the risk of overheating in parts of the economy and possible speculative bubbles. The State Council will work out measures to cool investments in the real estate, automobile and steel sectors, while increasing capital-flow towards public facility constructions. Much of that spending is badly needed in the interior of the country. The real boom is still concentrated in the coastal provinces.

Last but not least, the firm handling of the SARS crisis by President Hu Jintao and Premier Wen Jiabao enhanced the political status of the Chinese leadership.

P. Wyss

Paul Wyss
Vice President

General Assemblies

Despite SARS restrictions, over sixty members and guests attended the Chamber's Annual General Meeting on May 27th in Zurich. Among the representatives from Government were Counsellor QIN Hongliang from the Economic and Commercial Section of the Chinese Embassy and Consul General LU Wenjie from the Chinese Consulate General. From the State Secretariat of Economic Affairs (seco), the Chamber welcomed Ambassador Jörg Al. Reding, Member of the Executive Board, and Catherine Kellerer, Head of Relations with China & Eastern Asia.

In his report about Government activities in China during 2002, Ambassador Reding highlighted the "Swiss Innovation Week", the largest official Swiss delegation to China so far led by Dr. David Syz, State Secretary for Economic Affairs together with Dr. Charles Kleiber, State Secretary for Science and Research and Eric Fumeaux, Head of the Federal Agency for Technology.

Guest of honour and key-note speaker Dr. Kurt E. Stirnemann, newly appointed Chairman of the Executive Committee of Georg Fischer AG and Chairman of the Board of Directors of Agie Charmilles Holding AG, reported about the corporate group's endeavours in the P.R. of China, where it employs about 1'000 people at a total of eight sites. Most of the Chinese companies are joint ventures (majority Georg Fischer).

Chamber President, Dr. Jörg Wolle, led through the General Assembly, which approved the Activity Report, the Accounts and this year's Budget. In the light of legal developments since the founding of the Chamber in 1980, it seemed to be advisable to strengthen the Articles regarding the limitation of the member's liability. The proposed modifications of the Articles of Association were approved unanimously. The Geneva Chapter had its own Annual General Meeting on May 8th (report available upon request).

Changes in the Board were approved as follows:

– Dr. Markus Dennler, CEO, Winterthur Life & Pensions and Member of the Executive Board CS Financial Services resigned.

Newly elected to the Board were:

– Lore Buscher, Regional Director, Central & Eastern Europe, Hong Kong Trade Development Council (HKTDC), Frankfurt am Main, Germany and
– Wolfgang Schmidt-Soelch, Head of Market Group 2 (incl. China desk), Winterthur Group, Winterthur.

The Chamber wishes to give a warm welcome to the new Board Members and the Members joining the Association in 2002/2003 and would like to thank all those contributing to the successful development.

Well, after the SARS fever was gone, Europe got struck by the hottest summer ever, while China developed a climate in its economy with growth figures heating up to 17 % in July. Let's hope that the hot news will finally lead to a good harvest too.

Susan Horvath
Managing Director, Member of the Executive Board

Chamber in Zurich on the Move

Between two events in June and July the Chamber had to shut-down it's infrastructure in order to move its offices. Moving from only one street to the other does not make things easier – especially if it comes almost by surprise and during the hottest summer ever. Well, we are back on-line and happy to serve our members.

Swiss-Chinese Chamber of Commerce
Wirtschaftskammer Schweiz-China

(new) Höschgasse 83
CH-8008 Zurich, Switzerland
Phone +41-1-421 38 88
Fax +41-1-421 38 89
E-mail info@sccc.ch
Web www.sccc.ch

Next Event

Business Opportunities and Project Financing with the Asian Development Bank (ADB)

Half-day seminar with individual meeting possibilities with ADB representatives in the afternoon.

Thursday, September 25th 2003
SWX Swiss Exchange, ConventionPoint
Selnaustrasse 30, CH-8021 Zurich

SOFI-seminar in cooperation with the Swiss-Chinese Chamber and those of South East Asia, India, Korea and Taiwan.

On the occasion of the visit of an ADB delegation to Switzerland this seminar will provide participants with background information on ADB and its activities. Participants will be shown how to research the business opportunities that ADB offers, and how to identify and bid for specific mandates. The seminar will also focus on topics of interest such as suppliers of goods and works (procurement), consulting services, and private sector operations.

www.sccc.ch
Events, publications, special topics

New Board in Beijing

After conducting its first pro-forma Board meeting on March 19th 2003, the Board has organized itself as follows:

President
Cyrill Eltschinger, I.T. UNITED

Vice-Presidents
Zhang Hu, LEM Electronics
Manfred Streuber, DKSH

Secretary General
James Chen, SIG Beverage Machinery

Treasurer
Alex Sudan, China Banknote SICPA Security Ink

Board Members
Johnson Li, ASCOM Asia Pacific
Guillaume Boudin, DANZAS X.F. Freight Agency Co. Ltd.

The following Board members were also elected to the National Board of the Chamber in China:

Cyrill Eltschinger, I.T. UNITED
Johnson Li, ASCOM Asia Pacific
Zhang Hu, LEM Electronics

New Address in Beijing

18th Floor, Start City Tower –C
10 Jiuxianqiao Rd., Beijing 100016, China
Phone +86-10-6432-2020
Fax +86-10-6432-3030
info@bei.swisscham.org
www.bei.swisscham.org

Fabian Furrer, Executive Director
Molly Li, Office Supervisor

Changes within the Board in Shanghai

It is after eight and a half years in China that Peter A. Marti's professional has lead him and his family back to Switzerland in July. Consequently, he has informed his fellow Board Members of his resignation as of June 30. 2003. The Swiss-Chinese Chamber of Commerce would like to thank him for his contribution to the Swiss business community as well as his continuous support of the local Chamber throughout the last six years and wishes him all the best.

The following changes within the Board of Directors in Shanghai are valid until the next General Assembly:

New Members

Since April 2003:

Zurich

FAB Parking System AG	Oberbüren
FAN Shaofei	Huttwil
Birch BTC	Seuzach
Reiden Technik AG	Reiden
David Sieber	Zürich
SLI Consulting AG	Regensdorf
ZHAO Bin	Frauenfeld
Imes Management AG	Cham
Bystronic	Niederönz
YUAN Shuang	Schieren
René W. Joerg	St. Gallen
Philipp Lüscher	Basel

Geneva

ESMERTEC AG	Dübendorf
INTESCOM Sàrl - Geneva	Genève
EDGARD BORNET GESTION ET CONSEILS	Aigle
DOÏC LAMBERT SARL	Grandcour
GO4CHINA	Montreux
LUCRIN SA	Genève
MAHER S.A.	Lausanne
M. Guo MING	Cologny

Board Member	Function old	Function new	Comments
Peter A. Marti	President & National Representative	Resignation as per June 30, 2003	Transfer back to Switzer-land
Ren Zhanbing	Vice President	Acting President & National Representative	
Nicolas Musy	Director & National Representative	Acting Vice President & National Representative	
Christian Guertler	Director & National Representative	Director & Acting President of the National SCCC	SCCC Shanghai to take Presidency for two years

Chamber Helps UNICEF to Fight, Prevent and Educate against SARS

In May 2003, the Swiss Chinese Chamber of Commerce in China (SwissCham) launched a long term SARS fundraising initiative to support UNICEF's 1 Million Soap Campaign – an environmental, health and hygiene campaign conducted in cooperation with the Ministry of Health's National Patriotic Health Campaign Committee (NPHCCO) through the coordination of the Ministry of Commerce (MOFCOM). Money raised so far has been handed over to UNICEF in Beijing at a ceremony attended by the Swiss Ambassador to China, Mr. D. Dreyer and SwissCham Beijing's President, Mr. Cyrill Eltschinger on July 11.

Acting as a focal point for all-incoming funds from companies, private and individuals, the Swiss Chinese Chamber of Commerce is confident in maintaining the fundraising campaign to support the fight against SARS here in China.

For Alex Sudan, Treasurer and Director of the Swiss Chinese Chamber of Commerce in Beijing, it was evident to align with UNICEF: "For us it was important to engage in a long-term programme. We liked the fact that the campaign is focussing on prevention of SARS and includes an educational aspect as well: a programme for children and families from rural poor areas in China stressing the need for hygiene. At the same time it was important for us to ensure that the money we raise will be utilised in China."

The donations are part of the free distribution of 2 Mio. soap bars through 12 provinces. A specially printed soap wrapper carries messages promoting hygiene, hand washing, encourages none smoking and none spitting. Note that in addition to this donation, other Swiss-invested companies established in China have contributed to the fight against SARS for an amount in excess of RMB 17 millions, donated to Government bodies, already.

For further information on the Chamber action and activities in China, you may visit www.bei.swisscham.org or in Switzerland www.sccc.ch

About UNICEF

Established in 1946, UNICEF was first known as the United Nations International Children's Emergency Fund. Since 1953, UNICEF is permanent part of the United Nations and known as United Nations Children Fund striving to build a world in which all children live in dignity and security.
UNICEF's 7 Regional and 126 Country Offices do cover more than 160 countries to help children living in poverty. Goal is to ensure that children do get the care and stimulation they need in the early years of life, and encourages families to educate girls and boys. Equally important is to reduce childhood death and illness and to protect children in conflict situation and natural disaster.
UNICEF China was established in 1979 and works in close co-operation with the People's Republic of China. Girls Education, Immunisation Plus, Combating HIV Aids and Integrated Early Childhood and Development (IECD) and Child Protection are our main focus.

For further information on our activities in China please contact: Charles M. Rycroft, Communication Officer, (86-10) 55323131 ext.: 1301, mailto:crycroft@unicef.org

Zurich Forum on Chinese Business Law

China has seen many promising developments in its trade and investment regime over the last 18 months that followed China's entry into the WTO. In an effort to bring the legal regime in line with China's WTO commitments, the Chinese government has issued several new regulations providing more attractive features for investment vehicles. The 4th Zurich International Forum on Chinese Business Law aimed to update the business community with the newest developments in the legal environment and to provide a platform for exchanging insight views on the chances and risks of China investment in a post-WTO scenario.

The forum was held on June 24, 2003 at the Zunfthaus zur Meisen. Despite the unusual summer heat, about 40 participants from the Swiss industry of banking, insurance, machinery, logistic, medicine, legal services and others were present at the half day's programme, jointly organized by the Zurich Legal Chapter of the Swiss-Chinese Chamber of Commerce, the LL.M. Programme International Business Law of the University of Zurich and KPMG Legal. After the WHO travel ban to Hong Kong had been lifted, it was a great pleasure to welcome back the Legal Chapter's guest speakers from Hong Kong, Professor Donald J. Lewis, Faculty of Law, Hong Kong University, and Professor Peter Rhodes, Denton Wilde Sapte, Hong Kong.

In the first part of his presentation, Professor Donald J. Lewis introduced the major developments in the trade and investment regime after China's WTO accession. Special attention was drawn on the conformity of the Chinese practice to bring it in line with the TRIMs, SCM and GATS agreements under the WTO framework. The new opportunities for foreign investors in the services sector, merger and acquisition transactions and recognizance of state-owned enterprises etc. were outlined. In the second part of his presentation, Professor Lewis was focusing on the aspects of foreign trade and technology transfer. The trade liberalization driven by the WTO requirements, the improvement on trading right issues, licensing and anti-dumping regulations were elaborated in detail. Finally, the new regulatory regime of technology import and export was addressed.

Esther Nägeli, from a practical perspective, delivered an assessment of the recent legal developments regarding mergers and acquisitions. After giving a general introduction on the legal framework as well as vehicles and structures for M&A transactions in China, she focused on the newly promulgated regulations for foreign investors' on mergers with and acquisitions of Chinese domestic enterprises. Furthermore, the new opportunities in relation to investment in state-owned enterprises were presented. Wenbin Wei assessed the merger control pro-

f.l.t.r. Wei Wenbin, Esther Nägeli, Professor Donald J. Lewis and Professor Peter Rhodes.

visions introduced in the new merger and acquisition rules. He stressed the impact of competition issues on such transactions, which allow for a wide scope of authority discretion in the approval process. It became clear that in future competition issues may in fact have a bearing on foreign investment to China and that foreign investors need to become more aware of these issues when looking at new or the expansion of their existing investment in China.

Professor Peter Rhodes presented an analysis of the impact of China's economic rise on the Southeast Asia economy. By comparing the threat and the opportunities that China has imposed and provided to the neighburing countries, Peter Rhodes suggested that development strategies of ASEAN's countries should be integrated alongside China's economic development. With its high demand for technology and know-how, its growing domestic market as well as its growing exports into the Asian region, and its large tourists source, China offers opportunities for the whole Asian region and is deemed to be the new engine for Asian growth. As to the impact of SARS on the Asian economy, Peter Rhodes expects that it will only have a short-term effect, but no long-lasting consequences. Despite the impact of SARS, most of the Asian economies are still expecting a significant GDP growth in 2003.

For the 4th time, the meanwhile well-established forum provided again a platform for pooling information and sharing views on the related legal issues regarding China trade and investment. The Zurich Legal Chapter looks forward to meeting and discussing these issues with a growing number of interested business people at the next Zurich International Forum on Chinese Business Law or at the Legal Chapter's regular meetings.

For further information, please contact:
Mrs. Esther Nägeli
Chairperson Legal Chapter of SCCC
c/o KPMG Legal
Phone +41-1-249 30 07 /
Fax +41-1-249 23 23
E-mail enaegeli@kpmg.com

Next Event Legal Chapter

Wednesday, 19 November
Time: 10:30 till 13:00 h (sandwich lunch)
Venues and topics to be announced later.

Workshop-Summary: "The China Challenge"

(Note from the editor: As our President Jörg Wolle noted in his opening speech, the two speakers Hans Jakob Roth and Jürg Lauber formed a "Dream Team". Yet, it was Jürg Lauber's last public appearance in his function as Economic Counsellor before leaving the Swiss Embassy in Beijing to start at the Swiss Mission to the United Nations in New York in August. The Chamber would like to thank him for his great contribution and continuous support during the past three years and wishes him all the best in his future endeavours.
For all those, who missed this last opportunity, we are pleased to present an abstract of this full-day seminar.)

by Regi Preiswerk

June 19th, a hot and sunny day in the city of Zurich. While the majority of inhabitants was dreaming of a day at the lakeshore, around 50 people of all walks of business and academic life attentively followed the excellent and inspiring speeches of two high profile China experts at the Zunfthaus zur Zimmerleuten. Invited by the SCCC and in cooperation with the Swiss Chinese Society, OSEC, Swissmem, Economiesuisse and the Swiss-South East Asian Chamber of Commerce, Hans Jakob Roth, Consul General of Switzerland in Shanghai and Jürg Lauber, Economic Counsellor at the Swiss Embassy in Beijing, gave insight into the current political and economic situation in China as well as into "the Chinese mind".

Mr. Roth first commented in his introduction on the **importance of Asia in the 21. century**, not in the sense, he stressed, that Europe would decline and be crushed by the emerging powers of Asia, but in the sense that you actively will have to take into account these new global players, no matter what you do. Genuine interest in China and intercultural competence, however, are prerequisites for a sustainable economic and political partnership with China.

Mr. Lauber then took over to summarize current political and economic trends and their implications for companies in the China business.

Politics: The 16th Party Congress last year as well as the Peoples Congress in March 2003, made clear that the generation shift of the political leadership in China has been successful. Although the power struggle behind the scene has been as impenetrable as ever, the change itself has been smooth so far. The focus of the new leadership clearly lies in the maintenance of political and social stability which is estimated to be only possible, if the impressive economic growth can be kept on a rate above 7%. Therefore the new government is willing to continue the process of economic reform in several important points: they plan to further pull apart state owned enterprises from governmental institutions, encourage Chinese investment abroad, build up an independent court system and acknowledge the importance of the private sector. Moreover, they already reorganized some relevant commissions in the economic field, merging for example the Ministries of Foreign and Domestic Economy and trade into the new Ministry of Commerce.

Challenges: For sure, there are a lot of enormous challenges to be met, be it the gap of wealth and development between cities and the countryside, or East China and West China, the growing unemployment rate, corruption, environmental pollution and unfavourable demographic changes. Still, the political stability, the commitment to economic growth, the self-confidence of Chinese people and the optimism of the Chinese urban middle class seem to make it possible to deal successfully with these problems.

Consequences: For foreign investors and trade partners this situation implies that, while local unrest still is a possibility to be considered, they can expect general stability. That the segmentation of the Chinese market, due to unequal development, will continue and ask for according market strategies. And that the costs of labour will rise with growing living standards. Interestingly enough, most western investment in China nowadays is not so much driven by cost advantages any more but by the aim to enter this market.

Foreign relations seem mostly aimed at creating stability and favourable economic conditions, especially in the Asian region itself. Although the relation to Japan remains very much sensitive, China generally tries to be a reliable non-aggressive neighbour and supports economic cooperation in the Asian region including Central Asia. The Taiwan issue still produces a lot of fuss without having any serious consequences, though. Regarding global politics China, supports a multipolar power system to oppose the hegemonial tendencies of the USA, but has kept a very low profile in the Iraqi war. Problems with the USA are currently rather on the economic side since the implementation of the WTO agreements up to now has mostly benefited China and not the USA. Switzerland maintains regular high level diplomatic contacts, will intensify contacts on a more operational level and supports many exchange activities in the field of culture and education. The recent visit of Mrs. Calmy-Rey despite of SARS has been especially well perceived in Beijing.

Economy: First of all, Mr. Lauber stressed the point that a positive economic development of China will also be beneficial for Switzerland after all. Political stability, continuing impressive growth rates, the effects of WTO with increasing foreign direct investment and rising exports and the "China dream" newly nurtured by the Olympics Beijing and the World Expo Shanghai are producing a positive over-all environment. Official support for the private sector (although state enterprises will still be privileged) and the emergence of a consumer and leisure society (or class) adds to this picture.

SARS: On the negative side, there is of course SARS, which had a terrible impact on the tourism industry and some urban retail businesses. But also rural income suffered, since a lot of migrant workers lost their jobs or fled to their hometowns. Industrial production was not affected directly, but exports and domestic sales and distribution were hampered to a certain extent. Since the government will back the economy in case of losses by investing more itself, it is possible that, as a consequence, necessary reforms (for example in the banking sector) will be put off for a while. Still, as a whole, China seems to have gotten off rather cheaply. On the other hand, it showed the risks for those companies in the West depending (too) heavily on China.

Administrative restructuring has recently resulted in several new institutions: the new Ministry of Commerce, the State Owned Assets Supervision Administrative Commission, the State Development and Reform Commission and the China Banking Regulatory Commission. This move is meant to better separate the sphere of responsibility between different commissions, to be more efficient in granting permissions, to better control the state banks and to further withdraw the government from the management of state owned enterprises.

WTO: While there have been a lot of expectations from the West regarding the entry of China into the WTO, you can observe so far that laws have not become more transparent nor has the rule of law augmented. On the other hand, competition has aggravated and new mechanisms of warding off Western enterprises have evolved. On the positive side, WTO has rather strengthend the process of reform and the situation of private enterprises in China.

(continued on page 12)

Perspectives for the China business: Privatisation of state owned enterprises will go on and will also create new opportunities for M&A. In this field the biggest problem to overcome is missing transparency and unreliable data on these enterprises. The Chinese market will further decentralize due to different speeds of development which asks for differentiated market strategies from the part of Western market players. The opening up of the market will continue, but at the same time Chinese competitors will also grow stronger, sometimes due to government backing (see the mobile phone market, for example). To ensure elevated growth rates, China has to create more added value, which is at the same time a risk as well as an opportunity for the Swiss industry. While urbanisation and the forming of a consumer society will go on, the market entry costs are getting higher, the margins are coming down.

Consequences: At the end of his speech, Jürg Lauber stressed the need for several measures. First of all, Swiss enterprises have to take into account China as an important player in global economics, no matter whether they want to be active in the Chinese market or not. Therefore, everybody has to develop some kind of China strategy. The Swiss business community, together with the administration, has to do research concerning the impact of the China challenge for Switzerland and its industrial base. And the instruments of private and public promotion of export and investment have to be better coordinated and further enhanced.

Hans Jakob Roth continued the workshop with the discussion of the "soft facts" involved in China business, the Chinese mind on one side and the own cultural patterns of acting and thinking on the other. He stressed the fact that a longer stay in China is a challenge to ones own identity, making self-conception, self-criticism, but also self-assertion an important part of the experience.

Crucial for the understanding of Asian collective societies in opposition to Western individualistic societies is the notion of **density** in a physical sense which does not allow for individuals to develop outside or in opposition to the community.

Related to the notion of community, there is strict separation between **inside and outside** resulting in different ethical standards towards people of your own group and outsiders. Doing business with a Chinese partner can therefore be successful only, if you manage to establish a relationship of personal trust, which means that you are considered to be a member of the group. The same is true for an enterprise having Chinese employees: you can expect loyalty from their side only, if you manage to create some sort of "family atmosphere" which means that the company's leaders have to take better care of employees than in Switzerland.

At the core of all social activities is the **personal relationship** between people. Therefore, loyalty towards a certain matter or aim is inferior to loyalty towards a person which, in the worst case, can create serious contradictions. Building up a stable, trustful relationship, however, is estimated to need about two years effort.

There is also the question of **corruption** coming up in this context. It is not advisable to bribe! In the first place, you will be dependent on these people, not knowing whether they will survive the next political struggle inside the party, for example. With anti-corruption campaigns taking place here and there, you actually also endanger your Chinese partner. If you feel that you cannot get around it, try to arrange a trip to Europe or something of this sort.

Collective societies are based on homogeneity, **harmony** and discipline. Once you know this, the hard part is not necessarily the creation of harmony but to assert yourself all the same. If you are too soft, people will not respect you and take advantage of it without any remorse!

The **Chinese mind** is very much influenced by the realities of a mass society living very densely. What they perceive is rather close to themselves and is perceived with all senses. The entire person is seen as part of the process, which means that a Chinese partner not only is interested in your company but also in yourself as a person. Therefore, he will ask you questions we normally don't in a business context and expects the same from your side.

Reality is perceived as a **process** and not as a status which means, for example, that contracts may be remodelled every other day to suit new developments. In this context it is important that the Western partner of a contract also uses this possibility for his own ends.

The advantages of the Chinese mind lie in its **flexibility and pragmatism** while the Western mind is rather suitable for long-term strategic thinking.

Mr. Roth closed his speech with the advice that professional business must have an ethical basis. The best deal is not necessarily the one resulting in the highest possible profit, but the one creating a win-win situation since it guarantees a sustainable, long-term commitment from both sides.

For further information or to order the documentation, please contact the Chamber at info@sccc.ch

Swiss-Chinese Trade / First Half 2003

(in Mio. CHF)
Comparison to the same period last year / Share: Share of goods in trade with country

Goods	Export Mio. CHF	Export ± CHF%	Export Share	Import Mio. CHF	Import ± CHF%	Import Share
Total selected	**1.107,3**	**24,1**	**100,0**	**1.107,5**	**0,2**	**100,0**
Agricultural products	7,3	38,5	0,7	29,1	–29,2	2,6
Energy carriers	0,1	128,5	0,0	0,0	31,8	0,0
Textiles, apparel, shoes	16,6	25,3	1,5	268,0	–6,9	24,2
Paper, paper products, printed matter	5,9	39,3	0,5	5,0	35,9	0,5
Leather, rubber, plastics	17,1	2,4	1,5	72,7	0,6	6,6
Chemicals, pharmaceuticals	196,2	16,2	17,7	138,1	–5,1	12,5
Construction materials, ceramics, glass	5,3	242,6	0,5	10,5	1,0	1,0
Metals and metal products	46,7	13,6	4,2	55,9	2,8	5,0
– Iron and steel	1,2	48,8	0,1	0,7	12,8	0,1
– Non-ferrous metals	4,9	–13,0	0,4	4,4	–10,9	0,4
– Articles of metal	40,6	17,0	3,7	50,7	4,1	4,6
Machinery, apparatus, electronics	636,9	18,9	57,5	273,0	21,1	24,7
– Industrial machinery	488,0	23,1	44,1	33,4	22,3	3,0
– Engines non-electrical	17,7	–27,5	1,6	3,8	–	0,3
– Construction machinery	2,1	–21,8	0,2	0,0	–65,5	0,0
– Machinery engineering	468,2	26,8	42,3	29,6	9,0	2,7
– Pumps, compressors, fans, etc.	22,9	–12,5	2,1	6,0	39,8	0,5
– Process engineering, heating, cooling equip.	22,4	–0,5	2,0	5,1	42,0	0,5
– Lifting and handling equipment	21,2	103,2	1,9	1,5	6,6	0,1
– Machine-tools metalworking	78,5	27,3	7,1	1,3	–18,6	0,1
– Machine-tools for mineral materials	7,6	128,1	0,7	0,0	–99,7	0,0
– Plastics-, Rubber machinery	14,3	–54,2	1,3	0,0	772,0	0,0
– Machine-tools for wood, cork, etc.	3,3	–36,5	0,3	1,1	–27,3	0,1
– Other machinery	51,3	14,1	4,6	2,1	83,0	0,2
– Hand held tools	2,1	–14,0	0,2	5,7	19,2	0,5
– Welding machines	8,8	–22,7	0,8	0,4	–46,1	0,0
– Printing and paper machinery	54,1	28,6	4,9	1,1	102,0	0,1
– Textile machines	157,7	65,5	14,2	0,6	5,9	0,1
– Food processing equipment	15,2	135,1	1,4	2,3	–22,8	0,2
– Filtering and purifying machines	4,1	55,9	0,4	0,4	24,9	0,0
– Packaging and filling machines	4,8	30,8	0,4	2,0	–19,4	0,2
– Agricultural machines	5,2	–	0,5	0,2	119,7	0,0
– Household appliances	0,8	–46,1	0,1	86,0	0,7	7,8
– Entertainment electronics	0,5	–65,5	0,0	56,7	1,1	5,1
– Household machines	0,4	72,9	0,0	29,3	–0,1	2,6
– Office machines, Computers	1,6	–50,0	0,1	69,7	71,7	6,3
– Electrical machinery and electronics	140,9	5,0	12,7	83,7	16,4	7,6
– Power generation, electric motors	20,1	30,0	1,8	20,7	–2,6	1,9
– Telecommunications	24,4	195,1	2,2	20,3	58,9	1,8
– Electric and electronic articles	96,4	–12,8	8,7	42,7	12,7	3,9
– Defence equipment	0,3	38,9	0,0	0,0	–78,7	0,0
Vehicles	3,2	103,6	0,3	13,1	–0,2	1,2
– Road-vehicles	2,3	175,1	0,2	12,0	6,2	1,1
– transport of persons	0,2	–28,2	0,0	9,0	10,0	0,8
– transport of goods	0,0	–	0,0	0,0	–	0,0
– Special purpose vehicles	1,5	–	0,1	1,3	23,2	0,1
– Spare parts	0,6	12,3	0,1	1,7	–17,5	0,2
– Railway vehicles	0,8	17,1	0,1	0,3	–71,8	0,0
– Aircraft and spacecraft	0,2	116,6	0,0	0,2	–33,1	0,0
– Vessels	0,0	–	0,0	0,6	16,8	0,1
Precision instruments	80,3	37,6	7,3	41,5	8,0	3,7
– Optical instruments, photo	8,4	11,4	0,8	26,3	–6,3	2,4
– Surveying instruments	8,8	–	0,8	2,1	31,3	0,2
– Medical instruments and appliances	23,5	44,8	2,1	2,3	73,6	0,2
– Mechanical measuring, testing, control equipment	39,7	15,8	3,6	10,8	45,4	1,0
Watches	85,1	141,4	7,7	87,0	–8,5	7,9
Other goods	6,6	–36,1	0,6	113,5	–4,0	10,3

Source: swissmem & Eidg. Zollverwaltung

Recent Foreign Investments / Joint Ventures

USA

AOL TIME WARNER has won permission to broadcast its Chinese-language entertainment channel to hotels and selected residential compounds across China. The Chinese language channel had been restricted to viewers in Guangdong province. The success follows a similar coup by rival Star TV, which in January won approval to broadcast its Chinese-language channel to hotels and selected compounds nationwide.

DUPONT and the Chinese coatings producer Beijing Red Lion Coatings Co. Ltd have signed agreements to form two joint ventures, one in Beijing and the other in Changchun in Northeast Jilin province. DuPont will hold 60% of each venture and the Chinese partner 40%. With the prime focus on coatings for the automobile industry, the two ventures started operating on May 1st.

AMERICAN EXPRESS and China International Travel Service Head Office opened Shanghai's first corporate travel joint venture. Shanghai is the hub for around 300 of the Fortune multinational firms in China. Inward and outward bound air travel experienced a 16% growth in 2002. As part of its growth plan, American Express will expand its corporate travel network into 40 other Chinese cities within the next 12 months.

ORACLE signed an agreement with China International Exchange Foundation to train 4.000 Chinese software engineers annually. Oracle will also offer its patent software products, teaching material and test service, valued at more than US$ 12 million. The program will train local personnel for China's 11 national software bases in major cities.

CISCO SYTEMS, makers of networking equipment, will make a donation worth US$ 2.6 million to the Chinese Ministry of Health. The donation will help to build a national epidemic data exchange network as a key tool to prevent the spread of SARS. It will make it possible for the Chinese Government to collect and update SARS data more effectively.

PRAXAIR and French **AIR LIQUIDE**, through their joint venture Shanghai Chemical Industry Park Industrial Gases Company, signed contracts with German BASF and Shanghai SECCO to provide gases for their plants at Shanghai Chemical Industry Park.

The gas venture will build two plants capable of taking care of all known projects in the park.

GOLDMAN SACHS announced a strategic partnership with Industrial and Commercial Bank of China (ICBC).The joint venture will take on bad loans from ICBC worth up to US$ 1.2 billion. ICBC has assets of about US$ 600 billion and a non-performing loan ratio of 24%.

AOL TIME WARNER has acquired a 49% interest in Shanghai Yongle Cinema, the top movie theater in Shanghai, for US$ 1.69 million.

AIG, world's largest insurance company has licenses pending for non-life insurance and is exploring investments in asset management, real estate, infrastructure funds and aircraft leasing.

SIKORSKY AIRCRAFT CORP. recently unveiled its first Chinese-made helicopter in Shanghai made by Shanghai Sikorsky Aircraft Corp., a joint venture with Shanghai Little Eagle Science and Technology Co. Government, business and social organizations will be the company's main buyers in the next few years.

WAL-MART, the world's biggest retailer, is also the world's biggest buyer from China with US$ 12 billion a year worth of textiles, toys, TVs. It has helped to make the U.S. trade deficit with China of US$ 103 billion the widest gap between any two countries in history.

HEWLETT-PACKARD Shanghai branch was listed as the top of nearly 30.000 foreign-funded companies in terms of per-capita profits in Shanghai. It stood at US$ 256.000 per capita in 2002.

CANADA

CANADA NATIONAL RESEARCH COUNCIL organized a three-day visit to Beijing for a group of 20 Canadian business people from medium-sized companies in the information and communications technology industry with a keen interest in cooperation with China.

BOMBARDIER, the world's No. 1 maker of trains and third-largest producer of civil aircraft, will deliver more than 200 metro cars and trains to China. The company is in talks with different parties about high-speed trains. Bombardier has two joint ventures, the Changchun Bombardier Railway vehicles Co Ltd., and Bombardier Sifang Power (Qingdao) Transportation Ltd.

AUSTRALIA

AUSTRALIAN & NEW ZEALAND BANKING GROUP (ANZ), Australia's third-largest bank, is pursuing major expansion plans in China. The group already has a co-operation deal with Shanghai Rural Credit Co-operative Union.

SOUTH AFRICA

SABMILLER has acquired a 29,66% stake in Harbin Brewery for US$ 86.6 million. Harbin brewery is one of the biggest brewers in Northeast China. Sabmiller has entered 30 joint ventures with a stake of 49% since 1994.

KOREA

SOUTH KOREA TELECOM clinched a contract with China Unicom to build a joint venture focusing on value-added wireless Internet business based on China Unicom's CDMA network. The total investment was set at US$ 6 million. China Unicom will hold the dominant 51% stake.

JAPAN

HONDA (65%) started a new joint venture in Guangzhou with Guangzhou Automobile Group (25%) and Dongfeng Automobile Group (10%) In the first phase, the project is expected to have an annual production capacity of 50.000 cars, eventually rising to more than 240.000 cars a year.

NISSAN will invest US$ 1 billion in a US$ 2 billion joint venture with Dongfeng Automobile Group in Wuhan. Nissan's investment is one of the largest in a state-owned Chinese company since China entered the WTO in 2001. Passenger cars will carry the Nissan badge. Commercial vehicles will bear the Dongfeng brand.

SOMPO JAPAN INSURANCE CO, the second-largest property insurance firm in Japan, opened a branch in Dalian. It is the first overseas-funded property insurance firm approved by the China Insurance Regulatory Commission in northern Japan.

GERMANY

BMW signed an agreement with Brilliance China Automotive Holdings to establish its first production base in China. The venture will start producing BMW 3-series models in the second half of 2003, with the more expensive 5-series to be added next year. BMW will hold a 50% stake.

SIEMENS CHINA recently clinched a deal with Beijing University that will see the local talent at the prestigious school as part of a strategy to boost the multinational's localization in China. The introduction of the Beijing International MBA programme will largely elevate the management capabilities of the company's local staff.

ALLIANZ has been given the final approval to launch its first property and accident insurance operation in China. Allianz is the first foreign company to be permitted to establish a non-life insurance service since China's WTO accession. It is also the first European insurer to offer both property and accident and life insurance in China.

DAIMLER-CHRYSLER is seeking approval to establish an EUR 250 million joint venture in Fuzhou that will manufacture vehicles for export to Southeast Asia.

The intended investment signals growing interest among international carmakers in China as an export production base.

VOLKSWAGEN GROUP intends to integrate its two car joint ventures in China into one entity to cut costs. Volkswagen is the passenger car leader in China and jointly owns the two biggest Chinese carmakers -Shanghai VW and FAWVW- with Shanghai Automotive Industry Corp and First Automotive Works Corp. Volkswagen's output in China will exceed 600.000 units this year and 1 million by 2007.

DRAEGER MEDICAL donated medical instruments worth US$ 245.000 to the Ministry of Health to fight against the SARS epidemic in China. The donation includes five Savina intensive-care ventilators, Dräger's best-selling product in the Asia-Pacific region.

BERTELSMANN, the world's third largest media group, welcomed the recent opening-up of China's distribution sector. The greater market access will allow Bertelsmann, which is a retailing company selling books and audio-video products, to extend into other cities from its Shanghai base. Bertelsmann is one of seven foreign media groups applying to distribute books, newspapers and magazines in China. The others are from the US, United Kingdom, Japan, Singapore and Germany.

MUNICH RE, the world's biggest reinsurer, has won permission to underwrite local currency business as part of a liberalisation of China's small but fast-growing insurance market. Total premiums from insurance and reinsurance were US$ 37 billion in 2002

HOLLAND

ING SHANGHAI obtained approval from the China Banking Regulatory Commission to conduct business in local currency. The licence allows ING to lend Renminbi funds to foreign-invested companies in Shanghai, Shenzhen, Tianjin, Dalian, Guangzhou, Zuhai, Qingdao, Nanjing and Wuhan.

ENGLAND

LOVELLS, London-based law firm, will open an office in Shanghai in September. Lovell received a licence to open an office in Beijing in 1992. The Ministry of Justice recently lifted restrictions which prevented foreign law firms opening more than one office in China.

FRANCE

BNP PARIBAS and Hubei-based Changjiang Securities obtained approval for a securities joint venture from China Securities Regulatory Commission, the second of its kind in China. Changjiang will hold 67% of the venture, with BNP holding 33%.

AIRBUS in April signed a contract with China Aviation Supplies Import & Export Group for the supply of 30 aircraft worth US$ 1.9 billion. The deal is for four long-range A330s and 26 planes from the mid-range A320 family. The contract was signed during a visit to Beijing by French Prime Minister Raffarin.

ALCATEL, and China's biggest mobile operator China Mobile, came together to donate more than US$ 200.000 worth of telecommunications equipment to the Beijing Government to support the capital's hospitals involved with SARS patients.

ITALY

The China-Italy Chamber of Commerce donated 3.500 sets of protective suits to the Ministry of Health on behalf of Italian businesses. The suits, worth US$ 11.836 will be delivered to four SARS designated Beijing hospitals.

SWEDEN

VOLVO is to become the first western heavy truck maker to establish a manufacturing plant in China as a result of a joint venture with China National Heavy Truck Corporation. Production in Jinan, Shandong province, will begin by the end of the year with a target of 2.000 heavy trucks a year, growing to 10.000 by 2010. Both companies will hold a 50% stake in the venture, named Jinan Huawo Truck Co.

IKEA has opened its largest Asian store yet in Shanghai. The new store is considered to be the most significant move for the Swedish furnishings producer since it arrived in China five years ago. Covering 33.000 square metres, the two-storey store, which is four times bigger than the old one, is expected to bring in four times larger sales.

TETRA PAK, a global food packaging giant, will pump an additional US$ 100 million into China in the next 12 months. The announcement was made at the completion of a new warehouse of Tetra Pak (Kunshan) in Jiangsu Province. Tetra Pak entered the Chinese market 23 years ago. It has one solely funded company in Kunshan City, and three joint ventures in Beijing and Foshan.

FINLAND

NOKIA plans to strengthen its position in China, the world's fastest-growing mobile phone market, by merging its four joint ventures and starting its own brand-name local production. The move should help Nokia to close the gap on Motorola, which has the largest market share. Motorola has about 30% of the Chinese market and Nokia about 20%. Nokia will own more than 60% of the new company, which has not been named yet. Production will start in the second half of 2003.

NOKIA donated advanced medical equipment worth US$ 313.000 to the Beijing municipal government to help the capital city fight SARS. The equipment includes breathing machines and x-ray equipment. Nokia also donated hundreds of mobile phones to health-care professionals in the hardest hit regions to help them keep in touch.

SWITZERLAND

SINO-SWISS VENTURE CAPITAL FUND MANAGEMENT CO LTD (SSVC) recently announced its establishment in Beijing with a registered capital of US$ 1.2 million. China Development Bank (CDB) holds a 67% stake and the State Secretariat for Economic Affairs of Switzerland (SECO) holds 33%. Involved in managing the Sino-Swiss Partnership Fund (SSPF) founded in 1998 by SECO and CDB, SSVC creates a new way to support Chinese enterprises with foreign funds.

HERZOG & DE MEURON, famous Swiss architects, won a tender for the 100.000-seat national stadium of the 2008 Olympic Games in Beijing. The stadium will be the site of the opening and closing ceremonies and for a number of contests.

CREDIT SUISSE FIRST BOSTON, among four investment banks, has been named to jointly underwrite the global share sale of China Life Insurance. China's largest life insurer is reportedly aiming to raise between US$ 2 billion and US$ 3 billion through its listing, preferably in Hong Kong.

UBS (see separate reports on page 22)

ROLEX is investing US$ 12.5 million in a trading company and a repair and service center in Shanghai. It will be the first such wholly owned foreign venture by a single foreign watchmaker. The center, with all equipment imported from Switzerland, will be Rolex's biggest repair and service center in Asia.

SCHINDLER launched its new high-speed elevator in Bejing. The new Schindler lift can travel upwards for up to 500 metres and at a speed of up to 10 metres per second. Despite the high speed, passengers cannot feel the forces involved. More than 50% of the world's high-rise elevator demand is in Asia.

NESTLE plans to speed up investment in its Chinese ice cream operations. There is a huge growth potential as Chinese people's per capita ice cream consumption is at a very low level, currently at less than one litre a year, compared with nearly 23 litres in the U.S. Nestle began its ice cream business in China in 1992 and has now four factories in Tianjin, Shanghai, Guangzhou and Hong Kong.

ROCHE announced that it aims to raise its Chinese sales as a percentage of global sales from the current 1% to 3-5% in five years. Although Chinese sales account for 25% of its Asian sales (excluding Japan), last year's Chinese sales of US$ 319 million accounted for only 1% of global sales. Roche has three enterprises with its own capital and three joint ventures, with a total investment of US$ 236 million.

UBS WARBURG became one of the first two financial service firms to get a qualified foreign institutional investor (QFII) licence from China Securities Regulatory Commission (CSRC). It is an entry ticket to China's US$ 500 billion A-share market as well as the bond market, which used to be available only to domestic traders.

LONZA will invest US$ 30 million in a new plant in Guangzhou for Niacinamid animal feed. The new plant will go into operation in March 2005 with an initial yearly capacity of 6000 tons.

SWATCH GROUP offered its support to China's fight against SARS donating US$ 60.250 to the country's Red Cross Society. The money will all go to the Chinese Centre for Disease Control and Prevention.

Summary by Paul Wyss

China's "Hidden Economy" about 15–20%

The "hidden economy", consisting of the "black and grey markets", measures up to about 15 to 20% of China's total GDP, according to a well-known Chinese economist.

The economist, Huang Weiding, told reporters that it is difficult to overlook the development of the hidden economy in China. "The period of rapid economic growth is also a period of rapid social and economic restructuring," he said, "and imbalances in development and management occur very easily. This provides the roots of the hidden economy."

The hidden economy grew most rapidly in the 1980s and 1990s, Huang Weiding believes, and although growth is slowing down, it still cannot be overlooked, Zhongguo Xinwen Wang reports.

The hidden economy is defined as those economic activities that take place outside the purview of government oversight, and is not included in any of the official statistics provided by the authorities. The activities are illegal and "behind closed doors". Huang Weiding said, "Calculating on the basis of the official national GDP figure for 2002, which stood at RMB 10 trillion (USD 1.21 trillion), the value of the hidden economy stands between RMB 150 bln (USD 18.1 bln) and RMB 200 bln (USD 24.2 bln)."

Untaxed income is one of the main components of the grey economy, he continued, whether it be from unofficial sideline jobs, unregistered companies, or outright corruption. Striking down on tax evasion by high earners is also a necessary campaign in the battle against the hidden economy, but with many transactions being made in cash, it is very difficult to control, he admitted.

The case against the actress, Liu Xiaoqing, received so much attention because it was representative of a wider phenomenon. An investigation showed that only 50.2% of the incomes of top earners was from regular and accountable salary payments. "It is said that 80% of China's wealth is concentrated in 20% of the population, but looking at it from the taxation situation, most of the tax burden falls on the lower earners," Huang noted.

Huang Weiding said that before taking measures against corruption, China's banks found that total personal savings amounted to RMB 6 trillion (USD 725 bln), among which, RMB 1 trillion (USD 121 bln) consisted of money shifted out of company accounts (usually state-owned companies) and into private ones, mainly to avoid the taxman or make unauthorized and unregulated investments. Huang says that according to rough estimates, 50% of state-owned companies, 80% of collectively-owned "township" enterprises, 60% of joint ventures and 90% of private companies indulge in this kind of activity.

Huang then turned to the black economy, consisting of activities like bribe-taking, embezzlement, smuggling, drug dealing, prostitution, gangster activities, counterfeiting, and money-laundering. A study into the Chinese black economy estimated that there were a total of 5 mln people involved in the prostitution industry alone. Money-laundering is estimated to have reached a volume of over RMB 200 bln (USD 24.2 bln) a year. In 1998, FDI from Hong Kong stood at USD 14.7 bln, and rose to USD 64.3 bln in 2000. Analysts believe that a large proportion of the increase was connected to money-laundering activities within China. Furthermore, China's capital outflow has reached an annual total of USD 16 bln, 40% of the volume of foreign investment in the country.

As Interfax reported last year, a study by Beijing University indicated that more than 4,000 people suspected of embezzling state funds or soliciting bribes have absconded from China with about RMB 5 bln (USD 600 mln). Corrupt officials channelling money abroad is considered a serious problem, and a series of measures have been implemented over the last year to set up monitoring systems for all large-scale foreign currency transactions.

The hidden economy is slowing down, Huang said, mainly because China has already shifted from a planned economy to a market economy, and because the government has already made it one of its biggest priorities. This itself causes problems, he said, with many activities moving away to the cities, where the authorities are more vigilant, and taking root in the countryside. 80% of the fake medicine produced in rural areas is now consumed in rural areas, Huang claimed. And when there is a crackdown on mafia-like organizations, those organizations quickly change their exterior and borrow the appearance of legitimate businesses.

Source: Interfax China

Tidying-up China's Market

China's newly established Ministry of Commerce (MoC), the merger of MOFTEC and SETC, has now been in operation for several weeks. Minister of Commerce Lu Fuyuan has stated that the MoC's policies were clear in their orientation to develop a uniform and open market with a "sound order of competition". This means that the China market should, in theory, be an equal playing field for both local and foreign companies.

Yet it remains to be seen what lies underneath these words. According to Lu, the MoC is in the midst of drafting some important measures for the next few months such as fighting protectionism and counterfeiting, "rectifying and regulating market order" as Lu calls it.

Good news for foreign business then? Maybe. The MoC is a powerful organization at least in size. But integration of the two state ministries into one will take time. Both of them were dealing with different clientele and possess differing expertise. There are indications that although there is only one Minister of Commerce, there now exist two departments for each sector. China's multiple market nature with strong local protectionism is another worry. It remains unclear if the MoC has authority over provincial governments to enforce a more open and equal market approach.

For the time being, a wait-and-see approach to the true intentions and capabilities of MoC is the only option. It is still too early to decide whether the new bureaucracy will make life easier by being the force behind a more liberal implementation of WTO-regulations and thus in favour of foreign business.

Fiducia Management Consultants
www.fiducia-china.com

Guidelines for Foreign Investors Released

Foreign business people have been given extra guidance on products open to overseas investors with the release of a new government document on July 18th 2003.

They are welcome to invest in high-tech industries such as information, electronics, space and aviation, optics, machinery and biomedicine, according to the new Catalogue for Guiding Foreign Investors to High-tech Products. They have also been invited to inject capital into medical instruments, new materials, new and high-efficiency energy resources, environmental protection, earth and ocean sciences and applied nuclear energy technology, the ministries of commerce and science and technology said.

The catalogue they jointly issued specifies 917 products from these fields open to foreign capital. The two ministries and other relevant government departments are now developing a policy to help foreign business people to invest in some of the products. The catalogue is designed to encourage the country's high-tech sector to adopt advanced technologies from abroad and stimulate innovation among domestic firms, according to the Department for High-tech Development and Commercialization at the Ministry of Science and Technology. "This catalogue also aims to help domestic industrial sectors to avoid importing relatively low-level foreign technologies," said the department's official Wang Qi'an.

The newly-issued catalogue provides foreign investors with information on specific high-tech products, making their investment more targeted, said Wang.

Source: China Daily

Official Website for Foreign Investments in China

A website for foreign investment in China launched by the Ministry of Commerce (MOC) went into official full operation in July after trial operation for half a year. Vice-Minister of Commerce Ma Xiuhong said the website, namely Invest in China

www.fdi.gov.cn

will help carry out the policy of attracting foreign investment in a positive, reasonable and efficient way. Ma noted the website will show the open, fair and transparent principles advocated by the World Trade Organization (WTO), and improve China's investment environment.

The Chinese and English bilingual website covers columns on Chinese economy, laws and regulations, relevant government departments, investment news, opportunities, consultation, statistics and research, and search service. It also links with other websites, such as the business agencies of Chinese embassies overseas, relevant departments of China's State Council, provincial departments in charge of attracting foreign investment, and state-level economic and technological developing zones.

Source: People's Daily

Indian Software Firm Looks to China

I-Flex Solutions Ltd., an Indian software maker 43 percent owned by Citigroup Inc., has said it planned to enter the Chinese market to sell its Flexcube software to banks and financial institutions.

"China is number two in terms of potential after the U.S.," R. Ravishankar, the chief executive for international operations, said late May. "Some of the world's largest banks are located there, some of them have up to 25,000 branches."

Setting up an office in China will enable I-Flex to expand into the $14 billion information technology market in that country. The Indian software maker for banks and financial institutions will be able to tap business from banks that need to modernize their information systems.

The company, which plans to complete its entry strategy in six months, plans to enter into a joint venture with a local company. I-Flex began selling its Flexcube software in the United States about nine months ago and has three customers, including the International Monetary Fund.

Indian software exports, including revenue generated by call centers, grew 28 percent to 340 billion rupees ($7.12 billion) in the nine months to Dec. 31st from a year earlier, according to the National Association of Software and Service Companies.

by Saikat Chatterjee, Bloomberg News

India, China to Tie-up in Banking Sector

To give a fillip to greater investment and trade by Indian companies in China, banks in India would be looking at entering into counterpart agreements with banks in China to provide suitable support to companies in the two countries doing business with one another. The RBI and Central Bank of China (CBC) have also been requested by business leaders to collaborate closely.

At the moment four Indian banks have a representative office in China, and they, along with other banks, are now expected to set up full-fledged branches. This will lead to closer bank to bank cooperation, and will be an important component of economic cooperation between India and China.

For example, ABN AMRO Bank, which is present in both countries, has announced the setting up of a dedicated India desk in Shanghai only for Indian companies. This is a good beginning, and more will follow," said Tarun Das, CII director. "We also need the RBI and CBC to collaborate closely, so there is a synergy between banking policies of the two countries, which would be of immense value to companies."

Meanwhile, CII has signed a MoU with the Shanghai-Pudong Software Park (SPSP).

by Ajay Jain, The IndianExpress

Further Reform in China's Banking System

The reorganisation plan on the banking regulatory system is now realized, said Liu Mingkang, chairman of CBRC. The newly founded China Banking Regulatory Commission (CBRC) was outlined and launched during a press conference in late May of this year. Once approved, the work of organizing the CBRC's branch organs is expected to be completed by the end of June. Liu Mingkang announced that the CBRC set a target for the non-performing loans (NPL) in the four state-owned commercial banks to drop three to four per cent in 2003. The outstanding NPLs would decrease to between 70 and 80 billion Yuan (8.42 to 9.64 billion US dollars).

By the end of 2002 the weighted average of the NPLs in the four banks was 26.12 per cent, Liu said. By the end of March this year, he added, the number dropped 1.99 per cent to 24.13 per cent, with the outstanding NPLs decreasing 27.1 billion Yuan (3.27 billion US dollars) since the end of 2002.

There is still some work to do, but the internal plans of the CBRC have basically been finalized and almost all personnel hase been positioned. In the process of setting up the commission, it was expected that the coordination and the communication between the central bank and the CBRC would encounter difficulties in matters like bank's insolvency records. But according to Liu Mingkang the People's Bank of China has been cooperating very well.

To improve confidence of the public in the market, to protect the interests of depositors and consumers by effective supervision, are few of the objectives of the CBRC. Closing the gap between old and modern financial system would be attained through information campaigns and education trainings.

The stability and the safety of the banking and financial system are also on the agenda. The commission would try to reduce financial crimes and keep the steadiness of the financial market. The banks have been investing – and losing – much money on the stock exchanges, despite explicit regulations prohibiting such financial transactions.

The tasks of the body would include: an overall assessment of the risk profile of all deposit-taking institutions; a comprehensive on-site review of the supervisory loan classification system and areas for potential improvement.

Beijing gives importance also to further reform the state-owned banks and open up to the outside world. Moreover, a trial project for restructuring rural credit cooperatives is planned.

The Regulatory Commission would draw a line between monetary policy and bank supervision. When the new commission plan was presented in March this year, many had doubts on the success of the separation of policy and supervision. Some experts expressed their worries on costs and efficiency. Wang Songqi, a senior researcher with the Chinese Academy of Social Sciences (CASS) said that establishing branches for the ministerial-level CBRC in some 320 cities can cost tens of billions of Yuan for housing, personnel and equipment only.

Source: ChinaBiz

UBS – First Foreign Bank to Make Trades

Swiss investment bank UBS has become the first foreign institution to invest in China's local currency stock market under a new scheme when it placed orders for shares in four mainland companies.

UBS said it had ordered shares in ZTE Corp, Baoshan Iron & Steel, Shanghai Port Container, and Sinotrans Air on behalf of a client in Hong Kong. The trades are the first by a foreign buyer in China's US$500 billion A share market under the new Qualified Foreign Institutional Investor (QFII) scheme.

China's yuan-currency A share, treasury and corporate bond markets had previously been limited to domestic buyers. But sceptics note that A shares trade at an average multiple of 40 times historic earnings compared with roughly 15 times in Hong Kong.

China's A share market, traded in Shanghai and Shenzhen, is Asia's second largest after Japan. Morgan Stanley, Nomura Securities, Goldman Sachs and an arm of Citigroup have also won approvals to participate in the QFII scheme.

Source: Channel News Asia

UBS Applies to Open Branch in Beijing

The Union Bank of Switzerland (UBS), the biggest bank in Switzerland, plans to open a branch in Beijing, which will be also its first branch in China. Leon Brittan, Executive Chairman of UBS Investment Bank and former Vice President of European Union Commission, made the announcement in Beijing during a meeting with Wang Qishan, acting Mayor of Beijing, according to local official sources end of July.

Brittan said, application was still in process and described the move as support for Beijing efforts to build itself into a financial center. He explained that a financial center should have the advantages of good telecommunications, scientific, technological and accounting services, and more importantly, law makers and enforcers who were in easy reach to deal with problems quickly.

The bank's business covers private equity investment, investment bank and property management. The bank has opened two representative offices in Beijing and Shanghai.

UBS registered an income totalling 34.1 billion Swiss francs (25.44 billion US dollars) in 2002. Its net profit was 3.5 billion Swiss francs (2.61 million billion US dollars) for the same year.

Source: Xinhuanet

Banks to Charge for Services

A provisional regulation governing charging standards of services by commercial banks has been issued by the China Banking Regulatory Commission (CBRC), ending more than a year of controversy around whether Chinese banks should ask for cash for their services. Foreign banks such as Citibank started to charge for certain personal forex accounts last year, triggering heated discussion on whether local banks should follow suit to make up a competitive disadvantage.

The CBRC issued a circular late June allowing commercial banks, including foreign banks operating in China, to begin charging for their services on October 1st. But it noted that services like reminbi deposits and withdrawals under 50,000 yuan (US$6,000) should remain free of charge. "Chinese banks now have a lot of operations that are off the balance sheet and there are also costs," said Huang Jinlao, a researcher with the Institute of International Finance at the Bank of China. "So there's nothing to criticize. And it's commonplace in other parts of the world."

The CBRC said, the main reason for the new rule was to regulate the charging behaviour of commercial banks after the disorder that followed the promulgation of a regulation in 2001 that encouraged banks to provide off-the-balance-sheet "intermediate" services. A lack of regulatory reference has existed for a long time because Chinese banks developed new services to beef up competitiveness and boost profitability.

Analysts say, some bank services are charged at high rates but others, such as salary account transfers that an increasing number of corporations offer to their employees, are provided for free by banks to attract deposits. As more charges for services are given the green light, commercial banks will begin to focus on brand-building rather than merely undercutting each other, analysts state. "There will be more fees charged," said Huang. "But there is unlikely to be much vicious competition."

The CBRC banned the emergence of any coalition that could artificially fix the prices. It has also stressed the fees that commercial banks can charge should be higher than their costs in providing the services. In an effort to protect individual bank clients, the commission said "government-guided prices," mostly price ranges, would be introduced in many popular settlement services like remittances and checking. "Market-determined prices" will dominate in areas like foreign exchange services, it said.

Some clients have complained about the possibility they will soon be paying for withdrawals larger than 50,000 yuan (US$6,000), which are becoming increasingly frequent as the Chinese people are becoming significantly better off. "Only if they agree to deliver the cash to my home. Otherwise, why should I pay them without getting a safer service?" said Liu Ling, a 32-year-old Beijing resident.

Source: China Daily

Three Gorges Dam on Schedule

The world's largest hydroelectric project officially started storing water on June 1st, as the gates began to close. After ten years of construction, the project will begin playing an important role in flood control, power generation, navigation, water diversion and environmental protection.

Blocking the Yangtze river, the dam will form a huge 600-kilometre-long reservoir. The water level reached 135 metres by June 15, 65 metres higher than the river downstream, laying the foundation for hydro-electric power generation.

Navigation on the Three Gorges section was interrupted for 52 days and resumed on June 16th, as two passenger ships passed through the towering ship lock, starting a one year trial navigation period. The water level will ultimately reach 175 metres by the year 2009, when the entire project is completed. The reservoir will then hold 39.3 billion cubic metres of water.

The months ahead will see the project start to generate hydro-electric power on a small scale in the first phase. A total of 26 power-generating units will be installed eventually, which together will produce 84.6 billion kwh of electricity annually. The first two units are expected to go into operation by the end of 2003.

The project will remain within its budget of US$ 24.57 billion, which is being funded by the central government, corporate bond issues, commercial loans and credits.

The Reservoir area covers 21 counties and cities in Hubei Province and Chongqing Municipality with a total area of 58.000 square kilometres. About 1.3 million rural and urban residents in 12 counties have made way for the gigantic project.

Press summary by Paul Wyss

Brief News

– Standard & Poors, the international rating agency, changed its outlook for China's long-term foreign debt credit rating from stable to positive, citing structural reform that was "laying the foundations of a more market-oriented economy". The move reflects growing confidence among analysts about China's economic growth.

– China is to cut its reliance on fossil fuels by increasing the energy output of its nuclear power plants. Atomic energy officials set a goal of 3% of the total national power output coming from nuclear plants by 2005. In two years the output is expected to reach 8.7 million kilowatts when four new generating units will be put into operation, joining the current seven sets.

– This year, China is likely to consume about a quarter of the world's steel production of some 900 million tons. According to a leading US consultancy, three Chinese steelmakers have jumped into the world's top 17 as ranked by profitability and employees skill. Baosteel, the top-ranking Chinese group, is in second position in terms of overall performance.

– Tsingtao Brewery, China's biggest beer maker, announced a 166% increase in 2002 earnings. The company has bought more than 40 brewers over the past 4 years, and now runs 47 plants in 17 provinces. Tsingtao boosted its share of the world's second biggest beer market to 12.5%.

– Wuqiao Airport, the first in the Three Gorges area, will be put into use in late May. The airport can accommodate B737-300, A320-200 and MD-82 aircraft. Construction of the airport cost US$ 45 million. The Daxian-Wanzhou railway leading to the Three Gorges area was opened last year.

– China's aquatic exports surpassed Thailand's in 2002 and became the world's largest. China exported 2.09 million tons of aquatic products worth US$ 4.69 billion last year, making up 7% of the world's total. These products mainly go to Japan, the United States, South Korea and the European Union from Shandong, Guangdong, Liaoning, Zhejiang and Fujian.

– Dalian, the port city in Liaoning province, will build China's largest horse racing court. The course will occupy 250.000 square metres of land with an investment of US$ 9.6 million.

– Official details of investment in China in 2002 show Hong Kong as the biggest investor with US$ 19.17 billion, followed by the Virgin Islands with US$ 6.15 billion. The remainder of the Top Ten are: the US, Taiwan, Japan, South Korea, Singapore, Cayman Islands, Germany, United Kingdom.

– China's Top Ten Companies ranked for overall leadership are: Haier, Legend, China Mobile Communications, Industrial and Commercial Bank, Shanghai Automotive Industry Corp., PetroChina, Sinopec, China First Automobile Group, China Telecom, Bank of China.

– China is to allow foreign travel firms to establish solely owned agencies in a move to meet WTO commitments. Foreign firms will also be allowed to take controlling stakes in joint ventures, foreigners will be able to operate in five major cities –Beijing, Shanghai, Guangzhou, Shenzhen and Xian-and at government designated resort areas. China has already approved at least a dozen Sino-foreign joint venture travel agencies.

– China's new Banking Regulatory Commission announced it is forming a Council of International Advisers that it will consult on "the strategy to develop China's banking industry and banking supervisory system with reference to international best practices". The CBRC's top priority is improving the management of China's four major state banks.

– China's advertising market -worth $10 billion in 2002- is set for double digit growth annually in coming years and should overtake Japan to become the world's second largest by 2010. The country of 340 million TV households is set for an advertising boom, helped by the 2008 Beijing Olympic Games.

– Shanghai opened the world's longest steel-arched bridge linking downtown Shanghai with Pudong Puxi district. The six-lane bridge is 3900 meters long. Its 550-meter span is the longest of the world's steel arch bridges. A total of 35.000 tons of steel were used in the project costing US$ 240 million.

– There are now more than 10 million privately owned cars on China's roads. In the first 4 months of this year, some 1.36 million cars were sold in the country, with a least 800.000 bought by private owners. China has surpassed France as the world's fourth largest automaker, trailing the US, Japan and Germany.

– The 2008 Olympic Summer Games will start two weeks later than planned, namely from August 8-24 instead of July 25-August 10. The adjustment will mean better climatic conditions for athletes.

Summary by Paul Wyss

First Visitors' Center Opened in Shanghai

Sporting a logo featuring a lower-case "i" in a blue circle, the Pudong Information Center for International Visitors, the first of its kind on China's mainland, opened last April.

Pamphlets promoting Shanghai as a tourist and trade city, as well as computers for browsing related Websites, are available at the center, which is located at the ground floor of the city's Super Brand Mall – known as the largest shopping complex in Asia.

"Such a center is quite popular in foreign countries, but in Shanghai it's still on trial," said Jiao Yang, deputy director of Shanghai Information Office. "We hope to provide an open, timely and transparent information platform for all visitors."

According to the Shanghai Tourism Administrative Commission, about 2.7 million overseas visitors, including those from Hong Kong, Macau and Taiwan, came to the city last year. Another center will be opened in Puxi (West Shanghai) soon.

The opening of the center coincided with the 13th anniversary of the opening of Pudong. Back then, Pudong was essentially rice fields. Since the introduction of the opening policy, it has been playing a spearheading role in development and reform. The area now has a financial and trade zone, a free-trade zone, a high-tech park and an export processing zone in addition to newly developed modern living quarters, culture and entertainment facilities.

"With 13 years of development, Pudong still has its advantages to attract investors, because of its environment, innovations and talents," said Shanghai Vice Mayor Jiang Sixian, who is also the District Governor.

Source: Shanghai Daily news

Shanghai Wages no Treat for Investment

Working in Shanghai pays better off than before, but higher labour costs do not discourage investment if costs stay at pace with revenues, according to China Daily. New figures show healthy returns despite those rising labour costs.

Results given by a survey conducted by the Shanghai Labour and Social Security Bureau show that the average labour costs in Shanghai increased by 15 per cent last year. The average annual cost of a local employee was 44,512 Yuan (US$5,363) in 2002.

Local economists say that higher salaries and benefit payments should not affect foreign investment. Shanghai has other advantages, such as convenient transportation and high-quality human resources, which are very important for industries like information technology and finance, said Xue Qiuzhi, a professor at Fudan University's School of management, reports the newspaper.

Yet, foreign companies complain often on the growing transport costs, due to, among other reasons, intensifying road traffic and the increasing number of queues. Nevertheless, to avoid that a continuous increase in operating cost, from labour cost to rents, would discourage more overseas investment, it is important that labour cost increases stay at pace with growing revenues, said Xue to China Daily.

For the survey in Shanghai, 2,700 companies in the city employing a total of 954,300 workers in 13 industries have been polled, expatriates were excluded.

One of the main reasons for higher labour costs last year was an increase in welfare payments such as housing subsidies and health insurance fees. On average local companies paid 10,849 Yuan in fixed and optional welfare fees, up 22.4 per cent from a year earlier.

Besides salaries also the average return on labour cost increased, even if at a much slower pace. For every 100 Yuan spent on labour costs last year, companies earned 133 Yuan in profit on average, an increase of 9 per cent year on year.

Comparing foreign companies with overseas-funded companies and state owned companies some differences emerge. According to the survey, foreign companies pay most with annually 56,931 Yuan on average for each employee. Overseas-funded companies, meaning those with investment from Hong Kong, Macao and Taiwan, spent 44,650 Yuan on average per employee, while state-owned companies spent 42,326 Yuan.

When it comes to benefits the situation changes. While foreign invested companies spent the most, they also had the largest benefit, earning 210 Yuan for every 100 Yuan spent in labour costs. On the contrary, state-owned firms only earned 128 Yuan for every 100 Yuan in labour costs.

Shanghai has become an expensive city as far as premises, labour costs, transportation and services. Already eight years ago many labour-intensive companies began to move out of the city. At the same time the outflow of these companies had a positive effect. In fact, it created more space for the service industry to develop, said Xue Qiuzhi.

Manufacturing has been moving to neighbouring cities like Hangzhou, Ningbo, Kunshan, Suzhou and Nanjing, making the Shanghai region into an enormous conglomerate. As these cities' infrastructure improves, Shanghai is likely to expand also physically into neighbouring provinces.

Source: ChinaBiz

Income Survey of Chinese Managers

Beijing managers earned the highest salaries last year, followed by those in Shanghai, Shenzhen and Guangzhou, but Shanghai managers got the most in perks, according to a survey by the magazine "Manager".

The survey was limited to managers with more than 5,000 yuan (US$602) of monthly income in Beijing, Shanghai, Guangzhou and Shenzhen. Private company owners were excluded.

According to the survey, Beijing managers had the highest income last year, with sales managers in the city's electronic industry earning an average monthly income of 37,667 yuan (US$4,538). In Shanghai, Shenzhen and Guangzhou average incomes in the same industry were 13,333 yuan, 7,667 yuan and 7,000 yuan respectively.

The proportion of Shanghai managers reporting more than 50 percent income growth last year was 7.8 percent, followed by 5.3 percent, 4.3 percent and 3.2 percent in Beijing, Shenzhen and Guangzhou respectively.

Beijing had the largest number of managers who earned less money last year than a year before, with the smallest number in Shanghai, according to the survey.

According to the survey, 70 percent of managers earned less than 100,000 yuan in after-tax cash income last year, with Shanghai having the largest number of managers with less than 80,000 yuan in after-tax cash income last year.

A little more than 55 percent of Beijing managers had more than 80,000 yuan of after-tax cash income last year, with the proportion reaching 48.5 percent in Shanghai. Guangzhou had the largest number of managers with more than 150,000 yuan of after-tax cash income last year.

More managers in Guangzhou and Shanghai were satisfied with their income than in Beijing and Shenzhen, according to the survey.

Shanghai managers got the most in perks last year, such as bonuses, housing subsidies and insurance, with Shenzhen managers ranking last.

The growing number of companies moving their headquarters to Beijing is cited as a reason why Beijing managers earned the most last year, said a survey analyst.

According to the survey, more female managers got salary raises than male managers last year, while their income growth was smaller than that of males.

Chinese managers are expected to earn higher incomes over the coming two or three years, but the rate of growth is expected to slow, the analyst said.

by Wendy Zhang, Shanghai Daily news

Getting the Good News from Hong Kong

Speech by the Secretary for Financial Services and the Treasury
Mr Frederick MA Si-hang
Presentation with the Swiss-Chinese Chamber of Commerce in Zurich, on 17 July 2003

Distinguished guests, ladies and gentlemen,

I am most honoured to be here this evening. I've been especially looking forward to this visit since I learned that Zurich had been voted 'the best city in the world to live' for two years in a row. We in Hong Kong have ambitions of attaining such a prestigious title someday in the future; maybe I can pick up few tips while I'm here.

I'm sure that as friends with strong ties to Hong Kong, all of you were closely watching our recent battle with SARS. The virus caught everyone by surprise and posed unprecedented challenges to Hong Kong and its people. Our three-month fight against SARS has had wide ramifications for almost every aspect of Hong Kong's social and economic life.

Hong Kong after SARS

It's true that the months of March through June were a tough time for Hong Kong. But in the end, we prevailed over SARS. Allow me to take this opportunity to thank you and all those who showed concern and support for Hong Kong during that difficult time. On the bright side, the way we tackled the SARS outbreak has helped to underline Hong Kong's traditional advantages -- in particular, our transparency in the dissemination and free flow of information. Among other things, we issued daily press briefings and press releases to keep both the local and international communities informed of the latest developments. The SARS outbreak also provided a real-life demonstration of the efficiency and dedication of our medical and health care professionals.

Admittedly, SARS did deal a severe blow to the Hong Kong economy. We reckon that its economic impact may bring our GDP down by around 1.8 percentage points in 2003. In the short term, it has pushed our unemployment rate to a historical high of more than 8 per cent. The Government is acutely aware of the severe economic pain that has been inflicted on Hong Kong people and has taken swift measures to provide immediate short-term relief and to revitalise the economy in the longer term.

Fundamental Strengths and Advantages Remain

Hong Kong has survived many challenges and always emerged stronger and more competitive. We believe that the difficulties we face today are no different. As Asia's world city, our success and resilience are built on our fundamental strengths and unique advantages – the rule of law, a level playing field for all businesses, world-class financial infrastructure, efficient and transparent financial regulation and a simple and low tax regime. They have all contributed to our standing as an international financial centre and are the fundamental pillars for our success. They will continue to underpin our future growth and development in the years ahead.

On top of these, I would particularly like to highlight Hong Kong's strong international financial position and tremendous growth potential.

In recent months, much attention has been paid to Hong Kong's fiscal deficit. But few people seem to have noticed that Hong Kong has built up one of the strongest international investment positions in the world. At the end of 2002, Hong Kong's net external financial assets amounted to US$335 billion, equivalent to 210 per cent of GDP. Our Government is debt-free, and the private sector is a large net creditor to the rest of the world. Hong Kong's balance of payments has been very strong in the past few years, with a current account surplus that reached 10.7 per cent of GDP last year.

Our external sector remains the key driver of growth. Exports to East Asia as a whole registered a double-digit increase in May for the 12th month in a row, and there was a distinct surge in exports to Mainland China, Japan, the Republic of Korea, Malaysia and Singapore. Exports to the European Union also recorded faster growth in May. It's the same on the services side. Exports grew at 12.2 per cent in real terms in the first quarter of 2003. So Hong Kong's economic fundamentals are looking pretty good, and it's worth reflecting on why this is so.

Hong Kong's close economic relationship with the Mainland of China is, of course, one of our most distinct and unique advantages. We believe that the strong and continuing growth of the Chinese economy creates more opportunities for Hong Kong and adds significantly to our GDP growth.

The opportunities are most obvious in the financial sector. Hong Kong is a major financial and business services centre for the Mainland, particularly for raising capital. As of the end of May 2003, a total of 149 Mainland enterprises (including 77 in H shares) have listed their shares on the Stock Exchange of Hong Kong, raising capital of US$95 billion. Progressive relaxation of capital and foreign exchange controls by the Chinese government should stimulate further capital flows between the Mainland and Hong Kong. The QFII (Qualified Foreign Institutional Investors) scheme, which allows foreign investors to invest in the Mainland stock markets, began to operate last month. Hong Kong will serve as a facilitator in this process.

The recent signing of a Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong will accelerate this trend. CEPA will expand business opportunities between the two places by enlarging the scope of trade in goods and services, as well as facilitating investment. In particular, CEPA will immediately benefit the existing manufacturers of some 270 products in terms of zero import tariffs. It will also provide for liberalisation in market access in 17 services sectors, including banking, securities, distribution, transport and tourism. Broadly speaking, the liberalisation allows Hong Kong companies and services suppliers to have earlier access to the Mainland market, ahead of China's WTO timetable. CEPA will undoubtedly enhance the attractiveness of Hong Kong to foreign investors wishing to gain greater access to the Mainland market.

Financial Sector Reforms and Developments

In light of the above developments, we believe that it is of utmost importance to consolidate our success and role as an international financial centre so as to support our strong economic ties with Mainland China. At this juncture, let me update you on our efforts and achievements in this regard.

The Securities and Futures Ordinance

In April this year we implemented our new Securities and Futures Ordinance (SFO). This law modernises and consolidates 10 pieces of legislation made over the past 28 years and brings into being a fair, efficient and transparent regulatory regime. This helps to inspire investor confidence and facilitate market innovation and development. In a nutshell, it puts us on par with the best prevailing international standards, and provides a solid foundation for further development of Hong Kong's securities and futures markets. The new ordinance has won applause from the International Monetary Fund in its recent Financial Sector Assessment Programme for Hong Kong.

Among other things, the law now empowers the Securities and Futures Commission (SFC) to investigate and take enforcement action against the dissemination of false or misleading corporate information. A dual filing system has also been introduced to ensure quality corporate disclosure by listed companies. These initiatives have enhanced the protection of investors and helped safeguard the quality of our securities market.

Corporate Governance Action Plan

Several notable corporate failures in the United States in recent years reminded the financial world of the importance, as well as the challenge, of achieving good corporate governance. Following these developments, we acted promptly with a range of initiatives to upgrade the corporate governance of listed companies and the quality of our equity market. We did all this, not because our systems were seriously lacking – indeed, Hong Kong consistently wins praise from both the IMF and the OECD as a regional leader in corporate governance -- but because we know that there is no room for complacency. Specifically, we have now put in place a comprehensive Corporate Governance Action Plan for 2003 and will implement this plan together with the SFC and the stock exchange.

Hong Kong has always been an open economy, and we know full well that business, which is free to come, is also free to go. So we recognise that good corporate governance is vital for attracting high-quality companies to get listed in Hong Kong and prudent investors to participate in our market. The same is true for the Mainland's market, which is opening up under its WTO commitments. Indeed, enterprises in the Mainland regard listing in the Hong Kong stock market a label for good quality. More and more Mainland enterprises which meet the high standards adopted in Hong Kong are planning to list their shares in our market.

Regulation of Accountants

A road map to improve the corporate governance regulatory regime, no matter how comprehensive, will not work without the participation of practitioners with the required qualifications and integrity. In the world of financial services, professional accountants play a pivotal role in ensuring that a high standard of corporate governance is maintained. With this in mind, I initiated discussions with the accounting profession on enhancements to the regulatory regime for the profession.

To its credit, the Hong Kong Society of Accountants responded positively by putting forward four proposals. The first three relate to the opening up of the Society's Council, Investigation Committee and Disciplinary Committee. The Society is now working on the necessary amendments to the Professional Accountants Ordi-

(continued on page 30)

nance, with a view to early implementation. The fourth proposal relates to setting up an Independent Investigation Board. We will consult the public and in particular the market before mapping out the way forward.

Development of the Bond Market

Now let me turn to the bond market, which is a relatively less developed area in our financial sector. In part, this is due to the traditional reliance of companies in Hong Kong on the equity market and bank loans for financing. There is much development potential in this area and we are doing a lot of work to provide a facilitating environment through putting in place an appropriate market infrastructure, removing unnecessary impediments and offering tax incentives where appropriate.

Good progress has been made on these various fronts. The Financial Market Development Task Force, which I chair, has adopted a three-phased approach to streamlining the regulations and procedures in issuing and listing debt securities. This would help remove the onerous regulatory disclosure requirement in relation to public offering of securities. On the taxation side, subject to the approval of the Legislative Council we will grant a 100 per cent concession on profits tax for qualified debt instruments with a maturity period of seven years or more, and exempt 50 per cent of the profits tax for such instruments with a maturity period of three years or more. I have also encouraged the issuance of long dated bonds by public corporations such as the Airport Authority, the Kowloon Canton Railway Corporation and the Mass Transit Railway Corporation Limited. These issues have provided more choices to investors and helped make our bond market more mature, particularly at the retail level.

Conclusion

In today's global village, no one can keep bad news secret. Getting the good news out is much harder, and that's why I'm here. Back home, we all know that everyone in the community has a role to play in re-launching Hong Kong. My role as Secretary for Financial Services and the Treasury is clear. I will continue to strive to maintain Hong Kong's status as the region's premier international financial centre, mindful that many other cities in the region are also making great efforts to develop their financial services sector. To stay ahead of our competitors, we will spare no effort in seeking continuous enhancement to our financial system and our market infrastructure. We look forward to welcoming those of you who do not already have a slice of the action.

Thank you.

Free Trade Pact between Mainland and Hong Kong

The mainland and Hong Kong concluded a broad free-trade agreement, providing greater access to the Chinese market for Hong Kong businesses. The new agreement goes beyond the market opening that Beijing pledged when it joined the WTO in November 2001. The mainland is going to throw open its markets to Hong Kong's highly competitive shipping, logistics and moviemaking industries; eliminate most tariffs on imports from Hong Kong's manufacturing sector, and allow Hong Kong banks, management consultants and lawyers greater privileges than to their rivals from elsewhere in the world.

The new agreement, called the "Mainland and Hong Kong Closer Economic Partnership Arrangement" CEPA, is widely considered as a reward for Hong Kong's contribution to the opening of the mainland economy since 1978.China will remove tariffs on 273 Hong Kong products from January 1st, accounting for 67% of manufactured goods exported to the mainland. To boost the tourism industry, hit hard by SARS, China will issue visas for visits to Hong Kong to people from three cities in Guangdong as individuals instead of just as part of tour groups.

Hong Kong made few concessions to China because it already does not collect any tariffs and allows companies of any nationality to set up subsidiaries to offer services. An issue in the negotiations is how the pact would define what qualifies as a Hong Kong company. Most of the concessions for service industries require companies to have done business in Hong Kong for at least three to five years, depending on the industry. Negotiators must still work out whether goods assembled in Hong Kong from imported parts would qualify for duty-free treatment.

A surprising mainland concession was to allow unlimited shipments of movies produced by Hong Kong companies, including by the local subsidiaries of Hollywood studios.

Source: China Daily

New Address in Hong Kong

Consulate General of Switzerland
Suite 6206-07
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Phone +852 25 22 71 47/48
Fax +852 28 45 26 19
E-mail vertretung@hon.rep.admin.ch

Swiss-Hong Kong Trade / First Half 2003

(in Mio. CHF)
Comparison to the same period last year / Share: Share of goods in trade with country

Goods	Export Mio. CHF	Export ± CHF%	Export Share	Import Mio. CHF	Import ± CHF%	Import Share
Total selected	**1.290,3**	**–11,9**	**100,0**	**268,1**	**–17,6**	**100,0**
Agricultural products	29,5	109,9	2,3	0,9	–16,7	0,3
Energy carriers	0,1	14,9	0,0	0,0	–	0,0
Textiles, apparel, shoes	46,2	0,0	3,6	25,7	–9,3	9,6
Paper, paper products, printed matter	7,6	–27,6	0,6	0,6	–31,7	0,2
Leather, rubber, plastics	19,6	–21,5	1,5	1,9	–30,7	0,7
Chemicals, pharmaceuticals	181,8	–13,2	14,1	4,4	–24,7	1,7
Construction materials, ceramics, glass	5,0	–21,4	0,4	0,7	–7,3	0,3
Metals and metal products	22,2	–5,8	1,7	4,4	–11,3	1,6
– Iron and steel	0,1	–61,9	0,0	0,0	121,5	0,0
– Non-ferrous metals	1,1	–23,2	0,1	0,1	393,4	0,0
– Articles of metal	20,9	–3,7	1,6	4,3	–12,9	1,6
Machinery, apparatus, electronics	154,4	–14,0	12,0	49,2	51,5	18,4
– Industrial machinery	75,1	–7,6	5,8	2,9	190,8	1,1
– Engines non-electrical	1,8	10,7	0,1	1,7	–	0,6
– Construction machinery	0,2	100,2	0,0	0,0	–97,2	0,0
– Machinery engineering	73,1	–8,1	5,7	1,1	45,0	0,4
– Pumps, compressors, fans, etc.	5,7	19,3	0,4	0,0	–93,0	0,0
– Process engineering, heating, cooling equip.	1,5	–35,7	0,1	0,1	1,5	0,0
– Lifting and handling equipment	8,3	40,3	0,6	0,1	–0,7	0,0
– Machine-tools metalworking	14,5	–34,4	1,1	0,1	–31,4	0,0
– Machine-tools for mineral materials	0,5	–46,1	0,0	0,0	–	0,0
– Plastics-, Rubber machinery	1,9	121,9	0,1	0,0	–	0,0
– Machine-tools for wood, cork, etc.	2,2	–19,7	0,2	0,0	150,0	0,0
– Other machinery	12,6	111,6	1,0	0,5	402,4	0,2
– Hand held tools	0,9	–15,4	0,1	0,0	–71,2	0,0
– Welding machines	1,0	–15,0	0,1	0,3	–	0,1
– Printing and paper machinery	3,7	–18,3	0,3	0,0	114,0	0,0
– Textile machines	18,5	–28,3	1,4	0,0	28,3	0,0
– Food processing equipment	0,2	59,1	0,0	0,0	–25,0	0,0
– Filtering and purifying machines	0,1	–70,2	0,0	0,0	964,3	0,0
– Packaging and filling machines	1,4	72,6	0,1	0,0	–48,5	0,0
– Agricultural machines	0,0	–14,5	0,0	0,0	–	0,0
– Household appliances	6,0	205,5	0,5	4,5	13,5	1,7
– Entertainment electronics	5,4	314,8	0,4	4,1	9,6	1,5
– Household machines	0,6	–11,7	0,0	0,4	89,5	0,1
– Office machines, Computers	7,6	–51,1	0,6	21,1	136,3	7,9
– Electrical machinery and electronics	65,6	–18,7	5,1	20,7	11,2	7,7
– Power generation, electric motors	4,9	–28,3	0,4	2,3	67,1	0,9
– Telecommunications	6,2	–64,9	0,5	4,3	3,6	1,6
– Electric and electronic articles	54,5	–2,9	4,2	14,0	7,6	5,2
– Defence equipment	0,0	–100,0	0,0	0,1	277,3	0,0
Vehicles	2,1	–	0,2	0,2	9,9	0,1
– Road-vehicles	2,0	–	0,2	0,1	54,8	0,1
– transport of persons	0,0	–71,3	0,0	0,1	55,7	0,0
– transport of goods	0,0	–	0,0	0,0	–	0,0
– Special purpose vehicles	2,0	–	0,2	0,0	–100,0	0,0
– Spare parts	0,0	–20,8	0,0	0,0	63,6	0,0
– Railway vehicles	0,0	–	0,0	0,0	–	0,0
– Aircraft and spacecraft	0,0	–	0,0	0,0	–61,5	0,0
– Vessels	0,0	–	0,0	0,0	–	0,0
Precision in struments	33,6	–6,8	2,6	4,1	–23,5	1,5
– Optical instruments, photo	5,7	–56,4	0,4	3,3	–22,9	1,2
– Surveying instruments	3,3	91,5	0,3	0,0	–22,9	0,0
– Medical instruments and appliances	12,1	35,7	0,9	0,2	–8,7	0,1
– Mechanical measuring, testing, control equipment	12,4	1,6	1,0	0,6	–29,7	0,2
Watches	692,0	–3,2	53,6	103,7	–20,0	38,7
Other goods	96,2	–51,6	7,5	72,5	–36,1	27,0

Source: swissmem & Eidg. Zollverwaltung

HONG KONG

New Legal Developments in China

China has been under the spotlight of the investment community for many years now. However, until recently, the only legal vehicles available to foreign investors to enter the China market were limited to equity joint ventures (EJV), cooperative joint ventures (CJV) and wholly foreign-owned enterprises (WFOE), all of which subject to the Guiding Catalogue for Foreign Investment Industries. On March 7th, 2003, Chinese competent authorities jointly promulgated the long-expected "Provisional Regulations for Acquisition by Foreign Investors of Domestic Enterprises" (hereinafter "Provisional Regulations").

With the promulgation of the Provisional Regulations, China may well experience quite a number of acquisition transactions by foreign investors willing to purchase participation in potentially promising unlisted Chinese companies. Foreign investors may also be tempted to make use of this new legal vehicle due to the fact that the purchase of A or B shares on the Shanghai or Shenzhen stock exchange remains relatively unattractive (too high price to equity ratio). Besides, the A share market is restricted to relatively big foreign players (in terms of value of assets under management and investment quota). The latter have, in addition, to comply with rather cumbersome and harsh procedures (QFII status, investment, repatriation) according to the legislation passed during the last quarter of 2002, which makes it possible for foreign investors to buy A shares.

Pursuant to the Provisional Regulations, foreign companies can now acquire equity interests in domestic Chinese enterprises or subscribe to an increase in registered capital of domestic Chinese enterprises. Further, Foreign Companies can decide to first set up one or more foreign-invested enterprises ("FIE") in China and use such FIE to purchase and operate assets of domestic Chinese enterprises or, finally, decide to purchase assets of domestic Chinese enterprises and contribute such assets to set up a FIE in China. It is to be noted, however, that all acquisitions must still comply with the Guiding Catalogue for Foreign Investment Industries.

Up to today, China has yet to adopt a comprehensive antitrust law and relies merely on its Unfair Competition Law, which does not and cannot ambition to cover all antitrust related issues. It is said, however, that an antitrust law draft may be released for comments by the end of 2003.

In that respect, the Provisional Regulations may well constitute one of the first necessary attempt to somehow lay down basic examination principles and procedures before a more comprehensive legislation comes into force. The Provisional Regulations provide that foreign investors are required to report to the Ministry of Commerce (MC) or the State Administration for Industry and Commerce (SAIC) whenever the planned acquisition meets certain criteria. In such cases, the authorities will convene with all other public or private interested parties to hold a hearing and decide whether to approve or not the planned acquisition.

The criteria which trigger such mandatory reporting and examination procedure apply to both onshore and offshore foreign investors. Mandatory reporting applies, for instance, whenever one party involved in the acquisition has a turnover of more than RMB 150 million in the China market in the same year of the planned acquisition; or if the acquisition causes one of the parties involved to take more or at least a 25% share in the China market. However, foreign investors may apply for an antitrust examination exemption whenever the planned acquisition 1) may improve fair market competition conditions or is an attempt to 2) reorganizes enterprises subject to grave losses and aims at ensuring employment or if 3) it brings advanced technology, management talents and improves international competitiveness of enterprises or 4) improves the environment. It remains to be seen how – narrowly – will MC and SAIC construe those exemptions and more generally if double standards of interpretation will apply whenever or not a planned acquisition could be detrimental to the market position of a solid local Chinese private owned or state owned company.

Quite a few foreign investors already own substantial market shares in the China market. The Provisional Regulations sound like the first warning call in what could become an entire new game upon implementation of a comprehensive antitrust system. From now on, foreign investors shall imperatively consider in their China expansion strategy the antitrust criteria and procedure contained in the Provisional Measures, as summarized hereinabove.

For further information on China related legal issues, please visit Wenger Vieli Belser's website: www.wenfei.com or contact:

BEIJING Representative Office
For all matters relating to
activities in Greater China
Partner in Charge: ***Dr. Paul Thaler***
Tel. +86 10 6468 7331/2/5
Fax +86 10 6460 3132
paul.thaler@wenfei.com

SHANGHAI Office
In Cooperation with Duan & Duan
88 Zun Yi Nan Road, 17 F
Shanghai, 200336
Tel. + 86 21 6219 1103
Fax +86 21 6275 2273
Contact Attorney: ***Jonathan Selvadoray***
jonathan.selvadoray@wenfei.com

TAIPEI Office
In Cooperation with MCI
Ren Ai Rd, Sec. 4, No. 25, Bldg. A, 12F
Taipei, 106
Tel. +886 2 2771 6669
Fax +886 2 2771 6996
Contact Attorney: ***Nathan Kaiser***
nathan.kaiser@wenfei.com

China Legal Reports and Briefs

China Amended Well-Known Trademark Rules

On April 17, 2003, China State Administration of Industry and Commerce or so called SAIC released *Regulations for Certification and Protection of Well-known Trademarks* ("Regulations"), which will become effective as of June 1st, 2003. The Regulations repealed the similar rules called *Provisional Regulations for Certification and Administration of Well-Known Trademarks*, which were promulgated by SAIC in 1996.

The report shows how the new Regulations provide more perfect protection to well-known trademarks by comparison with the old regulations.

Accessing China Market by Acquisition

For long time, under the Chinese law, vehicles by which multinationals may enter China market have been limited to equity joint ventures or so-said EJV, cooperative joint ventures or so-said CJV, or wholly foreign-owned enterprises or so-said WFOE. Lack of diversified options frequently prevents multinationals from effectively implementing their China plans. This situation was recently changed. On March 7, 2003, Ministry of Foreign Trade and Economic Cooperation* ("MOFTEC"), the State Administration of Taxation, the State Administration for Industry and Commerce, the State Administration of Foreign Exchange Control jointly promulgated the long-expected *"Provisional Regulations for Acquisition by Foreign Investors of Domestic Enterprises" ("Provisional Regulations").*

**At the China National People's Congress convened this March, the Ministry of Foreign Trade and Economic Cooperation, which used to be in charge of foreign investment in China and foreign trade and the State Economic and Trade Commission, which used to be in charge of domestic investment and domestic trade were merged under the name of Ministry of Commerce.*

A detailed discussion of key provisions of the *Provisional Regulations* is available upon request.

Wenger Vieli Belser in Shanghai

The Zurich based Swiss law firm Wenger Vieli Belser has been present in Beijing and Taipei for many years now and is newly present in Shanghai since this spring. In Shanghai, Wenger Vieli Belser runs a smooth cooperation with the reputed local law firm Duan & Duan. Shanghai is the latest step of a strategy which started in the late 90's, when Wenger Vieli Belser opened its representative office in Beijing, which was followed some years later with a presence in Taipei. Wenger Vieli Belser is committed to Greater China. Its latest opening allows the firm to also cover the expanding Shanghai legal market in the fields of corporate and commercial law, and dispute resolution.

Dr. Paul Thaler, who is in charge of the Department Greater China at Wenger Vieli Belser has been the spark to this development and accounts to the few which have experienced since the beginning of the 90's the drastic legal changes China has gone through.

Dr. Thaler recalls: "In the early 90's I had to convince many Chinese that signing a contract in an important transaction may not necessarily be considered as a lack of trust, nowadays I even have to sign sophisticated contracts before I can purchase simple furniture in Beijing".

MOC Provisions on WOFE Travelling Agency

On June 10, 2003, State Administration of Tourism and Ministry of Commerce (MOC) jointly issued Provisional Rules on Establishment of Foreign Controlled and Wholly Foreign Owned (WOFE) Travelling Agencies, which will take effect after 30 days from the date of promulgation. According to the Rules. foreign investors may apply to establish foreign controlled or wholly foreign owned travelling agencies in National Tourism Zone approved by State Council and in Beijing, Shanghai, Guangzhou, Shenzhen and Xi'an. To qualify the requirements, the threshold for registered capital is RMB 4 Million. Foreign investors shall have annual business income no less than USD 40 Million for foreign controlled travelling agencies or no less than USD 5 billion for wholly foreign owned travelling agencies.

A report is available upon request.

CBRC New Rule on Market Access

On May 29, 2003, China Banking Regulatory Commission (CBRC) promulgated Decision on Adjusting Methods and Procedure of Administration of Market Access to Banking Business, which will take effect as of July 1 this year. This Decision applies to domestic and foreign commercial banks, excluding urban and country credit cooperatives and post saving business from its scope of application. According to this Decision, approval requirements will come to an end for such businesses conducted by Chinese commercial banks as domestic factoring, sale of insurance as agent, settlement of securities funds as agent, custodian of investment by securities companies as principal, custodian of trusted assets, custodian of corporate annuities. Furthermore, the businesses of purchase of commercial instruments, overdraft of corporate accounts conducted by foreign and domestic commercial banks are no longer subject to record requirements. At the same time, way of verification of senior management of commercial banks is to be modified. (www.cbrc.gov.cn)

SAT to Launch Inspection on Income and Business Tax of FIE

On June 13, 2003, State Administration of Taxation (SAT) announced that it would launch a national wide inspection on payment of income tax and business tax by foreign invested enterprises (FIE) receiving interests, dividends, rents, royalties and profits of property transfer originated from China, no matter they have domestic business establishments or not. The targets encompass domestic institutions including both foreign invested and domestic enterprises, which have paid the aforesaid items to foreign institutions and individuals or have booked these items as their cost even if payments have not been made. The preliminary stage of inspection is expected to conclude by the end of September this year. (www.chinatax.gov.cn)

SOEs May Appoint Foreign Managers

Recently, the State-owned Assets Supervision and Administration Commission has indicated that domestic State Owned Enterprises (SOE) will be allowed to appoint foreigners and private businessmen as managers. The Commission will set sound standards and create favourable conditions to employ qualified talents, regardless of their nationality and current status. However, the work experience of incumbent will be given priority over academic qualifications. (www.isinolaw.com)

State Council Regulation on Property Management

On May 28, 2003, State Council by its Decree No.379 promulgated Regulation on Property Management, which will take effect as of September 1st, 2003. This regulation is enacted in the context that houses have been progressively privatized. To protect the interests of emerging owners, the Regulation is drafted to govern the relationships between owners, developers and management companies. According to this regulation, owners in a set area may establish Assembly of Owners and Commission of Owners. The Assembly decides material matters relating to property management in the interests of all the owners, while the Commission is responsible for daily management on their behalf. To regulate conducts of the developer, the Regulation provides that the developer may not make unauthorized disposal of shared parts and facilities of the property. For management companies, they may not change the usage of property parts serving for property management, which are owned by the owners, and may not charge extras when collecting fees for utilities as agent. (www.people.com.cn)

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Intellectual Property Trend in China

A Reality Check and a Valuation Guide for Intangible Assets

In an age of knowledge-based economy, no one can deny the importance of intellectual property ("IP"). However, these assets rarely show up on the balance sheet. The difference of market to book value reflects the ability of companies to successfully convert intellectual property into profits.

IP Development in China

For many years, Chinese companies have overlooked the importance of IP. This changed when China joined the Paris Convention for the Protection of Industrial Property in 1985. Since then, IP development has generally been at the same pace with the economic development: The number of patent applications and patents granted in China has been growing at 15% p.a. from 1994 to 2001.

But taking a closer look at the authorized patents from 1985 to 2001 in China unveils a difference: Domestic applicants in China focus more on utility models and designs patents, while foreign applicants concentrate on inventions patents, especially in their key technical fields. Besides, domestic patent applications and foreign patent applications accounted for about 85% and 15% respectively.

New approach to Intellectual Property management

The investment climate for technologically advanced industries in China has improved greatly in the past few years owing to the promulgation of a series of intellectual property legislation. On top of, that China has acceded to a number of international treaties and conventions related to the protection of intellectual property rights. IP is no longer just a bunch of legal documents and research results to be locked away in company vaults.

A new approach to IP-management involves more aggressive and active "indirect exploitation" of intellectual property value. Apart from internal use, IP may also be commercialized through a joint venture, outright sales, franchising, or licensing. The last years have seen several successful business cases in China using the valuation of IP as non-cash equity contribution to a Sino-Foreign joint venture. Although the value attributed to intangible assets injected to an equity joint venture is expected not exceeding 20% of the registered capital as a general rule, some local governments, e.g. Shanghai, have increased this to 35% for hi-tech ventures.

Measuring the True Value of Intellectual Property

The best way to measure the value of IP is generally to calculate the present value of the estimated future economic benefits that can be derived from its ownership. Such a proceeding corresponds to the income approach, which is also acknowledged in China.

Major steps in IP-valuation by the income approach are as follows:

– Identify the specific application of the intellectual property (How will it be commercialized?)
– Estimate the size of the chosen market and the potential market share for the product or service that employs the intellectual property (What sales can be expected?)
– Quantify the economic benefits that can be expected from exploiting the intellectual property (How much incremental profit can be enhanced?)
– Assess the risk of achieving those economic benefits and adequate return to compensate the risk (What are the returns of alternative investment with similar risks?)
– Determine the period of time over which the benefits will occur (What is the economic life of the IP?)

Intellectual property must always be valued within the context of the operation it is part of. A brand is valued based on the saving in royalty payment from associated products due to the ownership of the brand against licensing it from others. Likewise, the value of a proprietary technology stems from incremental profit enhancement brought to a business or operation.

Conclusion

As intellectual property is increasingly important, business managers must understand the value of IP, must know the value's origin and should be aware of associated risks. Additionally managers should be aware of making the best use out of their IP. Valuation theories are easy to learn but it may take life long to practice.

Fiducia Management Consultants
www.fiducia-china.com

The Rado Philosophy

Inalterable Beauty Yesterday, Today and Tomorrow

Recipe for success

Within a short period, the Swiss watch manufacturer Rado has succeeded in building up a worldwide unmistakable brand. Today, people all over the globe associate the name Rado with watches of incomparable design and beautiful yet inalterable materials. "Rado's success lay and still lies in the philosophy behind the brand: pioneering spirit, continuity and putting people first. This means showing courage and blazing new trails. It means being different from all the others – and then being faithful to this difference and consistently pursuing the declared aims." These words, spoken by Rado founder Dr. Paul Lüthi, are still valid for the company today. "We do not want to simply manufacture watches that cater to current tastes. Our watches should have the potential to become classics because of their individualistic form and their scratchproof materials," says Rado President Roland Streule, "or to put it another way, our watches are beautiful and remain beautiful. Watches made from scratchproof materials with an unmistakable design."

Inalterable Diamond

A brief look back

The company celebrated its 85th anniversary in 2002. At the same time, Rado looked back on 45 years of watch production and the no less than 40-year success story of the legendary 'DiaStar', the world's first scratchproof watch. In 1957, after four decades as a supplier of watch movements, the then Schlup & Co. launched its first watch collection under the brand name 'Rado'. Just five years later, the foundation stone for an exceptional success story was laid with the oval, scratchproof 'DiaStar'.

It all began when the Rado head designer at the time, Marc Lederrey, came up with, a completely new idea. It annoyed him that gold and steel watches might be beautiful to start with, but often showed scratch marks after only a few days and had to be continually re-polished. At this time, types of hard metal made from tungsten- and titanium-carbides were only known as extremely resistant materials used in the manufacture of tools and specialized high-tech instruments. "It would really be something to make a watch from such a material", Lederrey suggested. And Dr Paul Lüthi, then head of Rado, gave the go-ahead for development. The result: the world's first scratchproof watch!

(continued on next page)

RADO WATCH CO LTD

People automatically connect the name Rado with watches of individualistic design made from scratchproof materials. The Lengnau company is one of the most important Swiss watch manufacturers and has succeeded over a short period in building up a distinctive brand with successful worldwide distribution. Then it was only in 1962 – five years after the first use of the brand name Rado – when Rado made a breakthrough with the launching of the world's first scratchproof watch.

Rado's headquarters are situated in Lengnau near Biel. About 300 people are employed in Switzerland and abroad. Its watches are offered in more than 8000 points of sale worldwide and 250 Rado Service Centers ensure a worldwide and professional Customer Service.

The more independent design is of the ephemeral passing of Time, the nearer it is to consummation of form. For Rado, outer contours are intimately related to inner values. Rado takes inspiration for its design concepts from the nature of the materials used. And this inspiration gives birth to creations of rare perfection. Creations that stand the test of Time.

Rado watches are different. Different in form and different in the materials they are made from. Since the beginning, Rado has not only concentrated on developing beautiful watches – the factor of material has always been at the forefront too. The aim has been, and still is, to create watches that are beautiful and that stay beautiful.

More information about Rado and its products can be found on: www.rado.com

General Data

Foundation of the Company	1917 Foundation in Lengnau of the watch movement company Schlup & Co., from which Rado later emerges 1957 Presentation of the first watch collection under the brand name RADO
Ownership	100 % of shares with Swatch Group Ltd., Neuchâtel, Switzerland
Number of Employees	approx. 300 (Switzerland and abroad)
Number of Point of Sales	approx. 8,000 (worldwide)
Number of Service Centers	approx. 250 (worldwide)
Distribution worldwide	in over 100 countries 25 divisions (Swatch Group subsidiaries)
Distribution Greater China	Swatch Group (China), Rado Division (offices in Beijing, Shanghai, Guangzhou, Shenyang) Swatch Group (Hong Kong) Rado Division Swatch Group (Taiwan) Rado Division, Taipei

Milestones

2002 Rado starts series production of the hardest watch in the world: the Rado 'V10K' is made of high-tech diamond and is therefore as hard and unalterable as a genuine diamond.

1993 Launch of the revolutionary 'Sintra' – a new Rado milestone, fully made of platinum-like shimmering high-tech ceramics.

1990 Launch of the Rado 'Ceramica', the fully scratchproof ceramics watch. Case and bracelet made of scratchproof high-tech ceramics and scratchproof sapphire crystal.

1986 Launch of the revolutionary Rado 'Integral' with a watch surface fully covered by scratchproof sapphire crystal and a bracelet made of ultra-hard high-tech ceramics.

1984 Launch of the Rado 'Anatom' generation.

1962 Launch of the Rado 'DiaStar' – the world's first scratchproof watch.

Material and design – what makes Rado so different from all the others

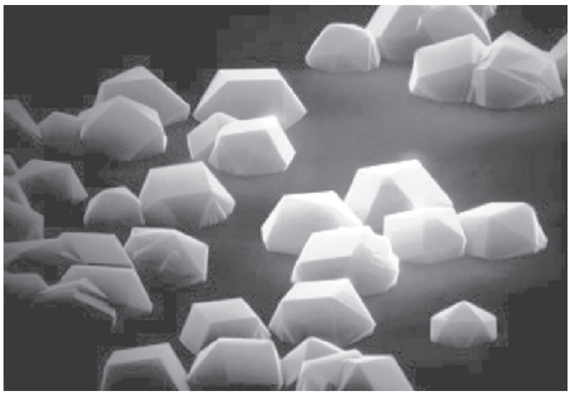
Rado has thus purposefully chosen materials of the future such as hardmetal, sapphire crystal, high-tech ceramics, high-tech lanthanum or high-tech diamond. It is always in the endeavor to develop design/material combinations that unite in perfect harmony the double functions of the watch as a modern piece of jewelry and a functional timepiece.

For Rado, design means the “outer expression of an inner perfection.” Rado is a watch brand with an individualistic design. No frills, clear-lined, modern, innovative, stylistically pure – these are descriptives of the qualities that characterize Rado design. The art of limitation to the essentials dominates the development of each modell. The watches have to be comfortable to wear as well, so superior wearer-comfort, anatomical shaping and the use of top-quality, skin-friendly materials are also given priority in the creative process.

More success factors

“The product is the message.” This is the basic motto of Rado communication. Because it is only the watches themselves that can truly express the uniqueness and differentness of the brand. Important contributory factors to the brand’s success are instruments such as Internet, traditional advertising, sponsoring and merchandizing. The brand and its products are supported all over the world by a unified appearance.

V10 K The hardest watch on earth


Nanocrystalline Diamonds

Customer Service

Another significant factor is the Rado Customer Service: before the first watch is sold in a country, maintenance and repair centers with trained technicians are ready for action. Up-to-date data processing systems, well-functioning infrastructures and excellently trained staff in all areas make their contributions to the success of the brand.

Latest Rado Innovation

Rado high-tech diamond and the world’s hardest watch: In spite of the successful employment of hardmetal and high-tech ceramics, Rado never gave up its dream of creating the hardest watch on earth. A watch as hard and inalterable as a diamond.

After years of research in collaboration with specialists in nanotechnology, Rado engineers succeeded in transforming carbon into nanocrystalline diamonds. Constant optimization of the processing parameters enabled deposition of a homogenous, transparent 100% diamond layer onto the shaped hardmetal components. The result: absolute hardness and the inalterability of diamond. A practically indestructible diamond coating had been created.

The world’s hardest watch is reality – a quantum leap that has brought unparalleled hardness and inalterability.

For further information, please contact Mrs. Sandra Perez at:

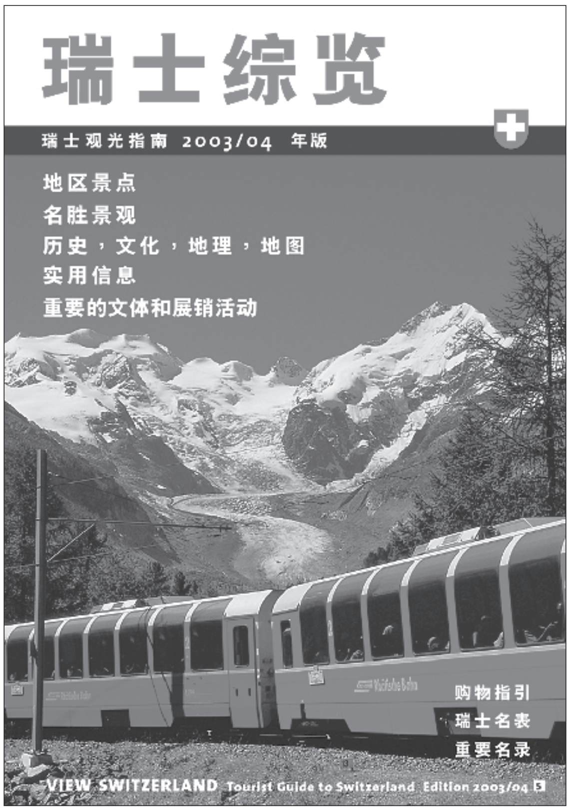
Rado Watch Co., Ltd.
Bielstrasse 45, CH-2543 Lengnau/Switzerland
Phone: +41 32 655 6384, Fax: +41 32 655 6270
E-mail: sandra.perez@rado.com

For information about Rado products, please visit www.rado.com

Visitor Guide in Chinese

New Edition 2003 of VIEW SWITZERLAND

Published annually, the first time in 1998, the new and updated edition has been out for distribution since May 2003. The publication is free and targeted at Chinese travelling to, or interested in Switzerland. It has achieved high popularity amongst the tourism trade in China and is considered the most upmarket guide of its kind.



The publication comes in glossy paper, colour throughout and in a handy A-5 format. It contains highly informative material about Switzerland, its history, culture, geography and people and highlights the major places of interest. New added features are on general travel information and major events.

The guide is a valuable handout for Chinese visiting Swiss companies. Members of the Swiss-Chinese Chamber of Commerce are entitled to a limited number of free copies. Newly this offer is also extended to members of the chapters in Beijing and Shanghai. Stocks of the publication are kept in both cities. For cost reasons, however, postage has to be charged for deliveries within China.

The publication has also proven to be very popular amongst advertisers wishing to reach Chinese enjoying increased freedom to travel and spending power.

Please adress your enquiries directly to the publishing company:

RUCKSTUHL MEDIA PROMOTION
P.O. Box 11
CH-6044 Udligenswil
Switzerland
Phone +41 (0)41 371 06 63
Fax +41 (0)41 371 03 55
Mail pius@ruckstuhl-media.ch

70 Percent of Wine Sold in Mainland China's Cities Fake

More than 70 percent of "imported" wine sold in restaurants and hotels in four of China's largest cities is fake, a report said late May. A survey by the China National Administration for Industry and Commerce in Beijing, Shenyang, Zhengzhou and Chengdu exposed the results.

Their inspection of 50 hotels and restaurants in the four cities showed just 28.6 percent of bottles sold as quality, imported wine were the real thing. Beijing fared better than the rest, but it still could only manage 60 percent authenticity.

According to the administration, the quality of fake wine was getting better and becoming more difficult to tell from Chinese plonk.

While counterfeiting is a multimillion dollar business in China, on occasion the investigators found the fake product was simply down to restaurants or hotels transferring cheap wine into fancy imported bottles. In an effort to stamp out the trade, the administration has launched a crackdown on agents and dealers, saying they will be punished but not elaborating.

Source: China Post

Lufthansa Boosts Services to China

Germany's Lufthansa is set to boost its services to Asia, with flights to China back to levels seen before the SARS outbreak. The airline said flights to Shanghai, Peking and Hong Kong will return to pre-SARS levels from end-July as travellers return to the skies.

Lufthansa would fly daily between Frankfurt and Peking, a capacity of increase of 40 percent from current levels, the statement said. It also plans to raise the seating capacity per flight by using the much larger Boeing 747 airplane.

The changes will bring Lufthansa's operating schedule for flights to China back to pre-SARS levels by mid-September.

Source: Channel News Asia