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China Marking Strong Positions

EDITORIAL

Debates on Yuan, Economy, WTO, Reforms

For weeks now, a fierce debate has been raging on whether or not the Yuan should be re-valued or not. The advocates of a revaluation argue that the Chinese currency is undervalued by at least 20% and that the gap will swell further in coming months. The US, seeing its trade deficit with China soaring to US$103 billion last year and from US$ 11.3 billion in July to US$ 11.7 billion in August, are concerned about the negative effect of the Yuan: Dollar peg is having on its competitiveness and US manufacturing jobs. There is even talk of punitive tariffs on imports from China, which would lead bilateral trade nowhere. In response, the Chinese government and banking officials maintain that a stable Yuan is good both for the Chinese and world economies including the US. The World Bank and IMF support China's stand. Global trade imbalance involves the whole of East Asia, whose surpluses have financed a US external debt of about US$ 1.5 trillion. After all, China's record foreign currency holdings resulting from high exports and strong foreign investment involve buying huge volumes of US Treasury bonds. Chinese officials have made it clear that they will move towards a more flexible exchange rate system by relaxing capital controls until demand for Yuan and Dollars is more balanced. Some steps have already been implemented: Chinese may now take US$ 5.000 with them when going abroad. Chinese exporters are allowed to keep a larger portion of hard currency earnings, and more Chinese companies are permitted to buy US bonds.

Meanwhile, the Chinese economy is roaring ahead. In the first half of the year exports grew by 34%, imports by 44.5%, investment in fixed assets by nearly 33%. Even retail sales, hampered by SARS, still managed to grow by 8.4%. The official figure for first-half GDP growth of 8.2% may even understate the true picture. Total foreign trade reached US$ 522.72 billion in the first eight months, an increase of 36.35% compared to last year. Foreign corporations continue to pour money into China, and forecasts of foreign direct investment this year amount to US$ 57 billion, topping last year's inflow of US$ 53 billion. Tax revenue rose 22.4% compared with last year to US$ 124 billion. Exports of vehicles grew 232.2% to reach US$ 239 million in the first eight months. China produced 2.728 million vehicles, up 36% year-on-year.

On WTO, China holds a critically important position after the debacle at Cancun. China joined hands with Brazil and India to lead a united front of developing countries that demanded that rich countries commit themselves to removing agricultural exports subsidies. But while China would benefit from an end to export subsidies, it has a vital interest in ensuring that the WTO regime is not undermined by rich-poor deadlock. Trade represents a much higher proportion of GDP than in India, Brazil and other large developing countries. The Beijing government invested a huge amount of domestic political capital in its efforts to join the WTO, agreeing to conditions that led to painful reforms causing job losses.

It is a measure of how far China has come in international standing as well as economic development that it now occupies such crucial positions.

At the important third plenum of the Communist party's central committee in October, President Hu Jintao called for a more sustainable growth model after 25 years of headlong industrial revolution. Private enterprises, which contribute at least one-third of GDP after foreign-invested enterprises, should be promoted. This step may be accompanied by constitutional protection for the property of private business.

Paul Wyss
Vice President

Superpower China?

Dear Members, dear Readers

China is back in the news, not only because of the planned State visit of the President of the Swiss Federal Council, Pascal Couchepin, to China in late November this year. China's continuing strong economic growth in the face of global economic malaise seems to be the driving topic in every news section.

According to the latest annual World Investment Report from the United Nations Conference on Trade and Development (UNCTAD) China became the world's most powerful magnet for investment last year, overtaking Britain and America for the first time as a destination for global capital flows. Foreign investment in China surged by 12.5 per cent in 2002 to US$ 52.7 billion, bucking a worldwide slump in investment activity and emphasising China's emerging status as an economic superpower.

China's continuing strong economic growth further attracted investors in search of expanding markets, low-cost labour, and strong potential returns. The UN news capped more than a decade of rapidly rising foreign capital flows into China, which has seen its annual inward investment tally from the rest of the world to rise 15-fold from just US$ 3.5 billion in 1990. China first opened its doors to foreign investors in 1979 and has been liberalising opportunities for overseas companies since then.

The almost unbroken development and strength of China is one side of the coin. The other side shows that China's top position in foreign capital was also possible due to the lack of investment deals made in industrialized nations. According to the figures in the UN report, global foreign direct investments fell by a fifth in 2002 to US$ 651 billion, the lowest level since 1998. The decline hit almost every region of the world, with the US and UK bearing the brunt of the fall-off in investment in developed nations. The most significant plunge in foreign investment of the past three decades came as the number of merger and acquisition (M&A) deals tumbled from a high of 7,894 in 2000 to only 4,493 last year. The average value of M& A deals that were made dropped to US$ 82 million from US$ 145 million.

UNCTAD said the overall world downturn in foreign investment was driven by tumbling share prices, low corporate profitability and a slowdown in company restructuring efforts. Outside the West, Africa, Latin America and the Caribbean, and much of the Asia-Pacific region also suffered severe falls.

It also predicts that foreign direct investment will stabilise this year, but that a strong revival will not be seen until 2004. At least until then, China, with Central and Eastern Europe, including Russia, are set to lead the field in benefiting from increased inflows.

In an analysis of China's attractions for foreign investors, the report highlighted high literacy and education rates, skilled labour, huge natural resources, strong infrastructure and a vast local market. Hence, there is still plenty of room to catch the potential before China's role as an economic superpower becomes full reality.

Susan Horváth
Managing Director
Member of the Executive Board

www.sccc.ch
Events, publications, special topics

Next Events

How to manage your China business successfully

The full day osec seminar in cooperation with the Chamber is structured in four blocks covering topics such as
– Management Principles
– Risk Management
– Finance Management
– Legal Aspects

Friday, November 28th 2003
at Osec Business Network Switzerland
Stampfenbachstrasse 85, 8035 Zurich

Erfolgskriterien der Führung ausländischer Unternehmen in der V. R. China

Late afternoon presentation with
Hans J. Roth
Consul General of Switzerland in Shanghai

Monday, December 15th 2003
Zunfthaus zur Zimmerleuten
Limmatquai 40, 8001 Zurich

Invitation will follow in due time.

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Since August 2003:

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ERNST GROB AG	Männedorf
Financial Consulting & Accounting Group	Zug
swissinfo / Swiss Radio International	Bern
CLAUDE AUER TEXTILES	Allschwil
FISCHER-WANG GmbH	Bern

Lugano

ball bed®	Balerna
LUIGI DAL TROZZO & C. S.N.C	Milano

Geneva

Pierre Germani Suisse SA	Nyon
Mme Aisi YU-GERMANIER	Évian-les-Bains (F)
Maas & Associés Partners	Genève
BMG Avocats	Genève
Union Bancaire Privée	Genève
Ambrosetti (Suisse) SA	Lausanne

Message from the New President

Cyrill Eltschinger

The Swiss Chinese Chamber of Commerce Beijing continues to thrive and has welcomed the year's many challenges!

So far, this has been a year of mixed fortunes. The effects of SARS and other major events around the world have put many members' businesses through some incredibly severe tests. Nonetheless, the good news is that, as a Chamber, we have successfully met and conquered these challenges.

Our success proves that the chamber continues to be a thriving organization that looks forward to weathering more challenges, both locally and globally, going forward. I would like to summarize some of our achievements and then look ahead to our plans for the next phases of the Chamber's development.

Events

Events are an important and very public aspect of the work of any Chamber. Members rightly expect to benefit from the networking opportunities on offer. From March to September, SwissCham Beijing has already hosted more than twenty (20) high quality events for members and guests to attend.

Business events, training workshops and networking gatherings are continually on offer. We have enjoyed listening to a wide range of distinguished experts from many industries. So far, this year speakers have spoken about diverse subjects, covering many relevant business issues at varied venues. We have also introduced briefings from the Swiss Ambassador and Embassy staff. The current schedule is for these to be held every 2 to 3 months at the Capital Club.

Event participants are also increasingly benefiting from the chance to bid for services and products that other members have made available for auction in exchange for sponsorship status. All revenue raised by these auctions goes to the chamber and is used to further increase value for members.

A very sociable and novel event that took place on August 16th was the "BBQ at Swiss Embassy & Underwater Hockey". It was great to see Beijing's Swiss community and their friends relax and unwind together around the swimming pool at the Swiss Embassy Residence in Sanlitun. The scuba hockey was a first – of-its-kind event and competitors wore full scuba kit. The winner was a team called SISU, which is appropriately the Finnish name for Vikings!

Other new initiatives, with social character, included cigar dinners which are much appreciated. The chamber is also trying to increase its evening dinner events so that members who find it difficult to fit lunchtime events into their schedules are better accommodated. And finally, another exciting event was a unique chance for some members to test-drive the new Audi A8.

One innovative new event-type on offer to members this year was an initiative led and organized by SwissCham Beijing involving many of Beijing's national foreign chambers of commerce, together with other networking organizations. These are promoted as "Joint-Chambers" events and at the time of writing two such events have already taken place.

The first was "Supporting Beijing – JOINT-CHAMS Summer Banquet Dinner", attended by the Mayor of Beijing, Mr. Wang Qi Shan on June 30th at the China World Hotel. This event proved to be an effective way for all the chambers of commerce in Beijing to demonstrate their support for the work of the Beijing government and also to look ahead to the future growth of the business community in Beijing.

The second Joint-Chambers event was the "Joint Chams Grand Networking Night" and was held at Olympic Gold Medallists Pavilion, Chaoyang Park on August 28th. This was an enormous success with over a thousand (1,000) attendees and was the first networking event open to members of all Beijing's twenty-one (21) Chambers of Commerce, as well as seven (7) other local networking organizations. We will seek continued cooperation with other chambers and build on these initial successes.

Keep in mind that it is still only September. There will be many more events to look forward to in the coming months and we look forward to seeing you in even greater numbers!

New Office Facilities & Personnel Changes

The chamber has moved to new office facilities at Star City Tower, providing members with excellent and convenient access to the chamber's wide service offering at a central location. The new office benefits the chamber in several important respects. The office is co-located with four other Chambers of Commerce, close to the Airport Expressway, enjoys good parking facilities and is

immediately adjacent to two of Switzerland's largest enterprises (ABB & NESTLE).

The premises themselves offer excellent services, as do the neighbouring surroundings. Cost conscious members will be pleased to know that this strategic move also offers the chamber considerable savings.

Earlier this year we were pleased to announce the appointment of two new staff. Our Executive Director, Mr. Fabian Furrer, has already brought his distinguished academic and professional background to benefit the chamber. Ms. Molly Li joined him as Office Supervisor and has leveraged from her valuable China-based experience working with multi-national companies to add further value to the chamber. As revenues grow and the chamber value increases and revenues grow the services offered will be complemented by more staff appointments, on an ongoing basis.

New Members

The year-to-date has seen a huge net rise in chamber membership. At the time of writing there were more than 120 members, up from 59 at the beginning of this chamber year. This over 100% growth in membership, over a six months period, is very encouraging and shows that businesses in Beijing increasingly appreciate the benefits and value that is offered through membership of SwissCham Beijing.

Membership Value and Benefits

Members of the chamber have, this year, seen the range of valuable benefits that they enjoy expanded and built on. Among these are opportunities to establish key contacts and new relationships. This includes prospects for meeting and discussing business with government officials and representatives as well as other industry experts. Members can opt to participate in focused committees that tackle specific issues. They also enjoy preferential pricing at events. Advertising opportunities also exist at these events and elsewhere.

The new website, which is available at www.bei.swisscham.org provides a wide range of functions, including news and events listing, online registration as well as board and sub-committee membership listing and much, much more! Members also benefit from the extra visibility offered by having their company details listed in the online-chamber directory. There are also plans afoot to print a hard copy of the Member Directory. The chamber will increasingly benefit from full integration between SwissCham Beijing and Shanghai. This will bring about stronger China-wide presence and branding to SwissCham China.

A very recent addition to the service offering from the chamber is the "SwissCham Helvetia Visa Service". This conveniently provides corporate members and their employees with assistance and advice on applying for and processing Swiss visas. More details about this can be obtained from the chamber office.

As a chamber we look forward to further development and extension of our attractive suite of services and benefits.

Biography:

Originally from Kanton Freiburg, Cyrill Eltschinger is a Swiss Citizen and was educated at the Kollegium St. Michael. He has nearly a full decade of experience working in the China market. Prior to I.T. UNITED, he spent eight years with Electronic Data Systems (EDS) on various assignments in Europe, the United States, and Asia Pacific. He was eventually posted to China to establish and set up the country-wide information and communications technical infrastructure of General Motors.

Anticipating the trend towards global I.T. outsourcing, he identified China as a major player in this fast-growing industry. In 1998, he and a group of former EDS colleagues started I.T. UNITED (www.ituc.com), a global enterprise with technology development centers in China. Since then, the company has built long-lasting partnerships with a wide range of organizations by delivering cost-effective I.T. solutions that make technology easier, smarter, and more productive.

Before joining the private sector, Cyrill served in the military for two years as a First Lieutenant in an elite unit of the Swiss Special Forces. He holds a Bachelor of Arts in Finance from Texas A&M University and a certificate in Systems Engineering Development from EDS.

Away from the office, Cyrill serves as the President of the Swiss Chinese Chamber of Commerce Beijing (SwissCham Beijing) and as a Governor of the Board at the Capital Club, Beijing's premier private business club. He also is an enthusiastic aviator and holds the first private pilot's license issued to a foreigner in China since 1949.

Looking ahead & Right now – Offering Professional Services to China & Swiss-based Businesses

The SwissCham Beijing membership card, which is planned for launch in October, will provide a variety of discounts at many business facilities in the community. The exact scope of benefits will be described in more detail at the time of release.

In addition, SwissCham Beijing is now playing an increasing role in providing assistance and services to companies based in Switzerland that are looking to either establish or step up their participation on the China market.

These professional services can be tailored to meet specific needs. The service range includes but is not lim-

Cyrill Eltschinger holds the first private pilot's license issued to a foreigner in China since 1949.

ited to consultancy, training, strategy and research. SwissCham Beijing is happy to process any service requests and will endeavour to provide competitive quotations for any organizations or individuals that wish to leverage from the considerable experience and expertise within the chamber.

This initiative offers value on both sides. Newcomers can benefit from the expertise and experience offered from the chamber in Beijing, working closely with other chambers. At the same time, by fostering new relationships with firms in Switzerland, members have access to yet more business opportunities and value.

Thank you.

The board, the executive staff and myself all look forward to working together to provide ongoing services and value to members. We greatly appreciate your precious ongoing assistance and support.

Should you have any questions, please don't hesitate to contact me at the office: +86-10-6599-2288 / Ext. -800.

With kind regards

Cyrill Eltschinger
President, Swiss Chinese Chamber of Commerce Beijing

Award for Swiss Center Shanghai

Swiss Center Shanghai receives Best International Project award at the first World Chambers Competition

With the Swiss Center Shanghai (SCS) in the category "Best international project", the Chamber of Commerce of the Canton Fribourg won the first World Chambers Competition in Quebec, Canada, on September 17th 2003.

The other eight competing projects in the category came from Canada, Columbia, Czech Republic, France, Germany, Greece, Russia and Spain; still none of them overwhelmed the jury as much as the Swiss assignment.

The best help for Swiss companies in China

The Swiss Center Shanghai was launched in November

1999 by the Chamber of Commerce of the Swiss Canton of Fribourg. The SCS started supporting SMEs (small and medium sized enterprises) entry into China from January 2001. Since then, the SCS and its affiliated partners served 35 SMEs with market entry strategies, management search and hiring, legal incorporations, full production operations set-up, and management support in the operation phase (auditing, management reporting, strategic consulting).

With China quickly becoming the workshop of the world, be it for sales, sourcing or production, the Middle Kingdom has become unavoidable, for smaller companies as well. The Swiss Centre Shanghai "offers SMEs entering the Chinese and/or Asian markets a global strategic advantage by systematically reducing market entry time, costs, investments and risks".

Through a tie-in with the Swiss Organization for Facilitating Investment (www.sofi.ch), the SCS provides SMEs moving to Asia the expertise and resources they lack and ensures best chances to be successful in this most promising as well as most difficult market.

The success of SCS' clients has also drawn the attention of German, French and American companies interested to operate in China: the first German company joined the concept.

All these reasons helped the Chamber of Commerce of Fribourg to succeed in Canada and win the trophy of "Best international project".

The World Chambers Competition aims to give international recognition to the most innovative projects recently undertaken by local, regional and national chambers of commerce from around the world.

For further information, please contact:
Florian Lüthi, Shanghai
www.swisscenters.org

Six Problems Hinder Economic Growth

According to the Deputy Director of the National Bureau of Statistics, Qiu Xiaohua, six problems are hindering China's economic growth. He said at a forum on enterprise management that these problems are weak consumption, the lagging service industry, high pressure on employment, difficulty in raising farmers' incomes, rapid increase in the amount of loans and wasteful duplication of construction.

Qiu noted that China's economy is still on the fast track, and the impact of the outbreak of SARS is temporary. The target of a seven-percent economic growth set for this year is "very possible" to achieve, adding that it may even reach eight percent.

Analyzing this year's economic development, Qiu said that demand and investment had played a more prominent role in the economy, and the manufacturing industry is its major driving force. However, he admitted that problems have been exposed in the current course of economic development.

Qiu noted that worldwide, on an average, 70 percent of economic growth comes from consumption, while investment contributes only some 20 percent. In China, investment contribution has been 13 percentage points higher than world's average, while that of consumption is 17 to 18 percentage points lower than the world's average in recent years. The gap is even bigger in this year's economic development, he noted.

Statistics show that in the first half of this year 70 percent of economic growth came from investment. According to Qiu, the weak service industry might raise the pressure on employment, which is already in a strained state.

In 2003, China's newly added labour force will reach 10 million, including 2.12 million college graduates. By the end of June this year, the registered unemployed population had reached nearly eight million, or 4.2 percent of the total population. In the meantime, the outbreak of SARS threw nearly seven million rural people out of work.

The SARS outbreak also reduced the income of farmer-turned-workers, and depressed the demand for farm produce, thus affecting the income of rural people. Statistics show that in the second quarter of this year the per capita cash income for farmers decreased by 35 yuan over the same period. In the first half of this year, farmers' per capita income increased by only 3.2 percent over the same period last year, or 2.6 percent after deduction of inflation.

Qiu also warned about the trend of a rapid increase in the total size of loans, which stood at 1.76 trillion yuan in the first half of this year. This figure equals the total amount of newly increased loans for last year.

The trend of wasteful duplication of construction has also damaged China's economy, said Qiu, citing the iron-and-steel and textile industries as the worst offenders. Duplication of construction brings exorbitant competition, reduces profits and increases banks' financial risks, Qiu warned.

Report by Xinhua

Record Growth Level in Third Quarter

China's economy grew by 9.1% in the third quarter compared with a year ago. For the first three quarters, year-on-year growth was 8.5% to US$ 953 billion. The overall economic situation is the best on record for several years according to the National Bureau of Statistics.

During the January-September period, fixed asset investment rose 30.5% to US$ 413.9 billion, while retail sales of consumer goods reached US$ 394 billion, a year-on-year increase of 8.6%.

Exports rose 32.3% compared with a year ago to US$ 307.7 billion. Imports grew 40.5% to US$ 299 billion. Foreign direct investment rose 11.9% to US$ 40.2 billion. From January to September 29.539 foreign-invested enterprises were approved to be established, a rise of 18.59% over last year. China has attracted a total of US$ 907.27 billion in contracted FDI since 1979.

At the end of September China's foreign exchange reserves stood at US$ 384 billion, a rise of 40.5% over 2002.

According to the National Bureau of Statistics, the accelerated rate of growth is likely to continue until the end of the year. While citing the dangers of rapid credit growth, energy shortages and rising inventories, the Bureau declined to answer repeated questions about the dangers posed by an overheating economy.

Meanwhile, China has started the sell-off of some US$ 2 billion in bad loans in a sign of renewed efforts by the big four state-owned banks to clean up their balance sheets. The auction comes as Bank of China and the three other big state-owned banks are engaged in a new push to dispose of problem loans.

Moody's, the international credit rating agency, offered China a welcome boost by raising its rating. China rating on foreign currency debt went from A3 to A2. Moody said its decision was partly based on Beijing's policy of containing foreign debt at a prudent level. Official statistics put China's external debt at just over US$ 168 billion.

Press summary by Paul Wyss

Recent Foreign Investments / Joint Ventures

USA

DUPONT and Wuxi Xingda Nylon Co announced their plan to form a joint venture for the production and distribution of filaments to be used in toothbrushes, paint brushes and cosmetics in Wuxi, Jiangsu Province.

UNITED YIELD INTERNATIONAL signed a contract with the port of Lianyungang in Jiangsu province for a 51% share. The move comes in the wake of a law allowing foreign companies to hold controlling stakes in Chinese ports.

BOEING, world's largest commercial aircraft manufacturer, plans to set up a US$ 100 million airplane repair, modification and maintenance joint venture with local partners in Shanghai late this year. Boeing forecasts that China's aviation market will increase by 7.6% annually in the next 20 years to become the second largest after the United States.

INTEL plans to invest US$ 375 in a second factory in China, expanding to take advantage of lower costs in the company's second-largest market after the United States. Intel will hire 675 people for the plant to assemble and test semiconductors in the city of Chengdu. The company already has a similar plant in Shanghai.

LUCENT, communications technology giant, is to set up a third-generation development centre in Nanjing. The centre will specialize in research into and the development of third-generation mobile communications technologies. It will promote Lucent's technologies not only in China, but worldwide.

TYCO, one of the world's top 500 companies, has purchased a private Chinese firm's fireproof power cable operation, together with its trademark, for US$ 10 million. Juli Group, based in Zhejiang province, is China's largest producer of such cables.

UNITED AIRLINES and Air China reached a marketing alliance, including cooperation on code-sharing flights, frequent flyer programmes and shared airport lounges. In total, the two airlines will offer 26 non-stop code-sharing flights a week between China and the US.

HONEYWELL is investing US$ 9 million in building a plant manufacturing smoke detectors in Xian. This will be the firm's second plant in Xian. The first one, Xian System Sensor Electronics, is the largest manufacturer of smoke detectors in Asia. Its revenue last year was US$ 18 million.

HEWLETT-PACKARD, which has invested over US$ 500 million in China since 1985, plans to invest US$ 200 million by 2007, hoping to sell software to power everything from billing systems to share transactions. To meet this goal, HP will open a software center in Shanghai to market financial services products to potential clients. HP employs about 3.000 people in China.

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Swiss-Chinese Trade / Third Quarter 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	**1.701,0**	**24,6**	**100,0**	**1.751,5**	**2,1**	**100,0**
Agricultural products	9,4	10,3	0,6	41,5	-24,9	2,4
Energy carriers	0,2	231,1	0,0	0,4	–	0,0
Textiles, apparel, shoes	25,7	30,6	1,5	496,8	-2,9	28,4
Paper, paper products, printed matter	7,5	17,3	0,4	7,9	22,6	0,5
Leather, rubber, plastics	23,5	-2,9	1,4	104,4	0,4	6,0
Chemicals, pharmaceuticals	267,9	8,7	15,7	202,3	-3,1	11,6
Construction materials, ceramics, glass	8,8	204,9	0,5	18,2	6,0	1,0
Metals and metal products	67,8	8,7	4,0	91,6	14,1	5,2
– Iron and steel	1,8	85,6	0,1	0,8	10,2	0,0
– Non-ferrous metals	8,3	-3,5	0,5	6,9	-0,6	0,4
– Articles of metal	57,6	9,3	3,4	84,0	15,5	4,8
Machinery, apparatus, electronics	1.005,9	20,8	59,1	392,6	20,1	22,4
– Industrial machinery	766,2	21,3	45,0	47,0	23,9	2,7
– Engines non-electrical	30,3	-20,7	1,8	3,9	–	0,2
– Construction machinery	2,5	-38,8	0,1	0,1	820,4	0,0
– Machinery engineering	733,4	24,4	43,1	43,0	13,9	2,5
– Pumps, compressors, fans, etc.	60,9	63,0	3,6	7,2	40,5	0,4
– Process engineering, heating, cooling equip.	36,2	5,4	2,1	7,5	50,3	0,4
– Lifting and handling equipment	25,2	45,7	1,5	2,2	11,3	0,1
– Machine-tools metalworking	116,7	26,4	6,9	1,8	-26,5	0,1
– Machine-tools for mineral materials	10,0	54,7	0,6	0,0	-96,0	0,0
– Plastics-, Rubber machinery	22,1	-46,5	1,3	0,1	486,2	0,0
– Machine-tools for wood, cork, etc.	5,7	-33,9	0,3	1,3	-33,8	0,1
– Other machinery	81,7	16,9	4,8	4,2	103,7	0,2
– Hand held tools	3,7	23,0	0,2	7,8	24,4	0,4
– Welding machines	11,5	-42,8	0,7	0,6	-42,1	0,0
– Printing and paper machinery	74,6	1,2	4,4	1,5	33,3	0,1
– Textile machines	244,3	48,7	14,4	0,8	-12,0	0,0
– Food processing equipment	22,8	127,5	1,3	4,0	-18,4	0,2
– Filtering and purifying machines	7,9	68,7	0,5	0,7	93,7	0,0
– Packaging and filling machines	10,2	62,9	0,6	3,2	-4,6	0,2
– Agricultural machines	10,7	364,7	0,6	0,2	54,2	0,0
– Household appliances	1,9	-34,8	0,1	127,9	1,6	7,3
– Entertainment electronics	1,3	-51,5	0,1	83,3	0,5	4,8
– Household machines	0,6	100,9	0,0	44,6	3,9	2,5
– Office machines, Computers	3,0	-34,8	0,2	94,0	77,5	5,4
– Electrical machinery and electronics	223,8	17,2	13,2	123,4	12,4	7,0
– Power generation, electric motors	29,8	25,4	1,8	31,0	-4,0	1,8
– Telecommunications	35,7	147,7	2,1	26,1	41,5	1,5
– Electric and electronic articles	158,2	3,6	9,3	66,3	12,3	3,8
– Defence equipment	0,3	33,4	0,0	0,0	-75,5	0,0
Vehicles	10,3	293,6	0,6	16,3	-1,4	0,9
– Road-vehicles	3,2	82,7	0,2	15,0	5,1	0,9
– transport of persons	0,2	-33,9	0,0	11,1	9,2	0,6
– transport of goods	0,0	–	0,0	0,0	–	0,0
– Special purpose vehicles	1,8	143,4	0,1	1,8	11,7	0,1
– Spare parts	1,1	57,5	0,1	2,2	-15,0	0,1
– Railway vehicles	6,9	761,0	0,4	0,3	-73,7	0,0
– Aircraft and spacecraft	0,2	139,0	0,0	0,3	-24,1	0,0
– Vessels	0,0	-100,0	0,0	0,6	7,9	0,0
Precision instruments	122,5	36,1	7,2	56,6	3,2	3,2
– Optical instruments, photo	12,7	13,9	0,7	35,0	-8,2	2,0
– Surveying instruments	15,3	434,6	0,9	3,1	12,4	0,2
– Medical instruments and appliances	35,8	45,8	2,1	3,3	44,8	0,2
– Mechanical measuring, testing, control equipment	58,7	14,2	3,5	15,3	29,9	0,9
Watches	141,6	158,3	8,3	135,5	-2,1	7,7
Other goods	10,0	-29,3	0,6	187,3	-4,2	10,7

Source: swissmem & Eidg. Zollverwaltung

JAPAN

SAGAWA EXPRESS CO and China Poly Group Corp will form a Shenzhen-based 50:50 joint venture capitalized at US$ 10.8 million. This is the first foreign-funded comprehensive logistics company allowed to operate its own distribution network throughout China. It will engage in all aspects of logistics, from shipping, air-ferry logistics, domestic transport and warehousing.

BANK OF JAPAN, Japan's central bank, is set to open an office in Beijing by the end of the year, highlighting the increasing attention being paid to China's burgeoning economy. The bank believes that opening of the office will enable it to better understand economic and financial developments in China.

SHISEIDO, Japan's leading cosmetics group, plans to boost sales in China five-fold to US$ 900 million during the next five years. The company opened a specialty cosmetics store in Shanghai that will be a model for the 5.000 stores it hopes to secure across China by 2008. It will also set up a holding company to oversee its Chinese operations which include a research facility, sales offices and factories.

NIPPON STEEL, Japan's leading steel maker, will link up with Baoshan Iron & Steel to manufacture steel plate for carmakers in China. The deal with an initial capitalization of US$ 377 million gives Nippon Steel access to the world's fastest growing car market, and marks the largest joint steel project in China.

KOREA

KIA MOTORS, an affiliate of Hyundai Motor Co., and its two Chinese partners, Dongfeng Motor Corp. and Yueda Automobile Group, will invest about US$ 600 million in a new plant in Jiangsu Province with a yearly production capacity of 400.000 units. Production will start before 2005.

INDIA

TATA CONSULTANCY SERVICES, Asia's largest software-services provider, is setting up a substantial software centre in Shanghai. Tata is also examining options for a car parts or vehicle assembly unit in China.

GERMANY

INFINEON, semiconductor company, announced it would set up a US$ 333 million joint venture memory chip assembly and test plant with the China-Singapore Suzhou Industrial Park in Jiangsu province. Infineon will take a 72.5% stake in the venture and the Chinese partner 27.5%. By 2013 the total investment will reach US$ 1 billion and more than 1.000 people will be employed.

VOLKSWAGEN will attempt to keep pace with the fast-growing Chinese market by doubling capacity at its two joint-venture plants and looking for new manufacturing sites in the country. VW plans to spend US$ 6.75 billion over the next five years. VW, the first foreign carmaker to enter China, increased mainland sales by 62% year on year in the first five months of 2003. Annual capacity at the plants will rise from 800.000 units to 1.6 billion within 5 years.

DAIMLERCHRYSLER signed an agreement with its Chinese partner, Beijing Automotive Industry Holding, to make an annual 25.000 Mercedes cars C-Class and E-Class in China. The total investment in the venture will be around US$ 1.1 billion. Up to now, DaimlerChrysler imported about 8.000 Mercedes annually.

DAIMLERCHRYSLER will introduce sedans from its US unit Chrysler to its joint venture with the Beijing Automotive Holdings Corp. The joint venture, Beijing Jeep Corp. now makes sport utility vehicles, including Chrysler's grand Cherokee and Jeep 2500. It plans to build 60 sales and service outlets in China by the end of 2003 to boost its participation in the booming sport utility vehicles market.

LINDE-XIAMEN FORKLIFT TRUCK CORP. will launch a series of activities to celebrate its 10th anniversary in China. The company, with investment totalling US$ 217 million, has developed into a leader in the country's forklift truck industry through large-scale production and advanced technology.

ROBERT BOSCH reports a 30% sales leap in China last year. Total sales including consumer goods amounted to US$ 1.2 billion, and the target for 2003 is US$ 1.5 billion. Bosch has invested a total of US$ 600 million in China and employs almost 10.000 people.

SIEMENS has signed a US$ 170 million contract in Guangzhou to supply 40 metro trains in cooperation with the Chinese rail car manufacturer Zhuzhou Electric Locomotive Works in Hunan province.

BASF launched a wholly-owned venture with an investment of about US$ 300 million at Shanghai's Caojing Chemical Industrial Park. The venture will produce elastic spandex fibres used for textile applications like sportswear, swimwear, inner and outer wear. BASF considers China its key market in Asia, with chemical sales expected to reach more than US$ 20 billion by 2010.

DEUTSCHE BANK is in advanced talks to create an underwriting joint venture in China, joining the handful of foreign banks with access to the country's domestic equity market. The joint venture will underwrite public offerings on the US$ 500 billion domestic A-share market. Foreigners are limited to a maximum stake of 33%, increasing to 49% by about 2005.

INFINION TECHNOLOGIES, German chipmaker, made a deal with Huawei Technologies to develop low-cost, next generation mobile phones. Infinion also plans to invest US$ 240 million in a testing and assembling facility for dynamic random access memory chips.

ENGLAND

PRUDENTIAL, UK insurer, expects its joint venture CITIC Prudential in Guangzhou to be profitable by the end of this year, becoming one of the first of 20 foreign life insurers to run a profitable subsidiary in China after AIG of the US. CITIC Prudential employs about 3.500 agents in Guangzhou and recently got the green light to expand to Beijing. Life insurance premium growth in China reached 12% last year.

ROYAL DUTCH/SHELL and China National Offshore Oil Corp have agreed on a joint petrochemical complex in Huizhou in Guangdong province. The plant is due to commence operations in 2005. It is expected to be able to make 800.000 tons of ethylene and 2.3 million tons of chemicals a year, resulting in sales of US$ 203 million.

EUROPEAN METAL RECYCLING LTD, the largest metal recycling company in Europe, launched its first Chinese representative office in Shanghai. The company currently handles over 8.5 million tons of recyclable metal each year at 65 sites around Western Europe. The addition of the Shanghai office is expected to complement the marketing network in Asia.

FRANCE

ACCOR, French hotel operator, plans to open nine hotels in China by the end of 2004, including two economy hotels. The group will aim for the lower tier in secondary cities through its budget Ibis brand. Two Ibis hotels will be launched in Tianjin in October and in Chengdu in September 2004. The group is also planning five new five-star hotels in Hangzhou, Shenyang, Shijiazhuang, Chengdu and Anshan, as well as two four-star hotels in Beijing and Nanjing, giving Accor 26 hotels in China.

BELGIUM

INTERBREW, world's third-largest brewer by volume, will buy a 50% stake of Malaysian Lion's Group's brewing operations in China for US$ 131.5 million. The deal, expected to close in the first quarter of 2004, will position Interbrew as the third largest brewer in China with a market share of about 9%. Interbrew will take management control of Lion breweries in China and have the option to buy the remaining 50% for another US$ 131.5 million.

(continued on next page)

SWEDEN

IKEA, home furnishing producer, will open two new stores in Beijing and in Guangdong province. Ikea's plans include a total of ten new stores by the end of 2010. Sales between September 2002 and August 2003 were US$ 86.2 million.

SWITZERLAND

KUONI TRAVEL takes 100% of its joint venture P&O Travel Ltd in Hong Kong with the aim of enhancing its activities in Southern China.

RIETER, producers of textile machinery and auto parts, established a joint venture in Southern China with Nihon Tokushu Toryio (Nittoku) and Taiwanese Chu Chang Rubber.

The joint venture, Rieter Nittoku Automotive Sound-Proof, of which Rieter holds a 51% stake, will supply Japanese auto makers with components and systems for acoustic comfort.

Summary by Paul Wyss

Swiss Re Receives China National Branch Licence

Swiss Re announced on September 18th that it has been granted a full national reinsurance branch licence from the China Insurance Regulatory Commission (CIRC). The branch, which will be in Beijing, will provide comprehensive reinsurance services to clients throughout China in the property and casualty as well as life and health sectors.

Eric Gao has been appointed General Manager of the branch. Mr. Gao, who joined Swiss Re in 1996, has been in the insurance industry since 1979. He has worked in Hong Kong, London and Beijing. Winston Chou will head Swiss Re's Life & Health business in China, while the Property & Casualty business will be headed by Simon Lam.

Swiss Re Asia Division Chief Executive Officer Pierre Ozendo described the development as a "foundation stone in Swiss Re's Asia strategy". He added, "The level of focus and commitment demonstrated by China's approach to reinsurance regulation is an example to other emerging markets, and can help install greater confidence in the competence and vital role of prudential supervision in this fast growing market."

Jean-Michel Chatagny, Swiss Re's Head of Life & Health for Asia, added, "In China, greater individual risk awareness, combined with rising household income, social security reform, and the restructuring of state-owned enterprises, are helping to underpin further strong demand for life insurance products."

With enormous need for infrastructure, growing property ownership and increasing awareness of legal and property rights, non-life insurance demand will also continue to increase. Swiss Re's Economic Research & Consulting Department estimates that China's non-life insurance market will grow by a real average annual rate of 10% between 2003 and 2011 to USD 23 billion, while the life insurance market will grow by 17% to USD 120 billion.

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In Brief

– More than 30.000 foreign students from 156 countries are studying in Beijing, accounting for 40% of the total number of foreign students in China. The number is expected to reach 50.000 in the next three to five years.

– China recently launched its second scientific expedition to the North Pole. The "Snow Dragon", with 115 scientists, reporters and crew-men aboard, set sail from Dalian. A robot will be used for the first time to conduct complicated underwater tasks under the harsh conditions of the polar area.

– The number of vehicles in Beijing surpassed 2 million, raising new questions about the capital city's transportation system. Shanghai has kept vehicle numbers below 1.4 million through strict controls over private cars.

– CNOOC, China's largest offshore oil producer, has discovered significant natural gas reserves in the South China Sea, claimed to be the largest offshore findings of the past three years in China. The two gas fields, about 200 kilometres offshore from Zhuhai and Macao, hold combined reserves of about 42.48 billion cubic meters.

– Starting September 1st, Japanese businessmen and tourists no longer require visas for brief visits of up to 15 days in China. Statistics indicate 3.68 million Chinese and Japanese visited each other's country last year. In 2002, 2.9 million Japanese tourists visited China, up 23% from 2001. Japan is China's largest trade partner with a volume of US$ 101.9 billion.

– Chinese insurance companies are withdrawing from the auto loan insurance business, after widespread debt defaults and fraud. Insurance companies are thus giving up a market they jumped into seven years ago, believing it had enormous growth potential.

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– New regulations allow Chinese couples planning to get married to do so by only providing their ID cards and residence documents, and by signing a statement that they are single and not related. People may take a health examination before marriage, but will not be forded to do so. Couples will receive divorce certificates at once if both agree to get divorced and settle amicably their property and care of any children.

– From October 1, China's airlines will deploy aviation police on their flights. The move is a measure to secure aviation safety, especially since terrorist attacks against airlines have been increasing worldwide. Aviation police have to comply with certain physical standards to ensure that they can react swiftly in an emergency.

– The construction of a rapid transit railway connecting Nanjing and Shanghai will start before the beginning of next year. When the railway is finished the travelling time of three hours between the two cities will be reduced to only one hour. The new railway will also connect with other railways in the delta region.

– The Bank of China plans to further expand its business in Japan and Korea by increasing its cooperation with major commercial banks in the two countries. The bank signed a morandum of cooperation with Sumitomo Mitsui Banking Corporation and South Korea Exchange Bank. The three sides will provide preferential services for each other in international trade settlement and foreign exchange.

– China-Japan trade surged by 36.1% year-on-year to US$ 60.9 billion in the first six months of 2003. Imports from Japan amounted to US$ 33.8 billion, and exports rose to US$ 27.1 billion. The rapid growth is partly due to reduced Chinese tariffs in fulfilment of WTO commitments. Surging Japanese investment in China also contributed to the soaring trade.

– According to the Ministry of Information Industry, the number of mobile phone users has kept growing to 250 million. China witnessed nearly 51.86 million new phone subscribers in the first six months, of which 54.90%, or 28.47 million were cell phone users. By June, China had 472 million phone subscribers.

– China raised the amount of foreign currency that can be carried out across its borders, from previously US$ 2.000 to US$ 5.000. For amounts between US$ 5.000 and US$ 10.000, residents need to apply for certificates. Amounts above US$ 10.000 are forbidden both under the old and new regulations.

– Petro China, China's leading oil and gas producer, reported record earnings for the first half of the year, boosted by improved efficiency and a jump in world oil prices. Net profit was a record US$ 4.6 billion, more than double last year's US$ 1.91 billion. The largely state-owned company became on of the first partial privatisations in China when it listed a 10% stake on the Hong Kong and New York stock exchanges in April 2000.

– Sinopec, China Petroleum & Chemical Corporation, China's second largest oil producer, plans to cut its workforce by up to 50.000 in the next three years as part of an efficiency drive. The cuts, which follow staff reductions of 100.000 during the past three years, would improve the state-controlled group's return on capital from 10% to about 13%.

– Shanghai Education Research Center, which is responsible for the procurement of software for public schools, signed a contract with the local Kingsoft Corp. to buy its Office 2003 software, removing Microsoft's Word, Excel and Powerpoint programs. Microsoft had asked the Commission to sign a contract to licence Microsoft on every school computer. However, the Commission opted for Kingsoft whose newest Office 2003 is half Microsoft's price.

– Another 200.000 troops will be cut from China's army by 2005, reducing the overall number to 2.3 million. It follows the disarmament of 500.000 personnel from 1996 to 2000. The decision was announced by Jiang Zemin, Chairman of the Central Military Commission. The Chairman said the decision will accelerate the modernization trend of the army.

– Companies around the world are excited over the business opportunities offered by the Beijing 2008 Olympic Games, through its Marketing Program which was officially launched in Beijing. Multinationals and foreign-funded joint ventures are eager to use the chance to enhance their brand value in China. At the same time, local firms consider this a precious platform to present themselves to the world.

– China's crude-oil imports are soaring 30% per year due to the rapid economic growth. Energy experts are concerned about China energy security and are urging to develop new sources to prevent potential shortages. A strategic national oil reserve, as in the US and Japan, should be phased in as a long-term plan.

– China's private enterprises are playing an increasingly important role in national imports and exports. In the first seven months of this year, their trade volume reached US$ 28.02 billion, up 170% over last year and far higher than the national growth of 37.9%. Export and import volume was US$ 15.87 and US$ 12.15 billion respectively. Private exporters are mainly from the textile, food, light industry, chemical, machinery and computer sectors.

– According to a new law giving private schools equal status with state-owned schools, the non-state educational sectors will enjoy national and other preferential treatment in running schools. The law also regulates the legal rights of investors and the interests of the schools, students and the teaching and administrative staff. To date, there are more than 1.300 non-governmental colleges with a total of three million students.

– Foreign direct investment (FDI) in China is expected to total about US$ 57 billion this year, US$ 4.3 billion

more than in 2002. To date, more than 400 of the world's top 500 companies have launched operations in China, among which nearly 30 have set up regional headquarters according to the Ministry of Commerce.

– Beijing Capital International Airport (BCIA) has received government approval for a giant. UD$ 2 billion expansion in one of the largest Olympics-related projects. Multinational companies have their eyes on the city. The expansion will provide a more than six-fold increase in annual capacity to 60 million passengers and 500.000 aircraft movements by 2015.

– China's automobile exports skyrocketed during the first half of this year, but the proportion with compared with the country's vehicle output is still small. The exports, worth US$ 168 million, included 1181 passenger cars, 250 sport-utility vehicles, 948 minivans, 1306 buses, 10.570 trucks and 26.688 other special-purposes vehicles.

– The market share of foreign banks has halved since China joined the WTO in 2001. International banks' share of foreign currency loans fell from 15% in 2001 to 7.4% in 2002. Their share of total assets of the Chinese banking system dropped from 2% to 1.1%. The number of foreign banks has also dipped from 214 in 2001 to 211 in 2002.

– Since China opened up in the late 1970s, Shanghai has approved more than 30.000 overseas-funded projects with an actual utilization of more than US$ 40 billion, according to government statistics. Currently, 41 multinational companies have set up their regional headquarters in Shanghai, the largest number of any Chinese city. Additionally, the city government has approved 91 overseas-funded research and development institutions.

– In a major step towards opening its press and publishing market, China has for the first time awarded exclusive rights to sell and distribute publications to a private company. WDGY (Wende Guangyun) Media Distribution Group, a Guangzhou-based advertising and publications distribution firm, has three local distribution networks in Beijing, Tianjin, Guangzhou and Northwest China.

Summary by Paul Wyss

Caution Urged in Foreign Projects

China urged foreign investors to start their businesses in "legitimate" development zones and warned not to be lulled by "too good to be true" preferential policies being offered in some places. "Foreign investors should select sites at State and provincial levels, avoiding being lured to those at a lower level by 'too good to be true' preferential policies", said Hu Shanshun, a publicity official with the Ministry of Land and Resources. Hu made the remarks as the country's most high-level inspection into the country's land market continues. Investigation of land use in various development zones and industrial parks is a priority.

The probe was launched by the State Council in mid August 2003. As many as ten groups, comprised of officials from the Ministry of Land and Resources, the National Development and Reform Commission, the Ministry of Supervision, the Ministry of Construction and the National Audit Office, have been dispatched on the ten-day mission. But the whole inspection might take about two months, with another two batches of inspectors still to set off.

According to Hu, the inspection expects to wrap up with the cancellation of "a bunch of" illegal zones and industrial parks, which were established without proper certification, expanded without receiving necessary approval or which defied approved uses of the land. However, Hu refuted claims that such a move might harm foreign investors who have, in most cases, trusted local governments and got lured into these zones or parks. He said, each case will be looked at individually, and the rights and interests of the investors will be respected. "If the investment has just started, or not yet started at all, it is very possible that such projects could be brought to a halt", he said. "But if the investment has already been put to use, there is no reason to tear down everything, although, a question mark might be placed on the fulfil-

Fact Box

China has witnessed surging land-related law-breaking cases in recent years. There were 101,000 such cases in the first half of this year, involving 39,133 hectares of land and leaving 32 subject to criminal law and 123 under administrative penalties.

Of the country's 3,837 development zones and industrial parks whose total area exceeds that originally planned, only 1,251 were approved by the State Council and provincial governments.

A spot check in ten provinces indicates as many as 68.7 per cent of those zones and parks have used land illegally.

ment of originally promised services and preferential policies." Moreover, he said, not many foreign parties have been involved.

The current inspection will not only produce a better ordered land market, but also improve the country's investment environment, said Ma Xuelu, director of the Management Committee of the State High-Tech Development Zone in Baoding, North China's Hebei Province. "With the sorting out of those small zones and parks, investors can enjoy easier and better guaranteed choices", said Ma.

Summary by China Daily

Focus on Business Implementing

Making Your China Business Strategy Work

Getting started in China is half the challenge. Making your business strategies and operations work properly in China for profitable returns is the other half. After the strategy, financial structure and corporate set-up have been settled, there are major implementation matters that must be brought under control.

Computer systems form the backbone of the whole corporate operation. Not only should the head office IT/ERP system be mirrored in China for supply chain integration and control, it must support local requirements like Chinese script.

Additionally, China Tax and Finance Bureaus require regular reporting in specific formats and so, local Chinese financial systems may be required unless the head office IT/ERP system can be customized. Unlike the West, trading businesses in China must use a special Tax Control Computer and meet other regulations for the receipt and invoicing of input materials and finished goods.

Failure to meet Chinese tax standards can, in theory, lead to the business being shut down. This may occur if the business cannot prepare timely tax reports and the Chinese authorities decide that the business is committing tax fraud, a common practice in China.

Taking control of Chinese staff issues is critical. Once Chinese staff are recruited or inherited with a company takeover, they must be managed to perform to Western standards. Many cultural factors prevent Chinese staff understanding Western methods, time urgency, quality standards, honest feedback or performance for profit. The solution here goes beyond training – the most successful approach is to give Chinese staff on-site leadership and coaching from China experienced Western managers. This ensures both adherence to procedures and guidance on how to apply Western standards and disciplines.

The successful performance in China of expatriate foreign staff cannot be just assumed. Even if only on short term assignment in China, they will need assistance to perform and deal correctly with their Chinese counterparts. For example, a foreigner may easily make mistakes in dealing with senior Chinese staff while thinking that he or she is making a positive impression. Again, from experience, the most successful approach is on-site leadership and coaching of foreign staff from China experienced Western managers. This prevents costly mistakes, misunderstandings and time delays, which may be considerable.

The choice of building or development site should not be left entirely to local mainland Chinese staff. In so many things that a Western manager takes for granted, the Chinese will approach everything differently. One example includes the Chinese concept of a truck freight terminal, say, a multi-floor building with concrete columns every three meters instead of a single span building with room for trucks and forklifts. Another is the way they will lay out machine lines and then run them, with less concern for personal safety or the technical aspects of production efficiency.

And there is another reason for quickly getting China based operations to an efficient and economic scale of operation, especially if competing against a Chinese national company. Chinese companies may compromise standards to reduce cost in ways that a Western multi-national is unable to. They may even run below cost, just to keep their products moving.

In summary, every China directed operational decision must be taken in hand to both ensure that the head office strategy can be met, as well as ensuring that a culture of continuous improvement, minimum standards and performance for profit is imbedded in the minds of mainland Chinese staff.

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Preferential Policies Remain

Despite the fact that WTO rules specify that foreign and domestic firms should be treated the same, the Ministry of Commerce said China has no plans to change its preferential treatment for foreign investments in the near future. According to the Ministry, national treatment means the elimination of policies that discriminate against foreign investment; it does not necessarily mean elimina-

tion of preferential treatment. On the contrary, China will establish more preferential policies to promote foreign investment. For example, it will allow the creation of foreign-funded, even solely funded, logistic companies, purchasing centers and research centers. Foreign companies are not required to pay tariffs and value-added tax when importing equipment for their own operation. They also enjoy a lower corporate income tax rate. China's actual rate is 26% for domestic firms and 15% for overseas-funded firms.

The Ministry argues that the elimination of preferential treatment for foreign investors would lead to a slowdown, or even a drop, in foreign direct investment, which would have a negative effect on the country's economic development.

Source: China Daily

Beijing Plans Second International Airport

Beijing is expected to start building a second international airport in 2010. Chen Guoxing, chief of the Beijing Capital Airport Expansion Project Headquarters, revealed the plans for the new airport, after widespread media speculation about the issue. However, the location and design scheme of the project have yet to be decided.

Beijing's current airport will undergo massive expansion to ready itself for the extra demand created by the 2008 Olympic Games. But Beijing has been ruled out as a venue for the new airport, as the capital has mountains to its west and north, and no suitable space for such a mammoth project elsewhere in the city. Designers will probably locate an ideal site in neighbouring Hebei Province, Chen said.

Companies worldwide will be invited to tender for the design of the new airport, and construction will be completed by 2015.

New passenger terminal

In a related development, Chen said at a press conference that Beijing plans to spend 16.7 billion yuan (US$ 2 billion) to add another terminal to the current airport.

The Capital International Airport, operational since 1959, has come under mounting pressure from surging air traffic demand in recent years. The number of passengers has increased by 3 million annually. The current airport was expanded twice late last century. The second passenger terminal (Terminal 2) was finished in 1999, when the first terminal was shut down for refurbishment, according to airport sources. Last year, the busiest and biggest airport in China handled 27.5 million passengers, 880,000 tons of cargo and mail, and registered 240,000 departures and arrivals.

Terminal 2 is expected to meet its designed capacity of handling 35 million passengers by 2005, Chen said. However, in the month when the 2008 Olympic Games is held in China, the peak traffic volume is projected to hit 5.56 million passengers, almost reaching the monthly total anticipated for 2015.

The airport authorities began a week-long exhibition at Terminal 2, showcasing seven design proposals for a new, 350,000-square-metre terminal (Terminal 3), a runway and related facilities. They have invited passengers to vote for their preferred schemes.

According to an initial plan, the new terminal will be used by Air China – China's flagship carrier – as well as Hong Kong, Macao and foreign airlines, according to Chen. Terminal 1, which is being redecorated, will be used for domestic air companies flying domestic air routes when it resumes operation in October. In the meantime, terminal 2 will be used by Chinese air carriers flying both domestic and overseas routes.

Source: China Daily

China's Biggest Nuke Power Plant Approved

China has decided to build its largest nuclear power plant in Yangjiang, a city in the southern province of Guangdong. The decision was a result of a recently concluded project evaluation panel attended by nuclear experts from both home and abroad.

The project went into the planning stages in the mid-1990s and a feasibility review was launched as early as in 1996 by the China Guangdong Nuclear Power Group (CGNPG). The government of Yangjiang city has agreed with CGNPG to set apart 472,485 square meters of land for the project, which will begin construction next year.

The gross investment in the project will amount to 8 billion US dollars, and the plant is expected to begin production within 15 to 20 years. It will have six generators with an installed capacity of six million kilowatts.

Yangjiang is considered an ideal construction site, according to Ouyang Yu and Qiu Dahong, academicians of the Chinese Academy of Sciences and Xu Damao, academician of the Academy of Engineering of China. Embraced by mountains on three sides and facing the South China Sea, Yangjiang city boasts a favourable geological condition. The academicians said that sea serves as a inexhaustible source of freezing water. They also said the thriving tertiary industries in the city can provide the plant area with good logistical services.

According to Hu Wenquan, general manager of CGNPG, the electricity consumption of Guangdong Province is steadily increasing. In the first seven months this year, it grew by 18.1 percent more than the same period last year. However, the power supply in the province can not meet the surging demand, so it is hoped the Yangjiang nuclear power plant project will solve the problem to some extent.

Domestic companies and those from the United States, Japan and France have bid to design the plant.

Source: Xinhua News

Biggest SOEs to Offer Top Jobs

Six of China's biggest State-owned enterprises (SOEs) have jointly launched their most ambitious recruitment campaign for senior managers, the first to be organized by the State-owned Assets Supervision and Administration Commission (SASAC). A total of seven posts including five deputy general managers and two chief accountants will be available.

China United Telecommunications Corp, China General Technology (Group) Holding Ltd, China Aluminium Corporation, China National Foreign Transportation (Group) Corp want new deputy general managers. China Energy Conservation Investment Corp and the State Development and Investment Corp want chief accountants.

Recruitment of senior managers in the open market will help the enterprises find the most suitable people. Those with overseas experience will help the companies explore markets abroad.

All but one of the SOE posts are restricted to Chinese citizens (including residents in Hong Kong and Taiwan). People born in China who have studied or worked abroad and acquired overseas residency permits also qualify if they retain Chinese nationality.

The jobs come with an upper age limit of 45, although exceptional candidates aged up to 50 years may be accepted. Applicants must have worked at senior level in multinational companies or State institutions and have Chinese language and computer skills. Only China National Foreign Transportation (Group) Corporation said its chief accountant can be a foreigner. Applications are due by the end of October.

Source: China Daily

China's IT Growth Bullish

Despite a hiccup caused by the severe acute respiratory syndrome in the first half of the year, China's information industry development will continue to stay on track, said a leading Chinese industry consulting firm. The country's information sector will expand at an annual rate of 17.4 percent by 2007 to hit sales of 523.4 billion yuan (US$ 63.06 billion), said CCID Consulting Co Ltd.

By that time, China will have a mobile user population of 500 million, while 100 million Chinese will surf the Internet with broadband connections. More than 20 million desktops will be sold here and the domestic laptop sales will hit 4 million annually. All these figures will more than double the current level in China. "These growth figures of the Chinese market are unmatchable in the world, as presently it is very rare to see double-digit growth in IT markets of other major countries", said Deng Zhicheng, Vice President of the Hong Kong-listed consulting firm. "Operators in Western countries are suffering a decline in their revenue, while Chinese carriers still have enough room for expansion."

The best prospect offered by the Chinese IT industry is in the information service sector, said Huang Yong, executive director of CCID Consulting. "In the first half of this year, this sector generated 7 billion yuan in revenue, and it will keep a 24.1 percent annual growth to hit more than 100 billion yuan in 2007", he said. "If any investors ask us which areas they should pay attention to, definitely this is our suggestion."

The most powerful driving factor behind it is the explosive growth of broadband deployment in China. In the middle of this year, 7.14 million Internet users on the Chinese mainland subscribed to high-speed Internet access service, almost three times the figure of a year ago.

One surprise in the CCID report is the firm's pessimism of China's mobile phone market, saying the sales of handsets will remain flat, with only 0.4 percent annual growth rate in the following five years. In the first six months, 28.9 million handsets were sold in China, 0.7 percent fewer than a year ago. The value of handsets sold also dropped 2.1 percent to 48.68 billion yuan.

This year might also be remembered as a tough time for local information technology firms, especially for computer makers. As SARS affected individual and corporate purchasing, the sales of personal computers swung from 100 percent year-on-year growth in the first quarter to a 10 percent slide in the second quarter. The sales of database, corporation management systems and information security programs also suffered decline.

Shanghai Daily news

China Opens Door to Foreign Car Loan Groups

China has announced the final version of its auto finance regulations, fulfilling a commitment made upon its WTO entry at the end of 2001.

The rules released by the China Banking Regulatory Commission set forth auto financing companies' functions, their incorporation requirements, their business scope and penalties for non-compliance. Under the rules, auto financing companies (AFCs) are allowed to extend car purchase loans or provide guarantees for such loans, offer car procurement loans to auto dealers and borrow from other financial institutions.

Foreign and domestic non-financial institutions wanting to set up car financing businesses in China must have minimum assets of US$ 480 million. General Motors, Volkswagen and Ford have made preparations to start car finance businesses in China and will now be able to apply for licenses.

Although loans to individual auto buyers have grown dramatically over recent years with the volume in 2002 being 286 times that of 1998, they are still far from sufficient to meet the needs of auto buyers. Only 20% of auto sales are financed with loans, far less than the average 70% in the more developed foreign countries.

Source: China Daily

Legal matters

MOC Circular on Qualification for Import and Export

On August 26th 2003, Ministry of Commerce (MOC) released Circular on Adjusting Requirements for Qualification for Import and Export and Its Certification Procedure. According to this circular, as of September 1, the threshold of registered capital for trading companies conducting import and export business will be lowered from RMB 5 million (3 million in central and western areas) to 1 million (500 thousand in central and western areas). Moreover, the requirement of at least 1 year of operation will be removed. For production companies engaging in foreign trade in their own right, the threshold of registered capital will be decreased from RMB 3 million (2 million in central and western areas) to 500 thousand. With the requirement on registered capital loosed, the power to certify qualification for import and export will be delegated to authorities in charge of commerce at provincial level. To perform the commitments provided in the Legal Instruments on China's Accession to the World Trade Organization, China has made a lot of effort. A case in point is the promulgation of this circular (www.mofcom.gov.cn).

Source: China Legal Briefing by Wenger Vieli Belser

SAT Circular on Permanent Establishment of FIE

As of July 1st 2003, Circular on Issues Regarding Taxation on Permanent Establishment of Foreign Invested Enterprises (FIE) has taken effect, which was released by State Administration of Taxation (SAT) on March 12th 2003 (China Legal Briefing 19). This Circular mainly makes clear three points. First, permanent establishment shall report their business activities, even if they are free or exempted from taxation. Second, permanent establishments engaging in trade whether in their own name or as agency shall be taxed. Third, there are two gauges for calculation of tax: actual income or deduced income on the basis of expenses. The permanent establishments influenced most by this Circular are consultancy (accounting, auditing or business consulting) institutions, as they are required to establish and improve books of account, which will raise the running cost of those mini companies (www.law-star.com).

Source: China Legal Briefing by Wenger Vieli Belser

MOF Circular on Credit Guarantee Institutions for SME

On July 17th 2003, Ministry of Finance (MOF) released Circular on Supporting for and Administration of Credit Guarantee Institutions for Small and Medium Enterprises (SME) by Local Administrations of Finance, which has taken effect as of promulgation. According to this circular, the move of raising capital conducted by government-invested institutions by means of bonds shall be approved by responsible financial administrations. Further, assets taken over by these institutions to offset debts shall not in principle serve their own use. In the case of these assets used by the institutions themselves, they shall not be booked exceeding 20% of total assets of the institutions. Where the institutions are government invested ones, such moves shall be subject to approval from local financial administrations. Moreover, local financial administrations assume limited liability towards loss sustained by credit guarantee institutions as a result of subrogation (www.law-lib.com).

Source: China Legal Briefing by Wenger Vieli Belser

State Council Amended Regulation on EPZs

On September 13th 2003, State Council adopted a decision to amend Provisional Measures on Customs Supervision and Control of Export Processing Zone (EPZ), which will take effect as of November 1st. There are two major changes in the revision.

The first change is mainly concerned with transferral of items from these zones to other parts of China. To be specific, ordinary items regulated by import license are no longer subject to this requirement when transported outside these zones. However, items which are listed in the Catalogue of Import-restricted Scraps Used for Raw Materials are still subject to import license issued by environment protection departments. Moreover, the customs levied upon these transferred items are decided based upon their status of domestic sale instead of values declared and later approved by customs, which was the case before revision.

Second, the article 44, which provides that the General Administration of Customs shall be responsible for the interpretation of these Measures, has been deleted.

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Think Tank: No Haste for Private Banks

At a high-profile symposium recently held in Beijing on private banks, financial think tanks put forward various ideas for the five trial private banks so they could likely get clearance from the regulator to open. However, many of the concepts were disappointing as they did not answer some of the most critical questions.

What is the role of private banks in China's banking sector? How are new financial risks avoided as the State-dominated industry accepts private newcomers? These questions need to be fully thought through on the eve of private capital's accession to the Chinese banking industry.

At the symposium, some economists took for granted that given private firms' prominent performances in many sectors, private banks would be more flexible and competitive than State or foreign-funded banks. Such a viewpoint does not ring true.

Despite their admirable successes in the country over the past two decades, many private companies have internal problems such tax evasion and being controlled by a single family. Private banks may also strike similar problems. As ownership and management are clearly divided in modern corporations, it is not reasonable to judge a bank merely by its ownership. The operation of all banks – State-owned or private – are in strict accordance with corporate law, banking law and other regulations.

Banks owned or controlled by the State can also be competitive if they have sound governance structures and market-oriented operational mechanisms. In fact, it is difficult to tell whether a bank is purely a "State" or "private" entity nowadays because many banks have plural ownership structures with both State and private capital.

The point of private capital's entry to the sector is not in the so-called competitiveness of private banks. Rather, it is a sign that the banking industry is ready to open equally to all kinds of capital, State or private, domestic or foreign.

No special favours

A lot of people hope private banks will naturally boost the growth of private businesses. Sadly, that may simply not be the case. Some economists and entrepreneurs would use piles of statistics to prove the rapid growth of the private sector and its remarkable contribution to the economy. And very likely they would come up with a specious suggestion: For further growth of the private sector, private banks are needed to serve fund-hungry private firms. Like State-owned banks, which do not merely serve State companies, it is not realistic to want private banks to specifically serve private firms.

Admittedly, State banks sometimes tend to favour powerful State-owned or foreign clients while leaving small private firms out in the cold. Even if a private firm has credit as good as State-owned companies, it may get discriminatory treatment. However, creating private banks to particularly serve private firms does not help improve the lopsided banking service – it makes the industry more askew.

To eliminate discrimination in the banking service, it is more important to untangle the complex relations between banks, enterprises and government agencies. Ideally, both State-owned and private banks should serve different clients according to their credit situation, regardless of the difference of ownership.

Be patient

Most of the private bank formulae discussed at the symposium were very ambitious. Some were even pushing for the creation of "the Citibank of the East" within three to five years. Such a big vision, if not a pipe dream, at least shows many are not clear about the goal and the core competitiveness of private banks.

Commercial banks are not highly profitable. Their profit margins are lower than many lucrative industries. The uniqueness of banks is that they can control astronomical amounts of money that may be dozens of times superior to their own capital. This brings great opportunities as well as huge risks.

A successful bank must have a complete management structure and steady development strategy. Quickly expanding banks often have to pay a price for a lack of steadiness. At a time when the creation of private banks is still only on paper, their planners' sensible longing for quick expansion is a worry.

Generally speaking, private banks have little competitive edge in terms of capital size, management and experience. It is very dangerous to pursue overnight success under such circumstances. Private bankers should find and focus on their real strong point: Grass-roots banking services.

As major State-owned banks withdraw from rural banking services and foreign banks focus on prosperous coastal metropolises, private banks will have plenty of opportunities in rural areas and small townships. It is not an illusion that a private bank can grow to become a powerful financial conglomerate, but it is likely to be a long journey full of fierce competition.

Good entrepreneurs equal good bankers?

The involvement of successful private enterprises with private banks cannot help the banks win trust from watchdogs and depositors. What is more, their motion of participation is questionable. It is easier for a successful private enterprise, which has already earned a reputation for profitability and management, to get financial support from State-owned banks and to list on the stock markets in Shenzhen, Shanghai and Hong Kong. There is little necessity for them to enter the banking industry, in particular, to be a shareholder of a private bank.

(continued on page 26)

Two objectives exist: Diversification of operations and the collection of money. But for a successful private company, it is widely accepted by foreign and State-owned banks. Why do they need to be a shareholder of a private bank with high risks? Then, collecting more money through private banks, which should be guarded against, becomes the only objective.

The creation of private banks is also a challenge for private companies and supervisors. Stories from Russia, Taiwan and Indonesia prove that private banks can create large financial crisis. As a result, private companies should create a convincing mechanism to control risks before they want to set up private banks. They also need to persuade depositors that they can protect them. State-owned banks can insure benefits of depositors through government credit. If private banks can offer more interest coupled with compulsory insurance for deposits, they can allure depositors to their banks. A well-mapped plan is much more needed than a desire for haste.

Report by China Daily

Increased Loans Hide Crucial Issues

Bank loans registered a spectacular increase in the first half of 2003. Yet, analysts say many local banks artificially increased the loan figures to lower the percentage of bad loans, said Economic Information Daily in August.

Only in the first half of this year 1.78 trillion Yuan (US$ 215 billion) were lent, almost the same as the last year total amount 1.84 trillion, reported recently the People's Bank of China, the central bank. The growing trend is expected to continue for the rest of the year and the figure of 3 trillion Yuan (US$ 362 billion) could be reached. That would be much more than the government's goal of 1.8 trillion Yuan set at the beginning of the year.

The banking regulator, the China Banking Regulatory Commission, said in a notice placed on its website that China's 15 biggest state-owned lenders bad loans fell 93.4 billion Yuan (US$ 11.3 billion) in the first half of 2003 from the prior six-month period, reported the Shanghai Daily. Bad loans totalled 2.54 trillion Yuan end of June, which is 19.6 per cent of the total credit, said the China Banking Regulatory Commission.

Such a bank loans flow reflects the government's banking regulatory commission's goal of between 3 and 4 per cent bad loans reduction. Yet, analysts from the State Information Centre said that banks are too hasty to lower bad loans. Many lenders would use tricks in order to make bad loans ratio appear lower. At times banks would issue new loans to companies to pay current bad loans and change bad loans into new loans, accoarding to the Economic Information Daily.

After the government's new bank policy from the beginning of the year, the first semester released figures showed that the speed of lending suddenly increased from the last quarter of last year, while the percentage of bad loans is decreasing faster then expected.

Some analysts said that the fall in the bad-loan ratio reflected the fast economic expansion in the first six months. "Companies lent more while the economy developed quickly", said Hu Huizheng, an analyst at Yinhua Fund Management Co. The bank loans increased also because companies lack other financing channels, reported State Information Centre analysts. Out of the total financing for companies, 97.8 per cent were bank loans, an increase from 72.8 per cent in 2000. As the stock market is not performing well, and corporate bond share is very small (only 6.5 billion Yuan – US$ 78 million – in the first half of the year), bank loans are the mostly opted alternative.

Since March, when a new generation of local government leaders took charge in China, the number of industrial zones increased. Investments rose to a high level but some sectors went overheated. The automobile sector, the steel production, the construction material and the real estate sectors have been the major driving forces. But despite the growth of these sectors domestic consumption growth was the lowest of the last three years, said analysts. In the second quarter of the year domestic consumption grew at a lower pace while industries grew at its highest record in the last nine years.

China's central bank intends to clean up the biggest lenders' bad loans. By 2005 the ratio has to be less than 15 per cent of total lending. The government recently set up four asset management corporations are in charge of cleaning up the banks' balance sheets.

Source: ChinaBiz

Minsheng Bank Plans to Sell Shares Overseas

China Minsheng Banking, the only privately owned mainland lender, is looking to sell $1 billion of its shares overseas, and has short-listed Citigroup, Deutsche Bank and Goldman Sachs Group for the job, bankers competing for the business announced in August. The share sale, planned for early 2004, would be the second by a Chinese lender. Bank of China sold $2.68 billion of stock in its Hong Kong business last year.

Investment banks are fighting for the right to arrange overseas share sales by Chinese companies, which could be worth as much as $50 billion in the next decade. Deutsche Bank is looking to land its third major transaction in China this year. Both Goldman and Citigroup would win their second deals if they are chosen.

The sale would give Minsheng funds to open new branches and increase loans to help it compete with Bank of China and other state-owned rivals. Founded in 1996 by Liu Yonghao, a pig-feed tycoon, and other wealthy executives, its profit almost doubled last year, making it one of the mainland's fastest-growing banks.

Goldman and Deutsche Bank declined to comment. Citigroup could not be reached for comment.

Minsheng asked investment banks to guarantee the share sale and commit to sell the stock at about four times the bank's book value, bankers involved said.

Minsheng has about 169 branches and 330 billion yuan, or $3.99 billion, of assets. Industrial Commercial Bank of China, the country's biggest lender, operates 26,000 branches. Minsheng sold 4.1 billion yuan of shares to domestic investors in December 2000. The share sale was China's hottest initial share offering that year, drawing bids for almost 100 times more shares than were on offer. Shares of Minsheng, which trade on the Shanghai stock exchange, traded at an average of 4.8 times its book value in the past three years, according to Bloomberg data.

By Cathy Chan and Rob Stewart, Bloomberg News

Index Tracks Investors' View of Trends

China's stock market now has its first investor confidence index (ICI), which tracks investors' views on the market's near-term trend and informs regulators of market sentiment. The index was formally released in August after eight weeks of trial operation. It was designed by the Shenzhen Securities Information Co, which is affiliated to the Shenzhen Stock Exchange.

The ICI combines two indices together, one reflecting retailer confidence and the other reflecting institutional sentiment, company sources told China Daily. "In the past, you could feel investor sentiment, but that was rather abstract," an analyst with China Securities Co said.

Now with the new indices in place, it is much easier to track whether investors are satisfied with returns, or optimistic about prospects as well as their prediction of the stock indices in the next one to six months.

The weekly calculated indices ranges from zero to 100. For example, the retailer and institutional ICI on July 25 were 35 and 39 respectively, meaning less than half of the retailers and institutions are optimistic about market prospects. "The figures pointed to rather low investor confidence because of unsatisfactory market performance", said an official, who is in charge of the ICI designing in the Shenzhen Securities Information Co. Market regulators also want to use such statistics to trace the public response to the policy movement, insiders said.

Besides the ordinary clients, the newly adopted ICI will also be submitted to the Shanghai and Shenzhen stock exchanges and the China Securities Regulatory Commission for their reference.

Source: China Daily

Yangtse Delta Region – First Half 2003

General Situation

Despite the negative impact of SARS (Severe Acute Respiratory Syndrome), the droughts and floods, China's economy enjoyed a faster growth in the first half of 2003. The Yangtse delta region – including in this term the city of Shanghai and the two provinces of Jiangsu and Zhejiang – continues to play a locomotive role in the country's economy, in particular in the field of the investment and foreign trade.

China's economy increased by 9.9% in the first quarter of 2003 compared to the same period in 2002, which was the highest growth rate since 1997, while the growth rate in the second quarter fell to 6.5% due to the effect of SARS. On the whole, the Gross Domestic Product (GDP) of China rose 8.2% to 5'005.3 billion RMB in the first half of 2003, an equivalent of 604.72 billion USD (according to the official Chinese exchange rate: 100 USD = 827.71 RMB).

During the same period of time, the aggregated GDP of the delta region climbed to 1'420 billion RMB (171.6 billion USD), accounting for 25% (22% in 2001) of China's total GDP, a remarkable result compared to its rather low percentages of population (10.9%) and area (2.2%). Due to the unordinarily rapid increase of exports and investment in fixed assets, Shanghai, Jiangsu and Zhejiang have all won the highest growth rates in recent years.

Shanghai reported a GDP of 282.57 billion RMB (34.14 billion USD) in the first half of 2003, an increase of 11.4% (10.9% for the whole of 2002) over the previous year. This was the highest growth rate since 1998. Jiangsu Province, the second largest provincial economy in China after Guangdong province, recorded a GDP of 547.03 billion RMB (66.09 billion USD), up 13% and 4.8 percentage points higher than the national average. The GDP of Zhejiang province reached 412 billion RMB (49.78 billion USD), up 12.7% (12.3% for the whole of 2002). Measured by per capita GDP (16,570 RMB, or 2,020 USD in 2002), Zhejiang is the richest province in China.

Private Consumption: Severely influenced by SARS

Influenced by SARS, the country's private consumption slowed down a little, reflected in the situation of the retail sales. China's total retail sales growth went down to 8% in the first half of 2003 from 8.8% in 2002 and from 10.1% in 2001. In the same period, retail sales in Shanghai totalled 108.3 billion RMB (13.08 billion USD), up 8.8% (compared with 9.3% for the whole of 2002) from the previous year; in Jiangsu it was 171.22 billion RMB (20.69 billion USD), up 12.7% (compared with 12.1% for the whole of 2002) and in Zhejiang it totalled 150.19 billion RMB (18.15 billion USD), up only 8.6% (compared with 12.6% for the whole of 2002).

SARS showed its strongest effect in the service sector. While foreign tourists were reluctant to visit China during the SARS period, the Chinese government discouraged domestic travels by shortening the "Golden Week" holiday at the beginning of May. As a result, tourism, passenger transportation, catering and other related fields were hard hit by the epidemic. According to official statistics, passenger transportation volumes dropped 23.9% during the second quarter, and the volume of air passenger transportation dropped even by a half. Hotel occupancy was down to 3–5%, compared to about 70–80% in normal times.

However, many kinds of key consumer articles, like personal computers, mobile phones, and even cars and houses, sold well due to upgrading of the consumption structure in accordance with a steady and fast increase of personal disposable incomes in recent years. Sales of sedan cars in China surged 82.4% in the first six months of the year to 842,800 units. Sedan cars in private ownership in Jiangsu rose to 200,500 at the end of June this year from 154,600 at the end of last year. Sales of sanitation and health products, sports goods, internet and telephone shopping had actually been advanced by SARS.

Investment in Fixed Assets: One of the Main Engines of Growth

Since 1998 (after the Asian financial crisis), Chinese economic growth has been strongly driven by a pro-active fiscal policy, featuring heavily increased investments in fixed assets, especially in the field of infrastructure. This situation continued in 2002 and in the first half of 2003 in particular, since all of local legislative and government organs were re-elected earlier this year and many officials tended to show their ambition in their economic plans further.

Reaching 1'934.8 billion RMB (about 234 billion USD), enacted investments in fixed assets for the whole of China grew at an extraordinary rate of 31.1% during the first six months over the same period of last year, recording the fastest growth since 1994.

In the delta region, investments in fixed assets accelerated in the first half of 2003 as well: in Shanghai, they reached 110.88 billion RMB (corresponding to 26.08 billion USD), a rise of 21.2% (up 8.2% for the whole of 2002); in Jiangsu they totalled 211.73 billion RMB (46.5 billion USD), a rise of 26.9% (up 16.5% for the whole of 2002) and they recorded 156 billion RMB (41.78 billion USD) in Zhejiang, an increase of 46% over the previous year (up 24.9% for the whole of 2002).

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Economic Indicators*

of the Swiss Consular Area / First Half 2003

			growth rate (%)	volume	growth rate (%)
GDP (billion RMB)	**China**	**10239.79**	**8.0**	**5005.30**	**8.2**
(billion RMB)	Shanghai	540.88	10.9	282.57	11.4
	Jiangsu	1063.63	11.6	547.03	13.0
	Zhejiang	767.00	12.3	412.00	12.7
	Anhui	356.90	8.9	178.29	9.5
	Consular Area	**2728.41**		**1419.89**	
Total Retail Sales of	**China**	**4091.10**	**8.8**	**2155.60**	**8.0**
Consumer Goods	Shanghai	203.52	9.3	108.30	8.8
(billion RMB)	Jiangsu	321.58	12.1	171.22	12.7
	Zhejiang	287.80	12.6	150.19	8.6
	Anhui	122.87	7.5	63.63	8.9
	Consular Area	**935.77**		**493.34**	
Completed Investment	**China**	**4320.20**	**16.1**	**1934.80**	**31.1**
in Fixed Assets	Shanghai	215.84	8.2	110.88	21.2
(billion RMB)	Jiangsu	384.92	16.5	211.73	26.9
	Zhejiang	345.80	24.9	156.00	46.0
	Anhui	113.33	17.6	44.37	69.7
	Consular Area	**1059.89**		**522.98**	
Exports	**China**	**325.57**	**22.3**	**190.3**	**34.0**
(billion USD)	Shanghai	32.06	16.0	21.84	50.5
	Jiangsu	38.48	33.3	24.52	48.2
	Zhejiang	29.42	27.9	18.11	42.0
	Anhui	2.45	7.5	1.42	28.2
	Consular Area	**102.41**		**65.89**	
Imports	**China**	**295.22**	**21.2**	**185.8**	**44.5**
(billion USD)	Shanghai	40.61	22.1	27.86	62.8
	Jiangsu	31.82	41.6	22.88	76.1
	Zhejiang	12.54	27.7	9.33	83.9
	Anhui	1.73	29.6	1.40	87.0
	Consular Area	**86.70**		**61.47**	
Foreign Direct Investment (during the period)					
Projects	**China**	**34'171**	**30.7**	**18'877**	**22.3**
(billion USD)	Shanghai	3'012	22.5	2'486	85.2
	Jiangsu	5'801	62.0	3'460	33.2
	Zhejiang	3'364	45.6	1'996	39.7
	Anhui	338	30.0	164	
	Consular Area			**8'106**	
Contracted	**China**	**82.8**	**19.6**	**50.96**	**40.3**
(billion USD)	Shanghai	10.58	43.4	6.07	40.1
	Jiangsu	19.67	132.8	13.87	60.1
	Zhejiang	6.79	35.4	4.92	54.7
	Anhui			0.33	
	Consular Area			**25.19**	
Actually Utilised	**China**	**52.743**	**12.5**	**30.26**	**34.3**
(billion USD)	Shanghai	5.03	14.5	3.34	44.5
	Jiangsu	10.37	75.4	7.42	70.5
	Zhejiang	3.16	42.9	2.17	63.3
	Anhui	0.38	11.4	0.19	
	Consular Area	**18.94**		**13.12**	

Source: Chinese Authorities

* All statistics not including Taiwan, Hong Kong and Macao.

Foreign Investment: Accelerating Influx

China became the preferred destination for foreign investments, surpassing the United States for the first time in 2002. Foreign direct investment (FDI) in China totalled 52.743 billion USD, an increase of 12.5% over the year. This momentum has continued in the first half of 2003. Contracted FDI in China increased 40.3% to 50.96 billion USD over the same period of 2002, while actually utilized FDI reached 30.26 billion USD, up 34.3%. The number of newly approved foreign invested companies rose 22.3% to 18,877 in this period. However, foreign direct investment in China fell sharply to 3.1 billion USD in July and 3.3 billion USD in August, down 37.5% and 28.3% respectively from the same months last year. This new development caused close attention by China observers.

Multinationals are moving more and more of their manufacturing bases from Southeast Asia to China. By the end of July 2003, there were more than 446'441 foreign invested enterprises in China, with contractual foreign investment of 887.231 billion USD and actual foreign investment of 481.320 billion USD. It is important to realize, however, that more than 60% of the capital under the heading of FDI is still coming from different Chinese sources.

The Yangste delta region saw an accelerating influx of foreign investment since 2001. The total FDI of the region was about 13 billion USD in the first half of 2003 (18.56 billion USD in the whole year of 2002) in terms of actually utilised value, accounting for 43% (up 35% in 2002 and 30% in 2001) of China's total. Actually utilised FDI in Shanghai was 3.34 billion USD (5.03 billion USD in 2002), an increase of 44.5% over the same period last year (up 14.5% for the whole of 2002). In Zhejiang it amounted to 2.17 billion USD (3.16 billion USD for the whole of 2002), an increase of 63.3% (up 43% in 2002), and in Jiangsu it reached 7.42 billion USD (10.37 billion USD for the whole of 2002), an increase of 70.5% (75.4% in 2002). Jiangsu therefore became the most preferred province for FDI, surpassing Guangdong province for the first time in the first half of 2003 in terms of both contracted and actually utilized FDI.

Foreign Trade: Another Motor of Growth

Customs statistics show that China's total foreign trade volume increased by 39% on a year-to-year base to 376.14 billion USD in the first half of this year (for the whole of 2002: 620.8 billion USD, up 21.8%). Exports rose 34% (22.3% in 2002) to 190.32 billion USD (325.57 billion USD for the whole of 2002); imports grew more rapidly by 44.5% (21.2% in 2002) to 185.82 billion USD (295.22 billion USD for the whole of 2002); the trade surplus stood at 4.5 billion USD (30.35 billion USD for the whole of 2002). Low prices and reasonable quality gave China's products an edge in the world market. China has considerably benefited from a weak U.S. dollar as the RMB is virtually pegged to the US currency. On the other hand, China's economic boom, the rising demand by foreign-funded enterprises and by private firms and the reduced import tariffs and licences as a result of China's entry to the WTO have spurred imports.

The delta region held a leading position in China's foreign trade. The export value of Shanghai was 21.84 billion USD in the first half of 2003 (32.06 billion USD for the whole of 2002), an increase of 50.5% (16% in 2002) compared to the same period of the previous year. Jiangsu exported goods in the value of 24.52 billion USD (38.48 billion USD for the whole of 2002), an increase of 48.2% (33.3% in 2002) and Zhejiang's exports grew 42% (28% in 2002) to reach an amount of 18.11 billion USD (29.42 billion USD for the whole of 2002). The region's total export value reached 64.47 billion USD (100 billion USD for the whole of 2002), accounting for about 34% (31% in 2002) of China's total export value.

Imports in the Yangtse delta region increased even faster than exports in the first half of 2003.

During the first six months this year, Shanghai imported goods with a value of 27.86 billion USD (40.61 billion USD for the whole of 2002), an increase of 62.8% (22.1% in 2002) over the same period last year. Jiangsu imported 22.88 billion USD (31.82 billion USD for the whole of 2002), an increase of 76.1% (41.6% in 2002) and Zhejiang's imports grew 83.9% (27.7% in 2002) to reach an amount of 9.33 billion USD (12.54 billion USD for the whole of 2002). The region's total import value reached 60.07 billion USD (85 billion USD for the whole of 2002), accounting for 32.3% (29% in 2002) of China's total imports.

The trade balance of Shanghai therefore showed a deficit of 6.02 billion USD in the first six months this year (a deficit of 8.55 billion USD in the whole year 2002), reflecting the city's increasing demand for foreign goods in the high-tech and higher quality brackets due to internationalisation in the field of consumer goods, due to a fast and steady increase in personal income and due to the growing import demand of foreign-funded enterprises as well. Jiangsu reduced her trade surplus to 1.64 billion USD (6.66 billion USD for the whole of 2002) and Zhejiang remained the most aggressive trading province in China with a trade surplus of 8.78 billion USD, compared to China's total trade surplus of only 4.5 billion USD in the same period. In 2002, Zhejiang's trade surplus of 16.88 billion USD accounted for 55.6% of China's total surplus.

The Challenges: Old and New

The economic situation in the delta region will remain very dynamic in the near future. It is estimated by the main Chinese research institutes and some international financial institutions that China's GDP growth rate of this year will be higher than 7.5%. Another double-digit increase for the delta region provinces is thus very likely for the current year as well.

But the challenges are there as well. The Chinese government is facing a series of tough challenges, facing not only the sluggish world economy and an uncertain global political situation, reducing demand from abroad, but also the deflationary pressures in the home market marked by slower growth of private consumption and by a considerable overproduction in many fields. High unemployment rates and a stagnant rural income growth will very likely continue to challenge government policies.

Daily scene of Nanjing Dong Road, one of the most prosperous areas in Shanghai.

The most serious problem, however, remains the high unemployment pressure. According to official statistics, with 7.95 million registered unemployed in China's urban areas, unemployment climbed to 4.2% by the end of June 2003, 0.2 percentage points higher than at the end of last year and 0.6 percentage points higher than at the end of 2001. But these figures do not include the "laid-off workers" (about 4.1 million according to the Chinese official estimate) and the floating population (about 150 million, concentrated in big cities like Beijing, Shanghai and Shenzhen, mainly composed of the jobless rural labourers). Actual urban unemployment is then estimated at about 7%. The central government has vowed to keep its registered unemployment rate below 4.5% this year and create more than 8 million new jobs. This is obviously not enough for the urban job-seekers, who stand currently at about 30 million and will grow to 50 million in the next five years, if GDP growth continues on a level as high as 8%.

Shanghai's unemployment rate was at 4.77% at the end of July 2003 as reported by the Shanghai Labour and Social Security Bureau, with a registered figure of 289,000 persons unemployed. In Jiangsu it was 4.2% and in Zhejiang 4.3% with 288,400 persons registered unemployed. Again, these statistics do not include the "laid-off workers" and the migrant population, which is totalling 3.7 million out of the 16 million people in Shanghai.

A second problem is the rapid increase in the amount of money supply. M2, the broad measure of money supply that covers cash in circulation and all deposits, soared by 20.8% (the fastest since August 1997) at the end of June 2003 and by 20.7% at the end of July (to 20.62 trillion RMB, an equivalent of 2.48 trillion USD) on a year-to-year basis. New loans lent by financial institutions – a major driving force of money supply growth – hit 1.78 trillion RMB (an equivalent of 214 billion USD) in the first half of this year, close to the total amount of loans (1.85 trillion RMB) granted for the whole of 2002. This will unavoidably lead to more non-performing loans under the current credit mechanism of lax internal supervision, and could in the end lead to a bubble economy, especially in the field of real estate.

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Shanghai to Restructure its Government

Shanghai, China's biggest city, is preparing to restructure its government agencies to link up with the newly adjusted central government structure, according to a municipal working conference. The metropolis has got the go-ahead from Beijing to implement its restructuring plan.

The restructuring of the Shanghai municipal government system will be the first scheme to reform any Chinese regional government since the latest round of adjustments of the State Council organizations earlier this year. The State Council is China's highest governing body, headed by Premier Wen Jiabao.

It will focus on macroeconomic control, market regulation, and the administration of social services, in accordance with Shanghai's status as a large metropolis, revealed sources at the conference. Under the scheme, Shanghai will establish the Shanghai State-owned Assets Supervision and Administration Commission. The commission will be directly under the municipal government and will be responsible for better managing the city's massive amount of State property. How to dispose of the huge, and also largely inefficient state-owned firms, is closely watched by domestic private investors and world multinationals alike.

The Shanghai Development Planning Commission, a key department in charge of macroeconomic planning, will merge with the Shanghai Economic Mechanism Reform Office to become the Shanghai Development and Reform Commission, in an effort to improve the system of macroeconomic control.

Similarly, the city will set up a brand-new Shanghai Economic Commission by merging the original Shanghai Commercial Commission and Shanghai Economic Commission.

Unlike the State Council structure, Shanghai will keep its foreign-trade and investment watchdogs unchanged – the Shanghai Municipal Foreign Trade and Economic Co-operation Commission and the Shanghai Municipal Foreign Investment Commission – to accord with the city's status as a national center for international economic exchanges.

On the basis of the original Shanghai Drug Administration Bureau, a new Shanghai Food and Drug Administrative Bureau will be established in accordance with the State Council's operation model.

In addition, the city's government will upgrade the administrative level of its workplace safety supervision office and its information technology office to enhance the government's involvement in those two crucial areas.

Under the new scheme, the Shanghai municipal government will have 45 departments.

Source: China Daily

Development Zones in the Yangtze River Delta

Twenty years ago, China set up the Special Economic Zones (SEZ) in order to experiment with Foreign Direct Investment (FDI) in a controlled yet attractive environment for foreign companies. Later, the State Council approved other forms of development zones that offered similar tax incentives as the SEZs.

Even though investing outside these zones is possible, many foreign enterprises prefer their advantageous tax and infrastructure environments. Shanghai has been very successful in attracting foreign companies with its world famous investment zones, such as Waigaoqiao Free Trade Zone (FTZ) and Zhangjiang Hi-tech Industrial Development Zone (HIDZ). But what led to the development of the area on the one hand, has also resulted in an increase in overall prices on the other. As a result, an increasing number of foreign investors are paying attention to the lower cost development zones in Shanghai's neighboring provinces of Jiangsu, Zhejiang and Anhui. These provinces, which together with Shanghai comprise the Yangtze River Delta (YRD) Region, are one of the most important powerhouses of China's economy. The YRD Region accounts for more than a quarter of China's GDP and a third of its FDI.

The infrastructure outside Shanghai has improved in the last years. Highways, railways and the Yangtze River itself offer infrastructure that enables access to the main logistic hubs in Shanghai (airport and port) and Ningbo (port). These conduits are also facilitating increasing integration between the different cities within the region as well. Furthermore, many development zones outside Shanghai have reached a similar level of development as those in Shanghai. Wuxi New District, a merger of several industry parks, and Singapore Industrial Park in Suzhou, a government-to-government cooperation, are two notable examples.

Development zones outside Shanghai offer significant cost advantages. The average salaries for unskilled labor in Singapore Industrial Park are as much as 18% lower than in Shanghai. Labor regulations such as social security benefits and minimum wage levels also differ from city to city, and thereby further increase the investor's choice of investment locations. The increasing competition between municipal governments for FDI has meant that many industrial parks have been established without central government approval. These parks cannot offer the same tax incentives, but try to compensate by offering subsidies and lower land prices instead. Xishan Municipal Development Zone with a land price of 7.25 USD/m^2 is more than sixteen times cheaper than Waigaoqiao FTZ.

Apart from cost considerations, of course other issues like infrastructure, availability of labour and services are also important criteria for investors when evaluating and choosing a zone. Requirements and priorities vary with the size being made and also depend on the type of industry and the underlying strategy. Thus determining the optimum zone requires shopping around. Generally speaking, there are no good or bad zones, but rather zones that are more suitable for a particular purpose.

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Suzhou Favored by Multinational Corporations

With admirable geographical location and sound investment environment, Suzhou City in east China has caught the attention of increasing numbers of foreign investors, including many multinational corporations. Currently, 88 of the world's top 500 industrial enterprises have invested in the city in the hinterland of the economically-developed Yangtze River Delta, in Jiangsu Province.

The multinational corporations, including Mitsubishi, Toyota, Panasonic, Francis, Du Pont & Co, BP Amoco, Siemens, Philips, Nokia, Daewoo and Samsung, have invested in 220 projects in Suzhou, with contractual volume of foreign investment topping 7billion US dollars.

Many of the corporations have concentrated their investment in five state-level and 11 provincial-level development zones in the city. The investment will go mainly to electronics, precise machinery, bio-medicine and other high technologies.

Currently, more than 30 multinational corporations including Philips and Motorola have set up research and development centers in the city. Founded about 2,500 years ago, Suzhou is a prosperous city and one of the main granaries and key tourist destinations in China. With a sound infrastructure, the city is linked with Shanghai, a leading industrial and commercial city of China, by railway and expressway.

Source: Xinhua news

New Horizon in the China Market

On 29th June 2003, Hong Kong and Mainland China signed an historic trade agreement, which presages freer trade and closer economic co-operation. Andrew Leung identifies some of the most important provisions of the Closer Economic Partnership Agreement (CEPA).

CEPA provides for greater and earlier liberalisation in a number of areas. Not all of these can be covered in one article, but here are some selected important features.

Exports in some 270 Mainland product codes of goods of Hong Kong origin, covering some 90 per cent by value of Hong Kong's exports to the Mainland, will enjoy zero tariff treatment as from 1st January 2004, while goods in other product codes meeting the origin criteria will be able to do so as from 1st January 2006. These include electrical and electronic products, plastic articles, paper articles, textiles and clothing, chemical products, pharmaceutical products, clocks and watches, jewellery, cosmetics and metal products.

A range of services provided by Hong Kong companies in 17 service sectors will enjoy earlier liberalised access to the Mainland market as from January, 2004. These include accounting, advertising, audiovisual, banking, convention, distribution, insurance, legal, logistical, management consulting, medical and dental, real estate and construction, securities and tourism services.

Both sides agree to promote co-operation and facilitation in the following areas:

- Custom clearance
- Quarantine and inspection, quality assurance and food safety
- Small and medium-sized enterprises
- Chinese medicine and medical products
- E-commerce
- Trade and investment promotion
- Transparency in law and regulations.

Although the initial list of goods contains some 270 product codes, no product is automatically 'carved out'. Both sides have also agreed to pursue further liberalisation in services.

Qualifying criteria

To qualify for CEPA treatment, goods must satisfy certain "origin rules", which are likely to take into account such factors as specified processes, change of tariff content and local content. These rules are to be finalised by both sides before the end of 2003.

Care has been taken not to exclude foreign companies under the definition of Hong Kong companies. The definition has no regard to nationality, ownership or shareholding structure. However, care has also been taken to avoid CEPA being used as the 'backdoor' to bypass China's WTO concessions. To qualify a company must have substantive business operations in Hong Kong on the basis of:

- its incorporation under the laws of Hong Kong
- its payment of Hong Kong profits tax or legal exemption therefrom
- its length of substantive operations in Hong Kong
- its scope and nature of business
- the proportion of staff employed in Hong Kong.

There are some variations as regards different service sectors. The definition would exclude representative offices or branches of companies not incorporated in Hong Kong as well as 'shell' or 'post-box' companies.

Selected sectoral features

As regards **distribution** services, Hong Kong enterprises are permitted to supply commission agents' services and wholesale trade services in the Mainland on a wholly-owned basis without any geographic restrictions.

Hong Kong investors are permitted to establish wholly-owned retail commercial enterprises in the Mainland, including the sale of motor vehicles (up to 30 chain outlets).

Hong Kong permanent residents with Chinese citizenship are permitted to set up in Guangdong individually-owned retail stores (not exceeding 300 square metres in area) without prior approval applicable to foreign investments.

As regards **tourism**, the Mainland will allow residents in Guangdong to visit Hong Kong as individuals. This is to be implemented on a trial basis first in Dongguan, Zhongshan and Jiangmen, to be extended to the whole province not later than 1st July 2004. The two sides will also strengthen co-operation in tourism promotion, including programmes centred around the Pearl River Delta.

As regards **audiovisual services**, Hong Kong companies are permitted to establish in the Mainland joint ventures with majority ownership (up to 70 per cent) to engage in the distribution of audiovisual products, including motion pictures.

Chinese language motion picture products by Hong Kong companies are permitted to be imported for distribution in the Mainland without any quota restrictions after approval by the relevant Mainland authorities. Motion pictures produced jointly by Hong Kong and the Mainland are to be treated as Mainland movies for distribution in the Mainland.

Hong Kong companies are also permitted to construct and/or renovate cinema theatres on a joint venture or co-operation basis, and majority ownership by Hong Kong companies is allowed.

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As regards **financial services**, the Mainland has agreed: to support state-owned commercial banks and certain shareholding commercial banks in relocating their international treasury and foreign exchange trading centres to Hong Kong; the development of network and business activities in Hong Kong through acquisition; the full utilisation of financial intermediaries in Hong Kong during the process of reform, re-structuring and development of the financial sector in the Mainland; and the listing of Mainland insurance and other companies in Hong Kong.

As regards **banking** services, the asset requirement for both Hong Kong banks and finance companies wishing to enter the Mainland market is reduced to US$ 6bn. Banks can choose to set up branches or body corporates, while finance companies can only set up the latter.

The requirement for conducting renminbi business by Mainland branches of Hong Kong banks is lowered as follows:

– the minimum requirement of prior business operation in the Mainland is reduced from 3 years to 2 years.

– profitability assessment is made on the basis of the overall position of all branches instead of individual branches.

As for **insurance** services, groups formed by Hong Kong insurance companies through strategic mergers are permitted to enter the Mainland insurance market subject to established market access conditions.

An assessment

The average import tariff of existing Hong Kong domestic exports of goods to the Mainland is about 11 per cent, but some are currently subject to higher tariffs e.g. jewellery (35 per cent), micro-motors for toys (24.5 per cent) and clocks and watches (23 per cent). Given the substantial cost differentials between the Mainland and Hong Kong, CEPA is unlikely to result in relocation of the majority of manufacturing processes from the Mainland to Hong Kong.

Nor is it going to work magic in boosting Hong Kong's employment. It would, nevertheless, be attractive to manufacture in Hong Kong those higher tariff products as well as those with higher value-added or substantial intellectual property input, for example, high-end brand names.

On the **services** front, however, while CEPA is unlikely to dramatically transform the Hong Kong economy overnight, the liberalisation framework should provide a new dynamic platform with which to gain easier and earlier access to the relevant sectors in the fast growing Mainland market, both for Hong Kong companies and foreign partners alike.

Mega trends

The vastness and dynamism of this market can only be partially glimpsed in consideration of the following 'mega trends'. China has become the factory of the world, accounting for half the world's cameras and photocopiers, a third of the world's air-conditioners and a quarter of the world's refrigerators. It has overtaken Japan as the second global electronics manufacturing superpower with an IT hardware output rising to US$ 35bn this year, riding increasingly on the synergy created with Taiwanese electronics investments.

China has already overtaken France as the world's fourth largest manufacturing exporter. Much of this manufacturing is in the Pearl River Delta where Hong Kong is involved in the management and operation of some 90 per cent of the factories with 11m workers, and accounts for 70 per cent of the foreign direct investment as well as 70 per cent of the exports of goods.

A fast growing critical mass of 'middle-class' consumers has sprung up in the Pearl River Delta, the Yangtze River Delta (including Shanghai and its neighbouring provinces) as well as the coastal areas. Though only about one-sixth of China's population, it already comprises over 200m people, whose lifestyle and consumer habits have become more urbanised and westernised. This is evident from the inroads of Starbucks, Ikea furniture, chain stores like Carrefour and B & Q, and the recent dramatic growth of demand for private cars, which is supported by the expansion of motorways from some 500 km 12 years ago to some 25,000 km now. Hong Kong businesses and operatives are heavily involved in this growing consumer market, estimated at over US$ 560bn and growing at 10 per cent a year.

A number of gigantic infrastructural projects have been launched in China, including the Three Gorges Dam, the Water Diversion Project linking the Yangtze with the Yellow River, the gas and electricity pipe-lines linking the west with the eastern region, and the Qinghai-Tibet Railway. Coupled with the infrastructural requirements of the Beijing Olympics in 2008 and the Shanghai World Expo in 2010 a great deal of business opportunities will be created for international input in terms of technical, engineering, management, financial and other expertise. Hong Kong, as an international business hub, is well poised to leverage them.

As China is increasingly linked with the global economy following its entry to WTO, its outward investment has been growing in such sectors as energy, minerals and retailing. Again, Hong Kong as a leading financial centre is well placed to take advantage of this development.

With new political imperatives to build an all-rounded 'well-off' society for the people, China is addressing its many challenges including the problems of state-owned enterprises, non-performing loans, the need for financial reforms, corporate governance, fighting corruption, developmental polarisation and the need for sustained rapid economic growth to absorb unemployment. The above mega trends are solid grounds for optimism.

Indeed, as an increasing number of Asian neighbours, including ASEAN, South Korea and Japan, are either actively pursuing or considering the establishment of free trade agreements with a rapidly growing China, CEPA is likely to provide them with food for thought in similar bilateral discussions. It is at least conceivable that, in due

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Swiss-Hong Kong Trade / 3rd Quarter 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	**1.984,3**	**-11,2**	**100,0**	**376,9**	**-17,3**	**100,0**
Agricultural products	1.984,3	-11,2	100,0	376,9	-17,3	100,0
Energy carriers	0,1	4,9	0,0	0,0	–	0,0
Textiles, apparel, shoes	68,1	-9,1	3,4	41,7	-21,1	11,1
Paper, paper products, printed matter	10,6	-27,2	0,5	0,8	-29,2	0,2
Leather, rubber, plastics	28,8	-24,5	1,4	2,7	-28,1	0,7
Chemicals, pharmaceuticals	266,3	-15,0	13,4	4,8	-23,4	1,3
Construction materials, ceramics, glass	7,1	-29,6	0,4	0,9	-6,4	0,2
Metals and metal products	34,3	-2,9	1,7	6,4	-15,3	1,7
– Iron and steel	0,7	33,9	0,0	0,0	51,5	0,0
– Non-ferrous metals	1,4	-24,9	0,1	0,1	94,2	0,0
– Articles of metal	32,2	-2,2	1,6	6,2	-16,5	1,7
Machinery, apparatus, electronics	238,3	-9,1	12,0	69,2	45,1	18,4
– Industrial machinery	126,6	2,9	6,4	3,3	145,6	0,9
– Engines non-electrical	2,5	2,0	0,1	1,7	–	0,5
– Construction machinery	0,2	57,0	0,0	0,1	5,7	0,0
– Machinery engineering	123,9	2,8	6,2	1,5	32,3	0,4
– Pumps, compressors, fans, etc.	8,2	27,5	0,4	0,0	-90,6	0,0
– Process engineering, heating, cooling equip.	2,4	-27,6	0,1	0,1	15,9	0,0
– Lifting and handling equipment	16,5	125,9	0,8	0,1	86,4	0,0
– Machine-tools metalworking	24,5	-14,8	1,2	0,2	-35,1	0,0
– Machine-tools for mineral materials	1,0	-32,0	0,0	0,0	–	0,0
– Plastics-, Rubber machinery	2,3	69,8	0,1	0,0	–	0,0
– Machine-tools for wood, cork, etc.	5,4	18,2	0,3	0,0	-44,2	0,0
– Other machinery	21,3	96,7	1,1	0,5	311,8	0,1
– Hand held tools	1,4	-22,9	0,1	0,0	-56,5	0,0
– Welding machines	1,9	2,7	0,1	0,3	–	0,1
– Printing and paper machinery	5,5	-4,9	0,3	0,0	193,0	0,0
– Textile machines	30,6	-31,3	1,5	0,0	-59,0	0,0
– Food processing equipment	0,4	52,0	0,0	0,0	-16,7	0,0
– Filtering and purifying machines	0,4	-36,1	0,0	0,0	638,1	0,0
– Packaging and filling machines	2,3	23,7	0,1	0,0	-34,8	0,0
– Agricultural machines	0,0	-21,9	0,0	0,0	–	0,0
– Household appliances	8,1	206,2	0,4	7,8	30,3	2,1
– Entertainment electronics	7,1	312,2	0,4	7,3	27,4	1,9
– Household machines	1,1	14,5	0,1	0,5	93,4	0,1
– Office machines, Computers	8,8	-50,5	0,4	27,9	109,2	7,4
– Electrical machinery and electronics	94,7	-20,2	4,8	30,1	11,7	8,0
– Power generation, electric motors	6,8	-30,6	0,3	3,4	88,7	0,9
– Telecommunications	11,2	-60,8	0,6	5,9	2,2	1,6
– Electric and electronic articles	76,7	-4,5	3,9	20,8	7,3	5,5
– Defence equipment	0,0	-100,0	0,0	0,1	58,1	0,0
Vehicles	2,1	–	0,1	0,2	-13,3	0,1
– Road-vehicles	2,1	–	0,1	0,1	-8,8	0,0
– transport of persons	0,0	-74,3	0,0	0,1	20,2	0,0
– transport of goods	0,0	–	0,0	0,0	–	0,0
– Special purpose vehicles	2,0	–	0,1	0,0	-97,6	0,0
– Spare parts	0,1	-34,2	0,0	0,0	-49,3	0,0
– Railway vehicles	0,0	45,3	0,0	0,0	–	0,0
– Aircraft and spacecraft	0,0	367,6	0,0	0,0	-29,7	0,0
– Vessels	0,0	–	0,0	0,0	–	0,0
Precision instruments	49,4	-8,8	2,5	6,2	-31,3	1,6
– Optical instruments, photo	9,1	-50,5	0,5	4,6	-31,1	1,2
– Surveying instruments	5,1	59,8	0,3	0,3	165,2	0,1
– Medical instruments and appliances	16,3	18,3	0,8	0,2	-3,7	0,1
– Mechanical measuring, testing, control equipment	18,8	0,9	0,9	1,1	-45,6	0,3
Watches	1.024,6	-8,2	51,6	152,7	-20,5	40,5
Other goods	216,1	-26,9	10,9	90,1	-32,1	23,9

Source: swissmem & Eidg. Zollverwaltung

course, the door would be open to a pan-Asia free trade framework in which China would play a leading role.

Hong Kong has long been playing a vital part in the development of the China market, accounting for 47 per cent of the total foreign direct investment and some 90 per cent of the total syndicated loans for the whole of Mainland China. Notwithstanding Hong Kong's own many challenges, CEPA as a new and powerful springboard will unfold new dynamic business horizons.

We are likely to see increasing business interests from both local and multinational companies, in seeking to take advantage of CEPA-qualified Hong Kong operations, either through acquisition or expansion, to gain a stronger foothold in the Mainland market. We are also likely to see Hong Kong's spirit of enterprise helping towards the formation more strategic business alliances in this exciting growth market of the 21st century.

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Take out quotes

Given the substantial cost differentials between the Mainland and Hong Kong, CEPA is unlikely to result in relocation of the majority of manufacturing processes from the Mainland to Hong Kong. It would, nevertheless, be attractive to manufacture in Hong Kong those higher tariff products as well as those with higher value-added or substantial intellectual property input.

Hong Kong businesses and operatives are heavily involved in this growing consumer market, estimated at over US$560bn and growing at 10 per cent a year.

Literaturhinweis

Einfuhrzolltarif China 2003

Betreut von Zollexperten aus Handelskammern und Finanzverwaltung, veröffentlicht der Mendel Verlag den chinesischen Zolltarif in deutscher Sprache.

Die CD-ROM enthält die vollständige chinesische Nomenklatur und berücksichtigt dabei sämtliche Neuerungen auf Grundlage der Reform des Harmonisierten Systems im Jahre 2002 sowie des Beitritts der VR China zur WTO.

Neben dem Meistbegünstigungszollsatz für die WTO-Mitgliedstaaten umfasst die CD-ROM auch den autonomen Zollsatz sowie Informationen über Mehrwertsteuer, Verbrauchsteuer, Einfuhrbeschränkungen und Zertifizierungspflicht.

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Hong Kong Leading Fund Management Center

Hong Kong remains a major fund management center in the Asia-Pacific region for attracting overseas funds for management, according to the result of a survey announced end of July by the Securities and Futures Commission (SFC) of Hong Kong. The survey, covering 192 fund management companies, aimed to collect information on fund management activities in Hong Kong to enable a better understanding of the local fund management industry and to identify possible trends.

The survey shows that total assets under management by the respondents amounted to HK$1.49 trillion (about US$191 billion), representing a slight growth of 0.4 per cent. Of these, 63 per cent of assets were sourced from overseas investors.

Out of the total 192 respondents this year, 44 were first time respondents to the survey. In addition, the number of firms that reported Hong Kong as its Asian headquarters has increased to 36.

Data from the survey reveal continuous growth in Hong Kong's own market in 2002. The importance of Hong Kong's role as a fund management center has increased in 2002. This is evidenced by the increase in portfolio management activities that are directly attributable to growth in Hong Kong as at the end of 2002 compared

with the previous year. In particular, assets management in Hong Kong have demonstrated a three-year growth trend, rising from 42.2 per cent of total assets under management in 2000 to 49.6 per cent in 2002.

Alexa Lam, SFC Executive Director of Intermediaries and Investment Products, said the results of the survey suggest that Hong Kong has maintained its position as a major fund management center in Asia, attracting overseas funds for management as well as increasing the amount of assets sourced from, managed out of, advised in, and invested in Hong Kong. He said the SFC is committed to further enhancing Hong Kong's advantage as the preferred location for fund management business in Asia. As competition intensifies around the world, it is of paramount importance that the SFC maintains its transparent approach to the regulation of the fund management industry, and to ensure that Hong Kong stays at the forefront of international best practice, said Lam.

The fund management industry is an integral part of the financial services sector. Development of local fund management expertise and growth of the industry in Hong Kong will stimulate growth in auxiliary services, such as fund administration, trustee service, global custody, brokerage and banking.

Source: Xinhua

Hong Kong Brands for China's "Mids"

In view of the improving quality of products from the mainland and other Asian countries,"good quality" alone is not enough to ensure market success in the mainland for Hong Kong products. In order to further penetrate the mainland's lucrative, yet competitive, consumer market, Hong Kong companies must sharpen their cutting edges by creating a discerning brand image that is attractive to the mainland consumers, particularly the emerging middle class (new mids) who are considered the major target customers of Hong Kong companies.

The size of new mids in China is growing quickly. At present there are about 100 million people in China belonging to the middle-class, with an annual income of RMB60,000 or above, and constitute the upper 15% of the population in terms of household income. Most of the new mids are young and well educated. They are the first generation emerging from China's economic hardship, and are baptized by western consumer culture. They are looking for a way of life – a way of dressing, dining, and living – which gives them stimulation in life.

Spending is increasingly perceived as an enjoyment among the new mids. While new mids consumers are getting more taste-driven and interest-oriented in their purchase, they have learned to appreciate personal style and trendiness. As revealed in our interviews, 81% of the new mids said they are willing to pay more for goods of good design and style, 77% are willing to pay more for goods of unique creative idea and 68% are willing to pay more for goods of latest international trends.

Though new mids are keen to upgrade their living, "affordability" is still a key issue, and they are usually having a clear set of priorities in terms of which consumption to be upgraded first. Among the key product categories, new mid consumers in the mainland most frequently purchase garments, jewellery, watches and toys that lie within the middle to upper-middle price ranges; while for household electrical and consumer electronics, new mid consumers tend to purchase those premium brands located at the upper-middle or upper-end of the market.

Source: Hong Kong Trade Development Council

Switzerland at International Maritime Exhibition

Marintec China 2003, the "All China Maritime Conference and Exhibition", which is held in Shanghai biennially, is the definitive maritime exhibition in China. This year's event will be held concurrently with Port China from 2 – 5 December 2003 at the Shanghai New International Expo Centre in Pudong. Both Marintec China and Port China 2003 have the full support and endorsement of China's government, its major trade associations and leading organisations in both domestic and international maritime circles. Since its inception of Marintec China in 1981, the exhibition has evolved into the predominant maritime event in Asia where prominent industry professionals from across the globe conduct business and preview the latest technologies and products in the maritime industry.

For the first time, Switzerland will be present at the Marintec China with an official Swiss pavilion with over ten exhibitors from various companies including small and medium sized companies, who will promote their industry as a versatile provider of a wide spectrum of maritime and related services. In addition, the pavilion will also represent Swiss companies, who could not attend due to sold-out exhibition space.

Business people from 28 countries and regions will at-

tend, where the world's latest equipment and technology in maritime shipping will be presented, said Zhang Shengkun, an official with the Shanghai Municipal Shipbuilding Engineering Society.

Shipbuilding giants such as Germany, the world's largest exporter of high-tech marine equipment, has confirmed 57 companies in its national pavilion, the largest ever.

Other confirmed national pavilions and individual participating countries and regions include: Austria, Belgium, Canada, Cayman Island, China, Denmark, Finland, France, Greece, Hong Kong SAR, Italy, Japan, Korea, Norway, Poland, Singapore, Spain, Sweden, Taiwan R.O.C., The Netherlands, the United Arab Emirates, the United Kingdom and the United States.

The organizers believe that the exhibition this year will be the biggest ever since its inception in 1981, both in terms of exhibition area and number of exhibiting companies.

Shanghai is determined to become a top world shipping center. Shanghai Port handled 5.2 million TEUs (twenty-foot equivalent unit) of containers in the first six months of the year, up 35 percent from the same period last year.

For further details, please contact:
osec Business Network Switzerland
Walter Brogle, Project Manager
e-mail: wbrogli@osec.ch
or visit the website: www.marintecchina.com

Zuwachs bei T-LINK Gruppe

Die im schweizerischen Freienbach-SZ domizilierte T-LINK Gruppe hat Zuwachs bekommen.

Die seit 1990 als Nischenplayer weltweit tätigen Projekt- und Messe-/ Kongress- /Eventspeditionsgesellschaft T-LINK MANAGEMENT AG und die T-LINK TRANSPO-PACK AG, im Bereich Exportverpackungen und Korrosionsschutz-Systeme aktiv, stützen sich regional weiter ab. Basierend auf dem Grundsatz «local Business is (our) business» wurde kürzlich die T-LINK RHEINTAL AG, mit Fabrikationsstätte in Trübbach, im St. Galler Rheintal gegründet.

Direkt am Autobahnanschluss, in einer neu gebauten Anlage von rund 3500m^2 Gesamtfläche, werden Industriegüter gelagert und verpackt. Die Kisten werden in der eigenen Kistenfertigung hergestellt. Eine rund 30-Tonnen-Krananlage sowie eine elektrische Boden-Waage bis 20t und Stapler bis 15t erlauben einen effizienten Umschlag. Um den Aus- und Verlad von 20'-und 40'-Containern zu erleichtern, wurde eine LKW-Mulde gebaut. Dies erlaubt einen «bodenebenen» Belad respektive Entlad der Container.

Das Motto des jungen T-LINK Gruppenmitgliedes ist, wie Erwin A. Senn (CEO) erklärt, «Kundennähe, effizientere sowie einfachere Abläufe für die international tätigen Kunden und 'last but not least' das Kostenoptimierungspotential auszunützen».

Falls Sie noch Fragen haben,
rufen Sie doch einfach an, +41 1 822 00 32.

Gabelstapler bis 15t Schwerlasten vor den neuen Lagerhallen in Trübbach-SG.

New Packing Rules in 2004

Very important for all participants in the international trade!

Important changes for international packing rules and requirements ISPM 15 have been announced. The new rules will become effective for the NAFTA Zone (Canada, USA, Mexico) on January 1st 2004. Various other countries like European Union, China, South Korea will implement these new regulations during the year 2004.

For wooden packing material, various new regulations have to be fulfilled. Only certified packing companies are in the position to make the packing according to the new standard called ISPM 15.

For goods shipped to above mentioned destinations, which do not comply with the new requirements, delays, fines or even confiscation can be the result.

T-LINK Group is already certified and can offer the packing service for all their clients.

All our customers will receive in due time the necessary details to be added on all invoices and packing lists, these details are compulsory to be mentioned on the documentation covering the shipments.

For more details, please contact us by phone, fax or e-mail and we will be pleased to supply you with more detailed information.

Tel. +41 1 822 00 32
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Tianjin Aims to Become Int'l Container Center in E. Asia

Tianjin, the largest port city in the north of China, is determined to become an international center for containers in east Asia by 2010 through pumping an investment of 20 billion yuan (about 2.41 billion US dollars) toward this purpose. The port will be capable of handling 10 million TEUs (twenty-foot equivalent unit) of containers by 2010, according to Yu Rumin, head of Tianjin Port Affairs Bureau.

East Asia is becoming a hot region for economic development in the world, so Tianjin Port, with its advantage of being close to the Eurasian Continental Bridge, which will become an important outlet for connecting the East Asian Economic Rim and the European Economic Rim.

The major investment will go toward the construction of 10 specialized container berths, a logistics center for containers and 20 other supporting projects leading to or from outside of the port, Yu said.

Tianjin now has 11 specialized modern berths for containers and handles 2.41 million TEUs of containers a year. The port operates 68 regular shipping service routes and has established business ties with over 300 ports in other parts of the world. It offers more than 300 container voyages each month.

Source: People's Daily

China's New Compulsory Quality Certification Certificate

Initially coming into operation in May 2003 (later postponed to August 2003), the China Compulsory Certificate (CCC) is a new quality certification system and mark introduced by the Chinese authorities. The mark, which looks is required by a staggering nineteen groups of products (or 132 product categories, depending on how you count) prior to export or sale in the People's Republic of China. What this means, in practical terms, is that if you want to sell electrical wires and cables, switches for circuits, installation protective and connection devices (you will know what these are if you sell them), low-voltage electrical appliances, small power motors, electrical tools, welding machines, household and similar electrical appliances, audio and video apparatus, information technology equipment, lighting apparatus, telecommunication terminal equipment, motor vehicle tires, safety glasses, agricultural machinery, latex products (ahem), medical devices, fire fighting equipment, or detectors for intruder alarm systems in China, you will possibly be required to send Chinese experts to the country of origin to certify the factory and specific products (for a complete listing of the catalogue, visit:

www.cgc.com.cn/ccc/catalogureeng.pdf

This product selection is based on whether the product

is related to human life and health, animals, plants, environmental protection and/or national security. So, in short, there can be considerable difficulty in selling in China should your product require a CCC accreditation and mark.

The CCC System

The following is some useful information concerning the CCC such as a background, how to apply, costs, relevant agencies, and some troubleshooting suggestions.

The system has actually been created by the Certification & Accreditation Administration (CAA) and the State General Administration for Quality Supervision and Inspection and Quarantine (AQSIQ). As of August 1st 2003, any product falling within the above groups not bearing the new Certificate for Compulsory Product Certification (CCPC) as well as the new China Compulsory Certification Mark (CCCM) that arrives at China Customs will be denied access. Not only will your goods sit there accumulating dust, there may also be additional penalties.

The background to the CCC largely stems from China‘s entry into the WTO – and so in that sense it is actually a streamlining exercise aimed at making things simpler. Whereas in the past China operated via two compulsory inspection systems – one for imports and exports, and the other for quality control – this has now been combined: hence the birth of the CCC. As of August 1st 2003, the CCIB mark (Safety Mark – introduced in 1989 and required for products in some 47 product groups) and the CCEE Mark (also referred to as the Great Wall Mark – required for electrical commodities in seven product categories) will no longer be seen. They will be replaced by the CCC, which actually came into effect May 1st 2002, with a one-year provisional application period. Therefore, the period of leniency is now over, and the Chinese authorities will be tough on products that do not meet the new specifications.

How do you get the CCC?

Sounds tough? Well, as always, and like any good regulation, there are exemptions. For example, if the product is imported for testing or research purposes, is a part or component of a whole unit that is intended to be re-exported, is used to evaluate an imported line, or falls into the “other special cases” basket, it may be exempt from carrying the CCC Mark. A Exemption Permit may be applied for via the Certification & Accreditation Administration (CNCA).

So how do I actually get the CCC, and what will it cost? Good question. CNCA administers the CCC, and has entrusted the CQC to process CCC applications. There are to be about nine agencies approved by the Chinese government to issue licenses, all of which are to be based in Beijing. No self-certification of third party testing is allowed. The CCC fee varies according to the actual product. While this is not very clear, there are some fixed costs which include a RMB 600 application fee, an approval fee of RMB 800, and a charge of RMB 1,000 to verify documents in English. There is a hefty US$ 3,000 fee to con-

Literaturhinweis

Zertifizierung in China – China Compulsory Certification (CCC)

von Stefan Fischer und Daniela Öndül

Ab dem 1. August 2003 ist in China das neue System der Pflichtzertifizierung obligatorisch. Waren ohne entsprechende Zertifikate oder Sondergenehmigungen können von diesem Zeitpunkt an nicht mehr in die Volksrepublik eingeführt oder dort verkauft werden!

Im China-Handel tätige Unternehmen sollten sich daher unbedingt mit den neuen Regelungen vertraut machen.

Die Broschüre «Zertifizierung in China – China Compulsory Certification (CCC)» bietet eine praktische Anleitung zur Ermittlung der Zertifizierungspflicht in drei Schritten und beschreibt die Erlangung des CCC-Zertifikats in sechs Schritten. Dabei häufig auftretende Fragen werden übersichtlich dargestellt und beantwortet.

Sie enthält aktuelle Hintergrundinformationen zu den Themen:
- Konformitätsprüfung in China
- Werksinspektion und Sonderregelungen
- Sondergenehmigungen für die Einfuhr von zertifizierungspflichtigen Produkten
- Gebühren, Aussetzung, Annullierung, Strafen
- Organisationen für die Zertifizierung und akkreditierte Testlabors

In den umfangreichen Anhängen finden sich Übersichten zu zertifizierungspflichtigen Produktgruppen und betroffenen Zolltarifnummern, CNCA-Durchführungsrichtlinien, chinesischen und internationalen Standards sowie Muster der relevanten Formulare.

Informationen zum Thema CCC werden vom Mendel Verlag auch in Zukunft laufend aktualisiert. Ergänzend zu dieser Broschüre ist der chinesische Zolltarif 2003 in deutscher Sprache auf CD-ROM erhältlich.

Broschüre, 250 Seiten, zum Preis von 49,90 €.
Preis einschließlich MwSt. und zuzüglich Versandkosten.
Änderungen vorbehalten. Stand: August 2003

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duct the initial certification on the country of origin, and this excludes the travelling expenses of the visiting Chinese experts. Testing is also required in accredited Chinese laboratories. As an estimate, expect the entire procedure to take about three months (depending on who you ask), though this is not set in stone. One point of note, that is often excluded elsewhere, is that the CCC can require follow-up inspections every twelve to eighteen months.

Five steps for application

There are about five steps in the CCC application. They are

1) the Application: submission of the application and supporting materials;
2) Type Testing: a CNCA laboratory in China will test product samples;
3) Factory Inspection: this is where the CQC will send Chinese experts to the country of origin to conduct factory inspections (one for each factory!);
4) Evaluation and Approval/Failure; and
5) Follow-up Inspections: ever 12 – 18 months of the manufacturing facilities.

While some companies undertake their own CCC applications, others prefer to engage an agent or consultant to manage their CCC applications on their behalf. If you feel that your understanding and/or experience of the Chinese market warrants engaging a third party to handle CCC issues, this in highly recommended as many issues can be avoided by experienced people, on-the-ground.

If the listing of products does still not clearly explain if your product does indeed require the CCC, there are a number of options. Companies can refer to CNCA's Implementation Rules booklet (www.cnca.gov.cn/download/english.html), which provides detailed technical application requirements for each of the 132 product categories. Alternatively, the CNCA has a document called Announcement 60 (www.cnca.gov.cn/board/bianmabiao.htm) which is actually a listing by HS code of products that require the CCC.

Difficulties

Most of the difficulties and barriers will be felt by the SMEs either currently or planning to export to China. As costs can be considerable, they in themselves may act as a deterrent to selling to China. However, the entire process is designed to improve system transparency, and in this goals there is some success. The best option, if the CCC is required for your product, is to build the costs – financial and time – into total China business costs. A thorough understanding of the system and how it affects you product is the best method to ensure that it doesn't become a burden and a fire-fighting issue. Contact us if you need help with this – we are here and we know.

By Sacha Cody (October 2003)

CHINA STRATEGIC LTD provide assistance, research and services to international companies from over 46 different countries wanting to sell product to the domestic China market. From provision of serviced office facilities, to the intellectual capital required for you to research your market, understand it, and then be able to make a concise, accurate and well-informed China investment decision – and with Offices in Beijing, Shanghai & Shenzhen; China Strategic can help on a national basis. For more information about our services, including CCC applications, please visit our website at www. ChinaStrategic.com or call our China Business Development Manager, Anthony Robinson at (86 21) 6279 7330 or email him at anthony@chinastrategic.com for advise on getting you and your product to market in China.

Note from the editor

Additional information about the CCC Mark regulations can be found on the following websites:

http://www.cnca.gov.cn
http://www.cqc.com.cn/index-e.htm

or visit also the website of the Swiss-Chinese Chamber of Commerce: www.sccc.ch

Report on CCC Seminar in Beijing

The seminar on China Compulsory Certification (CCC) was held in Beijing on 17 October 2003 and was jointly organized by the EU – China WTO Program, the European Chamber of Commerce in China (EUCCC) and the Chinese National Certification and Accreditation Administration (CNCA). AQSIQ also offered senior level participation.

The purpose of the seminar was to obtain clarifications on the application of the new CCC system and for foreign experts to share their experience on international certification. The seminar was split in two parts: the morning session providing a general forum for discussion on CCC and international practices; the afternoon session concentrating on workshops for automotive and electrical issues.

The seminar was opened by Commissioner Liikanen and Minister Li Changjiang of AQSIQ. This was followed by a total of 14 presentations by European experts and Chinese officials. The issues raised during these presentations were then opened to the floor for discussion and supervised by 12 panelists.

The seminar was very well attended by members of the EU industry in China (not just from large EU companies in Beijing but also smaller European manufactures based in the provinces) and representatives from Chinese ministries (CNCA had received many requests to attend and had to turn down applicants). 340 people attended the

(continued on next page)

opening session and approximately 250 participants attended the whole day.

Overall, both European and Chinese participants agreed that the new system was an improvement on the previous regulations, which imposed a dual system: one for domestic products, the other for imports. The new CCC system was necessary for China to comply with its WTO/TBT commitments. While CCC was generally welcomed, many questions remained since its implementation on 1 August 2003.

The issues that posed the greatest concern focused on proportionality of the CCC measures, recognition of foreign certification, transparency of regulations, cost and length of procedures.

Key points raised during the general discussion:

– Proportionality – Industry concerns relating to the inspection of spare parts. Companies found it unreasonable that spare parts and components that have not been incorporated in the whole machine are subject to mandatory certification.

– Recognition of Foreign Certification – An important objective of the seminar was to bring European accreditation bodies in contact with the Chinese authorities in order encourage recognition of accredited foreign certification. The discussions addressed the issue of how far foreign conformity assessment would be recognized by the Chinese authorities. CNCA explained that recognition of foreign certificates would take time but agreed that they could work toward achieving recognition for products that are subject to similar certification procedures in Europe.

– Transparency – Companies do not always know whether or not certain products need certification. The CCC rules remain unclear and this is exacerbated by the number of exemptions to the CCC certification. Companies went so far as to suggest that they would rather not be granted exemptions in order to enhance clarity and certainty of the regulations. As the CNCA is the final arbiter in deciding whether the regulations apply to certain products, companies run the risk that their products are blocked at the border. Further, there is still no full and officially recognized version of the CCC regulations. Generally, the availability of information on CCC in English is unsatisfactory.

– Cost and Time – Smaller companies expressed their concern that they do not have the same resources as large companies to understand the CCC system and this makes compliance even more difficult. Companies also considered that the fixed fees for certification applications were too expensive.

Key points raised by the Electrical Workshop:

– Concerns remained about cost, time and transparency. This is a concern shared by small and large companies. The EU should work with China to improve the transparency of CCC. Much of the documentation on the implementation of CCC is still not available in foreign languages and the costs involved in applying for CCC certification are too high.

– EU industry considered that some certification procedures that are required for certain products under the CCC system have underdone similar certification in Europe. This sometimes gives rise to unnecessary duplication of costs of the product manufacturer.

– CNCA stated that China did have a market surveillance system in place but did not provide specifics on procedures or results. Some European experts offered bilateral information exchange on market surveillance systems.

– European regulatory authorities saw a need to give out more detailed information to the Chinese authorities on telecommunications terminal equipment with radio products. In particular, such information should cover harmonization of frequencies, manufacturing of products, and declarations of conformity. This would be of assistance in dealing with problem related to the import of certain products, such as lighting, from China to the EU.

– China should focus more on ensuring that the certification system in place will facilitate the movement of goods for import/export. There was a risk of erecting unnecessary barriers for European importers and Chinese exporters.

Key points raised by Automotive Workshop:

– There is still great concern over the application of procedures for CCC. Some procedures are redundant and the process can be very time consuming. The Workshop saw room for improvement on the format of the required documentation; the application of the unit classification; the increase of the small unit classification (to be increased possibly to 500 vehicles per year); the setting up of a "Type Approval Certificate" as a preliminary certificate of limited duration before onsite inspections; the acceptance of ISO9001 for type approval; and the expansion of accreditation institutions both inside and outside China.

– The Chair of Workshop believed that the basic specifications of the CCC system were not so dissimilar to those in Europe and that there should be a push toward international harmonization. The Workshop supported further discussion on EU and Chinese migration to the 1958 UN/ECE agreement.

– Chinese officials confirmed that they were aware of some of the shortcomings of the new CCC system and expressed their willingness to make some adjustments to the procedures and requirements. CNCA hoped to increase the level of communication with EU institutions and industry by following up with future seminars to explore these issues in further detail.

Summary by Euro-China Business Association (EUCBA)

Survey on Swiss Manufacturing

Do Swiss manufacturing companies buy Chinese counterparts in the fast growing Chinese market? A survey conducted by the University of Applied Sciences Northwestern Switzerland analyzes the China strategies of 37 Swiss manufacturing companies. Below you find an Executive Summary of the findings.

China is the 4th largest equipment manufacturer in the world. Its manufacturing industry produces 40 % of domestic GDP and employs 50 % of the nation's workforce. With an average annual GDP growth rate of 12.65 %, it outperforms the aggregate average rate of 9.94 % (1980 – 98).

Overall, Swiss manufacturing companies are on the right track to long-term success in China. However, Merger and Acquisitions (M&A) are not (yet?) considered as a strategic option.

Increasing importance of Chinese home-market

Interviewees reported rapid technological development in China, supported by a strong government. Growing wealth and trust in the stability of growth draw more attention to the Chinese home-market.

Foreign investment and knowledge back up growth and modernization

Foreign Direct Investment (FDI) and knowledge transfer are the fuel of China's growth engine. Until 1986, foreigners were only allowed to invest into Joint Ventures (JV). Knowledge transfer from foreign companies to Chinese State Owned Enterprises (SOE) has always been part of the deal. Many lean managed highly efficient Swiss companies perceive Chinese SOE as unattractive, inefficient, inflexible and hard to restructure. Some companies reported on negative experiences with Chinese JV partners.

M&A as a way to get rid of your JV partner …

For such companies, M&A is a new option to become independent from Chinese JV partners. However, out of 37 companies, only 6 M&A cases were found. Most M&A happened gradually, e. g. if the Chinese JV partner was not able or willing to further invest into the growth of the JV, so Swiss headquarters increased its stake in the JV. Conflicts between two different management cultures have also been mentioned as reasons for acquiring the whole stake of a JV.

… but rather as makeshift then as part of corporate growth strategies

Big multinational manufacturing companies with more than 4'000 employees are more likely to do M&A, as

About the authors

Chunshi and Juergen are studying International Management at the University of Applied Sciences Solothurn, Northwestern Switzerland (UAS) and graduated in October 2003.

The 3-year International Management program is entirely taught in English. Its international student body and a mandatory exchange semester cultivate intercultural expertise. The UAS is building up strong competences about China and is increasingly involved in China-related projects, studies and diploma theses. For further information please contact Prof. Dr Mike Domenghino mike.domenghino@fhso.ch.

Chunshi Xu, 29 years old, is Chinese and has been living in Switzerland for three years now. During her exchange semester in 2002, she studied at the Fachhochschule für Technik und Wirtschaft Berlin. She holds the "Zertifikat Deutsch" with grade 1.0 (very good) of the Goethe Institute. Currently she is writing her diploma thesis entitled "Opportunities for the cement industry in China by an opening for FDI".
Chunshi is interested in intercultural studies, marketing and finance. With a bachelor degree from Yanbian University of Science & Technology, YanJi, China, she has been working for three years as an accountant and later as the leader of the promotion team for air conditioning systems at LG Electronics (China) Ltd Inc., Beijing Branch Office.

Juergen Simon, 26 years old, spent his 2002 exchange semester at Ajou University in Suwon, South Korea. This April, he participated in Insight China 2003, an on-site seminar organized by the UAS including a 16-days trip from Beijing over Lanzhou, Yichang to Shanghai. For his diploma thesis, Juergen is in Shanghai, analyzing the Chinese automotive supplier market and developing a market entry strategy for an American client of Swiss Center Shanghai www.swisscenters.org.
Juergen is interested in strategic marketing, global strategies and the Chinese market. He did internships in the field of marketing with Ascom, DaimlerChrysler Garage du Lignon, Bozell and Swissair and worked as a financial planer.

they have the necessary size and resources, whereas M&A does not fit into the corporate strategy of many relatively smaller companies, which do not have enough free resources to manage the restructuring and integration process of a Chinese company. However, as China's manufacturing industry is developing rapidly, M&A will become increasingly attractive to foreign investors as a way to expand their presence and level of activity in China.

… as standards of Chinese players are still far beyond Swiss quality

Another important reason against M&A is the lack of qualified Chinese candidates for Swiss manufacturing companies. In some fields of the manufacturing industry, China is still one to three generations behind world standards and many Swiss manufacturing companies think, China is not yet ready to produce Swiss standard high-tech quality products. Swiss quality is the basis of success for most of the interviewed companies also in China.

Independent, self-confident and responsible – the Swiss way

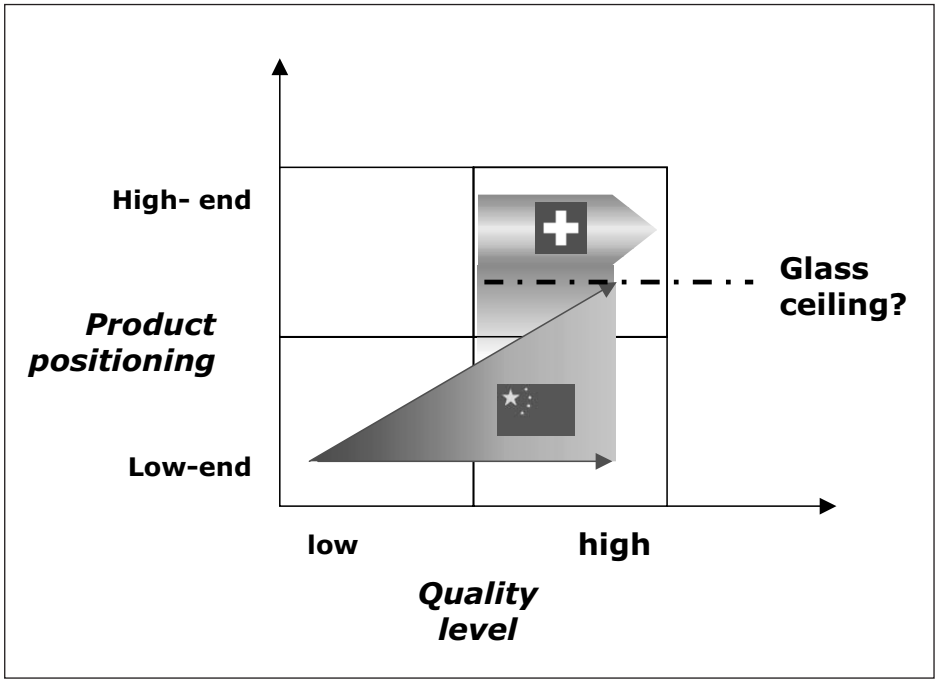
As founding Wholly Foreign Owned Enterprise (WFOE) becomes easier, Swiss manufacturing companies prefer to grow step-by-step at their own pace, founding new subsidiaries rather than acquiring existing Chinese companies. This way, they can keep their independence and build up channels and networks according to their own ideas.

In general, Swiss manufacturing have a long track record with sound experiences in China – as the Swiss home-market has always been relatively small, highly specialized companies were forced to expand into other countries. The Swiss attitude of proceeding in small steps, well prepared and very careful seems to be the right way to succeed in China. Therefore entering the Chinese market is always a top management responsibility in Swiss companies. It takes people with a vision and some courage.

R&D and Production – High-end in Switzerland; low-end in China

The Swiss manufacturing industry tends to remain highly export-oriented due to the high degree of standardization worldwide and the specialization of Swiss products. Switzerland's high-tech manufacturing industry is rooted in the traditional precision watch cluster. The key competences lie in R&D, design and production as well as a close cooperation with local universities. Therefore, knowledge concentration in Switzerland will prevail, partly also to avoid Chinese copy-cats.

At the same time, production and even R&D of special low-end solutions for the Chinese market tend to shift to China, to survive in a highly competitive surrounding. Counterfeiting and the lack of protection of intellectual property are major problems in the low- and middle-end fields. Often the legal framework would be in place, but enforceability is a problem.



Comparative positioning and future development of Chinese and Swiss manufacturing companies. Compiled by the authors.

Chinese companies are emerging into middle-end segment and are strive for high-end segments. At the same time, quality is improving as Chinese manufacturing companies become more sophisticated. Some interviewees expected China to catch up within the next five years, while others thought, the creative way of thinking was not yet deep seated enough within people's minds to cross a certain "glass ceiling" to reach the highest levels of quality and technology.

Xu, Chunshi and Simon, Juergen. "Survey on Activities of Swiss Manufacturing Companies in China with special focus on M&A" Semester project, supervised by Prof. Dr. Mike Domenghino. University of Applied Sciences Northwestern Switzerland, Olten: May 2003 [121 pages including 40 pages appendix].

A similar survey is available for the Southern German manufacturing industry:

Sitta, Lin and Riedl, Dominique.
"Survey on Activities of Southern German Manufacturing Companies in China with special focus on M&A"
Semester project, supervised by Prof. Dr. Mike Domenghino.
University of Applied Sciences Northwestern Switzerland, Olten: May 2003 [81 pages including 16 pages appendix].

The surveys can be ordered as PDF-files for CHF 250 each or as a package for CHF 400.

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mobile 079 371 07 25.

List of Chinese Diplomats in Switzerland

Below you find the most recent name list of Chinese Diplomats accredited in Switzerland. Any items concerning visas should be sent to the Visa Section of the respective department only.

Embassy of the People's Republic of China in Switzerland

Kalcheggweg 10
CH-3006 Berne
Tel.: 031-352 73 33
Fax: 031-351 45 73
E-mail: china-embassy@bluewin.ch

H. E. WU Chuanfu
Ambassador

Counsellors
Mr. Guo Shizong
Mr. Jiang Yuguo
Mr. Wang Jianzheng
Mr. Wang Xiting

Visa Section
Tel./Fax: 031-351 45 93
Ms. Yu Shufen
First Secretary

Political Affairs Office
Tel.: 031-351 63 85

Office for Science and Technology
Tel.: 031-351 58 17

Military Affairs Office
Tel.: 031-351 43 19

Cultural Affairs Office
Tel.: 031-3514315

Commercial Section

7, J. V. Widmannstrasse
CH-3074 Muri
Tel.: 031-958 80 81
Fax: 031-951 05 75
E-mail: ch@mofcom.gov.cn

Mr. QIN Hongliang
Counsellor for Economic and Commercial Affairs

Embassy of the People's Republic of China in Switzerland

Section for Education

Bersetweg 6
CH-3073 Gümlingen
Tel.: 031-951 43 25
Fax: 031-951 43 31

Mr. LIU Baoli
Counsellor

Consulate General of the People's Republic of China

Bellariastrasse 20
CH-8002 Zurich
Tel.: 01-201 10 05
Fax: 01-201 77 12

H. E. LU Wenjie
Consul General

Visa Section
Tel.: 01-201 10 73

Membership Card Values

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

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

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

RESTAURANTS

Restaurant China-Palast
Petersgraben 21
CH-4051 Basel
✆ 061-261 31 13 Fax 061-261 99 46

China Restaurant Rhein-Palast
Untere Rheingasse 11
CH-4058 Basel
✆ 061-681 19 91 Fax 061-261 99 46

China Restaurant Astoria
Neumarktstrasse 38/rue du Marché-Neuf
CH-2500 Biel-Bienne 3
✆ 032-322 83 22 Fax 032-322 83 63

China Restaurant BAO TAO
Bernstrasse 135
CH-3627 Heimberg
✆ 033-437 64 63 Fax 033-437 64 62

Cheng's China Restaurant (mit Seeterrasse)
Marktgasse 15
CH-8640 Rapperswil
✆ 055-210 17 70 Fax 055-410 14 51

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

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

Restaurant CHINA-TOWN
Bälliz 54
CH-3600 Thun
✆ 033-222 99 52 Fax 033-222 99 52

CHINA GARDEN
Schützengasse 12
CH-8001 Zürich
✆ 01-211 71 00 Fax 01-212 35 61

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

ZHONG HUA
Zähringerstrasse 24
CH-8001 Zürich
✆ 01-251 44 80 Fax 01-251 44 81

SUPPLIERS / FURNISHINGS

CHINA ART antikes Interieur
Rugenparkstr. 34
CH-3800 Interlaken
✆ 033 826 00 88, Fax: 033 826 00 89
E-mail: china-art@creahouse.ch
website:www.artofchina.ch

TRAVEL/DELEGATIONS

Alpine Sightseeing GmbH
Natel 076-384 72 17
Franklinstrasse 5
CH-8050-Zürich
✆ 01-311 72 17, Fax 01-311 72 54
E-mail: Alpiness@freesurf.ch

CULTURE AIR TRAVEL S. A.
10a, rue Emile-Yung
CH-1205 Genève
✆ 022-839 81 81 Fax 022-839 81 80
E-Mail: Cultureair@swissonline.ch

FIRST TRAVEL ENTERPRISE
Bubenstrasse 7
CH-8304 Wallisellen
✆ 01-322 66 88, Fax 01-322 66 90
E-Mail: victor@FTE.ch
website: www.FTE.ch

HOTELS

HOTEL TIEFENAU ZURICH
Steinwiesstrasse 8
CH-8032 Zürich
✆ 01-267 87 87 Fax 01-251 24 76

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