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One and a half centuries ago, three pioneering Swiss ventured to Asia and built flourishing trading houses.



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1887 established in Singapore



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China – A Free Lunch?

When reading articles about China – and there are many – one might easily gain the impression that the enthusiasts outnumber the sceptics and that we are facing a period of “China Hype”.

Enthusiasts are generally obsessed by the vast economic opportunities that the 1.3 billion people of the Middle Kingdom promise; the sceptics are apprehensive about the flip side of China’s staggering growth, the social/political transition and, increasingly, about the negative impact all this is having on Western economies.

Over the last three years, the EU’s trade deficit with China has tripled; with the US also importing far more than it exports. However, these statistics only partially reflect the economic realities. On the one hand, two thirds of China’s exports stem from foreign investment enterprises located on the mainland. On the other, it is symptomatic of a global development that has been ignored for too long by too many countries. This belated recognition can result in sudden fears of an obscure foe and shadowy images of an imminent threat from Chinese industry.

Switzerland is in a very different position. It is one of the few countries reporting a trade surplus with China and hence, public opinion here is far more relaxed.

Switzerland benefits from its traditionally strong export industries whose focus is on innovation and added value rather than price alone. This strategy has created strong demand in China for quality products from the high-tech, pharmaceutical and luxury goods sectors. Tourism will follow suit.

A number of companies across all industries are prospering in China. They are firms who are attuned to the mood of the time, who have seen the writing on the wall. They have recognized that their customers are already producing in China, that globalisation is inevitable and will force labour intensive activities and those with limited value creation to migrate away from countries like Switzerland or the US.

In the past 20 years, the two hundred and fifty Swiss companies operating in China have invested four billion Swiss francs in that market. Many of them have done very well. Primarily, the successful ones are those with a long-standing presence in China, possessing a strategic vision, have expanded through step-by-step investment in their activities and have been willing to ride with the cycle of good and bad years. Admittedly, there have also been failures, not widely published for obvious reasons. Companies have exited China again, writing off their investments. Others have jumped onto the China bandwagon in the past couple of years, with somewhat fuzzy investment objectives. Only time will tell whether those companies will ultimately be successful.

My comments are a much simplified reflection on the historic volatility with which many businesses view China. Their assessments of the opportunities offered by the China market fluctuate wildly between enthusiasm and pessimism. Overly cautious one day and then overestimating the opportunities on the next when considering potential investments.

Nowadays, the view across many business sectors appears to be considerably more pragmatic and balanced. China is a very interesting market for many companies based in the Western world, offering a vast customer base, low production costs and a growing pool of skilled workers. But over there, as much as here, the common-sense English saying holds true: There is no such thing as a free lunch!

Sincerely,

Dr. Jörg Wolle, President

2006 – Year of the Dog

Chinese astrology is based on the Lunar Calendar. This means the Chinese New Year does not fall on the same day each year and can vary by as much as 3 weeks. In 2006, the Chinese New Year day starts on January 29th, because this is a new moon day. Hence, it is the first day of the first Chinese lunar month in the Chinese Lunar Calendar system.

There are twelve Chinese year signs in the Chinese Zodiac. Unlike in our western astrology, in Chinese astrology each sign lasts for a year. Legend has it that as Buddha



was about to depart the earth he summoned all the animals to say goodbye. Only twelve turned up so, to show his appreciation of their loyalty, he vowed that from then on each year would bear the name of one of the animals.

2006 Business / Public Holidays

People's Republic of CHINA

02 Jan	The day following New Year's Day
30 Jan	The second day of the Lunar New Year (LNY)
31 Jan	The third day of the LNY
01 May	International Labour Day
02 May	The day following International Labour Day
03 May	The second day following International Labour Day
01 Oct	National Day (ND)
02 Oct	The day following ND
03 Oct	The second day following ND

HONG KONG Special Administrative Region (S.A.R.)

02 Jan	The day following New Year's Day
28 Jan	The day preceding the Lunar New Year (LNY)
30 Jan	The second day of the LNY
31 Jan	The third day of the LNY
05 Apr	Ching Ming Festival
14 Apr	Good Friday
15 Apr	The day following Good Friday
17 Apr	Easter Monday
01 May	Labour Day
05 May	Buddha's Birthday
31 May	Tuen Ng Festival
01 July	Hong Kong SAR Establishment Day
02 Oct	The day following National Day
07 Oct	The day following Chinese Mid-Autumn Festival
30 Oct	Chung Yeung Festival
25 Dec	Christmas Day
26 Dec	The first weekday after Christmas Day

The year of the Dog is a year for reflection and to assess ones values. There will be disturbances, revolts, but as the Dog is always on the look out, honesty will always rule the day. This year will see great benevolent and idealistic deeds and various unusual changes; a time when broadmindedness and fairness will be supported. Although this year is one of great cynicism a sense of balance and tranquility will be upheld.

The Dog Personality

People born in the year of the dog are usually candid, honest, generous, righteous, studious and energetic, which makes it easy for them to attract the favour of the opposite sex.

They are kind-hearted, always ready to listen to and share other people's cares and burdens. They know how to get along well with others. Sometimes they will protect the interests of other people even by sacrificing their own. If there's someone often paying a handsome reward, he must be a person born in the year of the dog.

They seldom lose their temper, even when they're abused by other people. They do, however, flare up sometimes, but only for a moment, and never out of jealousy. When they have conflicts with others, they always try to make compromises instead of harbouring hatred in their hearts.

When they are determined to do something, they will hold on to the very last. They always choose respectful careers, and are sure to achieve success by conscientious hard work.

But never count on them to play a part in settling disputes because they are not willing to involve themselves in such situations. They always guard themselves from abuse, and will only make friends with people in whom they have full confidence.

Being noted cynics, they are highly critical of misbehaviour, and are sure to rise up to fight evil in every situation. When they think themselves right, they will not submit to anyone's opinion; and when they have settled something, no one is able to change it. They usually argue in a thoughtful and logical way; but when their integrity's attacked, they will fiercely defend themselves. At the same time, they will never backbite anyone, and they will rush to help when there's danger somewhere.

Gifted with a special sensitivity, they have keen insight into other people's minds. Dividing others into either

friends and opponents they will not judge a person without foundation, but once they have developed an opinion of somebody, it is difficult for them to change it. Usually they will give you good advice. Pragmatic by nature, they can help those who boast to overcome their shortcomings. They often think it necessary to point out other people's mistakes so as to help them develop an objective view of themselves and the reality.

Though they don't value money very much, they have an unparalleled ability to bring in money when they are in need of them.

They always appear to be in high spirits, but actually in their hearts there is a shadow of pessimism. Sometimes they worry too much, imagining dangers around every corner.

It seems that those born in the night are more aggressive than those born in the daytime. But all of them will live a peaceful life with abundance in daily necessities.

Various sources incl. The Handbook of Chinese Horoscopes by Theodora Lau published by arrow Books Limited

Chinese New Year Concert – Ovations in Lucerne

The China Traditional Orchestra Zhejiang was in Switzerland for the Chinese New Year 2006 on January 22, 2006 for the first time. The concert in the KKL in Lucerne was the superb start of a tour through Europe and Egypt and was broadcasted live by the Chinese Music Channel as well as by the Information Channel of the Province of Zhejiang and the Swiss Television on SF 1.

The «Great Chinese New Year concert» was presented, like every year, by one of the top traditional orchestras of China. A great variety of sounds, musical instruments, which are unknown in the western world and the magnificent, traditional costumes of the musicians created a very special atmosphere for this event. The compositions and the traditional folk music came from the great Chinese musical tradition. Some famous, contemporary composers like Tan Dun and Zhao Jiping, who also have written a lot of film music, added to the repertory with additional music for traditional orchestras. Small ensembles, where the sound of some solo instruments is in the foreground as well as big orchestras contributed to the concert.

The Chinese celebrate their New Year's festival at the end of January or the beginning of February, according

to the moon calendar, some weeks after our western New Year's Eve. Business life in the whole country then comes to a complete standstill for about two weeks and millions of people travel to their families. The «Great Chinese New Year Concert» has become an outstanding social event in China and Europe.

The Wu Promotion in Beijing organized a «Chinese New Year Concert» in the Vienna Music Association for the first time in 1998. The success exceeded all expectations. The Chinese President of the State Jiang Zemin as well as state presidents and other members of the government of the host countries sent greeting messages. About 700 million people watched the programme in the main evening programme of Chinese television (CCTV, China Central Television). Since then the «Great Chinese New Year Concert» has been an integral part of the international concert calendars.

*Summary based on «The Panorama-Journal»
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Panorama Photo by: Werner Weber



The Chinese Union of Zurich (CUZ) opened the curtain for the Swiss International Business Forum's part "Fascination China" with a traditional dragon dance.

A total of 600 people from business and politics participated at the annual Swiss International Business Forum in Zurich Hallenstadion's new conference center on November 9 and 10, 2005. During the evening event, a dragon dance accompanied by sonorous gongs and drums symbolically opened the second day's focus on China. The dragon dance with its combination of boldness and agility, much like the soaring Chinese economy, captivated the attention of the Forum's participants from numerous countries.

Distinguished guests included Vice-Minister of Commerce YI Xiaozhun, Ambassador of the People's Republic of China in Switzerland ZHU Bangzao and Counsellor of Commerce of the People's Republic of China in Switzerland WANG Heliang. They joined State Secretary for Economic Affairs Jean-Daniel Gerber and Managing Director of the Swiss-Chinese Chamber of Commerce Susan Horváth in thanking the dragon dance team following the performance.

CUZ-dragon dance Project Manager ZHAO Juan and CUZ-President YE Haiwen were also present in this performance.

Between Two Worlds

"To see once, is better than to hear a hundred times."

Susanne Scherer's encounter with cross-cultural dynamics is captivated in her photos. Since 2001, living in Beijing, she started to show her photos to the public and they are now exhibited at the La Rocca gallery in Zurich until March 4th 2006.

"Arriving from small Switzerland, the big capital Beijing revealed to me a new and unknown world. It was and still is a great challenge to know and understand the different culture, history, language and living habits. For the past three years, I've spent much time exploring Beijing in all its different parts and trying to catch the scenes of daily life with my camera. And slowly I started to understand that Beijing's daily life is not so far away from the daily life in Zurich, Switzerland. What was in the beginning so unknown, strange and sometimes even scaring became more and more familiar and loving to me." Susanne Scherer continues, "this is what I would like to

express in 'Between Two Worlds': the differences and similarities of these two worlds, Beijing and Switzerland. I invite you to join me on my journey, and to look with your own eyes and open heart."

There is also a book available on Susanne Scherer's oeuvre (black/white photos, 130 pages, hard cover). For further information please contact her directly at: s.scherer@active.ch

Swiss-Chinese Chamber of Commerce

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Events, publications, special topics

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New Economic and Commercial Counsellor

Since October 2005 Mr. WANG Heliang is the new Economic and Commercial Counsellor of the Embassy of the People's Republic of China in Switzerland.

He was born in February 1955 in Hebei Province of China, is married and has one daughter.

- 1975–1979 studying Business French at University of International Business and Economics, China
- 1979–1982 Staff member at Ministry of Foreign Trade, China
- 1982–1995 Chief Staff member, deputy director, director at Ministry of Foreign Trade and Economic Cooperation
- 1995–1999 Director at the Office for Administration of Enterprises of Ministry of Foreign Trade and Economic Cooperation
- 2000–2002 Deputy Director General of Ministry of Foreign Trade and Economic Cooperation
- 2002–2005 Economic and Commercial Counsellor, Embassy of China in Poland
- 2005– Economic and Commercial Counsellor, Embassy of China in Switzerland



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New Head for Swiss Business Hub China

Beat Bürgi is the successor of Erwin Lüthi as head of the Swiss Business Hub China in Beijing. He has taken up his new assignment beginning of August, after having spent some four years at the Economical and Financial Affairs Division of the Federal Department of Foreign Affairs in Bern. Prior to his assignment in Bern, Mr. Bürgi had been posted in various Swiss representations such as Buenos Aires, Teheran, London and Paris.

He and his wife are accompanied in Beijing by their two children (seventeen year old son, fifteen year old daughter).

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Annual Economic Report: China 2005

(Note from the Editor: Below you find an excerpt from the Annual Economic Report: China 2005 from the Embassy of Switzerland in Beijing. Readers can download the full report from the Chamber's website www.sccc.ch. Please always refer to the Swiss-Embassy as source of information.)

Appreciation of Economic Problems and Issues

The wide-ranging policy reforms of the last 25 years have thrown China on a new path of economic openness. China's entrance to the WTO in December 2001 symbolizes a new era of global market integration and increasing exchanges between the largest emerging market and the rest of the world. However, reforms must continue as the fast pace of development of China has brought about new challenges for the country and its economy.

High Growth Rates

The high growth rates that China has experienced over the past few years (cf. annexe 2) have contributed to the increase in personal income and to a certain extent the reduction of poverty. However, a difficult balance needs to be reached between cooling the overheating economy amid fears of a hard landing while producing enough new jobs to absorb the extra labour force. For the past year, China has been making macroeconomic adjustments aiming to reduce annual economic growth to 7 or 8 percent. There has been a shift from administrative measures to market-based ones: interest rate increases, reduction and rationalisation of bank lendings and adapting to a more flexible exchange rate system.

Exchange Rate System Reform

The most significant structural reform so far in 2005 was probably the exchange rate system reform which had been much desired by China's global economic partners for some time. On 21 July 2005 the RMB's decade long peg to the USD was transformed to a managed float against a basket of currencies. The exchange rate is now permitted to float within a band of +/- 0.3% against the USD and by up to 1.5% against other currencies each day. At the same time the exchange rate to the USD was revalued by 2.1 % to 8.11 yuan per USD.

State Owned Sector

The ongoing reform of the state owned sector still has some way to go. State owned enterprises (SOE) have improved in performance, but over 35% of all state-con-

trolled companies are still not earning a positive rate of return and one in six has negative equity. Many small SOE have been closing down or selling their assets to private and foreign buyers as the government focuses on its involvement to larger state-firms in key industries. The most recent development in private sector reforms is an opening up to private businesses of a number of previously restricted areas (for example in most areas of the industrial sector, bar mining and utilities, and in distribution). This shows that another step has been taken towards creating a more efficient and more market-oriented economy.

Reform of Banking Sector

Foreign banks (including CSFB and UBS) have in recent times shown a growing interest in investing in China's state commercial banks. UBS in particular announced a strategic partnership with Bank of China – one of the four largest state-owned banks – in September 2005 (UBS has also taken control of Beijing Securities, a mid-sized brokerage company this autumn.). This may help in the long and delicate reform of the banking sector which is fraught with non-performing loans, especially if the foreign banks get to take part in the state banks' policy and strategy. The China Construction Bank was the first of the large state-owned bank to list its shares with overseas investors with an initial public offering on 27th October 2005. This is seen as a positive step in the reform of the banking system, in particular since state-owned banks are expected to follow suit and go public in the next couple of years.

Further, to ensure continued economic development and a positive evolution of the business environment in China, reforms such as the establishment of a modern legal framework for businesses (including a functioning bankruptcy system) and the effective enforcement of the set of laws and regulation for international property rights are required.

Five-year Plan

In the Administration's most recent, 11th five-year plan (2006-2010), it projects to maintain high economic growth while tackling growing disparities between rural and urban incomes (the benefits of economic development have not been distributed evenly across the country, leading to frequent social unrest, in particular in rural areas) and paying attention to issues regarding environmental and resource constraints.

(continued on page 14)

Bilateral Trade Switzerland - P.R. China, 2004

	Class of goods	Import in CHF		Δ in %	Import share (%)	Export in CHF		Δ in %	Export share (%)	Trade balance in CHF
		2003	2004			2003	2004			
1	Agricultural products	57.708.709	55.778.981	-3,34%	1,97%	12.158.860	21.055.758	73,17%	0,68%	-34.723.223
2	Energy carriers	583.657	253.026	-56,65%	0,01%	205.407	339.524	65,29%	0,01%	86.498
3	Textiles, apparel, shoes	632.159.947	678.250.347	7,29%	23,99%	34.898.167	46.872.231	34,31%	1,52%	-631.378.116
4	Paper, paper products, printed matter	10.727.173	13.756.418	28,24%	0,49%	13.054.088	19.073.538	46,11%	0,62%	5.317.120
5	Leather, rubber, plastics	134.809.365	150.360.669	11,54%	5,32%	32.619.153	38.874.103	19,18%	1,26%	-111.486.566
6	Chemicals, pharmaceuticals	260.286.782	287.695.837	10,53%	10,18%	367.895.930	497.986.066	35,36%	16,19%	210.290.229
7	Construction materials, ceramics, glass	25.309.787	33.292.552	31,54%	1,18%	10.703.325	12.472.415	16,53%	0,41%	-20.820.137
8	Metals and metal products	151.188.415	173.404.662	14,69%	6,13%	99.650.191	135.792.980	36,27%	4,41%	-37.611.682
9	Machinery, apparatus, electronics	576.952.339	719.043.161	24,63%	25,43%	1.404.555.402	1.567.179.381	11,58%	50,95%	848.136.220
10	Vehicles	21.047.918	34.693.005	64,83%	1,23%	11.439.844	4.997.677	-56,31%	0,16%	-29.695.328
11	Precision instruments, watches, jewellery	290.858.467	391.341.243	34,55%	13,84%	371.156.375	490.809.788	32,24%	15,96%	99.468.545
12	Furniture, toys	234.267.326	278.850.820	19,03%	9,86%	11.364.426	15.303.341	34,66%	0,50%	-263.547.479
13	Precious metal, precious stones, gemstones	16.770.261	4.318.907	-74,25%	0,15%	90.116.778	224.760.437	149,41%	7,31%	220.441.530
14	Objects of art and antiques	1.248.980	6.068.716	385,89%	0,21%	198.488	227.149	14,44%	0,01%	-5.841.567
	Total	2.413.919.126	2.827.108.344	17,12%	100%	2.460.016.434	3.075.744.388	25,03%	100%	248.636.044

Bilateral Trade Switzerland - Hongkong, 2004

	Class of goods	Import in CHF		Δ in %	Import share (%)	Export in CHF		Δ in %	Export share (%)	Trade balance in CHF
		2003	2004			2003	2004			
1	Agricultural products	1.213.171	852.963	-29,69%	0,10%	48.356.682	53.954.787	11,58%	1,32%	53.101.824
2	Energy carriers	—	—	N/A	N/A	155.771	107.496	-30,99%	0,00%	N/A
3	Textiles, apparel, shoes	51.809.297	59.171.455	14,21%	7,20%	95.170.395	106.734.139	12,15%	2,62%	47.562.684
4	Paper, paper products, printed matter	1.261.275	2.066.843	63,87%	0,25%	13.106.727	13.099.189	-0,06%	0,32%	11.032.346
5	Leather, rubber, plastics	3.475.652	4.137.838	19,05%	0,50%	41.075.722	43.661.632	6,30%	1,07%	39.523.794
6	Chemicals, pharmaceuticals	5.697.442	3.678.778	-35,43%	0,45%	364.950.820	354.101.156	-2,97%	8,69%	350.422.378
7	Construction materials, ceramics, glass	1.203.595	1.796.111	49,23%	0,22%	10.980.056	12.995.391	18,35%	0,32%	11.199.280
8	Metals and metal products	8.622.558	9.772.027	13,33%	1,19%	48.068.835	55.428.425	15,31%	1,36%	45.656.398
9	Machinery, apparatus, electronics	94.134.651	149.542.101	58,86%	18,20%	328.149.738	389.364.093	18,65%	9,56%	239.821.992
10	Vehicles	214.531	865.962	303,65%	0,11%	2.657.341	550.749	-79,27%	0,01%	-315.213
11	Precision instruments, watches, jewellery	312.866.480	285.802.546	-8,65%	34,79%	1.762.250.738	1.988.384.342	12,83%	48,82%	1.702.581.796
12	Furniture, toys	5.205.674	5.107.112	-1,89%	0,62%	36.694.021	34.708.616	-5,41%	0,85%	29.601.504
13	Precious metal, precious stones, gemstones	151.081.139	294.116.064	94,67%	35,80%	1.241.944.854	1.010.539.750	-18,63%	24,81%	716.423.686
14	Objects of art and antiques	11.934.305	4.585.202	-61,58%	0,56%	8.625.511	9.061.031	5,05%	0,22%	4.475.829
	Total	648.719.770	821.495.002	26,63%	100%	4.002.187.211	4.072.690.796	1,76%	100%	3.251.195.794

Bilateral Trade Switzerland - China incl. Hongkong, 2004

Total	3.062.638.896	3.648.603.346	19,1%	100%	6.462.203.645	7.148.435.184	10,6%	100%	3.499.831.838
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Source: Schweizer Oberzolldirektion, Swiss Impex

Annual Economic Report: China 2005 / Embassy of Switzerland, Beijing

Bilateral Trade Switzerland-China

Swiss exports to mainland-China (according to Swiss customs data) have already shown high growth rates for some years, and the year 2004 followed this trend: Swiss exports to China grew 25.03% to CHF 3.08 billion and imports went up 17.12% to CHF 2.83 billion – a trade surplus of CHF 0.25 billion. The picture looks even brighter for Switzerland if the data for the trade between Switzerland and Hong Kong is added. Altogether, exports amounted to CHF 6.46 billion last year and imports in Switzerland to CHF 3.06 billion. The exports to China (incl. Hong Kong) made up 4.77% of global Swiss exports, meanwhile bringing China (incl. Hong Kong) to the position of Switzerland's most important export market and trade partner in Asia, ahead of Japan. Exports from Switzerland to Taiwan went up 12.2% to CHF 1.33 billion, however imports decreased 13.8% to CHF 0.521 billion.

However, in the first nine months of 2005 (compared to the same period last year) there has been a slighter increase in exports to China (4.24%) than in imports (11.19%) leading to a minute trade deficit for Switzerland of CHF 54 million. That said, when combining the data for the trade between Switzerland and Hong Kong with that of China, for the first nine months of this year, there is still a significant CHF 1.9 billion surplus for Switzerland (down from CHF 2.5 billion in the first three quarters of 2004).

The most important imports of goods out of China are machinery, apparatus and electronics (share of import in 2004: 25.4%), textiles, apparel and shoes (24.0%), precision instruments, watches and jewellery (2004: 13.8%), chemicals and pharmaceuticals (10.2%). Exports are dominated by machinery, apparatus and electronics (share of exports 2004: 50.9%), chemicals and pharmaceuticals (2004: 16.2%) and precision instruments, watches and jewellery (2004: 16.0%).

Swiss exports to China saw in 2004 a CHF 162 million (11.7%) increase for machinery, apparatus and electronics, a CHF 135 million (149.4%) increase for precious metals, stones and gemstones, a CHF 130 million (35.4%) for chemicals and pharmaceuticals, and a CHF 120 million (32.2%) for precision instruments, watches and jewellery. The strongest increases in imports from China were also noticed in the "machinery, apparatus and electronics" and "precision instruments, watches and jewellery" categories (CHF 142 million or +24.6% and CHF 100 million or +34.5% respectively). So far in 2005 (Q1-Q3) there has been a notable 60.7% increase of imports in the sector of chemicals and pharmaceuticals compared to the same period the previous year and a 32.2% increase in exports in the same sector.

China is a priority country in the framework of Swiss exports promotion and, as can be seen by the areas which experienced strong increases in exports in 2004 (machinery, chemicals and pharmaceuticals, precision instruments, watches and jewellery). Switzerland has a great comparative advantage in sectors which matter to Chinese importers. One example is the constant and increasing demand for advanced technology and produc-

tion equipment linked to the progress of China's manufacturing sector and its development of infrastructure across the country. This sector offers and will continue to offer excellent prospects to Swiss producers of machinery and manufacturing instruments.

The shift of life-style and consequently of consumer behaviour among wealthier urban citizens to a more westernized consumption pattern has created an increasing demand for established and high quality brands and luxury items – from packaged foods to branded clothes to luxury watches. On the one hand, this is an excellent prospect for Swiss brands and goods to tap in a booming market; on the other, pirating reduces the potential of this market and bites into profits of various industries. The opening up of the domestic retail banking market to foreign invested financial institutions in December 2006 (the end of the 5 year WTO-rules implementation timetable), should also create opportunities for Swiss financial services. Reliable figures on bilateral exchange in the service industries are currently unavailable.

In their answers to a Seco-survey in November 2005, carried out by the Swiss Embassy, over half of the Swiss companies doing business in China estimated that the business climate is overall positive. They often mentioned that the Chinese market is important and growing and becoming more and more attractive as there are improvements in the business environment (in particular for services, for which the market is still opening). However there was also mention of the challenge that China sets for foreign companies: the climate is extremely competitive, there are still many restrictions, the regulatory environment is complicated and, for the future, costs are increasing. There were also a few complaints from SME that their problems are not being taken seriously by the Chinese authorities, in particular in IPR-protection. Further, many companies see the East and South-East Asian region as an important market for goods produced in China with significant potential especially if China eases the logistics channels for export.

*Source: Embassy of Switzerland in China
Economic and Commercial Section*

www.eda.admin.ch/Beijing

Bilateral Trade Switzerland - P.R. China, January - September 2005

	Class of goods	Import in CHF		Δ in %	Import share (%)	Export in CHF		Δ in %	Export share (%)	Trade balance in CHF
		Jan-Sep 2004	Jan-Sep 2005			Jan-Sep 2004	Jan-Sep 2005			
1	Agricultural products	42.199.080	50.201.222	18,96%	N/A	17.651.735	17.718.797	0,38%	0,75%	-32.482.425
2	Energy carriers	–	35.456	N/A	0,00%	263.183	409.923	55,76%	0,02%	374.467
3	Textiles, apparel, shoes	534.368.104	595.498.781	11,44%	24,62%	34.459.073	35.579.564	3,25%	1,51%	-559.919.217
4	Paper, paper products, printed matter	10.221.761	18.844.930	84,36%	0,78%	13.887.470	15.860.890	14,21%	0,67%	-2.984.040
5	Leather, rubber, plastics	114.274.801	127.763.689	11,80%	5,28%	30.253.669	33.014.260	9,12%	1,40%	-94.749.429
6	Chemicals, pharmaceuticals	211.507.068	339.808.115	60,66%	14,05%	377.322.406	498.864.133	32,21%	21,10%	159.056.018
7	Construction materials, ceramics, glass	25.174.682	32.080.056	27,43%	1,33%	10.884.745	6.117.197	-43,80%	0,26%	-25.962.859
8	Metals and metal products	134.390.778	127.017.308	-5,49%	5,25%	93.242.649	118.840.811	27,45%	5,03%	-8.176.497
9	Machinery, apparatus, electronics	560.276.290	540.541.225	-3,52%	22,35%	1.174.573.452	1.120.049.126	-4,64%	47,38%	579.507.901
10	Vehicles	26.405.880	33.073.667	25,25%	1,37%	4.142.286	4.745.776	14,57%	0,20%	-28.327.891
11	Precision instruments, watches, jewellery	295.265.554	333.958.208	13,10%	13,81%	333.609.770	400.696.216	20,11%	16,95%	66.738.008
12	Furniture, toys	211.447.851	213.724.040	1,08%	8,84%	9.829.763	16.732.576	70,22%	0,71%	-196.991.464
13	Precious metal, precious stones, gemstones	3.831.911	2.611.367	-31,85%	0,11%	167.563.169	94.533.434	-43,58%	4,00%	91.922.067
14	Objects of art and antiques	5.642.858	3.213.056	-43,06%	0,13%	200.932	873.008	334,48%	0,04%	-2.340.048
	Total	2.175.006.618	2.418.371.120	11,19%	100%	2.267.884.262	2.364.035.711	4,24%	100%	-54.335.409

Bilateral Trade Switzerland - Hongkong, January - September 2005

	Class of goods	Import in CHF		Δ in %	Import share (%)	Export in CHF		Δ in %	Export share (%)	Trade balance in CHF
		Jan-Sep 2004	Jan-Sep 2005			Jan-Sep 2004	Jan-Sep 2005			
1	Agricultural products	695.895	666.186	-4,27%	0,09%	43.061.925	22.913.921	-46,79%	0,83%	22.247.735
2	Energy carriers	–	585	N/A	N/A	88.174	111.187	26,10%	0,00%	110.602
3	Textiles, apparel, shoes	47.241.088	34.856.464	-26,22%	4,51%	76.887.621	81.147.947	5,54%	2,93%	46.291.483
4	Paper, paper products, printed matter	1.543.686	1.816.000	17,64%	0,24%	10.202.814	5.490.434	-46,19%	0,20%	3.674.434
5	Leather, rubber, plastics	3.044.765	4.023.674	32,15%	0,52%	32.645.373	32.688.702	0,13%	1,18%	28.665.028
6	Chemicals, pharmaceuticals	2.309.876	9.261.001	300,93%	1,20%	277.351.619	225.378.063	-18,74%	8,13%	216.117.062
7	Construction materials, ceramics, glass	1.369.431	949.329	-30,68%	0,12%	9.243.850	9.811.148	6,14%	0,35%	8.861.819
8	Metals and metal products	7.502.235	7.627.683	1,67%	0,99%	41.665.341	39.566.930	-5,04%	1,43%	31.939.247
9	Machinery, apparatus, electronics	94.709.493	147.625.731	55,87%	19,11%	290.983.211	259.082.205	-10,96%	9,35%	111.456.474
10	Vehicles	844.130	918.479	8,81%	0,12%	420.824	1.268.456	201,42%	0,05%	349.977
11	Precision instruments, watches, jewellery	209.756.638	222.479.751	6,07%	28,79%	1.411.141.474	1.503.181.653	6,52%	54,25%	1.280.701.902
12	Furniture, toys	3.315.324	4.235.417	27,75%	0,55%	27.435.851	23.655.487	-13,78%	0,85%	19.420.070
13	Precious metal, precious stones, gemstones	200.433.355	327.290.509	63,29%	42,36%	790.730.145	556.094.738	-29,67%	20,07%	228.804.229
14	Objects of art and antiques	3.517.286	10.925.062	210,61%	1,41%	7.519.841	10.673.639	41,94%	0,39%	-251.423
	Total	576.283.202	772.675.871	34,08%	100%	3.019.378.063	2.771.064.510	-8,22%	100%	1.998.388.639

Bilateral Trade Switzerland - P.R. China incl. Hongkong, January–September 2005

Total	2.751.289.820	3.191.046.991	15,98%	100%	5.287.262.325	5.135.100.221	-2,88%	100%	1.944.053.230
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Source: Schweizer Oberzolldirektion, Swiss Impex

Annual Economic Report: China 2005 / Embassy of Switzerland, Beijing

Foreign Direct Investment in China

Since China joined the World Trade Organization (WTO), China's investment environment has greatly improved. Many multinational and international companies have considerably increased their investments in China over the past years. This trend of increased Foreign Direct Investment (FDI) is in contrast to the global FDI which is falling.

From 2000 to 2003, annual FDI dropped from US\$ 1,388 billion to US\$ 560 billion, whereas over the same period China grew from US\$ 40 billion in 2000 to US\$ 53 billion in 2003. In 2004 the figure reached US\$ 61 billion, rising 13 percent over 2003.

In 2005 FDI continued to flow strongly and even though some figures this year indicated a drop, it is likely to at least meet last years figures.

Foreign Invested Enterprises (FIE) have not only given a boost to the development of many industries, but in addition FIE's export and import account for more than half of the nations total, the taxes they pay make up to 20% of the total and they employ around 22 million workers.

Source of FDI

The biggest source of FDI for 2004 was still from Asia, at the top led by investors from Hong Kong or international companies through their Hong Kong entities:

In the last couple of years, the flow of FDI has started to not only go into the traditional manufacturing ventures but also increasingly into the equipment manufacturing, electronic machinery, high tech, entertainment, retail and financial services.

The reason for the growth in China is not only because of the preferential policies the Chinese government granted while opening the market to foreign investors, but also because China has developed into a key export base.

Attractions for FDI

In addition to its low industrial wages, China's manufacturing sector has made substantial productivity gains (improved infrastructure, increased automation) and shows a higher product sophistication being achieved by a better trained workforce and imported technology.

Another precondition is the trend from 'made in ...' to 'made by ...' – The company label is getting more important than the product's local origin, enabling Western companies to move production to contract manufacturers in low cost countries. The pioneers of this development were sport shoes, garment manufacturers, and the computer industry, which are all supported by contract manufacturers (local and foreign owned).

Preferential Treatments still exist for Foreign owned companies in China, in order to attract FDI. It is advisable to examine the exact plans of the China entity and which benefits can be found.

For example, a manufacturing company that is exporting 100% of their goods overseas should consider establishing in a Free Trade Zone or the Export Processing Zone due to the facilities and services on offer. As the company is not selling onto the local market but is using China as a manufacturing base, components can be imported duty free, then processed. The China components can be added on duty free and then re-exported while claiming VAT back on the China-sourced components.

Problems for FIE's

Of course, an investment into a Foreign Country, and especially China, does not come without problems. Once overcome cross culture differences and governance issues, one of the main concern in China has become labour shortages.

In the early stages of China's economic growth, Guangdong was the top job provider for rural migrants who headed for the booming urban centers. Guangdong and the Pearl River Delta are now facing a labour shortage of at least two million workers as migrant labour moves to better paying jobs in the Yangtze River Delta. The Pearl Delta is therefore not only in need of middle-level management and technical staff, but also factory assembly labour. Peasants from the poor central and western provinces are diverting to the Yangtze region after hearing from relatives that wages and working conditions are better than in Guangdong.

For example most shoe and garment makers and electronic plants currently depend heavily on cheap labour. These labour-intensive factories might either have to move to inland regions for a long term strategy or close under intensified competition in the future.

Power shortages have challenged tight production schedules in the last few years, and are expected to continue for the near future. Despite efforts of increasing supply, peak demand remains up and is likely to continue to outweigh supply.

Another top concern for companies investing and or operating in China is the protection of intellectual property rights (IPR). The Chinese government has started to battle the problem by drafting new legislation in order to protect the rights of intellectual property owners but so far it seems to have not eased FIE's frustration.

These challenges, together with benefits of the "Go West" initiative of the government, have prompted Foreign investors to explore the opportunities in the Western and less developed Provinces rather than tier cities.

Hong Kong as Base for the Investment

As seen in the 2004 figures, Hong Kong companies are still the main investors into China.

Hong Kong is still used by many international companies as a base or headquarter for their China operation. The reason for this are easier set up procedures, liability

China: Foreign Direct Investment

Rank	Country	FDI (mio. USD) 2003	FDI (mio. USD) 2004	Share (%) 2004	Variation (%) year on year	FDI (mio. USD) Jan–Apr 2005	Share (%) Jan–Apr 2005	Variation (%) year on year
1	Hong Kong	17.700	18.998	31,33%	7,33%	4.632	26,51%	–14,00%
2	Virgin Islands	5.777	6.730	11,10%	16,50%	2.844	16,28%	39,58%
3	USA	4.199	3.941	6,50%	–6,14%	926	5,30%	–21,01%
4	Japan	5.054	5.452	8,99%	7,87%	2.049	11,73%	26,46%
5	Taiwan	3.377	3.117	5,14%	–7,70%	829	1,03%	4,75%
6	Korea South	4.489	6.248	10,31%	39,18%	1.749	10,01%	10,21%
7	Singapore	2.058	2.008	3,31%	–2,43%	539	3,08%	–0,90%
8	Germany	857	1.058	1,75%	23,45%	323	1,85%	3,05%
9	UK	742	793	1,13%	6,87%	357	2,04%	81,62%
10	France	604	657	1,08%	8,77%	187	1,07%	17,95%
	E.U.-15	3.930	4.241	6,99%	7,91%	1.337	7,66%	6,50%
	Switzerland	181	203	0,33%	12,15%	53	N/A	–48,13%
	Austria		98	0,16%	N/A	20	0,11%	51,46%
	Total	53.505	60.600	100%	13,26%	17.470	100%	N/A

Source: Ministry of Commerce

and tax incentives.

These are some of the benefits of a Hong Kong company:

- 1) The Hong Kong Holding Company is fully liable for the China investment and protects your existing company from all liability.
- 2) Dividends received by the Hong Kong Holding Company are tax free and can be used for further investment.
- 3) Royalties, license fees, rent etc. received by the Hong Kong Holding Company are tax free.
- 4) Manufacturing Profits: If the China company is a manufacturing operation and the goods are invoiced and sold through the Hong Kong Holding Company, only 50% of the profits are assessed as sourced in Hong Kong and therefore taxable. Profits from the sale of goods build up in the Hong Kong company and can be used for re-investment.

Further Opportunities in New Markets

After the rules for trading and distribution rights changed for FIE's in 2004, the implementations of the rules and the establishment procedures have delayed and proven to take longer and therefore delayed and frustrated many investors.

As the next step for the commitments China made with its entry into the World Trade Organization, the following sectors will open for foreign investors on December 11, 2005:

- Advertising: establishment of Wholly Foreign Owned Enterprises will be possible for media channels

- Banking: foreign companies will be able to provide renminbi (RMB) services in further cities
- Insurance: the minimum assets level to obtain an insurance brokerage license will be reduced
- Courier services and freight forwarding: establishment of Wholly Foreign Owned Enterprises will be possible
- Hotels: establishment of Wholly Foreign Owned Enterprises will be possible

Mergers & Acquisitions

New regulations last year enabled easier process for Mergers & Acquisition activities. Instead of establishing new joint ventures or wholly foreign owned enterprises, investors may now acquire Chinese firms or shares in Chinese firms.

The Future

Due to the changes in regulations over the previous years, FIE's will continue to explore new directions and opportunities. FDI, even though expected to continue to flow into the export and manufacturing sectors, will also include newly opened markets and possibilities.

Competition from China within the international as well as domestic Chinese market from not only local but also established FIE's, will redefine the strategies of Multinational cooperation for their China Investments.

by Klaus Koehler, Managing Director, Klako Group

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'Behind the China Kaleidoscope'

A Guide to China Entry and Operations, based on the results of the Swiss China Survey with expert contributions and illustrative cases of successful companies.

A project by the Swiss-Chinese Chamber of Commerce in Switzerland and in China, Osec business network Switzerland and the Swiss Center Shanghai.

In the last five years China has undergone another one of its metamorphoses. Since the 90s, when state-owned enterprises and low-income consumers were the only markets, the country has seen the emergence of 300'000 USD-millionaires and a middle class about 100 million strong.

While the market remains difficult, success as well as horror stories are common, creating the general perception that the "Opportunity of the 21st Century" is an intractable land of opportunities, risks and economic paradoxes.

China's environment appears pieced together by an innumerable set of business realities. All these economic circumstances are like the countless patterns in a kaleidoscope: from every angle they show configurations that appear alike and yet are different.

Behind the China Kaleidoscope aims at providing managers with a practical roadmap for success in key business situations as well as the necessary understanding of the particular environment relevant to their enterprises in China.

This guidebook integrates the key findings of the Swiss China Survey, the most comprehensive of its kind with over 350 questions. It analyzes in detail all the im-

portant aspects of Swiss companies' entry and operations in China and the factors for their success. It summarizes the experiences and views of over 100 managers of Swiss subsidiaries active on the Mainland.

In order to serve the most relevant China needs of Swiss companies in a systematic way, this guide is broken down into industries and business activities – purchasing, selling or producing. It offers 12 reference cases of successful companies as well as expert opinions on key elements.

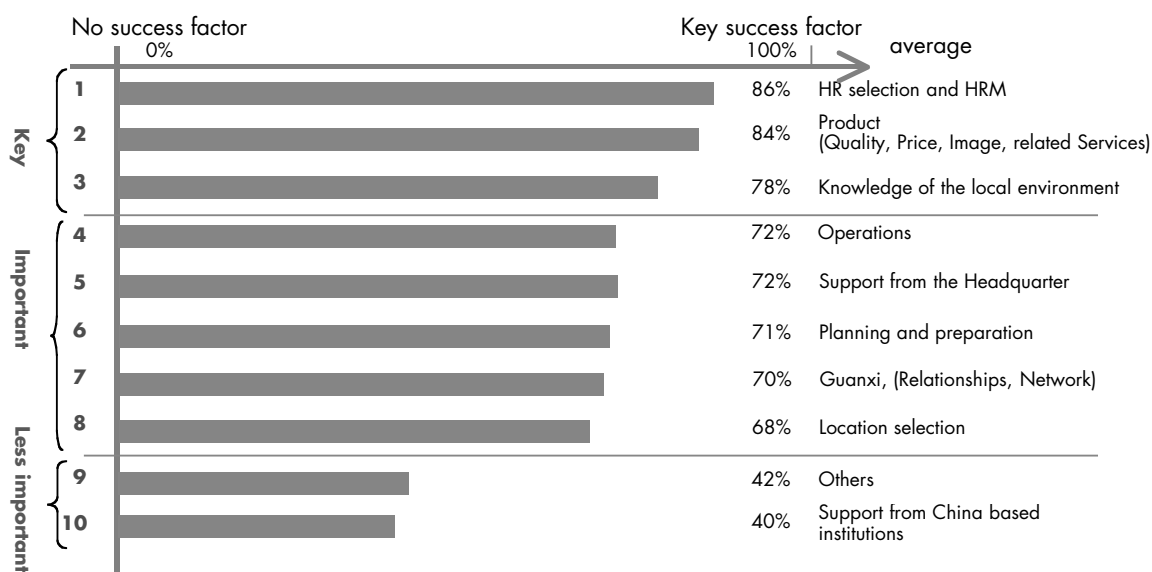
Managers in charge of subsidiaries, executives dealing with China operations in Switzerland and those evaluating or preparing their entry may:

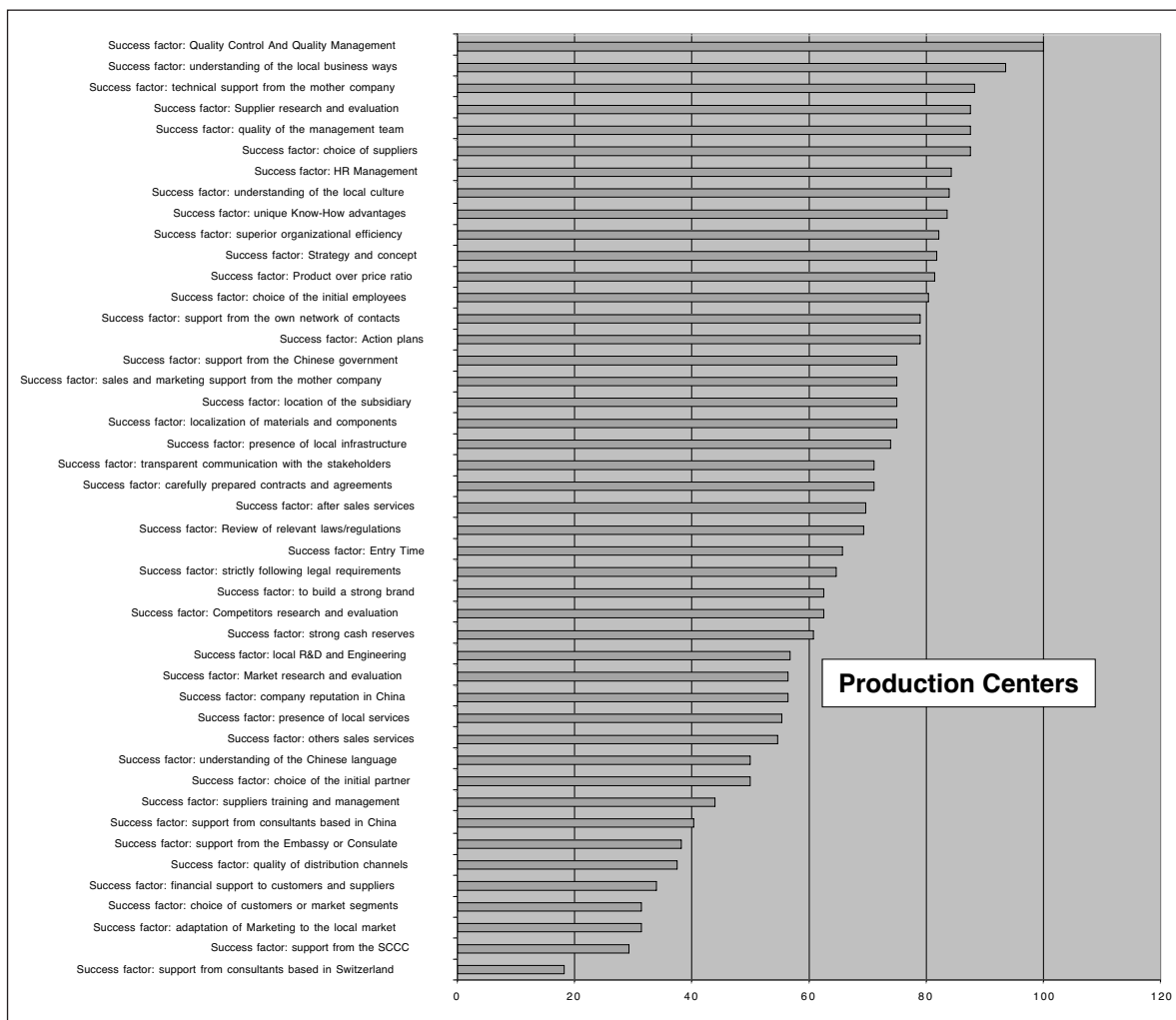
- obtain a basic understanding of the country's framework in cultural, legal, financial, import/export and specific markets aspects
- benchmark with and learn from other successful Swiss companies
- develop or expand their China strategy
- identify and manage key success factors specific to their circumstances
- get the opinion of fellow managers on key trends and opportunities

Content to Meet Identified Needs

The Chapters of 'Behind the China Kaleidoscope' have been defined based on the questions of most interest to managers in Switzerland and the key success factors surveyed from the managers of Swiss subsidiaries in China. The market types analyzed in Chapter II have been de-

Success Categories of Successful Firms in China





terminated according to the importance of the different sectors of Swiss business, based on trade figures, the number of Swiss companies active in China in different industries and opportunities identified during the project where little Swiss activity is taking place; the automotive sector and the education and health services.

Factors for Success

A set of 48 factors for success has been proposed for rating by the managers of Swiss subsidiaries in Shanghai. These individual factors have been consolidated into ten categories to provide a bigger picture. Upon analyzing the answers of the more successful companies – close to two-thirds of the 110 respondents –, the following three key elements emerge:

- Human Resources Selection and Management
- Knowledge of the Environment
- Product (quality, price, image, related services)

While the general picture of success is of interest, the variation in rating of factors for success according to the different activities (selling, producing or purchasing) or according to the different market types analyzed (see content description above), provides insights of more direct value to managers.

As an example, below are the 48 factors for success in order of importance for companies that are producing in

China for its group (production centers) and those who are selling into China only without any local production.

A Practical Guide Illustrated by Case Studies

In addition to providing factors for success and information for managers to know what is important when dealing in China, the guidebook also offers practical advice and steps on how to deal with the key issues and markets. The 12 case studies of successful companies illustrate how they are managing.

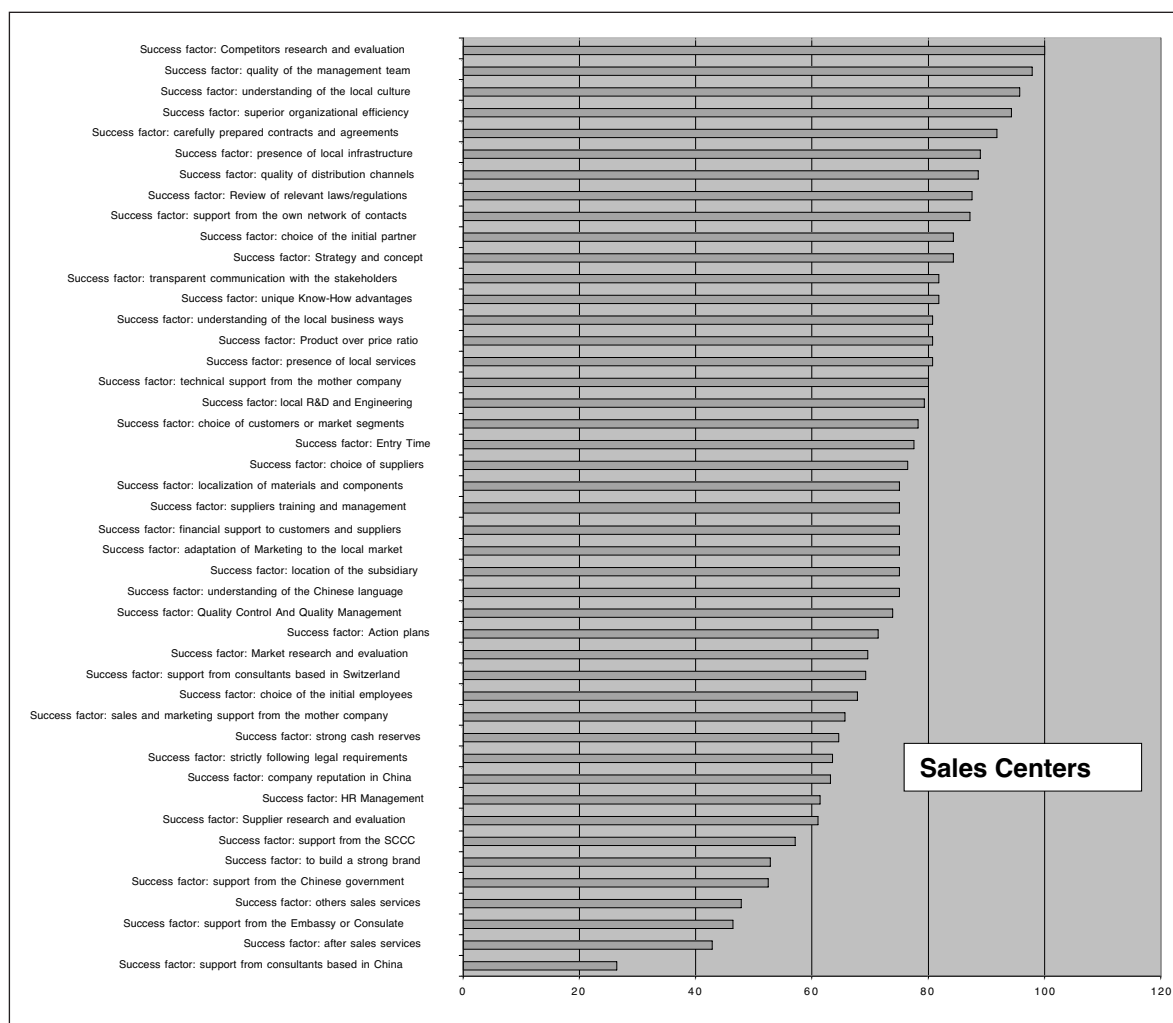
As an example, below is an extract to provide advice on how to select a location, one of the topics that challenge Swiss companies most when they intend to go to China:

Criteria for the Selection of the Right Location

The following general criteria should be considered when selecting a location. Their importance may be different depending on the particular need of a company:

1. Possibility to register the legal type of company needed by the considered company and interest of the local industrial zone or community to attract such industry and company (e.g. Attention must be paid to pollution and emission levels, some areas ac-

- cept only industries classified as hi-tech or companies that only export, many types of service companies are usually allowed in designated areas only.).
2. Actual availability of premises the company would need in case of rental or purchase of an existing building (size and other specifications such as floor load, cranes, for example). In case of rental, the willingness of the landlord to accept necessary modifications to his building needs to be confirmed. In case of buying land for construction, minimum plot size might be an issue.
 3. Access and quality level of infrastructure
 - Availability and reliability of utilities (electricity, gas, phone lines, broadband internet are most important).
 - Road size and load to the factory site allowing loading and off-loading of materials and finished goods (40' container trucks need space to maneuver).
 - Public transportation for personnel (Chinese employees usually do not own cars).
 - Transportation to airports, train stations and sea-ports, destination and service that they offer for people and cargo.
 4. Level of rule of law, fairness of the court system and its ability to enforce decisions. This has a considerable impact on the general culture of the local population in terms of respecting agreements:
 - Suppliers, business partners and other stakeholders are more likely to respect their agreements where rule of law is stronger.
 - Employees, in particular, will respect non-disclosure and confidentiality agreements better, which allows a better protection of know-how and trade secrets.
 - The legal seat of a company may often be the location where a contract will be brought to court and enforced, which increases chances in case of conflicts.
 5. Human Resources quality and availability. This aspect has a major impact on every company, since HR aspects are considered one of the three key categories of success factors. The following elements are worth considering:
While workers are mobile (there are about 100 million migrant workers in China) and top management can be moved from one place to another with adequate compensation, it is not practical (or often impossible) to motivate middle-management to leave its home location. Most middle-managers have families, own a house and are therefore not naturally a mobile workforce. Besides, most companies face more difficulties with recruiting adequate middle management than with the rest of their personnel. In this respect, it is important to realize that if the level of the local workforce (particularly the middle-



Sales Centers

The Swiss China Survey

Two-thirds of Swiss companies active in China can be considered successful. Longer term, strategic purposes are the key reasons for entering, i.e. 'offering a local presence to clients', 'acquiring market share', 'preventing competition to develop'. While joint-ventures are less successful than other modes of entry, the survey revealed that companies involving themselves directly and investing in the country are more successful than those who rely on third parties for their representation.

I. General Environment

- a. Chinese history, business culture and psychology
- b. China-brands and consumer psychology
- c. Differences of the Chinese legal system
- d. The Chinese government
- e. The customs system
- f. The banking system and traffic of payments
- g. Differences between the Chinese, International and Swiss Accounting Systems
- h. Switzerland in China
- i. China Trends, as seen by surveyed Swiss Companies in China
- j. Geographical areas of China

II. Preparing for China

- a. Factors for success
- b. Researching and establishing a concept
- c. Defining an entry strategy
- d. Selecting a location
- e. Selecting the Management: various management positions (CFO, GM, etc...)
- f. Time needed for preparation
- g. Acquiring information and management capacity
- h. Obtaining financial resources

III. Market Types

- a. Trends by industries

- b. Dealing with POE, FOE & SOE
- c. Pharmaceuticals & Medical Devices, case studies:
 - Novartis Animal Health Case Study
 - Bienair Beijing Case Study
- d. Machinery, Textile Equipment and Engineering, case studies:
 - ABB Turbocharger
 - Sulzer
 - Saurer
 - Luwa
- e. Construction Industry
 - Schindler Case Study
- f. Telecommunications, electronics and precision industry
 - KUK AG Case Study
- g. Automotive
- h. Services
 - Gate Gourmet Case Study
 - Export of Swiss Education to China
 - Health Services
 - Tourism

IV. Exporting to China and Setting Up an Office

– Jura Elektroapparate AG Case Study

V. Setting Up a Production in China

VI. Intellectual Property Protection and R&D

VII. Sourcing & Purchasing

- Dolder AG Case Study
- Jesa SA Case Study

VIII. HR Selection & Management

IX. Logistics in China

X. Support for China

management) is not adequate, relying on training personnel to a considerably higher level than the average is a risky solution. Indeed:

- to train staff and maintain an acceptable level of operation, a larger number of expatriates is needed, at higher costs than in the home country
- convincing foreign personnel to join an operation in a lesser developed area of China and retaining them is an additional difficulty
- trained people are vastly better but much rarer than the average, so that other (particularly foreign) companies setting-up in the area have the natural tendency to poach them and offer higher salaries
- training costs are born by the initial employer, who is therefore unwilling to pay as much as newcomers, however, fact can be that newcomers have to pay more to lure trained people away, hence they trade time of training with higher salaries

- trained employees leave for better salaries and remuneration costs of trained employees in areas with short supply grow faster than in others areas
 - as a result and to keep their workforce, such pioneers finally work as free schools, while having to pay more than they planned for their personnel.
- All in all, setting-up in an area where the workforce does not meet the standard level of skills and qualification may become a source of constant difficulties or generate hidden training cost, unless the area does not attract any new foreign companies at all. In such a case, Chinese employees may favor the opportunity to gain experience in a foreign working environment over higher salary expectations compared to a domestic employer. However, other major difficulties are to be expected.
- In general, such pioneering role should only be undertaken by large companies with sufficient re-

- sources; by playing it right, they may generate considerable credit from the local authorities through their development efforts and establish a good local reputation for the long term.
6. Quality of services:
 - maintenance and repairing for technical equipment
 - local administration (customs, tax bureau, foreign exchange administration, among others)
 - banks, legal & business counseling, HR & training support
 - IT, graphics design and printing, among others
 7. Support of local authorities for trouble-shooting
 8. Visibility and prestige
 9. Location of main potential clients and suppliers
 10. The related ratio of quality/costs of the above aspects, with respect to the company's needs in these terms.
 - Quality is a key factor for success and one of the areas where Swiss companies have a strong competitive advantage over other foreign or Chinese companies. Foregoing quality for lower costs rarely ensures success. As a result, location selection (as well as other factors influencing success) needs to ensure quality before considering costs.
 - In terms of costs, areas that are often considered low-cost actually may include hidden costs that finally make the overall operation more expensive, depending on the type of operation to be set-up:
 - In operations that are management and skilled-work intensive, the additional cost of management (including expatriates), training, transportation to ports (for goods, visitors and foreign personnel) may well be more than the savings on workforce salary. The situation may

- be different for companies that are labor intensive and need a high amount of relatively low-skilled workers in comparison to management.
 - Operations that rely on expensive equipment can quickly generate high unexpected costs by remaining idle should machine operators generate more failures, the servicing be ineffective, or the infrastructure be inadequate (power failures, for example).
 - The same is valid for inadequate infrastructure (unreliable electricity supply, for example).
 - The cost of maintaining relations with local authorities may also be much higher than expected (e.g. undeclared or new taxes, requests for sponsoring or expensive entertainment).
11. Selection of the right industrial zone

Industrial zones are heavily competing for foreign investments. They may show a lot of interest in the beginning as a Swiss company may add prestige and attract further foreign companies. Not only the right business environment, but also the comparable size of other and targeted companies matters: The neighbor companies in an industrial zone should be of comparable size, otherwise the management of the industrial zone may favor bigger companies with higher investments. This might become a limitation for smaller ones.

The China Entry & Operations Guide (CHF 190.– plus shipment) will be available in January 2006.

For further information please turn to:

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The Development of the Non-state Sector of the Chinese Economy

The People's Republic of China didn't encourage the existence of the non-state economy until December 1978, when the 3rd Plenary Session of the 11th Central Committee of the Party open the Chinese economy to private initiative. In a traditional communist society, everything should be owned by the state and shared by everybody. This concept was extended to the extreme in the Great Leap Forward from 1958-1960 and again for the ten years starting with the Cultural Revolution in 1966. To be engaged in a private company or to have a business of one's own was considered to be capitalistic. People were supposed to draw a clear line from capitalism, in order to cut off the 'capitalistic tail'.

Changes took place when Deng Xiaoping decided to open China to the outside in the 1980s. At the beginning of the reform, however, the state sector still remained

dominant in China's economy. One policy of the reform, according to Deng Xiaoping, was to allow "some people to get rich first", which was reflected in one of his very famous phrases, "no matter it is a black cat or a yellow one, as soon as it can catch mice, it is a good cat". Thus the first group of private entrepreneurs emerged, expanding from the coastal area to the Chinese hinterland. There was a word vividly reflecting a typical phenomenon at the beginning stage of the development, Wan Yuan Hu, i.e. families who could make RMB 10,000 a year. And the non-state sector started to take part in the development of the China's economy since then, firstly with free markets of agricultural goods, then with other products as well. The development took off with quite a fast pace that the state government didn't anticipate.

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State vs Non-state

Traditionally the criteria China used to distinguish the enterprises was by the ownership type, not by the size, which was followed by most countries in the world. The concept of non-state sector didn't take into shape immediately.

The State Statistical Office used to present data for seven different classes of enterprise ownership: individual ownership, private ownership, foreign ownership, joint ownership, shareholding corporations, collective ownership, and state ownership. The last two types are the vestiges of a socialist society on its way to communism as expressed by the ownership of the state or the ownership of its people. Very often, however, there was another frequently used category as *other types of ownership*. Therefore information was not uniformly available for these classifications for all of the indicator of interest to analysts. With the further development of the reform, the socialist state owned economy switched to socialist market economy, many changes have subsequently taken place during the past 20 years, which make a distinction between the different types of enterprise ownership even more vague. Take as an example the reform of the State Owned Enterprises (SOEs), some were closed down completely, some were bought out, and some became shareholding corporations. A mixed ownership has turned into a major form in the Chinese economy of today. Meanwhile, because the state government has loosened the restrictions to foreign investment in China, joint ownership is becoming *out of date*, said by

an experienced Chinese consultant, a wholly foreign owned enterprise is more preferable to foreign investors. What's more, the central government released another new regulation at the end of 2004, enabling an existing Wholly Foreign Owned Enterprise (WFOE) to also be engaged in trading activities. Though it still takes some time for the new regulation to take effect, the move itself shows the intention of the Chinese government to adjust its original economic structure so to get close to international standards. All these changes meant that actually the concept of enterprise ownership is developing into a much simpler two categories from the original seven ones: state or non-state.

The Chinese government has started to apply international rules to distinguish enterprises by their size. Nowadays there is therefore the concept of large, Small and Medium sized Enterprises. SMEs have been mentioned more and more often since the 1990s. A department of Small and Medium-Sized Enterprises was created in 1998, under the organization of the State Economic and Trade Commission (SETC), now the Ministry of Commerce, to be in charge of all matters related to SMEs. In 2003, an updated provisional regulation was drawn up by several state organizations to further clarify the criteria on the size of SMEs (see chart).

Most of SMEs are privately owned (with state owned SMEs of around 14.8% of the total), including collective enterprises, town and village enterprises, individual en-

(continued on next page)

terprises, private enterprises, Hong Kong, Taiwan, and Macao enterprises and export processing enterprises. SMEs are the major players in the non-state economic sector. One could say to some extent, the development of SMEs is actually reflecting the development of the Chinese non-state economy.

The role of SMEs

In 1999, the National People's Congress made a considerable amendment to the constitution, leading to the non-state economy being no longer just a complement of the socialist market economy, but a rather important component by its own right. A research on Chinese non-state economy produced by the Shenzhen Comprehensive Development Research Institution shows that the ratio of the **state economy* has dropped from 77% in 1978 to 25% in 1997, and the investment has dropped from 83% in 1980 to 52% in 1997.

** In the research, the state economy meant the SOEs. All the other types of ownership enterprises such as collective ownership, town ownership, private ownership were categorized the non-state economy, though not being private in nature.*

The growing significance of SMEs in China's economy is hard to ignore. According to the statistics provided by the departments in charge of SMEs, there are around 10 million SMEs in 2004, accounting for 99% of the country's total registered enterprises and employing 75% of the labour force. 60% of the national industrial output value and 40% of the national revenue same to have come from the SMEs.

Besides their overwhelming weights, SMEs are also pivotal to the current development of the Chinese economy because of their flexibility and resilience, its easy start of business, its potential to push the growth of do-

mestic demands, their role as a catalyst for the deepening of industrial division of labour (SMEs are the main destination for workers laid-off from state-owned enterprises that re-enter the workforce), etc.

Financing the SMEs

Financing is always a headache for SMEs. In the past, the finance needed for the start-up was usually raised through indirect financing, primarily from the local community or from family members. Financing by the community in the 1980s was often in the form of the socialist township enterprise which gave a supplementary protection in a yet unclear direction of development for private companies. Retained earnings are another key source of financing. With the recognition of the role of private enterprises in Chinese development, state banks became also more open to them. They used to be very generous when loaning money to SOEs because of their government guarantees.

The central government has realized the problem and the importance of SMEs to the Chinese economy, measures have been taken to improve the financial situation. For example, state-owned banks have been advised to set up credit departments catering for SMEs. A unified credit guarantee system is setting up to aid SMEs in their pursuit for credit guarantee, more than 100 Chinese cities have established credit guarantee institutions, which are expected to help guarantee some US\$ 4.8 billion of bank loans for the SMEs.

The VAT (Value Added Tax) rate for small commercial firms has been cut down to 4%, and so on.

Support also comes from some international organizations. In late 2001, CPDF, a multi-donor to SME facility managed by the International Finance Corporation (IFC) and the private sector arm of World Bank Group (WBG), commenced operations. The core donors are

Criteria for Chinese Small and Medium Enterprises

Industry	General criteria for SMEs			Criteria for medium-sized enterprises		
	Employees	Sales	Total asset	Employees	Sales	Total asset
Industrial	< 2,000	< RMB 300 million (or)	< RMB 400 million (or)	> 300	> RMB 30 million (and)	> RMB 40 million (and)
Construction	< 3,000	< RMB 300 million (or)	< RMB 400 million (or)	> 600	> RMB 30 million (and)	> RMB 40 million (and)
Whole Sale	< 200	< RMB 300 million (or)		> 100	> RMB 30 million (and)	
Retail	< 500	< RMB 150 million (or)		> 100	> RMB 10 million (and)	
Communication & transportation	< 3,000	< RMB 300 million (or)		> 500	> RMB 30 million (and)	
Post service	< 1,000	< RMB 300 million (or)		> 400	> RMB 30 million (and)	
Lodging, F&B	< 800	< RMB 150 million (or)		> 400	> RMB 30 million (and)	

Issued by the State Ministry of Commerce, the State Development and Planning Committee, the State Ministry of Finance, and the State Statistic Bureau (2003).

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Australia, Switzerland, the UK and the IFC. CPDF was designed to respond to the Chinese government's Western Development Program. It has three major programs: access to finance, capacity building and sustainable development initiatives, and business enabling environment.

However these measures are far from sufficient, not to mention the difficulties encountered when implementing them into practical operations. It is said that less than 1% of China's small and medium firms actually qualify to use the credit guarantee system, according to the criteria set by the central responsible departments in central government.

Situation after the accession to the WTO

The Chinese SMEs will face more intense competitions after China's enter into WTO. They face many problems for further development, in addition to the difficult access to bank loans, their low high-tech level, outdated technology and equipment, and above all, weak awareness of how to integrate themselves into the global market. Another factor limiting SME's development is the mindset of their managers. The long tradition of family-based businesses often has a negative impact on the further expansion of China's SMEs.

However SMEs were better positioned to adapt to the WTO economy other than the SOEs, because they lacked the social, managerial, and financial baggage of large

state enterprises. On the other hand, SMEs can take advantage of China's WTO entry by further integrating themselves into multinational companies' supply chains, providing parts and services for the world's top 500 companies. In this case, the flexibility and strong competitiveness of small firms make them more responsive partners of foreign companies than large state owned enterprises.

The Chinese government is thus making efforts to improve the policy environment for the SMEs. Besides offering more financial support, the government is opening more investment fields to small and medium firms. All sectors that permit foreign investment are also open to private investment although restrictions remain in some sectors such as the defence industry. In Shanghai, according to the Municipal Development and Reform Committee, a new documentary consisting of 38 new regulations on encouraging, supporting and guiding non-state economic sectors is under discussion. It is considered to be the most complete and systematic official documents compared with the other more than 60 ones issued in the past.

It can be foreseen that the Chinese SMEs will keep developing rather rapidly and will play a more and more important role in a sustained growth of the Chinese economy.

By Yujia SONG

Consulate General of Switzerland in Shanghai
Swiss Business Hub, Shanghai

Outsourcing Manufacturing to China

Owning or Controlling the Value Chain in China?

Across China, major opportunities for Western companies exist to make use of the Chinese value chain capabilities that could range from owning the value chain to "simply" controlling one or multiple business entities in China. If problems like copyright infringement, loss of data capacity, win-lose thinking and other looming dangers can be overcome, then SMEs as well as MNEs can become significantly more competitive and cost-efficient by outsourcing their manufacturing process to China.

These outsourcing models have been used by FMCG (fast moving consumer goods) companies for many years and are now increasingly being used by US and European manufacturing companies for industrial supplies and components.

By extending this traditional supply chain model to a new model that comprises the complete value chain of a product, companies can benefit from directing centralized savings to other areas in China. In these areas they can achieve higher economic returns, creating new revenue channels and cost-reduction opportunities by interacting in new or less-conventional ways.

One prime example of **owning the value chain** is Techtronic Industries (TTI), a leading marketer, floor care products manufacturer and supplier to the home improvement business and, owner of four factories in China with three of them in Dongguan and one in Shenzhen. With a workforce of more than 20,000 people, mainly employed in China, TTI exports brands like AEG, Ryobi and Milwaukee to markets worldwide via its Hong Kong based parent company. Almost 70% of their sales are made in the USA and the other 30% are transacted in Europe.

While running their own value chain, TTI can further leverage their scale, efficiency and knowledge by improving information flows with the goal of providing simpler, more integrated one-stop-solutions while synchronizing R&D, manufacturing processes and sales through one location in China.

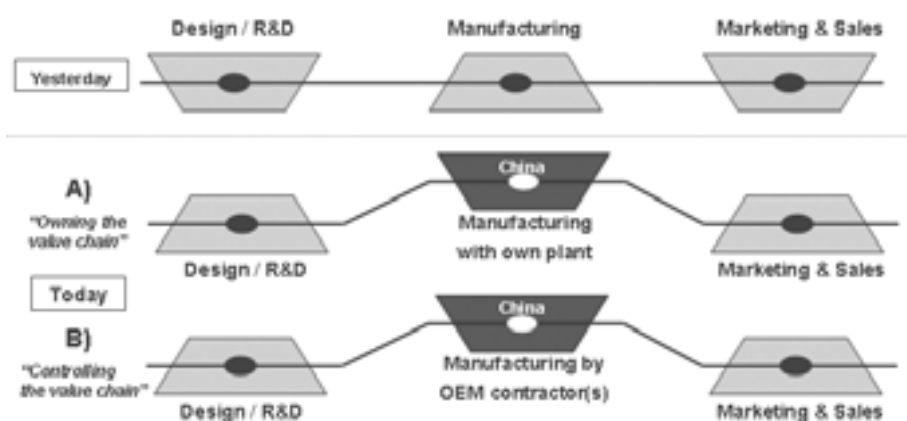
The second conversion is the transformation from the traditional model to solely **controlling the value chain** in China. This step enhances Western companies' flexibility and agility because they do not have working capital tied-up in property. They can overcome the resistance to change in various regions, countries and functions is and an upcoming strong organizational inertia is not likely to happen.

BOSS is a first-class example of a foreign company successfully controlling the value chain in China. Their contractual manufacturer Esquel, the Chinese premium cotton shirt manufacturer, headquartered in Hong Kong with their biggest factory located in Gaoming, an hour's drive west of Guangzhou, turn out thousands of men's dress shirts every day produced by more than 21,000 employees. With this control-based collaboration by BOSS it is possible for both partners to develop a thorough understanding of each others crucial operating needs as well as a unified process that drives down costs and increases the effectiveness in order to create a "win-win" situation for both parties.

Despite this "win-win" situation one should never lose sight of potential risks and challenges involved in the dependence on each other. Manufacturing and design needs to be coordinated, joint capacity planning needs to be synchronized and order fulfillment needs to be controlled to be in time. Further challenges include culture, communication, destination country expectations with respect to quality packaging which need to be overcome by both parties. Possible solutions are to ensure full understanding of the "home country" requirements or to ensure full compliance in China.

This type of collaboration between a Western company either owning or controlling the value chain in China is suitable to succeed in many industries.

Global brands like Adidas, the German headquartered sportswear company, Apple, the inventor of the best-selling iPod, or the fashion label Tommy Hilfiger are all well-known and highly regarded throughout the world.





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But did you ever question yourself about where their products are actually coming from? Are these quality goods still produced in self-owned manufacturing sites in America or Europe or has production already shifted to countries with cheap labour somewhere in Asia or Eastern Europe?

Yue Yuen is one of these up and coming suppliers. Even if you have never heard of this company Yue Yuen's products are everywhere. Your footwear, either from Adidas, Nike, Timberland or Reebok comes from the aforementioned Yue Yuen, the largest footwear manufacturer on Earth located in south China's Guangdong Province. The company's size is hard to over-state being as they employ over 200,000 workers and produce 13% of the world's shoes. The role of Adidas' head office based in Hong Kong is thereby limited to instructing Yue Yuen in how to change the product lines of their athletic shoes twice a year. The finished products are shipped from China directly to destinations across the globe.

Another corporate giant sourcing product in China is Apple Computer. They have contracted with a sole manufacturer for the iPod music player (MP-3) and use Taiwan's *Inventec* who have their primary iPod production facility in Shanghai. Apple is still finding it difficult to keep its best-selling iPod on the retailers' shelves due to enormous demand for the product. Apple is already looking to line up another iPod manufacturer in China. The contracting of a second Chinese manufacturing company by Apple suggests that it does not expect sales of the iPod, with over 5.3 million sold in the first three months of 2005; to fall off any time soon. It also illustrates Apple's obvious trust in the related Chinese manufacturing practices employed by permitting them to exclusively control the value chain.

Regarding the apparel industry, there are also many companies that successfully control the value chain in China including: Tommy Hilfiger, Nautica, Giordano and Brooks Brothers who all source their luxury garments predominantly through the Hong Kong based TAL Apparel Group, who produce 41 million tops, 8 million pairs of pants, 1.5 million pieces of outerwear and 130,000 tailored suits yearly. With a workforce of more than 23,000 the TAL Group can meet their client's large demand with cost efficiency and economies of scale that allow the designers to alter the look of products more frequently while respecting the cost margins.

By far this question is not as complex as it seems, at least for the above mentioned multinational companies. All of them have decided to shift their value chain to China. But rather than owning this chain, they control the value chain in China by giving the production of their branded goods into the hands of fast-growing Chinese suppliers.

China is well-known as a source for consumer products even though many end-users don't even know that their Apple iPods or Nike shoes are produced there.

These examples of fast growing Chinese manufacturers are almost without limit. Apart from the above mentioned products; there also golf clubs, electrical commodities, watches and many more products being produced exhibiting China's growing production capabilities that seem to have few limits even for the most advanced "western" products.

Today, sourcing is not solely restricted to consumer products. Multinationals such as General Electric, Siemens, Dupont and Bosch also have well-developed China industrial sourcing operations, and SMEs from the United States and Europe are part of a new wave of industrial market entrants. Given the advanced stage of globalization and related cost pressures, these companies often face a simple choice: outsource production abroad and take advantage of China's abundant manufacturing base or lose out to their rivals at home and in China.

As China has moved up the value chain, an increasing number of manufacturing companies in the technical field now follow this trend: they buy parts and components in China (often at substantially lower cost) that are used in the manufacturing process in their home country. This approach is increasingly used by manufacturers of pre-assembled automobile components, machinery and equipment manufacturers. It has the advantage that companies can continue to control IPR issues by limiting the sourcing to non-sensitive parts. They are also able to maintain the "Made in" label while capitalizing on China's cost advantages.

Another example is in the aviation industry where the European firm Airbus successfully controls their value chain in China. Over a quarter of the 3,500 aircraft in the Airbus worldwide fleet have components produced in China. This proportion is likely to double within the coming years as Airbus intensifies its industrial co-operation with China.

This progression to complicated technological products proves that China has moved up the value chain.

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Establishing Manufacturing Operations

Setting Up Manufacturing, Processing & Assembly Production Units in China

With many international businesses now looking to relocate at least some of their manufacturing processes to China, in this issue of China Briefing we look at the legal and tax mechanisms to consider when establishing such an operation in the PRC. Normally these would be established as "Wholly Foreign Owned Enterprises" (WFOEs) rather than as Joint Ventures – unless there is a specific need to sell to China via an existing distribution channel. Let's look at the points to consider when embarking on such a process:

Joint Venture vs WFOE

Unless you wish to take advantage of a partner's distribution channels that would otherwise be difficult and expensive to establish from scratch, there is usually little to be gained by getting into bed with a Chinese partner. The operational costs of a JV are higher in terms of management time and administration, plus you're sharing your knowledge, ideas as well as equity and decision making processes with another partner. We'll cover JV partner due diligence in a later issue of China Briefing, but for this moment – unless your partner has serious distribution channels you need access to in order to sell product to China – we'll concentrate on the WFOE – wholly foreign owned – route to getting you operational.

Location

This is a key point of where to site your facility and should be measured in various ways:

- Proximity to China suppliers (if any)
- Proximity to your China customer base (if any)
- Access to Ports and Related Infrastructure (import / export of components and finished product)
- Cost of Land & Workers
- Available Tax Incentives and Holidays.

The first two items you will presumably be aware of so can identify these. Item three is readily identifiable, as is costs of workers and land, although a small amount of research may be required to make comparisons. China's variations in these aspects can be considerable so it makes sense to look at more than one location.

Concerning taxes, these are location dependent, and especially if you intend to sell part or all of your production in China it is important to know what is what. Here's the Profits Tax breakdown:

- Free Trade Zones, Special Economic & Other Development Zones: 15%
- Municipalities: Shanghai Puxi, Guangzhou, Most Downtown City Areas: 24%
- Standard National Rate: 33%.

Accordingly it makes sense to consider the 15% tax locations for obvious reasons.

There are also differences when it comes to handling the different aspects of your business. Here are some examples and points to consider:

Production and 100% Sales into China

Warehousing of Stock / Components

If you need to warehouse stock then it may be beneficial for you to consider placing the operation in a Free Trade or other Development Zone. This is because such zones are typically bonded and there is no need to pay customs duty or VAT on imported components until the client orders and the product leaves the factory and the zone, entering the China market, whereupon duty and VAT (usually 17%) will need to be paid upon zone exit. If this does not apply to you then the usually lower costs of an operation outside such a zone may be a better option.

Profits Tax

As you will be collecting RMB from domestic sales you will have a profits tax and repatriation issue. There are ways to minimize the tax aspect and develop an effective repatriation mechanism. *(Remark from the editor: see article in this Bulletin issue on VAT.)*

Production and Part China Sales, Part Export Sales

Essentially here you are operating two businesses in one. It is wise to split them up internally into identifiable parts. Domestic sales are explained above. However, in addition to this you also have export sales, for which a different set of rules apply. For example, you may claim back the VAT paid on China-sourced components when exported as part of the finished product. This can be offset against the VAT paid on the China domestic sales portion of your production. However, in order to make it simple for the Customs and Local Tax Bureau it is advisable to put into place internal systems that make it easy to identify which components are sourced from where, and where they end up going as part of the finished product. That way VAT rebates are easier to calculate and justify and the efficiency of your claims will be that much better.

Production & 100% Export Sales

Well, the Chinese Government loves you if you do this for 100% of your production. It may be best to site such an operation in a Free Trade, Development, or Export Processing Zone due to the facilities and services they

offer. Essentially, as you are not selling to the China market, but just using China as a manufacturing base, you may import components duty free, process them, add in any China-sourced components, then re-export while at the same time being able to claim back VAT on the China component purchases. There are even additional investment incentives available if you conduct such an operation. Profits would be realized in the main offshore, a typical structure being the overseas parent taking title of the goods then selling them on, in foreign currency, to your traditional markets elsewhere, with minimal need to leave large amounts of sales revenues in China at all.

Application Procedures

This is an administrative and somewhat bureaucratic process, and includes the provision of the following requirements:

- Co-Ordination over parent company corporate documentation
- Translations (English/Chinese/English)
- Translations Verification
- Obtaining Landlords Documents and Verifying These
- Preparation of Environmental Protection Bureau report
- Preparation of Feasibility Report (a set format business plan)
- Application for WFOE
- Registration of WFOE for Tax
- Opening of China Bank Accounts
- Application for Import/Export licence
- Applications for work permits and residents visas for expat staff
- Customs Clearance Registration
- Enterprise Organization Code.

This is the bare minimum and is often all that is offered as a service by several zones and low-end consultants. Beware however, as several other issues also need to be identified and properly added to the company registration. These are listed below:

Legal & Tax Structuring

We strongly recommend that in addition to the basic application process, businesses pay attention to or seek professional advice over the following matters:

- Land Use Rights Verification (ownership of land)
- Utilities Provision
- Tax Minimisation Structures
- Labour Union Roles – Management Structure
- Registered Capital Investment Structure Options and Risks
- Profits Repatriation Structures
- Exit Strategies.

All of these need to be built in to the businesses legal and tax structure at pre-incorporation stage. If they are not and you just use a basic administrative service to apply for your WFOE you are creating more often than not an ineffective and sometimes downright dangerous business. Let's look at these aspects one by one:

Land Use Rights Verification (ownership of land)

Legal due diligence to ascertain who really owns the land and if the land use rights are permitted for your activities. It should be straight forward but often isn't. We know of one famous Development Zone in North-east China whose land is partially on military land! This is a serious and potentially highly expensive aspect of your business registration and checks need to be conducted to ensure all is in order.

Utilities Provision

Can the zone provide the utilities you need? Is the metering system fair and uncompromised? Again, someone needs to do the due diligence to ensure they really can provide the services you require and that no-one is skimming off your power supply at your expense.

Tax Minimisation Structures

These need building into the companies articles at pre-incorporation stage, and will save a guaranteed 4 – 13% of your total profits tax burden. So if you are selling to China – get these clauses into your articles. These will be worth far more than the professional fees paid for the advice.

Labour Union Roles

If you have more than 25 staff they have the right to form a Union. Do you know the extent of their involvement in your business or how much mandatory funding you need to give them? Get in professional advice to minimize their activities and manage them properly.

Management Structure

Both Expatriate and Chinese managers have risks and liabilities. What does being "Chairman" or "Legally Responsible Person" really mean? How powerful is the role of the General Manager? Do you have to have four year employment contracts for middle management Chinese staff? You need to know the answers.

Registered Capital Investment Structure Options and Risks

You can invest this in plant, machinery, cash and IP. What proportions for each? Your Registered Capital is also your Limited liability status. If you need a lot of capital – how can you minimize your limited liability? Can you use this money as operational costs? Again, professional advice is needed for dealing with these issues.

Profits Repatriation Structures

Standard structures permit this annually after annual audit. You can build in a quarterly pre-tax structure by charging services fees to your China entity, reducing your profits tax liabilities at the same time. Keep your board happy. Give them cash flow back earlier than they had previously considered.

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Exit Strategies

How to get out if it all goes horribly wrong? China's laws place the decision to permit a company to be liquidated with the local government, not the investors. How can you navigate around this? Again, you need professional advice to help build an efficient legal and tax structure for your business.

Summary

Establishing Manufacturing Entities in China is a relatively straightforward procedure – if you know what you're doing. It is certainly not just an "off the shelf" administrative application and completion of a few sheets of paper. Care and attention needs to be put into the application and thought processes when establishing such an enterprise in China, and if so put into place will allow

your China operation to run successfully as a valuable and effective part of your international operations.

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Dezan Shira & Associates are China's premier independent tax consultancy, with five China offices, a 13 year residency, and a proven track record of professional excellence. They provide WFOE legal and tax planning services on a national basis.

Setting-up a China Holding Company

China is committed to opening its economy to foreign investors under its WTO membership. China is also reforming, restructuring, and innovating its legal system to allow flexible use of some of the basic legal concepts and business mechanisms important to foreign investors. The recent legislative move is the promulgation of the revised Regulation on the Establishment of Foreign-invested Holding Companies ("Regulation"), which came into effect on March 13, 2004. China had several regulations regarding foreign-invested holding company ("Holding Company") and these regulations were combined into one comprehensive regulation issued on June 10, 2003 ("2003 Regulation"). The new Regulation is an amendment to the 2003 Regulation and has further clarified some of the issues that are somewhat uncertain in the previous versions and added some provisions. With China's economic importance growing, it is time for more multinational corporations to consider using the Holding Company structure to streamline their China business operations. This article will introduce about the mechanisms, advantages, and drawbacks of a China Holding Company.

Qualification of a Holding Company

China requires companies to have the requisite registered capital amount to carry on the business they intend to conduct. China also requires companies to only conduct business activities that have been approved at the time of the companies' formation. In addition, China often imposes qualification requirements on foreign investors that wish to enter the Chinese market. The Holding Company structure should be understood from this legal background.

To qualify as a Holding Company, the applicant must have a registered capital of not less than US\$ 30 million. Moreover, the foreign investor of the applicant must additionally meet either one of the following two conditions: (1) the foreign investor must have a total assets of not less than US\$ 400 million and the foreign investor has set up foreign-invested enterprise ("FIE") in China and the paid up registered capital of such FIE exceeds US\$ 10 million and at least three investment projects are proposed to be made; or (2) the foreign investor has set up at least ten FIE's and the actual registered capital contributed exceeds US\$ 30 million. In short, the emphasis of the qualification requirements of a Holding Company is twofold: either the foreign investor already has significant investment in China or it has the financial ability and determination to make significant investment in China.

Businesses and Services of a Holding Company

According to the Regulation, a Holding Company can upon its establishment conduct the following business activities and provide the following services:

- (1) Making investment in all areas and industries allowed for foreign investment;
- (2) Assisting or representing its Investee Companies in purchasing machinery equipment, office equipment and raw materials, components and parts needed in production from both at home and abroad, as well as in selling products manufactured by its Investee Companies in both domestic and overseas markets, and providing after-sales service;
- (3) Balancing foreign exchanges among its Investee



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Companies upon the consent and under the supervision of the foreign exchange administration authorities;

- (4) Providing its Investee Companies with technical supports in the course of production, sale and market development, trainings for employees, and intra-company personnel management;
- (5) Assisting its Investee Companies to seek loans, and providing them with guaranty;
- (6) Providing financial supports to its Investee Companies upon the approval of the banking regulatory authority;
- (7) Setting up R&D centers and providing technical services;
- (8) Providing consulting services relating to its investment for foreign parent company and its Affiliates;
- (9) Providing outsourcing services for its foreign parent company and Affiliates;
- (10) Providing financial support to its Investee Companies in China;
- (11) Acting as promoters and holding shares of PRC companies limited by shares.

A Holding Company can, after it is established and a registered capital of not less than US\$ 30 million has been contributed, conduct the following additional business:

- (1) Selling the products manufactured by its Investee

Companies through distribution in both domestic and foreign markets;

- (2) Providing its Investee Companies with comprehensive services such as transportation and warehousing;
- (3) Purchasing the products manufactured by its Investee Companies and then sell them both at home and abroad after system integration; purchasing auxiliary products for system integration but the value of such auxiliary products shall not exceed 50% of the total value of the products;
- (4) Providing relevant technical trainings to the domestic distributors and agents of the products of its Investee Companies as well as to domestic companies having signed technology transfer agreements with the Holding Company, its foreign parent company or its Affiliates;
- (5) Importing from its parent company for domestic trial sale for the purpose of developing the product market before its Investee Companies start production or before the new products of its Investee Companies are put into production;
- (6) Providing its Investee Companies with operational lease services of machines and office equipment or setting up operational leasing companies;

(continued on next page)

- (7) Providing after-sales services for products manufactured by its parent company.

Furthermore, if a Holding Company is certified as a Regional Headquarter, then in addition to all the services listed above, it can also provide to its Investee Companies the following services:

- (1) Importing and selling products of its parent company;
- (2) Importing raw materials, parts and components which are required for maintenance services for the products of its Investee Companies and parent company;
- (3) Providing outsourcing services to its Investee Companies;
- (4) Engaging in logistics and distribution services;
- (5) Establishing finance company, subject to the approval of the banking regulatory authority of China, to provide relevant financial services to the Holding Company and its Investee Companies;
- (6) Establishing financial leasing company to provide relevant services;
- (7) Other business activities subject to approval.

Regional Headquarter Status

The Regulation provides for the certification for a Regional Headquarter status and the services that can be provided by a Holding Company with such status. Under Articles 8 and 21 of the Regulation, the requirements for a Holding Company to apply for a Regional Headquarter status are as follows:

- (1) Its paid up registered capital is not less than USD 100 million, or, the paid up registered capital is not less than USD 50 million and the total amount of assets of its Investee Companies for the preceding year is not less than RMB 3 billion and the total profit is not less than RMB 100 million based on consolidated financial statements;
- (2) At least US\$ 30 million of the registered capital is used as investments to the newly established FIE's, or as the contribution to the unpaid up registered capital of the FIE's invested and established by the investors of the Holding Company or their Affiliates, or as the contribution to the increased part of the registered capital, or as the investment to establish agencies such as R&D centers, or to purchase the equity interests of shareholder(s) of a company in the territory of China (excluding the equity interests which the investors of the Holding Company or their Affiliates have obtained through paying up the registered capital);
- (3) The Holding Company has set up two or more R&D centers (at least one has legal person status) according to relevant provisions.

Before this Regulation, Beijing and Shanghai each promulgated local rules regarding the certification and policy benefits of Regional Headquarters several years ago. These local rules are based on and complementary to the old versions of Holding Company regulations. The

Shanghai rules even allow certification of management companies to be the Regional Headquarters and several management companies have obtained such certification and status. In general, the requirements for a management company to obtain Regional Headquarter status are much lower than that of a Holding Company. For instance, the minimum registered capital of a management company is only US\$ 2 million. Now, the new Regulation has stipulations on the certification of Regional Headquarters. Does this mean only MOFCOM can certify Regional Headquarter status? Or is there a dual certification system, one under supervision of MOFCOM and the other under each municipality having such rules? Only practice will tell how this issue would be resolved. But one thing is certain. Shanghai and Beijing will continue their competition for Regional Headquarters and each will continue to offer policy incentives to attract Regional Headquarters.

Advantages and Drawbacks of a Holding Company

It is necessary to understand the advantages and drawbacks of a Holding Company before deciding whether to use this corporate structure. The advantages of a Holding Company structure as compared to an ordinary FIE are mainly as follows:

- (1) A Holding Company can borrow up to four times (if its registered capital is between US\$ 30 million and US\$ 100 million) or six times (if its registered capital is more than US\$ 100 million) its contributed registered capital while an ordinary FIE can generally borrow only the amount equal to the difference between the registered capital and the total investment amount;
- (2) A Holding Company can invest all its registered capital in other FIE's while an ordinary FIE cannot make investment in other FIE's for more than 50% of its net assets;
- (3) A Holding Company can invest anywhere in China without being limited by its registration location;
- (4) Investment to the Holding Company can be made in lawfully obtained RMB from within China;
- (5) Companies invested by a Holding Company can enjoy the status and benefits of an FIE if the foreign shareholding interest is at least 25%;
- (6) A Holding Company can be the promoter of a foreign-invested company limited by shares and can hold the corporate shares of a foreign-invested company limited by shares and will be deemed as an overseas promoter or shareholder;
- (7) A Holding Company can qualify as a Regional Headquarter and enjoy additional policy benefits or support;
- (8) A Holding Company can engage in more services and business activities than an ordinary FIE, which is generally engaging in certain approved business in a particular industry.

The drawbacks of a Holding Company structure are mainly as follows:

- (1) The procedures to set up such a company are complex and the application must be approved by the Ministry of Commerce ("MOFCOM");
- (2) The Holding Company and its Investee Companies are deemed independent legal persons or entities and their business transactions must be treated as arm's length transactions between independent companies; the tax authority can adjust the price and fees if not so calculated; the Holding Company pay business tax and income tax on income derived from its provision of services to its Investee Companies;
- (3) Though the costs of providing services to several subsidiaries can be allocated to these subsidiaries, there are limitations on the allocation ratio based on the total investment amount, registered capital, sales revenue, and assets of the Investee Companies; once the allocation ratio is determined, it cannot be changed without approval from the tax authority;
- (4) Certain costs and investment losses (salaries and office expenses) incurred during investment in its subsidiaries by the Holding Company cannot be deducted from the taxable income of the Holding Company, nor can they be allocated to its subsidiaries;
- (5) A Holding Company cannot charge or allocate management fees to its invested subsidiaries in any form;
- (6) A Holding Company itself cannot directly engage in production;
- (7) The registered capital of the Holding Company must be contributed within two years after the issuance of the business license while the registered capital of an ordinary FIE can be contributed in more than two years if the investment amount reaches certain amount;
- (8) The Holding Company must make at least US\$ 30 million external investment.

By David Lingling Zou

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Value-added Tax (VAT) System in China

As a type of turnover tax, value-added tax (VAT) is levied on the increased value of commodities at different stages of production or circulation, i.e. the value-added on the commodities throughout the supply chain until the final customer bears the burden of the tax for the whole production process. All enterprises or individuals engaged in the sale of or import of goods or the provision of processing, repair or maintenance services in China have to pay VAT.

In China, the VAT system is separated into two taxpayer divisions:

1. Small-scale taxpayers and
2. Ordinary Tax payers

VAT is divided into three categories:

1. Input VAT is defined as the VAT paid on the purchase value of goods.
2. Output VAT is defined as the VAT paid on the sales value of goods.
3. Payable VAT is the deduction of the Input VAT from the Output VAT.

Small-scale taxpayers

This refers to taxpayers who cannot maintain a proper accounting and auditing system – due to their small size and turnover to ensure accurate calculations of Input, Output and Payable VAT.

The taxable sales value of these entities is under the following standard:

- RMB 1 million for taxpayers engaged in production of goods or taxable services
- RMB 1.8 million for taxpayers engaged in wholesaling or retailing business.

The VAT payable by the small-scale taxpayers is calculated on the basis of the sales value without the deduction for Input VAT. The applicable tax rate is 4% for commercial enterprises and 6% for other sectors.

Once the small-scale taxpayers grow, they may apply for the Ordinary Taxpayer Certificate, if either

- the revenue exceeds RMB 1 million for manufacturing enterprises or RMB 1.8 million for wholesale or trading enterprises, or
- the registered capital amounts to a minimum of RMB 1 million (around USD 140,000).

However, small production companies who have proper accounting and auditing systems may be classified as small-scale taxpayers. Enterprises, whereby the annual taxable sales value exceeds small-scale taxpayers, however are not regularly engaged in taxable operation will be classified as small-scale taxpayers.

General Taxpayers

This refers to enterprises whose annual taxable sales value exceeds that of small-scale taxpayers.

The VAT payable by the general taxpayers is calculated on the basis of:

Output VAT (sales value x VAT rate) – Input VAT (purchase value x VAT rate).

If the Output VAT is smaller than the Input VAT, the amount cannot be fully deducted therefore it can be carried to the following tax period as VAT Tax is paid on a monthly basis.

VAT Tax Rates

For general Tax payers, there are two VAT tax rates, the basic rate of 17% and a lower rate of 13% which is for the import or sales of the following products:

- grains – books
- edible vegetable oil – newspapers and magazines
- drinking water – feedstuffs
- heating – chemical fertilizers
- air-conditioning – pesticides
- hot water – agricultural machinery
- coal gas – agricultural plastic sheeting
- liquefied petroleum gas – natural gas
- methane – coal products for domestic use
- and other commodities as specified by the state.

Special VAT Invoices

General Taxpayers selling taxable items must issue special VAT invoices to the buyer. However, for the sale of taxable items to consumers and the sale of duty-free goods or goods for export, no special VAT invoices have to be issued (unless the consumer requires one). It is also not mandatory to issue special VAT invoices for the sale of taxable items to small-scale taxpayers. Small-scale taxpayers and non-VAT taxpayers (those that do not sell goods onto the local market because they are only exporting overseas) may not purchase or use these VAT invoices.

Enterprises that have been granted approval as General Taxpayers, may apply to the tax bureau for the VAT invoices.

Enterprises must have:

- an expected revenue exceeding RMB 1 million for manufacturing enterprises or RMB 1.8 million for wholesale or trading enterprises, or
- the registered capital amounts to a minimum of RMB 1 million (around USD 140,000).

Liability and Payment Period

In the supply of goods or taxable services, the VAT liability arises on the day the taxpayer receives full payment for the transaction or obtains a payment voucher for the transaction. In the case of import goods, VAT liability arises on the day of customs declaration.

The payment period is during the tax filing period of the following month. In most cases the Balance Sheet and P&L need to be included together with the VAT tax return. Specific calculations need to be made once the VAT is to be submitted.

Summary of VAT Invoicing in China

In order to summarize the VAT Invoicing in China, we have taken the example of either a trading or manufacturing company established in China:

Importing Goods

The company buys raw materials from the local market and VAT is already included into the buying price. The suppliers pay for the VAT to the tax bureau directly.

If raw materials are imported from overseas, the customs duty must be paid with the Input VAT to the tax bureau by the company.

Exporting Goods

If the products are sold onto the local market, VAT must be included into the selling price. The company must obtain the approval to issue VAT invoices and once the VAT invoice is issued, the company must pay the tax to the tax bureau.

If the products are exported overseas, VAT is not included into the selling price. The company should apply for VAT refund, which was already paid by the suppliers in buying the raw materials or by the company in importing the raw materials. See below under VAT Refund.

Any company that is registered in China, needs to also register with the Customs Bureau in order to obtain a Customs Handbook. This Customs Handbook will be used to control the imported raw materials and the export of the finished goods overseas. If the raw materials used matches with the finished goods exported, then no VAT or Customs Duty will need to be paid.

Calculation and Application of the VAT Refund

The Chinese government still provides incentives to encourage companies to export and therefore there is generally no Output VAT on export sales and the related Input VAT may be refunded. Refunded export VAT rates differ according to the category in which the product falls in (13%, 11%, 8%, 5% and 0%). The export refund system in China has caused many difficulties for Foreign Invested Enterprises due to the insufficient finances to refund the high demand of VAT rebates that have been applied for.

VAT incurred during the process of domestic production or provision of taxable services, may be refunded by the Chinese government after the specific product has been exported if export tax rebate policies and procedures are applied for in the proper way.

Companies that are eligible for the VAT refund are:

- All enterprises with export rights
- Enterprises consigning their export goods to other export agents with export rights
- Designated tax rebate enterprises
- Specially authorized tax rebate enterprises
- Export enterprises exporting products purchased from small-scale taxpayers must also present a VAT invoice to obtain a VAT refund. In such cases, the small-scale taxpayer can request the tax authorities to issue a VAT invoice for products sold to export enterprises.

There are two tax refund methods that can be used:

1. Exemption – Credit – Refund

This method is mainly applied for manufacturing enterprises that have the rights to export their self-manufactured products.

Exemption refers to the fact that exported goods are exempted from VAT.

Credit refers to the deduction of Input VAT from Output VAT of the domestic sales made.

Refund refers to the refund of Input Tax provided that the total Input VAT exceeds output VAT on domestic sales.

2. First Pay Then Refund

This method is applied to all trade enterprises that have the right to import and export and that purchases of goods for direct export or on consignment are made from other foreign trade enterprises. Such enterprises need to pay Output VAT on export first in order to claim back the VAT.



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In order to qualify for export refund applications, a company must first obtain its VAT refund registration certificate. After a company has exported products eligible for export VAT refund, an application needs to be filed with the relevant tax bureau in charge. Enterprises should file their application for the refund within 90 days after the export date specified on the customs declaration form.

Manufacturing companies that provide processing and repair services to overseas firms also need to submit relevant processing and repair service contracts to the tax authority in charge.

In the event that the enterprise does not apply for the refund in time, the company must accrue Output VAT and file the VAT return accordingly. However, if the company can provide reasonable justification for requesting an extension, it may do so. However this extension may only be approved by a higher tax authority and could cause delays.

Zones and Bonded Logistics Parks

Zones

Generally, if the company is located in a zone, then they will be able to have Customs Duty and Input VAT free and this will only be paid once the goods are sold onto the local market. If the goods are directly exported overseas, then no Customs or VAT will ever have to be paid, but it is essential that the company has the Customs Handbook so that this can be controlled accordingly.

Bonded Logistics Park

A reviewed tax rebate mechanism creates one of the attractions for foreign companies to use the logistics services offered in the Parks. When goods are delivered into the logistics park, the cargo is considered exported and the supplier or agent can immediately apply for the VAT refund. Until now, the application outside of the logistics park is such that the documents can only be submitted after the shipment has physically left China.

Whether you are only exporting goods for the moment or whether you are planning, in the long term to sell goods onto the local market, companies should plan on applying for VAT invoices and should incorporate their China company according to the guidelines provided. It is advised to check with each zone, district, city or provincial government in regards to what they recommend for registered capital and sales turnover.

Companies should also structure their entities to incorporate VAT refund policies and again should contact government bureaus to understand the calculations and possibilities.

by Klaus Koehler, Managing Director, Klako Group

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China's Growing Product Piracy

Product piracy in China is not limited to movies, music and software. The list of pirated products is growing by the minute to include brand-name toothpaste, cookies, automobile safety glass, fragrances, clothing and shoes among others. Sporting organizations such as the NBA and professional soccer teams are taking a huge hit too, evidenced by the frequent sighting of local youngsters in their favourite team uniforms purchased at bargain basement prices.

Some of the largest multinational companies in the world are facing a running battle to protect their brand equity and Intellectual Property Rights (IPR) with no victory in sight. Chinese firms are churning out new copycat products at an alarming rate that far exceeds Beijing's official estimates.

While China has certainly made progress in stamping out product piracy over the past ten years, much of the enforcement seems half-hearted or selective. How is it that you can purchase a Manchester United or Bayern Munich shirt for US\$6 in almost any provincial market, whereas a jersey from local teams Shanghai Shenhua or Shenzhen Jianliabao costs US\$12?

The government in Beijing has expressed their zero tolerance policy for firms abusing the Beijing Olympics 2008 logo, but beware if your name is Louis Vuitton or Giorgio Armani, your brand is being diluted beyond recognition. This problem is not geographically limited to mainland China either, as shipments of pirated products manufactured in China are intercepted regularly in Hong Kong and other parts of Asia, as well as in faraway ports in the Americas, Europe and the world over. Enforcement and educating local officials is a gargantuan task with China's vast geography, regional power struggles and a plethora of sales outlets.

As an example, your average Hubei farmer turned customs official has little experience with the origin of a suspect Gucci handbag or pirated Adobe software, nor the authority to deal with criminals.

In turn, the forecast for the piracy industry holds great promise for future growth in the near-term.

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Collecting Overdue Receivables in China

Many Controllers and Financial Managers of Foreign Invested Enterprises in China face the problem of slow or no-pay clients in China. Receivables exceeding their terms of payment by 180 days or more account for a large part of annual earnings. So what does one do if one has the thankless job of recovering receivables from clients? Does one sue them? Or are there other methods in China one simply has not considered yet?

There can be many reasons for large amounts of receivables exceeding their payment terms. First, there is a general lack of credit- and sales-control systems in many China operations. This often stems from negligent management, who do not apply proper care or thorough procedure. Often, payment terms are automatically extended from 30 to 60 to 180 days or more because "it just takes a little bit longer in China".

This general lack of control often opens the floodgates to fraudulent or unethical behaviour: in some cases one might be dealing with single employees providing their in-laws' companies with contracts with preferable payment terms; in others one may have employees pocketing the money. There is a growing number of cases of employees systematically building complex structures of intermediaries to defraud their companies. These are cases that can really hurt the company and jeopardize the success of the entire China operation.

So what are the options of collecting receivables in China? A standard method that can also be used in China is a letter of warning by a law firm. Using this method

should be considered carefully, though, because it might have negative consequences and adversely affect your chances of collecting the debt in question. Statements made in such letters, or their wording, can be used against you in court. In addition, a warning letter usually lowers your leverage in finding an arbitrational solution to the problem.

Civil proceedings do not usually have an impact on Chinese entrepreneurs, who may even claim that one is trying to intimidate them. This can put the claimant in a defensive position and endanger the chances of collecting receivables.

One method that should be considered when others look unlikely to succeed is the political or arbitrational process. Use all diplomatic resources to influence the outcome to advantage. Try to find out the intention of the parties involved and ask what concessions one is willing to make in order to recover at least part of the debt. Sometimes, presenting your case to government officials can help, as can diplomatic intervention.

All in all, there are many variables influencing which method will be successful. Different approaches can be appropriate, depending on one's relationship with the customer, the intentions of those involved, the size of the receivable and the kind of underlying transaction. Sometimes a good mixture of methods will help one recover money. But regardless of what the stakes are, one must think strategically and be patient. Last but not least, implementing control procedures and setting up an efficient system are critical success factors.

Here are some suggestions: reduce the margin for corruption and misconduct by keeping a tight grip on the balances and cash flows. Advise Sales Managers that their job does not end with a signed sales contract, but that it also includes collecting the money. Make them responsible for receivables that exceed payment terms by

introducing incentive systems that tie salaries or bonuses to actual cash-flow measures. Introduce credit ratings for clients that result in different payment terms.

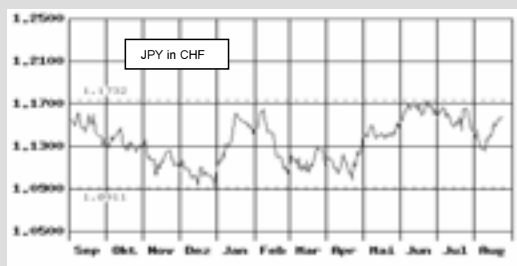
Source: Fiducia Management Consultants

Foreign Currency Exchange & International Payments

International companies based in Switzerland are exposed to currency risks. The purchase and sale of foreign currencies involves uncertainty about exchange rate trends, as well as high transaction costs. This is especially true for small and medium-sized companies whose transactions are typically less than CHF 250,000 per order. These companies, in particular, need simple and efficient solutions for foreign currency management.

High currency risk

Sharp changes in the value of the US dollar, Hong Kong dollar and Japanese yen



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kmuOnline ag specializes in international payments involving foreign currencies.

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Hong Kong as an Offshore Structure

Where Should I Turn a Profit? This question should be very familiar to all companies currently running operations in more than one country as well as to those who intend to do so in the future. When the firm grows to be international, the downturns of running suboptimal profit allocation strategies, among its entities, are significant. If it intends to reap the full benefit of an international presence, the firm should accurately, and in a timely manner, plan where to turn a profit.

Hong Kong (HK), in respect to Mainland China, is a well known case. Enterprise income tax in the HK Special Administrative Region (SAR) stands at 17.5%, a much more attractive rate if compared to those on the Mainland and still a competitive one when compared to PRC's Special Economic Zones, such as Shenzhen, where the rate runs at 15%. This latter, though, stands out as an exception rather than a rule, and a transitory one also, since the policy of unification of tax rates among areas and among foreign and local enterprises is in the implementation stage and we estimate a 2–3 year timeframe before changes to a unified rate of about 24% will affect the bottom line of foreign investors.

Let's have a look then at how to set-up a sound offshore structure. We will refer to the diagram on the next page, demonstrating how this works for an export oriented manufacturing company. We will assume a 24% enterprise income tax rate for the Mainland and a 17.5% for the HK SAR. The Chinese entity will be the one running the operations, while the HK entity will allow for optimisation of the company's offshore corporate structure. Please note that the figures are purely indicative and are not intended to be recommendations on how to implement such arrangements.

Once the goods are produced in the Mainland, they can be sold to the HK parent company, which will act as the primary client of the Chinese entity. The pricing for the transaction, as usual, will have to account for both the full industrial cost and a margin. This latter must be con-

figured in order for the Chinese entity to reach a sound financial and fiscal performance, but still providing wide enough space, to the HK entity, to build its margins. In practice, the margin can vary considerably and must be carefully chosen according to industry sector and the actual financial performance, among other factors. For a manufacturing company, the figure could be 10%. The HK company will then realize its turnover by selling to its clients, according to its marketing strengths. The margin involved in this latter transaction will then build the bulk of the profits. Professional advice on offshore corporate structure can save approximately \$ 0.07 for every one dollar worth of goods. A considerable difference.

Buffer Company

If this wasn't enough of an advantage, then we should look at the advantages of having a structured investment in China as opposed to a direct one. Chinese regulations and company laws are being refined and, although they benefit from decades of experience by looking at developed countries, they are far from providing as smooth an investment environment as those provided by other countries around the world. Investing in China does not have to be confused with the simple setting up of manufacturing operations or provision of services to local clients: it involves a long term commitment to play by the local rules. Mergers, acquisitions, corporate restructuring operations, reallocation of shares among investors, or even buying out the investment, are all paths which lie ahead of any investment and should not be underestimated in the initial formulation of the strategy.

So how can an offshore structure relax constraints on these operations? The idea of buffer entity comes in moving the hub of corporate restructuring operation back into the offshore investment vehicle, as opposed to a direct involvement of the Chinese company itself. The ease and freedom in reallocation of shares or sale of part of, as well as all of the equity stake in an Hong Kong company,

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HONG KONG FACT SHEET

- Offshore profits tax free
- Major international trade, commercial and banking centre
- Increasingly high statutory compliance demands

INTRODUCTION

Hong Kong is a former British Dependent Territory which became a Special Administrative Region of the People's Republic of China with effect from 1 July 1997. Hong Kong continues to have high autonomy in the running of its affairs under a one country, two systems concept. Hong Kong remains a relative powerhouse in world trade and with a comparatively small population of more than 7 million, is one of the top twenty trading economies, the world's third largest financial centre, and vies with Singapore as the largest container port by volume. Hong Kong remains the most significant gateway into Southern China.

LAW AND TAXATION

Hong Kong's corporate law is strongly based on the British common law. Local businesses are regulated and Hong Kong regards itself as a low tax centre rather than a tax haven. Taxes are levied on profits, salaries and property with varying rates. Only profits derived in Hong Kong are assessable for taxation and genuine offshore transactions are not subject to Hong Kong tax, although the Inland Revenue Department (IRD) is extremely diligent in its determination of onshore and offshore profits. Due to Hong Kong's role as a major trading and entry point to the mainland and Asia, the bulk of companies formed in Hong Kong are for trading purposes generally.

CORPORATE REQUIREMENTS

Chinese names are permitted and can be included on a company's Certificate of Incorporation.

Each Hong Kong company must have a local secretary and a local registered office which must be a physical address and not just a Post Office box.

Each company must have at least one director and corporate directors are permitted for companies that are not subsidiaries of public listed companies.

The company should have at least one shareholder. Details of the company's directors, shareholders and secretary must be filed at the Companies Registry and are on public record.

Each year the company must submit an annual return and penalties apply for late filings and there is an ever increasing vigilance by the Companies Registry for this purpose.

All companies must obtain a Business Registration Certificate from the IRD and are required to file a set of audited accounts with the IRD annually.

Company names may be expressed in both English and Chinese characters.

LOCAL INFRASTRUCTURE

There are in excess of 950,000 companies incorporated in Hong Kong. With implementation of the Integrated Companies Registry Information System (ICRIS) on 28th February 2005, the new Companies Registry Electronic Search Services became available for checking company information. Numerous banks, stockbrokers and finance houses as well as all the major international legal and accounting firms are present in Hong Kong. Hong Kong is also well-served by local secretarial, corporate management and trust companies, and has an efficient modern and dynamic banking system that is designed to assist the international business community.

is considerably more attractive than having to confront Chinese regulations which, at times, have proven not so supportive and responsive.

As a matter of fact, a full blown model for offshore structures would recommend an offshore investment vehicle on the back of each investment into the Mainland. The pros and cons of such a complete model as opposed to a single buffer holding company must be evaluated on a single client base.

Conclusions

Needless to say, such a structure involves set-up and maintenance costs and time. The HK SAR, though, provides a world renowned company services infrastructure which will make this process less of a burden. With pro-

fessional advice, such an offshore structure can be set-up in a matter of weeks. The investor can then carry on forward with the Mainland operations... confident of reaping all the benefits of the venture and being screened from some of the weaknesses of the Chinese investment environment.

By Luca Ferrara, Dezan Shira & Associates

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China Facts & Figures

Zusammengestellt von Peter Achten nach folgenden Quellen: Statistisches Amt China, OECD, Weltbank WB, Internationaler Währungsfonds IMF, Asiatische Entwicklungsbank ADB, UNO (Stand 26. Oktober 2005).

(Dieser Beitrag wird regelmässig im Bulletin aktualisiert.)

Location

- Oberfläche: 9'597'000 qkm
- Grenzen Land: 22'120 km
- Grenzen Küste: 14'500 km

Population

- Bevölkerung (China inkl. Taiwan): 1'306'000 (2005)
 - 1644: 60 Mio. Einwohner
 - 1800: 300 Mio. Einwohner
 - 1850: 430 Mio. Einwohner
 - 1949: 550 Mio. Einwohner
 - 2004: 1,3 Mrd. Einwohner
 - 2010: 1,37 Mrd. Einwohner
 - 2015: 1,5 Mrd. Einwohner
 - 2035: 1,65 Mrd. Einwohner
- Ländliche Bevölkerung: (1996): 71%
(2000): 64%
(2050): 33%
- Übersee-Chinesen weltweit: 65 Mio.
- 1/3 der Bevölkerung (2004) unter 20 Jahre alt.
- 7,9% heute (2005) 65 oder älter.
23% (2050)
11% heute 60 Jahre alt = 130 Mio
2025 = 284 Mio
2040 = 400 Mio
- Wachstumsrate Bevölkerung: 0,58%
- Lebenserwartung: 72,3 Jahre (2005)
- Ein-Kind-Familie: 4-2-1-System (vier Grosseltern, zwei Eltern, ein Kind).
- Auf 118 Knaben kommen 100 Mädchen (Weltdurchschnitt 104,5 : 100).

Education

- Alphabetisierungs-Rate: 90,9%
- Chinesen (Stadt) mit Uni-Abschluss: 5,6% / (Land) 0,2%.
- Jährlich neue Uni-Absolventen: 3 Mio.
- Derzeit (2005) immatrikuliert: 13,5 Mio.
- Von 250 Mio. Primarschülern schaffen es 5 Mio. an die Uni.
- Von 600'000 chinesischen Studenten im Ausland (1980–2004) sind 160'000 zurückgekehrt.

Lebensstandard

- Kontinuierliche Verbesserung des von der UNO zusammengestellten «Human Development Index». Derzeit Rang 94 weltweit.
- Volkseinkommen verdoppelt sich seit 1979 alle acht Jahre.
- Inflation: 4,5% (erstes Halbjahr 2005)
- Verfügbares Einkommen 2004 per capita/yr: 2'938 Yuan (+11% gegenüber Vorjahr) in den Städten. Verfügbares Einkommen 2004 per capita/yr: 967 Yuan (+16%) auf dem Land.
- Les Nouveaux Riches: Von 20 Golfklubs (1994) auf über 200 (2005).
- Derzeit 1 Mio. Superreiche, 15 Mio. Reiche, Mittelklasse ca. 100 bis 150 Mio. (3'000 US\$/yr).
- Luxusgütermarkt laut Morgan Stanley: über 100 Mio Konsumenten (2010).
- Mittelstand 2004: 80 Mio Menschen
2006: 150 Mio Menschen
2012: 350 Mio Menschen.
- Armutsgrenze (UNO: 900 Y pro Jahr per capita / China: 626 Y pro Jahr per capita).
– 2004: 26 Mio. Chinesen oder 3% leben in absoluter Armut. 1978: 250 Mio. oder 30%.
- Bei Wachstum und Industrialisierung wächst die Kluft zwischen Arm und Reich (US economist Simon Kuznets – Kuznets-Kurve).
- Nach dem Gini-Koeffizient (Italienischer Statistiker Corrado Gini) ist Reichtum in China etwa gleich verteilt wie in den USA.
Gini-Koeffizient China 2005: 0,45
2003: 0,4
1992: 0,37
1980: 0,33
– Gini-Koeffizient: Afrika (60), China und USA (44), Skandinavien (25). Wobei 0 das Beste ist.
– Gini-Rangliste: Achtung, denn Ruanda ist besser klassiert als die Schweiz und Bangladesch besser als Grossbritannien.
- Sparen: 40% Rate (USA: 1%).
- Offizielle Differenz GDP per capita/yr 1:3 Land-Stadt, inoffiziell 1:5.
- Wohnfläche 2004: 20 qm pro Kopf (Städte), 26 qm (Land)
1980: 3 qm (Shanghai), 6 qm (Beijing).

Labour

- Handelsminister Bo Xilai in einem Renmin-Ribao-Artikel: China ist weltweit am unteren Ende, wenn es um Arbeitsteilung in der Industrie gehe.
- Bo Xilai: Grosse internationale Wettbewerbsfähigkeit.
- Löhne in arbeitsintensiven Industrien (z. B. Textil, Möbel) sind rund 90% niedriger als in Europa/USA.
- Nicht nur Löhne, sondern auch Produktivität beachten. Löhne in China (700 US\$/Y) sind viel niedriger als in der industrialisierten Welt (35'000 US\$). Produktivität

Wachsen in China die Bäume in den Himmel?

Peter G. Achten, Asia-Correspondent Swiss National Radio and Ringier Media

Chancen

- Über 9% GDP-Wachstum in den letzten 25 Jahren und – laut den meisten Ökonomen – gute Aussichten, dass dieses Wachstum auch in den nächsten zwanzig bis dreissig Jahren andauern wird.
- Ein fast unversiegbares Reservoir von – meist, aber nicht immer – relativ billigen Arbeitskräften.
- Optimismus und Zukunftsglauben der Bevölkerung.
- Zum ersten Mal in der über zweitausendjährigen Geschichte überhaupt öffnet sich China – dank Revolutionär und Reform-Übervater Deng Xiaoping – wirklich nach aussen.
- Seit dem Beitritt zur Welthandelsorganisation WTO (2001) fortschreitende Integration in die immer mehr globalisierte Weltwirtschaft.
- Relativ stabile politische Verhältnisse mit der Herrschaft der allmächtigen Kommunistischen Partei Chinas.
- Bodenschätze.

Risiken/Herausforderungen

- Umweltverschmutzung (Wasser, Wüste, Luft)
- Verschwendung von Ressourcen und Energie
- Überhitzung der Wirtschaft

- Starkes Entwicklungsgefälle Arm – Reich, Küste – Innere Provinzen, Bauern – Städter, Wanderarbeiter – Städter.
- Rechtssystem (rule of law) / Politik / Menschenrechte.
- Rule by Law, not Rule of Law.
- Miserable Corporate Governance. Korruption.
- Soziale Instabilität.
- Kein soziales Safety Netz.
- Landverlust (40 Mio Bauern haben Land verloren). Indien, das flächenmässig kleiner ist, hat 30 Mio. Hektar mehr bebaubares Land als China.
- Altersstruktur: Derzeit 7,9% der Bevölkerung über 65 Jahre alt, 11% über 60 Jahre alt
- 4-2-1-System, Ein-Kind-Familien-Politik.
- Fragiler Kapitalmarkt und fragiles Finanz- und Kapitalsystem. Missallokation von Kapital. Schwacher Bankensektor.
- Noch immer schwacher Dienstleistungssektor.
- Mangel an ausgebildeten Arbeitskräften.
- Kaum Innovation.
- Tibet / Taiwan / Nordkorea.
- Grossmacht Japan / India.
- Ökonomische Integration (z. B. Asien/Japan/Taiwan) eliminiert entgegen landläufiger Meinung, nicht automatisch historische Differenzen.
- Wirtschaftliches Wachstum generiert entgegen landläufiger Meinung nicht automatisch Demokratie (Singapur, Hongkong sowie Japan, Südkorea oder Taiwan zum Beispiel).
- Medien kontrolliert von Staat und Partei.

(Stand 17. Oktober 2005)

ist in China aber erheblich geringer. So beträgt die Wertschöpfung pro Arbeitskraft in Deutschland 80'000 US\$, in China aber nicht einmal 3'000 US\$. Deshalb: Lohnstückkosten in China nicht viel niedriger als in Europa oder USA.

- 100 bis 150 Mio. Wanderarbeiter (2003 waren 8,5 Mio grundsätzlich unterbezahlt oder ganz ohne Lohn). 200 Mio. Bauern unterbeschäftigt oder ganz ohne Job (2004)
- 9 Mio. neue Jobs per Jahr (GDP-Wachstum muss mindestens 7% betragen).
- Arbeitslosigkeit: 4,7% (offiziell), faktisch aber 10% bis 20%
- Arbeitskräfte insgesamt: 761 Mio. (2003) darunter
 - 49% Landwirtschaft
 - 22% Industrie
 - 29% Dienstleistungen
- 740'000 Uni-Absolventen mit Abschluss fanden 2004 keinen Job.

- 1995–2002: USA verlieren 2 Mio. Industrie-Jobs. China verliert 15 Mio Industrie-Jobs.
- Staatsbetriebe verlieren 1998–2004 32 Mio. Jobs.
- Jährlich neu auf dem Arbeitsmarkt: 12–15 Mio. Menschen.
- Jährlich Uni-Absolventen: 3 Mio.
- Chinesische Wissenschaftler arbeiten zu 1/6 des Lohnes verglichen mit einem gleich qualifizierten US- oder EU-Kollegen.
- Bsp. Hong Kong: heute noch 5% der Arbeitskräfte in Fabriken. Der Rest im Service-Bereich (Banken, Transport, Medien, Werbung, Tourismus).
- Hong Kong 60er/70er Jahre: Spielzeuge, Uhren, Textilien. Alles wird jetzt im Perlfuss-Delta produziert.
- USA verlieren 2004 rund 400'000 Industrie-Jobs, davon wandern 100'000 nach China ab.

(weiter auf nächster Seite)

Konjunktur/Wachstum

- Wachstum 1952–82: + 10% im Schnitt pro Jahr Industrie.
+ 3% im Schnitt pro Jahr Agro.
+ 6% im Schnitt pro Jahr insgesamt.
 - Wachstum 1949–99: + 7,7% im Schnitt pro Jahr.
 - Wachstum 2004: 9,5%
 - Wachstum 2005: 9,1%
 - Wachstum 2006: 9 % (Asien insgesamt 2005–06: 6,6%)
 - GDP China 2004 = 1/7 der US-Volkswirtschaft
1/3 der japanischen Volkswirtschaft,
4% des weltweiten GDP.
 - Zusammensetzung GDP (2004):
– Landwirtschaft 13,8%
– Industrie und Bau: 52,8%
– Service: 33,3%
 - Seit 1990: 2/3 des Wachstums Investitionen aus dem Ausland (FDI) zu verdanken.
 - China trug 2004 mit 10% zum weltweiten GDP-Wachstum bei.
 - Chinas GDP im Jahre 2004 war 4% des weltweiten GDP.
 - China trug 2004 mit 12% zum weltweiten Handelswachstum bei.
 - Elfter 5-Jahres-Plan (2006–2010): +8%/yr
– Bis 2015 dann +8–9%.
2001: 895 US\$/yr GDP per capita nominal
2002: 963 US\$/yr GDP per capita
2004: 1'090 US\$/yr GDP per capita I (140. Rang weltweit).
2010: 1'700 US\$/yr GDP per capita.
2020: 3'200 US\$/yr GDP per capita.
 - Kaufkraft bereinigt PPP, z. B. 2003:
5'225 US\$ per capita (123. Rang weltweit).
 - Nach dem PPP-Kriterium ist Chinas GDP seit 2002 weltweit die Nummer 2 hinter den USA.
 - Nach Prognosen von Goldman Sachs überholt das GDP Chinas
– Deutschland 2008
– Japan 2015
– USA 2039
 - Chinas Konjunktur wird nach wie vor mit administrativen Massnahmen gelenkt (z. B. Stahl / Automobil / Immobilien / Regionen).
 - Diese Regulierung ist massiv und nur möglich, solange China den Zahlungsverkehr mit dem Ausland strikt reguliert.
 - Produktivität: 1953–78 waren es +1,1%/yr.
1979–94 waren es +3,9%/yr.
(US: 1960–89 +0,4%/yr).
- 2/3 des Wachstums und 60% der Arbeitsplätze generiert die Privatwirtschaft (2004).

China – Indien

- China Anteil BIP-weltweit 2005: 4,6%
2040: 19,6%

• Indien	2005:	1,9%
	2040:	9,8%
	2050:	12,0%
• Japan	2005:	12,5%
	2040:	5,1%
• USA	2005:	30,8%
	2040:	18,2%

- **China wird Japan überholen 2020**
- **China wird die USA überholen 2040**
- **Indien wird Japan überholen 2030**
- **Indien wird EU überholen 2050**

China und Indien werden Asien zur Wachstumslokomotive des 21. Jhd. machen.

Produktion

- «Fabrik der Welt» (2004):
– 75% aller Spielzeuge.
– 60% aller Fahrräder.
– 50% weltweit aller Textilien.
– 50% aller Kameras.
– 30% aller TV-Geräte.
– 30% aller Klimaanlage.
– 29% aller Mobiltelefone.
– 25% aller Waschmaschinen.
– 20% aller Kühlschränke.
- Chinas GDP betrug 4% des weltweiten GDPs, aber:
verbraucht 25% allen Aluminiums weltweit
verbraucht 28% allen gewalzten Stahls,
verbraucht 50% allen Zements,
verbraucht 12% aller Primärenergie,
verbraucht 15% allen Frischwassers.
- China als Produktionsstandort weltweit Nr. 4 hinter USA, Japan und Deutschland.
- China weltweit führend
1990: Baumwoll-Textilien, TV-Geräte, Spielwaren, Schuhe
2004: obige Artikel + Kühlschränke, Kameras, PCs, DVD-Players, Handys.
- 7% der Weltproduktion aus chinesischen Fabriken (2004)
25% bis 2025.
- Staatsbetriebe 1990: 100'000
2004: 40'000
- Staatsbetriebe verlieren 1998–2004 32 Mio. Arbeitsplätze.
- Auto-Produktion China: 1,97 Mio. Stück (2003).
- Nachfrage 2006: 2,6 Mio. Stück.
Produktion 2006: 4,9 Mio. Stück.
- Nachfrage 2007: 7 Mio. Stück.
- Produktion 2007: 15 Mio. Stück (inkl. Trucks).

Privatwirtschaft

- 1993: 240'000 Unternehmen.
- 2003: über 3 Mio. Unternehmen.
- 1999: Nationaler Volkskongress – «Privatwirtschaft wichtiger Bestandteil der sozialistischen Marktwirtschaft».
- 2002: Privateigentum in der Verfassung.

- 2002: Privatunternehmer können KP-Mitglieder werden.
- Privatwirtschaft generiert 2/3 des GDP und 60% der Arbeitsplätze.

Handel

- 2005: Drittgrösste Handelsnation der Welt (nach USA und Deutschland).
- 2010: bei jetzigem Wachstum wird China in fünf Jahren der weltgrösste Exporteur sein.
- China trug 2004 mit 12% zum weltweiten Handelswachstum bei.
- Handelsvolumen 1980: 38 Mrd. US\$.
- Handelsvolumen 1990: 115 Mrd. US\$.
- Handelsvolumen 2004: 1'015 Mrd. US\$.
- Seit 2000 jährlicher Zuwachs: +30%.
- Exporte 580 Mrd. US\$ (2004).
- Handels-Volumen:
 - 1996: 289,88 Mrd. US\$
 - 1997: 325,16 Mrd. US\$
 - 1998: 323,95 Mrd. US\$
 - 1999: 360,63 Mrd. US\$
 - 2000: 472,29 Mrd. US\$
 - 2001: 509,65 Mrd. US\$
 - 2002: 620,77 Mrd. US\$
 - 2003: 850,99 Mrd. US\$
 - 2004: 1154,8 Mrd. US\$
 - 2005: 645,03 Mrd. US\$ (Januar-Juni)
- Handelsbilanz-Überschuss:
 - 2001: 22,54 Mrd. US\$
 - 2002: 30,30 Mrd. US\$
 - 2003: 25,54 Mrd. US\$
 - 2004: 31,98 Mrd. US\$
 - 2005: 70,00 Mrd. US\$ (geschätzt)
- Japan, Südkorea, Asean-Staaten haben Handelsbilanz-Überschüsse mit China.
- USA Handelsbilanz-Defizit: 162 Mrd. US\$ (2004)
- Handelsvolumen EU-China (2004): 135 Mrd. Euro, davon 95 Mrd. Euro Export nach China und 40 Mrd. Euro Import von China.
- China gehört zu den weltweit führenden Abnehmern von Maschinen, Anlagen, High-Tech aus Europa und Amerika (und gefährdet deshalb als Billigkonkurrenz nicht nur Arbeitsplätze).
- Aus dem Erlös von 800 Mio verkauften Hemden kann sich China gerade einmal ein einziges Airbus-Flugzeug A380 kaufen.
- Von den weltweit grössten Firmen sind alle in China vertreten: Tesco, Metro, Wal-Mart, Carrefour.
- Erfolgsgeschichte IKEA.
- Chinas Kohle-Export 2004: 100 Mio. t (Australien jedoch: 220 Mio. t).
- China-Markt weit offener als andere asiatische Märkte (Japan, Thailand).
- Handel China-Schweiz: 6 Mrd. CHF (2004) mit einem Schweizer Handelsbilanzüberschuss.

Agro/Ernährung

- 80er Jahre: China ernährt 900 Mio. Menschen auf 250 Mio. Hektar Ackerland
USA ernähren 230 Mio. Menschen auf 400 Mio. Hektar Ackerland.
- 2,5 bis 3 Mio. Bauern verlieren jährlich ihr Land wegen Immobilien-Projekten.
- Bewässerbares Land: 15,4%

(weiter auf nächster Seite)

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Geld/Finanzen/Investitionen

- Währungsreserven: 750 Mrd. US\$ (2005) – das sind fast 300 Mrd. US\$ mehr als 2003.
- Investitionen aus dem Ausland: 60 Mrd. US\$ (2004).
- Investitionen insgesamt seit Beginn der Reform: 550 Mrd. US\$, davon über 100 Mrd. US\$ aus Taiwan, weitere 200 bis 300 aus Hong Kong, Singapur und anderen Übersee-chinesischen Quellen.
- Investitionen Schweiz in China bislang: insgesamt 5 Mrd. CHF, damit auf Platz 15 der ausländischen Investoren.
- Faule Kredite der Staatsbanken 2003: 232 Mrd. US\$ geschätzt.
Offiziell 20% aller Kredite,
eher wohl 45% nach Schätzung internationaler Grossbanken.
- Hohe Spar- und Devisenreserven:
Chinas Sparrate (1997–2005 in %): 40,3
Südkorea: 31,5
Deutschland: 22,1
USA: 13,6
China hat heute (2005) weltweit die zweitgrössten Reserven an Devisen (über 600 Mrd. US\$) und Gold.

Bewaffnung/Armee

- Kann jemand im Ernst glauben, dass China mit einer zunehmend modernen Wirtschaft sich mit seiner alten Bauernarmee begnügen wird? (Budget 2004: 30 Mrd. US\$ / Japan 60–90 Mrd. US\$).
- Insgesamt aber: rd. 78 Mrd. US\$.
- Militärausgaben/Anteil GDP: 4,3% (2004).

Medien/Internet/Telecom

- 368 Mio Handy (2005).
- 100 Mio Internet Users ((2005).[1993: 2'000 Users]
- 40'000 Internet-Polizisten (Zensoren)
- 270 Mio Festanschlüsse (2005)
- 360 Mio TV-Kabel-Haushalte (2005)

Umwelt

- 90% aller Gewässer verschmutzt.
- Wald: noch 17% (globaler Durchschnitt 27%).
- Holzlieferanten Chinas: Burma, Indonesien, Russland, davon 40% illegal aus Indonesien.
- Von den weltweit am meisten verschmutzten Städten liegen 16 in China.

Energie

- Derzeit gibt es keine Anreize zum Sparen, da meist zentral geplante Preisstruktur.
- Kohleproduktion: +17,3% (2004)
Elektrizität: + 14,5% (2004).
- Kohle ist Chinas Haupt-Energiequelle (67% / globaler Durchschnitt: 25%).
- Energiemenge, um 1 Dollar GDP zu generieren, ist in

China 3 Mal höher als in den USA und fast 7 Mal höher als in Japan.

- China hat die niedrigsten Strompreise der Welt.
- China verbraucht 1/7 des Erdöls weltweit.
- Erdölverbrauch: Ein Amerikaner verbraucht im Durchschnitt mehr als das Doppelte eines EU-Bürgers und 13 Mal so viel wie ein Chinese.

Transport

- Tibet-Eisenbahn von Golmud nach Lhasa 1'142 km (3,1 Mrd US\$).
Gesamtes Eisenbahnnetz 75'000 km, davon
– 18'000 km elektrifiziert
- Kanäle und Wasserstrassen: 130'000 km
– 1,8 Mio km Strassen, davon
– rund 400'000 km asphaltiert und
– 30'000 km Autobahnen (2004)
– In Bau oder in Planung: 160'000 Strassenkilometer (2004)
- Autos landesweit: 27 Mio. (2004)
140 Mio. (2020)
- 6,6 Autos pro 1'000 Einwohner (China 2004).
133 Autos pro 1'000 Einwohner (globaler Durchschnitt 2004)
700 Autos pro 1'000 Einwohner (USA 2004)
- Auto-Produktion China: 1,97 Mio. Stück (2003)
- Nachfrage 2006: 2,6 Mio. Stück
Produktion 2006: 4,9 Mio. Stück
- Nachfrage 2007: 7 Mio. Stück
Produktion 2007: 15 Mio. Stück (incl. Trucks)
(Produktion USA 2003: 17 Mio. Stück)
Autos Beijing: 2,5 Mio. (2004), davon 1,3 Mio. private Autos
- Verkehrstote: Nr. 1 weltweit.

Kommunistische Partei Chinas KPC

- Gegründet: 1921 in Shanghai
- 69,7 Mio. Mitglieder (2004)
- 170'000 diszipliniert (2004).

Miscellaneous

- 63% der Chinesen sehen USA positiv
- 500 Mio Chinesen haben sich noch nie die Zähne geputzt
- Glace-Verbrauch: 20% der Welt
- 350 Mio Raucher.

Chinas Erfindungen

- Papier (200 v. Chr.)
- Porzellan (300 n. Chr.)
- Magnetkompass (300 n. Chr.)
- Gusseisen/Hochöfen (4. Jhd.)
- Stahl (6. Jhd.)
- Buchdruck mit beweglichen Lettern (750 n. Chr.)
- Schwarzpulver (1000 n. Chr.)
- Papiergeld/Checks (11. Jhd.).

To Lose and to Gain Face

The Face Culture of Asia



Hans J. Roth
Swiss Consul General in Shanghai

"In China one is always ready to break a rule of law", as some Chinese managers of Western companies explained in a recent survey. In Western ears this sounds very opportunistic and seems to support some Western feeling that Chinese are cheating all the time.

At first sight, the recognition of the Chinese managers has nothing to do with the topic of this short article on face culture in Asia. But the face culture and the underlying reasons also explain the managers' statement that a Chinese person easily breaks a rule of law. Both phenomena have their roots in the social structure of Chinese society and are thus a deep expression of cultural norms and values.

Everyone working in China has, at one point or another, been confronted with Chinese face culture. To make somebody lose his or her face seems to be the most terrible thing that can happen to a Chinese person. Many a European wondered, at the same time, why we should not have face ourselves and why we should not lose it from time to time either. When I criticise an employee in front of other employees, he loses his face. What is the reason of this loss of face? What are actually the consequences? And why should this loss of face be more severe in China than in Europe?

Criticism at the behaviour of a person can develop very quickly into a loss of face, especially when this criticism is formulated too clearly and is expressed in the presence of other persons. Avoiding a loss of face in Asia can therefore lead to very indirect ways of expressing disagreement or discomfort. The person concerned is not told himself or herself about the misbehaviour or the mistakes. Instead another person in his or her environment is chosen as a recipient of the critical remarks. But if the

recipient is a Westerner, the remarks are very often lost, as voiced criticism is in itself very weakly expressed. If I am asked, whether I do not have a problem at the Consulate and if I am not realising what the informant want to tell me, he just drops the matter. If, however, I carefully enter into the subject in a very subdued way, then I get nearer to the question and probably hear something important about some problems at the Consulate, allowing me to solve the question in the longer run.

In no society and at no moment criticism is easy for the person criticised, even if it is understood as a possibility to improve. Every European would feel the same uneasy way. Why is China different, why cannot criticism be expressed in an open (European or American) way instead of telling it to others – behind the back, as a Westerner would feel?

Individualist and collective societies

1. Demographic densities described by Han Fei and Malthus

The differences have their root in different social structures and behaviour patterns. For thousands of years, Chinese society has been very densely populated. The key of this density is not demographic density itself, but limited food production and limited privacy. China had attained subsistence level already around the time of our calendar. For thousands of years Chinese peasants have just produced what society roughly needed. Hunger and natural catastrophes reduced the population time and again, allowing some relief to the surviving population at certain moments of Chinese history.

No wonder therefore that the Chinese Malthus, a philosopher and statesman of the Han dynasty with the name of Han Feizi, already used a mathematical model to describe the overpopulation of China some two thousand years. Malthus only did so at the end of the 18th century, when he described his fears about the growth of the English population. Han Feizi stated that there was hunger in China and that people would steal and cheat in order to survive. He gives the explanation in the following quotation:

"Earlier men did not work in the fields, the fruits of bushes and trees provided enough food; women were not weaving, there were enough skins to clad everyone. Without too much effort, there was enough food for everybody. There were not so many people and there was a surplus of goods, the reason why people did not quarrel (yet). High remunerations did not have to be used (yet); harsh punishments were without effect (yet). People looked after themselves. But today even 5 sons are not seen as too many. If these five sons have 5 sons of their own, the grandfather can enjoy 25 grandchildren in his lifetime. This is the reason why there are so many people (today) and why goods have become scarce. Work is hard, but even so all persons are barely surviving. This is the rea-

son why people compete with each other (today). Even doubling remunerations and aggravating punishments will not avoid chaos."

In Europe Malthus expressed his fears of overpopulation only at the end of the 18th century. Interestingly enough he also uses a mathematical model. He pretended that agricultural production only grew in a linear way, whereas population growth was defined exponentially. He therefore saw a growing lack of agricultural goods, leading into catastrophe. Here the original quotation of the main passage (Malthus 1926, p. 13):

"I think I may fairly make two postulata. First, That food is necessary to the existence of man. Second, That the passion between the sexes is necessary, and it will remain nearly in its present state."

Then he goes on (Malthus 1926, p. 13/14):
"Assuming then, my postulata as granted, I say, that the power of population is indefinitely greater than the power in the earth to produce subsistence for man."

Population, when unchecked, increases in a geometrical ratio. Subsistence increases only in an arithmetical ratio. A slight acquaintance with numbers will shew the immensity of the first power in comparison of the second."

By that law of our nature which makes food necessary to the life of man, the effects of these two unequal powers must be kept equal."

This implies a strong and constant operating check on population from the difficulty of subsistence. This difficulty must fall some where; and must necessarily be severely felt by a large portion of mankind."

2. The person as part of the social environment

Due to their densities and social structures, Asian societies are collective societies, whereas European and North American civilisations are individualistic. Why does this distinction have an effect on the culture of face? Actually it is very important. A densely populated society not only has a problem of surviving, personal space and privacy are strongly limited as well. In a collective society a person can only develop within a frame given by the community. Personal development is strongly oriented towards collective values, whereas in an individualist society the person decides more or less herself what path to follow. Society will then accept these decisions in most of the cases. The general view is that the freedom given to the individual will finally lead to a positive result for all. In a Chinese society the norms and value patterns are given, social norms are setting the scene for individual development. But for an explanation of giving and losing face we need to go a step further, into some psychological explanations.

Density and crowding, socio-psychological explanations

Social psychologists differentiate between social density and crowding which has some important psychic consequences. Density is essentially social. Crowding only develops when the personal private sphere is more and

more reduced and when the person starts to lack privacy in the dense environment. This can also happen in a demographically loosely populated environment like Mongolia, with 2 persons per square kilometre. But the fact that in the Mongolian winter with outside temperatures of minus twenty to thirty degrees Celsius, all the family members will have to stay inside the "ger", their traditional housing, making for an obvious situation of crowding. Conditions force the community to live together and to renounce on much of the personal sphere of privacy – both physically and psychologically.

This means for an Asian society that integration into the surrounding community is much closer, but at the same time, differentiation from other groups is much stronger as well. In-group and out-group differentiation becomes much more important in China than in a Western environment. In-group characteristics are positively heightened, out-group characteristics undervalued. The consequences are considerably different behaviour patterns inside and outside the own group. Chinese harmonious and consensual behaviour is only valid within the group. Outside a pure Darwinist fight for survival is the rule, not the exception. Outside the group no social norms are really valid. In Western eyes this leads to an aggressive and often brutal behaviour pattern. In a Chinese environment, however, this corresponds to normal behaviour. All out-groups are dealt with in the same way; no aggressive behaviour is actually intended. This view is the view of the outsider who does not profit from any norms and values, as they are valid only within one's own group. Probably the biggest misunderstanding of Confucianism by Western persons is the fact that the philosophy, or the behavioural norms described by it, is limited to the in-group alone. It does not correspond to Chinese society as a whole.

The own group provides a member with an identity, one of the reasons, why name cards are of such importance in China. The own status is clearly visible on the card; the given respect equals the position. In Japan and Korea even the language used is depending on the position of the person talked to. There are six different ways to address a person, depending first of all on whether he or she is a close acquaintance, then, whether the person is older (or higher in status, which is usually the case with older people), similar or lower in status or age. According to the different levels of hierarchy, different addresses and in many instances different words are used as well.

This strong dependency from the own group demands a very high attention in regard to the norms and expectations of the group. Behaviour is much stronger aligned to these expectations than in any Western, individualistic society. In Europe it often belongs to good behaviour to document independence from society or from his own group, by wearing e.g. different clothing. In East Asia not to belong to a group is the worst that can happen to an individual. Under these circumstances the person is really an outcast, but not in a romantic way of the term often seen in a Western environment by persons who leave norms and values of society behind and gain "full" freedom. In East Asia this situation corresponds to an utterly unprotected situation in which the individual is at a complete mercy of the aggressive social environment which is not his own. No protection of his own group is given any longer.

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Guilt and shame cultures

Already in the interwar years, American anthropology has underlined the effects of guilt and shame on the Japanese face culture. Following is a quotation by Ruth Benedict, documenting the difference and its effects:

"In anthropological studies of different cultures the distinction between those which rely heavily on shame and those who rely heavily on guilt is an important one. A society that inculcates absolute standards of morality and relies on men's developing a conscience is a guilt culture by definition, but a man in such a society may, as in the United States, suffer in addition from shame when he accuses himself of gaucheries which are in no way sins. ... In a culture where shame is a major sanction, people are chagrined about acts which we expect people to feel guilty about. This chagrin can be very intense and it cannot be relieved, as guilt can be, by confession and atonement. A man who has sinned can get relief by unburdening himself. Where shame is the major sanction, a man does not experience relief when he makes his faults public even to a confessor. So long as his bad behaviour does not 'get out into the world' he need not be troubled and confession appears to him merely a way of courting trouble. Shame cultures therefore do not provide for confessions, even to the gods. They have ceremonies for good luck rather than for expiation. True shame cultures rely on external sanctions for good behaviour; not, as

true guilt cultures do, on an internalized conviction of sin." (R. Benedict, *The Chrysanthemum and the Sword*, (1946), 1987, p. 222/223)

Her approach underlines that Western cultures are guilt cultures, whereas East Asian cultures are shame cultures. Her distinction is based on the assumption that in a guilt culture a person has internalized the norms of society as a whole and therefore feels guilty when offending. Shame, on the other hand, is based only on the norms of the in-group and does not take the larger social environment into account. Shame is therefore the feeling of a person who has not lived up to the expectations of value patterns within his or her own group. Guilt is the feeling of having offended the laws of the society as a whole. Guilt can thus be corrected by an excuse or by punishment; shame is not so easy to overcome, as an outing of the mistake would make things only worse.

Due to the very much clearer distinction between in-group and out-group in an Asian environment compared to a European or American society, a Chinese person rarely has a feeling of guilt, as the out-groups are not really taken into account. It also means that every rule of a larger social environment is not perceived as relevant. "In China one is always ready to break a rule of law" is very understandable under these circumstances and does not have anything to do with cheating. It is simply an ex-

(continued on next page)

pression of different social structures and behaviour patterns. Only norms of your own group count, the rest is not so important.

Many expatriates working in China are fully aware of these cultural differences. They do not even try to appeal to Chinese feelings of guilt. They essentially use the shame approach. When the foreign General Manager of a company excuses himself towards a client, in the presence of the Chinese person responsible for the problem, a very strong feeling of shame is created in this person. Only by working very hard and by trying to regain trust can he or she regain the esteem of the group. The feeling of honour, which is touched in this context, is actually complementary to the feeling of shame.

Summary

As developed above, there is a reason why face is more important in Asia than in Europe or America. In Asia one loses face towards the group if one does not live up to the expectations of the other members. It is obvious that group pressure is much stronger in a collective society than in an individualistic society with its much bigger private spheres. This creates much stronger feelings of

shame in an Asian person when he or she fails, but weaker feelings of guilt than in a European or American environment.

These differences do not indicate a different level of moral development. The difference is based on other social densities which lie at the root of other behaviour patterns and finally of the distinction between collective and individualistic societies. The moral development is thus linked to the structure and the dynamics of society, which has developed its value system. Accepting different levels of development as reasons for shame and guilt differentiation would render intercultural understanding very difficult or even impossible.

But all this does not mean that I cannot lose face as a European working in Asia. I react very directly in this kind of situation and express my disapproval. The English have a nice way of expressing this: "When you are in Rome, do as the Romans do." Only by acting thus you are taken seriously in another society and only by being taken seriously you can work in an efficient and professional way.

*By Hans J. Roth,
Consul General*

Consulate General of Switzerland in Shanghai

Location: Switzerland

Economic Promotion in China



*Thomas Holenstein
Chief Representative for China
Location: Switzerland China*

The Swiss image in China can be summarized as "small, beautiful, and expensive". Characteristics that are highly problematic in terms of positioning Switzerland as an attractive business location in China. To avoid Switzerland missing out over the next decade and seeing

all major Chinese companies settling in Germany, UK, France, Italy or even Belgium – creating economic growth and most of all jobs as they do – Switzerland would be well advised to become more proactive.

The State Secretariat for Economic Affairs (Seco), together with economic promotion organizations representing 16 cantons, launched the China chapter (L:S China) of its Location:Switzerland program in November 2004. The operation of L:S China has been outsourced to Generis AG, located in Schaffhausen, a company very experienced in economic promotion. The Swiss Center Shanghai is also involved as the operational partner in China. In its first year L:S China has been acting on several levels such as: analysis of market potential, competitor analysis, one-to-one contacts, and producing information material in Chinese. The first results of these activities can be summarized as follows.

Analysis of market potential

Over 300 Swiss enterprises have founded more than 600 subsidiaries in China and created approximately 70,000 jobs. One reason for doing so is the increasing domestic market. Another reason is global competition resulting in high cost pressure. Despite all of the difficulties which confront western companies in China, labour costs in relation to productivity are low.

That's obviously a comparative advantage of China.

However, not only China but also Switzerland has advantages which foreign companies can benefit from. An Arthur D. Little study based on a comprehensive survey of US managers rated Switzerland as Europe's most attractive headquarter location by a considerable margin. In 2004 the efforts of the Swiss economic promotion organizations resulted in more than 500 foreign companies locating in Switzerland and creating several thousand jobs and dozens of millions in additional tax revenue on all three tax levels.

Switzerland is attractive for foreign companies, but is it also attractive to Chinese companies? The answer requires careful analysis of the Chinese market which is completely different from e.g. US markets. US companies are efficiency-seekers in order to create as much shareholder value as possible. Large Chinese groups are still government-controlled and therefore need to be handled differently. Nevertheless L:S China has established that within the next few years 30 to 50 Chinese enterprises could substantially benefit from setting up their European or EMEA headquarter in Switzerland.

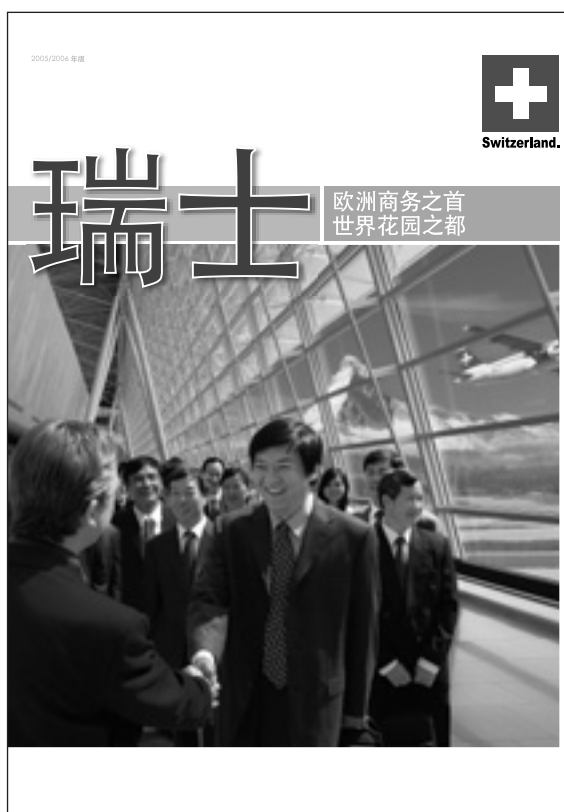
In addition to large groups, an increasing number of privately-owned companies are reaching sufficient critical mass to profit from starting their European business in Switzerland rather than in the larger European countries. Such companies are looking for European brand names to acquire or to buy companies for assembly functions in order to obtain a European certificate of origin. In other words: Chinese companies will increasingly use the profits from their domestic market to buy European companies.

Competitor analysis

Another part of L:S China activities in 2004 was to analyse if and how other European countries sell themselves in China. The survey is still in preparation but already it is clear that the promotional activities of countries like Germany or Sweden have resulted in attracting numerous businesses to settle in those countries. Today Hamburg already has hundreds of Chinese companies and some of them have located their European headquarter there. In 2004 Düsseldorf attracted well over a dozen Chinese companies and so did Sweden. Neither of these countries is anywhere near top of the league in the economic promotion industry in Europe. Their success is mainly based on substantial promotion activities.

The reason for European countries promoting themselves in China, is outlined in the following two examples:

- Some years ago, a Chinese industry conglomerate established its European headquarters in Germany. Today they are highly successful, employ about 30 highly skilled employees, generating millions in tax revenues each year. Moreover, they receive more than 800 company internal visits per year, thereby generating thousands of overnight stays in local hotels in this city alone.
- In the mid nineties a Chinese IT company with revenues of over \$ 5.58 billion in 2004 founded its European office in London. Today they already employ



The new image brochure (in Chinese) presenting Switzerland from a business point of view.



The Investment Guide (English/Chinese) for evaluating Switzerland as a potential business location.

more than 300 people. At the moment they are considering taking over a British IT company, worth between \$ 800 – 900 million.

Of course there are many more examples such as manufacturing facilities in Italy, R&D centres in Sweden and so on. Many of these Chinese companies heading to Europe are primarily influenced by advertising, promotion and coaching activities rather than by comprehensive location analysis.

One-to-one contacts

An objective analysis of the market is good as an informative basis but by no means enough to get a full picture. Direct contacts with decision makers in interesting Chinese companies are essential to figure out whether our success factors in the USA or other markets can convince them as well. First experiences within a dozen different Chinese enterprises and several meetings have been mainly positive. Our key message of Switzerland's attractiveness to foreign companies seems to be very interesting for these managers and entrepreneurs. However, in these meetings we always are confronted with issues such as time-consuming visa applications (Switzerland is not yet integrated in the Schengen area), the absence of direct flights between Switzerland-China (very important for Chinese managers who may leave their families in China for educational reasons and therefore travel home frequently), and partly uninteresting withholding tax regulations to repatriate the profit accumulated in Switzerland. The Swiss-Chinese Double Tax Agreement (DTA) taxes dividends flowing back to China at 10%. A DTA doesn't exist with Hong Kong and Taiwan.

The sooner these negative factors can be eliminated, the earlier Chinese companies will start creating jobs and tax revenue in Switzerland. Today Switzerland has approximately less than 20 Chinese companies beside TCMs, restaurants, travel offices and some consultants.

Information documentation

Beside the activities mentioned above, L:S China is producing in its first year of operations a set of information documents in Chinese, or rather in Chinese and English. The image brochure (in Chinese), presenting Switzerland from a business point of view, can be ordered for distribution to interesting target groups. The investment guide (English/ Chinese), a detailed reference book for evaluating Switzerland as a potential business location is also available. And last but not least our website www.locationswitzerland.cn (Chinese).

Conclusion

Even if it may still take a few years until Chinese companies are heading to Europe in vast numbers, now is the time to sow the seed by presenting Switzerland as an attractive business location in Europe and to strengthen our activities in China. Waiting until the fruits are ready to harvest would be dangerous. Switzerland might miss the boat as it did in the seventies and eighties with Japanese companies. They are mainly located in Düsseldorf and other European cities but not in Switzerland.

The first steps have been taken but for Switzerland to succeed, it needs to bundle its activities, promote the country first and on an ongoing and increasing level make its voice heard in China.

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China Outbound Investment

Parallels to 80's Japan

Back in 1979 there was a popular book entitled "Japan as No. 1" prophesising the imminent takeover of almost every industry by the Japanese. Today we know that this prediction was ill-fated, as the Japanese economy has been in the doldrums for over a decade now.

There is similar sensationalism today from various media sources referring to China as the "factory to the

world" and alarmist talk of China buying up everything from world resources such as minerals and raw materials to brand name companies.

This is unfounded. Most readers will have heard about the successful Lenovo-IBM acquisition. In the cases of CNOOC and Haier, their bids for Unocal and Maytag respectively failed mainly due to their inability to handle the process rather than being denied the right.

There has recently been a spate of overseas acquisitions (or attempts) by Chinese firms, but hardly anything compared to the volume of investments Japanese firms made in the 1980s – most notably the purchase of Rockefeller Center and the movie studios Columbia and Tri-Star Pictures.

Similar noises are being heard from protectionists in America now as then, with the Chinese supposedly buying up national treasures. In reality China's Outward Direct Investment (ODI) is only a trickle compared to the torrential level of Japan's ODI in the 1980s and likely to remain so for some time to come, according to a recent report from the Economist Intelligence Unit (EIU).

The EIU report "Domestic Companies in China" claims that 91% of the several hundred companies surveyed consider the domestic market their top priority. Few are preparing to expand abroad at this time. The report also points out that China's ODI was primarily driven by politics and not for strategic reasons.

The survey results were probably not all that welcome news in Beijing, where the central government initially instituted a "Go-Out" policy, which it recently resuscitated as the "Go-Global" policy. In the new policy directive, the central government has provided a better means for domestic companies to finance potential overseas deals, by loosening capital controls and providing "soft" loans (i.e. interest-free).

Both present-day China and 1980s Japan are fast-growing countries wanting to exhibit their hard-earned economic clout and new-found wealth on the global stage by making significant acquisitions in mature economies. As 20 years ago, today there are rumours of some sinister motive for these acquisitions and snickering over the high prices paid for various assets. But this M&A activity was and is a learning process for two countries developing and becoming integral players in the global economy.

Slowly, corporate management in China is going global, evidenced by the growing number of overseas stock exchange listings in Hong Kong and company registrations in offshore domiciles such as internet companies Baidu, Sina and Netease taking refuge on the Cayman Islands.

There has been mixed success for major Chinese firms' ventures into the uncharted waters of foreign acquisitions. TCL deals for RCA / Thompson TV division, Schneider Electronics and the Alcatel mobile phone division, ICBC takeover of Union and Belgian Bank Asia and the Meidi Group purchase of Sanyo Electric microwave parts division were all consummated and not thwarted due to any political pressure. Of course, the jury is still out whether any of these ventures will be profitable.

China's economy and influence will continue to grow, but as with Japan 20 years ago it does not mean that China will take command of the world economy as soon as some predict.

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Fairs and Shows in Overseas

Logistic Manual to Successfully Participate at Fairs Overseas

Authors: Carl A. Ziegler / Thomas A. Wirz, T-LINK MANAGEMENT AG

In order to test the specific market potential in overseas, a growing number of Swiss companies participate at international shows in Asia (e.g. China, Japan, Malaysia, India), Middle East (e.g. U.A.E.) and other international spots. Especially the Asian market due to its enormous economic growth is a good opportunity for Swiss entrepreneurs to expand their customer base. This manual shall give you, dear reader, an overview of what you have to care for in advance, in order to make your participation – in logistics matters – a full success.

Swiss exhibitors should make a difference between a Western European fair and overseas fairs. Concerning the freight forwarding a European fair usually bears less complexity compared to an overseas fair. The farther a fair is the higher the complexity to organize it. Besides higher financial costs (e.g. booth, transport, travel expenses, longer absence of staff) the foreign culture, lan-

guage and local rules and regulations may cause additional problems.

Anyway, you directly present your company to a broad mass of existing and potential future customers at any fair you are participating. Therefore the smooth logistic run in co-operation with an experienced expert on exhibition logistics has a high priority.

Since 1990 T-LINK MANAGEMENT LTD. has played a major role in the international exhibition business and has supported many Swiss and foreign companies every year to successfully participate at fairs all over the world.

Plan a safe and early arrival

It is normal that the exhibitors want to show their latest innovations, which will be ready for sending just weeks/days before the opening of the show. Since a late arrival of exhibition goods is very stressing and might even lead to not being ready for the opening of the exhi-



Lack of adequate tools/machines: 2 fork-lifts lift the 40' container in order to put it on a truck. To weigh the left fork-lift down some men sit on the hood...

bition, it is essential to do the right scheduling. Packing, shipping time, custom clearance, onwards transportation etc. as well as the right amount of buffer time must be taken into consideration. An experienced and specialized exhibition freight forwarder ensures a tight tracking and monitoring of your goods and further has the right network and possibilities to intervene and speed up your shipment should the scheduled delivery be jeopardized due to various unexpected circumstances.

How to determine the required documentation

A prerequisite for a successful participation – and that applies especially for overseas shows – is an accurate preparation of the required paperwork. Your specialist for exhibition freight forwarding can assist you in preparing these documents. T-LINK e.g. as exhibition freight forwarder – based on the specific requirements of the visited country – individually prepares these documents together with the customer. Just to mention the most important of the possible requirements: Wooden packing standards and certificates (e.g. IPPC/ISPM 15), dangerous goods declaration, censorship of CD / DVD / VHS etc. It is important to monitor these requirements on ongoing bases, as they are subject to changes.

Airfreight DONT's: Lighters, paints, aerosols

Please be aware, that not all goods can be transported by airfreight. Lighters as common give-aways are not permitted as standard airfreight. For lighters a costly and complicated permission procedure is required. It is better to use alternative give-away like pens, torches and others, that do not fall under dangerous goods regulations. Also paints and aerosols can count as dangerous goods. Better buy these goods in the destination country, which will cause no problems, due to worldwide standard color-codes. Ask your specialized exhibition logis-



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info@mannhart-trading.com
www.mannhart-trading.com



Outdoor storage/warehouse: no protection against weather conditions.



Lack of adequate machines: Very old truck with crane.

tic partner, he will advise you on the dangerous goods rules.

Choosing the right packaging

The selection of the adequate packaging depends on various factors. On one hand every country has different regulations and interpretation of the wood packing/treatment standard IPPC/ISPM 15, on the other hand the means of transportation (sea, air, truck, rail) and the reusability of a packaging determines the needs. Especially during the ongoing implementation of the ICCP/ISPM 15 standard your packaging department has to take care on the fast changing regulations and requirements. T-LINK has its own two carpentries, which are specialized in producing wooden export-packaging and therefore is confronted with these international regulations on a day to day bases.

Some time ago a shipment handled by T-LINK consisting of 11 TEU's ("T"wenthy Foot "E"quivalent "U"nit) of machines from all over Europe was blocked in China by the custom inspectors. The authorities claimed to have found vermin in a wooden case, although all cases were treated according IPPC/ISPM 15 standard. Only due to the in-depth preparation of the documentation and to the resolute intervention of T-LINK's on-site delegation quarantine blocking of the whole shipment was prevented.

Infrastructure at the exhibition

A robust packing is also recommended, due to the lack of an adequate infrastructure such as fork-lifts, cranes or just simple tools. This deficit is compensated by a lot of creativity and engagement of the local staff.

- Cases are pulled out of containers by ropes, wrapped around the exhibition goods.
- Containers are lifted from two sides with two too weak fork-lifts in order to put them on the truck.
- Wooden cases are opened with crowbars, even if they are closed by screws. The cases will not provide the same protection for the return shipment.
- Full and empty storage is often left outside, where it is exposed to the weather conditions like heavy rain. Although the goods are covered by tarpaulins these goods are not protected entirely.

It is recommended to anticipate these conditions and to choose a robust packaging which is easy to open/close. The case should be sealed inside against rain and goods must be protected against corrosion (e.g. with CORTEC®-VCI-System). It is better to pack your goods in two cases instead of putting it all in one big and heavy case. A specialized export-packing company can advise you how to choose the right packaging for your exhibition goods.

One last thing: Don't expect the same perfectionism in design, infrastructure and equipment, but be pleased to be welcomed by motivated and friendly people.

Good luck for your next participation at an overseas fair!

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Lenovo Marks New Era for PC Industry

Lenovo Group Limited and IBM announced on 1. May the closing of the acquisition of IBM's Personal Computing Division by Lenovo, creating a new international IT competitor and the third-largest personal computing company in the world. On 1. August 2005 the transaction has been closed in Switzerland.

"The closing of this transaction is a historic event for Lenovo and marks a new era for the global PC industry", said Yuanqing Yang, chairman of Lenovo. "The new Lenovo's strategy is based on what our customers want: high-quality products and world-class service. We are committed to delivering the highest quality, most innovative PC products and services to our customers, to providing the best working environment for our employees, and to creating value for our shareholders."

The company's strengths include global brand recognition, through the combination of the highly regarded "Think" brand notebook franchise and Lenovo's leading brand recognition in China, enhanced service and support for consumers and enterprise clients, and consumer strength and market leadership in China, the world's fastest growing IT market. Lenovo has one-third of the emerging China PC market and leading shares in enterprise PC markets around the world.

Innovation that matters

Lenovo is the world's third-largest personal computing company, with a business model built on innovation, operational efficiency and investment in emerging markets. Formed by Lenovo Group's acquisition of the former IBM Personal Computing Division, the company has major research centers in Yamato, Japan; Beijing, Shanghai and Shenzhen, China; and Raleigh, North Carolina,

and develops, manufactures and markets reliable, high-quality, secure, and easy-to-use technology products and services worldwide.

About Lenovo

Lenovo Group Limited is an innovative, international technology company formed by Lenovo Group's acquisition of IBM's Personal Computing Division. Lenovo develops, manufactures, and markets the most reliable, secure, and easy-to-use technology products.

Globally, the company offers customers the award-winning ThinkPad notebooks and ThinkCentre desktops, featuring the ThinkVantage Technologies software tools as well as ThinkVision monitors and a full line of PC accessories and options.

In China, Lenovo commands about one-third of the PC market covering all segments. Its leading-edge PCs are highly acclaimed for ease-of-use, tailor-made designs and customized solutions for various customer needs. Lenovo has been the number-one PC vendor in China for eight consecutive years and the best-selling PC vendor in Asia-Pacific (excluding Japan). Lenovo also has a broad and expanding product line encompassing mobile handsets, servers, peripherals and digital entertainment products for the China market.

In March 2004, Lenovo joined The Olympic Partner Program of the International Olympic Committee as the first Chinese company to become the computer technology equipment partner of the IOC for the period from 2005 to 2008.

*For more information, please visit
<http://www.lenovo.com>*



August 2005: Lenovo Switzerland Team after the closure of transaction

SsangYong Premium Cars in Switzerland

SsangYong Schweiz AG is the exclusive Importer-Distributor of SsangYong Premium allwheel drive cars, produced by this Chinese-Korean Company. Shanghai Automotive Industries Corporation, owned by the City of Shanghai, has successful joint ventures in China with Volkswagen, GM-Buick, Volvo Truck and Bus, Toyota 2-wheels and has purchased the SsangYong Motor Company in South-Korea in late 2004.

Since then SsangYong has established a factory in China, near Shanghai, in addition to the two factories in Korea and has brought out several new models like the Kyrion premium allwheel drive SUV and the Actyon allwheel drive SUV shown recently in the domestic market. The Rexton Diesel and Gasoline SUV and the Korando are already popular sellers in Switzerland, sold and serviced by 48 SsangYong dealers across the country. European sales of SsangYong are 63% of total production, as the high style premium SUV. With engines and transmissions licensed by Mercedes-Benz, they are very much suited to European taste and particularly to the Swiss market. In Switzerland, the 4x4 (allwheel drive) represents over 20% of total car sales.

Now with Chinese ownership and fresh capital for developing modern new products, SsangYong-SAIC Group is also producing vehicles in China for the Chinese market. Despite SAIC's numerous joint ventures in vehicle production in China, this is the first time Shanghai Automotive Industries Corporation is running its own vehicle research and development operation for SsangYong.

SsangYong Schweiz AG is pleased to represent such a strong partner and is expanding rapidly to reflect the good future under SAIC. Previous to Chinese ownership, SsangYong was in the Daewoo Group and before that independent, producing 4x4 allwheel drive vehicles for over 30 years. They also developed a close relationship with Mercedes-Benz and have engine and transmission production with licenses from that German company. Other technical components have also been developed independently and it will be interesting to watch the effect of the SAIC investment and relationship with major international vehicle producers to see if joint product developments or joint component sourcing will develop.

SsangYong Schweiz AG is pleased to be a member of the Swiss-Chinese Chamber of Commerce and is celebrating with special VIP and Diplomatic prices for SCCC member.

*For further information please visit their website:
www.ssangyong.ch*

*or contact:
Karl Kammerer, General Manager
Martin Parsons, VIP and Diplomatic Sales*

*SsangYong Schweiz AG
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CH-8406 Winterthur
Phone: +41 (0)52 208 26 90
E-mail: info@ssangyong.ch*

SsangYong Plans to Double Sales by 2010

Production capacity to be increased to 340,000 vehicles per year.

Shanghai Automotive Industries Corporation (SAIC) owns 51% of Korean-based SsangYong manufacturer of premium 4x4 vehicles (also sold in Switzerland) and just announced a major expansion. The plan is to double results of 2005 to US\$ 6.2 billion, Mr. Jiang Zhiwei, Chinese CEO and Hyung-tak, Korean CEO announced at their press conference on January, 25, 2006.

The required investments will come from Shanghai Automotive Industries (SAIC) or from retained profits. SAIC already operates successful joint ventures in China with Volkswagen, Volvo Truck and Bus, GM-Buick, Toyota 2-wheels and a SsangYong CKD plant near Shanghai, in total making it the largest vehicle manufacturer in China.

70% of the planned investments of US\$ 6.2 billion will be for the development and introduction of one new model per year. Three new Sport Utility Vehicles (SUV), one multipurpose vehicle (MPV) and two new passenger cars are planned.

By 2008, SsangYong will offer Hybrid engines in five models, starting with Kyrion Hybrid. (The new Kyrion premium 4x4 was just launched in Switzerland by SsangYong Schweiz.)

Together with SAIC Shanghai, SsangYong will develop one "monocoque" vehicle (self supporting body-shell).

A parts depot for Europe and improved export logistics for Europe, a major market for SsangYong, are planned.

SsangYong will continue to concentrate on "premium 4x4" vehicles, also with hybrid engines, while its majority shareholder SAIC will concentrate on gasoline-hybrid engines and conventional passenger cars.

By 2010 Shanghai Automotive Industries plans to build 2 million vehicles per year, including SsangYong, and reach exports of US\$ 5 billion, stated Jiang Zhiwei, Chinese CEO.

SAIC plans to sell vehicles in the USA from 2010. In the year 2005 SAIC sold over one million vehicles, four times more than in 2003.

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Please visit us at Geneva International Motor Show, hall 5, booth Nr. 5130, from March 2-12, 2006.

SsangYong Motor Company (www.smotor.com) is owned by Shanghai Automotive Industries Corporation (www.saicgroup.com) and the City of Shanghai.

*resp. 100'000 km guarantee, 3 years EuroService

GF Automotive Manufacturing in China

New Light Metal Foundry in Suzhou Inaugurated

After a short construction period, the new light metal foundry in Suzhou, China was officially inaugurated on 26 October 2005. The ceremony was attended by the senior officers of the Georg Fischer corporation, Schaffhausen, official representatives from China and Switzerland, customers, employees and business partners. The plant began operation in mid-August, and the machinery is being gradually expanded. With its modern plant for diecast aluminium and magnesium components, GF Automotive has the timing just right to benefit from the fast-growing Chinese market and implement its strategy. The Suzhou plant enjoys high capacity utilization, with orders coming from European and Chinese customers from the local automotive industry who increasingly want to draw on the innovative casting technology of Georg Fischer in China. To meet specific customer needs, Suzhou is also developing products.

With the new light metal foundry in Suzhou now in operation, the old foundry in Zhangjiagang, which no longer meets modern requirements and had reached its capacity limits, can be shut down. Most of the 40 permanent employees will move from the old plant to the new one in Suzhou. The new foundry puts Georg Fischer into a strategically important position that will enable it to grow together with the expanding local automotive in-



Chairman of the Board, Martin Huber (center), and Swiss Ambassador Dante Martinelli (front), listening to the opening speeches.

dustry, which is increasingly exporting. The modern plant – built of concrete, aluminium and glass – sets new standards in the casting industry. The plant has been designed so that Georg Fischer can invest in expansion gradually and in line with market demand, thus avoiding unnecessary financial risks. The overall plan calls for maximum expansion to four building modules with about 24 casting machines. The new foundry is located about 100 km to the west of Shanghai in the 240 sq. kilometre Suzhou Industrial Park, which boasts outstanding infrastructure and very good road, rail and logistics connections.

Georg Fischer is present in China with all three of its Corporate Groups (GF Automotive, GF Piping Systems und GF Machine Tools). In 2004 it generated sales of about CHF 240 million in China with some 1,300 employees

Corporate Profile Georg Fischer

“Adding Quality to People’s Lives”

Georg Fischer, Schaffhausen, Switzerland, is an international industrial corporation that has 12,000 employees at 140 sites as well as 50 production facilities and generates annual sales of around 3.5 billion CHF. The Corporation makes a direct contribution to the quality of life. As people become increasingly mobile, they have ever greater demands for comfort and safety in their vehicles. With its heavy-duty cast parts made of light metal and iron, GF Automotive makes it possible to build lightweight passenger and commercial vehicles. A reliable supply of clean water is becoming a crucial challenge.

GF Piping Systems facilitates the supply of drinking water worldwide and enables the safe transport of liquids and gases for industrial purposes. Large-scale production of consumer goods requires great precision and demanding manufacturing technologies. GF Machine Tools provides machines and system solutions to manufacture the necessary moulds and tools.



Muja Zhang, General Manager Georg Fischer Automotive Suzhou, explains a representative of the Suzhou Industrial Park the production programme.



GF Automotive has built a modern light metal foundry in the Suzhou Industrial Park, located about 100 km to the west of Shanghai.

at 14 different locations (of which 9 are production sites). Last year the Georg Fischer Corporation posted total sales of CHF 3.5 billion worldwide.

*You'll find further information under
www.georgfischer.com.*

*Georg Fischer AG
CH-8201 Schaffhausen
Switzerland
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Fax +41 (0) 52 631 28 63*

Shangri-La Strengthens its Presence in China

Opening of Traders Hotel in Suzhou

Reinforcing its position as the largest luxury hotel group in mainland China, Shangri-La Hotels and Resorts has signed a management agreement with the New World (Qingdao) Estate Development Group to operate the Traders Hotel, Suzhou in the Yangtze Delta in the south of the Jiangsu Province in mid-2005.

The 420-room hotel will complement Shangri-La's existing 17 hotels in mainland China and its central location in the city's hi-tech development zone, which is only a 10-minute car ride to the Shanghai-Nanjing highway and eight minutes from Suzhou Railway Station, will make it ideal for the corporate traveller.

Featuring spacious guest rooms measuring an average of 39 square metres, the Traders Hotel, Suzhou will offer same day laundry and valet service, satellite TV, data ports and broadband Internet service. In addition, the Traders Club floors will provide an exclusive retreat with special amenities and privileges such as daily complimentary breakfast and cocktails in the Club lounge, express check-in and check-out service, personal butler service and more.

The hotel, which is designed by Jiangsu Construction Design Institute, will offer a variety of dining and entertainment choices, including a coffee shop, lobby lounge and Chinese restaurant. Recreational facilities will include an indoor swimming pool and a fitness centre. There will also be state-of-the-art meeting and banquetting facilities including an 800-square-metre conference hall.

Opening its first Hotel in Guangzhou

Shangri-La Hotels and Resorts will open a hotel in Guangzhou, capital of China's southern Guangdong Province in the Pearl River Delta area in early 2007.

The first Shangri-La property in Guangzhou city, the Shangri-La Pazhou, Guangzhou is situated in the city's Hai Zhu District, adjacent to the new Guangzhou International Convention and Exhibition Centre, one of the largest convention centres in the world. Conveniently lo-

cated, the hotel is merely 15 minutes from the city's downtown area and 30 minutes from the new Hua Du International Airport.

The Shangri-La Pazhou, Guangzhou will overlook the renowned Pearl River, with most of its guest rooms enjoying spectacular views of the river. The hotel features 750 luxurious guest rooms designed in a contemporary yet classical style, with a minimum room size of 44 square metres. Each guest room will have a spacious work area to meet the needs of modern business travellers. All rooms will offer a range of Shangri-La amenities and services, such as same day laundry and valet service, satellite TV, data ports and broadband Internet service. The three Horizon Club floors will provide an exclusive retreat for discerning corporate travellers, with special amenities and privileges such as daily complimentary breakfast and cocktails in the Horizon Club lounge, express check-in and check-out service, personal butler service and more.

The hotel will offer a variety of dining and entertainment choices, including a lobby lounge, a coffee shop, a Cantonese restaurant with 30 private dining rooms, an entertainment centre, as well as two innovative speciality restaurants.

Shangri-La Hotels and Resorts is Asia's leading luxury hotel group and currently manages 42 hotels in Australia, the Chinese mainland, Fiji, Hong Kong, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Taiwan, Thailand and the United Arab Emirates, with a rooms inventory of over 21,000. In addition, it has over 26 projects under development in Australia, the Chinese mainland, India, Malaysia, Maldives, Oman, Qatar, Thailand and the United Arab Emirates.

For further information please contact:

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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.

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☎ 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
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Restaurant CHINA-TOWN

Bälliz 54
CH-3600 Thun
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CHINA GARDEN

Schützengasse 12
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SHANGHAI

Bäckerstrasse 62/Helvetiaplatz
CH-8004 Zürich
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HOTELS

HOTEL TIEFENAU ZÜRICH

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.)