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Responsible Editor:

Susan Horváth, Managing Director

Swiss-Chinese Chamber of Commerce
Höschgasse 89
CH-8008 Zurich
Switzerland
Tel. 044 / 421 38 88
Fax 044 / 421 38 89
e-mail: info@sccc.ch
Website: www.sccc.ch

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Here for You in Switzerland:

Swiss-Chinese Chamber of Commerce
Höschgasse 89
CH-8008 Zurich

Phone	+41-44-421 38 88
Fax	+41-44-421 38 89
E-mail	info@sccc.ch
Website	www.sccc.ch
President	Kurt Haerri

Chambre de Commerce Suisse-Chine
Section Romande
4, bd du Théâtre
1204 Genève

Phone	+41-22-310 27 10
Fax	+41-22-310 37 10
E-mail	info.geneva@sccc.ch
Website	www.sinoptic.ch/scccgeneva/
Office hours	Monday–Friday, 9.00–12.00 h
President	André Übersax

Camera di Commercio Svizzera-Cina
Section Ticino
c/o Brun Studio Legale e Notarile
Via Ariosto 6
Case postale 5251
CH-6901 Lugano

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

Legal Chapter Zurich
c/o Nägeli Attorneys-at-Law

Phone	+41-43-343 99 93
Fax	+41-43-343 92 01
E-mail	law@naegeli-rechtsanwaelte.ch
Chairperson	Dr. Esther Nägeli

Legal Chapter Geneva
c/o Pictet & Cie., Geneva

Phone	+41-58-323 19 03
Fax	+41-58-323 29 50
E-mail	pknupfer@pictet.com
Chairperson	Maître Philippe Knupfer

For full overview of useful contacts in China and Switzerland turn to pages 110 &111 in this issue.

Moving Notice

As of August 1st 2007 the Swiss-Chinese Chamber of Commerce (SCCC) and the Swiss-Hong Kong Business Association (SHKBA) will be at new premises.

Höschgasse 89
(before 83)

all other coordinates remain the same:

CH-8008 Zurich
Phone +41-(44)-421 38 88
Fax +41-(44)-421 38 89
info@sccc.ch
info@swisshongkong.ch

www.sccc.ch

Summer Vacation

From July 16th until August 17th the Chamber in Zurich will be closed, due to moving activities and summer holidays.

For general information, basic addresses, events and recent publications or legal developments kindly turn to our website: www.sccc.ch.

The Culture of Relationships

It has been extremely well perceived by many Swiss business leaders, that Doris Leuthard, our newest member of the Federal Council of Switzerland, will strengthen economic ties and relationship with China by means of conducting a state visit already during her initial year in office. This is a most vital step for all our future endeavours with Corporate China. This will reinforce our position as an important trade partner and further strengthen established links and maintain a good dialogue with the Chinese Government.

Doubtless, everybody who has been exposed to Chinese business culture so far would acknowledge that building relationships is a key success factor in doing business with and in China. But I doubt whether we foreigners have sufficient clarity what the meanwhile quite fashionable word “Guangxi” really means and to what extend the demand for “space” in our already overloaded agendas likely will be.

The Chinese culture differs from the western culture in many ways, including how business is established. For example, the Chinese prefer to deal with people they know and trust. On the surface, this does not seem to be much different from doing business in the western world. But in reality, the strong reliance on relationship means that western companies have to establish friendship to the Chinese partner before any business can take place. It does not at all have to be based on money. Treating someone with decency while others treat him/her unfairly could result in a good relationship. Following through on promises is vital on the path to good “Guangxi”. While in the western world so called non-performing networks – e.g. service clubs – are well accepted by the society without the condition to conduct business, networks in China have another purpose, as Chinese feel much more obligated to do business with their friends first.

Westerners normally go straight for business transactions and, if they are successful, a relationship will likely ensue. However, the Chinese believe that prospective business partners should build a relationship first and, if successful, commercial transactions will follow. These different approaches often lead to many misunderstandings during business negotiations. Virtually all successful transactions in China result from careful cultivation of the Chinese partner by the foreign one, until a relationship of trust evolves. Trust is being built on personal friendship rather than commonly shared social values as we are used to in the western business culture.

Beyond the world of business, it is most critical to build relationships with all levels of government. Finding ways to go beyond what other countries are doing is crucial for Switzerland. That’s why the China mission conducted by our Federal Councillor Doris Leuthard is of tremendous importance for the future Sino-Swiss ties.

Kurt Haerri
President

General Assembly

Dear Members, dear Readers

This year's General Assembly has been combined with the General Assembly of our partner organization, the Swiss-Hong Kong Business Association (SHKBA), and with a half-day seminar on "**Benchmarking of Business Cultures** (Japan, China and India)" in cooperation with the Forum SCM of the ETH Zurich.

The success stories of Japan and China, as well as the current economic boom in India, leads international business actors to the question, whether it's not time to learn from the Asians now. The rise of Asia with its huge middle class population and purchasing power is to be regarded as an opportunity for the West in the sense of a win-win-situation, but only if we take a close look at our basic value systems and change some attitudes as workers, employees, managers and politicians.

High-ranking representatives from the State Secretariat for Economic Affairs (SECO), the Federal Department of Foreign Affairs (DFA) and Members from four bilateral Chambers and guests attended the event at the ETH in Zurich on May 3rd. The seminar, followed by a panel discussion, closed with a book première: Urs Schoettli presented his new book entitled **"China, Die neue Weltmacht"**, which we recommend to all those readers who really want to understand China today, including its historical context. For details we refer to the articles in this Bulletin (pages 40–42).

The General Assembly of the Swiss-Chamber of Commerce (SCCC) was lead by Kurt Haerri, Member of the Executive Committee of Schindler Elevators Ltd., for the first time in his term as President.

Besides the activity report 2006, presented by Managing Director Susan Horváth, the Assembly unanimously approved the accounts, this year's budget and the changes regarding the Board. The Chamber warmly welcomes **Gregor Kündig**, Member of the Executive Board of economiesuisse, **Jürg Reichen**, Head International

New Members

Since January 2007:

Zurich

Zürcher Hochschule Winterthur	Winterthur
IMESCO AG	Appenzell
Dr. Hansjörg Stutzer	Zurich
FINNAIR	Zurich
Leader's Solutions AG	Zurich
BridgeLink AG	Basle
Hendersen Consulting (Europe) AG	Oberwil BL
Paul Bussinger	Zurich
ProgressLink GmbH	Uetikon
Klaus Hammer	Pfäffikon
Matracon AG	Ramersberg
Institut Montana Zugerberg	Zug
COMET AG	Flamatt
NOVOBIT AG	Winterthur
Bombardier Transportation (Switzerland) AG	Zurich
B&R International GmbH	Wangen ZH
James Gilbert	Zurich
Infranor Asia Ltd.	Zurich
KOINMO	Egg ZH
Ringler Informatik AG	Zug
Herzog AG Degersheim	Wolfertswil
NÜSSLI Special Events Ltd.	Hüttwilen
Dr. Martina Altenpohl	Zurich
China Communications	Zug

Geneva

China Prime Brokerage Consulting S.A.	Geneva
Mme Anastassia Karatsouba	Geneva
MARVINPAC S.A.	Epalinges/ VD
Objectif Cadres	Geneva
Mme Yan Plumez-Zhuo	Dardagny
M. Pierre Jaton	Geneva

Lugano

Swiss Medical Clearing Agency (SMCA)	Lugano

Banking and Member of the Board of the Zürcher Kantonalbank, **Ralf C. Schläpfer**, Partner, Head Strategy Advisory of PricewaterhouseCoopers and **Lukas Utiger**, Vice President of Lonza.

In recognition of his untiring and highly respected efforts regarding the strengthening of the bilateral relations between Switzerland and the P.R. of China, the Assembly unanimously approved the proposed election of **Erwin Schurtenberger**, former Swiss Ambassador to China, for **Honorary member of the Board** of the Swiss-Chinese Chamber of Commerce.

Kurt Haerri also presented the new set-up of the Executive Committee and functions approved by the Board members and thanked the new members, **Vice President Richard Friedl** (ABB), **Treasurer Peter R. Schmid** (Credit Suisse) and **Alexandre F. Jetzer** (Novartis), Member of the Executive Committee, for their highly appreciated support of the Chamber.

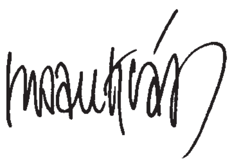
In 2006, the resources of the Chamber were again kept at a minimum (head-count in Zurich 1.8, Geneva 0.5 with unchanged salaries since 1995) and the Chamber's overall cost effectiveness remained unsurpassed, despite rising market requirements and prices. The new membership fees, effective since 2007, will not resolve the continuous lack of human resources to tackle the overall workload and dynamism of China's economic rise, but it will avoid deficits, which would have to be covered by the capital fund of members.

For details regarding the General Assembly we refer to the full documentation available at the Chamber.

The Chamber also welcomed **Ambassador Monika Rühl Burzi** from the State Secretariat of Economic Affairs (SECO), who reported on the bilateral relations between China and Switzerland during 2006. In her report she also highlighted the planned official visit of **Federal Councillor Doris Leuthard to China**, accompanied by a mixed economic delegation of which our President and also some Board members will be part of. From July 8th to 14th 2007, the delegation will meet with various high-ranking Government officials of the P.R. of China and with the local Swiss and Chinese business community in Beijing, Guangzhou (Guangdong Province) and Chengdu (Sichuan Province).

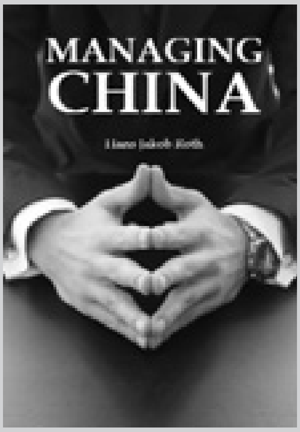
She also mentioned the official visit of the Mixed Commission to Beijing in June 2007 and presented the current state of the planned activities regarding Beijing 2008 and Shanghai 2010. The latter projects and for the bilateral relations and the trade figures, we refer to the detailed reports in this Bulletin.

The ongoing China hype in the West, but especially the fast development and tremendous changes in China call for many challenges. The probably most difficult task in tackling the changes here and to come, lies in the overcoming of old habits and attitudes. But don't forget, in China the word for problem also stands for opportunity!



Susan Horváth
Managing Director, Member of the Executive Board

Pre-Announcement: New Book by Hans J. Roth



Hans J. Roth is among the few experienced China hands who had already started their contact with the People's Republic of China in the 1970s. His extensive work on political, economic, legal and cultural issues gives him an excellent overview over the last 30 years of Chinese development.

Extensive contact with foreign and Chinese companies during his posting in Shanghai as Swiss Consul-General from 2001 to 2006 and his current assignment in the same position in Hong Kong have given him a deep insight into management issues of companies operating in China.

His long China experience led him to the development of an intercultural model, allowing to grasp behavioural differences as well as other thought patterns in a very convincing way. Operational issues being in general quite well known, this book goes one step further and provides a manager with a model to better streamline the strategic issues of management in a Chinese social environment.

ISBN-10: 978-988-99874-3-5

Edition is published by Hans J. Roth Publishing in association with China Economic Review Publishing, Units C&D, 9/F Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong

Around end of August 2007, the Book will also be available at the Swiss-Chinese Chamber of Commerce.

CHF 30.– (excl. postage & handling)
10% rebate for orders of ten or more issues.

Please send order/s to: info@sccc.ch
or send a fax to: +41-(44)-421 38 89

Wirtschaftsmission nach China

Die Vorsteherin des Eidgenössischen Volkswirtschaftsdepartements (EVD), Doris Leuthard, ist mit einer Wirtschaftsdelegation vom 8. bis 14. Juli nach China (und vom 15. bis 18. Juli 2007 nach Vietnam) gereist. Ziel dieser Mission war es, die Beziehungen auf multilateraler und bilateraler Ebene zu vertiefen und zu festigen.

Die offiziellen Gespräche mit den chinesischen Regierungsmitgliedern und Handelsminister Bo Xilai haben – im Sinne der Implementierung der BRIC-Strategie des Bundesrates – in erster Linie dazu gedient, die Rahmenbedingungen für die Geschäftstätigkeit von Schweizer Firmen in China weiter zu verbessern. Im Rahmen der "Go West"-Strategie der chinesischen Regierung, welche die Teilnahme ausländischer Unternehmen an der Erschliessung und Entwicklung des westlichen Chinas anregen soll, hat Frau Bundesrätin Doris Leuthard Chengdu, der Hauptstadt der Provinz Sechuan, einen offiziellen Besuch abgestattet. Den Abschluss der Reise bildete ein Aufenthalt in Guangzhou (Kanton), der Hauptstadt der Provinz Guangdong und Wirtschaftszentrum des Südens.

Bezüglich der wirtschaftlichen Entwicklung ist China, mit einem jährlichen Durchschnittswachstum von 10%, der Spitzenreiter unter den BRICs. Seit 2002 ist China (inkl. Hongkong) der wichtigste Handelspartner der Schweiz in Asien. Der wirtschaftliche Austausch 2006 (Exporte nach China: 4.1 Mia. CHF (+18%); Importe aus China: 3.9 Mia. CHF (+16%); Handelsbilanz: +172 Mio. CHF) zeigt, dass sich die Beziehungen schneller entwickeln als der gesamte Schweizer Aussenhandel.

Doris Leuthard discusses a possible Free Trade Agreement with China and signs a Joint Declaration on economic cooperation

At her meeting in Beijing on July 8th 2007 with the Chinese Minister of Commerce Bo Xilai, Federal Councillor Doris Leuthard signed a joint declaration on economic cooperation. This document strengthens the relations between both countries on trade, investment and intellectual property rights.

At their meeting in Beijing, the Head of the Federal Department of Economic Affairs and the Chinese Minister of Commerce have decided to conduct internal feasibility studies towards a possible free trade agreement. These studies will show whether the conditions are in place for a free trade agreement between the two countries at some point in the future.

The two ministers have also decided to bolster the protection and enforcement of intellectual property rights (IPR) by setting up a regular dialogue through a working group consisting of representatives of their administrations and industry or business associations. The mandate of the working group is to find solutions, advance dialogue on institutional and legislative aspects of IPR and their enforcement. Switzerland and China also reaffirmed their reciprocal obligations under the WTO agreement on Trade related Aspects of Intellectual Property Rights (TRIPS).

The ministers have also decided to set up a bilateral working group to promote investment. This working group will have the goal of assisting Swiss business to invest in China and of attracting Chinese investors in Switzerland.

For further information please contact:

Massimo Baggi
SECO,
Head of Bilateral Economic Relations – Asia/Oceania
Phone 031-322 84 47

Changes at the State Secretariat (SECO)

Monika Rühl Burzi was born on December 12th, 1963 and grew up in the German speaking part of Switzerland (Uster/Zurich). She is married to Mr Gianni Burzi. In 1990 she graduated in Italian linguistics and literature from the University of Zurich. In 1992 Ms Rühl Burzi joined the Swiss diplomatic service in Bern. After a one year's stay in Brussels (Swiss Mission to the European Union) and some further training, she was dealing with UN affairs in Bern from 1994 to 1998. From 1998 to 2002 she acted as Counsellor at the Swiss Mission to the UN in New York with responsibilities for humanitarian coordination and sustainable development. In 2002 she was appointed Diplomatic Advisor to the Swiss Minister of Foreign Affairs, Federal Councillor Joseph Deiss. From 2003 to 2006 Ms Rühl Burzi worked in this same capacity for the Swiss Minister of Economic Affairs, Federal Councillor Joseph Deiss. Since August 2006 Ms Rühl Burzi in the rank of an Ambassador is head of the Bilateral Economic Relations Division of the State Secretariat for Economic Affairs (SECO) and member of SECO's Board of Directors. The Bilateral Economic Relations Division is dealing with economic relations worldwide, export control policy as well as sanctions. Ms Rühl Burzi is co-chair of a number of Joint Economic Commissions, including with countries such as China, India and the Russian Federation.

Massimo Baggi was born on April 23rd, 1964 and grew up in the Italian speaking part of Switzerland (Bellinzona). He is married and father of two boys (13 and 15 y. o.). Mr Baggi has an MBA in economics from the University of Zurich (1988) and studied public finance at the University of Lausanne (where he was research assistant in 1989 and 1990) and International relations (Diplomatic affairs) at the University of Geneva (in 1993). In 1991 and 1992 he was assistant to the Director of the Institute for economic research (University of Ticino). Then in 1992 he joined the Swiss diplomatic service in Bern. After a short stay in New York (Swiss Mission to the UN in 1992) he was posted at the Swiss Embassy in London (1992 and 1993). From 1994 to 1998 Mr Baggi was dealing with European integration affairs at the Ministry for Foreign Affairs and Ministry of economy in Bern and from 1998 to 2003 he was Counsellor responsible for economic affairs at the Swiss Embassy in New Delhi (India) with responsibilities also for Nepal, Bhutan and Bangladesh. From January 2003 to September 2006 he was Counsellor head of economic affairs at the Swiss Embassy in Moscow (Russia) with responsibilities also for Turkmenistan and Kazakhstan. Since September 2006 he is the head of the division Asia and Oceania at the State Secretariat for Economic Affairs (SECO), in Bern. Mr Baggi is author of publications in the fields of public finance and regional economics.

Vay-Luy Chung was born on August 1st, 1978 and grew up in the German speaking part of Switzerland (Ostermundigen/Bern). She graduated with a Commerce Diploma (1998) from the "Ecole supérieure de Commerce" of Neuchâtel and with a Swiss Certificate of Maturity (2000) from the "Lycée Jean-Piaget" of Neuchâtel. Subsequently, Ms Chung made a Master of Science (MSc) degree from the HEC University of Lausanne in May 2005 while having spent her last year of studies abroad at the HEC University of Montréal in Canada. This special schooling combination means that she is fluent in German, French and English in addition to her mother tongue Cantonese. In June 2005 Ms Chung went to Asia and has been living for nearly two years in China: four months in Hong Kong, one year in Shanghai and six months in Beijing. In July 2006 she graduated from the Fudan University of Shanghai completing her fulltime Mandarin studies which added yet another language to her communication tools. After her graduation Ms Chung worked as the Assistant to the Minister of the Embassy of Switzerland in Beijing. In March 2007 she joined the division Asia and Oceania at the State Secretariat for Economic Affairs (SECO) in Bern, as Desk Officer for bilateral economic relations particularly with China.

For further information please contact:

State Secretariat for Economic Affairs (SECO)
Bilateral Economic Relations Asia / Oceania

Effingerstrasse 1
CH-3003 Bern

Tel. ++41 (0)31 324 08 01

Internet: www.seco.admin.ch

New Consul General of the P.R. China

Herr LI Xiaosi, Generalkonsul der V. R. China in Zürich und für das Fürstentum Liechtenstein, geboren am 21. August 1962 in der Provinz Hubei/China, Studienabschluss, verheiratet, hat eine Tochter.

1983–1985	Mitarbeiter im Post- und Telekommunikationsministerium
1985–1986	Mitarbeiter, Attaché in der Westeuropa-Abteilung des Aussenministeriums
1986–1989	Attaché, dritter Sekretär der chinesischen Botschaft in der Bundesrepublik Deutschland
1989–1991	Dritter Sekretär in der Westeuropa-Abteilung des Aussenministeriums
1991–1992	Fortbildung an der Universität Hamburg
1992–1996	Dritter Sekretär, zweiter Sekretär der chinesischen Botschaft in der Bundesrepublik Deutschland
1996–2001	Zweiter Sekretär, stv. Referatsleiter, erster Sekretär, Referatsleiter in der Westeuropa-Abteilung des Aussenministeriums
2001–2007	Botschaftsrat und Leiter der politischen Abteilung der chinesischen Botschaft in der Bundesrepublik Deutschland
15.3.2007–	Generalkonsul in Zürich

Visa-Angelegenheiten

Antragstellerinnen und Antragsteller aus den Kantonen Aargau, Appenzell Ausserrhoden, Appenzell Innerrhoden, Glarus, Graubünden, Luzern, St. Gallen, Schaffhausen, Schwyz, Thurgau, Zug und Zürich sowie aus dem Fürstentum Liechtenstein werden gebeten, beim Generalkonsulat der Volksrepublik China in Zürich Antragsformalitäten auf Pässe, Reiseausweise, Visa und notarielle Dokumente zu erledigen. Alle anderen Kantone gehören zum Konsularbereich der Botschaft der Volksrepublik China in Bern.
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Adresse:
Generalkonsulat der Volksrepublik China
Bellariastraße 20
CH-8002 Zürich

Telefonnummern:
044-205 84 21 (Protokoll)
044-205 84 18 (Politische Abteilung)
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Fax: 044-201 77 12

Bürozeit der Konsularabteilung:
Montag – Freitag, vormittags 9.00 – 12.00 Uhr.

SWISS Services to Delhi and Shanghai

SWISS is to add its first new long-haul destinations to its network, with the introduction of scheduled services to the key cities of Delhi (India) and Shanghai (China). The new routes can be operated thanks to the addition of five further aircraft to the SWISS long-haul fleet, enabling the carrier to both increase frequencies on existing routes and introduce service from Switzerland to new destinations. The addition of Delhi and Shanghai should both boost the Swiss economy and enhance Switzerland's vacation appeal.

SWISS is growing, at a steady and sustainable pace. Since last November, Switzerland's national airline has added five Airbus A320-family aircraft to its European fleet and has introduced two further Airbus A330s and (from July 20) an additional A340 on its intercontinental network. Two more Airbus A340 aircraft will also be added to the SWISS long-haul fleet by spring 2008.

As a result of this fleet expansion, SWISS will introduce service to Delhi (India) in its 2007/08 winter timetable, and will add Shanghai (China) to its network in the 2008 summer schedules. "In extending our network to Delhi and Shanghai, we are both strengthening the Swiss economy and promoting Switzerland as a tourist destination", says SWISS CEO Christoph Franz. Delhi will be served with Airbus A330 aircraft from November 25, 2007, while the service to Shanghai, which will begin on March 30, 2008, will be provided using Airbus A340 equipment.

India: a key growth market

Delhi will be SWISS's second destination (after Mumbai) in the emerging Indian market. "It's the rapid growth in this market, the strong business ties between the two countries and the high demand for air services from non-government and non-profit organizations, too, that have prompted us to add Delhi to our network as our second Indian destination", says Harry Hohmeister, Chief Network & Distribution Officer at SWISS. The new route also offers sizeable potential for tourist traffic, from both the Swiss and the Indian source markets.

Swiss exports to India have more than doubled over the past three years, increasing 36% in 2006 alone. Imports of Indian products and services to Switzerland are also rising rapidly, and recorded 11% year-on-year growth last year.

First direct service between Zurich and Shanghai

With China now Switzerland's second-most-important trading partner in Asia, the demand for business travel between Zurich and Shanghai has considerably increased. Calls have also been growing in the tourism sector for a direct Zurich-Shanghai connection.

Apart from flights to and from Hong Kong, no direct services currently exist between Switzerland and China. With Air China and Shanghai Airlines due to join Star Alliance next year, SWISS should also soon be able to collaborate with two well-established local airline partners to offer its customers attractive onward connections from Shanghai to other Chinese destinations.

Beijing is also set to appear in the SWISS timetable next spring, under a codeshare operation with Lufthansa via Munich. "Our new services should ensure that Switzerland enjoys attractive air connections with what is currently the world's fastest-growing market", CEO Christoph Franz continues.

Swiss exports to China have increased by more than 35% over the last three years. Imports of Chinese products and services to Switzerland are also seeing substantial growth, and rose 16% last year.

Schedules coordinated with Lufthansa for more customer choice

SWISS and Lufthansa will also be coordinating the schedules of their services to Delhi and Shanghai to offer valuable convenience benefits to all their customers. As a result, travellers will be able to fly from Zurich to Delhi or Shanghai either directly on SWISS or via Frankfurt or Munich with Lufthansa. The harmonized timetables will offer customers a choice of three different departure times, and a flexibility that will be particularly appreciated by business travellers. The collaboration is further confirmation of Lufthansa's multi-hub strategy centred on Zurich, Munich and Frankfurt airports.

SWISS generates jobs

Having successfully completed its corporate restructuring, SWISS has given itself the scope to invest in its fleet, its network and its product. The present fleet expansion is also creating new jobs – around 600 of them among the company's flying personnel alone, or an increase of some 10% on present workforce numbers.

SWISS's expansion is generating new jobs in related fields, too, such as technical services, catering and ground handling. "Every long-haul aircraft we add to our fleet creates about as many jobs as will be found in a small or medium-sized enterprise in Switzerland", Christoph Franz points out. "So here, too, our fleet expansion is generating added value for the Swiss economy."

For further information please contact:

SWISS Corporate Communications
Phone: +41 (0)848 773 773
Fax: +41 (0)44 564 2127
E-mail: communications@swiss.com
Web: SWISS.COM

The New Services:

Delhi from November 25th, 2007
Shanghai from March 30th, 2008

Zurich–Delhi
LX 146 12:30 00:35+ (daily)
Delhi–Zurich
LX 147 02:00 06:25 (daily)

Zurich–Shanghai
LX 188 13:05 06:35+ (daily)
Shanghai–Zurich
LX 189 09:30 15:40 (daily)

+ = the following day

China Environment & Research

Below the reader finds some recent short summaries from the China Environment & Research newsletter compiled and published by the Swiss Embassy in Beijing. Further news and details from the summaries below can be found on their website.

Top Tens in 2006

The Chinese Academy of Science announced what is considered China's 10 major **Research & Development** achievements in 2006. The 10 achievements are:
- Genetic chip and expression maps for domesticated silkworm
- New particle discovered on Beijing Positron and Electron Collider
- National S&T conference decides to enhance proprietary innovation capacity
- Chinese scientists rolled out genetic engineered vaccine for foot-and-mouth disease
- China builds the world largest somatic cell bank for stock and poultry
- Qinghai-Tibet Railway runs through
- Proprietary LONGXIN IIE CPU accredited
- Chinese scientists found the key to regulating plant growth
- China becomes part of ITER
- China's first AIDS drug formulas

The official 10 best 2006 in **Science & Technology** progresses are:
1) Next-generation internet technology.
2) Discovery of a large natural gas field.
3) World first Experimental Advanced Superconducting Tokomak (EAST).
4) Observation of resonance state in chemical reactions at the quantum level.
5) 436 km green corridor through the Takelamagan Deserts.
6) China's first global marine scientific investigation.
7) Development of therapeutic hepatitis B vaccines.
8) Upgrading of Beijing Positron and Electron Collider.
9) Teleportation of dual-particle complex quantum state and manipulation of six-photon entangled state.
10) Launching of a satellite of remote sensing applications.

Alinghi and the China Team

In December 2006, the Swiss Embassy organized in Beijing a successful event, financed by Presence Switzerland, about Alinghi and the China Team's innovations and team work, with speeches by an EPFL delegation and the China Team CEO. Articles in Chinese newspapers explained how Alinghi, "of a country with no access to the sea", won the America's Cup. Scientific participants in the event where, amongst others, were experts of material, numerical analysis of fluid mechanics, micro-technique (measurement tools), operations research.

Measures to Control Air Pollution

The National Development and Reform Commission (NDRC) and the State Environmental Protection Administration (SEPA) have announced two important measures in the field of environment protection. In order to reduce air pollution urgently and in particular acid rain, it is planned that coal-fired power plants will cut sulfur dioxide (SO_2) discharges by 62 percent before 2010. Besides, SEPA is now strengthening cooperation with the People's Bank of China: enterprises that are identified by SEPA environmental protection supervisors as law violators are expected to have more and more difficulties getting financial support.

The Ministry of Science and Technology has launched a list of innovation projects in relationship with the Olympic Games where international and commercial cooperation is wished. Fields involved include information and communication, environment, transport, energy, etc.

Visit of State Secretary Kleiber to China

A high ranking Swiss delegation headed by State Secretary for Education and Research, Charles Kleiber, visited Beijing and Shanghai from 22 to 26 April, 2007. The purpose was to hold discussions on the implementation of the bilateral cooperation strategy for science and technology. The strategy of bilateral cooperation countries is part of the dispatch on the promotion of education, research and technology in the period from 2008 to 2011 that the Federal Council submitted to the Swiss parliament. The delegation included the director of the Federal Office for Professional Education and Technology, the President of the Swiss National Science Foundation, and Presidents of major universities.

During the visit of the Swiss delegation in Beijing, a public commemoration event took place in celebration of the 300th anniversary of Leonhard Euler. Prof. Rolf Jeltsch of ETH gave a speech titled "Leonhard Euler – his life, personality, discoveries and their impact today" and State Secretary for Education and Research, Charles Kleiber, extended an invitation to 16 Chinese Ph.D. students in applied mathematics to attend the 6th International Congress on Industrial and Applied Mathematics at ETH in July 2007. They will also visit research institutions and be able to explore opportunities for cooperation with Swiss colleagues.

DFA FEDERAL DEPARTMENT OF FOREIGN AFFAIRS
Embassy of Switzerland in China

GAO Hang, Programme Assistant
Science, Technology, Environment,
Project Financing Section
mailto: hang.gao@eda.admin.ch
http://www.eda.admin.ch/beijing

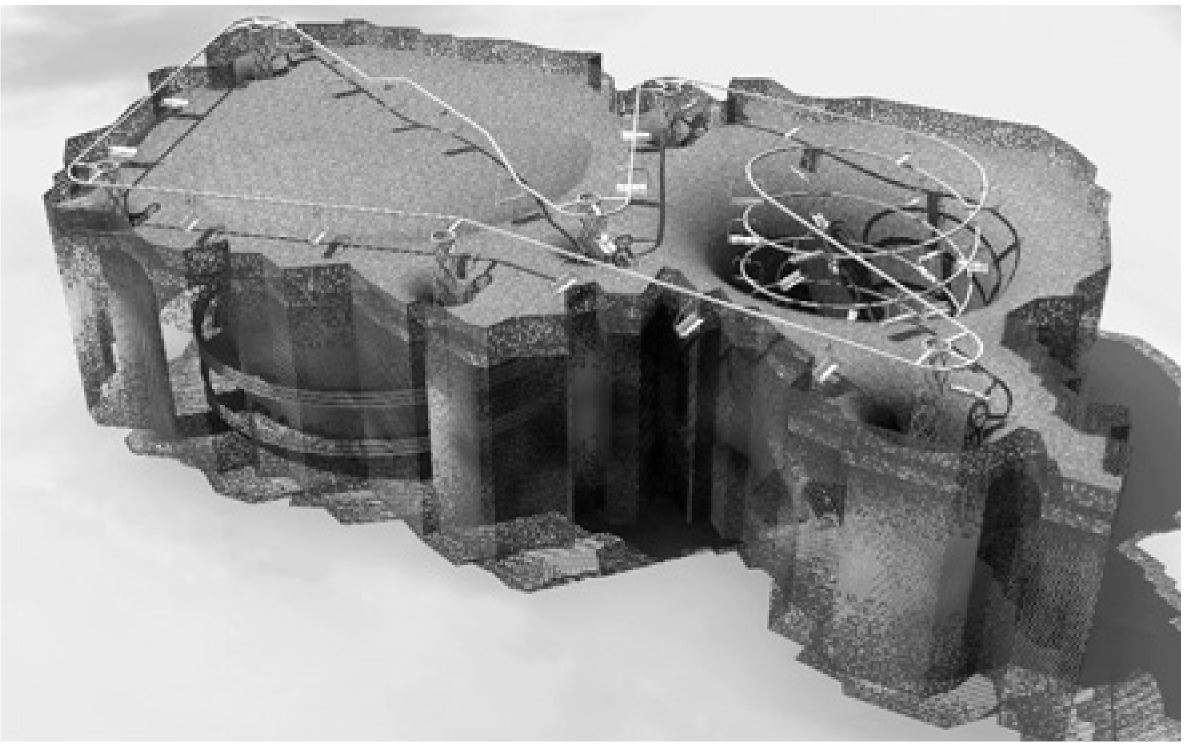
On the Road to Expo 2010 Shanghai

Switzerland's PR campaign in China

China will shortly be hosting two of the biggest international events in its history: the Summer Olympic Games 2008 in Beijing and the World Exposition 2010 in Shanghai. In view of the opportunities to intensify its dialogue with China that they present, Switzerland will launch its own national PR campaign to run from 2007 to 2011. The aim is to convey a comprehensive picture of Switzerland, enhance contacts between the two countries, and position Switzerland adequately in the strategically important market of the People's Republic of China. Switzerland's presence in China will include an official Swiss reception centre at the Olympic Games in 2008, to be known as the "House of Switzerland 2008 – Beijing", and the Swiss Pavilion at Expo 2010 Shanghai, for which the winning project was selected on 23 May 2007. Additionally, an interdisciplinary support programme is being launched under the aegis of Presence Switzerland in cooperation with partners from the public and private sectors.

Switzerland has a good image in the People's Republic of China according to the results of the scientific study conducted in March 2006 that was commissioned by Presence Switzerland. However, there is virtually no perception of it as a nation that has innovative and scientific strengths of international relevance. It is here that Switzerland's PR campaign begins: by means of an extensive and interdisciplinary campaign Switzerland is increasing its activities in China from 2007 to 2011. It is pursuing the long-term goal of reinforcing existing positive attributes and proceeding from there, to remedy the existing paucity of information. Regarding content, the thrust is to take advantage of the Swiss strengths identified by the study "quality of life" and "international reputation" (international Geneva, successful companies, and quality) and to bring further information about these areas to the target audience. Story Switzerland, a campaign recently developed by Presence Switzerland, also provides basic substance for the campaign's orientation. Story Switzerland profiles Switzerland's strong points and highlights the areas in which Switzerland is able to distinguish itself from competing countries.

The campaign concentrates on Chinese opinion leaders and students as well as the media, and consists of three main elements: the Swiss appearance at the Olympic Games 2008 in Beijing with the "House of Switzerland – 2008", the Swiss Pavilion at the Expo 2010 in Shanghai, and an interdisciplinary support programme.



Through its pavilion, Switzerland presents an innovative and differentiated image at the World Expo 2010 in Shanghai. The pavilion's outline is an imaginary political map. This complex structure – 70 metres long and 20 metres high – is built on two levels: the cityscape with an urban infrastructure – from a cinema and a restaurant to an exhibition space – in the inside combined with nature and a meadow landscape on the roof.

One country, one image: Using synergies in close cooperation with renowned partners

In all areas Presence Switzerland is working closely with renowned partners from the private and public sectors: while well-known Swiss brands such as Nestlé and Holcim are sponsoring public appearances in Beijing and Shanghai, public service agencies such as Pro Helvetia, Switzerland Tourism, Osec Business Network Switzerland and Location:Switzerland are helping to shape the support programme in their respective areas of expertise.

Holcim Ltd, in close collaboration with Presence Switzerland, took advantage of this opportunity to launch an interdisciplinary support programme on 18 April 2007 in Shanghai with the Holcim Forum on "Urban_Trans_Formation" (see article on "Urban_Trans_Formation: Many scales, one goal"). The Holcim Forum, as first evidence of the intensified dialogue between China and Switzerland, was shortly followed up by other events in the fields of architecture, international trade and education and science. More activities of a cultural, business and tourist nature are planned for the second half of 2007 in different cities throughout China. In this context, the support programme will be continuously enriched with additional events and projects. The campaign and in particular the support programme as well as the Swiss pavilion will offer unique opportunities for partnerships and sponsoring.

Presence Switzerland is coordinating the activities to ensure a consistent image under the umbrella label "Switzerland". The synergistic effect of such thoroughgoing cooperation will communicate a multifaceted image of Switzerland and establish an enhanced presence in the Chinese market. As a result, the support programme will serve as the ideal platform for the partners to promote their activities in China in the broad context of Switzerland's presence in China.

The House of Switzerland 2008 in Beijing

China is planning the greatest sports event of all time: the Summer Olympic Games 2008 in Beijing. Switzerland's presence at the Games will include an official Swiss reception centre: the "House of Switzerland 2008 – Beijing"; Presence Switzerland is managing the project which will be built at a prestigious location in Beijing. Even before the start of the Summer Games the House of Switzerland will be opening its doors to Chinese and international guests: it will serve the Swiss Olympic team as a meeting place and be available for receptions, media conferences and business meetings. As a result, the Swiss reception centre will be a very suitable marketing platform to capture the attention of the promising Chinese market. Lucerne and the Lake Lucerne Region aim to exploit this unique PR opportunity; an exclusive cooperation agreement with Presence Switzerland has been arranged that will place this area of Switzerland in the spotlight of the House of Switzerland. The Lucerne region will be presented along with its economic partners as an alluring travel destination and a dynamic business location.

Swiss participation in Expo 2010 Shanghai

The theme of Expo 2010 in Shanghai, "Better City, Better Life", offers Switzerland an ideal opportunity to present itself as a modern, innovative and environmentally aware country. In this connection Presence Switzerland conducted an open, two-stage competition to select the project for the Swiss pavilion 2010. Under the leadership of Dr. Uli Sigg – well-known sinologist and recently elected Commissioner General for the Swiss Pavilion 2010 – the jury recently selected the winning project for the Swiss pavilion, and presented the concept to the Swiss and Chinese media on 24 May. Switzerland is the first country to unveil the concept for its pavilion to the Chinese public: the positive echo in both the Swiss and Chinese media clearly speaks in favour of the innovative and differentiated concept. According to Xinhua News Agency, the pavilion's design perfectly reflects the Expo's theme of "Better City, Better Life".

Swiss Presence at Expo 2010 Shanghai

Switzerland's presence at the World Exposition 2010 in Shanghai is the second highlight of its PR campaign in China. With an expected 70 million visitors and nearly 200 participating countries and organizations, Expo 2010 Shanghai promises to break all previous records. Faithfully following the central theme of "Better City, Better Life", Switzerland is presenting a bold exposition concept with the aim to position Switzerland as an innovative country and promote a differentiated image and perception of the country.

The Expo 2010 Shanghai

The World Exposition 2010 is being constructed on both sides of the Huangpu River on a 5.28 sq. km site. The organizers of Expo 2010 Shanghai anticipate more than 70 million visitors in the period from 1 May to 31 October 2010 and expect 200 countries and organizations to take part, of which 142 have been confirmed to date. Expo 2010 Shanghai promises to be the largest-ever world exposition.

On 29 March 2006, the Swiss Federal Council gave the go-ahead for participation in Expo 2010 Shanghai and allocated a budget of CHF 20m, of which CHF 9m will come from the regular budget of various federal departments: the Federal Department of Foreign Affairs and PRS are contributing CHF 6m, the Federal Department of Economic Affairs CHF 2m, and the Federal Department of Finance CHF 1m. A further CHF 4m will be generated by contributions from sponsors, and the remaining CHF 7m will be financed by additional federal funds.

Strong concept

Dr. Uli Sigg, jury president and Commissioner General for the Swiss Pavilion 2010, presented the winning project to the public at a press conference in Bern on 24 May 2007. The exposition concept of the following authors was selected among the 103 other participating projects:

– Andreas Bründler, Buchner Bründler AG Architects BSA, Basel
– Andreas Hunkeler, Element GmbH, Basel
– Werner Waldhauser, Waldhauser Haustechnik AG, Basel
– Roland Hürzeler, Huerzeler Holzbau, Magden
- Barbara Jenni, consulting expert for sinology

Concept number 8005 – a name for the pavilion has to be determined – is the result of close cooperation between Buchner Bründler Architects and Element Scenography; it won the jury over on the basis of its symbolism, originality, unexpectedness, simplicity and emotional communication.

The pavilion wants to be understood as a strong symbol. It does not seek simple geometric form, but rather, the surprising effect of the ambivalence in its disparate or hybrid elements, whereby form and function, interior and exterior, interlock in the semi-transparency of the façade.

The pavilion is a hybrid factory, a laboratory of sustainability. It is an architectural enigma: a hanging net forming a curtain in front of heavy pylons, which are planted on the Expo site like sawn-off elephant feet bearing no visible load. Its outline is an imaginary political map.

The intellectually challenging exposition concept captivates with its clear claim to incorporate the hybrid character of technology and nature in cities of the future, and in doing so, to enhance the quality of life in urban spaces. At the same time the authors refer to the Asian principle of Yin and Yang. Playfully, they add a chair lift 'to elevate' visitors from the heavy reality of the city to the airiness of nature. In these ways, the pavilion brings into a logical cycle the basic themes of Expo 2010, sustainability and quality of life.

Presence Switzerland

Presence Switzerland (PRS) was founded in 2000 by the Federal Council and parliament as the successor to the Coordinating Commission for the Swiss Presence Abroad (KOKO).

The mission of Presence Switzerland: to convey knowledge about Switzerland, to create understanding and empathy for our country and to highlight its diversity and attractiveness. Creative power, trustworthiness and well-being are the basic messages central to Presence Switzerland's activities. Presence Switzerland uses innovative ideas to make Switzerland more familiar abroad.

Presence Switzerland acts within a broad network to carry out and coordinate this task. Its Swiss partners include Pro Helvetia, Switzerland Tourism, Osec Business Network Switzerland, seco, swissinfo and youth and sports organizations. Swiss Embassies and Consulates as well as Swiss schools are among the main partners of Presence Switzerland abroad.

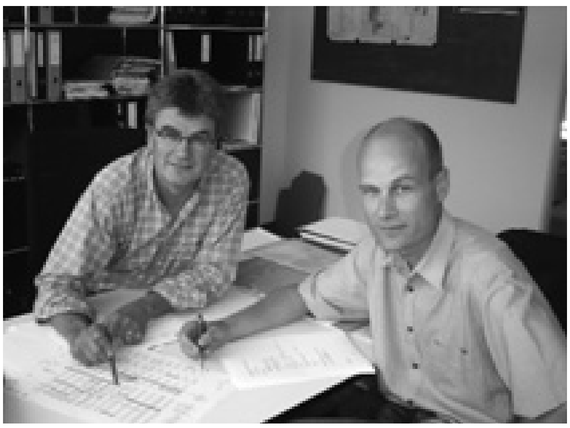
The union of innovation and sustainability is the bedrock of the concept. The façade of the pavilion will be "edible" and an "energy-producer", and will resoundingly demonstrate the power of innovation.

For further information please contact:
Mrs Kieu D. Tran
Email: kieuduy.tran@eda.admin.ch
or visit the website: www.presence.ch

Swiss Plan Large Temporary Facilities

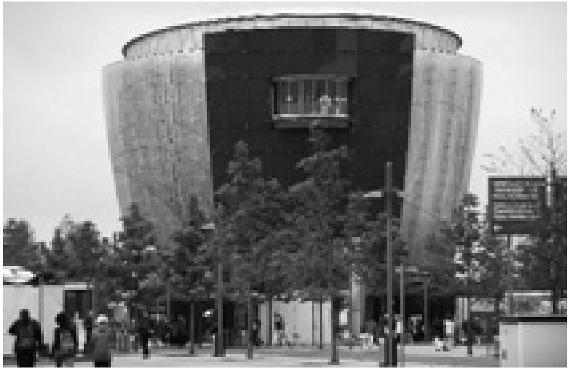
With the 2008 Summer Olympics in Beijing and the 2010 World Exhibition in Shanghai, China will host two major events in the near future. While the Olympics in Beijing is above all also a media event, about 70 million Chinese are expected to visit the World Exhibition. Not only the number of visitors is greater than ever, a look at the 2010 Shanghai World Exhibition master plan shows that something major is planned here: the site on both sides of the Pu River is huge; and the pavilions are also somewhat more impressive and magnificent than with previous World Exhibitions.

In addition to the logistical challenges, dealing with these masses also particularly necessitates maximum performances in the field of temporary construction. A Swiss firm, Nüssli Special Events Ltd., would also like to take part in the realisation of these multi-storey national and sponsor pavilions.



Florian Hugentobler, Head of Tendering and Key Acount for the Expo 2010 Project (l) and Martin Joos, Division Head of Exhibition and Pavilion Construction (r).

The company has extensive experience in the realisation of temporary infrastructural facilities. The firm was already active in the World Exhibitions in Hanover (2000) and Aichi (2005), and has realised various exhibition pro-



Expo 2000 Hanover. "Cyclebowl – closing the circle".

jects at the Expo.02 in Switzerland. At the moment, the company is involved with the implementation of pavilion projects for the World Exhibition in Zaragoza, Spain.

Chief Editor Susan Horváth visited the firm at its headquarters in Hüttwilen (Switzerland), and talked with Mr. Florian Hugentobler (Head of Tendering) as well as Mr. Martin Joos (Division Head for Exhibition and Pavilion Construction) about the company's preparation and objectives in view of Shanghai 2010.

Monolith – Icon of Expo.02, Murten 2002.

Horváth: Mr. Joos, the list of pavilions which Nüssli has realised in the past ten years is impressive and fascinating. What are the attributes of such projects?

In many points, pavilion buildings are comparable with normal buildings and houses: The pavilions at World Exhibitions are multi-storey, useful exhibition buildings which require electricity, light and water connection, and have air-conditioning systems as well as sanitary facilities. However, temporary pavilions differ strongly from permanent buildings in a few important points. For instance, deep foundations are refrained from whenever possible with pavilions. Depending on the nature of the development site, the pavilion is occasionally only put down on the ground and the building then has to be secured with ballast against upwind. A second difference lies in the supporting structure. This has to be easily transportable and easily to dismantle again after the exhibition. And finally, on account of the limited service life, interior work necessitates other materials than with permanent buildings.

Horváth: This all sounds like meticulous preparation? Who plans such buildings and what has to be taken into consideration during the implementation?

The planning of such temporary pavilions is indeed very challenging. In particular, the planning is highly complex and encompasses a large team of event specialists, because in contrast to normal houses the pavilion is supposed to be as conspicuous and astounding as possible. In the beginning, there is usually merely an architectural and scenographic concept with many great ideas, the realisation of which is still uncertain, however. Then the team has to plan, review, adapt, coordinate and finally also coordinate with the local authorities in a very short period.

Horváth: And what role does Nüssli play in this planning phase? When does the planning of such buildings begin for you?

The earlier we participate in the planning, the better the work process and the result is. Because through our experience gained from the implementation of pavilions we are already able to make important contributions towards the realisation of ideas and selection of material or optimise detail solutions in the planning phase. Everything is done with the objective to reduce the schedule and cost risk of pavilion construction.

Horváth: Mr. Hugentobler, you are the Head of Tendering at Nüssli and at the same Key Account for the Expo 2010 Project. What are the company's objectives in Shanghai? What would you – so afar from the homeland – like to achieve? What is even possible?

The world exhibition in Aichi, Japan, 2005.

Hall for 150 years Credit Suisse and the exhibition of Cristo, Zurich 2006.

The Nüssli Group has the ambition to become the construction contractor for various countries and sponsors at the Expo 2010 in Shanghai. In full awareness that the environment in China cannot be compared in any way with the exhibition locations Hanover or Zaragoza, the company is already working intensively on the build-up of a strong local network of partners and suppliers. It is clear that potential clients will pose the same great demands with regard to costs, dates and quality as we normally provide in an environment known to us.

Horváth: While doing so, are there parallels or differences regarding your involvement in the last large World Exhibition in Aichi, Japan?

Our quality claim and our obligation vis-à-vis the customer is certainly the same as in Japan. In contrast to Aichi, however, we are preparing ourselves for Shanghai with a mid- to longterm option, whereas in Japan we went there above all for realisation of the Swiss and Austrian appearance. In this sense, Shanghai 2010 could be a platform to gain a lasting foothold in China.

Horváth: A final question, Mr. Hugentobler: What does the company expect with the realisation of pavilion projects in China, and how is it preparing for this?

I personally and we all already know that we should always expect the unexpected in China [smiles]. This is why we are not going to Shanghai with the fixed notions of finding everything here to be the same as at home. The successful implementation of pavilions in China necessitates that we must work closely together with local partners and invest in the build-up of a powerful local team. It would be desirable to find the right partners who make it possible for us to cover major portions of pavilion construction productions and services in the required quality on a local basis.

For further information please contact:

Florian Hugentobler
Nüssli Special Events Ltd.
Head Tendering / Key Account "Expo Shanghai 2010"
Hauptstrasse 36
CH-8536 Hüttwilen TG
Phone: +41 58 748 21 31
Fax: +41 58 748 21 00
E-mail: florian.hugentobler@nussli.com
Web: www.nussli.com

Nüssli in Brief

(www.nussli.com)

Nüssli Special Events Ltd. is an internationally leading provider of temporary structures for events, trade fairs and exhibitions. The company convinces by delivering innovative solutions. The purposeful combination of extensive know-how, many years of experience and international resources results in new synergies every day. The professional cooperation between its core divisions – General Planning, General Contractor, Exhibit Constructions, Stages | Grandstands and comprehensive products means in the divisions Steel Construction, Timber Constructions and Interior Fittings make the company unique. From the initial idea up to implementation, the company provides tailor-made integrated services.

The company has a workforce of more than 200 employees and is present in Switzerland (headquarters), Germany, Austria, Spain, Italy and the USA.

Annual Economic Report *May 2007 Update*

Appreciation of the Economic Problems and Issues

The **11th five-year plan (2006–2011)**, adopted at the March 2006 National People's Congress Meeting, has set the twin goals of reducing investment in overheated sectors and stimulating consumption levels. The Chinese Government has articulated its desire to move the country from an export-and investment-led growth to one balanced by healthy consumer spending. China's top economic planner, the National Development and Reform Commission, has declared it will focus its efforts on instilling a "new sense of security in Chinese households".

The annual session of the National People's Congress in March 2007 concluded with the **adoption of a landmark property law and a new corporate income tax law**. Both are expected to improve the investment climate. The corporate income tax law sets a single 25% tax rate for domestic and foreign-invested enterprises. Up to now domestic and foreign firms have been taxed at different rates. The new law therefore increases the transparency of China's tax regime. The property law provides for equal legal protection for public and private property for the first time since the establishment of the People's Republic of China. It remains to be seen how this new legislation will be applied and enforced.

Rising incomes have boosted retail sales year-to-year by 14.9%. The gradual shift to consumer services hints at big opportunities for Swiss consumer goods and services companies, especially with 2006 being the last year of the phase-in period of China's WTO commitments. Banking, insurance, professional services, retail and telecoms are key sectors of interest for Swiss companies as geographic and functional limitations were abolished by the end of 2006.

In late December 2005, the National Bureau of Statistics published **new GDP figures that were far larger** than what had been previously calculated. This was due to data collection problems and a gross underestimation of China's service sector, especially small businesses.

The Chinese economy continues to grow at a brisk pace in 2007. GDP growth amounted to 11.1% in the first quarter. The consumer price index (CPI) grew by 2.7% and money supply increased by 17.3%, 1.3 percentage points more than the central bank target. This surge of easy credit has caused analysts to worry about the dual risks of a housing bubble in the sizzling real-estate market and of an increased debt-burden due to non-performing loans, thus **maintaining fears of an overheating economy** (cf. annexe 2). The National Bureau of Statistics (NBS) admitted that "there exists certain inflationary pressure"[1]. Given the fact that the CPI, GDP and money supply had all exceeded official benchmarks, economists agreed that interest rate hikes were likely to follow. Since April 2006 the People's Bank of China (PBOC) has raised interest rates four times. The last increase was on 19 May 2007, when the PBOC raised the one-year deposit and loan interest rates by 0.27 and 0.18 percentage points to 3.06% and 6.57% respectively. The bank reserve ratio was raised eight times over the past year, each time by 0.5 percentage points and now amounts to 11.5%.

China's worldwide economic importance is also becoming to manifest in international financial markets. The 9% drop at the Shanghai stock market this February affected regional as well as international markets. Even though it wasn't a matter of an accurate stock market crash, the event showed the **growing impact of Chinese financial markets**.

During March and April the Shanghai stock market kept rising sharply, increasing concerns that the stock market is now the main driver behind the extraordinarily large foreign exchange portfolio inflows in the first quarter. As the domestic stock market is moving into bubble territory, macro-authorities are no longer concerned with keeping money in domestic assets, and are actively looking for ways to cool the market down. In May the China Banking Regulatory Commission (CBRC) gave Chinese

China: Structure of the Economy

	2001	2002	2003	2004	2005*	2006**
Distribution of GDP (%)						
Primary Sector	15.8%	15.3%	14.4%	15.2%	12.4%	11.8%
Secondary Sector	50.1%	50.4%	52.2%	52.9%	47.3%	48.7%
Tertiary Sector	34,1%	34.3%	33.4%	31.9%	40.3%	39.5%
Distribution of Labor (%)						
Primary Sector	50.0%	50.0%	49.1%	47.0%	44.8%	n/a
Secondary Sector	22.3%	21.4%	21.6%	22.5%	23.8%	n/a
Tertiary Sector	27.7%	28.6%	29.3%	30.5%	31.4%	n/a
(of which state sector)	10.5%	9.7%	9.2%	8.9%	11.2%	n/a

*Sources: NSB, *MofCom, **OECD*

commercial banks the authorization to invest in overseas equity markets[2]. **It is the first time that the mainland has formally allowed portfolio equity outflows.** On 15 May the Shanghai stock market plunged another 4% amid concerns about overvaluation and rampant speculation. According to analysts the new regulations might have exacerbated the nervousness in the market. While some experts believe that capital inflows will slow as an increasing amount of non-tradable shares become tradable and new stocks are listed on the mainland market, others anticipate more drastic measures such as renewed administrative controls on new fund inflows, aggressive anti-leverage measures, the possible imposition of capital gains and short-term sales taxes on equity to be taken by the Government to cool the market.[3]

Following the 2005 exchange rate system reform ending the RMB's decade long peg to the dollar, China has been under constant pressure to continue with reforms. While the US Treasury Department did not name China as a currency manipulator in its May 2006 report, this was a clear indication that it was expecting Chinese authorities to revaluate the RMB. Having **strengthened to notably below the symbolic 8 RMB to 1 US$ threshold[4]**, trade tensions between the two countries might ease to a certain extent.

The first meeting of the high-level U.S. – China Strategic Economic Dialogue, focusing on overarching and long-term strategic economic issues, took place in December 2006 in Beijing and the second round was held from 22 to 23 May in Washington. Being a root cause of America's huge and growing trade deficit with China – from a U.S. point of view – the country's currency policy remains a core issue in the bilateral economic relationship. The protection of intellectual property rights, the opening-up of financial markets and joint cooperation in the energy sector were also among the key-topics discussed with certain openings in the RMB credit and debit cards market and the securities industry announced.

The ongoing reform of the **state owned sector** has some more progress to make: 35% of all state-controlled companies are still not earning a positive rate of return and one in six has negative equity. Another step has been taken towards creating **a more efficient and more market-oriented economy** with the opening up to private businesses of a number of previously restricted areas (in most areas of the industrial sector, bar mining and utilities, and in distribution). 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 and the effective enforcement of the set of laws and regulations for intellectual property rights (IPR) are required. **A new corporate bankruptcy law** was adopted on 27 August 2006 to take effect on 1 June 2007, requiring bankrupt enterprises to pay creditors before using any remaining assets to pay laid-off workers. Also, a recent set of noteworthy IPR-cases have been prosecuted, coming as a sign that China might be starting to tackle the issue more consistently. However, overall progress remains slow.

Foreign banks (including Credit Suisse and UBS) have 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.[5] 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, in Hong Kong, with overseas investors with an **initial public offering (IPO)** on 27 October 2005. The Industrial and Commercial **Bank of China** (ICBC) followed suit in May 2006 and raised US$ 9.7 billion in the largest worldwide IPO since April 2000. In both of these successful transactions Credit Suisse played a major role.

International and Regional Economic Agreements

Country's policy and priorities

China as a member of the World Trade Organization (WTO)

China's accession to the WTO in 2001 has had and will continue to have vital implications for the furthering of the Chinese economic system reforms and the development of the country altogether. It is widely recognized that **China has fulfilled most of its WTO commitments** – usually on time and sometimes ahead of schedule. While China has terminated its fifth and final year of WTO-commitments' implementation on 11 December 2006, there are concerns that trade barriers are being replaced by more subtle obstacles, concealed by the challenges of implementation and enforcement of WTO regulations.

A lack of compliance to WTO rules is however clearly noted in areas such as agricultural product imports, market access for financial services, discriminatory tax practices against foreign companies (VAT), as well as lack of transparency in trade regulations, of distribution rights provisions for foreign firms and of intellectual property rights enforcement. In the first four years as a member of the WTO, China has also been the target of **numerous anti-dumping complaints**. A 2006 high-profile case involved the EU imposing anti-dumping duties of nearly 20% on a broad range of footwear products. In late March 2007 the U.S. Department of Commerce announced tariffs of 10–20% on glossy paper imported from China, to offset the impact of alleged government subsidies. This reversed a 23-year-old policy of not imposing countervailing duties on a non-market economy.[6]

So far, China has leant towards being an **advocate of free-trade** within the WTO, demonstrating a strong engagement in issues typically affecting emerging markets – also in the context of its involvement with the Group of 20 developing countries (G 20) led by Brazil – such as the liberalization of agricultural markets. China wants to give the image of an active WTO-member but has so far been criticized for not engaging hard enough to find a compromise on Doha.

Following the **suspension of the Doha round talks** in July 2006, China expects first the US and then the EU to take major steps to unlock negotiations, thus opening the door to G20 and G33 concessions. Should the Doha round ultimately fail, it seems that China could accommodate itself to a more regionally and bilaterally structured global trade environment as China-led intensification in FTA-negotiations in the last few years has shown.

Under its WTO accession commitment, China "fully" opened up its banking industry to foreign competition on 11 December 2006. Having progressively relaxed restrictions over the past five years, China allows foreign banks **access to its RMB retail business and lifts all geographic and client constraints** on their operations, eliminating any existing non-prudential measures restricting ownership, operations, internal branching and licenses.[7] The revised Regulation on the Administration of Foreign-funded Financial Institutions by the State Council also allows **subsidiaries of foreign banks** to offer foreign exchange and RMB services to all customers, meaning both corporate and retail customers just as domestic banks, and also permits **branches of foreign banks** to continue doing foreign exchange business with all customers and RMB business with foreign and Chinese enterprises as they did before.[8] Critics say that from a macro point of view, this doesn't mean much for the banking system. Foreign banks will continue to face significant regulatory and market barriers. To offer the full range of local currency services, foreign banks must incorporate their Chinese subsidiaries locally which means high capital requirements. Another obstacle for foreign banks will be the licensing and approval process for individual business lines and branch networks. So far, twelve foreign banks – none of them Swiss – have been allowed to incorporate their Chinese branches into subsidiaries.

China-ASEAN Free Trade Agreement (CAFTA)

After its successful accession to the WTO, China turned itself to ensuring the conclusion of regional free trade agreements. In November 2002, China began official negotiations with ASEAN and signed a framework defining the liberalization of trade in several steps to lead to the establishment of CAFTA by 2010 for the original ASEAN members (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) and by 2015 for the newer and less developed members (Cambodia, Laos, Myanmar, Vietnam). The framework agreement states the objectives of the group with China and **aims to lower bilateral tariffs to 0–5% on most goods and eliminate non-tariffs barriers**. However, it doesn't detail the FTA's institutional set-up, relying on future consultations. The negotiations ended in October 2004 and the partners signed several trade pacts a month later at the ASEAN-meeting in Vientiane, Laos. The tariff reduction programme was launched in July 2005, the start of a comprehensive implementation of CAFTA.

While China continuously tries to convince the ASEAN countries of the mutual benefits of closer trade relations, the latter feel **growing concern at perceiving the suction-effect** that the industrial site that China is, has on attracting foreign direct investment. Meanwhile, Japan and the USA also see their position as regional economic super-powers challenged and consequently put an effort to reach a free-trade agreement with the ASEAN-countries themselves.

It follows from China's tightening ties with ASEAN that the country would **press further regionalism**. China has supported the transformation of ASEAN+3 (China, South Korea and Japan) into the East Asian Summit (EAS), which has welcomed Australia, New Zealand and India to the group during its inaugural meeting on 14 December 2005 in Malaysia.

In January 2007 a series of East Asian summits was held in **Cebu**, namely the 10th ASEAN-China Summit, the 10th ASEAN+3 Summit and the 2nd East Asian Summit. **China and ASEAN signed a Trade in Services Agreement** under which service providers will enjoy improved market access, including national treatment in business services, construction and engineering related services, tourism and travel related services, transport and educational services, telecom services and other service related sectors. The accord will come into effect in July 2007. At the same time the leaders of the ten ASEAN member countries affirmed their strong commitment to **accelerate the establishment of a FTA with China by 2015**.

Other international free trade negotiations

- China and Chile signed a FTA at the APEC-Summit in Busan, South Korea, in November 2005, (only a year after negotiations started) which has come into effect on 1 October 2006 and will eventually lift customs fees on the trade of 97% of all trade goods.
- After six rounds of talks between China and New Zealand, Premier Wen Jiabao hinted in April 2006 a comprehensive FTA agreement could be signed within two years. On the eleventh round of talks in March 2007 progress was made across the board with discussions now well advanced in a number of technical areas of the negotiations.
- Comprehensive China-Australia FTA-negotiations were launched in April 2005, but due to substantial stumbling blocks, namely in agriculture and industrial goods, are making relatively slow progress. The eighth round of talks, which took place in March 2007, concluded with few results. The Australian Government has been dampening the expectations of an early breakthrough.
- China has also started negotiations on a bilateral FTA with the Gulf Cooperation Council (GCC) and plans to follow suit with MERCOSUR, India and the Southern African Customs Union (SACU).
- After five rounds of negotiations since April 2005, China and Pakistan have agreed on market access and signed a FTA on 24 November 2006. Under the agreement China and Pakistan will begin to reduce or eliminate tariffs on all products in two phases from 1 July 2007.

– There are also possibilities of future negotiations with South Korea although South Korea's current top priority is a trade-deal with the United States.
– Early meetings with the new Japanese Prime Minister Shinzo Abe and the November 2006 State visit of President Hu Jintao to India included talks on respective bilateral FTA.

Outlook for Switzerland (potential for discrimination)

In the bilateral agreement to China's WTO-accession of 26 September 2000, the People's Republic had agreed to make certain concessions towards Switzerland in the fields of insurance licences, inspection services and the import of watches. In the beginning, these privileges have only partly been taken advantage of. Economic difficulties of companies' headquarters in Switzerland have played a role in this, as well as in determining whether to reduce temporarily or give up completely the work in the Chinese market. On the other hand, **some sectors have benefited from such easing of market entry rules**: for example, representing the reinsurance sector, Swiss Re officially opened the company's China branch in December 2003. In May 2006 Zurich Financial Services Group received approval to run a property and casualty branch in Beijing, thus becoming the first foreign insurer to establish a general insurance branch in the capital. Swiss financial intermediaries have also strengthened their foothold in mainland China while Hong Kong remains the leading financial centre in the region as their continuing strong presence in the SAR shows. The Swiss watch industry's zero-tariff-imports have increased continually, as is shown in the bilateral trade statistics in annexe 4. However, the sudden introduction of a 20% consumption tax on luxury watches as of 1 April 2006 has had a certain negative impact on mainland sales figures. This tax affects watches with a value of RMB 10'000 (approx. CHF 1'600) or more, of which 99% are Swiss made.

Iceland has become the first European country to launch a FTA feasibility-study with China. Started in May 2005, after Iceland recognized China's full market economy status, which is a prerequisite for any FTA-negotiation with China, the study was concluded in July 2006. Negotiations concerning the FTA started in April 2007. **In March 2007 Norway also announced to recognize China as a full market economy.** The FTA feasibility-study should be completed by the end of this year and negotiations start in 2008. During his bilateral economic mission in July 2005, the Swiss Minister of the Economy, Joseph Deiss, presented a proposal on behalf of Switzerland and the other three members of the European Free Trade Association (EFTA) on whether China was prepared to consider a feasibility study about an FTA with EFTA. In subsequent meetings the Chinese side stated that the idea of an **EFTA-China FTA "should be considered very seriously"** but that it faced serious resource-constraints due to the Doha Round and an increasing number of bilateral free trade negotiations. Although China reconfirmed in December 2006 to be basically willing to conclude an FTA with all EFTA members, it doesn't seem to want negotiations with the EFTA as a group. Recent developments in Chinese economic relations with Iceland and Norway demonstrate that China now seems to prefer bilateral FTA with the EFTA-members. Seco figures show an important upturn above average in bilateral trade figures following the conclusion of recent FTAs. As both the position of China as an economic partner for Switzerland and the number of FTA between China and other industrial countries will increase, the potential for discrimination will follow the same path unless progress is made in the Doha Round or Switzerland-China FTA plans materialize. In Switzerland's view, **Federal Councillor Leuthard's official visit to China in July 2007 will present an other opportunity to discuss a bilateral FTA**.

Foreign Trade

Development and general outlook

<u>Trade in goods</u>

2006 was yet another remarkable year for China's trade performance. Chinese imports and exports grew to a total of US$ 1.76 trillion, an increase of 23.8% over 2005. Exports rose 27.2% to US$ 969.1 billion and imports increased 20% to US$ 791.6 billion. While the year 2005's trade surplus of US$ 101.9 billion was considered an excellent result, **the year 2006's trade surplus figure, standing at US$ 177.46 billion an increase of 74.1%**, is both outstanding and problematic as it raises increasing concerns with China's main trading partners, in particular the US and EU with their huge trade deficits.

Analysts have anticipated the country's trade surplus to shrink for some time – attributing factors would be China's accession to the WTO (reduction of custom duties), the considerable decrease of non-tariff barriers of import requirements, the acceleration of the inland economic restructuring and the strong inland demand for high-technology, machines, energy and raw materials. However, 2005 and 2006 figures once again dispelled those views.

The **leading Chinese product export categories in 2006** were "machinery and mechanical appliances", "textiles and textiles articles" and "base metals and ar-

Trading partners of the People's Republic of China

Exports to Country/Region 2006	Billion USD	Share %	Growth in % to a comparable previous period
USA	203,5	21,0%	24,9
Hong Kong	155,4	16,0%	24,8
Japan	91,6	9,5%	9,1
Korea Rep.	44,5	4,6%	26,8
Germany	40,3	4,2%	23,9
Netherlands	30,9	3,2%	19,3
United Kingdom	24,2	2,5%	27,3
Singapore	23,2	2,4%	39,4
Taiwan	20,7	2,1%	25,3
Russia	15,8	1,6%	19,8
EU-25	182,0	18,8%	26,6
APEC	644,7	66,5%	23,4
ASEAN	71,3	7,4%	28,8
EFTA	4,3	0,4%	28,2
Iceland	0,078	0,01%	4,0
Liechtenstein	0,011	0,00%	18,9
Norway	1,701	0,18%	28,7
Switzerland	2,510	0,26%	28,9
Total	**969,1**	**100%**	**27,2**

Imports from Country/Region 2006	Billion USD	Share %	Growth in % to a comparable previous period
Japan	115,7	14,6%	15,2
Korea Rep.	89,8	11,3%	16,9
Taiwan	87,1	11,0%	16,6
USA	59,2	7,5%	21,8
Germany	37,9	4,8%	23,3
Malaysia	23,6	3,0%	17,3
Australia	19,3	2,4%	19,3
Thailand	18,0	2,3%	28,4
Philippines	17,7	2,2%	37,3
Singapore	17,7	2,2%	7,0
EU-25	90,3	11,4%	22,7
APEC	582,6	73,6%	18,1
ASEAN	89,5	11,3%	19,4
EFTA	5,6	0,7%	9,4
Iceland	0,040	0,01%	-14,4
Liechtenstein	0,014	0,00%	43,5
Norway	1,250	0,16%	9,2
Switzerland	4,255	0,54%	9,7
Total	**791,6**	**100%**	**20,0**

Source: Ministry of Commerce

ticles of base metal" comprising almost two third of total trade volume.[9] Aggregated machinery and mechanical appliances categories exports amounted to a 42.7% share of exports.[10] "Machinery and mechanical appliances" and "mineral products" are the top two Chinese imports, representing just over 57% of total imports.[11]

China's most important export markets were the USA (US$ 203.5 billion, 21.0% of total exports), the EU-25 (18.8%), Hong Kong[12] (16.0%), Japan (9.5%) and the ASEAN-States (7.4%). The most important countries and/or regions of origin from which China imported products were Japan (US$ 115.7 billion, 14.6% of total imports), the EU-25 (11.4%), South Korea (11.3%), the ASEAN-States (11.3%), Taiwan (11.0%), and the USA (7.5%).

According to Chinese statistics, the US and EU-25 trade deficits rose by 26.4% and 30.7% respectively (from a trade deficit of US$ 114.2 billion to US$ 144.3 billion for the US, and from a trade deficit of US$ 70.1 billion to US$ 91.7 billion for the EU).[13] **With those figures in mind, tensions in trade between China and its partners are understandable.**

Statistics with the General Administration of Customs show that China's foreign trade volume was US$ 635.73 billion in the January–April 2007 period, up 23.6 percent year-on-year.

In 2006 the imports out of and the exports into Switzerland grew, according to Chinese statistics, about 9.7% (US$ 4.26 billion) and 28.9% (US$ 2.51 billion) respectively.[14] **The share of bilateral trade between Switzerland and China slightly decreased from 0.41% to 0.38% in year 2006.**

The problem of the countless state-owned enterprises (SOEs), which are inefficient to run and flood the market with overproduction goods, changes nothing to the fact that China has expanded to a dominant position in nearly all areas of industrial production. As opposed to the classic developing countries with cheap industrial production, **China has not only the advantage of lower costs, but more importantly of a higher technical competence.** China's manufacturing industries have until now mainly exported low value consumer goods (textiles, clothes, shoes, toys), but Chinese firms and businesses with foreign participation are increasingly producing higher-standard products (home appliances, consumer electronics, computers, mobile phones, etc.), which is in line with the Government's new FDI strategy (cf. 4.1).

As a result, industry suppliers of industrialized countries are under pressure to either lose their share of the market or to produce in China (one such example is the automotive suppliers' industry). The WTO-accession has accelerated this development and the SARS-crisis made apparent how far the integration of China in world trade has already gone. Simultaneously, the **dependence of the world on China's role as an essential part of the world supply chain has become obvious**.

Bilateral trade

Trade in goods[15]

Swiss export growth to mainland-China (according to Swiss customs data) **was faster in 2006** than in previous years, growing by 19.15% to CHF 4.09 billion. Imports went up 18.36% to CHF 3.92 billion, resulting in a **small trade surplus of CHF 171.9 million for Switzerland**.[16] In comparison, growth rates were still at a very high 11.72% (exports) and an almost equal 17.22 % (imports) in 2005 with a Swiss trade surplus of CHF 122 million. When combining trade data between Switzerland and Hong Kong with that of mainland China for the year 2006 there was a **significant CHF 3.4 billion surplus in favour of Switzerland**, keeping up with the 2005 figure.

The most important imports of goods out of China are machinery, apparatus and electronics (2006 share of imports: 24.67%), textiles, apparel and shoes (19.9%), precision instruments, watches and jewellery (14.78%), chemicals and pharmaceuticals (13.21%). Exports are dominated by machinery, apparatus and electronics (2006 share of exports: 45.42%), chemicals and pharmaceuticals (18.59%) and precision instruments, watches and jewellery (16.48%).

In 2006 Swiss exports to China saw a CHF 238.2 million (14.69%) increase for machinery, apparatus and electronics, a CHF 80.1 million increase for precision instruments, watches and jewellery (13.47%) and a CHF 108.78 million increase for chemicals and pharmaceuticals (16.67%). The strongest increases in imports from China were in the "machinery, apparatus, electronics" and "precision instruments, watches and jewellery" categories (CHF 189 million or +24.25% and CHF 109 million or +23.21%).

From January to March 2007 exports to and imports from mainland China have again significantly grown 33.71% and 26.64% respectively, year-on-year. When Hong Kong is added, those figures stand at 14.12% and –2.61% respectively, year-on-year. Those results point to once again accelerating trade between Switzerland and China. In the first quarter of 2007, "machinery, apparatus and electronics" and "textiles, apparel and shoes" still have the largest share of Chinese imports to Switzerland (24.78% and 19.28 respectively). "Machinery, apparatus and electronics", "chemicals and pharmaceuticals", and "precision instruments, watches and jewellery" dominate Swiss exports to China (38.85%, 20.32% and 16.79% respectively).

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 2006 (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 production 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, also bearing in mind that the business-cycle has peaked in some areas.

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, **forging and 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, cf. chapter 2.1), should also create more opportunities for Swiss financial services. Reliable figures on bilateral exchange in the service industries are still 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.

Direct Investments

Development and general outlook

The Chinese Government puts a lot of effort at every level and is very successful in attracting foreign investment. In many fields, it was only following the WTO-accession that foreign investors were allowed to carry out direct investments, in particular in the sector of financial services. **Foreigners are still excluded or confined to a minority participation in particularly sensitive or strategic sectors** of the economy. The withdrawal of capital and profits from China is possible, but barriers remain and make the process complex and tedious for businesses.

On 9 November 2006, China's **11th five-year programme (2006–2011) for utilizing foreign investment** was published. Ranking second only to the US as a foreign direct investment (FDI) recipient, China has decided to shift its policy of attracting foreign business from "quantity" to "quality" and to push its industry up the value chain. Also, foreign-invested companies will no longer enjoy preferential policies in the coming years regulated in the new corporate income tax law where corporate tax-regimes have been unified. These measures address a certain fear of "emerging monopolies by foreign businesses in certain industries which are posing a potential threat to China's economic security", as reported by the State media. Members of the foreign business community recently expressed their concern about the **implications of raising "economic nationalism"** and measures laid down in the Government's FDI-strategy: development of local markets and independent innovation aimed at reducing reliance on external demand, technology and capital in the long run.

Due to the underdeveloped state of Chinese stock markets and because the national currency isn't fully convertible, **foreign investment is 90% direct investment**, and very often greenfield-investment. This system constrains foreign investors but leaves China less vulnerable to attacks on international financial markets as it makes capital withdrawals from direct investments more difficult to arrange. The acquisition of state owned enterprises (SOEs) by foreign investors was made possible under certain conditions in the spring of 2004. The goal is to create an actual market for mergers and acquisitions (M&A). However, as a recent OECD-project on cross-border mergers and acquisitions, co-financed by Seco, has shown, "the regulatory framework for cross-border M&A remains fragmentary, over-complex and incomplete"[17]. **Amended foreign Mergers & Acquisitions (M&A)-regulations have entered into force on 8 September 2006.** Although the foreign business community has welcomed the new regulations as they somewhat clarify the complex regulatory environment, concerns have been raised about the use authorities will make of their new competences: Acquisitions of a target company in a key industry, acquisitions which might affect national economic security or acquisitions which involve a change of control of a famous trademark or established Chinese brand must be reported to the Ministry of Commerce. Failing with this requirement could entail termination or reversal of the deal. Future acquisitions may well be subject to much tighter control and further scrutiny by the Chinese Government. A lack of clarity on terms such as "key industry" and "national economic security" has reinforced those fears. However, some commentators do not agree with the general view that we are **witnessing a "backlash"** but claim that nationally sensitive sectors such as defense and media as well as large state owned enterprises have always been off-limits to foreign investors. As China opens up new avenues for privatization and M&A involving big state companies **a certain prudence by Chinese authorities only seems normal** to those observers.

The loosening of legal regulations and the awareness that various joint ventures (JV) have experienced difficulties with their Chinese partners has influenced more and more foreign investors to tend towards establishing wholly foreign owned enterprises (WFOE). The transformation of an existing JV into a WFOE is time and

	Class of goods	Import in CHF 2005	Import in CHF 2006	Δ in %	Import share (%)	Export in CHF 2005	Export in CHF 2006	Δ in %	Export share (%)	Trade balance in CHF
1	Agricultural products	64.680.600	98.678.143	52,56%	2,52%	24.250.909	21.421.201	-11,67%	0,52%	-77.256.942
2	Energy carriers	53978	221023	309,47%	0,01%	565554	925076	63,57%	0,02%	704.053
3	Textiles, apparel, shoes	763.245.831	780.690.972	2,29%	19,90%	50.325.551	110.312.992	119,20%	2,69%	-670.377.980
4	Paper, paper products, printed matter	27.135.563	25.303.061	-6,75%	0,65%	20.818.139	23.479.125	12,78%	0,57%	-1.823.936
5	Leather, rubber, plastics	173.812.076	202.933.909	16,75%	5,17%	45.587.869	65.704.763	44,13%	1,60%	-137.229.146
6	Chemicals, pharmaceuticals	466.608.348	518.053.161	11,03%	13,21%	652.405.242	761.182.679	16,67%	18,59%	243.129.518
7	Construction materials, ceramics, glass	45.375.900	59.403.205	30,91%	1,51%	7.814.967	9.419.186	20,53%	0,23%	-49.984.019
8	Metals and metal products	180.710.573	284.084.193	57,20%	7,24%	175.370.881	183.830.373	4,82%	4,49%	-100.253.820
9	Machinery, apparatus, electronics	778.709.172	967.542.835	24,25%	24,67%	1.621.404.124	1.859.624.827	14,69%	45,42%	892.081.992
10	Vehicles	47.781.474	45.772.327	-4,20%	1,17%	7.493.490	8.317.226	10,99%	0,20%	-37.455.101
11	Precision instruments, watches, jewellery	470.580.764	579.822.763	23,21%	14,78%	594.757.517	674.895.394	13,47%	16,48%	95.072.631
12	Furniture, toys	288.032.079	347.005.528	20,47%	8,85%	21.618.064	20.578.834	-4,81%	0,50%	-326.426.694
13	Precious metal, precious stones, gemstones	3.592.670	5.274.561	46,81%	0,13%	212.537.301	353.620.041	66,38%	8,64%	348.345.480
14	Objects of art and antiques	3.725.847	7.568.332	103,13%	0,19%	1.291.892	941.532	-27,12%	0,02%	-6.626.800
	Total	**3.314.044.875**	**3.922.354.013**	**18,36%**	**100%**	**3.436.241.500**	**4.094.253.249**	**19,15%**	**100%**	**171.899.236**

Bilateral trade Switzerland – Hongkong, 2005–2006

	Class of goods	Import in CHF 2005	Import in CHF 2006	Δ in %	Import share (%)	Export in CHF 2005	Export in CHF 2006	Δ in %	Export share (%)	Trade balance in CHF
1	Agricultural products	801392	703124	-12,26%	0,05%	32.874.593	30.927.869	-5,92%	0,66%	30.224.745
2	Energy carriers	585	1017	73,85%	0,00%	161368	107189	-33,57%	0,00%	106.172
3	Textiles, apparel, shoes	47.157.844	53.413.162	13,26%	3,67%	102.008.939	147.424.518	44,52%	3,14%	94.011.356
4	Paper, paper products, printed matter	2.374.659	2.816.147	18,59%	0,19%	8.615.104	7.901.552	-8,28%	0,17%	5.085.405
5	Leather, rubber, plastics	5.430.261	6.949.519	27,98%	0,48%	44.768.043	49.017.989	9,49%	1,04%	42.068.470
6	Chemicals, pharmaceuticals	10.009.147	11.382.274	13,72%	0,78%	303.206.457	378.601.466	24,87%	8,07%	367.219.192
7	Construction materials, ceramics, glass	1.322.472	2.130.804	61,12%	0,15%	14.874.493	19.125.656	28,58%	0,41%	16.994.852
8	Metals and metal products	10.173.558	11.277.482	10,85%	0,77%	53.677.914	59.538.790	10,92%	1,27%	48.261.308
9	Machinery, apparatus, electronics	214.823.035	184.316.188	-14,20%	12,65%	361.033.967	409.596.023	13,45%	8,73%	225.279.835
10	Vehicles	963107	1048534	8,87%	0,07%	1.837.703	372.997	-79,70%	0,01%	-675.537
11	Precision instruments, watches, jewellery	311.663.876	548.908.263	76,12%	37,68%	2.131.259.679	2.417.225.122	13,42%	51,52%	1.868.316.859
12	Furniture, toys	6.257.269	7.374.307	17,85%	0,51%	32.430.705	42.657.713	31,53%	0,91%	35.283.406
13	Precious metal, precious stones, gemstones	779.514.702	606.703.666	-22,17%	41,65%	745.527.840	1.114.691.336	49,52%	23,76%	507.987.670
14	Objects of art and antiques	14.341.337	19.804.587	38,09%	1,36%	13.902.607	14.645.802	5,35%	0,31%	-5.158.785
	Total	**1.404.833.244**	**1.456.829.074**	**3,70%**	**100%**	**3.846.179.412**	**4.691.834.022**	**21,99%**	**100%**	**3.235.004.948**

Bilateral trade Switzerland – P.R. China incl. Hongkong, 2005–2006

	Total	**4.718.878.119**	**5.379.183.087**	**13,99%**	**100%**	**7.282.420.912**	**8.786.087.271**	**20,65%**	**100%**	**3.406.904.184**

Source: Schweizer Oberzolldirektion, Swiss Impex

China: Foreign Direct Investment

Rank	Country/Region	FDI (mio. USD) 2006	Share (%) 2006	Variation (%) year on year
1	Hong Kong	20.233	32,11%	12,73%
2	Virgin Islands	11.248	17,85%	24,67%
3	Japan	4.598	7,30%	-29,58%
4	South Korea	3.895	6,18%	-24,64%
5	USA	2.865	4,55%	-6,41%
6	Singapore	2.260	3,59%	2,55%
7	Taiwan	2.136	3,39%	-0,74%
8	Cayman Islands	2.095	3,32%	7,60%
9	Germany	1.979	3,14%	29,32%
10	West Samoa	1.538	2,44%	12,99%
	EU-15	5.324	8,45%	2,50%
	ASEAN	3.351	5,32%	-5,16%
	EFTA	212,30	0,34%	-9,71%
	Iceland	2,20	0,00%	1366,67%
	Liechtenstein	0,30	0,00%	-89,51%
	Norway	13,20	0,02%	-49,70%
	Switzerland	196,60	0,31%	-4,51%
	Total	63.021	100,00%	4,47%

Source: Ministry of Commerce

again attempted, but is in general constrained by considerable administrative and high (compensation) costs. After measures to administrate international investment in the area of trade and changes to the laws on foreign trade came into force on 1 June and 1 July 2004 respectively, **foreign investors have been authorized to set up and run WFOE in the areas of distribution, retail trade and wholesale since 11 December 2004**.[18]

Although the Government acknowledges the crucial importance of the private sector for the further development of the Chinese economy, in particular in creating employment, **private businesses, with or without foreign participation, still feel put to a disadvantage compared to SOEs**. Instead of having freedom of trade, it is still standard practice in China that any business activity remains unauthorized until it is explicitly and officially approved of. Thus many firms practice their activities in a legal grey area intentionally brought about or at least tolerated by the local authorities, but this understanding can be ended at any time.

In year 2006, **foreign businesses invested US$ 63.0 billion in China, up 4.47% from the previous year**. The number of foreign projects approved by the Chinese authorities decreased 5.75% in 2006. The stronger manufacturing capacity, mainly the result of surging FDI inflows in the past few years, has become a major driving force behind China's export surge. **After the first year since 1999 of declining investment in 2005, China's FDI continued to grow by 11.56% during the first quarter of this year**, amounting to US$ 15.89 billion.

Since the beginning of the policy reforms, over 400'000 businesses with foreign participation have established themselves in China, amounting to a **total FDI of US$ 622.4 billion in 2005**. However, a considerable number of them have also in the meantime shut down. Over 23 million Chinese representing about 10% of the urban labour-force work in businesses with a foreign participation.

China's industrialization is mainly fuelled by foreign businesses' investments, in particular out of Hong Kong and the ASEAN region. 32.11% of FDI came from Hong Kong in 2006, making it by far the most important national origin (US$ 20.23 billion in 2006). A considerable proportion of the investments from Hong Kong come from businesses that left China in the first place for tax purposes and now reinvest to the mainland. The same cycle occurs with the Virgin Islands (the second most important national origin of investment with 17.85% of the 2006 total). **In 2006 Japan, South Korea and the USA were the next largest foreign investors (7.3%, 6.18% and 4.55 respectively) with a dramatic slowdown of –29.58%, –24.64% and –6.41% respectively. In 2006, Switzerland's share of new FDI in China amounted to 0.31% (US$ 196.6 million).**

Bilateral investment flows

At present, about 300 Swiss firms with over 700 branches are represented in China, employing around 55'000 people. Estimates put the total amount of direct investments at **over CHF 5 billion, making Switzerland the fifteenth most important national origin of FDI**. However, the precise amount is unknown, since earlier inquiries on the matter by the Swiss Embassy in Beijing were largely ignored by the enterprises. Following indications of the Ministry of Commerce (MofCom), China granted 123 projects with Swiss participation in 2006 (123 in 2005), and 28 projects from January to March 2007 with a total value of US$ 110 million. In 2006 the actual Swiss FDI totalling US$ 196.6 million saw a decrease of 4.51% over 2005.

Switzerland has economic agreements with China regarding investment protection, mixed credits and avoidance of double taxation. The investment protection agreement between the two States is currently under renegotiation. **Representative data about the success rate of Swiss or other FDI does not exist** because the companies avoid disclosing such information. However, according to a 2002 study by the Taiwanese administration, 41.7% of the 1'644 businesses that had invested in China surveyed answered that they had lost money or just about broken even. Only 46.6% of the companies said that their investment in China was profitable. This finding is, as far as one can see, unpleasant from a Swiss perspective, since one would expect that it would be easier for Taiwanese businesses to be successful on the local market: at least for them, the large divergence of cultures, one of the largest obstacles for foreign businesses, is not so clearly a setback. **Nowadays around two thirds of Western companies active in China claim to be profitable.**

A large majority (over three quarters) of the companies that replied to the Seco-survey mentioned in section 3.2.1 are planning on expanding their business or currently doing so. Several specified that they have **completed the infrastructure investment** and now intend to **widen the scope of their business**. They see the market as growing and promising. In the production sector, some companies plan to focus on the domestic market's potential while others are bidding on a growing demand for exports. The fast development of the service sector is seen as an opportunity for business to improve.

Trade, Economic and Tourism Promotion "Country advertising"

Foreign economic promotion instruments

The Chinese leadership regulates all the country's economic activities to the detail and since the state remains the owner of whole areas of the industry, it is also one of the most important actors of the economy. **Regular contact with the authorities at every level is thus crucial for Swiss companies established in China.** Further, the official representative of Switzerland – the Embassy in Beijing, the Consulate General in Shanghai and the Consulate General in Guangzhou, established in November 2006, – has to take on a particular role in the arrangement or relief of such contracts.

Swiss Business Hub China (SBH China)

The SBH China is part of the worldwide "OSEC Business Network Switzerland" and has been operational since March 2002 at the Swiss Embassy in Beijing with a branch at the Consulate General in Shanghai and a new branch at the Consulate General in Guangzhou since March 2006. The specially trained consular and local SBH-staff offer much needed **services to Swiss SMEs in their endeavours of strengthening and developing their business relations with China** (services include: market and product analyses; search of distributors, representatives and import partners; individual consulting and coaching; reports on presentation and trade fairs). The high demand of Swiss businesses – particularly in a dynamic and growing market such as China – for the SBH's services and the diplomatic and advocating support provided by the Economic and Commercial section of the Embassy requires competent staff. Over 2006 the SBH has doubled its staff-numbers thanks to restructuring of the worldwide SBH-network.

Location:Switzerland "China"

Following the growing importance of Sino-Swiss economic exchange, Location:Switzerland, the Swiss Government agency responsible for supporting inward investors, has commissioned the consultancy firm Generis AG, Schaffhausen, to manage the promotion of Switzerland as a business location to potential Chinese investors. Location:Switzerland "China" pursues business development activities inclose consultation and collaboration with the diplomatic and consular missions in Beijing, Shanghai, Guangzhou and Hong Kong and has increased coordination with representatives of cantons active in China. The aim is to build on the firm Sino-Swiss relationships which have been established and **raise awareness of Switzerland as a first-class business location among Chinese business owners, entrepreneurs and investors**.

Swiss-Chinese Chamber of Commerce and Swiss-Cham China

Swiss-Chinese Chamber of Commerce and SwissCham China are private organizations of associations registered in Switzerland and China respectively. Among their members are the leading Swiss companies in the trade, industry and financial sectors. The network consists of about 800 companies and individual members. The Swiss-Chinese Chamber of Commerce was first set up in Zurich in 1980 and established a branch in Beijing in 1995 and in Shanghai in 1996. Beijing obtained the status of an independent chamber of commerce according to Chinese law in 2001. As a result, two national organizations are independently operated today with three regional branches in Switzerland (Zurich, Geneva, Ticino) and with three in China (Beijing, Shanghai and Guangzhou). **Their purpose is to promote and support the global success of the Swiss business community in China.** Simultaneously, SwissCham China and the Swiss-Chinese Chamber of Commerce assist a growing number of China-based enterprises in their dealings with Swiss partner companies.

The Sino-Swiss Partnership Fund (SSPF)

SSPF is a direct investment (venture capital) fund co-sponsored by the Swiss and Chinese Governments. It is managed by the Sino Swiss Venture Capital Company (SSVC), established between Seco and the China Development Bank (CDB). The initial purpose of the fund was to facilitate joint ventures between Swiss and Chinese enterprises in China. SSPF can invest up to CHF 5 million up to a maximum of 33% of the required investment in the form of equity, loans or in hybrid forms, in forex and local Chinese currency. The scope for new investments is currently being discussed and will be expanded.

Interest for Switzerland as a location for tourism, education and other services, potential for development

Presence Suisse

Swiss awareness in China is raised through a number of projects including cultural, artistic and architectural ones. The image that is being depicted by Presence Suisse is one of an innovating country placing values such as quality and well-being as key. **Switzerland enjoys a positive, although largely stereotypical image in China.** The goals of Presence Suisse are thus to bring further awareness and understanding of Switzerland to the population in China in order to create stronger relations while the country continues to gain importance in the global economy. Focus in the near future will be set on preparing for the 2008 Olympic Games in Beijing and the 2010 World Expo in Shanghai, **positioning Switzerland as an innovative, internationally minded country with a high quality of life and environmental awareness**.

Tourism

A consequence of the growing Chinese economy and the rise of (urban) incomes is the **booming tourism industry** for travel outside of China: 28.84 million Chinese travelled abroad in 2004 (an increase of 43% on the preceding year) and is expected to reach 100 million by 2020.[19] Therefore China is a key future market for the Swiss tourism industry. Switzerland was granted **Approved Destination Status** (ADS) by the Chinese Government in 2004. Following the implementation of the policy in September that year, there was a noticeable increase in accepting visa applications. New checks and guidelines were at the same time put into place to reduce the risk of travellers remaining in Switzerland illegally.

117’216 visa were issued to Chinese citizens who spent 230’000 nights in Switzerland in 2004 (over twice as many as in 2003, although the negative effect of the SARS-crisis in that year must be taken into account). 2005 saw a downturn to around 97’000 visas, mainly due to irregularities by Chinese tour operators, failing to comply with ADS-rules in Schengen States, which resulted in cancellations. 2006 saw an increase to 104’000 visa. In this respect **Switzerland’s entry to the Schengen-Agreements, which should become operational in autumn 2008 is expected to be further beneficial**: Swiss Tourism optimistically anticipates 800’000 Chinese overnights in Switzerland by 2009, overtaking the number of Japanese. Swiss Tourism was established in Beijing in 1998 and a second branch was opened in Shanghai this year, Guangzhou should follow next year. What is still seriously lacking to facilitate tourism is a **direct flight linking China and Switzerland**. Respective talks between major Chinese and Swiss carriers and the competent authorities and relevant airports are still underway, and a positive outcome seems possible by 2008 or even by the end of this year.

Education

In 2002, the Swiss and the Chinese Governments renewed their “Memorandum of Understanding” for **educational exchanges**, which gives 18 Chinese and 36 Swiss students the opportunity to study in the partner country. During her October 2006 visit to China, Swiss Foreign Minister Micheline Calmy-Rey signed another MoU, focussing on increased scientific cooperation. Though the (private) school sector has shown increasing interest in attracting Chinese students to their institutions, the overall number of student visa demands has gone down in recent years. This is partly due to the high costs, perceived limited benefit of studying abroad and bad publicity due to abuses which have taken place in some hotel and tourism management schools. Several initiatives to promote education in Switzerland will be focused on in the near future.

Other services

Another service that is increasingly demanded from the emerging middle-classes in China is **cosmetic surgery**. The lack of expertise in this field in China may increase the risk of failure, leading certain people to travel abroad for plastic surgery. South Korea and Brazil are popular destinations in this respect, but Switzerland also evokes security, quality and well-being.

Interest for Switzerland as a location for investment, potential for development

Investment flows from China to Switzerland have so far been modest with Chinese capital investment mainly in trading companies and SMEs, notably in the service and hospitality industries. However, the acquisition of the Murten-based company Saia-Burgess (electronic devices, switches, motors, control components etc.) in late summer 2005 through Johnson Electrics Holdings, Ltd. Hong Kong, could pave the way mainland companies

may go in the next years following the Chinese Government's Going abroad strategy. Switzerland's strengths as an investment location are promoted in China by Location Switzerland (www.locationswitzerland.ch, also presented in Chinese, cf. section 5.1), the cantons and increasingly by the service sector. Location:Switzerland "China", who carries out systematic market analysis and development has organized some high-level seminars, elaborated brochures, manuals and presentations, assists cantons in their own endeavours in the very demanding Chinese market. Switzerland is most actively advertized with emerging globalizing Chinese companies as a location for international headquarters and business control centres. Cooperation opportunities with the very innovative export-oriented Swiss economy are also highlighted. With a number of recent Chinese investments in different parts of Switzerland **the joint efforts of Location:Switzerland "China", the cantons and the service sector have already generated results**. Main competitors in Europe include Belgium, France, Germany, the United Kingdom, the Netherlands and Sweden, which employs 20 persons in China for its promotional agency "Invest in Sweden". Like in other Asian countries Switzerland is perceived as a premium location in the heart of Europe, but high living-costs and barriers for entry of Chinese workforce are on the flip-side.

Interest for Switzerland as a financial location, potential for development

Switzerland's reputation as a financial location – as far as there is such a perception among the general public – is generally positive, especially with the Chinese Government, the National Bank and the regulatory bodies of the financial sector. A first successful round of bilateral financial consultations with relevant authorities took place in January 2005. Swiss experiences in international fight against financial criminality and illicit assets restitution were discussed among other topics. Both the President of the Governing Board of the Swiss National Bank and the Chairman of the Swiss Banking Association have met high-level financial authorities in Beijing in 2005 and 2006. The leading Swiss banks, which have acquired minority participations in Chinese banks and insurance companies, regularly receive Chinese officials and financial sector professionals for trainings and know-how exchange. Private banking is still prohibited in mainland China, but this may change soon.

DFA FEDERAL DEPARTMENT OF FOREIGN AFFAIRS

Embassy of Switzerland in China

Email vertretung@bei.rep.admin.ch
Web www.eda.admin.ch/beijing

Full report with all charts on:
www.sccc.ch > News

Footnotes:

1 China Daily, 20 April 2007.
2 Chinese commercial banks are allowed to use up to 50% of their existing Qualified Domestic Institutional Investor (QDII) quotas to invest in overseas equity markets (UBS Investment Research, Asian Focus, 11 May 2007).
3 China Daily, 11 May 2007
4 The psychological barrier of 7.70 was breached on 9 May 2007 with a rate at 7.69, meaning an appreciation of 5.4% since July 2005. The PBOC announced on 11 May that it would widen the RMB's daily floating band against the USD from 0.3 to 0.5 percent.
5 UBS has also taken control of state-owned Beijing Securities, a mid-sized brokerage company in December 2006, although anti-privatization sentiment was voiced by many in the academic and political fields. Although UBS will have a minority equity stake of 20% it will exercise 100% management control.
6 The Economist, 19 May 2007
7 Special Comment on „China's Banking Sector Opening Under WTO Commitments", Moody's Investors Services – Global Credit Research, November 2006
8 China Banking Regulatory Commission Chairman Liu Mingkang's speech about the newly revised Regulation on the Administration of Foreign-funded Financial Institutions by the State Council, 15 November 2006
9 US$ 637.482 billion (US$ 414.065 + 138.101 + 85.316 billion) or 65.7%. Source: General Administration of Customs of PRC.
10 US$ 414.065 billion. Source: ibid.
11 US$ 451.728 billion (US$ 328.184 + 123.544 billion). Source: ibid.
12 Hong Kong is an important economic area and international trade partner in its own right but plays a particular role as a port of trans-shipment for Chinese exports, which clearly shows in the trade statistics of the special administrative region (SAR).
13 Source: calculations based on Mofcom data, see annexe 3 "Bilateral trading partners of the PRC".
14 Cf. Annexe 3, which reproduces figures of the Ministry of Commerce (MofCom). Annexe 4 and section 3.2.1 about bilateral trade Switzerland – China / Hongkong use data gathered by the Swiss customs authorities.
15 The figures discussed in this section can be found in annexe 4.
16 The picture looks brighter for Switzerland if the data for the trade between Switzerland and Hong Kong is added. Altogether, exports amounted to CHF 8.79 billion in 2006, and imports to CHF 5.38 billion. In 2006, Swiss exports to China (incl. Hong Kong) made up 4.74% 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 (3.63%).
17 China: Open policies towards mergers and acquisitions, OECD Investment Policy Reviews, Paris, 2006.
18 Cf. Administrative method for foreign investment in the commercial sector of the PRC: http://www.prorenata.com/consulting_services/investment/en_foreign_investment_areareg.pdf
19 World Tourism Organization

Economic Report: Hong Kong 2006

Hong Kong has experienced three years of strong economic growth. Real GDP expanded by 8.6% in 2004, 7.5% in 2005 and 6.8% in 2006. Following a 3.3% growth in 2005, private consumption perked up by 5.1% to reach US$115.7 billion in 2006, on the back of firmer employment prospects, mild increase in real wages and increasing asset prices. The unemployment rate, reaching almost 9% in 2003, fell to 5.6% in 2006 and further dropped to 4.3% in Dec. 2006 – Feb. 2007. After more than five years of deflation, consumer prices have been gradually edging up along with the solid economic recovery, rising by 1% in 2005 and 2% in 2006. As for external factors, total merchandise trade grew by 10.5% to US$ 649 billion whereas total service trade grew by 13% to US$ 97 billion in 2006[1]. A total of 25 million visitors (+8%), or 3.7 times the size of local population, came to HK in 2006. According to the Hong Kong Tourism Board, total expenditure associated to inbound tourism was estimated to reach US$ 15 billion. Mainland visitors, account for 54% of total tourist arrivals, reached 13.6 million.

Economic integration with Mainland China

Hong Kong's trade with China is to a large extent related to outward processing activities. More than 80% of Hong Kong manufacturers have established production facilities in China. According to the Hong Kong Trade Development Council (HKTDC), Hong Kong is the most important entrepôt for China and about 21% of China's foreign trade is handled via Hong Kong.

On one hand, China is the largest source of external investment in Hong Kong. It reached to US$ 163 billion (31% of total) in 2005. On the other hand, Hong Kong is the largest source of overseas direct investment in China, of which the stock of utilized capital flow amounted to US$ 260 billion in 2005, accounting for 42% of the national total. Hong Kong is a key offshore capital-raising centre for Chinese enterprises. Market capitalisation of China-related stocks reached US$ 809.7 billion or 48% of total at the Main Board in 2006. Hong Kong surpassed New York as the second biggest market for Initial Public Offerings (US$ 40 billion), after London in 2006. It was indeed fuelled by listings of mega mainland companies. The State Council permitted mainland financial institutions to issue Renminbi (RMB) bonds in Hong Kong in January 2007. It is regarded as a significant step to develop Hong Kong as an offshore RMB centre.

The Closer Economic Partnership Arrangement (CEPA) is the first ever regional trade agreement signed between China and Hong Kong. It was signed in 2003 and came into effect since Jan. 2004. It evolves over time and new benefits are introduced in phases. In brief, China gives all products of Hong Kong origin tariff free treatment and provides preferential treatment to HK service suppliers in 27 service areas[2].

Public Finances

The financial position of the HKSAR Government has improved notably as a result of strong economic recovery. The HKSAR Government forecasts that the consolidated surplus will reach US$ 7 billion in the fiscal year 2006/07. The HKSAR Government stopped to launch an introduction of a controversial Goods and Services Tax (GST) after encountering many opposition voices.

US Dollar peg

Even though the Hong Kong economy is now more and more integrated to China, the HKSAR Government has reaffirmed its commitment to maintain the US dollar peg instead of a peg with RMB. First and most importantly, the RMB is not fully convertible. Secondly, as Hong Kong is an international finance centre and facing the global economy, the USD is the right anchor currency.

Environmental issue

Hong Kong is facing acute environmental pollution, particularly in respect to air quality. There are two types of air pollution, namely, local pollution caused by vehicles and power plants and regional air pollution in line with the rapid economic and industrial development in the Pearl River Delta PRD. On local front, the HKSAR Government has introduced measures and statutory controls to reduce emissions from the polluting sources. Electricity generation is the biggest source of air pollution and emission caps are imposed on the two power companies in the territory. On regional level, the HKSAR Government and the Guangdong Provincial Government have formulated the PRD Regional Air Quality Management Plan which aims to achieve specific emission reduction targets by 2010.

Necessity to move up the supply chain

A few local prominent business leaders warned that Hong Kong had to move up the supply chain and former

1 Variations in % mentioned in this report are on year-on-year basis, unless otherwise stated.
2 It includes accounting, advertising, airport, audiovisual, banking, cultural, convention and exhibition, distribution, freight forwarding agency, individually owned stores, information technology, insurance, job referral agency, job intermediary, legal, logistics, management consulting, medical and dental, patent agency, professional qualification examinations, real estate and construction, storage and warehousing, securities and futures, telecom, tourism, trade mark agency and transport.
3 Financial services cover investment banking services, deposit services, security and commodity brokerage services, portfolio management services, trust services, financial consultancy services, foreign exchange services and etc.

Hong Kong: Economic Partners 2006

	Country	Exports (USD millions) *Country of Origin*	Share (%)	Var.* (%)
1	China	148,232	47	+14
2	USA	47,581	15	+2.9
3	Japan	15,439	4.9	+1.6
4	Germany	9,700	3.1	+4
5	UK	9,440	3	+6.3
6	Taiwan	6,680	2.1	+3.3
7	Korea Rep	6,650	2.1	+7.5
8	Singapore	6,232	2	+4.4
9	Netherlands	5,262	1.7	-3.7
10	France	4,275	1.4	+5.2
	EU	44,151	14	+5.1
22	***Switzerland*****	**1,603**	**0.5**	**+19**
	Total	315,516	100	+9.4

	Country	Imports (USD millions) *Country of Origin*	Share (%)	Var.* (%)
1	China	152,943	46	+14
2	Japan	34,377	10	+4.5
3	Taiwan	24,989	7.5	+16
4	Singapore	21,133	6.3	+22
5	USA	15,842	4.8	+3.6
6	Korea Rep	15,339	4.6	+16
7	Malaysia	7,736	2.3	+5.6
8	Thailand	6,805	2	+14
9	Germany	5,696	1.7	+8.2
10	Philippines	5,237	1.6	+6.7
	EU	24,258	7.3	+7
14	***Switzerland*****	3,606	1.1	-1.7
	Total	333,308	100	+12

*Variation in % compared to previous period

**There is a substantial deviation in the bilateral trade figures between the Census & Statistic Department of the HKSAR Government and the Swiss Federal Customs Administration. According to the Swiss Federal Customs Administration, Swiss imports to Hong Kong reached to CHF 4,692 million (+17%) whereas Hong Kong exports to Switzerland dropped to CHF 1,457 million (-13%) in 2006. On the other hand, according to the Hong Kong Census & Statistic Department (HKCSD), Swiss imports to Hong Kong dropped to US$ 3,606 million (-1.7%) and Hong Kong exports to Switzerland grew to US$ 1,603 million (+19%). The HKCSD explained that the deviation might be partly due to the difference of calculations between "by country" and "by country of origin". They cited an example of Swiss watches imported to HK. In case of "by country", watches imported to HK from Switzerland amounted to US$ 1.4 billion in 2006. In the latter case "by country of origin", watches of Swiss origin imported to HK amounted to 1.55 billion in 2006.

Sources: Hong Kong Census & Statistics Department, Hong Kong Trade Development Counci

business models might not work any more. In the past, Hong Kong entrepreneurs made use of low production cost on the mainland, particularly in the PRD region and paid little attention to environmental aspects. The tremendous economic development on the mainland in the last 2 decades has pushed production cost up and more stringent regulations on environmental protection have come into effect. Hong Kong businessmen either moved up the supply chain, moved to offshore or a more remote region, or at worst, wrapped up their business.

Bilateral trade in goods

According to the Swiss Federal Customs Administration, Swiss exports to HK totalled CHF 4.69 billion (+17%) in 2006. Major Swiss exports included watches and clocks (42% of total, increased by 9%, CHF 1.9 billion in value), jewellery & precious metal (32% of total, increased by 31%, CHF 1.5 billion in value), machinery (9% of total, increased by 15%, CHF 420 million in value) and chemical and pharmaceutical products (8% of total, increased by 25%, CHF 361 million in value). According to the Hong Kong Census and Statistics Department (HKCSD), about 40% of total Swiss exports to Hong Kong were re-exported to other countries and regions and notably to China. Swiss goods worth US$ 610 million (grew by 18%) were re-exported to China via Hong Kong in 2006. Major products were watches and clocks (US$ 173 million), silver and platinum (US$ 49 million), textile machinery (US$ 36 million), colouring matter (US$ 32 million) and machine tools (US$ 31 million).

Hong Kong's total exports to Switzerland dropped to CHF 1.45 billion (–13%) in 2006. Major total exports included jewellery & precious metal (62% of total, decreased by 16%, CHF 905 million in value), watches and clocks (17% of total, decreased by 10%, CHF 242 million in value), machines (13% of total, decreased by 15%, CHF 184 million in value) and textiles and garments (3% of total, grew by 16%, CHF 49 million in value).

According to the HKTDC, Switzerland was the 17th largest trading partner of Hong Kong in 2006. Switzerland was Hong Kong's 14th largest supplier and 22nd largest export market.

Bilateral trade in services

According to the HKCSD, Hong Kong's exports of services to Switzerland amounted to US$ 633 million (+4.8%, 1% of total exports of services) in 2005 (latest available information). Switzerland ranked 14th largest market for Hong Kong's exports of services. It consisted of transportation (US$ 193 million), travel (US$ 31 million), insurance services (US$ 0.4 million), financial services (US$ 126 million), merchanting and other trade-related services (US$ 130 million) and other services (US$ 153 million).

Hong Kong's imports of services from Switzerland reached to US$ 242 million (–5%, 0.7% of total imports of services) in 2005. Switzerland ranked 21st largest supplier in this category. It consisted of transportation (US$

(continued on next page)

48 million), travel (US$ 46 million), insurance services (US$ 24 million), financial services (US$ 22 million), merchanting and other trade-related services (US$ 1.5 million) and other services (US$ 100 million).

Hong Kong wants to position itself as an international trade, logistic and financial centre. Demand for logistic services and financial services[3] are expected to increase whereas Switzerland is known for its excellence in service industries, particularly in financial services.

Swiss direct investments

According to the HKCSD, Swiss direct investments in Hong Kong dropped to US$ 3.2 billion (–11%) and ranked 15th largest investor country in 2005. As at 1st June 2006, 42 Swiss companies set up their regional headquarters in Hong Kong. 68 Swiss companies set up their regional offices and another 68 Swiss companies set up their local offices in Hong Kong.

(Notes from the editor: For figures regarding bilateral trade between Switzerland and Hong Kong see page 25).

Summary by Wing Kai, Chan
Trade Section
Consulate General of Switzerland in Hong Kong
E-mail: hon.vertretung@eda.admin.ch
Webpage: www.eda.admin.ch/hongkong

CEPA-Update between China and Hong Kong

The Closer Economic Partnership Arrangement (CEPA) is the first ever regional trade agreement signed between China and Hong Kong. It was signed in 2003 and came into effect from Jan. 2004. It evolves over time and new benefits are introduced in phases. It covers 3 broad areas, namely 1) trade in goods, 2) trade in services and 3) trade and investment facilitation. After three years it may be interesting to make a short assessment of its functioning and to call its key points to attention once more as it can also be of considerable help to Swiss companies.

Trade in goods

Under the three phases of CEPA[1], China has given all products of HK origin (except prohibited articles) tariff free treatment, upon applications by local manufacturers and upon the CEPA rules of origin (ROOs) being agreed and met.

The majority of products with agreed CEPA ROOs follow process-based rules of origin. The remaining products follow either a “Change in Tariff Heading” rule, a “value-added content” rule, or a rule having regard to the characteristics of products concerned.

“Change in Tariff Heading” means that a product has been manufactured to the extent that its classification in the World Customs Organization Harmonized System falls in a different four-digit tariff heading from the classification of the constituent materials used. “Value-added content” rule refers to the total value of raw materials, component parts, labour costs and product development costs incurred in Hong Kong being greater than or equal to 30% of the FOB value of the exporting goods.

In case of watches, China relaxes the rules by waiving 30% value-added content requirement for watches of Hong Kong brand names. Watch manufacturers are required to perform the process of assembly plus the fulfilment of the “Hong Kong brand” requirement. There are 3 criteria determining a CEPA “Hong Kong brand” for watches: i) owner of the brand must be a registered company in Hong Kong with a valid business registration and factory registration for at least one year; ii) company must have completed trademark registration of their brand name goods under the Trade Marks Ordinance, and be the registered owner of their brands; and iii) the registered brands may include a brand origination in Hong Kong (OBM) or a foreign brand wholly acquired by a registered company in Hong Kong.

According to the Trade and Industry Department (TID), since its implementation in Jan. 2004 to Dec. 2006, goods worth US$ 859 million were exported to China tariff-free. With the emergence of an increasingly wealthy middle class in China, the demand for quality products with a ‘made in Hong Kong’ label, such as food, clothing, watches, medical and health products, are expected to increase.

Trade in services

Taking the three phases of CEPA together, China has agreed to provide preferential treatment to HK service suppliers in 27 service areas[2]. Broadly speaking, the lib-

(continued on page 36)

1 CEPA I, II and III were signed in 2003, 2004 and 2005 respectively.

2 It includes accounting, advertising, airport, audiovisual, banking, cultural, convention and exhibition, distribution, freight forwarding agency, individually owned stores, information technology, insurance, job referral agency, job intermediary, legal, logistics, management consulting, medical and dental, patent agency, professional qualification examinations, real estate and construction, storage and warehousing, securities and futures, telecom, tourism, trade mark agency and transport.

eralization permits earlier access for HK service suppliers to China, ahead of China's WTO timetable. In some sectors, like audiovisual services, transport services and distribution services, the concessions go beyond China's WTO commitments. Further liberalization measures in 10 areas already covered by CEPA, which was announced in mid-2006, are expected to help and expand the business scope allowable in China for Hong Kong companies and lower the thresholds for them to set up business or provide services there.

Until Jan. 2007, the TID has issued Certificate of Hong Kong Service Suppliers to 1,034 "Hong Kong companies" to enable them to apply to the Chinese authorities to launch their business in China. Any company or service provider of any nationality including Swiss companies can apply as a HK Service Supplier or a Cepa-qualified company if the company in question meets all the criteria: i) it is incorporated in HK; ii) it has operated for 3–5 years (depending on sectors); iii) it is liable to pay HK profits tax and iv) it employs 50% of its staff locally. The most popular sectors are logistics and transport, distribution, advertising, construction and management consultancy.

A Swiss company, qualified as a HK Service Supplier under CEPA, mentioned that CEPA as a whole was "useful, positive and beneficial" to their business in China. However, CEPA was an agreement signed between the Central Government and HKSAR Government and its implementation was down to various provinces, municipalities, cities and local authorities. According to their experience, they had to encounter problems such as bureaucracy, different legal system, sophisticated tax regime, unpredictable modification and different interpretation of rules and regulations. Also, problems varied in different cities, provinces and etc. After some years of practical experience and more openness of China in general, their operation became smoother though there were still puzzles to solve.

Trade and investment facilitation

Both China and Hong Kong have agreed on enhancing co-operation in trade and investment facilitation in seven areas including trade and investment promotion and customs clearance facilitation. Application procedures for Chinese enterprises to invest in Hong Kong have been streamlined. Until mid-2006, about 380 Chinese enterprises have obtained approval to set up operations in Hong Kong, with investment totalling over US$ 2.2 billion.

Economic Benefits

CEPA offers a good platform for Hong Kong products and services to have an effective access to China. Nevertheless, they have to face intensifying competition from Chinese companies and multinational competitors.

According to the HKSAR Government, CEPA has created 29,000 jobs and generated US$ 692 million in services receipts and US$ 705 million in capital investment for Hong Kong in its first two years of implementation. Out of the 156 foreign companies newly established in Hong Kong in the first half of 2006, 23% indicated that CEPA played an important role in their decision to invest in Hong Kong. Under the framework of CEPA, individual visit scheme (IVS) for Chinese tourists brought additional spending of US$ 823 million and US$ 1,269 million in 2004 and 2005 respectively. Out of 13.6 million Chinese tourists to Hong Kong in 2006, more than 6.6 million Chinese tourists travelled under the IVS.

Hong Kong is a service-oriented economy (tertiary production accounting for 90% of its GDP) whereas tertiary production accounts for about 40% of China's GDP. China's liberalization measures in service sectors under CEPA offer new business opportunities for Hong Kong service suppliers. It is complementary and beneficial to both economies.

As far as China is concerned, CEPA benefits their consumers (trade in goods tariff free) and enhances the standards of their developing services industries and accelerates its integration with the world economy.

By Wing Kai, Chan

Trade Section
Consulate General of Switzerland in Hong Kong

Hong Kong: 10 Years since Handover

On July 1st 2007, Hong Kong marked its first decade as a Special Administrative Region (SAR) of the People's Republic of China. Along with its 10th anniversary, the third-term Hong Kong Special Administrative Region (HKSAR) Government was formally inaugurated in the presence of some 2,000 guests. President of the People's Republic of China, Mr Hu Jintao, who came to Hong Kong on a three-day visit on this special occasion, swore in Hong Kong's Chief Executive, Mr Donald Tsang, and the Principal Officials.

Hong Kong people believe that an improvement in the economy represents the biggest positive change in the ten years since the handover, and they are optimistic about the future of the economy over the coming ten years, according to a new study of public perceptions by global market information company TNS.

TIME Asia also carried a fairly comprehensive view of Hong Kong 10 years later.

More information is also available on the website of the Hong Kong Economic and Trade Office: www.hketolondon.gov.hk

Hong Kong at Baselworld 2007

Once again, the largest foreign pavilion at BASELWORLD 2007 (12 – 19 April) came from Hong Kong. The 326 exhibitors under the auspices of the Hong Kong Trade Development Council (HKTDC) were all in agreement when the trade fair ended that it had been a success. While direct orders were already 20% up on those of the previous year, those negotiated at the fair increased by more than 50%.

This tallies with the final BASELWORLD report, which shows that the fair attracted about 102,000 visitors. Hong Kong was represented by 166 jewellery firms and 132 watch manufacturers with about 6,500 m^2 of floor space in Hall 6. The goods exhibited were right on trend, as the firms had brought all their latest high quality watch and jewellery collections. The watch parts and components (13 manufacturers) and the creative packaging designs (15 exhibitors) with both a classical and a flashier look went down well. 20 further Hong Kong firms exhibited their own brands in Halls 2, 3 and 5.

"Good design brings good business", said Winchell Cheung, Director of the HKTDC office in Frankfurt am Main. "Our firms really outdid themselves in quality and design in Basel this year. Customers from western and eastern Europe (Russia above all), the Middle East, the USA, Canada and Israel placed about 20% more direct orders than in the previous year", said Cheung.

"BASELWORLD is and remains Hong Kong's most important trade fair for these two industries", said Cheung. It's there that Hong Kong's jewellery and watch industries usually achieve the bulk of their annual turnover. More and more manufacturers from the Southeast Asian trading metropolis are now exhibiting their own brands in the other halls of the fair. The HKTDC director sees this as a good sign. Hong Kong is making great strides in higher quality market segments.

Winchell Cheung, Director of the HKTDC office in Frankfurt am Main: "Basel is still the most important fair for the two Hong Kong industries" (Credit: HKTDC).

Fat Tat Lee Watch Co. Ltd. offers new technology: "Smart Watch" will constantly guard your valuables (Credit: HKTDC).

The HKTDC offers its services to international trade visitors. About 1,300 interested parties sought information about Hong Kong products and services from the information stands in Halls 6 and 2 and about the new Premier Connect Business Matching Service. This offers individual advice on establishing business contacts with Hong Kong and China.

Views of exhibitors and buyers on their visit to Hall 6

The Hong Kong exhibitors' views on the fair ranged overwhelmingly from positive to enthusiastic. Tse Wai Hang, Director of NGA Company Ltd. and Chairman of a Hong Kong Watch Association reported with satisfaction that, in spite of the small number of US buyers, business was 20% up on that of the previous year. Trade visitors especially favoured unusual designs.

This was confirmed by trade visitor Jawad Ali from Dubai, Manager of Qahtan Jewellery, on the Radiance Jewellery stand as he looked at the dolphin jewellery made from paua shell. "I am absolutely thrilled. That is the most beautiful thing in this fair."

Albert Hui, Director of Octagon Jewellery Co. Ltd., a Hong Kong jewellery supplier, known for its high quality platinum and diamond jewellery, confirmed that luxury items topped the list of articles bought. Business was double that of last year.

But fashionable articles were also well received. Susanna Soini, product manager of the Finnish firm, Kultajousi, explains why she has been happy to work with Hong Kong firms for the last 15 years. "It is easy to do business together and I love the designs and the flexibility of the firms and, of course, also the good prices. In Finland people like fashionable watches so I am stocking up with new models here in Basel."

Hong Kong watch and jewellery trends at BASELWORLD

Hong Kong's product range exhibited in Basel was overwhelming. Hong Kong's watch manufacturers came with unusual casing designs such as flowers, tears, eggs and hearts. The decorations and wrist straps were hand-made. Besides an attractive price, innovative designs and elegance are becoming more important. The wrist straps are made of the widest variety of materials: leather has made a comeback recently but they are also made of plastic and stainless steel, depending on whether they are intended as jewellery, as fashion items, for everyday use or for sport. Hong Kong's luxury watches are studded with precious stones such as diamonds, emeralds, sapphires and rubies.

The trend in the watch industry is towards multifunction watches with special features. The watch manufacturer Fat Tat Lee Watch Co. Ltd., for example, not only offers good quality but also useful new technology. The products not only measure time but are also useful everyday accessories. The "Smart Watch" with its Bluetooth-like technology helps the wearer to avoid losing important things and emits a signal over a distance of up to 6 metres. Ms Angie Wong of the Fat Tat Lee Watch Company, speaking about the success of her first participation in BASELWORLD 2007, said: "Buyers were very enthusiastic about the new functions of our own 'Smart Watch' creation. We will be back next year with new designs."

With the tagline "A Watch tells a Story", Comtech Watches Co Ltd. hints at a story behind the product and combines Zen Buddhism with Danish design – cultures which seem at first sight far apart. However, the Obaku collection (The Obaku school is a branch of Buddhist teaching) proves the opposite: the watches of the Danish designers Christian Mikkelsen and Lau Liengård Ruge are formalistically austere with well matched colours, simple, harmonious and without unnecessary elaboration, qualities that are traditional both in Danish design and as a component of Zen Buddhism.

In the jewellery sector the new gold alloys in brownish or even pink tones is gaining in popularity. Creations set with coloured jewels were again in strong demand as was also titanium as a material. As with watches, the designs were increasingly influenced by fashion. In the luxury segment, jewellery in feminine and romantic forms as well as animal and flower motifs found a ready market.

Building bridges between Europe and Asia is the strategy of KTL Jewellery Manufacturer Ltd. for winning over the European market. The Hong Kong jewellery manufacturer works with the Italian Pippo Perez, who designs imaginative pieces with Italian flair. Perez, who is a member of an old family of goldsmiths, lets his temperament flow into his designs: fiery red "peperoncini" set with rubies, necklaces with little fish and tortoises, individual rings in the form of a starfish or of an apple that has been bitten into. KTL translates the designer's ideas with the help of micro setting, a technique, which, according to Perez, is very complicated and can be so effectively applied only by KTZ. His verdict on BASELWORLD is: "An excellent place to show my collection."

KTL is experimenting with gold alloys with the shiny brown so-called "chocolate gold". Colourful precious stones are also very much in vogue. The rings and pendants of Bri-Star Jewellers Ltd. offer their wearers the freedom to change the colour. The piece can be opened and a stone can be exchanged for one of another colour.

Hong Kong's jewellery and watch industry riding high

The year of the pig seems to be bringing Hong Kong's jewellery and watch industry further economic success and good fortune. Total exports of Hong Kong's luxury jewellery industry had already achieved a growth of 13.7%. Since 2002 Hong Kong's jewellery industry has been on a steady upward path with export growth of around 20% annually. Orders at the fair indicate that another good year can be expected.

The special administrative region (SAR) is still the second biggest watch exporter in the world. A glance at the statistics show that watch exports grew by 1.8%. Once more Switzerland and China with a growth in imports of 10.2% and 8% respectively were the markets with the highest growth. Watch exports to Germany reached a value of USD 303 million in 2006.

This successful trend was once again confirmed at this year's BASELWORLD. Hong Kong will again be represented by a large delegation at the next world watch and jewellery fair.

Hong Kong Trade Development Council (HKTDC)

The Hong Kong Trade Development Council (HKTDC) is the statutory organization for promoting Hong Kong's external trade in goods and services. The mission of the HKTDC is to grow Hong Kong's business in international trade and increase the critical mass of international firms using Hong Kong's trade platform. With over 40 offices worldwide, including 12 in China, the organization understands the opportunities and challenges of international business.

Contact:
Daniela Konrad, HKTDC
Phone: 0049-69-95 772-112
E-mail: daniela.konrad@tdc.org.hk
Web: http://www.tdctrade.com/
Business contacts: http://sourcing.tdctrade.com

Learning from Asia

Benchmarking of Business Cultures in China – India – Japan

Event organized by Forum-SCM and SCCC in cooperation with SICC and SJCC on May 3, 2007 at ETH Zurich
Speakers: Dr. Urs Schoettli, Kurt Haerri, Michael Enderle, and Prof. Dr. Hugo Tschirky

The Asian Renaissance

Urs Schoettli, Far East Correspondent of the NZZ, summarized in his introduction that, after the European hegemony of the 19th century and the American domination of the 20th century, the Asians are set to bestride world economy in the 21st century. A similar global balance of economic power will be re-established in China and India as it already existed in the 17th and 18th centuries. In the past, the West has tried to "educate" the Asians on how to run businesses, economies and apply new technologies. In the meantime, the Asians – primarily the Japanese – have learnt very fast not only to copy western technologies and management techniques, but even to improve their quality by adapting them to their value systems and local cultures.

The success stories of Japan and China, as well as the current economic boom in India, lead us to ask ourselves whether it's not time for us to learn from the Asians now. The rise of Asia with its huge middle class population and purchasing power is to be regarded as an opportunity for the West in the sense of a win-win-situation, but only if we change our basic value systems and attitudes as workers, employees, managers and politicians.

We also need to re-establish our old virtues of European entrepreneurship if we want to uphold our standard of living. We must show initiative, not despondence, we must redevelop our pioneering spirit, not protect our vested rights, we need to innovate and not be hostile towards progress and reforms at all levels of society. We have to develop a new balance of rights and duties, a new culture to serve the customers and the society and – last but not least – a new attitude towards life which is less Euro-centric, in both meanings of the word.

The Return of World-Power China

Kurt Haerri, President of SCCC and Member of the Executive Board of Schindler Lift Ltd, gave an impressive insight into the current developments in China. China's GDP is currently growing at a rate of more than 10% p.a. In the past 20 years after its economic reforms, China's GDP has grown sevenfold, thus being the fastest economic expansion ever to be observed in world history, beating Japan's post WWII recovery and even more so the 1st and 2nd Industrial Revolutions in the West. With the world's largest population of 1.3 billion, China achieves an annually increasing trade surplus with USA alone of more than 200 billion USD. The foreign exchange reserves have reached more than 1.3 trillion USD and are still growing exponentially. For Schindler, China is its most important market. The current market for escalators in China is 60% of the world market and the same for elevators is around 1/3 of the world market, both are decisive for Schindler.

Due to the huge dimensions of the Chinese market, economies of scale can be achieved which will lead to very strong competitive advantages. Thus the positioning in the world markets is therefore more and more defined in China. For many European SMEs, strategic partnerships with Chinese companies often are a matter of survival. What can we learn from China? **1. Entrepreneurial thinking** and action: successful entrepreneurs are admired without envy, **2. High speed of implementation** as soon as decisions are made, **3. Government support** through high investments in infrastructure and by securing global sources of energy and raw materials, **4. Sense of duty and performance** (in contrast to Europe where more rights than duties are demanded).

Conclusion: The West is the biggest protagonist of Globalization, India and China are the greatest beneficiaries of Globalization, but the West so far has not understood what is really happening there and does not grasp the opportunities.

India: A Billion on the Move

Michael Enderle, Vice-President of SICC and Chairman of Rieter India Private Ltd, leads Rieter Group's operations in India. The Rieter Group has two main divisions: Textile Systems and Automotive Systems that both have achieved worldwide sales of USD 2'857 million in 2006 with 14'826 employees in 72 manufacturing plants. In 2006, India was Rieter's No. 1 country in terms of order intake (USD 350 million). India is therefore to the Rieter Group what China is for Schindler.

After giving an overview of India's history, demography and economy, Michael Enderle showed that India is not just a booming local market in Asia, but that Indians are increasingly playing a key role in expanding their economic impact on a world-wide scale, with take-overs like Arcelor, Corus and Daewoo as examples. He then switched to the main topic of business culture which – typically for India – is not one-dimensional but multi-faceted with factors such as religion, that is present daily everywhere, traditional family values and bonds, and a strong sense of community and harmony. Due to the open and friendly Indian culture, it is sometimes difficult to identify disagreements or potential conflicts. It is preferred to say rather nothing for months before they really say "no". Therefore a close relationship of trust has to be built up over years to understand each other, not only with

The speakers during the panel discussion: (f.l.t.r.) Kurt Haerri, Urs Schoettli, Michael Enderle and Hugo Tschirky.

single persons, but also with their family and community. The Indian concept of time has to be understood clearly. It takes a lot of time to communicate without words, to build up trust, to clarify backgrounds, to ask the community what they think about an issue, and then only a decision becomes mature. What some Indians like to say to Swiss visitors is "You have the watches – we have the time". Although Indians sometimes appreciate the punctuality of Europeans in business, don't expect it from them. Just learn to be flexible and don't rush at deadlines as impatience is seen as aggressive, rude and disrespectful.

What other issues can we learn from India? **1. Expect the unexpected**, 24 hours a day, 7 days a week, **2. Respect seniority** and age in all areas, **3. Take a pluralistic approach** to manage contrasts, **4. Manage relationships** and be prepared for grey zones.

Learning from Japan

Hugo Tschirky, Member of the Board, Canon (Switzerland) Ltd, is known to be a real expert on Japan in Switzerland, not like Winston Churchill, who said about himself *"Japan for me is a riddle wrapped in a mystery inside an enigma"*. Unlike the low income per capita countries such as China and India, Japan is one of the technologically most advanced and it is – measured by GNP – the second richest country in the world, after the USA. Thanks to its insularity, the Japanese culture is one of the very few that has evolved over 2500 years without interruptions (Western culture, but also China and India have experienced several disruptions and revolutions over the same period). Due to its tough natural conditions like earthquakes, tsunamis and typhoons, its limited living space in a mountainous topology, the population has had to fight hard for survival. Thanks to the values of Confucianism, Buddhism and Shintoism, a highly disciplined, hard working, respectful and environmentally clean society has evolved, that deserves our attention, especially in the 21st century. Perceived as a threat to the West in the 1980s, Japan's aging society is nowadays challenged by its booming neighbour China.

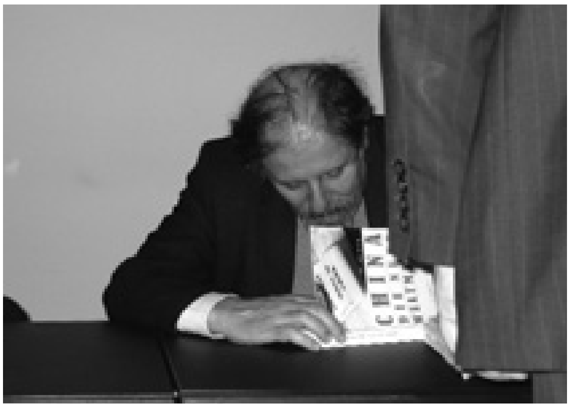
There are six lessons to learn from Japan: **1. Work** provides the meaning of life in Japan, derived from Confucianism with socio-cultural principles of dependence in a disciplined vertical society: individual obedience towards those with higher status and social obligation of care towards servants and followers. Work is a highly respected element of societal welfare, the main human activity to fulfil a meaningful life. **2. Service**: Japan has world's highest ranking customer awareness, it's an expression of respectful living together in all kinds of businesses. Service and service innovation are neglected themes in Western education and research. **3. Innovation** in Japan enables sustainable growth. There is an inherent affinity and curiosity towards the new. Technology change is considered rather a blessing than a curse and there is a long-term perspective. Innovation and change should also become cultural values in the west. **4. Communication** is the essence of all processes and decisions in Japan. There is a long tradition to share information as a basis for consensus-based decisions. We could learn here to better communicate internally for better based decisions. **5. Group Dynamics** is the Japanese approach to activate self-organizing processes and reduce management complexity. **6. Company Culture** is the fundament of Japanese management and leadership style. It is embedded in homogenized and traditional values of contribution to society, fairness and honesty, team spirit, continuous improvement, courtesy and humility, adaptability, and gratitude. To symbolize all these values and

(continued on next page)

lessons, Hugo Tschirky proposes the erection of a **“Statue of Responsibility”** in the West to complement the Statue of Liberty in New York.

Panel Discussion and Launch of China Book

In the panel discussion of the four speakers, the main issues were summarized again, emphasising the need to reform and standardize the schooling system in Switzerland, to generate a new consciousness regarding work ethics and self-discipline, and to collectively develop the meta-competence to meet societal challenges. In Asia,



Urs Schoettli signing his new book “China, die neue Weltmacht”, published by NZZ Libro – Buchverlag Neue Zürcher Zeitung.

Western investors must not count with quick returns. It is only with patience that you can envisage long-term benefits. After the panel discussion, Urs Schoettli presented his new book entitled “China, Die neue Weltmacht” which we recommend to all those readers who really want to understand China today, including its historical context.

Summary by Dr. Peter Oertli

SICC & Managing Partner
OEC Oertli Consulting
CH-8142 Uitikon

Tel. +41 44 401 5335
Fax +41 44 493 2122
info@oecweb.com
www.oecweb.com

Urs Schoettli
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China ist wieder zu einer Grossmacht mit globalen Ambitionen geworden. Seinem rasanten wirtschaftlichen Aufstieg stehen grosse innere Probleme gegenüber:
gesellschaftlich, politisch, ökologisch.

Mit Riesenschritten ist China in den letzten zwei Jahrzehnten auf die Weltbühne zurückgekehrt. Die Renaissance des Reichs der Mitte ist für alle Staaten von Bedeutung. Der wirtschaftlichen und sozialen Modernisierung steht aber ein gefährlicher politischer Reformstau gegenüber. Das Riesenland sieht sich mit gewaltigen Umweltproblemen, einem eskalierenden Reichtumsgefälle und wachsenden sozialen Spannungen konfrontiert. Die westlichen Industriestaaten leiden unter der Abwanderung von Jobs ins Billiglohnland China. Die USA befürchten, dass China zu einer für sie bedrohlichen Macht aufsteigen wird. Die Weltgemeinschaft muss ein Interesse an einem stabilen, wohlhabenden und friedlichen China haben. Chaos in einem Land mit 1,3 Milliarden Menschen würde die ganze Erde in Mitleidenschaft ziehen. Dies muss Anlass für eine differenzierte Beurteilung der Risiken und Chancen in Chinas künftiger Entwicklung sein. Urs Schoettli, Korrespondent der «Neuen Zürcher Zeitung» in Peking, führt in die Geschichte und die Gegenwart Chinas ein, kompetent und spannend wie kaum ein anderer.

Dr. Urs W. Schoettli
geboren 1948 in Basel, Studium der Philosophie an der Universität Basel.
– 1978–1991 Generalsekretär, später Vizepräsident der Liberalen Internationalen in London.
– 1983–1989 Südasienkorrespondent der «Neuen Zürcher Zeitung» in Delhi.
– 1990–1995 weitere berufliche Tätigkeiten in Spanien und Portugal.
– 1996 Rückkehr zur «Neuen Zürcher Zeitung», Korrespondent in Hongkong, Tokio und Peking.

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The 36 Strategies (San Shi Liu Ji 三十六计)

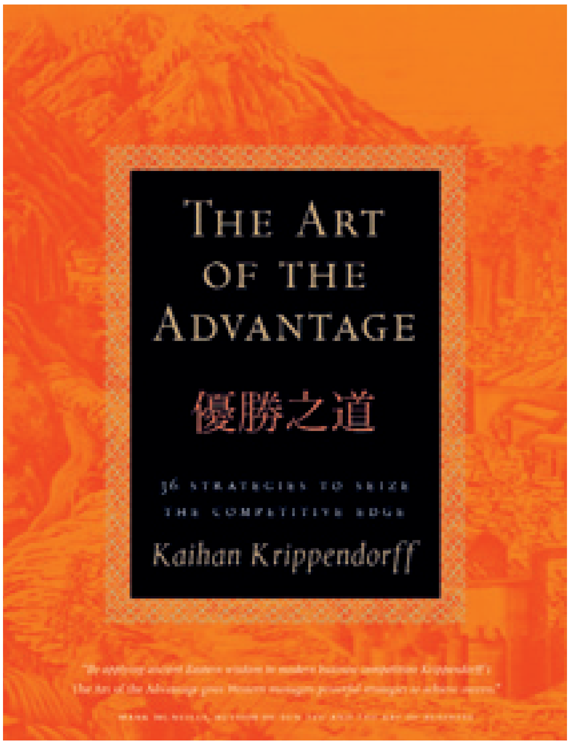
Prof. Dr. Dr. Harro von Senger brought the 36 strategies to the West and wrote many books about the subject among them: "36 Strategeme für Manager". When talking to Chinese people about the San Shi Liu Ji, which I did often in China and Switzerland, I met the following reaction: first astonishment that a "longnose" knows of them and then a feeling of openness and familiarity with comments like: "You must be a wise man." Not a bad path to begin a relationship. I'm absolutely convinced that the knowledge of the San Shi Liu Ji will help us better understand the behaviour of Chinese people. This is particularly true in business and politics.

"The San Shi Liu Ji are quite famous in China", says Yang Xu, a young business man from Guang Zhou (old name: Canton); "we have it in our blood, they are with us every day. When I was young I read all the stories, which are mostly cartoons, about using the San Shi Liu Ji to overcome difficult situations." Numerous Chinese friends and experts have echoed similar comments.

It is of great advantage to know the San Shi Liu Ji, as I experienced, once again, during my last visit, the vintage car rally from Hong Kong to Beijing from March 28 to April 8 (see separate article in this Bulletin). Most of the problems we had, before and during the rally, would not have occurred had the longnoses known at least a bit about the San Shi Liu Ji.

The Art of Advantage – San Shi Liu Ji and business

Having read all the books about the 36 Strategies from Prof. Dr. Dr. Harro von Senger, which I enjoyed very much, I came across Kaihan Krippendorff's book: "The art of Advantage".



Kaihan Krippendorff (a former consultant with McKinsey & Co) read Harro von Senger's book eight years ago, and was fascinated with the subject just like me. He started collecting business cases of Western companies to see if the San Shi Liu Ji could be applied to business. He studied around 400 business cases and analyzed 100 companies worldwide such as Nokia, Puma and Microsoft which have grown fastest, delivered the greatest profitability, and produced the most shareholder return over the last decade. He found out the San Shi Liu Ji, these ancient Chinese wisdoms, provide a complete set of tools for explaining the competitive dynamics we are experiencing in the world today. The ones mastering them can become more creative and effective, which is essential in our globalized competitive world. Managers are human beings and act as such, like the generals at ancient times.

There are of course significant differences between business today and those battles occurred during China's Warrior States Period (475 BCE – 220 BCE), which gave birth to the San Shi Liu Ji. You might know of the Terracotta army of Qin Shihuang, who used the strategies from San Shi Liu Ji to have unified China for the first time and served as emperor from 221 BCE to 210 BCE.

Below its apparently aggressive surface, the San Shi Liu Ji offers a more profound lesson: competition does not necessarily mean to destroy your enemy, which is the lowest form of competition. Instead these ancient wisdoms text gives us tools for gaining market share at the lowest costs and influence by outthinking sources of resistance.

Rolf Dobelli, founder of getAbstract reviewed about "The Art of the Advantage: 36 Strategies to Seize the Competitive Edge" of Kaihan Krippendorff: "...this is an excellent introduction to a neglected classic. Its strategies (an ethical minefield if you take them too literally) are not limited to battlefields or businesses. We recommend this book to business strategists, policymakers and those struggling with competition. It is also valuable for anyone working in or facing competition from East Asia, where these strategems are already well known and widely used."

"Lufthansa leitet eine Strategiewende ein"

This headline, appeared in CASHdaily on June 11, 2007, attracted my attention. Reading the article, the first two seminars we held here in Switzerland last year with Kaihan Krippendorff came to my mind. Through these strategy trainings we learn to use the 36 strategems as creative triggers for conceiving of new strategies. We learned that sometimes "new" comes from precisely its opposite. By looking for something "old", adopting something forgotten or abandoned, we can outthink our competition with greater ease. The Chinese call this strategy "Borrow a Corpse for the Souls return".

Kaihan shared with us the story of Southwest Airlines in the U.S. which has emerged to challenge the giants (American Airlines, Delta Airlines, etc.) as the most profitable airline in that country. He also showed how RIM, the makers of the Blackberry mobile device, used the same tactic to challenge its much larger competitors. The "Lufthansa article" further confirms the power of this strategem. Years ago Lufthansa introduced the hub-and-spoke system and invested heavily in Frankfurt, Munich and Düsseldorf. Passengers from smaller airports have had to fly to these hubs and then move on to their final destination. This is, of course, very cost efficient for Lufthansa and other traditional airlines which prefer full planes on long distance flights. But with the open sky politics, Emirates Airline introduced the old, abandoned point-to-point model on the contrary. This fast-growing airline from Dubai was the first foreign airline to offer a daily direct flight from Hamburg to New York. Others followed suit putting pressure on the "new" hub and spoke model. The competitive challenge grew so strong that Lufthansa was forced to react! They announced to offer direct, point-to-point flights from smaller cities as well.

What are the 36 Strategies?
(extended interpretation from Experts)

- *The 36 Strategems are universal patterns of strategic interactions or power moves to create advantage.* Kaihan Krippendorff, author of "The Art of the Advantage: 36 Strategies to Seize the Competitive Edge"
- *The "Thirty-Six Strategies" are well known to the Chinese and are frequently applied in business practice. Though widely known and applied by the Chinese this "Thirty-Six Strategies" are less familiar to others.* Wee Chow Hou together with Lan Luh Luh, author of "The 36 Strategies of the Chinese", Wee Chow Hou is Professor and Head of the Division of Strategy, Management & Organization & Chairman of the Nanyang Executive Programs, NBS, NTU Singapore.
- *The strategems teach us how to win the biggest victory at the lowest cost.* Dr. Tony Fang, author of "Chinese Business Negotiation Style"
- *Chinese culture possesses the richest and most systematic knowledge of strategems, it easily functions as the best mirror for the strategic behaviour of all people on earth.* Chio Chien, former Head of Departement of Anthropology, Chinese University of HongKong
- "...sie (Anm. die Strategeme) werden offensiv und vor allem auch defensiv zur Schadensprävention eingesetzt. Wer ihren Kosmos in sich aufgenommen hat, ist für den Lebenskampf hervorragend gerüstet. Man sollte sie erlernen und, soweit ethisch vertretbar, praktizieren...", Prof. Dr. Dr. Harro von Senger.

There are of course many ways, mostly analytical, to come to a strategy like the Emirates. The advantage of the San Shi Liu Ji: quicker, more effective and more creative solutions.

Conclusion

The knowledge of the San Shi Liu Ji provides great advantage in a time when the Chinese are re-emerging of one of the most influential cultures of the world.

Look also for the brochure inserted in this Bulletin about the up-coming seminars with Kaihan Krippendorff, September 10 and 11 or 12 and 13, 2007. Members of the Swiss-Chinese Chamber of Commerce benefit from a reduced fee. For seminar information turn to: www.strategeme.com/KursKK

Comments from a participant from a previous seminar: "Das Seminar hat mir sehr gut gefallen. Die Kreativität kommt voll zum Zug. Kompliment auch zur Infrastruktur und Kursleitung. Habe schon verschiedene Strategie Workshops besucht, bei keinem anderen Kurs ist soviel rausgekommen wie bei diesem." (Andreas Grob, Geschäftsführer Buchzentrum AG, Hägendorf)

Should you want to know more about the 36 strategies in general or for crafting business strategies, please contact Ruedi Müller (e-mail: ruedim@matracon.ch, phone: +41-41-666 30 40).

Negotiating Chinese Style

Doing business in China has always been a collision of two worlds in terms of language, culture and tradition. Although China has undergone dramatic changes in its economic landscape some things don't change.

One such thing is the Chinese negotiation style which is based on a strategic approach. These strategies are an undeniable part of doing business in China today when dealing with the bureaucracy, customers, suppliers or colleagues.

Chinese stratagems are not the same as deception; they are a smart and unconventional way of solving an issue or problem. The other party's business practices may sometimes seem out of place, but understanding them helps to see through their intentions. Using similar tactics can work to one's own advantage – and the acceptance as a worthy business partner increases substantially.

Western business executives tend to rely on their company's supremacy in terms of technology and market position, but they have learned that the Chinese party's usage of stratagems actually gives the advantage to the latter.

Summary by Fiducia Management Consultants

Some other books about this topic:

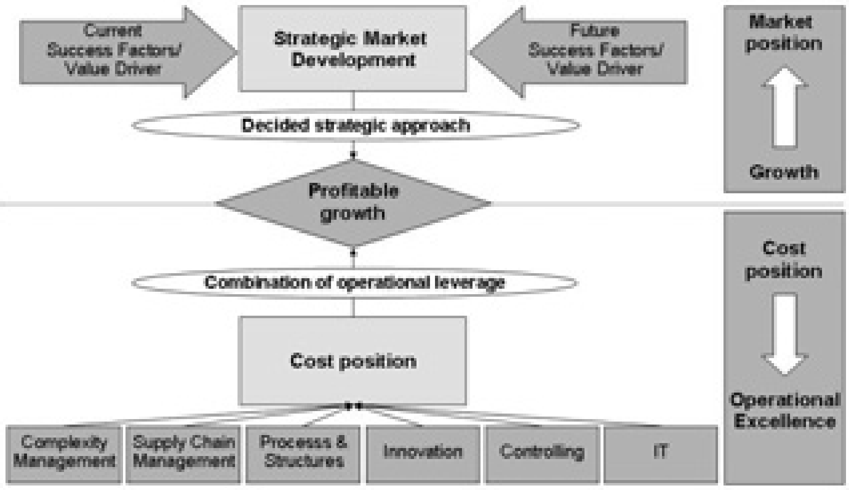
"When YES means NO (or yes or maybe)", by Laurence J. Brahm.

Books by Harro von Senger:
- *"36 Strategeme für Manager", Edition Piper*
- *"Kunst der List", Beck Verlag*
- *"The 36 Strategems for Business: Achieve Your Objectives Through Hidden and Unconventional Strategies and Tactics", (see Amazon publishing company)*

Successful Business Development in China

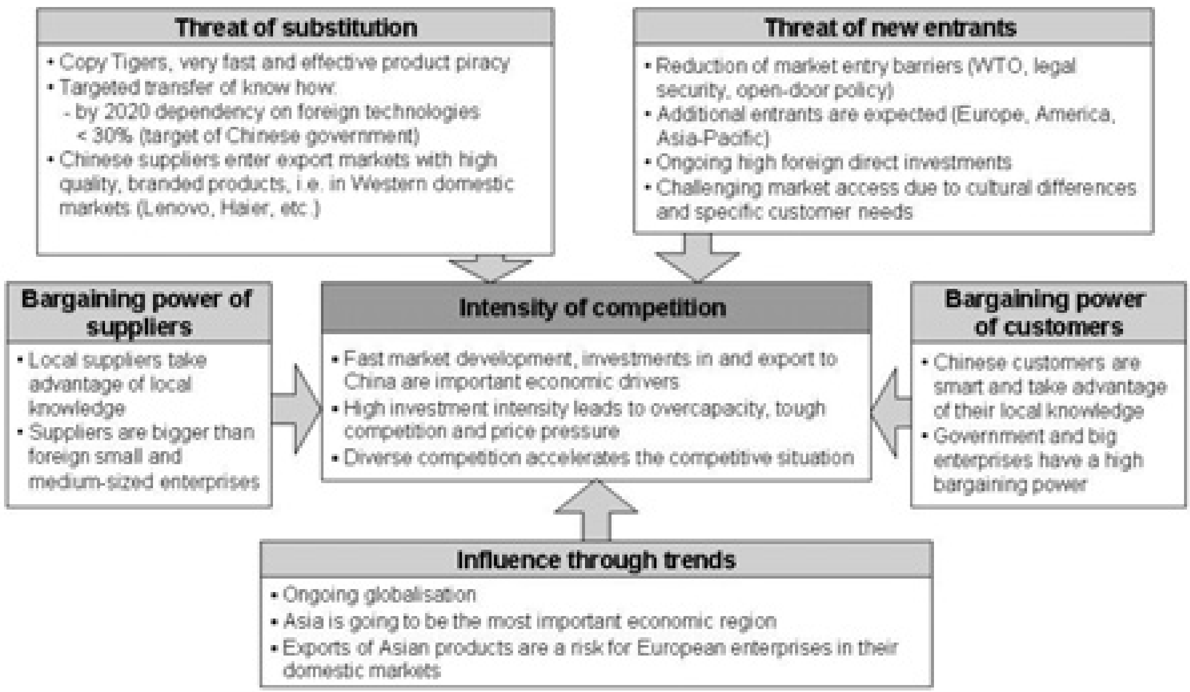
The economy of China and the Far East still grows with an impressive dynamics. Most Western countries dream of such growth rates. If the Chinese government will meet its ambitious "Vision 2020", China is becoming the worlds number three economy and the manufacturing centre of the world. Driven by the opportunities provided through this development many Western multinational companies and nowadays also SME companies entered the Chinese market and set up a local presence.

In the early stages of this development Western companies focused on cost reduction potentials and started to source or manufacture in China. In the last couple of years this trend changed. Today the focus is also on market potentials and market opportunities.



*Successful companies focus on the strategic approach of **Profitable Growth** which is based on strengthening the market position and the cost position at the same time. These companies are able to allocate market potentials (growth) and operational potentials (cost) and therefore to improve their profitability (EBIT).*

After the first development phase many companies put further processing into question: How should the future market and cost position be enhanced against strong local and international competition? This should happen in one of the most competitive markets of which experts say: "If you can make it in China, you can make it anywhere."



A generic analysis of the competitive situation confirms that successful business development in China is a complex and ambitious (ad-)venture. In fact, the development of many Western foreign invested enterprises (FIE's) develop much slower than their local competitors:

– Fragmented and diverse market segments complicate an effective market penetration
– Many Western products do not meet Chinese customer's needs
– Value-Price relation does not fit due to high cost and over-engineering: fit for purpose
– Chinese operations are not integrated into global business models
– Organization und management are still stuck in the "start up phase"
– Local Supply Chains are not performing and are not reliable
– Low loyality and high fluctuation of employees makes human resource management very demanding
– Cultural differences complicate market access by Western individuals and companies

Successful business development in China therefore requires an intelligent combination of different strategic and operational concepts.

Adapting and implementing these concepts, a number of critical success factors should be considered.

Market/Marketing	• Explicit definition of market segments • Differentiated development of market segments and their stakeholders • Development of local, domestic brands
Product	• Consequent identification of customers' needs • Explicit positioning of products in the product pyramid (high end, low end) • Development of local, domestic products or product localisation
Business model	• Agile, scalable local business model with potential for possible changes • Integration of Chinese activities in the global business model in consideration of tax situation • Staged development of the Value Chain (upstream, downstream)
Resources und capabilities	• Consequent transfer of "Best Practices" to the local organisation • Development of qualified resources in China (own, acquisition) • Deployment of expatriates for know how and "Best Practice" transfer only
"Best Practice" processes	• Set up of resources for domestic product development • Development of high-performance processes for marketing, sales, distribution and services
Supply Chain Management	• Powerful local Supply Chain development, stringent supplier management • Integration of local networks in global Supply Chains (manufacturing and purchasing network)
Management and controlling	• Speed: quick decisions, achieving ciritical mass in the organisation (one body is nobody) • Controlled shift of decision power to the local organisations • Focus on profitable growth (improving market position and cost position at the same time) • Productivity improvement, cost management and quality management • Implementation of controlling processes and systems • Stingent management (Management by Objectives) • Consequent risk management
HRM	• Implementation of local HR marketing concept • Run retention programs (keep the talents) • Development of target business culture (fast, agile, pro-active, learning, loyal)
IT	• Replacement of in-transparent IT systems • Rollout of global systems and systems integration

Expansion into China and the Far East does not solve operational problems in the traditional markets

Facing the challenges in China and the Far East it is very clear, that successful business development in this region requires a strong and powerful core business. Problems in the core markets can not be solved through the expansion into any new market. The homework has to be done first.

There are hardly any low hanging fruits. Normally the development takes much longer and costs much more than originally planed. Foreign companies would not be successful in China without any defined goals, a quantified midterm strategy and a realistic implementation plan:

– What is the goal? Cost reduction? Market development?
– Why China and why not another country?
– Which strategy, which implementation concept?
– What do we do if we are not successful?

"Copy-Paste"-strategies will lead to failure

Regardless of developing markets or setting up powerful Supply Chains in China, Western concepts can not di-

Europe	China & Far East
• Centralisation of distribution • Integrated and synchronised supply chain from supplier to customer • Focus on core competences • Reduction of vertical integration in manufacturing • Outsourcing of manufacturing, business and logistic processes • Pull based manufacturing systems (Kanban, VMI, etc.) • Reduction of suppliers, single sourcing • Modular Sourcing, purchase of tested modules • ….	• Prioritise availability before costs • Decentralised distribution • Disconnect supply chains to minimise dependency and risk, e.g.: - suppliers for parts - suppliers for assembling • Procurement strategy based on suppliers' capabilities • High vertical integration of manufacturing • Set up alternative sources/suppliers: - locally: first/second source - globally: building inter-continental supplier networks • ….

rectly be transferred to China without prior adaptation. Experiences in supply chain management show, that western concepts do not work in China. Critical experts say: "You have to go 5 years back to get the starting configuration of your supply chain in China."

Sun Tsu already stated 490 B.C: "Do not repeat the tactics which have gained you one victory, but let your methods be regulated by the infinite variety of circumstances."

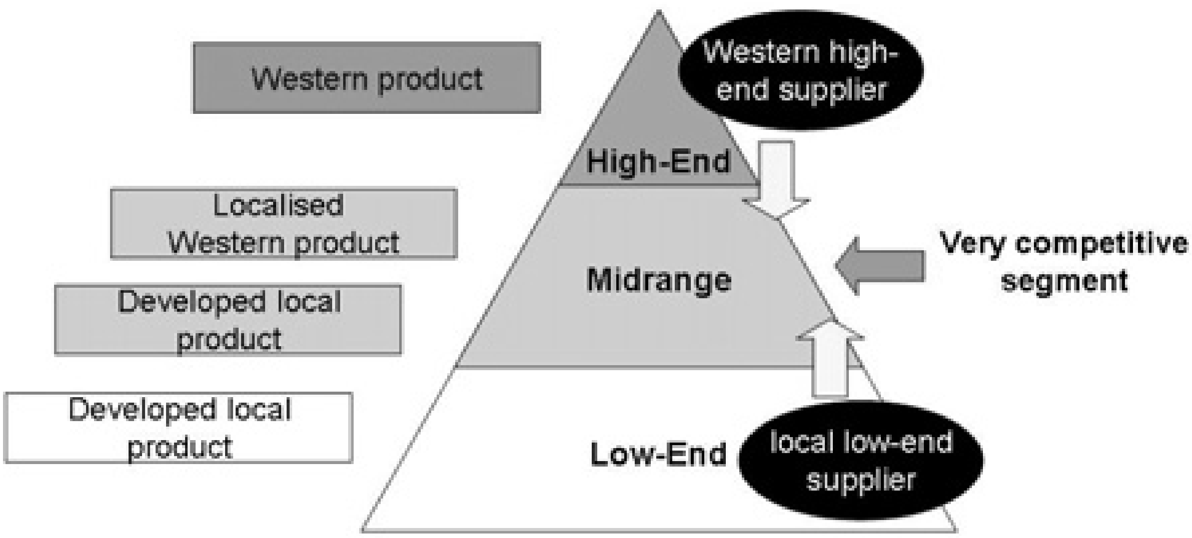
This is especially true for products and their positioning. It is the goal and the challenge to develop products which are derived from the local context. Essentially products should meet local needs and requirements more than anything else. The key questions are: Is there a market for an existing high end product, should existing products be localized, or ultimately are new local products required?

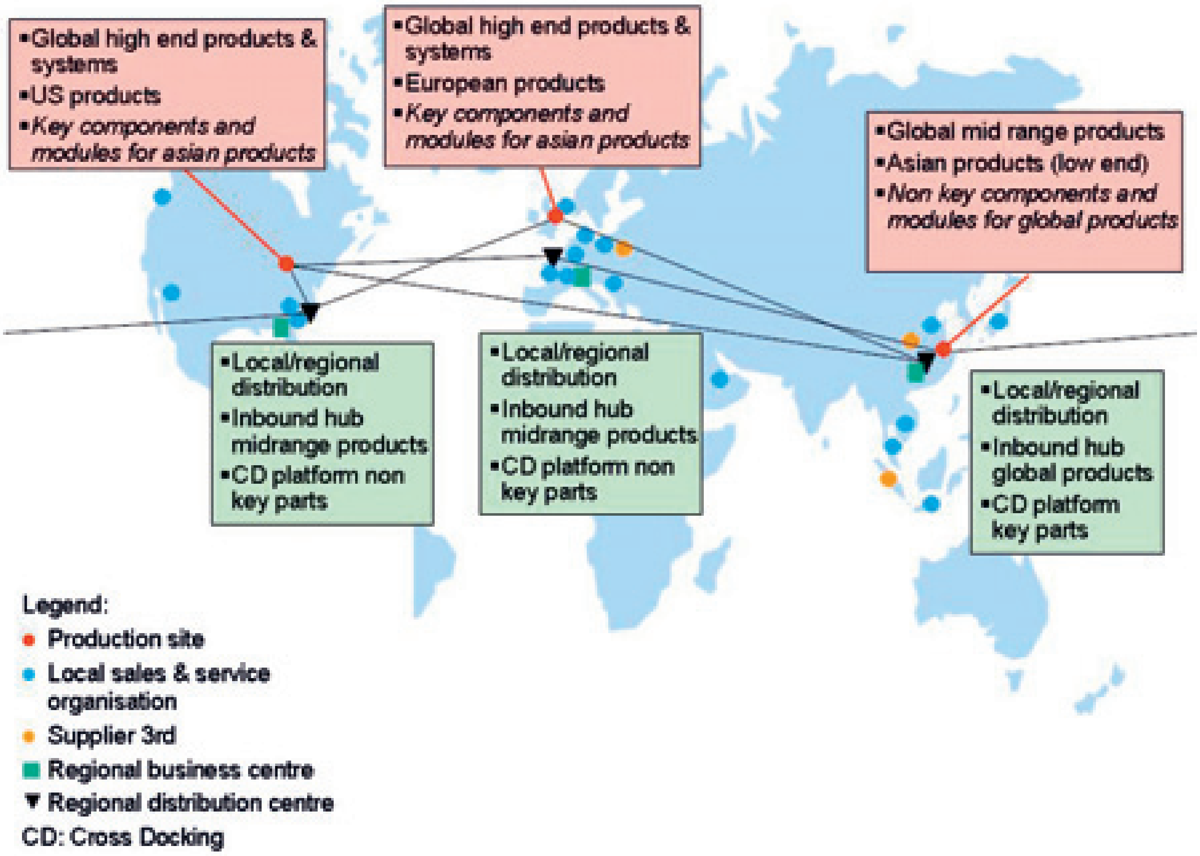
A won battle does not mean a won war

Having successfully set up a business in China may be considered a milestone, nevertheless a long way still remains ahead.

After successful business set-up and hard work invested, the outcome should be profitable growth. Market performance will be met once one meets consumers' needs and requirements. Supply chain management, business processes as well as IT systems need to be adapted and optimized to improve the cost position.

Especially the integration of regional and global supply chains provides the benefits of market coverage and cost advantages in the targeted markets. The supply chain strategy therefore needs to be synchronized with the corporate strategy as well as with the business model.





Do not underestimate the differences between China/Far East and Europe

Despite the pioneer spirit one should not underestimate the large differences between China and Europe. These differences are not only cultural but rather multidimensional:

- Culture, mentality and language
- Business rules and business ethics
- Legal framework
- Politics, political environment
- Etc.

Zellweger Management Consulting AG is a leading international consultancy focusing on business development, process and organizational development, supply chain management as well as Information Management. We support international manufacturing and distribution companies in Western and Eastern Europe, India and China.

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It has become common knowledge that 'Guanxi' (relationship) is vital to conduct successful business in China. Nevertheless Western companies navigate their way through China only with great difficulty due to the many challenges and large gap existing between Western and Chinese business ideals.

Attractive opportunities but also considerable risks

A lot of opportunities continue to linger in China. The economic development continues to move ahead at a high pace, even though signs overheating in various sectors are present. This does not mean that the risks outweigh the opportunities. Instead ongoing risk assessment is a must. The experience from many projects shows that opportunities in China tend to be over emphasized and the associated risks to be underestimated.

Author: Thomas Zellweger, CEO

Zellweger Management Consulting AG
Switzerland
U.K., Czech Republic, India, China


With Investment,
We Co-develop!

Swiss-China Human Resources Management

SwissCham 2007 Survey Results and Successful Practices

Human Resources Management (HRM) is generally considered the single most important challenge for successful operations of foreign enterprises in China.

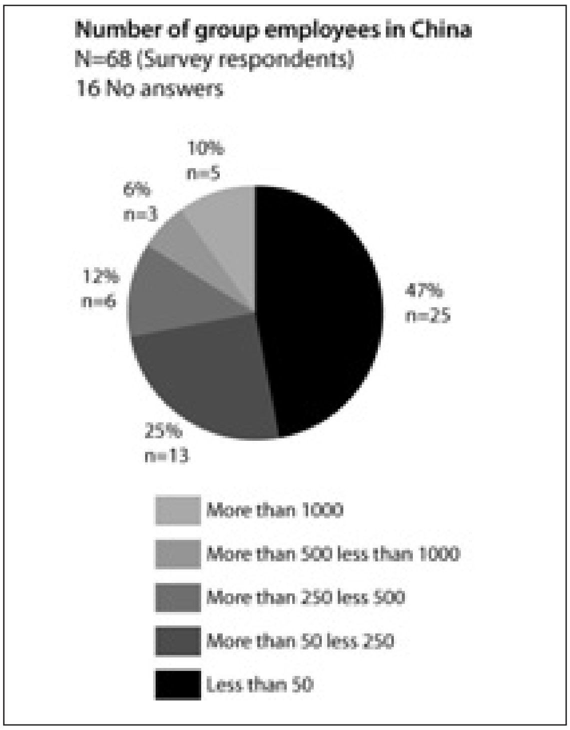
To address this issue practically, SwissCham, the Swiss-Chinese Chamber of Commerce in Switzerland, Osec and the Swiss Center Shanghai jointly sponsored a representative survey for the Swiss business community to share and expand its understanding about HRM issues and practices.

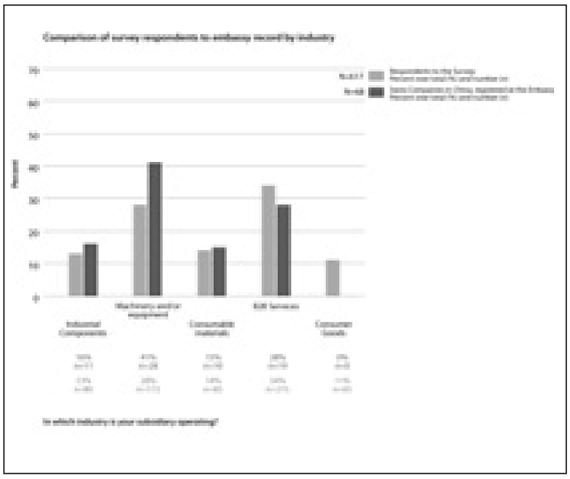
This work was executed with the helpful support of two Master's candidates under the supervision of the University of Geneva and the University of St. Gall, respectively. The managers of 68 Swiss subsidiaries answered 57 detailed questions. In addition, 91 employees of six subsidiaries also responded to a separate questionnaire, providing other points of view. The picture is completed by eight case studies providing insight into the specific Human Resources practices of successful companies.

All details of the survey will be published and made available in July, complemented by additional case studies and articles by HRM experts on key topics (see www.chinaguide.ch for ordering details).

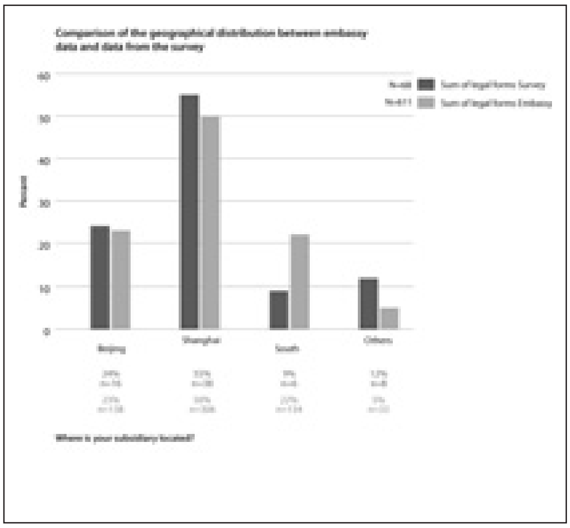
Survey Participants

68 subsidiaries of Swiss companies answered an extensive online questionnaire. Below are some key characteristics of the respondents' companies, for a better understanding of the results:





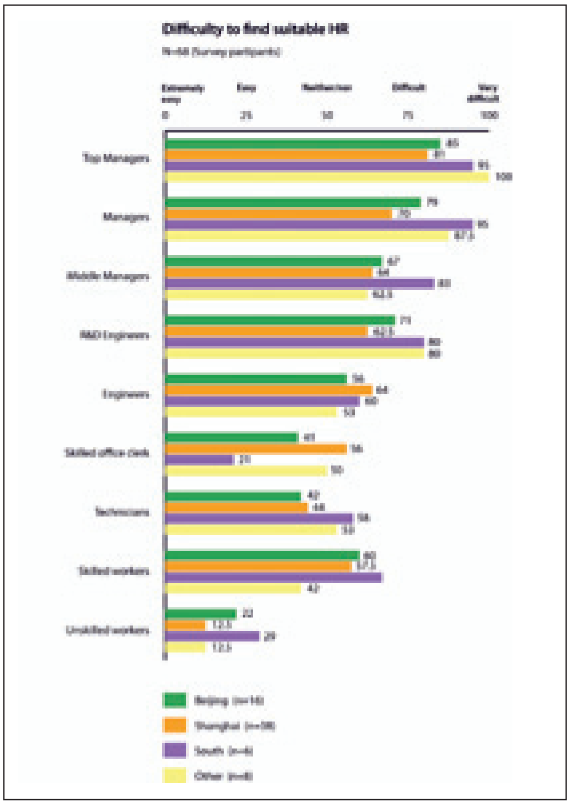
The sample is clearly biased in favour of WOFEs. This should not overly bias the data, given that WOFE's are more frequently established than Representative Offices in recent years.



Difficulty Finding Human Resources

The survey participants' ratings on what positions are more difficult to find (below) are particularly enlightening. They confirm that management is more available in Shanghai, and more scare in the South and 2nd tier locations.

Interestingly enough, unskilled workers are easiest to find in both Shanghai and 2nd tier locations. On the other hand, while Shanghai is where R&D engineers are most available, it is also where engineers and skilled office clerks are the hardest to attract.



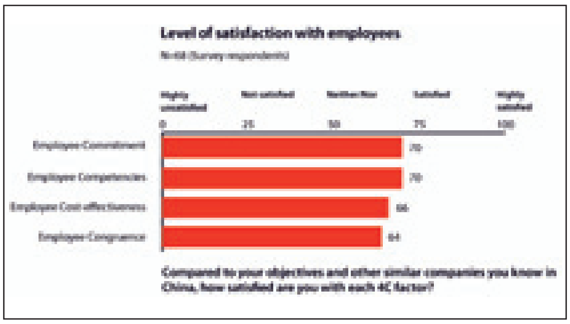
Level of satisfaction of Swiss companies with their employees in China

The results reveal that Swiss businesses are largely satisfied with their Human Resources (HR). Below are the different dimensions used to rate HR, first overall and then by industry group, location and legal form:

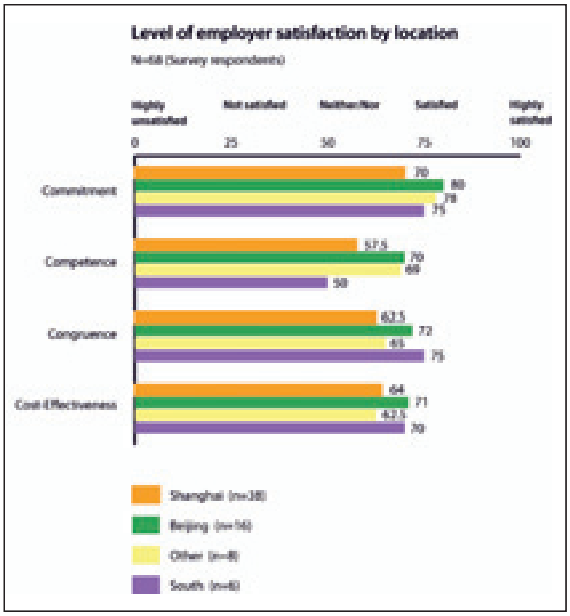
– Commitment (to a company): Engagement in and attachment to the company, resulting in a willingness to serve the company's interests without looking at other alternatives.

– Competence: The ability to use knowledge, understanding and practical and thinking skills to perform effectively at the required level.

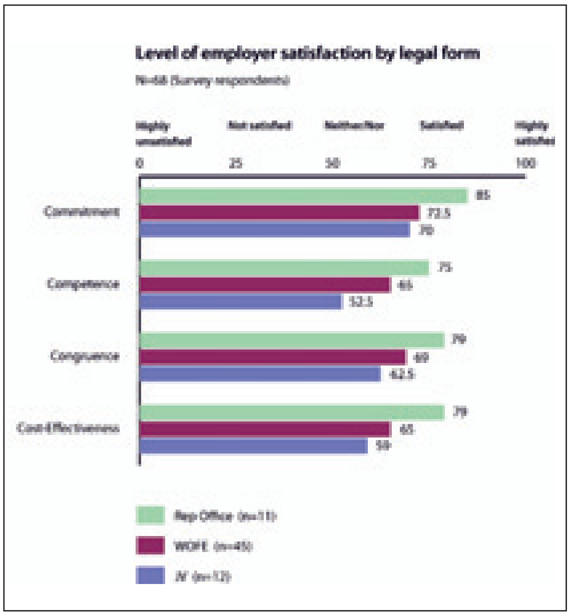
– Cost-Effectiveness: Value for money (with respect to the achievement of particular objectives and tasks, by comparison of employees of other enterprises).
Congruence: Being suitable and appropriate to work smoothly with the company's workforce and within the company's values, systems and overall culture.



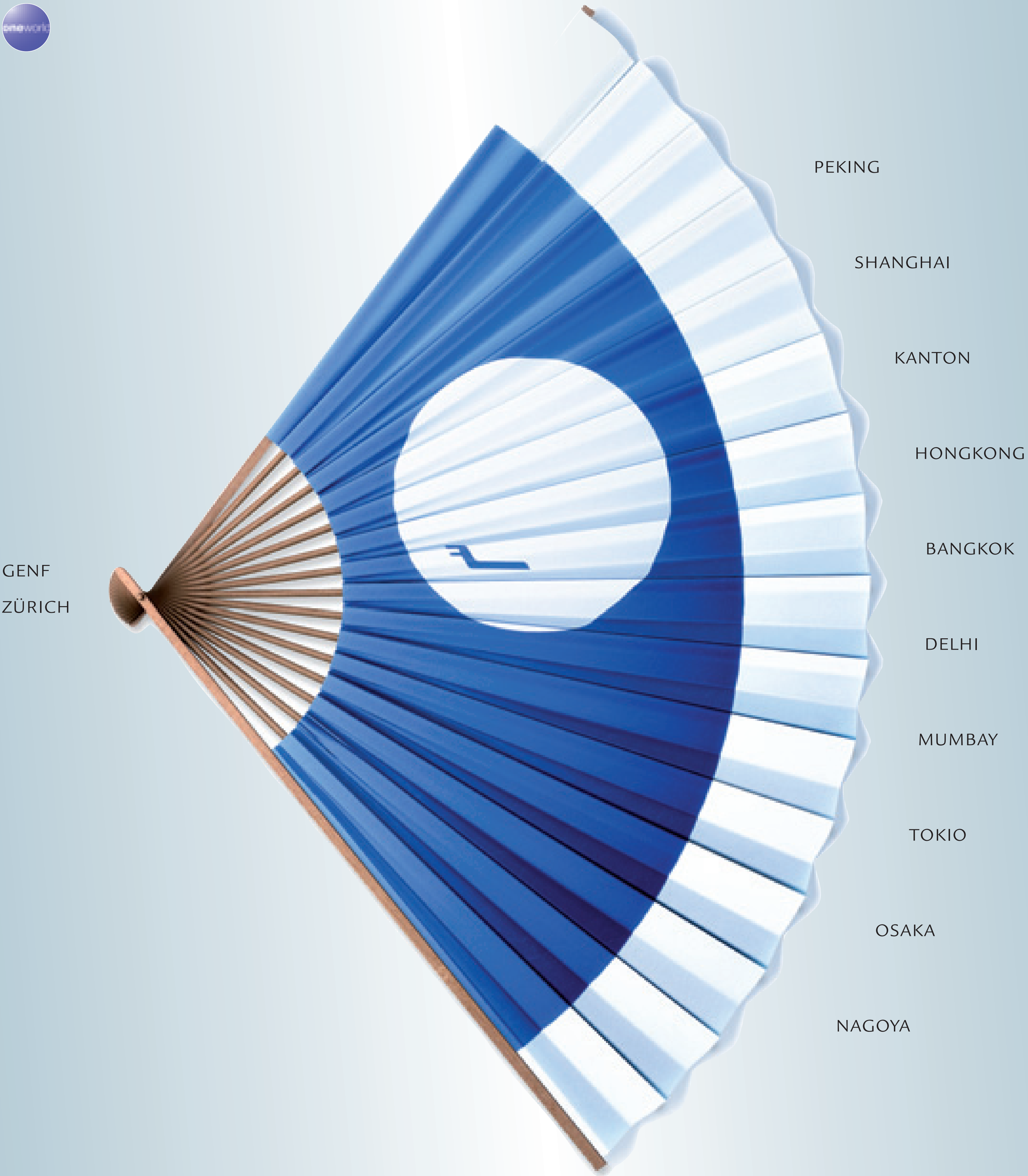
Paradoxically, Shanghai employers are least satisfied with their employees, while one must still note that Southern employees are judged the least competent. Case studies show that the quality of HR in Shanghai is certainly as high as elsewhere so that we can only conclude that employment in Shanghai is more demanding, probably because the functions performed in Shanghainese operations are more sophisticated.



In terms of legal form, a clear pattern emerges, indicating that Swiss employers at representative offices are the most satisfied with their employees, while those at WOFEs are more satisfied than those at JVs.



No clear pattern emerges from industry differences, except that employers in the service industry do not express much satisfaction with the cost-effectiveness of employees:



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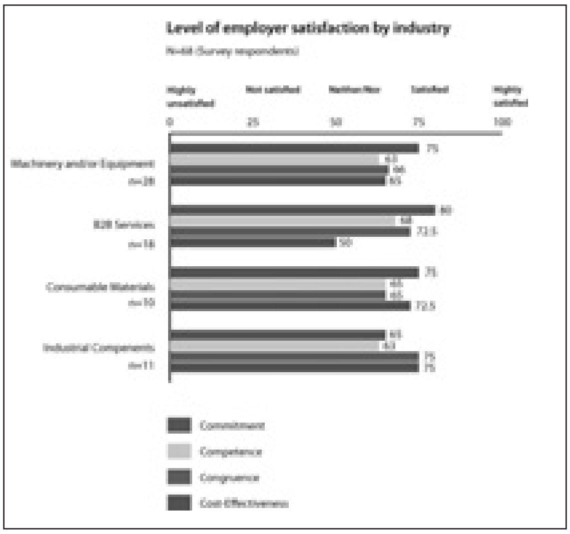
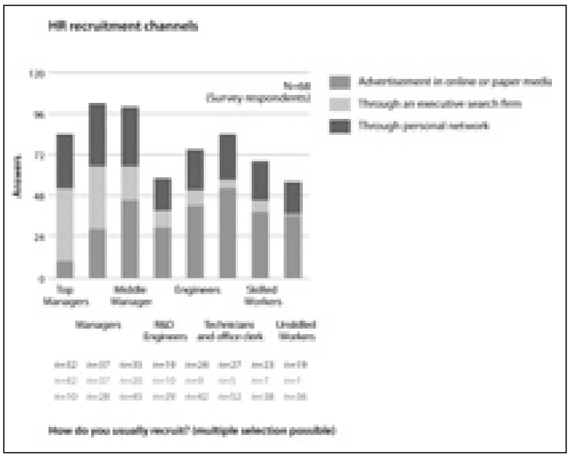


Recruitment methods

Personal networks are still a relatively important source for recruiting candidates. This certainly confirms that personal relationships still matter a great deal in China's HR environment.

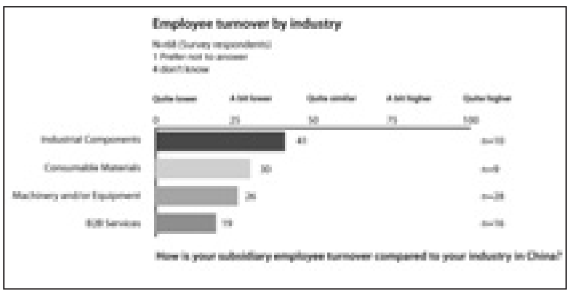


Employee turnover rates

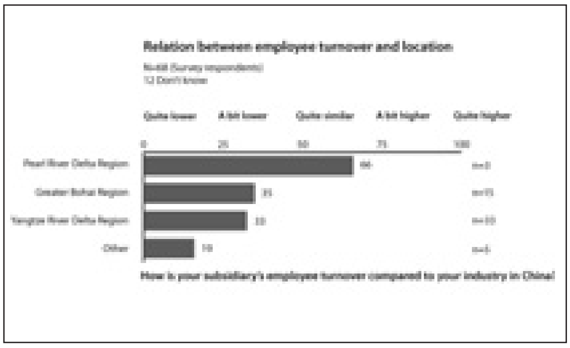
Faced with the current shortage of personnel fit to work within a foreign enterprise, retaining good employees becomes a key target for almost every company.

Swiss companies are not doing badly, with 83 percent of respondents announcing a turnover of less than 20 percent per year. The missing answers are represented here since they represent 21 percent of the sample.

By industry, industrial components companies show a slightly worse picture, probably as a result of its unskilled, easily replaceable workforce accounting for a higher turnover:



Swiss companies generally consider that they do better than the industry average. Yet in South China they estimate that they fare a bit worse on average:

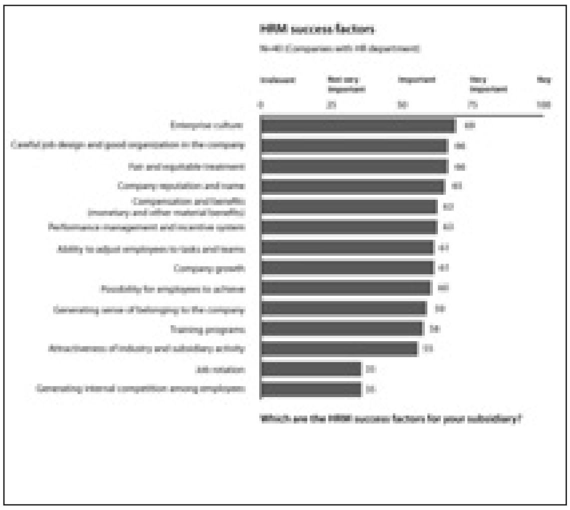


Factors of Success for HRM

Out of the sample of companies, we selected successful HRM Companies according to the following criteria:

- Companies whose employee turnover is perceived to be lower than the industry average.
- Companies who are "satisfied" or "highly satisfied" in every one of the four factors (commitment, competence, cost-effectiveness, congruence).

17 companies fit these criteria. We then combined these 17 companies' ratings of the importance of various HRM factors to reach the following ranking:



Best Practices

Eight case studies of Swiss companies, including Bühler, Ciba, Winterthur, Geberit, Gate Gourmet and Franke, allow us to identify the practices that make for successful HR Management.

By Nicolas Musy, SwissCham China VP.
For questions, kindly email n.musy@china.com

More Not Fewer Expats Are Needed

"Localization of the managerial workforce" is a familiar refrain heard at many foreign invested enterprises [FIE] in China [and elsewhere] today. Rare is the FIE that is not dreaming of the cost-savings associated with reducing the expat presence and staffing most or all of the key managerial positions with local employees. Added onto this dream, as part of the justification, is the notion that the departure of expats will give locals the managerial opportunities that they deserve, and will help make the operation "more local". I think that the reduction of expats is a huge mistake for most organizations – commercial or otherwise. What we need, I believe, in building global organizations are more, not fewer, expats.

Expats are expensive, "unruly". and they are often perceived as interlopers by the markets that they are posted to. Costs such as housing allowances, kids' schooling, home leaves and the like can represent a significant [non-value adding] part of an FIE's operating budget, as well as a source of friction between colleagues who are supposed to be members of the same team. If we add salaries into the discussion, the numbers grow even more significant. No wonder that at most FIEs in China today, you'll hear expats saying: "I'll be turning this position over to a local soon."

Expats are also seen as taking the choice positions that a local manager might aspire to, and in a sense slowing down the professionalization of the Chinese work force. Actually, my sense is that it works just the other way. Expats are a strong source of tacit professional knowledge, governance and the values of the global organization. It is **expats** who **are the true "carriers" of the firm's cultural DNA**.

Expats are also the way that the whole firm learns about local markets. By taking someone out of headquarters, or some other distant operation, and sending them to China, the **firm puts itself in a position to "learn" about China**; about the market, the culture, the people, the opportunities, etc. Since the expat "speaks the language of the firm". the lessons learned have a much better chance of being interpreted into generalizable knowledge.

Expats should be seen as an investment in globalization. However, expats assignments should not be limited by nationality, nor should the expat feel "abandoned" while abroad. We should look forward to seeing more Chinese expatriates forming the cadres of internationally-mobile managers in large global multinationals in the future. In addition, expats **assignments should be structured so that the firm consistently learns from the expat** while abroad and then values the experience when they return from the assignment; neither of which, unfortunately, is presently the norm in most companies.

Rather than being unfashionable, I think that we should see expats the most effective agents of change in globalizing both parts of the firm: the field and headquarters. Send the expats home, if you want multi-domestic; send more if you want global.

By Bill Fischer, ChinaBiz, cbiz.cn

H&R Trends in China

According to the Chinese Academy of Social Sciences an estimated 25 million urban Chinese will be competing for ten million available positions in China in 2007. In other words: 15 million people will be unable to find work this year. Ironically, many companies are complaining of labour shortage. The reason: not enough qualified candidates.

Key problems: qualification and experience

McKinsey & Co. stated in a November 2006 report that less than 10% of Chinese job hunters are qualified for in-demand positions in accounting, finance and engineering at overseas companies. As a response, the Chinese Government has prepared an ambitious education road map aiming to boost university enrolment from 13% today, to 20% in 2010 and even 40% in 2020. Yet, this approach will only start taking effect three to four years from now and doesn't tackle a problem that many candidates, especially graduates, have. Despite their mostly outstanding formal qualifications they often lack the ability to apply this theoretical knowledge to real projects. This is why about 60% of graduates are expected not to get a job directly after leaving university. One third of all new graduates in China have an engineering degree but fail to present complex decision-making skills. Without experience in team-work or project handling most are unfit for working in international firms.

But the shortage of skilled staff is not just seen at entry level. Due to little or no practical knowledge and the inconsistency that comes with frequent job changing, lack of experience appears at the management level as well. The disruption of the whole education system caused by the Cultural Revolution (1966–76) resulted in the fact that many people currently in their late 30's and early 40's never developed the leadership or interpersonal skills necessary to head a department or manage a company.

(continued on next page)

High pay for high-flyers

The rare cases possessing both formal qualifications and the often-quoted invaluable soft skills are desperately sought after. Stories abound in the Chinese media of people doubling or tripling their salaries in a couple of years just by frequently switching jobs. Hewitt's projected salary increases for 2007 indicate that this trend will continue with an expected rise of more than 8%.

In some fields such as accounting, salary increases are already much higher. According to Mercer Human Resources Consulting, wages paid by the Big Four accounting firms rose 30% to an average annual surplus of about US$ 9,000. A look at the figures shows why: presently there are around 69,000 licensed accountants in China facing a demand for over 300,000. This dramatic disparity is quite likely rooted in the fact that Chinese Universities didn't start offering Certified Public Accounting as a major until 1994. "Staff draught" can get so extreme that even the industry's big players have to turn clients down.

Quick fix: hiring "local expats"

With staff turnover figures sky-rocketing and aggressively "poaching" competitors, it is hard to counter these problems even with good retention management (see other article in this issue). In the short run, companies are therefore turning to expatriates to fill the gap. They increasingly address a non-traditional and growing segment within China's foreign population (48%) – expats who are already working in China. These professionals often have sufficient language skills and business experience to do well in the China market as well as the abilities and cultural knowledge required to work with head offices in Europe or North America.

This solution also tends to be cost-effective: many China-hired expats only get reduced benefit packages (if at all) and at the same time their Chinese counterparts are demanding more and more of the perks traditionally reserved for expats. This way the expense discrepancy between local Chinese and "local expats" will diminish rapidly. Yet the need for a long-term remedy still persists.

A bumpy road ahead

Eventually the lack of a qualified, experienced and internationally fit workforce will lead to a slow-down in industrial development which is already felt by a number of small and medium sized enterprises (SMEs) in the regions of high industrial agglomeration, such as greater Shanghai and Dongguan. Considering that SMEs account for 75% of China's new jobs annually, this could be the beginning of a vicious circle unless the educational system is adapted to today's requirements. Companies, and especially SMEs, should follow the example set by many Multinational Corporations (MNCs) to undertake major staff training efforts in order to improve internal development possibilities.

Employee Retention: How to keep your staff

With China's economy soaring, many companies face the challenge of both attracting and retaining skilled labour. As one of the biggest growth inhibitors in many emerging markets today, this problem originates from the universities' inability to generate sufficient supply of qualified staff. The staff shortage has created a wage boost resulting in an all-industry staff turnover of 15% in China last year. Employees change jobs frequently to benefit from increasing wages, thus bringing the average employee retention period for qualified managers down to as little as 15 months. For many employers this means losing money (invested in staff training), know-how and sensitive information to the competition.

Therefore, the key question must be: how can you retain qualified staff? A recent survey conducted by the Economist Intelligence Unit inclose co-operation with Fiducia reveals some very interesting ideas and measures:

Money or mentoring

Unsurprisingly, the first measure for higher staff retention is raising wages above market rates. Using pecuniary incentives is a straightforward and promising instrument. Yet it can bear the risk of establishing a solely compensation-based relationship between employers and their staff. What if an employer with bigger pockets turns up or company funds become tight?

Another successful approach is to establish or increase training opportunities. Options range from basic language or software training to all-expenses paid MBA programmes at internationally renowned business schools. The key to this is to match training investment, development potential and seniority level of the employee. Having MBA graduates from IMD or INSEAD in lower management positions may look impressive, but will most certainly be too costly. Instead, the training should support employees in their personal and professional career plans. Only then will they appreciate these measures as supporting means to reach higher management positions in the same organisation.

A solution taking the same line are mentoring programmes. They give high-potential local employees the chance to take on leadership roles on important assignments and develop the skills necessary to become qualified managers. However, even the best training and mentoring will not retain staff if wages are 20% below market rates. Thus, both methods are best to be combined in a well-balanced way.

My iPod, my car, ... my chef!

The conducted survey also revealed some less obvious methods of curbing staff turnover. As many Chinese attach high importance to a company's public exposure, it turned out that a well-designed company website or a prestigious office address can prove helpful in status discussions among peers.

Supplying employees with the latest IT gadgetry is supposedly another successful staff retainer in Southeast Asia and is also highly regarded in China. Your brand-new PDA or laptop will most likely attract attention and envy of both your colleagues and competitors. This up-to-date alternative to the classic status symbol "company car" requires less investment with a potentially higher impact.

The next possible staff retainer comes across as rather unconventional: food. Especially manufacturing companies are usually located in city outskirts missing out on basic infrastructure such as restaurants or shops. Employing a good chef who runs the staff canteen has proved to be beneficial as employees appreciate this simple opportunity of getting a decent meal. According to a manager in the manufacturing business, there is a strong correlation between the perceived quality of the company chef and worker retention rates.

Feel-good factor

Employees want to feel important to the company and want to be rewarded for staying. A comprehensive compensation package including competitive wages, insurance benefits or housing allowance is one of the most successful methods for staff retention. The same applies to sufficient training and mentoring programmes whereas IT gadgets, company image and high-standard in-house lunch facilities are often shrugged off as unnecessary expenses. However, showing that you "go the extra mile" for your staff might just as well be the key to keeping them happy – and on board.

Home, Sweet Home?

When considering the employment of an overseas or returning Chinese manager, companies usually look into a lot of aspects – compensation, language skills, work experience – but the reaction of the company's local workforce usually isn't one of them. Yet, according to Michael Cronin of Hewitt Associates, it should be.

"Rootless snobs"

Local employees can hold resentment towards overseas or returning Chinese, who tend to have fluent abilities in English and Chinese, high-standard qualification and training as well as international exposure. Existing staff might deem these managers "snobs" or Chinese people who have lost their roots. They often don't see why the returnees should make more money than they do. The situation can be the similar when hiring an executive from first-tier cities such as Shanghai or Beijing to work in second-tier cities such as Wuhan or Chengdu.

Another problem could be cultural issues. Returnee managers might speak Chinese fluently, but this doesn't necessarily mean they understand Chinese business culture or the mindset of Chinese workers. Their language abilities may help them to establish the first contact with a client, but chances are high that they are just as inexperienced in negotiating "the Chinese way" as the ordinary overseas expat would be.

Local workers' treatment of returnee or overseas Chinese managers might create a very negative atmosphere for the latter. Without any family bonds or other social networks in the area to rely on, it is possible that the managers soon feel out of place in their own country. This can lead to excess stress and eventually even result in leaving a well-paid or otherwise much liked job.

Opposites attract?

Cronin says that mainland workers are likely to react most positively towards people who are either very similar to them or are so different that they have nothing in common. In other words: local managers or expats. He suggests hiring local managers who naturally tend to have stronger links in the area such as family and friends. This may make them more loyal to the companies they work for and therefore easier to retain. Local managers are also likely to have a good understanding of the market and can bring added value to the business.

So next time you plan on hiring a manager look at the situation carefully: even though they have many assets, overseas Chinese are not always the better choice.

Source: China Focus
by Fiducia Management Consultants

Beijing Rep. Office
Unit 0603, Landmark Tower 2,
8 North Dongsanhuan Road
Chaoyang District, 100004, Beijing, P.R. China
Tel: +86-10-6590-6108

Hong Kong Office
12/F Fortis Bank Tower, 77 Gloucester Road,
Hong Kong
Tel: +852-2523-2171

Shanghai Office
Suite 1908, Ciro's Plaza, No. 388 Nanjing Road (W)
Shanghai, P.R. China 200003
Tel: +86-21-6327-9118

Shenzhen Rep. Office
Room 909, 9/F, International Culture Building
3039 Shennan Road (Central), Shenzhen,
P.R. China 518033
Tel: +86-755-8329-2303

China's New Tax Law

China has fulfilled almost all its commitments to the World Trade Organization (WTO) since joining it more than five years ago, and with new tax regulations, it has finally met one of its last pledges.

The National People's Congress (NPC) met in March to discuss numerous topics associated with China's future, including China's Corporate Tax Law. The law was ratified by the lawmakers as they concluded their annual full session in Beijing.

Corporate Income Tax Law

On Friday, March 16th 2007, the NPC adopted the enterprise income tax law with 2,826 votes for and 37 against and 22 abstentions. This has come after years of criticism that the original dual income tax mechanism was unfair and unjust to domestic enterprises. The long awaited law will take effect from 1st January 2008, changing China's existing rates for domestic firms (33 percent) and overseas invested companies (15 or 24 percent) to a unified rate of 25 percent. This will finally provide domestic and foreign enterprises with a level playing field for the first time since the economic reforms began in the 1980s.

Foreign funded firms have been enjoying the favourable tax structure as stipulated in the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises since 1991 as originally foreign companies faced various investment restrictions when entering the market. But over the years the government realized that they could not grant this preferential treatment forever. As the government sees it, the foreign firms have to be treated equally, given that China has opened nearly all its markets to foreign players.

In fact as far as the Chinese government is concerned, the 25 percent tax rate is low compared to most other countries. Government data shows that the average corporate income tax rate in 159 countries and regions was 28.6 percent in 2005–2006, with the average rate in the Chinese mainland's 18 neighbouring countries and regions being 26.7 percent.

Major Changes

Preferential policies will still be provided to high technology, environment protection, energy saving and production safety firms. The law also clarifies tax-deduction policies. The following are the major changes to the tax law:

- Foreign firms that are established before 1st January 2008 and that enjoy preferential tax rates now until 31st December 2007 will be given a five year grace period for the new rate to be phased in. With the tax rate being raised by two percentage points every year. A number of such businesses have already started internal adjustments to offset the impact of a unified tax rate.
- High-technology firms, such as biotech and aerospace companies or companies that the State decides need major support will be allowed to pay a tax rate of 15 percent.
- Venture capital enterprises and companies that invest in environment-protection, energy and water conservation and work safety will be eligible for a fuller range of preferential tax treatment. Details have not yet been specified, but will be stipulated in the implementation rules.
- Eligible small low-profit-earning companies will be allowed to pay a tax rate of 20 percent
- Existing tax breaks for firms investing in infrastructure like ports, docks, airports, railways, highways, power and water conservancy that supported by the State will remain in force.
- Tax breaks for firms in the agriculture, forestry, stock raising and fisheries sectors will continue.
- The existing 50 percent tax break for export-oriented foreign companies and the preferential tax treatment for manufacturing-oriented foreign firms will be discontinued.
- Firms that make efficient use of resources and raw materials and enterprises that provide public service will no longer be given direct tax breaks for exemptions, but will benefit from new preferential tax rates.
- New high-tech firms that need priority support from the State and are located in a special economic zone like Shenzhen or in a State Council-appointed special area like Shanghai's Pudong New Area will receive a "transitional" tax preferential treatment.
- Existing preferential income tax policies aimed at encouraging enterprises to invest in economically underdeveloped western regions will continue.

Other Amendments

The draft law no longer uses the "independent economic accounting" criterion to define a taxpayer, replacing it with the legal person definition, which is in line with international practices. Along the same line of international practices, "resident enterprises" will be required to pay tax on both domestic income and income from abroad, whereas "non-resident enterprises" will have to pay tax only on income earned within China. Whether a company is resident or non-resident depends on combined standards of "place of registration" and "place of effective management". One item which will be clarified are the articles on preventing tax evasion through transfer pricing among associated enterprises through tax havens and other methods.

Benefits to Chinese Companies

A lower tax rate means higher profit for domestic banks. A bank will see a 1 to 1.5 percent profit gain if the income tax is cut by 1 percent. Therefore if it is lowered from 33 to 25 percent, domestic banks could realize an added profit of 8 to 12 percent. For example, the Industrial and Commercial Bank of China (ICBC), which has a pre-provision profit of RMB 78 billion in 2005, it means as added gain of RMB 6 billion.

Domestic manufacturing companies involved in some traditional sectors would be among the major beneficiaries. Most of such firms now have to pay a 33 percent income tax because they neither enjoy the favourable tax rates like the overseas firms, nor any of the tax reductions given to domestic high-tech businesses.

Sectors such as food and beverages, iron and steel, coal, papermaking and non-ferrous metals, too, stand to gain from the tax cut. Commercial vehicle enterprises such as China National Heavy Duty Truck Group Corp and bus giant Yutong Group may benefit as most of their funds come from domestic investors.

It is expected that some domestic manufacturers may seek independent and national brands. As some firms now earn most of their profit from joint ventures, which enjoyed the preferential tax rates, rather than their own wholly-owned Chinese companies.

Situation for Foreign Companies

By the end of last year (2006), China has approved the establishment of 594,000 overseas-funded enterprises, with a total registered capital of USD $ 691.9 billion. Last year, overseas-funded companies paid RMB 795 billion (USD $ 101.9 billion) in taxes – 21.12 percent of China total tax revenue. It is estimated that the tax hike for overseas firms would stand at USD 43 billion more a year after an increase to 25 percent but the increments will reduce this burden initially to only USD 8 billion more a year.

Apart from the increased income tax, foreign companies will also be wiped from some other tax incentives, including pre-tax reduction and tax rebate for re-investment.

Many experts and analysts have voiced their concerns regarding the unified tax rate, fearing that it could hurt the inflow of overseas direct investment in China. They fear that it would cause foreign firms to change their investment strategy in China in the long term. However a research report from the World Bank analyzed that stable political situation, sound economic development, broad market, rich labour sources as well as increasingly upgraded business infrastructure and government service in China are the major factors attracting foreign investment. If this is the case it is important for existing companies in China as well as incoming investors to have a clear strategy for income repatriation and dividend remittance.

Yue Yuen Industrial (Holdings), the world's largest maker of branded sports shoes, including Nike, which has factories in China, Vietnam and Indonesia, now enjoys an average tax rate of only 2%, with four plants in Southern China, employing more than 130,000 people. The company is not sure how the new law will impact their structure; however abundant human resources, good infrastructure and a huge market are also important factors making it desirable to increase their investment in China. The company is now considering setting up a new plant in inland China.

It is also expected that this new change in the tax law will spur more scientific development and a move into the "green business" by companies already established in China in order to take advantage of the high-tech preferential treatment. General Electric (GE) for example has announced it will invest USD $ 50 million in its Shanghai-based technology center for products serving environmental protection, including more efficient airplane engines and wind power generators, seawater desalination technology and energy-saving bulbs.

It is also anticipated that overseas, particularly Hong Kong service companies, such as consultancy, financial service firms and retailers, will make a move into the market as previously they were subjected to a 33% tax rate (same as domestic companies). At the same time, it is predicted that some manufactures now may rush to the mainland to set up their factories before the law comes into effect as they will be given a five year grace period.

Although the impact of the tax reform will vary depending on the type of industry and its location, it will definitely affect the privileged status and competitive advantages long enjoyed by foreign companies in China.

by Klaus Koehler, Managing Director, Klako Group
For further information please contact:
info@klako.com

Circular of Ministry of Finance and State Administration of Taxation on Adjusting Export Rebate Rate

The adjustments regarding the export rebate rate of some commodities were recently authorized by the State Council. Related issues with effect as from July 1st 2007 were announced as follows:

I. Dismantle export rebate rate of following commodities

1. Animals and plants on the verge of extinction as well as related products;
2. Mineral products such as salt, solvent oil, cement, liquefied propane, liquefied butane and liquefied petroleum gas;
3. Fertilizer (carbamide and ammonium phosphate whose rebated are dismantled already are excluded);
4. Chemical product such as chlorine and colouring matters (fine chemical product is excluded);
5. Metal carbide and active carbon products;
6. Leather;

7. a part of wood block and disposable wooden products;
8. Plain carbon welded tubes products (petroleum double-pipe is excluded);
9. Simple non-ferrous metal products such as non-alloy aluminium bars;
10. Vessel section and non-mechanized vessel.

II. Deduct export rebate rate of the following commodities

deducting the export rebate rate of:

1. Plant oil to 5 percent;
2. a part of chemical products to 9 percent or 5 percent;
3. Plastics, rubber and their products to 5 percent;
4. Box and bags to 11 percent, the leather products to 5 percent;
5. Paper products to 5 percent;
6. Wearing apparel to 11 percent;
7. Shoes and hat, umbrella and feather products to 11 percent;
8. some stone materials, pottery, glass, pearl, gem, noble metal and its products to 5 percent;
9. a part of steel and products (excluding petroleum double pipe) to 5 percent. The export rebate rate of the marine engineering construction of domestic trade stipulated in Circular of Ministry of Finance and General Administration of Customs on Rebate of VAT of Marine Engineering Construction (announcement No. 46, 2003) shall stay unchanged;
10. other base metals as well as their products (excluding commodities with their export rebates already dismantled and aluminium foil, aluminium pipe and aluminium construction) to 5 percent;
11. Planer, slotting machine, cutting machine and broaching machine to 11 percent, diesel engine, pump, fan, drain tap and its parts, revolving furnace, coke oven, Sartorius, stapler, snowmobile, motorcycle, bike, trailer, riser and its parts, tap and brazing machine to 9 percent;
12. Furniture to 11 percent or 9 percent;
13. Timekeeper, toy and other miscellaneous products to 11 percent;
14. a part of wooden products to 5 percent;
15. Viscose fiber to 5 percent.

III. The following commodities shall be exempted from tax

Peanut, canvas, carved board, stamp, and fiscal stamp.

IV. Time for implementation

The export rebate rate adjustment of above commodity shall take effect as from July 1, 2007. The specific time shall subject to the date of export on Declaration Form of Export Commodity (only for export rebate).

Export enterprises that sign export contract involving export rebate dismantling before July 1, 2007 shall take the export contract (both original and copy are required) to tax authorities in charge of export rebate to register before July 20, 2007, and their export rebate rate are permitted to be finished. Those failing to register before July 20, 2007 shall follow the adjusted export rebate.

Where export enterprises with foreign contacted project qualification that win bid of long term foreign contracted project before July 1, 2007 or sign long term contract of foreign contracted project with fixed equipment and building material price, those take effective certification of bid winning (both original and copy are required) or contract of long term foreign contracted project (both original and copy are required) and budgetary estimate bill of the project to tax authorities in charge of export rebate to register before July 20, 2007 are permitted to follow the original export rebate rate. Those failing to register before July 20, 2007 shall follow the adjusted export rebate.

Source: Ministry of Finance
State Administration of Taxation

Please contact the Swiss-Chinese Chamber of Commerce for commodity names and tariff codes or visit the website www.sccc.ch.

China's New Franchise Regulations

May 1st 2007, China released a new Franchise Regulation (Regulations on the Administration of Commercial Franchises). It replaces the existing Commercial Franchise Measures that were implemented on February 1st 2004. The New Regulations introduce several significant changes to the legal framework set up under the 2004 measures.

Franchises are proven to be the most successful way of starting a new business in China, even if the term "franchising" is only vaguely understood and its limits as a business model here are ill-defined. Franchising is a system with its own terminology and that may be where some of the confusion arises in China.

Market Development

There is no surprise that in the most rapidly growing economy in the world, the franchise sector will represent

30% of China's total retail sales within the next five years. At the end of 2006, 168,000 franchise stores were operating in China with 2,600 franchisees in over 60 different industries. The market has been growing at a year-on-year rate of 40 to 50%. Franchises are developing in wide range of industries. Currently the top franchise industries in China are convenience stores, car repair and maintenance shops, home decoration stores, real estate companies, education and training companies, health and beauty facilities, food and beverage eateries, laundry shops and clothing stores.

Examples of successful global franchise systems in China include Subway, TNT, 3M, Cambridge English, Century 21, DIO Coffee and Starbucks Coffee. As two of the most famous franchise systems in China and around the world, Kentucky Fried Chicken (KFC) began operating in 1987 and McDonald's in the 1990s. Both waited until 2000 to begin franchising. Today the minimum start-up cost for a McDonald's franchise in China is approximately RMB 3 million (USD 375,211) with restrictions on borrowed finance capital.

KFC requires an estimated USD 1 million in franchising fees from regional franchisees. In addition to a regional franchising fee as high as USD 2 million, Dairy Queen requires to have marketing and operation expertise in the food, retailing or service industries.

Reasons for Franchising

China's consistent market growth corresponds with its franchise growth and with the new regulations there is even greater potential for China market seekers. As the urban and rural per capital disposable income is consistently on the rise, people have the opportunity to purchase more, offering companies the market potential. As a consequence, franchising has become a popular method of investment as less capital is required on the side of the franchisor and there are easier government regulations then when establishing ones own entities all over the country. Chain stores, such as Starbucks, use franchising as an expansion method for national sales because the country is so large and they do not have the resources to expand at such a quick pace. At the same time, many companies looking for physical distribution of their products would require to setup franchises because they themselves are not familiar with the market and possibly cannot obtain distribution licenses by the Chinese government.

Naturally there is always a risk, particularly in China. Without protecting ones own trademarks, copyrights and patents, franchising can become a risk. Foreign franchisors want to ensure brand quality but are concerned that their knowledge, expertise, reputation and management skills may be in threat if they hand it over to the franchisee. However if a secure and risk-proof franchise contract is in place, then these can be diminished. An important point is to not become too dependent on the franchisee.

(continued on next page)

Considerations before entering into a Franchise

It is a mistake to consider China as one market, particularly as language, culture, development and consumer taste will vary across provinces in China, same as they do globally. The potential for a foreign franchised product or service in any of China's regional markets will depend upon timing, local taste, local economy, and of course, local competition, which should not be underestimated. McDonald's adapted its menu by including a "Bag Breakfast" for Chinese consumers.

Corporate structure considerations are key in China, particularly where fewer sectors are being constrained by foreign investment, and where structure, once chosen, will determine the franchisor's flexibility for control, financing, foreign exchange, import, licensing and repatriation of franchise fees. This is then followed by financing as many foreign franchisors underestimate the investment necessary to establish their brand in one or more of China's regional markets.

The next issues are local influences. Success or failure for the foreign franchisor in China can depend critically upon an initial choice of a franchise partner(s). In order to choose the most beneficial one, due diligence is highly recommended. Careful attention and observation is required in conducting any type of business in China and in order to develop strong ties with the franchisee, a "hands-on" approach is required in China.

Definition of a Franchise in China

The new Franchise Regulations defines clearly a commercial franchise as the following:

"A franchise is involved in business activity in which the franchisor possesses business resources, such as registered trademark, business logo, patent, or know-how, and confers usage of these resources to the franchise through execution of a contract; the franchisee operates under the contract in accordance with a uniform model of business operation; and the franchisee pays franchise fees to the franchisor."

The confusion for local business people is that they do not expect to have to pay for brand rights and do not want to have to pay to enter into a franchise. They understand a franchise as a joint venture type structure, which it is not. It should be clearly understood that a business relationship is a franchise when the following four basic elements exists:

– the franchisor must be an enterprise and possess such business resources as a registered trademark, business logo, patent or know-how;
– the franchisor confers to the franchisee the right to use its business resources through a contract;
– the franchisee does business under a uniform model of operation (for example, system of management, promotion, quality control, design and layout of store, logo, etc); and
– the franchisee pays a required fee or fees to the franchisor.

Regulations for Franchisors

The new regulations do not impose any further requirements for Foreign Invested Enterprises (FIEs), implying that FIEs are subject to the same franchising rules as Chinese franchisors.

In the 2004 Measures, one of the pre-requisites what that before engaging in franchising in China, franchisors had to operate a minimum of two "directly-owned" stores for at least one year in China ("the 2-stores-1-year rule"). The new regulations indicate that cross-border franchise operations are possible, meaning that the two directly operated stores no longer need to be located in China. This may imply that foreign franchisors who meet those requirements but have no operations in China (i.e. have two qualified locations abroad) can also apply.

The new regulations do not specify any other information concerning cross border franchising. Although the new regulation cancels previous additional filing requirements and does not require the franchisor to be incorporated in China, it is still not clear whether cross-border franchising is allowed. This may be subject to discretion by the approval authorities.

Regulations for Franchisees

All qualifications for franchisees contained in the 2004 measures are cancelled by the new regulations. Individuals can also be franchisees. All franchisees are required to keep franchisor's trade secrets confidential, both throughout the duration of the franchise contract and following its termination or expiration. Franchisees may not transfer a franchise to others, or continue to use the franchisor's trademark, trade name, patent and know-how after expiration or termination of the franchise contract, unless agreed upon by the franchisor.

Other Major Items for Consideration

Franchise contract duration and requirements

The contract period should not be less than three years, unless otherwise agreed to by the franchisee. This does not apply to extensions of a franchise agreement.

During the period of the franchise contract the franchisee can unilaterally withdraw from the contract. This provides the franchisee with more freedom, however there is no indication of any associated liabilities if the franchisee cancels the contract.

Franchising Fees

The new regulations imply that franchisors and franchisees are allowed to establish their own fees. However, it is recommended to check the implementation rules. For the establishment fees, a written letter must be drafted by the franchisor to explain what the designated fees are for and what the timeframe for payment is. The new regulations forbid franchisors to publish advertisements promising profits to franchisees.

Information Disclosure requirements

At least 30 days before the franchise contract begins, the franchisor has to provide the franchisee with all essential information for running the business (which must be all included within the contract). Any economic loss incurred by the franchisee caused by retention of information or false information or omission in connection with required disclosures by the franchisor, will result in the franchisor bearing all liabilities and the franchisee has the right to rescind the contract.

Penalties

Heavier penalties have been implemented. The new law raises the maximum permissible fine from RMB 30,000 (USD 3,800) to RMB 500,000 (USD 64,200).

If a franchisor does not satisfy the criteria of the "2-stores-1-year-rule", the fine will be assessed by RMB 50,000 – RMB 500,000 (USD 6,400 – 64,000).

It is important to note that the new regulations do not stipulate any penalties on franchisees.

Tax Issues for Franchises in China

In order to minimize the overall tax burden, it may be desirable to break a franchise arrangement into different components. For example, one component of the franchise arrangement may involve offshore services to be rendered by the foreign franchisor and fees for these services should not be subject to Chinese taxes. However fees for services rendered within China are clearly taxable in China.

A typical licensing arrangement would require franchisees to make periodic royalty fee payments to franchisors for the use of trade names or trademarks. Currently China tax laws impose a withholding tax of between 10–20% on royalties, subject to whether a double taxation treaty applicable to the franchise arrangement. In addition there is the 5% Business Tax which will be applied to royalty payments remitted abroad. All of these taxes will burden the flow of royalty type fees remitted abroad to a foreign franchisor from China.

If a franchisee requires support in China from the franchisor, such as management or training arrangements, franchisors may be pushed to create permanent establishments in China. If permanent establishments are established, such as Wholly Foreign Owned trading or service companies, the franchisor will be subjected to income tax on the income generated by these services. Starting from January 1st 2008 the income tax will be unified at 25%.

Future Outlook

Thus far the implementation rules have not yet been distributed. There seems to be quite a few inconsistencies between the new regulations and the old measures. It is expected that implementation rules will vary from location to location and possibly even from establishment to establishment, depending on the reputation of the franchisor.

by Klaus Koehler
Managing Director

Klako Group

E-mail: info@klako.com

Detailed Rules for Implementing the Measures for the Administration on Individual Foreign Exchange

Issued by: The State Administration of Foreign Exchange
Subject: Individual Foreign Exchange
Promulgated on January 5th 2007
Effective from February 1st 2007
Source: www.safe.gov.cn

The Detailed Rules for Implementing the Measures for the Administration on Individual Foreign Exchange (the "Rules") have been enacted by the State Administration of Foreign Exchange (the "SAFE") in order to regulate and simplify the operation of banks and individuals on individual foreign exchange.

The Rules consists of 41 articles in 6 chapters, namely, the General Provisions, the Administration of the Personal Foreign Exchange under the Current Account, the Administration of the Personal Foreign Exchange under the Capital Account, the Administration of Personal Foreign Exchange Accounts and Foreign Currency Banknotes, the Personal Foreign Exchange Sale and Settlement Management Information System and the Supplementary Provisions.

The Rules also has two appendixes, namely, the Filling Form for the Withdrawal of Foreign Currency Banknotes, and the Technical Conditions for the Access of the Personal Foreign Exchange Sale and Settlement Management Information System.

The total annual amount shall be the value equivalent to USD 50,000 for each person every year, and the SAFE may make adjustments on the total annual amount in light of the position of payment balance. The foreign exchange purchased by an individual may be remitted abroad, deposited into his or her foreign exchange savings accounts or carried out of the territory of China in line with the related provisions.

Personal foreign exchange income and expenditure under the current account may be divided into business foreign exchange income and expenditure and non-business foreign exchange income and expenditure.

Where a bank is handling foreign exchange sale and settlement business for an individual, the main process shall be:

1. to enquire about the situation of foreign exchange sale and settlement of such individual through the personal foreign exchange sale and settlement system;
2. to check and verify the evidential documents provided by such individual;
3. to record the business data of foreign exchange sale and settlement into the personal foreign exchange sale and settlement system sum by sum; and
4. to print the Letter of Notice on Foreign Exchange Settlement/Purchase through the personal foreign exchange sale and settlement system and maintain it as accounting voucher for future reference.

Property Right Law of the People's Republic of China

Issued by: The National People's Congress
Subject: Property Right Law
Promulgated on March 16th 2007
Effective from October 1st 2007
Source: www.npc.gov.cn

The Property Right Law of the People's Republic of China (the "Law") is enacted in accordance with the Constitution Law and one of its purposes is to clearly define the attribution of the res and safeguard the benefits of the right holders. The Law consists of 247 articles, 19 chapters in 5 parts, namely, General Rules, Ownership, Usufructuary Rights, Property Rights for Security, and Possession.

The main matters mentioned by the Law are Basic Principles, Creation, Alteration, Alienation and Termination of Property Right, Protection of Property Right, State Ownership, Collective Ownership and Private Ownership, Neighbouring Relationship, Common Ownership, Special Rules on Acquiring Ownership, Right to Use Construction Land, Easement, Mortgage Right, Pledge Right, Lien, Possession and Supplementary Rules.

According to the Law, the civil relationships incurred from the attribution and utilization of the res shall be governed by the Law. The term "res" as mentioned herein shall mean realties and chattels. The term "property right" as mentioned herein means the exclusive right of direct control over a specific res enjoyed by the holder in accordance with law including ownership, usufructuary right and property right for security.

The Law stipulates that the creation, alteration, alienation or termination of the property right of realties shall be subject to registration in line with law. The creation or alienation of the property right of chattels shall be delivered according to law.

As regards a contract entered into by the related parties concerned on the creation, alteration, alienation or termination of the property right of realties, unless it is otherwise stipulated by any law, such contract shall go into effect when it comes into existence, and the validity of the contract is not affected where such property right has not been registered. This is different from previous related provisions.

The realty register shall be the basis for deciding the ownership and contents of realty and the registration organ shall undertake the management on the realty registers. In order to protect the benefits of the owners of building areas, the owners may set up an owners' assembly and vote for an owners' committee. The Law stipulates some significant matters that shall be determined by all owners through the owners' assembly.

Further Subjects Published by Wenfei

Provisions Concerning the Exemption of Import Duties from the Articles Used for Scientific Research and Teaching (Decree No. 45 of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation)

Issued by: The Ministry of Finance, the General Administration of Customs, and the State Administration of Taxation
Subject: Exemption of Import Duties
Promulgated on January 31st 2007
Effective from February 1st 2007
Source: www.customs.gov.cn

Hygienic Standard for Cosmetics (2007) and the Circular of the Ministry of Health Concerning the Related Issues on Implementation of the Hygienic Standard for Cosmetics
(2007)

Issued by: The Ministry of Health
Subject: Hygienic Standard for Cosmetics
Promulgated on February 13th 2007
Effective from February 13th 2007
Source: www.moh.gov.cn

Measures of the Customs of the People's Republic of China for the Administration of Direct Return of Imported Goods

Issued by: The China Customs
Subject: Direct Return of Imported Goods
Promulgated on February 2nd 2007
Effective from April 1st 2007
Source: www.customs.gov.cn

Regulations on the Administration of Commercial Franchising

Issued by: The State Council
Subject: Commercial Franchising
Promulgated on February 6th 2007
Effective from May 1st 2007
Source: www.gov.cn

Source: China Legal Briefing
by Wenfei Attorneys-at-Law
http://www.wenfei.com/publications/html

Land Use Rights

The MOFCOM has recently emphasized its support of the State Council's Decision on Intensifying Reforms and Tightening Control over Land Use Rights (issued in 2006) and related regulations.

MOFCOM noted that some local governments continued to grant industrial land use rights at prices lower than the minimum prices stipulated by law, exempted foreign investors from paying the land tax or refunded land-use fees paid by foreign investors after a foreign investment enterprise has been established.

MOFCOM urges local authorities to enhance their efforts, and awareness of the need to protect land and comply with China's land policies.

It can be expected that the local examination and approval authorities of foreign investment projects (i.e. the local subsidiaries of MOFCOM) may in the future tighten their related supervision activities irrespective of the fact that the main competency in relation to land use rights remains with the local land bureaus.

RMB Floating Range Expanded

The People's Bank of China (PBOC) announced on May 18, 2007, a further expansion of the floating range of the United States Dollar (USD) against the Chinese Renminbi (RMB) in the interbank spot exchange market.

As of May 21, 2007, the floating range of the trading prices of the USD against the RMB has been expanded from 0.3% to 0.5%. This means that the daily trading price of the USD against the RMB in the inter-bank spot foreign exchange market may be floated within the range of 0.5% of the middle price of the USD against the RMB on the current day as announced by the China Foreign Exchange Center.

The PBOC further stated that it would maintain the normal floating of RMB exchange rates, keep the RMB exchange rates at a reasonable and balanced level, promote a basic balance of international payments, and sustain the stability of macro-economy and financial market according to the domestic and international economic and financial tendencies, on the basis of market supply and demand and by reference to a basket of currencies.

Labor Contract Law Promulgated

On June 29, 2007, the Standing Committee of the National People's Congress promulgated the long-awaited Law of the People's Republic of China on Labor Contracts (Law). The Law will enter into effect on January 1, 2008.

Full report available at Taylor Wessing or contact the Chamber.

Source: ChinaTips Newsletter
by Taylor Wessing

For further information please contact:

Dr. Joachim Glatter
Attorney-at-Law
Mail: j.glatter@taylorwessing.com

Revision on M&A Rules for FIs

In 2006, six Chinese ministries (1) jointly promulgated the revision on the rules regarding the merger and acquisition of domestic enterprises by foreign investors (2), which came into force on September 8, 2006 and replaced the standing rules dated back to 2003 (3). Compared to the 2003 regulation, the 2006 M&A Rule has expounded the formal requirement for share-swap deals, extended the scope of anti-monopoly review and streamlined the regulatory forces on round-trip investment that is commonly used in venture capital transactions aiming for an overseas listing of China-bounded operations.

The summary below from the CHINAjournal aims to highlight the new features of the 2006 M&A Rule and assess its implication on the M&A activities of foreign investors in China.

Cross-border Share-swap Deals

Although the 2003 rule does endorse the share-swap as a means of payment in acquiring the shares of a domestic enterprise, the implementing guideline has been left blur until the adoption of the 2006 M&A Rule. The preliminary conditions for a cross-border share swap, among others, are prescribed as follows:

– The foreign company should be legally established in a jurisdiction with sound corporate law system;
– The foreign company and its management have not been inflicted penalty or sanction within last three years;
– The foreign company has to be a listed company under the scrutiny of sound securities transaction system;
– The stocks of the foreign company should be publicly traded in overseas securities markets (excluding overthecounter markets);
– The trading price of the stocks of the foreign company is stable within last one year.

In assessing whether these preconditions are met, the target domestic company or its owner should engage a China-located M&A advisor to conduct the due diligence on the foreign company. It is further explicitly required that the price of the transaction shall be based upon the appraisal value derived by a China-located valuer and any under-valued transferring price is forbidden.

Corporate shareholders of the domestic target company must go through the verification procedure pertaining to overseas investment (4) with the Ministry of Commerce ("MOC") before they can obtain the shares of the foreign company in exchange of the shares they hold in the target.

Provisions on Special Purpose Vehicles

Special purpose vehicles (SPVs) under the context of 2006 M&A Rule are referring to the offshore companies that are established by Chinese investors and used to hold equity interest in onshore operations. The ultimate objective of a SPV is to go listing in an overseas stock exchange. The State Administration of Foreign Exchange issued Circular No. 75 in October 2005, addressing the issue of foreign exchange registration about the round-trip investment in relation to SPVs (5). The 2006 M&A Rule affirms the efforts Circular No. 75 has made and further elaborates the requirements regarding the incorporation, go-listing and proceed repatriation of the SVPs.

Corporate entity must go through the verification procedure with the MOC in order to set up offshore SVPs. Through swapping the shares of SVPs in exchange for those of onshore companies, Chinese entrepreneur could effectively contribute the RMB denominated registered capital of the onshore entities into the foreign currency denominated equity of the SVPs. Chinese natural person is not required to go through MOC verification, but still need to conduct foreign exchange registration.

SPVs' go-listing requires a pre-clearance with the China Securities Regulatory Committee. The issuance price value of the SPVs' stocks must be no less than the appraisal value of the onshore companies. Within 30 days of completing the overseas listing, onshore companies are requested to file with the MOC a report on the listing and a repatriation plan. The proceeds could be repatriated in the forms of commercial loans, setting-up new FIEs or M&A of other onshore companies.

Extended Anti-monopoly Review

The 2006 M&A Rule not only reiterates the anti-monopoly provisions embodied in the 2003 rule, but also add in a new provision with extensive catching effect on foreign investors' M&A transaction in China. Article 12 states that the concerned parties are obligated to report to the MOC for verification if an acquisition (i) is concerned with strategic important industries; (ii) has or might have impact on the safety of State economy; or (iii) cause a hand-over of controlling right of a domestic company which owns well-known trademarks or Chinese traditional brand names. As the parameters for what constitutes "strategic important industries" or the criteria of when State economy safety is affected is largely at the discretion of the MOC, the new provision gives further clout to the agencies in administering the M&A activities of foreign investors in China.

The new provision could be perceived against the recent incidents where foreign investors' M&A of certain Chinese enterprises met resistance from national authorities out of the concern of the safety of national economy. For sure, the new provision could be used to legitimate political interference on commercial transactions when the authorities are baffled with conflict of objectives.

Conclusion

The 2006 M&A Rule provides a more mature and sophisticated regulatory platform for foreign investors in carrying out their M&A transactions in China. It pinpoints the emerging regulatory concerns of national authorities on the risks of under-valued disposal of Chinese assets as well as the threat on the safety of national industries and economies. Therefore, a successful M&A transaction in the aftermaths of the 2006 M&A Rule will largely depend on, among others, whether these concerns could be well contained and attended to.

Information and description contained in CHINAjournal are for reference purpose and should not be deemed as complete and official. Readers are recommended to seek professional advice on issues covered in CHINAjournal before making any decision or taking any action.

For further information please contact:

*lexsina gmbh**
Reitergasse 3
CH-8004 Zurich
t + 41 44 291 6964
f + 41 44 291 6960
www.lexsina.ch

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Footnotes:

1 The Ministry of Commerce, State Council State-owned Assets Regulatory Commission, State Administration of Tax, State Administration of Industry and Commerce, China Securities Regulatory Committee and State Administration of Foreign Exchange.

2 The Interim Regulation on Merger and Acquisition of Domestic Enterprises by Foreign Investors, promulgated on August 8, 2006 and effective as of September 8, 2006 (the "2006 M&A Rule").

3 The revised rule was promulgated on March 7, 2003 and effective as of April 12, 2003.

4 Related regulations include the Interim Regulation on Verifying Overseas Investment Projects, promulgated by the State Development and Reform Commission on October 9, 2004 and effective as of the same date; Regulations on the Verification Items for Investing in Overseas to Set up Enterprises, promulgated by the Ministry of Commerce on October 1, 2004 and effective as of the same date.

5 Please refer to CHINAjournal issue March 2006 for a detailed discussion on VC transaction and Circular No. 75.

M&A in the Shanghai Region

- *There is an emerging trend towards M&A operations in Shanghai region as well as in other parts of China.*
- *China-specific factors play important role in successful M&A practice and some key elements require special attention.*
- *Opportunities are present for Swiss companies but assistance might be needed.*

Emerging M&A Trend

The Shanghai led Yangtze Delta Region has been the "land of promise" since China's economic reform and has been attracting considerable foreign investors. The continuous influx of FDI was mainly in the form of greenfield investment by the end of last century, whereas mergers and acquisitions (M&A) has constantly been on the rise since the past couple of years.

Based on local observation and analysis of series publications, this report aims at underlining the general considerations and key factors that are certainly relevant for the whole China market.

According to the World Investment Report complied by UNCTAD, the value of China's cross-border M&A by foreign investors was USD 2.25 billion in 2002, accounting for only 5.5% of its annual FDI. The percentage increased significantly in 2004 and 2005 to 11.16% and 13.68% with M&A values topping USD 6.67 billion and USD 8.25 billion respectively. The M&A frenzy continued to gain momentum in 2006, with around 1,300 transactions approved by Chinese authority. It is expected that the tide will keep on at the growth rate of 25% to 30% for the next several years.

The emerging trend of M&A in China is the result of many elements:

– Many new industries develop fast and become mature, which provide better quality target companies with market competence and human resources
– Evolving regulatory framework, defined ownership system and more open capital market make it more practical for M&A transaction
– Excess liquidity from the worldwide excess of capital as well as the expectation of RMB appreciation
– Privatization and restructuring of State Owned Enterprise (SOE) provide opportunities to access to restricted sectors and nationwide distribution network
– Chinese private companies seek for international market expansion, advanced management and new technology through M&A

(continued on next page)

China-Specific Factors

However, different from the complete and integrated system of M&A which has been established in the international market through long-time practice, Chinese M&A market developed from a bare site for just a few years. Overlooking the China specific factors may lead to difficult or failed transactions. Several recent studies indicate that among all the attempts to make a successful deal in China, the majority never even pass the due diligence stage. Of those that do, an even smaller percentage end up creating value for the acquiring entities. The key element behind the high failure rate, or in other word, to increase the level of success, is to know the China-specific issues in the domestic M&A market:

– There is a *high level of government participation in M&A transactions*. Despite the recent relaxation of foreign investment restrictions, pervasive approval requirements remain a distinctive feature of M&A transactions in China. As foreign mergers and take-overs are still new things in China, some departments tend to adopt a cautious approach in dealing with the issue, especially when the deal is related to sensitive industries.

– Although rapidly evolving, *the complex and immature legal framework and regulatory infrastructure* still pose obstacles to the M&A transactions. China released the Regulations On Acquisition of Domestic Enterprises by Foreign Investors on 8th September 2007, in an effort to provide guidelines for the domestic M&A market. However, the rules are still too general and lack detailed implementation structures. In the meantime, the law stressed the supervision and regulatory power of the central government, probably due to the rising concerns that foreign takeovers may jeopardize China's industrial securities. The ambiguous legal environment not only adds uncertainties to foreign acquirers, but also discourages the government official to shoulder the responsibility to approve new types of deals or sensitive transactions.

– *Publicly available records on many aspects of a Chinese company's business*, such as legal title to land-use rights, the existence of pending litigation, and priority security interests over assets, *are often either unavailable or unreliable*. Corporate accounting is also frequently lax by foreign standards. Some companies have separate accounting systems to manipulate the financial data, either to exaggerate the company performance, or to minimize the tax burden. On the other hand, company ownership structure in China, although has been undertaking series of reforms, remains complex, with sometimes hidden political or family relations, transfer pricing, or financial burdens. Therefore the whole process of M&A transaction is more complicated, from target company search, negotiation, to due diligence, accurate valuation and post deal integration.

– Due to those specific Chinese characteristics, *M&A transactions in China are usually time-consuming*. A study by InterChina Consulting shows that an M&A deal takes on average 12 to 24 months in China, whereas the timing expectation overseas is only 6 to 12 months. During the process, constant review including flexibility and adaptation is crucial for a successful transaction.

Working for a Successful Transaction in China

M&A transaction in China may be done through an equity purchase, an asset acquisition or a statutory merger. An acquirer may choose the most appropriate type with tailor-made approach. However, there are common key elements leading to success:

Pre- M&A

– Strategic plan with sound understanding of the market reality to avoid opportunistic approach, or overestimation of the M&A deal's potential to increase value
– Adequate screening for target companies with fieldwork based approach and cross-checking
– Set up sufficient on-the-ground business development team and support them with framework instruction, constant communication and decision autonomy. Expectation gap may push the team to agree on less favorable terms in order to show progress
– Due diligence provides unique opportunities to increase the level of success, which goes beyond a data verification phase to other aspects such as the real intention of target company, its sustainable earning capability, the key sensitivities, or potential deal-breakers
– M&A in China requires higher level of empathy and attention to subjective aspect. Managing the relationship network is important. Cultural differences relating to environmental, health and safety will pose issues to the deal or post-deal integration.

Post- M&A

– Stabilize: Organisational fit to manage the change
– Integrate: Corporate cultural integration
– Grow: Manage to address different shareholders' interest

Where opportunities lie

Investing in China is becoming increasingly achievable on commercially viable terms and opportunities abound as never before. The SOE restructuring in the last several years has boosted M&A in the machinery industry, which on the other hand also caused concerns about foreign monopoly may jeopardize national economic security. Recently M&A in retail, fast moving consumer goods, and logistic has been in rise, which provided the acquirers with fast gain to the market presence and distribution channels. With China's further opening in accordance with the WTO commitments, finance, real estate and infrastructure would be the next potential fields for M&A activities.

In terms of types of target companies, both SOEs and private companies could offer M&A opportunities. The

Chinese government is encouraging SOEs in a few industrial sectors to consolidate into large integrated conglomerates, attempting to be global leader in their fields, while in other sectors, the State is actively seeking to reduce the level of its equity holding. China's 11th five-year plan indicates that new forms of FDI, such as M&A, stock holding and reinvestment will be encouraged.

China's private family businesses, which have just developed in the past 20 years with the unprecedented economic reform, are also becoming available for M&A through their desire to exit or as a result of succession issues. They are seeking for additional capital and advanced management to realize their strategic expansion plan and are increasingly willing to consider to sell or ally.

Useful Contacts of Assistance for Swiss Companies

Swiss companies that are interested in strengthening or developing their business relations with China can get practical assistance and/or guidance in identifying potential partners from:

Swiss Business Hub China:
www.osec.ch/sbhchina
shbchina@bei.rep.admin.ch

Swiss-Chinese Chamber of Commerce in China
www.sha.swisscham.org
info@sha.swisscham.org

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Nie Liqun Stella
Head of Economic Section

Consulate General of Switzerland
Shanghai

E-mail: Liqun.Nie@eda.admin.ch
http://www.eda.admin.ch/shanghai

Headquarter in Shanghai or Beijing?

Shanghai or Beijing, where do you open your business? There's always a debate among foreigners in China as to which city is better. Who's got better transportation systems, better infrastructure, the best restaurants and bars? It's usually Shanghai that comes to mind first. At the end of 2005 the city hosted 104 regional headquarters compared to Beijing's 86. If you look at what types of businesses are opening in Beijing you might think differently though.

Beijing's Finance Street is now home to major investment banks such as Goldman Sachs, UBS and JPMorgan. Why are these companies' headquarters here and not in Shanghai, China's supposed commercial capital? That's because the feeling of some investors is that the way to predict the future of business in China is to watch and see what comes out of the Ministry of Finance. As most of the companies trading on the Chinese stock markets are state-owned, politics can still play a big role in determining stock prices. And since the Chinese government is in the process of reforming business laws to bring them in line with World Trade Organization standards, having the right contacts in the capital continues to be important.

Beijing has one other big advantage going for it: brainpower. Many of the country's top universities are located in its capital providing a large pool of available recruits. And because of this, top international technology companies have set up shop in the city so they can develop products tailored especially for the Chinese market.

But let's not forget about all of Shanghai's benefits. It still has a strong manufacturing base for electronic components, a large port for easy worldwide delivery and a modern Western-style infrastructure. All these factors are big benefits to businesses. There is also a good support system of international schools in the city that helps to keep executives and their families in the area allowing for seasoned senior executives to stay in the country longer and help their China offices grow.

But in a country where things are still centrally planned, it makes sense for business to set up shop near the political players. So until Beijing gives up some control, we're certain to see a lot more businesses choose Beijing over Shanghai as the base for their China headquarters.

Source: China Focus
by Fiducia Management Consultants

Forum on Chinese Business Law

The Legal Chapter of the Swiss-Chinese Chamber of Commerce – in cooperation with the Europa Institut at the University of Zurich and the LL.M.-Program International Business Law of the Zurich University – organized the 6th Zurich International Forum on Chinese Business Law. This conference, which was held at the "Zunfthaus zur Zimmerleuten" in Zurich on June 14, was designed to allow members of the business community who are interested in doing business with China to update their knowledge in different areas of China's fast developing business regulations.

The about fifty persons who attended the half day seminar were given an excellent overview over recent developments in such areas like mergers & acquisitions, capital market regulations, the new bankruptcy law, competition law, etc. Most of the speakers came from Mainland China or Hong Kong. The seminar was chaired jointly by Dr. Esther Nägeli and Prof. Andreas Kellerhals.

The Forum was split in two parts, the first one dealing with material aspects of legal developments, and the second with law enforcement, which becomes more and more important for China's developing legal system.

After a brief introduction by *Dr. Esther Nägeli* she provided a very informative update on recent developments in the area of mergers & acquisitions. She was followed by *Dr. Thomas Meier*, XY Bank Julius Bär, Zurich, who stepped in for Dr. Michael Moser (Hong Kong), who could not attend with some first hand information on the very fast expansion of Bank Julius Bär in the Greater China Area. His speech was followed by *Prof. Björn Ahl* (Hong Kong), who presented the new bankruptcy law in China. The first part of the Forum was concluded by the speech of *Prof. Andreas Kellerhals*, who discussed the actual situation with regard to the pending legislation on the Chinese competition law, which is likely to raise China to rank among the leading merger authorities together with the European Union and the United States.

After the coffee break *Dean Prof. Peter Malanczuk* (Hong Kong) presented the new agreement between China and Hong Kong on the reciprocal recognition and enforcement of judgements in civil and commercial matters and discussed the questions whether this agreement was an alternative to arbitration for investment dispute settlement. Then, *Prof. Wilson Kwan* (Hong Kong) addressed alternative dispute resolutions in China and *Prof. Hans Mahnke* (Hong Kong) discussed recent WTO cases involving China. Finally, *Prof. Zhao Yun* gave insights into the issue of dispute resolution in connection with China's fast developing e-commerce sector. The event

Hong Kong Seminar followed by Chinese New Year reception in Zurich, March 19th 2007: (f.l.t.r.) Dr. Kurt Moser, President and Dr. Esther Nägeli, Vice President, Swiss-Hong Kong Business Association (SHKBA), Lore Buscher, Regional Director, Central & Eastern Europe Hong Kong Trade Development Council, Frankfurt, Duncan Pescod, Special Representative, Hong Kong Economic & Trade Affairs to the European Communities, The Government of the Hong Kong S.A.R., Dr. Hans Jakob Roth, Consul General, Consulate General of Switzerland in Hong Kong and Susan Horváth, Managing Director, SHKBA.

ended with a discussion round and an apero to which all participants were invited.

Comments by those who attended the conference were very positive and encouraging the organizers regarding future events. It is therefore more than likely that there will be a seventh Forum on China legal developments in spring 2008. At the end both chair persons thanked the organizers and especially Ms Susan Horváth for all their support and assistance.

For further information please contact:

Dr. Esther Nägeli, LL.M., MBA
NÄGELI ATTORNEYS-AT-LAW
Auf der Mauer 9, CH-8001 Zurich
Phone +41 43 343 99 93
E-mail: esther.naegeli@naegeli-rechtsanwaelte.ch
or
Prof. Dr. Andreas Kellerhals / Direktor
Europa Institut an der Universität Zürich
Hirschengraben 56, CH-8001 Zürich
Tel.: +41 44 634 48 91
E-Mail: eiz@eiz.unizh.ch
Website: www.unizh.ch/eiz

Chinese Companies Go International

In the mid 1990's, almost every multinational company set up business in China. While the trend of companies entering the Chinese market remains unchanged, a new movement has started in the opposite direction. After more than a decade of huge investments flowing into the country, Chinese companies have started moving out onto the international stage. Their favourite destinations include Japan, Russia and the Southeast Asian countries, closely followed by the highly developed industries of Europe and the US.

Currently there are about 7,000 Chinese enterprises investing across the globe, 600 of them alone in Germany, with total Chinese investment in foreign countries reaching US$ 12.3 billion (EUR 9.6 billion) in 2005. The investment soared by 123 percent compared to 2004, which was mainly driven by a surge in mergers and acquisitions. M&A accounts for about 50 percent of total investments. A recent study by Shanghai's Fudan University forecasts Chinese overseas investments of US$ 15 billion (EUR 12 billion) in 2010. Today, China ranks fifth in the list of biggest foreign investors in the world, behind the US, Germany, the UK and France according to a study of the UNCTAD (UN Conference on Trade and Development).

One doesn't have to look far to see the signs of China's growing investment abroad. For instance, China will be Sweden's biggest foreign investor in 2006 according to the Invest in Sweden Agency (ISA). The recently opened China Austria Technology Park in Vienna is the second largest in Europe after London. Even in Romania the number of Chinese setting up business increased drastically ahead of the country's entry to the European Union next January. The annual Chinese investment in Romania is expected to reach US$ 420 million (EUR 335 million) by the end of 2006.

In the past, most of the Chinese enterprises that were able to go overseas did so. With their roots still in the socialist economic system, many of them though struggled with the mentality of the capitalist business environment. In comparison to their Western counterparts, the Chinese were less aggressive, especially in the area of mergers & acquisitions and business alliances.

Since then the Chinese government has done much to facilitate companies moving abroad. The Ministry of Commerce (MOC) launched a web portal to help Chinese investors exchange information with their foreign counterparts. The website provides information on companies interested in investing abroad, projects in other countries that need capital and intermediary investment institutions. In addition, the MOC released a series of preferential policies to encourage companies to invest abroad, especially companies involved in resource development projects. For instance, such businesses can apply for foreign exchange of low-interest RMB loans from the government. Another benefit for Chinese companies is if their products are exported back to China, then the products will be entitled to the state-privileged import plan with tax concessions.

Furthermore, acquiring natural resources has become one of China's strategic priorities to meet the needs of a booming economy. Recent projects in this field included CNOOC bidding for the US Oil company Unocal and other Chinese companies developing gas pipelines and mines in Asian countries such as Russia, Mongolia, Kazakhstan, Turkmenistan, and Indonesia.

Besides investing in natural resources, China's large enterprises have taken the route of acquiring well-established brands to go international. They use those brands to help their own Chinese products gain a foothold in Western markets. An example is Lenovo which took over IBM's personal computer business and its ThinkPad brand in 2005.

Likewise, Chinese electronic manufacturer TCL Corporation which acquired the television business of the French conglomerate Thomson and the German manufacturer Schneider, mainly to use the brands as an entry point to the European market. This failed however, as TCL bought two brands with old technology. While its competitors focused on digital TV, TCL continued selling traditional products – underestimating the market's preference for flat-screen TVs and resulting in a loss of US$ 93 million (EUR 74 million) in the first half of 2006. The company has just announced the closure of its European factories and the move back to its former business model of contract manufacturing for European customers.

Most Chinese firms first build up their brands in the local market and only move abroad after they reach critical mass. Some good examples of these successful players are the white goods manufacturer Haier with a factory in the US, TV manufacturer Xoceco with production facilities in Hungary and South Africa, telecommunication network company Huawei with R&D and marketing facilities in Sweden, and household appliance manufacturer Gree, which currently invests abroad to establish production, research and development centres.

The Chinese economy is the fastest growing in the world thanks mainly to foreign investment. However, nowadays Chinese companies are looking for business opportunities outside of China and it is just a question of time before more and more Chinese brands will appear on the international stage.

Source: China Focus
by Fiducia Management Consultants

Investing in Europe

A Step Guide for Chinese Enterprises

"What are the differences between European and Chinese in Acquisitions?" The answer given by around 200 participants from each China and Europe was: "They are so bureaucratic!" As astonishing this might be on the first sight, the explanation is rather simple and roots in the cultural differences. European think the Chinese are very slow and bureaucratic until they come to a closing, meanwhile the Chinese think the Europeans are not moving once the signing did take place. It seams that both cultures need a translation or a guide to do business in the other continent.

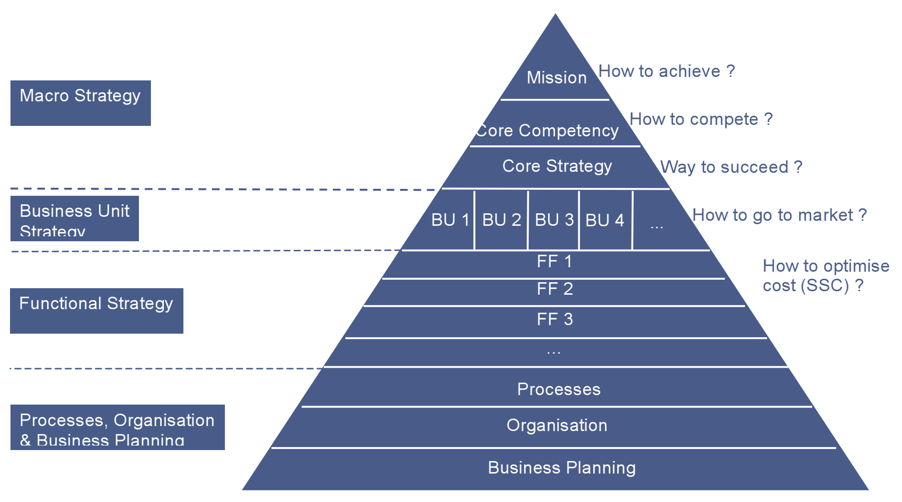
Purpose of this article is to give a short description about the M&A process in Europe. In order to better understand the "Westerners" way to acquisitions the examples of transactions included clarify the different concepts.

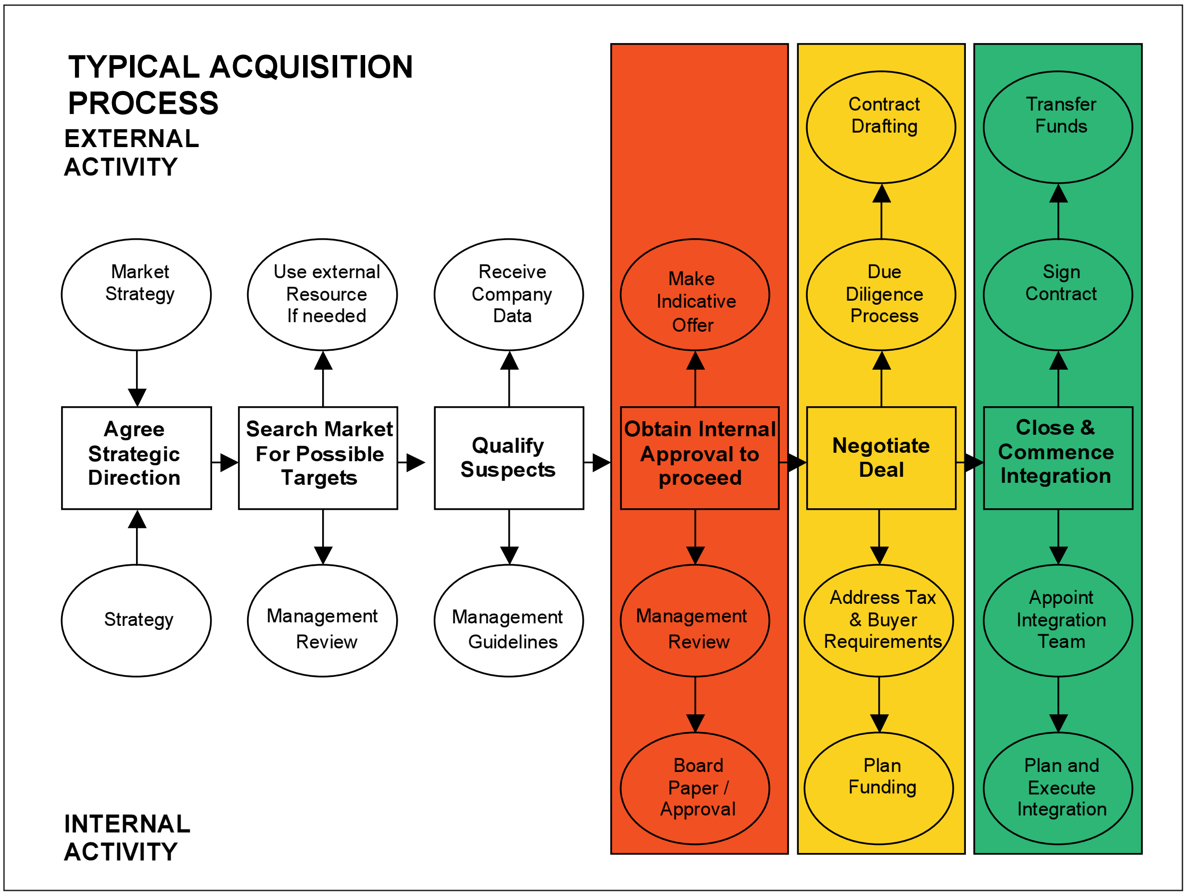
The most important step is to agree on the strategic direction. Most failures in transactions root in not taking into account the risks the enterprise inures going to (foreign) markets. The management task is to understand the reasons (opportunities and threads) why to do a transaction abroad. Chinese companies feel that by acquiring a European company they can get better access to distribution cannels and knowledge of dealing cross borders. Another reason is access to technical know how, intellectual property or brands.

The size of Europe and China are comparable, but dealing with a large number of individual countries forming Europe is an enormous stretch for many organisations. They feel it is much easier to deal with one big single market, what Europe still not is.

Still rewards doing business in Europe are large given

STRATEGY FOR EUROPEAN INVESTMENT





the competitive advantages Chinese companies have.

The first task is to define the reason for growing and investing in Europe and to identify the appropriate steps forward. Home work has to be made and a clear macro strategy for the corporate expansion has to be developed.

An important decision to be made in the macro strategy is sustained profitability vs. sustained growth. Expanding from the core competencies a company might strive towards new markets or towards gaining additional competencies. Doing both at the same time would be a corporate transformation and is rarely successful in one step. Companies going to Europe should either try to acquire distinctive new assets, know-how or skill, i.e. build new competencies or alternatively leverage exiting competencies to enter new markets/geographies in Europe. A good global example for the later is Starbucks. The alternative to acquisitions abroad is to focus on core business and to penetrate the existing markets. Successful examples are Virgin Holdings or KOC Holding who leverage the exiting brand across markets – "diversification play". Expanding into new fields of business or to penetrate markets with new products/services can be made either as an internal growth or by external acquisition.

If the decision is to grow externally, in a second step there has to be made a choice on how to go to market – acquisition of a new business unit versus integration into an existing business. Processes and organisation have to be prepared once potential acquisition targets are identified. What is the role of expatriate management, what has to be in the hands of local European management? Are there shared services within Europe/global, how can a potential integration plan look like? Such questions have to be typically answered in the internal approval phase and to be finished in the negotiation phase.

Successful external growth stories base upon seven distinctive sets of strategies. Buy & build strategies often start with an existing small business unit as starting point or an equity investor undertakes a "platform" acquisition in an industry, leveraging on existing core competencies and ad follow-on acquisitions. Goal is often a consolidation of the targeted industry (e.g. Franz Haniel & Cie GmbH).

A farm and test strategy is followed by successful companies as Roche, SAP or Microsoft. The idea is to aconite a selected portfolio to the company by building different types of links from partnering to equity investments.

Nestlé or RWE are successful with "get the best" strategy, increasing market share by absorbing a major market leader or market competitor and rise the profile of the company.

Buy cheap is often a strategy of private equity houses. Arques Ind. AG, Hanson PLC, Cerberus Partners LP acquire underperforming or/and distressed companies to achieve benefits.

Share fantasy is important as shareholders incorporate future acquisitions and related benefits into their share

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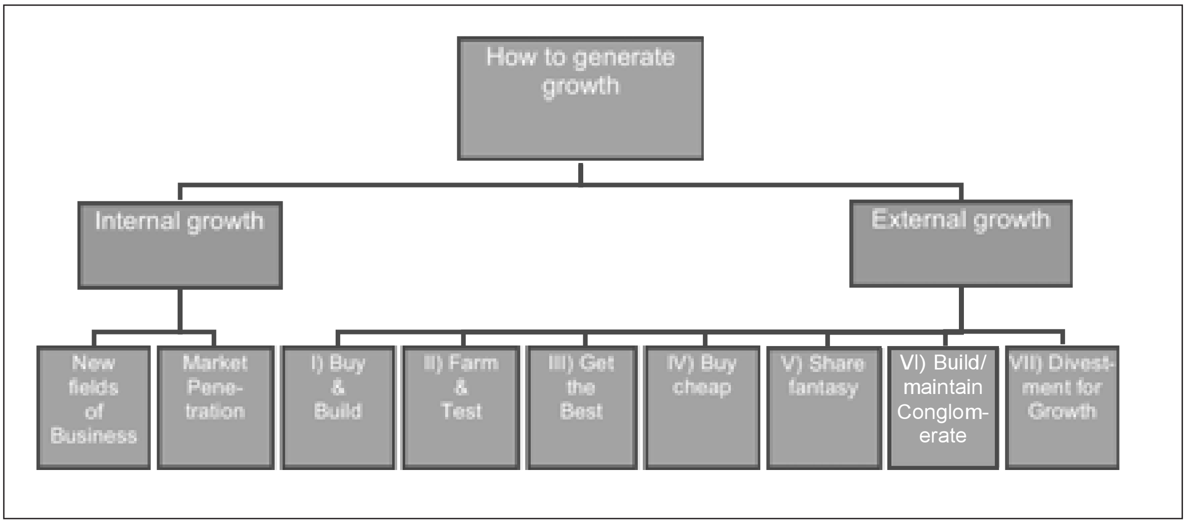


valuation. This often leads to acquisitions after a consolidation phase. Good examples are ABB Ltd. or Lonza Group AG.

Last important strategy building/maintaining conglomerates like Siemens AG, Koch Industries Inc., Philips Electronics N.V., GE who combine businesses together for creating synergies in a diversified conglomerate and create buying power/ brand recognition.

In every strategy for growth in Europe most important parts area clear strategy & process for the acquisition including closing and integration. Companies always should carefully balance acquisitions with internal growth. Also it might be advisable to first divest of obsolete businesses in order to have the financial and management resources for new businesses. Last but not least: Make sure that you understand the new culture of the European environment – still building on existing core competences and your distinctive corporate culture!

Author:
Dr. Ralf C. Schlaepfer
Partner, Head of China Desk
PricewaterhouseCoopers, Ltd, Zurich
ralf.schlaepfer@ch.pwc.com

China Fact Finding Mission 2007

A high-ranking Chinese business delegation toured Switzerland from June 3rd to June 9th 2007, courtesy of LOCATION Switzerland. The tour was especially designed to raise awareness of Switzerland as an attractive business location.

15 Presidents, Chairmen, CFOs and Vice Presidents, representing 10 companies took part in the one week tour through Switzerland. Mining companies, chemical and pharmaceutical companies as well as IT and trading companies accepted the invitation extended by Ambassador D. Martinelli of the Swiss Embassy in Beijing.
The purpose of the journey had three strands:
1. Learn from the best
2. Get in touch with high-ranking political and business leaders
3. Experience Switzerland as business location

Learn from the best

Excellent co-operation with renowned institutions and globally successful companies produced a series of seminars which informed the Chinese delegation about most important topics for business success in Europe. IMD introduced their world competitiveness report and how to use it in terms of business location selection in Europe. An impressive presentation about how to become a successful brand was given by Philip Morris International in Lausanne. Roche explained the importance of permanent Research and Development activities for continuous company growth over more than a century. A seminar about Banking in Switzerland, given by Credit Suisse introduced the variety of services for international clients and PricewaterhouseCoopers informed the delegation about efficient globalized business structures. The final seminar was held on the Mount Saentis including relevant information on human resource management and the salary differences between China and Europe.

Get in touch with high-ranking business and political leaders

The Chinese delegation showed its appreciation of the opportunities to make contact with key persons in

Switzerland, as well as the elements of the programme devoted to the transfer of know-how. Meetings with Peter Lorange, President of IMD, and an exclusive lunch hosted by Hans-Ulrich Doerig, Vice Chairman of Credit Suisse Group were the highlights business-wise. One-to-one talks with Federal Councillor Doris Leuthard, Swiss Minister of Economy, was an unforgettable moment for most of the participants. A welcome reception by two ministers of the canton Basel Town in their historic government building was another opportunity to establish political contact at the highest level. Contacts with the Chinese Consul General Li Xiao Si and Kurt Haerri, President of the Swiss Chinese Chamber of Commerce at the final dinner in Zurich led to lively discussions. And last but not least the warm welcome by the Chinese Consul of Trade and Commerce in Berne, followed by probably the best meal during the week, deserves special mention.

Participants from China, representing:

– China Minmetals Corporation
– China National Overseas Engineering Corporation
– Chint Group Corporation
– Shanghai Fosun Pharmaceutical (Group) Co., Ltd.
– Jiangsu Holly International Group
– Zhejiang Longsheng Group Co., Ltd.
– Tsinghua Holdings Co., Ltd.
– Universe Shipbuilding (Yangzhou) Co., Ltd.
– Fujian UPTOP Trading Co., Ltd.
– Beijing Zhongchuang Telecom Test Co., Ltd.

Experience Switzerland as a business location

The framework of the seminars and meetings was set by utilising all existing public transport opportunities (bus, ship, train, tram, airline). Elements such as the cruise from Geneva to Lausanne, a sightseeing tour in Basel and the exclusive tram tour through Zurich, alongside the visit to Mount Saentis, gave the visitors an excellent introduction to the quality of life in Switzerland. Company visits to Rado and PricewaterhouseCoopers and their explanations of the working environment in Switzerland gave the delegates a comprehensive picture of doing business in Switzerland.

All in all the LOCATION Switzerland Fact Finding Mission was a great opportunity to become familiar with Chinese entrepreneurs and managers and their needs when it comes to expanding their business in Europe. Spending six days together and talking to them on the ground is probably the most effective way to raise awareness of Switzerland as a business location to meet the goal of creating jobs, investment and tax revenues for Switzerland.

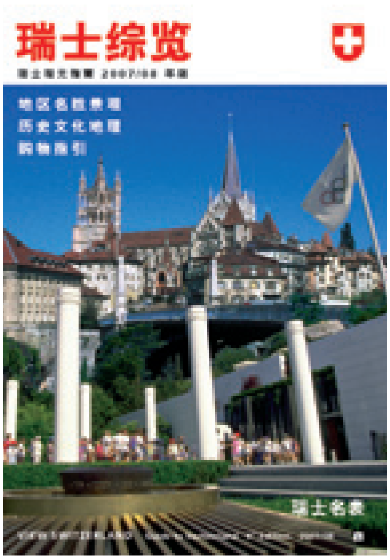
For further information please contact:

LOCATION Switzerland
Marco Rhyner
Herrenacker 15
CH-8200 Schaffhausen
Tel. 052 674 06 02

Group picture with Federal Councillor Doris Leuthard (5th from left).

Swiss Guide for Chinese Visitors

The new and updated edition "View Switzerland 2007–08" is available now. Published annually, the first time in 1998, it has achieved high popularity amongst the tourist industry in China and is considered as a valuable tool to attract Chinese visiting Switzerland. The free publication is distributed in large numbers in mainland China and Hong Kong by Switzerland Tourism, leading tour operators and travel services, Swiss representations, airlines and travel fairs.



The publication comes in a handy A-5 format, colour throughout, and generates its strength from the lavish use of the finest photography with interesting and informative editorial. The history of Switzerland, its culture, geography and population, major tourist destinations, cities and places of interest form a major part of the guide's content, supported by city maps and useful traveller's information. Also included are editorials on the Swiss economy and finance, its international organizations and famous Swiss personalities. For the first time comprehensive coverage is extended to the south of Switzerland, the Ticino. Not to be missed is the story of the history of the Swiss Watch Industry as well as a list of its most popular brands, a subject of particular interest for Chinese.

The guide is also a valuable handout for Chinese visitors in Switzerland. Members of the Swiss-Chinese Chamber of Commerce are entitled to 5 free copies (up to 5), postage charged extra.

The publication's popularity amongst advertisers wishing to reach Chinese interested in, or visiting, Switzerland is ever increasing.

Please address your enquiries to the publisher:

Pius J. Ruckstuhl
RUCKSTUHL MEDIA PROMOTION
P.O. Box 11, CH-6044 Udligenswil
Phone +41 (0)41 371 06 63
Mail pius@ruckstuhl-media.ch

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Traditional Chinese Medicine (TCM)

China's genuine natural resource

Marc Rüedi
Director China
TCM Trading Ltd.

More and more patients in Western industrialized societies are seeking advice in complementary medicine. In the USA, for example, the number of patients visiting complementary medicine doctors and non-medical practitioners is now higher than the number of patients visiting medical practitioners. Similar trends are recognizable in Europe and Switzerland.

The human being as an organic entity and energetic structure

In contrast to analysis-based medicine in the Western world, the typical characteristic of Traditional Chinese Medicine, TCM, is an approach in which the organism is understood as an organic unit and the relation between humans and nature is also assumed as being a unit. Chinese medicine – which is over four thousand years old – is influenced by Taoism, Confucianism and Buddhism. Observations carried out in nature have characterized its theoretical fundaments which remain valid today. Although these appear to be very simple, they enable the recording and analysis even of recent, complex clinical pictures. TCM regards the human being as an energetic structure. According to this perception, vitality – referred to as Qi – runs along defined paths – the meridians – and harmoniously in the body. Illnesses result if this vitality stops moving forward or does not flow in the right direction. Nevertheless, TCM not only places the healing of illnesses at the forefront but also their prevention.

The differentiated medical diagnosis enables us to recognize any energetic imbalances before serious disturbances occur. Therapeutic measures such as acupuncture, Tuina massage, moxibustion, phytotherapy or dietetics then restore the body to a situation of harmony. In actual fact, in ancient China, the quality of a doctor was measured by the number of healthy people amongst his patients. But even if an illness or injury has already occurred, TCM provides excellent help and, indeed, frequently without the need for recourse to expensive medicine or devices.

Contentment in China and in Switzerland

The fact that TCM is now very popular in Switzerland is due not least to TCM Switzerland (www.tcm-schweiz.ch) and China TCM Trading GmbH (www.chinatrading.ch). In 1996, we were the joint founders of the first TCM clinic on Swiss soil in Bad Ragaz (Mediqi) and later initiated the present-day Chinamed Group. 7 years ago, we opened the first TCM Switzerland Centre in Montreux. Since then, our Group has expanded to 6 locations – Montreux, Nyon, Fribourg, Schaffhausen, Wallisellen and Winterthur.

Parallel to the development of the TCM centres was the formation of Milestone International AG (www.greenlife.ch) and later of China TCM Trading GmbH (www.chinatrading.ch) which carries out the product development and market launch of TCM medicinal products in Switzerland and Europe in close cooperation with the Chinese manufacturer. The medicinal products and preparations used in TCM must all be further developed and adapted in accordance with the European quality and safety requirements.

As a reliable partner with a policy of open and direct communication, we have frequently been recommended by one Chinese manufacturer to another, and have thus

How does TCM help?

TCM is successful with chronic pain illnesses such as backache, aching joints (including arthrosis) or migraine, with allergies, e.g. hay fever and asthma, chronic intestinal ailments such as Morbus Crohn, complaints concerning the alimentary tract such as stomach-ache or constipation, sleeping disorders and exhaustion (burn out), menstrual problems and other female ailments. TCM can also be recommended for eye ailments and in cases of infertility (fertility & sterility); here, in particular, practitioners of TCM achieve in part spectacular successes. TCM has also proven itself well with paralysis following strokes, with addiction illnesses, with depression or with overweight people.

Tuina Massage.

succeeded in building up a broad network of long-term contacts in China based on friendly relations over years of working together.

In this context, we have repeatedly noted that our Chinese partners and friends – frequently "small SME's" in the initial stages – greatly appreciate our input which they also implement in the best possible manner. The basis was and is mutual respect, appreciation of cultural differences, open, friendly discussions and negotiations as well as jointly standing by the long-term objective set. The respective cooperation agreement – the famous "Bamboo forest" which blows in the wind – is effective provided one remains sufficiently flexible and persevering, and represents a deeply "rooted" and almost unbeatable basis for the cooperation.

For the People's Republic of China, TCM represents a unique opportunity of not only exporting knowledge but also products such as herbs and acupuncture needles. Unlike other sectors of the economy, these are not cheap products manufactured in China under contract by Western producers, but rather are high-quality originals whose manufacture is based on years of Chinese know-how. This leads to a world-wide image upgrade for the nation's industry and, at the same time, is a foreign-currency earner not to be underestimated (Europe-wide approx. 150 million sterile disposable acupuncture needles from China were used in TCM therapy in 2006 – the annual growth rate is approx. 30%).

Attractive trading partners

China is an important trading partner for Switzerland and will soon overtake the USA in this respect. Consequently, the Minister for the Economy, Doris Leuthard, will be travelling to the Middle Kingdom in June, accompanied by a business delegation with the aim of working towards a free trade agreement. According to an interview with the Federal Councillor in the newspaper "NZZ am Sonntag", however, the Chinese are reserved when it comes to their free trade strategy. "Officially, they say that China is too inexperienced and Switzerland too clever." What they mean is that Switzerland would view a possible partnership too one-sidedly to its own advantage.

In recent years, Swiss exports to China have indeed in-

The methods of TCM

Acupuncture

It is possible to influence the Qi at specific points on the skin, the acupuncture points: wherever it collects in excessive amounts it is spread; wherever it is lacking it is produced. The needles are inserted in a very superficial manner only, treatment is not only pain-free but is even very pleasant as the patient can doze under heat lamps during the treatment.

Moxibustion

With moxibustion, the skin is stimulated through heat at specific acupuncture points. This is done by burning off dried Moxa herbs in halters designed especially for this purpose which are placed on the skin. The warming stimulation emanating from these points has a pain-soothing effect on the corresponding organ. The essential substances of the mugwort stimulate the metabolism and have a calming effect. By the way: as early as 2500 years ago, Hypocrites taught of the pain relief resulting from fiery skin irritations.

Tuina

This traditional Chinese massage is particularly effective against disturbances of the movement apparatus; also, however, against many other problems such as arthrosis, following a stroke, injuries, tenseness and many more complaints. In contrast to Western massage techniques, Tuina indispensably presupposes a detailed Chinese diagnosis. This makes it possible to ascertain the underlying energetic disturbance behind the disharmony and the pathogenic factors to which it is attributable. Tuina is very widely applied in particular in paediatrics.

Phytotherapy

Herbal medicine has always played a major role in TCM. In China, 90 to 95 percent of all patients in TCM clinics receive herbal treatment. As a result, it is also possible to cure long-standing, inner inflammations (e.g. neck/throat) using highly effective herb mixtures.

Dietetics

"All good doctors are also good cooks", according to a saying in China where people are convinced that a correct diet has as deep-reaching an effect as an acupuncture needle. In this respect, not everything that we consider to be healthy is also regarded as beneficial by TCM – for example a lot of raw fruit and vegetables. Consequently, a complete TCM therapy also includes dietary advice.

Chinese herbs culture, south eastern China.

creased by a large amount. According to the OSEC, Swiss exports of machines, apparatus and electronics rose by 162 million in 2004, those of the chemical and pharmaceutical industry by 120 million Franks. The overall volume of trade between Switzerland and China in the year 2004 was approx. 6 billion CHF whereby there was a significant Swiss trade surplus. The overall volume of trade between the EU and China for the same year was 135 billion EURO (USA 211 billion USD), of which 95 billion were accounted for by exports to China and just 40 billion by imports from China (source: Peter G. Achten Asia Correspondent, Swiss Radio SR DRS).

Nevertheless, our experience, which contrary to the main trends thus far, has involved the importing of Chinese know-how and qualitatively superior Chinese original products, shows that a free trade agreement would also bring major opportunities in this respect. As a Swiss partner, we have always been taken seriously in China despite our geographical "size" and welcomed as reliable partners. I have always considered our main task as being to perceive the Chinese manufacturer as an equal partner together with whom we should work towards introducing his products to men and women in our part of the world. In this respect, we are frequently the decisive interface acting between the Chinese manufacturer and the European customer.

Switzerland's strengths in this field, which are appreciated by the Chinese partners and which are also broadly known in China, are obvious: cultural openness – flexibility, perseverance – precision/quality and a long-term manner of thinking.

Additionally, Switzerland, with its social and economic idiosyncrasies and its location in the middle of the European market, is also regarded by China as an ideal location for expansion strategies. Here, one should not lose sight of the fact that today approx. 2/3 of the Chinese GDP and 60% of Chinese jobs are generated by an estimated more than 2 million private companies (private ownership has only been part of the Constitution since 2002!). Combined with a savings rate of 40.3% that is very high by worldwide standards (Germany 22.1%, USA 13.6%), this creates an enormous potential of Chinese SME's willing to invest who, sooner or later, will be looking to make the move towards Europe. For Switzerland in particular, this must be seen as an opportunity and not as a risk – one only has to think of the difference in trade volumes between the EU and China and between the USA and China (see above).

Objective of Swiss-Chinese cooperation:

The USA (New York College of Health Professionals: www.nycollege.edu/ and the United Kingdom (e.g. Middlesex University: www.asante-academy.com) have recognized the potential at an early stage and developed high-quality training facilities which, together with the TCM specialists from the PR China, ensure that the know-how transfer takes place on a professional level. Our aim is also to take this step in Switzerland – support is welcome.

One-sided agreement?

What remains is the question as to whether the fears of the Chinese that the Swiss are seeking to gain advantages for themselves are justified.

Based on our experience, we must come to the conclusion that this is in part the case in day-to-day business. Today, within the scope of the bilateral agreement between Switzerland and the EU, it is very difficult for example to obtain new residence permits for Switzerland for TCM experts from China. The strict application of the political requirements of the bilateral agreements with the EU may be sensible in the field of Chinese gastronomy – in the "highly sensitive" field of TCM it is certainly not. Especially not if one considers the small number of experts required, for example for the TCM area: we are talking about a few hundred technical specialists for the whole of Switzerland. One major obstacle to investment in Switzerland by Chinese private companies is the risk of not obtaining the work and residence permits required for own confidents/management or of obtaining only a very limited number of these.

We are certain that our positive experience is today perceived to a greater extent in the overall economic context, and that the current practice of political authorities will be reassessed by politicians in Berne – this would certainly be good for the partnership between the two countries and take account of the fact that Traditional Chinese Medicine is for the PR China what products such as chocolate, watches and cheese are for Switzerland – "genuine" know-how developed over centuries with a high national, emotional and economic significance. Consequently, in the event of Switzerland deciding in favour of an open "TCM economic policy" with the PR China in contrast to the trend in most European countries, this would certainly be registered in China far beyond the field of TCM and would bear corresponding fruit.

For further information please contact:

Marc Rüedi
China TCM Trading GmbH
Pfarrmatte 6
CH-8807 Freienbach
Phone: +41 554155291
E-mail: marc.rueedi@chinatrading.ch

Or visit our website at:
www.chinatrading.ch
www.tcm-schweiz.ch

文字の共存 – 文字 的并存 – 기호의 공존 –

Cohabitation typographique – Meertalige typografie – Multilingual typography – Die Koexistenz der Zeichen

The coexistence of various typefaces in the public sphere is of growing influence on the appearance of international institutions, universities, exhibition centres, airports, internet portals and urban areas.

It is important to encourage a culture of difference (Richard Sennett), that practices a competent interaction with (visual) differences and thus counters the levelling tendencies of globalization. Thus, the research project promotes the most important cultural assets: languages. By graphical representation, the stability of languages is strengthened.

Products distributed worldwide need to use more than one language on their packaging, in manuals and in advertising. On the media involved, different sorts of typefaces stand next to each other.

To have the design of the "foreign" typeface match with that of his own, the typographer has to be able to combine the signs of his own language with those of other typographic cultures. This requires a special knowledge of the respective typographic cultures as well as a general appreciation for other cultures.

The coexistence of signs from western and eastern cultures will increasingly build the basis for future communication – a basis that has not really been explored as yet.

About the Research Project

The research will explore the problems and needs that arise from the coexistence of signs from different cultures. In its first phase, the project will focus on design/layout with Latin next to Chinese characters.

It aims at the development of methods and models of design, educational instruments as well as manuals for the visualisation of multilingualism. Reputable typographers and designers as well as renowned schools in Asia and Europe will open an adequate international environment for the research project.

The research relates to our project "Wider die Einfalt

A scene on street in Beijing which illustrates the problem of "Multilingual typography".

… Pour la diversité, Lingue al limite", in the context of our research focus on multilingualism; a collaboration of Design2context and the University of Zurich.

The following schools will participate in the project

- Hochschule für Grafik und Buchkunst, Leipzig
- L'école Estienne, Paris
- School of Art and Design Zurich (hgkz)
- The University of Reading; Department of Typography & Graphic Communication, London
- Arts Institute, Nanjing
- Central Academy of Fine Arts of China, Peking
- The Hong Kong Polytechnic University, Hong Kong
- Luxun Academy of Fine Arts, Shenyang

The project is headed by Design2context, institute for design research at the hgkz.

For the cooperation project, the following stages are projected:

1. Preparation phase

The preparation phase will proceed the workshop. The most important typographical case studies, showing the coexistence of Chinese and Latin typefaces, will be compiled. Three categories will be distinguished: everyday designs, professional designs and visionary concepts.

The current level of information will be analysed: what manuals are available to typographers who want to design with Asian and European typefaces?

An internet platform will accompany the project and will be present in the exhibition as well. The question of mutual cultural perception will be the focus in content as well as in form, regarding the languages used and in the different, culturally determined visual means: typographic signs, images, colour codes. An "Archive of Samples" (database) and a list of weblinks will lead to other typographic portals and cross-culture-projects, a wiki and a blog allow for an exchange of experiences and a constant brainstorming of all project participants.

2. Workshops

Each participating school will hold a semester programme in their respective postgraduate courses on typography. Starting point of the semester will be a one week workshop with a lecturer from Asia (in Europe) or from Europe respectively. The workshops will analyse aspects of traditional and contemporary typography. Methods of design will be developed, with different focal points: design in two dimensions (e.g. printed matter, packaging, web design); design in three dimensions (e.g. signage systems) as well as the development of new typefaces with Asian and Latin characters.

(continued on next page)

“Vokabeln”

Example of typography

拉丁字母 lā dīng zì mŭ
Lateinisches Alphabet
拉丁文 lā dīng wén: Lateinisch
字母 zì mŭ: Alphabet

古羅馬體 gŭ luó mă tĭ
Antiqua (Rennaissance-Antiqua)
古羅馬 gŭ luó mă: Das antike Rom
體 tĭ: (Schrift-)Stil

新羅馬體 xīn luó mă tĭ
Klassizistische Antiqua (»Neu-Römisch«)
新 xīn: neu
羅馬 luó mă: Rom
體 tĭ: (Schrift-)Stil

哥德體 gē dé tĭ
Gebrochene Schriften (»Gothic«)
哥德 gē dé: Gotisch
體 tĭ: (Schrift-)Stil

意大利體 yì dà lì tĭ
Kursive (»Italic«)
意大利 yì dà lì: Italien
體 tĭ: (Schrift-)Stil

3. Student exchange

During the workshops each school will choose two outstanding students for an exchange. These students will collaborate with the team of specialists on the development of teaching material.

4. Evaluation

The fourth phase of the project comprehends the evaluation of the workshop- and semester results, with regard to the different areas: Two- and three-dimensional designs, development of new typefaces. The results will be used to develop educational tools and manuals. Focal point will be a publication, manuals and tools to be distributed via internet.

Along with the case studies and the theoretical background, also general questions of multilingualism will be addressed, as for example “Cross-cultural collaborative design”, analysing the differences between western and Chinese language systems with regard to their influence on the communication in interactive media.

Responsible for research:

Design2context, Institute for design research of the School of Art and Design Zurich (hgkz). Professor Dr. Ruedi Baur, director of Design2context, graphic designer and researcher. He is specializing in the typographic design of public space. He has been teaching in China and Korea for eight years, he has been working in Japan and exhibited in all three countries.

If you would like to know more about the research, we will be glad to send you a presentation or to meet you in person. We would like to establish a partnership with you to promote our mutual interests. We are looking for research cooperation as well as financial support for the project.

by Professor Dr. Ruedi Baur

For further information please contact:

Ms Ulrike Felsing
Graphic Designer and researcher

Design2context, Institute for design research
of the School of Art and Design Zurich (hgkz)

Hafnerstr. 39
Postfach
CH-8031 Zürich 5

Phone: +41 43 44 66 204

E-mail: ulrike.felsing@hgkz.net

Web: www.design2context.ch

Design2context — Institute for Design Research — School of Art and Design Zurich — University of Applied Sciences and Arts Zurich, Direction: Ruedi Baur, Vera Kockot, Clemens Bellut

an interface — between society, economy and science — between image and language — between present and future

research projects: »Multilingual Typography« Research on the Coexistence of Chinese and Latin Typefaces — »Seeing Peace« — »Designing Europe« »La démocracie, vision d'avenir« — »Image and Word in Multilingualism« — »Systems and Structures in Design, Art, and Architecture« **current postgraduate programmes:** Master of Advanced Studies »Design Culture – Design Research in the Context of Science and Society« »Scenography« (MAS and doctorate programme in cooperation with the University of Vienna) **series of colloquia:** »Disorientation/Orientation« »Multiplicity and Visual Identities« (in Amsterdam) **contact:** information on postgraduate programmes, research cooperations, or strategic partnerships: design2context@hgkz.ch, Tel. 0041 (0)43 446 6202, www.design2context.ch

Abbildung: Becker Lacour GbR, Frankfurt am Maina

Fast IP Links from Europe to China

Do you have offices or production facilities in China and require secure, safe, and stable transcontinental data links for your systems, VoIP or video conferencing solutions? TIC The Internet Company offers direct IP circuits from Europe to China.

China is an enormous market and growing at an incredible rate, with more European companies constantly preparing to enter the market by establishing branch offices or joint ventures with local businesses. In 2006, Chinese economic growth reached approximately 10 percent, making it a tremendous opportunity for European firms. This intercontinental business growth has driven an exponential increaser in the need for reliable VPN links. However, the entrance barriers are legion and not limited to the linguistic and cultural – technical barriers exist as well. Chinese enterprises typically focus on connections to the USA, not to Europe, and the majority of data traffic to the Asian world travels through North America. There are very few direct links between Europe and China, so traffic with specific latency or jitter requirements often suffers.

Despite this fact, there are thousands of companies in Switzerland alone that are preparing for Chinese market entry or are already active in the country. The potential for telecommunications providers is enormous, as those firms need fast, reliable and international VPN connections between sites. "TIC AG is a pioneer in this field – hardly any other European providers have similar offerings", confirms Franz Grüter, CEO and President of the Board of Directors. Mr. Grüter has previously worked almost two years for the service firm Prime Trading AG in China.

Speedy Internet Access throughout all of China

As a result of many years of relationship- and infrastructure-building in Shanghai, TIC AG has a reliable team of Chinese employees – a crucial competitive advantage enhanced by the 2005 opening of a Beijing office. TIC AG has locked in comprehensive wholesale agreements with two major Chinese telecommunications enterprises, CNC China Netcom and China Telecom. This allows development of last mile connections from their Points of Presence (POPs) in all 31 provinces, but especially in Shanghai, Beijing, Guangzhou, Suzhou, Tianjin, Tonguing and Shenzhen. This is no small achievement, considering the Chinese cultural and language obstacles, but these companies are to China as Swisscom and Cablecom are to Switzerland, so these agreements give TIC AG the ability to reach the entire country.

The importance of these agreements is simple. The country population totals 1.3 billion people, of which 300 million are currently in the acquisition stage, giving China Telecom alone a domestic market of 600 million people – more than Vodafone worldwide. This, along with other dark fiber connections and a world-class data center in Shanghai, gives TIC AG the ability to provide market entrance for other European ISPs.

Direct and Fast Links from Europe to China with TIC The Internet Company AG

TIC customers profit from rapid deployment of Virtual Private Networks (via either MPLS or IP VPN technology) to their Chinese sites. As a full service Internet and IT provider for professional LAN and WAN connections, TIC AG fulfills the high quality needs of discerning business customers everywhere.

Reasons for European Companies to use TIC

- Full service Internet and IT provider for professional LAN and WAN solutions.
- Offices in Shanghai and Beijing, staffed by native Chinese employees.
- POPs (Points of Presence) across China, including Shanghai, Beijing, Guangzhou, Suzhou, Tianjin, Tonguing and Shenzhen.
- IP services throughout all 31 Chinese provinces, thanks to exclusive partnerships.
- Specialists in IP VPN implementation, nationally and internationally (Europe, USA, and Asia).
- International IP-based telephony solutions (VoIP).
- World-class data centers in Zurich and Shanghai, ideal for the outsourcing of corporate infrastructure.
- Access throughout Europe, courtesy of the European "Preferred Partner Program" for ISPs (Internet Service Providers).

(continued on page 88)

Advantages of a TIC China-Switzerland VPN

- VPN (Virtual Private Network) with guaranteed quality of service (QoS) based on MPLS or IP, with fixed monthly costs
- Global IP VPN and MPLS VPN platform with direct data links between the two countries
- Packet prioritization for time-sensitive business-critical data guaranteed
- Completely monitored VPN – you can concentrate on your core business
- Highest security
- Flexible custom analysis and consultation to develop the right network architecture for your business

Rising Demand for VPNs

Management consultants Frost & Sullivan predict that the IP VPN market will grow even more, from 2.73 billion euro in 2004 to 8.56 billion euro in 2008. This will directly in 70 percent of the market participants implementing VPN solutions within 3 years.

TIC AG is already experiencing this demand and has therefore started a European partner program. Thanks to the "Preferred Partner Program", TIC AG has opened the Chinese market to other ISPs, who can in turn offer their final customers direct and fast data links to China, critical for application such as VoIP and Citrix terminal servers. Many European companies, however, already have the advantage of noticeably better latencies and delivery times in their VPNs, thanks to innovative solutions from TIC AG. Global range, flexibility, scalability and cost advantages are all compelling reasons companies choose TIC VPNs over traditional WAN technologies.

About TIC The Internet Company AG

TIC The Internet Company Ltd. is an internationally targeted full service Internet-Provider for professional LAN and WAN solutions designed for the high demands of its customers. The independent Gigabit IP Network (AS1836) with multiple redundant interworking and sophisticated datacenters fulfills highest standards as much for national as international customers in IP-VPNs, MPLS, Mobile Office, Mobile Mail, Hosted Exchange, VoIP Internet Telephony and Internet Access.

The pan European business operating area covers Switzerland and includes many partnerships in Europe, North-America and China.

Innovative IT solutions, reaching from infrastructure companies with managed solutions to entire outsourcing services, reduce the costs, staying at all times secure and productive. The Managed Security portfolio and the 7x24 Customer Care services add to the up-to-date range of services of TIC.

TIC The Internet Company Ltd. is a privately owned company of Solution24 Ltd., Switzerland, emerged from VIA NET.WORKS Switzerland and TIC.

International Business: Full Service Internet- and IT-Provider – We Connect the World

Conclusion

With TIC The Internet Company AG, international firms can easily transfer their Chinese IT and telecommunications concerns to a competent partner and concentrate on their own core businesses within the Chinese market. TIC even operates a Chinese translation of the corporate website, just one more indication of the corporate commitment to that market. Profit from TIC expertise and direct Switzerland-China links today!

For further information please contact:

Kevin Ahlers, Marketing Manager
mailto:kevin.ahlers@tic.ch
TIC The Internet Company AG
Riedstrasse 1, CH-6343 Rotkreuz
VoIP T +41 844 842 842
VoIP F +41 41 318 4 318
or
TIC The Internet Company SA
Rue du Simplon 37, CH-1006 Lausanne
VoIP T +41 844 842 842
VoIP F +41 21 311 59 38

http://www.tic.ch
http://www.tic-china.cn
http://www.tic.h

sinoptic.ch – Services and Information about China in French

Lancé en juin 1998 et entièrement indépendant, le site SinOptic rassemble des informations qui touchent de nombreux domaines: économie, politique, aspects de la culture et de la civilisation chinoises, santé, etc. Il propose des rubriques régulièrement mises à jour et s'efforce de suivre l'actualité par un agenda des manifestations et une revue de presse.

Afin de suivre l'actualité du site, vous pouvez vous inscrire à sa Lettre électronique (mensuelle et gratuite). Vous avez également la possibilité de télécharger le numéro en cours.

Avenue Juste-Olivier 2, CH-1006 Lausanne, Téléphone : +41 21 331 15 80, Courriel : info@sinoptic.ch

SinOptic est membre du Comité de la Section romande de la Chambre de commerce Suisse-Chine, membre du Comité de la Société Suisse-Chine, membre du Comité de l'Association Vaud-Shaanxi/Chine et collabore régulièrement avec SUNlight ACT SA à Genève. SinOptic est un partenaire du Canton de Vaud et de la Ville de Lausanne dans les questions chinoises.

News and Information about Switzerland

Are you interested in Switzerland? Do you want to be kept up to date with what's making headlines in Switzerland? Look no further than www.swissinfo.org.

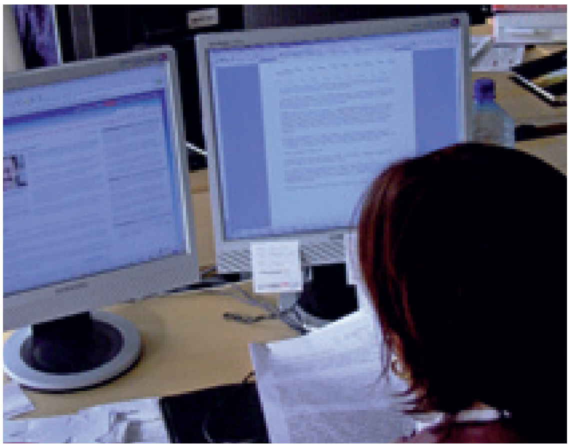
The internet information platform www.swissinfo.org provides news on Switzerland using text, images, and audio and video reports in nine languages, including English and Chinese (also in German, French, Italian, Spanish, Portuguese, Arabic and Japanese). The priority is news and in-depth information on politics, business, culture, science and technology, tourism and weather. Emphasis is placed on Switzerland's political, economic and cultural links to the rest of the world.

Specials are quality supplements which enhance the information on www.swissinfo.org. These multimedia dossiers cover topical issues and are developed specifically for an international audience. The Country Profile provides an up-to-date overview of Switzerland, while "Modern Switzerland" reveals what makes the country tick. The "Swiss Made" dossier examines Switzerland's image around the world, focusing on politics, science, services and industry. The multimedia report profiles the country's past, present and future.

swissinfo/Swiss Radio International also offers a variety of services to keep you up to date with Switzerland. We have a newsletter with highlights of the most interesting articles of the week, and information can also be downloaded or accessed via mobile phone. Our headline service delivers automatically updated headlines from the front pages of www.swissinfo.org to your computer (Desktopnews). The headlines can also be viewed directly on other internet sites with a news feed (RSS).

Chinese Service

The Chinese-language site of www.swissinfo.org is the only platform that reports in Chinese on current affairs



in Switzerland. It also offers comprehensive information for visitors to Switzerland from China. The site has a country profile as well as a city guide, which presents the major Swiss cities. For Chinese wanting to study in Switzerland there is information about Swiss universities, technical colleges and other educational institutions. A variety of issues relating to Switzerland are discussed in the site's Forum.

www.swissinfo.org:
Your direct contact to Switzerland

Contact:
swissinfo/Swiss Radio International
Giacomettistrasse 1
CH-3000 Bern 15
Switzerland

T +41 31 350 92 22
F +41 31 350 95 44
E-mail: Contact_swissinfo@swissinfo.ch

How to Perform Successfully in China

Below the reader finds a summary of a speech by Ms Lisha Zhang held at the ETH Zurich (during a China/Asia special weekend last October). In her speech she highlights the importance of the strategic business fields such as Communications, Public Relations (PR), Media planning and Networking.

Lisha Zhang

Switzerland is privileged to have a very good "Brand Name" in China. Almost all Chinese people know Swiss watches, banks, chocolates, army knives, the fabulous landscapes and even the story of Heidi. Most Chinese business people associate companies and products from Switzerland with good quality and trustworthiness. People who are familiar with the international organizations and conventions in this small, lovely country, also appreciate the Swiss management and organizational skills.

It is often suggested by China experienced businessmen that in order to succeed with foreign business in China, one should have a "PRC" company. But in my speech these three letters do not stand for the "Peoples Republic of China".

P is for Patience, **R** stands for Relations, and **C** is for Cash! This may sound simplistic, but I am sure the China experts will agree: to succeed in China, one really needs to have a long term commitment and work with perseverance and patience. One needs to make significant investments before an operation can be expected to turn profitable. One can get a short-term payback, but the real results take time to achieve. And last but not least, one needs good relations or networks to develop the right business strategy and to break into the market.

Let's focus on **"R"**, that is Relations, which build the core of any corporate communications. Based on our long-year experience in China, we are convinced that a well developed and executed corporate communications strategy, which incorporates media and government relations, is essential in positioning and branding a company and its products and will facilitate a company's overall business operation. This also applies to relations with business partners from small and medium sized enterprises (SME). In China, one needs "Guan Xi", which also stands for relations or connections.

I would like to share with you my observations about the development of the Chinese PR market and discuss some of our experiences in how to develop a corporate strategy to foster a company's overall business in China.

Before the economic reform programme was introduced in China in the late 70s, public relations was unknown in the central planning system. In the economic sectors an almighty national supply and sales system based on planned production often resulted in shortages for the vast majority of the goods. Hence, no promotion in any form, whether advertising or PR, was necessary or even possible.

But in the last two decades, the "Socialist Market Economy" has emerged and along with it the need for advertising and PR activities. As a result, the communications sector has changed radically towards a stronger commercial orientation, and the government has begun to adopt a much more open attitude towards the media.

Along with this, public relations have become a necessary tool for communicating with the marketplace as well as with the government and the media – as long as it purely has been used for commercial purposes, without infringing upon major political sensitive issues. The notion of "smaller government and bigger society", is fertile territory for public relations, resulting in a mix of traditional "guanxi" (personal connections) and now professional PR.

A fast growing PR industry

Over the past twenty years, the PR industry in China has undergone dramatic changes. According to statistics, PR industry around the world has experienced annual growth rates of around 20%, while the PR market in China has been growing at an average rate of almost 50% per annum in recent years; surpassing Europe and approaching the size of the U.S. market.

Major international PR agencies did not make their first appearance before 1984, and China did not have its own first PR firm till 1985. But by the end of 2001, according to a survey by the China PR association, there were a total of over 1'000 PR firms in China generating an annual billing of more than US$ 250 million.

During the early development of the market, public relations focused mainly on government relations and in particular on assisting foreign companies to secure the necessary licensing and legal procedures for starting and managing their operations (banks and financial institutes). Today it has shifted to the M&A areas with government lobbying.

As foreign companies are gaining more and more access to the Chinese market, building market share, establishing distribution channels and achieving volume, they are also more and more confronted with their international peers and the local competition. Hence, marketing communications by means of corporate positioning, business-to-business communications, consumer market research, brand campaigns and other specialized disciplines are becoming increasingly important in doing business in China. And along with this, media relations have become an indispensable tool with the implementation of all the corporate communication strategies.

Media with Chinese characteristics

China has about 2'200 general business and trade newspapers and magazines (there were only 186 in 1978) and more than 3'000 TV and radio stations nationwide; and 98% of all Chinese urban homes now have colour TV set. In addition, internet has becoming increasingly popular among the media and public.

The rapid growth of Chinese media has heightened competition among newspapers and magazines and the electronic media, but there are several features that make the Chinese media unique.

First, the major media organizations are government owned. All leading newspapers like the People's daily, China Daily, the Economic Daily and radio stations like CCTV are important organs through which the government publishes key policy issues.

Second, commercialization has been going strong on both, in terms of an increasing quality of advertising content and the restructuring of some media organizations into business entities. With the reduction of the government subsidies, almost all media organizations rely on income from commercial advertising to survive and to grow. This has a significant implication for all international businesses when building a strong name in the Chinese market by using the media. In addition, good media relations serve as a monitoring tool to help the company to correct its image, to develop a brand and to keep the company on the right strategic track.

Public affairs or government relations: a fast growing necessity

A public and government affairs function in China's capital has continued to be a crucial part of the corporate communications of any foreign company. The Chinese government has made great efforts to move toward a more market oriented economic system. But Chinese government agencies and regulatory bodies still control most aspects of foreign investments. Increasingly similar to the Public Affaires (PA) in Washington or Brussels, but inevitably with its own characteristics, it has become very important for international companies to maintain an operation in Beijing to monitor or even participate in the economic policy making process.

A good government relations programme will not only raise a company's visibility to target audiences in the government, but may also help the company obtain government support for major projects, something which will not be easily available to companies without such capabilities.

It is also a crucial element in a culture where major business and political decisions are often based on good faith and relations. A significant amount of time has to be devoted to identify the right officials at the right position for the right issues, in order to build the right relationships.

A good PA performance should make sure to link both, the corporate office in China and the headquarter, in or-

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der to secure the update of all major changes in PRC policy, personnel, regulations, legislations, politics and all other key issues as well as the necessary background information. Such monitoring puts the company in a good position to support other corporate functions, such as the company's recurring needs to obtain approval for new licenses as it expands in China. It is also essential to have a good PR or PA person in the headquarter who has good access to sources internationally and in China in specific.

China will enjoy continuous economic growth and will remain an attractive market, teeming with opportunities for the next few decades. At the same time, China is undergoing more radical social and economic changes than at any time in its history. These changes will inevitably affect the future of the local and global business. A flexible, comprehensive corporate communications strategy, capable of adapting to the changes, will surely contribute to the success of any business operations in this most interesting and challenging market.

For further information please contact:

China Communications
Lisha Landolt-Zhang
Fridbach 1, CH-6300 Zug
Tel: +41 79 756 1383
info@chinacomm.ch
www.chinacomm.ch

Branding Strategies

China's large consumer market with its often-quoted 1.3 billion potential buyers is per se a prime attraction for brands from all over the world. But in a country in which successful sales depend largely on how well a brand is known and trusted by consumers, imaginative ideas are needed to build brand recognition within one's target groups before the sales start rolling in.

Creative and sporty

Creativity has been the key factor in many companies' branding campaigns – especially when targeting the highly attractive consumer group of the young and rich. Johnny Walker flies big name DJs into Beijing and Shanghai clubs to attract the cities' "young and hip". Major jewellers have developed partnerships with wedding planners and offer weekend honeymoon trips to Hong Kong to help drive their sales.

Sport sponsoring is also popular: According to Samsung research, 70 percent of Chinese pay attention to major sporting events. Firms such as UPS, a delivery service, are getting into China by linking with these major events, mainly the Olympic Games in Beijing 2008. And as China uses the Games to build its "brand" in the rest of the world, UPS is targeting Chinese businesses and consumers on the same track. The company opened its first retail outlet in Shanghai in 2005 and is now expanding its services across the country. Having your brand name and logo at the billboard of an Olympic stadium will help strongly in terms of recognition amongst local firms. An additional bonus comes from the image transfer delivered by healthy and successful athletes – an image many companies strive to be associated with.

Fighting brand pirates

For companies with an already established brand image, China offers a special obstacle: its infamous counterfeit industry. The old cliché, whereby "imitation is the most sincere form of flattery", was invented here – unlike Rolexes and Louis Vuitton bags. Even though it is true to a certain extent that copies can help increase product exposure, counterfeits ultimately hurt sales by diluting a brand's image. Thus, many companies put at least as much effort into protecting their branded products as they do in promoting them.

Moet-Hennessey heavily markets its liquor at many nightclubs in Shanghai, Beijing and other parts of China. But bartenders don't throw away empty bottles. Instead, they are handed to Hennessey bottle smashers, who break the bottles into pieces in order to prevent the copying of labels and shapes.

Movie studios have taken a more traditional route: they have sued some of the larger DVD shops that sell counterfeit copies of their studio hits. One shop in Shanghai, KaDe Club, was sued by seven companies including Warner Bros, 20th Century Fox and Disney. But since the store representatives simply ignored the lawsuit and didn't show up in court, there is little chance the studios will see any of the RMB 25,000 they were awarded.

Companies such as Louis Vuitton have tried to make fighting piracy a more collaborative effort. They reward market vendors who don't sell counterfeit copies of their signature woman's handbags. But sometimes even collaborating with a Chinese partner can backfire. Eastman Kodak had to make this experience with China based firm Lucky Film. Kodak has a 20 percent stake in Lucky, but the companies are independent and the original technology is not used in the Chinese company's manufacturing process. However, photographic paper from Lucky began to appear in Kodak's China photo studios in 2004 with logos that looked very close to Kodak's.

All-in-all, branding in China can be a tricky business. But aren't 1.3 billion potential buyers worth the risk?

Source: China Focus
by Fiducia Management Consultants

New Swiss Re Study:

"Reforming Chinese healthcare through public-private partnership"

The report is the result of a year-long study involving key Chinese policymakers, insurers, regulators and other stakeholders, as well as an investigation into various global systems and best practices. The study was conducted in response to an invitation by the China Insurance Regulatory Commission (CIRC) to undertake an independent review and recommendations of the nation's healthcare system.

The report proposes a "public-private partnership" in which commercial insurers can focus not only on developing the voluntary market that will supplement the statutory (required) coverage, but can also assist the government in administering its social insurance programmes. The report includes success stories featuring insurance companies which have already assisted a number of Chinese cities and local counties in nurturing and administering social schemes.

Such a public-private partnership would embrace three key improvement principles:

First, China should develop a multi-level health insurance system that ranges from basic medical insurance coverage to the full spectrum of commercial market offerings, with clearly defined roles for each level. Such a structure would be consistent with the direction taken by most regimes around the world today.

Second, the report calls for measures that would allow hospitals and patients to be part of the risk-sharing community, together with insurance carriers (both commercial and social), thus minimising unnecessary care and excessive claims.

Third, the government should leverage the private insurance industry's expertise, professional administration experience and commercial instincts to uplift the standard of industry practice throughout the entire medical insurance delivery chain.

The report can be downloaded from Swiss Re's website at www.swissre.com > research & publications. It is available in English and Chinese.

50 Years of Plastics Know-How at GF

For Georg Fischer the year 1957 marked an important early milestone in the company's history, when it commenced series production of adhesive plastic fittings. Today employing some 3,300 staff worldwide and generating annual sales of around CHF 1 billion, the GF Piping Systems Corporate Group is a leading supplier of plastic and metal piping systems. Its core expertise centres on system solutions and high-quality components for the safe transport of gas, water and other fluids in industry, water and gas distribution and building technology.

The GF Piping Systems story began with the simple yet revolutionary idea of producing a fitting made of plastic. At that time, malleable castings made of metal had already been in use for around 90 years. On the other hand, no one had any experience with plastics. There was, however, a technical and commercial vision of how such materials could be used. The aim was to develop a jointing technology that would adequately complement the plastic piping that had first been introduced on the market at the beginning of the 1950s. A type of material was being used that was completely new to this specialist area. Applying the material to process engineering and developing it so that it met the most exacting requirements in many different fields of application represented the key innovative challenge.

After an extensive phase of R&D, Georg Fischer created a new-to-the-world product based on production-ready processes – an achievement that is the exception rather than the rule in the field of product development. A number of years of intensive preparation were necessary before Georg Fischer was finally able to commence series production of plastic fittings in 1957 at what was then its Singen plant. The field of injection moulding was already benefiting at the time from the production of new machines, enhanced mould parts and optimized compounds. Thanks to its farsightedness back then in identifying plastic as the material of the future and the expertise it has since acquired in the field of materials processing and jointing technology, Georg Fischer is today an extremely well established system supplier with

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production sites in Europe, Asia as well as the US and a presence in over 100 countries. Georg Fischer continually develops existing products while driving ahead into new areas of application such as shipbuilding, biotechnology and chemical processing.

"Adding Quality to People's Lives"

Georg Fischer is focused on its three core businesses GF Automotive, GF Piping Systems and GF AgieCharmilles. Founded in 1802, the company is headquartered in Schaffhausen, Switzerland, and has over 140 locations worldwide including 50 production facilities. With some 12,000 employees, it generated annual sales of 4.05 billion Swiss francs in 2006.

The Corporation makes a direct contribution to the quality of life: Mobility, comfort and precision are key market requirements that we satisfy with our products and services.

Further information under www.georgfischer.com
Georg Fischer AG, 8201 Schaffhausen/Switzerland
Phone +41 (0) 52 631 26 97

Trip of the School of Management to China

In March of 2007 two classes of the School of Management from the Zurich University of Applied Sciences travelled to China. The trip was the highlight of the activities of the newly founded Centre of Emerging Markets. 32 Students visited several companies, participated in social activities and thus received a good insight into China.

The aim of our two-week visit was to analyze the evergrowing Chinese market by finding out what makes Chinese companies so competitive. In order to find out, we travelled to three large areas, visited Chinese and Swiss companies, listened to talks by specialists and went to cultural sites. Three cities which gave the study trip the main structure were Beijing, Shanghai (including Hangzhou and Suzhou) and Hong Kong (including Guangzhou and Shenzhen).

The study trip which took place in March 2007 was the first such activity of the School of Management (SoM) in the Asian area. The academic goals of the trip were set early on and built the framework of the two week long activities in China:

– Learn firsthand to understand the heritage and way of life of today's China – get to know the Chinese culture and experience the cultural differences.
– Experience firsthand the fast growing business in the People's Republic of China itself as well as the trade structure.
– Compare production in Switzerland with those of China.
– Get a feel for the local environment and the way of doing business in China.
– Interaction with local business people.
– Start building a China-network.

The group inside the unecho chamber (Photo by Rüttimann).

The technicalities of the trip were prepared by four students. Each member of this special class was responsible for the visit of one city and the activities there. The preparations lasted the whole fall semester 2006. Instrumental were also the Swiss-Chinese Chamber of Commerce through Ms Horváth, Director, and its President Mr Haerri. When the students left Switzerland, they were well informed about what they could expect and they were equipped with details such as cards to show the taxi driver, Chinese identification cards and so on.

Some of the cultural highlights: The Great Wall

The goal was to walk on the original wall from Jinshanling to Simatai, a plan which we were not able to fulfil. However, who can boast to have seen the wall covered with snow?

Despite the snow we walked from Jinshanling up to the wall and experienced this magnificent construction almost on our own. It was magnificent, an impression which a student afterwards described as "an awesome, impressing and breathtaking trip"!

Forbidden City, Summer Residence, Bird nest and Beijing Theatre

At the beginning of the trip, cultural aspects stood in the foreground. The idea was to find some time to acclimatize. The concept of sightseeing took on an entirely new meaning when we experienced the very low temperatures during our first two days in Beijing. It was minus 5 degree Celsius with strong winds on the 5th of March during the visit of the **Forbidden City**. Everyone in the group was very cold despite the fact that street vendors sold scarves and heated gloves! But students' determination to understand its history was great, the wind sheer factor made a stay hard and the walk through the different gates almost impossible. The cold weather, which hindered the exploration of the Forbidden City, became an advantage the next day, when we visited the **Summer Palace**. The cold air provided a spectacular view of the surrounding area, a view only seen on a few days a year.

While staying in Beijing, the group also visited the **Beijing Theatre**, the Bird nest as well as many other interesting historical sites this great City has to offer.

Some of the companies visited:

AgieCharmilles GF

Mr Liu warmly welcomed his Swiss visitors and provided us with some general information about the company. Afterwards we had the possibility to visit the various departments such as the R&D department and the respective production facilities. Mr Liu explained that the Chinese employees of AgieCharmilles GF Beijing work around 40 hours per week and normally have 3 weeks' holiday per year. Among other things, we noted how clean the workplaces were; there were no personal belongings and no radios visible. On the other hand, we learned that it is very difficult for AgieCharmilles GF to find reliable suppliers that are able to deliver high quality goods. Therefore, in order to be less dependent on the suppliers GF's production depth amounts to around 80 %.

Snow covered Great Wall in Jinshanling (Photo by Rüttimann).

Hangzhou

In the surroundings of this beautiful city, we had a chance to see three Chinese companies, a tannery, a fabric production facility and a furniture factory. The students were very impressed by these places. It gave the opportunity to see the traditional aspect of Chinese industry and production.

It was particularly impressive to see just how labour intensive this industry is. Despite the fact that they had many machines, the leather pieces still had to be conveyed by hand many times. As any reader can guess, the environmental theme was of utmost importance to all of us. After the production of fine leather, we could see the next step of the supply chain – the production of leather jackets. We visited all areas of development – from the

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design proposals of the client, to the production itself as well as the shipping area. This gave us a good insight into why fabrics are produced so cheaply here. Normally, a production batch consists of 30 000 items and is produced in less than three months.

Furniture production illustrates the trade surplus of the Chinese vis-à-vis the USA. The whole production of sofas and comfortable living room chairs goes directly to the United States. The large production halls, the deep value chain and the rather loosely organized assembly plant provided an interesting counterpart to the well structured Swiss production. For the students, these three companies were one of the highlights of the trip.

Kühne & Nagel

The last official day in Hong Kong was organized by Kühne & Nagel. Mr Looschen, General Manager, met us and gave us first an interesting general presentation about and the business of Kühne & Nagel in Hong Kong. Afterwards, we were invited on a vessel to see firsthand the cargo business close up as well as the air fright transportation in the Hong Kong harbour. After an interesting time in the harbour, we stopped at the Hong Kong International Terminal (HIT). There we had a tour around the restricted area, where the unloading and loading of ships takes place. Cranes and containers were everywhere. In addition, we were invited to the control centre where the whole operation is monitored and controlled.

Lenovo

In Shenzhen the invitation to see China's largest PC producer, Lenovo, was another highlight of the trip. After an introduction to the company itself, we walked through the production area. The assembly lines were very interesting, especially because many of the processes are still carried out by hand. In fact, the whole laptop assembly is done manually, as each component is individually mounted and fitted together. In this factory Lenovo produces between 15,000 and 20,000 laptops per day.

Novartis

As an introduction, Mr Meili head of operations in Beijing, gave us an overview of the biggest production site of Novartis in China. After having received a first impression, Mr Meili explained to us what it is like to live as an expatriate in China. On the one hand, he was fascinated by the flexibility and spirit of the Chinese people, let alone the competences he has within the company. But on the other hand, he missed the humour in general and the social network at home. His daily workload amounts to around 13 hours. Finally, he took us on a tour around the production plant, the quality control and the impressive high-rack warehouse.

Rieter

This company was especially interesting for the students, since we had visited Rieter's production facilities in Winterthur before the Chinese trip. This gave the students lots of insight about the production standards in Switzerland and in China.

Mr. Foehn, President of Rieter Textile Systems China and his team welcomed us and guided us through the newly built production halls. We also enjoyed a short crash course on the Chinese culture with Mr Lee, the successful HR-manager. Also Mr Naef, a young Swiss citizen gave us an insight into his personal experience with the Chinese people.

Schindler

In the beautiful City of Suzhou, Mr Maechler, Head of Supply Chain Management, warmly welcomed us and gave us a talk about Schindler's 33 years history in China. Believe it or not, Schindler was the first western company to invest in a Chinese joint venture.

Personally we were impressed by the openness of the Chinese management who took us for a tour around the factory with its high tech facilities. Although we were thousands of kilometres away from Europe, we clearly could feel the Swiss spirit inside the buildings.

We learned that the key success factors of Schindler are low cost, high quality, quick delivery and last but not least highly reliable suppliers. In order to achieve that, the group drew up a master plan and designed a state of the art multi tasking machine for the production of elevator doors. We had the pleasure of being the 3rd group of visitors to see this new facility.

SGS

Société Générale de Surveillance (SGS) is one of the famous Swiss service companies working world wide as a leading inspection, verification, testing and certification company. Their offices in Guanzhou give a good insight into the testing service. Of special interest to the students was the fact, that basically no Swiss person works there and that the testing of products in China has worldwide implications for the introduction of products in various local markets. To enter a wave free environment, where electronic equipment is being tested, was also a special occasion since it provided much insight into the security of cellular phones and other electronic equipment.

Other places of special interests

Maglev

After studying the business case about the technology transfer from Germany to China and the issues of intellectual property, the ride with the Maglev at the speed of 431 km per hour sheds light on these questions. The length of the track of 33 kilometres still leaves enough time to reflect on the dimensions of this technology. What would the benefit of such a train be if it connected the most populated areas in Europe?

CEIBS

As members of the School of Management it was a must to visit the famous CEIBS (China European International Business School). The attraction lies in both the high standard and the architecture of the famous architect Pei. Ms Schaefer showed us the newly built campus,

View from the top of the administration building of the Suzhou Industrial Park (Photo by Rüttimann).

a combination of western and eastern architecture and explained to us the presentation of the school and other hot issues of the Chinese education system.

Swiss Embassy in Beijing and the Consulate in Guangzhou

Mr Beat Bürgi, the Managing Director of the Swiss Hub China gave us an interesting tour around the Swiss embassy buildings. After that we had the chance to learn about the functions of Swiss business in Bejing. Furthermore, the team was kind enough to serve us an aperitif, allowing time to talk to various employees.

While visiting the Pearl River delta, a production area of almost unbelievable dimensions, we were guests in Guangzhou of Mr Nievergelt, the Consul General. He pointed out many interesting issues Swiss companies face, when they do business in this area.

Suzhou Industrial Park

This industrial park is a Chinese success story. When we arrived everybody was astonished by the huge area and the futuristic buildings. The industrial park is built like a "new" city with business-, living-, education- and recreational areas. Also a large hospital is located within its premises. Interestingly, the main sponsor of this place is Singapore!

To understand the future growth one has to understand industrial areas such as this. For people living mainly in Switzerland, the dimensions of planning and realising such projects is mind boggling – how can one plan such great dimensions! What foresight! However, the view from the top of the building and the list of companies already established here is living proof of great changes.

Final Thoughts

To visit China is a great adventure. The challenge does not lie so much in the different culture or the way people live. The big challenge is the dimensions of growth and the changes this necessitates. The students, as any open minded visitor would, were often overwhelmed by it all – how challenging this county is. This is especially true of young people, to whom China will be a constant partner in their future.

At the end, it is worth mentioning here that all the students paid for their own trip. This is significant! Each student thus showed a great personal interest to venture into a land of opportunities and to invest money and time into their future business partner China. Consequently, for the students, this was not only a trip to China, it was a commitment to face future challenges and be open minded about new cultures.

Some captions of the students:

"I gained unforgettable impressions from this great country."

"This trip to China is the absolute highlight of my three years at the ZHW. The experience I gained during these two weeks is huge."

"The trip to China was a once in a lifetime experience."

by Prof. Dr. René Rüttimann
Centre of Emerging Markets at
the Zurich School of Management

For further information about the trip please visit our blog: http://somblog.zhwin.ch/studytrips/ or contact me at rut@zhwin.ch

By Magical Hands

Chinese and European Papercuts – An exhibition project by the Museum Burg Zug

28th October 2007 until 27th April 2008

For the very first time, the Museum Burg Zug is offering a comparative insight into the magical world of Chinese and European paper-cutting. Masterpieces, cut with scissors or knives, from international museum collections and private ownership, offer the opportunity for a meeting of cultures of a very special kind. This encounter is realized by an artistic technique – the creation of pictures by paper-cutting. By making intercultural comparisons, the points of contact and also the differences in development, execution and subject matter, as well as the social milieu surrounding this characteristic art form, become apparent.

In various display rooms, the exhibition provides a fascinating overall picture of the art of paper-cutting in China and Europe. From a scientific point of view, the aim is to arouse awareness in, and enable reappraisal of paper-cutting as an art form. For a long time it was classed merely as a handicraft and as such was paid too little – far too little – attention, until recently. Twentieth century art succeeded in removing the value-based existence of a hierarchy in art forms and traditions, thus making way for an unbiased acceptance of the phenomenon paper-cutting in all its detail. To the best of our knowledge, no exhibition of this size and on this subject has been presented anywhere else.

By exhibiting the works of Eastern and Western contemporary artists, who with conventional materials – paper and scissors or scalpel, – create innovative, progressive works (Hau Chun Kwong, Kara Walker, among others), the exhibition is consciously establishing a link to the present day.

This prodigious display also includes some of the Chinese and Swiss paper-cuttings that were shown in 2006 at the exhibition "The Enchanting Art of Paper-Cutting, Switzerland and Foshan, China" in Hong Kong and in Macao, China. The idea for the exhibition was proposed by the Swiss General Consul in Hong Kong, and implemented with the support of the Swiss Culture Foundation "Pro Helvetia", in close collaboration with the Swiss Association "Friends of Paper-Cutting".

Together with the varied programme that will run concurrently with it, this unusual exhibition strives to make a contribution towards the cultural exchange between China and Europe, and to create in the Museum Burg Zug a meeting place for people from the East and the West. It is, of course, equally intended for our visitors from Europe and Asia.

Traditional embroidery pattern: cat and butterfly, symbolizing the wish for a long and happy old age. Knife-Cutting by Master Zhao from the vicinity of Peking, 1981/82, Jutta Bewig Collection, Hamburg.

Chinese Papercuts

In China the tradition of paper-cutting is far older than in Europe. Excavation finds and references in ancient texts enable us to trace it back to at least the 6th century A.D. In the course of time it became one of the most widespread and vital forms of Chinese folk-art, especially in rural areas.

The exhibition will include examples of the major techniques ranging from monochrome scissor-cuts to the so-called knife-cuts executed with small scalpel-like tools. Some of the papercuts are then dyed in gaudy colours.

The aim is to give an overall impression of the large variety of styles as well as of the different forms of papercuts and their distinctive uses, by showing various types of 'window-flowers', decorations for doors, walls and ceilings, and also the delicate white embroidery patterns which were widely used in ancient Chinese society.

Focus will be given to a number of artists from among the peasantry: men who produce knife-cuts as a secondary occupation, and village women who excel in scissor-cutting to enhance their homes, and hence are highly respected in their neighbourhood. Another main theme

Driving Cattle to the Alp, Paper-Cutting by Johann Jakob Hauswirth, L'Etivaz (Canton Waadt, Switzerland), 1855, Musée du Vieux Pays d'Enhaut, Château-d'Oex.

will concentrate on displaying and explaining the most important features and meaning of traditional Chinese paper-cutting, which include rural life scenes, figures from popular legends, novels and stage plays, and in particular a large variety of magically protective or auspicious motifs.

In addition to the authentic, traditional paper-cutting, the exhibition will also include works of art which reflect the more recent development of this art since the middle of the 20th century. During the 1940s, artists in the communist movement began to collect papercuts and to use this art form to present new ideas and new picture content. Out of old local traditions grew state-administered paper-cutting workshops and handicraft centres, with products ranging from often excellently executed handicraft cuts to the creation of large-size papercut artworks with revolutionary and modern themes. A good example is the centre at Foshan in southern China, from where a number of the exhibits are on loan.

Over the past few decades, young Chinese artists have, in diverse ways, taken up the ancient art of paper-cutting, giving new interpretations of shape and content. They often create very large cuts or assemblies of cuts which are intended to fill complete rooms. Some of these Chinese artists have in the meantime moved to Europe to live and work.

For the Chinese section of this exhibition we are working with the German sinologist Jutta Bewig. Following her graduation from Hamburg University, she studied for four years at the Central Academy of Fine Arts in Beijing, specializing in Chinese folk-art traditions and their history. During that time she became acquainted with many paper-cutting artists, and repeatedly travelled to remote rural areas to visit folk-artists.

European Paper-Cutting

In Europe paper-cutting first came into being in the 17th century. Right from the beginning white paper or parchment was used to create the finest filigree work, reminiscent of costly lace, which like lace, was only for the wealthy. Family crests, people and landscapes were depicted and, in the 18th century, Chinese motifs too – once Europe's interest in China had been aroused. In convents, skilful nuns spend countless hours working by hand to craft parchment-cuttings of sacral subjects; the openwork design derives from lace patterns, which is why these masterpieces of paper-cutting are today called "lace pictures". The work is not done with scissors, but small knives and similar tools.

Since the second half of the 18th century, paper-cutting has developed into a branch of folk art. Using scissors, a variety of objects are cut: love letters, New Year greetings or decorative pictures to hang in living rooms, whereby the main subject in folk art is farming, and nature is depicted in conjunction with animals and people. A popular subject for the Swiss alpine region is the cattle procession to and from the Alps (when the farmer drives his cattle to the alp in the spring and down from the

Museum Burg Zug: castle.

alp in the autumn). A folding technique is also often used, i.e. the sheet of paper is folded at least once, resulting in a strictly symmetrical picture configuration. In Switzerland paper-cutting in its traditional form continues to be practised.

Since the 19th century, well-known artists such as Philipp Otto Runge, Adolph von Menzel, and, in the 20th century, Henri Matisse have been known to use scissors for their artistry. Hans Christian Andersen, the author of fairytales, used to cut paper pictures that hovered between fantasy and reality.

A quite separate art form is the silhouette picture, which has become very popular among the educated classes since the 18th century. Many people had a silhouette portrait made of themselves (shadow picture in profile). In the 1770s the Zurich priest and physiognomist, Johann Caspar Lavater, even propounded the theory that a person's characteristics could be read from his shadow. Apart from portraits, there are also silhouettes of historical subjects, group pictures and family scenes (people sewing, playing music, reading etc.). Shadow theatre and, later on in the 20th century, silhouette films emerged, combining movement with pictures – and these clearly illustrate the relationship to the Chinese shadow theatre.

For further information please contact:

Mathilde Tobler, Dr. phil., Kuratorin

BURG ZUG
Kultur – Zeit – Geschichte
Büro: Hofstrasse 15
Direktwahl: +41(0)41 728 29 73
mtobler@burgzug.ch
www.burgzug.ch

Museum: Kirchenstrasse 11, CH-6300 Zug

Facts about Museum Burg Zug

The museum in an old castle in the midst of Zug town gives you the opportunity to experience the past and connect it to the present. The cultural-historical collection, special exhibits, the cafeteria and the garden invite you to look and linger.

Hours

Tuesday – Saturday	2 pm – 5 pm
Sunday	10 am – 5 pm
1st Wednesday in the month	2 pm – 9 pm
Closed	Monday

Information
Phone: 041 728 29 70
Email: info@burgzug.ch
Website: www.burgzug.ch

Contact
Marlene Zurgilgen (mzurgilgen@burgzug.ch)

Events and programmes
Opening exhibition with special guests
Series of special lectures relating to the exhibition and presented by national and international experts
Guided tours with Swiss and Chinese guides (available in German and English)
Chinese weekend (25.01. – 27.01.2008) with a wide variety of programmes and events
Demonstrations by artists
Programmes for families
Workshops and courses
Educational programmes for teachers

Tao Hua Shan – Der Pfirsichblütenfächer

Gastspiel des Ensembles der Jiangsu Kunqu Opera

Zum ersten Mal war am 9. Juni 2007 – auf Einladung des Zürcher Kammerorchesters – in der Schweiz die Kunqu-Oper «Tao Hua Shan» zu sehen. Vor ausverkauftem Saal in der Tonhalle Zürich konnten die Zuschauer eine faszinierende neue Welt der Musik und der Oper erleben. Auch wenn der Gesang für unsere Ohren sehr ungewöhnlich ist – zum Beispiel weil ausschliesslich in hohen Tonlagen und mit ausgeprägten Glissandi gesungen wird –, so zogen die wunderschönen und farbenprächtigen Kostüme und Masken sofort in ihren Bann. Dank der beiden grossen Übertitelungs-Tafeln konnte man die Handlung gut nachvollziehen und bekam einen Einblick in die Poetik, den Humor und die Qualität des chinesischen Textes. Auch das Instrumentarium, das am darauffolgenden Tag beim Kinderkonzert bestaunt werden konnte, faszinierte.

Mit ihrer seit rund 600 Jahren ununterbrochenen Aufführungstradition ist die chinesische Kunqu-Oper eine der ältesten heute noch gepflegten Theaterformen der Menschheit. Sie entstand in der im Osten Chinas gelegenen Provinz Jiangsu, von wo aus sie sich über das ganze Land verbreitete. Ihre Blütezeit erlebte sie im 16. und 17. Jahrhundert. Nachdem sie infolge politischer und gesellschaftlicher Veränderungen gegen Ende des 18. Jahrhunderts einen Teil ihrer Popularität einbüssen musste und nur noch von wenigen Kennnern erhalten wurde, erfreut sie sich heute wieder regen Zuspruchs bei Künstlern und Publikum. 2001 wurde die Kunqu-Oper in die UNESCO-Liste des «immateriellen Kulturerbes der Menschheit» aufgenommen.

Die Jiangsu Province Kunqu Opera hat sich der Erforschung, Produktion und Aufführung der ältesten heute noch gepflegten Form des chinesischen Theaters verschrieben. Sie gilt als das renommierteste der insgesamt sechs Kunqu-Ensembles des Landes und orientiert sich an der reichen Tradition der südlichen Kunqu-Oper. Die Stammbesetzung der Jiangsu Province Kunqu Opera besteht aus hervorragend ausgebildeten Künstlern, die in allen Darstellungsformen der Gattung (Schauspiel, Rezitation, Pantomime, Gesang, Tanz, Akrobatik etc.) bewandert sind und daher die unterschiedlichsten Rollen übernehmen können. Die Mitglieder des Ensembles sehen es als ihre Aufgabe an, die jahrhundertealte Tradition der Kunqu-Oper zu bewahren und an folgende Generationen weiterzugeben. Ein Schwerpunkt ihrer Arbeit

Die Mitglieder des Ensembles der Jiangsu Kunqu Opera mit Ehrengästen nach der Vorstellung im Saal der Tonhalle Zürich (Foto: Thomas Entzeroth / foto@entzeroth).

Chefdirigent Muhai Tang mit seiner Frau und Töchterchen und Botschafter Zhu Bangzao, Generalkonsul Li Xiaosi und deren Gattinnen (Foto: Thomas Entzeroth).

liegt daher in der Erarbeitung und Wiederbelebung von klassischen Werken der Gattung. Gegenwärtig umfasst das Repertoire der Jiangsu Province Kunqu Opera über hundert Szenen aus verschiedenen historischen Epochen, die – so die Regisseurin Tian Quinxin – «dem Publikum einen Einblick in den kulturellen Reichtum und die Pracht des chinesischen Theaters der Vergangenheit ermöglichen».

Das Orchester umfasste bei der Zürcher Aufführung zehn Musiker und setzte sich aus Blas- und Saiteninstrumenten sowie einer Schlagzeuggruppe zusammen. Der musikalische Leiter des Ensembles spielte eine kleine Trommel und ein Paar hölzerne Klappern, mit denen er das Tempo des musikalischen Geschehens vorgab. Andere typische Instrumente der Kunqu-Oper waren Bambusflöte («dizi»), Panflöte («zeng»), eine dreisaitige Laute («sanxian») und ein zweisaitiges Streichinstrument («erhu»). Die Rhythmusgruppe umfasste eine Trommel («xiqu»), einen grossen und kleinen Gong («daluo und xiaoluo») sowie ein Paar Becken («naobo»).

Wie alle traditionellen Theaterformen Chinas bedarf die Kunqu-Oper keiner aufwendigen Ausstattung und kennt auch keinen Vorhang. So konnte man es auch in Zürich erleben. Szenenumbauten oder einfache Kostümwechsel wie beispielsweise das Anlegen eines Bartes fanden daher auf offener Bühne statt. Nicht agierende Darsteller sassen für den Zuschauer sichtbar am Rand der Bühne und verfolgten das Geschehen. Das «Bühnenbild» bestand nur aus einem Tisch und zwei Stühlen, sodass es in erster Linie den Darstellern überlassen blieb, durch Sprache, Gesang, Mimik und Gestik eine bestimmte Situation oder Atmosphäre hervorzurufen. Daneben gab es eine Reihe einfacher Requisiten, die aufwendige Szenerien ersetzten. Ausgerollte Fahnen, die die Kurtisanen quer vor ihrem Körper trugen, deuteten beispielsweise die Fahrt in einem Boot an.

Muhai Tang, der musikalische Leiter des Zürcher Kammerorchesters, sieht es als eine seiner wichtigen Aufgaben, unseren kulturellen Horizont über die Grenzen Europas hinaus zu erweitern. Er sieht sich daher als Brückenbauer zwischen den Kulturen von Ost und West an. Mit seiner neuen Reihe «Meisterwerke der Weltkultur» möchte er auch in den kommenden Spielzeiten die Begegnung von bedeutenden Traditionen aussereuropäischer Kulturen mit herausragenden Werken der westlichen Musikgeschichte fördern.

Zürcher Kammerorchester

Unmittelbar nach Ende des Zweiten Weltkriegs durch Edmond de Stoutz gegründet, hat sich das Zürcher Kammerorchester (ZKO) schnell zu einem international beachteten Ensemble entwickelt und zählt heute zu den führenden Klangkörpern seiner Art.

Regelmässige Einladungen zu internationalen Festivals, Auftritte in den bedeutenden Musikzentren Europas sowie ausgedehnte Konzerttourneen durch verschiedene europäische Länder sowie die USA und China belegen das weltweite Renommee des ZKO, dessen breit gefächerte Arbeit durch zahlreiche CD-Einspielungen dokumentiert ist. Nachdem das ZKO unter der zehnjährigen Leitung von Howard Griffiths seinen Rang als Klangkörper von internationaler Bedeutung seit Mitte der Neunzigerjahre nachhaltig festigen konnte, hat es mit Beginn der Saison 2006/07 Muhai Tang zu seinem neuen Künstlerischen Leiter und Chefdirigenten ernannt.

Muhai Tang

Muhai Tang studierte am Konservatorium seiner Heimatstadt Shanghai sowie an der Münchner Musikhochschule. Den Startschuss zu Muhai Tangs internationaler Karriere gab Herbert von Karajan, der ihn 1983 einlud, ein Konzert der Berliner Philharmoniker zu leiten. Positionen als Chefdirigent führten Muhai Tang in der Folge an das Gulbenkian Orchester in Lissabon, das China National Symphony Orchestra, das Queensland Symphony Orchestra in Brisbane, die Königliche Philharmonie von Flandern sowie die Finnische Nationaloper in Helsinki. Hier hat Muhai Tang ein breit gefächertes Opern- und Ballettrepertoire dirigiert, im Konzertbereich erstrecken sich seine Tätigkeiten von der Musik des Barockzeitalters über das klassisch-romantische Repertoire bis hin zu zeitgenössischen Kompositionen, wobei er oft Werke asiatischer Komponisten zur Aufführung bringt.

Neben regelmässigen Dirigaten in seiner Heimat hat Muhai Tang in den vergangenen Spielzeiten Konzerte international renommierter Orchester auf vier Kontinenten geleitet und war Gast bei namhaften europäischen Musikfestivals.

Muhai Tang wurde 2005 zum Ehrendirigenten und Künstlerischen Berater des Queensland Orchestra ernannt und im September 2006 wurde er Künstlerischer Leiter der Shanghai Concert Hall, für die er die künstlerische Planung betreuen wird.

Für weitere Informationen:

Barbara Honegger, PR/Werbung
Zürcher Kammerorchester / Meisterzyklus
Seefeldstrasse 305 / Postfach 1284
CH-8034 Zürich
Tel. +41-44 388 36 04
E-mail:barbara.honegger@zko.ch

Buddha with Thousand Hands

The Disabled Peoples Performance Art Troupe of China

On the way back to China, from their show in Paris invited by the UNESCO, they came to Switzerland (Zurich) for a special presentation in mid June 2007. Their show act ,Buddha With Thousand Hands' will be also the highlight of the opening ceremony show of Olympic games 2008 in Peking.

The troupe of The Disabled Peoples Performance Art Troupe of China consists of 55 artists, who overcomes physical Disability and realizes their artistic dream true. They present a happy, abundant and rhythmic Show consisting of dance, songs, Chinese drums and instruments, highlights of Peking opera and even some acts of Chinese Kungfu.

Standing ovations in the Opera Scala of Milano, the Carnegie Hall, John F. Kennedy Center, Opera of Sydney, at the closing ceremony of the Paralympics in Athens 2004 were the best praises and certificates from the enthusiastic audience for the worldwide unique show 'My Dream' of the troupe.

They were the honored guests of Bill Clinton, Gerhard Schröder, Governor of Australia, President of Poland, Denmark and Malaysia, Eunice Kennedy Shriver and UN conference.

The appearances around the world – either live at a theater performance or in a well-known TV show or even it is a special event – made the troupe became one of the most respected artists groups of the world.

The most highlight of their performance is doubtless the dance called `Buddha with Thousand Hands' pre-

Their world is quiet and beautiful. Their music is enthusiastic and full of rhythm.

sented by 21 deaf girls and boys with a harmonically and amazing choreography, which also could be seen in various big cities in Switzerland in 2004 (announcement in Bulletin 4/2003) and in Zurich this June.

The Chinese government, their loyal and enthusiastic audience in China, among them for example Tycoon LI Jiacheng – one of the most successful business man in Hong Kong, support the Disabled Peoples Performance Art Troupe of China strongly. Also international organizations and firms such as ‚The International Association of Lions Clubs' under the leadership of President Dr. Jean Behar support the Troupe.

To get an idea about their performances, please watch a video clip (6 min) under:
http://www.myvideo.de/watch/434962

For further information please contact:

Uniart Production®
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or in Switzerland:
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Mr. Philipp Brunner
Phone: 044-809 91 11
E-mail: philipp.brunner@mm-media.ch

Chinese Mid-Autumn Festival

Dance and Music Show
Sunday, September 23rd 2007, 16:00 p.m.
Volkshaus Zürich, Weisser Saal

Zurich Chinese Arts Troupe (www.ZurichChinese-Arts.org) proudly presents its annual Chinese Dance and Music Show for Chinese Mid-autumn Festival on 2007 Sep 23rd, at the Volkshaus Zurich. This show will be their 4th annual troupe event. You can find all kinds of Chinese cultural elements in this show, like Chinese traditional dances, traditional instruments, cultural comedies, singing, acrobatics and Kung Fu. Their own choreography of the show pieces introduces Chinese arts from a special angle. Most important, they continuously refine their show quality by adding new pieces and creations. Interested people can go to Ticketcorner 0900 800 800 (1.19CHF/min) or their website for tickets. ***Members of the Swiss Chinese Chamber of Commerce benefit from a special discount for this event*** (look for ticket order form in this Bulletin).

Zurich Chinese Arts Troupe, founded on January 1st 2005, is a politically neutral arts troupe. The goal of this group is to promote cultural communications between China and Switzerland (further Europe). Currently they have about 30 high level artists (coming from different nationalities) specialized in Chinese traditional dances, Chinese traditional music instruments, Chinese traditional singing, Acrobatics, Gymnastics and Chinese Kung Fu. Since the group was founded, they have successfully presented many high level dance and music shows including shows sponsored by the Stadt Zürich Kultur, and the Swiss Government Economic Department. More details can be found on their website.

Support the Chinese New Year Festival 2008

The readers are also kindly asked to mark their calendar for February 3rd, 2008 for their next annual troupe dance and music show regarding the Chinese New Year Festival. They have been planning many new pieces and creative parts for this 5th annual troupe event which should definitely not be missed. For this event, we the Zurich Chinese Arts Troupe are looking for sponsors to financially support this festival. Please see their separate sponsorship invitation letter. Any kind of help is highly appreciated.

Contact:

Mr. Huizhu Hu
Director of Zurich Chinese Arts

www.ZurichChineseArts.org
Baendlistrasse 54, CH-8064, Zurich
info@ZurichChineseArts.org
Tel & Fax +41-44-433 17 68
Cell-phone: +41-78-640 12 33

IFA Successfully Launched in Beijing

The first International Football Arena (IFA) Beijing, the homonymous Asian edition of the leading global football symposium and workshop held annually at the FIFA Auditorium in Zurich, took place on May 15 and 16 at the Grand Hyatt in Beijing with some major announcements that provide insight in the future of football business around the world.

The first IFA Asia symposium in Beijing, China, was actively endorsed by the Asian Football Confederation, AFC – UEFA's Asian counterpart and one of the six confederations around the world that are joined in FIFA – and Chelsea Football Club of London whose delegation was headed by Chelsea FC Chairman Bruce Buck. Board Members and CEOs of leading clubs (Bayern Munich and Barcelona), Asian Football Associations (including those from Iran and Qatar) and sports marketing companies (such as SportFive and Infront) met with Chinese and Asian counterparts during the two-day symposium and lectures. They were joined by over 300 senior business executives from 23 countries to discuss topical issues such as the controversy surrounding exhibition tournaments by top European clubs in Asia and new opportunities for sports sponsorships and the sale of television broadcasting rights in a region inhabited by more than half of the world's population. Sportech's CEO, Ian Penrose (owners of England's oldest football pool Littlewoods) suggested that "the English football pool can be a model for future legal gaming in a controlled environment where football, individuals and the government can all profit from a win-win situation".

China's largest sports media group, Titan Sports, and the national Chinese television network CCTV partnered in an event which generated "a lot of goodwill between European, US and Asian participants", as stated by Xie Ya Long, General Secretary of the Chinese Football Association. "The first IFA Asia was completely oversubscribed and the only problem we faced was to cater to the over 100 additional Chinese and Asian attendees who decided to participate late in the day", said IFA founder Marcel Schmid. "No doubt, we'll be back in Beijing next spring, after the traditional IFA in Zurich which has had its firm date on the international football calendar in November", he concluded. The IFA Zurich will take place on November 5, 2007 in the former FIFA auditorium.

For further information please contact:

Antje Hembd, Project Manager
International Football Arena Ltd.
Lavaterstrasse 81
8027 Zurich/Switzerland
Phone +41 (0)44 283 90 12
hembd@international-football-arena.com
www.international-football-arena.com

On November 5th 2007, decision makers from the international world of football will get together in Zurich for the ninth edition of the IFA.
Book your seat now and register online on

www.international-football-arena.com

Marcel Schmid, IFA founder, at the speakers desk during the International Football Arena in Beijing.

RADO True White

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This model is also available in a sporty version with an exceptionally uniform monochromatic dial. Disproportionately large skeleton Arabic numerals with luminous white infill mark the quarter hours. In a third, more playful version of the dial, four diamonds replace the numerals in an arrangement of concentric circles and matching tones.

Each variation on the True White theme – Pure Jubilé, Sport and Jubilé – is available in two sizes. Refined vitality and sophisticated simplicity give Rado True White its strength. A watch of white sensuality. Independent. Essential.

New Original Jubilé S

A play on light and proportions

Light and dark go hand in hand and set each other off. The shimmering flow of the bracelet and elliptical brilliance of the case cast a delicate light upon the dark night of the dial. These contrasts give the Rado New Original Jubilé S its power and appeal. Demure and provocative, candid and inscrutable – it loves to be contradictory. Its lines are bold and authentic, yet it remains discrete and mysterious, for in the blackness of the face twinkle tiny diamond stars. Other diamonds round the edge of the crown are hidden momentarily, returning to unveil their charm when suddenly they light and catch the eye.

A titanium clasp and the bracelet in satin-finish steel hold a hardmetal case that frames a round, two-colour dial. Its matt blue centre is ringed by a high-gloss black band set with blue indices and eleven diamonds marking every hour but three, where a date window appears. A small porthole above the six o'clock position reveals a mobile silver anchor, which symbolizes the oscillating mass of this automatic model. The facetted sapphire crystal gives depth to the dark skies, crossed by a delicate milky way, where silver hour and minute hands and the white silhouette of a seconds hand turn. The nice surprise in the detail is the screw-down crown protection set with eight diamonds.

Classic Car Rally Hong Kong – Beijing

March 27 – April 8, 2007 – A Challenging Journey by all Means

The Rally was an adventure indeed. “The Rally won’t take place”, we, my colleague, Peter Jenny and I were told on Saturday morning, March 24th. Most Rally participants, went for a short drive with their classic cars, in order to discharge steam. Among them, two more from Switzerland, Giancarlo Galeazzi and Hans Bernbach. Peter Jenny and I had however heard that the organizer of the Rally was at the Hong Kong Automobile Association offices.

Five Rally participants, among them Peter Jenny and I, went over to see, whether something could be saved. Hubert Westermann and Axel Riege, President and Vice President of Global Logistic Services in Hamburg Germany, as well as their local agent Stuart Murdoch MD of AFL Limited and the CEO of Hong Kong Automobile Association, Andy Windebank, were among those present and who had called the organizer to attend the HKAA offices. It is normally not a carrier’s duty to save a rally. But that is exactly what these fine people did for us. This is indeed customer care!

At this meeting all circumstances were brought up, step by step. With two additional meetings Saturday and Sunday, at which all Rally participants were present, further procedures were discussed.

The outcome first: the Rally could finally start. However, it is still not clear to me, who was pulled over the table: a) us by the organizer or b) the Chinese agency, the organizer and possibly us?

The organizer had to consult the Chinese agency for:
– the complicated (registration and de-registration) formalities of the classic cars
– the Chinese driving licence
– the drive-through permissions for various provinces.

Back to Saturday morning at the HKAA offices: the Rally organizer got lost and was close to collapse. He had to pay an additional 30’000 Euro for the fees specified above, which he had not counted on nor expected.

He stated: “They (the Chinese agency) want to take away the Rally, they want to take everything from me.”

April 6, Changyi City (photo by Peter Jenny, Frenkendorf)
In Convoy to the factory of James Rice. He knows the mayor quite well and the road as well as each parking lot exit was reserved for our use. And those, guardians of the peace saluted, when we drove by. In a wonderful garden we were served a tasty lunch. We were warmly received.

The agency was indeed a travel agency, which under the current regulations in China is a necessary addition to any Rally such as this. The classic cars from Germany, Great Britain, Switzerland and the USA, sent by ship and airplane, were parked in front of the Harbour Plaza Hotel in Hong Kong right on the waterfront and impressed a large number of local public. But this show was not the reason why these owners had reached deep into their pockets. They wanted to drive their classic cars to Beijing; and therefore they had paid around 17'000 Euro plus the transportation of their rare pieces.

Saturday afternoon, the dense fog began clearing and was slowly adding light to the confused situation. It was extremely difficult. In addition, all documents of the travel agency have been written in Chinese and it was the weekend. The amount to be paid to the travel agency intimated by the Rally organizer, was a bribe. That threw us again back to square one, because the danger would exist for the classic cars to get caught in the middle, with no way out and maybe being confiscated as illegal imports. There were lots of such ambiguities.

As it later turned out, with the help of Stuart Murdoch and Andy Windebank, who translated all the documents, it was clear that the documents were genuine and the amount of 30'000 Euro was for various fees and for the full service of the Chinese travel agency, such as transit fees for each province and support staff.

We sat all day long in the meeting room at Hong Kong Automobile Association and brainstormed for solutions. We analysed the situation and came up with a team of participants, who would work towards a final solution for this problem. Chief was James M. Rice, Vice President & Country Manager, Tyson Foods, Inc. China, who happens to be the Governor of the American Chamber of Commerce in Shanghai (contact to our President, Kurt Haerri is established). These would have been the alternatives:

– Going further, i. e. pay again extra for the hotels, the meals and the deficit in accordance with the final account. James M. Rice guarenteed for the money.
– Stepping out and going home, which would have meant, to lose all the money already paid.

The result: 1 team NO GO, 10 teams GO, out of which 8 teams in classic cars, 2 teams, Peter and I included, went for it as well. But not with the classic cars promised by the organizer (and paid for by us), but with another team in a rented car, also Peter and I rode in a minibus belonging to the Chinese travel agency.

The clock was ticking for the Chinese travel agency. It was obvious there were arguments between the Rally participants and the organizer. Where was the money? How come he didn't know about these fees prior to the event? Why didn't he work together with the travel agency? And so on…

In particular, two Americans got extremely upset. The first American, who is living in China, threatened he'd turn to police for satisfaction. At last, in Beijing, the Chinese wife of the second American joined him. The organizer, on the other hand, hired a lawyer, to clarify "The stealing of the Rally."

On Monday, March 26th, we met with the Chinese travel agency in Shenzhen, in order to sign the contracts.

April 8, Great Wall (photo by James M. Rice, Shanghai) Great Wall: Isn't this a beautiful picture with old stones, and old metal, a work of art?

This meeting was arranged by the organizer, since we knew neither the people, nor where they were located. Certainly cooperation was present. The organizer was improving, struggling and hoping to take over the lead again. But the trust and faith in him were by now long gone.

Finally, on Tuesday, March 27th, the classic cars passed over the Chinese border into Shenzhen. Again, it did not run smoothly. The waiting wasn't over yet. Initially, we had to wait for the Chinese driving licences and then for the Rally registration number for the classic cars. That was another story. For details, please see: www.oio.ch/07/china. Click on [Interview] on the left side and listen to Interview No. 9. I am also recommending Interview No. 32.

In any case, China is worth more than a journey in a classic or vintage car, if the organization is correct. (Vintage car: 1919 – 1930. Classic car: anything manufactured before January 1, 1973.)

Journal by: Ruedi Müller, Ramersberg

For further information please contact:
Ruedi Müller
ruedim@matracon.ch
Phone 041-666 30 40

Oldtimer in Obwalden: www.o-io.ch

Useful Contacts in China & Switzerland

Doing Business in P.R. China

Swiss Diplomatic Mission and Consular Representations in P.R. China

Embassy of Switzerland
Sanlitung, Dongwujie 3, Chaoyang District
Beijing 100600
P.R. China
Phone +86-10-6532 2736
Fax +86-10-6532 4353
vertretung@bei.rep.admin.ch
www.eda.admin.ch/beijing

Consulate General of Switzerland Shanghai
22F, Building A,
Far East International Plaza
319 Xian Xia Road, Hongqiao
Shanghai 200051
P.R. China
Phone +86-21-6270 0519/20
Fax +86-21-6270 0522
vertretung@sha.rep.admin.ch
www.eda.admin.ch/shanghai

Consulate General of Switzerland Guangzhou
Grand Tower, 27th Floor
228, Tianhe Lu, Tianhe District
Guangzhou 510620
P.R. China
Phone +86-20-3833 0450
Fax +86-20-3833 0453
ggz.vertretung@eda.admin.ch
www.eda.admin.ch/guangzhou

Swiss Government and Trade Organizations

Swiss Business Hub China
(Hubs are integrated in Swiss Embassy in Beijing and Consulates General in Shanghai and Guangzhou)

Head office and Hub Beijing:
c/o Embassy of Switzerland
Sanlitun, Dongwujie 3
Beijing 100600
P.R. China
Phone +86-10-6532 2736 ext. 218
Fax +86-10-6532 4353
sbhchina@bei.rep.admin.ch
www.osec.ch

Hub Shanghai:
c/o Consulate General of Switzerland Shanghai
22F, Building A,
Far East International Plaza
319 Xian Xia Road, Hongqiao
Shanghai 200051
P.R. China
Phone +86-21-6270 0519
Fax +86-21-6270 0522
sbhchina@bei.rep.admin.ch

Hub Guangzhou:
c/o Consulate General of Switzerland Guangzhou
Grand Tower, 27th Floor
228, Tianhe Lu, Tianhe District
Guangzhou 510620
P.R. China
Phone +86-20-3833 0450
Fax +86-20-3833 0453
sbhchina@bei.rep.admin.ch

Swiss Business Organizations

SwissCham China
(Swiss Chinese Chamber of Commerce China)
(The organizations in China are independent from the SCCC in Switzerland.)

SwissCham Beijing:
Suite 100, CIS Tower
38 Liangmaqiao Road, Chaoyang District
100016 Beijing
P.R. China
Phone +86-10-6432 2020
Fax +86-10-6432 3030
info@bei.swisscham.org
www.swisscham.org/bei

SwissCham Shanghai:
Room 1710/1711
No. 1388 Shaan Xi North Road
200060 Shanghai
P.R. China
Phone +86-21-6149 8207
Fax +86-21-6149 8132
info@sha.swisscham.org
www.swisscham.org/sha

SwissCham Guangzhou:
3rd floor, Julong Pavilion, 221 Longkou W. Rd., Tianhe
Guangzhou 510630
P.R. China
Phone +86-20-6121 0950
Fax +86-20-6121 0951
info@gz.swisscham.org
www.swisscham.org/gz

Swiss Center Shanghai
(private ownership)
Room 216, Affiliated Building
3688 Jin Du Road, Shanghai Xinzhuang Industry Park
Shanghai 201108
P.R. China
Phone +86-21-5442 8880
Fax +86-21-5442 8881
www.swisscenters.org

Swiss Tourism and Social Organizations

Switzerland Tourism China
Phone +86-10-6512 5427
Fax +86-10-6512 0973
www.myswitzerland.com.cn

Swiss Society Beijing
info@ssbj.org
www.ssbj.org

Swiss Club Shanghai
info@swissclubshanghai.com
www.swissclubshanghai.com

Doing Business in Switzerland

China Diplomatic Mission and Consular Representation in Switzerland

Embassy of the People's Republic of China
Kalcheggweg 10
CH-3006 Bern
Phone +41-31-352 73 33/34
Fax +41-31-351 45 73
china-embassy@bluewin.ch
www.china-embassy.ch

Commercial Section
J.V. Widmannstrasse 7
CH-3074 Muri
Phone +41-31-951 14 01/3/4
Fax +41-31-951 05 75
info@sinoswiss.net
www.sinoswiss.net

Consulate General of the People's Republic of China
Bellariastrasse 20
CH-8002 Zürich
Phone +41-44-201 84 12
Fax +41-44-201 77 12
www.china-embassy.ch

Swiss Government and Trade Organizations

Federal Department for Foreign Affairs (FDFA)
Bundeshaus West
CH-3003 Bern
Phone +41-31-322 21 11
Fax +41-31-322 40 01
info@eda.admin.ch
www.eda.admin.ch

State Secretariat for Economic Affairs (SECO)
Effingerstrasse 1
CH-3003 Bern
Phone +41-31-322 56 56
Fax +41-31-322 56 00
info@seco.admin.ch
www.seco.admin.ch

Osec Business Network Switzerland

Head office Zurich:
Stampfenbachstrasse 85
P.O. Box 492
CH-8035 Zurich
Phone +41-44-365 51 51
Fax +41-44-365 52 21
info@osec.ch
www.osec.ch

Lausanne:
Avenue d'Ouchy 47
P.O. Box 315
CH-1001 Lausanne
Phone +41-21-613 35 70
Fax +41-21-613 35 02
info.lausanne@osec.ch
www.osec.ch

Lugano:
Corso Elvezia 16
P.O. Box 5399
CH-6901 Lugano
Phone +41-91-911 51 35
Fax +41-91-911 51 39
info.lugano@osec.ch
www.osec.ch

LOCATION Switzerland China
(responsible for the location promotion of Switzerland)

Herrenacker 15
CH-8200 Schaffhausen
Phone +41-52-674 06 00
Fax +41-52-674 06 09
www.locationswitzerland.cn

Presence Switzerland
(responsible for the general and image promotion of Switzerland)

Bundesgasse 32
CH-3003 Bern
Phone +41-31-322 01 83
Fax +41-31-324 10 60
prs@eda.admin.ch
www.presence.ch
www.swissworld.org

Swiss Business Associations

Swiss-Chinese Chamber of Commerce

Head office Zurich:
Höschgasse 89
CH-8008 Zurich
Phone +41-44-421 38 88
Fax +41-44-421 38 89
info@sccc.ch
www.sccc.ch

Section Romande:
4, bd du Théâtre
CH-1204 Geneva
Phone +41-22-310 27 10
Fax +41-22-310 37 10
info.geneva@sccc.ch
www.sinoptic.ch/scccgeneva/

Section Ticino:
c/o Brun Studio Legale e Notarile
Via Ariosto 6
Case postale 5251
CH-6901 Lugano
Phone +41-91-913 39 11
Fax +41-91-913 39 14
info@brunlaw.ch
www.sccc.ch

Legal Chapter Zurich:
c/o Nägeli Attorneys-at-Law
Auf der Mauer 9
CH-8001 Zurich
Phone +41-43-343 99 93
Fax +41-43-343 92 01
law@naegeli-rechtsanwaelte.ch

Legal Chapter Geneva:
c/o Pictet & Cie.
Blv. Georges-Favon 29
Case postale 5130
CH-1211 Geneva 11
Phone +41-58-323 19 03
Fax +41-58-323 29 50
pknupfer@pictet.com

SwissCham (Association of Swiss Foreign Trade Chambers)
(address valid until end of 2007)

Stauffacherstrasse 45
CH-8026 Zurich
Phone +41-44-249 45 65
Fax +41-44-249 31 33
info@swisscham.ch
www.swisscham.ch

Swiss Tourism and Social Organizations

Switzerland Tourism
Tödistrasse 7
P.O. Box
CH-8027 Zurich
Phone +41-44-288 11 11
Fax +41-44-249 12 05
www.switzerlandtourism.ch

Schweizerisch-Chinesische Gesellschaft
Fraumünsterstrasse 9
P.O. Box 2978
CH-8022 Zurich
Phone +41-43-344 82 07
Fax +41-43-344 82 09
thomas.wagner@officewagner.ch

Chinese Tourism and Social Organizations

Fremdenverkehrsamt der V.R. China
Genferstrasse 21
CH-8002 Zurich
Phone +41-44-201 88 77
Fax +41-44-201 88 78
chliu@cnta.gov.cn

Gesellschaft für chinesisch-schweizerischen Kulturaustausch
Zürcherstrasse 6
CH-8640 Rapperswil
Phone/Fax +41-44-720 43 50

Chinese Union in Zurich (CUZ)
cuz@swissinfo.org
www.cuz-online.org

Doing Business in Hong Kong

Swiss Diplomatic Mission in Hong Kong

Consulate General of Switzerland Hong Kong
Suite 6206-07, Central Plaza
18 Harbour Road
Wanchai, Hong Kong
Phone +852-2522 7147/48
Fax +852-2845 2619
vertretung@hon.rep.admin.ch
www.eda.admin.ch/hongkong

Hong Kong Government and Trade Organizations

Hong Kong Special Administrative Region Government
Hong Kong Economic & Trade Office, London
(responsible for non-EU countries)

6 Grafton Street
London W1S 4EQ
England
Phone +44-207 499 9821
Fax +44-207 495 5033
general@hketolondon.gov.hk
www.hketolondon.gov.hk

Hong Kong Trade Development Council (TDC)

Head Office Hong Kong:
38/F, Office Tower, Convention Plaza
1 Harbour Road, Wanchai
Hong Kong
Phone +852-2584 4333
Fax +852-2824 0249
hktdc@tdc.org.hk
www.tdctrade.com

Frankfurt Office:
P.O. Box 50 05 51
D-60394 Frankfurt
Phone +49-69-95772-0
Fax +49-69-95772-200
frankfurt.office@tdc.org.hk
http://germany.tdctrade.com

Federation of Hong Kong Business Associations Worldwide
(The Secretariat of the Federation is served by the Hong Kong Trade Development Council.)

38th Floor, Office Tower, Convention Plaza
1 Harbour Road, Wanchai
Hong Kong
Phone +852-2584 4333
Fax +852-2824 0249
hkfederation@tdc.org.hk
www.hkfederation.org.hk

Swiss Business and Social Associations

SwissCham Hong Kong
(Swiss Chinese Chamber of Commerce Hong Kong)

GPO Box 9501, Hong Kong (HKSAR)
Phone +852-2524 0590
Fax +852-2522 6956
admin@swisschamhk.org
www.swisschamhk.org

Swiss Association of Hong Kong
secretary@swiss-hk.com
www.swiss-hk.com

Swiss-Hong Kong Business Association
Höschgasse 89
CH-8008 Zurich
Phone +41-44-421 38 88
Fax +41-44-421 38 89
info@swisshongkong.ch

Membership Card Values

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

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

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

RESTAURANTS

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

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

Restaurant Züri-Stube
Steinwiesstrasse 8
CH-8032 Zürich
✆ 044-267 87 87 Fax 044-251 24 76
E-mail: info@tiefenau.ch

BAMBOO INN
Culmannstrasse 19
CH-8006 Zürich
✆ 044-261 33 70 Fax 044-870 38 88
closed on mondays

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

Mishio Restaurant & Take away
Sihlstrasse 9
CH-8001 Zürich
✆ 044-228 76 76, Fax 044-228 75 75
Website: www.mishio.ch

SHANGHAI
Bäckerstrasse 62/Helvetiaplatz
CH-8004 Zürich
✆ 044-242 40 39

ZHONG HUA
Zähringerstrasse 24
CH-8001 Zürich
✆ 044-251 44 80 Fax 044-251 44 81

SUPPLIERS / FURNISHINGS

GALLERY JJ – "East Meets West"
Bahnhofstrasse 28
CH-6300 Zug
✆ 041-720 21 21, Fax 041-720 21 22
E-Mail: galleryjj@hotmail.com

TRAVEL/DELEGATIONS

Alpine Sightseeing GmbH
Heerenschürlistr. 23
CH-8051-Zürich
✆ 044-311 72 17, Fax 044-311 72 54
E-mail: otofrei@yahoo.com

CULTURE AIR TRAVEL S. A.
8C Avenue de Champel
Case postale 434
CH-1211 Genève 12
✆ 022-839 81 81, Fax 022-839 81 80
E-Mail: info@catvoyages.com
Website: www.catvoyages.com

FIRST TRAVEL ENTERPRISE
Bubentalstrasse 7
CH-8304 Wallisellen
✆ 044-322 66 88, Fax 044-322 66 90
E-Mail: victor@FTE.ch
Website: www.FTE.ch

Tian-Tan Horizon SA
55, Rue des Pâquis
CH-1201 Genève
✆ 022-731 06 66 /59; Fax 022-731 06 75
E-Mail: info@tiantan.ch
Website: www.tiantan.ch

HOTELS

HOTEL TIEFENAU ZURICH
Steinwiesstrasse 8
CH-8032 Zürich
✆ 044-267 87 87 Fax 044-251 24 76

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