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Contents

Board of the Chamber and its Chapters 2–3

Editorial 5

Chamber News
Year of the Rat, New Members 6–7

Switzerland and China
Official Visit of Switzerland to China 8–10
Basel and Shanghai Are City Partners 11–12
Location Switzerland Media Tour 2007 14–16

Economy
China Business Forecast 2008 17–21
Annual Economic Report – November 2007 Update 22–37
The Yangtze River Delta 38–44
Consumer Market in Hong Kong 44–48

Business Matters
Knowledge Transfer in Hong Kong 49–50
The End of Cheap China 51–52
Made in China: Better Safe than Sorry 53–54
How to Close a Representative Office 54
Mergers & Acquisitions in China 55–57
China’s Banking Sector: Focus Shanghai 58–62

Human Resources
Selecting the Right Location for Success 63–69
Finding Qualified Employees in China 70–71
The Art of Keeping Chinese Staff 71–72

Legal Matters
Summary of Changes in China Laws 2007 73–75
New Corporate Income Tax Law 75–80

News from Members
Key-factors: Innovation & Human Resources 80–81
Boasting Ongoing Relations with China 81–90
The Future House Is Here Now 90–93

Culture & Leisure
The Best of Switzerland to Pop-Up 94
SWISSeau –Trendy Life-Style Water 95–97
Chinese Culture Celebrated in Weggis 98–99
The Rado Chronograph 100
Book Recommendations & Available at the Chamber 100–101

Services
Useful Contacts in China & Switzerland 102–103
Membership Card Values 104

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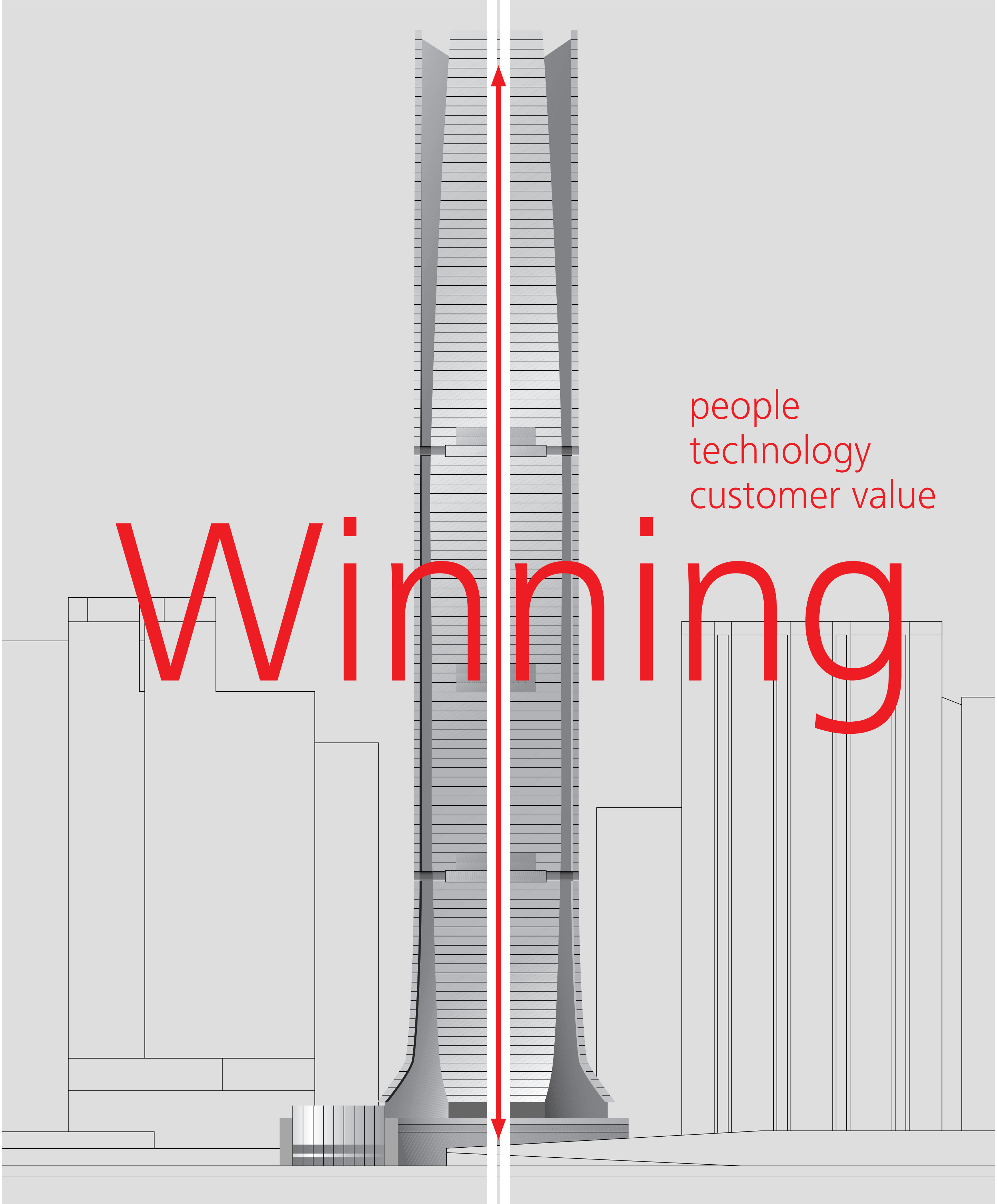
For full overview of useful contacts in China and Switzerland turn to pages 102 & 103 in this issue.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Moving Notice

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.

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Kurt Haerri welcomed by Minister of Commerce Bo Xilai during official Swiss visit in Beijing, July, 2007 (KEYSTONE/ Alessandro Della Bella).

EDITORIAL

Speed Is Not All That Matters

The year 2008 – a lucky number in China – is approaching and will bring China closer to the rest of the world as the awareness about the recent economic growth will be enhanced by the high media coverage due to the Olympic Games Beijing in August this year. The wish to make the economic development in China more obvious to the world is not only a desire among Chinese people but also by many executives engaged with business in China. While the pictures and the numbers of the developed Regions along the East Coast are rather impressive, it shall not be forgotten that China is still at the very beginning of its opening policy. There is still a very long and challenging path ahead.

Caused by partly overheating business sectors, the Chinese government is implementing new laws and regulations on a rather high speed, thus it is absolutely vital to strictly follow up on all those changes. It is in particular for foreign invested enterprises most important to get into compliance in order to avoid being sued. A good example is China's new labour law, which goes into effect on January 1st 2008. Understanding the impact of the new labour law to your business is of critical importance.

Throughout the last year, I became aware of various cases where Swiss enterprises got into serious legal problems while doing business in China. Taking these cases into consideration, I want to emphasize the tremendous importance of full compliance to local laws and regulations in any aspect of your business in China. It is indeed time to get rid of a long lasting misapprehension which stipulates that everything can be negotiated in China. It is just not true. But how to avoid such legal misconducts in China?

Besides getting qualified advice from legal experts, I see another chance by simply reducing speed. I often see companies rushing too fast into China instead of taking a well planned and executed step by step approach. Giving yourself and your organization in China enough time to learn is of critical importance on the path to success. Despite all the excitement many new business opportunities in modern China will generate, it might be vital to slow down the entrance speed a little bit in order to gain a comprehensive understanding of your industry in China and all the related laws and regulations. China will not run away, but your investment might be at stake – if you rush it.

Kurt Haerri
President Swiss-Chinese Chamber of Commerce

2008: Year of the Rat

February 7, 2008 – January 25, 2009

According to the Chinese Zodiac, the Year of 2008 is a Year of the Rat (Earth), which begins on February 7, 2008 and ends on January 25, 2009. First in the cycle of 12 animal signs, the Rat Year begins the sequence and recurs every twelfth year. Earlier Rat years: 1924, 1936, 1948, 1960, 1972, 1984, 1996. The year of the Rat is a time of renewal in many ways.

The Rat year is a year of plenty, bringing opportunity and good prospects. It is a time of hard work, activity, and renewal. This is a good year to begin a new job, get married, launch a product or make a fresh start. Ventures begun now may not yield fast returns, but opportunities will come for people who are well prepared and resourceful. The best way for you to succeed is to be patient, let things develop slowly, and make the most of every opening you can find.

Business will be on the upswing, fortunes can be made and it will be an easy time to accumulate wealth. It will be marked by speculation and fluctuations in the prices of commodities and the stock market; the world economy in general will boom. However, this is also a time to make long-term investment plans to lead us through the bleak years that may follow. All ventures begun at this time will be successful if one prepares well. But do not take chances or unnecessary risks: The year of the Rat is still ruled by the cold of winter and darkness of night. Those who speculate indiscriminately and overextend themselves will come to a sad reckoning.

On the whole, this will be a happier year than most; free from explosive events and wars and with far less catastrophes than, say, the years of the Tiger or the Dragon.

Nonetheless, it will be spicy. It promises a lot of bickering, bargaining and petty arguments that will do little harm. A congenial time that will find most of us socializing and enjoying ourselves.

2008 Business/Public Holidays in China and Hong Kong

CHINA

01 Jan	New Year's Day
06 Feb	Spring Festival (Chinese New Year's Eve)
07 Feb	Spring Festival (Chinese New Year)
08 Feb	Spring Festival
09 Feb	Spring Festival (Golden Week extension)
10 Feb	Spring Festival (Golden Week extension)
11 Feb	Spring Festival (Golden Week extension)
12 Feb	Spring Festival (Golden Week extension)
04 Apr	Ching Ming Festival or Tomb Sweeping Day (new holiday starting in 2008)
01 May	Labour Day
02 May	Labour Day (extension)
08 Jun	Dragon Boat Festival or Tuen Ng Festival (new holiday starting in 2008)
09 Jun	Dragon Boat Festival (extension)
**08 Aug*	*Beijing 2008 Olympics Opening Ceremony (not a public holiday)*
24 Aug	*Beijing 2008 Olympics Closing Ceremony (not a public holiday)*
14 Sep	Mid-Autumn Festival (new holiday starting in 2008)
15 Sep	Mid-Autumn Festival (extension)
29 Sep	National Day Holiday (Golden Week extension)
30 Sep	National Day Holiday (Golden Week extension)
01 Oct	National Day
02 Oct	National Day Holiday
03 Oct	National Day Holiday

** Although the listed start of the Beijing 2008 Olympics is August 8th, the first day of events is August 6th. For more information or details please see http://en.beijing2008.cn.*

HONG KONG

01 Jan	The first day of January
07 Feb	Lunar New Year's Day (LNY)
08 Feb	The second day of the LNY
09 Feb	The third day of the LNY
21 Mar	Good Friday
22 Mar	The day following Good Friday
24 Mar	Easter Monday
04 Apr	Ching Ming Festival
01 May	Labour Day
12 May	The Buddha's Birthday
09 Jun	The day following Tuen Ng Festival
01 Jul	Hong Kong SAR Establishment Day
15 Sep	The day following Chinese Mid-Autumn Festival
01 Oct	National Day
07 Oct	Chung Yeung Festival
25 Dec	Christmas Day (CD)
26 Dec	The first weekday after CD

The Rat / Mouse Personality

In China, the Rat is respected and considered a courageous, enterprising person. An opportunist with an eye for a bargain, Rats tend to collect and hoard, but are unwilling to pay too much for anything. They are devoted to their families, particularly their children. Quick-witted and passionate, they are capable of deep emotions despite their cool exteriors. Their nervous energy and ambition may lead them to attempt more tasks than they are able to complete successfully. Rats are blessed with one of the best intellects going.

The sign of the Rat is the first one in the cycle giving Rat people exude great leadership qualities and are good at taking the lead. They don't mind a lot of responsibility and they demonstrate a strong presence that other people respect. For those with the Rat nature, status and monetary satisfaction are the greatest motivation.

The Chinese say others should always listen to the advice of the Rat. Because of their intellect and observatory powers, Rat people possess prudence and perception. They can anticipate problems, and are always able to see the big picture. Status, money, title and recognition are important to the Rat. They have keen sense of observation that allow them to foresee upcoming business opportunities as well as potential occupational problems. The Rat makes a better boss than an employee. Rats work better in flexible situations where they can be freely creative.

Cunning and thrifty, Rats have a knack with money and are apt to save for rainy days. When capable, the Rat is a great money saver, and in strapped times he knows how to make something out of nothing or how to make things advantageous for himself.

Generally friendly and sociable, the Rat is one of the extroverts of the 12 Animal signs. They have a special gift for easing the minds of others. It is not surprising that Rats have a lot of friends. To the people they love, Rats can be amazingly charitable, popular and supportive. Although Rats like to be in the driver's seat, they do need partners who can keep up with their active lifestyles. Rat people are romantic, and are always happier to have someone to share with.

Various Sources (incl. The Handbook of Chinese Horoscopes by Theodora Lau)

Time Schedule Shanghai

Direct Flight with SWISS

Starting 9 May 2008 Swiss International Air Lines will fly you direct to Shanghai from Zurich seven times a week in the comfort of our Airbus A340. For fares and more information simply go to SWISS.COM, call 0848 700 700 or visit your local travel agent.

Zurich – Shanghai

LX 188 13:05 06:35+ (daily)

Shanghai – Zurich

LX 189 09:30 15:40 (daily)

+ = the following day

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Since July 2007:

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Swisseau Corporation	Pfäffikon SZ
Sulzer AG	Winterthur
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Joy CHOU	Feusisberg

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NGL Cleaning Technology S.A.	Geneva
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Beureux & Partner AG	Biel-Bienne
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Affichage Vert	Geneva
Voumard Machines Co. S.A.	Hauterive

Official Visit of Switzerland to China

Swiss and Chinese Move Towards Free Trade Deal

Economics Minister Doris Leuthard has signed a joint declaration with Chinese Commerce Minister Bo Xilai aimed at establishing a free trade accord. Both countries have also agreed to set up bilateral working groups to promote investment and bolster the protection of intellectual property rights, according to a statement by the economics ministry.

Swiss Federal Councillor Doris Leuthard, Minister and Head of the Federal Department of Economic Affairs of Switzerland (FDEA), second left, meets Bo Xilai, right, Chinese Minister of Commerce at the ministry of commerce in Beijing, China, Sunday, July 8, 2007. The ministers talk about the bilateral economic relations between China and Switzerland. (KEYSTONE/Alessandro Della Bella)

As part of the deal Switzerland recognized China as a market economy – a key buffer against trade disputes between the two countries over the price applied to Chinese goods. Leuthard said it was an important signal for China – a member of the World Trade Organization – to be given this status. She said the European Union had not yet done so.

In return China agreed to launch an internal feasibility study to examine the possibility of a free trade agreement with Switzerland. "The studies will show whether the conditions are in place", the statement said. Leuthard did not however give a time frame. She said more talks were necessary to win approval from the Chinese government for such a deal.

Leuthard led a joint delegation of government and business officials to China visiting Beijing, Tianjin, Sheng-Du and Canton. She also met the vice-president, Hui Liangyu, and the deputy finance minister, Zhu Guangyao, during the four-day visit to China before travelling to Vietnam.

Recognition

For his part Bo hailed the good relations between China and Switzerland at Sunday's news conference in Beijing. The Swiss evaluation of China's development of a market economy confirmed the solid foundation for closer economic and trade ties, according to a statement. "China has not forgotten that Switzerland was one of the first Western countries to officially recognize the new China", Bo added, referring to the 1950 diplomatic recognition of the Communist regime.

Leuthard and Bo also agreed to improve the protection and enforcement of intellectual property rights. A working group made up of government officials and business representatives is to establish regular dialogue.

Swiss industry, notably the watchmaking sector, has been hampered by commercial piracy of products, machines and technical processes.

Government strategy

Experts say Leuthard's visit underscores the Swiss government's foreign trade policy, which focuses on the emerging economies of Brazil, Russia, India and China.

China's economy has grown by an average of ten per cent per year since 2003, making it attractive for foreign companies.

However, high import tariffs on watches – apart from widespread forgeries – have made it difficult for the Swiss watchmaking industry to expand in the Chinese market.

For its part the Swiss banking sector is keen to see restrictions eased further. Urs Roth of the Swiss Bankers

Swiss Federal Councillor Doris Leuthard, Minister and Head of the Federal Department of Economic Affairs of Switzerland (FDEA), left, meets Dai Xianlong, Major of Tjanjin, right, in Tjanjin, China, Tuesday, July 10, 2007. (KEYSTONE/Alessandro Della Bella)

Swiss Federal Councillor Doris Leuthard, Minister and Head of the Federal Department of Economic Affairs of Switzerland (FDEA), center, visits the University of Technology GUT in Guangzhou, China, Friday, July 13, 2007. (KEYSTONE/Alessandro Della Bella)

Association said China had made a big step towards liberalising the industry, but foreign banks were still hampered by special regulations.

The Swiss Business Federation said the Chinese market presented excellent opportunities for Swiss companies, despite some difficulties. Federation President Gerold Bührer said a key factor was the long-standing presence of Swiss firms in China, which is Switzerland's second-most important trading partner in Asia behind Japan.

Results of China Visit

Swiss Economics Minister Doris Leuthard did not return home from her four-day visit to China totally empty-handed. Leuthard said she was satisfied with the results of the trip and the signing of a declaration aimed at establishing a free trade accord was the "highpoint".

Agreement to set up investment and intellectual property rights working groups was also seen as a breakthrough, but a number of commercial obstacles between both countries still remain unresolved.

"Although there is still work to do, I am happy with the results", Leuthard told Swiss public radio. "Before coming to China I wasn't sure we would be able to strengthen bilateral relations regarding the free trade accord."

"The trip got off to a great start", she added, referring to the joint declaration signed with Chinese Commerce Minister Bo Xilai. Both countries will now pursue work on the free trade agreement separately. "We now have to keep up the pressure", said the economics minister. "The decisive element is if Bo Xilai accepts an invitation to the World Economic Forum in Davos next January."

Intellectual property rights

In their talks Leuthard played a clever hand by agreeing to recognize China as a market economy – a key buffer against trade disputes between the two countries over the price applied to Chinese goods.

Switzerland's partners within the European Free Trade Agreement (Efta), Norway and Iceland, have already

Swiss Federal Councillor Doris Leuthard, Minister and Head of the Federal Department of Economic Affairs of Switzerland (FDEA), left, meets the mayor of Chengdu, right, in Chengdu, China, Wednesday, July 11, 2007. (KEYSTONE/Alessandro Della Bella)

Swiss Federal Councillor Doris Leuthard feeds young Panda bears at the Chengdu research base of Giant Panda Breeding in Chengdu. (KEYSTONE/Alessandro Della Bella)

made a similar move – unlike the European Union. Oslo is also looking into the possibility of a free trade agreement with China, while Reykjavik is entering the first phase of trade negotiations with Beijing.

Discussions between Leuthard and her Chinese counterparts mainly focused on the free trade accord, so other important commercial issues for Switzerland, such as high import tariffs on watches and on other industrial sectors, were only touched upon so as not to pressure the Chinese hosts.

Leuthard also saw progress on the subject of intellectual property rights with the signing of a declaration of intent between the two countries, but this is thought unlikely to have an immediate impact on the problem of commercial piracy of products, machines and technical processes.

But other commercial restrictions between the two countries, such as those concerning the pharmaceutical industry, remain unresolved. Approval procedures appear extremely slow, complained pharmaceutical representatives with the delegation. The same remark was also made by the banking sector, although recent progress has been made.

Outside the trade talks, the minister said she was impressed by the seriousness of the environmental problems that China was trying to come to grips with.

Human rights were not an issue during talks with the ministers. During her meeting with vice-president, Hui Liangyu, Leuthard evoked the “improvement in people’s conditions” with regard to the huge gap between the rich and poor in China.

Sources: swissinfo with agencies

Change at the Embassy in Beijing

New Head of Economic and Commercial Section

Krystyna Marty Lang

Krystyna Marty Lang was borne in 1966 in Durban, South Africa. After her childhood in East Africa and South East Asia, she has spent the following years in Switzerland for schooling. She has graduated from Zurich University in Chinese Studies and International Law in 1993. After a short passage as an assistant to the Directors of Daewoo Securities in Zurich, Ms Marty Lang has worked as a delegate of the International Committee of the Red Cross in Sri Lanka and Bosnia. In 1996 she joined the Ministry of Foreign Affairs as a diplomatic trainee with assignments at the Integration Office FDFA/FDEA and at the Swiss Embassy in Delhi. After her diplomatic training she started as member of the Swiss Development Cooperation and later on joined the UN-Coordination Team in Berne. In July 2002 she was transferred to the Embassy of Switzerland in Tashkent where she was given the position of Deputy Head of Mission overlooking Swiss relations with Uzbekistan, Kyrgyzstan and Tajikistan. In August 2007 she has taken up her new function as the Head of the Economic and Commercial Section at the Embassy of Switzerland in Beijing. Ms Marty Lang is married and has a son.

For further information please contact:

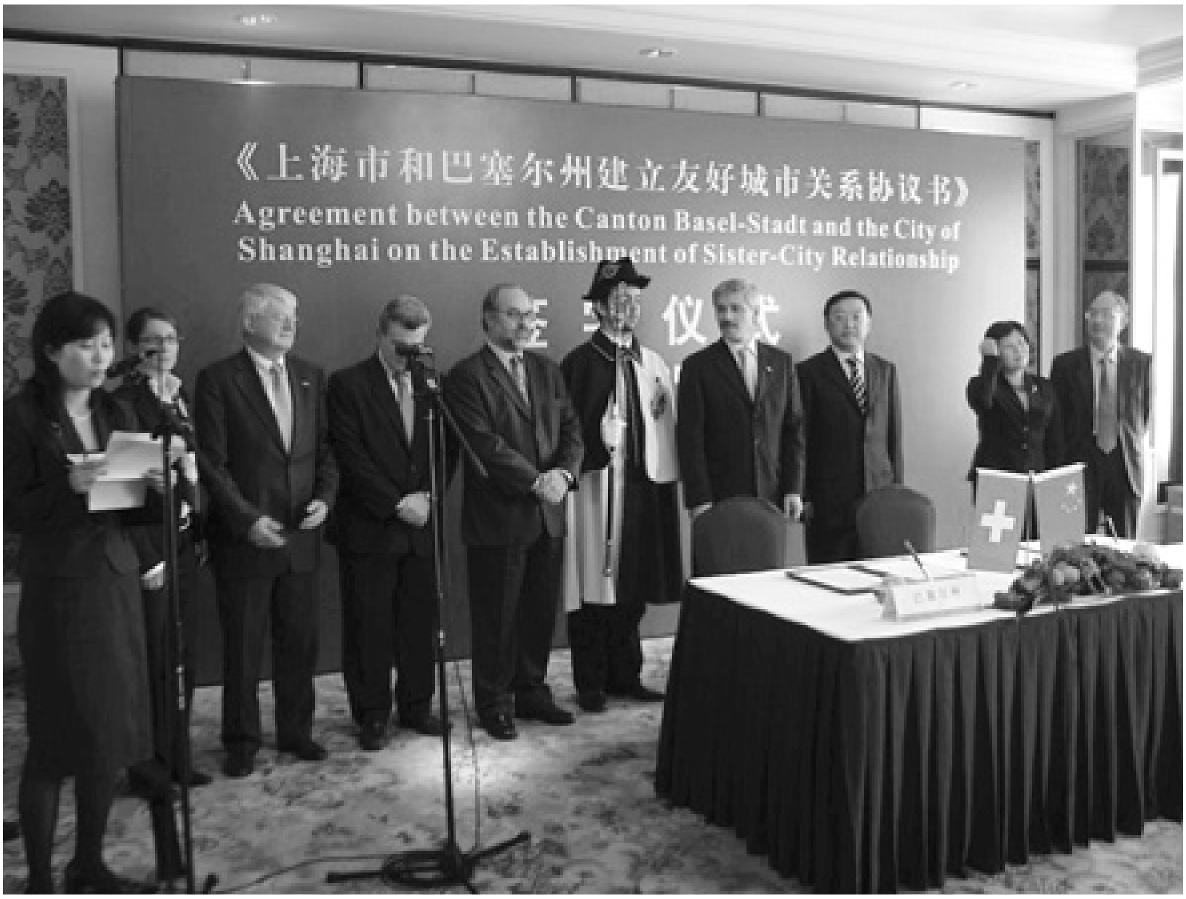
Economic and Commercial Section
Embassy of Switzerland in China
www.eda.admin.ch/Beijing

Basel and Shanghai Are City Partners

In Shanghai on 19 November 2007, Basel's Governing Council member Carlo Conti and Deputy Mayor Dengjie TANG signed the city partnership agreement between Basel and Shanghai. The two cities are keen to promote reciprocal exchange and co-operation in various fields of business, in particular life sciences and finance, science, culture and location marketing. On the margins of the signing ceremony, it also proved possible to conduct negotiations with respect to specific projects.

In recent years, relations between Basel and Shanghai have been steadily extended and nurtured. Interest in a twinning arrangement between Shanghai and Basel was first raised in Basel during a visit by a delegation from Shanghai in March 2006. Following this, the Canton of Basel-Stadt examined the possibility of establishing a formal relationship with Shanghai. It also gathered the views of leading figures in the fields of business, education, culture and politics, and clarified the requirements.

The city twinning arrangement between Basel and Shanghai was formally signed within the framework of a formal ceremony in Shanghai. In his address on the occasion of the signing of the agreement, Deputy Mayor Dengjie TANG underscored Shanghai's interest in a co-operative partnership with Basel. While there is certainly a striking disparity between the size of the two cities, they also have similar interests: both cities are amongst the world's most important centres for the life sciences, have tremendous economic power and are seen as cultural metropolises. "The city twinning arrangement emphasises the mutual strengths, and is designed to bring benefits to both locations in these fields", declared Governing Councillor Carlo Conti at the ceremony, highlighting the objectives of the co-operation. The agreement was signed in the presence of the Swiss Ambassador to China, Dante Martinelli, the Swiss Consul General in Shanghai, William Frei, Basel's Secretary of State Robert Heuss as well as the Head of City Marketing, Sabine Horvath.



The Delegation of Basel and Switzerland at the Ceremony in the "Shangri-La": (f.l.) Fangxia LI, Shanghai Municipal Foreign Affairs Office (at the microphone); Sabine Horvath, Head of Marketing Basel; Basel's Secretary of State Robert Heuss; Swiss Consul General in Shanghai, William Frei; Swiss Ambassador to China, Dante Martinelli, Baliff of the Canton of Basel-Stadt; Carlo Conti, Councillor of the Canton of Basel-Stadt and Dengjie TANG, Vize Mayor of Shanghai.

Signing of agreement on the establishment of sister-city partnership; Deputy Mayor of Shanghai, Dengjie TANG and Councillor of the Canton of Basel-Stadt, Carlo Conti.

On the part of Shanghai, the event was attended by senior representatives of the Shanghai Municipal Foreign Affairs Office, the University of Fudan as well as the Organising Committee of the Worldexpo 2010 in Shanghai. To symbolise a successful and active co-operation, Basel presented its twin city Shanghai with a basilisk fountain. On the occasion of the signing of the agreement, however, only a miniature model of the foundation was handed over. The real, full-size fountain will be transported to Shanghai by the spring of 2008, and is to be positioned at a prominent location.

Basel and Shanghai are determined to establish an active city relationship

During the course of various discussions which took place within the framework of the signing of the agreement, initial co-operation projects were identified. For example, at the beginning of March 2008 (5–8 March) a delegation of the Shanghai Medical College at the University of Fudan will be travelling to Basel to take part in a public scientific symposium. This will also enable them to finalise preliminary projects in Basel together with representatives of Basel's University Hospital. A co-operation was also agreed with Xuhui District in Shanghai. The responsible officials are planning to travel to Basel at the beginning of January 2008 (7/8 January) to hold initial talks. With over one million residents, Xuhui District is one of Shanghai's most important city districts in terms of economic power. Further meetings with dignitaries in Shanghai are set to follow in Basel in 2008 within the framework of BioSquare in March, as well as on the occasion of Global Energy Basel in November. And last but not least, Basel's possible appearance at the Worldexpo 2010 in Shanghai was also discussed with Worldexpo representatives.

Mutual interest

Although there is a striking difference between the size of the two cities of Basel and Shanghai, there are noticeable similarities between their economic interests: Shanghai and Basel are two of the world's most important centres for the life sciences, have tremendous economic power, are regarded within their respective country as cultural metropolises, and are established centres of science and academic learning. In addition, Shanghai and Basel are both port cities – albeit with different characteristics.

For Basel, strategic twinning arrangements constitute an integral part of its city marketing; these exercise a specific function in the field of international competition between regions. In accordance with the "positive feedback" approach, twinning arrangements are integrated into the overall strategy pursued by the Canton of Basel-Stadt, and need to be seen within the context of an international network. Basel focuses on activities which directly or indirectly influence the city's positive development. The most important topics are economic affairs, in particular life sciences, exchanges in the fields of knowledge and research as well as the establishment and nurturing of a network on both sides.

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LOCATION Switzerland Media Tour 2007

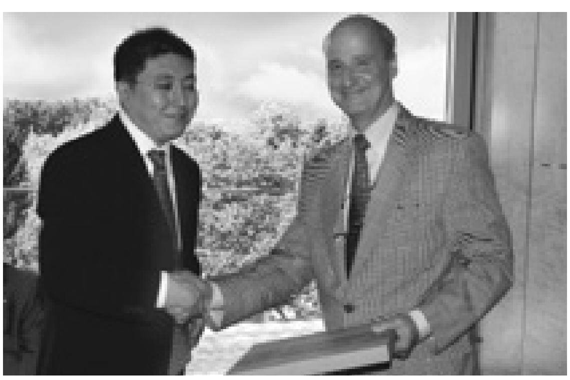
A high-ranking Chinese business media delegation toured Switzerland from August 22nd to 29th 2007, courtesy of LOCATION Switzerland. The tour was especially focused on Switzerland as a global business hub.

9 Vice-Chief Editors representing leading Chinese business magazines and business newspapers took part in the one week tour through Switzerland. The purpose of the visit focused on the one hand on building awareness of Switzerland as business location with media key persons. At the same time the trip helped to establish sustainable relationships for promotional activities going forward.

The Chinese guests were offered a variety of insights and experiences as part of the program. Support was provided by Presence Switzerland, Greater Zurich Area AG, Development Economic Western Switzerland, Berne Economic Development Agency, Basel Area and Economic Business Development Lucerne. Excellent co-operation with renowned institutions and globally successful companies produced a series of seminars. Each day had its own theme for presenting and discussing Switzerland and its position in the business world more in detail.

Day 1: Business and Education Location Switzerland

The day started with a brief introduction to the key success factors for Switzerland's economic prosperity by Mr. Thomas Holenstein, Chief Representative for China of LOCATION Switzerland. Prof. Stephan Garelli, Chief IMD World Competitiveness Center, then gave a notable speech setting out his appraisal of opportunities and threats in today's business world and the impact of China. A visit to EPFL (Ecole Polytechnique Fédéral de Lausanne) and a brief introduction of the University of St. Gallen as a leading international oriented Swiss business school completed the first day's informative elements. With a warm welcome by Mrs. Irmgard Mueller of the Hotel Beau-Rivage Palace in Lausanne and a welcome address by the Mayor of Lausanne, Daniel Brélaz, during the dinner in the Olympic Museum, the media trip was off to a flying start.



Prof. Stephan Garelli, Chief IMD World Competitiveness Center.

Mayor of Lausanne, Daniel Brélaz.

Day 2: State of the art Business Structuring

The main elements of Day 2 were an informal talk with Federal Councillor Doris Leuthard, Swiss Minister of Economy. Impressed by the openness and easy going manner even at the highest political level in Switzerland, the delegation concluded the visit to the Federal Building with several photo opportunities. In the afternoon

Federal Councillor Doris Leuthard, Minister and Head of the Federal Department of Economic Affairs of Switzerland (FDEA)

PricewaterhouseCoopers welcomed the delegation to their new offices to discuss major issues regarding the globalization of Chinese companies. Do's and don'ts, obstacles and the cost implications of setting up international business structures as well as Switzerland's role as a European trading and headquarter location were presented by Stefan Schmid, Partner International Tax. A lively discussion and detailed questions showed that the media delegation took very seriously their mission to inform and educate Chinese managers and entrepreneurs about new aspects when going global. After talking theoretics, the delegation had the opportunity to discuss the practicalities of settlement in Switzerland with the testimony by CBC. With more than 1,000 employees located in China, Japan, India and Switzerland, CBC offers mar-

Peter R. Schmid, Head Executive Relations, Credit Suisse Group (seated, 3rd f.l.).

keting research, business consulting and executive search services.

Day 3: Trading Platform Switzerland
On top of Mount Titlis, with an astonishing view over Switzerland as well as some parts of Europe's major markets like Germany, France and Italy, the media tour participants got an overview of world-leading commodity traders based especially in central Switzerland. Typical Swiss food, entertainment 3,000 m above sea level, a photo-call in traditional Swiss costume and the specially decorated cable car cabins made this day a special experience long to be remembered.

Day 4: Tourism and Watch Country Switzerland
The weekend was especially designed to help the delegates to relax and take a break. Shopping tours in Lucerne, a visit to the watch museum at IWC Schaffhausen and an adventuresome boat trip in the midst of the Rhine Falls, followed by a wine tasting highlighted some factors which make up the quality of life in Switzerland.

Day 5: Financial Center Switzerland
On the second last day, the delegation got background information about Switzerland as a renowned global financial center. In the historic board room of Credit Suisse Group at "Paradeplatz" in Zurich the myths about the Swiss bank secrecy, as well as the importance of a well established financial system were discussed. A lunch, hosted by Dr. H.-U. Doerig, Vice Chairman of Credit Suisse Group, gave an additional opportunity for personal exchanges with one of Switzerland's most experienced bankers with Chinese affiliations. After a shopping session at the famous "Bahnhofstrasse" the delegation met with Susan Horváth, Managing Director of the Swiss-Chinese Chamber of Commerce , who outlined the role of this major institutionalized business link between Switzerland and China.

Day 6: Life Sciences Center Switzerland
To point out that not only service industries can operate successfully out of Switzerland but also highly sophisti-

Chinese Media represented by:

- China Entrepreneur, fortnightly magazine, circulation 180'000
- Global Entrepreneur, monthly magazine, circulation 147'000
- The Economic Observer, weekly newspaper, circulation 200'000
- China Daily, daily English newspaper, circulation 200'000
- Sina.com, online news, circulation 500 million daily page views
- China Business, weekly newspaper, circulation 300'000
- China Business News, daily newspaper, circulation 600'000
- Caijing Magazine, monthly magazine, circulation 225'000
- SanLian Life Weekly, weekly magazine, circulation 200'000

Councillor of Basel-Town, Dr. Ralph Lewin.

cated production and manufacturing entities, the final day was themed “Life Sciences Center Switzerland”. With a visit to Novartis, one of Switzerland’s two world-leading pharmaceutical giants, the media representatives experienced not only the high-tech and strategic approach to sustainable success but also the international labour force, especially in the tri-national corner at Basel. Again the discussions during lunch, hosted by Prof. Dr. Paul Herrling, Head of Corporate Research were very stimulating and extensive and only had to be cut short due to time restrictions. Having started with the Mayor of Lausanne, the media tour ended with a warm welcome address by Dr. Ralph Lewin, Councillor of Basel-Town.

All in all the LOCATION Switzerland Fact Finding Mission was a great opportunity to get to know key people in the Chinese business media. In a good atmosphere during the week, participants gained useful advice for the promotion of Switzerland as a business location in China and the original goal of the trip, a sustainable network with the Chinese media, was accomplished. Several informal follow-up meetings in China have since taken place, including a reunion dinner in November in Beijing, and concrete co-operation projects are under development.

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China Business Forecast 2008

Another Good Year, But Too Good to Be True?

China's development during 2007 was characterized by strong economic growth once again, estimated at 11.5% for the year, and we expect further growth of around 10% in 2008. With China hosting the Olympics in August 2008, the Chinese government will strive to maintain a stable and expanding economy, and in our view will succeed in doing so. As the Chinese saying goes, 'a bike must have speed in order not to fall'.

However, the speed of economic growth is also leading to more and more risk. As we move through 2008, concerns about inflationary pressures, stock market bubbles and an overheated real estate may well strengthen. To a large extent, the materialization of these risks will depend on government policy, and will be avoided if the right policies are put into place and enforced.

Stock Market and Real Estate: Risk of a Double Bubble

Stock prices have boomed over the last year and average P/E ratios are now around 70 (Figure 2). The impact of this bubble bursting in 2008 would be limited, since the total value of tradable shares is less than 35% of GDP, and shares account for a relatively low proportion of Chinese households' assets. However, if the bubble is allowed to continue to grow through 2009 and beyond, the potential impact could be much greater.

With real estate the situation is different, as the impact of a crash would be much larger. However, although housing prices have been increasing quickly over the last 3 years (Figure 3), this is following 10 years of almost no increases. Moreover, taking into account GDP and income growth over the last decade, housing prices have actually fallen in relative terms. Therefore a housing crash is unlikely. However, as with the stock market, the situation should be monitored closely, as the risks could heighten if prices continue to increase at the same rate.

Inflation: Up But No Threat (Yet)

Inflation increased to over 6% in September 2007, or about 4.5% for the year as a whole. Food price increases

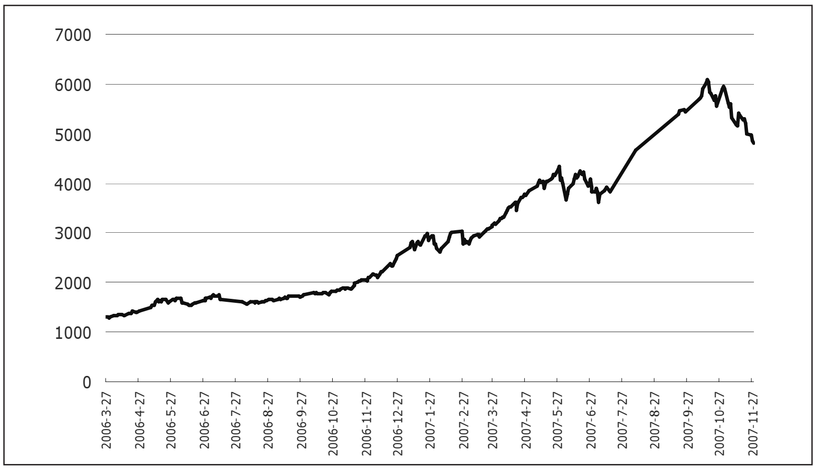

Figure 1:
Shanghai Stock Exchange: SSE Composite Index, 2006–07
Source: ISI from Shanghai Stock Exchange

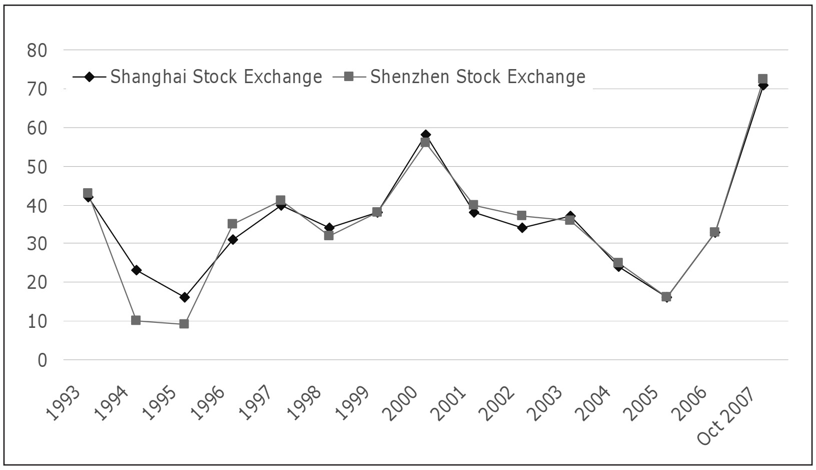

Figure 2:
China's Average Price to Earnings Ratio (P/E), 1993–2007 (%)
Source: China Statistics Bureau

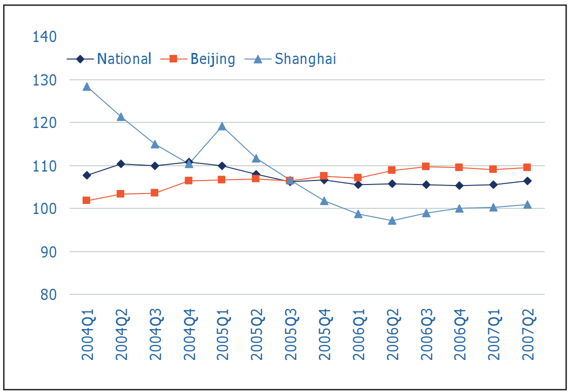

Figure 3: Real Estate Price Index in China (Previous Year=100)
Source: China Statistics Bureau

are the main reason, but raw material costs are also a factor. We do not expect inflationary pressures to strengthen beyond current levels, and inflation may well remain under 4% through 2008. However, there is an outside possibility that inflation may increase, driven by the expectation of inflation and/or raw material cost increases. If this happens, then we should expect to see the government raise interest rates in order to avoid inflation becoming a major obstacle to growth.

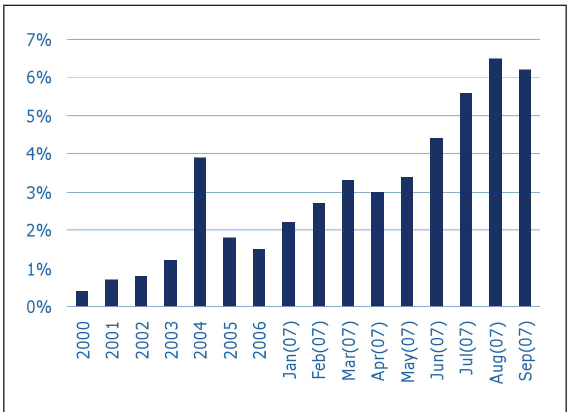

Figure 4: Inflation Rate in China, 2001–2007
Source: China Statistical Yearbook 2007

Consumption: The Boom Has Finally Started

Investment continues to drive China's economy, with consumption accounting for only 38% of GDP (Figure 5), much lower than the 71% in the United States. The official figure for consumption growth was around 10% in 2007 (Figure 6), but this is probably an underestimation, caused by poor statistics for service sector consumption. Retail sales, for instance, grew 14% in 2006 and are estimated to grow at a similar rate in 2007 (Figure 7).

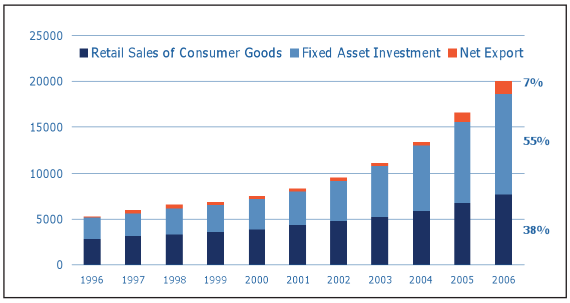

Figure 5: GDP Segmented by Investment, Consumption & Net Exports (Billion RMB)
Source: China Statistical Yearbook 2007

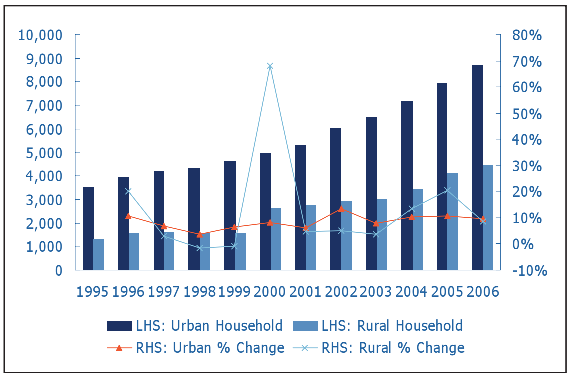

Figure 6: Per Capita Annual Consumption (RMB)
Source: China Statistical Yearbook 2007

With export growth bound to slowdown, the government will increasingly focus on domestic consumption as a sustainable driver of economic growth. Indeed, we believe that China is now undergoing a qualitative shift in consumption growth, with consumers in bigger cities moving beyond the historical focus on financial security to some allowance for leisure and pleasure, and consumer aspirations spreading from the larger cities to medium cities and even smaller cities. China's top 100 cities are now all in play (Figure 8), accounting for 41% of China's urban population and as much as 78% of urban disposable income.

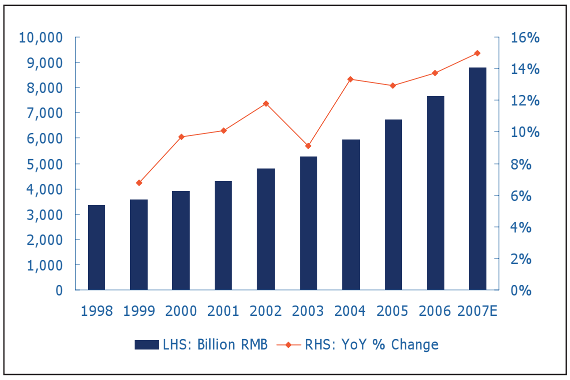

Figure 7: National Retail Value of Consumer Goods (Billion RMB)
Sources: China Statistical Yearbook 2007, China Statistics Bureau, InterChina Analysis

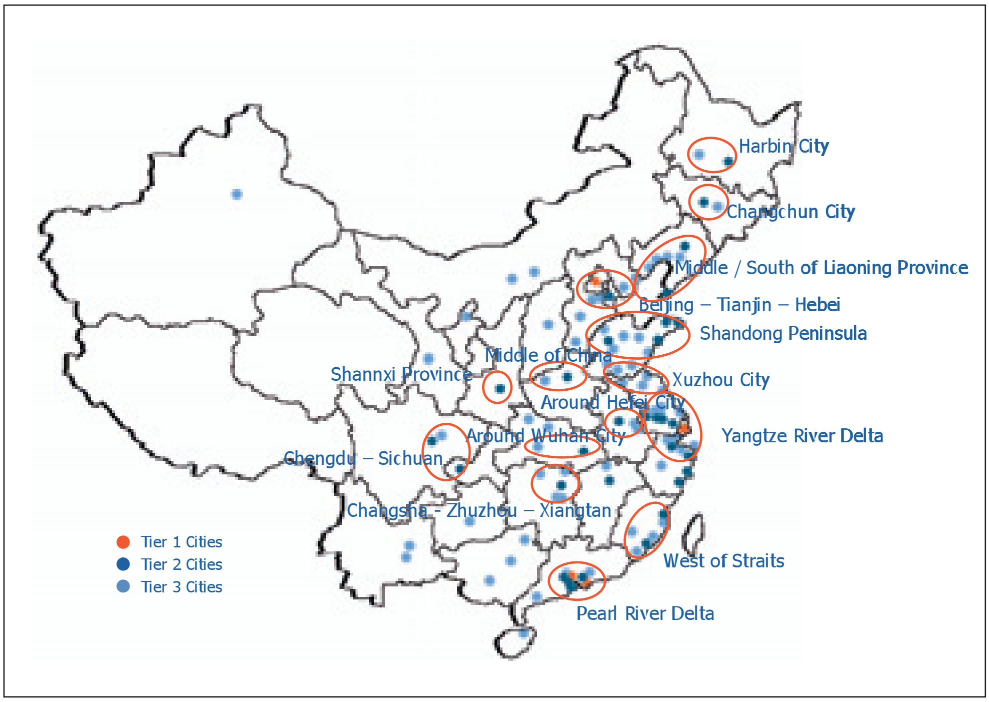

Figure 8: Top 100 Cities (T1+T2+T3) and 15 City Clusters in China
Source: InterChina Analysis

This is the start in China's consumer boom (Figure 9). It is currently being driven by the explosive growth of the lower/medium middle classes, defined as having annual incomes between USD 4,000 – USD 12,000, and expected to grow from the 100 million people today to 500 – 600 million in 2020. By 2010, consumption will get a further boost from the growth of the upper middle class, defined as having incomes above USD 12,000, expected to grow from the 10 million today to 70 – 100 million in 2020 (equivalent to the size of Germany).

Trade: Exports to Shift to Higher Value-Added Products

In 2007, exports are estimated to grow almost 24% to USD 1,200 billion, and imports 20% to USD 945 billion. We consider it unlikely that China will be able to maintain such fast export growth through 2008, not only because of their enormous volume in absolute terms, but also because the shrinkage in labor-intensive exports won't be fully offset by the expansion in value-added exports (Figure 10). Therefore, we expect overall export growth to slow to 10 – 15% in the coming years.

China's overall trade surplus was USD 160 billion in 2006 and is expected to surge to USD 254 billion in 2007. The trade balance, in particular with its major trading partners (United States, European Union), is increasingly tilting in China's favor and will result in greater political tensions in 2008.

Foreign Direct Investment: Plateau

While multinational companies continue to expand their operations in China to access the emerging local market,

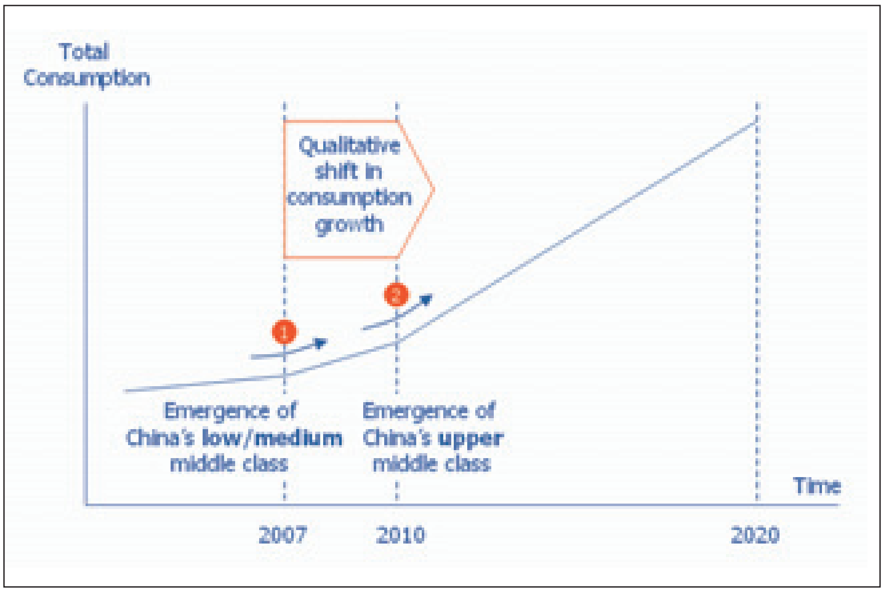

Figure 9: Emergence of the Middle Class in China, 2007 vs. 2020
Source: InterChina Analysis

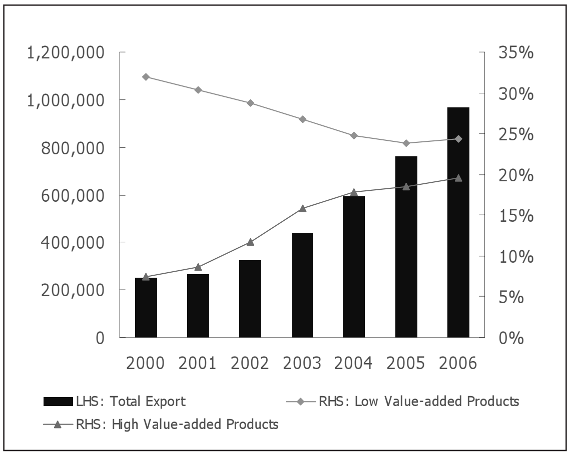

Figure 10: China's Value-Added Exports (million USD)
Source: China Statistical Yearbook 2007, MOFCOM

and while the opening of China's service sector is attracting more and more foreign players to establish new operations, foreign investment in labor-intensive and export-oriented production has been decreasing. As a result, FDI in 2007 will stagnate at 2006 levels, or around USD 65 billion.

In 2008, we anticipate a slight decline in FDI to around USD 60 billion, and then for FDI to fluctuate around that level for a few years thereafter. Although FDI as a proportion of GDP continues to decrease as it has done over the last 10 years, FDI remains extremely important to China's economy: foreign invested enterprises account for almost 60% of China's total exports and over 80% of China's high-tech exports.

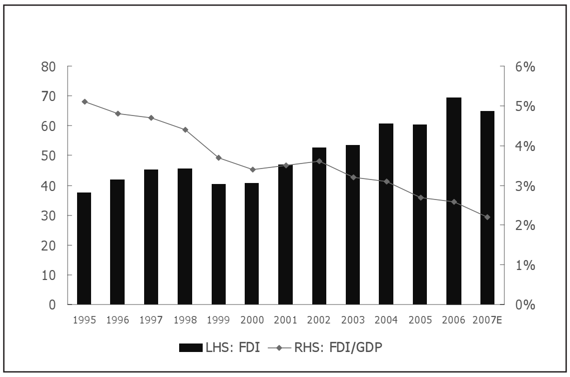

Figure 11: FDI vs GDP (billion USD)
Source: China Statistical Yearbook 2007

RMB: Further Currency Appreciation Likely

Since China scrapped the RMB's peg to the U.S. dollar, the currency has slowly moved against the dollar from RMB 8.28 in July 2005 to RMB 7.4 in November 2007, a total appreciation of 11% over the course of just over 2 years. The economic impact of RMB appreciation has been limited, and really only felt in low-margin export industries such as textiles, shoes and toys. We expect the Chinese government to continue the gradual appreciation of the RMB against the U.S. dollar through 2008, most likely in the region of a further 4% to 6%, with the speed determined by the needs of the domestic economy more than international political pressure.

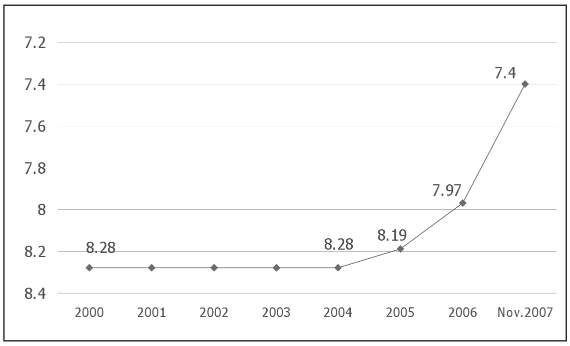

Figure 12: Currency Exchange Rate, USD-RMB, 2000–2007
Source: China Statistical Yearbook 2007, China Statistics Bureau

Macroeconomics Aside...

Even though we expect 2008 to be a very good year, foreign players in China still need to be aware of the risks taking shape. Although the Chinese government has the means to mitigate most of these risks, there's still the possibility of a policy hiccup and consequent economic disruption, especially in the 2nd half of 2008 or into 2009. Some risks are beyond the Chinese government's control, such as a recession in the United States, which would undoubtedly reduce export earnings.

Macroeconomic risks aside, the focus of attention for most foreign players over the coming year will be the growing operational challenges. In our view, we are entering a new era with new dynamics, and few foreign players are ready for the fiercer competition, constant margin squeeze, worsening IPR infringement and turbulent human resources. Probably the key success factor will be the best positioning (and frequent repositioning) of the operation along the continuum between the 'Chinese model' and the 'Western approach' in a rapidly changing environment. For those that realize and meet these operational challenges, 2008 looks set to be another good year.

InterChina Profile

InterChina is a boutique management consultancy specialized in strategy, corporate and human resources services for companies doing business in China. Since being founded in 1994, InterChina has emerged as one of the leading consultancies in China. We have a team of 50 consultants, with sector expertise in automotives, machinery, energy and chemicals, among others.

China Risk Overview: 2008

Area	Risk	Level	Comments
Economic	Protectionism	Certain	China will increasingly protect and support domestic industries resulting in more difficult market access in many sectors, in particular those considered 'strategic'.
	Inflation	Likely	Inflationary pressures will be stronger than 2007, but inflation is unlikely to exceed 4%. If inflation does increase further, the correct policy response will be important.
	Currency revaluation	Likely	The currency will appreciate by a further approx. 4–6% during 2008.
	Pollution control & energy conservation	Likely	Pollution control and energy conservation are now at the top of the political agenda at both national and local levels, and this will result in additional controls and costs in 2008 (including indirectly through suppliers).
	Increasing Non-Tariff Trade Barriers (NTBs)	Likely	Whilst China will continue to comply with its WTO commitments, it will also introduce further NTBs, in particular with regard to market access (JV requirements) and to standards.
	Social instability	Likely, but controlled	Due to rising income disparity, unemployment and corruption, incidents of social unrest will continue through 2008, with an underlying risk of widespread protests in the longer-term.
	Banking collapse	Unlikely	The government is largely addressing the problems of the banking system. While an economic slowdown in 2008 could result in a bad debt crisis, the government has the means to control this.
Business	Cost increases	Certain	There will be an overall cost increase in 2008, driven mainly but not only by labor costs. Some foreign investors, given the high costs of first tier cities and coastal areas, will consider alternative regions in China (or other countries) for all or part of their activities.
	Administrative arbitrariness and lack of transparency	Certain	While many new regulations are being issued by the central government, legal transparency and enforcement will vary between government levels and across regions due to a lack of local government resources.
	Staff shortages	Certain & getting worse	2008 will see increased competition for mid- and senior-level managerial personnel, as well as qualified people in key technical and purchasing positions. In addition, wage levels for blue collar workers in the coastal areas will rise rapidly amid worker shortages.
	Fierce competition from Chinese companies	Certain & getting fiercer	Chinese companies will put even greater pressure on margins through 2008, including for products that are still too advanced to have direct Chinese competitors at present.
	Energy shortages	Limited	Nationwide shortages are no longer a risk due to new electricty generation & distribution capacity coming online, although temporary shortages may occur, particularly in Guangdong Province.

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Annual Economic Report *November 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".

In July 2007, China revised its estimate of 2006 GDP growth from 10.7% to 11.1%. The Chinese economy continued to grow at a brisk pace in 2007. The **GDP grew by 11.5% in the first nine months of the year**. The higher than expected GDP growth recorded for the third quarter was fuelled by a huge trade surplus, booming retail sales and heavy investments in new factories, roads, bridges and real estate projects.

Retail sales grew 17.1% in the year to August, due to rising incomes, but also because of the steady rise in inflation. The consumer price index (CPI) rose by 4.1% in the first six months of 2007. In August, **CPI grew by 6.5% year on year – an eleven year high.** A sharp **increase of 18.2% in food prices**, contributed significantly to the rise of China's CPI.[1] The increase in food prices was mainly caused by higher pork prices, after an illness[2] killed millions of pigs and feed costs were rising. Non-food inflation remains low, at 0.9 %.[3] The central government was giving **priority to combat inflation** with social stability being a big concern ahead of the National Day holiday and the 17th National Party Congress. Price-control measures for consumer goods have therefore been issued.[4] Although the People's Bank of China (PBOC), the central bank, doesn't have a public inflation target, it is generally considered to be aiming to keep the rate below 3%. Despite all signs show that raising the interest rate has little effect to cool the sizzling economy, the PBOC has raised the one-year deposit and lending rate by 0.27 percentage points up to 3.87% and 7.29% respectively on September 15, the fifth time this year.[5]

The above-trend growth in money supply, fuelled by record monthly trade surpluses, the stronger than expected GDP-growth and a booming stock market are all adding to **concerns that the economy could be overheating**.

A growing number of analysts are showing concerns that **China's stock market is in bubbling area**. Despite warnings about the lack of transparency, corruption scandals and companies with shaky financials, capital keeps flowing into the Chinese stock market which had

Essential Economic Data

	2001	2002	2003	2004	2005	2006
GDP (RMB billion)*/ *****	10'965.5	12'033.3	13'582.3	15'987.8	18'232.1	20'940.7
GDP (USD billion)	1'358.8	1'491.1	1'683.0	1'981.1	2'259.2	2'630.1
GDP per capita (RMB)**/ ******	7'651.0	8'214.0	9'111.0	10'561.0	11'000.0	12'661.5
GDP per capita (USD)	948	1018	1129	1309	1363	2001
GDP growth (%)*/ *****/ ******	8.3	9.1	10.0	10.1	9.9	10.7
CPI inflation (%)*/ *****/ ******	0.7	-0.8	1.2	3.9	1.8	1.5
RMB: USD exchange rate of BoC of 31 December 2005	8.0702	8,0702	8.0702	8.0702	8.0702	7.8041
Unemployment rate						
Level-registered (Millions)****	6.9	7.7	8.0	8.3	8.4	N/A
Rate-registered in urban (%)*/****	3.6	4.0	4.3	4.2	4.2	N/A
EIU estimates (average in %)	N/A	N/A	N/A	9.9	9,0	N/A
Fiscal balance (% of GDP)	-2.6	-2.9	-3.1	-1.5	-1.14	-0.8
Current account balance (% of GDP)*/ *****	1.3	2.4	2.8	3.6	5.6	7.7
Total External Debt (% of GDP)*/ *****	14.5	13.3	11.8	11.8	12.7	11.4
Debt-service ratio (% of exports of g&s)*/ *****	8.1	8.4	7.6	3.6	3.0	3.2
Gross official reserves (minus imports, USD billion)*	9.4	10.5	10.6	12	13	N/A

Sources:
Worldbank 2006 / **NBS / ***MofCom / ****OECD 2006 / *****EIU / **** IMF*

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*

been growing 300% in the past two years. But like other emerging economies, China's stock market is notoriously volatile.[6] The **introduction of a stamp duty** on May 30 managed to push prices down for a while but the underlying incentives for so many Chinese investors to punt in an overheated market remain as the country's investment options stay quite limited. At the same time the raising inflation also means bank saving accounts are earning negative real interest and that is pushing individuals to divert their bank savings into the stock market.[7] Besides the rise of interest rates the PBOC raised bank reserve requirements for the eighth time this year to 13% on October 25, a measure aimed to limit the amount of liquidity shifting into the stock market.[8]

Analysts expect that the government has a series of other targeted policies it can steadily introduce to cool the market. A **loosening of the rules that restrict overseas investment** by Chinese funds and individuals and further relaxation could divert money away from mainland equities.[9] In August the China Securities Regulatory Commission issued rules to let public firms issue corporate bonds on a trial basis in a long awaited move to expand their fundraising channels. However, this opening has been closed again in October.

Capital raised by new listings in China is set to exceed $52bn this year, twice the figure forecast in January, putting the mainland on track to become the **world's leading centre for share offering** this year.[10]

China's **foreign-exchange reserve holdings have reached US$ 1.43 trillion** at the end of September highlighting the enormous sums of foreign money flowing into China. The record-breaking monthly trade surpluses are the main cause for these huge inflows. In order to seek higher returns on at least some of that money the Chinese government set up a sovereign investment fund, the China Investment Corporation (CIC), this September, capitalized initially with about US$ 200 billion.

China's **trade surplus for the first half of the year has now reached US$ 113 billion**. The country's large trade surplus with the U. S. and Europe has raised protectionist sentiments in the concerned countries. Therefore the Chinese government has introduced **export tax rebate cuts for energy-intensive products** which came into effect on July 1, 2007. Due to this rebate cuts exports of some products, such as steel, jumped dramatically in the first half.[11]

The **immense political and economic pressure** brought by the enormous trade gap mainly **focuses on the nation's exchange-rate controls**. China is widely criticized for keeping its currency cheap in order to give exporters a price advantage. There are no signs so far that China will yield to U. S. lawmakers' demands for the Chinese currency to rise sharply against the dollar. Although the pressure has been existing for a long time, **the yuan has risen about 3% against the dollar so far in 2007.** The EU also blames that an important part of its current trade imbalance is artificial as **access to the Chinese market is hampered by barriers**. Further the EU demands a better protection of intellectual property rights and copyrights.[12] The central bank continues to repeat its will to keeping the yuan exchange rate "basically stable", as China's foreign exchange policy alone can't resolve its external balances. These are mainly caused by **structural problems in the domestic economy** and the Chinese government accents its will to use fiscal and tax policies to boost domestic demand to resolve the imbalances.[13]

Worldwide concerns about product safety in China are growing. A range of Chinese exports, from fish and toys to pet food, toothpaste and only recently textiles, has been found to be mislabelled, unsafe or dangerously contaminated. So far, the safety scandals have had a **limited impact on exports** as toys and foodstuffs make up only a small part of China's overall exports. However, textiles and clothing made up more than 13% of exports in the first half of the year and will thus be more of a cause for concern for the authorities.[14]

In June the Chinese National People's Congress passed a **new contract labour law**. The law is intended to improve labour rights and stop abuses such as unpaid labour and forced overtime in **setting standards for mandatory labour contracts**, lay-offs and severance payments. It will come into effect on January 1, 2008. The law was extensively debated both in China and abroad. The law's final version has received mixed comments from the foreign corporations and their lawyers in China. Companies argued that the rules would substantially **increase labour cost and reduce flexibility**. International labour experts said several of the most delicate clauses had been watered down.[15]

Beijing passed a long-awaited **antimonopoly law** on 30 August. The law, which will come into effect on 1 August 2008, was welcomed cautiously by foreign business groups as they hope the law will **contribute to a more open economy** and a level playing field for business in China. However, some concerns remain as it allows the government to conduct "national security reviews" of foreign acquisitions of domestic enterprises and could therefore prepare the ground for **protectionism**. Further the government's definition of abuses of intellectual property rights to create monopolies could be used as justification for **infringement of intellectual property rights**. So far, further clarifications on how the law will be applied are awaited.[16]

China fully opens its travel market to foreign travel agencies. The China National Tourism Administration has allowed foreign-funded travel agencies to set up subsidiaries in China starting from 1 of July, about four months ahead of the November 11 deadline set by the WTO. Although as agreed with the WTO, joint-venture and solely foreign-funded agencies cannot operate outbound tours, the full opening-up is still attractive for overseas investors. China has the **largest domestic tourism market and is the world's fourth most popular destination**.

International and Regional Economic Agreements

Country's policy and priorities

<u>China as a member of the World Trade Organisation (WTO)</u>

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.[17]

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 liberalisation 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.[18] 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.[19] 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.

<u>China-ASEAN Free Trade Agreement (CAFTA)</u>

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 liberalisation 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 trade Switzerland – P.R. China, Jan. – Sep. 2006 and Jan. – Sep. 2007

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan–Sep 2006	Jan–Sep 2007	in %	share (%)	Jan–Sep 2006	Jan–Sep 2007	in %	share (%)	in CHF
1	Agricultural products	65.585.199	81.821.144	24,76%	2,29%	15.715.904	15.658.706	-0,36%	0,41%	-66.162.438
2	Energy carriers	212611	407821	91,82%	0,01%	762456	1.061.942	39,28%	0,03%	654.121
3	Textiles, apparel, shoes	618.475.439	660.000.158	6,71%	18,51%	77.411.461	103.011.976	33,07%	2,67%	-556.988.182
4	Paper, paper products, printed matter	18.839.919	23.943.003	27,09%	0,67%	17.334.270	19.181.612	10,66%	0,50%	-4.761.391
5	Leather, rubber, plastics	154.548.693	213.725.017	38,29%	5,99%	47.986.272	67.729.327	41,14%	1,76%	-145.995.690
6	Chemicals, pharmaceuticals	407.102.113	449.947.789	10,52%	12,62%	577.220.367	660.397.353	14,41%	17,12%	210.449.564
7	Construction materials, ceramics, glass	44.854.629	54.384.980	21,25%	1,53%	6.806.427	16.216.461	138,25%	0,42%	-38.168.519
8	Metals and metal products	204.372.265	271.747.552	32,97%	7,62%	127.793.706	177.605.257	38,98%	4,60%	-94.142.295
9	Machinery, apparatus, electronics	685.698.830	873.069.694	27,33%	24,49%	1.340.880.689	1.586.862.559	18,34%	41,14%	713.792.865
10	Vehicles	37.543.962	57.816.289	54,00%	1,62%	5.969.431	19.802.211	231,73%	0,51%	-38.014.078
11	Precision instruments, watches, jewellery	426.119.612	524.737.334	23,14%	14,72%	468.890.346	644.324.127	37,41%	16,71%	119.586.793
12	Furniture, toys	246.469.286	342.792.412	39,08%	9,61%	13.847.953	24.358.891	75,90%	0,63%	-318.433.521
13	Precious metal, precious stones, gemstones	3.975.714	6.526.448	64,16%	0,18%	263.116.018	518.986.134	97,25%	13,46%	512.459.686
14	Objects of art and antiques	4.279.414	4.529.849	5,85%	0,13%	320.698	1.649.923	414,48%	0,04%	-2.879.926
	Total	**2.918.077.686**	**3.565.449.490**	**22,18%**	**100%**	**2.964.055.998**	**3.856.846.479**	**30,12%**	**100%**	**291.396.989**

Bilateral trade Switzerland – Hongkong, Jan. – Sep. 2006 and Jan. – Sep. 2007

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan–Sep 2006	Jan–Sep 2007	in %	share (%)	Jan–Sep 2006	Jan–Sep 2007	in %	share (%)	in CHF
1	Agricultural products	513.775	1.264.682	146,15%	0,15%	22.083.664	35.875.247	62,45%	0,92%	34.610.565
2	Energy carriers	1017	N/A	N/A	N/A	81.526	54.727	-32,87%	0,00%	N/A
3	Textiles, apparel, shoes	38.084.126	52.970.541	39,09%	6,41%	114.619.147	110.757.978	-3,37%	2,85%	57.787.437
4	Paper, paper products, printed matter	2.008.026	2.153.538	7,25%	0,26%	5.619.654	11.147.968	98,37%	0,29%	8.994.430
5	Leather, rubber, plastics	5.221.325	6.576.652	25,96%	0,80%	37.289.113	43.455.442	16,54%	1,12%	36.878.790
6	Chemicals, pharmaceuticals	7.209.147	9.345.990	29,64%	1,13%	284.320.230	308.295.002	8,43%	7,93%	298.949.012
7	Construction materials, ceramics, glass	1.258.149	2.954.329	134,82%	0,36%	12.887.226	11.249.013	-12,71%	0,29%	8.294.684
8	Metals and metal products	8.118.336	8.716.365	7,37%	1,05%	45.033.486	42.034.490	-6,66%	1,08%	33.318.125
9	Machinery, apparatus, electronics	138.069.261	97.928.524	-29,07%	11,85%	306.254.965	315.004.528	2,86%	8,10%	217.076.004
10	Vehicles	699.141	712.386	1,89%	0,09%	274.381	1.443.923	426,25%	0,04%	731.537
11	Precision instruments, watches, jewellery	403.084.615	408.043.082	1,23%	49,36%	1.701.023.175	2.061.357.810	21,18%	53,00%	1.653.314.728
12	Furniture, toys	3.959.924	6.041.777	52,57%	0,73%	30.222.464	27.799.871	-8,02%	0,71%	21.758.094
13	Precious metal, precious stones, gemstones	506.450.031	221.913.844	-56,18%	26,84%	845.381.110	905.947.433	7,16%	23,29%	684.033.589
14	Objects of art and antiques	12.701.614	8.058.142	-36,56%	0,97%	11.646.186	14.630.779	25,63%	0,38%	6.572.637
	Total	**1.127.378.487**	**826.679.852**	**-26,67%**	**100%**	**3.416.736.327**	**3.889.054.211**	**13,82%**	**100%**	**3.062.374.359**

Bilateral trade Switzerland – P.R. China incl. Hongkong, Jan. – Sep. 2006 and Jan. – Sep. 2007

	Total	**4.045.456.173**	**4.392.129.342**	**8,57**	**100%**	**6.380.792.325**	**7.745.900.690**	**21,39%**	**100%**	**3.353.771.348**

Source: Schweizer Oberzolldirektion, Swiss Impex

Trading partners of the People's Republic of China

Exports to Country/Region Jan–Aug 2007	Billion USD	Share %	Growth in % to a comparable previous period
EU	152,85	20,0%	31,3
USA	148,61	19,4%	16,7
Hong Kong	115,38	15,1%	23,1
Japan	64,95	8,5%	11,7
South Korea	35,58	4,6%	28,8
Germany	29,93	3,9%	17,7
Netherlands	24,73	3,2%	36,1
United Kingdom	19,56	2,6%	32,8
Singapore	19,10	2,5%	30,1
Taiwan	15,18	2,0%	14,4
Russia	17,00	2,2%	81,2
ASEAN	59,38	7,8%	32,2
EFTA	3,82	0,5%	n/a
Iceland	0,0625	0,008%	22,8
Liechtenstein	0,0074	0,001%	-24,5
Norway	1,4193	0,185%	26,6
Switzerland	2,3290	0,3%	35,4
Total	**765,74**	**100%**	**27,8**

Imports from Country/Region Jan–Aug 2007	Billion USD	Share %	Growth in % to a comparable previous period
Japan	85,25	14,1%	16,7
EU	70,49	11,7%	21,8
South Korea	65,61	10,9%	14,9
Taiwan	62,36	10,3%	12,6
USA	45,31	7,5%	15,5
Germany	28,68	4,7%	19,6
Malaysia	17,79	2,9%	22,6
Australia	16,46	2,7%	34
Philippines	14,67	2,4%	37,9
Thailand	14,05	2,3%	25,7
Singapore	11,41	1,9%	-0,5
ASEAN	68,56	11,4%	22,4
EFTA	4,68	0,85%	n/a
Iceland	0,0283	0,005%	0,2
Liechtenstein	0,0156	0,003%	77,7
Norway	1,1005	0,182%	40,6
Switzerland	3,5376	0,6%	31,7
Total	**603,98**	**100%**	**19,6**

Source: Ministry of Commerce

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 came 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. In July New Zealand's Prime Minister Helen Clark expressed her hopes that the FTA will be completed by mid 2009, a year later than scheduled.
- 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 ninth round of talks, taking place in June 2007, concluded

with few signs of progress. Although the meeting went slightly better than the previous round the expectations for the FTA keep low.

– 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 reduce or eliminate tariffs on all products in two phases, the first phase beginning on 1 July 2007. In the first five years both sides will cut tariffs on imports in five categories up to 85 percent. The second round of talks on the "services" chapter was held in August and the negotiations should be concluded by the end of this year.
– In May 2007 China and Peru launched a first joint feasibility study in Beijing with the aim to conclude the study within three months. On their second meeting, held in Lima in late July, the beginning of negotiations on a FTA in the first months of 2008 was announced.
– China and Switzerland decided in July 2007 to look on both sides into the feasibility of a possible FTA.
– China and South Korea conducted two rounds of joint research in 2005 and 2006 which will form the basis for exploring the possibility of initiating FTA negotiations. The next round of talks on a joint study of an FTA will take place in October.
– 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. 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. On the occasion of **Federal Councillor Leuthard's official visit to China in July 2007 a joint declaration on economic cooperation** was signed. The declaration shall strengthen the bilateral relations on trade, investment and intellectual property rights. Further Switzerland has **recognised China as a market economy**. Both sides agreed to conduct **internal feasibility studies towards a possible Free Trade Agreement**. These studies will investigate if the conditions for an FTA are given. **Two Memorandums of Understanding** (MoU), one on **Investment Promotion** and one on **Intellectual Property**, were concluded during the 17th meeting of the Sino-Swiss Joint Commission taking place at the end of May 2007. The implementation of these two MoU's is a first step to the fulfilment of the Joint Declaration. A first meeting of the working group on intellectual property rights took place at the beginning of September.

Foreign Trade

Development and general outlook

Trade in goods

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 articles of base metal" comprising almost two third of total trade volume.[20] Aggregated machinery and mechanical appliances categories exports amounted to a 42.7% share of exports.[21] "Machinery and mechanical appliances" and "mineral products" are the top two Chinese imports, representing just over 57% of total imports.[22]

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[23] (16.0%), Japan (9.5%) and the ASEAN-States (7.4%).[24] 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%).[25]

According to Chinese statistics, between 2005 and 2006 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).[26] **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$ 1369.71 billion in the January–August 2007 period, up 24.0 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.[27] **The share of bilateral trade between Switzerland and China slightly decreased from 0.41% to 0.38% in year 2006.[28]**

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 industrialised 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[29]

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**.[30] 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 September 2007 exports to and imports from mainland China have again significantly grown 30.12% and 22.18% respectively, year-on-year. When Hong Kong is added, those figures stand at 21.39% and 8.57% respectively, year-on-year. Those results point to once again accelerating trade between Switzerland and China. In the first three quarters of 2007, "machinery, apparatus and electronics" and "textiles, apparel and shoes" still have the largest share of Chinese imports to Switzerland (24.49% and 18.51% respectively). "Machinery, apparatus and electronics", "chemicals and pharmaceuticals", and "precision instruments, watches and jewellery" dominate Swiss exports to China (41.14%, 17.12% and 16.71% 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 westernised 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 diffi-

China: Foreign Direct Investment

Rank	Country/Region	FDI (mio. USD) 2007 (Jan – Aug)	Share (%) 2007	Variation (%) year on year
1	Hong Kong	14.094	33,60%	21,96%
2	Virgin Islands	9.910	23,63%	46,61%
3	South Korea	2.455	5,85%	10,57%
4	Japan	2.246	5,35%	-19,45%
5	Singapore	1.638	3,91%	30,19%
6	USA	1.628	3,88%	0,77%
7	Cayman Islands	1.504	3,59%	30,89%
8	West Samoa	1.123	2,68%	19,46%
9	Taiwan	952	2,27%	-29,26%
10	Mauritius	752	1,79%	28.13%
	EU-15	2.392	5,70%	-33,30%
	ASEAN			
	EFTA	269	0,64%	N/A
	Iceland	1	0,00%	N/A
	Liechtenstein	0,25	0,00%	N/A
	Norway	16,78	0,04%	N/A
	Switzerland	251	0,60%	N/A
	Total	**41.949**	**100%**	**12,79%**

Source: Ministry of Commerce

cult 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.”[31] **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 **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 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.**[32]

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 12.79% during the first eight months of this year**, amounting to US$41.95 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 industrialisation 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 50projects from January to June 2007 with a total value of US$203 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 SME 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 organisations 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. The latter obtained the status of an independent chamber of commerce according to Chinese law in 2001. As a result, two national organisations are operated today with three regional branches in Switzerland (Zurich, Geneva, Lugano) and three in Beijing, Shanghai and Guangzhou, the latter having opened on 31 March 2006.

Their purpose is to promote and support the global success of the Swiss business community in China. Simultaneously, SwissCham China assists 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 foreign exchange 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.[33] 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.

(continued on page 36)

BUSINESS-KNIGGE CHINA
FÜR DEUTSCHE MANAGER

Der „Business-Knigge China" soll dem westlichen China-Besucher und speziell dem deutschen Wirtschaftsvertreter dabei helfen, nicht in die größten interkulturellen Fettnäpfchen zu treten und verhaltensbedingte Pleiten, Pech und Pannen weitestgehend zu umgehen.
Das Handbuch soll der Vorbereitung und Planung einer China-Reise dienen, um als Verhaltensratgeber und Benimmführer die Chinesen und deren spezifische Denk- und Handelsweisen besser zu verstehen. Es trägt dazu bei, auf China einzustimmen, ambivalenten Erwartungshaltungen zu begegnen und mit Vorurteilen aufzuräumen.

„Der China-Knigge dechiffriert für den Leser die interkulturellen Aspekte des Lebens im Reich der Mitte. Interkulturelle Kompetenz unterscheidet einen guten von einem erfolgreichen Geschäftsmann."

Ekkehard Goetting
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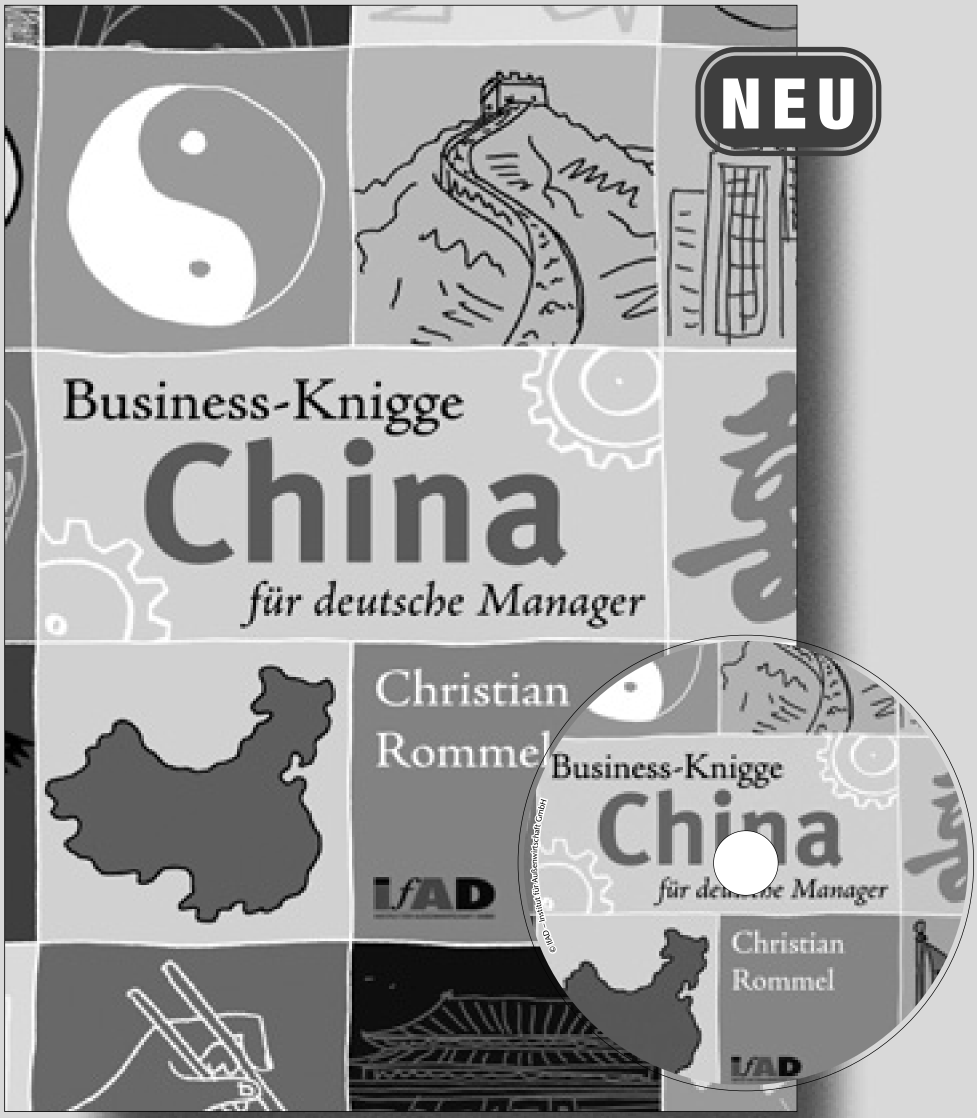

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Education

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 SME, 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.

Footnotes:

1 National Bureau of Statistics, 12 September 2007.
2 Porcine Reproductive and Respiratory Syndrome (PRRS), also called “blue ear disease”.
3 Financial Times, August 14 2007.
4 South China Morning Post, 20 September 2007.
5 People’s Bank of China, 18 September 2007.
6 Washington Post, 22 July 2007.
7 Financial Times, 31 May 2007.
8 People’s Bank of China, 7 September 2007.
9 Financial Times, 31 May 2007.
10 Financial Times, 5 July 2007.
11 Financial Times, 11 July 2007.
12 Wall Street Journal, 11 July 2007.
13 Wall Street Journal, 22–24 June 2007.
14 Financial Times, 21 August 2007.
15 Financial Times, 15 August 2007.
16 Financial Times, 31 August 2007.
17 The Economist, 19 May 2007.
18 Special Comment on “China’s Banking Sector Opening Under WTO Commitments”, Moody’s Investors Services – Global Credit Research, November 2006.
19 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.
20 US$ 637.482 billion (US$ 414.065 + 138.101 + 85.316 billion) or 65.7%. Jan–Aug 2007 : US$ 508.118 billion (US$ 323.659 + 105.518 + 78.941 billion) or 66.4% Source: General Administration of Customs of PRC.
21 US$ 414.065 billion. Jan–Aug 2007: 42.3% Source: ibid.
22 US$ 451.728 billion (US$ 328.184 + 123.544 billion). Jan–Aug 2007: US$ 239.55 + 110.788 billion or 56.3% Source: ibid.
23 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).
24 Jan–Aug 2007 (in billion US$ and % of total export share): EU 152.85 (20%), USA 148.61 19.4%), Hong Kong 115.38 (15.1%), Japan 64.95 (8.5%), ASEAN 59.38 (7.8%)
25 Jan–Aug 2007 (in billion US$ and % of total import share): Japan 85.25 (14.1%), EU 70.49 (11.7%), South Korea 65.61 (10.9%), ASEAN 68.56 (11.4%), Taiwan 62.36 (10.3%), USA 45.31 (10.3%).
26 Trade deficits rose by 17.26 for the US (from US$ 88.09 billion to US$103.3 billion) and 53.8% for the EU (from US$ 53.56 billion to US$82.37 billion) between the period Jan–Aug 2006 and Jan–Aug 2007. Source: calculations based on Mofcom data, see annexe 3 “Bilateral trading partners of the PRC”.
27 Between the period of January and August 2007 the export to and import out of Switzerland grew about 35.4% (US$ 2.329 billion) and 31.7% (US$ 3.5376 billion) respectively. 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.
28 Between the period January–August 2006 and January – August 2007 the share of bilateral trade between Switzerland and China slightly increased from 0.3989% to 0.4283%.
29 The figures discussed in this section can be found in annexe 4.
30 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%).
31 China: Open policies towards mergers and acquisitions, OECD Investment Policy Reviews, Paris, 2006.
32 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
33 World Tourism Organisation.

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 organised 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 advertised 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.

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The Yangtze River Delta (YRD)

New Economic Situation and Opportunities for Swiss Investments

As the locomotive of China's economy, the Shanghai led Yangtze River Delta[1] maintains its leadership position, with growth rates still above national level. For the first three quarters of this year, the region reported a **GDP of RMB 3'333.45 billion** with an increase of **15.2%, 3.7% higher than the national growth rate**. The growth was mainly fuelled by strong exports and climbing private consumption. With less than 2% of the country's land area and 6.3% population, the aggregate **GDP** of the region contributed to **20.1% of China's total**. The GDP contribution ratio of the three industries in this region was **2.8%: 55.1%: 42.1%**, among which the ratio of secondary industry was 4.8% higher than the national average and tertiary industry was 3.3% higher.

The region remains also a **solid foreign investment destination** and still takes the lead in China's foreign trade. For the same period, the region reported **USD 565.5 billion of foreign trade[2]** in value, accounting for **36% of China's total**, with **29.8% increase**. The **trade surplus** continued to expand with a 47.9% increase, amounting to **USD 87.50 billion**, and accounting for **47.1% of China's total trade surplus**. In terms of foreign direct investment (**FDI**), **37.4%** of the foreign invested projects were located here, actually utilising USD 23.1 billion capital, accounting for **72.4%** of the country's total utilised foreign investment.

Shanghai: Dragonhead of the Yangtze River Delta

Shanghai is defined as the nucleus of the regional development. Its economy has expanded **13.4%** during the first three quarters of 2007, recording the fastest growth in three years. Different from other cities in the region, Shanghai's growth has changed from an export-and-investment-driven pattern to a more service-oriented one, reporting a relatively balanced trade. Hit by the tightening policy and the scandal of the former Party Secretary Chen Liangyu[3], the **growth in fixed assets investment continued to slow down** and increased only at a one-digital rate of **7.4%** for the first time since 1990s. The contribution of fixed assets investment to GDP has shrunken to 38%, while the nationwide fixed assets investment still accounted for over half of China's total GDP.

The graph below shows the growth of Shanghai's fixed assets investment during the first 10 months of this year. The blue line presents the growth of completed investment in fixed assets, while red line stands for that of construction and reconstruction of infrastructure and the dotted line exhibits the growth of the real estate investment. As a result of the government efforts to curb the overheated real estate sector, its growth experienced a sharp decline this year. Influenced by stricter regulations, **foreign investment in real estate also decreased 19.5% for the first three quarters**.

On the other hand, **foreign investors still show strong confidence** on the prospects of the city. There were **3'042 new FDI projects** approved during the period from January to September, with an increase of 3.6%, which brought in contractual capital of **USD 10.56 billion**. Among these FDI projects, 636 were from the secondary industry, while 2'402 were investments in the tertiary sector.

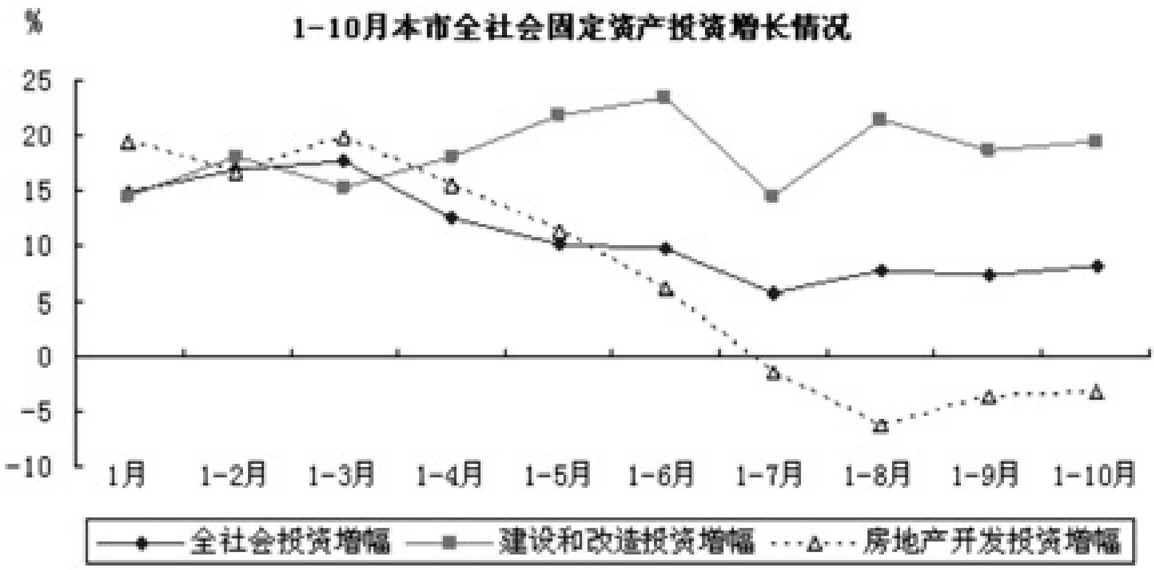
Asian countries still remain the **most important FDI nations**, accounting for 47.6% of the total contractual capital in the first three quarters of 2007. It is noticeable that overseas Chinese were the main source of investment. **Hong Kong** topped the list with a 30.7% share. Investment from the **Virgin Islands** and the **Cayman Islands** ranked number 2 and 4 with shares of 18.1% and 8.1% respectively, while **Japan and the U.S.** have taken 8.1% and 6.8% share, ranking number 3 and 5 respectively. Contractual FDI from Europe decreased by 26%

Swiss – Yangtze-Delta Region Trade Relations*

	Import from Switzerland				Export to Switzerland			
	2006		2007.1–6		2006		2007.1–6	
	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %
Shanghai	1,121.59	14.51	678.43	28.51	264.14	17.3	148.31	5.51
Jiangsu	427.00	24.2	225.38	7.53	345.00	63.93	175.11	13.27
Zhejiang	151.42	4.75	100.0	32.1	272.45	33.71	170.0	37
Anhui	28.95	45	6.38	–61.91	12.59	34.75	7.36	41.28
Delta Region	**1í728.96**	**17.86**	**1'106.57**	**35.74**	**894.18**	**39.95**	**500.78**	**18.51**
China	**4'583.14**	**18.1**	**2'496.51**	**29.0**	**2'260.14**	**16.1**	**1'587.77**	**34.0**

Source: Chinese authorities

Growth of fixed assets investment in Shanghai Jan.–Oct. 2007



Source: Shanghai Statistics Bureau

during the same period, but that from France increased 1.3 times, reaching USD 190 million.

Swiss Trade and Investment in the YRD

The Shanghai led Yangtze River Delta plays an important role in the Sino-Swiss bilateral economic relation: for the first half of 2007, nearly **40%** over one third of the Sino-Swiss bilateral trade, in terms of both imports and exports, is conducted through the YRD, and **Swiss exports** to the region continued to grow with **a total volume of USD 1'106.57 million and a 35.7% increase** for the first half of 2007. Shanghai and Zhejiang, which are richer in the region measured by per capita GDP, saw a sharp increase in imports from Switzerland with 28.5% and 32.1% growths. In the meantime, the YRD exported to Switzerland a total volume of USD 500.78 million which represents an increase of 18.5%, resulting **a trade surplus of USD 605.79 million** in favour of Switzerland. The surplus was 54.2% higher than the same period of last year and contributed to a significant **two third of the total Sino-Swiss trade plus**.

The major imports of goods from the region were watches and components, machinery, chemicals and pharmaceuticals, as well as apparatus and electronics. **Exports to Switzerland** were dominated by machinery, garments and accessories, as well as textiles and shoes.

At present, there are **278** Swiss invested companies (among which 240 are wholly owned) and **138** chief representative offices present in **Shanghai and nearly 500** Swiss companies in the region, with a total amount of direct investment of **USD 2'538.91 million**. Switzerland is presented in this region not only by well-known multinational companies such as ABB, Roche, Nestlé, and Novartis, but also by small and medium sized enterprises, many of which are operating quite well and expanding quickly. These companies are mainly operating in the fields of chemicals, pharmaceuticals, machinery and machine tools, food and processing, precision instruments, watches and jewellery.

For the first 6 months of 2007, **32** new Swiss invested projects have chosen to locate in the region, accounting for **64%** of the total Swiss invested projects in China.

New outlook: Shanghai and YRD

In Shanghai's 11th Five Year Plan, the overall goal for the city is to lay a foundation for the city to become an international economic, financial, trade, and shipping center by 2020.

A shift to service sector and headquarter economy

In an effort to change the investment-dependent growth pattern, Shanghai has been promoting the development of the service sector, which accounted for **51.9%** of the city's GDP for the first three quarters of 2007. For the first time since 2001, the tertiary industry grew faster than the secondary industry with a **14.1%** gain.

The promotion of foreign investment in the service sector is continuing in Shanghai. Aiming to build up China's "**headquarter capital**", Shanghai had attracted 178 regional headquarters of multinational corporations, 159 investment companies, 215 foreign R&D centres by the end of this September. During the first three quarters, there have been 24 newly registered foreign regional headquarters, 9 investment companies and 19 R&D centres in Shanghai,

It is also notable that due to the rising business cost, shrinking land availability and curbs on low-end manufacturing, foreign investment of production facilities is moving outside further to Jiangsu and Zhejiang provinces. However investment return ratio remained high in Shanghai. According to the statistics of Shanghai Foreign Economic Relations and Trade Commission, for the first three quarters of 2007, foreign invested companies in Shanghai reported **profits at over RMB 86.21 billion**, which is a **45% increase** compared with the same period of last year. Foreign investors remain positive and confident about the development of the city, and the supplementary investment accounted for 57.1% of the contractual FDI for the same period.

International Shipping Centre: Yangshan Deepwater Port

As the key drive to the headway towards an international shipping centre, the first and second phase of Yangshan Deepwater Port have been completed and put in use. Currently the Port of Shanghai ranks No. 2 in the world, followed by Hong Kong and only passed by Singapore in terms of container through-put. In the first half of 2007, the general cargo output of Shanghai port arrived at 278 million ton, including 120 millions of foreign trade products. Container throughput reached 13.52 million TEU, up by 24.2%.

The Yangshan Port Development project is divided into four phases, which will be completed by 2012 and includes a 52-berth container terminal, located on a cluster of partially inhabited islands in Hangzhou Bay, south of Shanghai. In addition, the project includes a 32.5 km bridge that connects the islands to the closest on-shore point and a shore-based terminal to accommodate subsidiary facilities that cannot fit on the small islands.

An important characteristic feature of the Yangshan Deepwater Port is that it is China's first free trade port. The Yangshan Free Trade Port Area is a special functional zone under unified supervision by the China Customs, composed of a free trade zone, an export-oriented processing zone, and a bonded logistics zone. It is expected to offer unprecedented convenience to shipping and logistics businesses.

Transportation Development

Shanghai has a combination-style international airport hub with Pudong international airport as the core and Hongqiao airport as the supplement. Pudong international airport is planned to have an annual capacity of 80 million passengers and 5 million tons of airfreight when the planned three terminals, two satellite halls and five runways are realised.

In order to transit the expected World Expo 2010 Shanghai 70 million visitors flow, Shanghai will transform Hongqiao Airport into a transport hub which integrates aviation and multiple modes of transport such as Maglev, high speed railway, regular railway, rail transit, bus and taxi.

Shanghai is also one of the four national railway hubs. The high-speed train between Shanghai and Beijing has been approved by the central government. The construction will start in January 2008 and complete in 2010. The speed of trains will reach 350 km/hour, cutting travel time between Beijing and Shanghai from the current 10 hours to less than five. The rail network, together with the expressway system will integrate the transportation within the YRD region and enhance ties with inland provinces.

Changes in political personnel

China's Communist Party (CPC) concluded its 17th National Congress in October 2007. The Party Congress, held once every 5 years, is the nation's most significant political gathering and usually decides and strengthens economic development model and brings along important changes in personnel. The 17th Party Congress further stressed President Hu Jintao's "Scientific Development" and "Harmonious Society" concepts and announced the 9-member group of the Politburo Standing Committee (PSC), China's top decision-making body. Among the four new members of the PSC, Mr. Xi Jinping, former Party Secretary of Shanghai, is widely expected to inherit Mr. Hu's position as the fifth generation leader, although this is not officially announced.

As the successor to Mr. Xi, Mr. Yu Zhengsheng, the former Party Secretary of Hubei Province, has been appointed as the Party Secretary of Shanghai. Yu, 62 years old, is also elected as the member of the CPC Central Committee. Before Party chief of Hubei Province, Yu had been Minister of Construction and once Mayor of Qingdao, a coastal city in Shandong Province.

Mr. Xi Jinping's seven months in Shanghai has been mainly for the purpose of shaking off the influence of the corruption scandal of his predecessor Chen Liangyu and the overall strengthening of the Party. Mr. Yu, for his last term in his political career before retirement, is expected to be in line with the central government and continue to pursue the economic development goals of President Hu Jintao.

Regional Integration

Despite much discussion of regional integration, the economies of the cities in the region were not very well-integrated. Local protectionism remained and competition to attract R&D and high-valued FDI increased in recent years.

At a recent symposium attended by the top leaders of the region[4], the integration and co-operation of the YRD was first time brought to the development strategy level and a long-anticipated regional-development outline is expected to be soon released.

The symposium ensured Shanghai's core position of the region and YRD region will remain confirmed the economic hub of China. The concept of YRD could be expanded from 16 major cities to include the entire region to bring about smooth integration among Shanghai and the neighbouring Jiangsu and Zhejiang provinces.

While sustained coordinative mechanisms and more policies are in the pipeline, more integrated transportation infrastructure as well as unified market administration and access regulations have been already announced. The Administration of Industry and Commerce[5] (AIC) in Shanghai and its two neighbours

signed a joint memorandum of understanding on unifying market access for businesses in the region. Foreign investors registered in one city of the region will be able to do business in other cities of the region without administrative barriers.

The region also declared to share the 2010 Shanghai World Expo opportunities and expanding the Expo's effects.

Opportunities and challenges for Swiss companies

New foreign investment guidance

China's National Development and Reform Commission (NDRC) has issued new guidelines, which have taken effect on 1st December 2007, specifying the industries in which foreign investment is encouraged, restricted or forbidden.

In an effort to upgrade China's technology and service economies, foreign investment is encouraged to shift from traditional manufacturing and export-based industries to hi-tech and advanced equipment manufacturing, services and logistics, as well as recycling and renewable energy sector.

The announcement listed also sectors that are restricted for foreign investors, including banking, financial and financial leasing companies, trust and investment companies, and monetary brokerage companies. Specifically, the guidelines set a maximum limit on foreign investors' share holdings in local securities institutions: below 33% for securities companies and below 50% for mutual fund management companies. Compared with the old version, the limits are loosened, while futures companies, which were forbidden before, are now listed as restricted sector.

Summary

– Despite of government target to slow down the economy, the economic growth rate of the Shanghai led YRD recorded the fastest growth in the past three years, expanding over 13% for the first three quarters of 2007. The growth was mainly fuelled by strong exports and the picking-up of consumer spending.

– The YRD region remains an economic powerhouse and solid foreign investment destination. Regional integration has been brought to strategic level of the YRD development, which will lead to integrated transportation infrastructure, unified market access regulations and administrative services. New policies are expected to be released soon.

– The development pattern of Shanghai is changing towards service-orientation, resulting in tertiary industry accounting for over half of the city's GDP.

– Imports from Switzerland to the YRD region have significantly grown by 35.74% for the first half of 2007, while exports from the region increased 18.51%, which brought a 54.2% growth of trade surplus in favour of Switzerland during the period.

Rising consumerism and more quality-oriented in YRD

Decades of bristling economic growth in the region has fostered an emerging middle-class and more sophisticated consumers groups, whose life style and consumption behaviours are influenced by western countries. On the other hand, the first generation babies after China's single-child policy in 1978, who have been the "little emperors" in the family, have grown up and became the major employees in urban cities. Their solipsistic tendencies have been further encouraged by escalating spending power, resulting in rising consumerism among the young people.

This group of urban wealthier consumers has fuelled tendency to pursue "quality satisfaction". Their consumption behaviour is very much influenced by leading brands and luxury items, which generates great opportunities for Swiss brands and goods. As Swissness is per-

Swiss Investment in Delta Region

In the Region	Swiss Investment						Accumulated by end of June 2007		
	Project		Contracted million USD		Actually million USD		Project	Contracted	Actually
	2006	2007.1–6	2006	2007.1–6	2006	2007.1–6			
Shanghai	23	17	62.25	28.38			283	1'604.68	
Jiangsu	15	15	44.97	83.05	83.61	168.42	131	674.37	605.39
Zhejiang	10	0	101.16	1.18	45.45	17.34	54	220.0	120.0
Anhui	1	0	3.07	0	0	1.02	6	39.86	
Delta Region	**49**	**32**	**211.45**	**112.61**			**474**	**2'538.91**	
China	**123**	**50**			**196.60**	**203**			

Current Economic Indicators*

of the Swiss Consular Area

Year		2006		2007.1–6	
		Volume	Growth Rate (%)	Volume	Growth Rate (%)
GDP (billion RMB)	**China**	**20’940.70**	**10.7**	**10’676.8**	**11.5**
	Shanghai	1’029.70	12.0	556.19	13.0
	Jiangsu	2’154.84	14.9	1’175.2	15.0
	Zhejiang	1’564.90	13.6	834.44	14.7
	Anhui	614.19	12.9	340.46	13.2
	Consular Area	**5’363.63**		**2’906.29**	
Total Retail Sales of Consumer Goods (billion RMB)	**China**	**7’641.0**	**13.7**	**4’204.4**	**15.4**
	Shanghai	336.04	13.0	188.75	14.2
	Jiangsu	662.32	16.2	380.88	16.9
	Zhejiang	532.53	15.0	297.6	15.7
	Anhui	202.94	15.0	110.94	16.1
	Consular Area	**1’733.83**		**978.17**	
Completed Investment in Fixed Assets (billion RMB)	**China**	**10’987.0**	**24.0**	**5’416.8**	**25.9**
	Shanghai	392.51	10.8	192.84	9.6
	Jiangsu	1’006.37	20.3	386.59	22.4
	Zhejiang	759.30	13.8	331.1	11.4
	Anhui	354.47	40.6	205.46	47.9
	Consular Area	**2’512.65**		**1’115.99**	
Exports (billion USD)	**China**	**969.10**	**27.2**	**546.7**	**27.5**
	Shanghai	113.57	25.2	64.34	20.9
	Jiangsu	160.42	30.5	90.83	28.4
	Zhejiang	100.90	31.4	57.99	28.5
	Anhui	6.84	31.7	3.85	32.6
	Consular Area	**381.73**		**217.01**	
Imports (billion USD)	**China**	**791.60**	**20.0**	**434.2**	**18.2**
	Shanghai	113.91	19.1	63.64	21.3
	Jiangsu	123.58	17.7	67.22	17.6
	Zhejiang	38.25	25.1	22.59	31.8
	Anhui	5.41	37.7	3.42	33.7
	Consular Area	**281.151**		**156.87**	
Foreign Direct Investment (during the period)					
Projects	**China**	**41’485**	**–5.76**	**18’683**	**–5.4**
	Shanghai	4’061	–0.7	1’953	5.1
	Jiangsu	6’541	–8.2	3’317	16.5
	Zhejiang	3’583	5.5	1’453	–10.9
	Anhui	592	40.6	258	5.7
	Consular Area	**14’777**		**6’981**	
Contracted (billion USD)	**China**				
	Shanghai	14.57	5.4	6.79	–6.0
	Jiangsu	38.78		21.73	25.5
	Zhejiang	19.1	18.5	8.47	9.1
	Anhui	2.50	60.9	1.55	55.9
	Consular Area				
Actually Utilised (billion USD)	**China**	**63.0**	**4.5**	**31.89**	**12.2**
	Shanghai	7.11	3.8	4.30	7.3
	Jiangsu	17.43	32.2	12.60	48.2
	Zhejiang	8.89	15.1	4.92	26.5
	Anhui	1.39	102.4	1.28	160
	Consular Area	**34.82**		**23.1**	

Source: Chinese Authorities

** All statistics not including Taiwan, Hong Kong and Macao* ceived as of high quality and high price in China, it is easier to build up brand awareness for Swiss products in the market.

Footnotes:

[1] The Yangtze River Delta region here refers to Shanghai and 15 surrounding cities in Zhejiang and Jiangsu Provinces. These are 8 more developed cities in Jiangsu Province and 7 in Zhejiang Province.
[2] USD326.5 billion exports and USD239.0 billion imports.
[3] Chen was dismissed as Shanghai Party secretary in September, 2006, in an anti-corruption campaign that found the city's 10-billion-yuan (US$1.27 billion) corporate annuities had been managed via irregular loans without proper collateral and placed in risky investments.
[4] On 1st December 2007, the Party Secretary of Shanghai, Jiangsu and Zhejiang Province, together with the Mayor of Shanghai and Governors of Jiangsu and Zhejiang Provinces have met at the International Symposium on Regional Development of the Yangtze River Delta in Shanghai to discuss the future development of the region.
[5] AIC is a unique organisation which doesn't have similar counterparts in other countries. It can be compared as the police for enterprises. The sanctions adopted by AIC over companies that behave against the law can be suspension of production, confiscation of products, freezing of bank account, revoke of business licence.

However, China is not a unified homogeneous market. Even in the YRD region, spending power and consumption behaviours are different between cities. Shanghai is China's largest market for a great range of goods and has high discretionary purchase. Jiangsu's consumer economy is relatively small compared to Zhejiang and Shanghai. Its development is now more focused on investment than consumption and looking towards domestic markets for its products. Due to its immigration tradition and strong private economy, more consumers from Zhejiang are luxury brands followers.

Most Swiss companies focus on top end and niche market, where Chinese competition is less. Forging and pirating are however the common challenges they have to face in the market. Although the situation of IPR protection has been improved in recent years, lack of implementation of relevant legislation, weak enforcement and local protectionism remain in many regions. While court is one of the places to seek solution for such cases, the Administration of Industry and Commerce could be another powerful administrative institution.

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Consumer Market in Hong Kong

An Overview on the Socio-economic Characteristics of the Population and the Household Expenditure Patterns in Hong Kong

The robust economic growth attained over the past 3 years, at an annual average of 7.7%. Private consumption[1] has lagged behind the economic growth and it was not until 2006 that private consumption regained the level registered in 1997. Private consumption reached to US$ 115,864 million (+5.2%) in 2006 and US$ 60,334 million (+6%) in the first half of 2007, on the back of firmer employment prospects, mild increase in real wages and increasing asset prices.

Shopping is one of the life styles of the Hong Kong people. Retail outlets and shopping malls are easily found in all districts. Hong Kong is a mature and competitive market with a wide range of products at different prices and market segments. It is a free port and products must be able to compete against others from all over the world on both price and quality. Local consumers, who have a good knowledge of reputable international brands, are willing to pay a premium for unique designs and foreign branded products.

The ageing of the population (median age increased from 36 in 2001 to 39 in 2006) and small size of the household (3 persons on average) are the trends which are unlikely to be reversed. Hong Kong is a very densely populated city with 6,350 persons/sq. km. The apartments are usually small and those of about 100 sq.m or more are already considered "luxury" category. Household products of a larger size may often be regarded as prohibitive by local consumers in general.

For all the rosy conditions, the income gap has been widened due to skills barrier over the past decade. Monthly domestic household income below US$ 513 (HK$4,000) rose from 6.7% to 9.2% of the total house-

(continued on page 46)

holds whereas the monthly household income above US$ 5,128 (HK$40,000) rose from 15% to 17% of the total households.

The Census and Statistics Department (C&SD) released the Household Expenditure Survey and the Population By-census[2] in 2006 and 2007 respectively and the findings of these two surveys may serve as a reference for Swiss companies to evaluate the local consumer market.

Salient features of the population

Hong Kong's resident population was 6,864,000 in mid-July 2006. Of this total, 6,645,000 were Usual Residents and 219,000 were Mobile Residents[3]. The ageing trend in the population has continued during the past 10 years, with the median age rising from 34 in 1996 to 36 in 2001 and to 39 in 2006. This could be attributed to the continuing low fertility rate and mortality improvement over the period.

Over the last decade, the number of domestic households increased by 20% from 1.86 million to 2.23 million. As it increased at a faster rate than the population, the average household size decreased from 3.3 to 3.0.

The corresponding sex ratio after excluding foreign domestic helpers was 1,037 males per 1,000 females in 1996 and it changed to 961 males per 1,000 females in 2006.

Some 3.4 million people lived in private permanent housing, 2.1 million in public rental housing and 1.2 million in subsidised sale flats. 1.17 million households (53% of total households) were owner-occupiers of which 48% are burdened with mortgages.

The educational level of the population has improved. The proportion of the population aged 15 and over with secondary or higher education increased from 68% in 1996 to 75% in 2006. The proportion of those with post-secondary education in degree courses or above increased significantly from 10% to 15%.

About 95% of the population are of Chinese ethnicity. The largest non-Chinese ethnic groups in Hong Kong are Filipinos (1.6%) and Indonesians (1.3%). Most of them are domestic helpers. Whites and Indians represent 0.5% and 0.3% of the population respectively.

The labour force increased from 3.2 million in 1996 to 3.6 million in 2006, despite a drop in the overall labour force participation rate from 63% to 60% over the same period. This was mainly due to the increase in population size and the changes in the age-sex structure of the population. In 2006, about 33% of the working population were managers, administrators, professionals and associate professionals, up from 29% in 1996. "Wholesale, retail and import/export trades, restaurants and hotels" and "Community, social and personal services" were the largest economic sectors, each employing around 27% of the working population.

The median monthly income from main employment of the working population was US$ 1,282 in 2006, representing an increase of 5% over the past ten years. In the same period, prices decreased by 2%, as measured by the Composite Consumer Price Index. The median monthly income of domestic households was US$ 2,212, representing a slight decrease of 1% over that of 10 years ago. For more information on monthly income of domestic households, please refer to charts.

Household expenditure patterns

According to the Household Expenditure Survey (HES) released in 2006, a household on average spent US$ 2,420 per month on food, consumer goods and services in 2004/05, as compared to US$ 2,790 in 1999/2000. The decrease in average household consumption expenditure was attributable partly to the price deflation in most of the 5 years from 1999/2000 to 2004/05 and partly to the decrease in the average size of households. After discounting for price changes, household consumption ex-

Domestic Households by Monthly Domestic Household Income 1996, 2001 and 2006

Monthly Domestic Household Income (US$)	1996		2001		2006	
	Number	% of total	Number	% of total	Number	% of total
< 256	55 597	3.0	65 855	3.2	86 736	3.9
257 – 513	68 272	3.7	97 568	4.8	118 779	5.3
514 – 769	75 595	4.1	93 018	4.5	121 605	5.5
770 – 1,026	105 639	5.7	116 340	5.7	146 010	6.6
1,027 – 1,282	136 577	7.4	120 721	5.9	147 081	6.6
1,283 – 1,923	324 001	17.5	318 623	15.5	339 469	15.2
1,924 – 2,564	269 694	14.5	262 086	12.8	279 217	12.5
2,565 – 3,205	210 926	11.4	223 708	10.9	225 292	10.1
3,206 – 3,846	147 295	7.9	159 470	7.8	162 783	7.3
3,847 – 5,128	183 254	9.9	219 229	10.7	221 101	9.9
5,129 – 7,692	150 440	8.1	197 311	9.6	194 723	8.7
>=7,693	128 263	6.9	179 483	8.7	183 750	8.3
Total	**1 855 553**	**100.0**	**2 053 412**	**100.0**	**2 226 546**	**100.0**

Source: Census and Statistics Department
Remarks: Income figures look odd due to conversion from HK$ to US$ (exchange rate HK$7.8 to US$1)

Average monthly household expenditure by commodity/service group by broad monthly household income group

Commodity/Service	Broad monthly household income group									
	Income group 1 (US$1,540 and below)		Income group 2 (US$ 1,540-2,690)		Income group 3 (US$ 2,690-4,490)		Income group 4 (US$ 4,490 and above		Overall	
	(US$)	(%)	(US$)	(%)	(US$)	(%)	(US$)	(%)	(US$)	(%)
Food	350	32	543	31	683	29	918	20.5	623	26
Housing	325	30	486	28	674	28	1,477	33	740	30
Electricity, gas and water	56	5	74	4.3	89	3.7	112	2.5	83	3.4
Alcoholic drinks and tobacco	17	1.5	22	1.3	22	0.9	18	0.4	19	0.8
Clothing and footwear	33	3.1	69	3.9	101	4.3	213	4.8	104	4.3
Durable goods (including watches, cameras, computers, audio-video equipment, furniture, home appliances etc.)	39	3.6	74	4.2	104	4.4	228	5.1	111	4.6
Miscellaneous goods (including toys, books, jewellery, cosmetics, personal care products, household goods etc.)	58	5.4	89	5.1	124	5.2	209	4.7	120	5.0
Transport	72	6.6	146	8.4	211	8.9	492	11.0	230	9.5
Miscellaneous services	140	12.8	245	14	365	15	808	18	389	16
All sections	**1,090**	**100**	**1,748**	**100**	**2,373**	**100**	**4,475**	**100**	**2,419**	**100**

Exchange rate: HK$7.8 to US$1
Source: Census and Statistics Department

penditure decreased by 6% in the 5-year period from 1999/2000 to 2004/05.

Analysed on a per capita basis, there was a 5% decrease in the average monthly expenditure in the 5-year period from 1999/2000 to 2004/05. After discounting for price changes, the average monthly per capita expenditure increased by 3% from 1999/2000 to 2004/05.

The lowest decile[4] and the highest decile[5] of monthly expenditure of households were US$ 820 and US$ 4,230 respectively. In other words, 80% of households had their monthly expenditure ranging between US$ 820 and US$ 4,230.

Regarding household expenditure by commodity/service section, housing (31% of the total household expenditure) and food (26% of the total household expenditure) together accounted for 57% of the total household expenditure. The other categories with relatively significant proportions were miscellaneous services (16%) and transport (9%). The remaining proportions were durable goods (5%), miscellaneous goods (5%), clothing and footwear (4%), electricity, gas and water (3%) and alcoholic drinks and tobacco (1%).

The C&SD classified the households in 4 different income groups for average monthly household expenditure by commodity/service in the HES. As was to be expected, the relative importance of food was smaller for households with higher monthly income. Similar phenomena could be observed for electricity, gas and water as well as alcoholic drinks and tobacco. The expenditure share on housing was not much different in the 4 classified groups[6]. The expenditure shares of clothing and footwear, durable goods, miscellaneous goods, transport, and miscellaneous services increased generally from the lower income groups to the higher income groups. Details as per Annex 2.

Since the consumer sentiment and the financial position of households has improved after the survey period, the pattern of household expenditure may adjust to a certain extent. At present, both the stock and property market are performing very well. The positive wealth effect will motivate consumers to spend more on durable goods, luxury items and non-essential goods.

Consumer profiles and business opportunities

The average size of households dropped to 3.0 in 2006 from 3.6 in 1986 and 3.3 in 1996. It has been a result of general demographic trends such as lower birth rates, later births and growth of both nuclear households and single person households. The small size of households in addition to small living space in general may give manufacturers of household goods some food for thought on the size and design of their products.

Similar to developed countries in the world, Hong Kong has a low fertility rate (984 births per 1000 female in 2006). Babies and children (under 1 year old to 9 years old) and teenagers (10 to 17 years old) accounted for about 8% and 10% of the population respectively in 2006. On one hand, the overall demand for infant, baby and child products may decrease in volume. On the other hand, since families usually have fewer children, parents are willing to spend more money on better quality products including educational items and toys for their children. Teenagers have great appetite for consumer electronics such as MP3 players and home and portable video game systems. They follow trends very closely and are fashion conscious.

Parents are well aware of the importance of education to their children and are keen to provide good educational opportunities. Should their children fail to admit to local universities, many wealthier families would send their children to study abroad and in most cases they would be sent to major English-speaking countries.

Young adults (18–39 years old) represented about 33% of the population in 2006. It encompasses university students, people who just join the workforce, young professionals and middle management. Their consumption patterns and preference may vary, depending on their ages, educational background, salary level and marital status. A lot of consumers form their purchase habits during their early adulthood. Fashion, accessories, trendy items and electronics generally catch their attention. When they grow older and are better off in financial terms, their spending may move to premium brands and upper market products. Jewellery, luxury watches, fine leather goods and designer-label clothing and accessories will then be on their shopping list.

Middle-aged adults (40–59 years old) accounted for about 33% of the population in 2006. They in general earn higher income and possess higher purchasing power. However, those families who have children may bear in mind the necessity to prepare education funds for their children and discretionary spending may therefore be restrained. Moreover, the whole group, regardless of their marital or parenting status, considers their retirement life and is keen to save up more money or/and invest in stocks and real estate. In this sense, they are responsible spenders. In the meantime, the local economy is strong and both the stock market and the real estate market are bullish. This kind of "quick money" normally gives them more initiative to spend on luxury items.

The elderly (60 years old and above) group, which accounted for about 16% of the population, is growing in size due to improvement in life expectancy. It is customary in Hong Kong that young generations, if their finance allows, will support their parents. Hong Kong had no mandatory retirement scheme until the launch of the Mandatory Provident Fund (MPF) in 2000. The MPF does not benefit current retired people and a social security safety net provided by the government takes care of poor seniors. Some seniors choose to stay in China, mostly in Guangdong province, for lower cost of living there. For well-off seniors, they have sound purchasing power to buy health care items and household appliances which satisfy their specific needs.

In brief, parents with high income are willing to spend more money on quality products for their children. Products range from baby food, babies' and children's clothes, toys, educational items and consumer electronics. More often than not, they have long-term financial plans for their retirement life as well as educational funds for their children. On the other hand, owing to huge costs in raising children and heavy workload in general, there are more and more couples who prefer to have no child even though they may earn substantial incomes. Such segment (Double Income No Kids DINKs) represents about 14% of total household and it will continue to grow, according to Euromonitor International. They possess high disposable income and pursue pleasant lifestyle.

It is noteworthy that women outstrip men in ownership of every category of luxury items such as jewellery, luxury watches, leather goods and designer-label clothing and footwear, according to a market survey conducted by Synovate. In their survey, 21% of female interviewees and 19% of male interviewees own a watch that costs US$ 510 or above. 40% of female interviewees and 19% of males interviewees own jewellery that costs US$ 510 or above. 30% of female interviewees and 23% of male interviewees own designer clothes/leather goods that cost US$ 190 or above. 28% of female interviewees and 20% of male interviewees own designer accessories/ footwear that cost US$ 190 or above.

Furthermore, about 20% consumers, who are labelled as "fast lane" consumers by Synovate, have the following characteristics: i) aged 25–44, female skewed; ii) married without children; iii) tertiary educated with a good job and high incomes; iv) prefer well-known and designer brands; v) enjoy life and willing to spend money on it and vi) adventurous and will try new gadgets. Renowned brands from all over the world are well presented in Hong Kong. They will undoubtedly strive to win popularity among these "fast lane" consumers.

By Wing Kai, Chan
Trade Section
Consulate General of Switzerland in Hong Kong

www.eda.admin.ch/hongkong

Footnotes:

[1] It refers to the value of final consumption expenditure on goods and services by local households and excludes visitors' spending.

[2] The Census and Statistics Department conducts the Household Expenditure Survey and the Population By-census once in every five years.

[3] Mobile residents are HK permanent residents who had stayed in HK for at least one month but less than three months during the six months before the reference moment.

[4] This is the expenditure level which divides the lowest 10% of households from the rest. In other words, the expenditures of 10% of households are below this level whereas the expenditures of the other 90% of households are above this level.

[5] This is the expenditure level which divides the highest 10% of households from the rest. In other words, the expenditures of 90% of households are below this level whereas the expenditures of the other 10% of households are above this level.

[6] Although rents are in general high in Hong Kong, most of the lower income households stay in public housing and pay much cheaper rent than those reside in private housing.

Hong Kong Science Park with an area of 22 hectares is the home of some 200 technology companies.

Knowledge Transfer in Hong Kong

Remarks by Nicholas Brooke, Chairman, Hong Kong Science Parks Corporation

For centuries Hong Kong has been the meeting place and melting pot where east meets west and where cultures and ideas blend and flourish in close harmony. This role is even more important in today's global economy, in particular having regard to Hong Kong's unique location at the gateway to the Pearl River Delta and Southern China. This location, together with the successful implementation of the one country two systems experiment following Hong Kong's return to China in 1997, provides the ideal platform for access to this emerging global leader and for managing dialogue and knowledge exchange.

A knowledge based economy, which is a core element of the HK SAR Government's policy, demands and generates ideas from everywhere and here again Hong Kong is uniquely placed, given its history, its current situation and future importance, to play a key role as a hub for the collection and dissemination of innovative and original thought.

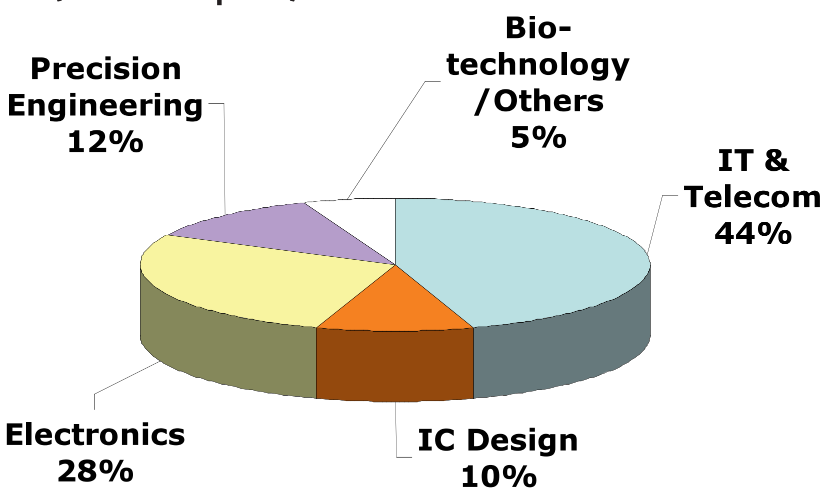
Science Parks worldwide are also emerging very much as places for the exchange of ideas, for creativity and for the development of overseas alliances and Hong Kong Science Park is already playing a major role in these areas through its partnerships with industry, academia and research institutes and sister parks, not only in China but across a number of international geographies.

Indeed, the knowledge based campus environment of Hong Kong Science Park (HKSTP), occupying an area of 22 hectares and housing a community of some 200

Science Park Campus

- State-of-the-art physical and soft infrastructure
- Three-phase development currently comprising 20 buildings
- Ultimate development will cover 330,000 square metres
- Knowledge-based campus environment occupying 22 hectares
- Home for 200 companies ranging from start-ups to established multi-nationals

Current Incubatees (total: 69 companies)



technology companies ranging from local and foreign start ups to established multinationals which we anticipate will double over the next few years, is an excellent example of how close relationships and idea sharing can thrive, if nurtured in a caring manner.

The HKSTP, with its commitment to innovation and technology development, is therefore ideally positioned as a partner for international knowledge transfer networking, and an excellent example of this is the world pioneering "Asia Intellectual Capital Alliance Limited" that has been launched with direct links to Oresund and Lund.

Shenzhen, a Special Economic Zone of China which abuts Hong Kong, and Hong Kong are now seen as twin cities with altogether a population of almost 20 million people. In this regard, we will also learn about another ongoing and exciting project linking our respective regions – the "Intellectual Capital through a Brain Bridge – Shenzhen – Hong Kong – Oresund" initiative.

In closing, I look forward to sharing with you further ideas and also to learning from you, and hope that we can together develop more concrete activities and potential projects which can be taken forward in partnership, not only for the benefit of our respective organisations but for the wider good of society as a whole.

Science Park – Creation of Clusters

Four distinct focus areas:

– Biotechnology
– Electronics
– Precision Engineering
– Information and Communication Technology

HKSTP Mission

– To provide quality infrastructure and support facilities for innovation and technology development.
– To provide full-service incubation programme for technology start-ups.
– To foster partnership and collaboration between the industry and universities and applied research institutes.

Modus Operandi

Close collaboration with tenants, the industry, private enterprises and academic institutions in order to:

– Provide appropriate infrastructure
– Forge foundation for innovative research
– Act as catalyst for development of technology
– Spur innovation in HK and Pearl River Delta by providing end-to-end services

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The End of Cheap China

China used to be every buyer's dream: A large scale of cheap products due to a never-ending flow of labour and resources. Over 20 years of unprecedented export growth and constantly falling prices made China the world's workshop – a fact that logically resulted in many overseas companies moving their production to this land of export miracles. Many benefited from China's low-cost supply base. But this export paradise may soon lose its shine, as the times of cheap China seem to be over. Reasons for this change are manifold and originate from diverse macro-economic trends.

A) Currency: Since the Yuan was unpegged from the US Dollar in July 2005, China has followed a consistent path of gradually valorising its currency. An appreciation from 8.1 to 7.5 Yuan/USD in two years shows where the road is going. Yet, the pressure for further appreciation by the US continues unabated.

B) Quality: Traditionally, "Made in China" is not considered to stand for high quality. But the latest series of defective products and contaminated food shows that Chinese product quality (and safety) may have become a real problem. Clearly this trend doesn't work in favour of China exports.

C) Natural resources: Raw material prices worldwide have been steadily on the rise since 2002 and are expected to keep rising. China as a growing player in the world economy is one of the main drivers for this price development especially in energy and metals.

Currency valorisation, product quality or resource prices are all (at least partially) subject to external influences. More importantly, however, certain macroeconomic tools in the hands of the PRC government are used to navigate the country towards a less one-sided trade balance. Two of these instruments have recently caused a major stir:

D) VAT rebate cuts: The latest changes in China's VAT refund policy mark another step away from the existing status as a cheap production source for foreign companies.

Reasons for using VAT as a measurement for export regulation do not only exist in terms of controlling growth, but also in regards to which industries are preferred for export. China's massive trade surplus induced by its export growth led to the government's intervention.

These government actions have an immediate and direct impact on foreign companies buying from China. Different options of how to react to these new developments are available, some of which include renegotiating prices with existing suppliers, reviewing of HS codes and possible re-labelling of products, changing of sup-

Reasons for new VAT refund regulations

To discourage activities in certain low-value industries where China in many cases already has a major market share (e.g. 80 % of US toy imports) as well as for "high energy, high polluting and scarce resource-consuming" products.
To encourage production of higher value products such as telecoms equipment, auto parts, industrial intermediate products, machinery. Deutsche Bank estimates that these high-end exports will grow 30 to 40 % p.a. for the next three to five years.
To reduce the overheated export growth and thus the pressure on RMB devaluation which has recently led to frictions between China and its trade partners.

pliers or even switching sourcing activities to another country.

As for the first option, many suppliers in China have razor-thin margins: A survey by Kurt Salmon Associates revealed that the profit of a Chinese shoe manufacturer is about 1% of the US retail price. Would they be able to absorb additional cost even if they wanted to?

A core challenge when switching one's sourcing activities to another country is to find a comparable sourcing system in regards to logistics and infrastructure. Over the years China has built a formidable position in providing efficient supply chain processes which many countries such as Vietnam, India or Mexico will find difficult to provide. The possible lack of such a smooth-running infrastructural network can make the switch a less attractive choice – even if staying means paying. Historically sourcing of durable consumer goods has over the years moved from Japan to South Korea, Taiwan, then Hong Kong and lately China. Are companies ready to "move" again?

E) Processing trade regulations: Another effort of Beijing officials aiming to curb export growth in labour-intensive, low-value industries includes new regulations in the field of processing trade. These can also be interpreted as attempts to keep bigger portions of the value chain within the country by forcing companies to use materials and parts from China.

Processing Trade

The term "processing trade" refers to the business activity of importing all or part of the raw and auxiliary materials, parts and components, accessories, and packaging materials from abroad in bond and re-exporting the finished products after processing or assembly by enterprises within the mainland.

Export processing trade accounted for 55% of China's total exports in 2005 and dropped slightly to 53% in 2006. In the first five months of 2007, exports and imports related to processing trade grew at 22% and 12% respectively.

Processing trade is generally forbidden for a number of items listed in the processing trade prohibition list (PTPL). Currently, for many products with a VAT refund rate of 0%, prohibitions are in place concerning the import of raw materials free of customs duty. It is important for companies with products newly introduced in the VAT rebate cut list to monitor the development in the PTPL if they are manufacturing for export.

A new processing trade policy has taken effect on August 23, 2007 covering 1,853 materials in the fields of plastics, furniture, textiles and for other labour-intensive industries. Companies engaged in the production of these items are required to place a deposit with the Bank of China. The deposit amounts to 50% of the value of the imported materials – a percentage that will most certainly create immense cash-flow challenges to affected enterprises. In addition, companies have to register their process trade contracts with the authorities. If the firms fail to implement these contracts, i.e. do not export those goods but sell them on the domestic market, they will lose their deposits to the customs house. The new policy only applies to regions in East China including Beijing, Tianjin, Shanghai and Guangdong.

Outlook: All of the abovementioned trends point into one direction: China exports are undergoing substantial changes.

The macro perspective shows a move in China's export strategy towards high-end products and efforts to increase value creation in the country. From a company's viewpoint China will no longer remain the sourcing paradise it used to be. This will certainly pose a challenge of alarming proportions to companies involved in consumer goods business with the Middle Kingdom.

Pro-active counter measures and cost savers could be considered in the areas of supply chain optimisation and streamlining, outsourcing of non-core activities or improvement and strengthening of quality assurance systems. But the end of "cheap China" is in sight.

If you are interested in learning more about this or other incorporation-related topics in China, please contact:

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Made in China: Better Safe than Sorry

20 years ago, "Made in China" represented cheap products that weren't up to par with Western standards. If you wanted your fridge, toaster or TV to work (and more importantly, to last) you had to invest a little more in a high-quality Western model. It was as simple as that: good quality had its price.

But with the rise of Chinese goods in the global market, customers around the world found that good quality at cheap prices was indeed possible. All over the world China-produced goods were praised for their competitive prices, while quality became less of an issue. The US, for example, ramped up toy imports from China and millions of American kids happily played with their China-produced GI Joes and Barbie dolls. It was not until Mattel's recent recall of lead-painted children's toys that the economic paradox of "more for less" became obvious.

There are two key questions that arise in the orbit of toxic toothpaste and poisonous paint: Who is to blame for this mess? And how can companies avoid becoming the next Mattel?

The blame game

Responses about who to blame have been fast and furious. The US and Europe have complained about lax Chinese regulations, low quality assurance (QA) measurements and ruthless Chinese manufacturers who increase their profit margins at the expense of their customers' health. Protective tariffs and bans of products made-in-China have been called for until it would be assured that Western kids can safely handle their toys again without having to wear protective gloves and safety goggles.

China has struck back saying that Western governments, corporations and media are engaging in blatant trade protectionism. US pacemakers and soybeans were rejected by Chinese customs as they did not meet Chinese standards.

The blame game is in full swing. But amidst all this fingerpointing, a pattern of actual facts remains clear:

One fact is that many Chinese manufacturers cut corners: by using lower-quality materials, by running cheaper production processes and by violating pollution laws. Their actions might not be intentional (e.g. suppliers are often not up to date with the latest product standards or lack sufficient resources) yet the outcome is the same. However, the driving force behind this are, in fact, multinational corporations who have been aggressively pushing down prices. According to the Wall Street Journal, discount retail chains in the US have forced down the price of clothing imports by 25% since 1995. With shrinking margins, suppliers struggle to make ends meet; a fact likely to result in this so called "quality fade". So despite the obvious non-compliance of many suppliers in China, it should be clear that the final responsibility for flawless products lies with the international buyers – in their own interest.

PHASE I:
PRODUCT SEARCH & NEGOTIATIONS

1) Clarify requirements with respect to design, function, product liability, safety laws
2) "Seek truth from fact": Clarify involvement and scope of manufacturers, suppliers and sub-contractors
3) Cross-check price information independently
4) Use samples to check for possible sources of defect
5) Conduct factory audit, check licenses
6) Approve the manufacturer – not the supplier

PHASE II:
CONTRACT

1) Secure the agreed terms
2) Include detailed order specifics incl. packaging and labelling
3) Specify manufacturer's quality assurance commitments
4) Consider IP issues (ownership, licensing, protective measures, remedies) and their impact
5) Install anti-bribery clause
6) Incentivise supplier through payment terms
7) Include warranties
8) Don't forget dispute settlement paragraph

PHASE III:
PRODUCTION

1) Execute quality assurance (QA) programmes with suppliers, manufacturers and approved sub-contractors; include training and written QA guidelines
2) Monitor compliance of factory's QA programmes
3) Conduct ongoing quality control (QC) for all product features, design, functions
4) Packaging, certification tags, labelling, user manual etc are as important as the actual product
5) Have QC capacity on location or outsource same
6) Sub-contract QC for products with special requirements or high risk products
7) Let products be analysed by approved laboratories
8) Conduct unexpected random checks

PHASE IV:
SHIPMENT & DOCUMENTATION

1) Supervise container loading and shipping
2) Liaise shipment with shipping line or logistics provider
3) Check supplier's shipping documents
4) Have payments approved and effected by separate people
6) Ensure correct product classification for customs purposes

How not to be the next Mattel

As expected, China and the US have quickly launched a plethora of campaigns, initiatives and regulations, from grass-roots to highly official, trying to keep the product safety and quality issue from spinning out of control. But are these measurements really of any help to a company involved in China business now? Instead of relying on government actions, companies have to develop a pro-active approach to secure their product quality in an efficient and sustainable manner.

Being on the same page with your China supplier in regards to quality standards can be the headstart to securing product quality. This can be obtained by meetings and training sessions where quality goals are mutually agreed upon and QA measurements are explained and put into place. After all, sourcing relationships work best when both parties benefit from them.

Yet, despite all goodwill and relationship building, control is still the one and only conditio sine qua non. This especially holds true for China where one of the most basic principles in business is (pre-) caution. A system of independent, random and comprehensive checks and balances is most important for a successful China engagement. All actions and processes should be double-checked by a trustworthy second pair of eyes. If the container content is only checked upon arrival, companies might be in for a big surprise and quite possibly lose precious time and money. Therefore, all QA measurements already have to take place in China. As the saying goes, better be safe than sorry.

Fiducia's four-phased approach highlights key necessities of QA tools of international companies in China.

Pro-active protection

It isn't really important who eventually gets the blame for the tainted toys. What is important is for companies to pro-actively make sure they have proper QA instruments in place and their supplier relationships allow for a mutually beneficial cooperation. In the long run this will prove much more valuable than squeezing some extra pennys out of the Chinese suppliers. Because in the end, it really is that simple: good quality has its price.

How to Close a Representative Office

The reasons for no longer needing a RO can be diverse. A company might want to intensify its China operations and therefore use a more versatile business vehicle such as an operating Wholly Foreign-Owned Entity (WFOE). Or the investor chooses to make a 'fresh start' if a RO has infringed local regulations, knowingly or not. If a company decides to terminate its business operations in China overall, the RO also has to go.

Simply put, closing a RO is like checking out of a hotel with the authorities inspecting whether all bills have been paid. In real life, it is almost never as easy. The inexperienced will most likely find the process of de-registering a RO cumbersome and full of potential pitfalls. That is why professional service providers offer full support in this area.

Bureaucratic procedure

After a client decides to close its RO in China, Fiducia organises the performance of a Closure Audit Report which has to be presented to the local tax bureau. This closing audit focuses on the Individual Income Taxes of all RO employees. After all tax duties have been cleared and the related certificates and papers (e.g. written explanation why RO should be closed) are handed to the local and national tax authorities for approval, Fiducia helps the client to obtain an approval certificate from customs. In order to get this, all outstanding customs duties including any office equipment, car or samples have to be cleared and the required documents to be submitted.

After approval has been granted by both local and state tax bureaus as well as customs, Fiducia helps with the closure of the RO's bank account. This includes the cancellation of the RO's cheque book and other related documents. In the next step, the RO has to be de-registered from the Technical Supervision Bureau and the Statistics Bureau. Finally, the de-registration from the State Administration for Industry and Commerce (SAIC) must be arranged including the return of all company chops. The whole procedure usually takes 8 to 10 weeks, depending on how carefully tax payments have been made in the past.

Easy way out?

Some foreign investors may question the necessity of going through such a lengthy and bureaucratic de-registration process. The option of simply letting the RO's license expire seems tempting – and saves time and paperwork. However, if you fail to properly close your RO on time (30 days before its license expires) you might have to pay a fine of up to RMB 5,000. More threatening is the prospect of being put on a 'black list', a penalty that awaits both the foreign investor and the RO's chief representative. This kind of record can seriously jeopardise all potential future business activities of the foreign investor in China. Therefore, the safe way out is a proper de-registration. And with professional support, the time and efforts invested can be kept to a minimum.

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Mergers & Acquisitions in China

Tips and Tricks for Small and Medium-sized Enterprises

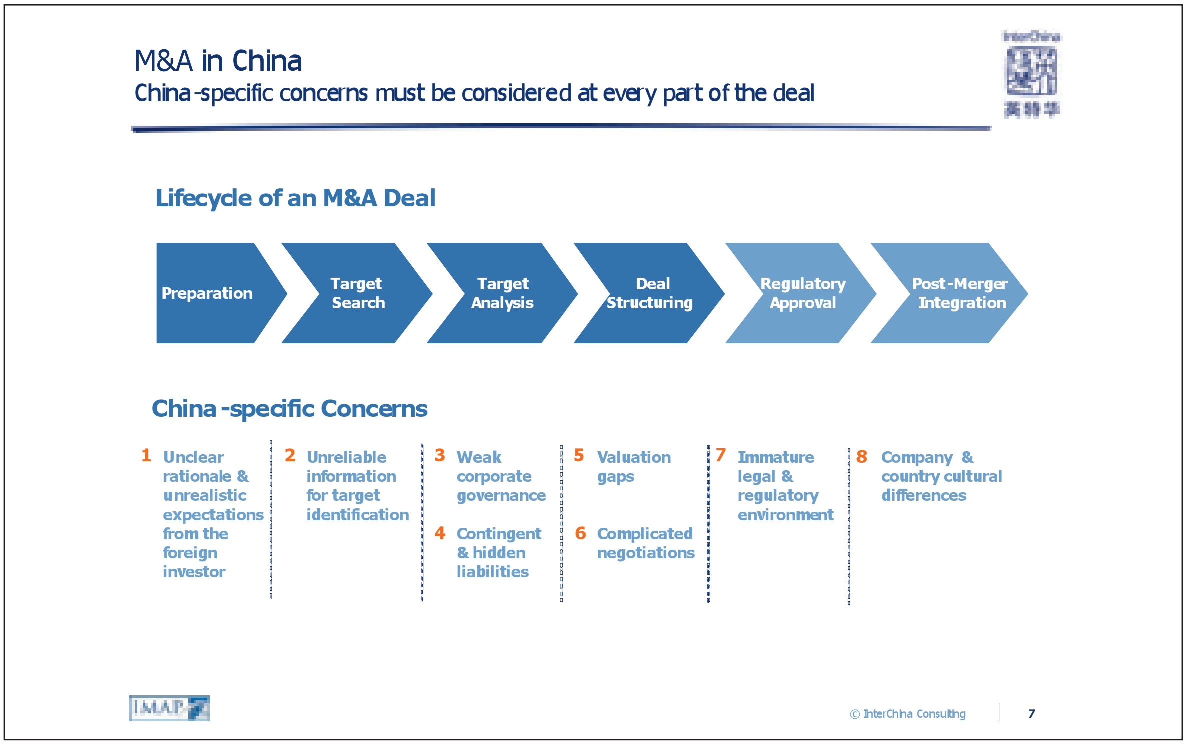
Acquisition of Chinese companies apparently is a highly relevant topic for Swiss small and medium-sized enterprises (SME). Or so one has to judge from the high turnout and lively discussions at the recent event "M&A in China – also for SMEs". The event was organized and sponsored by Kurmann Partners, an M&A advisory firm specialized in transactions of and by SMEs; kmuNEXT and the Swiss-Chinese Chamber of Commerce were co-organizers.

Franc Kaiser and Laura Tsui of InterChina, a Chinese M&A consultancy (see box), first spoke about the advisor's perspective on the particular challenges of acquisitions in China. Their presentation gave a tour d'horizon on their experiences and clearly showed that the typical "Western" approach for acquisitions has to be adapted in order to reveal and mitigate hidden risks. In a second presentation Mr. Urs Toedtli, General Manager of the Filtration Division of Sefar (see box), gave a lively and very informative account of his experiences during Sefar's acquisitions in the Chinese market. The presentations were followed by a panel discussion with the referees and Dr. Frank Brinken, CEO of Starrag-Heckert AG and Dr. Reto Battaglia, Director of SinoSwiss ADC Technical Services, a Swiss-Chinese Joint Venture in Beijing.

One of the key messages put forward by Kaiser and Tsui was that Western companies only should acquire Chinese enterprises in the context of a long-term, strategic commitment. This may imply that the acquisition process needs considerable time and has to go through several loops. A clear acquisition strategy which is defined ex ante is of paramount importance in order to find truly interesting targets – i.e. targets which truly fit the strategic rationale. One reason for the importance of a careful and diligent strategic preparation is the very strong Chinese competition for acquisitions; moreover, Chinese firms which are to be sold usually are actively offered only to other Chinese companies. Therefore, "opportunistic" acquisitions – however seductive they look at the outset – are often doomed to fail, and Western companies fare well to be very cautious when actively offered ownership of a Chinese company.

Achievement of the strategic goals is much more likely if the Western firm follows a systematic approach. The ideal process involves parallel contacts to, and evaluation of, multiple targets which are previously selected in a comprehensive research process, say Kaiser and Tsui. However, the research of good targets already poses the first big problem: China lacks statistical market data and systematic information about companies; hence, market and industry knowledge has to be painstakingly built by primary market research.

Once suitable targets are identified, the putative Western acquirer often finds himself surprised about how fast and how open initial discussions enroll. Generally the



Key issues affecting Western companies when doing acquisitions in China:

- Little publicly available and reliable data to build a target research on (statistics, market reports)
- Corporate governance deviates greatly from Western standards
- No meaningful accounting systems – annual reports are not fit for the purpose of valuation of the target
- Unclear decision mechanism; often a single person (who may not appear in the discussions) is the sole decision maker
- Hidden contingent liabilities and risks relating to the assets
- Large valuation gaps between target and acquirer
- Relation-driven, complex negotiations
- Nascent and not yet fully developed regulatory and legal systems
- Cultural problems

time to obtain a Letter of Intent is much shorter as in the West. However, the following phases, in particular due diligence, are much more time-consuming as for a Western target. Tsui and Kaiser estimate that 70% or more of the duration of the whole acquisition process is spent on due diligence. This holds in particular for smaller targets whose "corporate governance" – if this expression is appropriate at all – widely deviates from Western standards. In such companies written documents have to be carefully interpreted and always must be verified by second sources. More importantly, accounting practices of Chinese SMEs only vaguely represent the true nature and

Laura Tsui, Partner and Vice-Chairman of the Board of InterChina Consulting addressing the audience.

state of their business and ownership of each asset has to be verified. Frank Brinken confirmed these statements for Chinese SMEs but added that large enterprises have evolved dramatically in the recent decade. The latter have, to a large extent, adopted management and reporting systems and leadership principles which are of equally high standards as leading large Western corporations.

"Forget the bean counters' mentality when doing acquisitions in China" – this was the overriding theme of Urs Toedtli's speech. Giving a host of practical examples, Toedtli demonstrated that entrepreneurial spirit and a pioneer's attitude are required to tackle the various practical problems, from missing (or non-existing) information over opaque ownerships to excruciatingly complex negotiations. Toedtli also emphasized the importance of a network of strong personal relationships, in particular with politicians. In one of his many practical tips of his presentation, Toedtli explained how he determines a business partner's networking qualities: He asks the person to organize a table in one of the most fashionable restaurants in town; as these places usually are booked out weeks in advance, it is a sign of very good relations if the business partner manages to get a table.

As another practical advice, Toedtli recommended to gather information from and through "the base" – i.e. from lower levels of employees of the target company – during due diligence. For example, discussions between the driver of the Western company's manager and the target corporations' executives may reveal highly relevant – and well-guarded – information. Concurring with Tsui and Kaiser, Toedtli stressed that ownership of assets has to be verified in each case. This is particularly relevant for real estate – for example, electric power may be supplied by cables crossing an adjoining lot, and after the acquisition, suddenly large transmission rates are charged.

Another peculiarity of Chinese companies are high fluctuation rates among their staff, which may pose serious problems to a Western acquirer. As Toedtli vividly illustrated, the main allegiance of a Chinese employee is to his superior, and not to his employer. If an executive leaves an enterprise, quite often whole teams follow him or her. To mitigate this "loyalty" risk, Sefar employs Singaporeans of Chinese ethnicity for senior management positions in China. These managers speak Mandarin and have gone through a Western-type education and training; they therefore can bridge cultural gaps between the local Chinese organization and the Swiss parent company.

While in negotiations, it is important to always be aware that Chinese managers are extremely clever traders and dealmakers – a fact which is complicated by the often opaque ownership of the target company. Often the owner – and sole decision maker – does not participate in the discussions and only becomes apparent late in the negotiation process. One way to clarify decision mechanisms is, according to Toedtli, is to "engineer" a conflict which gradually escalates. This prepares the ground to strike a deal in a face-to-face discussion between entrepreneurs ("no lawyers and consultants…"), however, the Western negotiator must take care to have all necessary competences to really agree on deal. Ideally, a close col-

Kurmann Partners AG – specialized on International M&A for Midsize Companies

Kurmann Partners AG is a partner-owned advisory firm which performs M&A transactions, restructurings and corporate development projects for mid-sized companies. All partners of the firm have a history in top management and/or as entrepreneurs. Drawing from this broad pool of experience, Kurmann Partners AG is action-oriented and excels in complex corporate transactions. The firm has advised a broad range of clients from all industry sectors since more than 20 years. Kurmann Partners AG is the exclusive Swiss member of IMAP, the world's largest organization of independent M&A consultancies with 300 deal makers in more than 30 countries. Through IMAP, Kurmann Partners AG can serve clients in global buy- and sell-mandates, also in emerging markets such as China, India and South America.
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InterChina Consulting, a Member of IMAP in China

InterChina Consulting was established in 1994 with the aim of assisting Western companies in China. The company brings together more than 40 committed Western and Chinese professionals with international business and management experiences and operates in China with offices in Beijing, Shanghai and Shenzhen. InterChina is unique in its combination of hands-on China experience, international exposure and conceptual ability. It offers a true bi-cultural resource to Western acquirers. Due the scarce desk data available, InterChina conducts every year over 2'000 face to face interviews in connection with target research and due diligence. Besides its M&A practice InterChina assists its clients with strategic consulting, HR services and administrative and financial support.
www.interchinaconsulting.com.

Sefar AG: A Swiss SME Success Story

Sefar was founded in 1830 and first produced sieves for mills. Today, the Heiden-based company produces sieves for a large range of industrial applications and is global market leader in several market segments, making CHF 345 Mio revenues. Sefar's entry into China followed parallel tracks in several phases. Relatively early, the Chinese market was served indirectly through distribution companies based in Hong Kong and Taiwan. In 2001, Sefar opened a Representative Office in Shanghai, followed in 2004 by the acquisition of the Chinese company GenChung. Following the 2005 foundation of the subsidiary Sefar Filtration Solution (Suzhou) Pte Ltd, Sefar started to forcefully penetrate the Chinese market with a largely expanded sales organization. Sefar's strategic interest is China as a market for its products, and decidedly not as a low-cost manufacturing hub.

laboration exists prior to the discussions about an acquisition; in such case, the conflict can be shaped in a manner that the acquisition is the logical solution.

The lively discussion in the panel again corroborated the various difficulties of acquiring Chinese companies (see box for summary). Strong personal relationships, also to the local political establishment, are indispensable. The strategic rational for the acquisition has to be built on a long-term perspective. Execution speed and flexibility during the process were emphasized by several panelists: China is developing at a breath-taking speed, and the market environment may change dramatically within months. That is of course a risk for Western acquirers – but it is also the big opportunity for Western companies which manage to create a foothold in China.

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China's Banking Sector: Focus Shanghai

China's and especially Shanghai's banking sector is now on the move. Since China's accession to the WTO, it was forced to adapt its banking system accordingly and open up its financial system to foreign investors on December, 11, 2006. However, these steps are only a part of a much more comprehensive reform of the Chinese banking system. Starting with the actual situation will enable us to have a look at the core challenges to the Chinese banking system and how Swiss banks could take advantage of the developments of the Chinese financial system.

Update on Shanghai's financial system

Today's situation on the stock exchange: The casino

Shanghai has become a highly speculative market, especially due to the fact that more and more individuals are investing in the stock exchange. Shanghai accounts for approx. 75 percent of the total Chinese market capitalization which is now at 3.6 trillion USD. This is 9 times more than two years ago. From taxi drivers to retired people, many people are lured by the high profits they could earn by investing in stocks. Since April 2007, an average of 300'000 new brokerage accounts has been opened per day. This fact can be explained by the following factors:

– The Shanghai Composite Index has grown by 67 percent between January and July 2007. The prospect of making high profit has thus attracted many new individual investors.

– The Chinese still have limited channels of investment, which is partly due to the persisting foreign exchange controls. From this follows that most of the Chinese savings are deposited on low-return bank accounts. It is estimated that 85 percent of the Chinese savings are deposited on bank accounts. These 2.26 trillion USD saving deposits only yield an average nominal interest rate of 2.75 percent. Consequently, the real interest rate is negative, not only because the actual inflation rate lies at 4.1 percent in the first 9 months of 2007, but also because of the tax levied on the interest rate. As household wealth is increasing steadily due to the high GDP growth, more and more money will be invested in higher yield shares.

– Companies listed on the stock exchange have made great progress in the field of efficiency and performance. Efforts have also been undertaken by the government to reduce the amount of non-tradable shares. Both factors have contributed to the regain of confidence in the financial market from 2005.

– RMB appreciation expectations have also led to massive overseas capital inflows, partly through the underground market. An estimated 300 billion USD of hot money has been invested in highly promising Chinese financial assets as well as in real estate and contributes to the stock market boom.

The high volatility in the markets can be spotted by looking at the very high asset turnover. A major challenge is that these individuals, who have no extensive knowledge in the financial markets, see investing on the stock exchange more as a game. They do not have any rational strategy and invest while indexes are soaring up, without any consideration of the firm's real long-term value and profitability. Although many believe that no new correction will happen in the near future, as the Chinese government has no interest of experiencing a slump in the market before the Beijing Olympic Games next summer, these developments fuel fears of a growing bubble which will eventually implode.

The Chinese high savings rate: explanation and consequences

Chinese households save on average 23 percent of their income. That is more than Japan or South Korea. This high savings rate is not only due to culture or precaution. It also stems from the fact that the social safety net, i.e. the life and health insurance business is still underdeveloped. Thus, Chinese households have to save more into low-yield bank deposits.

Complemented by the large capital inflows, this high savings rate has led to a massive amount of money available for investment. Many economists have warned that a too high savings rate i.e. a too great imbalance between saving and consumption can be detrimental to a country. This is due to the fact that excessive investment will necessarily happen in less productive sectors such as in State Owned Enterprises (SOEs). Capital intensity lies at nearly 50 percent of output, which is huge. The Chinese government has recognized this problem and is now taking measures to spur consumption.

Shanghai and the world financial system

Because of regulations which still restrict foreign investors to invest freely on the China Mainland and although hot money is pouring in, the Shanghai financial centre still looks more like a domestic international centre than an international one. The Shanghai market is nearly closed to international capital flows, so that share prices reflect the domestic market's liquidity, which is very high because of the excess demand for shares. Hong

Kong still is the dominant platform for exchanges between China and the rest of the world, not only because of its openness to international investors (no foreign exchange controls) but also because of its better governance, regulation enforcement and advantageous tax system. Although most of the Chinese blue chip companies are listed on the Hong Kong stock exchange and rather more risky shares were traditionally seen to be traded in Mainland China, Shanghai is gaining ground with more and more blue chip companies making the move back to Shanghai A-share market because of even better profit perspectives there.

By comparing companies listed both in Shanghai and Hong Kong over the April 2005–April 2007 period, it is possible to see that shares traded in Shanghai exhibit an average premium of 77 percent over the ones traded in Hong Kong, so that investors have a preference for Hong Kong shares that has to be compensated by such a premium. The government is now considering the introduction of share swaps between Hong Kong and Mainland stocks, which has led to expectations that the price gap between A and H-shares will narrow. After this announcement, the Shanghai Composite Index fell down by 3.5 percent.

Although the Shanghai financial centre is growing much faster than in Hong Kong, a lot more banking assets as well as foreign exchange and derivatives are traded in Hong Kong. Shanghai, however, is becoming an important centre for commodities trading, which Hong Kong is not.

The relatively closed Chinese financial system has shielded the Chinese market from shocks which have happened relatively recently. The American-originated subprime crisis has had negligible impact on the Chinese markets, which have continued their frenetic ascension since then. The combined exposure of the People's Bank of China (PBOC), China Construction Bank (CCB) and the Industrial and Commercial Bank of China (ICBC) adds up to only 12 billion USD. The World Bank however points out that a great part of the losses might be hidden in China's international reserves – which consist mainly from US T-bills – and could amount to 250 billion USD.

The main changes in the new Foreign-Invested Bank Administrative Rules are:

- Locally incorporated foreign-invested banks are entitled to engage in all the RMB banking services local banks are allowed to do.
- Branches of foreign banks that are not incorporated locally are only allowed to take local customers with a minimum deposit of RMB 1 million.
- The customer and geographic restrictions on foreign banks doing RMB business are removed. Foreign banks are now allowed to offer RMB services and bank card services to Chinese individuals throughout the country without having to obtain the approval of the regulatory authority.

Remaining obstacles for foreign-invested banks:

- Scarcity of outlets surely limits their access to vast customers. Furthermore, foreign banks will not be able to open more than one branch per year, which means they will not be able to achieve successful expansion in short period of time.
- Excessive capital requirements (RMB 400 million equiv. EUR 39.6 million, compared with EUR 5 million registered capital a Chinese bank must prove to open a branch in the EU).
- Lending limits: Overall lending is not permitted to exceed 75% of deposits.
- Administrative regulations and long waiting period for licences.

Challenges to the financial sector and current developments

This section aims to highlight a few critical areas concerning the current Chinese banking and financial system and describe what progress was made in these areas.

The main banking players: the "Big Four"

The Chinese banking system, according to the Shanghai Financial Service Bureau, consists of 800 financial institutions, 350 of which are foreign. Yet, it continues to be dominated by China's four largest state-owned commercial banks, the "Big Four", who still hold 65 percent of all banking deposits through their 116'000 domestic branches. These are People's Bank of China (PBOC), China Construction Bank (CCB), Industrial and Commercial Bank of China (ICBC) and Agricultural Bank of China (ABC), who will soon all be publicly listed. They still lack advanced competitive structures and lag behind when it comes to profit and customer orientation. However, a lot of progress has been made recently, pushed forward by the opening up of the banking system to foreign competitors, which will be commented on later.

Update on the Non Performing Loans (NPL) situation

One major inefficiency of the Chinese banking system are the Non Performing Loans (NPL). Their propagation was favoured by the fact that state-owned banks believed they would always get the help from government in case in financial distress.

The Chinese government has now addressed the problem among others by transferring more than 150 billion USD worth of NPLs on state-owned asset management companies like Huarong, Cinda, Great Wall or China Orient. This has lead to a sudden drop of the share of NPL from 33 percent in 2001 to 6.54 percent in June 2007 on the bond market. The problem of NPL, however, is not going to disappear until Chinese financial actors improve their credit rating system and the Chinese government assures that there will be no bailout for state-owned banks.

The new Bankruptancy Law, passed by the National People's Congress in 2007, will hopefully improve the situation by ensuring the better respect of creditor rights.

Government share ownership and influence over the IPO market

Two-thirds of the shares issued on China's domestic exchanges are owned by the government and are legally non-tradable. This implies that the real size of the Chinese Mainland stock markets is much smaller. In 2005, the government has announced a plan of transforming these shares into tradable "G shares" so that this issue remains to be followed in the near future.

It can be noticed that it is much easier for a former SOE, due to better connections with state officials, to get government approval for an IPO. Most of the listed firms are hence former SOEs, which use the listing to find capital. Once listed, the strategy of SOEs is to rely entirely on capital markets to grow, instead of focussing on improving the company's core assets.

A promising area for foreign banks: Private banking

The number of affluent customers has been growing at the fast rate of 15 percent over the last 6 years. Merrill Lynch and Capgemini estimate the actual number of dollar millionaires to 345'000, whose average wealth is 5 million USD. In addition, McKinsey calculates that 2 percent of the customers, i.e. the wealthiest, make up for more than half of the banking profits. This highlights the great potential which lies in the private wealth management area. As most of the wealth is still unevenly distributed and mainly located in coastal areas, this makes it easier for foreign banks to gain ground in this field. Not to forget the great experience that Swiss banks have gained in servicing those clients, who demand more and more sophisticated, custom-tailored products. Classical Chinese banks still lack of knowledge in this area so that Swiss banks have good chances, combining their solid first-class reputation with their skills, to be successful on this market. They still have a competitive advantage in product development, although the long approval process for new products might reduce this advantage. The recruiting, training and retaining of qualified local employees will also be a task which should not be underestimated, as qualified staff shortage and high turnover rates are known challenges for a company settling in China.

There is a great need to encourage the listing of other private firms, as those are the main contributors to the markets' dynamism. By also reducing the number of state interventions in the system, improving transparency and fighting against corruption as well as insider trading on the Chinese markets, a lot of uncertainty could be removed, which would have a positive effect on the market.

Lack of institutional investors in the equity market

The lack of institutional investors (i.e. insurance companies, mutual funds, pension funds or hedge funds) is one main reason for today's high volatility of the markets (as seen before). They account for only one-third of the equity trading, compared to 62 percent in the US. Institutional investors would stabilise the market by investing more rationally and considering the long-term real prospects of listed firms.

Lack of a developed credit-assessment system

Lending is still based in very succinct information. As most of the companies' financial statements are unreliable, as they still do not comply with international standards, it is easy for a company to falsify them. Past experience and relationships are still determinant in this business. Some government-backed banks also do not have sufficient incentives to improve the system. Furthermore, renowned international rating agencies are still absent from the Chinese market. The decentralized structure of the banking system also does not contribute to improving the situation, as many branches from the same bank seem to operate totally independently.

Some steps are slowly taken to build national standards and networks for credit assessment: PBOC has sought to develop a credit information database this year, CBRC has urged banks to unify regulations in that matter lately and CSRC has issued the *Tentative Procedures for the Administration of Credit Ratings in the Securities Market* on August, 24, 2007. However, there is still a lot to do in this field. Improvements will especially be beneficial for household and SME lending, who are still disadvantaged because of the higher risk they represent. However, they also conceal a higher, unexplored potential.

Embryonic corporate bonds sector

Corporate bonds ensure companies a cheap way of financing their investments. In China however, only 10 percent of the corporate debt comes from bonds. Most firms get their finance from taking bank loans. One reason for that is the tedious approval process for corporate bond issuing, which generally takes between 14 to 17 months. As the interest on corporate bonds gets taxed while the one on government bonds does not, there are no sufficient incentives to buy corporate bonds. Furthermore, the credit-rating system is still at a very early stage, which does not encourage the growth of the corporate bond sector.

MAJOR FINANCIAL SYSTEM REFORMS CURRENTLY ON THE AGENDA

	Commitment	Timing of implementation
Banking	• Local currency business of foreign banks for consumers allowed without geographic restrictions	2005
	• Elimination of special regulations on investments from foreign banks	2006
	• Corporate bankruptcy law to be revised	
	• Credit bureau to be established	
	• Lending floor rate removed gradually between 2006 and 2009	
	• Recapitalization of banks to become part of a comprehensive program	
	• Domestic consumer business open to foreign banks	
	• Maximum foreign banking stake may be raised to 25%	2007
	• Deposit ceiling rate removed gradually from 2006 to 2010	2006
Securities	• Securities law amended to provide greater investor protection. It grants China Securities Regulatory Commission (CSRC) more power to supervise the market and requires investor's cash to be deposited into their personal accounts rather than the accounts of the securities companies	May 2005
	• All non-tradable shares being monetized in next 3 to 5 years	2006
	• CSRC may create "risk compensation fund" with the approval of Ministry of Finance and People's Bank of China, which will be used to compensate the loss of the investors when the securities companies are bankrupt or closed due to the illegal embezzlement of the client's capital	To be determined
	• CSRC is helping to lower dividend tax	To be determined
Corporate Law	• Revision to lower the minimum registered capital to start a business from up to CNY 500,000[1] to CNY 30,000 for all industries; new law also allows up to 70% of this to be noncash contributions	Jan 2006
Brokerage	• China Banking Regulatory Commission (CBRC) approved establishment of first money broker, a joint venture between British interdealer Collins Stewart Tullett and Shanghai International Trust and Investment Corp.	Nov 2005
	• Wholly foreign-owned insurance brokerage companies are allowed.	2005
Debt market	• Commercial banks allowed to issue financial bonds	2005
	• New corporate bond regulation may be issued and the commercial banks will be allowed into this market, government approval procedure may also be eliminated	2006
	• Gradually allow Qualified Foreign Institutional Investor (QFII) to invest in the interbank bond market	
Derivatives market	• In the future, short-term interest rate futures, Exchange-Traded Funds (ETF) options, index options, share options and other more complex products will be available	
Pension funds	• In current "personal endowment account" employees contribute 8% instead of 11% of salary; employers contribute 3%, which will be put into a social security fund instead of being a transfer into personal accounts	2006
	• Carry out social security reform in rural areas of China	
	• In the next 5 years to increase the total asset of pension fund to RMB 1,000 billion; in order to realize this goal, the pension funds will increase their investment in equity	2005
Mutual funds	• Pilot commercial banks are allowed to set up fund-management companies	2005
	• The foreign investment in fund management companies can be raised to 49%	2007
Insurance	• A new insurance law will be issued; at that time the insurance capital can enter the stock market with few limitations	2007
	• Different insurance products will have their own accounts, the premium from which will be transferred to the trust account of the parent company and then allocated, invested, and distributed by the parent company	

[1] Manufacturing or wholesaling business.
Source: World Bank (China and the ETO, 2004), literate search

Prospects for foreign banks in China in consideration of the ongoing financial system reform

With China's WTO accession, Chinese authorities have committed themselves to the opening up of their financial sector to foreigners. A wide-ranging series of financial reforms have been undertaken since. A core milestone to this reform is the new Foreign-Invested Bank Administrative Rules which have been put into place on December, 11, 2006. These reforms, however, must also be seen as a step by the Chinese regulatory bodies to improve competitiveness and efficiency in the Chinese banking market.

This move towards liberalization opens up many opportunities for foreign banks. Promising areas for foreign banks are wealth management, e-banking, mortgage lending and credit card issuance among others. These opportunities, however, always have to be considered with the regulatory background in mind, which still considerably hinders the foreign banks' rapid setting up of operations in China.

As the detailed listing of all measures of the financial system would go beyond the scope of this introductory paper, only a few changes central to the current reform have been picked out.

Foreign bank participation on the Chinese market

The Shanghai banking sector now includes 100 foreign operational bank institutions in Shanghai who have opened 106 representative offices. Foreign bank total assets amount to 68.2 billion USD, accounting for 14% of the total assets of financial institutions in Shanghai and 56% of the total assets of foreign banks in China. Yet, important regulatory hurdles for the foreign banks' operations still exist. In particular, a single bank cannot acquire more than 20 percent as a minority investor in Chinese banks. This percentage, though it might be increased by 5 percent soon (see Appendix B), is not enough to exercise sufficient control over the decision-making structure and leaves the foreign banks with limited room to influence the Chinese banks' strategy.

Some brighter developments stem from the China Banking Regulatory Commission (CBRC) who has now given its green light to already 4 foreign banks (Citibank, HSBC, Standard Chartered Bank and Bank of East Asia) to conduct RMB business with all individuals. 8 others are to follow soon. The main criteria to get a license are to incorporate in China and to provide a minimum capital of 1 Billion RMB. This permission from CBRC opens up a lot of perspectives for foreign banks. Box 2 presents the good prospects of the wealth management business for foreign firms.

In the securities field, 20 foreign brokerages, 20 brokerage and fund company joint ventures and 58 representative offices of foreign brokerage are active in Shanghai. However, foreign firms are still subject to limitations in ownership of securities underwriting enterprises. These are a 33 percent limitation in joint-venture securities brokerages and another 49 percent in asset management firms.

The government is now continuing its opening up of the domestic market to foreign investors in the framework of the Qualified Foreign Institutional Investor licensing scheme (QFII) which allows foreign investors to trade A-shares. In May 2007, China Securities Regulatory Commission (CSRC) and the State Administration of Foreign Exchange (SAFE) have agreed upon increasing the quota for QFII investment from 10 billion USD to 30 billion USD by December 2007. The total amount of approved QFII now adds up to 52. This number will surely grow in the near future, as CRSC, SAFE and PBOC have announced the lowering of the threshold for participation in the QFII scheme from 10 million USD and 30 years of experience to 5 million USD and 5 years of experience. The QFII investors will also be allowed to contract with up to 3 brokerage firms (compared to 1 before) and will be able to hold multiple brokerage accounts.

Domestic investors' participation on international markets

In April 2006, the government has approved the Qualified Domestic Institutional Investor (QDII) program which allows Chinese investors to invest in overseas products. CSRC is also in the process of enlarging the scope of the QDII program, which could contribute to curb the RMB appreciation. However, up to now, only 5 percent of China's 18.5 billion USD quota has been used, mostly for investment in H-shares. This can be explained by the fact that the appreciation expectation of the RMB has deterred many Chinese investors from investing abroad.

Since August 2007, the State Administration of Foreign Exchange (SAFE) is planning a pilot program to enable Chinese residents to invest freely in Hong Kong shares when contracting an account at the Bank of China's Tianjin branch. By opening an account at PBOC's Tianjin branch, the investment amount will not be subject to the yearly 50'000 USD limitation on the purchase of foreign exchange. In practice, a PBOC Tianjin account can be opened from any PBOC branch and will enable Mainland residents to invest overseas. The H-shares have soared up in anticipation of an eventual new flood of money coming from the Chinese mainland. Although this project is still on hold, this move bears a great potential to the relief of appreciation pressures on the RMB as well as to the reduction of the excessive domestic liquidity and foreign exchange reserves.

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www.eda.admin.ch/shanghai

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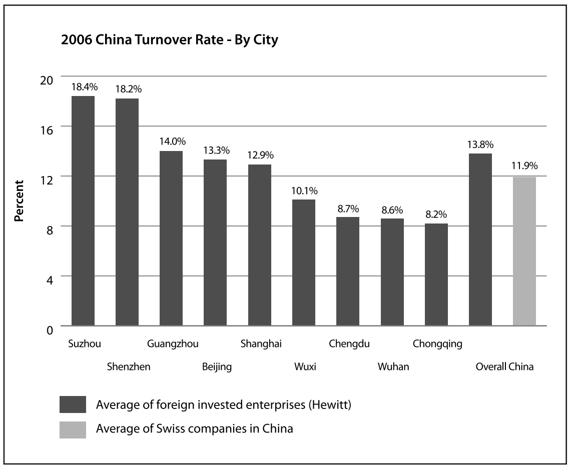
Selecting the Right Location for Success

China is Switzerland's best client in Asia (ahead of Japan since 2003) and already imports almost half the amount of Swiss goods and services as North America. Looking to the future, there is little doubt that China (and Asia), sooner or later, will become the no. 1 market for Swiss companies. In this context, it is essential for Swiss companies to be successful in China.

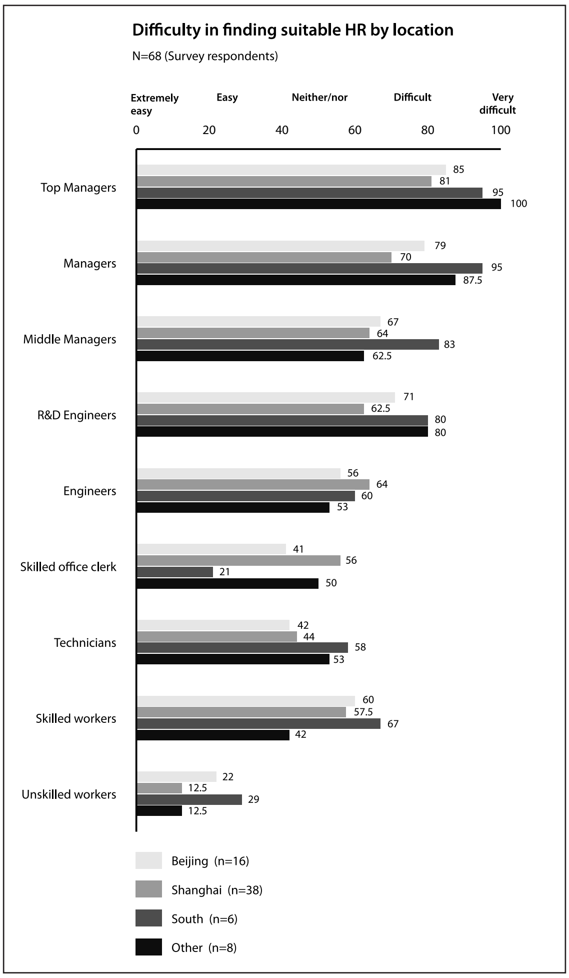
In 2006, SwissCham China, along with the Swiss-Chinese Chamber of Commerce in Switzerland, the Swiss Center Shanghai, Osec and SECO, was instrumental in the production of a survey on Swiss subsidiaries in China and their headquarters in Switzerland. The results were published in **Behind the China Kaleidoscope**. A key finding of this study was that human resources and their management (HRM) proved to be an absolute key importance for the success of a Swiss operation in China. To shed more light on the subject, a new study has been conducted in 2007 to understand how successful Swiss companies manage their people in China. The results have just been published in **The China Human Resources Paradox – Dealing Successfully with People Shortages in the Land of Billions** (see www.chinaguide.ch).

The following is an extract of the recent Swiss HRM research focusing on location as a determining factor for successful human resources management in China.

The 2007 survey results indicate from many angles that the location of a subsidiary in China plays a critical role in the success of its human resources management. Indeed, the tightness of the labor market and the mentality can vary dramatically from one region or city to another. Most importantly, the location determines the type, availability, industrial experience and quality of personnel that a foreign company can expect to hire. In turn, the quality of these personnel will often determine how competitive the company's operations will be. While certain functions are easily filled because the required work-



Source: 2006 Hewitt Associates China TCM Study overall finding and Swiss-China HRM Survey, 2007



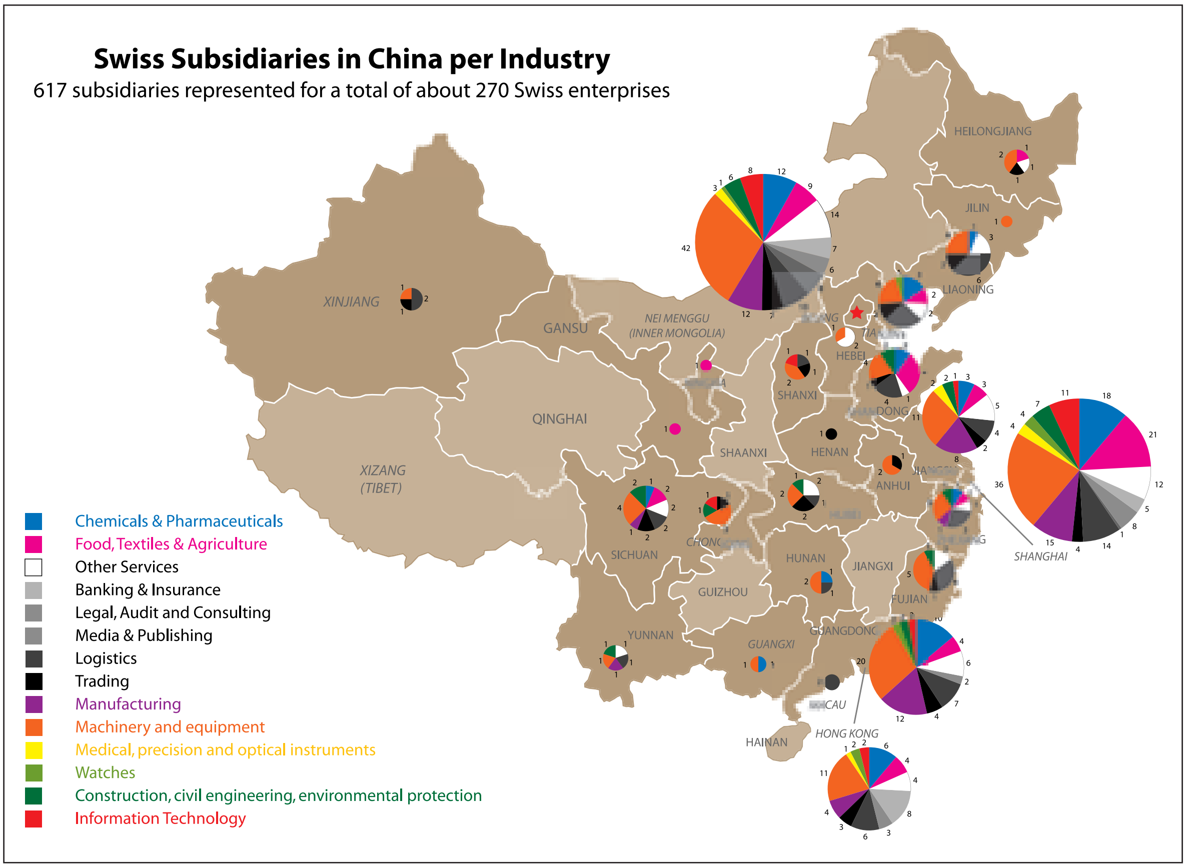
Source: Swiss China HRM Survey, 2007

force is highly mobile (as is the case with unskilled or semi-skilled labor), management and highly-trained technical personnel are, however, generally unwilling to relocate as long as they are able to find good opportunities nearby to where they live[1].

Swiss companies confirm this situation; the difficulties they perceive in finding staff in China vary considerably in the areas under consideration (Beijing, Shanghai, the South and Other regions.

In their own surveys, HR consultants also note that average staff turnover in foreign-invested enterprises can vary considerably. Staff turnover rates range from 8.0 to 9.0 % in certain second-tier cities, to over 18% in cities such as Suzhou and Shenzhen.

In addition, different types of operations need different types of personnel, both in terms of industry experience and in function. A service company will need proportionally many more international level managers than a manufacturer (which will seek workers and management with the appropriate industry experience). The available resources and the level of technology of the parent company also affect the choice of location: larger companies



can afford to bring in expatriates from the parent company to manage and train local employees. Small and high-tech companies however, usually have to start on a smaller scale and at a faster pace. Therefore they need to find trained management and technical personnel immediately and, very often, outsource certain functions to specialized companies that can understand their needs and fulfill them immediately. Such outsourcing companies however are rarely present in second-tier locations.

Swiss companies' locations of choice

Swiss companies clearly favor China's three main economic regions:
- Beijing;
- Shanghai and the Yangtze Delta;
- Hong Kong, Shenzhen/Guangzhou and the Pearl River Delta ("the South").

While Beijing saw the first arrivals (mostly representative offices) and the South was an early choice for the establishment of consumer goods and labor-intensive enterprises, the Yangtze Delta is now taking the lion's share of the 21st century arrivals.

Overall, at least half of all Swiss investment (by value) is located in the Yangtze Delta region. The map above shows the pattern of settlement by Swiss industry in China.

First-tier versus lower-tier locations

Beijing and the North

Beijing remains a most attractive location for the IT industry. Being the home of China's central government, it is also a useful base for lobbying activities, should the business be influenced by decisions made in Beijing (this is only the case for a small, and decreasing, number of businesses, however). Tianjin (the city/port that serves Beijing and should be considered part of the Beijing area) is developing specifically in aerospace-related industries. This coastal city is now in receipt of substantial investment by central government in the wake of similar development support to Shenzhen and Shanghai's Pudong district: it can be expected to attract more such industrial investment.

The South and the Pearl River Delta

The area north of Hong Kong and Macau, including Shenzhen, Zhuhai, Guangzhou and Dongguan, is growing into such a closely linked industrial region that it is difficult to differentiate clearly between its cities. As a result we have referred to it collectively as "the South" in this report.

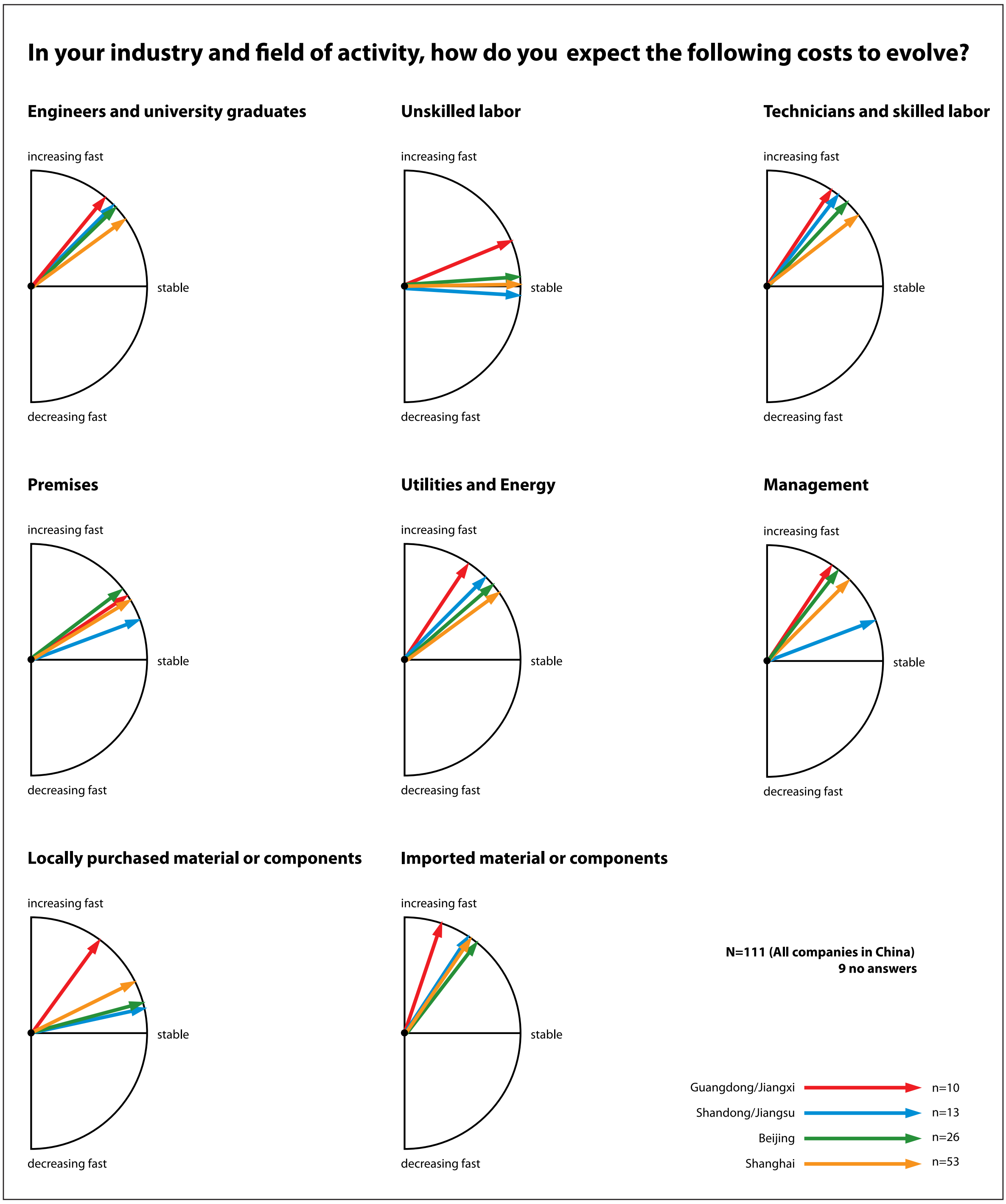
While Hong Kong has lost its manufacturing to the mainland and became a logistics, finance, trade and service center, the surrounding area has become a strong hub for the production of fast-moving light industrial consumer goods (consumer electronics, bicycles, household appliances, toys, apparel and watches are typical examples). The South has also evolved specific industrial clusters, such as Shenzhen and Zhuhai for the watch industry, and Humen for die-casting.

The 2006 Swiss-China survey shows that costs in general are increasing more rapidly in the South than elsewhere in China[i] (see chart below: **In your industry and field of activity, how do you expect the following costs to evolve?** Data collected in 2005).

In addition, Swiss companies clearly perceive the South as being the most challenging when it comes to finding sufficient quantity and quality of employees. This is exemplified by employee turnover: the rates in Shenzhen and Guangzhou are among the country's highest.

Shanghai and the Yangtze Delta

In addition to becoming the mainland's main commercial, financial and logistics center, Shanghai and the Yangtze Delta have also developed into a leader in the production of chemicals, pharmaceuticals, machinery, industrial electronics, precision and high-tech components. Shanghai also attracts the most investment for



Source: Behind the China Kaleidoscope, 2006

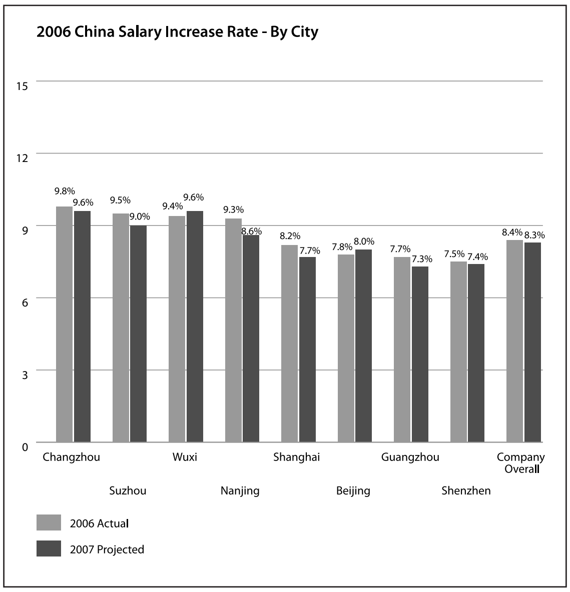
R&D centers. The automotive industry is present in all three first-tier locations, but automotive suppliers have settled in larger numbers in the Shanghai area.

Based on all of the survey findings, Shanghai is certainly the area that best matches the needs of Swiss companies, often against the common perception:

- Among first-tier locations, Shanghai does best in terms of employee turnover; it is more successful at retaining its employees.
- In terms of the ease of finding staff, Shanghai still performs the best among first-tier locations (and also compares favorably with lower-tier locations).
- Additionally, costs in Shanghai are not increasing any more rapidly than in other locations (in fact it is quite the opposite case for key employees, such as technicians and engineers).

A salary comparison

When looking at the trends in average salary increases across the country for all foreign-invested firms, Shanghai proves to have one of the lowest rates of growth, along with Shenzhen and Guangzhou.



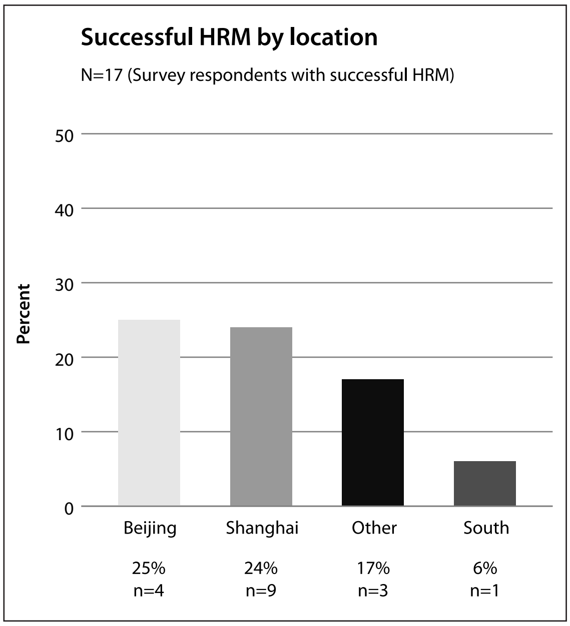
Source: 2006 Hewitt Associates China TCM Study Overall Findings

The table on top of page 67 shows that compared to other first-tier locations (Beijing and Guangzhou), Shanghai is not significantly more expensive in terms of the cost of its human resources. Beijing is 10% more expensive than Shanghai for service (non-manufacturing) operations and 7% cheaper for manufacturing, while Shanghai is just 3–4% more expensive than Guangzhou, overall.

Success in Human Resources Management

The survey results show that Swiss companies with effective HR are more numerous in Shanghai and Beijing, while the South again emerges with the least effective HR management. Across all the survey respondents, the South was found to have the lowest proportion of subsidiaries with successful HR management.

Third-tier locations also have a lower proportion of successful companies when compared to Beijing and Shanghai, but they still fare better than the South.



Source: Swiss China HRM Survey, 2007

Shanghai or Beijing, rather than the South

While the South is clearly at a disadvantage against Beijing and Shanghai in terms of employee turnover and difficulty in finding the right staff, Beijing is more or less on a par with Shanghai in this respect. Cost-wise, differences among the first-tier locations are not very significant.

The main differences between Beijing and Shanghai lie in the smaller number of well-developed industries in the Beijing area and Beijing's perceived higher level of corruption when compared to Shanghai; two points that should also be taken into consideration (see page 68: **Selection of location and HR for IP loss prevention**).

Geographically, Shanghai's position in the middle of China's coastline presents the added advantage of more convenient access to the rest of the country, while connections to other parts of Asia are also generally good.

In summary, unless a certain industry depends on central government lobbying or is definitely stronger in the Beijing area or in the South, Shanghai is a better first-tier location for Swiss companies.

2007 Differential Pay Index

	Manual Worker	General Staff	Professional	Supervisor	Manager	Sr. Manager	Overall
Beijing Non Manu	-	132	134	132	125	132	131
Shanghai Non Manu	-	121	121	119	118	119	120
Guangzhou Non Manu	-	110	109	106	104	124	110
Shenzhen Non Manu	-	111	109	105	102	112	108
Shanghai (Manu)	100	100	100	100	100	100	100
Beijing (Manu)	101	100	99	96	97	102	99
Guangzhou (Manu)	109	102	94	89	86	87	95
Shenzhen (Manu)	91	94	98	97	93	92	94
Tianjin (Manu)	90	86	82	81	83	87	85
Suzhou (Manu)	79	79	79	82	86	89	82
Xi'an (Manu)	78	77	76	79	82	87	80
Dalian (Manu)	94	83	74	69	69	75	77
Wuxi (Manu)	80	76	72	70	69	76	74
Qingdao (Manu)	82	74	67	66	69	83	74
Changzhou (Manu)	69	65	62	65	67	70	66
Wuhan (Manu)	71	67	63	59	56	57	62

Source: 2007 Hewitt TCM Study

Second- and third-tier regions: not generally recommended

Many people perceive first-tier areas as expensive when compared to other areas, with Shanghai being taken as the best example of an expensive location: "If I set up a factory in Switzerland, I will not do it in Zurich!" goes the typical argument.

Yet, while direct costs in the first-tier locations are certainly a little higher than average (particularly in terms of real estate and labor), the human resources management difficulties experienced in lower-tier cities, on the other hand, can lead to considerable indirect costs. Additionally, the cost evolution chart above clearly shows that the cost of skilled or unskilled labor in first-tier locations is not increasing any faster than in the second-tier areas (represented by Jiangsu and Shandong in the chart above), with the exception being the South. As a consequence, labor costs in Beijing or Shanghai are not necessarily a disadvantage, although management costs are increasing more rapidly in first-tier locations. In fact, the capabilities of the available management personnel in second-tier locations are not comparable to those of the available management personnel in first-tier regions, nor are they suited to sophisticated operations. This can lead to other indirect costs.

The indirect cost of inadequate human resources is difficult to measure. All will agree, though, that a lack of sufficiently qualified-staff generates prohibitively large costs through inefficiency, reduced productivity, missed business opportunities and increased material wastage. These issues are particularly acute when the products (and the equipment used to produce them) are comparatively expensive; both of which usually apply in the case of Swiss companies. All in all, this is a very important element to bear in mind, as such indirect costs may far outweigh the higher costs of staff and premises in first-tier locations. Moreover, the situation is unlikely to change in the near future, as Shanghai and Beijing continue to attract the best of the country's talent, sustaining high competition between management professionals, keeping salary costs in check and ensuring that employees continue to improve in quality and ability.

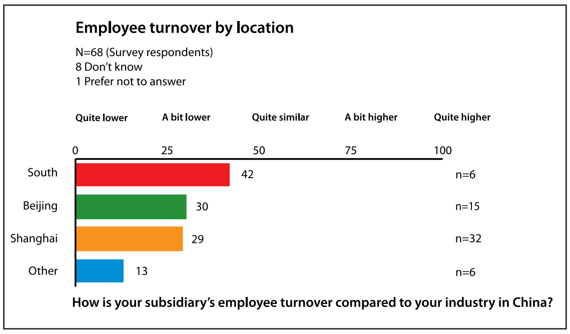
The lower suitability of employees in more distant locations becomes more apparent when looking at the difficulties faced by Swiss companies in finding suitably-qualified employees. Excluding manual or unskilled workers, these difficulties are definitely higher on average in lower-tier cities ("Other") than in Shanghai and, to a lesser extent, Beijing.

Finding employees in the South is as difficult as in low-tier locations, though for different reasons. In the South, low availability results from that area's high rates of development, with demand outstripping supply, while in out-of-the way cities it is almost impossible to find candidates with the experience and exposure required by foreign companies.

Even so, the results also show that it is easier to **keep** employees in low-foreign-investment second- and third-tier locations. Shanghai and Beijing rank in the middle of the scale, while a location in the South is clearly the most problematic for Swiss companies in their goal to retain employees.

As a matter of fact, a number of Swiss subsidiaries actually achieve lower-than-average staff turnover rates in second- and third-tier cities, along with satisfactory HRM results, as illustrated by some of the survey's case studies (Guilin Virgil and Firmenich).

Analyzing the two above-mentioned examples, one realizes that these subsidiaries are focused on production



Source: Swiss China HRM Survey, 2007

activities and are located in areas with comparatively low foreign investment.

Actually, a foreign company is perceived as an employer of choice by the Chinese. As a consequence, should a foreign company be able to manage its operations with generally unsophisticated personnel in a lower-tier location, it will certainly be able to attract the best of the local employees, and retain them as well. Even the best of those employees, however, are unlikely to have sufficiently high skills, so the sophistication of the operation, and the ability of the company to train its employees, will be critical for success in such low-tier, low-investment locations.

This situation reverses, however, as soon as the lower-tier location becomes a focus for foreign investment. Newly-arrived foreign enterprises invariably seek to poach trained staff from established foreign companies, offering higher salaries to attract qualified people in order to minimize start-up difficulties. The available pool of such employees in lower-tier locations, particularly managers, rapidly shrinks when compared to the local market needs, so that employee turnover and costs suddenly grow considerably faster than anywhere else.

Suzhou is a typical example of such a situation. The city attracted enormous amounts of foreign investment (even higher investment than Shanghai, at times) due to its convenient proximity to Shanghai's infrastructure and lower salaries. Yet human resources in general – and personnel trained to work in international firms in particular – are considerably lower in number in Suzhou than in Shanghai, creating a much tighter labor market than in the first-tier cities. This is evidenced by foreign companies' staff turnover rates in Suzhou: the highest in the country!

To compound the problem, Chinese people perceive smaller cities to be much less attractive than the large metropolises. The situation is very similar to that of western countries when they were developing: it is normal that opportunities, consumer goods and social life are considerably more interesting in the big cities when a country is not yet fully-developed.

As a result, Shanghai, Beijing (and to some extent, Shenzhen/Guangzhou) have the additional advantage of being at the right end of the brain drain chain, attracting the best available talent from the lower-tier areas.

In summary, smaller or higher-technology firms need to very carefully evaluate the HR situation of any location that may be too distant to allow employees to commute from the big centers (Shanghai, Beijing and Hong Kong).

On the other hand, should a company only need skilled labor and unsophisticated technicians and middle management, second-tier cities may also be considered. In such cases, the management still needs to keep a long-term perspective to be sure that future plans will not force a move later on: should the manufacturing facility need to incorporate an R&D function, for example, the ready availability of research or application engineers, and proximity to good universities, becomes crucial.

Location selection and HR for IP loss prevention

Losing key people almost always means losing intellectual property, and human resources are the most obvious area in which an enterprise may take preventative action to safeguard its intellectual property and know-how (once all the legal measures have been properly taken). Naturally, human resource selection and management is a key tool in IP protection. The combination of China's volatile situation, both in terms of HR and IP, makes HRM particularly important in the struggle to protect IP.

With the above in mind, the location that a foreign enterprise selects therefore plays a very prominent role, as it generally determines the mentality – and with it, the ethical behavior – and volatility of its employees.

Less obviously (but not so surprisingly), location additionally influences the ability to protect intellectual property through another human factor: that of judges and the legal system.

Indeed, while laws are valid on a national level, their implementation in the courts still depends enormously on local judges. Jurisprudence, for example, is very rarely used in China to determine the issue of a legal case. A strong and objective legal system allows not only the validity of commercial contracts but also the enforcement of the Chinese laws that protect companies from the theft of knowledge by their employees.

This in turn contributes to the local sensitivity of employees towards the protection of company knowledge and ultimately, their behavior.

In this aspect, the Shanghai area is again more favorable than any other: corruption is rated by Shanghai subsidiary managers as their least worry, while it comes at the middle of the list of concerns of those working in Beijing and the South.[ii]

By Nicolas Musy, VP SwissCham China

Footnotes:

[1] Middle management and technical personnel often buy their own home but need both spouses' salaries to pay the mortgage. On the other hand, top level management is more willing to relocate for good opportunities as they can live on just one spouse's income and thus are able to afford an additional apartment with the other salary.

[i] Behind the China Kaleidoscope, 2006, p. 47

[ii] Behind the China Kaleidoscope, 2006, p. 48

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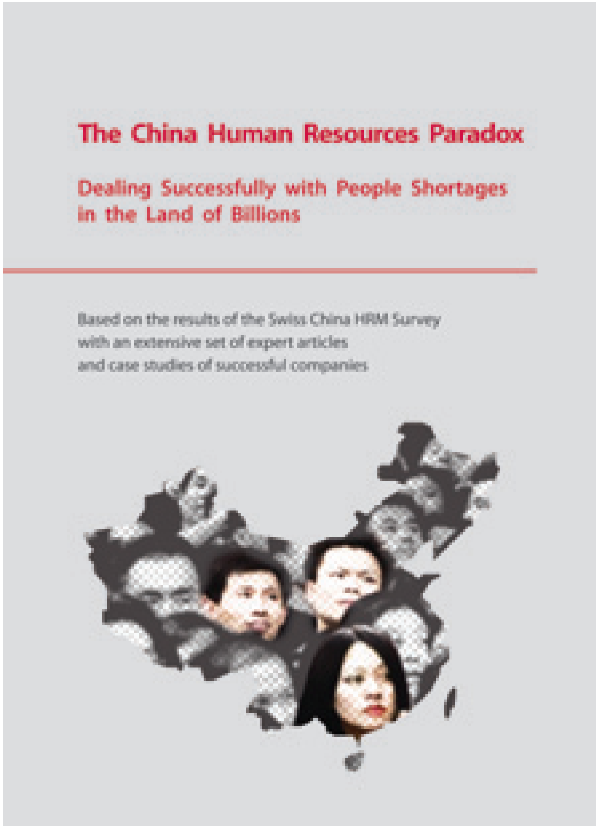

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Finding Qualified Employees in China

Martin Schneider
Chairman and CEO
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When it comes to the topic of Human Resources the hurdles are manifold. The central question is: How to find the right people for the specific tasks. Nowadays there are well-educated and skilled qualified employees in China. Nevertheless, it is sometimes recommendable to work with external professionals for certain jobs and in certain situations.

A crucial requirement is the choice of the "right" managers in the relevant project phases. The success of every project "building up business in China" is decisively dependent on the quality and the experience of the project leader who is in charge. This is a truism but in practice this is all too often "forgotten".

Especially for a Swiss SME (small and medium-sized enterprise) which takes the risk of entering faraway China, the solution which in the beginning looked inexpensive, turns out to be the most expensive one in the end, because the company has to pay the learning and follow-up costs when the project leadership is incompetent. Such costs arise, for example, due to project delay and a suboptimal selection of qualified employees and suppliers.

Internal employees may have the appropriate technical know-how, however they often lack the experience concerning the implementation in such a unique project. External qualified employees can provide target-oriented experience and are able to lead the internal organisation with the necessary tact and sensitivity, thanks to their competence and specific project experience.

It would often be wiser to hire the best possible western China specialist. Such an interim project leader costs more per month than a regular member of staff, but he or she knows what they are talking about and is aware – based on personal experience – of the necessary "dos and don'ts" in China. He is a guarantor for a successful execution of a project in terms of timing and costs.

Typical pitfalls

Of course every company owner would like to hold on to the reins and move as much as ever possible himself on site. As a preparation he attends intercultural seminars and events concerning China, travels to China a few times in order to establish contacts, to find partners and to evaluate the location for the new manufacturing plant. He seeks advice from various chambers of commerce and official institutions. He shapes his image of the country in discussions at business lunches and after an extensive ripening process, decides what is right or wrong.

And yet he makes very serious mistakes. It may be that he then gives "a chance" to a young, energetic and hopeful talented employee from Switzerland and hands him over the task to build up a manufacturing plant in China. Or he follows the recommendation of a local HR consulting company in Shanghai which proposes a very inexpensive Chinese manager who may earn some 1'000 Swiss francs a month.

Such patterns of behaviour of Swiss SMEs can often be witnessed in everyday business life and sometimes this approach may even lead to success.

Unfortunately, you encounter problem cases much more frequently; problem cases which primarily can be traced back to a selection of employees which is not optimal. Not for nothing do international statistics of foreign investments in China show a high failure rate of up to 80% regarding reaching the financial performance within a defined time period in comparison to the original business plan.

Different phases

An important insight from the above-mentioned problem cases is that in the build-up of a manufacturing plant there should be a clear distinction between the build-up phase and the operational phase. The build-up phase is very demanding and for this an experienced project leader is needed. One can assume that the same project leader is hardly the right person for the operational phase, because in this phase there are simply other criteria and skills which are required.

Therefore, the model that can often be seen – to hire a plant manager who builds up a plant and then in a next step leads it himself – often does not bring the desired result.

Successful strategies

Imagine a successful Swiss SME in China. It has hired a non-Chinese (e.g. Swiss or German) interim project leader. He is responsible for the build-up phase in China, typically for 12–18 months, and secures his succession in the operational phase.

This non-Chinese project leader has a track record including solid experience with China and has at least managed successfully a similar build-up task of a plant already. He ensures that the foundations for the production in China are established in line with Swiss quality.

He takes care of the numerous decisive details which are not obvious to see for a local person who has little experience of for a foreigner who is inexperienced regarding China (e.g. in the initialising of the various operational processes and in connection with the recruitment and the relations to the employees, partners, suppliers and local customers). He also ensures that the know-how does not already drain in the build-up phase and that a short time after starting the production, no local competitor – a few steps away – starts manufacturing fake products at half the price which then are introduced in the market.

If the build-up phase has been completed in a successful way and the first finished products leave the assembly line, then the time has come for a successor. This new General Manager must have the quality to enjoy routine work. It could either be an expatriates or a local person.

Local solution

If the decision is taken in favour of a local Chinese plant manager there is a challenging and time-intensive recruitment task to solve. In China there are different channels how to find such a local General Manager. The search costs rise rapidly in the sequence from cost-free, maybe 10% "friendship commission" regarding the former (networking), to up to 30% of the first annual salary regarding the latter (executive search). In this way numerous candidates can be found quickly who seem – at first sight – to be ideal candidates. However, in most cases they lack the experience to lead an enterprise and particularly to lead more than only two or three employees. The money-driven thinking and behaviour is rooted much more deeply in the booming area of China than in lethargic Europe. You also have to accept the fact that a local person more often than not also runs a private side business. This is common in China and is not considered to be immoral. The company owner in faraway Switzerland can actually only prevent the situation from being overly exploited by having a friendly relationship with a carefully chosen local manager and by implementing a strict controlling including regular personal supervision of the financial procedures in China.

Success factors

There are numerous successful examples of Swiss enterprises in China, such as ABB, Hoffmann La Roche, Nestlé but also SMEs such as Geberit, Sarnafil, Zehnder etc. They have all made mistakes in the past and learned their lessons from them. Now it is important to implement the respective success factors in an adapted form also in the case of SMEs. The company Zehnder (radiators), for example, has learnet that the search for a suitable joint venture leader justifiably must be given plenty of attention and effort and that the Swiss company owner has to deal with this matter personally. A further success factor included establishing a very close and stable relationship with the Chinese partner. The effort was great in every respect but it pays off today. This is particularly so because in China, contracts are always seen a basis for discussion and what really matters is the "negotiating power" which has been created in a co-operation process.

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Brainforce AG is the leading Swiss provider for the deployment of experienced interim project leaders and managers in Switzerland and abroad.

The Art of Keeping Chinese Staff

Staffing issues remain a headache for many HR managers in China, according to a study recently conducted by the Economist Intelligence Unit. The decisive factor why local potentials turn down job offers is not necessarily the demand for higher wages or more vacation time. If companies look at some of the secondary factors that keep Chinese workers from leaving their jobs, they might end up with some new and possibly more successful retention methods.

Training and a clear career path

Employees are less likely to leave a company if they feel that it is a place where they can grow and add value to their careers. This could be said about most employees anywhere in the world, but in China, the ideas of career and personal growth are often not separated. Learning and training are considered critical factors for staff as education is highly valued in Chinese society. This is a fact that companies which are looking to localise should take advantage of. The McKinsey Global Institute estimates that China will need 75,000 business leaders in the next ten years with currently about 3,000 to 5,000 leaders available. So instead of fighting over the existing pool, the development of "internal" talent may be a more promising approach. Local employees are already in China and they speak the language. Most importantly, they are willing to learn – according to a survey by the China Market Research Group, 90% of Chinese youth between the age of 18 and 28 look for continuing education. 41% of those same people see continuing education as the way to raise their salary and obtain their career goals. More often than not, simple practical training such as budget planning for department managers, presentation seminars for sales staff or assessment training for HR personnel will help update and improve employees' skill sets – and their willingness to stay. A successful example is Cisco System's Shanghai office which runs a "management kindergarten class" for all young managers teaching them basic concepts such as how to handle key decisions.

New challenges and travel

Another way to retain employees is to provide new opportunities. One way to gauge this is by asking them at their quarterly or annual review where they see themselves going in the company, what other departments in the company they wish to experience working in. IBM has another method to see which of their employees would be ideal for which department. It uses "Personal Business Commitment (PBC)" which measures how employees meet company and department targets. An "Individual Development Plan (IDP)" contains details of training an employee feels he needs to reach these targets. If an employee has been with the company for at least two years and met their goals for IDP and PBC, they cannot be refused a transfer to another part of the company without a valid reason. That opens up a whole new window of possibilities for many employees and gives them a much larger incentive to stay with a company.

Giving local staff the chance to go abroad e.g. to a company's head office for training can be a positive challenge, especially when international travel is difficult for many Chinese. It also gives them a chance to work in an international context and gain a new perspective. This can allow for easier communication between the head office and this staff at a later stage. It will also help them develop a range of management skills they may be lacking in their current position in China. Companies such as L'Oreal and Starwood Hotels & Resorts have employed this method in China with great success.

Local networks and care

It cannot be said often enough: when doing business in China, relationships and local networks are key. That means when hiring a Shanghainese employee, one is not only benefiting from that person's skills, but also tapping into the relationships he or she has with family, friends and colleagues from previous jobs – in Shanghai. Employees are more willing to stay with a company when they work in their home city or area where they have their social network and can have the most impact. This doesn't conflict with letting staff travel – if you are allowed the chance to return home.

Since there is no strong social safety net in China, many elderly people rely on their children to care for them. As this is still considered a duty by the children in Chinese society, it certainly restricts mobility. Employees might be happier to stay if their company's location allows them to fulfill their career aspirations while still living up to their filial duties. Local advantage can also be created by making sure that it is easy for employees to get to the office – either through a central office location or through transportation support such as corporate shuttle buses or a pick-up service for managerial positions.

Personal attention by superiors and the often-quoted "open door policy" can contribute significantly to job loyalty and retention. Caring for employees can also mean extending benefits to their children or elderly relatives – offering education plans or family medical care are other incentives that can be used to keep your employees from becoming job hoppers.

Find and bind

Employee retention is still the number one issue of employers in China and a tough issue to tackle successfully. The main challenge besides hiring a promising talent is making sure they will stay. Looking beyond primary considerations such as salary or annual leave might help strengthen their loyalty to the company to an unexpected extent.

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Summary of Changes in China Laws 2007

The year 2007 has brought many changes to China's Legal System. Here is a guideline of the recent changes and the effects that may occur in the New Year for Foreign Invested Enterprises (FIEs).

Anti-Monopoly Law

Amidst rising concerns of market domination by large companies, the anti-monopoly law promulgated on 30 August 2007 is a first attempt at regulating all kinds of monopolistic activities. It will come into effect on 1st October 2008.

Under the new law, monopolistic conduct includes collusions between companies, abuse of a dominant market position and concentrations that will eliminate or restrict competition in relevant markets. An anti-monopoly Committee will be established under the State Council to determine competition policies, issue guidelines against monopolistic conduct and coordinate enforcement efforts. The Anti-monopoly Enforcement Authority shall investigate monopolistic conduct and upon confirming the existence of monopolistic conduct may confiscate illegal gains, impose fines based on total sales volume and order other measures to punish the involved companies or to rectify the situation. If through monopolistic conducts, companies cause damage to third parties, they shall bear civil liability and thus may be used in court.

Formalities for Trademark Registration by Natural Persons

Natural persons can register trademarks in China based on the 2001 amended Trademark Law. In recent years, more and more persons have registered trademarks and then offered them to third entities for high prices. To tackle such illegal bad-faith registrations, the State Trademark Office promulgated new rules on February 6th 2007.

A self-employed merchant may apply for registration of a trademark in the name of his company or in his own name. Private partners may apply in the name of the partnership, or in the name of all partners. Other persons approved by competent authorities to operate businesses can apply in the name of operators as registered with such authorities. A natural person may only apply for registration of a trademark regarding goods and / or services which are in the business scope as registered with the competent authorities. In case of the transfer of registered trademarks, the above provisions shall apply to the transferee.

Property Rights Law

The first version was drafted in 2002, and only last year its anticipated promulgation was stopped after accusations that it would be unconstitutional. Finally passed, this marks the first time that the equal right to property of the state and private individuals is confirmed in Chinese law.

The law contains 247 articles covering numerous issues relating to the creation, transfer and ownership of real estate and movable property in the PRC, which came into effect on October 1st 2007. It confirms the equal protection of the state and private properties, "The property of the state, collective, the individual and other obliges is protected by law, and no units or individuals may infringe upon it." It consolidates property-related provisions from existing laws, including the General Principles of Civil Law, the Land Administration Law and the Security Law. It further clarifies the right to possess, utilize and profit from real estate or movable properties owned by others. It expressly allows for new financing through mortgages on future equipment, raw materials and semi-finished products and pledging of unit funds and receivables. It announces that fixed terms of residential land use rights will be automatically renewed upon expiry. Non-residential land use rights will be subjected to other laws and regulations.

China's New Bankruptcy Law

The new law came into effect on June 1st 2007 and covers all kinds of insolvent entities including private and state owned enterprises (SOEs) and foreign investment enterprises and is clearly one of the cornerstones of China's efforts to expand its use of market forces to bring efficiency to its economy. Prior to the implementation of the new law, China did not have unified bankruptcy law covering all types of enterprises, and the bankruptcy of debtor enterprises (including SOEs) was governed by an amalgamation of laws, rules and procedures which tended to make things complicated and confusing.

The new law provides that secured creditors will have priority over the assets pledged to them by the bankrupt entity. Workers will then be ahead of all other (unsecured) creditors, stipulating that after settlement of bankruptcy expenses and debts for the common benefit for creditors (such as debts incurred to continue operations), the bankrupt entity's unsecured assets will first be applied to settle employees' entitlements (for example, outstanding wages, medical expenses, physical disability subsidies, general pension funds, etc).

Reforms in Foreign Exchange Control

In the first half of 2006, China became the largest holder of foreign currency in the world. Growth has continued and it reached USD 1.32 trillion at the end of June 2007.

In 2006 the State Administration of Foreign Exchange (SAFE) granted 15 banks overseas investment quotas totaling USD 13.4 billion. These figures increased to USD 20.5 billion in July 2007, with 19 banks being granted

USD 14.8 billion and four insurance companies being granted USD 5.2 billion. One fund management company was granted USD 500 million.

Residents
In February 2007, the annual quota for foreign currency fund conversion by a Chinese or Foreign Individual was raised from USD 20,000 to USD 50,000.

Insurance Companies
In July 2007, the CSRC, CIRC, the Bank of China and SAFE jointly issued a new rule which raised Chinese insurer's overseas investment ceiling from 5 percent of their assets to 15 percent. With this new rule in place, more than RMB 300 billion (USD 39.5 billion) is now ready to flow into the international market.

Non-financial Companies
Until 2002, Chinese companies were required to bring home all the money they made abroad and obtain government permission to make new foreign investments. However as of 2002, companies were allowed to keep 20 percent of foreign revenues which was raised further to 50 percent in 2004 and 80 percent the following year. In July 2007 China scrapped rules requiring domestic companies to convert a portion of their foreign earnings into Chinese currency. Chinese companies are now allowed to decide how to use money earned abroad.

Franchise Law

Since the first regulations on Business Franchising were passed by the Ministry of Domestic Trade in 1997, many of the biggest international franchisors have entered China, and domestic franchising has increase dramatically. In the new regulations, the State Council provides some new limitations and requirements. The regulations became effective as of May 1st 2007.

A business franchise is defined as one that licenses operation resources such as registered trademarks, trade names, patents or know-how to other business operators. A franchisor shall have a proven operational mode and the capacity to provide franchisees with directions, technical support and training on a continuous basis. A franchisor shall have at least two directly operated outlets with at least one year of operation for each. Within 15 days, a franchisor shall record its franchising contract. Under the contract, the franchisee shall have the right to terminate the contract after a certain period.

Enterprise Income Tax Law

After many years, China finally integrates its separate tax regimes for Chinese- and foreign invested enterprises into one. This marks a complete overhaul of the tax system, with marked changes especially for many foreign invested enterprises.

The standard tax rate for resident enterprise is set at 25% regardless of industry and location. Preferential tax rates for qualified small and low-profit companies (20%) and high or new technology enterprises (15%) will be available. Tax incentives will be provided to encouraged industries, including environmental protection and conservation, venture capital and advanced technologies.

The new tax regime will be applied as of 1st January 2008. Companies enjoying existing holidays may be given a transition period of maximum five years. Companies established after March 16th 2007 will fall under the new regime immediately. Detailed implementation regulations and explanatory circulars to be issued soon.

Value-Added Tax Refunds

China offers a rebate of up to 17 percent on the Value Added Tax (VAT) paid on certain products, if such products are exported. The amount of available rebates is gradually being scaled back, with the most recent adjustments on 19th June 2007 being particularly extensive. This will increase the manufacturing / export price of these products.

VAT tax rebates are cancelled for 553 items (listed by their PRC tariff numbers) including leather, particular chemical products, fertilizers, minerals and mineral-based products, metal carbide and activated carbon products, simple-processed non-ferrous metals, and certain non-motorized vessels.

VAT tax rebates have been reduced for 2268 items, including leather suitcases (11 percent) and other leather products (5 percent); clothing, shoes, hats, umbrellas (5 percent); plastics, rubber and related products (5 percent); certain stones, ceramics, glasses, pearls, jewels, precious metals and related products (5 percent); certain iron and steel products (5 percent), various types of machinery (9 or 11 percent), home furnishings (9 or 11 percent), watches, toys and other sundry products (11 percent).

The new tax rebate levels were effective for goods exported after July 1st 2007, excluding products to be exported under contracts signed before July 1st 2007 and recorded with the relevant tax bureau.

Restrictions placed on Processing Trade

China announced a new policy in July 2007 to curb the growth of processing trade in labour-intensive sectors, including the manufacturing of plastic raw materials and products, weaving yarn, cloth and furniture. Processing trade is the import of all raw materials, parts, components accessories and packaging materials from abroad as bonded materials, then re-exporting the finished products after processing or assembly by enterprises within the mainland. Entities carrying out processing trade with imports or exports categorized as restricted items must pay an import deposit upon the registration of the customs logbook. The import deposit will be refunded, together with interest, on verification of the customs logbook.

Manufacturers of items on the lists of restricted items will face great financial pressure in order to finance the import deposit. In general, the more the amount registered in the customs logbook, the more the amount of the import deposit will be. The longer the period covered by the customs logbook, the longer import deposit will be held by the Customs. In addition to the import deposit, the VAT refund rates of most of these items were reduced from July 1st 2007, meaning a significant increase of cost on related exports from China.

The new policy targets high polluting and energy consuming industries in China's developed eastern regions.

Labour Law

In theory, the new labour law, which be implemented on January 1st 2008, should go far in improving the situation. Under the law, employer-employee contracts are mandatory and employers are encouraged to grant long-term contracts, which ensure that they can only be fired with good cause. Additionally, any employee who fulfilled consecutive short-term contracts, which typically last no longer than a year, will also be entitled to a long-term contract that ensures job security. The law also mandates severance pay of at least one month per year of employment.

Trade unions are also given greater room to organize under the new law. Moreover, if government officials charged with oversight of the new regulations fall in their duties, they now are exposed to the possibility of a civil suit.

While the new law is an important step in improving labour conditions in China, it does contain loopholes. For instance, a new penalty against employers who fire workers without good cause before their contracts expire merely doubles the employees' severance pay, however this can encourage employers to lay off workers early in their contracts, when they are not entitled to significant severance packages. The larger issue will of course be enforceability.

Conclusion

The year 2007 has brought further laws, such as the third phase to the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and China as well as the Double Taxation Arrangement. The year 2008 will be an interesting year to see how well these laws will be enforced and what additional laws will be implemented that could effect Foreign Invested Enterprises in China.

By Klaus Koehler
Managing Director
Klako Group

If you require assistance with the above subject, please contact us at info@klako.com with your detailed questions.

New Corporate Income Tax Law

Latest Insights into China's New Corporate Income Tax Law

Stefan Schmid
Leader of the
Tax Chapter
China Business
Group, PwC

On 16 March 2007, China's legislature passed the much-anticipated Corporate Income Tax Reform which will become effective on 1 January 2008. With the new Corporate Income Tax Law mainly providing a framework of general provisions, numerous details on the application of the new rules have been left to the accompanying implementation regulations and tax circulars.

The Detailed Implementation Regulations were released by the Chinese State Council on 11 December 2008. The regulations contain 8 chapters and 133 articles which include numerous details and definitions as well as interpretation guidelines regarding the application of the new Corporate Income Tax Law. The Detailed Implementation Regulations will also become effective on 1 January 2008.

This analysis focuses on the implementation regulations' possible effects on foreign China investors, foreign invested enterprises in China and foreign enterprises with business activities in China. The respective parties are provided with detailed information to assess the potential tax impact of the new provisions.

We wish to emphasize that the following article reflects the state of discussion as of 14 December 2007.

Impact on Foreign Investors

Tax Structuring

Under the current tax regime, dividends repatriated by a Foreign Invested Enterprise ("FIE") to its foreign investors are exempted from withholding tax. The new Corporate Income Tax Law ("CIT Law") no longer grants a general withholding tax exemption. Instead, a generally reduced withholding tax ("WHT") rate of 10% applies according to the Detailed Implementation Regulations ("DIR"). For enterprises qualifying as high / new tech enterprises under the new rules, an extension of the current WHT exemption on dividends is still being discussed and remains subject to the State Council's final endorsement.

The tax-free reorganisation concession currently applicable to the restructuring of FIE shareholdings within a 100% group is no longer available after 2007 if the China equity interest is transferred onto an enterprise not incorporated in China. However, specific corporate restructuring provisions have not been included in the DIR in favour of detailed rules to be released separately.

Financing

The CIT Law contains a specific "thin-capitalisation" rule to disallow interest deductions on borrowings from related companies if the interest-bearing loans of the enterprise exceed a prescribed debt-equity ratio. The DIR provide for the definition of "equity" to include investments obtained by an enterprise without the need of repayment and entitling the investors to the enterprise's net assets, while "debt" is defined as an interest bearing loan from a related party. This definition of debt applies to both direct and indirect loans, the latter including back-to-back arrangements, loans guaranteed by related parties with joint repayment obligations as well as other loans provided by related parties.

However, the prescribed debt-equity ratio was intentionally left out of the DIR and will instead be addressed in the form of future tax circulars.

Anti-avoidance measures

Proper consideration should also be given to the general anti-tax avoidance rules in Article 47 of the CIT Law which empower the Chinese tax authorities to make adjustments where business arrangements entered into by an enterprise are regarded as without bona fide commercial purpose, resulting in the reduction of taxable gross income or taxable income of the enterprise. Arrangements without bona fide commercial purpose are defined in the DIR as arrangements where the main purpose is to reduce, exempt or delay the payment of taxes. Companies entering into structuring, restructuring, financing and other business arrangements under the CIT Law should be prepared to justify the transactions with valid commercial reasons.

Impact on Foreign Invested Enterprises

According to the DIR, the calculation of an FIE's taxable income is subject to various important changes broadly summarised in the following categories: gross income, preferential tax treatments, special tax adjustments and deduction of expenses.

After much discussion, detailed provisions on corporate restructuring were removed from the DIR and will instead be addressed via separate circulars. The final DIR only include a fundamental provision stating the general recognition of gain or loss for corporate restructurings and the determination of the tax basis according to the transaction price.

Gross income

The DIR provide elaborated details on the term "gross income" with implications to include all receipts. The DIR also provide better clarity on the timing as to when to recognise certain types of income as taxable under the CIT Law.

Furthermore, the DIR introduce the "income deeming" provision. For instance, if an enterprise has engaged in barter trade or uses its stock, assets and services for donation, repayment of debts, sponsorship, fund raising, advertising, sample, staff welfare or profit distribution, it is deemed as if it had sold the products and services and should recognise the related income. Although a similar income deeming provision currently exists in the VAT regime, it is important to keep in mind the additional income tax impact and compliance requirements brought about by this new provision.

Preferential tax treatments

High / new tech enterprises: The CIT Law stipulates a reduced CIT rate of 15% for high / new tech enterprises specifically promoted by the State. Furthermore, high / new tech enterprises newly set up in the Special Economic Zones and Pudong may enjoy tax holidays. FIEs which have attained the "high / new tech enterprise" status under the current regime will likely be subject to a re-assessment exercise based on the new requirements. The existing high / new tech FIEs should consequently pay particular attention to the new parameters. The DIR define high / new tech enterprises under the CIT Law based on the following requirements, which will be supported in detail by future administrative measures:

- the enterprise should own its core proprietary intellectual property rights;
- a prescribed percentage of annual Research & Development ("R&D") expenses;
- a prescribed proportion of income from high / new tech products and services to the enterprise's total income;
- a prescribed proportion of the number of technicians (i.e. R&D personnel) to the total employees;
- other conditions as prescribed in the administrative measures for the assessment of high / new tech enterprises.

Super R&D deduction: The DIR provide for an additional 50% deduction on top of the actual deduction for qualified R&D expenditure incurred by an enterprise for the development of new technology.

Venture Capital enterprises making an equity investment in a non-listed small-to-medium sized high / new tech enterprise for more than two years may offset 70% of their investment amount against their taxable income in the year after the holding period has reached two years. The DIR further state that any portion not utilised in that year may be carried forward and deductible for an indefinite period.

Other encouraged industries: For public basic infrastructure projects specifically supported by the State as well as for qualified environmental protection and energy or water conservation projects, the DIR grant a tax holiday consisting of a three-year exemption followed by a 50% tax reduction for the three years thereafter, applying only to income related to the aforementioned projects and beginning from the tax year in which the project derives its first production and operation income.

According to the DIR, an enterprise acquiring and actually using specific equipment for the purposes of environmental protection and energy or water conversation etc. may offset 10% of its investment in this type of equipment against its income tax payable for the current year with a five-year carry-forward period. A claw-back period of five years is also stated in the DIR.

For agricultural, forestry, animal husbandry and fishery projects, the DIR provides a catalogue of project types qualifying for either full tax exemption (e.g. cultivation of forestry) or 50% tax reduction.

Small and thin-profit enterprises are according to the DIR eligible for a reduced tax rate of 20% if they are not engaged in industries restricted or prohibited by the State and meet the following prescribed criteria:

- industrial enterprises: the annual taxable income does not exceed RMB 300,000, the number of employees does not exceed 100 and the total assets do not exceed RMB 30 million;
- other enterprises: the annual taxable income does not exceed RMB 300,000, the number of employees does not exceed 80 and the total assets do not exceed RMB 10 million.

Grandfathering rules: Further details on the grandfathering rules such as the gradual transition of tax rates from e.g. 15% at present to the new rate of 25% over a 5-year period as stipulated in the CIT Law are not contained in the DIR. The reason for this omission is the Chinese policymakers' decision that it is more appropriate to address tax treatments of transitional nature in separate circulars rather than in the DIR which will be in force for many years. However, the Chinese tax authorities have on various occasions confirmed the following transitional arrangements:

- The new 25% tax rate will apply as of 1 January 2008 for enterprises which are currently taxed at 33% and 24%, respectively.
- For enterprises taxed at 15% under the current regime, the tax rate will be gradually increased over a five-year period. The transitional period will be captured as follows: 18% for the year 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012.
- As the CIT Law allows unused tax holidays to be carried forward to 2008 and beyond until expiry, any unused tax holidays currently enjoyed by FIEs engaged

in specific industries and activities will overlay with the gradual increase of the tax rate from 15% to 25%. Unused general tax holidays for production-oriented enterprises will therefore start running as of 1 January 2008 and phase out within five years, irrespective of whether the company is in a loss position.
– No grandfathering treatment is provided for incentives currently enjoyed by export-oriented enterprises. The possibility of reinvestment tax refunds will also be abolished under the new CIT Law.

Also in this regard, the DIR reconfirm a circular issued on 31 August 2007 by the Ministry of Finance and the State Administration of Taxation to clarify the term "enterprises which have been approved to be established before the promulgation of the CIT Law (16 March 2007)" – or so-called "Old Enterprises": Old Enterprises thus refer to those companies which have performed their business registration with the Administration for Industry and Commerce on or before 16 March 2007. These companies will be eligible for the grandfathering treatments of the CIT Law.

Special tax adjustments

Transfer pricing has been regarded as a very important tax issue in China. The DIR move a step further in terms of transfer pricing documentation by introducing the "contemporaneous documentation" requirement. The latter will require taxpayers having related party transactions to record and compile the information of pricing / expense determination basis, computation methods and explanations, etc. Taxpayers will be expected to be able to respond to tax authorities' requests for such information within a short period of time (e.g. 30 days); hence taxpayers will need to prepare transfer pricing documentation on a contemporaneous basis. Not having transfer pricing documentation will result in interest levy on special tax adjustments. We understand that the State Administration of Taxation is preparing a separate circular to address the related details regarding the contemporaneous documentation requirement which may be issued soon. FIEs in China typically have engaged in related party transactions and will thus need to deal with the new compliance requirements. For previous years, it is still advisable for FIEs to assess their TP profile and to prepare appropriate TP documentation as an effective tax management tool.

Cost Sharing Agreement ("CSA"): The CIT Law newly introduced this concept allowing participants to share the joint costs incurred for the research and development of intangibles and provision / receipt of services. The DIR require the CSA to state the details on the sharing ratio, joint costs, benefits of the ownership, rights to use the developed interests, etc. CSA applicants are required to submit the relevant transfer pricing information to the Chinese tax authorities for review after conclusion of the agreement. The shared costs may only be deductible if the required information is duly prepared and submitted, the CSA is in line with the arm's length principle and if the CSA is supported by a reasonable commercial purpose or possesses economic substance.

Advance Pricing Agreement ("APA"): For taxpayers seeking the acceptance of their CSA by the tax authorities, the DIR encourage the use of an APA because this approach would allow the Chinese tax authorities an opportunity to review the contents and reasonableness of the CSA before the related costs are allowed for tax deduction.

Controlled Foreign Company ("CFC"): Under the CIT Law, undistributed profits which are kept by CFCs located in low tax rate countries/regions without valid business reasons may be taxed in China as deemed distribution. A "low tax rate" refers to an effective tax burden lower than 50% of the China tax rate (i.e. 12.5%). Detailed CFC rules are expected to be released separately at a later stage.

Thin-Capitalisation Rules and Anti-Avoidance Measures have already been discussed in the Chapter on Foreign Investors. Please see previous text.

The DIR also provide details about the interest levy to be imposed on any special tax adjustments, namely transfer pricing, CFC, thin-capitalisation and anti-avoidance rules. The interest levy rate is set at 5 percentage points above the RMB lending basic interest rate published by the People's Bank of China. The interest levy would result in additional costs for taxpayers on top of the charge for the delayed tax payment and is thus viewed by tax authorities as a deterrent to aggressive tax avoidance schemes. The additional 5% penalty interest may be waived if the contemporaneous documentation for TP purposes is available. Finally, the DIR include a statute of limitations of 10 years for special tax adjustments by the Chinese tax authorities.

Deduction of expenses

General deduction criteria: The CIT Law stipulates that an enterprise can deduct reasonable expenses that are actually incurred and are related to the generation of income. The term "reasonable expenses" is defined in the DIR as necessary and ordinary expenses incurred in the course of normal production and business operations, and the term "related expenses" is defined as expenses that are directly relevant to the generation of income. As this is a principle-based rule, the taxpayers and the Chinese tax authorities may adopt their respective judgements on what is to be regarded as deductible expenses; different interpretation may lead to tax audit challenges.

Wages and salaries: The DIR confirm that reasonable salaries and wages actually incurred by an enterprise shall be deductible without specific deduction caps. The current tax regime's cap on deductions allowed for staff welfare costs (limited to 14% of total salaries) was adopted by the DIR as well.

Interest expense: The DIR adopt a new term called "borrowing costs" with a larger scope than mere interest. This allows the future explanatory circulars to capture additional costs and expenses associated with borrowings under the deduction rules, which may take different forms or terminologies, such as guarantee fees, handling fees, standby fees, arrangement fees or any others.

"Business Entertainment Expense": The DIR only allow the deduction of 60% of business-related entertainment expenses incurred by an enterprise. In addition, the deduction is capped at 0.5% of the sales income for that year.

Advertising and business promotion expenses: The DIR restrict the deduction of advertising and business promotion expenses incurred by an enterprise in a tax year to 15% of the sales income for that year. Any excess amount is allowed to be carried forward and deductible in future years. Due to such a threshold not being considered appropriate for all taxpayers and the resulting lobbying effort of the business community, an exemption clause has been added to provide some leeway for the Chinese authorities to allow special concessions which enable enterprises to deduct advertising and business promotion expenses exceeding the 15% threshold, if justified.

Sponsorship expenses: The CIT Law specifically disallows the deduction of sponsorship expenses. The DIR define sponsorship expenses as all types of expenditures that are not in the nature of advertising and not relevant to the production and business operation of the enterprise.

Depreciation of fixed assets: The DIR no longer require a 10% residual value to be placed on fixed assets for the purpose of calculating tax depreciation expenses. There will still be prescribed years of tax useful lives for different categories of fixed assets as before, e.g. three years for electronic equipment.

Amortisation of acquired goodwill: The DIR do not allow the amortisation of acquired goodwill for tax purposes until the acquiring enterprise disposes of its entire business or liquidates. This treatment deviates from the current tax treatment for FIEs in similar situations which generally allows the amortisation of goodwill over ten years. Tax timing differences may be caused by this provision as gains arising from taxable business restructurings may be taxed upfront to the transferor whereas the acquirer may not claim amortisation of acquired goodwill until the abovementioned critical events occur. As of now it is uncertain whether FIEs having previously acquired businesses with goodwill may be able to continue amortising their goodwill for tax purposes after 2007.

Some of the above changes are also made to be in line with the new accounting standards in China, so as to minimise the number of the book / tax differences between the income tax filings and the accounting profits.

Impact on Foreign Enterprises

Tax residence

Under the CIT Law, an enterprise established outside China (foreign enterprise or "FE") which has its effective management organisation in China shall be considered a "tax resident enterprise" ("TRE") and subject to Chinese corporate income tax on its worldwide income. A Chinese registered company is per se considered a TRE. The DIR consider the place of effective management to be in China if the "exercising, in substance, of the overall management and control over the production and business, personnel, accounting, properties etc. of an enterprise" is located in China. The determination of tax residence will thus require a review of the particular facts and circumstances surrounding each case.

Permanent establishment

The CIT Law also stipulates that a non-TRE having an establishment or place in China shall be subject to Chinese corporate income tax on income derived by that establishment or place from sources within China and on income derived from sources outside China which is effectively connected with such establishment or place. The DIR adopt a definition of "establishment or place" which is very similar to the current regime; however, the term "business agents" within that definition includes persons / entities which regularly represent the non-TRE in business other than the purchase and sale of goods. This expanded definition may potentially include agents who regularly provide services in China on behalf of overseas principals.

Passive income from China sources

The DIR reduce WHT on passive income (e.g. dividends, interest, royalties, rental income, gain on transfer of properties, etc.) received by a non-TRE with no establishment or place in China from 20% to 10%. In addition, the following passive income is amongst others totally exempt from tax:

- interest income from loans made by international financial organisations to the Chinese government and TREs at preferential rates;
- dividends derived by a TRE from its direct investment in another TRE, with the exception of dividends stemming from investments in publicly listed shares if the preceding holding period amounted to less than a year;
- dividends derived by a non-TRE with an establishment or place in China from its equity investment in a TRE, provided that said income is effectively connected with such establishment or place and with the exception of investment income stemming from investments in publicly listed shares of a TRE if the preceding holding period amounted to less than a year.

Implications and Recommendations for Swiss Investors

The DIR adopt various international tax principles and practices in detailing the articles of the CIT Law while also including various tax rules reflecting the new Chinese accounting standards. Taxpayers will consequently be faced with several new compliance requirements under the CIT regime. However, the DIR are far from providing all the answers to the framework provisions found in the new CIT Law and will cause various questions to be addressed in the form of future circulars and administrative rulings. Detailed rules on e.g. corporate restructuring or grandfathering treatments are expected to be issued gradually during the coming months to support the DIR.

Swiss investors are advised to review the new CIT Law's potential impact on their China operations and their current tax profile. For existing Chinese investments, the distribution of dividends as of 1 January 2008 will no longer be exempt from withholding tax. Transfers of equity in a Chinese company between two 100% commonly-owned foreign group companies may also result in additional tax costs as of 1 January 2008.

Swiss businesses with substantial operations in China will need to review their business structures to ensure compliance with the new "thin capitalisation" rules, the new anti-avoidance measures and the more stringent transfer pricing requirements.

Foreign companies with current or planned business personnel in China are advised to clearly define the functions to be performed in China in order to prevent accidental exposure to tax residence.

We wish to emphasize that the article reflects the state of discussion as of 14 December 2007. For further information, including subsequent developments, please contact PricewaterhouseCoopers' China specialist in Switzerland:

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Key-factors: Innovation & Human Resources

While China has taken its place as a key driver of global economic growth and an important market for European investors, European investors were suggested to be more localised and to increase innovation and human resources inputs in China by experts at Pricewaterhouse-Coopers China-Europe Conference 2007 in Beijing.

The Conference was held in Beijing on 15–16 November 2007. It provided a good platform for specialists from Asia and Europe to exchange views on the most current and fundamental topics regarding investments in China, to learn about the latest changes in rules and regulations, including the most recent Tax Reform, and to share the views and experiences with industry counterparts from Europe and China. More than 170 senior executives from European companies and PricewaterhouseCoopers professionals including 52 speakers attended the conference and shared their insights.

PwC China & Hong Kong: Executive Chairman and Senior Partner Silas Yang during opening speech.

About PricewaterhouseCoopers – Hong Kong, Macau and Mainland China

PricewaterhouseCoopers is the leading professional services organisation in Hong Kong, Macau and mainland China, with a total staff strength of 9,000, including close to 330 partners. Our offices in mainland China comprise: Beijing, Chongqing, Dalian, Guangzhou, Qingdao, Shanghai, Shenzhen, Suzhou, Tianjin and Xi'an.

Complementing our /depth of industry expertise and breadth of skills is our sound knowledge of the local business environment in Hong Kong, Macau and mainland China.

PricewaterhouseCoopers is committed to working with our clients to deliver the solutions that help them take on the challenges of the ever-changing business environment.

Over the past 29 years, China has undergone remarkable transformations. The economy has sustained rapid growth averaging 9.7% per annum. As of 2006, the nation's GDP reached RMB 21,000 billion, earning China the rank of being the 4th largest economy in the world; total foreign trade volume reached USD 1,700 billion, ranking 3rd in the world; foreign exchange reserve exceeded USD 1,000 billion, ranking 1st in the world; and GDP per capita increased from USD 226 in 1978 to more than USD 2,000 in 2006. In tandem with its significant economic achievements, China also faces some serious issues and challenges brought on by its rapid economic growth. These include the large gap between rich and poor, the unbalanced development between the east and the west of China, social welfare issues, high costs of education, health care and housing, and growing environmental issues.

"Challenges that the European companies are facing in China fall into three categories – ambiguous and fast-changing regulatory environment, IPR protection and human resources", said Frits Litjens, PricewaterhouseCoopers Eurofirms Markets Leader. "Keeping the above in mind, I think that we, as foreign companies investing in China, can also lend a hand in helping to develop the investment environment in this country. Problems can always be perceived, and therefore also solved, in different ways. The investments should benefit both the development of China, and our companies' growth."

"PricewaterhouseCoopers is confident about China's future. We are devoted to helping Chinese enterprises to globalise and realise their international business aspirations and providing professional services and local expertise to multinational companies in China", said Silas Yang, Executive Chairman and Senior Partner of PricewaterhouseCoopers Hong Kong & China.

About PricewaterhouseCoopers – Globally

PricewaterhouseCoopers provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

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Boasting Ongoing Relations with China

The Fachhochschule Nordwestschweiz (FHNW) has only been in existence since 1 January 2006, but benefiting from the historical connections between its predecessor schools (the three Fachhochschulen Solothurn, Aargau and beide Basel), it can boast an ongoing relationship with China which stretches back into the early 1990's.

This China connection stretches from research projects involving professors from both countries across student papers to regular visits and exchanges. In this issue of the Bulletin we focus on three FHNW projects to give a flavour of recent and ongoing collaborations.

The iTrust project is an interdisciplinary research project which brings together academic and business partners from Switzerland and China to investigate one of the key factors in successful cooperation. Our second article describes the findings of a paper written by bachelor students in the School of Business's International Management Programme which discuss optimal preparation for Swiss expatriates travelling to China. Finally we examine Insight China, a student led project which will, for the seventh consecutive year take FHNW students to explore the culture and economy of China first-hand.

iTrust – Building Trust in Business Relationships with Chinese Partners

At a time when the Chinese Government is making concerted attempts to further develop the country's knowledge based industries and international corporations are moving beyond treating the country as purely a cost-effective production centre, the issue of trust between Swiss and Chinese business partners is ever more urgent.

Many studies have shown that the ability of companies and their employees to build trust in business relationship is a key success factor for intercultural cooperation. Business relationships and daily collaboration that is based on trust are the foundation of long-term profitable international business. However, developing trust in an international context is a great challenge.

Most writing on the issue of trust tends to focus on either interpersonal or system trust. Put simply, trust is seen either as a function of a personal relationship between person A and person B or as trust in an institution or system. In the former case the success of business relies on key individuals, in the latter on the reputation of an organisation to deliver its usual service (e.g. mobility in the case of SBB). While both of these concepts have value, they do not capture the changing and volatile process of trust building, stabilisation and repair. There have been a wide range of cases where a situation of interpersonal trust exists between senior individuals and/or trust between organisations exists, but the projects themselves fail to develop a trust dynamic of their own and subsequently fail to deliver the returns expected. The steering of the very process of trust building thus becomes a key success factor that is ready for increased management attention as this soft factor heavily influences hard business outcomes. This especially holds for trust formation in an intercultural environment.

In the Chinese context, we have identified a number of issues which complicate the trust building process, specifically intercultural misunderstandings based on differing expectations as to the negotiation process, the degree of specification required or expected in contracts, how strictly paper agreements are interpreted and enforced and differing expectations of the behaviour of partners during a business relationship. Such misunderstandings can quickly develop into hurdles which can hinder or even prevent a successful outcome of business relations and common projects.

iTrust, an interdisciplinary project including academics from the FHNW School of Applied Psychology and School of Business together with partners from the University of London, Birkbeck College (U.K.) and Shenzhen University (PRC) are working with industry partners to investigate the key success factors in building and maintaining trust in this challenging environment.

In the first stage of our project, we have interviewed a number of experienced "China Hands" to test our initial hypotheses and refine our methodology. In 2008 we will move to phase two of the project which will entail data collection both in Switzerland and China.

Research Focus

Our research process focuses on detailed analysis of key events in specific projects, the expectations of those involved and whether these were met. By uncovering the key psychological moments in the trust building process and mapping these to business objectives and project milestones, we can develop a rich and detailed picture of both subjective and more objective stages in a business relationship and uncover strategies to aid trust development.

Through further investigations into actions taken to stabilise, or reaffirm failing or uncertain trust we can begin to see the dynamic interrelationships between specific actions and behaviours and positive outcomes for the participating companies.

Our initial research has strengthened our belief in a hypothesis that the existing trust definitions, specifically those relating to interpersonal or system trust need to be extended to encompass the messy, exhilarating, frustrating reality of a developing relationship.

When our investigations into particular cases have been completed, the results will be consolidated and the following questions addressed:

1. What are typical ways of initiating business relations with China and how do experienced actors evaluate their respective strengths and weaknesses?
2. What are the necessary preconditions for building trust in business relationships in China?
3. What are key factors which maintain and stabilize trust in already established business relations with China?
4. Which practical strategies help cope with "crises of trust" and which means are available to "repair" trust that has become vulnerable?

Ultimately, the project will deliver both detailed reports on individual projects for participants and publishable results created during the consolidation process.

Although our participating companies for the first phase of the project have been selected, it is still possible for companies to join phase two should they be interested.

Contribution of Industry Partners. The participating industry partners should

- have an interest in discovering new means to steer and strengthen trust building in Sino-foreign business relations
- be motivated to reflect on structures and processes supporting trust building in collaboration with Chinese partners
- be based in Switzerland and / or China
- have (if possible comprehensive) experiences with Sino-Swiss collaboration
- be willing to share experience and data on the nature and type of the cooperation they have (however, confidentiality issues will certainly be respected)
- be ready to set aside time for interviews (for each project to be investigated about four to six interviews with a max. length of 2 hours each)
- a half-day workshop (with participation of the people involved in the interviews), and
- a half-day workshop to share final outcomes across the participating industry partners (benchmark)
- be willing to make a small financial contribution to the project.

Benefits for Industry Partners

Each participating industry partner will receive

- context and organisation sensitive description of supportive (inter-) organizational frame conditions and strategies for trust building in IICs
- in depth description of culture-sensitive best practices in creating and maintaining trust in business relations with China
- benchmarks of current strategy based on a cross-case comparison
- manual on the development of trust in intercultural business relations encompassing core issues to be reflected on, to be regulated, to be monitored, etc.

Should you be interested in participating in iTrust, please contact:

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Preparing Swiss Expatriates – How to Avoid Losing a lot of Money

Early repatriation is one of the most expensive causes of incautious expatriate management. Expatriates in China not only face opportunities but also difficulties and numerous differences, which have to be addressed. Swiss companies should therefore follow a best practice for the preparation.

This article aims to show SMEs a "best practice" for the preparation of future expatriates and their partners, spouses or children by illustrating the most relevant aspects pertaining to preparation.

Definition of the Preparation Phase

The preparation phase is the time duration in which the expatriate and his or her family are prepared for their new living and working environment. It begins in Switzerland after the company has selected the candidate and ends when the expatriate and his or her family have basically adapted to China. The preparation phase contains several steps.

The steps belonging to the preparation in Switzerland begin with the pre-visit, which takes place after the selection process. This is followed by cultural training, language preparation, and the relocation package, where the order is not relevant as long as the activities take place before the expatriate leaves for his or her host country.

After arriving in China, the expatriate is specifically prepared for the future job and daily life. The host country's Human Resources (HR) department will provide a language course if this was not done in Switzerland. Additionally, a "buddy" who has been assigned to the expatriate will give support as long as necessary.

Pre-visit to the Location in China

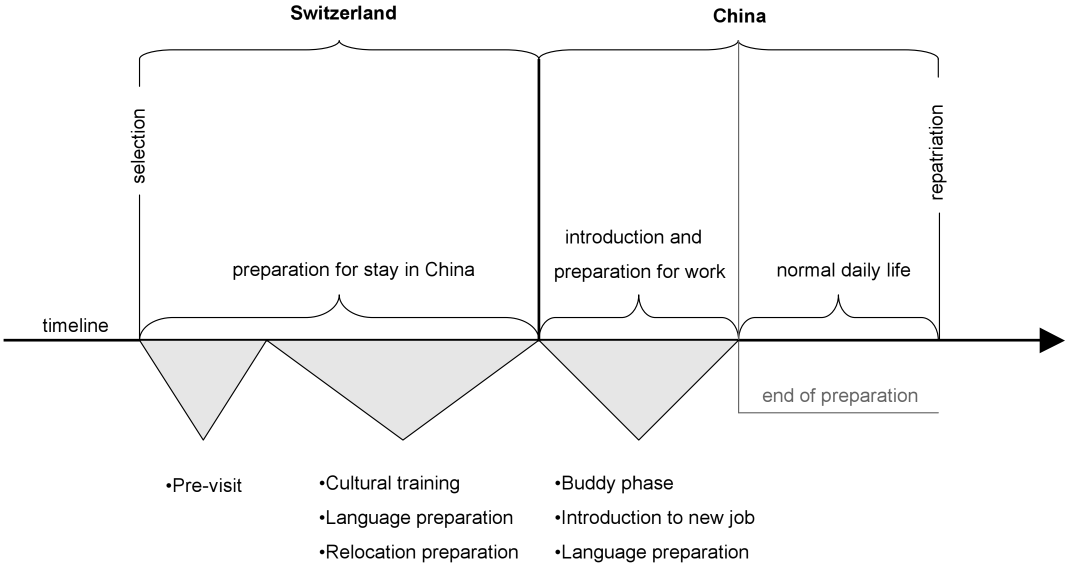
An integral part of the preparation is a pre-visit to the location where the expatriate and his or her family are going to live. Typical activities on this trip are getting to know future colleagues and managers in person, visiting the company facilities and the living environment, house-hunting, checking possible schools for children and medical institutions as well as getting in touch with other expatriates.

Such a pre-visit typically takes around a week and should be arranged early on in the preparation procedure if the situation allows. It enables a better psychological preparation for expatriates and their families and reduces the risk of early repatriation. Also, if the expatriate's expectations are not met or if the family is unhappy with the imminent expatriation, there is still a possibility to cancel the international assignment. In this case, the company would have more time available to find an alternative solution.

It is important that this trip is not regarded as a vacation and it should ideally take place in the most unfavorable season. In Beijing for example, this would be in winter. In Hong Kong, as another example, it would be in summer so that high temperatures and humidity can be personally experienced and not just heard about in Switzerland.

The benefits and relatively low costs of a pre-visit compared to the total costs of expatriation underline the importance of such a trip.

After the candidate and his or her family have agreed to the international assignment, the actual preparation phase can begin.



Cultural Training

Cultural training and preparation is key to a successful international assignment.

Training might range from descriptions of daily life in China to development of interpersonal skills for the workplace. Providing cultural training cannot reduce the risk of premature returns to zero but can help people better deal with cultural differences.

It should also be taken into consideration that cultural training is dependent on the respective job or function of the expatriate and the already existent knowledge. Cultural training can be divided into business related and non-business related cultural training.

Business Related Cultural Training

This business related side of cultural training primarily addresses the expatriate. Expatriates have to develop their intercultural communication competence so that they can live meaningfully and productively in the global workplace. Therefore, business related cultural training is essential for the expatriates at the pre-departure stage.

Training may include topics such as negotiation skills, Chinese business law, business dos and don'ts, leading the Chinese workforce, conflict management and the Chinese art of networking, the so-called Guanxi. Training can be provided by trainers or in seminars. Also written information such as booklets, books and magazines can be handed out.

Non-business Related Cultural Training

Unlike the business linked cultural training, this training is dedicated to both expatriates and their families. Families, in this sense, means spouses and children; if the latter are old enough to make training meaningful. This acclimatization could cover isolation and loss of personal network. It is imperative to have an understanding of Chinese social customs and daily life in China.

Communication Training

Although English is accepted as the predominant international business language, language skills are important in adapting to a new environment. Providing language training courses for expatriates and their families is advantageous. The Chinese highly appreciate Westerners making an effort to learn their language, which results in an easier integration into Chinese society. This does not mean one has to speak excellent Mandarin or Cantonese, but rather possess some basic knowledge. Such language courses can be attended prior to or during the stay in China.

Regarding non-verbal communication, most Chinese are reluctant to articulate what they think to avoid rejecting others or challenging their power. Consequently, it would be beneficial for expatriates to understand facial expression when communicating with the Chinese and when making decisions.

What should not be taken for granted is that all candidates considered for an international assignment have good English skills. Most expatriates sent from Switzerland are non-native English speakers. Good English skills are a pre-condition for a successful assignment and cannot be taught during a relatively short preparation period in which numerous other issues have to be dealt with. Therefore, it is important to only select candidates with sound English skills.

Relocation Package

Before embarking on an international assignment, an employee faces a wide range of considerations. Some examples are how to get to the host country, what to take along, where to live, the settling in of the family members and schooling for the children. All such concerns and costs are regarded as relocation costs. Therefore, it is important for a company to arrange a good relocation package for the expatriate before he or she leaves the

(continued on next page)

home country. A good relocation package raises the attractiveness of expatriation, while ameliorating the morale of the expatriate and family.

The following issues have to be included in the relocation package:

Housing

Critical issues for the success of an expatriate assignment are the assistance given in finding a house or apartment and settling into the new environment. Smoothly moving into a new home will help the expatriate return to a normal life as soon as possible.

A factor that should not be underestimated is the moving of personal goods and pets which increases general well being because the expatriate feels more comfortable in the new home.

A company should provide housing allowances, rented housing or company-owned housing.

Schooling

Good schooling opportunities for an expatriate's children are another vital issue. If the children feel uncomfortable in their new environment, then often their parents will feel so too.

During the pre-visit the schooling issue needs to be taken into consideration. If possible, different schools should be considered, visited and investigated. In many places in China, international schools exist. If this is not the case, however, parents may face the choice of sending their children to international boarding schools or provide home schooling. For a company, sending an expatriate who has "school-age children" means higher costs because the company typically covers schooling expenses.

Besides this monetary disadvantage, sending an expatriate with children has a significant advantage. Parents get to know other parents in the same situation. Socialization thus becomes easier and makes spouses less prone to social deprivation. Also, spouses with children are busy bringing them up and may have a weaker need for furthering their own career.

Spousal Support

One of the most critical issues in expatriation is the challenge of integrating the spouse to the new living environment. The spouse's inability to adjust is the number one reason for expatriate failure. Therefore a company has to ensure that expatriation is not only attractive for the expatriate, but also for his or her spouse or partner. Spousal support means identifying the needs of a spouse and trying to meet those needs as much as possible.

Spouses often go abroad without having a job or any friends in the host country. It is a fact that in many cases spouses do not have a job during the assignment period and do not find one. While the expatriate is busy with the international assignment, his or her spouse often is at home and may feel isolated and lonely. The increasing number of well-educated women, pursuing their own careers has exacerbated this problem even further.

There is no standard solution to this problem. One gleam of hope is that companies could try to offer more opportunities for dual-career couples. This could mean offering an international assignment also for the husband or wife of the expatriate if circumstances allow. Another possibility is to support the spouse by hiring a job hunter in China or by offering continuing education.

Taking this into consideration, the selection process of expatriates is of paramount importance. Not only the per-

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Zertifiziert nach ISO 9001:2000

This article is based on a semester project about the preparation of expatriates of Swiss companies for their stay in China.

Sources of information were interviews conducted with several Swiss multinational companies operating in China as well as desk research. The authors are fourth semester students of International Management at the University of Applied Sciences Northwestern Switzerland. Two of the authors are exchange students from the Polytechnic University of Hong Kong who actively contributed with first-hand information.

sonality and character of the expatriate, but also the personality and character of the spouse is vital because minor problems may become major problems under the different circumstances in the host country.

Furthermore, companies can support spouses by helping them get in touch with other expatriates' spouses or certain organizations such as Swiss communities or educational institutes. However, this depends on the company's resources, the location of the expatriate and personal interests.

The preparation phase in Switzerland normally ends at this point and continues with further preparation in China.

Assigning a Host Country Buddy

Companies can assign a host country mentor or so called "buddy" to their expatriates. Such a buddy, located in China, needs to be experienced with the relevant company, its business, and is acquainted with Chinese culture, as well as with the local environment. It is advantageous if the cultural gap between the expatriate and the mentor is minimal. The mentor's task is to support his protégé with adapting to the new job, environment and share his or her experiences. Such mentors should be easily approachable by the expatriate. The advantage for the company is that having a mentor disburdens home and host-country HR departments, which may have limited personnel resources. If problems or questions arise, expatriates and their families can first seek help from the mentor. This mentor should be assigned during the preparation period in Switzerland. Questions concerning the relocation, for example, can be posted to the mentor. He or she, in turn, can help in relocating and supporting the expatriate after arrival.

Conclusion

Various types of training and assistance need to be offered by the company to make expatriation successful.

Since companies, their industries, employees and the different needs may vary significantly, a "best practice" should not be seen as a pre-made solution for the preparation of expatriates but rather as a guideline with different recommendations. Preparing a future expatriate and his or her family as described is no panacea but will unquestionably increase the probability of successful expatriation.

For further information or a full copy of the semester project paper please contact:

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Students Exploring Chinese Business Environments

The Insight China project heads to the "Middle Kingdom" for the seventh consecutive year. In China students explore internationally operating Swiss and Chinese organizations, to get an insight into the economy and culture. While travelling in Beijing, Lanzhou, Yichang and Shanghai, the delegation will experience the many faces of China's culture and meet Swiss expatriates as well as Chinese officials and business people to share knowledge and experience of life in Asia's most dynamic economy. Andrea Dummermuth, of Blaser Swisslube AG says: "With Insight China 2008 the FHNW provides future executives the opportunity to practice their knowledge, to network and to build relationships through the intercultural experience in China. As a leading manufacturer of coolants for the metalworking industry, we consider our support of this project as an investment in the future."

Insight China is an international business project organized by International Management students at the School of Business of the University of Applied Sciences Northwestern Switzerland FHNW. Students in the fields of Business Administration, Engineering, Applied Psychology and Social Work will participate in two seminars. The first seminar will be held in February `08 in Olten, it will be open to all final year students of the FHNW and will give a theoretical background for those 18 students who will be travelling to China in March `08.

The project aims are:

- Fostering intercultural exchange
- Building networks and strengthening relationships
- Knowledge transfer
- Combining theoretical knowledge with hands-on experience onsite
- Investigating major business and economic fields related to China

Theoretical Preparation in Switzerland

The preparatory seminar “Doing Business in China”, which will take place from the 11–15 February and will provide background information about China to up to 50 students. Executives from banking, consulting, engineering and global retailing companies and lecturers with china experience, will give a personal view of “Doing Business in China”. This experts will talk about their experiences in China and will demonstrating what it takes to be successful in this highly competitive market. The seminar will focus on economic. Political and legal aspects of doing business as well as intercultural management and behavioral aspects in Asia, and students will participate in a workshop on Chinese language and etiquette. The preparatory seminar will finish with podium discussions in cooperation with other FHNW projects, Focus India and Networking New York, on relevant international issues giving all participants and guests the opportunity to discuss their points of view and a presentation where internationally known politicians will discuss Swiss international relations.

Applying the Theory Onsite

One month later, from the 14–30 March, 18 highly motivated students will take their first step into Chinese culture onsite. Beijing will be the starting point of the onsite seminar, an unforgettable cultural experience, which will be combined with a visit to Olympic organizations and governmental institutions. The delegation will meet Swiss Business Hub and Embassy officials. The next visit on this trip will be to Lanzhou to foster the 15 year long relationship with the Gansu Training Center for Senior Management Officials GTCSMO. There the delegation will meet students, lecturers and government officials as well as visiting state and privately owned businesses. According to Xu Jian of the GTCSMO, Lanzhou will lead to the first cultural shock for the delegation, as it is less developed than the coastal region but steadily growing to an economically strong point in China. From there the delegation will travel to Yichang, site of the Three Gorges Dam. The final destination is Shanghai, the business hub of China and one of the fastest growing cities in the world. There the delegation will get a closer look at Chinese and Swiss businesses that are operating in China. The Suzhou Industrial Park will be one of the highlights in Shanghai, and the delegation will visit logistics, consulting and textile and firms amongst others. Meetings with expatriates will be an opportunity for participants to learn about working and living in China.

Contribution

The Insight China seminar is only possible with support from partners in the Swiss private sector. They help students afford such an expensive trip and they profit/benefit from students researching economic, social and other China related subjects. Direct contact to highly motivated students in the fields of Business Administration, Engineering, Applied Psychology and Social Work, gives firms opportunities to network and opens possibilities to recruit students who are finishing their studies in Summer 2008. The FHNW School of Business and its China-Hub is well known for its international network, which is strongly reflected in the Insight China project, the first of its kind in Switzerland. This highly prestigious project will be organized by International Management (Business Administration) students for the seventh time as a part of the International Business Project module. The major part of the initial phase is fund raising, where business partners are sought who would like to help highly motivated students afford this unique opportunity to advance their studies.

For further Information or to become a sponsor please contact:

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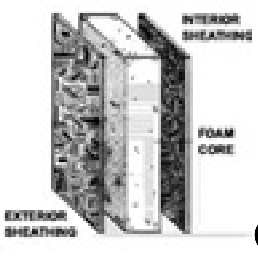
The Future House Is Here Now

Imagine, living in comfort at the South Pole[1], Honolulu, Hawaii[2], or Beijing, China[3]. Actually, imagination is not required since each of these three distant locations currently use SIP's to solve the "comfort" issues; climate, family budget, and the "peace of mind" that a SIP structure will help reduce your carbon footprint. In fact, a SIP is so efficient that operational carbon use can just disappear as in the NET ZERO ENERGY structure featured in these pictures of the Future House USA just completed in Beijing.

*What is a **SIP (Structural Insulated Panel)** and can it really create housing that consumes so little energy that residents can leave a smaller carbon footprint on the planet? The answer is YES.*

A SIP is a pre-manufactured structural element used for residential or light commercial buildings (three levels or less). A SIP structure can easily be assembled in a factory or at the construction site. By applying the SIP modular construction technology, building a structure requires much less skilled effort and is completed in less time. These labor and time reductions generate costs savings for the builder/owner. But the advantages of SIP building do not stop once construction is complete. A SIP building is so energy efficient (compared to homes built with traditional construction techniques) that the benefits keep coming throughout the life of the house. Benefits such as energy savings come from the fact that a SIP completely eliminates thermal bridging[4] by structural supports. This fact is counter intuitive to most homeowners. Just think insulation can actually be the structure that surrounds the living space in the home. Yet, that is exactly what happens with a SIP; the foam insulation (EPS or expandable polystyrene) is a component of the structure. There is no other price or performance competitive insulation material that can serve as insulation and a structural component.

Most people that want to live a **GREEN** lifestyle might be satisfied to simply have a more efficient house i.e. one that uses less energy. With a SIP, however, the desire to have a green lifestyle extends also to the materials used to create a SIP. For example, expandable polystyrene is, by volume, mostly air and less than 5% petroleum based plastic. Since most plastics result from maximum utilization of the waste products left over after fuel is refined from crude oil; one could say that not only is expandable polystyrene less than 5% by volume oil based, but the oil used to make the material is not useable for any other purpose beyond combustion. Then there is the wood facings of the SIP call oriented strand board. These structurally rated sheets of wood are made from flakes or strands of wood rather than whole veneer sheets that are used to make plywood. By using the flakes and orienting them to yield the greatest strength the inventors of OSB created a plywood equivalent with pieces or flakes that might otherwise be used only for burning. Truly, SIPs have initiated the green building era by more fully utilizing raw materials (scraps); being able to meet the requirements of (inter-) national building codes (fire, stability, etc.) for the construction of safe buildings; and performing so well that the operational carbon footprint is minimized.



GREEN SIP's = SMALL CARBON FOOTPRINT

Lifting a panel by hand.

A SIP also makes good economic sense to local markets since housing components made locally can offer jobs and support the innovations needed to modernize and make more efficient surrounding communities. Making a structural insulated panel (SIP) is not difficult and can be managed by individuals with manufacturing experience, a supply of raw material components (EPS and OSB), and sound management skills. Usually the real objective for a SIP manufacturer is the production of environmentally correct energy and labor saving construction products. Profit or just building houses for a development may figure as a lesser objective for many. Nevertheless, a producer of SIP's will find many uses for the SIP and for specialty laminates for the renovation of older existing structures all of which will make for an economic viable operation whether publicly or privately owned. While a key part of a manufacturers role is insuring that the product meets consistently high and accepted standards of performance demanded by architects, engineers, and craftspeople; a SIP operation can succeed in giving more to the community by setting an example as an economically sustainable operation that is improving the environment.

The most effective way to achieve establishment of a sustainable operation that makes SIP's and other energy and labor savings construction products is to follow the leader; a firm that has been making SIP's for decades. **R CONTROL**, by AFM Corporation, has developed experience, collected test data, and regulatory reports to insure the most effective pathway to qualification of SIP products promptly, efficiently, and profitably. It was the AFM Corporation and Mitsui Home who united to introduce SIP construction to Japan in the 1980's. Passing on this expertise and formal qualification is normally done via issuance of a license that allows the new SIP producer to be assigned, as a listee, all of the approvals and test documentation assembled over the years. Of course, such an assignment of data and license for technology carries with it many strong agreements that the licensee will follow strict quality assurance procedures that must be verified by independent inspection firms such as Underwriters Laboratory. Following the license approach from the outset allows the building products innovator to work on the startup without the distractions caused by replicating building regulatory testing and qualification procedures.

Second floor going up.

House with curved walls.

Establishing a factory to make laminated building panels – SIP's

Step one is to manufacture a SIP to meet the structural standards set or required by regulatory authorities located close to where the building is to be built. *Step two* is to demonstrate to architects, engineers, and regulatory officials that the SIP made under an R CONTROL license meets all of the requirements for a residential or commercial structure. *Step three* is to be able to present and execute a marketing program to capture the consumer of the SIP (home or building owner) by effectively demonstrating that the selection of an R CONTROL SIP is a wise environmental and economic decision.

Housing or commercial structures are meant to protect people. A SIP, correctly made, will perform to extraordinary levels to meet the expectations demanded by regulatory agencies. A SIP is pre engineered, for a specific purpose to meet wind, earth movements, or stresses that can be forecast. The factory must follow the engineering requirements when making a SIP. Significant to the engineering qualification of the SIP is the fact that the OSB and EPS are both "engineered" materials. After manu-

Footnotes:

[1] The National Science Foundation, USA, research living center built in the last five years precisely at the South Pole relies on SIP's to provide the insulation and performance needed in this extreme weather location.
[2] School temporary buildings and homes were selected to offer comfort and energy savings to the Hawaii consumer.
[3] The FUTURE HOUSE USA (www.futurehouseusa.org) is featured in the pictures. This house represents the best of the NON TOXIC ZERO NET ENERGY structures designed in the United States. The Future House USA, and nine other entries from nine different countries, is 8 kms. distant from the China 2008 Olympic Village. The intent of the Future House exhibition is to teach environmental technology to visitors during the 2008 Olympics and until 2012.
[4] A thermal bridge occurs when a material with lower insulation values is allowed to span the distance from the outside wall of a structure to the inside wall thus permitting the movement of heat to cold with less resistance than other parts of a well insulated wall unit. Stick framing of walls is the best example of a thermal bridge. The dimensional lumber has little insulation value yet its positioning connects directly the exterior with the interior.

facture, the craftsperson takes a SIP and must install it correctly to avoid structure failure that may occur quickly or slowly over time due to installation or detailing mistakes related to water penetration, bracing, or fastening. The SIP manufacturing firm must have the knowledge and skill to be able to train craftspeople to execute a correct assembly. Becoming part of a licensed group of companies that already produce SIP's (AFMT) and that already have a culture of documentation, performance evaluation, and process improvement is the best guarantee of success for any firm wanting to offer SIP's.

Some primary objectives to establishing a SIP production factory would include:

1. Introduce environmentally friendly, non toxic, building products and techniques to the local market. Superior wall and roof insulation will save on fossil fuels plus the efficient use of basic renewable materials to make the SIP's (OSB).
2. Reduce the number of pieces necessary to build any structure by introducing large panelized and/or prefabricated wall sections – Labor cost reductions occur when piece counts are reduced.
3. Illustrate that consumer demands for quality housing and protection from earthquake, wind, and the impacts of mold, mildew/fungus, and termites/insect infestation can be offered by using SIP's.
4. Improve the quality of the work and living environments for the residents through the creation of good construction jobs for lesser skilled persons, increasing the control homeowners have over the quality of their living environment (inside air or temperature of their habitations), and by extensively using insulation – reduce the financial drain on family budgets resulting from rising energy costs.
5. Offer housing design, price, and performance competition to markets that rely on historical methods of construction using wood, concrete, or stone – all of which are costly and slow to complete.

Happy working crew.

Before entering into any new venture most entrepreneurs carefully evaluate the strengths, weaknesses, opportunities, and threats that could impact their proposed venture. Briefly, the SWOT analysis is presented below.

Strenghts

1. A recognized R CONTROL brand name offers documented performance examples from different parts of the world, supported by test and performance data, and prescriptive manufacturing methods.
2. Entry costs are modest for a SIP plant depending on the size and labor efficiency of the operation (€ 150,000) and production space can be limited to 500 square meters.
3. Equipment supplier credits are available.
4. Technical assistance and staff training to implement.
5. Operating plants in other locations available for advice and trouble shooting.
6. Outside inspectors keep plant producing high quality products to reduce liabilities.

Weaknesses

1. Local expertise may not be available in regions where SIP's are unknown.
2. Preconceived notion in the market about the value and environmental benefits of EPS foam.
3. Buyers who fail to understand the "engineered" values of EPS foam and that foam can carry tremendous compressive loads and can be used safely.

Opportunities

1. Government mandated energy efficient buildings may give SIP buildings a preference.
2. For an EPS foam producer; SIP's give 10x the margins of simple EPS.
3. SIP structure can offer builders, designers, or engineer's better control and design flexibility and reduce liabilities.

Total house with crane lifting.

4. Become the "green" building material supplier in region.
5. Offer pre fabricated or packaged housing that even an owner can erect.

Threats

1. Consumer is not comfortable with EPS foam let alone foam in buildings.
2. Raw materials, mainly coming from petroleum based products, become too expensive to compete with natural products and more labor intensive building techniques.
3. Firms that also make panels, but without quality control, create a bad name for SIP's in the general market.
4. Government regulations on production or building codes.

Summary

Over 60 million square feet of SIP's are made every year in North America. At an average production cost of $3 per square foot, this translates into an industry of at least $180 million in production value and well over $250 million in wholesale or installed sales revenue. While custom designed homes are the typical use for SIP's, labor and energy cost savings plus environmental air quality will mean that more and more home owners will be seeking the SIP constructed home. SIP's using EPS were developed and are principally made in North America.

With increasing concerns for the quality of life, delivery time, and construction cost containment; the SIP is also making progress in Japan, China, and Europe. Manufactured housing that currently relies on stick lumber to make panels is a growth industry. But stick building is a very labor intensive way to make a final panel that performs worse than a SIP. As markets drive to greater cost efficiency expect an increased demand for larger building elements, fewer small piece components, easier assembly, and superior energy performance. European builders/consumers will soon discover the enhanced performance of a SIP structure and the greater builder profitability that comes from using SIP's. With the discovery that one can improve the individual and world quality of life through greater use of SIP structural elements; the European housing industry will seek out SIP production capacity. The first firm producing a solid SIP brand supported by extensive worldwide test/regulatory compliance might be instrumental in doing for Europe what AFM and Mitsui did for the development of the SIP industry in the US and Japan. The challenge to create the better performing house is on the table. Who will lead and accept the challenge in Europe?

By Future House USA – Beijing, China

For further information see:
AFMT (AFM TECHNOLOGIES CORPORATION)
"Licensing lifestyle innovations."

www.afmtechnologies.com

The Best of Switzerland to Pop-Up

Stand-up-Switzerland AG, the publishing house in Zurich dealing with the production of 3D pop-up picture books has only been founded in 2006. Since then, six of those veritable volumes in 3D large format have been published, from which Swiss landmarks pop-up, from the Bundeshaus to the Rhine Falls; nearly a quarter meter high and half a meter wide, true to scale, colorfast and true to the original down to the very detail. And, an ideal gift to bring along when visiting the Olympic Games 2008 in Beijing for example.

Currently, Albi Matter, the editor, who has also launched two of the most successful music events for years, the International Country Music Festival and the International Dixie & Blues Festival, is editing the volume "Best of Switzerland" as the up-to-date high point. In the centerfold, even three of the impressive, spot-lacquered pop-ups arise, showing the motifs of Eiger, Mönch and Jungfrau, the Matterhorn and the Kapell-Bridge produced by specialists in extravagant handicraft in China. The remaining 78 pages contain many colorful and illustrative pictures and a lot of information in German, French, English, Spanish, Chinese and Japanese.

In addition, the picture book includes the CD "Best of Swiss Folk Music" inside the cover as a special gag. In its period style Emmentaler-cheese cover, it contains a collection of coherent pieces of music, from the ringing of cow bells to original yodeling sounds gathered by Swiss folk music star Carlo Brunner.

Along with the six volumes published before and the Best-Of edition hot off the press, there is also a series of 3D double-cards with a variety of 15 motifs available. All these pieces of art, well worth to be collected, may be purchased in bookstores and at kiosks or ordered straight from direct sales at www.stand-up-switzerland.ch. And whoever fears such a purchase to tear a hole in his purse may be pleasantly surprised. The Best of Switzerland edition costs no more than CHF 69.80, a volume of the first series CHF 49.80 and one double-card CHF 14.50.

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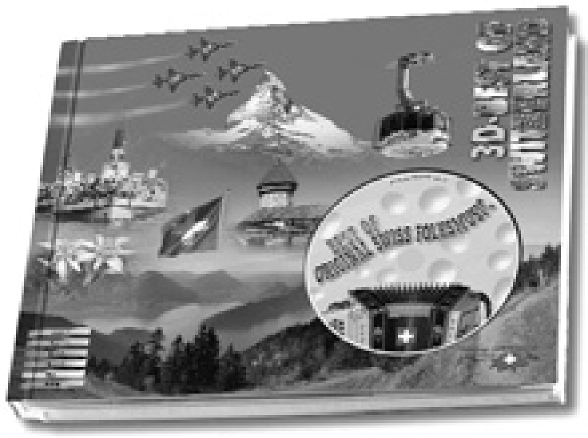

Members of the Swiss-Chinese Chamber of Commerce get a rebate, if ordering ten and more books.

SWISSeau – Trendy Life-Style Water

New Swiss Bottled Spring Water to Represent Modern Switzerland Around the World

Swissness communicates quality and instills trust. World-wide, Switzerland enjoys a reputation of excellence and among Swiss' well known exports such as banks, watches, cheese, and chocolate, Switzerland is also the source of many pure, pristine and natural products.

SWISSeau – Pure Alpine Spring Water aims to bring the natural beauty of Switzerland to a worldwide audience with a healthy natural product while communicating the high standing and excellent reputation of a modern Switzerland.

Today's "high-end" water market

The total world-wide bottled water consumption in 2005 was 171 billion liters and is expected to grow 35% over the next 5 years. 25% was consumed in Asia, 25% in Europe, 17% in the US and 33% in the rest of the world. China is the 2nd largest consumer market for bottled water after the US and is among the fastest growing markets in the world. It is expected to become the largest market globally within the next 10 years. Even though there are thousands of water brands available, fine hotels, restaurants, bars and health & sports clubs are usually only offering one or two different "high-end" water brands. Consumers are served Evian when asked for non-carbonated water and Perrier or San Pellegrino when asked for carbonated water. Average "end-user" prices for these waters range between \$3.50 and \$8.00 for a 0.25 l or 0.33 l bottle. Some hotels and restaurants are starting to carry "water menus" where patrons can choose from different "high-end" waters. There are currently no major "ultra-premium" Swiss bottled water brands available outside Switzerland.

Our Mantra: 100% Pure Swiss Alpine Spring Water

SWISSeau is bottled at the source in Switzerland. The water is one of the – if not THE – best water in Switzerland and maybe even in Europe. It is pure and tastes great.

The water has a low mineral content and neutral pH value which makes it extremely healthy and suitable even for babies and the elderly. The bottle and label were specially designed to be simple, modern and easy recognizable with its own Swiss identity to appeal to our target consumers: sophisticated women in their 20's to their 60's. The water is available in 0.33 l, 0.5 l and 1.0 litre PET bottles.

SWISSeau Water Analysis

SWISSeau Pure Alpine Spring Water is very light, with a low mineral content (total dissolved solids of 49 mg/l) and a balanced pH value of 6.5. It is naturally pure and well suited for low-natrium and low-sodium diets. In fact, SWISSeau has been proven to be particularly well suited for the delicate bodies of babies and the elderly, but is very well suited for daily consumption by everybody.

	SUGGESTED MAXIMUM VALUES*	SWISSeau VALUES**
	mg/L	mg/l
Sodium (Na+)	<30	1.9
Potassium (K+)	n/a*	0.7
Calcium (Ca++)	<200	7.6
Magnesium (Mg++)	<40	1.5
Bicarbonate (HCO_3)	n/a*	22
Chloride (Cl)	<250	0.5
Nitrates (NO_3)	<25	4.9
Nitrites (NO_2)	<0.02	<0.01
Phosphate (PO_4)	n/a*	<0.001
Sulfate (SO_4)	<200	7.0
Silicic Acid (H_2SiO_3)	n/a*	3.4
	"IDEAL" WATER	SWISSeau
Total dissolved solids	<300 mg/L	49 mg/L
pH	6.5 - 6.8	6.5
OHM	>6'000 >70'000	18'000

* maximum levels as suggested by the Swiss Association of Pediatrics in accordance with the Swiss Federal Food Commission; report dated March 3, 2003. (n/a = value not available, no recommendation given)

** SWISSeau water content analysis by the State Dept. of Hygiene, Bellinzona, Switzerland, December 2006.

Our Target Markets

We are positioning SWISSeau as an "ultra-premium" bottled water alternative to Evian. We are selling SWISSeau to these primary target markets:

1. Fine hotels, restaurants, bars & private health & sports clubs, spas, and selected high-end retail stores.
2. Primarily in fast growing emerging markets around the world: China, Japan, India, Middle East, Russia, and Singapore.
3. Once established, we will expand to other markets around the world including Western and Eastern European countries and Switzerland.
4. Our primary target audience are:
   – Women, 25–60
   – Upper middle class
   – Hip, urban, trendy, sophisticated
   – Health conscientious
   – Beauty conscientious

The way we position ourselves

SWISSeau = Health, Beauty, Youth and Fitness

"Sure, it's a pretty bottle but what's important is what's inside."

"ultra-premium" water
– Bottled at the source in Switzerland
– The product is 100% "Made in Switzerland", including the bottle, label, etc.
– Limited supply
– Great tasting
– High quality water
  – "nearly perfect" water based on "ideal" water content
  – low mineral content (see water properties and comparison)
  – ideal pH value, Ohm value, and conductivity
  – recommended by the Swiss Association of Pediatrics in accordance with the Swiss Federal Food Commission
– Attractive, "sexy" packaging
  – Slim, sensual bottle
  – Attractive easy brand: "SWISSeau"; "eau" = water (French)
  – Exclusive label (silver paper, double sided printed, self adhesive, with Swiss pictures on the inside of the bottle)
  – Available in 3 sizes: 0.33 l, 0.5 l, and 1.0 l PET
– Exclusivity
  – Only available at fine hotels, restaurants & bars, health & sports clubs, and spas, and selected "high-end" retail stores
  – Upper price segment

Why we choose China as our first market to introduce SWISSeau?

According to Merill Lynch, China is now the world's third largest luxury market. Discriminating consumers love their luxury brands. BMW, Audi, Zegna, Cartier, Louis Vitton and Mont Blanc are iconic and big sellers. For example, there are over 30 5-star hotels in Shanghai alone with occupancy rates over 75–80% throughout the year. Furthermore, health and beauty conscientious consumers are buying more and more wholesome products being aware of the content and the origin of its ingredi-

ents. For example, organic foods in China enjoy double digit growth rates and spas and health clubs see enormous increases in their memberships. SWISSeau's management believes, even though China is a challenging market to enter and to operate in, SWISSeau is the right product for the right market at the right time.

"China is the heartbeat of the world and its growing health and beauty conscientious middle class represent a terrific growth opportunity that we don't want to miss. Chinese people are excited about new products and SWISSeau – Pure Alpine Spring Water from Switzerland doesn't need much explaining. Everyone here knows Switzerland and dreams to go to there at least once in their lives", says Oliver Kay, CEO of SWISSeau.

About SWISSeau

SWISSeau was conceived two years ago by its founder when he was frustrated to get only "foreign" bottled water in any restaurant and hotels while he was travelling abroad. The result is SWISSeau – Pure Alpine Spring Water. Since August of this year we are shipping SWISSeau and selling it as an exclusive ultra-premium bottled water brand to the finest hotels and restaurants, spas and health clubs in Asia and around the world.

SWISSeau was recently reviewed and featured on www.FineWaters.com. A website dedicated to fine waters around the world.

For more about SWISSeau, please visit our website: www.swisseau.com or contact us

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Are you interested in carrying SWISSeau at your establishment? Please contact our sales department at: sales@swisseau.com

By Oliver Kay
CEO & President of SWISSeau Corporation

Chinese Culture Celebrated in Weggis

After the great success of the first China festival one year ago, travellers and friends of fine cuisine could experience the rich and diverse culture of China again in January 2008 within the spectacular setting of the luxury five-star resort next to the Lake of Lucerne in the historic village of Weggis in Switzerland.

From January 5th to 27th visitors could enjoy a complete China experience at the Park Hotel Weggis. Not only in view of the upcoming Olympic Games 2008 in Beijing, the Middle Kingdom has been put in the spotlight with exhibitions and a series of lectures: A broad gastronomic and cultural programme structure has also introduced the guests to the world of Chinese culinary traditions, arts and music. Headlining this unique festival will be authentic Chinese cuisine featuring culinary customs that have indelibly revolutionized the country's gastronomical importance in the culinary world.

Peking Duck – best known Chinese speciality

During the Chinese Festival, specially prepared Chinese dinners have been presented in the hotel's fine-dining restaurant Sparks (evenings with Chinese live-music). Guests have enjoyed the food from a team from the **Quanjude Restaurant in Peking**. The business which was established in 1864 became famous with what is probably the best known Chinese speciality – Peking Duck. Its characteristic Quanjude flavour, the special roasting technique and superb quality made the restaurant famous well beyond the country's borders. Government leaders, officials and VIPs from many countries and regions have visited Quanjude roast duck restaurants.

The Grand Chinese New Year Concert

As part of the great China Festival the Park Hotel Weggis has presented a musical spectacular in the Lucerne Culture and Convention Centre (KKL Lucerne). **The China Traditional Orchestra Guangdong** ushered in the Chinese year of the rat with music and is considered to be one of China's best traditional orchestras. Guangdong music reflects feelings and passion as well as the mundane aspects of life. The Chinese instruments which are largely unknown in the West and the traditional costumes of the orchestra transform the music into a colourful spectacle and overwhelmed the audience. The conductor for this performance has been the prominent Chinese conductor **Hu Bingxu**, who conducted Asia's most outstanding Chinese orchestra.

The China Traditional Orchestra Guangdong, celebrating the Chinese Year of the Rat at the Lucerne Culture and Convention Centre (KKL Lucerne), is considered to be one of China's best traditional orchestras.

Relais & Chateaux-Park Hotel Weggis ★★★★★ at the Lake of Lucerne is open year round.

Series of lectures

In a series of lectures at the hotel, information on political, economic and cultural issues have been passed on by well-known speakers such as **Urs Schoettli**, Far East correspondent of the journal "Neue Zürcher Zeitung", Dr. Ing., Lic. oec. et phil. **Peter Wiesendanger**, Vice President Zehnder Group AG, **Wei Zhang**, author, teacher of languages and translator, Prof. Dr. phil. Dr. iur. **Harro von Senger**, Professor of sinology since 1989, Dr. med. iur. Thomas Wagner, President association Swiss-China, **Kurt Haerri**, President Swiss-Chinese Chamber of Commerce and last but not least, Dr. **Adolf Ogi**, former Swiss Federal Council.

Exhibitions

Complimenting the culinary and informative side of the festival, there have been two exhibitions on site:

«Between Two Worlds», an exhibition by Susanne Scherer

Susanne Scherer, who has lived for some time in Peking, presented an exhibition with impressive images, which show amazing similarities between everyday life in China and in Switzerland.

«Dream of the Olympic victory and the Olympic movement», an exhibition by Donghua Li

Donghua Li presented an exhibition with important objects of his career.

An overall glance at the hotel

Newly refurbished Relais & Chateaux-Park Hotel Weggis ★★★★★ offers 53 guestrooms and suites, including the uniquely designed Adara Suites featuring unadulterated views of Lake Lucerne, luxurious baths and amenities, in-room wine coolers and the latest in technology. Tibetan private spa cottages, Tibetan themed spa treatment rooms and therapies and Japanese gardens provide a tranquil respite in which to unwind. The refurbishment features the incorporation of modern day luxury design and style in the original hotel structure that housed the Mark Twain and Queen Victoria Suites.

Award-winning fine-dining restaurants, The Grape, Sparks and The Annex offer fusion cuisine and ambience in an atmosphere of elegance and high style. The signature Aquarius Hall is the perfect venue in which to create unique occasions with its glass panels and specially designed lighting executed in Murano glass by Philippe Starck. A century-old restored Vinothek hosts private wine pairings and over 2,600 labels lovingly overseen by award-winning Sommeliers. The hotel is open year round.

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The RADO Chronograph

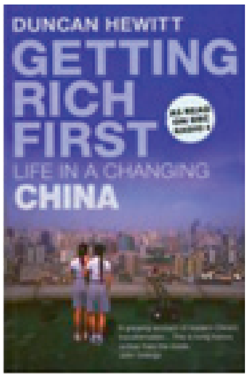
New Original Split-Second Chronograph

Precision and sophistication come naturally

The case, a luminous ellipse. The dial, a mysterious circle. The eye is drawn from one to the other, taking pleasure in the contrast. The gentle touch of night gives way to the smooth, frank brightness of the day that flashes from the steel links of a sinuous bracelet on the wrist. The strength and elegant simplicity of this chronograph are the source of its innovative character and authenticity. Forthright and precise, challenging and demanding, it may choose to reveal a thoughtless spontaneity. Subtle, minimal, essentially free of superfluous detail. The Rado New Original Split-Second Chronograph. Blue. Black. Instantly beautiful.

A polished oval hardmetal case and a lithe satin-finish steel bracelet give this watch its glittering, slender profile. Though its look is uncomplicated, it nevertheless houses a split-second chronograph accessed by three pushers. And each second, suspended for a moment in the passage of time, is captured by the metallic heart that beats beneath the sapphire crystal. The darkening twilight of the dial is studded with indices tipped with light; three counters measure the seconds that turn into minutes and hours, and a moving anchor in a porthole represents the oscillating mass of this automatic model. Luminous hands, a titanium clasp and a screw-down crown with crown protection are the finishing details that make all the difference.

Book Recommendation



Duncan Hewitt
455 pages
Published by
Chatto and Windus, 2007
ISBN: 978-0701178970

China is a society that has "been dragged from Stalinism to the extreme fringes of capitalism in less than 20 years", says Duncan Hewitt. "It's not unlike the changes in Eastern Europe, but on a much bigger scale. The whole value system has been shaken, but people are still expected to believe in Communism."

Experienced journalist, Hewitt – a respected China hand who first studied in Xi'an in 1986 and who lives in Shanghai – has just published his first book: Getting Rich First: Life in a Changing China. The book is one of the most accessible and finely balanced dissections of modern Chinese economy and society currently available.

"It's the book I said I would never write", Hewitt says. "But I wanted to explore the human side – how people's lives have been affected and how they rationalise this amazing ongoing urban transformation."

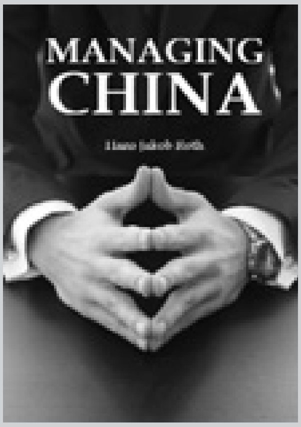
Hewitt knows China well, a fluent Mandarin speaker he first visited the country to study in 1986. He returned, via a stint in Hong Kong, in 1997 as a correspondent for the BBC, firstly based in Beijing and later in Shanghai. He now writes for Newsweek and other publications.

The book is centred around Deng Xiaoping's famous assertion that national wealth generation would best be served by allowing some of the people to get rich first, and then funnelling this newly created affluence throughout Chinese society from the top down. "Since then", Hewitt says, "China has experienced a social as well as economic revolution. We have seen many of the enormous changes that western countries went through over forty years following World War II, but compressed into less than half that amount of time."

A sharp observer and fine storyteller, Hewitt recounts personal tales and musings from Chinese people he encountered on his journeys across this vast country. Along the way, he discusses the young "Me" generation, analyses media industry changes, meets migrant children in an unlicensed mountain school, ponders religion with a Shanghai Bishop and talks with young fans of the Japanese costume game Cosplay. He also looks at the growing generation gap between the economically empowered young generation and the nation's often bewildered elderly citizens for whom New China is rapidly passing by.

Summary by Gary Bowerman

Books Available at the Chamber



Hans Jakob Roth
133 pages
CHF 30.–
Hans J. Roth
Publishing, 20007

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

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Zürcher Zeitung

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

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

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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

RESTAURANT ORSON'S
Steinwiesstrasse 8
CH-8032 Zürich
eig. Parkplätze
✆ 044-267 87 02 Fax 044-251 24 76
E-Mail: info@orsons.ch
Website: www.orsons.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

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

CLARIDGE HOTEL ZURICH
specialised in hosting Chinese Customers
(we serve Chinese zhou and xifan for breakfast, we offer Chinese TV and tea kettle in every room, Chinese spoken)
Steinwiesstrasse 8–10
CH-8032 Zürich
✆ 044-267 87 87 Fax 044-251 24 76
E-Mail: info@claridge.ch
Website: www.claridge.ch

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