Impressum

Information
Bulletin of the Swiss-Chinese Chamber of Commerce

Circulation:
In print 1'400 Ex. and on website.
To the Members of the Chamber and of the Chapters in Geneva and Lugano; among them the leading banks, trading companies, insurances and industrial firms. To Trade Organizations, Government Departments, leading Chambers of Commerce in Switzerland, Europe and China.

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Printing:
werk zwei
Print + Medien Konstanz GmbH
P. O. Box 2171
CH-8280 Kreuzlingen
Switzerland
Tel. 0049/7531/999-1870
www.werkzwei-konstanz.de

Advertising:
Conditions available on website
www.sccc.ch

Deadline for next issue:
November 30, 2011

Disclaimer:
The BULLETIN is a semester publication on Chinese information gathered from various media and news services, edited by the Swiss-Chinese Chamber of Commerce and distributed to its members and BULLETIN subscribers. The Chamber does not accept responsibility for accuracy of quotes or truthfulness of content.

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

Competitive Times ahead

Kurt Haerri, President SCCC, thanking guest of honour Federal Councillor Johann N. Schneider-Ammann during the General Assembly in Zurich on June 30th 2011.

Standard & Poor's decision to downgrade the U.S. credit rating from its top AAA to AA-plus for the first time ever – whether we agree with it or not – signals one more turning point for the entire global economy. The turmoil caused by this rating downgrade shows explicitly the vulnerability of today's globalized economy. Both countries, Switzerland and China are significantly affected by the dark clouds over the global financial markets. China is the largest foreign holder of U.S. treasuries, with nearly USD 1.2 trillion of them and Switzerland's export oriented economy suffers very much because its currency – the Swiss Franc – hit an all time record high against the U.S. Dollar and the Euro. Besides taking notice of these rather dramatic movements among the financial markets, operational business in other industries continues and strategies must be re-adjusted accordingly in order to cope with the changes. For Swiss companies engaged with business in China, I would like to emphasize on three vital aspects which are strategically relevant:

1. China's gross domestic product rose by 9.6 percent year-on-year in the first six month 2011. The growth momentum of the world's second largest economy is still strong with only slight risks for a decline. According to the Five-Year Plan, domestic consumption will be a major pillar of the future growth. Foreign companies will be extremely challenged to keep up with the variety and the speed of the domestic demand, hence operational decentralization becomes a key success factor for foreign invested companies in China.

2. While enhancing cost competitiveness, a global supply chain strategy will be of critical importance because opportunities for economy of scale – as a result of the growing domestic demand – are going to be substantial. The supply chain in China must become an integrated part of the global supply chain, but risks and opportunities must be balanced with caution. Availability of raw material will become a most critical success factor in the future.

3. In the last six month, the consumer price index (CPI), a main gauge of inflation, has exceeded 6 percent in China mainly due to rapidly growing food prices. To rein in the rising inflation, the government has taken various actions such as raising the benchmark interest rate already three times this year. However, companies must analyze the impact in the various geographic clusters and define actions accordingly. Salary levels shall be adapted timely and productivity gains will be most important to absorb higher cost and to maintain competitiveness in the market.

The aspects above are in particular important because the speed of the change in China remains very high. What has been right in the past and even today is likely the wrong recipe for the future. Excellent cooperation and friendly ties with Chinese companies will be most important to find the right answers for the challenges ahead. This at least remains unchanged: friendly ties, respect and mutual understanding remain important success factors for our future business success in China.

Kurt Haerri
President Swiss-Chinese Chamber of Commerce
Senior Vice President, Schindler Elevators Ltd.

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General Assemblies

Guest of honour H.E. Johann N. Schneider-Ammann in the crowd.

Dear Members, dear Readers,

on June 30th, close to 140 members and guests attended the Annual General Meeting of the Swiss-Chinese Chamber of Commerce and the Swiss-Hong Kong Business Association, which took place at the Park Hyatt hotel in Zurich. The Chamber was privileged to welcome as guest of honour and speaker of the day, **Federal Councillor Johann N. Schneider-Ammann.** In his keynote address he presented the opportunities and risks of a free trade with China.

During the World Economic Forum in January 2011 in Davos, Federal Councillor Schneider-Ammann and Minister of Commerce Chen Deming signed the Memorandum of Understanding, officially launching the negotiations on a Switzerland-China Free Trade Agreement. In April 2011, the first round of the negotiations took place in Berne and the second round was held in Xi'an, China in July.

At the General Assembly, the Chamber also welcomed **Ambassador Eric Martin,** Delegate of the Federal Council for Trade Agreements and Head of Bilateral Economic Relations of the State Secretariat for Economic Affairs (SECO), who gave a report on the bilateral economic relations between Switzerland and China during 2010. On behalf of the exclusive sponsor, Credit Suisse Group Zurich, **Mr Thomas Herrmann,** Senior Economist, gave a speech on the economic outlook on China.

Chamber President, Kurt Haerri, led through the General Assembly, which approved the activity report, the accounts and this year's budget unanimously. He also thanked the auditors Ernst & Young Ltd. for their report and confirmed their re-election for 2011. The statements of income and expenditure for Zurich (including Ticino) as well as the Geneva Chapter closed with a profit. The consolidated result has been carried forward to the capital fund of members.

Including the additional persons representing a company from within paying memberships, the chamber comprised almost 1'000 members at the beginning of 2010, making it the 3rd largest bilateral Chamber in Switzerland. Overall, the Chamber's resources and general infrastructure costs, despite the ongoing impact of the global financial crisis, were kept at a minimum (head-count in Zurich 2.3, Geneva 0.5).

2010, the year of the World Expo in Shanghai was also an exceptional year in regard to the bilateral relations between Switzerland and China and for the Chamber in specific. Besides the 60th anniversary of the diplomatic relations between Switzerland and China, the Swiss-Chinese Chamber of Commerce celebrated its 30th anniversary. Hence, 2010 was a year filled with numerous successful events, activities and many high-ranking bilateral visits. Members and guests of the Chamber could attend 40 events and seminars on China, organized by or in cooperation with the chamber secretariat in Zurich or its chapters. The Chamber also created a special anniversary issue of the Bulletin, compiling all data and remembering all the events and especially all the people, who have made this Chamber a special place to be during the past 30 years.

Highlights in 2010 were also the visit of **H.E. Vice-Premier Li Keqiang** and his high-ranking delegation from China to Switzerland and the official visit of President Doris Leuthard to China, accompanied by a high-ranking business delegation of which the Chamber President and selected members of the board were part of. The Chamber met with Wu Bangguo, Chairman of the National People's Congress of the People's Republic of China and his delegates, who paid an official goodwill visit to Switzerland in July.

2010 was the first year of the Chamber under the official mandate of Osec to host delegations from Greater China in Switzerland and to foster the information and promotion of Switzerland as an attractive business location for Chinese businesses and investors.

Federal Councillor Johann N. Schneider-Ammann.

New Members

Since January 2011:

Zurich

HighStep Systems AG	Zurich
BaselArea	Basle
Andrea Zünd	Hong Kong
sportlink & cie AG	Lucerne
Ernst Basler + Partners	Zollikon
SIMOIL Consulting	Renens
Kerry Logistics (Switzerland) GmbH	Basle
Languard Partners	Hong Kong
Beat Baumann	Adligenswil
Swiss Life	Zurich
Bühler Unternehmensentwicklung	Lucerne
Adrian Walti	Lausanne
Elsys AG	Nieder-rohrdorf
Jean-Michel Zwygart	Lachen
Roger Plüss	Ipsach
Wirtschaftsförderung Nidwalden	Stans
Florian von Ah	Männedorf
Hou Siu Lim	Zurich
VISCHER AG	Zurich, Basle
China-Access AG	Zug
Advokatur Lorenz Flückiger	Oberwil b. Zug
Theo Knaus	Rorschach
walker Werbeagentur	Zurich
Boesiger & Partner AG	Biel/Bienne
Holzer Kobler Architekturen	Zurich
Treureva AG	Zurich
CSL Behring AG	Bern
Bodenschatz AG	Allschwil
Schenker Storen AG	Schönen-werd
Güdel AG	Langenthal
CHDIAM	Allschwil
MAIPU Europe AG	Baar
Hapa AG	Volketswil
Millward Brown Switzerland Ltd.	Geneva, Zurich

Ticino

Fondazione QSC	Lugano

Geneva

Aon (Suisse) SA	Geneva
FCG Financial Consultancy Group SA	Grand Saconnex
CFIG Compagnie Financière Internationale SA	Geneva
Clear Eight Capital SA	Geneva
Ecole Hôtelière Du Valais	Martigny
Ithaka Time/Montres Le Guide	Neuchâtel
Impex Factory SA	Collombey-le-Grand
CNP Consulting SARL	Commugny
Semper Gestion SA	Geneva
Mme Rebecca Chung	Lausanne
Phénix Import-Export SARL	Conthey
Blue-Infinity (Switzerland) SA	Geneva
Kugler Bimetal SA	Geneva
Objectif Cadre	Geneva
Olicorp SARL	Geneva
European University	Geneva
Mandalogik	Geneva
Foundation Swiss Centers	Lausanne
DTZ	Geneva
TESA SA	Renens
Arkion SA	Geneva
Kyoto Japan Tire (Suisse) SA	Geneva
Winston & Strawn	Geneva
Mr Martin Velasco	Geneva
Mr John Parent	Chêne-Bourg
Mme Bernadette Schindler Velasco	Nyon
IMP & Co SARL	Geneva
Greater Geneva Berne Area	Lausanne
Mme Joanne Mei	Geneva
Mme Lucia Fesselet-Comina	Geneva
Manufacture Hysek SA	Lussy-sur-Morges
International Centre for Trade and Sustainable Development (ICTSD)	Chatelaine
Chaumet Genève	Geneva

Board members in the front row during the Annual General Meeting.

Ambassador Eric Martin, Head of Bilateral Economic Relations of the State Secretariat for Economic Affairs (SECO).

The Annual General Assembly elected the following new Board members:

– **Andy Kollegger,** Managing Director, Head Bank for Banks Relationships, UBS AG
– **Stefan Schmid,** Swiss Tax Partner, International Tax Services, PricewaterhouseCoopers Ltd.
– **Markus Schwab,** Head Special Projects, Division Grain Processing, Bühler AG
– **Roman Quinter,** Senior Vice President, Head Business Unit Nutrition, Lonza Group Ltd.

They succeed the resigning Board members Stefan P. Scheiber, Bühler AG, Dr Ralf C. Schläpfer, PricewaterhouseCoopers Ltd., Martin Steinbach, UBS AG and Lukas Utiger, Lonza Group Ltd.

The members of the General Assembly also approved unanimously the proposal of the Board to adopt the following change of the Articles of Association (§ 19, second paragraph): *The term of office of the President is limited to nine years; re-election shall take place every three years; exceptionally, after nine years, the term may be extended to a maximum of eleven years.*

The General Assembly of SCCC was followed by the annual general meeting of the **Swiss-Hong Kong Business Association** (SHKBA), presided by Dr Kurt Moser. SHKBA, founded in 2004, is managed under the auspices of the Swiss-Chinese Chamber of Commerce to make full use of cost efficiencies.

For all matters regarding the General Assembly Meetings, we refer to the documentations available at the Chamber's secretariat.

The Chamber gives a warm welcome to the new Board members and would also like to thank Credit Suisse for exclusively sponsoring the Annual General Meeting as well as those contributing to the successful development of the Chamber, be this through their support of the activities or through their membership.

Susan Horváth
Executive Director, Member of the Executive Board
Swiss-Chinese Chamber of Commerce
Swiss-Hong Kong Business Association

During the Annual General Assembly (f.l.t.r.): Susan Horváth, Executive Director, Kurt Haerri, President, Dr Richard Friedl, Vice President and Peter R. Schmid, Treasurer.

New State Secretary at SECO

State Secretary Marie-Gabrielle Ineichen-Fleisch (*1961), Attorney, MBA, SECO Director and Director of the Foreign Economic Affairs Directorate since 1 April 2011. From 2007 Federal Council Ambassador and Delegate for Trade Agreements, Switzerland's chief negotiator at the World Trade Organisation (WTO) as well as member of the SECO Board of Directors and in addition to the WTO responsible for the OECD and free trade agreements as head of the World Trade Division in the Foreign Economic Affairs Directorate. Previously, from 1999 to 2007, head of the WTO sector. From 1995 head of section in the WTO section of the Federal Office of Foreign Economic Affairs FOFEA. 1992/1993 she worked at the World Bank (Washington D.C., USA) as assistant to Switzerland's Executive Director's. From 1990 to 1995 scientific adviser in the Legal Service and International Investment and Technology Transfer Service in the FOFEA. 1989 gained her MBA from INSEAD (Fontainebleau, F). 1988 Junior Consultant at McKinsey in Zurich. 1987 gained her law degree at the University of Berne qualifying as an attorney.

State Secretariat for Economic Affairs SECO
Holzikofenweg 36, CH-3003 Bern
www.seco.admin.ch

H.E. State Secretary Marie-Gabrielle Ineichen-Fleisch SECO

New Economic & Commercial Counsellor

Mr Fanzhuang MENG was appointed as Economic & Commercial Counsellor of the Embassy of the People's Republic of China in Switzerland in March 2011. He was Consul of the Economic & Commercial Section of the Consulate General of the People's Republic of China in Munich before the above appointment.

Born in 1966, Hebei province of China, Mr Meng holds a Bachelor of Arts degree in German and German literature from the Shanghai International Studies University and is fluent both in German and English. He has been in charge of the Department of European Affairs and held various functions within the same department at the Ministry of Commerce (former Ministry of Foreign Trade and Economic Cooperation) of the P. R. China. He began his diplomatic career at the Chinese Embassy in Switzerland from 1990–1995. After almost twenty years, Mr Meng came back to Switzerland to take up his new post as a Counsellor of the Chinese Embassy in Switzerland. Mr Meng is married to Mrs Li Changying and has one daughter.

Diplomatic career

from March 2011: Economic & Commercial Counsellor, Embassy of the People's Republic of China in Switzerland
2008.9–2011.3: Consul, Economic & Commercial Counsellor, Consulate General of the People's Republic of China in Munich
2004.11–2008.8: Division Chief, Department of European Affairs Ministry of Commerce
2003.2–2004.11: Consul (First Secretary, Head of the Section), Economic & Commercial Section at the Bonn office of the Embassy of the People's Republic of China to Germany
2000.10–2003.2: Consul (First Secretary), Economic & Commercial Section at the Munich office of the People's Republic of China to Germany
2000.6–2000.10: Division Chief, Department of European Affairs, Ministry of Foreign Trade and Economic Cooperation
1998.9–2000.6: Deputy Division Chief, Department of European Affairs, Ministry of Foreign Trade and Economic Cooperation
1997.3–1998.9: Deputy County Magistrate (temporary position), Huantai County, Shandong province
1995.7–1997.3: Section Chief, Department of European Affairs, Ministry of Foreign Trade and Economic Cooperation
1990.6–1995.7: Working Staff/Attaché/Third Secretary, Economic & Commercial Counsellor's Office of the Embassy of the People's Republic of China in Switzerland
1988.7–1990.6: Ministry of Foreign Trade and Economic Cooperation

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Meng Fanzhuang Economic & Commercial Counsellor

Second Round of FTA Negotiations

The second round of negotiations on the Switzerland-China Free Trade Agreement took place from 5 to 7 July 2011 in Xi'an, China. The Swiss delegation was headed by Ambassador Christian ETTER, Delegate of the Swiss Government for Trade Agreements, State Secretariat for Economic Affairs, Federal Department of Economic Affairs. The Chinese delegation was led by Mr ZHU Hong, Deputy Director General of the Department of International Trade and Economic Affairs, Ministry of Commerce of the People's Republic of China.

During this second round, exchanges of information on their respective regulatory systems and FTA-practices took place and proposals were discussed at expert level with regard to the following areas: trade in goods, trade in services, rules of origin and customs procedures, trade facilitation, technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS), trade remedies, intellectual property rights, dispute settlement and institutional provisions. Heads of delegations and experts exchanged views on investment, cooperation on trade and sustainable development, and cooperation on government procurement. Follow-up work was agreed in all areas.

The negotiations were officially launched by Federal Councillor Johann Schneider-Ammann, Head of the Federal Department of Economic Affairs, and Mr Chen Deming, Minister of Commerce of the P.R.C., in Davos on 28 January 2011. The first round of negotiations was held on 7–8 April 2011 in Bern. A next round of negotiations is expected to take place in autumn this year.

Federal Department of Economic Affairs FDEA
State Secretariat for Economic Affairs SECO
Foreign Economic Affairs Directorate

Federal Councillor Didier Burkhalter in China

The Head of the Federal Department of Interior Affairs and his delegation, including the Presidents of the Federal Institutes of Zurich and Lausanne, Ralph Eichler and Patrick Aebischer travelled to Shanghai, Beijing, Shenzhen and Hong Kong from April 21st to 28th 2011. In Shanghai and Shenzhen they visited Swiss companies in the health and science sector and met with Swiss business people. In Beijing Federal Councillor Burkhalter met with the Ministers of Education, Science & Technology and Health and signed joint statements on future cooperation with Science & Technology Minister Wan Gang as well as with Health Minister Chen Zhu.

The first stage of the visit took place in Shanghai where the head of the FDHA held meetings with the heads of research and development of several major Swiss companies such as Novartis, Roche and Lonza as well as researchers involved in bilateral scientific cooperation projects. Didier Burkhalter also visited the Swiss science hub in Shanghai, swissnex China, and attended the opening of the 'swiss new media' exhibition organised by Pro Helvetia at the Minsheng Art Museum. The programme was rounded off with a visit to Tongji University and the Shanghai Synchotron Radiation Facility – two institutions which have strong ties to the ETH Domain.

In Beijing, Federal Councillor Burkhalter held meetings with Yuan Guiren, Minister of Education, Chen Zhu, Minister of Health and Wan Gang, Minister of Science and Technology. The focus of talks with the latter were on strengthening scientific relations between China and Switzerland. China is a priority country in the Federal Council's international strategy on education, research and innovation (ERI) and one of Switzerland's privileged partners in terms of scientific cooperation. The declaration of intent was signed by the two ministers and underlines the mutual desire to deepen the partnership, particularly in the context of the SSSTC programme (Sino-Swiss Science and Technology Cooperation) launched in 2004. The signing demonstrates the wish on the part of Switzerland and China to continue the gradual development of their cooperation. The programme also included a visit to the prestigious Chinese Academy of Sciences (CAS), an important partner to Swiss higher education institutions.

The inauguration of the social sciences library at Tsinghua University in Beijing designed by Mario Botta was another highlight of Federal Councillor Burkhalter's visit. The inauguration forms part of the centenary celebrations of this prestigious university, sometimes considered to be the Chinese equivalent of the Massachusetts Institute of Technology.

The head of the FDHA went on to meet his counterpart in charge of public health. The two ministers gauged the strengthened cooperation between the two countries, particularly on the issue of the fight against infectious and non-communicable diseases. The joint declaration they adopted also envisages cooperation between four Swiss cantons (Vaud, Basel-Stadt, Zurich and Geneva) and four Chinese municipalities, including Shanghai and Kunming, in the area of hospital reform. In addition, the head of the FDHA held talks with the Minister of Education: the two ministers addressed the possibilities of strengthening cooperation between Switzerland and China in the field of higher education.

The last leg of the working visit took FC Burkhalter to southern China. In Shenzen, he visited the company Huawai, a world leader in the field of telecommunications, which has an office in Switzerland since 2009.

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Official Visit of Chinese Foreign Minister YANG Jiechi

The President of the Swiss Confederation Micheline Calmy-Rey received YANG Jiechi, Chinese Foreign Minister, at the Lohn Country Residence in Kehrsatz for an official working visit on May 5th 2011. The two Ministers reviewed various bilateral and international issues and was followed by an excursion to Spiez and Lake Thun.

The President of the Confederation Micheline Calmy-Rey was accompanied by State Secretary for Foreign Affairs Peter Maurer, State Secretary for International Financial Matters Michael Ambühl and State Secretary for Education Mauro Dell'Ambrogio, as well as by a senior representative of the State Secretariat for Economic Affairs (SECO). This visit was part of the political dialogue initiated in June 2010 by Federal Councillor Micheline Calmy-Rey in Beijing in order to deepen relations between the two countries.

The talks focused on bilateral relations in general, on major issues of international concern and the situation in the Near and Middle East. The topical issues discussed included negotiations on a free trade agreement and the question of human rights. During their talks, the two ministers reviewed several current dossiers, in particular relating to scientific, financial, intellectual property and migration matters.

At the multilateral level, Switzerland's contributions to the G-20 debates were presented to China. As a major financial centre, Switzerland makes proposals on monetary matters and the fight against corruption.

The meeting was preceded by a tour of the Old City of Bern. The Chinese Minister wished to visit this UNESCO World Heritage Site. The talks ended by an excursion and a lunch on a boat on Lake Thun.

Bilateral relations between Switzerland and China are dynamic and varied. They were marked last year by the 60th anniversary of Switzerland's recognition of the People's Republic of China, as well as by numerous meetings at the political and technical levels.

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Schweiz und China lancieren Zusammenarbeit in Arbeits- und Beschäftigungsfragen

Bundesrat Johann N. Schneider-Ammann und der chinesische Minister für Human Resources und Soziale Sicherheit, YIN Weimin, haben am 15. Juni 2011 in Bern eine Absichtserklärung (Memorandum of Understanding) zur Zusammenarbeit in Arbeits- und Beschäftigungsfragen unterzeichnet. Diese Initiative gliedert sich in die bereits bestehende enge Zusammenarbeit zwischen der Schweiz und China ein und ergänzt insbesondere die immer enger werdenden Beziehungen im wirtschaftlichen Bereich.

Ziel der Absichtserklärung ist es, durch den Austausch von Informationen die beiden Partner enger zusammenzubringen und damit menschenwürdige Arbeit zu fördern. Themen von beiderseitigem Interesse sind dabei Arbeitsinspektion, Arbeitssicherheit, Gesundheit und Prävention am Arbeitsplatz oder auch Arbeitsmarktpolitik. Als Mittel der Zusammenarbeit sind u. a. Erfahrungsaustausch, z. B. im Rahmen gegenseitiger Besuche, sowie Projekte der technischen Zusammenarbeit vorgesehen.

Das MoU baut auf der bestehenden Zusammenarbeit zwischen der Schweiz und China, z. B. im Kontext der wirtschaftlichen Entwicklungszusammenarbeit, auf. Beispielsweise wird chinesischen KMU im Rahmen des Projektes SCORE (Sustaining Competitive and Responsible Enterprises), das von der Internationalen Arbeitsorganisation durchgeführt und vom SECO mitfinanziert wird, vermittelt, dass eine Verbesserung der Arbeitsbedingungen und der Respekt der fundamentalen Arbeitsnormen auch aus unternehmerischer Sicht Sinn machen und zu einer Verbesserung von Engagement und Motivation der Mitarbeiter führen. Um die 80 chinesische KMU können zurzeit von diesem Programm profitieren.

China ist heute mit einem Handelsvolumen von über 13,5 Mrd. Franken der wichtigste Handelspartner der Schweiz in Asien und hinter der EU und den USA der drittwichtigste überhaupt. Zudem haben Schweizer Unternehmen während der letzten Jahrzehnte bedeutende Investitionen im Gesamtumfang von 7,5 Mrd. Franken in China getätigt. Die Schweiz und China unterhalten enge Beziehungen. Dabei sind insbesondere der politische Dialog, die bilaterale Wirtschaftskommission und das 2010 in Kraft getretene revidierte Investitionsschutzabkommen sowie die Lancierung der Verhandlungen zu einem umfassenden Freihandelsabkommen im Januar 2011 zu erwähnen. Die Unterzeichnung des MoU zur Zusammenarbeit in Arbeits- und Beschäftigungsfragen ist eine wichtige Ergänzung zur bereits bestehenden Zusammenarbeit.

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Human Rights Dialogue between Switzerland and China

The eleventh round of the human rights dialogue between Switzerland and the People's Republic of China was held on 9 and 10 March 2011 in Bern in an open and constructive atmosphere. Particular emphasis was given to the status of minorities. The discussions also focused on various cooperation projects, for example in the area of the administration of punishments and on the dimension of human rights in the economy.

Switzerland and the People's Republic of China have been conducting a human rights dialogue since 1991 with the aim of encouraging an improvement of the human rights situation. To this end, the dialogue is supplemented by an exchange of experts.

The discussions focused in particular on issues such as the death penalty, torture, the status and situation of minorities in Switzerland and China, freedom of religion, as well as on issues related to detention in the two countries, to the UN Human Rights Council's Review Conference and the Universal Periodic Review.

A visit on 10 March to the bilingual city of Biel enabled more in-depth discussions on the status of minorities and also included a presentation of the French-speaking minority in the Canton of Bern, of the administration of a bilingual city and of a pilot bilingual education programme.

The parties agreed to continue a number of cooperation projects, such as an exchange of experts in the field of the administration of punishments as well as on the dimension of human rights in the economy.

The delegation of the People's Republic of China was composed of experts in the fields of human rights, justice, public security, the economy, minorities and religions. The Swiss delegation was headed by Paul Koller, Ambassador for Human Rights Issues, and was comprised of representatives of the FDFA, the Federal Department of Home Affairs and an external expert on the administration of punishments.

Published by the Federal Department of Foreign Affairs
www.eda.admin.ch

The 12th Five-Year Plan

Introduction on the 12th Five-Year Plan and its Implementation

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The 12th Five-Year Plan was first debated in October 2010 at the plenary session of the Central Committee of the Communist Party of China (CPC) and released shortly after this session. As expected, the National People's Congress (NPC) has approved the 12th Five-Year Plan on 14 March at its closing meeting. The Plan will cover the years 2011 to 2015.

The five-year plans of the Chinese government aim to set out the general guidelines for the country's economic and social development in the coming years. In particular, they deal with the planning of key national construction projects, the distribution of productive forces and the different economic sectors' contributions to the national economy. They set the direction of future development and set targets for economic and social achievements.

The 12th Five-Year Plan is a rather abstract document. While stating many ambitious goals, it contains barely any indications on which practical measures will be put in place to implement such objectives, or on how the achievements considered will be financed. Therefore, one is left to guess on what exactly the effects of the Plan on business life in China will be. On the other hand, many important pieces of legislation will follow the guidelines of the Plan in the next years: that is why lawyers and businessmen should be informed about its contents. Certain industries will be favoured, construction projects will be decided and social measures will be taken. Thus, the 12th Five-Year Plan will have a strong impact on the life of people and the business of companies in China. The five-year plans of the 31 Chinese provinces, municipalities, and autonomous regions will follow the national Five-Year Plan closely, as they are subject to the approval of the central authorities in Beijing.

The following is an overview of the policies and goals stated in the 12th Five-Year Plan.

The background to the 12th Five-Year Plan: the main challenges facing today's China, as seen by the Communist Party

According to economic experts, China is presently in a critical stage of its development. China's GDP was approximately USD 4'380 per capita in 2010. This GDP figure is based on the IMF's World Economic Outlook Database. China's GDP per capita based on PPP (purchasing-power-parity) was approximately USD 7'500 in 2010. The stated purpose of the government is to reach a GDP of USD 12'000 per capita by 2020. Now it is true that China went through tremendous development in the last 30 years, but one could say that it started almost from nothing. Studies have shown that the figure of USD 4'000 per capita is relatively easy for developing countries to achieve. In contrast, it is very difficult to go from USD 4'000 to around USD 10'000 per capita. Many developing countries have failed taking this step and have been stuck at around USD 4'000 for a long time. The CPC seems to understand that China must avoid at all costs stalling out at about USD 4'000 per capita. Its stated objective is to entirely restructure the Chinese economy in order to overcome the danger of stagnation and to build a "moderately prosperous society" by 2020. In this context, the CPC has presented a list of what it considers the biggest challenges facing China today.

The first challenge on the list is the burden of resource constraints. As its economy is very reliant on heavy industry, China needs considerable amounts of energy and raw materials.

The second challenge is the economic imbalance. The high investments in the light and especially in the heavy industry stand in stark contrast with the very low domestic consumption. Currently, only about 27% to 35% of the Chinese economy is driven by national consumption, compared to about 70% for the United States. This figure has been decreasing in the last ten years and astonishingly, it is the lowest figure ever recorded in any country. This means that a considerable part of the economy is driven not by domestic consumption, but by the export of consumer products, the heavy industry and state-sponsored infrastructure projects.

The income disparity constitutes another imbalance within the country. There is an income regional disparity, on the one hand: the rich coast contrasts with the poor West, Center and North-East. There is a huge social disparity, on the other hand: In average, a Chinese manager (highest management) earns about 100 times more than a line worker of his own company. Wealth must be spread more evenly between the people. The public must be allowed to enjoy the fruits of reform and development, says the CPC.

Further, the CPC criticizes China's weakness in its capacity for domestic innovation. Although many products are assembled in China, very few of these are actually designed or invented here. Almost all high-tech parts come from abroad. The stated objective of the plan is to spend 2.2% of the GDP on research & development by 2015 and to reach an average 3.3 patents for every 10'000 people by 2015. Ideally, China would like to turn its coastal regions (the "world's factory") into hubs of R&D, high-end manufacturing and service sector.

The predominance of the heavy industry relates with the weakness of the service industry, which makes up only 30% of the Chinese economy. This figure is not only low but abnormal. Again, a large heavy industry is expensive because it eats up so much energy and raw materials. Efforts will be made to strengthen the services industry.

The CPC also sees the agriculture as being in great need of reform. The Chinese agriculture, albeit one of the most productive in the world, uses great amounts of fertilizer and occupies a huge number of people. The average Chinese farm is far too small to be productive. The average Chinese farmer earns about RMB 5800 per year. Further, as the farmers do not own their land, they lack incentives to invest in infrastructure such as irrigation. As a result, the farmers are in systemic deficit and very dependent on assistance by the government. The basic problem is that the country side is too crowded. Considering what has been said above, the repartition of workers in the country must be changed radically: the weight must be shifted from the agriculture area (inefficient, overcrowded) and from the heavy industry (too costly in resources) to the services industry. The solutions (see below): Hundreds of millions of people must be moved from the agriculture to the service industry.

Finally, the CPC finds that current urban and rural developments are not coordinated, as urbanization takes place mostly on the coast, leaving the West, Center and North-East behind. Even within the coast, there are high disparities in the rates of urbanization.

Inside the main auditorium of the Great Hall of the People.

The solutions put forward by the CPC

The CPC does not intend to take half-hearted measures to tackle these issues. In short, it intends to rely greatly on "scientific development" to solve the problems. This means, on the one hand, that continuous economic development shall provide the means to solve *all* of China's challenges; on the other hand, it means that such development must rely on science rather than on ideology. For China, this is an important distinction: unlike in the early days of communist China, ideological constraints shall not be given absolute priority when making economic and social choices. This reflects today's political consensus within the elite.

The second big statement of the CPC is that it intends to entirely modify the structure of China's economy. Currently, the Chinese economy is led by exports, the heavy industry and to a large scale relies on foreign technology and old energy. The government wants the economy to achieve a much better balance, i.e. one in which domestic consumption and the services industry play a leading role, and one that relies on domestic innovation and on low carbon energy.

Here are the 10 measures stated by the government to reform the Chinese economy in the next five years, listed in order of their importance in the eyes of the government.

The 10 measures

1. Unleash domestic consumption

…while maintaining a stable economy. This is the central measure in the effort to reduce the reliance on exports, but how will this be done?

The reason why domestic consumption is so low is simply because most Chinese people have no money to spend. The new wealth of the economic boom has been very unevenly spread and Chinese wages are still very low for global standards. For years, income increases have lagged behind economic growth. Only higher incomes and a better social system can really encourage domestic consumption. Consequently, the CPC wants to create jobs for people coming off the farms, increase the wages and establish pension schemes and health insurance coverage (see measure 7 below). A further possible measure would be to increase the income limit, above which people pay taxes. In general, the country must prosper in a more even manner and spread wealth in the public. These measures are not only a question of improving the economy, but also a political imperative for the government. Low wages and lack of employment may cause great dissatisfaction in the public and responding to these concerns will keep the country stable.

The stated goal is to increase the minimum wage standard by no less than 13 percent on average each year and to triple the wages in ten years. Some municipalities already increased the minimum wages significantly in recent times, and Beijing will encourage regional and municipal authorities to follow. But in general, the government will have a hard time enforcing wage increases. Who will pay for the added labour costs? Chinese companies will try by all means to oppose higher minimum wages, which would reduce their margins. It is a good guess that foreign and in general private-owned companies will bear much higher labour costs.

2. Modernize the agriculture

A farmer must work on at least 40 hectares in order to be productive, but the average Chinese farm of today has about 0.65 hectares. In order to solve this problem, the government wants to move 200 million people from the agricultural to the services and industry sectors. These are unskilled people which may be extremely difficult to integrate in these sectors. The CPC gives no precise indications on how it intends to reach this objective, but one effective means to develop the country side is to create opportunities in the rural areas themselves instead of restricting them to big cities, for example by opening universities or starting scientific projects. Moreover, the government wants to create 45 million new jobs in urban areas by 2015.

3. Develop services trade, energy logistics and marine resources

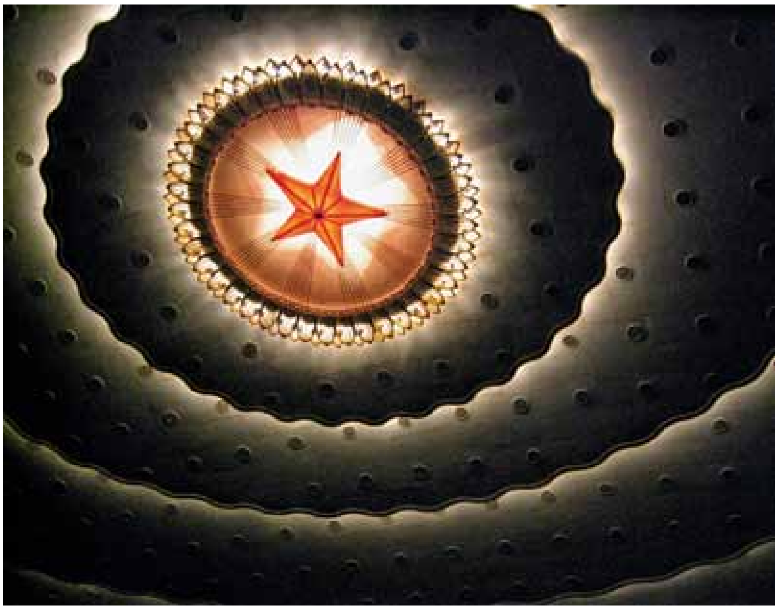
In particular, the government wants to improve transport from the coast to the Center, the West and the North-East. This means large infrastructure projects in these areas, which in turn may help taking farmers off the land.

4. Integration between rural areas and cities

The largest cities (Shanghai, Beijing and Guangzhou) are already overpopulated and are not willing to take in further immigrants. Therefore, the plan is to move the millions of farmers (mentioned above) to 2nd and 3rd tier cities. Furthermore, new cities will be built in the rural areas – the fact that the Chinese countryside is so densely populated makes this possible. In order words, the government wants to create jobs and prevent urban migration by creating urban environments from scratch and build infrastructure in the outside rural areas. The high-speed railway and highway projects may be put in relation with the realization of such measures.

5. Promote energy saving

Rather or even instead of creating new (and clean) energy sources, China wants to focus on energy saving. At the moment, the country is enormously wasteful of its energy and becoming more energy-efficient will be much less costly than creating more energy. The stated goal is to cut the energy consumption per unit of GDP by 16 percent. This may be done, for instance, by enhancing or introducing harsh punishing administrative measures to force high energy-consuming companies or entire industries to reduce their consumption.



The ceiling of the main auditorium of the Great Hall of the People.

Water consumption and carbone dioxide emission by the industry shall also be reduced. Part of these objectives was planned to be reached by increasing nuclear energy production: the government had originally planned to add a capacity of 40 gigawatt to the existing 13 gigawatt stemming from atomic energy. In the light of the events in Japan, these plans have been put on hold shortly after the release of the Five-Year Plan.

6. Education and training of the workforce

Education and training is essential in the effort to boost the services sector and the local research and development. The educated workforce shall enhance domestic innovation and thus allow the development of the high-tech industry meant to replace the current assembling/manufacturing industry.

7. Establish a comprehensive public social welfare system

This measure may be viewed as a means to encourage domestic consumption. Today, a Chinese worker earning an average salary can count on having about USD 470 at his disposal when he reaches retirement and social security belongs to the main worries of the Chinese public. In the absence of pension funds and a health insurance cover, it is only logical that Chinese people are afraid to do anything but save their earnings. Only when they have a guaranteed pension plan will the Chinese people stop saving and start spending. In consequence, bold objectives have been set: everyone shall enjoy a medical cover by the end of 2011 (!) and beneficiate of pension schemes by 2015.

8. Encourage cultural production for "soft power"

The idea is to spread Chinese culture around the world in order to enhance the understanding of China abroad. Again, the CPC does not say how it intends to do this.

9. Reform the economy

By this, the CPC means reform of the currency policy and of the control of energy prices.

10. Opening up the country, but "differently"

As already explained above, a balance between export and import must be attained. But the CPC also wants to encourage Chinese firms to invest abroad. This is a very interesting fact for Western companies, but the CPC remains silent as to how it intends to encourage such investments. Incentives are certainly needed, as mainly privately-owned Chinese companies are still rather timid when it comes to invest in companies abroad.

One more stated goal is to make China participate more actively in international economic governance. Currently, China is still reluctant to play its growingly important role in international bodies, but it will have to learn to play by the international rules.

Closing remarks

The 12th Five-Year Plan envisions a radical change to the structure of China's economy, rather than a mere reform. As outlined, the main features of this restructuration are the shifts from an export-led to a domestic-based economy and from the reliance on the producing industry to a better balance with the services industry, all the while moving an important part of the workforce from the agricultural to the services sector and reducing disparities between regions and people. The fundament allowing these changes shall be a steady economic growth and an increase in domestic consumption. Of course, a big uncertainty remains as to Beijing's ability to implement these measures, the first challenge being to make the rest of the country do what the central government orders. The next uncertainty concerns the financing of the Plan.

These measures must be put in the context of an overheated economy with a potential property bubble, in which inflation, scarcity in housing and a growing gap between rich and poor may ignite dissatisfaction in the public. Some of the measures are necessary to respond to these concerns and prevent any social unrest. The government also considers the current economy to be imbalanced and uncoordinated and wants a slower and more sustainable economic development. Shortly after the approval of the new Five-Year Plan by the NPC, the government has announced its intention to keep the economic growth at an average rate of 7 percent in the coming years.

Finally, what does the 12th Five-Year Plan mean for foreign companies? Foreign investment will be encouraged in modern agriculture and in the high-tech and environment protection industries. Furthermore, investment by Chinese companies abroad will certainly increase, albeit slowly. On the other hand, foreign companies established in China may have to face higher labour costs as they will be requested to pay for the new governmental measures. However, it shall be noted that there is a general trend towards higher wages all over China and that the new regulations are only one factor amongst others. In particular, the wages are drawn upwards by the higher costs of living.

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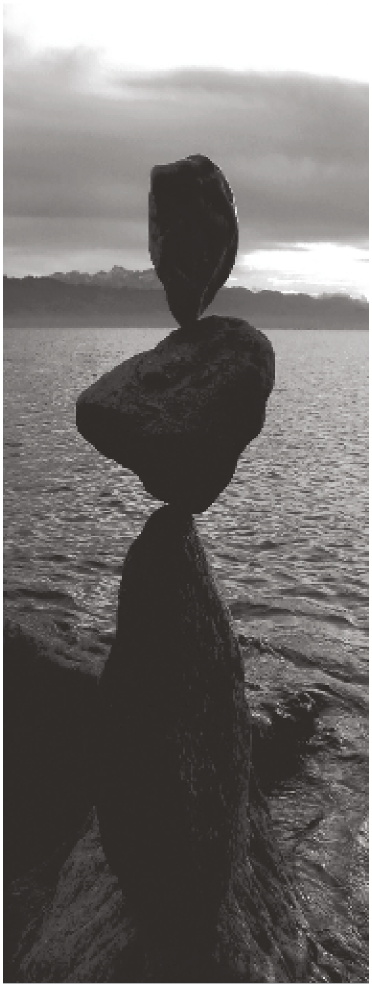

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China: Biannual Economic Report

Appreciation of the economic problems and issues

July 2011

Recent economic issues and developments

Even though China's GDP growth rebounded to 10.3% in 2010 after it had fallen continually from 14.2% in 2007 to 9.2% in 2009, with inflation pressures building, commodity prices rising and a tightening monetary policy, economic growth is expected to follow a trend of moderation throughout 2011[1]. **As a matter of fact, China's real GDP growth has returned to one-digit rates after mid 2010 and stood at 9.7% in the first quarter of 2011.[2]**

Retail sales growth slowed to 16.9% in May, less than the average of the past five years in spite of the fact that the figure was inflated by soaring food prices. By contrast, spending on fixed assets such as factories and property, excluding rural households, climbed 26% in the first five months, – the fastest pace in almost a year. China's economy now finds itself at a critical point of restructuring, environmental protection, resource conservation and industrial upgrading which all require large infrastructure investment. **Fixed asset investment has played an important role for China's economic growth in the past and is expected to remain a vital factor in the future although the expansion rate is set to decelerate slightly from past levels, predicted to stand at 22% in 2011 and 20% in 2012, as a consequence to the winding back of fiscal stimulus measures and tighter monetary policy.[3]**

According to estimates, private consumption may have fallen to 34% as a share of GDP in 2010 – the lowest level since China began to open its economy more than 30 years ago. Just 10 years back, the share was 46%. In spite of the fact that the government now attaches high priority to raising the domestic consumption, the trend over the past couple of years has been relentlessly downward. With the slowdown in major industrial economies, Chinese government has laid out measures to rebalance economic growth drivers in its 12th Five-Year Plan (2011–2015) by adapting its growth model driven by exports and investment spending, leaving the nation vulnerable to external slowdowns such as during the 2008 global recession as well as to asset booms and busts.

While China unleashed a record fiscal stimulus and credit expansion in 2008, now its flexibility is restricted by the need to check inflation. Rising wages may yet spur a pickup in consumer spending. **The pay of migrant workers jumped 40% in 2010 and is expected to climb 20 to 30% annually in the next three years as China's leaders endorse income gains to strengthen domestic demand.** The planned increase of the spending on health care, pensions as well as the aim to build 36 million low-cost houses by 2015 may also do their bit to this end.

However, the soaring Chinese inflation, straining the budgets of average Chinese to pay for basics like food, energy and housing, remains to be a major economic concern for the Chinese leadership. China's consumer prices well exceeded the government's target of 4% in each of the first five months of this year and increased to 5.5% in May – a 34 months high. The May inflation was driven by an 11.7% jump in food costs, which was even higher than April's 11.5%. The devastating floods that hit southern China, reducing vegetable production by 20% and pushing up prices by as much as 40% in certain regions[4], are likely to add further pressure on the agricultural commodities markets and translate into overall inflation. The non-food sector also jumped 2.9% in May, more than April's 2.7%. It was the highest level since records began in 2002 and illustrates that price pressures are spreading in the Chinese economy. Home prices rose for the ninth straight month in May, even after interest-rate increases and curbs on second and third mortgages were induced. On the other hand savings are also being hurt, with the one-year deposit rate of 3.25%, standing more than 2% lower than the 5.5% annual rate of inflation. Moreover, limited exchange-rate appreciation makes imported products more costly. As a consequence the inflation is eroding the purchasing power of Chinese households even as policy makers embrace wage gains to bolster domestic demand and thus threatens to undermine attempts of the Government to make Chinese consumers a bigger driver of the world's second-largest economy.[5]

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1 The Hindu Business Line: "ADB lowers China's GDP growth forecast for 2011"; April 6th 2011
2 National Bureau of Statistics
3 The Hindu Business Line: "ADB lowers China's GDP growth forecast for 2011"; April 6th 2011
4 http://www.guardian.co.uk/world/2011/jun/19/china-floods-food-price-rises (on June 19th 2011)
5 www.bloomberg.com: "Consumer Spending Fades in China Economy After 'Peak Days'; June 17th 2011

China: Structure of the Economy

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Distribution of GDP (%)										
Primary Sector	15,8%	15,3%	14,4%	15,2%	12,4%	11,7%	11,7%	11,3%	10,60%	10,20%
Secondary Sector	50,1%	50,4%	52,2%	52,9%	47,3%	48,9%	49,2%	48,6%	46,80%	46,80%
Tertiary Sector	34,1%	34,3%	33,4%	31,9%	40,3%	39,4%	39,1%	40,1%	42,60%	43,00%
Distribution of Labor (%)										
Primary Sector	50,0%	50,0%	49,1%	47,0%	44,8%	42,6%	40,8%	39,6%	38,1%	n/a
Secondary Sector	22,3%	21,4%	21,6%	22,5%	23,8%	25,2%	26,8%	27,2%	27,8%	n/a
Tertiary Sector	27,7%	28,6%	29,3%	30,5%	31,4%	32,2%	32,4%	33,2%	34,1%	n/a
(of which state sector)	10,5%	9,7%	9,2%	8,9%	11,2%	n/a	n/a	n/a	n/a	n/a

Source: National Bureau of Statistics

The Chinese Government has tried to seize control of the situation with various measures, including tightening credit, raising interest rates and forcing banks to hold more of their capital in reserve. Furthermore, officials have imposed tough rules in the property sector, in the hope of squeezing speculators out of the market and even fined the Anglo-Dutch consumer goods manufacturer Unilever with 2 million RMB for undermining the leadership's efforts to keep a lid on inflation. Unilever was accused of breaking the order not to talk publicly about prices by spreading information about price rises and disrupting market pricing order, since Unilever had announced to media that it expected prices for soap to go up.[6]

In April the People's Bank of China (PBoC) – China's central bank – raised its benchmark interest rate by 0.25%. This has been the central bank's fourth interest rate hike since the beginning of 2010. After the raise the one-year term deposit interest rate of China's financial institutions reached 3.25%. The one-year term lending rate hit 6.31%.[7]

Moreover, since 2006 the **PBoC has been using the required reserve ration on deposits in commercial banks as a sterilization tool to manage liquidity and carry out monetary policy.** Before that the PBoC mopped up excess liquidity by issuing central bank bills, which have the drawback that they constantly need to be rolled over and are relatively costly since market interest rates need to be paid.[8] On June 20th 2011, the PBoC raised the bank's reserve requirement ratio (RRR) by 0.5%. That was the 9th rise in a row and already the 6th one this year. The biggest Chinese banks[9] now have to set aside a record high of 21.5% of their capital in reserve.[10]

In its long-delayed semiannual report to the Congress on International Economic and Exchange Rate Policies of February 2011, the US Treasury refrained from calling China or any other of the ten countries under review a "currency manipulator", which would have allowed the US-government to put punitive tariffs on products of countries manipulating their currencies. According to the statement of the US Treasury China's behaviour did not qualify under the official definition of manipulation owing to the resumption of exchange rate flexibility in June 2010 and the acceleration of the pace of real bilateral appreciation over the months preceding the statement.[11] The RMB has strengthened to 6.5 from 8.2 Yuan per Dollar in June 2005, which corresponds to a nominal appreciation of 25% against the dollar and real appreciation of 20% against a basket of the currencies of China's major trade partners since 2005. At the same time, **China's current-account surplus fell to 5.2% as a share of GDP in 2010, down from a high of 10.1% of GDP in 2007.**

These changes have prompted a small chorus of experts to change their tune, arguing that China's currency is approaching fair value. Despite that this view is by no means universal, even among the staunchest critics of China's exchange-rate regime, there is a growing acceptance that the Yuan is less undervalued today than it was a few years ago.[12]

Even though **exchange rate related US-Chinese tensions** may – at least seemingly – **have cooled down over the past months, China's exchange rate**

6 The First Post; "Unilever fined for 'buying rush' on soap in China"; May 6th 2011

7 China Briefing: "PBC Announces 0.25% Interest Rate Hike": April 7th 2011

8 UBS Investment Research, The China Monetary Policy Handbook, February 9th 2011

9 This applies for: Industrial and Commercial Bank of China, Bank of China, Agricultural Bank of China, China Construction Bank, China Merchants Bank and China Minsheng Bank

10 People's Daily; "China hikes banks' reserve ratio to fight inflation": June 15th 2011

11 People's Daily; "China did not manipulate currency in 2010: US report"; February 5th 2011

12 The Wall Street Journal: "What's the Yuan Worth?"; June 2nd 2011

policy is likely to continue to attract criticism from various sides that eventually boils down to the same issue: the non-convertibility of the RMB. In the first quarter of 2011 the RMB appreciated against the US Dollar but depreciated against the Euro. Exchange rates are believed to be one reason among others behind the large bilateral EU-China trade deficit[13]. Moreover, European Central Bank President Jean-Claude Trichet stated on the occasion of the G20 meeting in Nanjing in March 2011 that the Yuan has to be a freely-floating currency before it can be considered as a Special Drawing Rights[14] (SDR) currency, when he was commenting on China's ambitions to push for a greater role of the SDR in international commerce in the hope of reducing its reliance on the US Dollar, which results from being the largest foreign owner of US Treasuries.[15] In March 2011 China cut the amount of its US treasury bonds holdings for a fifth month in a row by 9.2 bn USD, which corresponds to less than 1% of its total Dollar reserves. Throughout the same period, China bought long-term Japanese treasury bonds worth 2.02 bn Euros, the biggest purchase of debt China has made within a single month in more than six years.[16]

Due to weak consumer spending and a strong yen, Japan's real GDP growth has been shrinking in real terms since the final months of 2010, and even turned negative in the first quarter of 2011 so that now it officially had to surrender its 42-year-old ranking as the second largest economy to China throughout the entire past year according to market exchange rates.[17] Japan is facing its worst crisis since World War II after the March 11th earthquake, ensuing tsunami and the radiation leak at Fukushima. Economists expect Japan's GDP will shrink for a third straight quarter in April–June before recovering in the second half of the year which will allow China to consolidate its position.[18] Japan has been the largest exporter to China as well as China's third-largest foreign investor and played a very important role in trade and investment when China started to open up to the world. A large number of factories in China have been reliant on Japanese production, especially in electronics and auto parts. Therefore, China's production and business activities are likely to be affected by the economic downturn in Japan *(see section 2.1.3.4. / Free Trade Agreements under consideration).*[19]

Other than this, the bilateral relations between China and Japan were further affected, as **China induced export quotas for rare earths. China produces 97% of the world's rare earths** – 17 elements vital to technological products as diverse as wind turbines, car batteries and sophisticated radar systems – a dominance that has become increasingly controversial as the government has steadily reduced export quotas for the minerals: In the first half of 2011 China has cut exports of rare earths by about 35% driving up prices to record levels and since May 2011 iron alloys containing more than 10% of rare earths will fall under the export quota, the Ministry of Commerce (MOFCOM) said in a statement.[20] China has long cited environmental concerns as the rationale for its quota cuts, but countries that import rare earths are increasingly worried that Beijing will seek to use its monopoly position for political leverage.[21]

In July 2011 the WTO found that China violated international trade law by artificially restricting exports of nine raw materials after a complaint was filed by the United States, European Union and Mexico 18 months before. China had claimed the export limits were necessary in order to preserve its environment, but the WTO panel said China was unable to demonstrate how the export regulations helped to reduce domestic pollution. The ruling will most likely serve as support for the countries complaining against China with regard to the latter's restrictions on exports of the rare earth minerals.[22]

In April a **new draft of the "Foreign Investment Catalogue" has been released,** whereas the final version is expected for July 2010. New energy-related industries, including high-tech green battery manufacturing and the construction and operation of renewable water plants, have all become new additions to the "encouraged" Catalog. Energy efficient industries and green technologies are further highlighted in the "encouraged" list. The newly added "prohibited" items are highly related to China's current social issues and national interest, such as foreign investment related to the real estate industry *(for more details see section 4.1).*

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13 China Daily: "'Undervalued' Yuan blamed for EU deficit" May 15th 2011

14 The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged for freely usable currencies.

15 China Business News: "No link between Yuan convertibility and SDR: Central bank"; April 1st 2011

16 China Daily Europe: "Business briefs"; May 20th 2011

17 The Telegraph; "China is the world's second largest economy"; July 5th 2011

18 China Daily; "Japan set to boost China investment"; 16.06.2011

19 Malaysian Digest; "Earthquake Affects China-Bound Japanese Investment"; April 20th 2011

20 www.bbc.co.uk: "China expands export quotas of rare earth metals"; May 20th 2011

21 Financial Times Asia: "China reins in rare earth exports": October 19 2010

22 The Washington Post: "Ruling on 'rare earth' goes against China"; July 5th 2011

Essential Economic Data

	2004	2005	2006	2007	2008	2009	2010
GDP (RMB billion)*	15.988	18.321	21.192	25.730	31.405	33.535	37.349
GDP (USD billion)*	1.931	2.235	2.657	3.382	4.520	4.909	5.365
GDP per capita (RMB)*	12.299	14.012	16.122	19.477	23.648	25.125	27.843
GDP per capita (USD)*	1486	1.710	2.022	2.560	3.404	3.678	3.999
GDP growth (%)**	10,1	10,4	12,7	14,2	9,6	9,2	10,3
CPI inflation (%)***	3,9	1,8	1,5	4,8	5,9	-0,7	3,3
Population (billion)	1,300	1,308	1,314	1,321	1,328	1,335	1,371
Unemployment rate Level-registered (millions)*** Rate-registered in urban (%)*** EIU estimates (average in %)**	8.3 4.2 9.9	8.4 4.2 9.0	N/A 4.1 9.5	N/A 4.0 9.2	N/A 4.2 9.2	N/A N/A 9.2	9.1 4.1 6.1
Fiscal balance (% of GDP)**	-1.3	-1,2	-1,2	0,2	-0,8	-2,7	-2,1
Current account balance (% of GDP)*	3,6	7,1	9,3	10,6	9,6	6,0	5,2
Total External Debt (% of GDP)****	12.8	12,2	11,4	11	8,5	n/a	n/a
Debt-service ratio (% of exports)****	3.4	3,1	2,4	2,2	1,8	n/a	n/a
Reserves, incl. Gold (USD billion)**** in months of imports	12	13	16,7	17,6	n/a	n/a	n/a

*Sources: * IMF World Economic Outlook, April 2010 / ** EIU, Country Report, June 2009 / *** National Bureau of Statistics of China / **** World Bank / ***** State Administration of Foreign Exchange, PRC*

Another event that is likely to impact the business activities of foreign companies operating in China through substantial cost increases is the **introduction of a new social insurance law that will impose greater obligations on employers to help fund the country's welfare system.** The new social insurance law came into effect on July 1st 2011, whereas it remains to be seen how the law will be implemented on a provincial level in the following year. It allows foreigners working in China for the first time to gain access to the country's social insurance system. However, the new law means also that they will have to pay dual fees for separate coverage in two countries unless this is regulated differently within a bilateral agreement for the given nationals. **The new law specifies a common right for all citizens to access and enjoy five forms of insurance: pension insurance, medical insurance, employment injury insurance, unemployment insurance and maternity insurance.** By allowing citizens to transfer their basic endowment insurance accounts from one residence to another the new law should essentially eliminate obstacles to basic social insurances for people living and working outside their birthplace. The new law will establish a medical payment system that will allow medical insurance in one place to be repaid in another. Citizens will also be allowed to pay pension premiums in one place and withdraw money from another, whereas cumulative length of contribution payment is no less than fifteen years upon reaching the legal retirement age.[23]

Approval of China's 12th Five-Year Plan[24]

The approval of China's 12th Five-Year Plan (FYP) was the highlight of this year's meeting of China's parliament – the National People's Congress (NPC)[25]. In the context of the global financial crisis and the lurking risk of social instability, the development of the 12th FYP took place in a markedly different internal and external environment as the **meeting occurred against the backdrop of concerns about domestic inflation, high property prices and popular uprisings in the Middle East.**

23 Ministry of Human Resources and Social Security (MOHRSS) of the People's Republic of China

24 APCO worldwide: China's 2011 National People's Congress (NPC): Fine-tuning the economy with an eye on social stability; March 2011

25 The National People's Congress (NPC) and the Chinese People's Political Consultative conference (CPPCC) convene each March in Beijing for a two-week-session. The meeting draws together nearly 3000 delegates from around the country. In theory, the NPC is China's highest and most powerful organ of state power. In practice however, the NPC's yearly gathering is largely an exercise in legislative acquiescence, with delegates approving appointments, laws and ministerial work reports predetermined by the Communist Party of China (CPC).

Covering the years 2011–2015, **the 12th FYP sets out to rebalance the economy with a strong emphasis on increasing consumption, narrowing China's growing income gap, promoting environmental protection and energy efficiency initiatives, and boosting strategic industries.** In view of the approaching leadership transition in 2012/2013, the 12th FYP is part of President HU Jintao's political legacy as China's new leaders will inherit the economic and social priorities defined in the plan.

Focusing on policies to **improve the livelihood of Chinese citizens and control social dissent,** the key initiatives of the NPC session include measures to tackle China's rising food and housing prices as well as increases in the budget for social welfare and greater internal security spending.

Restructuring the economy is the principal objective of the 12th FYP. Changing the country's growth model is a critical concern for Chinese decision-makers for several reasons. First, the sharp decrease in Chinese exports during the financial crisis, leading to the layoff of millions of factory workers, underscored the importance for Chinese decision-makers of moving to a more balanced growth structure. Second, large global trade and foreign exchange imbalances have led to tensions between China and its major trading partners. Third, **China suffers from the inefficient use of resources and extreme environmental degradation that accompanies high levels of Fixed Asset Investment** (FAI). However, perhaps the most critical reason why the Chinese government is pushing for bold economic reform is the perceived threat of social instability that can grow out of China's rapidly rising income disparity.

The **12th FYP aims to fundamentally restructure the economy** through four primary initiatives: lowering economic growth targets, increasing consumption, implementing energy savings and environmental protection measures, and promoting so-called strategic industries through preferential tax, fiscal and procurement policies in the hope these industries will become the backbone of China's economy in the decades ahead[26].

China has enjoyed spectacular growth from its old growth model; a model that promoted investments and exports at the expense of increased wage growth and household savings. While a small proportion China's population benefited from this model and has become extremely wealthy, the income of many citizens has not kept pace with economic growth over the past decade. **The 12th FYP aims to increase household disposable income by an annual rate of 7%,** the same as the projected GDP growth rate during the FYP period. Specific policy measures to increase income include raising minimum wages, personal income tax reform that foresees less taxation of low-to-middle incomes and improved rural land distribution. Another policy tool to promote consumption is the expansion of government-funded social welfare initiatives. **The government announced at the NPC its intent to increase health care spending by 25% more than originally planned, build 36 million affordable homes at a cost of nearly USD 200 bn and ensure its pension system covers all rural citizens by 2015.**

Another key pillar of the plan is to move away from manufacturing industries focused on export-led growth to service industries focused on inward-led growth, including wholesale and retail, financial services, and leisure and hospitality. Analysts note that since output from the service industry creates more jobs than manufacturing, this shift in emphasis can allow China to drive up employment rates without decelerating growth. If these initiatives are ultimately successful, analysts say China's consumption rate could increase from its current low of 35.1% to around 40% of GDP by 2015. While 40% is still a low number (by comparison, the United States' consumption rate is currently 71%, Brazil is 63% and India is 54%), it could put China on the right track toward rebalancing its economy and meeting its long-term development goals, as well as reducing China's dependency on exports and thus reducing its current account surplus and need to maintain an weak currency. Even though the 10th and 11th FYPs also called for similar economic reforms – to no avail – it seems that the government is serious about achieving substantive change with the 12th plan.

The **12th FYP is certainly the greenest ever, containing measures to reduce pollution, increase energy efficiency and ensure a stable, reliable and clean energy supply with several binding targets embedded in the plan.** This is a concrete indication that China's central government understands how expensive and counterproductive resource-intensive fixed asset investment for China's future economic growth can be. The 12th FYP includes a new carbon intensity target (carbon emissions per unit of GDP) of 17% from 2010 levels by 2015. Whether this target was included because the Chinese government is vitally concerned about global warming is debatable. More likely the target reflects the government's recognition of the strategic value of developing a low-carbon economy, with its high-value jobs. Analysts have noted that China is gaining, even surpassing the United States in several low-carbon industries, such as electric vehicles, wind turbines and solar panels. The 12th FYP includes preferential policies to further these sectors' development.

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26 Seven "strategic emerging industries" were chosen in sectors, where Chinese corporations are expected to succeed on a global scale: biotechnology, new energy, high-end equipment manufacturing, energy conservation and environmental protection, clean-energy vehicles, new materials, next-generation IT

The upcoming change in the leadership should not significantly change China's business environment in the short term as new administrations in China are generally constrained in their ability to undertake any serious political reforms. However, a shift to consumption-led growth will have a profound impact on foreign business in the long term as Chinese consumerism rises. In the short term, however, Foreign Invested Enterprises (FIEs) will face increased costs from social welfare measures and government mandated increases in minimum wages.

International and regional economic agreements

Country's policy and priorities

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

Since China's accession to the WTO in 2001, the country has implemented almost all of its WTO commitments and has made significant progress in many areas. Foreign companies have continued to profit from reduced tariffs, the elimination of import licences and quotas, the opening of more sectors for foreign participation, and the easing of restrictions on business operations. **Nevertheless, concerns relating to market access remain, but they are now focused on China's laws, policies, and practices that deviate from WTO's national treatment principle, the insufficient protection of intellectual property rights, the deficient transparency of legal and regulatory processes, and the opaque development of technical and product standards that may favour local companies.**[27]

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 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.

While China keeps engaging in multilateral trade discussions and protecting its interests within the WTO, it has also started bilateral trade deals and free trade agreements (FTAs) with strategic partners. As China has become a dominant trading nation, the government sees bilateral agreements as a useful tool to pursue the country's strategic interest.

Since the signing of the Framework Agreement on Comprehensive Economic Cooperation with the original 10 member countries of ASEAN in 2002, China has signed 9 FTA Agreements with 17 countries and regions and established a FTA network covering three continents and a population of 2.18 bn. This network for free trade, with a GDP of 7.44 trillion USD accounted for 19.3% of China's foreign trade, 56.3% of overseas investment and 56.4% of foreign investment.[28] The global FTA trend involves almost all WTO members and half of the trade in goods takes place in FTAs.

China-ASEAN Free Trade Agreement (CAFTA)

With a population of 1.9 bn people and a combined GDP of 6 trillion USD, CAFTA ranks as the world's largest free-trade area by population. In terms of economic value, this is the third-largest regional agreement, following the EU and the NAFTA (North-American Free Trade Agreement).

In 2002, China and the Association of Southeast Asian Nations (ASEAN) signed the Framework Agreement on Comprehensive Economic Cooperation – an umbrella agreement providing general provisions on the establishment of an ASEAN-China Free Trade Area (CAFTA). Under the CAFTA, a zero-tariff market came into force in 2010 for China and the six original ASEAN members[29] and will be expanded in 2015 by including the newer and less developed ASEAN members.[30] Together with an agreement on trade in services that was signed in January 2007, the negotiation process with regard to CAFTA is completed. China and ASEAN have defined 11 major fields as directions for future cooperation, including agriculture, information and telecommunications, transport, tourism, Mekong River exploitation, energy, culture, human resource, and the environment.[31]

Trade links between China and the original ASEAN members are still modest compared to the ones with their other trade partners, but they are expected to grow further in the future. While government officials from all parties emphasize the win-win situation expected from the CAFTA, some sectors which directly compete with Chinese products (such as textiles and garments, tires, steel and footwear) fear they cannot keep up with Chinese competitors.[32]

27 Economist Intelligence Unit, China Hand, February 2008.

28 China FTA Network: "Vice Minister Yi Xiaozhun's Speech in China-New Zealand FTA Workshop", 29 July 2010

29 Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand

30 Cambodia, Laos, Myanmar, Vietnam

31 Global Times: "China-ASEAN ink investment agreement", 17 August 2009.

32 L.A. Times: "Blaming China: Indonesian garment makers say free trade pact leaves them on brink of collapse", 26 April 2010.

It follows from China's tightening ties with ASEAN that the country would **press for further regionalism.** In the framework of ASEAN+3 (China, South Korea and Japan) efforts to strengthen regional financial stability in East Asia were intensified. In March 2010, the Chiang Mai Initiative Multilateralization Agreement between the ASEAN+3 members and Hong Kong came into effect. The multilateral currency swap totalling 120 bn USD shall address balance of payment and short-term liquidity difficulties in the region by supplementing the existing international financial arrangements.[33]

China does not really appreciate the expansion of other powerful countries into the region, such as the participation of the US and Russia at the **East Asia Summit (EAS).** Japan and ASEAN try to neutralise China's influence in including other powerful countries. Therefore, as a consequence of China's dominance in the **ASEAN+3** and on Japan's initiative, **ASEAN+6** (or EAS: Japan, South-Korea, China, India, Australia and New-Zealand) has been created, which has been expanded to **ASEAN+8** in 2010 thanks to ASEAN's ambitious endeavours, including the US and Russia. Japan thus favours the reinforcement of the **Comprehensive Economic Partnership for East Asia** (**CEPEA**: ASEAN+6), whereas China privileges the **East Asia Free Trade Area** (ASEAN+3).[34] ASEAN's challenge consists now in maintaining together with the superpowers a common ASEAN-agenda.

The newly established **China-ASEAN Interbank Association** in October 2010 promises to further boost exchanges of financial institutions and enterprises to improve cooperation.[35] Provinces such as Hainan, for instance, benefit from the FTA, generating 1.43 bn USD in trade with ASEAN members in 2010, representing an increase of 31% on the previous year with Malaysia investing 378 million USD, Indonesia 12.94 million USD and Singapore 45.04 million USD in contracted foreign capital.[36]

On January 1st 2010, the six richest ASEAN members eliminated remaining tariffs and barriers to investment on 90% of the products. Nevertheless, the poorest ASEAN members, namely Vietnam, Cambodia, Laos and Myanmar, will not have to cut tariffs and barriers to the same level until 2015. Furthermore, many firms in South-East Asia fear Chinese competition, in particular Indonesia. It is however quite common to exaggerate China's impact on ASEAN where trade is in fact highly diversified. In 2009, ASEAN traded more with both Japan and the EU than it did with China. South Korea, Australia and India are also important. What is more, ASEAN's deficit (by its own figures) with China is matched by a surplus with America.[37]

Other Free Trade Agreements

While multilateral trade has been developing rapidly, China is in negotiation for several bilateral free trade agreements to be signed in the coming years.

Already signed Free Trade Agreements:

In January 2009, China and **Costa Rica** began their first round of FTA negotiations. An agreement was reached on trade in goods and services, rules of origin, customs procedures, technical barriers to trade, sanitary and phytosanitary measures, dispute settlement, trade remedy and intellectual property rights. It was signed on April 8th, 2010 in Beijing and the implementation followed in the second half of 2010 after both governments have concluded their respective approval procedures. Under the agreement, tariffs shall be gradually eliminated on over 90% of the products traded between the two countries.[38] According to the Costa Rican Foreign Minister Rene Castro, Costa Rica just ratified a FTA with Singapore and is negotiating a free trade pact with South Korea.[39]

China and **Pakistan** signed an agreement on trade in services in February 2009 which took effect in October the same year. The pact leads to a China-Pakistan comprehensive free trade zone including trade in goods, trade in services and investment (a free trade agreement on goods between the two countries was already signed in 2006). Specifically, Pakistan will relax its shareholding restrictions on China's investment in sectors of construction, telecom, finance, distribution, health care, environmental protection, tourism, transportation, research and development and IT education. The sectors that China will open mainly include mining, environmental protection, health care, tourism, sports, transportation, translation, real estate, computer, marketing consultancy.[40]

China and **Peru** concluded negotiations for a free trade agreement in November 2008. The pact was signed on April 28th 2009 in the presence of Chinese Vice-President Xi Jinping and Peruvian Vice-President Luis Giampietri Rojas, and entered into force at the beginning of March 2010. It will gradually

33 Bank of Japan, Joint Press Release: "Chiang Mai Initiative Multilateralization (CMIM) comes into effect", 24 March 2010.

34 Report "Arbeitstreffen von Botschafter Beat Nobs mit Dr. Suri Pitsuwan, Generalsekretär der ASEAN", Zürich, 21. Mai 2011, Political Affairs Division II, Asia-Pacific.

35 China Daily: "China, ASEAN to seek financial cooperation", 25 May 2011

36 China Daily: "ASEAN becomes Hainan's 2nd largest trade partner", 9 May 2011

37 The Economist: "The China-ASEAN free-trade agreement; Ajar for business, More breadth than depth", Tokyo, 7 January 2010

38 Ministry of Commerce: http://fta.MOFCOM.gov.cn

39 MOFCOM: China FTA Network: "Costa Rican FM hails FTA with China", 6 June 2010

40 Ministry of Commerce: http://fta.MOFCOM.gov.cn

reduce tariffs on about 90% of goods traded between the two countries.[41] China is Peru's second biggest commercial partner and its investment in Peru has exceeded the amount of 1.2 bn USD, the largest among Asian countries.[42]

China and **Singapore** signed the China-Singapore Free Trade Agreement (CSFTA) in October 2008, making the first comprehensive bilateral FTA between China and another Asian country. The agreement covers areas including trade in goods, rules of origin, trade remedies, trade in services, movement of natural persons, investment, customs procedures, technical barriers to trade and sanitary and economic cooperation. Flagship projects in bilateral cooperation, including Suzhou Industrial Park and Tianjin Eco-City, have seen remarkable achievements. According to the Singapore's Ministry of Trade and Industry (MTI), China is currently Singapore's third largest trading partner and the largest investment destination.[43]

China and **Chile** signed a supplementary agreement on free trade in services in April 2008 which entered into force on August 1st, 2010. Both states committed themselves to opening up their service sectors in accordance with WTO rules, under a supplementary agreement to their formal free-trade pact signed in 2005. The service free-trade agreement covers 23 sectors in China, including computers, management consulting, mining, sports, environment and air transport. Moreover the two countries have already completed six rounds of negotiation talks in regard of a FTA in investment.[44]

In April 2008, China signed a FTA with **New Zealand,** marking the first such deal between the biggest developing country and a developed economy. Under the FTA which came into effect in October 2009, New Zealand will phase out all tariffs on imports from China (textiles, clothing and footwear) until 2016. China will remove tariffs on 96% of its imports from New Zealand until 2019 with tariffs on some products (especially dairy products, meat, wool, etc.) being cut to zero. The agreement covers not just goods but also services, from insurance and banking to education and labour supply as well as investment. China sends more students to New Zealand than any other country and is its fourth-largest source of tourists. At present, China has become the 3rd largest trading partner, 4th largest export market and 2nd largest import source of New Zealand.

41 Ministry of Commerce: http://fta.MOFCOM.gov.cn
42 Ministry of Commerce: http://fta.MOFCOM.gov.cn/enarticle/enperu/enperunews/201003/2235_1.html
43 China FTA Network: "Singapore, China hold 1st review of bilateral FTA", 17 April 2010.
44 Ministry of Commerce: http://fta.MOFCOM.gov.cn

In January 2004, the Closer Economic Partnership Arrangement (CEPA), the first regional trade agreement between China and **Hong Kong** as well as between China and **Macao,** came into effect. The CEPA initially covered the three areas of trade in goods, trade in services, and investment. It has since been expanded several times. Supplement VI went into effect on 1 October 2009, and shall give firms from Hong Kong and Macau greater and easier access to the mainland market for certain service sectors.[45] The Supplement VII between Hong Kong and mainland China was signed on 27 May, 2010 and entered into force on 1 January, 2011. It further relaxes Hong Kong's market access to the mainland in 14 service sectors such as medical services, technical testing, analysis and product testing and social services.[46] The CEPA is a successful application of the "One Country, Two Systems" principle and is the first FTA to be fully implemented in the Chinese mainland.

China signed in October 2008 a trade deal with **Senegal** to offer zero-tariff treatment to more than 400 categories of goods imported from Senegal.[47]

On June 21st 2011, the Ministers of Economy of the four EFTA countries (Switzerland, Iceland, Liechtenstein and Norway) signed a comprehensive FTA with Hong Kong including trade in goods (industrial and agricultural), trade in services, investments, IPR and environment.

Free Trade Agreements under negotiation

China and **Australia** are currently negotiating a free trade deal. A framework agreement was signed in October 2003 and talks began in May 2005, after the conclusion of a feasibility study. Negotiations have been challenging, due to substantial stumbling blocks, namely in agriculture and industrial goods, as Australia insists on getting the same concessions China had offered to New Zealand. A 15th round of negotiations was held in June 2010 and the 16th followed at the beginning of July 2011. Unlike other countries, Australia is seeking a FTA including all sectors. The Australian manufacturing industry is raising concerns related to an influx of cheaper Chinese imports as a consequence of tariff elimination and unions are worried a FTA could cause more Australian unemployment.[48] Australia is also negotiating an **AANZFTA (ASEAN-Australia-New Zealand Free Trade Area),** with its 2nd meeting been held in November 2010 in Melbourne and its 3rd meeting to be held shortly.[49]

Norway and China completed a feasibility study and launched the official Sino-Norway FTA negotiation in October 2008. The 8th round of negotiations took place in September 2010 and included discussions on commodity, trade in services, trade in goods, investment, rules of origin, plant hygienic standards, SPS/TBT, settlement of disputes, trade remedy, facilitation and IPR.[50] However, the negotiations have been suspended due to the Peace Nobel Prize incident.

FTA negotiations between **Iceland** and China began in April of 2007, and by May 2008 four rounds of negotiations were completed. Due to Iceland's application for EU membership in July 2009, no further talks are currently taking place.

In July 2004, China and the six-nation (Saudi Arabia, UAE, Kuwait, Oman, Qatar and Bahrain) of the **Gulf Cooperation Council (GCC)** announced the launch of FTA negotiations. Until now, five rounds of negotiations have taken place with the last round held in June 2009. An agreement was reached on the majority of issues concerning trade in goods. Negotiations on rules of origin, technical barriers to trade, sanitary and phytosanitary measures, economic and technological cooperation are also launched.[51] Nevertheless, the Chinese insist on making the first phase of the proposed deal restricted to goods, thus excluding services.

China is also a signatory to the **Asia-Pacific Trade Agreement (APTA),** along with Bangladesh, India, Lao, ROK and Sri Lanka. The Asia-Pacific Trade Agreement (APTA) is a preferential trade arrangement among developing countries formerly known as the Bangkok Agreement, signed in 1975 as an initiative of the UNESCAP (United Nations Economic and Social Commission for Asia and the Pacific). Since September 1st, 2006, the outcome of the third round of tariff cut talks was successfully implemented by all APTA members. At present, the fourth round of negotiations is underway and it involves tariff concessions of trade in goods, trade in services, investment, trade facilitation, and non-tariff measures.

In June 2004, China and the **Southern Africa Customs Union (SACU)**[52] announced the launch of free

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45 Xinhua: "Chinese mainland market opened wider to HK businesses", 9 May 2009.
46 South China Morning Post: "Cepa boosts six pillar industries", 28 May 2010.
47 Africa Economic Development Institute, Africa Trade Agreements, Xinhua: http://africaecon.org/index.php/trade_agr/view_trade_agreement/34/0/_/0; "China signs zero-tariff trade deal with Senegal", 18 October 2009.
48 The Age, Cathy Alexander: "China-Australia free trade talks resume", 24 February 2010.
49 Australian Government: Department of Foreign Affairs and Trade: "Invitation for submissions on non-tariff measures" http://www.dfat.gov.au/fta/aanzfta/Non-Tariff-Measures-submissions.html
50 Ministry of Commerce: http://fta.MOFCOM.gov.cn
51 Ministry of Commerce: http://fta.MOFCOM.gov.cn
52 South Africa, Botswana, Namibia, Lesotho, Swaziland

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trade negotiations. So far, no negotiations have taken place.[53]

Free Trade Agreements under consideration

The trade ministers of **China, Japan and South Korea,** which together account for about 20 percent of global gross domestic product, agreed in May 2010 to complete a joint feasibility study with regard to a possible free trade agreement within two years. A second meeting of a Joint Study Committee (JSC) consisting of representatives from government, business and academia took place at the beginning of September 2010. This FTA will be the 3rd largest after the EU and the NAFTA. The trade ministers of the three countries met at the fourth trilateral Summit in Tokyo on May 22nd 2011 and are looking to increase trade among themselves as demand from key markets like the US and Europe has fallen due to the financial crisis. Japanese Prime Minister Naoto Kan, South Korean President Lee Myung Bak and Premier Wen Jiabao agreed to finish the Joint Study on the FTA within 2011, one year earlier than initially planned, in the hope to start negotiations next year.[54]

The disruption caused to Japan's supply chain by the earthquake/tsunami earlier this year has seen many Japanese firms curb production. While the trade ministers from China and South Korea urged their Japanese counterpart to restore the supply chain as soon as possible, they stressed that increased trade between the three countries will play a vital role in Japan's recovery process.[55] However, China tries to protect its domestic industries by placing high tariffs on imports and was relatively reluctant at an initial stage. In South Korea, industrial voices object a FTA that includes Japan, as South Korea is on the losing side of a more than 2 trillion yen trade imbalance between the two countries. Japan, on the domestic front, will have to conduct agricultural reforms before it is able to join a FTA.[56]

India and China established in 2003 a Joint Study Group to examine the potential bilateral economic engagement. The related feasibility study on their proposed China-India Regional Trading Arrangement (RTA) on trade in goods, trade in services, bilateral investment, trade facilitation and economic cooperation has been completed in fall 2007. It now awaits the approval of the leadership of the two countries to commence FTA negotiations. However, India is running a trade deficit close to 22 bn USD with China due to a sharp increase in flow of goods from the neighbouring countries and Indian Ministry of Commerce officials say China has to first address this issue before starting the negotiations.[57] China is willing to start the talks but Indian industries as well as government are opposed to a FTA with China because of the concern of cheap Chinese goods influx after the tariff barriers have been lowered.[58]

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. Negotiations are expected to start in 2011.[59]

In May 2010, China initiated feasibility studies for a FTA with **Mongolia.** China is the main importer of mineral products from Mongolia and wants to strengthen its cooperation with Mongolia in natural resources.[60]

China is believed to have some concerns about Japan participating in the **TPP (Trans-Pacific Partnership),** a multilateral FTA between Brunei, Chile, New Zealand and Singapore, as well as five additional countries currently under negotiations to join, including Australia, Malaysia, Peru, US and Vietnam. Canada, South Korea, the Philippines and Taiwan have also expressed interest in the TPP.[61]

Relations between China and Taiwan

After over ten years without any negotiations, cooperative meetings between Chinese and Taiwanese representatives have taken place since Ma Ying-Jeou took office as Taiwan's president in 2008. In 2009, different agreements to strengthen cooperation were signed in order to facilitate mainland investment in Taiwan's financial markets, increase flight connections, strengthen cooperation for crime fighting and cooperation in agricultural quarantine inspection, industrial product standards and inspection and certification.

53 Ministry of Commerce: http://fta.MOFCOM.gov.cn
54 The Journal of Commerce: "China, Japan, South Korea Eye Free Trade Pact", Hisane Masaki, 23 May 2011.
55 BBC News: "China, Japan, South Korea seek trade pact", 25 April 2011.
56 Daily Yomuri Online: "East Asian giants move closer on FTA / Positive signs from China heighten prospects of trilateral pact with Japan, S. Korea", Koichi Uetake / Yomuri Shimbun, 24 May 2011.
57 The Wall Street Journal: "India-China FTA talks may stumble over trade deficit", Asit Ranjan Mishra, 15 December 2010.
58 The Economic Times: "China-ASEAN FTA may hit trade balance: Scindia", 23 April 2010.
59 China Daily: "China, South Korea to kick off FTA talks", 28 May 2010.
60 People's Daily: "Free trade deal with Mongolia on the cards", 12 May 2010.
61 Office of the United States Trade Representative, "Trans-Pacific Partnership Announcement", December 2009.

Negotiations on an **Economic Cooperation Framework Agreement (ECFA)** started in 2010. Although the ECFA was highly controversial and widely discussed in Taiwan, the deal was signed on June 29th, 2010, after five rounds of negotiations. The ECFA is widely regarded as a **milestone in institutionalising Cross-Strait relations** as it provides for the first time a legal framework for the economic ties that have developed over the past three decades. Under the agreement, which took effect on September 12th, 2010, both sides agreed to gradually reduce and remove trade and investment barriers and to seek ways to further strengthen economic cooperation in areas such as financial cooperation, IPR, customs cooperation, etc.[62]

In the short term, the most notable consequence of the ECFA is that over 500 goods from Taiwan to the mainland will have their tariffs eliminated while Taiwan drops the duties on 267 mainland goods. This will have several positive effects, including increasing business revenues, spurring growth in the nation's gross domestic product, and lowering the unemployment rate. Chinese mainland allows Taiwanese companies to enter 11 service sectors such as accounting, hospital, banking and securities, while Taiwan opens nine of its services sectors to mainland firms.[63] In the long term, ECFA redefines Taiwan's position in the Asia-Pacific region and dispels the fear that the economy of Taiwan is becoming marginalized.[64]

Critics fear the agreement will lead to a flood of cheap Chinese goods, an exodus of well-trained professionals and especially a growing dependence on China. The Ma administration underlines that the ECFA will facilitate similar economic pacts with other countries. Talks with Singapore are said to be underway.[65]

Outlook for Switzerland (potential for discrimination)

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 the official visit of **Federal Councillor Leuthard 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 **recognised China as a market economy** on this occasion.

In January 2009, Chinese Prime Minister Wen Jiabao made an official working visit to Bern during which the further strengthening of economic cooperation was also discussed. **Both sides agreed on the preparation of a joint feasibility study on a possible FTA between Switzerland and China.**

Federal Councillor Johann N. Schneider-Ammann and Minister of Commerce Chen Deming signed a Memorandum of Understanding during the WEF in Davos (January 28, 2011) officially launching the negotiations on a Switzerland-China Free Trade Agreement. (AP Photo)

Both sides started to draft the joint feasibility study at the beginning of 2010. The joint study group met three times between February and August and managed to conclude the study.[66] On the occasion of the visit of President Leuthard to China in August 2010, **a MoU was signed stating that the joint feasibility study was concluded and that both parties agreed to launch negotiations in the near future. The negotiations were officially launched on January 28th, 2011,** by Chinese Minister of Commerce Chen Deming and Swiss Economy Minister Johann Schneider-Amman at the margin of the WEF in Davos. The first round of negotiations was held on April 2011 in Bern and the second one followed in July 2011 in Xi'an.

62 Xinhua: "Landmark cross-Strait economic pact takes effect", 13 September 2010.
63 Xinhua: "Mainland, Taiwan reduce import tariffs to implement", January 2nd, 2011.
64 Taiwan Today: "The Challenges of ECFA", 2 July 2010.
65 Economic Daily News: "Priority option in pushing for FTA", 7 November 2010.
66 For the joint feasibility study, please visit: http://www.seco.admin.ch/themen/00513/02655/02731/04118/index.html?lang=de

In January 2009 a **revised bilateral investment protection agreement was signed** which provides notable improvements especially with regard to the transfer of returns on capital and investment, compensation for expropriation and dispute settlement procedures. The revised agreement entered into force on 13 April 2010.[67]

In February 2009, Federal Councillor Doris Leuthard and Chinese Minister of Commerce Chen Deming signed a **MoU on the intensification of technical cooperation in the field of environmental technology,** aiming at strengthening the two countries' exchange of environmental technologies.

Foreign Trade

Development and General Outlook

Trade in goods[68]

Exports have significantly contributed to China's GDP growth in recent years. Due to the financial crisis and the slumping global demand, China's exports declined in 2009. While import growth was strong, external trade negatively affected GDP growth in 2009. However, exports recovered in 2010, growing again by 31.3% up to 1577.8 bn USD, but were outreached by the even faster growing imports that rose by 38.7% to 1395.1 bn USD, causing China's trade surplus to decrease by 7% to 182.7 bn USD. This marked the second year of a decreasing trade surplus after it had been growing for 6 years in a row since 2003, when it stood at relatively humble 25.5 bn USD.[69]

In 2010, the European Union *(exports: 19.8% vs. imports: 12.1% share of total),* the United States *(exports: 18% vs. imports: 7.3% share of total)* and Japan *(exports: 7.7% vs. imports: 12.7% share of total)* were still the most important trading partners for China. Other major trading partners were Australia *(exports: 1.7% vs. imports: 4.4% share of total),* Brazil *(exports: 1.6% vs. imports: 2.7% share of total)* and India *(exports: 2.6% vs. imports: 1.5% share of total).*[70]

China's trade surplus essentially disappeared in the first three months of 2011, marking its first quarterly trade deficit since 2004. Rising commodity prices drove up the cost of China's imports, while exports tend to be weak early in the year, partly because of factory shutdowns that last one to three weeks for Chinese New Year.[71]

Nevertheless it would be premature to suggest that the country's overall trade surplus is already disappearing. In April exports rose 25.9% compared with a year earlier, to a record 155.69 bn USD, exceeding a previous record of 154.12 bn USD of December 2010. The increase was somewhat surprising because the spring is traditionally a weak period for Chinese exports before large quantities of goods start to be shipped over the summer for the Christmas shopping season.

Chinese imports rose at a slower 21.8%, to 144.26 bn USD, as government policies to restrict bank lending in an attempt to control inflation took effect. China's trade numbers also registered an impact from Japan's earthquake and subsequent nuclear crisis. Imports from Japan stood at 16 bn USD in April, down by 14.9% from March. Japan accounts for about one-eighth of China's imports, and shipments barely increased from a year earlier, dragging down the overall total as the earthquake triggered rolling electricity blackouts and parts shortages that disrupted the manufacture of cars and many other products[72].

In China, labor costs are surging by 10 to 30% a year, rendering the export industry less competitive. Many companies are searching for alternatives to manufacturing in China, whereas they are struggling to find an alternative place that offers China's combination of a large labor supply, world-class highways and ports and strongly pro-business policies, including a strict ban on independent labor unions that tended to hold down wages until very recently[73].

Bilateral trade

Trade in goods[74]

Bilateral trade with China is growing at a higher rate than Switzerland's overall foreign trade. China, even excluding Hong Kong, was the most important trading partner in Asia and ranked 6th as a destination for Swiss exports *(3.7% of total)* and 8th as an origin for imports *(3.5% of total)* to Switzerland among all trading partners.

67 For the agreement, please visit: http://www.eda.admin.ch/eda/de/home/topics/intla/intrea/dbstv/data59/e_20092659.html
68 The figures discussed in this section can be found in annexe 4.
69 China Customs Statistics, 2011 No. 5
70 MOFCOM; Report on the foreign trade Situation of China; Spring 2011, Page 5
71 http://in.reuters.com: "China posts Q1 trade deficit in sign of rebalancing"; April 10th 2011
72 http://www.tradingeconomics.com: "CHINA'S TRADE SURPLUS SURGES IN APRIL"; May 10th 2011
73 The New York Times: "Chinese Exports Hit Record for April"; May 10th 2011
74 The figures discussed in this section can be found in annexe 4.

Trading partners of the People's Republic of China

Exports to Country/Region

Exports to Country/ Region	Billion USD	Share %	Growth in % to a comparable previous period
Jan – Dec 2010			
USA	283,3	18,0%	28,3%
Hong Kong	218,3	13,8%	31,3%
Japan	121,1	7,7%	23,7%
South Korea	68,8	4,4%	28,1%
Germany	68,1	4,3%	36,3%
Netherlands	49,7	3,1%	35,5%
India	40,9	2,6%	38,0%
United Kingdom	38,8	2,5%	24,0%
Singapore	32,3	2,0%	7,6%
Taiwan	29,7	1,9%	28,9%
EU	311,2	19,7%	31,8%
ASEAN	138,2	8,8%	30,1%
EFTA	5,9	0,4%	N/A
Iceland	0,071	0,0%	31,0%
Liechtenstein	0,008	0,0%	25,0%
Norway	2,837	0,2%	6,0%
Switzerland	3,031	0,2%	14,0%
Total	**1577,9**		**31,3%**

Exports to Country/ Region	Billion USD	Share %	Growth in % to a comparable previous period
Jan – May 2011			
USA	117,5	16,5%	18,7%
Hong Kong	103,5	14,5%	37,2%
Japan	56,0	7,9%	24,6%
South Korea	34,1	4,8%	29,3%
Germany	28,9	4,1%	15,6%
Netherlands	21,5	3,0%	19,9%
India	18,5	2,6%	24,7%
United Kingdom	15,5	2,2%	13,6%
Singapore	14,9	2,1%	9,8%
Italy	14,4	2,0%	7,5%
EU	134,2	18,8%	18,2%
ASEAN	66,0	9,3%	25,3%
EFTA	2,8	0,4%	N/A
Iceland	0,037	0,0%	34,5%
Liechtenstein	0,004	0,0%	21,3%
Norway	1,334	0,2%	21,8%
Switzerland	1,464	0,2%	38,5%
Total	**712,4**		**25,5%**

Imports from Country/Region

Imports from Country/ Region	Billion USD	Share %	Growth in % to a comparable previous period
Jan – Dec 2010			
Japan	176,7	12,7%	35,0%
South Korea	138,4	9,9%	35,0%
Taiwan	115,7	8,3%	31,7%
USA	102,0	7,3%	35,0%
Germany	74,3	5,3%	33,4%
Australia	60,9	4,4%	54,1%
Malaysia	50,4	3,6%	55,9%
Brazil	38,1	2,7%	33,3%
Thailand	33,2	2,4%	39,2%
Saudi Arabia	32,8	2,4%	34,7%
EU	168,5	12,1%	31,9%
ASEAN	154,6	11,1%	44,8%
EFTA	20,4	1,5%	N/A
Iceland	0,041	0,0%	24,3%
Liechtenstein	0,069	0,0%	35,2%
Norway	3,230	0,2%	5,6%
Switzerland	17,039	1,2%	147,4%
Total	**1394,8**		**38,7%**

Imports from Country/ Region	Billion USD	Share %	Growth in % to a comparable previous period
Jan – May 2011			
Japan	78,3	11,4%	17,6%
South Korea	63,8	9,3%	18,2%
USA	52,0	7,5%	31,2%
Taiwan	51,3	7,4%	11,6%
Germany	37,4	5,4%	32,2%
Australia	30,0	4,4%	38,9%
Malaysia	24,3	3,5%	27,2%
Saudi Arabia	19,2	2,8%	22,6%
Brazil	18,2	2,6%	52,5%
Thailand	15,9	2,3%	47,8%
EU	83,8	12,2%	31,3%
ASEAN	74,8	10,9%	26,5%
EFTA	13,3	1,9%	N/A
Iceland	0,017	0,0%	9,4%
Liechtenstein	0,033	0,0%	25,8%
Norway	1,645	0,2%	18,4%
Switzerland	11,628	1,7%	51,2%
Total	**689,4**		**29,4%**

Source: China's Custom Statistics

Bilateral trade with China has developed extremely dynamically in recent years. **Even after bilateral trade with China diminished in the wake of the global economic crisis in 2009, it rebounded strongly in 2010 with exports climbing by 35.7% to 7.5 bn CHF and imports rising by 17.8% to 6.1 bn CHF, leaving a trade surplus for Switzerland of 1.4 bn CHF,** that is 4 times larger than in 2009 when the trade surplus amounted to 340.1 million CHF. At **the same time the trade volume expanded by 27% and stood at 13.5 bn CHF in 2010. The figures of the first quarter of 2011 confirm the trend of a growing bilateral trade, with exports rising by 42.1% and imports by 5.1% respectively.**

Combining the trade data of Mainland China and Hong Kong for the year 2010, the trade volume increased by 25.6% to 21.6 bn CHF, with exports growing *(up by 28.1% to CHF 13.9 bn CHF)* faster than imports *(up by 24.3% to CHF 7.6 bn CHF),* the trade surplus increased to 6.4 bn CHF in 2010 from 4.6 bn CHF in 2009 *(up by 37.5%).*

In 2010 the most important import goods from China were machinery, apparatus and electronics with a 36.4% share of total imports, followed by textiles and apparel (10.8%), chemicals (9.6%) and watches (8.9%). Exports from Switzerland to China were also dominated by machinery, apparatus and electronics with a share of 53.1% of total exports as well as watches with 15.4%, optical and medical instruments with 6.9% and pharmaceuticals (6%).

As for Hong Kong, exports of watches *(exports: 48.7% vs. imports: 18.2% share of total)* and jewellery *(exports: 29.5% vs. 65.5% share of total)* account for nearly 80% of total bilateral trade[75].

These figures make apparent that Switzerland and China are trading the same type of goods but in different price classes. Therefore both countries have rather complementary than competing interests as regards bilateral trade, which provides a good base for the ongoing negotiations of a bilateral FTA.

Direct investments

Development and general outlook

The financial crisis negatively affected foreign direct investment (FDI) to China, not because of suppressed market prospects for China but because foreign investors were facing financing problems in their domestic countries. **In 2009, FDI therewith fell by 2.6% to 90 bn USD.**[76] **However, FDI has recovered well in 2010:** the number of newly approved foreign-funded enterprises in China totaled 27'406, up by 16.94% compared to 2009, and actual used foreign investment reached 105.735 bn USD, that is an increase by 17.44% year-on-year.

According to Chinese statistics the top ten countries, accounting for 90.1% of foreign capital input in 2010 were: Hong Kong *(67.474 bn USD),* Taiwan *(6.701 bn USD),* Singapore *(5.657 bn USD),* Japan *(4.242 bn USD),* USA *(4.052 bn USD),* South Korea *(2.693 bn USD),* UK *(1.642 bn USD),* France *(1.239 bn USD),* Netherlands *(952 million USD)* and Germany *(933 million USD)*[77]. As for Switzerland, in 2010 the FDI in China stood at 260 bn USD *(see section 4.2).*

From January to May 2011 the actual use of foreign investment reached 48.028 bn USD, that is an increase of 23.4% year on year[78] and there were no major shifts within the ranking of the aforementioned top ten countries. However, while the investment from Asia and Europe continued to increase, the investment from the US decreased. Moreover, the actualized FDI in the service sector was higher than in other sectors and grew faster in Western regions than Eastern regions[79].

Since 2006, China's FDI policy has shifted from export led growth to quality investment supporting domestic led growth. The shift is a result of the general economic policy adopted in the 11th Five-Year Plan and set out in detail in the 11th Five-Year Plan on the Utilization of Foreign Investment. Therewith, **China has decided to shift its policy of attracting foreign business from "quantity" to "quality" and to push its industry up the value chain.**

In a move to create a tax neutral FDI policy, the new Corporate Income Taxation Law (CIT), which went into effect on 1 January 2008, removed many of the preferential treatments foreign companies previously enjoyed to create a more equal environment.[80]

75 Swiss Federal Customs Administration: http://www.ezv.admin.ch/
76 National Bureau of Statistics; "Statistical Communiqué of the P.R.C. on the 2009 National Economic and Social Development"; 26. 2. 2010.
77 MOFCOM: "Statistics of China's Absorption of FDI from January to December 2010"; January 27th 2011
78 News Release of National Assimilation of FDI From January to May 2011; June 17th 2011 http://www.fdi.gov.cn/pub/FDI_EN/Statistics/FDIStatistics/ExpressofForeignInvestment/t20110617_134374.htm
79 Regular Press Conference of the Ministry of Commerce on May 17th, 2011: http://english.MOFCOM.gov.cn/aarticle/newsrelease/press/201105/20110507573980.html
80 "Five Major Changes of the New Corporate Income Tax law and the Impact on Foreign Investment in China": 5 June 2008. http://fdi.gov.cn:8080/pub/FDI_EN/News/Focus/Subject/News-The%20focus/taxlaw03/t20080605_93658.htm

Bilateral trade Switzerland – P.R. China, Jan – Dec 2009/2010

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan – Dec 2009	Jan – Dec 2010	in %	share (%)	Jan – Dec 2009	Jan – Dec 2010	in %	share (%)	in CHF
1	Agricultural products	119.424.406	126.625.508	6,03%	2,08%	38.965.473	53.269.077	36,71%	0,71%	-73.356.431
2	Energy carriers	14581	181291	1143,34%	0,00%	1552189	4253368	174,02%	0,06%	4.072.077
3	Textiles, apparel, shoes	865.858.531	901.511.949	4,12%	14,81%	202.824.475	153.636.569	-24,25%	2,06%	-747.875.380
4	Paper, paper products, printed matter	34.228.639	39.408.521	15,13%	0,65%	27.089.541	21.094.594	-22,13%	0,28%	-18.313.927
5	Leather, rubber, plastics	233691018	285.943.005	22,36%	4,70%	94.534.406	141.630.052	49,82%	1,90%	-144.312.953
6	Chemicals, pharmaceuticals	581.447.046	714.583.169	22,90%	11,74%	1.292.420.844	1.257.598.300	-2,69%	16,84%	543.015.131
7	Construction materials, ceramics, glass	64.127.465	81.874.285	27,67%	1,35%	23.480.673	28.469.161	21,25%	0,38%	-53.405.124
8	Metals and metal products	313398671	358.512.368	14,39%	5,89%	243.873.194	379.136.463	55,46%	5,08%	20.624.095
9	Machinery, apparatus, electronics	1.781.053.716	2.228.784.630	25,14%	36,62%	2.128.668.793	3.175.549.277	49,18%	42,53%	946.764.647
10	Vehicles	88.705.599	101.796.221	14,76%	1,67%	38.797.266	49.476.237	27,53%	0,66%	-52.319.984
11	Precision instruments, watches, jewellery	637393574	748.841.507	17,48%	12,31%	1.277.413.971	1.781.258.699	39,44%	23,86%	1.032.417.192
12	Furniture, toys	419.806.805	483.508.019	15,17%	7,95%	29.890.672	33.817.772	13,14%	0,45%	-449.690.247
13	Precious metal, precious stones, gemstones	4.308.070	7.940.793	84,32%	0,13%	83.820.016	366.333.753	337,05%	4,91%	358.392.960
14	Objects of art and antiques	17497532	6.058.045	-65,38%	0,10%	17.748.143	21.497.121	21,12%	0,29%	15.439.076
	Total	**5.160.955.653**	**6.085.569.311**	**17,92%**	**100%**	**5.501.079.656**	**7.467.020.443**	**35,74%**	**100%**	**1.381.451.132**

Bilateral trade Switzerland – P.R. China, Jan – May 2010/2011

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan – May 2010	Jan – May 2011	in %	share (%)	Jan – May 2010	Jan – May 2011	in %	share (%)	in CHF
1	Agricultural products	54108516	51172076	-5,43%	2,06%	16780905	23593887	40,60%	0,62%	-27.578.189
2	Energy carriers	3908	477558			1242087	1785913	43,78%	0,05%	1.308.355
3	Textiles, apparel, shoes	324.908.898	328.140.947	0,99%	13,22%	75.223.616	60.651.776	-19,37%	1,60%	-267.489.171
4	Paper, paper products, printed matter	15.358.035	16.199.029	5,48%	0,65%	8.435.094	13.073.531	54,99%	0,35%	-3.125.498
5	Leather, rubber, plastics	109.922.008	113.011.140	2,81%	4,55%	52.999.553	59.324.632	11,93%	1,57%	-53.686.508
6	Chemicals, pharmaceuticals	289.397.530	323.219.308	11,69%	13,02%	502.264.554	552.400.975	9,98%	14,59%	229.181.667
7	Construction materials, ceramics, glass	30.048.370	30.922.454	2,91%	1,25%	11.058.706	15.776.322	42,66%	0,42%	-15.146.132
8	Metals and metal products	146.042.045	156.526.966	7,18%	6,30%	146.768.761	165.770.137	12,95%	4,38%	9.243.171
9	Machinery, apparatus, electronics	899.273.850	892.222.542	-0,78%	35,94%	961.393.385	1.822.847.364	89,60%	48,14%	930.624.822
10	Vehicles	54172476	54359768	0,35%	2,19%	17778757	16521149	-7,07%	0,44%	-37.838.619
11	Precision instruments, watches, jewellery	260.904.581	324.578.030	24,40%	13,07%	644.531.924	886.201.907	37,50%	23,40%	561.623.877
12	Furniture, toys	194483701	184411706	-5,18%	7,43%	12734969	8588263	-32,56%	0,23%	-175.823.443
13	Precious metal, precious stones, gemstones	2673870	4432976	65,79%	0,18%	249107342	159350833	-36,03%	4,21%	154.917.857
14	Objects of art and antiques	3.392.469	3.068.316	-9,56%	0,12%	4.840.184	773.832	-84,01%	0,02%	-2.294.484
	Total	**2.384.690.257**	**2.482.742.816**	**4,11%**	**100%**	**2.705.159.837**	**3.786.660.521**	**39,98%**	**100,00%**	**1.303.917.705**

Source: Federal Customs Administration

In April 2011 a new draft of the "Foreign Investment Catalogue" has been released, whereas the final version is expected for July. Initially introduced by the NDRC and the Ministry of Commerce in 1995, the catalogue has been revised four times so far, with the most recent version updated in October 2007. Stipulating "encouraged", "restricted" and "prohibited" categories that distinct foreign invested projects fall into, the catalogue has long been a major guideline of China's market openness strategies. In order to **continue the promotion of "quality over quantity",** the following five investment areas shall be further encouraged: high-end manufacturing industry, high-tech industry, modern service industry, new energy industry and energy-efficient and environmentally clean industries. Preferential policies for land use and tax breaks shall help to attract foreign investment into these encouraged categories.

The **new revisions have added more environmentally-friendly and high-end projects to the "encouraged" category.** New energy utilization is rising as one of China's top interest while attracting foreign investment. New energy-related industries, including high-tech green battery manufacturing and the construction and operation of renewable water plants, have all become new additions to the "encouraged" catalogue. Energy efficient industries and green technologies are further highlighted in the "encouraged" list. The **newly added "prohibited" items are highly related to China's current social issues and national interest,** such as foreign investment related to the real estate industry.

Furthermore China is showing a special interest to **channel foreign investment to its central and western regions.** In order to enable these regions to experience a similar development as the coastal areas, tax breaks and labour intensive industries are now formally encouraged in the central and western regions. The final version of the catalogue will be issued and implemented over the course of this year.[81]

The government also **allows local authorities to approve foreign investment projects up to an amount of 300 million USD.** Previously the cap was set at 100 million USD. Since the cumbersome approval through the central authorities has always been regarded as a major impediment, this change is expected to have an immediate positive effect.

However, although there are proposals to improve the foreign exchange management for foreign invested enterprises, they do unfortunately not provide concrete instruction on how this should be implemented.

The government also proposes **to expand the scope of utilization of foreign capital** by for instance encouraging the participation of foreign capital in the reform and restructuring of domestic enterprises by means of equity participation and mergers and acquisitions (M&A) and allowing A-share listed companies to get investment from both domestic and foreign strategic investors.[82]

At the beginning of March 2010, **the administrative measures for the establishment of foreign-invested partnerships** (FIP), promulgated by the State Council in December 2009, became effective. China's Partnership Enterprise Law has been in force since June 2007, but only Chinese domestic enterprises or individuals could become partners. The new measures now provide a framework for foreign-invested partnerships – partnerships between two or more foreign entities or individuals, or jointly with Chinese individuals, legal persons or other Chinese organisations – and therewith a new vehicle for foreign investment. The government will **encourage foreign companies and individuals possessing "advanced technologies" and "management experience" to establish FIPs in China.** The definition of these two features remains unclear. The current restrictions regarding foreign investments in certain industries also applies to FIPs, however for the allowed industries the FIP measures facilitate investment to China by eliminating the requirement for prior approval by the Ministry of Commerce or its local offices.[83] Partnerships, including FIPs, are not subject to statutory minimum capitalization requirements. The Partnership Enterprise Law provides for a more liberal scope of recognized capital contributions compared to the more restrictive rules for *Equity Joint Ventures* (EJVs), *Cooperative Joint Ventures* (CJVs) and *Wholly Foreign Owned Enterprises* (WFOEs). However, PRC regulations are unclear about the new structure's approval processes and downstream investment options[84].

The adoption of China's first Anti-Monopoly Law in August 2008 was received with mixed feelings by many foreign businesses. Multinational companies feared the law could serve as a tool to allow for protectionist measures against foreign companies in China. A main concern is the broad and vague provisions which leave much scope for decision making to the responsible Chinese authorities. Up to fall 2010, more than 140 mergers were reviewed under the law and the **regulators seem to use a fairly con-**

81 MOFCOM: "Several Opinions of the State Council on Further Utilizing Foreign Capital"; April 06th 2011 http://english.MOFCOM.gov.cn/aarticle/policyrelease/announcement/201006/20100606982859.html

82 Several Opinions of the State Council on Further Utilizing Foreign Capital; April 6th 2011 http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=120748

83 Degree of the State Council of the People's Republic of China No. 567; November 25th 2009 http://fdi.gov.cn/pub/FDI_EN/Laws/GeneralLaws-andRegulations/RegulationsonForeignInvestment/P020091204372347037162.pdf

84 The China Business Review; September – October 2010; Page 2

servative approach, not using the law exclusively against foreign companies. So far, only Coca Cola's attempt to acquire Huiyuan – China's largest juice producer – was blocked.[85]

At the end of 2010 the National Development and Reform Commission (NDRC) and the Administration of Industry and Commerce (SAIC) released additional rules that came into force in February 2011 and supply specific standards in determining the activities with respect to price monopoly, reaching monopoly agreement abuse of dominant market position, and abuse of administrative authorities. Additionally the rules also provide relevant authorities with the procedures for the investigation of monopoly-related cases[86].

As of **March 2011 the *Notice Regarding the Establishment of National Security Review Mechanism for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* ("NSR") came into effect.** It basically covers **all foreign invested M&A touching** either the military and related enterprises or other companies dealing with **national security in a broad sense,** encompassing also M&A that could cause risks to the domestic productivity, the sound economic development or the social order in China. Furthermore, it also includes investment in major products or projects in the fields of farming, resources, energy, infrastructure, transportation, technology and equipment manufacturing. Foreign investment subject to the review includes all transactions that in some way involve foreign investors obtaining "actual control" over domestic enterprises and goes beyond the simple case, where the investor secures the majority of the shares, and also includes cases such as the foreign investor exercising control through Intellectual Property Rights, etc.[87]

It remains unclear whether this new regulation is only the written record of the practice unofficially followed in the past or just a new tool for blocking unwanted foreign investment, since both the scope of concerned enterprises as well as the criteria which qualify a foreign investor obtaining "actual control" over a domestic business, are kept fairly broad. In either way, **foreigners are still excluded or confined to a minority participation in particularly sensitive or strategic sectors** of the economy.[88] Furthermore, the withdrawal of capital and profits from China is possible, but barriers remain and make the process complex and tedious for businesses.

Foreign companies are increasingly voicing concerns **that the business environment in China is deteriorating and foreign investment is no longer welcome.** Especially the State Council's attempt to promote "indigenous innovation" – a plan to support the creation and commercialization of domestic technology by requiring products to have Chinese intellectual property in order to qualify for the government procurement catalogue – was strongly criticized.[89] In April the government decided to soften those rules and pledged that foreign companies shall not be discriminated in the Chinese market.[90] **On different occasion, high-level officials underlined China's commitment to foreign investment.**

China: Foreign Direct Investment

Rank	Country / Region	FDI (mio. USD) 2010	Share (%) 2010	Variation (%) year on year
1	Hong Kong	67474	63.81%	24.97%
2	Taiwan	6701	6.34%	2.10%
3	Singapore	5657	5.35%	45.57%
4	Japan	4242	4.01%	3.04%
5	USA	4052	3.83%	13.31%
6	South Korea	2693	2.55%	-0.37%
7	United Kingdom	1642	1.55%	11.78%
8	France	1239	1.17%	n/a
9	Netherlands	952	0.90%	n/a
10	Germany	933	0.88%	-23.96%
	Switzerland	260	0.25%	-13.40%
	Total	**105735**	**100%**	**17.44%**

Source: MOFCOM

Rank	Country / Region	FDI (mio. USD) Jan – May 2011	Share (%) year to date 2011	Variation (%) year on year
1	Hong Kong	31421	65.42%	33.85%
2	Taiwan	2949	6.14%	9.30%
3	Japan	2763	5.75%	55.84%
4	Singapore	2513	5.23%	10.75%
5	USA	1285	2.68%	-24.10%
6	South Korea	945	1.97%	-9.05%
7	United Kingdom	829	1.73%	43.18%
8	Germany	520	1.08%	18.18%
9	France	333	0.69%	-10.48%
10	Netherlands	305	0.64%	-39.72%
	Switzerland	85.51	0.18%	-29.90%
	Total	**48027**	**100.00%**	**23.40%**

Source: MOFCOM

85 Financial Times: "Life after China's Antimonopoly Law", 20 October 2010.

86 Wenfei Attorneys at Law Ltd.; China Legal Report April 2011, Page 2

87 Hogan Lovels: China Alert on 14 March 2011 "MOFCOM releases implementing rules on national security review"

88 http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=87372

89 Wall Street Journal: "Beijing revises procurement policy", 13 April 2010.

90 China Daily: "Wen assures Europe on trade, investment options in China", 30 April 2010.

In September 2010, Premier Wen Jiabao assured foreign investors that China is striving to create an open and fair environment for foreign investors. Wen promised that "all enterprises registered in China according to Chinese law are Chinese enterprises" and that equal treatment would be given to products from foreign and Chinese invested companies in government procurement.[91]

Nevertheless, China remains a top FDI destination. By 2009, China's accumulated FDI stock amounted to 473 bn USD, well ahead of other large developing and transition economies such as Brazil (401 bn USD), India (164 bn USD) or Russia (256 bn USD).[92] According to the Ministry of Commerce, FDI to China will continue to grow in the long-run due to increasing domestic demand and improving labour quality. However, concerns remain regarding how to maintain a high FDI growth rate in the short-term as China is adjusting its FDI policy in order to channel more investment into the service sector and to its central and western regions.[93] An UNCTAD survey shows that China will remain a top destination for inward FDI in the period of 2010–2012.[94]

Besides the foreign investment coming into the country, **China has also become a source of outward direct investments.** By the end of 2009, the total stock of Chinese offshore investment stood at about 230 bn USD, on a par with Denmark and slightly higher than Taiwan. According to MOFCOM statistics, the accumulated non-financial overseas direct investment amounted to 59 bn USD in 2010, which is an increase of 36.3% in comparison to 2009[95]. Chinese offshore investment began to take off in the past decade, primarily spurred by a drive to secure resources for its industry and need to productively deploy cash reserves, accumulated through exports and profits at home.[96] Chinese companies have taken over stakes in Australian mining enterprises and other outbound resource investment has gone to state-controlled companies, including large deals with Russian and Venezuelan oil companies. China's investment in Africa attracted attention again in May, when the country announced multi-million investments in the development of cement plants in South Africa and Mozambique, an oil refinery in Nigeria and the mining sector in Zambia.[97]

In the first half of this year, China's investment in Brazil topped 20 bn USD, more than 10 times all of China's previous investment in the country. That puts China on track to be Brazil's No. 1 investor for 2010, compared with 29th in 2009. The China Development Bank has given Petrobras, Brazil's main oil producer, 10 bn USD as a down payment on future business. In 2010 China became Brazil's biggest trading partner, replacing the United States[98]. However, tensions have surfaced after China last year also emerged as one of the biggest sources of cheap imports into Brazil, helped by a surge in the value of the Real, which is undermining the competitiveness of the Brazilian industry. This prompted finance minister Guido Mantega to call for a revaluation of the RMB. Seemingly the Brazilian government was even considering restrictions on FDI in mining, including imposing minimum domestic supply quotas and screening transactions based on "the investor's profile".

And with its growing foreign reserves, **the China's foreign outbound investment is likely to grow further in the coming years.** China's investments are also booming elsewhere – from Peru, where one third of the minerals sector is in Chinese hands, to Japan, where Chinese mergers and acquisitions quadrupled from 2008 to 2009. **Even though the data on China's outbound foreign direct investment show that Europe accounts for a only 3.5% of the country's stock of such assets,[99] this share is growing at a fast pace.** As of today, China's interest in the region has been largely economic and disconnected from geopolitical goals. The EU is China's largest global trading partner and like the United States, European trade with China remains persistently imbalanced. However, Europe is likely to feel the force of China's outward expansion earlier than the US as European firms arguably have a greater need for cash than American ones and China's huge holdings of US Treasuries give it an incentive to its dollar assets, whereas the euro zone is the natural alternative.

However, since not only the large state-owned enterprises but also private Chinese companies are often closely intertwined with the Chinese government, **it is sometimes hard to see where the company stops and the country begins,** which often causes skepticism towards Chinese direct investments abroad, which to some extent may reflect the difficulties for-

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91 People's Daily: "Premier Wen assures foreign firms in China", 14 September 2010.

92 Vale Columbia Center on Sustainable International Investment, Inward FDI in China and its policy context, 18 October 2010.

93 China Daily: "Foreign investment slows down", 16 October 2010.

94 UNCTAD, World Investment Prospects Survey, September 2010.

95 MOFCOM: "Statistics of China's Non-financial Foreign Direct Investment in 2010"; 28. Januar 2011 http://english.MOFCOM.gov.cn/aarticle/statistic/foreigninvestment/201101/20110107386833.html

96 Financial Times Asia: "Chinese offshore investment set for take-off"; 05.05.2011

97 Economist Intelligence Unit, Country Report China, May 2010.

98 Washington Post: "China invests heavily in Brazil, elsewhere in pursuit of political heft"; 26. July 2010

99 The Economist; "Capital and companies from China are sidling into Europe"; June 30th 2011

View over the Bund from Shanghai Pudong.

eign firms are facing in China in terms of mergers and acquisitions: In particular the US and China seem to linger in a Cold War episode with regard to mergers and acquisitions as a series of planned acquisitions have died in the hands of bureaucrats or politicians in Beijing and Washington. Other ideas haven't seen the light of day because of fear they will also be blocked. In the context of the US Presidential and Congressional elections, due in November 2012, as well as the queued transition of power in China, which is expected to materialize also within the coming year, the time lying ahead could be a particularly rocky for Sino-US deal making, due to both countries entering a politically sensitive phase.[100]

Bilateral investment flows

At present, about 300 Swiss firms with over 700 branches are represented in China, employing several tens of thousands people. According to Chinese statistics, Swiss direct investments in China in 2010 amounted to 260 million USD, a decrease of 13% from 300 million USD in 2009. By March 2011 the cumulative Swiss direct investments accounted to 3.68 bn USD, leaving Switzerland on the 6th rank among European countries.[101]

As regards the **figures on Swiss direct Investments in China published by the Swiss National Bank, they differ significantly from the data released by MOFCOM** as shown by the fact that in 2009 Swiss direct investments to China amounted to 1.211 bn CHF while the stock of Swiss direct investments stood at 7.547 bn CHF in the same year according to Swiss statistics. The Swiss figures for the 2010 will only be released in August 2011.[102]

Switzerland has economic agreements with China regarding investment protection and avoidance of double taxation. **A revised investment protection agreement was signed in 2009 and came into force on 13 April 2010.** This updated investment protection agreement will allow a higher protection of Swiss and Chinese investments in the respective host country. The main provisions of the agreement cover the handling of foreign investments by the host country, the transfer of capital and investment income, compensation for expropriation and the introduction of new dispute settlement procedures such as the

100 http://www.reuters.com/article/2011/04/12/us-specialreport-china-merger-idUSTRE73B47V20110412

101 Ministry of Commerce / Chinese data on FDI differ from Swiss statistics (see the next footnote)

102 Data on FDI are always collected on two sides, in the country that places the direct investment and the country where the direct investment takes place. Since the institutions collecting the data in both countries cannot exchange information on investments due to reasons of confidentiality, the figures issued by different countries cannot be aligned and may therefore vary substantially as it is the case for Swiss and Chinese data on FDI.

possibility for a company to unilaterally submit disputes to international arbitration.[103]

So far, Chinese direct investment in Switzerland is still modest but started to increase significantly in the past years. The state-owned Bank of China opened a private banking arm and an institutional management fund subsidiary in Geneva in November 2008. This is the first time a Chinese bank starts operating in Switzerland. Huawei, a Chinese telecom equipment manufacturer opened a branch in Switzerland in October 2008. In May 2009, Suntech, a manufacturer of solar photovoltaic cells and modules, announced to relocated its European headquarter from London to Schaffhausen. As of today there are about 60 Chinese companies established in Switzerland.

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. The official representations of Switzerland – the Embassy in Beijing, and the Consulates General in Shanghai, Guangzhou and Hong Kong – therefore have to take on a particular role in the arrangement of such contacts.**

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 one at the Consulate General in Guangzhou. The specially trained consular and local SBH-staff offer **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).

Since the beginning of 2010, the Swiss Business Hub also assumes the mandate for foreign investment promotion. The SBH China now also manages the promotion of Switzerland as a business location for potential Chinese investors. The aim is to inform and build on the firm Sino-Swiss relationships which have been established and raise awareness of Switzerland as a first-class business location for setting up regional and European headquarters among the Chinese business owners, entrepreneurs and investors.

Swiss-Chinese Chamber of Commerce and SwissCham China

The Swiss-Chinese Chamber of Commerce and the SwissCham China are private organisations 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 organizations are operated today with three regional branches in Switzerland (Zurich, Geneva, Lugano) and three in China (Beijing, Shanghai and Guangzhou). **Their purpose is to promote and support the global success of the Swiss business community in China.** Simultaneously, SwissCham China assists a growing number of China-based enterprises in their dealings with Swiss partner companies.

Of course there are also a number of experienced private consultants who are offering similar services to interested clients.

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

Presence Suisse / Presence Switzerland

Presence Switzerland is an office of the Swiss federal administration and as a unit it is part of the General Secretariat of the Federal Department for Foreign Affairs (FDFA). As such it is responsible for implementing the Federal Council's strategy on Switzerland's communication abroad.

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 emphasising values such as quality and well-being. **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.

103 http://www.eda.admin.ch/eda/de/home/topics/intla/intrea/dbstv/data_c/c_249.html

The official Swiss Pavilion at the 2010 World EXPO in Shanghai is one of the most important recent projects of Presence Switzerland, playfully dealing with the EXPO sub theme "rural-urban interaction". The Swiss Pavilion attracted about 2.8 million visitors and was one of the most popular pavilions at the EXPO. It offered an invaluable platform for Swiss communication abroad and strengthened Switzerland's image in China.[104]

Besides this, Presence Suisse, in close cooperation with private and public institutions, is involved in several smaller projects positioning Switzerland as an innovative, technologically advanced, 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: 57.39 million Chinese travelled abroad in 2010, up 20% compared to the previous year[105]. Therefore China is a key strategic growth 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, 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.

Switzerland Tourism operates two offices in mainland China, one in Beijing and one in Shanghai as well as an office in Hong Kong, covering Southern China. Switzerland Tourism reports 477'000 overnights from Chinese visitors (including Hong Kong) to Switzerland in 2010. **This is an increase of 43% compared to 2009 and corresponds to a share of 2.4% (2009: 1.6%) among all foreign markets.** From January to April 2011 the number of overnights of Chinese Tourists in Switzerland stood at 135'500, accounting for 2.1% among all foreign markets. Switzerland Tourism predicts a long-term annual growth rate of 10–15% in normal years. **Switzerland's entry to the Schengen-Agreements, which became operational at the beginning of December 2008, brings some advantages** but also creates a competition for the easiest visa and complicates exact tracking of visitor numbers.

Education

The **Swiss education sector has shown an increasing interest in attracting Chinese students to its institutions.** The group of Chinese students in Switzerland is now one of the biggest groups of foreign students in our country. The good positions of our institutions in various rankings and the fact that more and more programmes on the Master level are taught in English contribute to this growing interest in China. The Swiss representations are actively involved in promoting Swiss education opportunities throughout China. This includes participation at the China International Education Exposition and other similar educational events such as conferences, workshops and presentations at the 38 top-universities in China. More and more, selection of top students becomes the main challenge. On the other hand, interest of Swiss students to study in China is mainly limited to language and culture students, with a few exceptions in art, medicine and engineering.

A **"Memorandum of Understanding" for educational exchanges,** signed by Swiss Foreign Minister Micheline Calmy-Rey during her visit to China in 2006, ended in 2008. Currently, there is no framework agreement in the area of education. However, the exchange of scholarships continues and each year the Swiss – respectively Chinese – government offers more than 20 full-time scholarships to the partner country. In addition, 30 Swiss students are awarded a partial scholarship from the Chinese government to adjust the financial balance.

In April 2007 State Secretary Kleiber signed a joint statement which proposes a **four years (2008–2011) Swiss-Chinese science cooperation strategy for education, science and research.** The strategy aims at strengthening the cooperation between Swiss and Chinese universities and fostering cooperation in the field of vocational education. Expansion of this collaboration and feasibility of a general Memorandum without time limits will be examined.

On his visit to China in April 2011, Federal Councilor Burkhalter signed a ***Joint Statement on Sino-Swiss Science & Technology Cooperation,*** enhancing the scope of bilateral research-collaboration in the fields of cleantech, renewable energies, life sciences and nanotechnology.

swissnex

In order to strengthen bilateral cooperation in the scientific field, swissnex, an initiative of the Swiss State Secretariat for Education and Research and the Ministry of Foreign Affairs, officially **opened an office in Shanghai in August 2008** (other offices in Boston, San Francisco, Singapore and Bangalore). The swissnex network exploits the potential of international cooperation in the areas of research, technology, innovation and culture. The network is a key component of the Swiss strategic scientific policy for

104 www.swisspavilion.ch
105 National Bureau of Statistics of China: "Statistical Communiqué of the People's Republic of China on the 2008 National Economic and Social Development", 26 February 2010.

the promotion of bilateral cooperation set by the Swiss Federal Council. swissnex China's mission is to create and promote awareness of Swiss excellence in science, technology, innovation and culture, to connect academia and business and to facilitate cooperation between the two countries.

The Sino-Swiss Science and Technology Cooperation SSSTC Program, a Joint Venture of the Chinese and Swiss government aims at encouraging and strengthening academic cooperation between the two countries. The Swiss Federal Institute of Technology in Zurich (ETH) functions as the leading house of the program, while swissnex China represents SSSTC in China. The program is designed to promote lasting cooperation between Chinese and Swiss universities and research institutions in the priority areas of life sciences, environment, sustainable urban development, material sciences and medicine (2008–2011) as well as renewable energy/cleantech and nanotechnology (2011–2012).

Since 2010 swissnex China has been mandated by Presence Switzerland to create and realize the scientific framework program E+ of the Einstein Exhibition touring through China. Further swissnex China has been mandated from various universities and institutions like ETH Zurich, University of Zurich, Universitätsspital Basel and others to fulfill a common mission in China.

Booming machinery exports: +69%

The machinery sector traditionally is the strongest Swiss export sector to China. In the first six months of 2011, machinery in the value of 2.1 billion Swiss francs has been exported – a stunning plus of 69% compared to the year before. The second strongest industry is precision instruments and watches: Exports in the value of 1.1 billion Swiss francs represent an increase of 39%. As China shifts its economy from export-led growth to consumption-led growth, the trade opportunity with China will become more promising especially with high-end consumer goods and high-tech machinery and equipments.

About Swiss Center Shanghai (SCS)

Founded in 2000, SCS is by far the largest cluster of Swiss enterprises in Asia with a rich experience in business set-up and China operations management. SCS not only offers instant workshop, office and desk space, but also supports the companies with government relations and a broad network of experts. SCS served more than 100 companies in China – both SMEs and large enterprises. Among other, the SCS experts performed set-ups of 20 production companies and more than 30 offices and trading companies.

For more information, please visit:
www.swisscenters.org

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

Switzerland's strengths as an investment location are currently promoted in China by the Swiss Business Hub (see section 5.1). Besides this, the cantons have their own investment promotion agencies. The Swiss Business Hub, who carries out systematic market analysis and development has organised some high-level seminars, elaborated brochures, manuals and presentations and 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 Switzerland Trade and Investment Promotion, 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. 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 still generally positive, especially with the Chinese Government, the National Bank and the regulatory bodies of the financial sector. The Swiss Banking Association initiated a constructive dialogue with Chinese financial authorities in 2006 on issues of mutual interest to Chinese and Swiss financial services industries. 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.

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(Photo by HKTDC)

Annual Economic Report: Hong Kong 2010/11

(Below you find the part regarding bilateral trade between Switzerland and Hong Kong of the annual economic report 2010. For a full version please contact the Swiss-Hong Kong Business Association, info@swisshongkong.ch)

Trade in goods between Switzerland and Hong Kong

According to the Hong Kong Census and Statistics Department, Switzerland was the 12th largest trading partner of Hong Kong in 2010 and Hong Kong's 11th largest supplier and 21st largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 6,534 million (+20%) in 2010. Major Swiss exports included watches and clocks (49% of total, increased by 47%, CHF 3,185 million in value), jewellery & precious metal (30% of total, decreased by 9.1%, CHF 1,926 million in value), chemical and pharmaceutical products (8.2% of total, increased by 39%, CHF 533 million in value) and machinery (6.2% of total, increased by 6.2%, CHF 405 million in value).

In 2010, Swiss exports to Mainland China (CHF 7,463 million in value) and Hong Kong (CHF 6,534 million in value) accounted for 6.9% of global Swiss exports, bringing China (incl. Hong Kong) to the position of Switzerland's most important market in Asia. On the other hand, Swiss imports from China (CHF 6,078 million) and Hong Kong (CHF 1,560 million) totalled CHF 7,638 million. Switzerland got a trade surplus worth CHF 6,359 million.

Hong Kong's total exports to Switzerland rose to CHF 1,560 million (+37%) in 2010. Major total exports included jewellery & precious metal (66% of total, increased by 58%, CHF 1,021 million in value), watches and clocks (18% of total, increased by 12%, CHF 284 million in value), machinery (8% of total, decreased by 2.4%, CHF 124 million in value) and textiles and garments (2.1% of total, increased by 6%, CHF 33 million in value).

Essential Economic Data

	2003	2004	2005	2006	2007	2008	2009	2010
GDP (USD billion)	158.5	165.8	177.3	189.1	207.1	215.2	208	224
GDP per capita (USD)	23,150	24,100	26,000	27,600	29,900	30,800	29,700	31,700
GDP growth (%)	3.2	8.6	7.1	7.0	6.4	2.3	-2.7	6.8
Inflation (%)	-2.6	-0.4	1.0	2.0	2.0	4.3	0.5	2.4
Unemployment rate (%)	7.9	6.9	5.6	4.8	4.0	3.5	5.4	4.3
Fiscal balance (% of GDP)	-3.3	-0.3	1.0	4.0	7.2	-0.3	0.8	4.1
Current account balance (% of GDP)	10.4	9.5	11.4	10.8	12.3	13.7	8.6	6.6
Reserves (in months of imports)	23.3	21.1	19.8	18.6	19.5	22.3	34.6	27.7

Sources: HKSAR Government

Bilateral trade Switzerland – Hong Kong

	Exports (CHF million)	Change %	Imports (CHF million)	Change %	Trade Balance	Total Imp./Exp.	Change %
1990	2'265	4.3%	902	-17.3%	1'363	3'166.8	-
1995	2'843	-10.0%	642	-4.3%	2'201	3'485.3	10%
2000	3'842	31.9%	895	36.3%	2'947	4'736.1	32.7%
2001	4'039	5.1%	679	-24.1%	3'360	4'718.6	-0.4%
2002	4'479	10.9%	824	21.3%	3'655	5'304	12.4%
2003	4'002	-10.7%	648	-21.3%	3'353	4'650.9	-12.3%
2004	4'073	1.8%	822	26.6%	3'251	4'894.2	5.2%
2005	4'012	-5.3 %	1'674	52.4%	2'338	5'686	16.2%
2006	4'694	17.0%	1'457	-13.0%	3'237	6'151	8.2%
2007	5'296	12.8%	1'185	-18.6%	4'111	6'481	5.4%
2008	6'219	17.1%	1'440	21.5%	4'779	7'659	17.9%
2009	5'426	-12.7%	1'104	-23.3%	4'322	6'530	-14.7%
2010	**6'534**	**20.4%**	**1'560**	**36.6%**	**4'974**	**8'094**	**24%**

Major products

	2009		2010		
	% of total	CHF million	% of total	CHF million	% Change 2009/2010
Exports					
1. Watches and clocks	40	2'168	49	3'185	47
2. Jewellery and precious stones	39	2'118	30	1'926	-9.1
3. Chemical and pharmaceutical products	7.1	384	8.2	533	39
4. Machinery	6	328	6.2	405	6.2
Imports					
1. Jewellery and precious stones	57	648	66	1'021	58
2. Watches and clocks	23	254	18	284	12
3. Machinery	12	127	8	124	-2.4
4. Textiles and garments	2.8	31	2.1	33	6

According to the Hong Kong Census and Statistics Department, Swiss exports to Hong Kong totalled US$ 6,684 million (+26%) in 2010 of which goods worth US$ 2,138 million were re-exported to other countries and notably to China. Swiss goods worth US$ 943 million (+28%) were re-exported to China via Hong Kong in 2010. Major products were watches and clocks (US$ 310 million), silver and platinum (US$ 142 million), medicaments (US$ 50 million), measuring instruments (US$ 46 million) and colouring matter (US$ 35 million).

There has been a substantial quantity of Swiss products entering China via Hong Kong in recent years from US$ 518 million in 2005, US$ 610 million in 2006, US$ 700 million in 2007, US$ 867 million in 2008, US$ 736 million in 2009 and US$ 943 million in 2010. In this regard, Swiss exporters and manufacturers may make use of Hong Kong as a known entrepôt and trade hub (which has a huge cluster of traders who are experienced in the market of China) to do business with China.

According to the Hong Kong Census and Statistics Department, Hong Kong exports to Switzerland totalled US$ 2,494 million (+33%) in 2010. Among them, products of Chinese origin worth US$ 1,298 million (+30%) were re-exported to Switzerland via Hong Kong. Major products were watches and clocks (US$ 591 million), clothing (US$ 147 million), electrical machinery (US$ 117 million), jewellery (US$ 96 million) and telecom equipment (US$ 76 million).

Outlook for Swiss exports to Hong Kong

The economy of Hong Kong staged a full recovery in 2010 and sustained strong momentum in the first quarter of 2011. Retail sales have soared strongly, reflecting buoyant local consumption and strong tourist spending. The value of retail sales increased by 21% year-on-year in the first quarter of 2011, after an increase by 18% in 2010. In the first quarter of 2011, sales of jewellery, watches and clocks, and valuable

Bilateral trade Switzerland – Hongkong, Jan – Dec 2009/2010

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan – Dec 2009	Jan – Dec 2010	in %	share (%)	Jan – Dec 2009	Jan – Dec 2010	in %	share (%)	in CHF
1	Agricultural products	851966	1873852	119,94%	0,11%	56942085	105961422	86,09%	1,62%	104.087.570
2	Energy carriers		482			118.054	81.194	-31,22%	0,00%	80.712
3	Textiles, apparel, shoes	38.246.898	37.879.047	-0,96%	2,31%	127.476.174	91.751.589	-28,02%	1,40%	53.872.542
4	Paper, paper products, printed matter	2446859	2586176	5,69%	0,16%	16399590	12587154	-23,25%	0,19%	10.000.978
5	Leather, rubber, plastics	7.688.934	8.164.998	6,19%	0,50%	56.232.017	63.819.640	13,49%	0,98%	55.654.642
6	Chemicals, pharmaceuticals	8.191.402	9.711.160	18,55%	0,59%	374.401.472	519.452.246	38,74%	7,95%	509.741.086
7	Construction materials, ceramics, glass	2050682	2611252	27,34%	0,16%	18665687	20208691	8,27%	0,31%	17.597.439
8	Metals and metal products	9.689.934	12.519.419	29,20%	0,77%	45.093.585	54.782.618	21,49%	0,84%	42.263.199
9	Machinery, apparatus, electronics	119.955.533	119.917.847	-0,03%	7,33%	316.473.314	392.354.984	23,98%	6,00%	272.437.137
10	Vehicles	4223796	2945850	-30,26%	0,18%	2281369	1378576	-39,57%	0,02%	-1.567.274
11	Precision instruments, watches, jewellery	625.942.400	908.479.675	45,14%	55,52%	2.719.409.972	4.014.068.274	47,61%	61,42%	3.105.588.599
12	Furniture, toys	6.897.579	11.165.158	61,87%	0,68%	26.198.071	21.042.937	-19,68%	0,32%	9.877.779
13	Precious metal, precious stones, gemstones	299094139	491005943	64,16%	30,01%	1647278651	1201246470	-27,08%	18,38%	710.240.527
14	Objects of art and antiques	16.378.707	27.493.649	67,86%	1,68%	19.839.655	36.182.345	82,37%	0,55%	8.688.696
	Total	**1.141.658.829**	**1.636.354.508**	**43,33%**	**100%**	**5.426.809.696**	**6.534.918.140**	**20,42%**	**100%**	**4.898.563.632**

Bilateral trade Switzerland – Hongkong, Jan – May 2010/2011

	Clas s of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan – May 2010	Jan – May 2011	in %	share (%)	Jan – May 2010	Jan – May 2011	in %	share (%)	in CHF
1	Agricultural products	704695	2567706	264,37%	0,40%	37149204	52704579	41,87%	1,80%	50.136.873
2	Energy carriers					34.555	36.358	5,22%	0,00%	36.358
3	Textiles, apparel, shoes	10598432	11134623	5,06%	1,72%	41011164	36696300	-10,52%	1,25%	25.561.677
4	Paper, paper products, printed matter	895.287	1.264.323	41,22%	0,19%	8.988.569	2.912.126	-67,60%	0,10%	1.647.803
5	Leather, rubber, plastics	2392197	4484722	87,47%	0,69%	25696436	29167115	13,51%	1,00%	24.682.393
6	Chemicals, pharmaceuticals	2.951.880	6.576.068	122,78%	1,01%	220.533.908	189.222.233	-14,20%	6,47%	182.646.165
7	Construction materials, ceramics, glass	873980	1570357	79,68%	0,24%	6585271	8304823	26,11%	0,28%	6.734.466
8	Metals and metal products	5.715.530	4.911.741	-14,06%	0,76%	21.274.071	26.910.422	26,49%	0,92%	21.998.681
9	Machinery, apparatus, electronics	47962063	40837913	-14,85%	6,30%	151180000	153142711	1,30%	5,24%	112.304.798
10	Vehicles	997.807	996.363	-0,14%	0,15%	154.157	394.469	155,89%	0,01%	-601.894
11	Precision instruments, watches, jewellery	343992931	340722791	-0,95%	52,55%	1410832351	1805672060	27,99%	61,74%	1.464.949.269
12	Furniture, toys	4.932.096	5.241.341	6,27%	0,81%	7.750.508	9.886.469	27,56%	0,34%	4.645.128
13	Precious metal, precious stones, gemstones	231795159	207505412	-10,48%	32,00%	591144697	593450798	0,39%	20,29%	385.945.386
14	Objects of art and antiques	10.286.620	20.615.721	100,41%	3,18%	13.084.871	16.332.790	24,82%	0,56%	-4.282.931
	Total	**664.098.677**	**648.429.081**	**-2,36%**	**100,00%**	**2.535.419.762**	**2.924.833.253**	**15,36%**	**100,00%**	**2.276.404.172**

Source: Federal Customs Administration gifts grew by 43% while sales of clothing and footwear also marked an increase of 23%. Sales of furniture and fixtures as well as electrical goods and photographic equipment grew by 14% and 12% respectively.

Renowned brands and luxury items from all over the world are well presented in Hong Kong. Swiss products, such as watches, jewellery, clothing, footwear, leather goods and skin care products, enjoy an excellent reputation in the market. They are not only appealing to local consumers, but also winning popularity among tourists, in particular from Mainland China (tourists from Mainland China reached 22.7 million or 63% of total visitor arrivals in 2010). Hong Kong is a window of the world to Chinese tourists who have high consuming power. Tourists from Mainland China account for about 70%–80% of sales of Swiss hi-end watches in Hong Kong. Swiss medium-priced watches with brands known to mainland consumers also perform very well in the market. In the sector of beauty products, according to a leading cosmetic retailer, tourists from Mainland China account for about 40–50% of their total sales in Hong Kong.

The growth of the Swiss exports to Hong Kong was broad based. According to the Hong Kong Census and Statistics Department, a few categories of Swiss products exporting to Hong Kong recorded a remarkable growth in 2010. It included watches and clocks (increased by 56%), jewellery (increased by 43%), travel goods and handbags (increased by 65%), medicaments (increased by 28%), pearls, precious and semi-precious stones (increased by 49%), inorganic chemicals (increased by 32%) as well as perfumery and cosmetics (increased by 34%).

The global financial crisis galvanised the HKSAR Government's thinking on economic diversification. The Task Force on Economic Challenges has identified to promote six promising industries including education services, medical services, testing and certification, environmental industries, innovation and technology as well as cultural and creative industries. Swiss equipment and know-how has an edge and a good market potential in medical services, testing and certification, environmental industries as well as innovation and technology. Furthermore, as mentioned in 1.3, there is an increasing demand for upgrading and automation in the industries in the Pearl River Delta. It will offer business opportunities for Swiss companies which can provide solutions and technology to enterprises in the region.

Trade in services

According to the Hong Kong Census and Statistics Department, Hong Kong's exports of services to Switzerland amounted to US$ 863 million (1% of total exports of services, dropped by 3.2%) in 2009. Switzerland ranked 15th largest market for Hong Kong's exports of services. It consisted of transportation services (US$ 416 million), financial services (US$ 107 million), trade-related services (US$ 199 million) and other services (US$ 104 million). Figures on travel services and insurance services were unavailable due to confidentiality of information relating to individual establishments.

Hong Kong's imports of services from Switzerland reached to US$ 344 million (0.8% of total imports of services, increased by 1.7%) in 2009. Switzerland ranked 19th largest supplier in this category. It consisted of transportation services (US$ 63 million), travel services (US$ 44 million), insurance services (US$ 27 million), financial services (US$ 42 million), trade-related services (US$ 16 million) and other services (US$ 152 million).

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Freihandelsabkommen mit Hongkong

Bundesrat und Wirtschaftsminister Johann N. Schneider-Ammann und die Minister der anderen EFTA-Staaten (Island, Liechtenstein, Norwegen) haben am 21. Juni 2011 ein umfassendes Freihandelsabkommen mit Hongkong unterzeichnet. Dies anlässlich ihres halbjährlichen Ministertreffens in Schaan, Liechtenstein.

Das Abkommen mit Hongkong deckt insbesondere den Handel mit Industrieprodukten (einschliesslich verarbeitete Landwirtschaftsprodukte), den Dienstleistungshandel, die Investitionen, den Schutz der Rechte an geistigem Eigentum sowie den Bereich Handel und Umwelt ab. Wie bei den anderen EFTA-Freihandelsabkommen werden der Handel mit landwirtschaftlichen Basisprodukten sowie die diesbezüglichen Zollkonzessionen in bilateralen Abkommen geregelt, die parallel den einzelnen EFTA-Staaten mit Hongkong ausgehandelt wurden. Neben dem Freihandelsabkommen haben die EFTA-Staaten und Hongkong auch ein Abkommen über den Handel und über Arbeitsstandards abgeschlossen. Die Abkom-

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men treten nach der Ratifikation durch die Vertragsparteien in Kraft, voraussichtlich am 1. Juni 2012.

Das Freihandelsabkommen mit Hongkong schafft einen völkerrechtlich verankerten präferenziellen und vorhersehbaren Rahmen für die Weiterentwicklung der Wirtschaftsbeziehungen mit einem wichtigen und dynamischen Wirtschaftspartner in Asien. Hongkong ist in Asien der drittwichtigste Handelspartner der Schweiz nach China und Japan. Die Schweizer Ausfuhren nach Hongkong beliefen sich 2010 auf 6,5 Milliarden Franken (hauptsächlich Uhren, Edelsteine, Edelmetalle, Schmuck und Maschinen). Die Einfuhren betrugen insgesamt 1,6 Milliarden Franken (hauptsächlich Edelsteine, Schmuck, Uhren und Maschinen). Die Schweizer Direktinvestitionen in Hongkong beliefen sich Ende 2009 auf etwa 4,5 Milliarden Franken.

Das Abkommen mit Hongkong erweitert das Netz der Freihandelsabkommen, das die Schweiz und die anderen EFTA-Staaten seit Anfang der 1990er-Jahre aufbauen. Das Ziel der Schweizer Freihandelspolitik besteht darin, ihren Wirtschaftsakteuren stabile, vorhersehbare und gegenüber den Hauptkonkurrenten möglichst hindernis- und diskriminierungsfreie Zugangsbedingungen zu wichtigen ausländischen Märkten zu verschaffen.

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Chinese New Year reception in Zurich (f.l.t.r.): Susan Horváth, Swiss-Hong Kong Business Association, Wu Xilin, Embassy of the P.R. of China, Pierre-Yves Fux, Federal Department of Foreign Affairs, Lore Buscher, Hong Kong Trade and Development Council, Stephen Kai Wong, Hong Kong Economic and Trade Affairs, of the Government of the Hong Kong Special Administrative Region, Liang Jianquan, Consulate General of the P.R. of China, Kurt Moser, Swiss-Hong Kong Business Association.

Hong Kong – Freest Economy of the World

Being the "Freest Economy of the World" as named by the US based Heritage Foundation for 17 years, Hong Kong is ranked the "World's Most Competitive Economy" together with the USA, amongst 59 selected economies, according to the World Competitiveness Yearbook 2011 released by the International Institute for Management Development (IMD) on 18 May 2011.

Other economies within the top 5 are Singapore (3rd), Sweden (4th) and Switzerland (5th).

Hong Kong ascends from the second to the first in "business efficiency", overtaking Singapore, while "government efficiency" and "economic performance" remain 1st and 4th respectively. Hong Kong also comes first in sub-factors namely international investment, public finance, business legislation, finance as well as attitudes and values.

IMD commented that a sound 'balance' between government and business efficiency can be found in Hong Kong, as in Singapore and Australia, too.

The Hong Kong Special Administrative Region Government (HKSARG) will continue to implement necessary measures to preserve and enhance Hong Kong's competitiveness. The Hong Kong Economic & Trade Office of the HKSARG based in Berlin will continue to strengthen the bilateral economic and trade ties between Hong Kong and Germany, as well as Austria, the Czech Republic, Hungary, Poland, the Slovak Republic, Slovenia and Switzerland and offer the best assistance to those interested in doing business with, and visiting Hong Kong.

(f.l.): Consul Feng Haiyang of the Chinese Embassy in Switzerland, Minister Pierre-Yves Fux, Deputy Head of Asia and Pacific of the Federal Department of Foreign Affairs; Ambassador Eric Martin, Head of Bilateral Economic Relations from the State Secretariat for Economic Affairs, and Mr Stephen Wong, Director, Hong Kong Economic and Trade Office, Berlin.

Hong Kong celebrates further strengthening of relationship with Switzerland

The Hong Kong Economic and Trade Office, Berlin (HKETO, Berlin) organized an annual reception in Bern on 7 July on the occasion of the 14th anniversary of the establishment of the Hong Kong Special Administrative Region (HKSAR).

Speaking at the reception, the Director of the HKETO, Berlin Mr Stephen Kai Wong said: "Since my office took over the promotion of bilateral trade and economic relations with Switzerland, our work in Switzerland was very fruitful, for which I am most grateful. I am particularly pleased to tell you that Hong Kong has signed a Free Trade Agreement with the Ministers of the European Free Trade Association (EFTA) states including the Federal Councillor and Head of the Federal Department of Economic Affairs, Switzerland, Mr Johann Schneider-Ammann, on 21 June 2011 in Liechtenstein. The agreement is Hong Kong's first free trade agreement with the European economies. It covers trade in services and goods as well as investment, and other trade-related issues like protection of intellectual property. "We strongly believe that the agreement will provide new incentives for enterprises in Switzerland to invest in Hong Kong."

Mr Wong took the opportunity to update the guests on recent developments in Hong Kong. "For the first time in China's five-year plans, there is a dedicated chapter on Hong Kong and Macao, demonstrating the importance the Central Government attaches to Hong Kong and underscoring the special role under "One Country, Two Systems" whereby we in Hong Kong can contribute to the nation's development. The current National 12th Five-Year Plan established the important functions and positioning of Hong Kong in the development strategy of the nation and highlighted the role of Hong Kong as China's global financial centre," he said.

Mr Wong also explained Hong Kong's important role as an international Renminbi (RMB) offshore centre. "The 12th Five-Year Plan explicitly sets out the Mainland Government's intention to develop

Hong Kong into an international financing, asset management and offshore RMB business centre. An important function of Hong Kong's offshore RMB business is to provide an efficient market and financial platform to allow the effective circulation of RMB funds. As an offshore RMB business centre, we are building up in Hong Kong a financial platform for RMB outer circulation, by promoting the use of RMB in international markets under trade accounts and non-trade accounts. We will continue to promote the development of RMB business so as to attract more overseas financial institutions and corporations to use Hong Kong's RMB financial platform for various kinds of RMB businesses," he added.

He also emphasized that "China's RMB internationalisation will give Hong Kong an excellent opportunity to grow and build influence. As RMB has become widely used outside the Mainland of China, Hong Kong continues to build on its role as China's testing ground for financial reforms, becoming the place where the use of RMB as a settlement, investment and funding currency outside Mainland China is tested."

"Over the past year, we have also made significant progress on various fronts with help from the community. The Statutory Minimum Wage, after years of discussion, finally came into legislation and implementation. The Transport Subsidy and the Community Care Fund were rolled out as new measures to alleviate poverty. The legal frameworks for selecting the Chief Executive and forming the Legislative Council in 2012 were also put in place," Mr Wong concluded.

About 100 guests joined the reception, including senior officials from the Swiss government, such as the State Secretary for Education and Research, Mauro Dell'Ambrogio; Head of Bilateral Economic Relations from the State Secretariat for Economic Affairs, Ambassador Eric Martin; and the Deputy Head of Asia and Pacific of the Federal Department of Foreign Affairs, Mr Pierre-Yves Fux. Counsellor Feng Hai Yang, representing the Chinese Ambassador in Switzerland, representatives from other embassies, and Swiss entrepreneurs also graced the event.

About Hong Kong Economic and Trade Office, Berlin

HKETO, Berlin is HKSAR Government's first overseas representative office established since Hong Kong's reunification with China in 1997. It is the official HKSAR Government representative in commercial relations and other economic and trade matters in Switzerland as well as in Austria, the Czech Republic, Germany, Hungary, Poland, the Slovak Republic, and Slovenia.

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The 110th Session of the Canton Fair

China Import and Export Fair, renowned as the "Canton Fair", is an important channel of China's foreign trade and a key window of opening up, playing a key role in promoting the development of China's foreign trade and economic communication. It is reputed as "China's No.1 Fair". The Canton Fair is hosted by Ministry of Commerce of P. R. China and People's Government of Guangdong Province and organized by China Foreign Trade Centre in Guangzhou, China in every spring and autumn. The upcoming fair in autumn will be arranged in 3 Phases, namely, Phase 1: October 15–19, Phase 2: October 23–27, Phase 3: October 31 – November 2011.

Since its establishment in 1957, the Canton Fair has enjoyed the longest history, the largest scale, the biggest buyer attendance, the broadest buyer distribution, the most complete exhibit variety, and the best business turnover for 109 sessions. The 109th session of the Canton Fair, which just concluded on May 5 2011, attracted 208'406 overseas buyers from 209 countries and regions, with an increase of 3.89% over the 108th session. The business turnover achieved at this session amounted to 36.86 billion USD, up by 5.8%.

Chinese exhibitors of the Canton Fair are credible and highly competitive. About 20'000 domestic enterprises participate in each session, which are selected from hundreds of thousands of Chinese enterprises and representing the highest industry level.

The Canton Fair is a great trade event which is comprehensive and specialized. With the advantage of

Chinese manufacturing industry and oriented by international demand, the Canton Fair shows over 150 thousand kind of Chinese and overseas products. And in each session, new products account for over 40% of the total.

International pavilion and center for overseas enterprises

Chinese government makes great efforts on balancing the import and export. Accordingly, the Canton Fair started to set up International Pavilion since the 101st session in 2007 and invited overseas enterprises to participate. With a successful operation of 9 sessions the International Pavilion has attracted more and more enterprises from Europe and USA. In the 109th session, with 10 national and regional delegations from Netherland, Turkey, India, Malaysia, Korea, Singapore, Sri Lanka, Hong Kong SAR, Macao SAR and Taiwan Province, 534 enterprises from 53 countries and regions participated in the International Pavilion, 33 more than that of the previous session.

In the 109th session, the Canton Fair Product Design and Trade Promotion Center (PDC) was newly set up. The PDC attracted 54 overseas designers and trend specialists and 38 overseas design institutes from 10 countries and regions such as Netherland, France and USA, and organized 21 activities including design display, design forum and design match making according to different categories of products in different phases of the Canton Fair. As statistics show, 800 enterprises and over 2000 people participated in match making and achieved more than 200 cooperation intention of design service. In the 110th session, the PDC will invite more high level design team from overseas, and will continue to provide a more convenient and efficient platform for interaction and cooperation between "World Design" and "Made in China".

Measures to implement IPR

Besides witnessing the development of China's foreign trade, the Canton Fair also witnesses the progress of China's protection on IPR in exhibition. The Canton Fair has always attached great importance to IPR protection, and it is the earliest exhibition that implements measures to protect IPR in China. As early as the 85th session in 1999, it set up a complaint reception center. So now it has a complete and adaptable IPR protection system. During the 109th session, a seminar about the protection of IPR in exhibition between China and Japan was organized by MOFCOM (Ministry of Commerce of the People's Republic of China) and METI (Ministry of Economy, Trade and Industry of Japan).

Services for overseas enterprises

As the organizer of the Canton Fair, China Foreign Trade Centre shoulders the responsibility of serving Chinese and overseas Enterprises and upholds the concept of "Putting People First and Customer-Oriented". Introducing service concept and system of Specialization and Marketization, the Canton Fair fosters an experienced service team and improves its exhibition service. It improves the value-added service to both buyers and exhibitors, enhances the build-up of call center, fastens the facilities upgrading and greening, rises up service level of catering, pushes forward the construction of ISO9001 quality management system and popularizes the usage of e-commerce and information technology. In addition, the Canton Fair spares no efforts in establishing tailored business and commercial services such as Overseas VIP Lounge. With improved software and hardware that provide more facilitation to exhibitors and buyers, the Canton Fair establishes a better platform for trade cooperation and communication.

Canton Fair celebrates 110th session

The exhibition scale and general arrangement of the 110th session of the Canton Fair will remain the same level as that of the 109th session. The 110th session will accommodate about 58,600 standard stands. The National Pavilion will have no changes in the arrangement of exhibition sections, i.e. there will be 50 exhibition sections under 15 product categories. The International Pavilion will emphasize on the national and regional delegations, enrichment of exhibits and enhancement of exhibition specialization.

The 110th session of the Canton Fair will be held in this October with a series of celebrations including opening ceremony, reception banquet and high-profile forum. They cordially invite friends from world industrial and commercial communities to visit, exhibit and source in the 110th session of the Canton Fair, and welcome the press to visit and cover the 110th session of the Canton Fair.

Source: China Foreign Trade Centre

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Interview with Flavia Schlegel, Executive Director swissnex China / Vice Consul General

Can you outline the mission and aims of swissnex China?

swissnex China is an initiative of the State Secretariat for Education and Research of the Federal Department for Home Affairs and the Federal Department for Foreign Affairs. Our goal is to promote Switzerland's excellence as one of the world's leading countries in the fields of higher education, research and innovation, to connect academia and business and to facilitate cooperation between the two countries. Briefly said: promote – connect – facilitate.

swissnex China's mission

promote 推广

to create and to promote awareness of Swiss excellence in science, technology, innovation and culture in China and of Chinese opportunities in Switzerland.

connect 连接

to establish a solid, long-lasting network of cooperation between scholars of both countries serving as a base for bottom-up initiatives in the future.

facilitate 协助

to facilitate Sino-Swiss cooperation, with tailor made events to assure most rewarding outcome.

swissnex China is an initiative of the Swiss State Secretariat for Education and Research (SER) of the Federal Department of Home Affairs and the Federal Department of Foreign Affairs. Similar institutions are located in Boston, San Francisco, Singapore and Bangalore.

For more information visit the website: www.swissnexchina.org

swissnex China will celebrate its third anniversary in August this year. What is your conclusion looking back at the first years?

Wow, already three years passed by (laughing). Over these last three years swissnex China has established itself as a leading institution for Sino-Swiss cooperation in science and higher education. Thanks to the excellent reputation of the Swiss academic and research institutions, as well as the excellent product "Switzerland", we were able to find promising Chinese partners to build up and widen a strong network here in China.

The majority of our sponsors and mandates are interested in long-lasting collaborations with us. I am proud to say that we have built a bridge between the two countries.

Furthermore we have realized that swissnex China cannot easily be compared one to one with the other swissnex outposts for example in the USA, due to different circumstances here in China.

What do you mean with "different circumstances in China"?

First of all, we have to work in a completely different political as well as cultural environment. By acting and bridging between the two countries we often need to find ways to combine the very different western and Chinese culture. Besides that, the business environment is very competitive and demanding here. The Chinese rhythm and business rules are different to the conventions we are used to in the western world.

Also is the political situation challenging us in our communication. As the Chinese government is controlling the internet tightly we are limited in the use of online communication. Most western social media are blocked or censured here and we are limited to the Chinese social media platforms. And in the end we are the only swissnex outpost which needs to communicate in two languages; the Chinese language is essential to address our Chinese partners and friends.

How essential do you consider collaboration between countries and their institutes in the development of innovative, knowledge-based economies?

For me this is very important since the challenges we face are global and can only be solved with joint forces. Global exchange of ideas is paramount to develop innovation. Switzerland as Europe's most innovative country has a long history of international cooperation and exchange. The high number of foreign professors and students reflects Switzerland's international approach of further developing an innovation and knowledge-based economy. Switzerland's spending on research and development as a percentage of GDP is amongst the highest within the OECD. Looking at globalization of research, development and innovation processes, the collaboration between countries and their institutes has been growing significantly within the last few years. E.g. climate change, environmental standards (by renewable energies), the fight of epidemics, have to be tackled internationally and by transparent cooperation between countries.

What do you think Switzerland has to offer its counterparts in this international exchange?

In Switzerland business and academic research are operating very closely and are worldwide strongly connected. Further, we offer excellent infrastructure, academic research and business R&D. Switzerland is one of the most competitive economies in the world, hosts various headquarters of international companies and organizations and offers a high quality schooling and higher education system. The success of this model is also shown by international innovation rankings where Switzerland regularly acts in the top five.

Can you provide details of the governmental program for Sino-Swiss research projects which is coordinated by swissnex China?

The Sino-Swiss Science and Technology Cooperation (SSSTC) program aims at encouraging and strengthening academic cooperation. The program is a Joint Venture of the Chinese and Swiss government, the Swiss Federal Institute of Technology in Zurich (ETH) functions as the leading house of the program, while swissnex China represents SSSTC in China. The program intends to foster and encourage bottom-up initiatives to build up multi-level research cooperation between institutions, research groups as well as individuals. The program has so far successfully chosen 25 joint research projects in the domains of environmental sciences, life sciences, medicine and material sciences. Further it aims at increasing the visibility of Swiss universities and research institutions in China through faculty and student exchange, as well as encouraging long term institutional cooperation between Swiss and Chinese education and research institutions.

Federal Councillor Didier Burkhalter, Head of Federal Department of Home Affairs visited China this April. What was the key outcome of this visit?

Federal Councillor Didier Burkhalter and the Chinese Minister for Science and Technology Wan Gang signed a Joint Statement to further underline the mutual interest to deepen the scientific partnership between the two countries and to continue the SSSTC program. The signing demonstrates the intention on the part of Switzerland and China to continue the gradual development of their cooperation. This is a very positive sign for the future collaboration between the two countries.

Flavia Schlegel,
Executive Director
swissnex China /
Vice Consul General

What challenges do you see for swissnex China in the upcoming years?

The fact that Switzerland is Europe's innovation leader and one of the leading countries in the world is not known to most people in China. Besides being a popular holiday destination we have to promote Switzerland's excellence in the field of science and innovation. This affects especially Chinese business and academic people. They should automatically consider Switzerland as strong alternative when they decide to work, research or study abroad.

And last but not least we need to continue establishing relations and networks, which is a long-term endeavour. The outcome of our activities can only be seen in the long-term and we need to be patient to fully see the results. A further ongoing challenge is the bridging between the two worlds while keeping a strong identity.

Overall I am very much looking forward to further sharing knowledge and strengthening the network for innovation between Switzerland and China.

www.swissnexchina.org

International Science and Technology Cooperation Award

Professor Dr Dr h. c. Folker H. Wittmann retired from his position as Professor for Building Materials at Swiss Federal Institute of Technology Zurich (ETHZ) in 2001. Half a year later, he was appointed Professor at Qingdao Technological University, China. There he presents lectures for Master and PhD students on the subjects of advanced building materials, fracture mechanics, physics of condensed matter, and durability. Professor Wittmann has also developed a research centre for durability and sustainability studies in Qingdao. A number of graduates from this research establishment are now professors in various Chinese universities. In close co-operation with colleagues at Paul Scherrer Institute in Villigen he has developed a new and powerful method to study deteriorating processes in concrete by means of neutron radiography. In addition, he established an effective network for co-operation in science and technology between Qingdao Tech and leading universities in Europe and in America.

Parallel his research and teaching, Professor Wittmann has provided consultancy on major construction projects in China, including undersea tunnels, concrete piers, and the repair of prestigious buildings.

In recognition of his achievements, Professor Wittmann received the International Science and Technology Co-operation Award from Chinese government. This is the highest prize for foreign scientists. In January 2011, he and his wife Dr Xinhua Wittmann were invited by the Minister of Chinese Science and technology to the official awarding ceremony in Beijing. The award was presented by the State President Hu Jintao and Prime Minister Wen Jiabao in the People's Hall on January 14th 2011. Professor Wittmann considers this award to be a stimulus for further and intensified engagement. The Chinese central government and the city government of Qingdao have promised substantial support of his future activities in China.

Together with Professor Wittmann four more experts were honored. Dr Klaus Töpfer, former German Minister for the Environment, Nature Conservation and Nuclear Safety received the award for his contributions to the ecological development in China. Professor Albert Börner from Max Planck Institute for Astrophysics in Munich has established a number of parallel groups in Germany and in China to research fundamental topics in theoretical physics. Roger M. Bonnet from France, Director of International Space Science Institute, was selected for his support of and close co-operation with China in space science. The fourth scientist to receive the award was Dr Zhongxue Gan from the United States, who has introduced advanced clean energy systems into China.

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President Hu Jintao congratulated Prof. Folker Wittmann to the International Science and Technology Co-operation Award, presented to him in the People's Hall in January 2011.

Switzerland Tops Global Innovation Index

Switzerland is the world's most innovative economy, followed by Sweden, Singapore, Hong Kong and Finland, according to a study. The Global Innovation Index 2011, released end of June 2011, evaluated 125 economies. Last year, Switzerland ranked fourth.

The index recognises the key role of innovation as a driver of economic growth and prosperity. Although Switzerland did not rank first in any of the individual criteria, its overall performance earned it first place.

Contributing factors included the stable political and economic conditions, very good education system, high spending on research and development, efficient infrastructure, high demands of the domestic market and the ability to channel these strengths into successful innovations.

The report is published by strategy consultants Booz & Company, the INSEAD business school, Alcatel-Lucent, the Confederation of Indian Industry and the World Intellectual Property Organization.

"Innovation is a crucial element for the competitiveness and therefore the growth possibilities of a country, a sector and an individual company," said Carlos Ammann, CEO of Booz & Company in Switzerland. "Switzerland needs to maintain this ability and develop it further in order to stay competitive despite the high labour costs and the strong franc."

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Pilot Program to Permit FDIs Using RMB

The People's Bank of China, China's central bank, announced in June 2011 that a pilot program will be launched allowing foreign direct investors (FDIs) to make investments into Mainland China in RMB. This is the first time China has issued specific rules of this kind that allow for RMB raised overseas by foreign companies to be invested back into China.

In the program, invested funds will be allowed to be used for formation of new entities, mergers and acquisitions, capital injections, increasing stakes in subsidiaries and provide loans. In addition, the trial program is also expected to further increase the number of RMB-denominated bonds, following the example of McDonald's and Caterpillars RMB-denominated bonds released earlier this year. There will be some limitations on using RMB from foreign sources to invest in certain sectors, though the central bank has not yet given further guidance on which sectors will be prohibited. In addition to the usual process for investment into China, RMB investments will be subject to final approval by the People's Bank of China on a case-by-case basis.

The purpose of the new program is two-fold. The first is that China aims to internationalize the currency and make it more tradable globally. In line with this, China has in recent years relaxed the limitations of conversion of RMB and signed swap agreements with several Southeast Asian countries. In addition China has allowed for RMB to be used for cross-border trade with Hong Kong in an effort to encourage the use of the currency abroad.

The second purpose for the pilot program is that China is hoping that the new regulations will curb speculative capital influx and open up new investment outlets for some of the capital that have been accumulating overseas. This purpose is especially important for China's central bank to better control the nation's high inflation rate as well as their overall monetary policy, which is being hindered by speculative capital.

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China's Foreign Reserves Dilemma

The agreement reached by US lawmakers and approved by the US Senate and House of Representatives to raise the debt ceiling may have eased investor concern, but China, the largest foreign holder of US debt, is still faced with the challenge of diversifying a massive foreign exchange portfolio endangered by a weakening dollar, economists said after the crucial votes in August.

US President Barack Obama announced on Sunday that Democrat and Republican leaders agreed on a plan to raise the $14.3 trillion borrowing limit and to cut an initial $1 trillion from federal government deficit spending over the next 10 years. Although China has not officially responded to Washington's latest plan to address its debt problem, analysts said that Beijing is likely to view the plan as a positive step in restoring investor confidence in the dollar and US bond market.

"The agreement is likely to avert default by Washington and it certainly is a relief for China," said Chen Daofu, director of the policy research center at the financial research institute of the State Council's Development Research Center. Japan, the second-largest holder of US debt, also welcomed the deal and said that it hoped that the US could take further steps to stabilize financial markets.

While the last-minute deal eased the immediate debt crisis in the US, some economists said that whether it will help prevent a possible downgrade of the credit rating is still in doubt.

The US economy grew by 1.3 percent in the second quarter, far lower than the expected 1.8 percent. Economists said that underlying growth has probably been flattered by the massive quantitative easing, the money-printing program launched by the Federal Reserve. "A failure for the US to return to robust growth would be bad for the global economy even if the major emerging-market countries have attained self-sustaining growth," Joseph E. Stiglitz, a Nobel laureate in economics and professor at Columbia University, warned in a recent article.

"We still cannot rule out the possibility of a downgrade of the US credit rating if Washington fails to come up with a long-term and balanced solution to address its debt problem," Chen said. "For policy-makers in Beijing seeking alternative ways to invest the massive foreign exchange reserves and to reduce its rapid accumulation remain the crucial challenges," he said.

China's foreign exchange reserves rose by a faster-than-expected 30.3 percent year-on-year by the end of June to reach $3.2 trillion. The country increased its holdings of US Treasury bonds by $7.3 billion to $1.16 trillion in May, the second straight month it increased its US debt holdings, according to the US Treasury Department.

Yu Yongding, a former adviser to the People's Bank of China, has repeatedly called on the government to reduce the holdings of US Treasury bonds and to halt future purchases as the dollar will probably continue to weaken. But some analysts said that a massive sell-off of US bonds would be financial suicide for China as it would drive down the value of its own holdings. They added that Beijing is faced with a dilemma as it has little option but to keep buying US bonds to calm jittery markets.

"China will probably seek to calm markets rather than risk startling them with a policy change," said Mark Williams, an economist at Capital Economics in a research note. "Just as Chinese officials have pledged to continue buying euro zone debt at various points recently, China is likely to react by emphasizing that the central bank will continue to buy Treasuries," he said.

Derek Scissors, research fellow in Asia Economic Policy at The Heritage Foundation, said that Beijing will probably just store money in simple bank deposits both at home and overseas until the US budget situation is resolved. "The debt standoff is first and foremost about irresponsible government not just right now but for a decade by both parties, both houses of Congress, and two presidents," he said. "Beijing is probably not buying Treasuries as intensely as it did last year."

Investment bank China International Capital Corp (CICC) on Monday warned in a report that the US economy remains a cause for concern. "The debt crisis may have a negative impact on the fiscal spending of the US government, which may drag down the US economy for the rest of the year," Hou Zhenhai, an analyst at CICC, wrote in a report.

Source: Li Jing, editor at China Daily

The New Risks of Globalisation

A new approach to country risk – An analysis by the credit insurer Euler Hermes

In an economy that is highly globalised, financially unstable and exposed to major social and political risks at a local level, the interdependency of countries changes the nature of country risk and poses new problems for businesses.

The global economy has undergone three major changes that profoundly alter the nature of country risk:

1. Increasing interdependency generates a greater cyclical risk.
2. Unequal distribution of the fruits of growth creates new socio-political risks in certain countries.
3. The persistent global financial instability creates further volatility in the mature economies.

The difficulties faced by one country have now become a problem for all, particularly in a global economy that is experiencing a slow down in growth.

A new country-risk map

Economic globalisation marks the end of a traditional approach to country risk, which is based on a purely structural analysis of the economic and political risks associated with transfers and convertibility. The process of globalisation has in fact seen both a frequent shifting of the borderlines between emerging and developed economies and a rise in economic and financial exchanges between these two categories of countries. This structural factor is itself accentuated by two additional factors: the economic and financial crisis and the heterogeneous nature of the recovery around the world, meaning that imbalances between economies are not being absorbed rapidly and are resulting in increasingly volatile risks.

To be relevant, country risk analysis must now associate the traditional structural approach (assessment of the economic and political risk) with indicators of short-term vulnerability (financial and cycli-

Jules Kappeler
CEO
Euler Hermes
Switzerland

cal). This combination ultimately leads to the definition of four categories of country risk policy (weak, average, significant, and high).

Ever-closer interdependencies that heighten cyclical risk

The scarcity of basic resources (commodities, oil, etc.) and the rise in cross-border trade increases the interdependency of countries.

Cross-border trade is increasing as a result of three factors operating in parallel: rising demand (driven by economic factors linked to the recovery, and by structural factors such as demographic changes and the catch-up effect of developing economies), the liberalisation of borders, and the extension of global supply chains. In these conditions, economic conditions in emerging nations are increasingly becoming engines of growth and of world trade, exposed to exogenous risks that are difficult to predict, as shown by the triple shock experienced by Japan.

Greater cyclical risk

The rise in interdependency has resulted in greater cyclical risk, as measured by the Cyclical Risk Indicator (CRI).

New social risk, with global consequences

As shown by the current socio-political events in the Middle East, many countries are exposed to higher risks as their populations increasingly become frustrated and more demanding.

In fact, although income per capita is rising around the world, there are variations between one country and another, and strong growth is not synonymous with high levels of job creation. The unequal distribution of growth associated with demographic and technical changes in countries with strong political regimes further increases the risk of social unrest, the consequences of which are not generally restricted to the local economy.

Financial instability that is now affecting the developed economies

Financial equilibriums remain precarious on a global scale. The volatility of capital is widespread but has a greater impact on the developed economies than on emerging nations, creating a further risk for monetary policies. The weight of sovereign debt is generating increasing requirements for external financing and the risk of a domino effect given the complex web of banking flows. Systemic financial risk is therefore a new factor to be taken into account in analysing country risk.

Greater volatility in risk aversion

The continuing financial instability on a global scale is a source of greater volatility in risk aversion, which can be measured using a Financial Flows Indicator (FFI) that reflects the vulnerability of a given country to an external shock and its ability to withstand or avoid a systemic shock, particularly in respect of its sensitivity to capital flows.

What are the threats to and challenges for the world economy?

In this context, global growth will be more moderate in 2011. Following growth of 4.1% in 2010, the world economy is expected to grow by 3.1% in 2011 and by 3.4% in 2012. A number of factors underlying the slowdown have already been identified for OECD countries (the ending of stimulus programmes, tax consolidation measures, and weak demand) and for the emerging economies (rebalancing measures, the normalisation of monetary policy, etc.).

Euler Hermes draws three conclusions for business transactions

1. Country risk is changing. It is simultaneously more complex, more volatile and more global, but remains strong.

- Complex: both emerging and developed economies need to be monitored.
- Volatile: country risk elements and factors are subject to greater volatility.
- Global: the interdependency of economies creates the risk of a knock-on effect between one country and another, in the same way as surging commodity prices.
- Strong: major natural, health and geopolitical risks are always present and could potentially affect a large number of countries.

2. Faced with this broad range of risks, businesses are now more vulnerable and must therefore exercise greater vigilance.

- Managing and monitoring these risks calls for greater attention, more resources and more time.
- The amplitude and consequences of risks are increasingly difficult to plan for and anticipate (such as the events in Japan), whether domestically or for a business sector or a supply chain.
- Businesses must therefore ensure they have the appropriate capabilities and technical resources.

3. In this context, Euler Hermes therefore advises businesses to strengthen the role of their Risk Managers.

Spotlight on country risk in South, Central and East Asia

China's economy is slowing as policy tightening efforts begin to have an effect, but growth in 2011 should still be around 9% and inflation should soon begin to moderate. Taiwan's growth was stronger than expected in the early months of 2011, a positive for President Ma Ying-jeou, who is seeking re-election in January 2012. ASEAN growth will slow to 5% in 2011 and 5.4% in 2012 (7.6% in 2010) amid policy tightening. In Thailand, Q1 growth was just 3% yr/yr and political uncertainty will continue after legislative elections called for early July. In Vietnam, the authorities are struggling to maintain external balance and satisfactory growth of GDP. In South Korea, annual growth is forecast to slow to about 4% in 2011–2012 from 6.2% in 2010. India's key economic policy directive is to moderate inflationary pressures and a tightening monetary stance is slowing growth. Nonetheless, GDP is still forecast to expand by around 8% annually in 2011–12.

About Euler Hermes

Euler Hermes is the worldwide leader in credit insurance and one of the leaders in the areas of bonding, guarantees and collections. With 6,000 + employees in over 50 countries, Euler Hermes offers a complete range of services for the management of B-to-B trade receivables and posted a consolidated turnover of € 2.15 billion in 2010.

Euler Hermes has developed a credit intelligence network that enables it to analyse the financial stability of 40 million businesses across the globe. The Group insured worldwide business transactions totalling € 633 billion exposure end of December 2010.

Euler Hermes, subsidiary of Allianz, is listed on Euronext Paris. The Group and its principal credit insurance subsidiaries are rated AA- by Standard & Poor's.

Euler Hermes Switzerland employs around 50 associates in the Zurich headquarters and the Lausanne and Lugano branch offices.

www.eulerhermes.ch

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UBS Securities – First Foreign-invested Securities Firm to Open a Trading Outlet in Hangzhou

UBS Securities Co. Ltd. opened its first trading outlet in Hangzhou on April 18th 2011 and is the first foreign invested securities firm in China with full licenses to conduct businesses including securities brokerage, securities investment consultancy, financial advisory related to securities trading and securities investment activities, securities underwriting and sponsoring, securities proprietary trading, and securities asset management.

The company was officially registered in December 2006 with a registered capital of RMB 1.49 billion. It is established through the restructuring of Beijing Securities. There are a total of six shareholders which include UBS AG (20%), Beijing Guoxiang AMC (33%), China Jianyin Investment (14.01%), COFCO (14%), SDIC (14%), and IFC (4.99%). UBS Securities has five business groups – Investment Banking, Equities, Fixed Income, Wealth Management, and Asset Management.

The opening ceremony which took place at the Europe-Asia Center of Hangzhou City was attended by David LI, Chairman and Country Head of UBS China as well as Chairman of the Board for UBS Securities Co. Ltd., and Martine TSENG, China East & South Markets Head of UBS Securities Wealth Management. Targeting high net worth clients in the Yangtze Delta region, the Hangzhou outlet augments UBS Securities' established outlets in Beijing, Shanghai, Shenzhen and Guangzhou.

Zhejiang Province contains some of the highest concentrations of entrepreneurs and private wealth in China. With in excess of 126,000 individuals with a net worth of more than ten million Yuan, it is surpassed by only Beijing, Guangdong and Shanghai in terms of private wealth in China.

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UBS in Hong Kong, Two International Finance Centre.

Hong Kong Campus of UBS Business University

UBS officially opened the Hong Kong Campus of the UBS Business University at Li Po Chun Chambers in Sheung Wan, Hong Kong on April 13th 2011. Established in response to the increasing demand for financial talent in Hong Kong and the region, the new campus will provide training for employees new to UBS and the industry as well as on-going professional development to existing staff.

Training on the campus is delivered by senior managers as well as external and internal subject experts who seek to promote leadership capabilities and improve professional skills. In an effort to ensure global and regional alignment, the Business University team is cross-regional and cross-functional and, with staff located in Hong Kong, Singapore, Tokyo, Melbourne, Beijing and Taipei, the offering is delivered locally wherever possible. The UBS Business University serves all business division for their learning and development globally.

Organised along three faculties, Leadership, Advisory, and Finance and Risk, the Business University seeks both to align training and education for UBS employees around the world and promote a culture of continuous improvement and development.

The new facility will augment existing education and conference centres in Schloss Wolfsberg and Seepark Thun in Switzerland as well as the Business University's first campus in Asia located at the historic Command House in Singapore.

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UBS Sets up Asset Management Unit in China

Swiss bank UBS said on July 28, 2011, it has set up an asset management unit in Beijing to tap China's rapidly-growing $650 billion private equity market. "China's strong economic growth has positioned the market as one of the most promising emerging markets globally and resulted in a booming domestic equity investment market," Xinyuan Ling, Chairman of the newly-established UBS Global Asset Management (China), said in a statement. The firm will help launch private equity funds, make direct primate equity investments and provide other related management and advisory services, it said.

China is hoping that the entry of foreign expertise can boost the domestic private equity market, so as to improve local corporate governance and channel more money into the private sector to aid economic growth.

Source: China Daily

Julius Baer – First Private Bank Gets Access to China's Bourses

The Swiss financial firm Julius Baer has been handed a US$100 million allocation by the Chinese authorities to invest in the Chinese stock markets in June 2011. It is the first private bank in the world to be given direct access to the Shanghai and Shenzhen bourses. Kenneth Ho, head of products, Asia-Pacific for Julius Baer, believes being able to offer such an investment opportunity to clients gives the bank an edge over its competitors. Julius Baer was awarded a qualified foreign institutional investor license by the China Banking Regulatory Commission in December, 2010.

Source: China Daily

Julius Baer Launches S$120.2m China Fund

Swiss private banking group Julius Baer said in Singapore on August 17, 2011, that it has launched a US$100 million (S$120.2 million) fund that will provide direct access to China's domestic equities market. The Julius Baer China Fund "provides exclusive access to the A-share markets, giving investors broader and more in-depth exposure to the overall Chinese economy than many China products currently available to overseas investors," the company said.

Julius Baer said it will invest based on the macroeconomic outlook and themes, and in industries which are set to benefit from China's 12th five-year plan. "A-shares provide attractive diversification benefits for investors due to their low correlation to other global markets," said Mr Kenneth Ho, head of products Asia-Pacific at Julius Baer. Mr Ho added that China's economic growth remains above-trend, despite recent tightening measures from the country's central bank, while he believes that the Chinese Yuan will further appreciate this year.

The fund was launched under China's Qualified Foreign Institutional Investor scheme. Julius Baer was awarded its licence under the scheme by China's securities regulator in December 2010 and remains the only private bank to hold such a licence.

Source: Dow Jones

Credit Suisse China Partner Plans $1 bln Shanghai IPO

Founder Securities, the Chinese partner of Credit Suisse, has set a suggested price target to raise up to 6.42 billion Yuan ($996 million) from its planned initial public offering in Shanghai, IFR, a Thomson Reuters publication reported on July 26, 2011. Founder Securities is offering up to 1.5 billion shares, or 24.6 percent of its enlarged capital. The company has set a guidance range for institutional investors during pre-marketing at 3.49-4.28 Yuan, representing a high earnings multiple of 22 to 27 times, according to IFR.

Founder Securities has appointed Citic Securities and Ping An Securities as lead underwriters and will use the IPO proceeds to replenish working capital. Founder Securities owns 66.7 percent of Credit Suisse Founder, its investment bank joint venture with Credit Suisse. Credit Suisse owns the remaining third.

Source: IFR, a Thomson Reuters publication

GroupM Knowledge – Hurun Wealth Report 2011

Hurun Report, renowned for its annual 'China Rich List', released in Shanghai in mid April 2011 the GroupM Knowledge – Hurun Wealth Report 2011, detailing the number of millionaires broken down by region across China. This is the third year of the report. The GroupM Knowledge – Hurun Wealth Report 2011 is released in association with GroupM Knowledge, the knowledge management arm of GroupM, the world's number one media investment management operation.

China has 960,000 'millionaires' with personal wealth of 10 million Yuan or more (GBP 950,000/ EUR 1.1 million/USD 1.5 million), up 85,000 individuals or 9.7% year on year. In 2009, there were 825,000 millionaires, growing last year to 875,000.

"For most luxury brands, the Chinese luxury consumer is now Number One: either representing the biggest market share or the fastest-growing," says Rupert Hoogewerf, Chairman and Chief Researcher of Hurun Report, a leading luxury business magazine in China. "The GroupM Knowledge – Hurun Wealth Report 2011 provides an insight into how wealth is spread around the country."

Lucy Zhang, Futures Director of GroupM Knowledge, says that luxury consumption will remain the main driver of consumer market growth in China in the next 5 years. The burgeoning wealthy elite and their transforming consumption pattern fuel the prosperity of luxury industry. It has never been more important to understand the real rich people here.

Rising property prices and a fast-growing GDP have been the key drivers for the growth in the number of these millionaires. Property prices in 2010 rose across the country by 13.7% according to a government report, with luxury property prices rising even faster.

Of the 960,000 millionaires, 55% derived their wealth from their private business. 20% are property speculators, who have ridden the fast hike in home prices. 15% are stock market gurus, who are also the youngest with an average age of 38. The remaining 10% are high earning salaried executives. The Chinese millionaire is born in 1972, and today is 39 years, a full fifteen years younger than their Western counterparts. 30% of the millionaires are female.

"China's millionaires are fast becoming sophisticated and aspire towards higher social status," said Rupert Hoogewerf. "Four out of five millionaires, for example, are thinking of sending their children to study overseas, with the US and UK their preferred destinations. The richer they are, the younger they seem to want to send their children overseas."

60,000 Super Rich

China has 60,000 'super rich' with 100 million Yuan or more, up 9.0% on last year. Beijing leads the way with 10,000 individuals followed by Guangdong with 9,000 and Shanghai with 7,800.

The average age of the super rich is 43 years. These super rich tend to own three properties, five luxury watches and four cars. There has been a surge of inter-

China's Millionaires

- One Person in Every 1400 in China has at least 10 Million Yuan.
- China has 960,000 'millionaires' with personal wealth of 10 million Yuan or more (GBP 950,000/EUR 1.1 million/ USD 1.5 million), up 85,000 individuals or 9.7% year on year.
- China has 60,0 00 super-rich with 100 million Yuan, up 9.0% on 2010.
- Beijing home to 170,000 millionaires.
- 42% live in Eastern China.
- 55% are business owners, 20% property speculators, 15% stock market gurus and 10% salaried executives.

For more information about the Hurun Wealth Report 2011, visit www.hurun.net

About Hurun Report Inc.

Established as a research unit in 1999 by British accountant Rupert Hoogewerf, Hurun Report Inc. has grown into a leading luxury publishing group in Shanghai, comprising a luxury monthly magazine, the Hurun Report, the Hurun Research Institute and an active business events division targeting China's entrepreneurs and high net worth individuals.

Hurun Report magazine is published monthly and reaches the households of 90'000 proven wealthy Chinese individuals and their advisers. Hurun Report Inc. also publishes Hurun Polo & Equestrian, and The Schools Guide Series.

For further information, see www.hurun.net est in drinking fine wines and collecting art, especially Chinese classical art. This year they are looking to add a holiday home, with Sanya their destination of choice.

"There is still a great deal of hidden wealth in the Chinese economy," said Rupert Hoogewerf. "We estimate there to be 4'000 Renminbi billionaires in China, with only a third making the Hurun Rich List."

Methodology

The GroupM Knowledge – Hurun Wealth Report is designed to identify the number of individuals in Mainland China with personal wealth of more than 10 million Yuan and individuals with more than 100 million Yuan, broken down across the country by region. Unlike other wealth reports, the report takes into account all private wealth, including privately-held businesses, private residences and investable assets.

The Hurun Research Institute carried out the research using both a 'bottoms-up' and 'top-down' approach. For the 'bottoms-up' approach, the Institute looked at the number of key investment and spending indicators of Mainland Chinese. These included the number of individual properties by region worth 5 million yuan and 10 million yuan, the number of luxury cars purchased in the last three years costing 500,000 yuan or more, the number of high bracket income tax payers, company registered capital, etc. For the 'top-down' approach, the Institute applied the Gini coefficient measuring income distribution to the 2010 China GDP and 2009 China GNP.

Where the Chinese Luxury Consumer Lives

	No. of millionaires*	%
Beijing	170,000	17.7%
Guangdong	157,000	16.4%
Shanghai	132,000	13.8%
Zhejiang	126,000	13.1%
Jiangsu	68,000	7.1%
Fujian	36,000	3.8%
Shandong	33,000	3.4%
Liaoning	29,000	3.0%
Sichuan	24,000	2.5%
Henan	16,500	1.7%
Others	168,500	17.6%
Total	960,000	100.0%

** Individuals in China with personal wealth of 10 million Yuan or more*

Regional Distribution

	Number of Millionaires	
East China	412,500	43.0%
North China	228,000	23.8%
South China	166,000	17.3%
North East	47,500	4.9%
West China	44,400	4.6%
Central China	43,500	4.5%
North West	18,100	1.9%
Total	960,000	100.0%

The Richest Non-Mainlanders in China 2011

Hurun Research Institute published in Shanghai in mid June 2011 the "Richest Non-Mainlanders in China 2011", a ranking of the Top Fifty richest individuals who have come from overseas to make their mainland-based fortunes. This is the first time this list has been created.

- Two Taiwanese food and beverage magnates top the list. Wei Ying-Chiao, the richest non-mainlander in China with a fortune of US$6.2 billion and Tsai Eng-Meng, worth US$5.8 billion.
- 'Golf King' David Chu is Hong Kong's richest with a US$4 billion fortune.
- Taiwanese dominate with 33 of the Top 50, followed by four from the U.S., two each from Australia, Indonesia and Denmark and one each from Brazil, Canada and the Philippines.
- 11 US$ billionaires on the list.

Today is the only time in the history of China, with the exception of Shanghai in the roaring twenties, that outsiders have been able to live and be prosperous in China. During that golden age in Shanghai, the likes of Victor Sassoon, Elly Kadoorie and Silas Hardoon, were the biggest property tycoons in the city. Victor Sassoon is perhaps most famous for owning the iconic Peace Hotel and for protecting European Jews in the Shanghai Ghetto. Elly Kadoorie initially worked for David Sassoon & Sons, going on to make his fortune in banking, rubber plantations, electric power utilities and real estate. Silas Hardoon was also employed by David Sassoon & Sons and his shrewd property investments on what is now Shanghai's Nanjing Road made him one of the cities wealthiest inhabitants.

Over the last two decades, the unprecedented success of the mainland entrepreneur has been well documented but little is known about entrepreneurs who have come from overseas to make their fortunes in the Middle Kingdom. This list is the next chapter in China's economic success story and highlights the most successful Non-Mainlanders that are currently operating on Chinese soil.

This group of individuals has been operating under the radar screens and our new list aims to unearth an

The Top Ten

Rank	Area	Name	Wealth US$m	Age	Company	Key Industries
1	Taiwan	Wei Ying-Chiao & family	6,200	56	Ting Hsin International	Soft drinks, Food, Retail, Property
2	Taiwan	Tsai Eng-Meng	5,900	54	Want Want China	Food, Soft drinks, Media, Property, Hospital
3	HK	David Chu	4,000	61	Mission Hills	Golf, Property
4	Taiwan	Roger Wang Heng	3,900	62	Golden Eagle	Property
5	Indonesia	Lin Wen mirror	3,000	82	Rong Qiao	Property
6	Indonesia	Elijah Widjaja	2,000		BundCenter	Property
7	HK	Vincent Loh	1,900	63	Shui On Group	Property
8	Taiwan	Tsai Yung lung	1,600	56	Gem-year	fasteners
9	HK	Li Sze Lim	1,500	54	R & F	Property
9	Brazil	Liu Ming Chung	1,500	49	Nine Dragons	Paper

Source: Hurun Research Institute 2011

as yet undiscovered category of wealth in China. Despite eluding the headlines, the business ventures that these entrepreneurs are behind are anything but unknown in China, from clothing brands Vero Moda and Jack&Jones to Master Kong instant noodles and Mission Hills Golf.

"Back in 1999, when I created the China Rich List, an entrepreneur told me he knew another fifty people that I had missed on my list," said Rupert Hoogewerf, Chairman and Chief Researcher of Hurun Report. "That inaugural list acted as a springboard to where we are today, with 1363 individuals on the Hurun Rich List 2010. Similarly with this, the latest exciting addition to the collection of Hurun Report lists, we also anticipate huge growth and improvement over the coming years."

The Hurun Rich List 2010 was the twelfth annual ranking of the richest individuals in China, ranking 1363 RMB billionaires (US$150 million). The Richest Non-Mainlanders List is the next logical step made by Hurun Report in its tireless quest to tell the story of making money in China.

The Top Three

'Noodle King' Wei Ying-Chiao set up shop in Tianjin in 1992 together with his three brothers, and today is responsible for the annual production of sixteen billion packs of instant noodles under the Master Kong brand. The Taiwanese brothers have a fortune of US$6.2 billion and have expanded into real estate, a fast food brand, and recently, drinks.

'Rice Cracker King' Tsai Eng-Meng ranks second on the list with US$5.8 billion. Tsai also came to China in 1992 and has grown his snack business into an empire with 60,000 employees. Almost half of his sales last year came from drinks. Tsai was among the first to own a private aircraft in China, and is based in Shanghai.

Top Hong Konger David Chu has a personal fortune of US$4 billion, on the back of Mission Hills. Whilst making most of his fortune from the sales of surrounding luxury property, Chu has built Mission Hills into the world's largest golf course with twelve 18-hole courses. Chu moved to Guangdong in the 1970's.

Summary

Taiwanis the largest source of foreign millionaires, accounting for 65% of the whole list, followed by Hong Kong. The average age of those on the list is 59 years, eight years older than the average age on the Hurun Rich List.

The Non-Mainlanders can match their mainland counterparts in terms of wealth. 43 of the 50 on the Non-Mainlander List (N-M List) would have also made it onto the Hurun Rich List 2010. The top 10 on the N-M List would make the top 100 on the Rich List and the top two would make the top ten.

The threshold of the top ten was US$1.5 billion and the average of the top 10 was US$3.2 billion.

Today there are 1,020,145 non-mainlanders currently living on the mainland, according to the latest census data collected by the National Bureau of Statistics. These are made up of 234,829 from Hong Kong, 170,283 from Taiwan, 21,201 from Macao and 593,832 foreigners, led by South Koreans 120,750, Americans 71,483, Japanese 66,159, Burmese 39,776, Vietnamese 36,205, Canadians 19,990, French 15,087, Indians 15,051, Germans 14,446 and Australians 13,286.

Industry Analysis

Eight of the top ten are involved entirely or in some capacity in the property industry and 20% of those on the list have made their fortunes in this sector. Indeed one of the key driving forces behind the explosion in the number of millionaires in China has been rising property prices together with a fast-growing GDP. Property prices in 2010 rose across the country by 13.7% according to a government report, with luxury property prices rising even faster even though the stock market during this period was stagnant.

Seven of the entrepreneurs on the list are in the food and beverage industries and six are in the textile and apparel industry.

17 of those on the list have listed companies, of which 4 are listed domestically. They include Gem-Year, Janus Dongguan Precision Components, Suzhou Lopsking and CIMIC.

Methodology

The list relates to non-mainlanders only, defined as someone based in mainland China today, but who was brought up outside the mainland. In most cases, the head office is where the boss resides. However, in some cases, such as with Chen Yung-Tai of the Aurora Group, it is difficult to determine whether his head office is still Taiwan, since he spends so much time in Shanghai.

Valuing personal wealth is as much an art as it is a science. We have missed some people, but we believe the Richest Non-Mainlanders in China 2011 List is the first serious attempt to identify those top entrepreneurs and to measure their holdings. Our dedicated team of researchers has travelled the length and breadth of the country cross-checking information with entrepreneurs, industry experts, journalists, bankers, and regulators, as well as previous years' databases.

Richest Non-Mainlanders in China 2011 is a snapshot of wealth on 30 April 2011. The exchange rate used for the Hong Kong dollar was 0.84 Yuan, US dollar was 6.5 Yuan and Taiwanese dollar was 0.22 Yuan. For non-listed companies our valuation was based on a comparison with their listed equivalents using prevailing industry Price/Earning ratios.

For more information on the Richest Non-Mainlanders in China 2011 or the Hurun Rich List see www.hurun.net

2010 Hurun Hall of Fame

Rules for Induction

Brands targeting China's rich are eligible for Hurun Best of the Best Hall of Fame induction if they have an outstanding track record at the annual Hurun Best of the Best awards in the five years prior to election, and they have maintained a distinguished record of excellence at the highest level, with consideration given to marketing campaigns, advertising, benchmarking creativity and identifying the best in branding. Voting is completed by a panel of Hurun Report experts drawn from the editorial team and outside industry experts. A 75% favourable vote is required for induction.

About the Hurun Best of the Best Hall of Fame in Shanghai, China

Established in 2009, the Hurun Best of the Best Hall of Fame is dedicated to preserving the history of the luxury industry in China, inspiring and encouraging the development of luxury brands, enshrining luxury brand heroes, while providing a landmark for luxury brands worldwide. In 2010 there were three new entrants.

Hurun Best of the Best Hall of Fame

Jewelry	Cartier
Fashion	Giorgio Armani
Watches	Rolex
Private Banking	China Merchants Bank
Private Clubs	Chang'An Club
Luxury Hotels	Shangri-La
Luxury Cars	Bentley
Mobile Phones	Nokia
Private Banking	HSBC *
Chinese Spirits	Moutai *
Cigarettes	Chunghwa *

** Elected in 2010*

Survey Methodology

Between April and November 2009, Hurun Report surveyed 383 Mainland Chinese millionaires, each with an asset of at least RMB 10 million (USD1.5 million). Among them 66 people have assets of at least RMB 100 million (USD 15 million). For the sixth year running, surveys were carried out on a one on one basis, making this the largest and most authoritative survey of its kind in China.

The survey asked respondents for their 'Preferred Brand' from an alphabetical list of brands in each category together with an 'Other' option at the end for brands not covered in the list. For the Best Overall Luxury Brand, the question was open-ended. There were no options. The winner for each category was the brand with the most votes. Results compiled by Maxshare. The Best New Arrival awards were chosen by the Hurun Report editorial and research team.

Demographics of respondents

The average age of respondents was 40 years. The geographical distribution of respondents was 28 per cent from East China, 26 per cent from North China; 16 per cent from Central China; 15 per cent from South China; 9 per cent from Northeast China and 6 per cent from other areas.

Preferred Brands of China's Richest

The latest survey released mid January 2011 by luxury business site, Hurun Report, looks at the luxury brands and places preferred by China's richest people. The 2010 Best of the Best Survey was based on the answers of 383 mainland Chinese millionaires with assets worth at least RMB10 million with 66 of those people surveyed having assets of at least RMB100 million (USD 15 million).

For the sixth year running, surveys were carried out on a one on one basis, making this the largest and most authoritative survey of its kind in China.

The average age of these high net worth individuals was 41 years, and 70% were male. The geographical distribution of respondents was 28% from East China, 26% from North China; 16% from Central China; 15% from South China; 9% from Northeast China and 6% from other areas.

Despite the proliferation of fake goods in China, it is now one of the fastest growing luxury market in the world. The World Luxury Association last year said China has already overtaken the United States as the second largest luxury market estimating that wealthy Chinese spent US$8.6 billion during the previous year.

Respondents to the survey cited Cartier, Patek Philippe and Chanel as some of their preferred watch and fashion brands. For their financial needs, China's rich turn to China Merchants Bank and HSBC. Moreover, they consider Tsinghua University's Executive MBA Program as the best in the country but also think highly of British education. More of the survey results are summarized below.

2010 Best of the Best Survey

The Hurun "Best of the Best" 2010 Awards for preferred brands of China's richest consumers were announced by Hurun Report, for sixth year renowned for its annual 'China Rich List'.

This is the 6th time since 2005 that Hurun Report has announced the annual research findings of brand awareness and preferences, consumption habits and lifestyle trends of China's highest net worth individuals.

- **Jewelry and Watches** – Cartier is number one for the fifth year running, yet again distancing itself from its rivals. Patek Philippe is the leading luxury watch brand for the second time followed at a growing distance by Vacheron Constantin, Cartier and Rolex. Patek Philippe also won the high complications category. Cartier stormed back after three years to take the best jewelry watch from Piaget.

- **Fashion** – Giorgio Armani wins the best fashion brand for the sixth year in a row followed by Boss and Versace. Boss features strongly in the fashion sector due to a strong response from Tier 2/3 Chinese millionaires.

- **Accessories** – Armani and Hermes are leaders in this category.

- **Cosmetics** – Chanel leads the Best Skincare category followed by Dior.

- **Cars** – The Bentley Continental Flying Spur wins the Best Super Luxury Car for Self-Drive category and the Rolls-Royce Phantom for Business. Mercedes-Benz S Class and Audi A8 are leaders in the Best Luxury Sedan category. For luxury SUV's the Audi Q7 has overtaken the BMW 5 Series to lead the category. Audi A6 is the clear winner in the Best Executive Car category and Porsche 911 wins the Best Super Luxury Performance Car category for a second year running.

- **Yachts and Private Jets** – There is a low understanding of yachts with less than half even having an opinion on the category. Brand recognition is very poor so there is not a lot between the big four brands: Princess, Sunseeker, Ferretti and Azimut. However over 50% said they were looking to buy a yacht in the future. Private jets also have low brand recognition and less than 1/5 of Chinese millionaires had an opinion on this category. 15% are planning to buy a jet in the future.

- **Drinks & Smokes** – Louis XIII is the king of imported spirits and also won the Best Ultra Luxury Cognac category ahead of Richard Hennessy. Moutai dominates the Chinese spirits market. Chunghwa continues to dominate the premium cigarette market.

- **Private Banking** – China Merchant's Bank has dominated two categories, the Best Bank for Onshore Personal Banking and Best Credit Card Issuing Bank. HSBC is the best foreign bank. The financial services market is becoming increasingly competitive.

- **Art Auctions** – Christies and Sotheby's have both slipped from the top for the first time, and are now led by local brands China Guardian and Beijing Poly.

- **Education** – Tsinghua University dominates the Best Executive MBA program for a fifth year. There is a clear trend for global CEO programs led by CEIBS and CKGSB. British Education won the award for Best Education Service Provider.

- **Private Clubs** – Chang'An is the Best Private Club in China, however there is a strong tendency for regional private clubs to make impact. Mission Hills Golf Club is still the number one golf club and Shanghai Sheshan Golf Club has won top spot for Best Shanghai Golf Club for the first time taking over from Tomson Golf.

- **Hotels and Spas** – Shangri-La is top of the luxury hotel brands for the sixth year running. In China the Hyatt Regency and Grand Hyatt are considered to be two separate brands, so these results count them as two brands, if they were combined then Hyatt would beat the Shangri-La as the best luxury hotel brand. Hilton is also shooting up the ranks. Banyan Tree is still top of the Best Spa brand category.

- **Air Travel** – Air China wins the best First Class/ Business Class award.

- **Media** – Sina is winner of the Best Online News category and China Business News is the Best Business Newspaper.

- **Technology** – Vertu is by far the Best Luxury Mobile brand and is in a class of its own. Nokia dominates the Best Mobile Phone category while Apple leads the Best Laptop segment.

For more information on the 2010 Best of the Best Survey see www.hurun.net

Demand for Luxury Goods Spilling over into China's 2nd and 3rd-Tier Cities

Japan is still the largest luxury goods market, but it won't be for long as the sustained influx of high-end stores continues to spread across China. According to research conducted by CLSA Asia-Pacific Markets, China is forecasted to become the world's foremost luxury goods market by 2020, with total expected sales amounting to US$100 billion, as reported by China Briefing in mid March 2011.

While high-end goods were previously concentrated in the country's major cities like Beijing and Shanghai, the desire to acquire luxury items is starting to spread throughout China, spilling over into 2nd and 3rd-tier cities. In just five years, there will be more than 60 cities boasting luxury consumption of more than 50 million RMB (US$76 million) and cities such Qingdao and Wuxi will experience three times more luxury consumption than current levels.

Over the next few years, projections estimate that the wealthy will only account for 22 percent of all purchases of luxury goods. Currently, those with annual incomes ranging from US$45,000–US$152,000 account for 45 percent of the consumption of luxury goods in China, but that percentage is expected to decrease over time. As it stands, even those with annual incomes ranging from US$5,325 to US$37,888 are spending as much as 14 percent of their household income on luxury goods.

The average household income of the Chinese middle-class nearly doubled over the past five years, and incomes across the board are slated to grow even more in the future, freeing up room to spend on non-essential items.

Recent findings by McKinsey & Company's show that about 80 percent of the individuals that buy luxury goods are under the age of 45, whereas only about half of the luxury goods consumers in the United States fit that age category. Roughly 45 percent of luxury goods consumers in China are under 35, whereas only 28 percent are in the same age bracket in Western Europe. Members of younger generations tend to be less timid in spending their incomes on luxury goods, according to research by McKinsey.

China's Commerce Minister Chen Deming recently predicted that China is to replace Japan as the world's largest market of luxury goods by the year 2015. Sales of luxury goods increased 23 percent and overseas consumption of luxury goods increased 30 percent last year, the minister said.

According to the report released by McKinsey, China will overtake Japan as the largest luxury goods market, with consumption growing 18 percent year-on-year to amount to US$27 billion in five years.

With such lucrative market, it is not surprising that foreign companies are rushing to China.

By Jennifer Park, China Briefing, Dezan Shira & Associates

China May Reduce Import Duties on Luxury Goods

While many western luxury goods retailers are trying every way to get closer to the Chinese market, numerous wealthy Chinese shoppers still rush to the West to spend their money overseas every year. The Chinese Ministry of Commerce (MoC) worries that the massive consumption outflow may impact the country's trade balance and says a reduction in import duties on luxury goods is an inevitable trend.

At an MoC press conference in June 2011, the ministry's spokesperson Yao Jian said a variety of luxury goods are being sold more expensively in the Chinese market than they are overseas. The price differences are so significant that they could impact policymakers' judgment on the current trade balance conditions. According to an MoC price survey on 20 luxury brands that produce various products including watches, suitcases, purses, clothes, wine and electronics, prices of luxury goods in Mainland China are 45 percent higher than those in Hong Kong, 51 percent than those in the United States, and 72 percent higher than those in France.

The MoC admits that while local distributers' different pricing systems may have contributed to the price divergence, the heavy tax burdens imposed on luxury goods – comprising of tariff and excise duties – have also become one of the major causes to the "price highland" in Mainland China. Yao said China's governmental departments have gained a common perception that tariffs on luxury goods should be reduced.

China's General Chamber of Commerce also believes a lower tariff and excise duty on luxury goods will be good for China, a country that is propelling its economic growth with growing domestic consumption. As it is predicted that Chinese people's annual consumption on luxury products will reach US$14.6 billion by 2012, the government should make attempts to help the domestic luxury market gain more price advantage and attract more consumers with significant consumption power.

Source: China Briefing by Dezan Shira & Associates

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Top 10 Things to Know about Doing Business in China

As one of the world's largest emerging economies, China has garnered immense interest from international investors. In an effort to help potential investors and business-minded entrepreneurs overcome the seemingly daunting information barrier on establishing and operating a business in China, let us present our list of the top 10 most important things to know about doing business in this diverse and complex market.

1. What business structure should I choose for investment in China?

Foreign investors have several choices when it comes to structuring a China enterprise, including the representative office (RO), the wholly foreign-owned enterprise (WFOE), the joint venture (JV) and the foreign-invested commercial enterprise (FICE).

Generally, the representative office can be used to get a feel for the market (but not conduct business activities), while the wholly foreign-owned enterprise (a more committed choice) allows greater freedom in business activities and more control over business operations, and is often used for manufacturing operations. A joint venture sacrifices the latter, but brings advantages of its own, including an ability to invest in otherwise restricted sectors. A foreign-invested commercial enterprise, an increasingly popular option, is a trading company, which permits the import and sale of foreign goods and services, as well as the export of Chinese products. They may also be used for franchising. When deciding between the options, you will need to address questions such as:

- What do you need to do in China now? What about a couple of years down the line?
- Do you need to hire your people on the ground and rent an office?
- Do you need to invoice locally for services or products?
- Are you getting a feel for the market or have you decided to commit to a larger scale operation?
- Are you planning to set up a trading or production-oriented entity or do you need only a representation in the country to carry out market research or liaison activities?

About Dezan Shira & Associates

Dezan Shira & Associates is a boutique professional services firm providing foreign direct investment business advisory, tax, accounting, payroll and due diligence services for multinational clients in China, Hong Kong, Vietnam and India.

For more information and advice regarding setting up and operating in any of these markets, please email info@dezshira.com or visit www.dezshira.com

2. What sectors encourage foreign investment?

The Chinese government encourages, restricts and prohibits investment by sector, according to the demands and the needs of the country and the particular time. These sectors are detailed in the Foreign Investment Catalog, the most recent version of which is 2007. In April 2011, a new draft guideline for foreign investment was released by the Legislative Affairs Office of the State Council, but has not yet been approved. However, China has become increasingly liberal in the scope of activities permitted to foreign companies, and standard import/export and manufacturing businesses wishing to sell to the China market are unlikely to face many restrictions. Most barriers are in selected industries which either require a Chinese JV partner, or are off limits altogether in key areas such as military and other sensitive areas such as oil & gas, tobacco and some drugs. Most businesses will not come across restrictions.

3. Are representative offices still a good option for me?

From January 1, 2010, ROs are no longer exempt from corporate income tax in China. A circular issued by the State Administration of Taxation on February 20, 2010 explicitly stipulates that ROs must pay corporate income tax on their taxable income, as well as sales tax and VAT, and will be required to assess CIT liability using either the cost plus method or actual revenue method. ROs must submit an annual report between March 1 and June 30 every year providing information on its legal status and standing, ongoing business activities, and payment balance audited by accounting agencies. The administrative regulations on ROs issued by the State Council that took effect in March 2011, specify that the activities that ROs are permitted to engage in include:

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- Market research, display and publicity activities that relate to company product or services; and
- Contact activities that relate to company product sales or service provision, and domestic procurement and investment.

ROs are forbidden from engaging in any profit-seeking activities except for those which China has agreed on in international agreements or treaties. As such, an RO may not directly invoice for sales or services in China and can only interact with Chinese businesses indirectly.

As of 2010, a parent company must have been in existence for two years to establish an RO. RO can still be useful for pure market research and liaison activities, but these new regulations mean that RO are no longer the cost effective vehicle they used to be, especially given their constraints regarding trading activities. Companies now would be advised to set up a FICE or a WFOE instead.

4. What can I do to protect my intellectual property rights in China?

China is a "first to file" jurisdiction, meaning the law protects the party who is successful in first registering the trademark or patented technology/design, as opposed to the party who first used it. This means that you should take action to protect your intellectual property rights as soon as possible and definitely before Chinese market entry. It is alarming how many companies do nothing to protect themselves, even though they are fully aware of the IPR related risks in China. IP protection should extend to web domains, trademarks and patents, and these should be catered for through filing in China. China is however a signatory to the various international protocols and does follow the normal filing and category procedures familiar to most foreign investors. However, copying is rife and legal action expensive. Every business plan should include caution and attention to detail in getting registrations completed.

5. What are the main guidelines for labour contracts in China?

In June 2007, China's top legislature, the National People's Congress, adopted a new labour contract law that became effective January 1, 2008. Among other key points, this law protects workers' legal rights by demanding a written contract. A written contract between the employer and employee is required; if no contract is provided then the employment relationship will commence from the employee's first day of work.

An employer who fails to provide such a contract after one month will be forced to pay the employee twice their monthly salary. The law only allows for two continuous fixed term contracts and any further contracts must be, in general, open term contracts, which make it significantly harder to fire an unsuitable employee.

In addition, the Central Government has determined to effectively double the minimum salary level in China within the next five years, meaning mandatory salary increases of about 20 percent annually. Both the new labour law and the raising of minimum salary levels are having the effect of increasing labour costs in China and making it more expensive to dismiss employees. Human resources management and administration is therefore now an important part of any medium-large size investment into China.

6. What are the mandatory additions and special circumstances of labour payments?

The company is required to pay mandatory welfare or social security payments for each employee, including pension, medical, unemployment, injury, in addition to maternity to local hires. Many cities also require mandatory housing fund contributions. These payments vary regionally, but are generally an additional 30 percent to 50 percent of monthly salary. China's new Social Insurance Law, which includes foreign employees in some of these payments, officially came into effect on July 1, 2011, but has yet to be clarified and implemented. It is important that these costs are built into the business plan as part of operational costs, it is a common mistake to omit them.

For overtime payments, the labour law states that employees must not receive less than 150 percent of their normal wage for extensions of regular working days; not less than 200 percent in extensions on days of rest; and not less than 300 percent for extension during statutory holidays. In addition, China has a relatively high level of national holidays and companies must factor in attention to detail concerning these.

7. What are some prevalent inaccurate accounting practices to be aware of?

A common method of tax avoidance rampant in (but in no way unique to) China is under-reporting accounts receivable in an attempt to hide sales to reduce taxable income. A slightly more country-specific accounting practice is multiple sets of financial accounts, which is rampant. While these multiple books are quite often used to avoid tax, they are also sometimes used to cover up other inappropriate financial behaviour within the company itself. Moreover, often the official set of accounts are prepared electronically whereas the other set is maintained manually, and accordingly, it is often very difficult or impossible to reconcile these accounts. Due to the structuring of China's tax laws and the liability window of these, local staff may commonly break the law to "assist" the company cash flow. Diligence, training and monitoring of accounts prepared by local staff need to be maintained. Fines for non-compliance can be as much as five times the original amount due plus the due amount.

8. What are the main taxes and tax rates to be concerned with?

China Tax Rates	
Corporate income tax	25 percent
Withholding tax	10 percent
Value-added tax	3 percent – 17 percent
Business tax	3 percent – 20 percent
Consumption tax	Varies widely, based on product
Stamp duty	.005 percent – .10 percent

9. How does value-added tax work in China?

All enterprises and individuals engaged in the sale of goods, provision of processing, repairs and replacement services, and import of goods within China shall pay VAT. The VAT rate for general taxpayers is generally 17 percent, or 13 percent for some goods. For taxpayers who deal in goods or provide taxable services with different tax rates, the sale amounts for the different tax rates shall be accounted for separately.

The sales threshold for small scale taxpayers is RMB500,000 (for enterprises engaged primarily in the production of goods or the provision of taxable services) and RMB800,000 (for enterprises engaged in the wholesaling or retailing of goods). Non-enterprise units and entities that normally do not engage in taxable activities are given the choice whether or not they are taxed as small-scale taxpayers while individual (natural person) taxpayers with business turnover exceeding the threshold shall continue to be taxed as small-scale taxpayers. It is important to note that for small-scale tax payers, a scheme is operational that may require them to lodge a VAT "bond" with customs prior to being granted a VAT license. If so, this amount needs to be included as part of the initial business plan. China also has an extensive VAT rebate system, applicable upon export, although not all the VAT paid may be refunded. Typical rebates also take some time to process, so attention to detail concerning operational cash flow needs is required as part of the business plan.

10. What are exchange controls like?

China has tight exchange control policies. After a foreign-invested enterprise receives its business license, it is required to conduct registration with the State Administration of Foreign Exchange (SAFE), upon which a "Foreign Exchange Registration Certificate" will be issued to the enterprise. The Certificate is required for the opening of a foreign capital bank account and when handling all foreign exchange related matters. Where the foreign investor wishes to inject additional funds into the Chinese entity when increasing its registered capital, it must also apply to the SAFE for doing so.

As for repatriating profit and dividends, the enterprise must submit receipts proving that corporate income tax payments have been made in full, an annual audit report, a board resolution on the distribution of profit and dividends, a capital verification report, and the Foreign Exchange Registration Certificate. Dividends from profits are subject to a 10 percent withholding tax. A lower withholding rate may be applicable under double tax treaties.

July 29, 2011, China Briefing
by Dezan Shira & Associates

China Issues Classification Standards for SMEs

China's Regulations on the Standards for Classification of Small and Medium-sized Enterprises (the "Regulations") were jointly promulgated by the Ministry of Industry and Information Technology, the National Bureau of Statistics, the National Development and Reform Commission, and the Ministry of Commerce on June 18, 2011 and came into effect on the same date.

The Regulations divide small and medium-sized enterprises (SMEs) into three categories: medium, small and mini. The upper limit standard for medium-sized enterprises is the lower limit standard for large-sized enterprises. Individual businesses and industries other than those specified in the Regulations are also categorized by reference to the Regulations.

Look for specific standards for different industries under: www.dezshira.com

Source: Dezan Shira & Associates

China Business: Financing Your Company

Financing your operations in China is a basic yet strategically important endeavour. The article below from China Focus provides a guide to managing and generating finance for your business.

As early as the incorporation procedure, a foreign investor has to decide on the amount of investment for the new company. Tying in with this, they have to submit a basic business plan to the Chinese authorities, who then assess if the funding is appropriate for the planned undertaking. Many investors try to commit as little registered capital as possible to limit potential losses, but this can lead to serious problems down the road when the company runs out of cash. Although, there are several ways of generating additional funds to the Wholly Foreign Owned Enterprise (WFOE), they are neither fast nor simple.

Debt/Equity Ratios

When the registered capital is determined, investors need to be aware that there is also a limit to the amount of foreign debt available. The difference between the total investment and the registered capital is referred to as the borrowing gap. The permissible debt/equity ratios are shown here:

Total Investment	Minimum Registered Capital	Maximum Amount of Foreign Debt
Up to USD 3M	70% of total investment	30% of total investment
Over USD 3M to USD 10M	50%	50%
Over USD 10M to USD 30M	40%	60%
Over USD 30M	1/3	2/3

Example: If a company estimates that it will need USD 1M to set up and to finance all expenses until it can operate from its own cash flow, it will have to inject 70% of this as equity and can only finance the remaining 30% through foreign debt. Generally, at least 20% of the registered capital has to be paid in within three months after the business license is issued, the rest can be paid in within two years.

Filling the gap

The flow of capital in and out of China is still highly restricted and closely monitored by the State Administration of Foreign Exchange (SAFE). SAFE also tightly monitors the amount of foreign debt a company has and all related transactions require approval.

- Shareholder loans are a popular method for investors to equip their subsidiaries with funds. Such transactions between a foreign parent and its Chinese WFOE are possible, but subject to approval by the State Administration of Industry in Commerce (SAIC). After this approval has been granted, the loan then needs to be registered with SAFE. The terms of the loan agreement (duration, interest rate etc.) are also subject to approval by SAFE.
  Note: Business tax and withholding tax apply to the interest payments the WFOE makes to its foreign parent.
  Shareholder loans can only be used for investment purposes and not for cash flow financing. The WFOE must open a special bank account for the loan and it has to prove that it used the money for the designated purpose after repayment. Due to the extensive paperwork required, around two months should be reserved for the process alone before the money can actually be used.

Local financing

- Inter-company loans are not allowed in China. This means that a foreign company with several WFOEs cannot move funds between those entities. To ensure efficient liquidity management between several subsidiaries in China, companies have to employ entrusted loan structures which major banks offer. In these structures the bank acts as an intermediary and allows subsidiaries of one group to pool their liquidity.
- Local loans in RMB normally do not count towards the debt restriction of a WFOE. However, in cases where a loan is hard to secure, the WFOE can produce foreign guarantee, which is a guarantee of repayment issued by a foreign entity (in most cases the parent) or foreign financial institution. This guaranteed loan does have to be registered with SAFE and then counts towards the foreign debt restriction. Additionally, bank lending in China is regulated through quotas that can result in a shortage of credit supply.
- Leasing is another possibility for a WFOE to obtain financing. The Chinese market for financial leasing has evolved in the recent years and more and more companies (some of them foreign invested) offer leasing services. These companies are often trustworthy subsidiaries of large institutions as they

require a large amount of registered capital to set up. Due to its nature of being bound to the leased asset, leasing is a good alternative to classic bank loans to finance investments into fixed assets.

Increasing your total investment

At a certain point a WFOE might find itself in a position where it requires additional investments, perhaps to support further growth or to restructure. When existing funds and borrowing possibilities run out, the WFOE has to increase its total investment and this requires a substantial amount of administrative effort and time. The WFOE has to prepare a number of documents (e.g. updated Feasibility Study and Articles of Association) and change existing certificates.

The additional registered capital that is paid in can only be used after an independent auditor has done a capital verification audit. The whole process usually takes around two to three months to complete. Along with the added equity also comes new borrowing possibilities corresponding to the permissible debt/equity ratios laid out earlier.

Manage your money

Here are some key checks you should be doing:

- Determine a realistic financial plan first to prevent major headaches later on;
- Consider all startup costs, deposits and fees you have to pay;
- Account for time lags, such as receiving refunds on import duties and VAT paid;
- Carefully monitor your cash flow to detect possible shortages early on.

In short, there are numerous ways to fund your WFOE; they just cannot be realised overnight.

Source: China Focus by Fiducia Management Consultants
www.fiducia-china.com

For further advice on company financing, please email contact@fiducia-china.com

Supplier Fraud – Minimise Sourcing Risk

As spring and fall are peak seasons for trade fairs in China, the article below, first published by the China Sourcing Information Center (CSIC), offers some expert advice on the importance of due diligence following Alibaba's disclosure of supplier fraud.

Sourcing experts are strongly emphasising the need for even the most experienced buyers to ensure effective evaluation measures when selecting suppliers in China – particularly when sourcing online. This follows the abrupt departure of Alibaba's top two executives after their disclosure that sales staff "intentionally or negligently" allowed fraudsters to set up more than 2'300 verified store fronts. "With the information coming out about the resignation of the CEO and COO of Alibaba, the online sourcing world should have just become a little better informed," said David Dayton, Editor-in-chief of the CSIC's monthly magazine China Sourcer. According to Dayton, the bare-bones online sourcing experience should look something like this:

- Search only for suppliers that have been verified by a third party outside of the website that hosts the information.
- Pay for background information and document confirmation for any potential supplier before you make any commitments or pay a deposit.
- Include in contracts with your supplier mandatory third-party quality check (3PQC) visits during production and before the balance of payment is made at the completion of the project.
- Have a third-party testing company test your products to confirm quality and components.
- Confirm and verify container loading information to see that what you have ordered, tested and checked is indeed what you are being shipped.

Performing these checks will be less than the cost of losing a 30% deposit, and takes less time than finding a completely new supplier and starting all over again. CSIC's Chair Mike Bellamy noted that most of the Alibaba scams happened to buyers who bought US$ 1'200 or less of high-demand electronics at low prices. "Unfortunately, because they may be on a tight budget, many small buyers do not utilise third-party quality check to check the quality of the goods before final payment is made. In summary, pray for the best but plan for the worst. Do your due diligence when selecting a supplier and tie payments to delivery."

This is a shortened version, the full article is available on
www.fiducia-china.com
or visit
www.chinasourcinginfo.org

China's New Social Insurance Law

Effects on Foreign Employees and Employers

China's new Social Insurance Law (SIL) – which just took effect on July 1 – has attracted more attention than ever from foreigners living in China because of the provision set out in Article 97 which has been frequently translated into English in the following manner: "Expatriates working in China may participate in social insurance schemes in accordance with this law."

While China has already issued a document specifically clarifying foreign employees' participation in the country's social welfare system, it still has not made it 100 percent clear specifically which types of foreign individuals will be included in the scheme, and precisely how the new law will impact their paychecks and welfare. In his recent presentation, Adam Livermore, regional manager at Dezan Shira & Associates, introduced China's social welfare system in detail at an event held by Servcorp in Beijing and cast a light on the new law's potential effect on foreign employees.

Introduction of China's social welfare system

China's social insurance system is comprised of pension, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance. The table below offers a general range of SIL contribution rates across the country and should help foreigners (and their employers) in China figure out how much more they may need to pay once they are involved in the country's social welfare system. It is important to note that foreigners in every city should learn the actual contribution rates applicable in their area, since the rates can vary considerably by region.

However, for a foreign individual who earns a salary three times higher than the average social salary in his/her city, the amount the individual and the individual's employer needs to contribute is:

- Employer/employee contribution rates to mandatory benefit = three times the city's average monthly social salary × the applicable contribution rates. For example, the social average monthly salary for Beijing is currently RMB 4,201, so the maximum amount of salary that employers/employees will have to account for in terms of social welfare contributions is RMB 12,604. Please note that this figure will also vary across regions.

The clarification and confusion arising from "The Interim Measures for the Participation in Social Insurance of Foreigners Employed in China".

Having realized that the administration of foreign employees within China's social welfare system may be more complex than for Chinese citizens, the central government issued a document entitled "The Interim Measures for the Participation in Social Insurance of Foreigners Employed in China (Draft for Comments)" on June 10 in an attempt to clarify issues related to the pension refund as well as the compliance to international social insurance treaties. It explicitly states that:

- Expatriates are required to participate in the Chinese social insurance system and pay the social insurance premiums in accordance with relevant regulations.
- Where a foreigner departs China prior to the stipulated age for receiving pension, his/her individual account will be retained. If the foreigner re-enters China for employment, the contribution period can be calculated cumulatively.
- Upon written application by the foreigner, the social insurance agency may pay the foreigner the amount in his/her individual account in one lump sum and terminate the basic pension relationship.
- Upon the foreigner's death, the amount remaining in the individual pension insurance account can be inherited.
- For foreigners who are nationals of countries that have entered bilateral or multilateral treaties relating to social insurance with China, his or her social insurance participation will be handled in accordance with such treaties.

National Range of SIL Contribution Rates (% of monthly salary)

	Pension	Medical	Unemployment	Maternity	Work-related injury
Employer	12-22	5-12	0.2-2	0.5-1	0.5-2
Employee	8	2	Less than 1	0	0

However, in his presentation, Livermore pointed out there is still confusion regarding the new document that may need further legal explanation from the government.

First of all, it is not clear who exactly will be included in the program. Livermore believes foreigners employed by Chinese entities (including representative offices) holding work permits will most likely be included, and foreigners employed by overseas entities but staying over 183 days in China during a year may also be required to participate in the scheme. Citizens of countries with bilateral agreements in place (currently Germany and South Korea) may be partially exempted if they can prove they are making contributions in their home country.

Secondly, it remains unknown when foreigners' participation in the scheme will actually be implemented and whether implementation in different cities will vary. Since the new SIL already became effective on July 1, there is a possibility that foreigners' contributions may be backdated at a later date to July 2011. However, some experts speculate that actual implementation will likely commence from 2012, as backdated contributions may add complications to effective administration of the system.

Thirdly, experts are still wondering whether foreigners will need to contribute to all the five social insurance items. According to Livermore' presentation, it is likely that foreigners will at least be subject to pension and medical insurance contributions, the two most important components of China's social insurance system.

Based on such speculation, questions arise concerning how exactly foreigners can claim their pension contribution back when they plan to leave China and whether they can actually benefit from their contributions. For example, no regulations so far have clarified the precise procedures to redeem pension as a lump-sum or the proportion of pension foreigners will finally obtain. In addition, if a foreigner has worked in China for 15 years and is eligible to claim his/her own pension, there is no clear guidance yet that shows the individual how to collect it.

Since the quality of medical services covered by medical insurance is one of the major concerns of most foreigners living in China, it is also essential that future regulations clarify whether foreigners' contributions to medical insurance will at least partly cover the cost incurred from using international clinics.

While foreigners may also be forced to contribute to work-related injury insurance, maternity insurance and unemployment insurance, further explanations may be needed from the government to justify the contributions. For example, will practices of maternity insurance be consistent between Chinese nationals and foreigners under the current regulations that do not restrict foreigners to the one-child policy? How do foreigners out of employment benefit from unemployment insurance when they are not legally allowed to stay in the country if not employed?

The "Interim Measures" document is only a draft so far and it remains unclear whether or how the Chinese authorities will adjust the implementation details based on different social voices. However, from the perspective of foreign employees, it is critical that the new regulations be made fair and transparent enough to allow them to benefit from the welfare system in proportion to their contributions.

The bright side

While many foreign employees in China may worry about losing more money out of their paychecks to the social welfare system, they may also want to look on the bright side.

First of all, if the pension contributions – the largest portion of the individual contribution – can be redeemed tax-free, foreigners may effectively end up paying slightly less individual income tax.

Secondly, more bilateral treaties may be put in place once all the related regulations are officially released, and that will allow citizens of more countries to enjoy conditional exemptions from the social mandatory system.

Third, compared to other countries, caps on contributions in China are still relatively low.

It is also hoped that, in the long term, foreigner participation in the Chinese social welfare system will drive the various state insurance systems – particularly the medical insurance system – to function more effectively, so an increasingly robust and transparent system will offer more benefits to both Chinese nationals and foreigners.

Source: China Briefing by Dezan Shira & Associates

Dezan Shira & Associates is a boutique professional services firm providing foreign direct investment business advisory, tax, accounting, payroll and due diligence services for multinational clients in China, Hong Kong, Vietnam and India. For further information and clarification on China's new Social Insurance Law, please email info@dezshira.com or visit the firm at www.dezshira.com

International Assignments to China

A Challenge for Employers and Employees

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The challenges of international assignments are very diverse and include personal, legal and economic aspects, from overseas health insurance to cultural training and work visas. For the employer, many of the factors that need to be taken into account become routine with the increasing number of assigned staff. For the employee, who often goes abroad for the first time on behalf of his company, those aspects represent hurdles to be overcome. Some challenges also await the experienced employer with international assignees. This article addresses these issues in the first part. In the second part it outlines the most important tax aspects for the employee.

Challenges for the employer

The tasks that an employer has to deal with depend decisively on the following question: are there any planned assignments of its workforce to China or business trips or project activities that could lead to tax liabilities due to periods unexpectedly exceeding those allowed?

Tasks for business trips and short-term assignments

Business activities in a guest country, which become ever more complex, can make project-related short-term assignments and business trips to China to a standard in many firms. This entails substantial tax and legal risks.

According to Chinese national law, an employee becomes tax liable in China and the employer must pay taxes if the employee stays more than 90 days per calendar year in China (provided that the wages are not borne by a Chinese subsidiary, in which case the employee is tax liable in China from day one). The employer should therefore ensure that staff who work continuously or repeatedly in China do not exceed the 90-day limit, insofar as a Chinese individual income tax liability should be avoided.

In relation to Switzerland the 90-day limit has been extended to 183 days per calendar year on the basis of the current double tax treaty. However, the wages in case of a period exceeding the 90-day limit for a stay or for several stays of up to 183 days in China are only tax exempt after approval by the Chinese authorities (application or registration procedure). In such a case the employer needs to initiate the procedure.

The double tax treaty with China includes a passage differing from the usual Swiss double tax treaties which defines permanent establishments related in particular to services. This means that companies that are not resident in China and whose employees are assigned for projects there can trigger a permanent establishment of the Swiss company in China with a respective corporate income tax liability.

For construction firms there is a special method to count the six-month limit: the activity of individual (different) employees who remain on a construction site in China for a few days within the six-month period can together generate a permanent establishment, whereby the respective corporate income tax liability arises in China. The employees themselves become income tax liable from the first day of their activity in China since their wages are borne by the emerging permanent establishment. The Swiss company therefore has to monitor travel in order to prevent the creation of a permanent establishment.

Tasks for international assignments to China

Challenges associated with assignments range from the optimisation of assigning conditions with regard to the legal framework to the administration of assigning procedures and the successful reintegration of staff in the home organisation. The following sections offer an overview of the different work, social insurance and tax law aspects.

Labour legislation provides assigning companies with several possible arrangements that can be adapted to individual cases with respect to cost considerations, assignment duration and continuance in the Swiss social insurance system (among which a dormant home work contract plus an international assignment agreement or a local employment contract in China).

Since the end of 2009 Chinese tax authorities have watched the constellation “international assignment agreement” particularly closely. The background: The Chinese authorities now control in detail whether there is a “genuine” assignment to China or whether the employee possibly generates a services-related permanent establishment. Accordingly companies should ensure with this chosen alternative that the international assignment contract contains clear rules regarding issues such as authority over the employee or the reporting line (both must be tied to the Chinese host company to avoid the creation of a permanent establishment). Discussions with the authorities can only be minimised that way.

The employer must continue to conform to social insurance legislation: The employer has to inform the employee of possible social insurance consequences of the assignment to China, whereby it should be stressed that there is no social insurance treaty between China and Switzerland, which is why it may come to double contribution liability and undesirable insurance gaps.

Employees should especially take heed of Chinese developments as to other insurance aspects (e.g. illness, care and accident insurance). Until now it was not compulsory and partly not possible for foreign nationals to take part in the local Chinese insurance systems so that whenever possible additional voluntary coverage in Switzerland was duly recommended. A number of changes will now apply with the centralised Chinese social insurance law that came into force on 1 July 2011.

A practical challenge for the employer arises above all from the already mentioned intensified control by the Chinese authorities of whether a services-related permanent establishment is created by the assignment of the employee.

If a local employment contract with the employee is not possible, a detailed documentation of the affiliation with the Chinese host company is increasingly important to avoid a services-related permanent establishment from coming into being.

Other aspects

- Other costs associated with the assignment of employees must be in line with standard internal transfer pricing principles.
- In case of a (voluntary) application of the 2006 Chinese accounting standards management compensation (in total) must be presented in the financial statements.

Challenges for employees

An international assignment to China promises professional and personal advancement for any Swiss employee. On the other hand, it entails many unknowns and imponderables, for which the employee imperatively needs his employer's support. The following section provides some insights into the characteristics of the Chinese income tax system, which fortunately is less complicated than might be expected.

Main features of income taxation in China

Each month a wage tax (a tax at source on wages) is levied at employer level in China. In addition the employee in China must submit as a rule a Chinese annual tax return. In principle the employee is tax liable to the extent of his activities in China. An employee only becomes fully tax liable, i.e., on his entire world income, if he stays in China for five consecutive full years. This consequence is generally undesirable, also because of the significant administrative burden involved, which is why most long-term assigned employees in China take a "tax break".

The Chinese income tax system can be described as a "lean" tax system in that it includes few options to claim special deductions or scales: for instance the common tax assessment of both spouses is not possible. However, there is a general deduction of 4,800 renminbi (approx. CHF 650) a month; some private living expenses such as apartment rent and restaurant costs are also deductible to a certain extent for employees on international assignment to China. The progressive tax rate lies between 5% and 45% (the maximum tax rate applies for a monthly income in excess of 100,000 renminbi, i.e., approx. CHF 13,000).

Assigned workers in the focus of tax authorities

As the salary for internationally assigned employees generally remains at home country level and is in most cases enhanced with expatriate allowances, Swiss workers in China are automatically high-income earners, who include by definition employees with an annual income in excess of 120,000 renminbi (approx. CHF 16,000).

Starting in June of last year the Chinese tax authorities have put these high-income earners in the focus of their assessment practices with Guoshuifa (circular) 54. Its key element is cooperation between the different Chinese authorities. This has consequences!

For instance the administration reverts to information of the Ministry of Public Security to determine the days of residence and travel of the persons concerned.

This circular has already led to an increase of tax inspections for executives in particular in the agglomerations of Beijing, Shanghai and Guangzhou.

Risk of double taxation

The following constellation, by way of example, can lead to double taxation: An employee is assigned to China as an engineer for one year. His family stays in Switzerland. During his assignment the employee is partly in Switzerland to carry out his work.

Due to family circumstances the employee is still considered as a resident of Switzerland according to the double tax treaty provisions between Switzerland and China (article 4 paragraph 2 letter a). Swiss workdays are therefore taxable in Switzerland. On the other hand the assigned employee's activity during the duration of his assignment in China is taxable in its entirety in China according to Chinese national law. This includes the salary related to the Swiss workdays. China only taxes the workdays actually spent in China in special justified cases – such as in the presence of a split contract. For such solutions it is imperative to clarify the social insurance consequences in individual cases.

Conclusion

The challenges associated with international assignments are various and can highly differ depending of the type of assignment. In view of optimising tax and social insurance consequences it is usually indispensable to consider the case-related specifics. Even for companies that often assign workers abroad, ongoing monitoring during an assignment in China is essential in order to avoid unnecessary costs.

This is an article from the Tax in China Newsletter published by PricewaterhouseCoopers. The full publication is available on the website of the Swiss-Chinese Chamber of Commerce www.sccc.ch

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European vs Chinese Interim Managers Deployed in China

The task remains the same, but European Interim Managers are different from their colleagues in China

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Studying the successful interim management mandates in China, Brainforce, the leading interim management provider based in Switzerland with wholly owned foreign enterprise (WOFE) status in Shanghai, noticed that nearly all of the interim managers Brainfore deployed had a previous experience as entrepreneurs and exhibit the key characteristics of successful entrepreneurs. Self-awareness and self-confidence, powers of judgment, persistence and perseverance as well as a realistic business sense are common characteristics based on the research done by Brainforce. The differences European and Chinese Interim Management appear only in the second look.

In particular, the four key characteristics of successful interim management mandates observed by Brainforce in China can be described as following:

- **Self-awareness and self-confidence:** The interim managers all have a very clear and thorough view about themselves. They are well aware of their strengths and weakness and can realistically assess what kind of tasks and objectives they can achieve.

- **Power of judgment:** They can quickly determine the key problems in an unclear business situation. They dare to address sensitive issues which maybe the cause of a problem even though they are doing it in a diplomatic way.

- **Persistence / Perseverance:** When the interim manager enters a real life business situation, he or she could meet with some open or hidden opposition especially from those internal managers who do not like transparency in their activities. The interim manager can face a dilemma. How to achieve results under such challenging circumstances? How to obtain the necessary support from those resisting peers or subordinates? With their strong perseverance, creative mind and social competency they manage to achieve the expected results.

- **Business sense:** A key characteristics to distinguish interim managers from regular professional managers is their above average business sense. It is this sense that usually gains the trust from the existing management team most and propels operational results.

It is obvious that differences exist between the European best practice in interim management and the equivalent in China. In detail, this means the following:

Acknowledgement of Interim Management Concept

European Interim Managers: Last but not least due to the pioneer work of Brainforce in the German speaking part of Europe in the 1980s and 1990s, European Interim Managers have developed a new market niche in providing effective managerial solutions to companies. A new breed of managers has developed, those who enjoy being independent and want to choose the work they do; those who need challenge after challenge and the repeated feeling of successfully having mastered challenges. The concept is today widely accepted in Europe and other modern economies. For this reason, a substantial part of the China interim manager pool consists of Europeans, especially Germans who have settled down in China.

Chinese Interim Managers: There are still few qualified and experienced managers who dare to work in this interim management way, mostly because of financial considerations and traditional living and working style. In many cases it may be the family. For example, the wife who does not appreciate if her husband does not bring a steady income home when he works as a self-employed interim manager. Experienced Chinese managers who already achieved a financial cushion are in their late 50s in age. This class of managers maybe still influenced by the communist management style and their English language skills are often limited. These reasons obviously limit the number of prospective Chinese managers. Nevertheless, there is an increasing number of managers in their mid/end thirties or early fourties who are adventurous, entrepreneurial and become interim managers, or at least try it out for a couple of years.

Client preferences depending on the function

European Interim Managers: An European company can easily accept an European Interim-CEO or Interim-CFO, but not necessarily a Chinese Interim Manager in a first stage. The main reason is the perception of differences in business ethics and sense for quality, and therefore, some lack of trust. The second reason is the language. Traditional German SMEs sometimes still prefer to be able to speak in German in China and therefore prefer an European expatriate manager.

Chinese Interim Managers: Marketing, Sales, Supply Chain Management, and heading factory operations are particularly functions seeked for by Chinese Interim Managers. The main reason for European companies to put in place a Chinese Interim Manager is the Chinese language, the fact that they know China in every aspect and the way of doing business in China. Another important reason is their network ("guangxi") in China which is still very strong even in modern China, and which they can leverage in their business activity.

The client's cost considerations

European Interim Managers: They normally quote themselves referring to the European benchmark for interim managers. However, the gap to local manag-

ers is still very substantial so that more and more European SMEs prefer a local solution. For Chinese clients this issue is even more important. European daily rates usually exceed their expectations by far even though interim management services and the regular employment status cannot be compared at all. An Interim Manager adds on short notice substantially more value to a company than a regular employee due to superior experience and a healthy over-qualification.

Chinese Interim Managers: They are more flexible in their pricing and adaptive to the financial situation of individual clients. Therefore, their daily rates are substantially lower than their European interim manager colleagues; for them it is still an attractive jump in financial compensation compared with the salary of normal long-term employment. However, as inflation has picked up substantially in China, and a strong upward pressure on salaries have been observed in the last 12 months, the labor cost in China is becoming more and more a substantial cost factor, and in consequence are also driving up the daily rates for local Chinese interim managers.

By Martin Schneider, CEO and President of Brainforce, Zurich, and Frances Yao, General Manager of Brainforce (Shanghai) Co., Ltd.

Brainforce is available for further information or discussion and presentation of the mentioned characteristics above. See also the web content provided by Brainforce on www.brainforce-ag.com or www.brainforceblog.com. Brainforce Interim Management can be followed on internet, Facebook as well as Twitter.

Sieben Trends auf dem chinesischen Arbeitsmarkt

Dr. Karl Waldkirch
Founder, Chairman
& CEO
ASC Group

Chinas Wirtschaft hat Ende der 70er Jahre die Kommandowirtschaft nach russischem Vorbild hinter sich gelassen. Ein wohl einzigartiger Transformationsprozess setzte ein: Marktmechanismen traten an die Stelle der Planwirtschaft. Für den Arbeitsmarkt hatte dies unmittelbare Konsequenzen: Die Arbeit heute wird nicht im Sinne des Planes in der staatlichen Allokation zugeteilt, d. h., der Arbeitsplatz in einem bestimmten Unternehmen ist nicht vor dem Studienbeginn festgelegt, sondern die chinesischen Studenten müssen sich nach ihren Examina bei Unternehmen frei bewerben.

Diese zunehmende Arbeitsmarktderegulierung ging einher mit Chinas Öffnung.

Diese ermöglicht seit dem Jahre 1979 bis heute den Zufluss von Auslandskapital. Die Marktbarrieren für Investitionen wurden im Zuge des Beitritts Chinas zur Welthandelsorganisation (2001) weiter gesenkt. Das von Auslandsinvestoren bevorzugte Geschäftsmodell des 100%igen ausländischen Tochterunternehmens durfte in fast allen Branchen gegründet werden, ohne Gemeinschaftsunternehmen mit chinesischen Partnern eingehen zu müssen.

Aufgrund dieser weitreichenden Öffnung für Auslandsinvestoren ist der größte Markt mit dem immensen Potential gerade auch für deutsche Unternehmen hoch attraktiv: Deutschland ist unten den Staaten der Europäischen Gemeinschaft (EU) bereits der bedeutendste Investor und Chinas wichtigster Handelspartner innerhalb der EU.

Von den Auslandsunternehmen geht ein nachhaltiger Nachfrageimpuls nach Beschäftigung aus. Im Jahr 2010 arbeiteten mehr als 35 Millionen Arbeitnehmer in bereits wirtschaftlich tätigen Auslandsunternehmen in China. Aufgrund der starken westlichen Investitionstätigkeit wuchs allein im Zeitraum von fünf Jahren die Beschäftigtenzahl um über 40 %. Nachstehende Zukunftstrends zeichnen sich für den chinesischen Arbeitsmarkt bereits heute ab.

1. Chinesische Privatunternehmen – die größten Konkurrenten für Auslandsunternehmen

Noch in den 80er Jahren waren die Hauptressourcen zur Gewinnung von Arbeitskräften für die Gründung von Gemeinschaftsunternehmen die bestehenden Staatsbetriebe, deren Belegschaft in das zu gründende Gemeinschaftsunternehmen eingebracht wurde. In den 90er Jahren dominierte eine andere Wanderbewegung: Der Arbeitsplatz in einem 100%igen Tochterunternehmen übte eine große Anziehungskraft auf einen chinesischen Leistungsträger aus, der bislang in einem Gemeinschaftsunternehmen beschäftigt war. Im Zuge der Wirtschaftsreformen ließ die chinesische Führungsspitze die privatwirtschaftliche Betätigung zu. Zunehmende Bedeutung erlangten gerade in den letzten Jahren die chinesischen Privatunternehmen im Industriesektor. Auch die Arbeitsmarktströme entwickelten sich dorthin.

Noch in diesem Jahrzehnt wird eine Wanderbewegung auf dem Arbeitsmarkt einsetzen, die ihresgleichen sucht. Bereits im letzten Jahr erwirtschafteten chinesische Privatunternehmen einen Exportanteil in Höhe von über 25 %. Mit steigender Wirtschaftskraft und der Anpassung an westliche Qualitätsstandards werden diese Privatunternehmen für die Auslandsunternehmen zum größten Wettbewerber um geeignete Mitarbeiter in den nächsten zwei Jahrzehnten. Für die Auslandsinvestoren stellt die Mitarbeiterbindung die größte Herausforderung für die Personalarbeit dar: Dem Strom der Job-Hopper mit geeigneten Instrumenten entgegenzuwirken. Die zu entsendenden Führungskräfte müssen auf die chinesischen Leistungsträger hinsichtlich Führungsverhalten etc. besser vorbereitet werden. Eine zeitnahe Früherkennung loyaler Leistungsträger muss stattfinden, um geeignete Mitarbeiterbindungsprogramme erfolgreich umsetzen zu können.

Monatsmindestlöhne ausgewählter Provinzen in RMB

Provinz	Lohnhöhe
Shanghai	1120
Zhejiang	1100
Guangdong	1030
Beijing	960
Jiangsu	960
Xinjiang	960
Tibet	950
Tianjin	920
Shandong	920
Hebei	900
Innere Mongolei	900
Liaoning	900
Fujian	900
Hubei	900

Stand: 28.02.2011;
Quelle: ASC Data Research 2011

2. Zweistellige Lohnkostenerhöhungen in den nächsten 5 Jahren

Im zweiten Halbjahr 2010 sind die Mindestlöhne in China sehr stark angestiegen. Seitens der chinesischen Regierung wurden für das erste Halbjahr dieses Jahres weitere Mindestlohnerhöhungen chinaweit bis 2015 um jährlich 20 % in Aussicht gestellt.

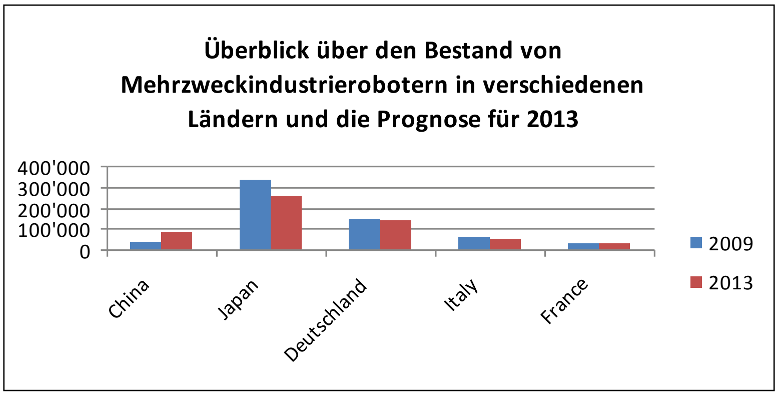
Das am 28. Oktober letzten Jahres von der VR China verabschiedete Sozialversicherungsgesetz sieht zum ersten Mal auch Pflichtabgaben von Ausländern in das chinesische soziale Netz vor. Ob dieses Gesetz auch für Expatriates obligatorisch wird, bleibt bis zu seinem In-Kraft-Treten (01.07.2011) offen. Durch diese Gleichstellung mit den chinesischen Arbeitnehmern und Arbeitgebern erhöhen sich die Lohnkosten. Dies soll folgendes Beispiel erläutern: Ein ausländischer Mitarbeiter erhält in Shanghai ein Monatsgehalt in Höhe von RMB 10.698. Durch die Pflichtabgaben in die chinesische Sozialversicherung erhöhen sich die Lohnkosten um rund 48 % auf RMB 15.833,16, davon werden vom Arbeitgeber RMB 3958,26 und vom Arbeitnehmer RMB 1176,9 monatlich getragen.

3. Produktionsverlagerung arbeitsintensiver Prozesse und erhöhte Automatisation

Arbeitsintensive Prozesse sind in China nicht mehr konkurrenzfähig. Diese Fertigungsprozesse müssen beispielsweise nach Thailand, Vietnam, Bangladesch oder an andere kostengünstige Standorte verlagert werden. Durch die steigenden Lohnkosten wird in den Fertigungen im „Reich der Mitte“ zunehmend der Automatisationsgrad erhöht. Am Bestand an Mehrzweckrobotern ist zu ersehen, dass der Einsatz in China in den nächsten Jahren erhöht wird, während sich die Bestände beispielsweise auf den Märkten in Japan, Deutschland, Italien und Frankreich reduzieren.

4. Starke Verknappung an Facharbeitern und an lokalen Managern

In den industriellen Schwerpunktregionen Chinas liegt die Teuerungsrate i. d. R. mindestens doppelt so hoch wie der statistisch ausgewiesene Durchschnittswert. Dies trägt dazu bei, dass sich die Angebotslücke im Blue Collar-Segment des Arbeitsmarktes vergrößert. Fachkräfte der unteren Gehaltsgruppen sind gezwungen, durch Arbeitsplatzwechsel höhere Gehälter zu realisieren. Die Fluktuationsrate und der Mangel an Arbeitskräften werden in den Wirtschaftsregionen im Facharbeiterbereich ansteigen: Mindestens ein Viertel der Belegschaft wandert pro Jahr ab. Zwei von drei Stellen können aufgrund des großen Facharbeitermangels nicht besetzt werden. Durch die immer größer werdende wirtschaftliche Bedeutung der mit Auslandskapital gegründeten Unternehmen steigt die Nachfrage nach qualifizierten Arbeitskräften mit Berufserfahrung in westlichen Unternehmen,



Quelle: ASC Data Research 2010 vgl. World Robotics 2010

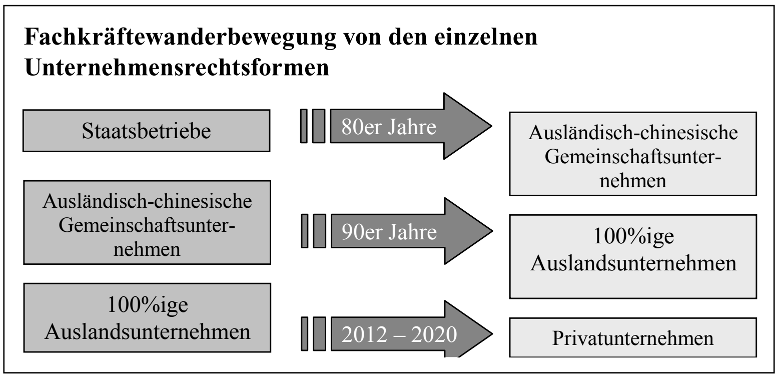
Hochschulabschluss und Fremdsprachenkenntnissen unaufhörlich. Aufgrund der Knappheit an Personal werben sich die Auslandsunternehmen untereinander die chinesischen High Potentials, die lokalen Manager, gegenseitig ab.

5. Zunehmende Bedeutung des in China gebliebenen Expatriate

Wurden traditionell Positionen der ersten und zweiten Management-Ebene durch Entsandte vom Stammhaus besetzt, so kristallisiert sich zunehmend ein zusätzliches Arbeitsmarktsegment heraus: ausländische Manager, deren Lebensmittelpunkt aus familiären Gründen China geworden ist. Schätzungsweise wird bis zum Ende des Jahrzehnts der Anteil der lokal beschäftigten Ausländer mindestens zwei Drittel der Gesamtzahl aller in China beschäftigten Ausländer ausmachen.

6. Internationale Unternehmen bevorzugen Lokalanstellung für Expatriates

Der lokale Arbeitsvertrag für ausländische Beschäftigte in China wird zunehmend den Entsendungsvertrag ersetzen. Bestehende Praxis ist, dass ein Expatriate in der Regel zwei Arbeitsverträge unterzeichnet. Neben seinem Entsendungsvertrag, den er beispielsweise mit dem deutschen Stammhaus abschließt,



Quelle: ASC Data Research 2011

Dr. Karl Waldkirch: Founder, Chairman und CEO der ASC Group, einer auf Asien spezialisierten Personalberatungsgesellschaft mit 100%igen Tochterunternehmen in Asien.

Die ASC-Gruppe hat Daten sowie Gehaltserhebungen in einem praktischen Leitfaden für die Rekrutierung von Personal in China analysiert. Die Studie mit dem Titel *„Chinas* **HeR***ausforderung“* umfasst rund 37 Seiten mit über 15 Abbildungen (Tabellen) und kann bei Herrn Junker Junker@asc-Waldkirch.de für € 49.– zzgl. MwSt. (7%) + Porto bezogen werden.

unterschreibt er zusätzlich auch einen lokalen Vertrag mit dem chinesischen Unternehmen. Dies ist für die Arbeitsakkreditierung und Aufenthaltsgenehmigung notwendig. Aufgrund der Attraktivität der Standorte wie Beijing, Shanghai und Kanton und/oder des Vorhandenseins eines chinesischen Familienanschlusses (chinesische/r Lebensgefährte/in) wird von Ausländern auch die Variante eines lokalen Arbeitsvertrages ohne Entsendung akzeptiert. Dieser beinhaltet in der Regel keine Rückkehrklausel.

Von mittlerweile über 22.000 Expatriates, die in den Unternehmen der EU in China beschäftigt sind, besitzen schätzungsweise über 70 % einen Entsendungsvertrag. Dieser Prozentsatz wird in den Folgejahren weiter sinken, und zwar um ca. 10 % jährlich.

7. Vergütungsstrategie der Unternehmen zielt auf All-in-Lösungen ab

All-in-Konditionen für Entsendungen und Lokalanstellungen statt komplizierter Entsendepakete werden in der Zukunft immer mehr die Regel sein. In der Vergangenheit wurde mit dem zu Entsendenden ein so genanntes Expatriate-Package, bestehend aus Mietzuschuss, internationaler Krankenversicherung und sonstigen Leistungen, detailliert vertraglich fixiert. Das Gehalt sowie der Anteil der leistungsorientierten Vergütungsbestandteile wurden vertraglich gesondert ausgehandelt und erfasst.

Die Unternehmen gehen immer mehr dazu über, ein Gesamtgehalt (all-in) anzubieten, das alle Konditionen umfasst. Dabei versuchen die deutschen Stammhäuser, die Kosten für die Anstellung des Expatriates vollständig der chinesischen Tochtergesellschaft zu übertragen. Das von allen namhaften Großunternehmen praktizierte Split-Payment, wonach Gehaltsbestandteile in Deutschland und in China gezahlt werden, wird von den Unternehmen mehr und mehr vermieden.

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Holding up Half of the Sky

“Women hold up half of the sky” is a statement famously attributed to Mao Zedong. The article from China Focus asks what roles and positions women play in corporate China today.

Mao’s message seems to catch on throughout the upper corporate strata in Germany too, as a group of major companies there recently committed to increasing the proportion of woman within their senior management and to reducing the gender gap. Norway, as another example, has already in 2004 introduced a law requiring all publicly listed companies to have 40% of board seats represented by women. But the issue is not only limited to top female executives, the career paths in between and the role of women in the business world in general is increasingly under the spotlight.

In the case of China, “half of the sky” was in reality interpreted in a much more down-to-earth way, as women were required to contribute an equal share to building up Mao’s socialist society in the fields and factories. Since the opening up and reform period, many of the newly created factory jobs that required dexterity and skills rather than mere muscle power categorically became domains of the proverbial ‘factory girls’ – young female migrant workers who often left their aging parents and small children behind in the countryside. And while the first generation of these migrant workers were originally planning to ‘eat hardship’ and ultimately return to their home turf and traditional role with the little accumulated wealth they could get, many younger factory girls have grown up in urban or semi-urban and consumerist environments that leave them yearning for more.

Likewise urban female middle class employees have raised their horizons as well as their expectations. While young women are often generalised to be more loyal and responsible in nature than men – and therefore are preferred in many white-collar job fields, they can be just as ambitious in their work and career development. Many simply do not have time to look for a partner or can’t find the right match, which fits the role of a classical breadwinner with commensurate higher earnings. As young, unmarried women (and men) are approaching the magical threshold of age 30, their parents will often develop frenzied matchmaking activities, fearing the investment in the upbringing and education of their offspring will fail to properly pay off.

The multi-generational model

With the one-child policy still firmly in place, childbearing is very much a central event not only in the life of young women and their partners, but also of both sides' parents and extended family. While State Owned Enterprises often retain child-care services as a reminder of the former work-unit system with its all-encompassing social provisions, there is little flexibility in terms of working-hours arrangements in China, so in many cases the grandparents will take care of small children. However, this multi-generational model does not fit everybody: "There is also a trend among young Chinese mothers to spend more time with their children themselves and to directly control their upbringing," states Ms Jiqiu Yu, Commercial General Manager at IFM Electronic in Shanghai. Recent surveys which found career satisfaction lowest among women in the workplace aged 30–40, also seem to indicate the need for more flexible employment methods that reconcile spending more time with family and the pursuit of career goals.

Another side effect of the family-care model is decreased mobility of better qualified women. While many migrant workers either leave the children behind at home, urban middle-class mothers are much less willing to do so for a better job opportunity in another city in China or even abroad. Therefore women often miss out on a critical stage of the career path – they may consciously or subconsciously preselect a career in more 'generic' fields such as HR, finance- or trading-related positions, where more development possibilities within a regionally bounded local labour market exist.

But there are also more and more exceptions to the rule, as women are increasingly entering previously male-dominated territory. Ms Renate Tietjen, Chief Representative of Melchers in Guangzhou and initiator of a "Woman in Business" Group in the Southern Chinese metropolis, confirms: "We have just recently employed a female Chemical Engineer and actively support women in technical and leadership positions." Women in such positions are also slowly becoming a more common sight in other sectors, as in the automotive industry or industrial engineering. Foreign Invested Enterprises are in many cases leading the way: "Although there is often still a glass ceiling, more and more women are finding success and break through it, particularly in multinational companies, who tend to follow the merit principle." Ms Tietjen knows of many such examples, as within her circle, most women are Chinese managers or employees-turned-entrepreneurs.

Women are successful in China

Among those self-made entrepreneurs, some women have made it to the very top in China. The Hurun list – a Chinese equivalent to the Forbes Rich List – prominently features successful businesswomen such as paper tycoon Zhang Yin (who in 2006 became the first woman to top the list), Dong Mingzhu who is President of air-con producer Gree, and Yu Yu, who founded the internet service DangDang. "Women are often more flexible than men in business relations, but do not compromise on principles," explains Ms Yu of IFM, "it takes a lot of willpower and energy, but women who really want it also have the chance to succeed." Compared to her working experiences in Germany, Ms Yu finds that male-dominated areas, while existing, are not as closed and exclusive. Chinese men also have, at least outwardly, no reservations about dealing with women in business either, unlike other East Asian societies.

One negative impact, as a report by the China Women's Federation recently indicated, is the effect of the earlier retirement age of women, which in China starts at 55 years. The same report revealed that 58% of respondents were in favour of equal retirement ages for men and women. The adverse effects of earlier compulsory retirement come in two ways. Firstly for job seekers, the longer their education path takes the shorter the career path is likely to be – and proportionally more so than with their male counterparts. Secondly, companies may miss out on an essential part of the talent pool in middle-aged employees, as is the case when female candidates are deemed to be too old to get settled in or further develop from a new position.

Balancing corporate culture

As the overall labour supply will start to decrease in the coming years in China, changes in the retirement age, as well as in the attitudes of women in the labour force and business world are bound to occur. With the expected rise in incomes, many couples can afford to rely on only one income and revert to more traditional gender roles, which can be seen with parts of the better-off population already today. On the other hand, the girls and young women of the one-child-policy era have grown up in a time of unprecedented consumerism and individualism, with expectations that often reach beyond the confines of heart and home. Companies in China, in order to be successful, are well advised to provide women with a corporate culture that allows them to balance their family or private life more flexibly with their work and which actively encourages gender diversity. After all, if women are to hold up their half of the sky, they will have to keep both their feet on solid ground.

Source: Fiducia Management Consultants
www.fiducia-china.com

Jiqiu Yu
Commercial General Manager,
IFM Electronic,
Shanghai

Renate Tietjen
Chief Representative
Melchers,
Guangzhou

New Individual Income Tax Regulations

Coming this September 1st, as many as 60 million low-income earners in China will be newly exempt from paying income tax, although changes in Individual Income Tax (IIT) will not extend to foreign nationals.

Deductible income for Chinese nationals will be RMB 3,500, up from the previous RMB 2,000 while the level for foreigners remains for the time being unchanged at RMB 4,800. As such, employees earning below these thresholds will not pay any IIT, and those who earn more can deduct this amount from their taxable income. Meanwhile, the filing period for IIT will be extended to 15 days in the following month, up from 7 days.

In addition, IIT progressive tax rate levels will be reduced from currently nine to seven, and the lowest tax rate will be set at 3%. For monthly taxable income after employee social security payments and IIT-exemption deduction, the existing and new rates differ as follows:

	Old Regulations			New Regulations	
	Taxable Income Bracket (RMB)	**Tax Rate (%)**		**Taxable Income Bracket (RMB)**	**Tax Rate (%)**
1	Income of 500 or less	5	1	Income of 1,500 or less	3
2	500 – 2,000	10	2	1,500 – 4,500	10
3	2,000 – 5,000	15	3	4,500 – 9,000	20
4	5,000 – 20,000	20	4	9,000 – 35,000	25
5	20,000 – 40,000	25	5	35,000 – 50,000	30
6	40,000 – 60,000	30	6	50,000 – 80,000	35
7	60,000 – 80,000	35	7	Income in excess of 80,000	45
8	80,000 – 100,000	40			
9	Income in excess of 100,000	45			

Source: Fiducia Management Consultants

What does this mean for you?

Companies should still negotiate salary amounts based on the gross income level and book the gross amount. For employees, while the new regulations will have the effect of a tax reduction for low and middle income earners, individuals with higher income levels may face increased payments. If you have detailed questions on how the new IIT regulations affect you, please write to contact@fiducia-china.com.

Fiducia Management Consultants
www.fiducia-china.com

Individuals to Pay IIT on Gifts Received from Businesses

While it is always nice to receive presents at companies' promotional events, consumers in China should now make sure it is really a free lunch before accepting them. According to a recent circular co-issued by the Ministry of Finance and State Bureau of Taxation, individuals may need to pay individual income tax (IIT) on some gifts they receive under certain circumstances.

The "Circular on IIT Issues Related to Gift-Giving during Companies' Promotion (Caishui [2011] No. 50)", released on June 9, clarified the following three situations when individuals are subject to IIT payments after receiving gifts from a company:

- The company gives gifts to random individuals that are not company employees during promotional and advertising activities;
- The company gives gifts to random individuals that are not company employees at annual parties, seminars and celebratory events;
- The company gives extra lucky-draw opportunities to customers with a certain level of loyalty.

Every individual who receives gifts under the aforementioned circumstances will be liable for IIT payments, with the amount due standing at 20 percent of the received gift's market price.

In addition, the Circular also listed the three situations when individuals are not subject to IIT payment:

- The company sells discounted products or provides discounted services;
- The company provides free gifts when selling products/services to individuals;
- The company gives free gifts to compensate customers for their consumer mileage/points as part of the company's consumer loyalty incentives.

In introducing this measure, the tax bureau has shifted the onus on tax payments for the receipt of gifts associated with business from corporate responsibility to the individual recipient. The procedure to submit IIT to the tax bureau upon the receipt of gifts is to declare it on the monthly tax return. Penalties for failing to do so can invoke examination of assets and the imposition of fines of up to five times the tax due on the value of goods received. Corporate employees receiving gifts at corporate events should take note of the new regulations to ensure they do not fall out of compliance as most events of this type will have a pre-arranged guest list that can be easily scrutinized and individually followed up on by diligent officials.

SAT Specifies Time when VAT Obligations Take Place

China's State Administration of Taxation (SAT) recently made an announcement, specifying the actual time when value-added tax (VAT) payment obligations take place for taxpayers who receive direct payment during production or operation.

The "Announcement Concerning the Time When VAT Payment Obligations Take Place (SAT Announcement [2011] No. 40)" was issued on July 15. According to the document, if a taxpayer who sells goods by receiving money directly during production or operation has already delivered the goods to the other party and temporarily recorded the sales revenue, but has neither obtained the payment or a voucher for the payment nor issued a sales invoice, his/her VAT payment obligations shall take place on the day when he/she receives the payment or the voucher for the payment. If the taxpayer has issued an invoice in advance, his/her VAT payment obligations shall take place on the day when the invoice is issued.

The Announcement will come into force on August 1. However, if a taxpayer has already made his/her VAT declaration before the date, he/she can apply for a tax payment adjustment with the tax authority in charge according to the provisions in the Announcement.

China Customs Reduces Tariffs on 33 Commodities

China's Customs Tariff Commission of the State Council released a circular (shuiweihui [2011] No. 12) on June 24, announcing adjustments to import duty rates on 33 kinds of products starting on July 1, 2011. Goods that are subject to a tariff cut according to the document include fuel oils and several types of raw materials to the country's textile industry.

Based on Circular No. 12 and according to a Ernst & Young summary, the import duty reduction will mainly go to the following items:

- Gasoline, diesel and fuel oils No. 5–7
- Certain woven fabrics of cotton and linen threads
- Certain tents and cushions
- Zinc and zinc alloy
- Photochromic lenses of glasses
- Certain respirators and gas masks
- Fresh or dried chestnuts and ginkgo nut

The circular has allowed tariff cuts of more than 50 percent on most mentioned items. It is hoped that the implementation of the new tariff rates on major fuel products will lead to a price adjustment in China's retail gasoline market and reduce costs on fuel oil for airline companies. The lower tax burdens on fabrics and threads are also expected to better meet the domestic textile industry's demand for cheaper raw materials.

Source: China Briefing by Dezan Shira & Associates

Millward Brown Expands in Switzerland

Zurich Office to Serve Swiss and International Brands

Max Weber
Director Millward Brown Zurich

Millward Brown, one of the world's leading research agencies, announced the opening of its Zurich office in September 2011 to offer advertising, marketing communications, media and brand equity research to Swiss and international clients.

"With 78 offices in 51 countries, we work with 90% of the top 100 global brands and as a result we truly understand the importance of both a global and local focus," said Sana Carlton, Managing Director of Millward Brown Switzerland. "We started operations in Switzerland in 2006 from Geneva, and opening a Zurich office is a natural development based on the growth of our business for clients such as Feldschlösschen and Kraft Foods Europe for whom Millward Brown is the global agency of record. "During this time of financial uncertainty, more and more companies are looking to quantify and optimize return on investment for their marketing and advertising spend which is at the core of Millward Brown's offering," she added.

"In today's environment clients need a fast-response, integrated network with expertise available across all market research practices," said Max Weber, newly appointed Director of Millward Brown Zurich. "We help clients build and grow their brands from strategy development through to marketing execution and assessment of brand performance and future potential. Our offering should appeal to a broad mix of multinationals, dynamic challenger brands and international organizations. We can focus on very specific assignments, or support complete marketing programs. Our proximity will increase our flexibility and involvement in strategic meetings with our clients based in the Swiss German region."

The team will focus on the integration of insight sources including qualitative and quantitative techniques, bringing a new level of analytics and market insights to clients. Advanced technology will be integral to the digital research offering, including social media analytics with FanIndex – a tool which provides quantitative measurement of page performance along with rich diagnostics to help marketers optimize fan page content – qualitative research with IDEABLOG™, a new research tool built on the dynamics of social networking, and quantitative work with a neural brain wave measurement method. Econometric modeling, BrandDynamics™ integrated with DynamicTracking™ will further bring accountability to the marketing activity and provide transparency to clients.

Swiss national Max Weber, the new director of Millward Brown Zurich, has returned to Zurich after gaining over 20 years of international experience working in Europe, the US and Asia. He was most recently with a boutique market research firm in Australia, specializing in quantitative brand equity assessment, marketing econometrics and social media research for global consumer brands of packaged and durable goods. Mr Weber brings extensive experience in social media research working with many of the global brands to help them better understand the implications of social media on their local marketing plans and implement community focused marketing communication. Previously, he led the communications practice of Accenture in Sydney and before this delivered global CRM initiatives for Fortune 500 companies with Logica-CMG in San Francisco.

About Millward Brown

Millward Brown is one of the world's leading research agencies and is expert in effective advertising, marketing communications, media and brand equity research. Through the use of an integrated suite of validated research solutions – both qualitative and quantitative – Millward Brown helps clients build strong brands and services. Millward Brown has more than 78 offices in 51 countries. Additional practices include Millward Brown's Global Media Practice (media effectiveness unit), The Neuroscience Practice (using neuroscience to enhance traditional research techniques), Millward Brown Optimor (focused on helping clients maximize the returns on their brand and marketing investments), Dynamic Logic (the world leader in digital marketing effectiveness) and Firefly (the global qualitative research business). Millward Brown is part of Kantar, WPP's insight, information and consultancy group. Millward Brown is a member of the WPP Group, one of the world's largest communications services groups.

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Zertifiziert nach ISO 9001

DKSH – Record Results in First Half

Dr Jörg Wolle
President & CEO
DKSH Holding

The DKSH Group continues its growth course, reporting new record results in Swiss Francs for the first half of 2011. In that period, Net Sales reached the CHF 3.6 billion mark, and EBIT rose by 21.4 percent to CHF 103 million.

DKSH, the leading Market Expansion Services provider with a focus on Asia, remains on its record-breaking course, reporting outstanding results for the first six months of 2011, thereby continuing its strong and consistent growth of recent years. In 2010, the Group achieved its most successful business year since its founding nearly 150 years ago. In the first half-year of 2011, Transaction Value rose by 6.3 percent compared to the previous year to CHF 4.9 billion. Net Sales, that is sales on own account, increased by 2.3 percent to CHF 3.6 billion. Operating profit (EBIT) grew impressively by 21.4 percent to a new half-year record of CHF 103 million. Profit After Tax rose by 27.3 percent to CHF 65 million.

The Asia markets where the DKSH Group primarily operates continue to record steady and robust economic growth. As the leader in Market Expansion Services with a focus on Asia, DKSH was able to benefit from the strong economic performance of this region. Our remarkable financial results are also attributed to our operational efficiency and dominant market position in Asia, through which we can leverage economies of scale and generate unparalleled growth in profits. All four Business Units developed positively and contributed to the best ever half-year results.

This performance is all the more remarkable given that they were achieved against the backdrop of the recent catastrophes in Japan, a key market of DKSH. "Despite the challenging economic environment, our Japan operations have achieved outstanding results so far this year. That in itself again demonstrates the resilience of the DKSH business model," commented Joerg Wolle, President & CEO of DKSH Holding.

Dr Wolle further explained: "The positive development and growth of our businesses is the result of the thorough implementation of our strategy for growth. Thanks to our comprehensive, integrated services portfolio along the entire value chain, tailored to our clients' specific needs, and our blanket coverage across Asia, we have succeeded in further expanding our business and increasing our market share."

In the first six months of 2011, the focus has been on organic growth, in particular expanding relationships with existing business partners and winning new clients and customers. Complementing these initiatives, DKSH has also made a number of strategic bolt-on acquisitions to strengthen existing markets and Business Units. Following the takeover of Chiao Tai Logistics, the leading consumer goods logistics company in Taiwan last year, DKSH recently made a further acquisition in the consumer goods industry in Taiwan. With 3D Asia, a company specializing in field marketing, DKSH has broadened its Market Expansion Services portfolio for existing and potential clients in the geographic triangle of Hong Kong, South China, and Taiwan. At the beginning of July 2011, DKSH took a controlling interest in Swiss watchmaker Maurice Lacroix, and established a joint venture company with Zino Davidoff for the marketing, sales, and distribution of Davidoff's luxury goods in Asia.

Commenting on the outlook for the remainder of 2011, Joerg Wolle said: "We are benefiting from two core economic megatrends. On the one hand, Asia is considered to be the growth market per se, representing a promising region in which to expand for many companies. On the other hand, companies intending to expand in Asia are increasingly choosing to focus on their core competencies, and selecting to rely on Market Expansion specialists like DKSH. Demand for such outsourcing services is growing steadily. As the leading Market Expansion Services provider in Asia, we are ideally positioned to benefit from these trends."

DKSH Holding Ltd.

DKSH officially opens Sourcing office in Shanghai

DKSH officially opened its doors in Shanghai in April 2011 to offer top technology product sourcing services from Asia for western retailers and wholesalers.

A staff of 11 serves western companies' needs for high-quality technology products. As a full-service contractor, DKSH specifies, sources, inspects, packs, stores, consolidates, and ships to locations worldwide, based on the requirements of customers. The focus is on hand tools, wood and metal working machinery, hardware (especially screws), and consumables.

The new Business Line Sourcing has already signed contracts with big industrial retailers and wholesalers in France, Switzerland, Finland, Ukraine, Holland, Austria, and Turkey, supplying technology products from China, Taiwan, and Vietnam.

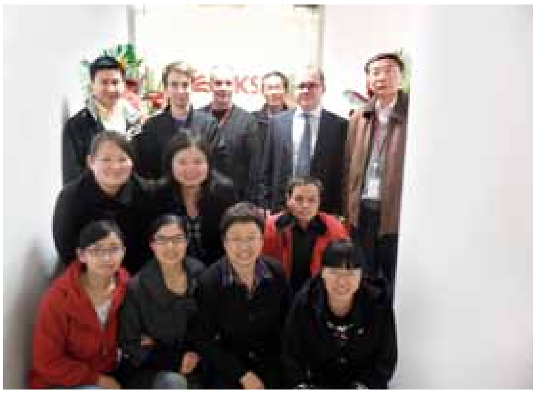
DKSH

If you want to discover the world, Asia should be top of your list. If you want to discover Asia, we are top of the list.

When we first set out from Switzerland to do business in Asia we had more ideas than experience. Today, almost 150 years later, that pioneering venture has grown into an internationally successful company. What has not changed is our bold and passionate way of doing business.
We are the global leader in Market Expansion Services, employing 22,500 specialists in 610 business locations all over the world. We help companies to grow their businesses in and with Asia, providing all the knowledge, advice, relationships, and on-the-ground logistics they need.

To find out more about us and the services of our specialized Business Units Consumer Goods, Healthcare, Performance Materials, and Technology, visit us at **www.dksh.com**

Think Asia. Think DKSH.



Business Line Sourcing team in their new office in Shanghai.

Business Line Sourcing also provides sourcing services for its DKSH colleagues by helping them find products in Asia that complement their portfolio. Starting from 2011 all technology products sourced by DKSH are receiving the quality seal "SWISSTEC" as an indicator of the Swiss know-how that supports DKSH's sourcing activities.

DKSH strengthens its Luxury & Lifestyle business

In May 2011, DKSH takes a majority stake in Swiss watchmaker, Maurice Lacroix, and sets up a joint venture for Asia expansion with Zino Davidoff.

DKSH continues its focused strategic growth course for its Luxury & Lifestyle business. Following their acquisition in February 2010 of Hagemeyer-Cosa Liebermann, a Swiss company with a long tradition in the marketing and sales of Luxury & Lifestyle products, DKSH has now further strengthened its luxury goods activities through two significant investments. On the one hand, DKSH has taken a majority shareholding in Maurice Lacroix. Located in Saignelégier and Zurich, the renowned watchmaker has 200 employees and generates sales of CHF 70 million. DKSH has already held exclusive marketing and distribution rights to Maurice Lacroix products in Asia since 2008. Secondly, DKSH has established a joint venture with Zino Davidoff AG for the sales and marketing of luxury timepieces, leather goods, and accessories throughout Asia. With these investments, DKSH's comprehensive product offering has been enhanced by products from two high-quality brands.

This strategic collaboration, focusing sharply on market expansion in Asia as well as optimally satisfying demand from the rapidly emerging Asian middle class is underpinned by Zino Davidoff AG taking a shareholding in Maurice Lacroix. Remaining as the third shareholder is Desco von Schulthess, which like Zino Davidoff are presently board of directors' members of the Maurice Lacroix Holding. Dr Peter Brunner, President of Desco von Schulthess said: "Relinquishing the majority shareholding as well as handing over the management and strategic positioning of Maurice Lacroix to DKSH was a planned, long-term and logical step in my succession solution. This began with DKSH's acquisition of Desco's Asia and the financial participation of DKSH in Maurice Lacroix in 2008. All three partners involved are proud of this Swiss solution."

Both expansion initiatives will further enhance the leadership position of DKSH as an independent services provider for marketing, sales, and distribution of premium luxury items in Asia. Moreover, through acquiring the controlling stake in Maurice Lacroix, DKSH is conscientiously implementing its growth strategy in its own brands for selected business segments.

About Maurice Lacroix

Since the first Maurice Lacroix watch was launched in 1975, the company has developed into a sought-after manufacture brand. In late 2006 Maurice Lacroix set up its own workshops producing complex components for its unique mechanical calibres – catapulting the company into the exclusive class of Swiss watch manufacturers. Maurice Lacroix soon registered many patents and brands with its continuous innovations in both technology and design. Maurice Lacroix is one of the world's few independent watch producers and employs more than 200 people across the globe – the majority working at their international headquarters in Zurich and the production sites in Saignelégier and Montfaucon in Switzerland.

For more information: www.mauricelacroix.com

About Zino Davidoff Luxury Group

Zino Davidoff Luxury Group is a Swiss-based family business that manufactures exclusive timepieces, writing implements and leather accessories for a sophisticated clientele, and grants licenses for the use of the Davidoff brand for other product categories including fragrances, eyewear, cognac and café. Davidoff has committed itself to bring together the finest materials and ingredients the world has to offer. From design, inspiration and craftsmanship – the goal is to provide ultimate quality and reliability. It's all part of the Davidoff philosophy of perfection.

Products and services bearing the Davidoff brand must represent the finest quality, style, authenticity and positive lifestyle embraced by the company founder Zino Davidoff himself. Zino Davidoff (1906 – 1994), the cultivated, open-minded and sophisticated gentleman, the visionary businessman and the enthusiastic traveller explored the world for inspiration, always in quest for superior quality. He was an artisan of a happy life, enjoying the simple pleasures life offers and sharing them with friends. His expertise, tenacity and intuition combined with his unique personality earned him the status of a legend.

Today, the Davidoff brand resonates throughout the globe as one of the ultimate touchstones for exclusivity. Superior quality and authenticity make Davidoff a synonym for cosmopolitan luxury.

For further information visit www.zinodavidoff.com

DKSH's impressive growth in Do-It-Yourself and Hardware Product Sourcing in Asia

DKSH has achieved significant success in the product sourcing business. In June 2011, the company has signed major contracts with Do-It-Yourself (DIY) and hardware wholesalers and retailers in Europe for the sourcing and packaging of supplies from Asia, especially Vietnam and China.

DKSH's Business Unit Technology established in 2010 a new Business Line Sourcing, designated to help European companies to source products in Asia. Several sourcing offices as well as quality control laboratories were set up in Vietnam and China, which was met with great interest in the Western DIY and hardware industry. DKSH's product sourcing business has taken off with considerable speed, already achieving more than 70% of the expected business volume after the first half of 2011.

Since the establishment of the new Business Line, DKSH has signed several big sourcing contracts with reputable European DIY and hardware companies, with the most recent contract signed in mid-June for the delivery of 480 million screws from Vietnam annually. DKSH's business partners can be certain of the quality since all products are checked in the own quality control laboratories in China and Vietnam. Prior to the shipping, DKSH also handles the packaging and packaging design of the products.

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DKSH successfully sources and packages supplies from Asia for wholesalers and retailers in Europe.

Titoni's Flagship Store Opened in Shanghai

The Swiss Watch Company Ticks in the Famous Peace Hotel

The TITONI Gallery located in one of the wonderfully designed Art-Deco-arcades of the Peace Hotel, faces the world-famous Nanjing East Rd. It officially opened its doors after the Chinese New Year when lots of visitors took the chance to get their first impression on this Swiss gem in the cosmopolitan city of Shanghai. It is TITONI's biggest gallery worldwide and the most comprehensive collection of TITONI models are presented here.

"The Shanghai Peace Hotel is a unique 'place in time', and I have, since my first travel to China in the early 1980s, always paid a visit to this superb building," said Daniel Schluep during his recent stay in Shanghai. "The Peace Hotel and TITONI Ltd. have quite a number of elements in common, including the characteristic of being a symbol for the openness to the outside world." – The TITONI Gallery also hosts a transparent in-house watch service centre, and – for those interested in the history of the Grenchen-based company – there is a museum-styled corridor with changing exhibitions of old models, historic advertisements as well as old photos.

Since it was founded in 1919, TITONI Ltd. has enjoyed an international market presence. The watches made by this independent, family-run company are a byword for Swiss quality and precision. In 2010, TITONI Ltd. sponsored the Swiss Cities Pavilion of the EXPO in Shanghai and received positive feedbacks from both Chinese and Swiss visitors. This year, Daniel Schluep, the CEO of TITONI Ltd., was honored to personally be present when the TITONI Flagship Store opened its doors in the Peace Hotel on the famous Shanghai waterfront, the "Bund".

The Peace Hotel, located on the illustrious Bund which was once called the "Wall Street of Asia", is one of the most prominent landmarks of Shanghai. The "Cathay Hotel", as the building was named before the founding of the People's Republic, reopened in autumn 2010 as the Fairmont Peace Hotel and is considered to be the social heart of Shanghai. "We are very proud and happy to be located within this magnificent hotel with such a rich tradition and history. To be in the heart of Shanghai and close to the pulse of millions of visitors from all over the country means that TITONI is and will always be in the hearts of the Chinese people," said Daniel Schluep when talking to clients and staff members of the Peace Hotel.

Up to the present, TITONI has set up 2 galleries, 9 showrooms, 50 customer service centers and approximately 800 points of sales in the Greater China Region. TITONI Ltd. commits to provide the most comprehensive sales and customer service network, and the opening of the Shanghai TITONI Gallery embodies the company's commitment to pursue a strong quality brand.

1. Mr Schluep, the TITONI Gallery recently opened in the prestigious Peace Hotel in Shanghai. What was the motivation for choosing China, or especially Shanghai?

Shanghai has been on top of my favorite city list for many years – international, charismatic, historic, full of energy, enchanting and feminine – a mix-and-match kaleidoscope, in short. I think the question should not be "why Shanghai", but rather why we waited so long to make this happen. During the renovation of the Peace Hotel, we were informed about cooperation possibilities. I personally always admired this grandiose building full of splendid his-

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Titoni's Flagship Store inside the famous Peace Hotel in Shanghai.

tory with its illustrious past. I thought it would serve as a perfect location for TITONI Ltd. with its long history on the Chinese market, and to offer its best services to the clients. We decided to take the chance immediately and here we are.
When we were planning the interior of this gallery, we had a major discussion as whether to give it a modern chic look or remain its authentic Art-deco flair. We finally opted for the latter and I have to say it was a very wise decision. I'm glad to see many of our clients enjoy the aesthetic environment with its originality and authenticity as much as I do. – For me and my team, the Peace Hotel is not only a landmark building. It is both inspiring and aspiring, and it carries manifold stories as well. We hope that our bond with the Peace Hotel will stay for many years to come.

After more than fifty successful years in the Chinese market, the famous Swiss watch company TITONI Ltd. opened its Flagship Store on the Bund of Shanghai – within the prestigious and historical building of the legendary Peace Hotel.

2. How does this gallery in the Peace Hotel differ from other TITONI showrooms? What unique services and products do you provide there?

The TITONI Gallery at the Peace Hotel is something very unique, as you will soon realize when you enter this grand location, be it from the well-known and busy Nanjing East Rd. or be it through the lovely arcades of the Peace Hotel.
The concept of this gallery, by the way the biggest TITONI gallery in the world with 130sqm, is based on openness and exchange: We want to invite passers-by to come in, to look at our gallery and our watches, to talk with our sales staff, in short to have no constraints or fear of contact in entering this unique place. TITONI Ltd. is a charismatic Swiss brand for people that above all appreciate high quality and precision, and not necessarily for those who want to show off their luxury. With the design of an open gallery with lots of glass windows, we want people to see and feel what our brand is like. Some might have a look at the whole collection – as you know from other TITONI-showrooms, our gallery boosts the most comprehensive collection of our watches –, others want to find out more about the history of our brand by walking through the museum-styled corridor with changing displays such as older models, historic advertisements as well as photos from previous times. – And finally there are those visitors who want to take a look at the watchmaker doing his meticulous work in the transparent in-house watch service centre.

By Matthias Messmer
For further information please visit:
www.titoni.ch

Facts and Figures on Titoni Ltd.

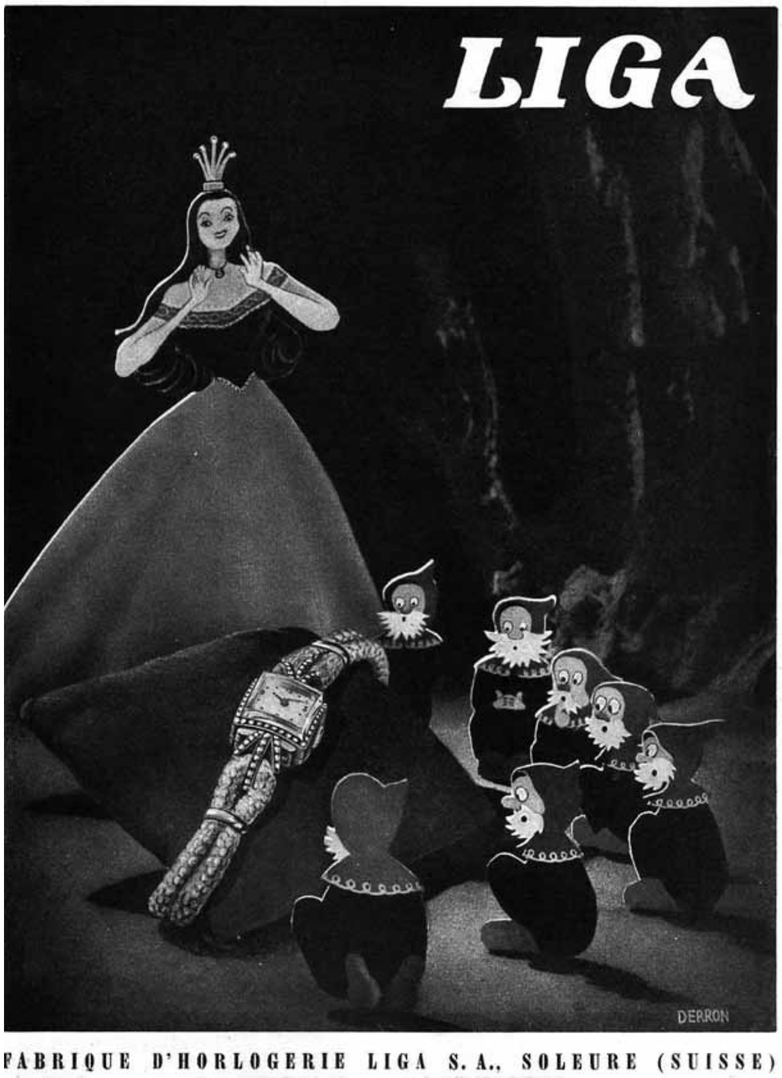
- Family-operated business, founded in Grenchen in 1919 under the name of FELCO
- Swiss manufacturer of timepieces "Made in Switzerland"
- Independent small company owned for three generations by the Schluep family
- Current CEO: Daniel Schluep
- Number of employees: 50
- Specialized in the manufacture of mechanical self-winding watches (approx. 90 percent of its production)
- Brand positioned in the middle to upper price segment
- Sales of watches in Europe, Russia, India, the Middle East, Southeast Asia and China (since the late 1950s)
- Approximately 800 sales outlets in China (besides Hong Kong, Taiwan, Macao) as well as roughly 50 service centres on the mainland

Raiders of the Forgotten Treasury?

Investors and watch producers from China Mainland and Hong Kong are increasingly interested in the Swiss Watch Industry. Latest acquisition of ETERNA confirms this trend. Is this fact a chance or a danger for almost forgotten Swiss treasuries like historic but dormant Swiss watch brands?

Hong Kong and mainland China are the world's most important luxury watch markets. Nowhere a bigger appetite for Swiss wristwatches is demonstrated than in Hong Kong and the mainland China, currently ranked as the world's No 1 and No 4 markets for Swiss watches – and the sales just keep on growing. The main reason for this success is due to the fact that Swiss watches are an equivalent for luxury and fortune par excellence.

For the time being, Chinese watch brands still face a negative perception especially in the haute horology segment. This leads to increased Chinese efforts to obtain Swiss watch brands in order to profit from still prevailing fame of Swiss Made watches. Lately the Swiss watch company ETERNA was sold to Chinese buyers and some think already about a missed opportunity for Swiss investors.



Never change a winning horse

The Swiss watch industry is not amused about these efforts particularly with regard to the fears of a kind of sell-out of Swiss watch brands. However we don't think that this fear is justified. As the requirements for Swissness and the Swiss Made label will be sharpened, brands will be forced to generate a large part of the value creation in Switzerland. That is to say that new work places are generated, which in turn strengthens the Swiss position as an interesting workplace. Not to forget that competition is always good for business. Chinese investors know very well the worth of the Swiss Made label and it's in their own interest to keep it up. "Never change a winning horse" is an old saying and it brings the whole discussion to the point: Why weaken it when you can profit from it? Stronger Swiss Made regulations are in the interest of Chinese investors – and consumers.

Strong brand equity with Swiss-DNA

The so called *brand equity* of a watch brand is the combination of familiarity and positive associations that clearly has some sort of value, even if it's impossible to measure in a convincing empirical way. By resurrecting dormant historic brands, consumer memories are revived. A peculiar fact is that relaunched brands remind customers in a positive way about past times. "The good old times" are also fulfilling today's wish for real values, stability and quality. Swiss Made stands for high values, stability and gives trust in these difficult and fast changing times. Customers – especially in China – don't buy luxury Swiss watches because they tell the time. They want something that reflects a real history and represents a unique identity. And they want a piece of the Swiss-DNA with all its meaning at their wrist.

Money can't replace history

In order to successfully launch a luxury watch brand, there must be a history behind it. Many brands appear very local and patriotic to the public, even if they are owned by companies abroad. So what is it all about?

Many famous Swiss watch brands today have been dormant for decades until they were successfully relaunched by Swiss companies or investors from abroad. The resurrection of a dormant brand with valuable history and brand awareness is far more promising in the segment of luxury watches than a cold start-up of a new brand lacking history and brand awareness. That's why we believe that the resurrection of almost lost treasuries is an opportunity rather than a threat. It is an opportunity for future Chinese investors as well as for the Swiss watch industry. In the near future there will be many successful, quality watch brands in China with its roots in China. However, the history of luxury watch making started in Switzerland – there's no way around it.

For further information please contact:

Historic Watch Brands by
Vertriebswerk GmbH
Bederstrasse 28
CH-8002 Zurich, Switzerland
www.historicwatchbrands.com

Beijing International Design Triennial

"Ren: Good Design"

The First Beijing International Design Triennial (BIDT) will take place from September 28 to October 17, 2011 in the National Museum of China, located on the east side of the famous and bustling Tian'anmen Square in Beijing. The Swiss based studio "Holzer Kobler Architekturen" is one of the five curators and is also responsible for the concept and content as well as the architecture and scenography of one of the five exhibitions within the first BIDT.

The exhibition venue, covering 6,000 square metres, consists of five halls. Five international curatorial teams have been invited to present the finest of contemporary international design in the newly renovated museum, which has been enlarged to 200,000 square metres. The Triennial will take the form of a themed exhibition under the general title "Ren: Good Design". Five exhibitions with the individual subthemes GOOD GUYS, INTERNATIONAL CREATIVE JUNCTIONS, RETHINKING BAMBOO, REASON DESIGN EMOTION and WHAT IF will be shown in the five exhibition halls. Each team of curators, with members from China and abroad, is responsible for one of the sub-themes.

Prof. Barbara Holzer, Prof. Tristan Kobler, Holzer Kobler Architekturen: ©Nik Spörri

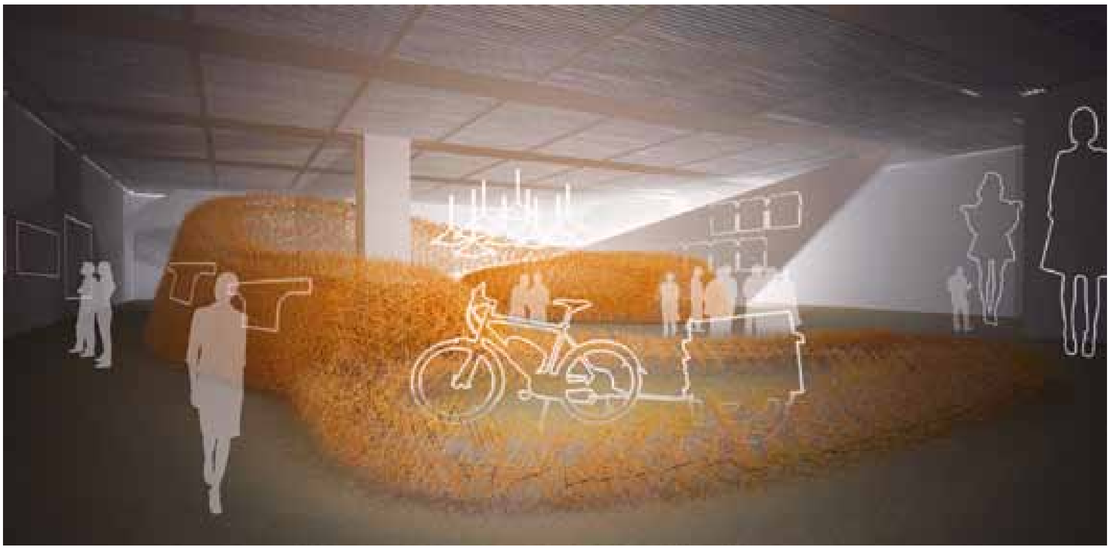
An exhibition demonstrating shared responsibility

Holzer Kobler Architekturen has worked with Li Degeng to jointly develop, design and curate the subtheme GOOD GUYS.

GOOD GUYS foregrounds contemporary designers concerned with finding new ways to create objects that deal with ostensibly complex social issues filled with both compatibilities and contradictions. They demonstrate that regionalization and globalization are not in binary opposition, that modern manufacturing is not necessarily a replacement for traditional artisan craftsmanship, and that the unspoken words which underpin the future do not exclude the past. It is the shared responsibility of designers and consumers to seek out sustainable, fair trade, recycled and individualized products.

The exhibition takes into account many design categories. The pieces on display, in the form of objects, models and installations, create a comprehensive visualization for the public to see what inspires world-class design minds and underlies their particular attitudes toward life. What is clear is that without good designers, the so-called "GOOD GUYS", good design is impossible to achieve.

The exhibition's structure groups the individual works together spatially to make a lasting impact on visitors. The theme of "GOOD GUYS" will be translated into a visual image, with a cyclone made up of some 200,000 chopsticks running dragon-like through the exhibition area. The waves of this intri-



Exhibition space for GOOD GUYS: Chopstick Dragon. ©Holzer Kobler Architekturen

cate spatial structure will carry the various design objects through the exhibition space, offering a look ahead to the future of design.

How China's contemporary designers view themselves

The structure of the exhibition mirrors the approach to expectations of design in the modern era. The interest in design and its essence that China is emphasizing through this exhibition reflects the way the nation's contemporary designers view themselves. The team of *Holzer Kobler Architekturen* welcomes the opportunity for exchange and discussion with a dynamic design scene, for which the exhibition and the symposium in China and its international scope provide a new platform. During their visits to Beijing and the discussions they have held there, it has become clear that in spite of differing cultural and political backgrounds, the issues and approaches that characterize the young generation of designers fit perfectly with the global debate on the issues of the day.

In the current environment, the expectations that good design must meet include not just functionality and aesthetics but also social, ecological and economic sustainability. Sustainability, interpreted within the social context, is thus a key concern throughout the design process, from the idea right through to the completed product.

Holzer Kobler Architekturen is particularly excited by the contribution made by designers who, through their ideas and actions, are addressing new and topical issues that have only now come to the fore in today's globalized and "shrinking" world. They are concerned not with the differences between products, but rather with what they have in common and what binds them together: universal issues that, as well as being common to the most diverse cultural and political systems around the world, also cut across traditional design categories.

Design seeking answers to global questions

Triennials are an ideal platform for bringing together the specialized directions of all kinds of design categories; through their international approach, they also promote exchange between designers as well as with the public at large, and provide an opportunity to identify the concerns that unite them.

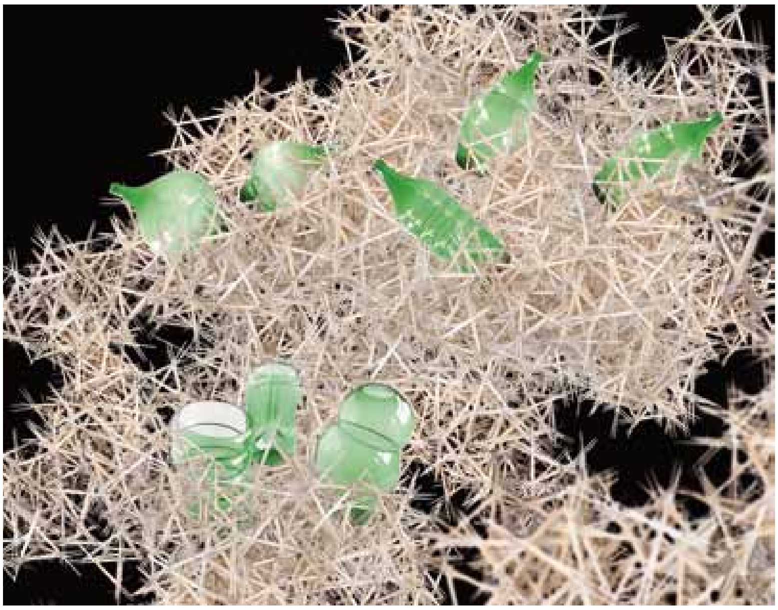
They are platforms that involve the largest possible number of people, from all over the world; nowhere more so than in China, where new things are coming into being at breathtaking speed and a critical examination of what is being created and what lies in the future is of increasing importance. Moreover, they are an opportunity for a wide audience to learn why their world looks the way it does, and how it could change in the future. They foster an awareness of a world that is increasingly being shaped by human hand, and enable everyone to appreciate the importance of the role that each of us plays in that process.

The future comes into being in our minds: it is planned and shaped – in a word, it is designed. That

Holzer Kobler Architekturen

Holzer Kobler Architekturen was founded in 2004 in Zurich, Switzerland, by Prof. Barbara Holzer and Prof. Tristan Kobler. The studio focuses on the intersection between architecture and scenography, developing thematic concepts of space based on the criteria of environment, function and atmosphere. In 2008 *Holzer Kobler Architekturen* was awarded the Grand Prix Design by the Swiss Confederation for its work in the field of exhibition design.

www.holzerkobler.ch



Positioning of objects. Bottles: Design by Klaas Kuiken, Image: ©Holzer Kobler Architekturen

process depends on global exchange and the free creative activity of designers. Good ideas about the fundamental issues of life are not governed by geographical or political considerations; they are of equal concern for human beings right around the globe.

Design, then, is inescapable. We are constantly surrounded by things that help to mould our lives. Design is our culture made visible and manifested in objects. It reflects the economic and social context, and develops continuously through dialogue with that context. Design seeks answers to global questions, and responds to the constantly shifting parameters that define them. Design matters to all of us, because we spend our lives in a world that design has shaped.

About BIDT and the Forum

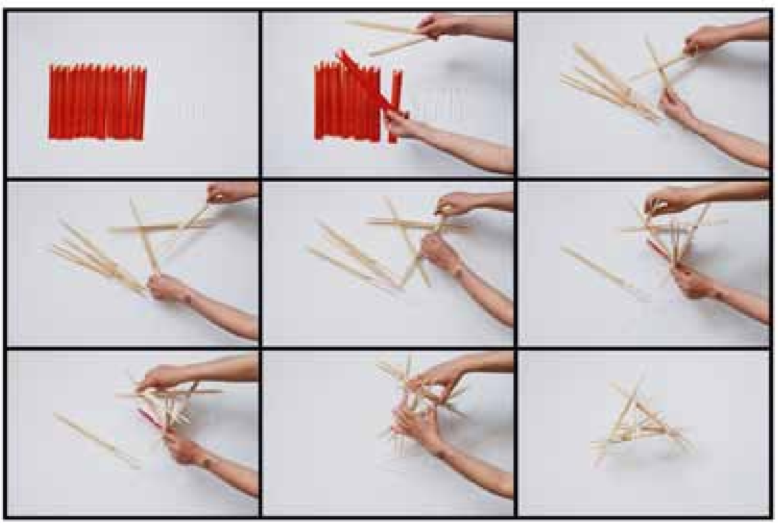
The First Beijing International Design Triennial (BIDT) will be held from September 28 to October 17, 2011 in the National Museum of China, which is located on the east side of the famous and bustling Tian'anmen Square in Beijing. It is hosted by the Ministry of Culture of the People's Republic of China, Ministry of Education of the People's Republic of China, China Federation of Literary and Art Circles, and People's Government of Beijing Municipality, and is organized by Tsinghua University together with the Beijing Gehua Cultural Development Group and Beijing Industrial Design Center.

The Beijing International Design Triennial adopts as its basis the internationally popular "triennial" format, and will be held every three years. The designers and objects selected come from all over the world. BIDT is the most academic, forward-looking and high-level comprehensive design exhibition in China. It is an important milestone, not only for China but also for design throughout the Asian region. The exhibition features first-class international design as an expression of human achievement and also provides a platform for Beijing's creative industry. It is expected that BIDT will attract around 1.5 million visitors.

Forum:

An international symposium will accompany the exhibition. It will take place from September 28 to October 1 at the same site.

www.bidt.org



Chopstick Pixels: ©Holzer Kobler Architekturen

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Asian Debut of NAVYBOOT in Shanghai

Navyboot made its Asian debut with Formula 1 champion Michael Schumacher and Navyboot's Creative Director Adrian J. Margelist, who developed the Navyboot Msone Collection together and were launching it just in time for the Formula 1 weekend in Shanghai at the Modern Museum of Contemporary Art (MoCa) on April 16, 2011. The launch event started with an art movie from Michel Comte, followed shortly afterwards by the ceremonial unveiling of the limited luxury sneaker collection from MSone.

Navyboot sent out invitations and around 500 guests came including international blogger Bryan Boy, DJanes Samantha Ronson from Los Angeles, Alexandra Richards from New York, Swiss star photographer Michel Comte and his wife Ayako, Vivian Wu, one of the most famous Chinese Hollywood stars, society lady Charlie Yeung from Hong Kong and Ruby Lin, the famous actress from Taiwan. The atmosphere could not have been better and the celebrations lasted well into the early hours.

Collection Inspired by the Chinese Lucky "8

"The shoes look amazing. Although these are men's shoes, I wish I could wear them tonight," said Samantha Ronson, commenting on the evening. Michael

The Starboot is limited to 88 pairs and costs around 5,000 euros.

Michael Schumacher and Adrian J. Margelist during the launch event.

Schumacher, who was unable to stay very long because of the race the next day, already wears the shoes. "It's a super feeling being able to wear your own shoes. My ideas were professionally realised by Adrian J. Margelist, and have resulted in these sneakers, which are really cool." Adrian J. Margelist, who mixed among the international crowd, is also extremely satisfied: "The sneakers have turned out really brilliant. A high-end fashion product that's absolutely top class."

MSone, the limited edition sneaker collection, comprises four models that are available in two collector's boxes. The Starboot is limited to 88 pairs, costs around 5,000 euros, and comes with a book signed by Michael Schumacher. The materials are 18-carat gold and red dyed karung leather – the leather of water snakes. The Trilogy Box is limited to 888 pairs and costs around 3,000 euros. The Trilogy consists of pairs for morning, afternoon and nightlife.

The MSone luxury sneakers are exclusively available since midnight, 17 April, at navyboot.com.

Navyboot – Swiss premium shoes and accessories brand

Navyboot was founded in 1991 by Bruno Bencivenga – but the history of the brand goes back well beyond this date. The name Navyboot refers to its inspiration, the boots of the US Navy. The basic idea: A last that results in a virtually universal perfect fit, regardless of foot shape. This long naval tradition of an optimal, time-tested shape manufactured in superior, reliable quality was the defining influence that gave birth to the brand and its first product – a Swiss Made shoe and modern interpretation of "Swissness".

Things moved ahead quickly from there. In 1992 the shoe collection was extended, and from 1993, the product range was broadened in collaboration with licensing partners. The first women's shoe collection was launched in 1996, and the company opened the first Navyboot store in Zurich in 2001. The expansion continued in 2002 with the opening of further independent boutiques. In 2008, a new chapter in the history of the Navyboot brand began with its acquisition by the Gaydoul Group, under the leadership of Swiss entrepreneur Philippe Gaydoul. In 2010, Adrian J. Margelist was appointed Creative Director, taking responsibility responsible for the entire product range. The Gaydoul Group is actively developing Navyboot to make it an internationally leading premium brand for shoes and accessories.

The artichoke, the symbol of Navyboot, symbolizes the many-facetted quality of the brand and its four different collections, united by a single unique signature design – analogous to the coveted heart within the plant. The artichoke, with its leaf-by-leaf layered construction is also a symbol for time and consistency.

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Asian Firms Ponder "Location Switzerland"

Switzerland faces a tough battle to persuade a multitude of Asian companies to set up headquarters or other operations inside its borders. Firms in China, India and other Asian nations are extending their global reach as their economies boom. Switzerland already attracts European and United States operations, but is viewed by many Asians as a tourist destination.

A study conducted in 2009 estimated that between 1'400 and 3'200 Chinese, Taiwanese, Indian and South Korean companies could consider setting up European HQs within the next 15 years. The report – compiled by the Osec Swiss Business Hub, the Swiss-American Chamber of Commerce and McKinsey consultants – believes 120 to 260 of these firms could choose Switzerland as a destination.

That would generate up to 120'000 new jobs and contribute an extra CHF 20 billion (U$22 billion) to the Swiss economy. But the potential goldmine of Asian companies remains tantalisingly out of reach until Switzerland improves its image as a business destination in Asia and can show that being outside the European Union is no hindrance to foreign firms.

Not just taxes

One Chinese company – GA Pak, that manufactures aseptic packaging for the food industry – recently set up its European HQ in Winterthur. GA Pak's Director of International Business, Peder Berggren, admitted that his European background and past experience of living in Switzerland helped to point him in the direction of the country.

Switzerland's central location, good transport links to key markets, highly skilled workforce and strong financial centre were bigger pulls than low corporate tax rates. "Tax figured as a criterion, but it was not high up on our agenda," Berggren told swissinfo.ch. Switzerland's close trade and administrative links with the EU make up for the Swiss opting out of the European economic bloc, according to Berggren. And he found that the multi-layered cantonal set-up accelerated access to local decision makers.

"Switzerland is straightforward, well regulated and an uncomplicated place to set up a business," he said.

But while Winterthur will be the setting for up to 15 staff conducting management, human resources and service operations, GA Pak is building its first manufacturing plant in Germany. "We chose Germany as a manufacturing base because it is an optimum location for shipping while offering a skilled work force and low labour costs," Berggren told swissinfo.ch. "There are a number of regions within the EU that offer incentives to attract inward investment."

Catching up

The strong suggestion is that large scale operations with lots of staff would struggle to find a home in Switzerland on cost efficiency grounds. Another Chinese company that came to Geneva amidst much fanfare in 2007 relocated its HQ to London two years later. Online trading giant Alibaba told swissinfo.ch that, rather than finding a problem with Switzerland, it decided to move closer to its main customer base that was fast expanding in Britain.

There have been some recent examples of Asian firms investing in the Swiss market. These include Indian software firm Birlasoft, Taiwanese computer makers ASUS, Japanese medical devices manufacturer Terum and Chinese solar energy specialist Suntech. Switzerland is striving to close the gap on other countries, such as Germany, Sweden, Britain, France and the Netherlands, that have so far taken the lead as preferred locations. The Netherlands took up 45 per cent of Japan's foreign direct investments in Europe in 2008 compared to 0.5 per cent for Switzerland. Indian firms have also traditionally looked more to Britain due to the historical links between the two nations.

Image improvement

There is hope that a free trade agreement sealed with Japan in 2009 and the launch earlier this year of negotiations for a similar treaty with China will boost Switzerland's standing among Asian firms. Osec has also combined with the State Secretariat for Economic Affairs (Seco) and cantonal clusters to set up business hubs around the world in an effort to boost Switzerland's profile.

Those efforts are starting to pay off, according to Zhen Xiao, general manager of the Swiss Center Shanghai. "Entrepreneurs used to think of Switzerland as a nice place to visit, but not as a centre of technology and industry," he told swissinfo.ch. "That perception is changing as Chinese firms look to move closer to their new customers. Apart from competitive tax rates, Switzerland's flexible labour laws, and the more widespread use of English compared to some other countries, is being recognised."

Establishing an initial cluster of pioneering Asian firms in Switzerland is an essential first step as experience shows that newer companies tend to follow the same path as their predecessors.

By Matthew Allen
www.swissinfo.ch

New Regional Director Asia Pacific at Osec Trade & Investment Promotion

Wolfgang Schanzenbach
Regional Director
Asia Pacific at Osec

Mr Wolfgang Schanzenbach, born 1957, has joined Osec Trade & Investment Promotion Switzerland in Zurich as new Regional Director Asia Pacific in September 2010. He has studied Business Administration in Zurich and attended senior executive programmes at the Columbia University in New York and at the INSEAD University in Singapore. Wolfgang looks back on thirty years of practical experience in consulting, sales, marketing and business development in and with all major economies across Asia Pacific.

He has started his professional career 1975 with one of the world's leading logistics companies Kühne & Nagel International. During the next five years, various projects brought him to North African countries and the West Coast of America where he was involved in the execution of demanding supply chain and turn-key projects with GTE International and Northrop Aircraft Group. Early 1980 he joined SiberHegner Raw Materials Group in Zurich/Switzerland where he was in charge for the Global Business Unit Chemicals. From head office he was thereafter expatriated to Japan, where he took up a new assignment at Nihon SiberHegner K.K. Tokyo/Japan as Managing Director, Member of the Country Management Team and an operational responsibility as EVP for the global Business Unit Food & Ingredients. After four successful years in Japan, Wolfgang moved on to Manila, where he became the Country Head of Edward Keller (Philippines) Inc. A classic turnaround situation was completed to the fullest satisfaction of head office, who decided to post Wolfgang back to Japan March 2006 to take up the post of President and Head of Country Management Team of DKSH Japan K.K. in Tokyo, where he stayed until March 2010. At the same time he was co-managing the Global Business Unit Performance Materials with more than 1'000 industry specialists and USD 720 mio revenues. After a short break, he returned back to Zurich and was named Regional Director Asia Pacific at Osec Trade & Investment Promotion Switzerland, the country's leading center of competence for export and location promotion.

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Switzerland Trade & Investment Promotion

The Swiss-Chinese Chamber of Commerce, responsible for the mandate Switzerland Trade and Investment Promotion for Greater China on the Swiss side, organised in cooperation with Osec various events for Chinese delegations visiting Switzerland with the purpose to look into the advantages of investing in Switzerland as a business location. Representatives of the Cantons and if requested by the delegations, Swiss companies were invited to the meetings too. Below you find a summary of the delegations received in the first half 2011.

process developments and to learn about the product trends in this industry.

At Osec Zurich, the delegation also met Martin Heller, Managing Director of Vertriebswerk Ltd., who gave a presentation about Historic Swiss Watch Brands and their long-standing history and brand labels. The programme closed with lively discussions, before the delegation left for additional appointments with Swiss companies in the western part of Switzerland.

Esther Poertig

CCPIT Henan Provincial Committee – The Economic and Trade Delegation

On March 7th, a delegation from Henan Province headed by Mr Hu Jinbao, Vice President, China Council for the Promotion of International Trade (CCPIT) Henan Provincial Committee, has been welcomed by the Swiss-Chinese Chamber of Commerce (SCCC) and Osec in Zurich with the aim to promote Switzerland as an attractive business location for Chinese business and investors.

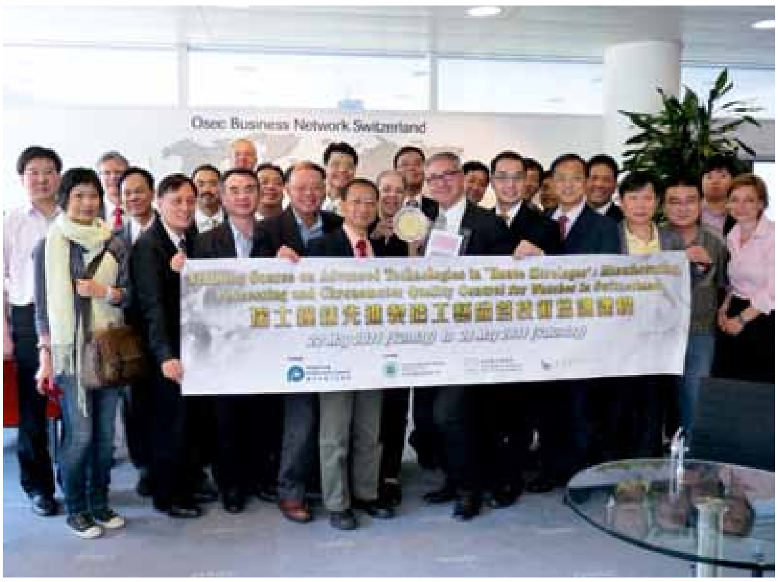
To further enhance business relationships between China and Switzerland, Hu Jinbao, Vice President, China Council for the Promotion of International Trade (CCPIT) Henan Provincial Committee and Susan Horváth, Executive Director of the Swiss-Chinese Chamber of Commerce, have signed a mutual cooperation agreement.

Delegation from Henan headed by Hu Jinbao, Vice President CCPIT Henan Provincial Committee.

Hong Kong Delegation of the Hong Kong Watch and Technology Centre

On May 23rd, Alan Y. L. Fan, Vice President of the Hong Kong Watch Manufacturers Association and his fact finding delegation has been welcomed by the Swiss-Chinese Chamber of Commerce and Osec to promote Switzerland as an attractive business location and to provide business matching opportunities as well as to initiate possible partnerships with other companies in the watch industry.

Through the continuous pursuit for high quality products, the Swiss Watch Manufacturers have earned the reputation of being one of the best watch industries in the world. In light of this, the Hong Kong Watch Manufacturer's Association and the Federation of Hong Kong Watch Trades & Industries were collaborating with the Hong Kong Watch & Clock Technology Centre of the Hong Kong Productivity Council to organize a five-day-mission to Switzerland with the aim of exploring manufacturing technologies and



Delegation from Hong Kong lead by Alan Y. L. Fan, Vice President of the Hong Kong Watch Manufacturers Association.

(center) Jean-Luc Cornaz, Director Investment Promotion Osec, Xue Zhongxi, President of CCPIT Zibo Sub-Council Shandong Province, Josef M. Mueller, President Geneva Chapter SCCC and Philippe D. Monnier, Executive Director Greater Geneva Berne area (GGBa).

CCPIT Zibo Sub-Council Shandong with its delegation in the field of chemistry

On June 14th, the President of CCPIT Zibo Sub-Council Shandong Province, Mr Xue Zhongxin, and his delegation in the field of chemistry has been welcomed by the Geneva Chapter of the Swiss-Chinese Chamber of Commerce and Osec in Lausanne to promote Switzerland as an attractive business location in the western part of Switzerland.

Apart from visiting the ChemSpec Europe exhibition, having taken place in Geneva on June 15th and 16th, the purpose of the delegation's undertaking was to study the chemical market of Switzerland and the Swiss chemical product categories. Along with potential cooperation prospects, they also looked into possible investment opportunities.

(center, f.l.t.r.) Ms Li Jing, Deputy Director-General of the Department of Commerce of Shaanxi Province, Consul General Liang Jianquan, Ma Zhongping, Chairman of the Shaanxi Provincial Committee of the Chinese People's Political Consultative Conference.

Delegation of Shaanxi Province – "A Synopsis of Shaanxi Province China"

On July 14th, Mr Ma Zhongping, Chairman of the Shaanxi Provincial Committee of the Chinese People's Political Consultative Conference and Ms Li Jing, Deputy Director-General of the Department of Commerce of Shaanxi Province (DOFCOM) and their government and economic delegation have been welcomed by the Swiss-Chinese Chamber of Commerce and Osec in Zurich.

The delegation from Shaanxi Province, which also hosted the second round of the free-trade-agreement (FTA) negotiations between Switzerland and China in Xi'an from July 5th to 7th 2011, has been accompanied by Ms Liu Lei, First Secretary of the Economic & Commercial Section of the Chinese Embassy to Switzerland and Mr Liang Jianquan, Consul General of the Chinese Consulate General to Switzerland.

Various presentations enhanced the bilateral business relations between Switzerland and China and gave insight into the advantages of investing in Switzerland and for Swiss companies investing in Shaanxi. The networking lunch reception held at the premises of Osec, was sponsored by the Department of Commerce of Shaanxi Province (DOFCOM) and served as an excellent platform to deepen business contacts.

Susan Horváth, Executive Director SCCC and Hu Jinbao, Vice President, CCPIT Henan signed a mutual cooperation agreement.

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Mountains don't Separate – they Unite

Anhui Signs Tourism Cooperation Agreement with Interlaken

On the occasion of the high-ranking visit of China Anhui Provincial Government led by Vice Governor, Ms Hua Jianhui, the China Anhui Provincial Tourism Administration, the China National Tourist Office Zurich and the Swiss-Chinese Chamber of Commerce invited Swiss government and business representatives to a seminar on friendly tourism cooperation between Anhui and Interlaken. The seminar was part of two visiting programmes in Switzerland organized by the Swiss-Chinese Chamber of Commerce for the government and tourism delegation in mid June 2011.

Mr Hu Xuefan, Director General, China Anhui Provincial Tourism Administration co-signing the agreement with Mr Urs Kessler, CEO, Jungfrau Railways (r.) and with Mr Stefan Otz, General Manager of Interlaken Tourism (l.). Among witnesses in the back (center): Vice Governor, Ms Hua Jianhui, China Anhui Provincial Government, and Urs Graf, Mayor of City of Interlaken.

The event, hosted by the China Anhui Provincial Tourism Administration, took place on June 17th during the Swiss Yodel Festival in Interlaken at the Victoria-Jungfrau Grand Hotel & Spa and was followed by a signing ceremony and an official dinner.

The agreement on establishing friendly cooperative relations between Anhui and Interlaken has been signed by Mr Hu Xuefan, Director General, China Anhui Provincial Tourism Administration, Mr Stefan Otz, General Manager of Interlaken Tourism and Mr Urs Kessler, CEO, Jungfrau Railways.

A delegation of the sister city of Interlaken, Huangshan city in Anhui Province, led by Mr Wang Xiujuan, Vice President of the Huangshan Municipal People's Congress and Mr Urs Graf, Mayor of City of Interlaken, joined the seminar and its consecutive programme.

In 2002, the first agreement has been signed to twin the world-famous peaks of the Huangshan mountain range and the Jungfraujoch – Top of Europe; both belonging to the UNESCO World Natural Heritage. This was also taken as the occasion to link the resorts of Interlaken and Huangshan as sister cities in 2008.

The government and tourism delegation from Anhui Province on the Sphinx platform of the Jungfraujoch.

The delegation members of the China Anhui Provincial Tourism Administration, led by Deputy Director Ms Zhang Xueping (center) at the farewell station.

Commemorating the twin-mountain relationship at the Top of Europe.

"Anhui Province is one of the top ten tourism destinations in China, attracting about 2.5 million visitors every year," said Mr Wang Yongming, Director General of Huangshan Tourism Development. "Montains don't separate – they unite," said Urs Kessler, CEO of Jungfrau Railways. "About 30'000 guests from China visited the Jungfraujoch in 2010," he continued and adding, "for this year, we count with about 50'000 to 60'000 visitors from China." In 2012, the Jungfrau Railways is going to celebrate it's 100th anniversary and hopes to break the record of 100'000 guests from China.

Summary by Susan Horváth

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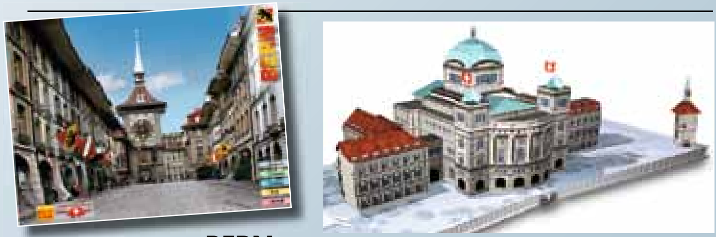

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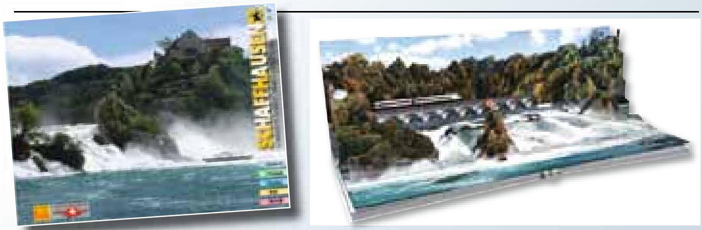

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Hainan Airlines – Exclusive Non-stop Carrier between Zurich and Beijing

Hainan Airlines started its exclusive non-stop service between Zurich and Beijing on May 31st, 2011. It is the largest non-governmental airline of China, and as well the exclusive Skytrax 5-star service airlines in mainland China. The aircraft to be used between Zurich and Beijing is A330 with 34 business class and 179 economy seats. The flight is to be operated with a frequency of 3 flights per week, respectively on Tuesday, Thursday and Sunday. The frequency is much likely to be increased if the market demand is higher.

Ludwig Zhang, General Manager of Hainan Airlines Zurich (l.) with Ambassador Wu Ken at the inaugural event in Zurich.

Hainan Airlines has been awarded the Best China Airline and the Staff Service Excellence of China by Skytrax in June 2011 and is the 7th 5-star airline of the world. Hainan Airlines has a top record on safety from its start-up of operation in 1993. It has been awarded the prize of "Golden Eagle Cup" and "Golden Award of Passengers Satisfaction Service" by CAAC, which represent the top level of safe operation and excellent service. It has also won the award in the activity of "Passengers Commenting Airlines", and won the first prize of "National On-Time Performance Airline" with above 80% punctuality rate of flights.

Zurich is Hainan Airlines' 4th European destination after Budapest, Brussels and Berlin. Hainan Airlines' departing time will be 13:20 local time in Zurich, and will arrive at Beijing International Airport around 5:20 local time the next morning. The departing time from Beijing is 1:50 local time while the landing time at Zurich Airport is around 7:05 on the same day. The excellent slot provides perfect connections, if passengers are to travel further beyond these two destinations. Besides, Hainan Airlines forms code sharing connection with its prime partner, AirBerlin, from Zurich to Beijing via Berlin. Hainan Airlines' start-up of non-stop service between Zurich and Beijing provides almost daily options for business travellers on this route.

The crew of Hainan Airlines of the inaugural flight in Zurich on May 31st 2011.

Ready for take-off; inaugural celebration at Zurich Airport on May 31.

In Beijing, Hainan Airlines connect nearly 100 destinations in China or other countries. There are more than 70 flights per day departure from Beijing, in addition to the overall 350 flights per day. The Terminal 1 of Beijing International Airport is dedicated to Hainan Airlines, and 20 minutes before departure will make you board on time. Besides, the whole terminal provide you convenient enquiry and quick check-in.

Hainan Airlines' business class passengers can book free limousine service in advance to drive between Beijing International Airport to downtown. In Beijing, Hainan Airlines will carry passengers further to 41 major cities in China within a 2-3 hours' transfer. If a transfer flight is 5 hours later, Hainan Airlines will provide its passengers with free accommodations around the airport.

Hainan Airlines provides 30 kilograms free baggage allowance for economy class, and 40 kilograms for business travellers. If passengers fly to Shanghai, Shenyang, Guangzhou, Nanjing, Wenzhou and Hangzhou, the airline will offer free add-on.

If companies or individuals have a large demand of transport between Beijing and Zurich, Hainan Airlines is glad to offer a corporate client agreement on a win-win approach. They also offer membership to their Fortune Wing Club to enjoy favourable treatment whenever flying Hainan Airlines or their partner airlines.

For further information please contact:
Ludwig ZHANG, General Manager
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Email: zr_zhang@hnair.com

Tickets can be ordered at any travel agency or at www.global.hnair.com

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Membership Card Values

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

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

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

TRAVEL/DELEGATIONS

Alpine Sightseeing GmbH
Heerenschürlistr. 23
CH-8051 Zürich
✆ 044-311 72 17
Fax 044-311 72 54
otofrei@yahoo.com
CULTURE AIR TRAVEL SA
8C Avenue de Champel
Case postale 434
CH-1211 Genève 12
✆ 022-839 81 81
Fax 022-839 81 80
info@catvoyages.com
www.catvoyages.com
FTE GmbH
Zunstrasse 9A
CH-8152 Opfikon
✆ 044-322 66 88
Fax 044-322 66 90
victor@fte.ch
www.fte.ch

RESTAURANTS

China Restaurant Rhein-Palast
Untere Rheingasse 11
CH-4058 Basel
✆ 061-681 19 91
Fax 061-261 99 46
China Restaurant BAO TAO
Bernstrasse 135
CH-3627 Heimberg
✆ 033-437 64 63
Fax 033-437 64 62
BAMBOO INN
Culmannstrasse 19
CH-8006 Zürich
✆ 044-261 33 70
Fax 044-870 38 88
closed on mondays
Restaurant CHINA-TOWN
Bälliz 54
CH-3600 Thun
✆ 033-222 99 52
Fax 033-222 99 52
Mishio Restaurant & Take away
Sihlstrasse 9
CH-8001 Zürich
✆ 044-228 76 76
Fax 044-228 75 75
www.mishio.ch
RESTAURANT ORSON'S & BISTRO ACE
Steinwiesstrasse 8
CH-8032 Zürich
eig. Parkplätze
✆ 044-267 87 02
Fax 044-251 24 76
info@claridge.ch
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

BUSINESS CENTER

Avireal Business Center
Balsberg
P.O. Box
CH-8058 Zurich Airport
✆ +41 43 813 30 00
Fax +41 43 813 30 31
bc@avireal.com
www.avireal.com

HOTELS

CLARIDGE HOTEL ZURICH
specialised in hosting Chinese Customers
Steinwiesstrasse 8–10
CH-8032 Zürich
✆ 044-267 87 87
Fax 044-251 24 76
info@claridge.ch
www.claridge.ch
Shangri-La Hotels & Resorts
Britta Ripke-Stoll
Director of Sales
Germany, Austria & Switzerland
✆ 0221 5509931
Fax 0221 550 9932
bripke-stoll@shangri-la.com
www.shangri-la.com
Swiss Road Hotel
Jie Schneebeli-Chen
Director
48. Jianchang Hutong
Guozijian Street
East District
CN-100007 Beijing
✆ 0086 10 84001034 (Reception)
✆ 0086 10 84090922 (Office)
Fax 0086 10 84090933
hotel@swissroad.com.cn
www.swissroad.com.cn

CHINA CENTERS / LANGUAGE SCHOOLS

Tang Ren China Zentrum
Stadlerstrasse 147
CH-8404 Winterthur
✆ 052-223 20 06
secretariat@tangren.ch
www.tangren.ch
Centro Culturale Cinese „Il Ponte"
Via Ciseri 2
CH-6900 Lugano
www.qiaoliang.ch
Corsi e Traduzioni:
✆ 091-921 29 03
info@qiaoliang.ch
Servizi Turistici:
✆ 091-921 34 81
marco@cetrocinese.ch