

## China: Annual economic report – November 2006 update

### 1. Appreciation of the economic problems and issues

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

**Rising incomes have boosted retail sales** year-to-year by 13.6%. The gradual shift to consumer services hints at big opportunities for Swiss consumer goods and services companies, especially with 2006 being the last year of the phase-in period of China's WTO commitments. Banking, insurance, professional services, retail and telecoms are key sectors of interest for Swiss companies as geographic and functional limitations are set to be abolished by the end of 2006.

In late December 2005, the National Bureau of Statistics published **new GDP figures that were far larger** than what had been previously calculated. This was due to data collection problems and a gross underestimation of China's service sector, especially small businesses. Released figures have put GDP growth (cf. annexe 2) at 10.2 % for the first quarter of 2006 and 10.7% for the first three quarters of 2006, thus **maintaining fears of an overheating economy**. Broad money supply grew 18.8%, far exceeding the central bank's 16% target. This surge of easy credit has caused analysts to worry about the dual risks of a housing bubble in the sizzling real-estate market and of an increased debt-burden due to non-performing loans. The Government seems ready to address both issues. It raised its one-year benchmark lending rates by 27 base points to 5.85% in April and announced a string of measures aimed at curbing real estate prices in major cities. The Government has also raised fuel prices by 15% since the beginning of the year in order to bring them more in line with international crude oil prices and ease the financial burden on Chinese refiners.

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

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

Foreign banks (including Credit Suisse and UBS) have in recent times shown a growing interest in investing in China's state commercial banks. UBS in particular announced a strategic partnership with Bank of China – one of the four largest state-owned banks – in September 2005.<sup>2</sup> This may help in the long and **delicate reform of the banking sector** which is fraught with non-performing loans, especially if the foreign banks get to take part in the state banks' policy and strategy. The China Construction

<sup>1</sup> The latest high at 7.84 was reached on 27 November 2006, a rise of 5.31 % since 21 July 2005

<sup>2</sup> UBS has also taken control of Beijing Securities, a mid-sized brokerage company this autumn, although anti-privatization sentiment was voiced by many in the academic and political fields.

Bank was the first of the large state-owned bank to list its shares, in Hong Kong, with overseas investors with an initial public offering on 27 October 2005. The Bank of China followed suit and raised US\$ 9.7 billion in its May 2006 initial public offering, the largest IPO since April 2000 worldwide.

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## **2. International and regional economic agreements**

### **2.1 Country's policy and priorities**

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

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

**A lack of compliance to WTO rules** is however clearly noted in areas such as agricultural product imports, market access for financial services, discriminatory tax practices against foreign companies (VAT), as well as lack of transparency in trade regulations, of distribution rights provisions for foreign firms and of intellectual property rights enforcement. In the first four years as a member of the WTO, China has also been the target of **numerous anti-dumping complaints**. The latest high-profile case involved the EU imposing anti-dumping duties of nearly 20% on a broad range of footwear products.

So far, China has leant towards being an **advocate of free-trade** within the WTO, demonstrating a strong engagement in issues typically affecting emerging markets – also in the context of its involvement with the Group of 20 developing countries (G 20) led by Brazil – such as the liberalisation of agricultural markets. China wants to give the image of an active WTO-member.

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

Under its WTO accession commitment, China will “fully” open up its banking industry to foreign competition after 11 December 2006. Having progressively relaxed restrictions over the past five years, China will allow foreign banks **access to its RMB retail business and lift all geographic and client constraints** on their operations, eliminating any existing non-prudential measures restricting ownership, operations, internal branching and licenses.<sup>3</sup> The newly revised Regulation on the Administration of Foreign-funded Financial Institutions by the State Council will also allow **subsidiaries of foreign banks** to offer foreign exchange and RMB services to all customers, meaning both corporate and retail customers just as domestic banks, and will also permit **branches of foreign banks** to continue doing foreign exchange business with all customers and RMB business with foreign and Chinese enterprises as they do now.<sup>4</sup> Critics however say that both incorporating their subsidiaries and national treatment - also meaning higher capitalization requirements – will have a negative impact on the apparent opening.

#### **China-ASEAN Free Trade Agreement (CAFTA)**

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

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<sup>3</sup> Special Comment on „China's Banking Sector Opening Under WTO Commitments“, Moody's Investors Services – Global Credit Research, November 2006

<sup>4</sup> China Banking Regulatory Commission Chairman Liu Mingkang's speech about the newly revised Regulation on the Administration of Foreign-funded Financial Institutions by the State Council, 15 November 2006

and the partners signed several trade pacts a month later at the ASEAN-meeting in Vientiane, Laos. The tariff reduction programme was launched in July 2005, the start of a comprehensive implementation of CAFTA.

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

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

### Other international free trade negotiations

- China and Chile signed a FTA at the APEC-Summit in Busan, South Korea, in November 2005, (only a year after negotiations started) which has come into effect on 1 October 2006 and will eventually lift customs fees on the trade of 97% of all trade goods.
- After six rounds of talks between China and New Zealand, Premier Wen Jiabao hinted a comprehensive FTA agreement could be signed within two years during his April 2006 visit to New Zealand. According to officials talks are on track for completion "between April 2007 and April 2008", as stated after the ninth round of talks in October 2006.
- Comprehensive China-Australia FTA-negotiations were launched in April 2005, but due to substantial stumbling blocks, namely in agriculture and industrial goods, are making relatively slow progress. This spring the Australians claimed that the Chinese side was not participating in the spirit in which the negotiations were launched.
- China has also started negotiations on a bilateral FTA with the Gulf Cooperation Council (GCC) and plans to follow suit with MERCOSUR, India and the Southern African Customs Union (SACU)
- After five rounds of negotiations since April 2005, China and Pakistan have agreed on market access and basically wrapped up negotiations on a free trade agreement on 12 November 2006.
- There are also possibilities of future negotiations with South Korea although South Korea's current priority is a deal with the United States.
- Recent meetings with the new Japanese Prime Minister Shinzo Abe and the November 2006 State visit of President Hu Jintao to India included talks on bilateral FTA.

## **2.2 Outlook for Switzerland (potential for discrimination)**

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

**Iceland** has become the first European country to launch a FTA feasibility-study with China. Started in May 2005, after Iceland recognized China's full market economy status, which is a prerequisite for any FTA-negotiation with China, the study was concluded in July 2006. During his bilateral economic mission in July 2005, the Swiss Minister of Economy, Joseph Deiss, presented a proposal on behalf of

Switzerland and the other three members of the European Free Trade Association (EFTA) on whether China was prepared to consider a feasibility study about an FTA with EFTA. In subsequent meetings the Chinese side stated that the idea of an **EFTA-China FTA “should be considered very seriously”** but that it faced serious resource-constraints due to the Doha Round and an increasing number of bilateral free trade negotiations. Seco figures show an important upturn above average in bilateral trade figures following the conclusion of recent FTAs. As both the position of China as an economic partner for Switzerland and the number of FTA between China and other industrial countries will increase, the potential for discrimination will follow the same path unless progress is made in the Doha Round or EFTA-China FTA plans materialize.

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### 3. Foreign trade

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#### 3.1 Development and general outlook

##### 3.1.1 Trade in goods

2005 was yet another remarkable year for China's trade performance. Chinese imports and exports grew to a total of US\$ 1.4 trillion, an increase of 23.1% over 2004, placing the country 3<sup>rd</sup> in the leading trading nations behind the United States and Germany. Exports rose 28% to US\$ 762 billion and imports increased 18% to US\$ 660 billion. While the year 2004's trade surplus of US\$ 32.1 billion was considered an excellent result, **the year 2005's trade surplus figure, standing at US\$ 101.9 billion and estimated at a staggering US\$ 150 billion this year**, is both outstanding and problematic as it raises increasing concerns with China's main trading partners, in particular the US and EU with their huge trade deficits.

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

The **leading Chinese product export categories in 2005** were “office machines and automatic data processing machines,” “telecommunications and parts” and “electrical machinery and household appliances” comprising just over one third of total trade volume.<sup>5</sup> Aggregated textile categories exports amounted to a 17.6% share of exports.<sup>6</sup> “Electrical machinery and household appliances,” “petroleum and petroleum products” and “scientific instruments and apparatus” are the top three Chinese imports, representing just over 42% of total imports.<sup>7</sup>

**China's most important export markets** were the USA (US\$ 162.9 billion, 21.4% of total exports), the EU-25 (19.3%), Hong Kong<sup>8</sup> (16.3%), Japan (11%) and the ASEAN-States (7.3%). The most important countries and/or regions of origin from which China imported products were Japan (US\$ 100.5 billion, 15.2% of total imports), South Korea (11.6%), the ASEAN-States (11.4%), Taiwan (11.3%), the EU-25 (11.1%) and the USA (7.4%).

According to Chinese statistics, the US and EU-25 trade deficits rose by 42.4% and a massive 89.2% respectively (from a trade deficit of US\$ 80.27 billion to US\$ 114.17 billion for the US, and from a trade deficit of US\$ 37.04 billion to US\$ 70.11 billion for the EU)<sup>9</sup> With those figures in mind, tensions in trade between China and its partners are understandable.

Statistics with the General Administration of Customs show that China's foreign trade volume was US\$ 1272.6 billion in the January-September 2006 period, up 24.1 percent year-on-year.

In 2005 the imports out of and the exports into Switzerland grew, according to Chinese statistics, about 7.4% (US\$ 3.9 billion) and 29.3% (US\$ 1.9 billion) respectively.<sup>10</sup> **The share of bilateral trade**

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<sup>5</sup> US\$ 281.1 billion or 36.9%. Source: China's Customs Statistics, in EIU.

<sup>6</sup> US\$ 134.2 billion. Source: *ibid*.

<sup>7</sup> US\$ 238.5 billion. Source: *ibid*.

<sup>8</sup> Hong Kong is an important economic area and international trade partner in its own right but plays a particular role as a port of trans-shipment for Chinese exports, which clearly shows in the trade statistics of the special administrative region (SAR).

<sup>9</sup> Source: calculations based on Mofcom data, see annexe 3 “Bilateral trading partners of the PRC.”

<sup>10</sup> Cf. Annexe 3, which reproduces figures of the Ministry of Commerce (MofCom). Annexe 4 and section 3.2.1 about bilateral trade Switzerland – China / Hongkong use data gathered by the Swiss customs authorities.

**between Switzerland and China was still standing at 0.4% in 2005, while that of the EU was at 15.2%.**

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

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

### **3.2 Bilateral trade**

#### **3.2.1 Trade in goods<sup>11</sup>**

**Swiss export growth to mainland-China** (according to Swiss customs data) **was slower in 2005** than in previous years, growing by 11.72% to CHF 3.43 billion. Imports went up 17.22% to CHF 3.31 billion, resulting in a small trade surplus of CHF 122 million for Switzerland.<sup>12</sup> In comparison, growth rates were still at a very high 25.03% (exports) and an almost equal 17.12 % (imports) in 2004 with a Swiss trade surplus of CHF 0.25 billion. When combining trade data between Switzerland and Hong Kong with that of mainland China for the year 2005 there was a **significant CHF 2.5 billion surplus in favour of Switzerland**, keeping up with the 2004 figure.

The most important imports of goods out of China are machinery, apparatus and electronics (2005 share of imports: 23.50%), textiles, apparel and shoes (23.03%), precision instruments, watches and jewellery (14.20%), chemicals and pharmaceuticals (14.08%). Exports are dominated by machinery, apparatus and electronics (2005 share of exports: 47.19%), chemicals and pharmaceuticals (18.99%) and precision instruments, watches and jewellery (17.31%).

In 2005 Swiss exports to China saw a CHF 54 million (3.46%) increase for machinery, apparatus and electronics, a CHF 103 million increase for precision instruments, watches and jewellery (21.18%) and a CHF 154 million increase for chemicals and pharmaceuticals (31.01%). Energy carriers and objects of art and antiques saw impressive growths (66.57% and 468.74% respectively) although the export volumes in both those categories were smaller. The strongest increases in imports from China were in the "chemicals and pharmaceuticals" and "precision instruments, watches and jewellery" categories (CHF 178 million or +62.19% and CHF 79 million or +20.25%).

**From January to September 2006 exports to and imports from mainland China have again grown 23.48% and 16.78% respectively, year-on-year.** When Hong Kong is added, those figures stand at 20.35% and 16.45% respectively, year-on-year. Those results point to once again accelerating trade between Switzerland and China. In the first nine months of 2006, "machinery, apparatus and electronics" and "textiles, apparel and shoes" still have the largest share of Chinese imports to Switzerland (23.57% and 21.32 respectively). "Machinery, apparatus and electronics," "chemicals and pharmaceuticals," and "precision instruments, watches and jewellery" dominate Swiss exports to China (44.82%, 19.57% and 15.98% respectively).

China is a priority country in the framework of Swiss exports promotion and, as can be seen by the areas which experienced strong increases in exports in 2005 (metals and metal products, machinery, chemicals and pharmaceuticals, precision instruments, watches and jewellery). **Switzerland has a great comparative advantage in sectors which matter to Chinese importers.** One example is the

<sup>11</sup> The figures discussed in this section can be found in annexe 4.

<sup>12</sup> The picture looks brighter for Switzerland if the data for the trade between Switzerland and Hong Kong is added. Altogether, exports amounted to CHF 7.28 billion in 2005, and imports to CHF 4.71 billion. In 2005, Swiss exports to China (incl. Hong Kong) made up 4.46% of global Swiss exports, meanwhile bringing China (incl. Hong Kong) to the position of Switzerland's most important export market and trade partner in Asia, ahead of Japan. Exports from Switzerland to Taiwan went up 3.5% to CHF1.34 billion, and imports increased 3.9% to CHF 0.541 billion.

constant and increasing demand for advanced technology and production equipment linked to the progress of China's manufacturing sector and its development of infrastructure across the country. This sector offers and will continue to offer excellent prospects to Swiss producers of machinery and manufacturing instruments.

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

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

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## 4 Direct investments

### 4.1 Development and general outlook

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

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

Due to the underdeveloped state of Chinese stock markets and because the national currency isn't fully convertible, **foreign investment is 90% direct investment**, and very often greenfield-investment. This system constrains foreign investors but leaves China less vulnerable to attacks on international financial markets as it makes capital withdrawals from direct investments more difficult to arrange. The acquisition of state owned enterprises (SOEs) by foreign investors was made possible under certain conditions in the spring of 2004. The goal is to create an actual market for mergers and acquisitions (M&A). However, as a recent OECD-project on cross-border mergers and acquisitions, co-financed by Seco, has shown, "the regulatory framework for cross-border M&A remains fragmentary, over-complex and incomplete."<sup>13</sup> **Amended foreign Mergers & Acquisitions (M&A)-regulations have entered into force on 8 September 2006**. Although the foreign business community has welcomed the new regulations as they somewhat clarify the complex regulatory environment, concerns have been raised

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<sup>13</sup> China: Open policies towards mergers and acquisitions, OECD Investment Policy Reviews, Paris, 2006.

about the use authorities will make of their new competences: Acquisitions of a target company in a key industry, acquisitions which might affect national economic security or acquisitions which involve a change of control of a famous trademark or established Chinese brand must be reported to the Ministry of Commerce. Failing with this requirement could entail termination or reversal of the deal. Future acquisitions may well be subject to much tighter control and further scrutiny by the Chinese Government. A lack of clarity on terms such as “key industry” and “national economic security” has reinforced those fears. However, some commentators do not agree with the general view that we are **witnessing a “backlash”** but claim that nationally sensitive sectors such as defense and media as well as large state owned enterprises have always been off-limits to foreign investors. As China opens up new avenues for privatization and M&A involving big state companies **a certain prudence by Chinese authorities only seems normal** to those observers.

The loosening of legal regulations and the awareness that various joint ventures (JV) have experienced difficulties with their Chinese partners has influenced more and more foreign investors to tend towards establishing wholly foreign owned enterprises (WFOE). The transformation of an existing JV into a WFOE is time and again attempted, but is in general constrained by considerable administrative and high (compensation) costs. After measures to administrate international investment in the area of trade and changes to the laws on foreign trade came into force on 1 June and 1 July 2004 respectively, **foreign investors have been authorized to set up and run WFOE in the areas of distribution, retail trade and wholesale since 11 December 2004.**<sup>14</sup>

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

Last year, **foreign businesses invested US\$ 60.3 billion in China, down 0.47% from the previous year.** The number of foreign projects approved by the Chinese authorities increased only 0.8% in 2005, after a 2004 growth of 6.3%. The stronger manufacturing capacity, mainly the result of surging FDI inflows in the past few years, has become a major driving force behind China's export surge. **After the first year since 1999 of declining investment in 2005, China's FDI continued to drop slightly by 1.52% during the first three quarters of this year,** amounting to US\$42.589 billion.

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

**China's industrialisation is mainly fuelled by foreign businesses' investments,** in particular out of Hong Kong and the ASEAN region. 29.75% of FDI came from Hong Kong in 2005, making it by far the most important national origin (US\$ 17.9 billion in 2005). A considerable proportion of the investments from Hong Kong come from businesses that left China in the first place for tax purposes and now reinvest to the mainland. The same cycle occurs with the Virgin Islands (the second most important national origin of investment with 14.96% of the 2005 total). In 2005 Japan took over South Korea as the third largest foreign investor (10.82% and 8.57% respectively), while both the American and Taiwanese share of total foreign investment fell dramatically by 22.32% and 30.97% respectively (American FDI represented 5.07% in 2005 and Taiwanese FDI 3.57%). **In 2005, Switzerland's share of FDI in China amounted to 0.34% (US\$ 205.9 million).**

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<sup>14</sup> Cf. Administrative method for foreign investment in the commercial sector of the PRC:  
[http://www.prorenata.com/consulting\\_services/investment/en\\_foreign\\_investment\\_areareg.pdf](http://www.prorenata.com/consulting_services/investment/en_foreign_investment_areareg.pdf)

## 4.2 Bilateral investment flows

**At present, about 300 Swiss firms with over 700 branches are represented in China, employing around 55'000 people.** Estimates put the total amount of direct investments at **over CHF 5 billion, making Switzerland the fifteenth most important national origin of FDI.** However, the precise amount is unknown, since earlier inquiries on the matter by the Swiss Embassy in Beijing were largely ignored by the enterprises. Following indications of the Ministry of Commerce (MofCom), China granted 125 projects with Swiss participation in 2005 (88 in 2004), and 104 projects from January to September 2006 with a total value of US\$152.1 million. In 2005 the actual Swiss FDI totalling US\$ 205.9 million saw an increase of 1.36% over 2004.

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

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

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## 5 Trade, economic and tourism promotion "Country advertising"

### 5.1 Foreign economic promotion instruments

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

#### **Swiss Business Hub China (SBH China)**

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

#### **Location:Switzerland "China"**

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



## **Swiss-Chinese Chamber of Commerce and SwissCham China**

Swiss-Chinese Chamber of Commerce and SwissCham China are private organisations of associations registered in Switzerland and China respectively. Among their members are the leading Swiss companies in the trade, industry and financial sectors. The network consists of about 800 companies and individual members. The Swiss-Chinese Chamber of Commerce was first set up in Zurich in 1980 and established a branch in Beijing in 1995. The latter obtained the status of an independent chamber of commerce according to Chinese law in 2001. As a result, two national organizations are operated today with three regional branches in Switzerland (Zurich, Geneva, Lugano) and three in Beijing, Shanghai and Guangzhou, the latter having opened on 31 March 2006. Their purpose is to promote and support the global success of the Swiss business community in China. Simultaneously, SwissCham China assists a growing number of China-based enterprises in their dealings with Swiss partner companies.

## **The Sino-Swiss Partnership Fund (SSPF)**

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

## **SOFI's China Competence Centre**

SOFI is registering considerable interest for China from Swiss SME's. To respond to these needs, SOFI has established a "China Competence Centre" consisting of Chinese and Swiss experts with a long professional experience in emerging markets in Asia. The Centre maintains a wide network of counterparts throughout China and particularly in all major industrial zones (Beijing, Tianjin, Shanghai, Wuxi, Suzhou, Guangdong, Hong Kong).

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

### **Presence Suisse**

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

### **Tourism**

A consequence of the growing Chinese economy and the rise of (urban) incomes is the **booming tourism industry** for travel outside of China: 28.84 million Chinese travelled abroad in 2004 (an increase of 43% on the preceding year) and is expected to reach 100 million by 2020.<sup>15</sup> Therefore China is a key future market for the Swiss tourism industry. Switzerland was granted **Approved Destination Status (ADS)** by the Chinese Government in 2004. Following the implementation of the policy in September that year, there was a noticeable increase in accepting visa applications. New checks and guidelines were at the same time put into place to reduce the risk of travellers remaining in Switzerland illegally.

117'216 visas were issued to Chinese citizens who spent 230'000 nights in Switzerland in 2004 (over twice as many as in 2003, although the negative effect of the SARS-crisis in that year must be taken into account). Last year saw a downturn to around 97'000 visas, mainly due to irregularities by Chinese tour operators, failing to comply with ADS-rules in Schengen States, which resulted in cancellations. This year, visa figures are expected to reach 2004-levels again. In this respect Switzerland's entry to the Schengen-Agreements, which should take effect on 1 January 2008 is expected to be further beneficial: Swiss Tourism optimistically anticipates 800'000 Chinese overnights in Switzerland by 2009, overtaking the number of Japanese. Swiss Tourism was established in Beijing in 1998 and a second branch was opened in Shanghai this year, Guangzhou should follow next year. What is still seriously lacking to facilitate tourism is a **direct flight linking China and Switzerland**. Respective talks between

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<sup>15</sup> World Tourism Organisation

major Chinese carriers and the competent authorities and relevant airports are still underway, and a positive outcome seems possible by the year 2008.

### **Education**

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

### **Other services**

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

## **5.3 Interest for Switzerland as a location for investment, potential for development**

Investment flows from China to Switzerland have so far been modest with Chinese capital investment mainly in trading companies and SMEs, notably in the service and hospitality industries. However, the acquisition of the Murten-based company Saia-Burgess (electronic devices, switches, motors, control components etc.) in late summer 2005 through Johnson Electrics Holdings, Ltd. Hong Kong, could pave the way mainland companies may go in the next years following the Chinese Government’s Going abroad strategy. Switzerland’s strengths as an investment location are promoted in China by Location Switzerland ([www.locationswitzerland.ch](http://www.locationswitzerland.ch), also presented in Chinese), the cantons and increasingly by the service sector. Location Switzerland: “China”, who carries out systematic market analysis and development has organised some high-level seminars, elaborated brochures, manuals and presentations, assists cantons in their own endeavours in the very demanding Chinese market. Switzerland is most actively advertised with emerging globalizing Chinese companies as a location for international headquarters and business control centres. With a number of recent Chinese investments in different parts of Switzerland the joint efforts of Location Switzerland: “China” and the cantons have already generated results. Main competitors in Europe include Belgium, France, Germany, the United Kingdom, the Netherlands and Sweden, which employs 20 persons in China for its promotional agency “Invest in Sweden”. Like in other Asian countries Switzerland is perceived as a premium location in the heart of Europe, but high living-costs and barriers for entry of Chinese workforce are on the flip-side.

## **5.4 Interest for Switzerland as a financial location, potential for development**

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

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## **6 Useful internet Links (cf. Annexe 6)**

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Edgar Doerig

## **Annexes**

**Annexe 1: Structure of the Economy**

**Annexe 2: Essential Economic Data**

**Annexe 3: Trading Partners**

**Annexe 4: Bilateral Trade Switzerland –China**

**Annexe 5: Foreign Direct Investment**

**Annexe 6: Useful internet links**

## China: Structure of the Economy

	2001	2002	2003	2004	2005*
<b>Distribution of GDP (%)</b>					
Primary Sector	15.8%	15.3%	14.4%	15.2%	12.4%
Secondary Sector	50.1%	50.4%	52.2%	52.9%	47.3%
Tertiary Sector	34.1%	34.3%	33.4%	31.9%	40.3%
<b>Distribution of Labor (%)</b>					
Primary Sector	50.0%	50.0%	49.1%	47.0%	n/a
Secondary Sector	22.3%	21.4%	21.6%	22.5%	n/a
Tertiary Sector	27.7%	28.6%	29.3%	30.5%	n/a
(of which state sector)	10.5%	9.7%	9.2%	8.9%	n/a

## ESSENTIAL ECONOMIC DATA

	2'001	2'002	2'003	2'004	2005
<b>GDP (RMB billion)* / *****</b>	10965.5	12033.3	13582.3	15987.8	18232.1
<b>GDP (USD billion)</b>	1'358.8	1'491.1	1'683.0	1'981.1	2'259.2
<b>GDP per capita (RMB)**</b>	7'651.0	8'214.0	9'111.0	10'561.0	11'000.0
<b>GDP per capita (USD)</b>	948	1018	1129	1309	1363
<b>GDP growth (%)*/ *****</b>	8.3	9.1	10.0	10.1	9.9
<b>CPI inflation (%)*/ *****</b>	0.7	-0.8	1.2	3.9	1.8
<b>RMB:USD exchange rate of BoC of 31 December 2005</b>	8.0702	8.0702	8.0702	8.0702	8.0702
<b>Unemployment rate</b>					
Level - registered (Millions)****	6.9	7.7	8.0	8.3	N/A
Rate - registered in urban (%)*/****	3.6	4.0	4.3	4.2	4.2%
EIU estimates (average in %)	N/A	N/A	N/A	9.9	9.0
<b>Fiscal balance (% of GDP)</b>	-2.6	-2.9	-3.1	-1.5	-1.14
<b>Current account balance (% of GDP)*</b>	1.3	2.4	2.8	3.6	5.6
<b>Total External Debt (% of GDP)*</b>	14.5	13.3	11.8	11.8	12.7
<b>Debt-service ratio (% of exports of g&amp;s)*</b>	8.1	8.4	7.6	3.6	3.0
<b>Gross official reserves (minus imports, USD billion)*</b>	9.4	10.5	10.6	12	13

### Sources:

\*Worldbank 2006

\*\*NBS

\*\*\*MofCom

\*\*\*\*OECD 2006

\*\*\*\*\*EIU

# Trading partners of the People's Republic of China

Exports to Country/ Region	2003	Billion USD	Share %	Growth in % to a comparable previous period	Exports to Country/ Region	2004	Billion USD	Share %	Growth in % to a comparable previous period	Exports to Country/ Region	2005	Billion USD	Share %	Growth in % to a comparable previous period
USA	92.47	21.1%	32.2	USA	124.95	21.1%	35.1	USA	162.90	21.4%	30.4			
Hong Kong	76.29	17.4%	30.5	Hong Kong	100.88	17.0%	32.3	Hong Kong	124.48	16.3%	23.4			
Japan	59.42	13.6%	22.7	Japan	73.51	12.4%	23.7	Japan	83.99	11.0%	14.3			
Korea Rep.	20.10	4.6%	29.4	Korea Rep.	27.82	4.7%	38.4	Korea Rep.	35.11	4.6%	26.2			
Germany	17.54	4.0%	54.2	Germany	23.76	4.0%	36.2	Germany	32.50	4.3%	36.8			
Netherlands	13.50	3.1%	48.3	Netherlands	18.52	3.1%	37.2	Netherlands	25.90	3.4%	39.9			
United Kingdom	10.82	2.5%	34.3	United Kingdom	14.97	2.5%	38.3	United Kingdom	19.00	2.5%	26.9			
Taiwan	9.00	2.1%	36.7	Taiwan	13.55	2.3%	50.4	Singapore	16.60	2.2%	30.8			
Singapore	8.87	2.0%	27.0	Singapore	12.69	2.1%	43.1	Taiwan	16.55	2.2%	22.2			
France	7.30	1.7%	79.1	France	9.92	1.7%	36.0	Russia	13.21	1.7%	45.2			
EU-15	72.15	16.5%	49.7	EU-25	107.16	18.1%	36.9	EU-25	143.71	18.9%	34.1			
APEC	310.61	70.9%	30.1	APEC	416.43	70.2%	34.1	APEC	522.47	68.6%	25.5%			
ASEAN	30.93	7.1%	31.1	ASEAN	42.90	7.2%	38.7	ASEAN	55.37	7.3%	29.1			
EFTA	1.79	0.4%	N/A	EFTA	2.59	0.4%	44.8%	EFTA	3.35	0.4%	29.6%			
Iceland	0.0455	0.010%	146.1	Iceland	0.0460	0.008%	0.9	Iceland	0.0747	0.010%	62.5			
Lichtenstein	0.0022	0.000%	553.7	Lichtenstein	0.0067	0.001%	207.2	Lichtenstein	0.0092	0.001%	38.5			
Norway	0.8993	0.205%	70.6	Norway	1.0287	0.173%	14.4	Norway	1.3219	0.173%	28.5			
Switzerland	0.8397	0.192%	31.6	Switzerland	1.5058	0.254%	79.3	Switzerland	1.9467	0.255%	29.3			
<b>Total</b>	<b>438.37</b>	<b>100%</b>	<b>34.6</b>	<b>Total</b>	<b>593.37</b>	<b>100%</b>	<b>35.4</b>	<b>Total</b>	<b>762.0</b>	<b>100%</b>	<b>28.4</b>			
Imports from Country/ Region	2003	Billion USD	Share %	Growth in % to a comparable previous period	Imports from Country/ Region	2004	Billion USD	Share %	Growth in % to a comparable previous period	Imports from Country/ Region	2005	Billion USD	Share %	Growth in % to a comparable previous period
Japan	74.15	18.0%	38.7	Japan	94.37	16.8%	27.3	Japan	100.45	15.2%	6.5			
Taiwan	49.36	12.0%	29.7	Taiwan	64.78	11.5%	31.2	Korea Rep.	76.82	11.6%	23.4			
Korea Rep.	43.13	10.4%	51.0	Korea Rep.	62.25	11.1%	44.3	Taiwan	74.68	11.3%	15.3			
USA	33.86	8.2%	24.3	USA	44.68	8.0%	31.9	USA	48.73	7.4%	9.1			
Germany	24.34	5.9%	48.3	Germany	30.37	5.4%	25.0	Germany	30.70	4.7%	1.1			
Malaysia	13.986	3.4%	50.5	Malaysia	18.17	3.2%	29.9	Malaysia	20.10	3.0%	10.6			
Hong Kong	11.12	2.7%	3.7	Singapore	14.00	2.5%	33.5	Singapore	16.50	2.5%	17.9			
Singapore	10.48	2.5%	48.8	Russia	12.13	2.2%	24.7	Australia	16.20	2.5%	40.1			
Russia	9.73	2.4%	15.7	Hong Kong	11.80	2.1%	6.1	Russia	15.89	2.4%	31.0			
Thailand	8.83	2.1%	57.6	Australia	11.55	2.1%	58.3	Thailand	14.00	2.1%	21.3			
EU-15	53.06	12.9%	37.7	EU-25	70.12	12.5%	28.8	EU-25	73.60	11.1%	5.0			
APEC	311.18	75.4%	37.5	APEC	419.31	74.7%	34.7	APEC	438.29	66.4%	4.5%			
ASEAN	47.33	11.5%	51.7	ASEAN	62.98	11.2%	33.1	ASEAN	75.00	11.4%	19.1			
EFTA	3.58	0.9%	N/A	EFTA	5.07	0.9%	41.6%	EFTA	5.08	0.8%	0.22%			
Iceland	0.0228	0.006%	57.9	Iceland	0.0273	0.005%	20.0	Iceland	0.0467	0.007%	70.9			
Lichtenstein	0.0096	0.002%	107.9	Lichtenstein	0.0237	0.004%	147.4	Lichtenstein	0.0098	0.001%	-58.8			
Norway	0.8655	0.210%	-6.3	Norway	1.3978	0.249%	61.5	Norway	1.1439	0.173%	-18.2			
Switzerland	2.6833	0.650%	31.7	Switzerland	3.6214	0.645%	35.0	Switzerland	3.8807	0.588%	7.4			
<b>Total</b>	<b>412.84</b>	<b>100%</b>	<b>39.9</b>	<b>Total</b>	<b>561.42</b>	<b>100%</b>	<b>36.0</b>	<b>Total</b>	<b>660.1</b>	<b>100%</b>	<b>17.6</b>			

## Trading partners of the People's Republic of China

Exports to Country/ Region	Jan-Sept. 2006	Billion USD	Share %	Growth in % to a comparable previous period								
USA	146.86	21.2%	25.2									
Hong Kong	108.75	15.7%	27.1									
Japan	66.68	9.6%	8.0									
Korea Rep.	31.95	4.6%	24.7									
Germany	29.11	4.2%	26.6									
Netherlands	21.19	3.1%	16.4									
United Kingdom	17.13	2.5%	25.2									
Taiwan	15.10	2.2%	26.5									
Italy	11.62	1.7%	31.1									
Canada	11.36	1.6%	34.5									
EU-25	128.39	18.6%	24.2									
ASEAN	51.26	7.4%	26.5									
EFTA	3.27	0.5%	n/a									
Iceland	0.0570	0.0%	22.5									
Lichtenstein	0.0099	0.0%	44.1									
Norway	1.2670	0.2%	29.4									
Switzerland	1.9346	0.3%	32.5									
<b>Total</b>	<b>691.22</b>	<b>100%</b>	<b>26.5</b>									
Imports from Country/ Region	Jan-Sept. 2006	Billion USD	Share %	Growth in % to a comparable previous period								
Japan	84.28	14.5%	15.9									
Korea Rep.	65.74	11.3%	18.0									
Taiwan	63.74	11.0%	20.3									
USA	44.65	7.7%	23.7									
Germany	27.67	4.8%	22.2									
Australia	14.06	2.4%	18.8									
Russia	13.56	2.3%	16.5									
Saudi Arabia	11.68	2.0%	31.2									
Brazil	9.61	1.7%	37.0									
France	8.18	1.4%	24.4									
EU-25	66.05	11.4%	21.6									
ASEAN	65.08	11.2%	20.5									
EFTA	4.00	0.7%	n/a									
Iceland	0.0325	0.0%	-7.3									
Lichtenstein	0.0098	0.0%	54.1									
Norway	0.8862	0.2%	17.5									
Switzerland	3.0741	0.5%	7.8									
<b>Total</b>	<b>581.38</b>	<b>100%</b>	<b>21.7</b>									

### Bilateral trade Switzerland - P.R. China, 2004 - 2005

	Class of goods	Import in CHF		Δ	Import share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		2004	2005	in %		2004	2005	in %		
1	Agricultural products	55'778'981	64'680'600	15.96%	1.95%	21'055'758	24'250'909	15.17%	0.71%	-40'429'691
2	Energy carriers	253'026	53978	-78.67%	0.00%	339'524	56554	66.57%	0.02%	511'576
3	Textiles, apparel, shoes	678'250'347	763'245'831	12.53%	23.03%	46'872'231	50'325'551	7.37%	1.46%	-712'920'280
4	Paper, paper products, printed matter	13'756'418	27'135'563	97.26%	0.82%	19'073'538	20'818'139	9.15%	0.61%	-6'317'424
5	Leather, rubber, plastics	150'360'669	173'812'076	15.60%	5.24%	38'874'103	45'587'869	17.27%	1.33%	-128'224'207
6	Chemicals, pharmaceuticals	287'695'837	466'608'348	62.19%	14.08%	497'986'066	652'405'242	31.01%	18.99%	185'796'894
7	Construction materials, ceramics, glass	33'292'552	45'375'900	36.29%	1.37%	12'472'415	7'814'967	-37.34%	0.23%	-37'560'933
8	Metals and metal products	173'404'662	180'710'573	4.21%	5.45%	135'792'980	175'370'881	29.15%	5.10%	-5'339'692
9	Machinery, apparatus, electronics	719'043'161	778'709'172	8.30%	23.50%	1'567'179'381	1'621'404'124	3.46%	47.19%	842'694'952
10	Vehicles	34'693'005	47'781'474	37.73%	1.44%	4'997'677	7'493'490	49.94%	0.22%	-40'287'984
11	Precision instruments, watches, jewellery	391'341'243	470'580'764	20.25%	14.20%	490'809'788	594'757'517	21.18%	17.31%	124'176'753
12	Furniture, toys	278'850'820	288'032'079	3.29%	8.69%	15'303'341	21'618'064	41.26%	0.63%	-266'414'015
13	Precious metal, precious stones, gemstones	4'318'907	3'592'670	-16.82%	0.11%	224'760'437	212'537'301	-5.44%	6.19%	208'944'631
14	Objects of art and antiques	6'068'716	3'725'847	-38.61%	0.11%	227'149	1'291'892	468.74%	0.04%	-2'433'955
	<b>Total</b>	<b>2'827'108'344</b>	<b>3'314'044'875</b>	<b>17.22%</b>	<b>100%</b>	<b>3'075'744'388</b>	<b>3'436'241'500</b>	<b>11.72%</b>	<b>100%</b>	<b>122'196'625</b>

### Bilateral trade Switzerland - Hongkong, 2004 - 2005

	Class of goods	Import in CHF		Δ	Import share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		2004	2005	in %		2004	2005	in %		
1	Agricultural products	852'963	801392	-6.05%	0.06%	53'954'787	32'874'593	-39.07%	0.85%	32'073'201
2	Energy carriers	N/A	585	N/A	N/A	107'496	161368	50.12%	0.00%	160'783
3	Textiles, apparel, shoes	59'171'455	47'157'844	-20.30%	3.36%	106'734'139	102'008'939	-4.43%	2.65%	54'851'095
4	Paper, paper products, printed matter	2'066'843	2'374'659	14.89%	0.17%	13'099'189	8'615'104	-34.23%	0.22%	6'240'445
5	Leather, rubber, plastics	4'137'838	5'430'261	31.23%	0.39%	43'661'632	44'768'043	2.53%	1.16%	39'337'782
6	Chemicals, pharmaceuticals	3'678'778	10'009'147	172.08%	0.71%	354'101'156	303'206'457	-14.37%	7.88%	293'197'310
7	Construction materials, ceramics, glass	1'796'111	1'322'472	-26.37%	0.09%	12'995'391	14'874'493	14.46%	0.39%	13'552'021
8	Metals and metal products	9'772'027	10'173'558	4.11%	0.72%	55'428'425	53'677'914	-3.16%	1.40%	43'504'356
9	Machinery, apparatus, electronics	149'542'101	214'823'035	43.65%	15.29%	389'364'093	361'033'967	-7.28%	9.39%	146'210'932
10	Vehicles	865'962	963107	11.22%	0.07%	550'749	1'837'703	233.67%	0.05%	874'596
11	Precision instruments, watches, jewellery	285'802'546	311'663'876	9.05%	22.19%	1'988'384'342	2'131'259'679	7.19%	55.41%	1'819'595'803
12	Furniture, toys	5'107'112	6'257'269	22.52%	0.45%	34'708'616	32'430'705	-6.56%	0.84%	26'173'436
13	Precious metal, precious stones, gemstones	294'116'064	779'514'702	165.04%	55.49%	1'010'539'750	745'527'840	-26.22%	19.38%	-33'986'862
14	Objects of art and antiques	4'585'202	14'341'337	212.77%	1.02%	9'061'031	13'902'607	53.43%	0.36%	-438'730
	<b>Total</b>	<b>821'495'002</b>	<b>1'404'833'244</b>	<b>71.01%</b>	<b>100%</b>	<b>4'072'690'796</b>	<b>3'846'179'412</b>	<b>-5.56%</b>	<b>100%</b>	<b>2'441'346'168</b>

### Bilateral trade Switzerland - P.R. China incl. Hongkong, 2004 - 2005

	Class of goods	Import in CHF		Δ	Import share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		2004	2005	in %		2004	2005	in %		
	<b>Total</b>	<b>3'648'603'346</b>	<b>4'718'878'119</b>	<b>29.33%</b>	<b>100%</b>	<b>7'148'435'184</b>	<b>7'282'420'912</b>	<b>1.87%</b>	<b>100%</b>	<b>2'563'542'793</b>



**Bilateral trade Switzerland - P.R. China, Jan. - Sep. 2005 and Jan. - Sep. 2006**

	Class of goods	Import in CHF		Δ in %	Import share (%)	Export in CHF		Δ in %	Export share (%)	Trade balance in CHF
		Jan-Sep 2005	Jan-Sep 2006			Jan-Sep 2005	Jan-Sep 2006			
1	Agricultural products	50'637'094	65'527'802	29.41%	2.26%	17'742'998	15'719'866	-11.40%	0.53%	-49'807'936
2	Energy carriers	35456	212611	499.65%	0.01%	409923	762456	86.00%	0.03%	549'845
3	Textiles, apparel, shoes	598'634'853	618'433'657	3.31%	21.32%	58'011'676	77'441'156	33.49%	2.62%	-540'992'501
4	Paper, paper products, printed matter	19'803'075	18'807'833	-5.03%	0.65%	15'863'055	17'334'270	9.27%	0.59%	-1'473'563
5	Leather, rubber, plastics	130'182'634	154'235'976	18.48%	5.32%	33'445'346	47'986'272	43.48%	1.63%	-106'249'704
6	Chemicals, pharmaceuticals	343'893'429	399'844'340	16.27%	13.78%	498'992'904	577'346'072	15.70%	19.57%	177'501'732
7	Construction materials, ceramics, glass	32'839'036	44'752'604	36.28%	1.54%	6'144'398	6'806'427	10.77%	0.23%	-37'946'177
8	Metals and metal products	131'153'331	204'749'347	56.11%	7.06%	118'937'113	127'757'599	7.42%	4.33%	-76'991'748
9	Machinery, apparatus, electronics	561'564'528	683'575'686	21.73%	23.57%	1'120'364'343	1'322'267'303	18.02%	44.82%	638'691'617
10	Vehicles	33'884'261	37'572'567	10.89%	1.30%	4'745'776	6'149'431	29.58%	0.21%	-31'423'136
11	Precision instruments, watches, jewellery	356'972'078	419'819'272	17.61%	14.47%	401'819'795	471'333'723	17.30%	15.98%	51'514'451
12	Furniture, toys	218'345'644	244'928'323	12.17%	8.44%	16'881'024	13'880'779	-17.77%	0.47%	-231'047'544
13	Precious metal, precious stones, gemstones	2'754'582	3'945'676	43.24%	0.14%	95'054'843	265'188'736	178.98%	8.99%	261'243'060
14	Objects of art and antiques	3'231'446	4'279'414	32.43%	0.15%	874062	320698	-63.31%	0.01%	-3'958'716
	<b>Total</b>	<b>2'483'931'447</b>	<b>2'900'685'108</b>	<b>16.78%</b>	<b>100%</b>	<b>2'389'287'256</b>	<b>2'950'294'788</b>	<b>23.48%</b>	<b>100%</b>	<b>49'609'680</b>

**Bilateral trade Switzerland - Hongkong, Jan. - Sep. 2005 and Jan. - Sep. 2006**

	Class of goods	Import in CHF		Δ in %	Import share (%)	Export in CHF		Δ in %	Export share (%)	Trade balance in CHF
		Jan-Sep 2005	Jan-Sep 2006			Jan-Sep 2005	Jan-Sep 2006			
1	Agricultural products	666186	512490	-23.07%	0.05%	22'970'613	22'091'702	-3.83%	0.65%	21'579'212
2	Energy carriers	585	1017	73.85%	0.00%	111187	81526	-26.68%	0.00%	80'509
3	Textiles, apparel, shoes	35'183'330	38'127'003	8.37%	3.37%	112'897'766	115'141'290	1.99%	3.37%	77'014'287
4	Paper, paper products, printed matter	1'821'188	2'016'834	10.74%	0.18%	5'490'480	5'630'360	2.55%	0.16%	3'613'526
5	Leather, rubber, plastics	4'816'401	5'273'533	9.49%	0.47%	32'708'343	37'285'653	13.99%	1.09%	32'012'120
6	Chemicals, pharmaceuticals	9'400'031	7'209'147	-23.31%	0.64%	225'397'636	284'388'124	26.17%	8.33%	277'178'977
7	Construction materials, ceramics, glass	973244	1'258'149	29.27%	0.11%	9'811'312	12'887'226	31.35%	0.38%	11'629'077
8	Metals and metal products	8'093'145	8'128'069	0.43%	0.72%	39'572'153	45'033'486	13.80%	1.32%	36'905'417
9	Machinery, apparatus, electronics	148'536'634	137'981'436	-7.11%	12.21%	252'833'516	306'183'700	21.10%	8.96%	168'202'264
10	Vehicles	932111	694389	-25.50%	0.06%	1'268'609	274381	-78.37%	0.01%	-420'008
11	Precision instruments, watches, jewellery	343'503'564	404'997'215	17.90%	35.85%	1'539'349'332	1'701'312'567	10.52%	49.81%	1'296'315'352
12	Furniture, toys	4'548'535	4'485'727	-1.38%	0.40%	23'686'608	30'232'103	27.63%	0.89%	25'746'376
13	Precious metal, precious stones, gemstones	405'646'045	506'450'031	24.85%	44.83%	622'399'856	843'188'535	35.47%	24.69%	336'738'504
14	Objects of art and antiques	13'081'591	12'701'143	-2.91%	1.12%	11'596'903	11'646'186	0.42%	0.34%	-1'054'957
	<b>Total</b>	<b>977'202'590</b>	<b>1'129'836'183</b>	<b>15.62%</b>	<b>100%</b>	<b>2'900'094'314</b>	<b>3'415'376'839</b>	<b>17.77%</b>	<b>100%</b>	<b>2'285'540'656</b>

**Bilateral trade Switzerland - P.R. China incl. Hongkong, Jan. - Sep. 2005 and Jan. - Sep. 2006**

	Class of goods	Import in CHF		Δ in %	Import share (%)	Export in CHF		Δ in %	Export share (%)	Trade balance in CHF
		Jan-Sep 2005	Jan-Sep 2006			Jan-Sep 2005	Jan-Sep 2006			
	<b>Total</b>	<b>3'461'134'037</b>	<b>4'030'521'291</b>	<b>16.45%</b>	<b>100%</b>	<b>5'289'381'570</b>	<b>6'365'671'627</b>	<b>20.35%</b>	<b>100%</b>	<b>2'335'150'336</b>

## China: Foreign Direct Investment

Rank	Country/ Region	FDI (mio. USD) 2004	Share (%) 2004	Variation (%) year on year	Rank	Country/ Region	FDI (mio. USD) 2005	Share (%) 2005	Variation (%) year on year	Rank	Country/ Region	FDI (mio. USD) Q1-Q3 2006	Share (%) Q1-Q3 2006	Variation (%) year on year
1	Hong Kong	18'998	31.34%	7.33%	1	Hong Kong	17'949	29.75%	-5.52%	1	Hong Kong	13'332	31.30%	2.58%
2	Virgin Islands	6'730	11.10%	16.50%	2	Virgin Islands	9'022	14.96%	34.05%	2	Virgin Islands	7'703	18.09%	1.82%
3	South Korea	6'248	10.31%	39.20%	3	Japan	6'530	10.82%	19.77%	3	Japan	3'237	7.60%	-3.05%
4	Japan	5'452	9.00%	7.87%	4	Sourth Korea	5'168	8.57%	-17.28%	4	Sourth Korea	2'506	5.88%	-2.48%
5	USA	3'941	6.50%	-6.13%	5	USA	3'061	5.07%	-22.32%	5	USA	1'850	4.34%	-0.63%
6	Taiwan	3'117	5.14%	-7.71%	6	Singapore	2'204	3.65%	9.78%	6	Germany	1'575	3.70%	0.78%
7	Cayman Islands	2'043	3.37%	135.85%	7	Taiwan	2'152	3.57%	-30.97%	7	Singapore	1'532	3.60%	-0.15%
8	Singapore	2'008	3.31%	-2.45%	8	Cayman Islands	1'948	3.23%	-4.65%	8	Taiwan	1'527	3.59%	-0.06%
9	West Samoa	1'129	1.86%	14.52%	9	Germany	1'530	2.54%	44.62%	9	Cayman Islands	1'356	3.18%	-0.18%
10	Germany	1'058	1.75%	23.46%	10	West Samoa	1'352	2.24%	19.76%	10	West Samoa	1'057	2.48%	-0.05%
	E.U.-15	4'241	7.00%	7.90%		E.U.-15	5'194	8.61%	22.47%		EU-15	3'931	9.23%	0.64%
	E.U.-25	4'330	7.14%	n/a		E.U.-25	5'260	8.72%	21.48%		ASEAN	23'203	54.48%	-3.06%
	APEC	42'314	69.81%	8.45%		APEC	39'043	64.72%	-7.73%		EFTA	164	0.39%	n/a
	ASEAN	37'271	61.49%	n/a		ASEAN	35'336	58.58%	-5.19%		Iceland	2.20	0.01%	n/a
	EFTA	253	0.42%	n/a		EFTA	235	0.39%	-7.14%		Liechtenstein	0.28	0.00%	n/a
	Iceland	0.50	0.00%	0.00%		Iceland	0.15	0.00%	-70.00%		Norway	9.11	0.02%	n/a
	Liechtenstein	47.80	0.08%	1987.34%		Liechtenstein	2.86	0.00%	-94.02%		Switzerland	152.88	0.36%	19.05%
	Norway	1.78	0.00%	-90.44%		Norway	26.24	0.04%	1374.16%		<b>Total</b>	<b>42'589</b>	<b>100.00%</b>	<b>-1.52%</b>
	Switzerland	203.1	0.34%	12.15%		Switzerland	205.9	0.34%	1.36%					
	<b>Total</b>	<b>60'610</b>	<b>100%</b>	<b>13.28%</b>		<b>Total</b>	<b>60'325</b>	<b>100%</b>	<b>-0.47%</b>					

**Organs composing the State Council****Ministries**

Ministry of Commerce	<a href="http://english.mofcom.gov.cn">http://english.mofcom.gov.cn</a>
Ministry of Commerce - FDI	<a href="http://www.fdi.gov.cn/">http://www.fdi.gov.cn/</a>
Ministry of Finance	<a href="http://www.mof.gov.cn/english/english.htm">http://www.mof.gov.cn/english/english.htm</a>
Ministry of Foreign Affairs	<a href="http://www.fmprc.gov.cn/eng/default.htm">http://www.fmprc.gov.cn/eng/default.htm</a>

**Commissions**

National Development and Reform Commission	<a href="http://en.ndrc.gov.cn/">http://en.ndrc.gov.cn/</a>
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**Other**

National Audit Office	<a href="http://www.cnao.gov.cn/">http://www.cnao.gov.cn/</a>
People's Bank of China	<a href="http://www.pbc.gov.cn/english/">http://www.pbc.gov.cn/english/</a>

**Organs directly under the State Council**

General Administration of Customs (only in Chinese language)	<a href="http://www.customs.gov.cn/Portal0/">http://www.customs.gov.cn/Portal0/</a>
National Bureau of Statistics of China	<a href="http://www.stats.gov.cn/english/">http://www.stats.gov.cn/english/</a>
State Administration for Industry and Commerce (only in Chinese language)	<a href="http://www.saic.gov.cn/">http://www.saic.gov.cn/</a>
State Administration of Taxation (only in Chinese language)	<a href="http://www.chinatax.gov.cn/">http://www.chinatax.gov.cn/</a>
State Food & Drug Administration	<a href="http://www.sfda.gov.cn/eng/">http://www.sfda.gov.cn/eng/</a>
State Intellectual Property Office	<a href="http://www.sipo.gov.cn/sipo_English/default.htm">http://www.sipo.gov.cn/sipo_English/default.htm</a>

**Institutions directly under the State Council**

China Banking Regulatory Commission	<a href="http://www.cbrc.gov.cn/english/index.htm">http://www.cbrc.gov.cn/english/index.htm</a>
China Insurance Regulatory Commission (only in Chinese language)	<a href="http://www.circ.gov.cn/">http://www.circ.gov.cn/</a>
China Securities Regulatory Commission	<a href="http://www.csrc.gov.cn/en/homepage/index_en.jsp">http://www.csrc.gov.cn/en/homepage/index_en.jsp</a>
Development Research Centre of the State Council (only in Chinese language)	<a href="http://www.drc.gov.cn/">http://www.drc.gov.cn/</a>
Xinhua News Agency	<a href="http://www.chinaview.cn/">http://www.chinaview.cn/</a> ; <a href="http://www.french.xinhuanet.com/">http://www.french.xinhuanet.com/</a>

**Further useful www-sites**

China Chamber of International Commerce Beijing (CCOIC Beijing)	<a href="http://www.ccpitbj.com/english/site/siteindex/">http://www.ccpitbj.com/english/site/siteindex/</a>
China Council for the Promotion of International Trade	<a href="http://www.ccpit.org/">http://www.ccpit.org/</a>
Swiss Business Hub China News Update in association with China Economic Review	<a href="http://chinaeconomicreview.com/communities/sendmail.php?comm=sbh">http://chinaeconomicreview.com/communities/sendmail.php?comm=sbh</a>

**Chamber of Commerce**

American Chamber of Commerce in China (AmCham)	<a href="http://www.amcham-china.org.cn">www.amcham-china.org.cn</a>
Austrian Chamber of Commerce in China (WKO)	<a href="http://www.wko.at">www.wko.at</a>
British Chamber of Commerce in China (BCCC)	<a href="http://www.britcham.org">www.britcham.org</a>
Canada China Business Council (CCBC)	<a href="http://www.ccbc.com">www.ccbc.com</a>
China - Australia Chamber of Commerce (AustCham)	<a href="http://www.austcham.org">www.austcham.org</a>
China - Italy Chamber of Commerce (CCIC)	<a href="http://www.cameraitacina.com">www.cameraitacina.com</a>
European Union Chamber of Commerce in China (EUCCC)	<a href="http://www.euccc.com.cn">www.euccc.com.cn</a>
French Chamber of Commerce and Industry in China (CCIFC)	<a href="http://www.ccifc.org">www.ccifc.org</a>
German Chamber of Commerce in China (GCCC)	<a href="http://www.ahk-china.org">www.ahk-china.org</a>
Hong Kong Chamber of Commerce in China (HKCCC)	<a href="http://www.hkccc.com.cn">www.hkccc.com.cn</a>
Swiss Business Council in Hong Kong	<a href="http://www.swiss-biz.org">www.swiss-biz.org</a>
Swiss Chinese Chamber of Commerce Beijing	<a href="http://www.bei.swisscham.org">www.bei.swisscham.org</a>
Swiss Chinese Chamber of Commerce in Switzerland	<a href="http://www.sccc.ch">www.sccc.ch</a>
Swiss Chinese Chamber of Commerce Shanghai	<a href="http://www.sha.swisscham.org">www.sha.swisscham.org</a>

**Swiss governmental organisations**

Osec Business Network Switzerland	<a href="http://www.osec.ch">www.osec.ch</a>
State Secretariat for Economic Affairs (Seco)	<a href="http://www.seco.admin.ch">www.seco.admin.ch</a>
Swiss Business Hub China (SBH China)	<a href="http://www.osec.ch/laenderseite/cn:internal&amp;action=buildframes.action">http://www.osec.ch/laenderseite/cn:internal&amp;action=buildframes.action</a>
Swiss Export Risk Guarantee (ERG)	<a href="http://www.swiss-erg.com/d/index.shtml">http://www.swiss-erg.com/d/index.shtml</a>
Swiss Organisation for Facilitating Investments (SOFI)	<a href="http://www.sofi.ch">www.sofi.ch</a>

**International and other governmental organisations**

Asian Development Bank (ADB)	<a href="http://www.adb.org/PRC/default.asp">http://www.adb.org/PRC/default.asp</a>
Das Auswärtige Amt der Bundesrepublik Deutschland	<a href="http://www.auswaertiges-amt.de/www/de/laenderinfos/laender/laender_ausgabe_html?type_id=12&amp;land_id=32">http://www.auswaertiges-amt.de/www/de/laenderinfos/laender/laender_ausgabe_html?type_id=12&amp;land_id=32</a>
International Monetary Fund (IMF)	<a href="http://www.imf.org/external/country/CHN/index.htm">http://www.imf.org/external/country/CHN/index.htm</a>
Organisation for Economic Co-operation and Development (OECD)	<a href="http://www.oecd.org/infobycountry/0.2646.en_2649_201185_1_70342_119656_1_1.00.htm">http://www.oecd.org/infobycountry/0.2646.en_2649_201185_1_70342_119656_1_1.00.htm</a>