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China: Annual economic report – November 2007 update

1. Appreciation of the economic problems and issues

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

In July 2007, China revised its estimate of 2006 GDP growth from 10.7% to 11.1%. The Chinese economy continued to grow at a brisk pace in 2007. The **GDP grew by 11.5% in the first nine months of the year**. The higher than expected GDP growth recorded for the third quarter was fuelled by a huge trade surplus, booming retail sales and heavy investments in new factories, roads, bridges and real estate projects.
Retail sales grew 17.1% in the year to August, due to rising incomes, but also because of the steady rise in inflation. The consumer price index (CPI) rose by 4.1% in the first six months of 2007. In August, **CPI grew by 6.5% year on year – an eleven year high**. A sharp **increase of 18.2% in food prices**, contributed significantly to the rise of China's CPI.[1] The increase in food prices was mainly caused by higher pork prices, after an illness[2] killed millions of pigs and feed costs were rising. Non-food inflation remains low, at 0.9 %.[3] The central government was giving **priority to combat inflation** with social stability being a big concern ahead of the National Day holiday and the 17th National Party Congress. Price-control measures for consumer goods have therefore been issued.[4] Although the People's Bank of China (PBOC), the central bank, doesn't have a public inflation target, it is generally considered to be aiming to keep the rate below 3%. Despite all signs show that raising the interest rate has little effect to cool the sizzling economy, the PBOC has raised the one-year deposit and lending rate by 0.27 percentage points up to 3.87% and 7.29% respectively on September 15, the fifth time this year.[5]

The above-trend growth in money supply, fuelled by record monthly trade surpluses, the stronger than expected GDP-growth and a booming stock market are all adding to **concerns that the economy could be overheating**.
A growing number of analysts are showing concerns that **China's stock market is in bubbling area**. Despite warnings about the lack of transparency, corruption scandals and companies with shaky financials, capital keeps flowing into the Chinese stock market which had been growing 300% in the past two years. But like other emerging economies, China's stock market is notoriously volatile.[6] The **introduction of a stamp duty** on May 30 managed to push prices down for a while but the underlying incentives for so many Chinese investors to punt in an overheated market remain as the country's investment options stay quite limited. At the same time the raising inflation also means bank saving accounts are earning negative real interest and that is pushing individuals to divert their bank savings into the stock market.[7] Besides the rise of interest rates the PBOC raised bank reserve requirements for the eighth time this year to 13% on October 25, a measure aimed to limit the amount of liquidity shifting into the stock market.[8]

[1] National Bureau of Statistics, 12 September 2007.
[2] Porcine Reproductive and Respiratory Syndrome (PRRS), also called "blue ear disease".
[3] Financial Times, August 14 2007.
[4] South China Morning Post, 20 September 2007.
[5] People's Bank of China, 18 September 2007.
[6] Washington Post, 22 July 2007.
[7] Financial Times, 31 May 2007.
[8] People's Bank of China, 7 September 2007.

Analysts expect that the government has a series of other targeted policies it can steadily introduce to cool the market. A **loosening of the rules that restrict overseas investment** by Chinese funds and individuals and further relaxation could divert money away from mainland equities.[9] In August the China Securities Regulatory Commission issued rules to let public firms issue corporate bonds on a trial basis in a long awaited move to expand their fundraising channels. However, this opening has been closed again in October.
Capital raised by new listings in China is set to exceed $52bn this year, twice the figure forecast in January, putting the mainland on track to become the **world's leading centre for share offering** this year.[10]

China's **foreign-exchange reserve holdings have reached US$ 1.43 trillion** at the end of September highlighting the enormous sums of foreign money flowing into China. The record-breaking monthly trade surpluses are the main cause for these huge inflows. In order to seek higher returns on at least some of that money the Chinese government set up a sovereign investment fund, the China Investment Corporation (CIC), this September, capitalized initially with about US$ 200 billion.
China's **trade surplus for the first half of the year has now reached US$ 113 billion**. The country's large trade surplus with the U. S. and Europe has raised protectionist sentiments in the concerned countries. Therefore the Chinese government has introduced **export tax rebate cuts for energy-intensive products** which came into effect on July 1, 2007. Due to this rebate cuts exports of some products, such as steel, jumped dramatically in the first half. [11]
The **immense political and economic pressure** brought by the enormous trade gap mainly **focuses on the nation's exchange-rate controls**. China is widely criticized for keeping its currency cheap in order to give exporters a price advantage. There are no signs so far that China will yield to U. S. lawmakers' demands for the Chinese currency to rise sharply against the dollar. Although the pressure has been existing for a long time, **the yuan has risen about 3% against the dollar so far in 2007**. The EU also blames that an important part of its current trade imbalance is artificial as **access to the Chinese market is hampered by barriers**. Further the EU demands a better protection of intellectual property rights and copyrights.[12] The central bank continues to repeat its will to keeping the yuan exchange rate "basically stable", as China's foreign exchange policy alone can't resolve its external balances. These are mainly caused by **structural problems in the domestic economy** and the Chinese government accents its will to use fiscal and tax policies to boost domestic demand to resolve the imbalances.[13]
Worldwide concerns about product safety in China are growing. A range of Chinese exports, from fish and toys to pet food, toothpaste and only recently textiles, has been found to be mislabelled, unsafe or dangerously contaminated. So far, the safety scandals have had a **limited impact on exports** as toys and foodstuffs make up only a small part of China's overall exports. However, textiles and clothing made up more than 13% of exports in the first half of the year and will thus be more of a cause for concern for the authorities.[14]

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

Beijing passed a long-awaited **antimonopoly law** on 30 August. The law, which will come into effect on 1 August 2008, was welcomed cautiously by foreign business groups as they hope the law will **contribute to a more open economy** and a level playing field for business in China. However, some

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9 Financial Times, 31 May 2007.

10 Financial Times, 5 July 2007.

11 Financial Times, 11 July 2007.

12 Wall Street Journal, 11 July 2007.

13 Wall Street Journal, 22-24 June 2007.

14 Financial Times, 21 August 2007.

15 Financial Times, August 15 2007.

concerns remain as it allows the government to conduct “national security reviews” of foreign acquisitions of domestic enterprises and could therefore prepare the ground for **protectionism**. Further the government’s definition of abuses of intellectual property rights to create monopolies could be used as justification for **infringement of intellectual property rights**. So far, further clarifications on how the law will be applied are awaited.[16]

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

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 terminated its fifth and final year of WTO-commitments’ implementation on 11 December 2006, there are concerns that trade barriers are being replaced by more subtle obstacles, concealed by the challenges of implementation and enforcement of WTO regulations.

A lack of compliance to WTO rules is however clearly noted in areas such as agricultural product imports, market access for financial services, discriminatory tax practices against foreign companies (VAT), as well as lack of transparency in trade regulations, of distribution rights provisions for foreign firms and of intellectual property rights enforcement. In the first four years as a member of the WTO, China has also been the target of **numerous anti-dumping complaints**. A 2006 high-profile case involved the EU imposing anti-dumping duties of nearly 20% on a broad range of footwear products. In late March 2007 the U.S. Department of Commerce announced tariffs of 10-20% on glossy paper imported from China, to offset the impact of alleged government subsidies. This reversed a 23-year-old policy of not imposing countervailing duties on a non-market economy.[17]

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

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

Under its WTO accession commitment, China “fully” opened up its banking industry to foreign competition on 11 December 2006. Having progressively relaxed restrictions over the past five years, China allows foreign banks **access to its RMB retail business and lifts all geographic and client constraints** on their operations, eliminating any existing non-prudential measures restricting ownership, operations, internal branching and licenses.[18] The revised Regulation on the

[16] Financial Times, 31 August 2007.

[17] The Economist, 19 May 2007.

[18] Special Comment on „China’s Banking Sector Opening Under WTO Commitments“, Moody’s Investors Services – Global Credit Research, November 2006.

Administration of Foreign-funded Financial Institutions by the State Council also allows **subsidiaries of foreign banks** to offer foreign exchange and RMB services to all customers, meaning both corporate and retail customers just as domestic banks, and also permits **branches of foreign banks** to continue doing foreign exchange business with all customers and RMB business with foreign and Chinese enterprises as they did before.[19] Critics say that from a macro point of view, this doesn't mean much for the banking system. Foreign banks will continue to face significant regulatory and market barriers. To offer the full range of local currency services, foreign banks must incorporate their Chinese subsidiaries locally which means high capital requirements. Another obstacle for foreign banks will be the licensing and approval process for individual business lines and branch networks. So far, twelve foreign banks – none of them Swiss - have been allowed to incorporate their Chinese branches into subsidiaries.

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

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

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

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

Other international free trade negotiations

- China and Chile signed a FTA at the APEC-Summit in Busan, South Korea, in November 2005, (only a year after negotiations started) which has come into effect on 1 October 2006 and will eventually lift customs fees on the trade of 97% of all trade goods.
- After six rounds of talks between China and New Zealand, Premier Wen Jiabao hinted in April 2006 a comprehensive FTA agreement could be signed within two years. On the eleventh round of talks in March 2007 progress was made across the board with discussions now well advanced in a number of technical areas of the negotiations. In July New Zealand's Prime Minister Helen Clark expressed her hopes that the FTA will be completed by mid 2009, a year later than scheduled.

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[19] China Banking Regulatory Commission Chairman Liu Mingkang's speech about the newly revised Regulation on the Administration of Foreign-funded Financial Institutions by the State Council, 15 November 2006.

- Comprehensive China-Australia FTA-negotiations were launched in April 2005, but due to substantial stumbling blocks, namely in agriculture and industrial goods, are making relatively slow progress. The ninth round of talks, taking place in June 2007, concluded with few signs of progress. Although the meeting went slightly better than the previous round the expectations for the FTA keep low.
- China has also started negotiations on a bilateral FTA with the Gulf Cooperation Council (GCC) and plans to follow suit with MERCOSUR, India and the Southern African Customs Union (SACU).
- After five rounds of negotiations since April 2005, China and Pakistan have agreed on market access and signed a FTA on 24 November 2006. Under the agreement China and Pakistan will reduce or eliminate tariffs on all products in two phases, the first phase beginning on 1 July 2007. In the first five years both sides will cut tariffs on imports in five categories up to 85 percent. The second round of talks on the "services" chapter was held in August and the negotiations should be concluded by the end of this year.
- In May 2007 China and Peru launched a first joint feasibility study in Beijing with the aim to conclude the study within three months. On their second meeting, held in Lima in late July, the beginning of negotiations on a FTA in the first months of 2008 was announced.
- China and Switzerland decided in July 2007 to look on both sides into the feasibility of a possible FTA.
- China and South Korea conducted two rounds of joint research in 2005 and 2006 which will form the basis for exploring the possibility of initiating FTA negotiations. The next round of talks on a joint study of an FTA will take place in October.
- Early meetings with the new Japanese Prime Minister Shinzo Abe and the November 2006 State visit of President Hu Jintao to India included talks on respective bilateral FTA.

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 has had a certain negative impact on mainland sales figures. This tax affects watches with a value of RMB 10'000 (approx. CHF 1'600) or more, of which 99% are Swiss made.

Iceland has become the first European country to launch a FTA feasibility-study with China. Started in May 2005, after Iceland recognized China's full market economy status, which is a prerequisite for any FTA-negotiation with China, the study was concluded in July 2006. Negotiations concerning the FTA started in April 2007. **In March 2007 Norway also announced to recognize China as a full market economy.** The FTA feasibility-study should be completed by the end of this year and negotiations start in 2008. During his bilateral economic mission in July 2005, the Swiss Minister of the Economy, Joseph Deiss, presented a proposal on behalf of Switzerland and the other three members of the European Free Trade Association (EFTA) on whether China was prepared to consider a feasibility study about an FTA with EFTA. In subsequent meetings the Chinese side stated that the idea of an **EFTA-China FTA "should be considered very seriously"** but that it faced serious resource-constraints due to the Doha Round and an increasing number of bilateral free trade negotiations. Although China reconfirmed in December 2006 to be basically willing to conclude an FTA with all EFTA members, it doesn't seem to want negotiations with the EFTA as a group. Recent developments in Chinese economic relations with Iceland and Norway demonstrate that China now seems to prefer bilateral FTA with the EFTA-members. Seco figures show an important upturn above average in bilateral trade figures following the conclusion of recent FTAs. As both the position of China as an economic partner for Switzerland and the number of FTA between China and other industrial countries will increase, the potential for discrimination will follow the same path unless progress is made in the Doha Round or Switzerland-China FTA plans materialize. On the occasion of **Federal Councillor Leuthard's official visit to China in July 2007 a joint declaration on economic cooperation** was signed. The declaration shall strengthen the bilateral relations on trade, investment and intellectual property rights. Further Switzerland has **recognised China as a market economy**. Both sides agreed to conduct **internal feasibility studies towards a possible Free Trade Agreement**. These studies will investigate if the conditions for an FTA are given. **Two Memorandums of Understanding** (MoU), one on **Investment Promotion** and one on **Intellectual Property**, were concluded during the 17th meeting of the Sino-Swiss Joint Commission taking place at the end of May 2007. The implementation of these two MoU's is a first step to the fulfilment of the Joint Declaration. A first meeting of the working group on intellectual property rights took place at the beginning of September.

3. Foreign trade

3.1 Development and general outlook

3.1.1 Trade in goods

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

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

The **leading Chinese product export categories in 2006** were "machinery and mechanical appliances", "textiles and textiles articles" and "base metals and articles of base metal" comprising almost two third of total trade volume.[20] Aggregated machinery and mechanical appliances categories exports amounted to a 42.7% share of exports.[21] "Machinery and mechanical appliances" and "mineral products" are the top two Chinese imports, representing just over 57% of total imports.[22]

China's most important export markets were the USA (US$ 203.5 billion, 21.0% of total exports), the EU-25 (18.8%), Hong Kong[23] (16.0%), Japan (9.5%) and the ASEAN-States (7.4%).[24] The most important countries and/or regions of origin from which China imported products were Japan (US$ 115.7 billion, 14.6% of total imports), the EU-25 (11.4%), South Korea (11.3%), the ASEAN-States (11.3%), Taiwan (11.0%), and the USA (7.5%).[25]

According to Chinese statistics, between 2005 and 2006 the US and EU-25 trade deficits rose by 26.4% and 30.7% respectively (from a trade deficit of US$ 114.2 billion to US$ 144.3 billion for the US,

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[20] US$ 637.482 billion (US$ 414.065 + 138.101 + 85.316 billion) or 65.7%. Jan-Aug 2007 : US$ 508.118 billion (US$ 323.659 + 105.518 + 78.941 billion) or 66.4% Source: General Administration of Customs of PRC.

[21] US$ 414.065 billion. Jan-Aug 2007 : 42.3% Source: ibid.

[22] US$ 451.728 billion (US$ 328.184 + 123.544 billion). Jan-Aug 2007 : US$ 239.55 + 110.788 billion or 56.3% Source: ibid.

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

[24] Jan-Aug 2007 (in billion US$ and % of total export share) : EU 152.85 (20%), USA 148.61 19.4%), Hong Kong 115.38 (15.1%), Japan 64.95 (8.5%), ASEAN 59.38 (7.8%)

[25] Jan-Aug 2007 (in billion US$ and % of total import share) : Japan 85.25 (14.1%), EU 70.49 (11.7%), South Korea 65.61 (10.9%), ASEAN 68.56 (11.4%), Taiwan 62.36 (10.3%), USA 45.31 (10.3%)

and from a trade deficit of US$ 70.1 billion to US$ 91.7 billion for the EU)[26] **With those figures in mind, tensions in trade between China and its partners are understandable.**

Statistics with the General Administration of Customs show that China's foreign trade volume was US$ 1369.71 billion in the January- August 2007 period, up 24.0 percent year-on-year.

In 2006 the imports out of and the exports into Switzerland grew, according to Chinese statistics, about 9.7% (US$ 4.26 billion) and 28.9% (US$ 2.51 billion) respectively.[27] **The share of bilateral trade between Switzerland and China slightly decreased from 0.41% to 0.38% in year 2006.[28]**

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

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

3.2 Bilateral trade
3.2.1 Trade in goods[29]

Swiss export growth to mainland-China (according to Swiss customs data) **was faster in 2006** than in previous years, growing by 19.15% to CHF 4.09 billion. Imports went up 18.36% to CHF 3.92 billion, resulting in a **small trade surplus of CHF 171.9 million for Switzerland**.[30] In comparison, growth rates were still at a very high 11.72% (exports) and an almost equal 17.22 % (imports) in 2005 with a Swiss trade surplus of CHF 122 million. When combining trade data between Switzerland and Hong Kong with that of mainland China for the year 2006 there was a **significant CHF 3.4 billion surplus in favour of Switzerland**, keeping up with the 2005 figure.

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

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

[26] Trade deficits rose by 17.26 for the US (from US$ 88.09 billion to US$103.3 billion) and 53.8% for the EU (from US$ 53.56 billion to US$82.37 billion) between the period Jan-Aug 2006 and Jan-Aug 2007. Source: calculations based on Mofcom data, see annexe 3 "Bilateral trading partners of the PRC.

[27] Between the period of January and August 2007 the export to and import out of Switzerland grew about 35.4% (US$ 2.329 billion) and 31.7% (US$ 3.5376 billion) respectively. Cf. Annexe 3, which reproduces figures of the Ministry of Commerce (MofCom). Annexe 4 and section 3.2.1 about bilateral trade Switzerland – China / Hongkong use data gathered by the Swiss customs authorities.

[28] Between the period January - August 2006 and January – August 2007 the share of bilateral trade between Switzerland and China slightly increased from 0.3989% to 0.4283%

[29] The figures discussed in this section can be found in annexe 4.

[30] The picture looks brighter for Switzerland if the data for the trade between Switzerland and Hong Kong is added. Altogether, exports amounted to CHF 8.79 billion in 2006, and imports to CHF 5.38 billion. In 2006, Swiss exports to China (incl. Hong Kong) made up 4.74% of global Swiss exports, meanwhile bringing China (incl. Hong Kong) to the position of Switzerland's most important export market and trade partner in Asia, ahead of Japan (3.63%).

instruments, watches and jewellery" categories (CHF 189 million or +24.25% and CHF 109 million or +23.21%).

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

China is a priority country in the framework of Swiss exports promotion and, as can be seen by the areas which experienced strong increases in exports in 2006 (machinery, chemicals and pharmaceuticals, precision instruments, watches and jewellery). **Switzerland has a great comparative advantage in sectors which matter to Chinese importers.** One example is the constant and increasing demand for advanced technology and production equipment linked to the progress of China's manufacturing sector and its development of infrastructure across the country. This sector offers and will continue to offer excellent prospects to Swiss producers of machinery and manufacturing instruments., also bearing in mind that the business-cycle has peaked in some areas.

The shift of life-style and consequently of consumer behaviour among wealthier urban citizens to a more westernised consumption pattern has created an **increasing demand for established and high quality brands and luxury items** – from packaged foods to branded clothes to luxury watches. On the one hand, this is an excellent prospect for Swiss brands and goods to tap in a booming market; on the other, **forging and pirating reduces the potential of this market** and bites into profits of various industries. The opening up of the domestic retail banking market to foreign invested financial institutions in December 2006 (the end of the 5 year WTO-rules implementation timetable, cf. chapter 2.1), should also create more opportunities for Swiss financial services. Reliable figures on bilateral exchange in the service industries are still unavailable.

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

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

Due to the underdeveloped state of Chinese stock markets and because the national currency isn't fully convertible, **foreign investment is 90% direct investment**, and very often greenfield-investment. This system constrains foreign investors but leaves China less vulnerable to attacks on international financial markets as it makes capital withdrawals from direct investments more difficult to arrange. The acquisition of state owned enterprises (SOEs) by foreign investors was made possible under certain conditions in the spring of 2004. The goal is to create an actual market for mergers and acquisitions (M&A). However, as a recent OECD-project on cross-border mergers and acquisitions, co-financed by Seco, has shown, "the regulatory framework for cross-border M&A remains fragmentary, over-complex and incomplete."[31] **Amended foreign Mergers & Acquisitions (M&A)-regulations have entered into force on 8 September 2006.** Although the foreign business community has welcomed the new regulations as they somewhat clarify the complex regulatory environment, concerns have been raised about the use authorities will make of their new competences: Acquisitions of a target company in a key industry, acquisitions which might affect national economic security or acquisitions which involve a change of control of a famous trademark or established Chinese brand must be reported to the Ministry of Commerce. Failing with this requirement could entail termination or reversal of the deal. Future acquisitions may well be subject to much tighter control and further scrutiny by the Chinese Government. A lack of clarity on terms such as "key industry" and "national economic security" has reinforced those fears. However, some commentators do not agree with the general view that we are **witnessing a "backlash"** but claim that nationally sensitive sectors such as defense and media as well as large state owned enterprises have always been off-limits to foreign investors. As China opens up new avenues for privatization and M&A involving big state companies **certain prudence by Chinese authorities only seems normal** to those observers.

The loosening of legal regulations and the awareness that various joint ventures (JV) have experienced difficulties with their Chinese partners has influenced more and more foreign investors to tend towards establishing wholly foreign owned enterprises (WFOE). The transformation of an existing JV into a WFOE is time and again attempted, but is in general constrained by considerable administrative and high (compensation) costs. After measures to administrate international investment in the area of trade and changes to the laws on foreign trade came into force on 1 June and 1 July 2004 respectively, **foreign investors have been authorized to set up and run WFOE in the areas of distribution, retail trade and wholesale since 11 December 2004.**[32]

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

In year 2006, **foreign businesses invested US$ 63.0 billion in China, up 4.47% from the previous year**. The number of foreign projects approved by the Chinese authorities decreased 5.75% in 2006. The stronger manufacturing capacity, mainly the result of surging FDI inflows in the past few years, has become a major driving force behind China's export surge. **After the first year since 1999 of declining investment in 2005, China's FDI continued to grow by 12.79% during the first eight months of this year**, amounting to US$41.95 billion.

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

[31] China: Open policies towards mergers and acquisitions, OECD Investment Policy Reviews, Paris, 2006.

[32] Cf. Administrative method for foreign investment in the commercial sector of the PRC:
http://www.prorenata.com/consulting_services/investment/en_foreign_investment_areareg.pdf

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

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 123 projects with Swiss participation in 2006 (123 in 2005), and 50projects from January to June 2007 with a total value of US$203 million. In 2006 the actual Swiss FDI totalling US$196.6 million saw a decrease of 4.51% over 2005.

Switzerland has economic agreements with China regarding investment protection, mixed credits and avoidance of double taxation. The investment protection agreement between the two States is currently under re-negotiation. **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.

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 the Consulate General in Guangzhou, established in November 2006, – has to take on a particular role in the arrangement or relief of such contracts.

Swiss Business Hub China (SBH China)

The SBH China is part of the worldwide "OSEC Business Network Switzerland" and has been operational since March 2002 at the Swiss Embassy in Beijing with a branch at the Consulate General in Shanghai and a new branch at the Consulate General in Guangzhou since March 2006. The specially trained consular and local SBH-staff offer much needed **services to Swiss SME in their endeavours of strengthening and developing their business relations with China** (services include: market and product analyses; search of distributors, representatives and import partners; individual consulting and coaching; reports on presentation and trade fairs). The high demand of

Swiss businesses – particularly in a dynamic and growing market such as China – for the SBH's services and the diplomatic and advocating support provided by the Economic and Commercial section of the Embassy requires competent staff. Over 2006 the SBH has doubled its staff-numbers thanks to restructuring of the worldwide SBH-network.

Location:Switzerland "China"

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

Swiss-Chinese Chamber of Commerce and 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 initial purpose of the fund was to facilitate joint ventures between Swiss and Chinese enterprises in China. SSPF can invest up to CHF 5 million up to a maximum of 33% of the required investment in the form of equity, loans or in hybrid forms, in foreign exchange and local Chinese currency. The scope for new investments is currently being discussed and will be expanded.

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, **positioning Switzerland as an innovative, internationally minded country with a high quality of life and environmental awareness.**

Tourism

A consequence of the growing Chinese economy and the rise of (urban) incomes is the **booming tourism industry** for travel outside of China: 28.84 million Chinese travelled abroad in 2004 (an increase of 43% on the preceding year) and is expected to reach 100 million by 2020.[33] Therefore China is a key future market for the Swiss tourism industry. Switzerland was granted **Approved Destination Status** (ADS) by the Chinese Government in 2004. Following the implementation of the

[33] World Tourism Organisation.

policy in September that year, there was a noticeable increase in accepting visa applications. New checks and guidelines were at the same time put into place to reduce the risk of travellers remaining in Switzerland illegally.

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

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 SME, notably in the service and hospitality industries. However, the acquisition of the Murten-based company Saia-Burgess (electronic devices, switches, motors, control components etc.) in late summer 2005 through Johnson Electrics Holdings, Ltd. Hong Kong, could pave the way mainland companies may go in the next years following the Chinese Government's Going abroad strategy. Switzerland's strengths as an investment location are promoted in China by Location Switzerland (www.locationswitzerland.ch, also presented in Chinese, cf. section 5.1), the cantons and increasingly by the service sector. "Location Switzerland: "China", who carries out systematic market analysis and development has organised some high-level seminars, elaborated brochures, manuals and presentations, assists cantons in their own endeavours in the very demanding Chinese market. Switzerland is most actively advertised with emerging globalizing Chinese companies as a location for international headquarters and business control centres. Cooperation opportunities with the very innovative export-oriented Swiss economy are also highlighted. With a number of recent Chinese investments in different parts of Switzerland **the joint efforts of Location Switzerland: "China", the cantons and the service sector have already generated results**. Main competitors in Europe include Belgium, France, Germany, the United Kingdom, the Netherlands and Sweden, which employs 20 persons in China for its promotional agency "Invest in Sweden". Like in other Asian countries Switzerland is perceived as a premium location in the heart of Europe, but high living-costs and barriers for entry of Chinese workforce are on the flip-side.

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. Swiss experiences in international fight against financial criminality and illicit assets restitution were discussed among other topics. Both the President of the Governing Board of the Swiss National Bank and the Chairman of the Swiss Banking Association have met high-level financial authorities in Beijing in 2005 and 2006. The leading Swiss banks, which have acquired minority participations in Chinese banks and insurance companies, regularly receive Chinese officials and financial sector professionals for trainings and know-how exchange. Private banking is still prohibited in mainland China, but this may change soon.

6 Useful internet Links (cf. Annexe 7)

Krystyna Marty

<u>Annexes</u>

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: List of main Swiss companies in China

Annexe 7: Useful internet links

China: Structure of the Economy

	2001	2002	2003	2004	2005*	2006**
Distribution of GDP (%)						
Primary Sector	15.8%	15.3%	14.4%	15.2%	12.4%	11.8%
Secondary Sector	50.1%	50.4%	52.2%	52.9%	47.3%	48.7%
Tertiary Sector	34.1%	34.3%	33.4%	31.9%	40.3%	39.5%
Distribution of Labor (%)						
Primary Sector	50.0%	50.0%	49.1%	47.0%	44.8%	n/a
Secondary Sector	22.3%	21.4%	21.6%	22.5%	23.8%	n/a
Tertiary Sector	27.7%	28.6%	29.3%	30.5%	31.4%	n/a
(of which state sector)	10.5%	9.7%	9.2%	8.9%	11.2%	n/a

Sources : NSB, *MofCom, **OECD

ESSENTIAL ECONOMIC DATA

	2'001	2'002	2'003	2'004	2005	2006
GDP (RMB billion)*/ *****	10965.5	12033.3	13582.3	15987.8	18232.1	20940.7
GDP (USD billion)	1'358.8	1'491.1	1'683.0	1'981.1	2'259.2	2'630.1
GDP per capita (RMB)**/ ******	7'651.0	8'214.0	9'111.0	10'561.0	11'000.0	12'661.5
GDP per capita (USD)	948	1018	1129	1309	1363	2001
GDP growth (%)*/ *****/ ******	8.3	9.1	10.0	10.1	9.9	10.7
CPI inflation (%)*/ *****/ ******	0.7	-0.8	1.2	3.9	1.8	1.5
RMB:USD exchange rate of BoC of 31 Decbember 2005	8.0702	8.0702	8.0702	8.0702	8.0702	7.8041
Unemployment rate						
Level - registered (Millions)****	6.9	7.7	8.0	8.3	8.4	N/A
Rate - registered in urban (%)*/****	3.6	4.0	4.3	4.2	4.2	N/A
EIU estimates (average in %)	N/A	N/A	N/A	9.9	9.0	N/A
Fiscal balance (% of GDP)	-2.6	-2.9	-3.1	-1.5	-1.14	-0.8
Current account balance (% of GDP)*/ *****	1.3	2.4	2.8	3.6	5.6	7.7
Total External Debt (% of GDP)*/ *****	14.5	13.3	11.8	11.8	12.7	11.4
Debt-service ratio (% of exports of g&s)*/ *****	8.1	8.4	7.6	3.6	3.0	3.2
Gross official reserves (minus imports, USD billion)*	9.4	10.5	10.6	12	13	N/A

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

Trading partners of the People's Republic of China

Exports to Country/ Region 2005	Billion USD	Share %	Growth in % to a comparable previous period	Exports to Country/ Region 2006	Billion USD	Share %	Growth in % to a comparable previous period	Exports to Country/ Region Jan-Aug 2007	Billion USD	Share %	Growth in % to a comparable previous period
USA	162.9	21.4%	30.4	USA	203.5	21.0%	24.9	EU	152.85	20.0%	31.3
Hong Kong	124.5	16.3%	23.4	Hong Kong	155.4	16.0%	24.8	USA	148.61	19.4%	16.7
Japan	84.0	11.0%	14.3	Japan	91.6	9.5%	9.1	Hong Kong	115.38	15.1%	23.1
South Korea	35.1	4.6%	26.2	South Korea	44.5	4.6%	26.8	Japan	64.95	8.5%	11.7
Germany	32.5	4.3%	36.8	Germany	40.3	4.2%	23.9	South Korea	35.58	4.6%	28.8
Netherlands	25.9	3.4%	39.9	Netherlands	30.9	3.2%	19.3	Germany	29.93	3.9%	17.7
United Kingdom	19.0	2.5%	26.9	United Kingdom	24.2	2.5%	27.3	Netherland	24.73	3.2%	36.1
Singapore	16.6	2.2%	30.8	Singapore	23.2	2.4%	39.4	United Kingdom	19.56	2.6%	32.8
Taiwan	16.6	2.2%	22.2	Taiwan	20.7	2.1%	25.3	Singapore	19.10	2.5%	30.1
Russia	13.2	1.7%	45.2	Russia	15.8	1.6%	19.8	Taiwan	15.18	2.0%	14.4
EU-25	143.7	18.9%	34.1	EU-25	182.0	18.8%	26.6	Russia	17.00	2.2%	81.2
APEC	522.5	68.6%	25.5	APEC	644.7	66.5%	23.4	ASEAN	59.38	7.8%	32.2
ASEAN	55.4	7.3%	29.1	ASEAN	71.3	7.4%	28.8	EFTA	3.82	0.5%	n/a
EFTA	3.4	0.4%	29.6	EFTA	4.3	0.4%	28.2	Iceland	0.0625	0.008%	22.8
Iceland	0.075	0.01%	62.5	Iceland	0.078	0.01%	4.0	Lichtenstein	0.0074	0.001%	-24.5
Lichtenstein	0.009	0.00%	38.5	Lichtenstein	0.011	0.00%	18.9	Norway	1.4193	0.185%	26.6
Norway	1.322	0.17%	28.5	Norway	1.701	0.18%	28.7	*Switzerland*	*2.3290*	*0.3%*	*35.4*
Switzerland	*1.947*	*0.26%*	*29.3*	*Switzerland*	*2.510*	*0.26%*	*28.9*	**Total**	**765.74**	100%	**27.8**
Total	**762.0**	**100%**	**28.4**	**Total**	**969.1**	**100%**	**27.2**				

Imports from Country/ Region 2005	Billion USD	Share %	Growth in % to a comparable previous period	Imports from Country/ Region 2006	Billion USD	Share %	Growth in % to a comparable previous period	Imports from Country/ Region Jan-Aug 2007	Billion USD	Share %	Growth in % to a comparable previous period
Japan	100.5	15.2%	6.5	Japan	115.7	14.6%	15.2	Japan	85.25	14.1%	16.7
South Korea	76.8	11.6%	23.4	South Korea	89.8	11.3%	16.9	EU	70.49	11.7%	21.8
Taiwan	74.7	11.3%	15.3	Taiwan	87.1	11.0%	16.6	South Korea	65.61	10.9%	14.9
USA	48.7	7.4%	9.1	USA	59.2	7.5%	21.8	Taiwan	62.36	10.3%	12.6
Germany	30.7	4.7%	1.1	Germany	37.9	4.8%	23.3	USA	45.31	7.5%	15.5
Malaysia	20.1	3.0%	10.6	Malaysia	23.6	3.0%	17.3	Germany	28.68	4.7%	19.6
Singapore	16.5	2.5%	17.9	Australia	19.3	2.4%	19.3	Malaysia	17.79	2.9%	22.6
Australia	16.2	2.5%	40.1	Thailand	18.0	2.3%	28.4	Australia	16.46	2.7%	34
Russia	15.9	2.4%	31.0	Philippines	17.7	2.2%	37.3	Philippines	14.67	2.4%	37.9
Thailand	14.0	2.1%	21.3	Singapore	17.7	2.2%	7.0	Thailand	14.05	2.3%	25.7
EU-25	73.6	11.1%	5.0	EU-25	90.3	11.4%	22.7	Singapore	11.41	1.9%	-0.5
APEC	438.3	66.4%	4.5	APEC	582.6	73.6%	18.1	ASEAN	68.56	11.4%	22.4
ASEAN	75.0	11.4%	19.1	ASEAN	89.5	11.3%	19.4	EFTA	4.68	0.8%	n/a
EFTA	5.1	0.8%	0.2	EFTA	5.6	0.7%	9.4	Iceland	0.0283	0.005%	0.2
Iceland	0.047	0.01%	70.9	Iceland	0.040	0.01%	-14.4	Lichtenstein	0.0156	0.003%	77.7
Lichtenstein	0.010	0.00%	-58.8	Lichtenstein	0.014	0.00%	43.5	Norway	1.1005	0.182%	40.6
Norway	1.144	0.17%	-18.2	Norway	1.250	0.16%	9.2	*Switzerland*	*3.5376*	*0.6%*	*31.7*
Switzerland	*3.881*	*0.59%*	*7.4*	*Switzerland*	*4.255*	*0.54%*	*9.7*	**Total**	**603.98**	**100%**	**19.6**
Total	**660.1**	**100%**	**17.6**	**Total**	**791.6**	**100%**	**20.0**				

Source : Ministry of Commerce

Bilateral trade Switzerland - P.R. China, 2005 - 2006

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		2005	2006	in %	share (%)	2005	2006	in %	share (%)	in CHF
1	Agricultural products	64'680'600	98'678'143	52.56%	2.52%	24'250'909	21'421'201	-11.67%	0.52%	-77'256'942
2	Energy carriers	53978	221023	309.47%	0.01%	565554	925076	63.57%	0.02%	704'053
3	Textiles, apparel, shoes	763'245'831	780'690'972	2.29%	19.90%	50'325'551	110'312'992	119.20%	2.69%	-670'377'980
4	Paper, paper products, printed matter	27'135'563	25'303'061	-6.75%	0.65%	20'818'139	23'479'125	12.78%	0.57%	-1'823'936
5	Leather, rubber, plastics	173'812'076	202'933'909	16.75%	5.17%	45'587'869	65'704'763	44.13%	1.60%	-137'229'146
6	Chemicals, pharmaceuticals	466'608'348	518'053'161	11.03%	13.21%	652'405'242	761'182'679	16.67%	18.59%	243'129'518
7	Construction materials, ceramics, glass	45'375'900	59'403'205	30.91%	1.51%	7'814'967	9'419'186	20.53%	0.23%	-49'984'019
8	Metals and metal products	180'710'573	284'084'193	57.20%	7.24%	175'370'881	183'830'373	4.82%	4.49%	-100'253'820
9	Machinery, apparatus, electronics	778'709'172	967'542'835	24.25%	24.67%	1'621'404'124	1'859'624'827	14.69%	45.42%	892'081'992
10	Vehicles	47'781'474	45'772'327	-4.20%	1.17%	7'493'490	8'317'226	10.99%	0.20%	-37'455'101
11	Precision instruments, watches, jewellery	470'580'764	579'822'763	23.21%	14.78%	594'757'517	674'895'394	13.47%	16.48%	95'072'631
12	Furniture, toys	288'032'079	347'005'528	20.47%	8.85%	21'618'064	20'578'834	-4.81%	0.50%	-326'426'694
13	Precious metal, precious stones, gemstones	3'592'670	5'274'561	46.81%	0.13%	212'537'301	353'620'041	66.38%	8.64%	348'345'480
14	Objects of art and antiques	3'725'847	7'568'332	103.13%	0.19%	1'291'892	941'532	-27.12%	0.02%	-6'626'800
	Total	**3'314'044'875**	**3'922'354'013**	**18.36%**	**100%**	**3'436'241'500**	**4'094'253'249**	**19.15%**	**100%**	**171'899'236**

Bilateral trade Switzerland - Hongkong, 2005 - 2006

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		2005	2006	in %	share (%)	2005	2006	in %	share (%)	in CHF
1	Agricultural products	801392	703124	-12.26%	0.05%	32'874'593	30'927'869	-5.92%	0.66%	30'224'745
2	Energy carriers	585	1017	73.85%	0.00%	161368	107189	-33.57%	0.00%	106'172
3	Textiles, apparel, shoes	47'157'844	53'413'162	13.26%	3.67%	102'008'939	147'424'518	44.52%	3.14%	94'011'356
4	Paper, paper products, printed matter	2'374'659	2'816'147	18.59%	0.19%	8'615'104	7'901'552	-8.28%	0.17%	5'085'405
5	Leather, rubber, plastics	5'430'261	6'949'519	27.98%	0.48%	44'768'043	49'017'989	9.49%	1.04%	42'068'470
6	Chemicals, pharmaceuticals	10'009'147	11'382'274	13.72%	0.78%	303'206'457	378'601'466	24.87%	8.07%	367'219'192
7	Construction materials, ceramics, glass	1'322'472	2'130'804	61.12%	0.15%	14'874'493	19'125'656	28.58%	0.41%	16'994'852
8	Metals and metal products	10'173'558	11'277'482	10.85%	0.77%	53'677'914	59'538'790	10.92%	1.27%	48'261'308
9	Machinery, apparatus, electronics	214'823'035	184'316'188	-14.20%	12.65%	361'033'967	409'596'023	13.45%	8.73%	225'279'835
10	Vehicles	963107	1048534	8.87%	0.07%	1'837'703	372'997	-79.70%	0.01%	-675'537
11	Precision instruments, watches, jewellery	311'663'876	548'908'263	76.12%	37.68%	2'131'259'679	2'417'225'122	13.42%	51.52%	1'868'316'859
12	Furniture, toys	6'257'269	7'374'307	17.85%	0.51%	32'430'705	42'657'713	31.53%	0.91%	35'283'406
13	Precious metal, precious stones, gemstones	779'514'702	606'703'666	-22.17%	41.65%	745'527'840	1'114'691'336	49.52%	23.76%	507'987'670
14	Objects of art and antiques	14'341'337	19'804'587	38.09%	1.36%	13'902'607	14'645'802	5.35%	0.31%	-5'158'785
	Total	**1'404'833'244**	**1'456'829'074**	**3.70%**	**100%**	**3'846'179'412**	**4'691'834'022**	**21.99%**	**100%**	**3'235'004'948**

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

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		2005	2006	in %	share (%)	2005	2006	in %	share (%)	in CHF
	Total	**4'718'878'119**	**5'379'183'087**	**13.99%**	**100%**	**7'282'420'912**	**8'786'087'271**	**20.65%**	**100%**	**3'406'904'184**

Source: Schweizer Oberzolldirektion, Swiss Impex

Bilateral trade Switzerland - P.R. China, Jan. - Sept. 2006 and Jan. - Sept. 2007

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan-Sep 2006	Jan-Sep 2007	in %	share (%)	Jan-Sep 2006	Jan-Sep 2007	in %	share (%)	in CHF
1	Agricultural products	65'585'199	81'821'144	24.76%	2.29%	15'715'904	15'658'706	-0.36%	0.41%	-66'162'438
2	Energy carriers	212611	407821	91.82%	0.01%	762456	1'061'942	39.28%	0.03%	654'121
3	Textiles, apparel, shoes	618'475'439	660'000'158	6.71%	18.51%	77'411'461	103'011'976	33.07%	2.67%	-556'988'182
4	Paper, paper products, printed matter	18'839'919	23'943'003	27.09%	0.67%	17'334'270	19'181'612	10.66%	0.50%	-4'761'391
5	Leather, rubber, plastics	154'548'693	213'725'017	38.29%	5.99%	47'986'272	67'729'327	41.14%	1.76%	-145'995'690
6	Chemicals, pharmaceuticals	407'102'113	449'947'789	10.52%	12.62%	577'220'367	660'397'353	14.41%	17.12%	210'449'564
7	Construction materials, ceramics, glass	44'854'629	54'384'980	21.25%	1.53%	6'806'427	16'216'461	138.25%	0.42%	-38'168'519
8	Metals and metal products	204'372'265	271'747'552	32.97%	7.62%	127'793'706	177'605'257	38.98%	4.60%	-94'142'295
9	Machinery, apparatus, electronics	685'698'830	873'069'694	27.33%	24.49%	1'340'880'689	1'586'862'559	18.34%	41.14%	713'792'865
10	Vehicles	37'543'962	57'816'289	54.00%	1.62%	5'969'431	19'802'211	231.73%	0.51%	-38'014'078
11	Precision instruments, watches, jewellery	426'119'612	524'737'334	23.14%	14.72%	468'890'346	644'324'127	37.41%	16.71%	119'586'793
12	Furniture, toys	246'469'286	342'792'412	39.08%	9.61%	13'847'953	24'358'891	75.90%	0.63%	-318'433'521
13	Precious metal, precious stones, gemstones	3'975'714	6'526'448	64.16%	0.18%	263'116'018	518'986'134	97.25%	13.46%	512'459'686
14	Objects of art and antiques	4'279'414	4'529'849	5.85%	0.13%	320698	1'649'923	414.48%	0.04%	-2'879'926
	Total	**2'918'077'686**	**3'565'449'490**	**22.18%**	**100%**	**2'964'055'998**	**3'856'846'479**	**30.12%**	**100%**	**291'396'989**

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

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan-Sep 2006	Jan-Sep 2007	in %	share (%)	Jan-Sep 2006	Jan-Sep 2007	in %	share (%)	in CHF
1	Agricultural products	513775	1'264'682	146.15%	0.15%	22'083'664	35'875'247	62.45%	0.92%	34'610'565
2	Energy carriers	1017	n/a	n/a	n/a	81526	54727	-32.87%	0.00%	n/a
3	Textiles, apparel, shoes	38'084'126	52'970'541	39.09%	6.41%	114'619'147	110'757'978	-3.37%	2.85%	57'787'437
4	Paper, paper products, printed matter	2'008'026	2'153'538	7.25%	0.26%	5'619'654	11'147'968	98.37%	0.29%	8'994'430
5	Leather, rubber, plastics	5'221'325	6'576'652	25.96%	0.80%	37'289'113	43'455'442	16.54%	1.12%	36'878'790
6	Chemicals, pharmaceuticals	7'209'147	9'345'990	29.64%	1.13%	284'320'230	308'295'002	8.43%	7.93%	298'949'012
7	Construction materials, ceramics, glass	1'258'149	2'954'329	134.82%	0.36%	12'887'226	11'249'013	-12.71%	0.29%	8'294'684
8	Metals and metal products	8'118'336	8'716'365	7.37%	1.05%	45'033'486	42'034'490	-6.66%	1.08%	33'318'125
9	Machinery, apparatus, electronics	138'069'261	97'928'524	-29.07%	11.85%	306'254'965	315'004'528	2.86%	8.10%	217'076'004
10	Vehicles	699141	712386	1.89%	0.09%	274381	1'443'923	426.25%	0.04%	731'537
11	Precision instruments, watches, jewellery	403'084'615	408'043'082	1.23%	49.36%	1'701'023'175	2'061'357'810	21.18%	53.00%	1'653'314'728
12	Furniture, toys	3'959'924	6'041'777	52.57%	0.73%	30'222'464	27'799'871	-8.02%	0.71%	21'758'094
13	Precious metal, precious stones, gemstones	506'450'031	221'913'844	-56.18%	26.84%	845'381'110	905'947'433	7.16%	23.29%	684'033'589
14	Objects of art and antiques	12'701'614	8'058'142	-36.56%	0.97%	11'646'186	14'630'779	25.63%	0.38%	6'572'637
	Total	**1'127'378'487**	**826'679'852**	-26.67%	100.00%	**3'416'736'327**	**3'889'054'211**	13.82%	100.00%	3'062'374'359

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

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan-Sep 2006	Jan-Sep 2007	in %	share (%)	Jan-Sep 2006	Jan-Sep 2007	in %	share (%)	in CHF
	Total	**4'045'456'173**	**4'392'129'342**	**8.57%**	**100%**	**6'380'792'325**	**7'745'900'690**	**21.39%**	**100%**	**3'353'771'348**

Source: Schweizer Oberzolldirektion, Swiss Impex

Annexe 4 WBChina 2007

China: Foreign Direct Investment

Rank	Country/ Region	FDI (mio. USD) 2005	Share (%) 2005	Variation (%) year on year	Rank	Country/ Region	FDI (mio. USD) 2006	Share (%) 2006	Variation (%) year on year	Rank	Country/ Region	FDI (mio. USD) 2007 (Jan - Aug)	Share (%) 2007	Variation (%) year on year
1	Hong Kong	17'949	29.75%	-5.52%	1	Hong Kong	20'233	32.11%	12.73%	1	Hong Kong	14'094	33.60%	21.96%
2	Virgin Islands	9'022	14.96%	34.05%	2	Virgin Islands	11'248	17.85%	24.67%	2	Virgin Islands	9'910	23.63%	46.61%
3	Japan	6'530	10.82%	19.77%	3	Japan	4'598	7.30%	-29.58%	3	South Korea	2'455	5.85%	10.57%
4	Sourth Korea	5'168	8.57%	-17.28%	4	Sourth Korea	3'895	6.18%	-24.64%	4	Japan	2'246	5.35%	-19.45%
5	USA	3'061	5.07%	-22.32%	5	USA	2'865	4.55%	-6.41%	5	Singapore	1'638	3.91%	30.19%
6	Singapore	2'204	3.65%	9.78%	6	Singapore	2'260	3.59%	2.55%	6	USA	1'628	3.88%	0.77%
7	Taiwan	2'152	3.57%	-30.97%	7	Taiwan	2'136	3.39%	-0.74%	7	Cayman Islands	1'504	3.59%	30.89%
8	Cayman Islands	1'948	3.23%	-4.65%	8	Cayman Islands	2'095	3.32%	7.60%	8	West Samoa	1'123	2.68%	19.46%
9	Germany	1'530	2.54%	44.62%	9	Germany	1'979	3.14%	29.32%	9	Taiwan	952	2.27%	-29.26%
10	West Samoa	1'352	2.24%	19.76%	10	West Samoa	1'538	2.44%	12.99%	10	Mauritius	752	1.79%	28.13%
	E.U.-15	5'194	8.61%	22.47%		EU-15	5'324	8.45%	2.50%		EU-25	2'392	5.70%	-33.30%
	E.U.-25	5'260	8.72%	21.48%		ASEAN	3'351	5.32%	-5.16%		ASEAN			
	ASEAN	3'534	5.86%	-5.19%		EFTA	212.30	0.34%	-9.71%		EFTA	269	0.64%	n/a
	EFTA	235	0.39%	-7.14%		Iceland	2.20	0.00%	1366.67%		Iceland	1	0.00%	n/a
	Iceland	0.15	0.00%	-70.00%		Liechtenstein	0.30	0.00%	-89.51%		Liechtenstein	0.25	0.00%	n/a
	Liechtenstein	2.86	0.00%	-94.02%		Norway	13.20	0.02%	-49.70%		Norway	16.78	0.04%	n/a
	Norway	26.24	0.04%	1374.16%		Switzerland	196.60	0.31%	-4.51%		Switzerland	251	0.60%	n/a
	Switzerland	205.9	0.34%	1.36%		**Total**	**63'021**	**100%**	**4.47%**		**Total**	**41'949**	**100%**	**12.79**
	Total	**60'325**	**100%**	**-0.47%**										

Source: Ministry of Commerce

Organs composing the State Council	
Ministries	
Ministry of Commerce	http://english.mofcom.gov.cn
Ministry of Commerce - FDI	http://www.fdi.gov.cn/
Ministry of Finance	http://www.mof.gov.cn/english/english.htm
Ministry of Foreign Affairs	http://www.fmprc.gov.cn/eng/default.htm
Commissions	
National Development and Reform Commission	http://en.ndrc.gov.cn/
Other	
National Audit Office	http://www.cnao.gov.cn/
People's Bank of China	http://www.pbc.gov.cn/english/
Organs directly under the State Council	
General Administration of Customs (only in Chinese language)	http://www.customs.gov.cn/Portal0/
National Bureau of Statistics of China	http://www.stats.gov.cn/english/
State Administration for Industry and Commerce (only in Chinese language)	http://www.saic.gov.cn/
State Administration of Taxation (only in Chinese language)	http://www.chinatax.gov.cn/
State Food & Drug Administration	http://www.sfda.gov.cn/eng/
State Intellectual Property Office	http://www.sipo.gov.cn/sipo_English/default.htm
Institutions directly under the State Council	
China Banking Regualtory Commission	http://www.cbrc.gov.cn/english/index.htm
China Insurance Regulatory Commission (only in Chinese language)	http://www.circ.gov.cn/
China Securities Regulatory Commission	http://www.csrc.gov.cn/en/homepage/index_en.jsp
Development Research Centre of the State Council (only in Chinese language)	http://www.drc.gov.cn/
Xinhua News Agency	http://www.chinaview.cn/ ; http://www.french.xinhuanet.com/
Further useful www-sites	
China Chamber of International Commerce Beijing (CCOIC Beijing)	http://www.ccpitbj.com/english/site/siteindex/
China Council for the Promotion of International Trade	http://www.ccpit.org/
Swiss Business Hub China News Update in association with China Economic Review	http://chinaeconomicreview.com/communities/sendmail.php?comm=sbh
Chamber of Commerce	
American Chamber of Commerce in China (AmCham)	www.amcham-china.org.cn
Austrian Chamber of Commerce in China (WKO)	www.wko.at
British Chamber of Commerce in China (BCCC)	www.britcham.org
Canada China Business Council (CCBC)	www.ccbc.com
China - Australia Chamber of Commerce (AustCham)	www.austcham.org
China - Italy Chamber of Commerce (CCIC)	www.cameraitacina.com
European Union Chamber of Commerce in China (EUCCC)	www.euccc.com.cn
French Chamber of Commerce and Industry in China (CCIFC)	www.ccifc.org
German Chamber of Commerce in China (GCCC)	www.ahk-china.org
Hong Kong Chamber of Commerce in China (HKCCC)	www.hkccc.com.cn
Swiss Business Council in Hong Kong	www.swiss-biz.org
Swiss Chinese Chamber of Commerce Beijing	www.bei.swisscham.org
Swiss Chinese Chamber of Commerce in Switzerland	www.sccc.ch
Swiss Chinese Chamber of Commerce Shanghai	www.sha.swisscham.org
Swiss governmental organisations	
Osec Business Network Switzerland	www.osec.ch
State Secretariat for Economic Affairs (Seco)	www.seco.admin.ch
Swiss Business Hub China (SBH China)	http://www.osec.ch/laenderseite/cn;internal&action=buildframes.action
Swiss Export Risk Insurance (serv)	http://www.serv-ch.com
Swiss Organisation for Facilitating Investments (SOFI)	www.sofi.ch
International and other governmental organisations	
Asian Development Bank (ADB)	http://www.adb.org/PRC/default.asp
Das Auswärtige Amt der Bundesrepublik Deutschland	http://www.auswaertiges-amt.de/www/de/laenderinfos/laender/laender_ausgabe_html?type_id=12&land_id=3
International Monetary Fund (IMF)	http://www.imf.org/external/country/CHN/index.htm
Office of the United States Trade Representative	http://www.ustr.gov/
Organisation for Economic Co-operation and Development (OECD)	http://www.oecd.org/infobycountry/0,2646,en_2649_201185_1_70342_119656_1_1,00.htm
Japanese goverment related organization (Jetro)	http://www.jetro.go.jp/
The World Bank	http://www.worldbank.org
The World Trade Organisation	http://www.wto.org

Source: Economic and Commercial Section of the Embassy of Switzerland Beijing