

China: Annual economic report – May 2008

1. Appreciation of the economic problems and issues

China's economic growth remained strong in 2007 with **GDP growing by 11.4% year on year** – a 13-year high - compared to 11.1% in 2006. This marked the fifth year in a row with double digit growth. However, growth had slowed down somewhat in the second half, from a peak of 11.9% in the second quarter to 11.2% in the fourth quarter.

China's trade surplus surged 47.7% in 2007 and reached a record of US\$ 262.2 billion.¹ During 2006, export growth had started to outpace import growth and therefore net trade contributed to a substantial part to GDP growth. In the second part of 2007, import growth picked up while export growth declined. Meanwhile, **the contribution of domestic demand to GDP growth was rising and for the first time since 2001 its contribution to growth was higher than that of investment.**²

A rebalancing of growth is still high on the agenda of China's government and in recent months there have been several announcements about policy measures – including higher land lease fees, cuts in export tax rebates, export taxes on energy intensive products, a new labour law - that together should have some positive impact on consumption

Repeatedly, **the Chinese government named overheating and inflation as the main concerns of current economic policy.** The Consumer price index (CPI) rose 4.8% year on year in 2007. Inflation gains new highs every month, with the last peak of 8.7% in February 2008. The sharp rise in inflation is mainly caused by rising food prices, especially the rise in pork prices – due to weak supply and the outbreak of diseases – but further China is also more affected by prices of internationally traded goods since its entry to the WTO in 2001.³

Chinese policymakers have been keen to **prevent spill-over into a substantial inflation by raising its monetary policy stance from “prudent” to “tight”** in December 2007. Benchmark interest rates were raised six times in 2007 with the one-year rate on RMB deposits standing at 4.14% and that of loans at 7.47% for the time being. Beside this interest rate policy and the direct government influence over banks' lending patterns the People's Bank of China (PBoC) further raised its reserve requirement ratio – ten times in 2007 and two times in 2008 so far, with the latest raise by 0.5 percentage points to 15.5% on 25 March.⁴

In late January and early February central and southern China was hit by a **severe weather crisis leading to a disruption of power supplies and transport links as well as agricultural and industrial production.** Effects are expected to be temporary, generating higher inflation figures due to agricultural damage and economic loss as manufacturing in several sectors was badly affected. So far, storm-related payouts have reached RMB 1 billion, with many more claims expected.

Due to the disruption but also because of weaker demand from overseas, exports rose only 6.5% in February, the slowest pace in almost six years, causing **China's trade surplus to drop for the first time in a year.**⁵

Due to surpluses in external trade capital inflows continued to boost liquidity. Last year, official foreign exchange reserves increased by US\$ 459 billion, amounting to a record high of US\$ 1.529 trillion.⁶ China's trade partners, especially the US and the EU, pursue to exert **pressure on China to further ease exchange rate controls.** Since its decoupling from the US\$ in July 2005 the Yuan has appreciated 13%.⁷ Currently, the Yuan is traded close to 7 per dollar, this represents an appreciation

¹ China Daily, 11 January 2008

² Economist Intelligence Unit, Country Report, March 2008

³ World Bank, China Quarterly Update, February 2008

⁴ People's Bank of China, www.pbc.gov.cn

⁵ Bloomberg, 10 March 2008

⁶ World Bank, China Quarterly Update, February 2008

⁷ IMF, 15 February 2008

of nearly 4% in the first quarter alone, or a 17% annualized pace.⁸ Experts do not anticipate a continued appreciation at that pace and expect the Chinese government to continue its intervention in foreign-exchange markets amid concerns about the impact of a stronger currency on farmers and the export sector.

Reforms in China's financial sector continue. In early December 2007, the State Administration of Foreign Exchange (SAFE) enlarged the quota for qualified foreign institutional investors (QFII) from US\$ 10 billion to US\$ 30 billion. Subsequent to the latest China – U.S. strategic economic dialogue in December 2007, China agreed to allowing foreign companies the issuance of RMB-denominated stocks, corporate bonds and financial bonds. **The China Securities Regulation Commission (CSRC) – the securities market regulator – is going to examine the impact of foreign participation in Chinese securities companies** and will come up with policy recommendations. Swiss banks are in a good position to enter this new market: Credit Suisse and Morgan Stanley have each signed agreements with Chinese companies to establish investment banking joint-ventures in mainland China. Along with Goldman Sachs and UBS, these are the only foreign investment banks that the CSRC is considering to allow to underwrite IPOs and conduct advisory and research services in the mainland Chinese capital market. Currently, foreign firms can earn a maximum of 33% equity in such joint ventures.

Further amendments are planned such as additional domestic public offerings by Hong Kong listed, China-incorporated companies are planned, along with an index for high-growth start-up enterprises and the launch of trading in stock index futures.⁹

China's stock market was booming again in 2007, helped by large new-share issues and by progress made on improving the performance of listed companies. By the end of 2007, 1550 companies were listed at Shanghai and Shenzhen Stock Exchanges with a total market capitalization of approx. US\$ 4.48 trillion.¹⁰ Total funds raised by Chinese companies through IPOs in the domestic market in 2007 reached US\$ 62.1 billion, the highest worldwide. However, it should be kept in mind that a large portion of the shares is still non-tradeable.

During the first quarter of 2008 Chinese stocks however fell sharply which is broadly seen as the natural correction of overvalued market-shares.

Structural deficits such as high volumes of liquidity available and the continued lack of alternative investment channels for Chinese investors still hamper on market performance.

In general **analysts expect China's domestic economy to maintain robust growth**. Policies introduced to contain investment are taking effect and confidence about the domestic economy has remained high. Moreover, policymakers want to maintain investment growth and tightening measures could be eased as economic slowdown becomes evident.

Nonetheless, economic slowdown in the US and the expected weakening of global growth are affecting China's economic prospects as well. Due to China's still quite closed and strictly regulated financial system, **financial institutions have a low direct exposure to the US sub-prime crisis** and so far the direct effects on balance sheets is small.

Several Chinese banks have declared their exposure to the sub-prime market, with the Bank of China being the most affected. The Chinese Banking Regulatory Commission decided in late January to set up a task force in order to track exposure of Chinese banks to the sub-prime market and to serve as an early warning system for potential problems.

2. International and regional economic agreements

2.1 Country's policy and priorities

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

Since China's accession to the WTO in 2001, the country has implemented almost all of its WTO commitments and has made significant progress in many areas. Foreign companies have continued to profit from reduced tariffs, the elimination of import licences and quotas, the opening of more sectors

⁸ UBS Investment Research, China Focus, 9 April 2008

⁹ Economists Intelligence Unit, Country Report, March 2008

¹⁰ World Bank, China Quarterly Update, February 2008

for foreign participation (especially services sectors), and the easing of restrictions on business operations.

Nevertheless, concerns relating to market access remain, but they are now focused on China's laws, policies, and practices that deviate from the WTO's national treatment principle, the insufficient protection of intellectual property rights, the deficient transparency of legal and regulatory processes, and the opaque development of technical and product standards that may favour local companies. There have been various trade disputes in 2007 – for example by the US or the EU – but this has not led to major conflicts. Most of the trade disputes that have occurred in the last six years, have had more to do with market access for investment rather than for importing goods into China or for issues only indirectly related with trade such as the use of subsidies and the production of counterfeited goods. China's trading partners are concerned about the creation of non-tariff barriers and China's resistance to properly cope with prevalent intellectual property piracy, counterfeiting, and the prohibited subsidies. China further creates various new measures to prevent foreign companies from entering the Chinese market such as new requirements for state control of "critical" equipment manufacturers or restrictions on foreign providers of financial information services.¹¹

Under its WTO accession commitment, China "fully" opened up its banking industry to foreign competition in 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.¹² The revised Regulation on the Administration of Foreign-funded Financial Institutions by the State Council also allows **subsidiaries of foreign banks** to offer foreign exchange and RMB services to all customers, meaning both corporate and retail customers just as domestic banks, and also permits **branches of foreign banks** to continue doing foreign exchange business with all customers and RMB business with foreign and Chinese enterprises as they did before.¹³ 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, 21 foreign banks - none of them Swiss - have been allowed to incorporate their Chinese branches into subsidiaries.

Further impediments for foreign banks trying to win market shares in China remain such as cultural barriers, an underdeveloped interbank market, a weak credit culture, a lack of experienced human resources, as well as the preferential treatment of the Chinese state towards large Chinese banks.¹⁴

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

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

¹¹ Economic Intelligence Unit, China Hand, February 2008

¹² Special Comment on „China's Banking Sector Opening Under WTO Commitments“, Moody's Investors Services – Global Credit Research, November 2006

¹³ 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

¹⁴ Economic Intelligence Unit, China Hand, March 2008

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.

During the 10th ASEAN – China Summit in January 2007 **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. China and ASEAN have also been working on a investment agreement, but so far consensus on several issues hasn't been reached. At the 11th ASEAN – China Summit in November 2007, state leaders stressed to urge an acceleration of the negotiations on the Investment Agreement, with the aim of concluding negotiations in 2008. 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. Bilateral talks on a FTA in services started in January 2007, the sixth round of talks took place in March 2008 and negotiations are expected to finish in 2008.
- After 15 rounds of negotiations, China and **New Zealand** signed a free trade agreement on 7 April 2008. This is the **first FTA China signed with a developed country**. Talks on the agreement had started in 2004 after New Zealand became the first rich country accepting China as a market economy. Under the FTA, New Zealand will phase out all tariffs on imports from China (textiles, clothing and footwear) until 2016. China will remove tariffs on 96% of its imports from New Zealand until 2019 with tariffs on some products (especially dairy products, meat, wool, etc.) being cut to zero. **Beyond trade in goods, the agreement covers the services sector**, from insurance and banking to education and labour supply as well as investment. The accord will take effect on 1 October 2008 and must still be formally ratified by New Zealand's Parliament.
- 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. During the tenth round of negotiations, taking place at the end of October 2008, the parties were able to reduce some difference meanwhile overall progress in the negotiations continued to be slow.
- 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 began 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 2007.
- In May 2007 China and **Peru** launched a first joint feasibility study in Beijing with the aim to conclude the study within three months. In January 2008 a first round of talks took place. Both

sides decided to boost bilateral trade and investment in the coming months, ahead of the free trade deal planned to ink in November during the annual Asian-Pacific Economic Cooperation (APEC) forum.

- 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 last round of talks on a joint study of an FTA took place in October 2007.
- China has also started negotiations on a bilateral FTA with the **Gulf Cooperation Council (GCC)** and plans to follow suit with **MERCOSUR**, and the **Southern African Customs Union (SACU)**.
- Chinese efforts to promote a free trade agreement with **India** haven't been successful so far as the Indian industry stands against it for fear of cheap Chinese imports. The Indian commerce ministry stated that negotiations on free trade agreement were unlikely to start in 2008.

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.. At the beginning Swiss watch imports have profited from reduced tariffs. 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.

In July 2005 Switzerland and the other three members of the European Free Trade Association (EFTA) proposed China to consider a feasibility study about an FTA. 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.

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, a third round of negotiations is foreseen for May, 2008. **In March 2007 Norway also announced to recognize China as a full market economy.** The FTA feasibility-study has been completed and negotiations should be starting in the current of 2008.

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 2007.

3. Foreign trade

3.1 Development and general outlook

3.1.1 Trade in goods

2007 was yet another remarkable year for China's trade performance. Chinese imports and exports grew to a total of US\$ 2.1.738 trillion, an increase of 23.5% over 2006. Exports rose 25.7% to US\$ 1.218 billion and imports increased 20.8% to US\$ 955.8 billion. While the year 2006's trade surplus of US\$ 177.46 billion was considered an excellent result, **the year 2007's trade surplus figure, standing at US\$ 262.2 billion an increase of 84.7%**, 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.

China's most important export markets were the EU-25 (US\$ 245.2 billion, 20.1% of total exports), the USA (, 19.1%), Hong Kong¹⁵ (15.1%), Japan (8.4%) and the ASEAN-States (7.7%). The most important countries and/or regions of origin from which China imported products were Japan (US\$ 134.0 billion, 14.0% of total imports), the EU-25 (11.6%), the ASEAN-States (11.3%), South Korea (10.9%), Taiwan (10.6%), and the USA (7.3%).

According to Chinese statistics, between 2006 and 2007 the US and EU-25 trade deficits rose by 13.17% and 46.35% respectively (from a trade deficit of US\$ 144.3 billion to US\$ 163.3 billion for the US, and from a trade deficit of US\$ 91.7 billion to US\$ 134.2 billion for the EU) **With those figures in mind, tensions in trade between China and its partners are understandable.**

In 2007 the imports out of and the exports into Switzerland grew, according to Chinese statistics, about 37.3% (US\$ 5.84 billion) and 43.5% (US\$ 3.60 billion) respectively. **The share of bilateral trade between Switzerland and China slightly increased from 0.38% to 0.43% in year 2007.**

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 goods¹⁶

Swiss export growth to mainland-China (according to Swiss customs data) **was faster in 2007** than in previous years, growing by 31.66% to CHF 5.41 billion. Imports went up 21.61% to CHF 4.78 billion,

¹⁵ 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).

¹⁶ The figures discussed in this section can be found in annexe 4

resulting in a **trade surplus of CHF 624.14 million for Switzerland**.¹⁷ In comparison, growth rates were still at a very high 19.15% (exports) and an almost equal 18.36 % (imports) in 2006 with a Swiss trade surplus of CHF 171.9 million. When combining trade data between Switzerland and Hong Kong with that of mainland China for the year 2007 there was a **significant CHF 4.11 billion surplus in favour of Switzerland**, keeping up with the 2006 figure.

The most important imports of goods out of China are machinery, apparatus and electronics (2007 share of imports: 25.6%), textiles, apparel and shoes (17.77%), precision instruments, watches and jewellery (14.91%), chemicals and pharmaceuticals (12.6%). Exports are dominated by machinery, apparatus and electronics (2007 share of exports: 41.84%), chemicals and pharmaceuticals (17.56%) and precision instruments, watches and jewellery (17.50%).

In 2007 Swiss exports to China saw a CHF 389.0 million (20.77%) increase for machinery, apparatus and electronics, a CHF 271.2 million increase for precision instruments, watches and jewellery (40.19%) and a CHF 187.4 million increase for chemicals and pharmaceuticals (24.61%). The strongest increases in imports from China were in the “machinery, apparatus, electronics” and “precision instruments, watches and jewellery” categories (CHF 256 million or +26.45% and CHF 133.7 million or +23.08%).

From January to February 2008 exports to and imports from mainland China have again significantly grown 40.93% and 11.83% respectively, year-on-year. When Hong Kong is added, those figures stand at 38.92% and 13.64% respectively, year-on-year. Those results point to once again accelerating trade between Switzerland and China. In the first two months of 2008, “machinery, apparatus and electronics” and “textiles, apparel and shoes” still have the largest share of Chinese imports to Switzerland (25.33% and 20.13% respectively). “Machinery, apparatus and electronics,” “precision instruments, watches and jewellery” and “chemicals and pharmaceuticals,” dominate Swiss exports to China (39.89%, 20.05% and 15.46% 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 2007 (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**

¹⁷ The picture looks brighter for Switzerland if the data for the trade between Switzerland and Hong Kong is added. Altogether, exports amounted to CHF 10.7 billion in 2007, and imports to CHF 5.97 billion. In 2007, Swiss exports to China (incl. Hong Kong) made up 4.27% 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 (3.27%).

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. As one of the most top-ranking foreign direct investment (FDI) recipients, 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."¹⁸ **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

¹⁸ China: Open policies towards mergers and acquisitions, OECD Investment Policy Reviews, Paris, 2006

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.**¹⁹

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 2007, **foreign businesses invested US\$ 74.8 billion in China, up 13.59% from the previous year.** The number of foreign projects approved by the Chinese authorities decreased 8.69% in 2007. 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 75.19% during the first two months of this year,** amounting to US\$18.13 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. 37.05% of FDI came from Hong Kong in 2007, making it by far the most important national origin (US\$ 27.7 billion in 2007). 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 22.14% of the 2007 total). **In 2007 South Korea, Japan and the USA were the next largest foreign investors (4.92%, 4.8% and 3.5% respectively) with a dramatic slowdown of -7.89%, -24.59% and -12.79% respectively. In 2007, Switzerland's share of new FDI in China amounted to 0.4% (US\$ 299 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 **CHF 8.07 billion²⁰,** making Switzerland one of the most important national origins 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 97 projects with Swiss participation in 2007 (123 in 2006). In 2007 the actual Swiss FDI totalling US\$299 million saw an increase of 52% over 2006.

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 ratification. **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.**

¹⁹ 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

²⁰ http://www.snb.ch/ext/stats/statmon/pdf/defr/S1_2_a_Kapitalbestand.pdf

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 contacts.

Swiss Business Hub China (SBH China)

The SBH China is part of the worldwide “OSEC Business Network Switzerland” and has been operational since March 2002 at the Swiss Embassy in Beijing with a branch at the Consulate General in Shanghai and a 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.

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.

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. Currently, the focus is on the preparation for the 2008 Olympic Games in Beijing. Presence Suisse and its partners, especially Lucerne Toursim, are setting up the "House of Switzerland", an official guesthouse where Switzerland will be presented to international and local guests and which will be open to the public. The next upcoming important event will be the 2010 World Expo in Shanghai. Besides this, Presence Suisse, in close cooperation with private and public institutions, is involved in several smaller projects 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: 34.5 million Chinese travelled abroad in 2006²¹ and is expected to reach 100 million by 2020.²² 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.

In 2007 125'456 visa were issued to Chinese citizens, an increase of about 22% compared to the previous year.. In this respect **Switzerland's entry to the Schengen-Agreements, which should become operational on 1st of November 2008 is expected to be further beneficial:** Swiss Tourism anticipates over 316'000 Chinese overnights in Switzerland by the end of the year 2009²³. Swiss Tourism was established in Beijing in 1998 and a second branch should be opened in Shanghai, but is still facing some registration issues. The launch of a direct air link between Zurich and Shanghai from 9 Mai on is expected to further boost Chinese outbound tourism to Switzerland.

Education

In 2002, the Swiss and the Chinese Governments renewed their "Memorandum of Understanding" for **educational exchanges**, and during her October 2006 visit to China, Swiss Foreign Minister Micheline Calmy-Rey signed another MoU, focussing on increased scientific cooperation. In April 2007 State Secretary Kleiber signed a joint statement which proposes a four years (2008-2011) Swiss-Chinese science cooperation strategy for education science and research. The strategy aims at strengthening the cooperation between Swiss and Chinese universities and fostering cooperation in the field of vocational education. Further, the feasibility of a general Memorandum without time limits will be examined. The implementation of the four years strategy was further discussed in November 2007 and is now revised by the national competent authorities. Currently, 17 Chinese students and 48 Swiss students have the opportunity to study in the corresponding partner country.

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. In order to tackle these issues and to promote a positive image of Swiss colleges and universities in China, the Education Section of the Swiss Embassy participated for a first time at the China International Education Exposition in October 2007. As this proved to be an effective way for direct contacts with the relevant media, participation at this exposition will very likely be pursued and further, participation at the Beijing International Education Exposition in the beginning of May is programmed.

In order to strengthen bilateral cooperation in the field of higher education, Swissnex, an initiative of the Swiss State Secretariat for Education and Research, the Ministry of Foreign Affairs and the Ministry of Home Affairs, will officially **open an office in Shanghai on 7 August 2008.** Swissnex Shanghai will fully exploit the potential of cooperation in the areas of research, technology, innovation and culture.

²¹ Ministry of Public Security

²² World Tourism Organisation

²³ Swiss Tourism Beijing (STB), 10 April 2008: There were 230'000 Chinese overnights in Switzerland at the end of the year 2007. STB estimates an increase of 10% and 25% by the end of 2008 and 2009 respectively.

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 Electric 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. 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. Bilateral financial consultations amongst relevant authorities started in 2005. The Swiss Banking Association initiated a constructive dialogue with Chinese financial authorities in 2006 on issues of mutual interest to Chinese and Swiss financial services industries. So far 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.. 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.

6 Useful internet Links (cf. Annexe 6)

Krystyna Marty

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*	2006	2007
Distribution of GDP (%)							
Primary Sector	15.8%	15.3%	14.4%	15.2%	12.4%	11.7%	11.7%
Secondary Sector	50.1%	50.4%	52.2%	52.9%	47.3%	48.9%	49.2%
Tertiary Sector	34.1%	34.3%	33.4%	31.9%	40.3%	39.4%	39.1%
Distribution of Labor (%)							
Primary Sector	50.0%	50.0%	49.1%	47.0%	44.8%	42.6%	n/a
Secondary Sector	22.3%	21.4%	21.6%	22.5%	23.8%	25.2%	n/a
Tertiary Sector	27.7%	28.6%	29.3%	30.5%	31.4%	32.2%	n/a
(of which state sector)	10.5%	9.7%	9.2%	8.9%	11.2%	n/a	n/a

ESSENTIAL ECONOMIC DATA

	2'004	2005	2006	2007
GDP (RMB billion)*	16'028	18'869	22'117	24'662
GDP (USD billion)*	1'936	2'303	2'774	3'242
GDP per capita (RMB)	12'329	14'426	16'832	18'641
GDP per capita (USD)	1489	1'761	2'111	2'450
GDP growth (%)**	10.1	10.4%	11.1	11.4
CPI inflation (%)*	3.9	1.8	1.5	4.8
Population (billion)	1.300	1.308	1.314	1.323
Unemployment rate				
Level - registered (Millions)*****	8.3	8.4	N/A	N/A
Rate - registered in urban (%)*****	4.2	4.2	4.1	4.0
EIU estimates (average in %)***	9.9	9.0	9.5	9.5
Fiscal balance (% of GDP)**	-1.3	-1.2	-0.8	0.1
Current account balance (% of GDP)*	3.6	7.2	9.4	11.1
Total External Debt (% of GDP)***	12.8	12.2	11.4	11
Debt-service ratio (% of exports)****	3.4	3.1	2.3	N/A
Reserves, incl. Gold (USD billion)**** in months of imports	12	13	16.7	17.6

Sources:

* IMF World Economic Outlook, April 2008

** EIU, Country Report, March 2008

*** EIU, China Hand, January 2008

**** Worldbank 2007

***** National Bureau of Statistics of China

Trading partners of the People's Republic of China

Exports to Country/ Region 2007	Billion USD	Share %	Growth in % to a comparable previous period
USA	232.7	19.1%	14.4%
Hong Kong	184.4	15.1%	18.8%
Japan	102.1	8.4%	11.4%
South Korea	56.1	4.6%	26.1%
Germany	48.7	4.0%	20.8%
Netherlands	41.4	3.4%	34.2%
United Kingdom	31.7	2.6%	31.0%
Singapore	29.6	2.4%	27.8%
Russia	28.5	2.3%	79.9%
Taiwan	23.5	1.9%	13.1%
EU-25	245.2	20.1%	29.2%
ASEAN	94.2	7.7%	32.1%
EFTA	5.9	0.5%	37.3%
Iceland	0.092	0.01%	18.8%
Liechtenstein	0.010	0.00%	-9.3%
Norway	2.201	0.18%	29.4%
Switzerland	3.601	0.30%	43.5%
Total	1218.0	100%	25.7%
Imports from Country/ Region 2007	Billion USD	Share %	Growth in % to a comparable previous period
Japan	134.0	14.0%	15.8%
South Korea	103.8	10.9%	15.6%
Taiwan	101.0	10.6%	16.0%
USA	69.4	7.3%	17.2%
Germany	45.4	4.7%	19.8%
Malaysia	28.7	3.0%	21.8%
Australia	25.9	2.7%	33.8%
Philippines	23.1	2.4%	30.8%
Thailand	22.7	2.4%	26.2%
Brazil	18.3	1.9%	42.0%
EU-25	111.0	11.6%	22.4%
ASEAN	108.4	11.3%	21.0%
EFTA	7.5	0.8%	35.2%
Iceland	0.04	0.00%	-10.9%
Liechtenstein	0.02	0.00%	75.0%
Norway	1.61	0.17%	29.1%
Switzerland	5.84	0.61%	37.3%
Total	955.8	100%	20.8%

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

	Class of goods	Import in CHF		Δ	Import share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		2005	2006	in %		2005	2006	in %		
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 share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		2005	2006	in %		2005	2006	in %		
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 share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		2005	2006	in %		2005	2006	in %		
	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

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

	Class of goods	Import in CHF		Δ	Import share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		2006	2007	in %		2006	2007	in %		
1	Agricultural products	98'837'097	116'062'704	17.43%	2.43%	21'414'577	25'044'357	16.95%	0.46%	-91'018'347
2	Energy carriers	221023	408979	85.04%	0.01%	925076	1'254'582	35.62%	0.02%	845'603
3	Textiles, apparel, shoes	780'988'503	849'770'765	8.81%	17.77%	110'286'184	140'204'688	27.13%	2.59%	-709'566'077
4	Paper, paper products, printed matter	25'364'807	32'752'269	29.12%	0.69%	23'479'125	24'378'146	3.83%	0.45%	-8'374'123
5	Leather, rubber, plastics	203'310'435	271'396'084	33.49%	5.68%	65'704'763	93'313'444	42.02%	1.73%	-178'082'640
6	Chemicals, pharmaceuticals	526'470'812	602'598'801	14.46%	12.60%	761'601'326	949'013'789	24.61%	17.56%	346'414'988
7	Construction materials, ceramics, glass	59'407'751	70'529'098	18.72%	1.48%	9'419'186	24'332'419	158.33%	0.45%	-46'196'679
8	Metals and metal products	283'255'919	362'898'201	28.12%	7.59%	183'857'033	248'408'833	35.11%	4.60%	-114'489'368
9	Machinery, apparatus, electronics	967'876'471	1'223'875'127	26.45%	25.60%	1'872'561'861	2'261'543'245	20.77%	41.84%	1'037'668'118
10	Vehicles	45'758'631	74'270'394	62.31%	1.55%	8'317'226	26'275'605	215.92%	0.49%	-47'994'789
11	Precision instruments, watches, jewellery	579'297'452	712'978'191	23.08%	14.91%	674'897'344	946'142'633	40.19%	17.50%	233'164'442
12	Furniture, toys	347'765'189	447'067'090	28.55%	9.35%	20'563'214	31'887'592	55.07%	0.59%	-415'179'498
13	Precious metal, precious stones, gemstones	5'269'799	8'008'455	51.97%	0.17%	351'499'655	631'195'495	79.57%	11.68%	623'187'040
14	Objects of art and antiques	7'568'492	8'355'974	10.40%	0.17%	941532	2'115'711	124.71%	0.04%	-6'240'263
	Total	3'931'392'381	4'780'972'132	21.61%	100.00%	4'105'468'102	5'405'110'539	31.66%	100.00%	624'138'407

Bilateral trade Switzerland - Hongkong, 2006 and 2007

	Class of goods	Import in CHF		Δ	Import share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		2006	2007	in %		2006	2007	in %		
1	Agricultural products	726005	1'449'497	99.65%	0.12%	31'093'202	55'016'326	76.94%	1.04%	53'566'829
2	Energy carriers	1017	-	-	-	107189	91568	-14.57%	0.00%	91'568
3	Textiles, apparel, shoes	53'417'313	70'255'832	31.52%	5.93%	147'362'703	142'278'236	-3.45%	2.69%	72'022'404
4	Paper, paper products, printed matter	2'816'106	2'917'318	3.59%	0.25%	7'888'537	18'450'642	133.89%	0.35%	15'533'324
5	Leather, rubber, plastics	6'924'884	8'536'489	23.27%	0.72%	48'952'186	60'489'447	23.57%	1.14%	51'952'958
6	Chemicals, pharmaceuticals	11'382'274	16'283'273	43.06%	1.37%	378'598'166	426'045'413	12.53%	8.04%	409'762'140
7	Construction materials, ceramics, glass	2'130'804	4'314'969	102.50%	0.36%	19'125'656	15'213'147	-20.46%	0.29%	10'898'178
8	Metals and metal products	11'223'476	12'024'785	7.14%	1.01%	59'543'066	60'327'148	1.32%	1.14%	48'302'363
9	Machinery, apparatus, electronics	184'388'860	140'012'605	-24.07%	11.81%	410'063'847	427'838'578	4.33%	8.08%	287'825'973
10	Vehicles	1'048'534	1'335'096	27.33%	0.11%	372997	1'690'268	353.16%	0.03%	355'172
11	Precision instruments, watches, jewellery	548'614'621	560'867'091	2.23%	47.30%	2'416'263'544	2'951'355'960	22.15%	55.72%	2'390'488'869
12	Furniture, toys	7'375'687	8'218'865	11.43%	0.69%	42'655'351	38'368'376	-10.05%	0.72%	30'149'511
13	Precious metal, precious stones, gemstones	606'643'759	344'235'917	-43.26%	29.03%	1'117'005'084	1'083'984'414	-2.96%	20.46%	739'748'497
14	Objects of art and antiques	19'804'587	15'243'715	-23.03%	1.29%	14'645'802	15'881'925	8.44%	0.30%	638'210
	Total	1'456'497'927	1'185'695'452	-18.59%	100.00%	4'693'677'330	5'297'031'448	12.85%	100.00%	4'111'335'996

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

	Class of goods	Import in CHF		Δ	Import share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		2006	2007	in %		2006	2007	in %		
	Total	5'387'890'308	5'966'667'584	10.74%	100%	8'799'145'432	10'702'141'987	21.63%	100%	4'735'474'403

Bilateral trade Switzerland - P.R. China, Jan - Feb 2007 and Jan - Feb 2008

	Class of goods	Import in CHF		Δ	Import share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		Jan - Feb 07	Jan - Feb 08	in %		Jan - Feb 07	Jan - Feb 08	in %		
1	Agricultural products	17'235'111	27'306'568	58.44%	3.09%	2'242'660	3'785'328	68.79%	0.39%	-23'521'240
2	Energy carriers	-	-	-	-	231307	321287	38.90%	0.03%	321'287
3	Textiles, apparel, shoes	157'802'492	178'141'332	12.89%	20.13%	22'734'198	28'121'816	23.70%	2.90%	-150'019'516
4	Paper, paper products, printed matter	4'536'730	6'186'740	36.37%	0.70%	2'757'551	9'676'621	250.91%	1.00%	3'489'881
5	Leather, rubber, plastics	41'830'792	48'298'794	15.46%	5.46%	13'010'105	15'631'163	20.15%	1.61%	-32'667'631
6	Chemicals, pharmaceuticals	103'453'523	121'090'542	17.05%	13.68%	151'168'931	149'713'966	-0.96%	15.46%	28'623'424
7	Construction materials, ceramics, glass	11'084'106	12'351'521	11.43%	1.40%	3'403'291	2'916'967	-14.29%	0.30%	-9'434'554
8	Metals and metal products	63'097'978	63'868'277	1.22%	7.22%	34'977'216	41'127'053	17.58%	4.25%	-22'741'224
9	Machinery, apparatus, electronics	193'055'306	224'157'036	16.11%	25.33%	278'363'090	386'243'092	38.76%	39.89%	162'086'056
10	Vehicles	10'445'054	16'412'313	57.13%	1.85%	10'855'976	5'593'684	-48.47%	0.58%	-10'818'629
11	Precision instruments, watches, jewellery	109'850'117	101'289'113	-7.79%	11.45%	121'923'920	194'126'267	59.22%	20.05%	92'837'154
12	Furniture, toys	76'362'594	82'894'529	8.55%	9.37%	4'103'827	3'576'356	-12.85%	0.37%	-79'318'173
13	Precious metal, precious stones, gemstones	1'115'340	687639	-38.35%	0.08%	39'978'659	127'038'349	217.77%	13.12%	126'350'710
14	Objects of art and antiques	1'363'097	2'170'311	59.22%	0.25%	1'262'512	331937	-73.71%	0.03%	-1'838'374
	Total	791'232'240	884'854'715	11.83%	100.00%	687'013'243	968'203'886	40.93%	100.00%	83'349'171

Bilateral trade Switzerland - Hongkong, Jan - Feb 2007 and Jan - Feb 2008

	Class of goods	Import in CHF		Δ	Import share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		Jan - Feb 07	Jan - Feb 08	in %		Jan - Feb 07	Jan - Feb 08	in %		
1	Agricultural products	647036	140853	-78.23%	0.07%	5'623'606	9'581'424	70.38%	1.04%	9'440'571
2	Energy carriers	-	-	-	-	11548	30415	163.38%	0.00%	30'415
3	Textiles, apparel, shoes	10'918'349	14'619'960	33.90%	7.62%	22'689'240	27'434'653	20.91%	2.98%	12'814'693
4	Paper, paper products, printed matter	589127	624786	6.05%	0.33%	1'177'684	2'383'338	102.38%	0.26%	1'758'552
5	Leather, rubber, plastics	1'868'816	1'449'969	-22.41%	0.76%	9'671'981	12'849'250	32.85%	1.40%	11'399'281
6	Chemicals, pharmaceuticals	1'706'132	927470	-45.64%	0.48%	62'319'309	65'701'133	5.43%	7.15%	64'773'663
7	Construction materials, ceramics, glass	521622	501283	-3.90%	0.26%	3'857'790	2'463'366	-36.15%	0.27%	1'962'083
8	Metals and metal products	1'706'463	1'816'486	6.45%	0.95%	7'977'531	9'366'993	17.42%	1.02%	7'550'507
9	Machinery, apparatus, electronics	22'621'260	24'492'936	8.27%	12.76%	53'063'938	67'730'177	27.64%	7.37%	43'237'241
10	Vehicles	232650	535235	130.06%	0.28%	544454	233962	-57.03%	0.03%	-301'273
11	Precision instruments, watches, jewellery	74'430'063	94'793'402	27.36%	49.40%	382'298'910	541'456'448	41.63%	58.88%	446'663'046
12	Furniture, toys	1'404'967	1'290'177	-8.17%	0.67%	7'652'898	4'922'130	-35.68%	0.54%	3'631'953
13	Precious metal, precious stones, gemstones	38'410'411	49'543'115	28.98%	25.82%	114'421'503	173'325'521	51.48%	18.85%	123'782'406
14	Objects of art and antiques	1'242'687	1'151'908	-7.31%	0.60%	571991	2'056'275	259.49%	0.22%	904'367
	Total	156'299'583	191'887'580	22.77%	100.00%	671'882'383	919'535'085	36.86%	100.00%	727'647'505

Bilateral trade Switzerland - P.R. China incl. Hongkong, Jan - Feb 2007 and Jan - Feb 2008

	Class of goods	Import in CHF		Δ	Import share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		Jan - Feb 07	Jan - Feb 08	in %		Jan - Feb 07	Jan - Feb 08	in %		
	Total	947'531'823	1'076'742'295	13.64%	100%	1'358'895'626	1'887'738'971	38.92%	100%	810'996'676

China: Foreign Direct Investment

Rank	Country/ Region	FDI (mio. USD) 2006	Share (%) 2006	Variation (%) year on year	Rank	Country/ Region	FDI (mio. USD) 2007	Share (%) 2007	Variation (%) year on year
1	Hong Kong	21'307	32.37%	12.73%	1	Hong Kong	27'703	37.05%	30.02%
2	Virgin Islands	11'677	17.74%	24.67%	2	Virgin Islands	16'552	22.14%	41.75%
3	Japan	4'759	7.23%	-29.58%	3	South Korea	3'678	4.92%	-7.89%
4	South Korea	3'993	6.07%	-24.64%	4	Japan	3'589	4.80%	-24.59%
5	USA	3'000	4.56%	-6.41%	5	Singapore	3'185	4.26%	29.30%
6	Singapore	2'463	3.74%	2.55%	6	USA	2'616	3.50%	-12.79%
7	Taiwan	2'230	3.39%	-0.74%	7	Cayman Islands	2'571	3.44%	20.59%
8	Cayman Islands	2'132	3.24%	7.60%	8	West Samoa	2'170	2.90%	33.96%
9	Germany	2'003	3.04%	29.32%	9	Taiwan	1'774	2.37%	-20.43%
10	West Samoa	1'620	2.46%	12.99%	10	Mauritius	1'333	1.78%	20.53%
	EU-25	5'439	8.26%	3.41%		EU-25	3'838	5.13%	-29.43%
	EFTA	212.30	0.32%	-9.66%		EFTA	339.8	0.45%	60.06%
	Iceland	2.2	0.00%	1366.7%		Iceland	6.0	0.01%	172.73%
	Liechtenstein	0.3	0.00%	-89.51%		Liechtenstein	0.8	0.00%	166.67%
	Norway	13.2	0.02%	-49.70%		Norway	34.0	0.05%	157.58%
	Switzerland	196.6	0.30%	-4.51%		Switzerland	299.0	0.40%	52.09%
	Total	65'821	100%	9.11%		Total	74'768	100%	13.59%

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.chao.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 Regulatory 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=32
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.html
Japanese government related organization (Jetro)	http://www.jetro.go.jp/
The World Bank	http://www.worldbank.org
The World Trade Organisation	http://www.wto.org