

China: Biannual economic report – July 2011

1. Appreciation of the economic problems and issues

1.1. Recent economic issues and developments

Even though China's GDP growth rebounded to 10.3% in 2010 after it had fallen continually from 14.2% in 2007 to 9.2% in 2009, with inflation pressures building, commodity prices rising and a tightening monetary policy, economic growth is expected to follow a trend of moderation throughout 2011¹. **As a matter of fact, China's real GDP growth has returned to one-digit rates after mid 2010 and stood at 9.7% in the first quarter of 2011.**²

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

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

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

However, the soaring Chinese inflation, straining the budgets of average Chinese to pay for basics like food, energy and housing, remains to be a major economic concern for the Chinese leadership. China's consumer prices well exceeded the government's target of 4% in each of the first five months of this year and increased to 5.5% in May - a 34 months high. The May inflation was driven by an 11.7% jump in food costs, which was even higher than April's 11.5%. The devastating floods that hit southern China, reducing vegetable production by 20% and pushing up prices by as much as 40% in certain regions⁴, are likely to add further pressure on the agricultural commodities markets and translate into overall inflation. The non-food sector also jumped 2.9% in May, more than April's 2.7%. It was the highest level since records began in 2002 and illustrates that price pressures are spreading in the Chinese economy. Home prices rose for the ninth straight month in May, even after interest-rate increases and curbs on second and third mortgages were induced. On the other hand savings are also being hurt, with the one-year deposit rate of 3.25%, standing more than 2% lower than the 5.5% annual rate of inflation. Moreover, limited exchange-rate appreciation makes imported products more costly. As a consequence the inflation is eroding the purchasing power of Chinese households even as policy makers embrace wage gains to bolster domestic demand and

¹ The Hindu Business Line: "ADB lowers China's GDP growth forecast for 2011"; April 6th 2011

² National Bureau of Statistics

³ The Hindu Business Line: "ADB lowers China's GDP growth forecast for 2011"; April 6th 2011

⁴ <http://www.guardian.co.uk/world/2011/jun/19/china-floods-food-price-rises> (on June 19th 2011)

thus threatens to undermine attempts of the Government to make Chinese consumers a bigger driver of the world's second-largest economy.⁵

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

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

Moreover, since 2006 the **PBoC has been using the required reserve ration on deposits in commercial banks as a sterilization tool to manage liquidity and carry out monetary policy.** Before that the PBoC mopped up excess liquidity by issuing central bank bills, which have the drawback that they constantly need to be rolled over and are relatively costly since market interest rates need to be paid.⁸ On June 20th 2011, the PBoC raised the bank's reserve requirement ratio (RRR) by 0.5%. That was the 9th rise in a row and already the 6th one this year. The biggest Chinese banks⁹ now have to set aside a record high of 21.5% of their capital in reserve.¹⁰

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

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

Even though **exchange rate related US-Chinese tensions** may – at least seemingly – **have cooled down over the past months, China's exchange rate policy is likely to continue to attract criticism from various sides** that eventually boils down to the same issue: the non-convertibility of the RMB. In the first quarter of 2011 the RMB appreciated against the US Dollar but depreciated against the Euro. Exchange rates are believed to be one reason among others behind the large bilateral EU-China trade deficit¹³. Moreover, European Central Bank President Jean-Claude Trichet stated on the occasion of the G20 meeting in Nanjing in March 2011 that the Yuan has to be a freely-floating currency before it can be considered as a Special Drawing Rights¹⁴ (SDR) currency, when he was commenting on China's ambitions to push for a greater role of the SDR in international commerce in the hope of reducing its reliance on the US dollar, which results from being the largest foreign owner

⁵ www.bloomberg.com: "Consumer Spending Fades in China Economy After 'Peak Days' ; June 17th 2011

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

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

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

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

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

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

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

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

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

of US Treasuries.¹⁵ In March 2011 China cut the amount of its US treasury bonds holdings for a fifth month in a row by 9.2 bn USD, which corresponds to less than 1% of its total Dollar reserves. Throughout the same period, China bought long-term Japanese treasury bonds worth 2.02 bn Euros, the biggest purchase of debt China has made within a single month in more than six years.¹⁶

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

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

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

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

Another event that is likely to impact the business activities of foreign companies operating in China through substantial cost increases is the **introduction of a new social insurance law that will impose greater obligations on employers to help fund the country's welfare system**. The new social insurance law came into effect on July 1st 2011, whereas it remains to be seen how the law will be implemented on a provincial level in the following year. It allows foreigners working in China for the first time to gain access to the country's social insurance system. However, the new law means also that they will have to pay dual fees for separate coverage in two countries unless this is regulated differently within a bilateral agreement for the given nationals. **The new law specifies a common right for all citizens to access and enjoy five forms of insurance: pension insurance, medical insurance, employment injury insurance, unemployment insurance and maternity insurance**. By allowing citizens to transfer their basic endowment insurance accounts from one residence to

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

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

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

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

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

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

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

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

another the new law should essentially eliminate obstacles to basic social insurances for people living and working outside their birthplace. The new law will establish a medical payment system that will allow medical insurance in one place to be repaid in another. Citizens will also be allowed to pay pension premiums in one place and withdraw money from another, whereas cumulative length of contribution payment is no less than fifteen years upon reaching the legal retirement age.²³

1.2. Approval of China's 12th Five Year Plan²⁴

The approval of China's 12th Five Year Plan (FYP) was the highlight of this year's meeting of China's parliament – the National People's Congress (NPC)²⁵. In the context of the global financial crisis and the lurking risk of social instability, the development of the 12th FYP - unlike the 11th FYP - took place in a markedly different internal and external environment as the **meeting occurred against the backdrop of concerns about domestic inflation, high property prices and popular uprisings in the Middle East.**

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

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

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

The **12th FYP aims to fundamentally restructure the economy** through four primary initiatives: lowering economic growth targets, increasing consumption, implementing energy savings and environmental protection measures, and promoting so-called strategic industries through preferential tax, fiscal and procurement policies in the hope these industries will become the backbone of China's economy in the decades ahead²⁶.

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

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

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

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

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

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

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

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

2. International and regional economic agreements

2.1 Country's policy and priorities

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

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

So far, **China has leant towards being an advocate of free-trade within the WTO,** demonstrating a strong engagement in issues typically affecting emerging markets such as the liberalisation of agricultural markets. China wants to give the image of an active WTO-member but has so far been criticized for not engaging hard enough to find a compromise on Doha.

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

Since the signing of the Framework Agreement on Comprehensive Economic Cooperation with the original 10 member countries of ASEAN in 2002, China has signed 9 FTA Agreements with 17 countries and regions and established a FTA network covering three continents and a population of 2.18 bn. This network for free trade, with a GDP of 7.44 trillion USD accounted for 19.3% of China's

²⁷ Economist Intelligence Unit, China Hand, February 2008.

foreign trade, 56.3% of overseas investment and 56.4% of foreign investment.²⁸ The global FTA trend involves almost all WTO members and half of the trade in goods takes place in FTAs.

2.1.2. China-ASEAN Free Trade Agreement (CAFTA)

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

In 2002, China and the Association of Southeast Asian Nations (ASEAN) signed the Framework Agreement on Comprehensive Economic Cooperation – an umbrella agreement providing general provisions on the establishment of an ASEAN-China Free Trade Area (CAFTA). Under the CAFTA, a zero-tariff market came into force in 2010 for China and the six original ASEAN members²⁹ and will be expanded in 2015 by including the newer and less developed ASEAN members.³⁰ Together with an agreement on trade in services that was signed in January 2007, the negotiation process with regard to CAFTA is completed. China and ASEAN have defined 11 major fields as directions for future cooperation, including agriculture, information and telecommunications, transport, tourism, Mekong River exploitation, energy, culture, human resource, and the environment.³¹

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

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

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

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

On January 1st 2010, the six richest ASEAN members eliminated remaining tariffs and barriers to investment on 90% of the products. Nevertheless, the poorest ASEAN members, namely Vietnam, Cambodia, Laos and Myanmar, will not have to cut tariffs and barriers to the same level until 2015. Furthermore, many firms in South-East Asia fear Chinese competition, in particular Indonesia. It is however quite common to exaggerate China's impact on ASEAN where trade is in fact highly

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

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

³⁰ Cambodia, Laos, Myanmar, Vietnam

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

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

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

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

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

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

diversified. In 2009, ASEAN traded more with both Japan and the EU than it did with China. South Korea, Australia and India are also important. What is more, ASEAN's deficit (by its own figures) with China is matched by a surplus with America.³⁷

2.1.3. Other Free Trade Agreements

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

2.1.3.1. Already signed Free Trade Agreements:

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

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

China and **Peru** concluded negotiations for a free trade agreement in November 2008. The pact was signed on April 28th 2009 in the presence of Chinese Vice-President Xi Jinping and Peruvian Vice-President Luis Giampietri Rojas, and entered into force at the beginning of March 2010. It will gradually reduce tariffs on about 90% of goods traded between the two countries.⁴¹ China is Peru's second biggest commercial partner and its investment in Peru has exceeded the amount of 1.2 bn USD, the largest among Asian countries.⁴²

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

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

In April 2008, China signed a FTA with **New Zealand**, marking the first such deal between the biggest developing country and a developed economy. Under the FTA which came into effect in October 2009, New Zealand will phase out all tariffs on imports from China (textiles, clothing and footwear) until 2016. China will remove tariffs on 96% of its imports from New Zealand until 2019 with tariffs on some

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

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

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

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

⁴¹ Ministry of Commerce: <http://fta.MOFCOM.gov.cn>

⁴² Ministry of Commerce: http://fta.MOFCOM.gov.cn/enarticle/enperu/enperunews/201003/2235_1.html

⁴³ China FTA Network: "Singapore, China hold 1st review of bilateral FTA", 17 April 2010.

⁴⁴ Ministry of Commerce: <http://fta.MOFCOM.gov.cn>

products (especially dairy products, meat, wool, etc.) being cut to zero. The agreement covers not just goods but also services, from insurance and banking to education and labour supply as well as investment. China sends more students to New Zealand than any other country and is its fourth-largest source of tourists. At present, China has become the 3rd largest trading partner, 4th largest export market and 2nd largest import source of New Zealand.

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

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

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

2.1.3.2. Free Trade Agreements under negotiation

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

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

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

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

⁴⁵ Xinhua: "Chinese mainland market opened wider to HK businesses", 9 May 2009.

⁴⁶ South China Morning Post: "Cepa boosts six pillar industries", 28 May 2010.

⁴⁷ Africa Economic Development Institute, Africa Trade Agreements, Xinhua:

http://africaecon.org/index.php/trade_agr/view_trade_agreement/34/0/_/0 ; "China signs zero-tariff trade deal with Senegal" , 18 October 2009.

⁴⁸ The Age, Cathy Alexander: "China-Australia free trade talks resume", 24 February 2010.

⁴⁹ Australian Government: Department of Foreign Affairs and Trade: "Invitation for submissions on non-tariff measures"

<http://www.dfat.gov.au/fta/aanzfta/Non-Tariff-Measures-submissions.html>

⁵⁰ Ministry of Commerce: <http://fta.MOFCOM.gov.cn>

⁵¹ Ministry of Commerce: <http://fta.MOFCOM.gov.cn>

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

In June 2004, China and the **Southern Africa Customs Union (SACU)**⁵² announced the launch of free trade negotiations. So far, no negotiations have taken place.⁵³

2.1.3.4. Free Trade Agreements under consideration

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

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

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

China and **South Korea** conducted two rounds of joint research in 2005 and 2006 which will form the basis for exploring the possibility of initiating FTA negotiations. Negotiations are expected to start in 2011.⁵⁹

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

⁵² South Africa, Botswana, Namibia, Lesotho, Swaziland

⁵³ Ministry of Commerce: <http://fta.MOFCOM.gov.cn>

⁵⁴ The Journal of Commerce: "China, Japan, South Korea Eye Free Trade Pact", Hisane Masaki, 23 May 2011.

⁵⁵ BBC News: "China, Japan, South Korea seek trade pact", 25 April 2011.

⁵⁶ Daily Yomuri Online: "East Asian giants move closer on FTA / Positive signs from China heighten prospects of trilateral pact with Japan, S. Korea", Koichi Uetake / Yomuri Shimbun, 24 May 2011.

⁵⁷ The Wall Street Journal: "India-China FTA talks may stumble over trade deficit", Asit Ranjan Mishra, 15 December 2010.

⁵⁸ The Economic Times: "China-ASEAN FTA may hit trade balance: Scindia", 23 April 2010.

⁵⁹ China Daily: "China, South Korea to kick off FTA talks", 28 May 2010.

⁶⁰ People's Daily: "Free trade deal with Mongolia on the cards", 12 May 2010.

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

2.1.4. Relations between China and Taiwan

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

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

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

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

2.2 Outlook for Switzerland (potential for discrimination)

As both the position of China as an economic partner for Switzerland and the number of FTA between China and other industrial countries will increase, the potential for discrimination will follow the same path unless progress is made in the Doha Round or Switzerland-China FTA plans materialize. On the occasion of the official visit of **Federal Councillor Leuthard to China in July 2007 a joint declaration on economic cooperation** was signed. The declaration shall strengthen the bilateral relations on trade, investment and intellectual property rights. Further, Switzerland **recognised China as a market economy** on this occasion.

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

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

⁶¹ Office of the United States Trade Representative, "Trans-Pacific Partnership Announcement", December 2009.

⁶² Xinhua: "Landmark cross-Strait economic pact takes effect", 13 September 2010.

⁶³ Xinhua: "Mainland, Taiwan reduce import tariffs to implement", January 2nd, 2011.

⁶⁴ Taiwan Today: "The Challenges of ECFA", 2 July 2010.

⁶⁵ Economic Daily News: "Priority option in pushing for FTA", 7 November 2010.

⁶⁶ For the joint feasibility study, please visit: <http://www.seco.admin.ch/themen/00513/02655/02731/04118/index.html?lang=de>

In January 2009 a **revised bilateral investment protection agreement was signed** which provides notable improvements especially with regard to the transfer of returns on capital and investment, compensation for expropriation and dispute settlement procedures. The revised agreement entered into force on 13 April 2010.⁶⁷

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

Foreign Trade

3.1. Development and General Outlook

3.2.1 Trade in goods⁶⁸

Exports have significantly contributed to China's GDP growth in recent years. Due to the financial crisis and the slumping global demand, China's exports declined in 2009. While import growth was strong, external trade negatively affected GDP growth in 2009. However, exports recovered in 2010, growing again by 31.3% up to 1577.8 bn USD, but were outreached by the even faster growing imports that rose by 38.7% to 1395.1 bn USD, causing China's trade surplus to decrease by 7% to 182.7 bn USD. This marked the second year of a decreasing trade surplus after it had been growing for 6 years in a row since 2003, when it stood at relatively humble 25.5 bn USD⁶⁹.

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

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

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

Chinese imports rose at a slower 21.8%, to 144.26 bn USD, as government policies to restrict bank lending in an attempt to control inflation took effect. China's trade numbers also registered an impact from Japan's earthquake and subsequent nuclear crisis. Imports from Japan stood at 16 bn USD in April, down by 14.9% from March. Japan accounts for about one-eighth of China's imports, and shipments barely increased from a year earlier, dragging down the overall total as the earthquake triggered rolling electricity blackouts and parts shortages that disrupted the manufacture of cars and many other products⁷².

In China, labor costs are surging by 10 to 30% a year in China, rendering the export industry less competitive. Many companies are searching for alternatives to manufacturing in China, whereas they are struggling to find an alternative place that offers China's combination of a large labor supply, world-class highways and ports and strongly pro-business policies, including a strict ban on independent labor unions that tended to hold down wages until very recently⁷³.

⁶⁷ For the agreement, please visit: http://www.eda.admin.ch/eda/de/home/topics/intla/intrea/dbstv/data59/e_20092659.html

⁶⁸ The figures discussed in this section can be found in annex 4.

⁶⁹ China Customs Statistics, 2011 No. 5

⁷⁰ MOFCOM; Report on the foreign trade Situation of China; Spring 2011, Page 5

⁷¹ <http://in.reuters.com>: "China posts Q1 trade deficit in sign of rebalancing"; April 10th 2011

⁷² <http://www.tradingeconomics.com>: "CHINA'S TRADE SURPLUS SURGES IN APRIL"; May 10th 2011

⁷³ The New York Times: "Chinese Exports Hit Record for April"; May 10th 2011

3.2 Bilateral trade

3.2.1 Trade in goods⁷⁴

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

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

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

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

As for Hong Kong, exports of watches (exports: 48.7% vs. imports: 18.2% share of total) and jewellery (exports: 29.5% vs. 65.5% share of total) account for nearly 80% of total bilateral trade⁷⁵.

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

4 Direct investments

4.1 Development and general outlook

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

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

From January to May 2011 the actual use of foreign investment reached 48.028 bn USD, that is an increase of 23.4% year on year⁷⁸ and there were no major shifts within the ranking of the aforementioned top ten countries. However, while the investment from Asia and Europe continued to

⁷⁴ The figures discussed in this section can be found in annexe 4.

⁷⁵ Swiss Federal Customs Administration: <http://www.ezv.admin.ch/>

⁷⁶ National Bureau of Statistics; "Statistical Communiqué of the P.R.C. on the 2009 National Economic and Social Development"; 26. 2. 2010.

⁷⁷ MOFCOM: "Statistics of China's Absorption of FDI from January to December 2010"; January 27th 2011

⁷⁸ News Release of National Assimilation of FDI From January to May 2011; June 17th 2011

http://www.fdi.gov.cn/pub/FDI_EN/Statistics/FDIStatistics/ExpressofForeignInvestment/t20110617_134374.htm

increase, the investment from the US decreased. Moreover, the actualized FDI in the service sector was higher than in other sectors and grew faster in Western regions than Eastern regions⁷⁹.

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

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

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

The **new revisions have added more environmentally-friendly and high-end projects to the "encouraged" category.** New energy utilization is rising as one of China's top interest while attracting foreign investment. New energy-related industries, including high-tech green battery manufacturing and the construction and operation of renewable water plants, have all become new additions to the "encouraged" Catalog. Energy efficient industries and green technologies are further highlighted in the "encouraged" list. The **newly added "prohibited" items are highly related to China's current social issues and national interest**, such as foreign investment related to the real estate industry. Furthermore China is showing a special interest to **channel foreign investment to its central and western regions.** In order to enable these regions to experience a similar development as the coastal areas, tax breaks and labour intensive industries are now formally encouraged in the central and western regions. The final version of the catalogue will be issued and implemented over the course of this year⁸¹.

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

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

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

At the beginning of March 2010, **the administrative measures for the establishment of foreign-invested partnerships (FIP)**, promulgated by the State Council in December 2009, became effective. China's Partnership Enterprise Law has been in force since June 2007, but only Chinese domestic enterprises or individuals could become partners. The new measures now provide a framework for foreign-invested partnerships – partnerships between two or more foreign entities or individuals, or jointly with Chinese individuals, legal persons or other Chinese organisations – and therewith a new vehicle for foreign investment. The government will **encourage foreign companies and individuals possessing "advanced technologies" and "management experience" to establish FIPs in China.** The definition of these two features remains unclear. The current restrictions regarding foreign investments in certain industries also applies to FIPs, however for the allowed industries the FIP

⁷⁹ Regular Press Conference of the Ministry of Commerce on May 17th, 2011:
<http://english.MOFCOM.gov.cn/aarticle/newsrelease/press/201105/20110507573980.html>

⁸⁰ "Five Major Changes of the New Corporate Income Tax law and the Impact on Foreign Investment in China": 5 June 2008.
http://fdi.gov.cn:8080/pub/FDI_EN/News/Focus/Subject/News-The%20focus/taxlaw03/t20080605_93658.htm

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

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

measures facilitate investment to China by eliminating the requirement for prior approval by the Ministry of Commerce or its local offices.⁸³ Partnerships, including FIPs, are not subject to statutory minimum capitalization requirements. The Partnership Enterprise Law provides for a more liberal scope of recognized capital contributions compared to the more restrictive rules for *Equity Joint Ventures* (EJV), *Cooperative Joint Ventures* (CJVs) and *Wholly Foreign Owned Enterprises* (WFOE). However, PRC regulations are unclear about the new structure's approval processes and downstream investment options⁸⁴.

The adoption of China's first Anti-Monopoly Law in August 2008 was received with mixed feelings by many foreign businesses. Multinational companies feared the law could serve as a tool to allow for protectionist measures against foreign companies in China. A main concern is the broad and vague provisions which leave much scope for decision making to the responsible Chinese authorities. Up to fall 2010, more than 140 mergers were reviewed under the law and the **regulators seem to use a fairly conservative approach, not using the law exclusively against foreign companies**. So far, only Coca Cola's attempt to acquire Huiyuan – China's largest juice producer – was blocked.⁸⁵

At the end of 2010 the National Development and Reform Commission (NDRC) and the Administration of Industry and Commerce (SAIC) released additional rules that came into force in February 2011 and supply specific standards in determining the activities with respect to price monopoly, reaching monopoly agreement abuse of dominant market position, and abuse of administrative authorities. Additionally the rules also provide relevant authorities with the procedures for the investigation of monopoly-related cases⁸⁶.

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

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

Foreign companies are increasingly voicing concerns **that the business environment in China is deteriorating and foreign investment is no longer welcome**. Especially the State Council's attempt to promote "indigenous innovation" – a plan to support the creation and commercialization of domestic technology by requiring products to have Chinese intellectual property in order to qualify for the government procurement catalogue – was strongly criticized.⁸⁹ In April the government decided to soften those rules and pledged that foreign companies shall not be discriminated in the Chinese market.⁹⁰ **On different occasion, high-level officials underlined China's commitment to foreign investment**. In September 2010, Premier Wen Jiabao assured foreign investors that China is striving to create an open and fair environment for foreign investors. Wen promised that "all enterprises

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

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

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

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

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

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

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

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

registered in China according to Chinese law are Chinese enterprises” and that equal treatment would be given to products from foreign and Chinese invested companies in government procurement.⁹¹

Nevertheless, China remains a top FDI destination. By 2009, China’s accumulated FDI stock amounted to 473 bn USD, well ahead of other large developing and transition economies such as Brazil (401 bn USD), India (164 bn USD) or Russia (256 bn USD).⁹² According to the Ministry of Commerce, FDI to China will continue to grow in the long-run due to increasing domestic demand and improving labour quality. However, concerns remain regarding how to maintain a high FDI growth rate in the short-term as China is adjusting its FDI policy in order to channel more investment into the service sector and to its central and western regions.⁹³ An UNCTAD survey shows that China will remain a top destination for inward FDI in the period of 2010-2012.⁹⁴

Besides the foreign investment coming into the country, **China has also become a source of outward direct investments**. By the end of 2009, the total stock of Chinese offshore investment stood at about 230 bn USD, on a par with Denmark and slightly higher than Taiwan. According to MOFCOM statistics, the accumulated non-financial overseas direct investment amounted to 59 bn USD in 2010, which is an increase of 36.3% in comparison to 2009⁹⁵. Chinese offshore investment began to take off in the past decade, primarily spurred by a drive to secure resources for its industry and need to productively deploy cash reserves, accumulated through exports and profits at home.⁹⁶ Chinese companies have taken over stakes in Australian mining enterprises and other outbound resource investment has gone to state-controlled companies, including large deals with Russian and Venezuelan oil companies. China’s investment in Africa attracted attention again in May, when the country announced multi-million investments in the development of cement plants in South Africa and Mozambique, an oil refinery in Nigeria and the mining sector in Zambia.⁹⁷

In the first half of this year, China’s investment in Brazil topped 20 bn USD, more than 10 times all of China’s previous investment in the country. That puts China on track to be Brazil’s No. 1 investor for 2010, compared with 29th in 2009. The China Development Bank has given Petrobras, Brazil’s main oil producer, 10 bn USD as a down payment on future business. In 2010 China became Brazil’s biggest trading partner, replacing the United States⁹⁸. However, tensions have surfaced after China last year also emerged as one of the biggest sources of cheap imports into Brazil, helped by a surge in the value of the Real, which is undermining the competitiveness of the Brazilian industry. This prompted finance minister Guido Mantega to call for a revaluation of the RMB. Seemingly the Brazilian government was even considering restrictions on FDI in mining, including imposing minimum domestic supply quotas and screening transactions based on “the investor’s profile”.

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

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

⁹¹ People’s Daily: “Premier Wen assures foreign firms in China”, 14 September 2010.

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

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

⁹⁴ UNCTAD, World Investment Prospects Survey, September 2010.

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

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

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

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

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

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

4.2 Bilateral investment flows

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

As regards the **figures on Swiss direct Investments in China published by the Swiss National Bank, they differ significantly from the data released by MOFCOM** as shown by the fact that in 2009 Swiss direct investments to China amounted to 1.211 bn CHF while the stock of Swiss direct investments stood at 7.547 bn CHF in the same year according to Swiss statistics. The Swiss figures for the 2010 will only be released in August 2011.¹⁰²

Switzerland has economic agreements with China regarding investment protection and avoidance of double taxation. **A revised investment protection agreement was signed in 2009 and came into force on 13 April 2010.** This updated investment protection agreement will allow a higher protection of Swiss and Chinese investments in the respective host country. The main provisions of the agreement cover the handling of foreign investments by the host country, the transfer of capital and investment income, compensation for expropriation and the introduction of new dispute settlement procedures such as the possibility for a company to unilaterally submit disputes to international arbitration.¹⁰³

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

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

Swiss Business Hub China (SBH China)

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

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

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

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

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

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

Swiss-Chinese Chamber of Commerce and SwissCham China

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

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

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

Presence Suisse / Presence Switzerland

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

Swiss awareness in China is raised through a number of projects including cultural, artistic and architectural ones. The image that is being depicted by Presence Suisse is one of an innovating country emphasising values such as quality and well-being. **Switzerland enjoys a positive, although largely stereotypical image in China.** The goals of Presence Suisse are thus to bring further awareness and understanding of Switzerland to the population in China in order to create stronger relations while the country continues to gain importance in the global economy.

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

Besides this, Presence Suisse, in close cooperation with private and public institutions, is involved in several smaller projects positioning Switzerland as an innovative, technologically advanced, internationally minded country with a high quality of life and environmental awareness.

Tourism

A consequence of the growing Chinese economy and the rise of (urban) incomes is the **booming tourism industry** for travel outside of China: 57.39 million Chinese travelled abroad in 2010, up 20% compared to the previous year¹⁰⁵. Therefore China is a key strategic growth market for the Swiss tourism industry. Switzerland was granted **Approved Destination Status (ADS)** by the Chinese Government in 2004. Following the implementation of the policy, there was a noticeable increase in accepting visa applications. New checks and guidelines were at the same time put into place to reduce the risk of travellers remaining in Switzerland illegally.

Switzerland Tourism operates two offices in mainland China, one in Beijing and one in Shanghai as well as an office in Hong Kong, covering Southern China. Switzerland Tourism reports 477'000 overnights from Chinese visitors (including Hong Kong) to Switzerland in 2010. **This is an increase of 43% compared to 2009 and corresponds to a share of 2.4% (2009:1.6%) among all foreign**

¹⁰⁴ www.swisspavilion.ch

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

markets. From January to April 2011 the number of overnights of Chinese Tourists in Switzerland stood at 135'500, accounting for 2.1% among all foreign markets. Switzerland Tourism predicts a long-term annual growth rate of 10-15% in normal years. **Switzerland's entry to the Schengen-Agreements, which became operational at the beginning of December 2008, brings some advantages** but also creates a competition for the easiest visa and complicates exact tracking of visitor numbers.

Education

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

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

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

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

swissnex

In order to strengthen bilateral cooperation in the scientific field, swissnex, an initiative of the Swiss State Secretariat for Education and Research and the Ministry of Foreign Affairs, officially **opened an office in Shanghai in August 2008** (other offices in Boston, San Francisco, Singapore and Bangalore). The swissnex network exploits the potential of international cooperation in the areas of research, technology, innovation and culture. The network is a key component of the Swiss strategic scientific policy for the promotion of bilateral cooperation set by the Swiss Federal Council. swissnex China's mission is to create and promote awareness of Swiss excellence in science, technology, innovation and culture, to connect academia and business and to facilitate cooperation between the two countries.

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

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

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

Switzerland's strengths as an investment location are currently promoted in China by the Swiss Business Hub (see section 5.1). Besides this, the cantons have their own investment promotion agencies. The Swiss Business Hub, who carries out systematic market analysis and development has organised some high-level seminars, elaborated brochures, manuals and presentations and assists cantons in their own endeavours in the very demanding Chinese market. Switzerland is most actively

advertised with emerging globalizing Chinese companies as a location for international headquarters and business control centres. Cooperation opportunities with the very innovative export-oriented Swiss economy are also highlighted. With a number of recent Chinese investments in different parts of Switzerland **the joint efforts of Switzerland Trade and Investment Promotion, the cantons and the service sector have already generated results**. Main competitors in Europe include Belgium, France, Germany, the United Kingdom, the Netherlands and Sweden. Like in other Asian countries, Switzerland is perceived as a premium location in the heart of Europe, but high living-costs and barriers for entry of Chinese workforce are on the flip-side.

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 still generally positive, especially with the Chinese Government, the National Bank and the regulatory bodies of the financial sector. The Swiss Banking Association initiated a constructive dialogue with Chinese financial authorities in 2006 on issues of mutual interest to Chinese and Swiss financial services industries. The leading Swiss banks, which have acquired minority participations in Chinese banks and insurance companies, regularly receive Chinese officials and financial sector professionals for trainings and know-how exchange.

6 Useful internet Links (see Annexe 6)

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	2008	2009	2010
Distribution of GDP (%)										
Primary Sector	15.8%	15.3%	14.4%	15.2%	12.4%	11.7%	11.7%	11.3%	10.60%	10.20%
Secondary Sector	50.1%	50.4%	52.2%	52.9%	47.3%	48.9%	49.2%	48.6%	46.80%	46.80%
Tertiary Sector	34.1%	34.3%	33.4%	31.9%	40.3%	39.4%	39.1%	40.1%	42.60%	43.00%
Distribution of Labor (%)										
Primary Sector	50.0%	50.0%	49.1%	47.0%	44.8%	42.6%	40.8%	39.6%	38.1	n/a
Secondary Sector	22.3%	21.4%	21.6%	22.5%	23.8%	25.2%	26.8%	27.2%	27.8	n/a
Tertiary Sector	27.7%	28.6%	29.3%	30.5%	31.4%	32.2%	32.4%	33.2%	34.1	n/a
(of which state sector)	10.5%	9.7%	9.2%	8.9%	11.2%	n/a	n/a	n/a	n/a	n/a

Source: National Bureau of Statistics

ESSENTIAL ECONOMIC DATA

	2004	2005	2006	2007	2008	2009	2010
GDP (RMB billion)*	15'988	18'321	21'192	25'730	31'405	33'535	37'349
GDP (USD billion)*	1'931	2'235	2'657	3'382	4'520	4'909	5'365
GDP per capita (RMB)*	12'299	14'012	16'122	19'477	23'648	25'125	27'843
GDP per capita (USD)*	1486	1'710	2'022	2'560	3'404	3'678	3'999
GDP growth (%)**	10.1	10.4	12.7	14.2	9.6	9.2	10.3
CPI inflation (%)***	3.9	1.8	1.5	4.8	5.9	-0.7	3.3
Population (billion)	1.300	1.308	1.314	1.321	1.328	1.335	1.371
Unemployment rate							
Level - registered (Millions)***	8.3	8.4	N/A	N/A	N/A	N/A	9.1
Rate - registered in urban (%)***	4.2	4.2	4.1	4.0	4.2	N/A	4.1
EIU estimates (average in %)***	9.9	9.0	9.5	9.2	9.2	9.2	6.1
Fiscal balance (% of GDP)**	-1.3	-1.2	-1.2	0.2	-0.8	-2.7	-2.1
Current account balance (% of GDP)*	3.6	7.1	9.3	10.6	9.6	6.0	5.2
Total External Debt (% of GDP)****	12.8	12.2	11.4	11	8.5	n/a	n/a
Debt-service ratio (% of exports)****	3.4	3.1	2.4	2.2	1.8	n/a	n/a
Reserves, incl. Gold (USD billion)****	12	13	16.7	17.6	n/a	n/a	n/a
in months of imports							

Sources:

* IMF World Economic Outlook, April 2010

** EIU, Country Report, June 2009

*** National Bureau of Statistics of China

**** World Bank

***** State Administration of Foreign Exchange, PRC

Trading partners of the People's Republic of China: Exports

Exports to Country/ Region Jan - Dez 2010	Billion USD	Share %	Growth in % to a comparable previous period	Exports to Country/ Region Jan - May 2011	Billion USD	Share %	Growth in % to a comparable previous period
USA	283.3	18.0%	28.3%	USA	117.5	16.5%	18.7%
Hong Kong	218.3	13.8%	31.3%	Hong Kong	103.5	14.5%	37.2%
Japan	121.1	7.7%	23.7%	Japan	56.0	7.9%	24.6%
South Korea	68.8	4.4%	28.1%	South Korea	34.1	4.8%	29.3%
Germany	68.1	4.3%	36.3%	Germany	28.9	4.1%	15.6%
Netherlands	49.7	3.1%	35.5%	Netherlands	21.5	3.0%	19.9%
India	40.9	2.6%	38.0%	India	18.5	2.6%	24.7%
United Kingdom	38.8	2.5%	24.0%	United Kingdom	15.5	2.2%	13.6%
Singapore	32.3	2.0%	7.6%	Singapore	14.9	2.1%	9.8%
Taiwan	29.7	1.9%	28.9%	Italy	14.4	2.0%	7.5%
EU	311.2	19.7%	31.8%	EU	134.2	18.8%	18.2%
ASEAN	138.2	8.8%	30.1%	ASEAN	66.0	9.3%	25.3%
EFTA	5.9	0.4%	N/A	EFTA	2.8	0.4%	N/A
Iceland	0.071	0.0%	31.0%	Iceland	0.037	0.0%	34.5%
Liechtenstein	0.008	0.0%	25.0%	Liechtenstein	0.004	0.0%	21.3%
Norway	2.837	0.2%	6.0%	Norway	1.334	0.2%	21.8%
Switzerland	3.031	0.2%	14.0%	Switzerland	1.464	0.2%	38.5%
Total	1577.9		31.3%	Total	712.4		25.5%

Source: China's Custom Statistics

Trading partners of the People's Republic of China: Imports

Imports from Country/ Region Jan - Dez 2010	Billion USD	Share %	Growth in % to a comparable previous period	Imports from Country/ Region Jan - May 2011	Billion USD	Share %	Growth in % to a comparable previous period
Japan	176.7	12.7%	35.0%	Japan	78.3	11.4%	17.6%
South Korea	138.4	9.9%	35.0%	South Korea	63.8	9.3%	18.2%
Taiwan	115.7	8.3%	31.7%	USA	52.0	7.5%	31.2%
USA	102.0	7.3%	35.0%	Taiwan	51.3	7.4%	11.6%
Germany	74.3	5.3%	33.4%	Germany	37.4	5.4%	32.2%
Australia	60.9	4.4%	54.1%	Australia	30.0	4.4%	38.9%
Malaysia	50.4	3.6%	55.9%	Malaysia	24.3	3.5%	27.2%
Brazil	38.1	2.7%	33.3%	Saudi Arabia	19.2	2.8%	22.6%
Thailand	33.2	2.4%	39.2%	Brazil	18.2	2.6%	52.5%
Saudi Arabia	32.8	2.4%	34.7%	Thailand	15.9	2.3%	47.8%
EU	168.5	12.1%	31.9%	EU	83.8	12.2%	31.3%
ASEAN	154.6	11.1%	44.8%	ASEAN	74.8	10.9%	26.5%
EFTA	20.4	1.5%	N/A	EFTA	13.3	1.9%	N/A
Iceland	0.041	0.0%	24.3%	Iceland	0.017	0.0%	9.4%
Liechtenstein	0.069	0.0%	35.2%	Liechtenstein	0.033	0.0%	25.8%
Norway	3.230	0.2%	5.6%	Norway	1.645	0.2%	18.4%
Switzerland	17.039	1.2%	147.4%	Switzerland	11.628	1.7%	51.2%
Total	1394.8		38.7%	Total	689.4		29.4%

Source: China's Custom Statistics

Bilateral trade Switzerland - P.R. China, Jan. - Dec. 2009/2010										
	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance in CHF
		Jan - Dec 2009	Jan - Dec 2010	in %	share (%)	Jan - Dec 2009	Jan - Dec 2010	in %	share (%)	
1	Agricultural products	119'424'406	126'625'508	6.03%	2.08%	38'965'473	53'269'077	36.71%	0.71%	-73'356'431
2	Energy carriers	14581	181291	1143.34%	0.00%	1552189	4253368	174.02%	0.06%	4'072'077
3	Textiles, apparel, shoes	865'858'531	901'511'949	4.12%	14.81%	202'824'475	153'636'569	-24.25%	2.06%	-747'875'380
4	Paper, paper products, printed matter	34'228'639	39'408'521	15.13%	0.65%	27'089'541	21'094'594	-22.13%	0.28%	-18'313'927
5	Leather, rubber, plastics	233691018	285'943'005	22.36%	4.70%	94'534'406	141'630'052	49.82%	1.90%	-144'312'953
6	Chemicals, pharmaceuticals	581'447'046	714'583'169	22.90%	11.74%	1'292'420'844	1'257'598'300	-2.69%	16.84%	543'015'131
7	Construction materials, ceramics, glass	64'127'465	81'874'285	27.67%	1.35%	23'480'673	28'469'161	21.25%	0.38%	-53'405'124
8	Metals and metal products	313398671	358'512'368	14.39%	5.89%	243'873'194	379'136'463	55.46%	5.08%	20'624'095
9	Machinery, apparatus, electronics	1'781'053'716	2'228'784'630	25.14%	36.62%	2'128'668'793	3'175'549'277	49.18%	42.53%	946'764'647
10	Vehicles	88'705'599	101'796'221	14.76%	1.67%	38'797'266	49'476'237	27.53%	0.66%	-52'319'984
11	Precision instruments, watches, jewellery	637393574	748'841'507	17.48%	12.31%	1'277'413'971	1'781'258'699	39.44%	23.86%	1'032'417'192
12	Furniture, toys	419'806'805	483'508'019	15.17%	7.95%	29'890'672	33'817'772	13.14%	0.45%	-449'690'247
13	Precious metal, precious stones, gemstones	4'308'070	7'940'793	84.32%	0.13%	83'820'016	366'333'753	337.05%	4.91%	358'392'960
14	Objects of art and antiques	17497532	6'058'045	-65.38%	0.10%	17'748'143	21'497'121	21.12%	0.29%	15'439'076
	Total	5'160'955'653	6'085'569'311	17.92%	100%	5'501'079'656	7'467'020'443	35.74%	100%	1'381'451'132
Bilateral trade Switzerland - Hongkong, Jan. - Dec. 2009/2010										
	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance in CHF
		Jan - Dec 2009	Jan - Dec 2010	in %	share (%)	Jan - Dec 2009	Jan - Dec 2010	in %	share (%)	
1	Agricultural products	851966	1873852	119.94%	0.11%	56942085	105961422	86.09%	1.62%	104'087'570
2	Energy carriers		482			118'054	81'194	-31.22%	0.00%	80'712
3	Textiles, apparel, shoes	38'246'898	37'879'047	-0.96%	2.31%	127'476'174	91'751'589	-28.02%	1.40%	53'872'542
4	Paper, paper products, printed matter	2446859	2586176	5.69%	0.16%	16399590	12587154	-23.25%	0.19%	10'000'978
5	Leather, rubber, plastics	7'688'934	8'164'998	6.19%	0.50%	56'232'017	63'819'640	13.49%	0.98%	55'654'642
6	Chemicals, pharmaceuticals	8'191'402	9'711'160	18.55%	0.59%	374'401'472	519'452'246	38.74%	7.95%	509'741'086
7	Construction materials, ceramics, glass	2050682	2611252	27.34%	0.16%	18665687	20208691	8.27%	0.31%	17'597'439
8	Metals and metal products	9'689'934	12'519'419	29.20%	0.77%	45'093'585	54'782'618	21.49%	0.84%	42'263'199
9	Machinery, apparatus, electronics	119'955'533	119'917'847	-0.03%	7.33%	316'473'314	392'354'984	23.98%	6.00%	272'437'137
10	Vehicles	4223796	2945850	-30.26%	0.18%	2281369	1378576	-39.57%	0.02%	-1'567'274
11	Precision instruments, watches, jewellery	625'942'400	908'479'675	45.14%	55.52%	2'719'409'972	4'014'068'274	47.61%	61.42%	3'105'588'599
12	Furniture, toys	6'897'579	11'165'158	61.87%	0.68%	26'198'071	21'042'937	-19.68%	0.32%	9'877'779
13	Precious metal, precious stones, gemstones	299094139	491005943	64.16%	30.01%	1647278651	1201246470	-27.08%	18.38%	710'240'527
14	Objects of art and antiques	16'378'707	27'493'649	67.86%	1.68%	19'839'655	36'182'345	82.37%	0.55%	8'688'696
	Total	1'141'658'829	1'636'354'508	43.33%	100%	5'426'809'696	6'534'918'140	20.42%	100%	4'898'563'632
Bilateral trade Switzerland - P.R. China incl. Hongkong, Jan. - Dec. 2009/2010										
	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance in CHF
		Jan - Dec 2009	Jan - Dec 2010	in %	share (%)	Jan - Dec 2009	Jan - Dec 2010	in %	share (%)	
	Total	6'302'614'482	7'721'923'819	22.52%		10'927'889'352	14'001'938'583	28.13%		6'280'014'764

Source: Federal Customs Administration

Annexe 4 ER China July 2011

Bilateral trade Switzerland - P.R. China, Jan. - May 2010/2011										
	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan - May 2010	Jan - May 2011	in %	share (%)	Jan - Mar 2010	Jan - May 2011	in %	share (%)	in CHF
1	Agricultural products	54108516	51172076	-5.43%	2.06%	16780905	23593887	40.60%	0.62%	-27'578'189
2	Energy carriers	3908	477558			1242087	1785913	43.78%	0.05%	1'308'355
3	Textiles, apparel, shoes	324'908'898	328'140'947	0.99%	13.22%	75'223'616	60'651'776	-19.37%	1.60%	-267'489'171
4	Paper, paper products, printed matter	15'358'035	16'199'029	5.48%	0.65%	8'435'094	13'073'531	54.99%	0.35%	-3'125'498
5	Leather, rubber, plastics	109'922'008	113'011'140	2.81%	4.55%	52'999'553	59'324'632	11.93%	1.57%	-53'686'508
6	Chemicals, pharmaceuticals	289'397'530	323'219'308	11.69%	13.02%	502'264'554	552'400'975	9.98%	14.59%	229'181'667
7	Construction materials, ceramics, glass	30'048'370	30'922'454	2.91%	1.25%	11'058'706	15'776'322	42.66%	0.42%	-15'146'132
8	Metals and metal products	146'042'045	156'526'966	7.18%	6.30%	146'768'761	165'770'137	12.95%	4.38%	9'243'171
9	Machinery, apparatus, electronics	899'273'850	892'222'542	-0.78%	35.94%	961'393'385	1'822'847'364	89.60%	48.14%	930'624'822
10	Vehicles	54172476	54359768	0.35%	2.19%	17778757	16521149	-7.07%	0.44%	-37'838'619
11	Precision instruments, watches, jewellery	260'904'581	324'578'030	24.40%	13.07%	644'531'924	886'201'907	37.50%	23.40%	561'623'877
12	Furniture, toys	194483701	184411706	-5.18%	7.43%	12734969	8588263	-32.56%	0.23%	-175'823'443
13	Precious metal, precious stones, gemstones	2673870	4432976	65.79%	0.18%	249107342	159350833	-36.03%	4.21%	154'917'857
14	Objects of art and antiques	3'392'469	3'068'316	-9.56%	0.12%	4'840'184	773'832	-84.01%	0.02%	-2'294'484
	Total	2'384'690'257	2'482'742'816	4.11%	100%	2'705'159'837	3'786'660'521	39.98%	100.00%	1'303'917'705
Bilateral trade Switzerland - Hongkong, Jan. - May 2010/2011										
	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan - May 2010	Jan - May 2011	in %	share (%)	Jan - May 2010	Jan - May 2011	in %	share (%)	in CHF
1	Agricultural products	704695	2567706	264.37%	0.40%	37149204	52704579	41.87%	1.80%	50'136'873
2	Energy carriers					34'555	36'358	5.22%	0.00%	36'358
3	Textiles, apparel, shoes	10598432	11134623	5.06%	1.72%	41011164	36696300	-10.52%	1.25%	25'561'677
4	Paper, paper products, printed matter	895'287	1'264'323	41.22%	0.19%	8'988'569	2'912'126	-67.60%	0.10%	1'647'803
5	Leather, rubber, plastics	2392197	4484722	87.47%	0.69%	25696436	29167115	13.51%	1.00%	24'682'393
6	Chemicals, pharmaceuticals	2'951'880	6'576'068	122.78%	1.01%	220'533'908	189'222'233	-14.20%	6.47%	182'646'165
7	Construction materials, ceramics, glass	873980	1570357	79.68%	0.24%	6585271	8304823	26.11%	0.28%	6'734'466
8	Metals and metal products	5'715'530	4'911'741	-14.06%	0.76%	21'274'071	26'910'422	26.49%	0.92%	21'998'681
9	Machinery, apparatus, electronics	47962063	40837913	-14.85%	6.30%	151180000	153142711	1.30%	5.24%	112'304'798
10	Vehicles	997'807	996'363	-0.14%	0.15%	154'157	394'469	155.89%	0.01%	-601'894
11	Precision instruments, watches, jewellery	343992931	340722791	-0.95%	52.55%	1410832351	1805672060	27.99%	61.74%	1'464'949'269
12	Furniture, toys	4'932'096	5'241'341	6.27%	0.81%	7'750'508	9'886'469	27.56%	0.34%	4'645'128
13	Precious metal, precious stones, gemstones	231795159	207505412	-10.48%	32.00%	591144697	593450798	0.39%	20.29%	385'945'386
14	Objects of art and antiques	10'286'620	20'615'721	100.41%	3.18%	13'084'871	16'332'790	24.82%	0.56%	-4'282'931
	Total	664'098'677	648'429'081	-2.36%	100.00%	2'535'419'762	2'924'833'253	15.36%	100.00%	2'276'404'172
Bilateral trade Switzerland - P.R. China incl. Hongkong, Jan. - May 2010/2011										
	Class of goods	Import in CHF		Δ		Export in CHF		Δ		Trade balance
		Jan - May 2010	Jan - May 2011	in %		Jan - May 2010	Jan - May 2011	in %		in CHF
	Total	3'048'788'934	3'131'171'897	2.70%		5'240'579'599	6'711'493'774	28.07%		3'580'321'877

China: Foreign Direct Investment:

Rank	Country / Region	FDI (mio. USD) 2010	Share (%) 2010	Variation (%) year on year	Rank	Country / Region	FDI (mio. USD) Jan - May 2011	Share (%) year to date 2011	Variation (%) year on year
1	Hong Kong	67474	63.81%	24.97%	1	Hong Kong	31421	65.42%	33.85%
2	Taiwan	6701	6.34%	2.10%	2	Taiwan	2949	6.14%	9.30%
3	Singapore	5657	5.35%	45.57%	3	Japan	2763	5.75%	55.84%
4	Japan	4242	4.01%	3.04%	4	Singapore	2513	5.23%	10.75%
5	USA	4052	3.83%	13.31%	5	USA	1285	2.68%	-24.10%
6	South Korea	2693	2.55%	-0.37%	6	South Korea	945	1.97%	-9.05%
7	United Kingdom	1642	1.55%	11.78%	7	United Kingdom	829	1.73%	43.18%
8	France	1239	1.17%	n/a	8	Germany	520	1.08%	18.18%
9	Netherlands	952	0.90%	n/a	9	France	333	0.69%	-10.48%
10	Germany	933	0.88%	-23.96%	10	Netherlands	305	0.64%	-39.72%
	Switzerland	260	0.25%	-13.40%		Switzerland	85.51	0.18%	-29.90%
	Total	105735	100%	17.44%		Total	48027	100.00%	23.40%

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/
Ministry of Foreign Affairs	http://www.fmprc.gov.cn/eng/

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	http://english.customs.gov.cn/
National Bureau of Statistics of China	http://www.stats.gov.cn/english/
State Administration for Industry and Commerce	http://www.saic.gov.cn/english/index.html
State Administration of Taxation	http://202.108.90.130/n6669073/index.html
State Food & Drug Administration	http://eng.sfda.gov.cn/eng/
State Intellectual Property Office	http://www.sipo.gov.cn/sipo_English/

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/n575458/n4001948/
Development Research Centre of the State Council	http://www.drc.gov.cn/english/
Xinhua News Agency	http://www.chinaview.cn/ ; http://www.french.xinhuanet.com

Further useful www-sites

China Chamber of International Commerce	http://www.ccoic.cn/New_Folder/home.htm
China Council for the Promotion of International Trade	http://www.ccpit.org/

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)	http://china.ahk.de/
Hong Kong Chamber of Commerce in China (HKCCC)	http://www.hkcccgd.org/
Swiss Chinese Chamber of Commerce Beijing	www.bei.swisscham.org
Swiss Chinese Chamber of Commerce in Hong Kong	http://www.swisschamhk.org/
Swiss Chinese Chamber of Commerce in Switzerland	http://www.sha.swisscham.org/sha/
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.eda.admin.ch/eda/en/home/rebs/asia/vchn/embbei/sbh.html
Swiss Export Risk Insurance (serv)	http://www.serv-ch.com

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/diplo/de/Laenderinformationen/01-Laender/China.html
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/country/0,3377,en_33873108_36016481_1_1_1_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