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President	Ren Zhanbing

Greetings from the New President

I am honoured to take this opportunity of addressing you as the new President of the Swiss-Chinese Chamber of Commerce.

A year ago I became member of the SCCC's Executive Committee and today, I am delighted to be chosen as the Chamber's new President.

After having been working for almost seven years in China, I call this fast developing country my second hometown. It is not to say that I am an expert on "How to do Business in China", by far not! The learning curve never ends. This is particularly true in a fast changing business environment like China represents today. These changes will continue with high speed, hence it is essential to exchange vital lessons learned and best practises among business people. And here I see an important role for our Chamber by taking the lead to foster the dialogue among Swiss enterprises which are actively doing business in China.

The Chamber has a direct network of over 1'000 people and is here to build bridges, give first advice or a second opinion and to create platforms for mutual exchange among its members and their guests.

The General Assembly 2006 has been such an occasion where 150 participants have had the opportunity to listen to a most impressive speech delivered by Dr. Hans-Ulrich Doerig, Vice Chairman of the Board of Directors of Credit Swiss Group. In his extraordinary capacity he clearly outlined the path for sustainable growth in Switzerland. By doing so, he has presented a well structured action plan to overcome our own "home made" weaknesses rather than to moan about any threats generated by the growth in Asia. I am convinced that his remarkable speech has inspired the audience to a great extend and has made some lasting impressions on a subject of critical importance.

I am looking forward to working closely with the Board and with our Zurich office under the competent leadership of Susan Horváth. Beyond that, I am also counting on an active participation and on an open dialogue among our members, resulting in mutual benefits for all.

Finally, I would like to take this opportunity to extend my sincere gratitude to my predecessor, Dr. Jörg Wolle, for his outstanding contribution to further strengthen our Chamber during his presidency. I do very much appreciate his ongoing commitment to the Chamber in his role as Past President and member of the Board.

And last but not least, I would like to thank the members for the continuous support and also welcome the many new members, giving their Chamber the necessary strength and making it a great place to shape the future.

Kurt Haerri
President

General Assembly

Dear Members, dear Readers

This year's General Assembly could have carried the title "Changes to Shape the Future". Be this in view of the Chamber or if one recalls the outstanding speech of our guest of honour Hans-Ulrich Doerig, Vice Chairman of the Board of Directors and Chairman of the Risk Committee, Credit Suisse Group (see also page 5).

A record high of almost 150 members and guests attended the annual general meeting at the Park Hyatt in Zurich on May 11th. The beautiful venue and delicious cocktails – sponsored by Credit Suisse Group – called for a lively networking after the meeting.

The following changes were announced during the General Assembly: As the term of the President of the Chamber came to an end in 2006, Jörg Wolle, CEO of DKSH Holding Ltd., and the members of the Board of the Chamber unanimously approved Kurt Haerri, Member of the Executive Committee of Schindler Elevators Ltd., for new President. Kurt Haerri was elected to the Board and in the function of a Member he also joined the Executive Committee in 2005.

In Geneva, André Übersax was nominated by the local Board members as successor of Daniel V. Christen for new President, which was also approved by the Assembly 2006 in Zurich (for details see page 9).

During 2005 in Geneva, a new Executive Assistant, Ms Gao Yunfei, was hired and the office was moved to the Chamber of Commerce of the Canton of Geneva. Regarding overall performance and developments, we refer to the documentation of their General Assembly held on May 17th 2006.

Besides the activity report 2005, the accounts and this year's budget, the Assembly also approved unanimously changes regarding the articles of Association and the new membership fees. The latter is based on last year's approval of the proposal of the Board of the members to increase the annual fees in a reasonable manner after 14 years.

The resources of the Chamber are kept at a minimum since many years (head-count in Zurich 1.8, Geneva 0.5 with unchanged salaries) and the Chamber's overall cost effectiveness remains unsurpassed, despite rising market requirements and prices. The above measure will not resolve the continuous lack of human resources to tackle the overall workload, but it will avoid deficits, which would have to be covered by the capital fund of members.

The changes in the Board were approved unanimously by the Assembly and the new set-up of the Executive Committee and functions will be proposed to the Board by the new President during 2006.

For details regarding the General Assembly we refer to the full documentation available at the Chamber.

Besides honorary guests like the newly appointed Consul General of Switzerland in Shanghai, William Frei, or representatives of the Chinese Embassy in Switzerland, the Chamber also welcomed Ambassador Jörg Al. Reding from the State Secretariat of Economic Affairs (seco), who reported on the activities in China during 2005.

In his report he also highlighted the official visit of Federal Councillor Joseph Deiss to China in 2005, accompanied by a mixed economic delegation of which the Chamber was part of. From July 14th to 19th, the delegation met with various high-ranking Government officials of the P. R. of China and with the local Swiss and Chinese business community in Beijing, Shanghai and Suzhou.

He also mentioned the Swiss International Business Forum in November 2005, were the Chamber celebrated its 25th anniversary. Among the participants and numer-

Honorary guest and speaker Hans-Ulrich Doerig.

ous high-ranking guests from Switzerland and China were State Secretary for Economic Affairs, Jean-Daniel Gerber, and Vice Minister of Commerce of the P.R. of China, YI Xiaozhun.

For the bilateral relations and the trade figures, we refer to the detailed reports in this Bulletin.

With the current China hype in the West, but especially the fast development and tremendous changes in the People's Republic of China, call for many challenges. The probably most difficult task in tackling the changes to come, lies in overcoming of old habits and attitudes, and this has to being in our minds before we can shape the future.

Susan Horváth
Managing Director, Member of the Executive Board

Next Events

Geschäftsentwicklung in China & Fernost Management Talk

August 22nd 2006, Feusisberg

Knigge-Workshop China

August 23rd and November 23rd 2006, Zurich

China Study Trip

geared to the requirements of practicing lawyers organized by LLM Programme International Business Law, Zurich University

August 26th to September 6th 2006
to Hong Kong, Shanghai and Beijing

China Europe Business Meeting

24th to 26th September 2006, Geneva

How to Succeed in Doing Business in China and India

Executive Development Programme
Davos Management Institute
October 26th to 29th 2006, Geneva

Business mit Chinesen

Sicher verhandeln & souverän auftreten
November 29th to 30th 2006, Zurich-Regensdorf

Recommended Publication:

Yangtze River Ports 2006

Yangtze River Ports 2006 is the first in-depth business book devoted to an increasingly significant transport artery. It charts the fast growing importance of the world's third longest river, whose traffic levels are growing at a rate of more than 25 per cent a year. Cargo volumes more than doubled between 2001 and 2005, from 310m tons to 795m tons. Container throughput is booming and leading ports such as Chongqing and Nanjing are investing heavily to increase their capacity and to improve efficiency.

Yangtze River Ports 2006 is an indispensable guide for shipping industry and logistics professionals. It is also an essential read for foreign manufacturers, enabling them to assess the potential benefits and pitfalls involved of moving their plants inland. The book analyses government plans and their impact, along with changes to the waterway, port infrastructure and investment rules that are transforming the nature of shipping on the Yangtze. Investment opportunities and challenges are analysed in detail.

The book provides comprehensive and up-to-date information on all the major ports on China's largest river. In addition, this 144-page A4 book, in English and Chinese, includes maps and charts and a wealth of data on all the leading ports. It is researched, written and edited by experts in the field of China business and shipping, and includes exclusive information about the ports secured through the cooperation of the Yangtze River Ports Association.

Yangtze River Ports 2006 is published by
Alain Charles Publishing,
price US$200/Euro170/£120.
Copies can be ordered via
www.alaincharles.com or
by calling +44 (0)20 7834 7676.
Members of the Swiss-Chinese Chamber of Commerce get a 10% discount off above price.

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For details see website of Chamber www.sccc.ch

Invitations have already been sent out or will follow in due time.

The Chamber's New President

Kurt HAERRI

Kurt Haerri, Member of the Executive Committee of Schindler Elevators Ltd., Ebikon, presides the Swiss-Chinese Chamber of Commerce since our General Assembly, May 11th 2006. Schindler established the first industrial Joint Venture in China in the late 70ies and initiated with other Swiss business representatives the founding of the Chamber in Zurich in 1980.
Schindler Elevators Ltd. has 13 business locations in Switzerland and is one of the leading manufacturers of elevators and escalators worldwide with 400'000 employees and over 1'000 branch offices present on all continents.

Kurt Haerri was borne in Birrwil in 1962. He is currently member of the Executive Committee of Schindler Elevators Ltd., Ebikon.

He graduated in 1996 at the University of St. Gallen as an Executive MBA HSG and before in 1990 as dipl. Masch. Engineer HTL/FHS. After having been in charge with various responsibilities in the area of engineering and TQM, Kurt Haerri worked for Schindler China from 1996 to 2003. During the initial stage of his assignment he has introduced several new Elevator Product Lines to the Chinese market. After this he became member of the

The official moment of the Presidents at the General Assembly: Kurt Haerri (r.) who was elected for new President by the Members of the Board of the Chamber hands over an award to Jörg Wolle (l.), President and CEO of DSKH Holding Ltd., who presided the Chamber during the past four years.

New Members

Since January 2006:

Zurich

Gerhard Rüegg	Zürich
Robert Bruckbauer	Wolfsgraben
Beijing Louis Hotel Management Company Ltd.	Beijing
Pan Yidan	Uetikon am See
Bollag-Coaching	Unter-stammheim
Ganzoni & Cie AG	St. Gall
MAT Transport AG	Zurich-Airport
Titlis Rotair Cableways and Hotel Terrace	Engelberg
XL Insurance Switzerland	Zurich
Jessica Radermacher	Küsnacht
ZITEC AG	Oberwil
SsangYong Schweiz AG	Winterthur
Holbrooke Centre – Research & Development	Zurich
Goldstar Business Consulting Partners	Wollerau
The China Management Network	Rapperswil
werdhölzli immobilien ag	Lucerne
Walder Wyss & Partner	Zurich
Marianne Roth Communications	Zurich
Hotel Seidenhof	Zurich
Prof. Dr. Walter Janach	Meggen
Digma Management Consulting AG	Zurich
Kurmann, Iseli & Partner AG	Zurich
ecm focused market management ag	Zurich
MQ Wines at low cost AG	Cham
Erwin Vondenhoff	Buch am Irchel
Ernst & Young AG	Zurich
BMS Brägger Management Seminare	Frauenfeld
Davos Management Institute Ltd.	Zug
Oliver Birchmeier	Zug
Fei Daepp-Chen	Lupfig
Crown Relocations SA	Glattbrugg
StarragHeckert Holding AG	Rorschacher-berg
ChemSwiss AG	Baar
Quadrum Partners Ltd.	Zurich
Dexter Morse International Ltd.	Othmarsingen
Debrunner Acifer Management AG	St. Gall
China MGA Switzerland	Baar
Lienert Communications AG ComBasis	Zurich
Fusiodim AG	Luzern
Dr. YU Guang	Winterthur
Schaetti AG	Wallisellen
Euler Hermes Services AG	Zurich
Art & Weise	Zurich
CorFinAd – Corporate Finance Advisory	Zurich
Paragon Sino-Swiss Consulting Ltd.	Shanghai
Applied Ceramics Europe AG	Schaan
Keyreturn Europe AG	Vaduz

Geneva

CHALLENGE SA	Nyon
GenevaPrivateOffice SA	Geneva
Gabriella MONTANDON	Geneva
CHEN Jia	Geneva
APPLIMED SA	Châtel-St-Denis
Isabel VONFLIEDNER	Geneva
CSF MANAGEMENT SA	Geneva

Welcoming members and guests during the General Assembly: Karin Heyden and Jasmin Hashemi (f.l.t.r.).

Schindler China Management Team taking charge for the New Installation Business in this booming market place. After his return to Switzerland in 2003, he has taken over the Supply Chain Management Division in Schindler Switzerland as a member of the Executive Committee. Effective January 1st 2005 he has taken over the lead of the New Installation Business of Schindler Switzerland.

In addition he is a lecturer at the Swiss Federal Technical Institute ETH Zurich, where he leads the Asia Module of the Executive MBA Program with focus in Supply Chain Management. Kurt Haerri is married and father of a 11 year old boy.

For further information regarding Kurt Haerri please contact:

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Beware of Fake Orders

In recent months several European and Swiss companies have reportedly received bogus orders from Chinese companies. Typically, a Chinese individual would place a large order for bulk goods at very favourable terms with the foreign company and ask them to visit China to finalize the supply contract. With the proposed contract – amount as a rule around CHF 800'000 to 1,2 mio. – a down-payment of usually 30 to 40% is offered. Neither price nor contract conditions are much discussed or negotiated, nor product details. Once the contract is signed in China, the seller (Swiss company) is asked during the visit to do cash payments on various occasions and once back in Switzerland, to send a substantial amount of money in order to get the down-payment released.

The company in China may have large offices and appear bona fide on a first check, but subsequently disappears upon the foreign supplier's return to home. Many of these scams appear to originate from Yunnan, Guangdong and Hainan provinces. The aim of such swindles is to get hold of money either by demanding up-front cash and/or commission payments or by using the signed contract as collateral to obtain a loan.

How to spot such fake orders? Common sense and due diligence are probably the most important steps. China's low-cost manufacture suggest that Chinese buyers are unlikely to source ordinary goods from abroad. If the goods concerned can be obtained cheaper and at acceptable quality in China, this should raise first suspicions. Unusually favourable terms of payment offered after minimal negotiations may mean that the customer never intends to honour the deal. Standard supply contracts may not even require face-to-face meetings.

Various sources.
For further information please turn to the Chamber or contact a legal advisor.
www.sccc.ch

New President – Geneva Chapter

André Uebersax

André Uebersax was born in Fribourg in 1953. After his study of law in University of Fribourg, he started his carrier in Swiss Engineers and Architectors Association (SIA) in Zurich. After then, he worked as Secretary General in the Federal Building Office in Bern which is the most important public investor of Switzerland.

It is since 15 years that André Uebersax has been the Director of Chamber of Commerce in Fribourg that groups 600 members. He developed very rapidly the politico-economic relations with China for interest of Swiss SME. He initiated the partnership agreement between Fribourg and Changsha, capital city of Hunan province in China. He founded also the Swiss Center Shanghai – the project made him the winner of Best International Project in World Chambers Competition in Quebec in 2003. Swiss Center Shanghai managed 50 millions US dollars Swiss investment in Xinzhuang Industrial Zone that is in presence the most important cluster of Swiss Enterprises in China.

André Uebersax has an amount of the other activities in term of construction of Swiss-China relations: receiving Chinese economic delegations, organizing Swiss industry's visit to China, developing competent network, organizing campaigns and events in Switzerland and in China, initiating the partnership agreement with the Chinese private industrial associations, ect.

He organized successfully the Swiss-China FOCUS 2006, in which participated about 120 Swiss and Chinese enterprisers.

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New Consul General in Shanghai

William FREI

Born June 26, 1950 in Bern, Switzerland
Law degree, University of Lausanne, Switzerland
Married, five children

Professional Career:

1978–81	Swiss Bank Corporation, Geneva and Zurich
1981–82	Joined the Swiss Diplomatic Service, training in Bern, Geneva and London
1982–86	Diplomatic appointee at the Swiss Mission to the UN, Geneva
1987–91	First Secretary, Swiss Delegation to GATT/WTO, Uruguay Round negotiations
1991–95	Counsellor at the Swiss Embassy in Rom, Head of the Economic and Financial Section
1995–01	Minister and Deputy Head of the Swiss Delegation to the OECD, Paris

2001–03 Deputy Head of the Political Division III, Responsible for the Swiss foreign policy in Environment, Science & Space and Francophonie, Bern

2003–06 Deputy Head of the Political Division V, Economy and Finance, Federal Department of Foreign Affairs, Bern

From August 06: Consul General and Head of the Consulate General of Switzerland in Shanghai

Consul General Hans J. Roth

Hans J. Roth, predecessor of Consul General William Frei in Shanghai, has officially been confirmed as new Consul General in Hong Kong and is expected to arrive there in August 2006.

For addresses see website of the Chamber: www.sccc.ch > Embassies/Consulates

Annual Economic Report *May 2006 Update*

Appreciation of the Economic Problems and Issues

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

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

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

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

The ongoing reform of the **state owned sector** still has some way to go: 35% of all state-controlled companies are still not earning a positive rate of return and one in six has negative equity. Another step has been taken towards creating **a more efficient and more market-oriented economy** with the opening up to private businesses of a number of previously restricted areas (in most areas of the industrial sector, bar mining and utilities, and in distribution). Further, to ensure continued economic development and a positive evolution of the business environment in China, reforms such as the establishment of a modern legal framework for businesses (including a functioning bankruptcy system) and the effective enforcement of the set of laws and regulation for international property rights are required. A recent set of noteworthy IPR cases have been prosecuted, coming as a sign that China might be starting to tackle the issue more consistently. However, overall progress remains slow. Foreign banks (including Credit Suisse and UBS) have in recent times shown a growing interest in investing in China's state commercial banks. UBS in particular announced a strategic partnership with Bank of China – one of the four largest state-owned banks – in September 2005. (FN1*) This may help in the long and **delicate reform of the banking sector** which is fraught with non-performing loans, especially if the foreign banks get to take part in the state banks' policy and strategy. The China Construction Bank was the first of the large state-owned bank to list its shares, in Hong Kong, with overseas investors with an initial public offering on 27 October 2005. The Bank of China followed suit and raised US$ 9.7 billion in its May 2006 initial public offering, the largest IPO since April 2000 worldwide.

for footnotes turn to page 27

International and Regional Economic Agreements

Country's policy and priorities

<u>**China as a member of the World Trade Organization (WTO)**</u>

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

A lack of compliance to WTO rules is however clearly noted in areas such as agricultural product imports, market access for financial services, discriminatory tax practices against foreign companies (VAT), as well as lack of transparency in trade regulations, of distribution rights provisions for foreign firms and of intellectual property rights enforcement. In the first four years as a member of the WTO, China has also been the target of **numerous anti-dumping complaints**. The latest high-profile case involved the EU imposing anti-dumping duties of nearly 20% on a broad range of footwear products. So far, China has leant towards being an **advocate of free-trade** within the WTO, demonstrating a strong engagement in issues typically affecting emerging markets – also in the context of its involvement with the Group of 20 developing countries (G 20) led by Brazil – such as the liberalization of agricultural markets. China wants to give the image of an active WTO-member.

<u>**China-ASEAN Free Trade Agreement (CAFTA)**</u>

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

Essential Economic Data

	2001	2002	2003	2004	2005
GDP (RMB billion)*/ *****	10.965,5	12.033,3	13.582,3	15.987,8	18.232,1
GDP (USD billion)	1.358,8	1.491,1	1.683,0	1.981,1	2.259,2
GDP per capita (RMB)**	7.651,0	8.214,0	9.111,0	10.561,0	11.000,0
GDP per capita (USD)	948	1018	1129	1309	1363
GDP growth (%)*/ *****	8,3	9,1	10,0	10,1	9,9
CPI inflation (%)*/ *****	0,7	-0,8	1,2	3,9	1,8
RMB: USD exchange rate of BoC of 31 December 2005	8,0702	8,0702	8,0702	8,0702	8,0702
Unemployment rate					
Level - registered (Millions)****	6,9	7,7	8,0	8,3	N/A
Rate - registered in urban (%)*/****	3,6	4,0	4,3	4,2	4,2
EIU estimates (average in %)	N/A	N/A	N/A	9,9	9,0
Fiscal balance (% of GDP)	-2,6	-2,9	-3,1	-1.5	-1,14
Current account balance (% of GDP)*	1,3	2,4	2,8	3.6	5,6
Total External Debt (% of GDP)*	14,5	13,3	11,8	11.8	12,7
Debt-service ratio (% of exports of g&s)*	8,1	8,4	7,6	3.6	3,0
Gross official reserves (minus imports, USD billion)*	9,4	10,5	10,6	12	13

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

China: Structure of the Economy

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

*Sources: NSB and *MofCom*

ASEAN-meeting in Vientiane, Laos. The tariff reduction programme was launched in July 2005, the start of a comprehensive implementation of CAFTA.

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

It follows from China's tightening ties with ASEAN that the country would **press further regionalism**. China has supported the transformation of ASEAN+3 (China, South Korea and Japan) into the East Asian Summit (EAS), which has welcomed Australia, New Zealand and India to the group during its inaugural meeting on 14 December in Malaysia. Further, China is hoping to host the second EAS in 2006.

Other international free trade negotiations

- China and Chile signed a FTA at the APEC-Summit in Busan, South Korea, in November 2005, (only a year after negotiations started) which will come into effect during the second half of 2006 and will lift customs fees on the trade of most products.
- After six rounds of talks between China and New Zealand, Premier Wen Jiabao hinted a comprehensive FTA agreement could be signed within two years during his April 2006 visit to New Zealand.
- Comprehensive China-Australia FTA-negotiations were launched in April 2005, but due to substantial stumbling blocks, namely in agriculture and industrial goods, are making relatively slow progress. The Australians recently claimed that the Chinese side is not participating in the spirit in which the negotiations were launched.
- China has also started negotiations on a bilateral FTA with the Gulf Cooperation Council (GCC) and plans to follow suit with MERCOSUR, India and the Southern African Customs Union (SACU).
- There are also possibilities of future negotiations with South Korea and Pakistan, although South Korea's current priority is a deal with the United States.

Outlook for Switzerland (potential for discrimination)

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

Iceland has become the first European country to launch an ongoing FTA feasibility-study with China. This was done in May 2005, after Iceland recognized China's full market economy status, which is a prerequisite for any FTA-negotiation with China. During his bilateral economic mission in July 2005, the Swiss Minister of Economy, Joseph Deiss, presented a proposal on behalf of Switzerland and the other three members of the European Free Trade Association (EFTA) on whether China was prepared to consider a feasibility study about an FTA with EFTA. In subsequent meetings the Chinese side stated that the idea of an **EFTA-China FTA "should be considered very seriously**" but that it faced serious resource-constraints due to the Doha Round and an increasing number of bilateral free trade negotiations. SECO figures show an important upturn above average in bilateral trade figures following the conclusion of recent FTAs. As both the position of China as an economic partner for Switzerland and the number of FTA between China and other industrial countries will increase, the potential for discrimination will follow the same path unless progress is made in the Doha Round or EFTA-China FTA plans materialize.

Foreign Trade

Development and general outlook

Trade in goods

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

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

The **leading Chinese product export categories in 2005** were "office machines and automatic data processing machines," "telecommunications and parts" and "electrical machinery and household appliances" comprising just over one third of total trade volume. (FN2) Aggregated textile categories exports amounted to a 17.6% share of exports. (FN3) "Electrical machinery and household appliances", "petroleum and petroleum products" and "scientific instruments and apparatus" are the top three Chinese imports, representing just over 42% of total imports. (FN4)

China's most important export markets were the USA (US$ 162.9 billion, 21.4% of total exports), the EU-25 (19.3%), Hong Kong (FN5) (16.3%), Japan (11%) and the ASEAN-States (7.3%). The most important countries and/or regions of origin from which China imported products were Japan (US$ 100.5 billion, 15.2% of total imports), South Korea (11.6%), the ASEAN-States (11.4%), Taiwan (11.3%), the EU-25 (11.1%) and the USA (7.4%).

According to Chinese statistics, the US and EU-25 trade deficits rose by 42.4% and a massive 89.2% respectively (from a trade deficit of US$ 80.27 billion to US$ 114.17 billion for the US, and from a trade deficit of US$ 37.04 billion to US$ 70.11 billion for the EU). (FN6) With those figures in mind, tensions in trade between China and its partners are understandable.

Statistics with the General Administration of Customs show that China's foreign trade volume was US$ 514.72 billion in the January-April 2006 period, up 24 percent year-on-year. Exports and imports of high-tech products rose 32.7 percent in the first four months of this year to reach 155.35 billion U.S. dollars.

In 2005 the imports out of and the exports into Switzerland grew, according to Chinese statistics, about 7.4% (US$ 3.9 billion) and 29.3% (US$ 1.9 billion) respectively. (FN7) **The share of bilateral trade between Switzerland and China was still standing at 0.4% in 2005, while that of the EU was at 15.2%.**

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

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

Bilateral trade

Trade in goods (FN8)

Swiss export growth to mainland-China (according to Swiss customs data) **was slower in 2005** than in previous years, growing by 11.72% to CHF 3.43 billion. Imports went up 17.22% to CHF 3.31 billion, resulting in a small trade surplus of CHF 122 million for Switzerland. (FN9) In comparison, growth rates were still at a very high 25.03% (exports) and an almost equal 17.12 % (imports) in 2004 with a Swiss trade surplus of CHF 0.25 billion. When combining trade data between Switzerland and Hong Kong with that of mainland China for the year 2005 there was a **significant CHF 2.5 billion surplus in favour of Switzerland**, keeping up with the 2004 figure.

Trading partners of the People's Republic of China

Exports to Country/ Region 2003	Billion USD	Share %	Growth in % to a comparable previous period	Exports to Country/ Region 2004	Billion USD	Share %	Growth in % to a comparable previous period	Exports to Country/ Region 2005	Billion USD	Share %	Growth in % to a comparable previous period
USA	92,47	21,1%	32,2	USA	124,95	21,1%	35,1	USA	162,90	21,4%	30,4
Hong Kong	76,29	17,4%	30,5	Hong Kong	100,88	17,0%	32,3	Hong Kong	124,48	16,3%	23,4
Japan	59,42	13,6%	22,7	Japan	73,51	12,4%	23,7	Japan	83,99	11,0%	14,3
Korea Rep.	20,10	4,6%	29,4	Korea Rep.	27,82	4,7%	38,4	Korea Rep.	35,11	4,6%	26,2
Germany	17,54	4,0%	54,2	Germany	23,76	4,0%	36,2	Germany	32,50	4,3%	36,8
Netherlands	13,50	3,1%	48,3	Netherlands	18,52	3,1%	37,2	Netherlands	25,90	3,4%	39,9
United Kingdom	10,82	2,5%	34,3	United Kingdom	14,97	2,5%	38,3	United Kingdom	19,00	2,5%	26,9
Taiwan	9,00	2,1%	36,7	Taiwan	13,55	2,3%	50,4	Singapore	16,60	2,2%	30,8
Singapore	8,87	2,0%	27,0	Singapore	12,69	2,1%	43,1	Taiwan	16,55	2,2%	22,2
France	7,30	1,7%	79,1	France	9,92	1,7%	36,0	Russia	13,21	1,7%	45,2
EU-15	72,15	16,5%	49,7	EU-25	107,16	18,1%	36,9	EU-25	143,71	18,9%	34,1
APEC	310,61	70,9%	30,1	APEC	416,43	70,2%	34,1	APEC	522,47	68,6%	25,5
ASEAN	30,93	7,1%	31,1	ASEAN	42,90	7,2%	38,7	ASEAN	55,37	7,3%	29,1
EFTA	1,79	0,4%	N/A	EFTA	2,59	0,4%	44,8	EFTA	3,35	0,4%	29,6
Iceland	0,0455	0,010%	146,1	Iceland	0,0460	0,008%	0,9	Iceland	0,0747	0,010%	62,5
Liechtenstein	0,0022	0,000%	553,7	Liechtenstein	0,0067	0,001%	207,2	Liechtenstein	0,0092	0,001%	38,5
Norway	0,8993	0,205%	70,6	Norway	1,0287	0,173%	14,4	Norway	1,3219	0,173%	28,5
Switzerland	0,8397	0,192%	31,6	Switzerland	1,5058	0,254%	79,3	Switzerland	1,9467	0,255%	29,3
Total	**438,37**	**100%**	**34,6**	**Total**	**593,37**	**100%**	**35,4**	**Total**	**762,0**	**100%**	**28,4**

Source: Ministry of Commerce

(for bilateral trade Switzerland – P. R. China see pages 19, 20)

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

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

From January to April 2006 exports to and imports from mainland China have again grown 20.7% and 20.56% respectively, year-on-year. When Hong Kong is added, those figures stand at 39.77% and 30.06% respectively, year-on-year. Those results point to accelerating trade between Switzerland and Chine. In the first four months of 2006, "machinery, apparatus and electronics" and "textiles, apparel and shoes" still have the largest share of Chinese imports to Switzerland (21.96% and 24.94% respectively). "Machinery, apparatus and electronics", "chemicals and pharmaceuticals", and "precision instruments, watches and jewellery" dominate Swiss exports to China (44.16%, 19.88% and 18.26% respectively).

China is a priority country in the framework of Swiss exports promotion and, as can be seen by the areas which experienced strong increases in exports in 2005 (metals and metal products, machinery, chemicals and pharmaceuticals, precision instruments, watches and jewellery). **Switzerland has a great comparative advantage in sectors which matter to Chinese importers.** One example is the constant and increasing demand for advanced technology and production equipment linked to the progress of China's manufacturing sector and its development of infrastructure across the country. This sector offers and will continue to offer excellent prospects to Swiss producers of machinery and manufacturing instruments.

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

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

Direct Investments

Development and general outlook

The Chinese Government puts a lot of effort at every level and is very successful in attracting foreign investment. In many fields, it was only following the WTO-accession that foreign investors were allowed to carry out direct investments, in particular in the sector of financial services. **Foreigners are still excluded or confined to a minority participation in particularly sensitive or strategic sectors** of the economy. The withdrawal of capital and profits from China is possible, but barriers remain and make the process complex and tedious for businesses. 2006 being the last year of China's phase-in-period into the WTO, some of these barriers to entry should disappear, especially in the services sector.

Due to the underdeveloped state of Chinese stock markets and because the national currency isn't fully convertible, **foreign investment is 90% direct investment**, and very often greenfield-investment. This system constrains foreign investors but leaves China less vulnerable to attacks on international financial markets as it makes capital withdrawals from direct investments more difficult to arrange. The acquisition of state owned enterprises (SOEs) by foreign investors was made possible under certain conditions in the spring of 2004. The goal is to create an actual market for mergers and acquisitions (M&A). However, as a recent OECD-project on cross-border mergers and acquisitions, co-financed by SECO, has shown, **"the regulatory framework for cross-border M&A remains fragmentary, overcomplex and incomplete".** (FN10) The **China Securities Regulatory Commission (CSRC)** issued **new draft rules on 22**

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

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		2004	2005	in %	share (%)	2004	2005	in %	share (%)	in CHF
1	Agricultural products	55.778.981	64.680.600	15,96%	1,95%	21.055.758	24.250.909	15,17%	0,71%	-40.429.691
2	Energy carriers	253.026	53.978	-78,67%	0,00%	339.524	565.554	66,57%	0,02%	511.576
3	Textiles, apparel, shoes	678.250.347	763.245.831	12,53%	23,03%	46.872.231	50.325.551	7,37%	1,46%	-712.920.280
4	Paper, paper products, printed matter	13.756.418	27.135.563	97,26%	0,82%	19.073.538	20.818.139	9,15%	0,61%	-6.317.424
5	Leather, rubber, plastics	150.360.669	173.812.076	15,60%	5,24%	38.874.103	45.587.869	17,27%	1,33%	-128.224.207
6	Chemicals, pharmaceuticals	287.695.837	466.608.348	62,19%	14,08%	497.986.066	652.405.242	31,01%	18,99%	185.796.894
7	Construction materials, ceramics, glass	33.292.552	45.375.900	36,29%	1,37%	12.472.415	7.814.967	-37,34%	0,23%	-37.560.933
8	Metals and metal products	173.404.662	180.710.573	4,21%	5,45%	135.792.980	175.370.881	29,15%	5,10%	-5.339.692
9	Machinery, apparatus, electronics	719.043.161	778.709.172	8,30%	23,50%	1.567.179.381	1.621.404.124	3,46%	47,19%	842.694.952
10	Vehicles	34.693.005	47.781.474	37,73%	1,44%	4.997.677	7.493.490	49,94%	0,22%	-40.287.984
11	Precision instruments, watches, jewellery	391.341.243	470.580.764	20,25%	14,20%	490.809.788	594.757.517	21,18%	17,31%	124.176.753
12	Furniture, toys	278.850.820	288.032.079	3,29%	8,69%	15.303.341	21.618.064	41,26%	0,63%	-266.414.015
13	Precious metal, precious stones, gemstones	4.318.907	3.592.670	-16,82%	0,11%	224.760.437	212.537.301	-5,44%	6,19%	208.944.631
14	Objects of art and antiques	6.068.716	3.725.847	-38,61%	0,11%	227.149	1.291.892	468,74%	0,04%	-2.433.955
	Total	**2.827.108.344**	**3.314.044.875**	**17,22%**	**100%**	**3.075.744.388**	**3.436.241.500**	**11,72%**	**100%**	**122.196.625**

Bilateral trade Switzerland - Hongkong, 2004 - 2005

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		2004	2005	in %	share (%)	2004	2005	in %	share (%)	in CHF
1	Agricultural products	852.963	801.392	-6,05%	0,06%	53.954.787	32.874.593	-39,07%	0,85%	32.073.201
2	Energy carriers	N/A	585	N/A	N/A	107.496	161.368	50,12%	0,00%	160.783
3	Textiles, apparel, shoes	59.171.455	47.157.844	-20,30%	3,36%	106.734.139	102.008.939	-4,43%	2,65%	54.851.095
4	Paper, paper products, printed matter	2.066.843	2.374.659	14,89%	0,17%	13.099.189	8.615.104	-34,23%	0,22%	6.240.445
5	Leather, rubber, plastics	4.137.838	5.430.261	31,23%	0,39%	43.661.632	44.768.043	2,53%	1,16%	39.337.782
6	Chemicals, pharmaceuticals	3.678.778	10.009.147	172,08%	0,71%	354.101.156	303.206.457	-14,37%	7,88%	293.197.310
7	Construction materials, ceramics, glass	1.796.111	1.322.472	-26,37%	0,09%	12.995.391	14.874.493	14,46%	0,39%	13.552.021
8	Metals and metal products	9.772.027	10.173.558	4,11%	0,72%	55.428.425	53.677.914	-3,16%	1,40%	43.504.356
9	Machinery, apparatus, electronics	149.542.101	214.823.035	43,65%	15,29%	389.364.093	361.033.967	-7,28%	9,39%	146.210.932
10	Vehicles	865.962	963.107	11,22%	0,07%	550.749	1.837.703	233,67%	0,05%	874.596
11	Precision instruments, watches, jewellery	285.802.546	311.663.876	9,05%	22,19%	1.988.384.342	2.131.259.679	7,19%	55,41%	1.819.595.803
12	Furniture, toys	5.107.112	6.257.269	22,52%	0,45%	34.708.616	32.430.705	-6,56%	0,84%	26.173.436
13	Precious metal, precious stones, gemstones	294.116.064	779.514.702	165,04%	55,49%	1.010.539.750	745.527.840	-26,22%	19,38%	-33.986.862
14	Objects of art and antiques	4.585.202	14.341.337	212,77%	1,02%	9.061.031	13.902.607	53,43%	0,36%	-438.730
	Total	**821.495.002**	**1.404.833.244**	**71,01%**	**100%**	**4.072.690.796**	**3.846.179.412**	**-5,56%**	**100%**	**2.441.346.168**

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

	Total	**3.648.603.346**	**4.718.878.119**	**29,33%**	**100%**	**7.148.435.184**	**7.282.420.912**	**1,87%**	**100%**	**2.563.542.793**

Source: Schweizer Oberzolldirektion, Swiss Impex

ECONOMY

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

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan-Apr 2005	Jan-Apr 2006	in %	share (%)	Jan-Apr 2005	Jan-Apr 2006	in %	share (%)	in CHF
1	Agricultural products	21.965.724	25.047.192	14,03%	2,07%	7.528.838	5.744.816	-23,70%	0,48%	-19.302.376
2	Energy carriers	.	7.827	N/A	0,00%	203.074	286.306	40,99%	0,02%	278.479
3	Textiles, apparel, shoes	228.859.689	266.101.732	16,27%	21,96%	12.163.496	33.657.969	176,71%	2,79%	-232.443.763
4	Paper, paper products, printed matter	6.385.073	7.824.065	22,54%	0,65%	6.341.722	7.363.452	16,11%	0,61%	-460.613
5	Leather, rubber, plastics	56.134.093	65.181.788	16,12%	5,38%	12.667.772	18.549.527	46,43%	1,54%	-46.632.261
6	Chemicals, pharmaceuticals	133.289.603	186.820.277	40,16%	15,42%	199.951.029	239.579.752	19,82%	19,88%	52.759.475
7	Construction materials, ceramics, glass	11.200.944	18.253.067	62,96%	1,51%	2.538.473	3.095.121	21,93%	0,26%	-15.157.946
8	Metals and metal products	56.591.802	74.897.870	32,35%	6,18%	45.430.941	51.750.066	13,91%	4,29%	-23.147.804
9	Machinery, apparatus, electronics	240.466.921	302.268.686	25,70%	24,94%	458.497.957	532.103.626	16,05%	44,16%	229.834.940
10	Vehicles	14.050.937	18.414.887	31,06%	1,52%	874.605	2.432.477	178,12%	0,20%	-15.982.410
11	Precision instruments, watches, jewellery	141.405.571	143.836.012	1,72%	11,87%	192.821.677	220.065.330	14,13%	18,26%	76.229.318
12	Furniture, toys	90.393.803	100.159.502	10,80%	8,27%	7.402.469	6.619.511	-10,58%	0,55%	-93.539.991
13	Precious metal, precious stones, gemstones	1.550.841	1.518.781	-2,07%	0,13%	52.241.153	83.598.143	60,02%	6,94%	82.079.362
14	Objects of art and antiques	1.681.251	1.461.249	-13,09%	0,12%	776.932	89.840	-88,44%	0,01%	-1.371.409
	Total	**1.003.976.252**	**1.211.792.935**	**20,70%**	**100%**	**999.440.138**	**1.204.935.936**	**20,56%**	**100%**	**-6.856.999**

Bilateral trade Switzerland - Hongkong, Jan - Apr 2005 and Jan - Apr 2006

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan-Apr 2005	Jan-Apr 2006	in %	share (%)	Jan-Apr 2005	Jan-Apr 2006	in %	share (%)	in CHF
1	Agricultural products	420.156	313.296	-25,43%	0,05%	10.910.356	9.110.656	-16,50%	0,61%	8.797.360
2	Energy carriers	.	1.017	N/A	0,00%	60.428	22.491	-62,78%	0,00%	21.474
3	Textiles, apparel, shoes	14.315.955	14.987.158	4,69%	2,38%	33.534.304	46.113.971	37,51%	3,07%	31.126.813
4	Paper, paper products, printed matter	952.798	888.741	-6,72%	0,14%	2.180.371	2.213.978	1,54%	0,15%	1.325.237
5	Leather, rubber, plastics	1.497.908	2.474.291	65,18%	0,39%	14.467.551	18.219.650	25,93%	1,21%	15.745.359
6	Chemicals, pharmaceuticals	5.071.004	1.983.565	-60,88%	0,31%	92.543.857	122.558.955	32,43%	8,16%	120.575.390
7	Construction materials, ceramics, glass	341.813	629.185	84,07%	0,10%	4.687.552	4.826.836	2,97%	0,32%	4.197.651
8	Metals and metal products	3.112.956	3.202.132	2,86%	0,51%	16.120.964	18.724.574	16,15%	1,25%	15.522.442
9	Machinery, apparatus, electronics	60.022.193	75.513.876	25,81%	11,97%	100.668.892	122.904.194	22,09%	8,18%	47.390.318
10	Vehicles	742.087	470.964	-36,54%	0,07%	166.616	99.996	-39,98%	0,01%	-370.968
11	Precision instruments, watches, jewellery	97.929.472	183.054.790	86,93%	29,01%	594.854.272	714.583.357	20,13%	47,57%	531.528.567
12	Furniture, toys	1.671.657	1.827.730	9,34%	0,29%	10.029.712	10.882.731	8,50%	0,72%	9.055.001
13	Precious metal, precious stones, gemstones	125.187.086	341.877.473	173,09%	54,18%	199.989.671	427.490.653	113,76%	28,46%	85.613.180
14	Objects of art and antiques	3.219.826	3.755.375	16,63%	0,60%	1.593.601	4.269.831	167,94%	0,28%	514.456
	Total	**314.484.911**	**630.979.593**	**100,64%**	**100%**	**1.081.808.147**	**1.502.021.873**	**38,84%**	**100%**	**871.042.280**

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

	Total	**1.318.461.163**	**1.842.772.528**	**39,77%**	**100%**	**2.081.248.285**	**2.706.957.809**	**30,06%**	**100%**	**864.185.281**

Source: Schweizer Oberzolldirektion, Swiss Impex

May 2006 aimed at **encouraging more buyout activities** for publicly traded companies in an attempt to remedy this situation.

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

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

Last year, **foreign businesses invested US$ 60.3 billion in China, down 0.47% from the previous year**. The number of foreign projects approved by the Chinese authorities increased only 0.8% in 2005, after a 2004 growth of 6.3%. The stronger manufacturing capacity, mainly the result of surging FDI inflows in the past few years, has become a major driving force behind China's export surge.

While 2005 was the first year investment fell in China since 1999, FDI was up again by more than 6% during the first quarter of this year, amounting to US$ 14.25 billion. As the business environment opens up to some previously protected sectors, FDI in 2006 should further expand under the impulse of greater M&A activity. (FN12)

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

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

Bilateral investment flows

At present, about 270 Swiss firms with over 650 branches are represented in China, employing almost 55'000 people. (FN13) Estimates put the total amount of direct investments at **over CHF 5 billion, making Switzerland the fifteenth most important national origin of FDI**. However, the precise amount is unknown, since earlier inquiries on the matter by the Swiss Embassy in Beijing were largely ignored by the enterprises. Following indications of the Ministry of Commerce (MofCom), China granted 125 projects with Swiss participation in 2005 (88 in 2004), and 25 projects from January to March 2006. In 2005 the actual Swiss FDI totalling US$ 205.9 million saw an increase of 1.36% over 2004.

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

A large majority (over three quarters) of the companies that replied to the SECO-survey (look for summary on page 28) are planning on expanding their business or currently doing so. Several specified that they have **completed the infrastructure investment and now intend to widen the scope of their business**. They see the market as growing and promising. In the production sector, some companies plan to focus on the domestic market's potential while others are bidding on a growing demand for exports. The fast development of the service sector is seen as an opportunity for business to improve.

(for FDI ranks see next page)

China: Foreign Direct Investment

2004

Rank	Country/Region	FDI (mio. USD)	Share (%) 2004	Variation (%) year on year
1	Hong Kong	18.998	31,34%	7,33%
2	Virgin Islands	6.730	11,10%	16,50%
3	Korea South	6.248	10,31%	39,20%
4	Japan	5.452	9,00%	7,87%
5	USA	3.941	6,50%	-6,13%
6	Taiwan	3.117	5,14%	-7,71%
7	Cayman Islands	2.043	3,37%	135,85%
8	Singapore	2.008	3,31%	-2,45%
9	West Samoa	1.129	1,86%	14,52%
10	Germany	1.058	1,75%	23,46%
	E.U.-15	4.241	7,00%	7,90%
	E.U.-25	4.330	7,14%	n/a
	APEC	42.314	69,81%	8,45%
	ASEAN	37.271	61,49%	n/a
	EFTA	253	0,42%	n/a
	Iceland	0,50	0,00%	0,00%
	Liechtenstein	47,80	0,08%	1987,34%
	Norway	1,78	0,00%	-90,44%
	Switzerland	203,1	0,34%	12,15%
	Total	**60.610**	**100%**	**13,28%**

2005

Rank	Country/Region	FDI (mio. USD) 2005	Share (%) 2005	Variation (%) year on year
1	Hong Kong	17.949	29,75%	-5,52%
2	Virgin Islands	9.022	14,96%	34,05%
3	Japan	6.530	10,82%	19,77%
4	Korea South	5.168	8,57%	-17,28%
5	USA	3.061	5,07%	-22,32%
6	Singapore	2.204	3,65%	9,78%
7	Taiwan	2.152	3,57%	-30,97%
8	Cayman Islands	1.948	3,23%	-4,65%
9	Germany	1.530	2,54%	44,62%
10	West Samoa	1.352	2,24%	19,76%
	E.U.-15	5.194	8,61%	22,47%
	E.U.-25	5.260	8,72%	21,48%
	APEC	39.043	64,72%	-7,73%
	ASEAN	35.336	58,58%	-5,19%
	EFTA	235	0,39%	-7,14%
	Iceland	0,15	0,00%	-70,00%
	Liechtenstein	2,86	0,00%	-94,02%
	Norway	26,24	0,04%	1374,16%
	Switzerland	205,9	0,34%	1,36%
	Total	**60.325**	**100%**	**-0,47%**

Source: Ministry of Commerce

Trade, Economic and Touristic Promotion "Country Advertising"

Foreign economic promotion instruments

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

Swiss Business Hub China (SBH China)

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

Location: Switzerland "China"

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

Swiss-Chinese Chamber of Commerce and SwissCham China

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

The Sino-Swiss Partnership Fund (SSPF)

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

SOFI's China Competence Centre

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

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

Presence Suisse

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

Tourism

A consequence of the growing Chinese economy and the rise of (urban) incomes is the **booming tourism industry** for travel outside of China: 28.84 million Chinese travelled abroad in 2004 (an increase of 43% on the preceding year) and is expected to reach 100 million by 2020. (FN14) Therefore China is a key future market for the Swiss tourism industry. Switzerland was granted **Approved Destination Status** (ADS) by the Chinese Government in 2004. Following the implementation of the policy in September that year, there was a noticeable increase in accepting visa applications. New checks and guidelines were at the same time put into place to reduce the risk of travellers remaining in Switzerland illegally.

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

Education

In 2002, the Swiss and the Chinese Governments renewed their "Memorandum of Understanding" for **educational exchanges**, which gives 18 Chinese and 36 Swiss students the opportunity to study in the partner country. Though the (private) school sector has shown increasing interest in attracting Chinese students to their institutions, the overall number of student visa demands has gone down in recent years. This is partly due to the high costs, perceived limited benefit of studying abroad and bad publicity due to abuses which have taken place in some hotel and tourism management schools. Several initiatives to promote education in Switzerland will be focused on in the near future.

Other services

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

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

Investment flows from China to Switzerland have so far been modest with Chinese capital investment mainly in trading companies and SMEs, notably in the service and hospitality industries. However, the acquisition of the

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

Interest for Switzerland as a financial location, potential for development

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

Bilateral Foreign Economic Policy Agenda

Discrimination in trade in goods

General assessment

Following China's entry to the WTO and compliance with the organization's regulations measures taken by the Chinese Government include tariff reductions, sequential market-opening measures in the sectors negotiated, as in particular improved access to the trading and distribution sector for foreign firms. However, many hitches still remain as pointed out below.

Tariff barriers (FN15)
- Significant tariff reductions have been implemented according to China's WTO-commitments, however **import tariffs** remain high in certain sectors
- **Import duties** are calculated as a percentage of the CIF price of the goods; **consumption tax** ranges from 3-45% and is essentially applied to luxury goods; most goods are subject to 17% **VAT** with exceptions at 13%; and **anti-dumping duties** are imposed on foreign imports if they are considered to be sold too cheaply.

Non-tariff barriers (FN16)
- Lack of **transparency and consistency at customs clearance**: lack of sufficient information available in English making it difficult to prepare the required documents; inconsistency between central policy and the local practices at different ports.
- **Customs value determination**: In some cases, Chinese customs officials aggressively use minimum or reference price lists or another company's import values to challenge import transaction values.
- Acquiring the **China Compulsory Certification mark** (required by 130 product types) involves a cumbersome process which demands an onsite inspection at the applicant's factory in Europe by an accredited Chinese CCC organization at the applicant's costs.

Specific sectors
- **Luxury goods** – higher tariffs; 11-23% tariffs (bound rate of duty) on watches
- **Pharmaceuticals** – regulations on registration of medicine products and price policy change quite frequently, causing problems for manufacturers
- **Machinery** – import restrictions on machinery of a certain age, 6-15% tariff on machines

Public procurement

China's reform of the public procurement system started in the 1990s. The Government Procurement Law was promulgated on 29 June 2002, but it still lacks in consistency, coordination and transparency. Further, the existing regulatory framework is not in line with the principle of market economy: market access remains discriminatory against non-Chinese domestic companies. Besides, there is no clear definition of what "domestic goods" consist of. **Foreign partners would like to see China join the WTO Government Procurement**

Agreement (GPA). Now that the five-year transitional period since WTO accession is nearly over, Beijing has recently completed its preparation for negotiating on GPA accession, according to the Ministry of Finance.

Discrimination in trade in services

General assessment

China has followed the WTO market-opening measures over the past four years, but it has also maintained and set-up non-tariff barriers limiting market-entry to foreign companies in various service sectors.

Banking
– China is reaching the last stage of its five-year phase-in of banking services in the local market (according to its WTO-commitments).
– A number of non-tariff barriers continue to limit market access especially for smaller banks (regulations impose high and uneven operating capital requirements).

Insurance
– Though the past three years have seen many WTO-induced reforms in this sector, the rulemaking-process remains unclear and the insurance market access for foreign businesses is still highly restricted.
– Issues related to the establishment of branches are the most problematic: geographical expansion and unclear procedures and regulations for opening (sub-) branches cause uncertainties in business operations.
– Further issues include capital requirements – which remain high with an initial establishment of RMB 200 million (down from RMB 500 million) which is still higher than international norms – and rulemaking transparency.

Legal services
– China has set up ambiguous and cumbersome regulations (inconsistent with its WTO commitments) regarding foreign law firms, creating obstacles to market-entry and unduly restricting their business scope.
– Such regulations include: lengthy examination procedures for application to open law firms and a three-year waiting period before opening the next representation office.

Public procurement
See above, Public procurement

Investments

Foreign investment in China has surged following China's WTO-accession, however certain sectors remain closed to investments by foreigners (e.g. telecoms). Swiss SMEs are positive about opportunities offered by Chinese market and its competitive production base. However, the lack of transparency and inconsistent implementation of relevant legislation and cumbersome administrative procedures can prove to be major challenges for SMEs considering investing in China.

Labour force

The labour market in China is highly rigid and there exist many restrictions on hiring non-local residents, even from other provinces. Visa and living permit application procedures for foreigners can be problematic; further, foreign passport holders are excluded from the social security system implying a high personal risk for foreigners not employed under "expatriate terms".

Intellectual Property

The extent of the counterfeit product market in China is immense, engendering high costs for companies in numerous industries. At its entry to the WTO, China pledged to honour all rules on the protection of copyrights, patents and trademarks as outlined in the TRIPS accord. For the past four years, China has been strengthening the legislation of the IPR regime and has by now brought most of its laws into line with TRIPS. However, the major IPR-problem stems from the lack of implementation of relevant legislation. The enforcement of IPR rules in China is also inadequate and inefficient, penalties are too light, the judiciary is often not up to its task and local protectionism is rampant.

The following points list the most pressing issues:
– There is insufficient prosecution of producers of counterfeited goods.
– Penalties are too low and few counterfeiters are subject to criminal proceedings.
– There is no prosecution of the end-user.
– The regulatory environment is fragmented and the enforcement bodies lack power.
– The law is enforced too weakly through courts and judges who lack independence.
– There is unfair treatment of foreign (multinational) companies by local courts.
– There is insufficient protection of information submitted when applying for a patent.

The Swiss industries most concerned so far have been the watch-making, textile-machinery, pharmaceutical and chemical industries.

Horizontal policy

Competition
– Many anti-competitive practices are not covered by current laws such as the Anti-Unfair Competition Law, the Price Law and the Foreign Trade Law.
– A final draft of the long-awaited Antimonopoly Law was submitted to the State Council this year and may be enacted by the National People's Congress in 2006.

Tax system
– Lacks transparency and requires further reform.

Administrative procedures
– Many items require administrative approval and often no clearly designated approval authority exists.
– Competences between authorities are not always clearly defined and transparent.

Footnotes (FN):

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

2 US$ 281.1 billion or 36.9%. Source: China's Customs Statistics, in EIU.

3 US$ 134.2 billion. Source: ibid.

4 US$ 238.5 billion. Source: ibid.

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

6 Source: calculations based on Mofcom data, see annex 3 "Bilateral trading partners of the PRC".

7 Cf. Annex 3, which reproduces figures of the Ministry of Commerce (MofCom). Annex 4 and section "Trade in goods" about bilateral trade Switzerland – China / Hong Kong use data gathered by the Swiss customs authorities.

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

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

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

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

12 Internationally, 80% of FDI is obtained through M&A, while the figure is currently 10% for China, where FDI is mainly attracted through greenfield-investment.

13 Erwin Lüthi, former Director, Swiss Business Hub China, Beijing; "China Directory 2005", cf. chapter 72.

14 World Tourism Organization

15 Economist Intelligence Unit, China Hand, 2005

16 European Business in China, Position Paper 2005

– Approval criteria are often either not published or vague; even if all published criteria are met, there is still ample room for administrative discretion.

Rule of law

– The main problems regarding the rule of law in China are a weak enforcement of the law through courts, and the lack of independence of judges and government interference.

– Further, indeterminate language of an important part of the economic legislation and problems in determining exact legal status on rules issued by Government make the running of business more complex.

DFA FEDERAL DEPARTMENT
OF FOREIGN AFFAIRS
Embassy of Switzerland in China, Beijing May 2006

Summary of SECO-Survey

Major Framework Conditions for Commerce and FDI in China

The State Secretariat for Economic Affairs of Switzerland (SECO) is currently preparing a strategy on future action to improve the bilateral economic and trade framework conditions for the benefit of Swiss companies doing business with and in China. The first stage of this work was to identify and document the major problems faced by Swiss companies to access the Chinese market. To complete information available from different foreign sources and earlier Swiss-China Surveys, the Embassy of Switzerland in Beijing, in cooperation with the Swiss Business Hub China (SBH) and SwissCham China carried out the present survey in November 2005.

A questionnaire was sent out to 230 Swiss companies listed in the China Directory 2005. Fifty answered within a fortnight and all bar one of those responses were included in the analysis. The names of the respondents have been kept strictly confidential for the purpose of the analysis; however the companies were classified into four sector categories: production (24), pharmaceutical and chemical (7), services (16), and insurances (2).

The questionnaire contained two sections. The first one, entitled "Access to the Chinese Market", included six questions investigating the companies' experiences of barriers to import of goods and services as well as the conditions for foreign direct investment and employment of local staff in China. The second part, "Doing Business in China: Local Issues and Standards", collected general impressions about the business environment, such as the intellectual property right situation, government procurement, and micro-economic and other issues.

The survey found that barriers to imports of goods – level of custom duties, non-tariff barriers and technical barriers – remain problematic for a number of firms, in particular in the production sector. Many respondents' weren't affected or don't have problems with import of services, however some problems – for example, limits to using technical and engineering services from abroad – were revealed.

There was relatively little dissatisfaction reported by the Swiss companies regarding the investment conditions in China, though a few specific problems have been outlined in the report. Employment of foreign staff is of very little concern to Swiss companies in China.

Intellectual property protection is still considered as a major challenge for many firms, in particular for those in the production sector. Much discontent was voiced regarding the enforcement of intellectual property laws.

A number of Swiss companies participate in government procurement, relatively more in production than in services, reflecting the China's stage of liberalization.

Among the microeconomic issues outlined by the survey – bureaucracy, transparency, internal taxes, level of social security payments, inflexibility of labour laws, smuggling and counterfeiting, competition from the informal sector, access to credit, quality of infrastructure, corruption and criminality, and efficiency of the judicial system – the first two revealed considerably more concern among Swiss companies.

In the final question, the survey aimed to determine other issues of concern for Swiss companies and their general appreciation of the business environment in China. The responses to the survey contributed in outlining a number of further problems as well as recommendations for small and medium sized enterprises considering entering the Chinese market and the most important issues to overcome in order to stimulated investment and trade between Switzerland and China. Overall, most companies perceive the business climate as challenging but positive.

The comprehensive analysis report can be downloaded from the website of the
Swiss-Chinese Chamber of Commerce
www.sccc.ch

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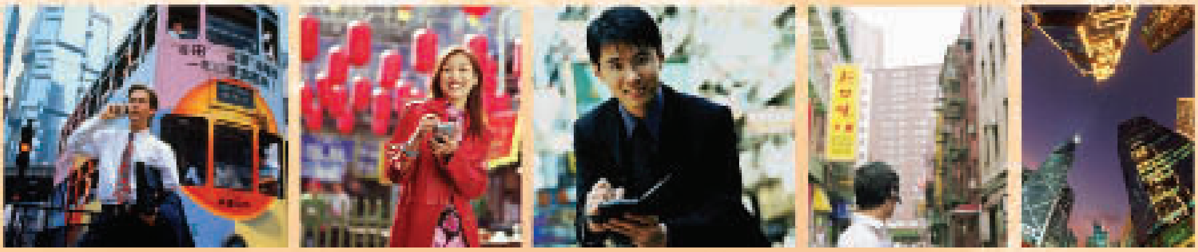

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Current Economic Situation of the Yangtse Delta Region

General Situation: Still Dynamic

China's economy has been growing rapidly and steadily after a soft landing in 2002. This pattern was also kept in the year 2005. The Yangtse delta region – including in this term the city of Shanghai and the two provinces of Jiangsu and Zhejiang – continues to play a locomotive role in the country's economy, in particular in the field of investment and foreign trade.

China's economy increased by 9.9% in 2005, compared to 2004. The gross domestic product (GDP) rose to 18'232.1 billion RMB in 2005, an equivalent of 2259.2 billion USD (according to the official Chinese exchange rate: 100 USD = 807.02 RMB at the year's end).

During the same period of time, the aggregate GDP of **the delta region** climbed to 4'078.1 billion RMB (505.3 billion USD), accounting for 22.4% of China's total GDP, a remarkable result compared to its rather low percentages of population (10.9%) and area (2.2%).

Shanghai reported a GDP of 914.40 billion RMB (113.3 billion USD) in 2005, an increase of 11.1% (13.6% for the year of 2004) over the previous year. This was Shanghai's fourteenth year with double-digit growth rate. **Jiangsu** Province, the second largest provincial economy in China after Guangdong province, recorded a GDP of 1'827.21 billion RMB (226.4 billion USD), up 14.5% (14.9% for the year of 2004) and 4.6 percentage points higher than the national average. The GDP of **Zhejiang** province reached 1'336.50 billion RMB (165.6 billion USD), up 12.4% (14.3% for the year of 2004). Measured by per capita GDP (27,552 RMB or 3,414 US$ in 2005), Zhejiang has the highest provincial income in China.

Private Consumption: Increased Steadily

The country's private consumption increased considerably during 2005, reflecting an increase of the personal income of Chinese consumers. Per capita disposable income of Chinese residents in cities and towns in 2005 was RMB 10,493, up 9.6% from 2004, while per capita income of farmers at the same time was RMB 3,255, up 6.2%.

China's total retail sales climbed to 6717.70 billion RMB, up 12% in 2005 (13.3% in 2004). In the same period, retail sales in **Shanghai** totaled 297.30 billion RMB (36.84 billion USD), up 11.9% (compared with 10.9% for the year of 2004) from the previous year; in **Jiangsu** it was 569.99 billion RMB (70.63 billion USD), up 16.0% (compared with 16.6% for the year of 2004) and in **Zhejiang** it totalled 463.20 billion RMB (57.40 billion USD), up 13.2% (compared with 15.5% for the year of 2004).

During the same period, in spite of the pressure of soaring oil price, price increases were kept at low levels in China. The consumer price index has moved up only 1.8 percent in 2005.

Investment in Fixed Assets: One of the Main Engines of Growth

Domestic investment in fixed assets has been one of the main engines of China's growth since 1998 (after the Asian financial crisis). Chinese economic growth has been strongly driven by a pro-active fiscal policy, leading to heavily increased investments in fixed assets, especially in the field of infrastructure such as construction of highways, railways, new factories and houses.

Reaching 8'860.40 billion RMB (about 1,098 billion USD), enacted investments in fixed assets for the whole of **China** grew at a quite high rate of 25.7% in 2005 (25.8% in 2004) over the previous year. In the delta region, investment in fixed assets kept high in 2005 as well: in **Shanghai**, they reached 354.26 billion RMB (corresponding to 43.9 billion USD), a rise of 14.8%; in **Jiangsu** they totalled 873.97 billion RMB (34.14 billion USD), a rise of 28% and they recorded 873.97 billion

Swiss-Yangtse Delta Region Trade Relations*

	Import from Switzerland				Export to Switzerland			
	2004		2005		2004		2005	
	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %
Shanghai	903.30	64.39	979.43	8.43	175.23	95.37	225.18	28.50
Jiangsu	355.00	40.16	343.00	-3.21	181.00	62.76	210.00	15.85
Zhejiang	198.31	38.26	144.55	-27.10	180.68	87.00	203.76	12.80
Anhui	32.53	79.30	19.97	38.62	9.89	102.8	9.34	-5.53
Delta Region	**1,489.14**		**1,486.95**		**546.78**		**648.28**	
China	**3,621.37**	**35.0**	**3,880.73**	**7.4**	**1,505.77**	**79.3**	**1,946.72**	**29.3**

Source: Chinese authorities

Swiss Investment in Delta Region

In the Region	Swiss Investment						Accumulated by end of 2005		
	Project		Contracted million USD		Actually million USD		Pro-ject	Con-tracted	Actually
	2004	2005	2004	2005	2004	2005			
Shanghai	44	39	*-150.00	300.94			221	1,450.68	
Jiangsu	11	23	91.34	120.32	46.02	67.47	101	546.00	316.00
Zhejiang	5	9	38.96	16.05	16.89	11.10	21	80.83	35.88
Anhui	**0**	**0**	0.82	0.26	0.82	3.66	5	36.79	
Delta Region	**66**	**71**	**-*18.88**	**437.57**			**348**	**2’114.30**	
China	**88**	**125**	***30.42**	**577.00**	**203.00**	**206.00**	**826**	**3,382.00**	**2,305.00**

** One withdrawal of investment of UD$ 220 million deducted already, which explains the unusual difference between contracted and actually used amounts.*
Source: Chinese authorities

RMB (108.3 billion USD) in **Zhejiang**, an increase of 15.1% over the previous year.

Foreign Investment: Remained on High Level

China has become one of the most preferred destinations for foreign direct investments in recent years. Foreign direct investment (FDI) in China in actually utilized terms totalled 60.30 billion USD in 2005, a slight decrease of an half percentage, but still on an high level.

Multinationals are moving more and more of their manufacturing bases from world-wide production sites to China. By the end of 2005, there were about 534’000 foreign invested enterprises in China, with a total contracted amount of 1.2 trillion USD and actual foreign investment of 600 billion USD. It is important to realize, however, that about two thirds of the capital under the heading of FDI is still coming from different ethnic Chinese sources.

The **Yangtse delta** region still saw a massive influx of foreign investment in 2005, but the momentum is obviously weakening. The total FDI of the region was about 27.75 billion USD in 2005 (25.36 billion USD in 2004) in terms of actually utilized value, accounting for 46% of China’s total. Actually utilized FDI in **Shanghai** was 6.85 billion USD (6.54 billion USD for 2004), an increase of 4.7 % over the year 2004, which shows a downward growth rates: up 11.8% in 2004 and up 30.1% in 2003. In **Zhejiang** it amounted to 7.72 billion USD (6.68 billion USD for 2004), an increase of 15.6%, which also shows a downward growth rates: up 22.6% in 2004 and up 72.4% in 2003, and in **Jiangsu** it reached 13.18 billion USD (12.14 billion USD for 2004), an increase of 8.6% (up 14.5% in 2004 and up 52.4% in 2003). Jiangsu became the most preferred province for FDI, surpassing Guangdong province (12.68 billion USD in 2005) since 2003 in terms of both contracted and actually utilized FDI.

As China is realizing many promises in line with its WTO agreements, more capital is flowing into fields such as banking, tourism, commerce, hospitals, education and etc. The government’s decision to encourage foreign investment in restructuring state-owned enterprises will also provide more opportunities for FDI. According to statistics of MOFCOM, 18 joint venture banks, securities and insurance firms and fund management companies were approved and set up in 2005, with an actualized FDI of 12.081 billion USD.

Foreign Trade: Another Motor of Growth

China’s **total foreign trade volume** increased by 23.2% to 1,422.1 billion USD in 2005. Exports rose 28.4% (up 35.4% in 2004) to 762.0 billion USD (593.4 billion USD in 2004); imports grew by 17.6% (36% in 2004) to 660.10 billion USD (561.4 billion USD in 2004); China’s foreign trade in 2005 showed therefore a surplus of 101.9 billion USD (surplus in 2004: 32 billion USD). China’s economic boom, the stronger domestic competition and the rising export capacity of foreign-funded enterprises have spurred exports.

FDI enterprises in China are playing a more and more important role in China’s foreign trade. According to the official statistics, FDI enterprises contributed 58.5% to China’s foreign trade in 2005, compared to 53.9 % in 2003. Total imports and exports by FDI enterprises recorded 831.73 billion USD, an increase of 25.4% in 2005. Exports by FDI enterprises increased by 31.2% to 444.21 billion USD, accounting for 58.3% of the total exports of China. Imports increased by 19.4% to reach 387.52 billion USD, accounting for 58.7% of China’s total imports.

The delta region held a leading position in China’s foreign trade. The export value of Shanghai was 90.74 billion USD in 2005 (73.52 billion USD in 2004), an increase of 23.4% (up 51.6% in 2004) compared to the same period of the previous year. Jiangsu exported goods in the value of 122.98 billion USD (87.56 billion USD in 2004), an increase of 40.5% (up 48.1% in 2004) and Zhejiang’s exports grew 32.1% (39.8% in 2004) to reach an amount of 76.80 billion USD (58.16 billion USD in 2004). The region’s total export value reached 290.52 billion USD (219.24 billion USD in 2004), accounting for about 38.1% (37% in 2004) of China’s total export value.

Imports in the Yangtse delta region increased slower than exports in 2005. Shanghai imported goods with a value of 95.62 billion USD (86.51billion USD in 2004) in 2005, an increase of 10.5% (57.4% in 2004) over the previous year. Jiangsu imported 104.96 billion USD (83.25 billion USD in 2004), an increase of 26.1% (up 52.7% in 2004) and Zhejiang's imports grew 13.0% (up 36.6% in 2004) to reach an amount of 30.59 billion USD (27.07 billion USD in 2004). The region's total import value reached 231.17 billion USD (196.83 billion USD in 2004), accounting for 35% (also 35% in 2004) of China's total imports.

The trade balance of Shanghai therefore showed a deficit of 4.88 billion USD in 2005 (a deficit of 12.99 billion USD in 2004), reflecting the city's increasing demand for foreign goods in the high-tech and higher quality brackets due to internationalization in the field of consumer goods, due to a fast and steady increase in personal income and due to the growing import demand of foreign-funded enterprises as well. Jiangsu showed a trade surplus of 18.02 billion USD, compared to a surplus of 4.31 billion USD in 2004 and Zhejiang remained the most aggressive trading province in China with a trade surplus of 46.21 billion USD (a surplus of 31.09 billion USD in 2004), which ultimately contributed positively to China's trade balance. As a result, China's foreign exchange reserve reached 853.7 billion USD by the end of February 2006, surpassing Japan to become the world's largest FOREX holder.

The Important Role of Yangtse Delta Region in the Sino-Swiss Bilateral Economic Relation

The Yangtse delta region plays a very important role in the Sino-Swiss bilateral economic relation: about one third of the Sino-Swiss bilateral trade, in terms of both import and export, is conducted through the Yangtse delta region and four fifths of the total contracted Swiss investment in China goes to the region. In terms of accumulated capital two thirds of the Swiss investment at the end of 2005 was in the Yangtse delta region.

Swiss trade relation with the Yangtse delta region continued to develop smoothly, although the tempo was slow down. As Table 2 shows the region imported goods with a total value of US$ 1,486.95 million from Switzerland in 2005, a slight decrease of 0.15% over the previous year, and exported a total value of US$ 648.28 million to Switzerland with an increase of 18.56%. With the expansion of the Swiss presence in the region, Swiss-invested companies also contributed a considerable part to the total export volume. It is also noteworthy that all the figures do not include the indirect trade via Hong Kong, therefore the numbers do not show the increasing demands of high quality Swiss made consumers goods, which are mainly distributed by Hong Kong agencies.

Swiss direct investment is increasing steadily in China and the Yangtse delta region. Last year, there was a total of 125 Swiss-invested projects in China, with a great part (71 projects) concentrated in the Yangtse delta region, and a third of them (39 projects) in Shanghai. By the end of year 2005, Swiss direct investment totalled UD$ 3,382 million in terms of accumulated contractual value for 826 projects in China. Among them, UD$ 1,451 million is located in Shanghai, while the numbers for Jiangsu and Zhejiang were UD$ 546 million and UD$ 81 million respectively (See Table 3). The large number of Swiss companies in the delta region is mainly due to considerable investments of Swiss SMEs around Shanghai.

The Challenges: Old and New

Many signs show that the development of the Chinese national economy remains dynamic. Chinese government aims still high. According to the report on the work of the government delivered by Premier Wen Jiabao at the annual session of China's national legislature, GDP should grow about 8% in 2006, which is regarded reasonable by the main economists. An annual growth rate of 7.5% for the national economy during the 11th Five-Year Plan period (2006–2010) has also been worked out recently. Economy of the Yangtse delta region will grow "as a rule" faster and another double-digit growth rate for the coming year is likely.

However, the economy is facing many challenges, old and new. The old structural problems are not really resolved. The high growth rate of the economy was accompanied by **excessive investments in fixed assets**, which took up 40% to 50% of GDP, by **high energy consumption, environmental pollution** and many **working accidents**. **Unemployment** rates are still high (at about 4.5% officially), and the hidden unemployment in the countryside in particular will not be corrected soon. The **wealth gap**, not only between urban and rural residents, but among urban households as well, is still widening. The reform of the **SOEs** met obviously with some difficulty in 2005. The losses of the SOEs during the year were announced as reaching 102.6 billion RMB (up 57%), close to the record high in the year 1998, but were corrected later on.

On the other hand, being integrated into the global economy as the world's 3rd largest trading nation and one of the largest destinations of foreign direct investment, China is also facing challenges from outside: crude **oil price** increases, growing **trade frictions**, and mounting pressures of **revaluation of its currency**.

Another important but very sensitive problem is the political reform, which was more and more discussed in China as corruption is becoming more and more rampant in all activities.

DFA FEDERAL DEPARTMENT OF FOREIGN AFFAIRS

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Current Economic Indicators*
of the Swiss Consular Area

Source: Chinese Authorities

Year		2004 Volume	2004 Growth Rate (%)	2005 Volume	2005 Growth Rate (%)
GDP (billion RMB)	**China**	**13'651.50**	**9.5**	**18'232.10**	**9.9**
	Shanghai	745.03	13.6	914.40	11.1
	Jiangsu	1'551.24	14.9	1'827.21	14.5
	Zhejiang	1'124.30	14.3	1'336.50	12.4
	Anhui	481.27	12.5	537.58	11.8
	Consular Area	**3'901.84**		**4'615.69**	
Total Retail Sales of Consumer Goods (billion RMB)	**China**	**5'395.00**	**13.3**	**6'717.70**	**12.0**
	Shanghai	245.46	10.5	297.30	11.9
	Jiangsu	415.97	16.6	569.99	16.0
	Zhejiang	364.50	15.5	463.20	13.2
	Anhui	150.31	12.9	176.50	13.3
	Consular Area	**1'176.24**		**1'506.99**	
Completed Investment in Fixed Assets (billion RMB)	**China**	**7'007.30**	**25.80**	**8'860.40**	**25.70**
	Shanghai	308.47	25.8	354.26	14.8
	Jiangsu	682.76	28	873.97	28.0
	Zhejiang	594.50	20.2	665.20	15.1
	Anhui	191.42	29.6	252.10	31.7
	Consular Area	**1'777.15**		**2'145.53**	
Exports (billion USD)	**China**	**593.40**	**35.4**	**762.00**	**28.4**
	Shanghai	73.52	51.6	90.74	23.4
	Jiangsu	87.56	48.1	122.98	40.5
	Zhejiang	58.16	39.8	76.80	32.1
	Anhui	3.94	28.5	5.19	31.8
	Consular Area	**223.18**		**295.71**	
Imports (billion USD)	**China**	**561.40**	**36**	**660.10**	**17.6**
	Shanghai	86.51	35.3	95.62	10.5
	Jiangsu	83.25	52.7	104.96	26.1
	Zhejiang	27.07	36.6	30.59	13.0
	Anhui	3.27	13.5	3.93	20.0
	Consular Area	**200.10**		**235.10**	
Foreign Direct Investment (during the period)					
Projects (billion USD)	**China**	**43'664**	**6.29**	**44'001**	**0.80**
	Shanghai	4'334	0.8	4'091	-5.6
	Jiangsu	7'187	-1.56		
	Zhejiang	3'428	-13.9	3'396	-11.2
	Anhui	472	10	421	
	Consular Area	**15'421**			
Contracted (billion USD)	**China**	**153.48**	**33.38**	**189.07**	**23.2**
	Shanghai	11.69	12.6	13.83	18.3
	Jiangsu	36.08	17.1	45.72	18.5
	Zhejiang	14.56	20.8	16.13	10.8
	Anhui	1.21	18.6	1.55	29.0
	Consular Area	**63.54**		**77.23**	
Actually Utilized (billion USD)	**China**	**60.63**	**13.32**	**60.30**	**- 0.50**
	Shanghai	6.54	11.8	6.85	4.7
	Jiangsu	12.14	14.5	13.18	29.2
	Zhejiang	6.68	22.6	7.72	15.6
	Anhui	0.55	40	0.69	26.0
	Consular Area	**25.91**		**28.44**	

** All statistics not including Taiwan, Hong Kong and Macao;*
Figures of the year 2004 refer to the unrevised ones; Growth rates are price-adjusted.
GDP volumes are at prices of the reported years (not adjusted).

Mainland and Hong Kong

CEPA – Further Liberalization Measures in 2006

The Mainland and Hong Kong have agreed on a package of further liberalization measures under the Closer Economic Partnership Arrangement (CEPA) covering both goods and services, as well as facilitation measures to enhance cooperation and exchanges in the area of intellectual property protection. Key measures agreed are highlighted in paragraphs 2 to 8 below.

Details

Trade in Goods

The Mainland has already granted all products of Hong Kong origin tariff free treatment starting from 1st of January 2006 upon applications by Hong Kong manufacturers and upon the CEPA ROOs being agreed and met. For products without agreed ROO, Hong Kong manufacturers may apply to include these products into the subsequent rounds of ROO discussion which will be held twice a year.

Among the products in which Hong Kong traders have indicated interest in the first round of ROO discussion conducted in the first half of 2006, ROOs on 37 products have been worked out. This has increased the number of products with agreed CEPA ROOs from 1 370 to 1 407. The 37 products include aquatic products, food and seasonings, chemical products, plastic and rubber products, and mechanical and electrical products. These products will be eligible for zero tariff starting from 1 July 2006 if their corresponding origin criteria are met. The ROOs basically resemble the liberal origin rules adopted in the first three phases of CEPA and should be welcome by the trade.

Trade in Services

We have agreed with the Central People's Government (CPG) that there will be 15 liberalization measures spreading across 10 areas, namely legal, construction, information technology, convention and exhibition, audiovisual, distribution, tourism, air transport, road transport, and individually owned stores. Details are outlined in the annex of the agreed text.

Some of the measures under the current phase of liberalization are highlighted below:

(a) Legal service – to waive the requirement on the number of full-time lawyers employed by Mainland law firms that operate in association with Hong Kong law firms (offices); to waive the residency requirement for representatives stationed in representative offices of Hong Kong law firms (offices) in the Mainland; to allow Hong Kong residents qualified for practice in the Mainland to act as agents in matrimonial and succession cases relating to Hong Kong; to allow Hong Kong barristers to act as agents in civil litigation cases in the Mainland in the capacity of citizens; and to allow Hong Kong residents who have acquired Mainland lawyer qualifications or legal professional qualifications to undergo internship in a branch office of a Mainland law firm set up in Hong Kong.

(b) Construction – to allow Hong Kong service suppliers to set up wholly-owned construction engineering cost consulting enterprises in the Mainland; and for these enterprises, the performance of the enterprise in both Hong Kong and the Mainland is taken into account in assessing their qualification in the Mainland.

(c) Tourism – to allow Hong Kong travel agents set up on a wholly-owned or joint venture basis in Guangdong Province to apply for operating group tours to Hong Kong and Macao for residents of Guangdong Province on a pilot basis.

(d) Air Transport – to allow Hong Kong air transport sales agencies to set up wholly-owned air transport sales agencies in the Mainland. The registered capital requirement will be the same as that for Mainland enterprises.

All the liberalization measures will take effect starting from 1st of January 2007, and the Mainland will work out and promulgate the necessary implementation rules and regulations as appropriate.

The Mainland and Hong Kong have committed to encourage mutual recognition of professional qualifications as part of the services trade under CEPA. In this connection, a mutual recognition agreement between Mainland construction supervising engineers and Hong Kong building surveyors has been signed on 27 June 2006 in Beijing, bringing the total number of mutual recognition agreement or arrangement concluded under CEPA to a total of 10.

Trade and Investment Facilitation

Protection of intellectual property (IP) has been incorporated as a new initiative under trade and investment facilitation of CEPA. This new initiative would help enhance co-operation and exchanges between the two sides on issues relating to IP protection. The setting up of the Mainland Intellectual Property Protection Coordination Centre in Hong Kong would also facilitate the trade in handling IP matters.

(continued on page 36)

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Edward Anton Keller
1887 established in the Philippines

Hermann Siber-Hegner
1865 established in Japan

In 2002 the three businesses merged to create DKSH.

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Further Liberalization

CEPA is an open and developing platform. The HKSARG will continue to engage the Mainland authorities on further liberalization of trade in goods and services in good time. In particular, the HKSARG shall continue to make efforts to facilitate our professional sectors in making better use of CEPA and securing greater liberalization under it.

Renminbi Business

The State Council is earnestly studying the scope for further expansion of renminbi business in Hong Kong, which includes allowing Hong Kong importers to settle direct import trade from the Mainland in renminbi, and allowing financial institutions in the Mainland to issue renminbi financial bonds in Hong Kong on a pilot basis. This is a rather complex exercise. The relevant authorities of the State Council are proceeding in full swing with the formulation of administrative arrangements in these regards to ensure smooth implementation of the new measures. This is a major policy initiated by the CPG in support of the consolidation and development of Hong Kong's status as an international financial centre. The HKSAR Government will maintain close liaison with the Mainland authorities to expedite the preparatory work for an early launch of these two types of new business.

Economic Benefits

CEPA has been offering new business opportunities in the Mainland for Hong Kong businesses and service suppliers, enhancing the attractiveness of Hong Kong to overseas investors. The zero import tariff preference has the potential to attract to Hong Kong manufacturing of brand name products, or manufacturing process with high-value added content or substantial intellectual property input.

Details of CEPA, including the further liberalization measures in 2006, have been promulgated on the web site of TID at:
www.tid.gov.hk/english/cepa/.

For enquiries, please make use of the following contacts below:

General
E-mail: cepa@tid.gov.hk

Rules of Origin, Certificate of Origin and Factory Registration
E-mail: cepaco@tid.gov.hk

General Enquiry on Trade in Goods under CEPA
E-mail: ma_registry@tid.gov.hk

Certificate of Hong Kong Service Supplier
E-mail: hkss@tid.gov.hk

Source: Trade and Industry Department
HKSAR Government
29 June 2006

Amendment of Consumption Tax

by Ministry of Finance and General Administration of Taxation

The Ministry of Finance and the General Administration of Taxation have announced that they will impose new taxes, or different tax rates on a list of consumer goods starting April 1, 2006. The amendments were published as follows on 22nd, March 2006.

New tax items

I. The new consumer goods under taxation are golf equipment, luxury watch, yacht, disposable wooden chopsticks and wooden floor panels. The respective tax rates are:
   1. Golf ball and golf equipment: 10%
   2. Luxury watch: 20%
   3. Yacht: 10%
   4. Wooden disposable chopsticks: 5%
   5. Wooden floor panels: 5%

II. The taxes upon petroleum and diesel oil will be cancelled, and new taxes upon processed petroleum will be imposed. The former taxes on petroleum and diesel oil are now treated as sub-items under the processed petroleum tax (the tax rates remain the same). Besides, new consumption tax will be imposed on naphtha, solvent, lubricant, fuel oil and aviation diesel oil.

1. Respective tax rates on before-mentioned products are:
   1. Naphtha, 0.2 RMB/ L
   2. Solvent, 0.2 RMB/ L
   3. Lubricant, 0.2 RMB/ L
   4. Fuel oil, 0.1 RMB/ L
   5. Aviation fuel oil, 0.1 RMB/ L

2. The conversion standards of before-mentioned new tax items are:
   1. Naphtha, 1 ton = 1385 L
   2. Solvent, 1 ton = 1282 L
   3. Lubricant, 1 ton = 1126 L

4. Fuel oil, 1 ton = 1015 L
5. Aviation fuel oil, 1 ton = 1246 L

These conversion standards have been confirmed by the Ministry of Finance and the General Administration of Taxation.

Taxpayer

The compulsory payers to the consumption tax are companies and individuals producing, processing, and importing the before-mentioned products. Taxpayers should pay the consumption tax according to the "Provisional Regulation of Consumption Tax of P. R. China" and this Notice.

Tax items that have been cancelled

The tax on shampoos and skin care products will be cancelled, while the luxury shampoos and luxury skin care products will belong to the "cosmetics item" tax category.

Adjustment of the tax rate for certain items

I. Adjustment of the tax rate for automobiles
The sub-items sedan, jeep, and minibus will be cancelled. New sub-items, namely non-commercial vehicles and light & medium-sized business passenger vehicles, will be formed. The respective tax rates are:

1. Non-commercial vehicles
   1. With engine size at or below 1.5 liters: 3%
   2. With engine size above 1.5 liters and below 2.0 liters: 5%
   3. With engine size above 2.0 liters and below 2.5 liters: 9%
   4. With engine size above 2.5 liters and below 3.0 liters: 12%
   5. With engine size above 3.0 liters and below 4.0 liters: 15%
   6. With engine size at or above 4.0 liters: 20%

2. Light & medium-sized business passenger vehicles: 5%

II. Adjustment of the tax rate for motorcycles

The tax rates for motorcycles are divided according to the engine size
1. With engine size at or below 250 ml: 3%
2. With engine size above 250 ml: 10%

III. Adjustment of the tax rate for auto tyres
The tax rate for auto tyres will be brought down from 10% to 3%

IV. Adjustment of the tax rate for distilled spirit

Liquors made from grain and those made from potatoes, that used to have different flat tax rates, will be unified to 20%.

The lump-sum tax for these items is 0.5 RMB/ 500 g, or 0.5 RMB/ 500 ml. The tax should be calculated according to the weight of total sales. If the products are labelled by the volume, the conversion standard is 500 ml = 500 g, regardless of the percentage of the alcohol.

V. The taxation standard for combined products

If the taxpayers combine the self-produced taxable products with the non-taxable products, which they produced or purchased into one set for sale, the tax should be imposed according to the value of the whole set.

Tax issue about self-produced naphtha for continuous own production

Companies, which use self-produced naphtha for continuous production of petrol or other taxable consumer goods, don't need to pay consumption tax. For using naphtha in continuous production of ethylene or other non-taxable products, consumption tax should be paid before use.

Deduction of paid tax

The paid tax for raw material can be deducted for the following taxable consumer goods:

I. Golf club, of which head, handle and stick were outsourced or produced under subcontract
II. Disposable wooden chopsticks made from tax paid material, which was outsourced or produced under subcontract
III. Wooden floor panels made of tax paid material, which were outsourced or produced under subcontract
IV. Taxable consumer goods made of taxed naphtha, which was outsourced or produced under subcontract
V. Lubricants made of taxed lubricants which were outsourced or produced under subcontract

Regulations for tax deduction will be set by the Ministry of Taxation separately.

National average cost-profit margin for new added and regulated levies are:

I. Golf club and golf ball: 10%
II. Luxury watch: 20%
III. Yacht: 10%
IV. Disposable wooden chopsticks: 5%
V. Wooden floor panels: 5%
VI. Automobiles: 8%
VII. Light and medium-sized business passenger vehicles: 5%

Export

Refund (exemption) of exported taxable consumer goods will be conducted according to the new regulations and tax rates

Reductions and Exemption

I. Only 30% of the announced consumption tax on naphtha, solvents, lubricants and fuel oil will be collected, and no consumption tax on aviation diesel fuel will be imposed for the time being.

II. No consumption tax on "meridian tyre".

Economic Daily, 23rd, March, 2006
Unofficial translation by the Embassy of Switzerland

China to Unify Corporate Income Tax Systems

China's taxation administration said in January 2006 that the administration is still working on a proposal for a unified income tax system both for domestic and overseas-funded firms. Wang Li, deputy director general of the State Administration of Taxation, said China will push forward the efforts to unify the corporate income taxes through normal legal procedures, but declined to give a timetable. China introduced two different corporate income tax systems respectively for domestic and overseas firms since its 1994 tax reform with overseas firms enjoying lower tax burden. Preferential tax offers given to overseas firms helped China attract overseas investment, technology and expertise, but it does not comply with international practices and have some negative effect on the development of market economy, said Wang. The corporate tax systems need to be unified and regulated, he told a press conference held by the Information Office of the State Council, the Chinese cabinet. The basic idea for the tax reform is to combine the two tax systems into a unified, transparent and fair one, which will serve the purpose of optimizing the use of overseas investment and the structure of national economy and technological upgrading of various sectors, he said. The actual income tax rate has remained at 14 percent for overseas-funded businesses, much lower than the 24 percent rate for domestic firms, since China formulated the preferential policy for overseas-funded enterprises in mid-1980s in a bid to lure foreign investment. Experts and local companies have complained the policy does not comply with World Trade Organization principles and as a kind of discrimination against domestic firms, it also results in reduction of China's tax revenues.

Source: Xinhuanet

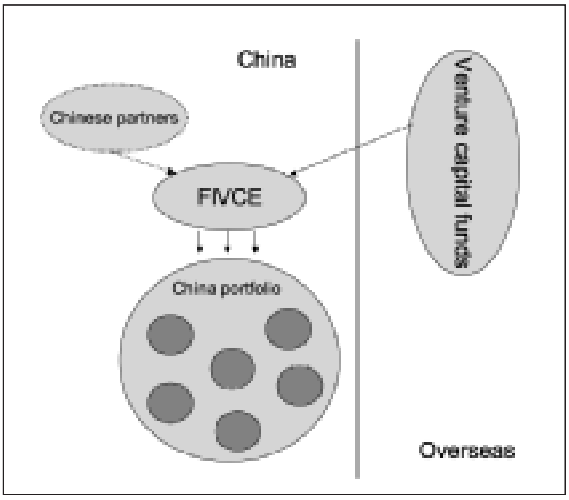
Perspective on China's Venture Capital Rush

Venture capital (VC) in affair with China is attracting a lot attention these days. The outstanding exit deal and stock performance presented by venture-backed Chinese companies such as Baidu.com or SMIC at the international capital market, cannot help but stimulating the enthusiasm among the venture capitalists reaching out for the lion share in this fast growing market. 2005 has witnessed a downturn in terms of investment amount largely attributable to the unfavourable regulatory initiatives. Nevertheless, fundraising set a record high that would promise affluent resources for the ongoing development in the coming years (1). Many mainstream VC firms from Silicon Valley or elsewhere are also forming or considering launching funds aiming at China investment portfolios.

With all the hustles and bustles, VC engagement in China would have to pay heed to the unique characters of Chinese corporate law, investment policy and capital market condition, which may poise dynamics that are normally not attended to in a more established market. This issue of CHINAjournal aims to provide a legal perspective on China's VC regime and reveal the weakness in the system that leaves room for improvement.

VC investment structure

Foreign VC funds may operate their China investment through a China-domiciled VC vehicle, i.e. foreign invested venture capital enterprise (FIVCE) (2).



Onshore holding structure

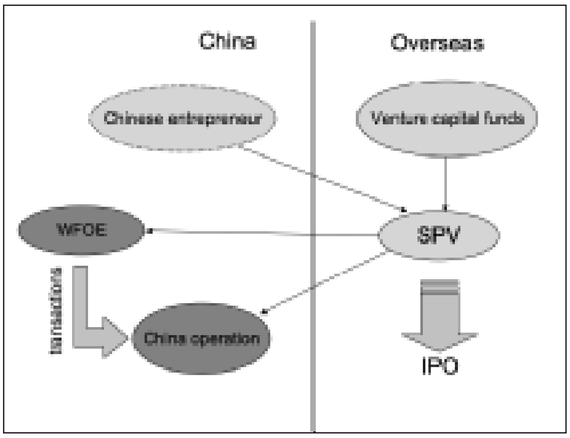
FIVCEs are permitted either as corporate legal persons or non-legal persons. In case of corporate legal persons, Chinese law foresees the legal forms of the Wholly Foreign Owned Enterprise (WFOE), Equity Joint Venture (EJV) or Cooperative Joint Venture (CJV) under the governing principles of the Limited Liability Company (LLC) or Joint Stock Limited Company (JSLC) according to the Company Law (3).

As a WFOE or an EJV is by definition a Chinese legal person, non-legal person FIVCE could only take the form of a CJV, which requires the engagement of a Chinese partner while excludes Chinese individuals acting as such partner (4). Under non-legal person scenario, limited partnership arrangement commonly used in VC formation elsewhere is recognized by the FIVCE Rule, where at least one general partner bears joint and several liability for the debts of the FIVCE while other limited partners would only bear the risks to the extend of their investment in the FIVCE.

Offshore holding structure

Most of the recent VC deals in fact are taking the offshore route. Under such offshore holding structure, a Chinese entrepreneur incorporates at offshore centre a special purpose vehicle (SPV). By swapping his equity stakes in a China operation entity with those in the SPV, he effectively converts the renminbi-denominated registered capital of the Chinese entity into foreign currency denominated share in the offshore SPV.

Meanwhile, foreign VC funds invest in the SPV instead of directly in the China operation entity. The whole exercise is carried out essentially with an IPO at an overseas stock exchange, such as NASTAQ or Hong Kong Stock Exchange in vision.

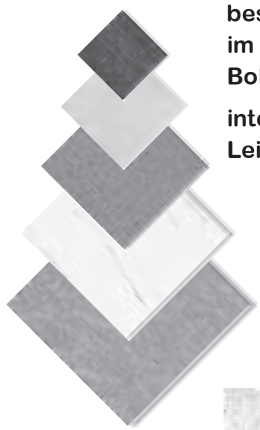


Offshore holding structure

Why offshore route

Restrictions in China's corporate regulations and limitations at the domestic capital markets explain foreign VC's preference in taking offshore route to organize their China investment. VC investors rely normally on preferred stocks or convertible preferred stock to secure a preferential return. Chinese corporate regulations allow only one class of common stock (5) for a FIVCE with investment in a Chinese portfolio company. Notably, local VC firms would have the possibility to arrange preferred stock scheme with their investee company according to a newly issued charter regulation applicable to domestic VC firms (6). This gives rise to concern on the principle of national treatment under WTO law. Moreover, China domestic stock market does not provide a ready access for venture-backed companies. The conditions for listing at Shanghai or Shenzhen main-board market are too stringent for high-tech start-up companies. Even if listing conditions could be met, the queue in the pipeline waiting for a listing window is at the moment frustrating. In fact, the two domestic stock exchanges have halted the IPO since two years in the call for addressing the notorious overhang of non-transferable "legal person" shares. The undergoing endeavour is focusing on floating all stock legal person shares. Since the value of stock legal person shares is roughly twice of those trading in the stock exchange, full floating of legal person shares at stock is imposing acute challenge on the market place. This would mean that the suspension on IPO of new shares would be expected for a rather extended term. By leveraging on an offshore holding structure, foreign VCs could take advantage of the corporate governance in a jurisdiction where they feel most comfortable and bypass the restrictions under Chinese corporate law. VCs could take the SPV to the international stock market for IPO in a timely and straightforward manner, without the necessity to obtain permission from Chinese government in advance.

However, an offshore holding structure has its own risk. One pointy issue is the enforceability of a foreign court ruling in China. For example, even if convertible preferred stock and stock options arrangement is enclosed in a founding contract of a SPV governed by a foreign law, it is theoretically possible that Chinese stake holder might insist that such arrangement is in violation of Chinese law and therefore a foreign court ruling should be refused to enforce in China.



SAFE's tightened control in 2005

The noticeable slowdown of VC investment in 2005 was blamed on two circulars (Circular No. 11 and No. 29) of the SAFE aiming to bridge the regulatory gap in the so-called "redchip" (7) financing model, which is the vital instrument used in the offshore holding structure by VC deals as described before. Previously, offshore holding structure with round-trip investment requires only a lenient and formal endorsement from the MOC. The growing popularity of such deal structure alerts the SAFE on its potential misuse for money laundry and tax evasion purpose, as well as the unregulated inflow of foreign capital.

Circular No. 11 and 29 required advance SAFE approval for equity investment or swap deal by domestic investors in relation to their offshore structure. Any offshore structure launched before the Circular 11 must be registered with the SAFE. Unfortunately, these circulars failed to specify the criteria on which the SAFE would bases its approval. Nor did they set forth details for handling the registration process. The ambiguity and uncertainty of both circulars thus place a major roadblock for Chinese companies go listing in overseas stock markets.

Substantial lobbying and bargaining ensued in the second half of the year, leading to the issuance of Circular No. 75 (8) which replaced above two circulars. Circular No. 75 retains the core element of the previous two circulars in stressing SAFE's authority to review the establishment or acquisition of offshore entities by domestic residents. However, major improvements have been made by granting the relieve for individuals to obtain advance approval from the MOC as pre-condition for SAFE registration, explicitly legitimating the offshore holding structure and clarifying in greater details on application procedures and required documents. Nevertheless, the criteria and time schedule for a SAFE approval remain unspecified, making it difficult to assess how Circular No. 75 would be implemented in practices.

The episode of SAFE's ruling manoeuvre in 2005 pinpoints the potential risk in a legal environment with precarious rule formation and unfettered agent discretion. For the time being, the shadow over the legitimacy of offshore holding structure is cleared away. However, it remains to be seen where the joint force among the policy maker, market player and regulator would lead the further development of the guiding rules on VC business in China.

Unlevelled playing field?

By comparing the FIVCE Rules with the Local VC Rules, domestic VC firms appear to have certain regulatory advantages over their foreign rivals. For example, FIVCEs are subject to a higher registered capital requirement (up to 2.5 times of that of the local VC firms). There is a total managed asset prerequisite for the "necessary investor" of a FIVCE, while no corresponding condition is stipulated for a local VC firm. FIVCEs in general are subject to a lengthier and more burdensome approval and registration procedure. Thus, foreign venture capitalist is facing higher market entry barrier.

In terms of business operation, FIVCEs are mandated to invest in High- and New-Tech Companies, while local VC firms do not adhere to this restriction. FIVCEs are not allowed to incur debts for investment, while local VC firms could incur debt finance to strengthen their investment capacity. As mentioned before, local VCs firms are also granted the instruments such as convertible preferred stock or stock options that are not available for FIVCEs. Furthermore, FIVCEs are still subject to sector restrictions that are generally in place for foreign direct investment.

Local VC Rules take rather an open position to disregard the national treatment principle under WTO law. Whether this could successfully be overruled by WTO's dispute settlement procedure need to be tested. However, the treatment of VC as banking or as securities business remains unclear in international trade law. As China has made substantial reservation in its commitments for securities sector, categorising VC as securities business may give China clout to justify the discrimination against foreign VC firms.

Foreign venture capitalists might not be held back by the unlevelled rule of game in a short run, as overseas listing leveraged by offshore holding structure will continue to be the major VC transaction model in the near future, where foreign VC firms are better positioned in providing related value-added services and listing opportunity for Chinese entrepreneurs.

However, situation might change if domestic stock exchanges or envisaged second-board market become easily accessible to venture-backed companies. The global connection that gives foreign venture capitalists competitive edge would not be essential in this case. Although value-added services and expertises still differentiate the good from the bad, local VC firms may update such capacity soon. The unlevelled playing field would nourish local VC firms as daunting competitors to foreign VC firms.

Sector-specific issues

Up to now, foreign VC investment is focusing on Internet and telecom industry, the market entry to which is

Footnotes

1 China Venture Capital Annual Report 2005, Zero2ipo.

2 The Administrative Rules of Foreign-invested Venture Capital Enterprises, jointly promulgated by the Ministry of Commerce, Ministry of Science and Technology, State Administration of Industry and Commerce, State Administration of Taxation and State Administration of Foreign Exchange on January 30, 2003 and effective as of March 2, 2003 ("FIVCE Rules").

3 Latest revision on October 25, 2005 and effective as of January 3, 2006. Please refer to CHINAjournal December 2005 issue for the new features of the Company Law.

4 With the exception where an existing pure Chinese company is converted into a CJV through partial acquisition by a foreign investor, the individual Chinese investors, upon approval, could stay in the CJV as partners after the conversion. Decree of Ministry of Commerce, Wai Jing Mao Fa Fa (2002) No. 575.

5 Although the Company Law foresees the possibility of other classes of shares, it delegates the State Council to come up with detailed rules to elaborate on such other class shares. The State Council has yet to fulfil such delegated mandate.

6 Provisional Measures on venture Capital Investment Enterprise, jointly promulgated by the State Development and Reform Commission, Ministry of Science, Ministry of Finance, Ministry of Commerce (MOC), the People's Bank of China, State Administration of Taxation, State Administration of Industry and Commerce, China Banking Regulatory Committee, China Securities Regulatory Committee and the State Administration of Foreign Exchange (SAFE) on September 7, 2005 and effective as of March 1, 2006 (the "Local VC Rules").

7 Referring to the publicly traded stocks of overseas incorporated companies with substantial assets and business located in China.

8 The Circular on Issues Relating to Financing through Offshore Special Purpose Vehicles by Domestic Residents and Round Trip Investment, promulgated by the SAFE on October 21, 2005 and effective as of November 1, 2005.

9 Please refer to CHINAjournal January 2006 issue for transfer pricing legal regime.

still restrictive for foreign investment. A commonly used structure to evade sector-specific restriction is to place technology or service business in a wholly foreign owned enterprise (WFOE) separate from the general operation. The general operation, which may require specific license such as that of Internet Service or Content Provider (ICP/ISP), will be carried out through a pure Chinese company. Operational proceeds out of the general business would be repatriated to the WFOE or offshore holding through pre-defined transactions including intellectual property licensing, technical support, consulting service or leasing or marketing cooperation. Such arrangement is essential for an offshore holding structure VC deal that relies primarily on actual operation in China where foreign investment is still highly restricted. However, when designing the transaction and profit flow structure, parties should consider the risk of triggering the transfer pricing alert by Chinese taxation authority (9).

Conclusion

Current Chinese corporate law and stock market situation prescribe that round trip investment through offshore holding structure will continue dominating VC activities in China. Foreign VC firms' dominance in Chinese VC business will continue but might be subject to cutting-edge competition from domestic VC firms. The unlevelled regulatory framework for foreign and local VC firms is going to be assessed under WTO rules. A robust and sustainable development of China VC industry strongly calls for a compatible capital market and more staid regulatory groundwork.

For further information about lexsina and its services, please refer to www.lexsina.ch.

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Bridge into Europe for Asian Investors

With the impressive growth of the Chinese and Asian economies, wealth is created, both on the corporate and the individual level. This increased wealth puts Asian companies and entrepreneurs in the position of diversifying into international markets through acquisitions, participations, capital market transactions and joint ventures.

To address this demand, four Swiss companies founded the Asia2Europe Association (A2E) in Zurich on June 1st 2006, with the aim to assist Asian investors with the execution of their European transactions. The founding members are the corporate finance advisory firm Quadrum Partners Ltd. (Zurich, London), the Plenum Group (Zurich, Vaduz), a diversified financial services company, Kirchhoff Consult (Hamburg, Munich, Lucerne, Vienna), a consulting firm for financial & corporate communication, as well as the law firm SvH Schaufelberger & van Hoboken (Zurich). What was initially started in Switzerland is currently being extended into other European countries, such as Germany and Italy, giving A2E an enlarged European footprint.

The members of Asia2Europe support Asian companies and investors not only with the identification and execution of transactions in the European market, but also with the establishment of contacts to other European consulting and service companies that operate in the fields of M&A, capital markets, communications, legal, tax advisory and accounting.

Business Case

During the past few years Asian M&A activity has not only seen impressive growth in terms of deal value, but also in number of completed deals with Asian acquirors preferring European over US targets. Mainly driven by brand acquisitions, acquisition of proprietary technologies, distribution platforms or quality endorsements, Asian investors have a specific requirement for local European execution assistance.

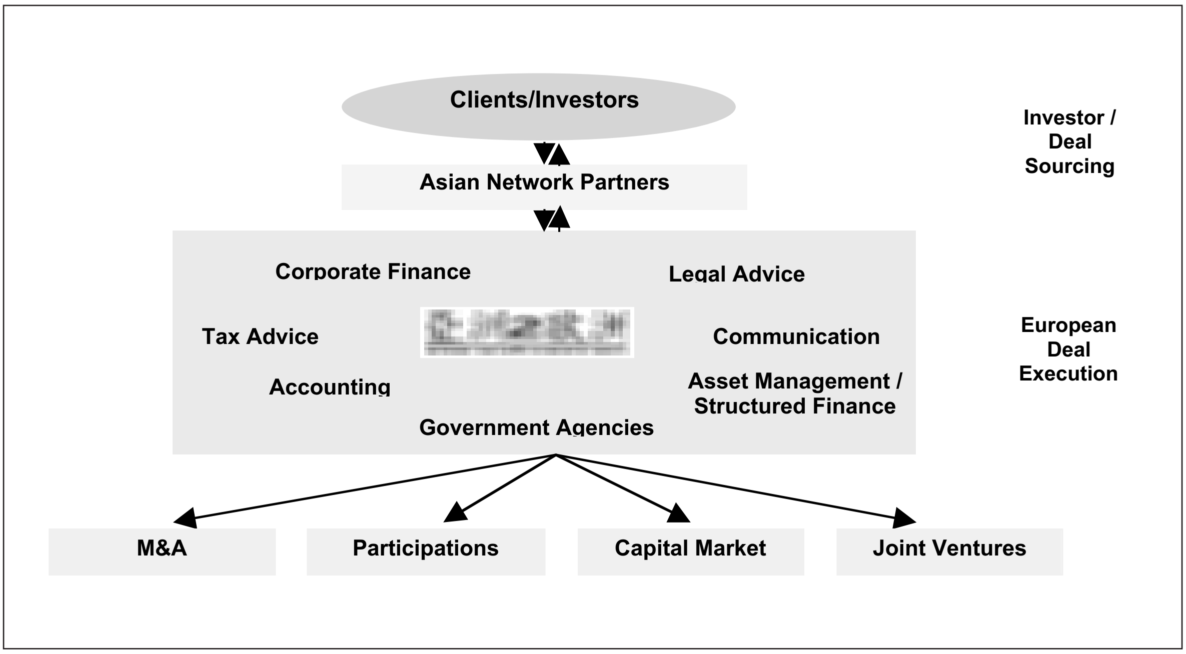
Corporate finance transactions are among the most demanding in terms of need for professional advice. In most cases, specialized services beyond corporate finance advisory are immediately required by the clients.

A2E has aligned some of the best in their respective fields and offers Chinese and Asian investors a one-stop-shop for all financial services required. Initially the A2E members are companies based in Switzerland with a strong European focus and relevant network. They all have conducted business in European countries and can therefore offer, within certain limitations, competent advice and solutions on a European level.

Asian Network Partners

The local Chinese and Asian network partners have a proven local network of potential clients. They are working with companies such as investment banks, investment funds, law firms, management consultants, private equity companies, venture capital companies and government agencies. The Asian Network Partners should ideally have a functional and credible Asian/Western interface.

A2E and its members value the building of long-term relationships with its Asian Network Partners on the basis of mutual benefit through a fair revenue sharing model, highly interesting projects and reciprocity.



The immediate benefit to the Asian Network Partner is to provide a better service to their clients by having access to personally known, high quality European service providers. In addition, all Asian Network Partners and members of A2E will start to interconnect leading to further business opportunities.

Business Development Process

In parallel to expanding the European side A2E is continuously establishing and building relationships with Asian Network Partners. They have successfully started this process with several road shows to Asia during 2006 holding over 70 meetings in Hong Kong, Singapore and Shanghai.

Further road shows are planned hosting several public events in conjunction with the Swiss consulates to which Asian Network Partners and clients will be invited providing the opportunity for personal introductions to A2E members.

Benefits for the A2E members

Being an A2E member means having exposure to the highly dynamic Asian market, access to the Asian Network Partners and being exposed to a highly interesting deal-flow.

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Links to the websites of the founders:

www.kirchhoff-consult.ch
www.plenum.ch
www.quadrumpartners.com
www.svh.ch

License for General Insurance Branch

Zurich Financial Services Group (Zurich), a leading global insurance company, has been granted a business license to establish a general insurance branch in Beijing by the State Administration for Industry and Commerce (SAIC), after receiving approval from the China Insurance Regulatory Commission (CIRC). Zurich is the first foreign insurer to have been granted a license to establish a general insurance branch in Beijing.

James J. Schiro, Zurich's Chief Executive Officer (CEO), said, "We are excited about the opening of our Beijing Branch, as it is in step with our strategy to grow profitably and serve our customers wherever they may do business". He added, "In bringing our financial strength and our global risk management expertise to corporate customers in China, we also expect to contribute to the development of the domestic insurance industry, which is vital for the overall economic development of the country".

The new unit, Zurich Insurance Company Beijing Branch, will focus on serving corporate customers, including foreign customers with activities in China and large and medium sized enterprises from China, particularly those with business overseas.

Johnny Chen, CEO of Zurich's Greater China business, said, "Zurich's strong corporate platform positions us well to provide valuable risk insights and innovative products and services to corporate customers doing business in China. We also have an experienced General Manager in Steven Zhang and a strong team to support him."

As a member of the Executive Committee of Zurich's International Businesses Division, Mr. Johnny Chen is CEO of Zurich's Greater China business, overseeing the businesses in Mainland China, Hong Kong and Taiwan. Zurich has had a presence in Mainland China since 1993, and has two representative offices in Beijing and Shanghai, respectively.

Beijing is one of the fastest growing cities in China, with a Gross Domestic Product growth rate of 11.1 percent in 2005. It is home to many leading private companies and to most of the large state-owned enterprises, as well as to many local and foreign multinational companies. By the end of 2004, 185 of the Global Fortune 500 companies had invested in the city. This creates a growing demand for general insurance, with customers looking for sophisticated insurance services.

Zurich Financial Services Group (Zurich) is an insurance-based financial services provider with a global net-

(continued on next page)

ZHANG XueJiang (Steven Zhang)

General Manager of the Zurich Insurance Company Beijing Branch
1955, Chinese citizen

Mr. Steven Zhang joined Zurich in 1997 as the Chief Representative of the Zurich Insurance Company Beijing Representative Office. Before joining Zurich, he worked ten years for the People's Insurance Company (PICC), and his career path included the position of branch general manager with full management responsibility for marketing, underwriting, claims, IT, accounting and HR. He also served as a member of the Board of Directors of Xiamen Life Insurance Company. A Chinese Civil Engineer, Mr. Zhang holds a Bachelors degree in Engineering from the Dalian Maritime University of China, as well as a Diploma in Insurance from the Glasgow Caledonian University in the UK and a Ph. D. in Economics from the Xiamen University, China.

work of subsidiaries and offices in North America and Europe as well as in Asia Pacific, Latin America and other markets. Founded in 1872, the Group is headquartered in Zurich, Switzerland. It employs approximately 55,000 people serving customers in more than 120 countries.

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Take Advantage of China's Potential

Swiss SMEs are increasingly faced with corporate insolvencies and bad debts. Yet most of them are unaware of credit insurance. This modern instrument offers risk cover and allows Swiss SMEs in the export business to finally leverage the major economic potential of emerging markets.

Swiss companies are increasingly being confronted with bad debts as a result of corporate insolvencies Yet most of them are unaware of credit insurance. This modern instrument offers risk cover and allows Swiss export companies to finally leverage the major economic potential of emerging markets.

China's economy is booming, and there is a growing sense of confidence among Chinese businesses. Foreign trading by the east Asian giant is still small, since most resources are still tied to the domestic market. But this is set to change. In 2004 Switzerland exported goods worth more than CHF 3 billion to China. With a regular growth rate in excess of 20 percent, the Middle Kingdom is already a more important export partner than most European countries.

Added to this, China's economy has proved extremely resilient in recent years. Even members of the WTO have called for international recognition of China as an economic partner. Major conglomerates such as Ciba, Sulzer, Bühler and Novartis operate their own companies or have their own agents in China. Well aware of the tough competition for this boom market, Chinese customers of Swiss companies are increasingly reluctant to pay for goods or services in advance or take out letters of credit, preferring instead to opt for sale on open account, as is the norm in OECD member countries.

But what can SMEs do? Turn their backs on potential Chinese orders? China's different value system, problems related to legal issues, and lack of any transparent framework for intellectual property rights make any business relationship with China fraught with risk for companies in the SME sector.

Given the growing self-confidence of Asian customers, the "old" and usually costly forms of export business cover, such as letters of credit or documentary collection, are of limited use only. So what other instruments are available? For Jules Kappeler, Sales & Commercial Director at credit insurer Euler Hermes Switzerland in Zurich, the answer is simple: "A credit insurance policy helps Swiss SMEs to accept an order from a Chinese client and limit the risks without paying too high a price."

How does credit insurance work?

Jules Kappeler cites an example of how credit insurance works: A St. Gallen manufacturer of specialized tools has unexpectedly won a bid for a Chinese contract. The owner is delighted with the CHF 3 billion-plus order but is not sure whether the Chinese client can actually foot the bill. He looks into existing export instruments but finds them too inflexible and expensive. "This is where we come in", explains Kappeler. The St. Gallen businessman contacts Andrea Marco Fiammengo, the Euler

Jules Kappeler, Sales & Commercial Director

Hermes customer advisor in his region, who advises him on the advantages of credit insurance from Euler Hermes and how to go about taking out cover. Before Fiammengo draws up an insurance solution tailored to the St. Gallen businessman's export business, Euler Hermes checks whether the Chinese client is creditworthy.

"We can usually find this out very quickly", explains Kappeler. "We have our own companies and local representatives not only in China but also in 41 other countries, and can draw on our own pool of data on different companies and markets. Based on this information, we can determine the company's creditworthiness." Two days later, after Euler Hermes Switzerland has given the St. Gallen company the all-clear, the owner can relax and enjoy the prospect of his lucrative order from the Middle Kingdom. Once the Chinese contract is fulfilled, the company contacts Euler Hermes to work out with customer advisor Andrea Marco Fiammengo ways of expanding its sales strategies to new export markets.

Jörn Volk, Managing Director

Euler Hermes Switzerland

The Zurich branch of Euler Hermes Kreditversicherungs AG serves policyholders in Switzerland. Euler Hermes Services AG performs local credit checks and monitors the creditworthiness of Swiss companies. The company also provides commercial debt collection services for our clients. Thanks to successful development in Switzerland, Euler Hermes also opened an agency in Lausanne on 1 February 2005. This move reflects the company's commitment to providing a local presence and on-the-spot risk analysis services in the client's neighbourhood. Our clients benefit from our local presence in Switzerland as well as from the strength of the Euler Hermes Group and its global reach. In Switzerland Euler Hermes employs some 40 persons in Zurich and Lausanne, who were responsible in 2005 for analysing and guaranteeing around 46,000 risks.

Euler Hermes is the world-wide leader in credit insurance and one of the leaders in bonding and guarantees. With 5,400 employees in 43 countries, Euler Hermes offers a complete range of services for the management of customer receivables.

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

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"The core of our credit insurance business is credit checks", says Jörn Volk, Managing Director of Euler Hermes Switzerland. The Paris-based Euler Hermes Group, member of the Allianz Group, is the world-wide leader in this field. "The deciding factor for our business success is accurate assessment of risks", comments Volk. "Our specialists must determine how risky a business is. Otherwise we cannot decide whether we are able to offer cover and how to calculate the premium. If the risk is extremely high, Euler Hermes either turns it down or

Advantage of credit insurance

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– Innovative financing solutions in conjunction with Swiss banks.
– Calculability of risk from bad debt losses thanks to a fixed insurance premium and no need to set aside regular reserves.

takes over only part of the risk. So for the exporting company, the credit insurer's risk assessment is a good indicator of whether the planned deal will be a success. Risk can only be assessed based on an accurate analysis of the potential buyer's individual situation, as well as his economic and political environment.

Credit checks

As trade becomes ever more globalized, there is a growing need to insure export business against foreign customer insolvency. "At Euler Hermes, 20,000 decisions a day are made on corporate applications for insurance", explains Kappeler. How is this possible? Euler Hermes has built up huge databases with information on all markets, in order to ensure fast, accurate credit checks. The data can be accessed by credit assessors in different countries. Information on some 40 million companies around the world is collected from various sources and continually updated. "'Soft' factors also play a role in our risk assessment", adds Jörn Volk. "Among other things, our experts scrutinize the company's management structure and assess its innovative strengths." The conditions governing the sector as a whole are also factored in. If a sector is struggling, the risk is higher. Euler Hermes experts have good contacts in the relevant sector, and feed the databases with additional background information and analyses.

Costs

Credit insurance clients must pay a fee for the credit check on their potential customer. The premium rate is indexed to turnover and always a fraction of one percent. The minimum premium charged by Euler Hermes is CHF 10'000. Experience has shown that this is worthwhile for turnovers of CHF 2 million or more. Jules Kappeler, Sales & Commercial Director at Euler Hermes Switzerland, explains: "We draw up individual solutions for many of our clients. This modern tool allows us to reduce the risk of bad debt." Word seems to have got around: Last year Euler Hermes Switzerland experienced a growth rate in the high two-digit percentage range. Demand from eastern Europe and Asia is steadily rising, and the latest economic figures indicate that Swiss companies are benefiting from this growth.

By Roger Huber

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Will Protectionism Affect Foreign Investment?

Nationalism in general, and economic nationalism (or the protection of domestic economic interests), has always been present in Chinese politics. One only has to think about the Great Leap Forward, which aimed not only at self-sufficiency, but also at surpassing Great Britain and later the USA in industrial production.

This political current has seen its ups and downs over the last 20 years, but China has – relative to many of its Asian neighbours (in particular Japan and India) – been very open and welcoming to foreign investors. It was generally accepted within China that the technology, capital and management expertise that foreign direct investment was bringing to China, were key elements for China's modernization and development. This was further confirmed by the conditions which China accepted to enter WTO – China made tariff and market access concessions which went very far and in some cases even beyond the capacity of China to deal with the consequences should these concessions be fully implemented (in particular in the case of agriculture and the financial sector).

However, lately there are indications that the role and usefulness of foreign investment is being questioned. This short article looks at whether this trend might result in increased protectionism and how it may affect the operations and expansion of foreign companies in China.

The increasing influence of economic nationalism

Over the last 2 years there is no denying that China has seen an increase of rhetoric on 'relying less on foreign investment' and 'supporting the development of a domestic industry'. Although hard to measure, this rhetoric has had some concrete effects already.

Lately, foreign 'monopolies' in China, such as those of Kodak, Tetrapak and Cisco, are openly being questioned, and a new anti-trust law currently under debate could make industry concentration and acquisitions more difficult, in particular for foreign companies. While foreign companies are encouraged to transfer technology, it seems that some people in China no longer believe that the latest technology will be transferred and that China should therefore focus more on independently developing its own technologies. Foreign companies are also being accused by some government officials of charging a premium for their 'technology monopolies'.

In the field of standards, China has already moved to take action in trying to protect its own industries: examples are the CCC quality certification system, 3G standards etc.

The recently published 11th five-year plan carries a strong nationalistic imprint: there is a focus on the development of strong Chinese enterprises, 'independent' technology (as opposed to transfer of technology) and of 'independent' brands. The impact on some specific sectors has been very direct and very clear. The Automotive Industry Policy of 2004 and its subsequent implementing regulations all increase the protection of local industry against foreign investors (see case study below). The same applies to the Steel Industry Policy of July 2005, which in principle no longer allows foreign majorities in the sector. In the chemical industry – although no formal policy has been issued – it is increasingly difficult to negotiate majorities for large and/or 'strategic' projects.

Another example of the growing nationalistic attitude of Chinese companies might be Lenovo, which took over IBM's ThinkPad on May 1, 2005. Although Lenovo has the rights for the IBM brand for 5 years, Lenovo has been eager to re-brand IBM products and eliminate any perception of IBM's influence: at first Lenovo changed the brand name to "IBM ThinkPad by Lenovo", and then, in what seems a premature move, quickly changed it again into "Lenovo ThinkPad", dropping the IBM name altogether, in spite of the fact that the Lenove brand name is little known outside China.

Case: the car industry

China's car industry has been characterized by a strong presence of foreign carmakers, although they were restricted to a share of maximum 50% in any of their ventures in China. China 'exchanged market for technology' ("Yi jishu huan shichang"). For China the 50/50 restriction was a way to protect the development of Chinese companies and brands, while foreign companies saw this as a temporary restriction which China would have to lift, given the global trends towards industry concentration. Up to 2002–2003 it seemed that the first point of view would turn out to be correct: the Chinese companies which had partnered up with foreign companies during the last 2 decades had very limited independent capacity, and apparently no intention to develop their own brands or technology. Also the WTO negotiations seemed to result in a further opening of the car sector for foreign investors, although the 50/50 rule for car production remained.

However the situation changed dramatically in 2003–2004 due to the following reasons:

– The market boom of 2002 and 2003, when cars were still selling at very high margins, provided huge cash inflows for Chinese partner companies giving them investment power.
– The emergence of credible homegrown competitors, in particular Chery, and later also Geely, who focused on the production of cheap reliable cars, which were better suited to the emerging (but finally most sizeable) low-end segment. These companies started to gain substantial market share in 2003 and even more so in 2004.
– The perceived unwillingness of foreign companies to transfer state-of-the-art technology to China.
– A successful political campaign by Chinese homegrown car producers to support the development of the Chinese car industry.
– A general awareness in political and economic circles that China should no longer on pure production but move up in the value chain, and develop own technologies and brands.

The result was a total reversal of the industry trend:

– The 2004 Automotive Industry Policy confirmed the 50/50 rule, and further restricted access of foreign companies, for instance by limiting the number of ventures they were allowed to establish.
– The implementing regulations of the Automotive Industry Policy re-enforced the nationalistic tendency of the policy, e.g. by forcing the localization of component production.
– The 11th five-year plan further confirmed the announced policies by putting them in a wider development framework, and during the March 2006 session of the People's Congress, there were many – and strong – voices for government support (and 'protection') in the development of a 'Chinese car industry'.

Now, by mid-2006, it is clear that the whole Chinese car industry, including the established state owned car producers, see 'the development of independent brands and technologies' as their key strategic objective. This has even led to Chinese carmakers acquiring automotive technology overseas, such as Shanghai Auto's acquisition of Ssangyong and Nanjing Auto's acquisition of Rover. Foreign companies now find themselves in a rather difficult position, having to work with a partner who is a potential (or actual) competitor, without the possibility of establishing its own 100% controlled venture.

The drivers behind the national economy campaign

The main drivers in favour of increased economic protectionism are:

Vision on the role of foreign investment

For certain political circles in China (in particular the people related to the planning bureaucracy and large state owned enterprises), foreign involvement in China's economy was always regarded as a catalyst for China's development, being cheaper and quicker than self-development, and only acceptable for as long as it was necessary and beneficial. The department in charge of 'foreign investment' in the State Planning Commission (now 'National Development & Reform Commission), has always been called the 'Department for the Beneficial Utilization (with a connotation of 'taking advantage') of Foreign Funds' ("Waizi Liyongsi"), while in the more liberal ministry of Commerce the name of the corresponding department is simply the 'Foreign Investment Department' Therefore for this political stream, a reversal of the open door policy was always on the cards. The question if and to which degree this line of thinking can prevail under the current domestic and international circumstances, which are very different then when China initially conceived its foreign-investment led development policy.

Domestic Politics

Nationalism is increasingly being directed towards the economy rather than toward more delicate international issues such as Taiwan or Japan. China's emergence as a global economic power has contributed to a strong sense of confidence and sometimes economic superiority at all levels in society and with a very large majority of the population. It is not only politically beneficial to follow these trends, but it is very difficult to go against them or to be seen as disregarding them. In our view, it will be increasingly difficult for Chinese political leaders to ignore these nationalistic tendencies.

Security concerns

For many people in the Chinese government and armed forces, economic rivalry is a proxy for security rivalry. According to this view, US companies for instance, should not be expected to 'transfer their latest technology' to China, since their interest is to advance the interests of their own country (the US). China should therefore have its own financially and technologically strong players in order to be able to really compete with other countries. In this light, the argument often used by foreign companies in China that they are: 'really Chinese due to having huge operations, transferring technology, employing thousands of people and paying taxes in China ' is not completely credible. The Chinese leaders do not the country's 'pillar industries' controlled by foreign investors, and see this as a threat to China's sovereignty and security. The government is thus especially alert regarding any investment in the "pillar (or strategic) industries".

Whether this driver becomes stronger or not, will depend to which degree China feels security or politically isolated.

Interests groups

These are probably the strongest drivers. The current establishment of state companies and their protectors and protégées in government are the strongest proponents of a smaller foreign presence in China's market. These interest groups, which are feeling increasingly embattled by foreign investors, also include private entrepreneurs who have aligned their interests with government officials. A smaller presence of foreign companies not only means less competition, but also less pressure for transparency and clear corporate governance, allowing managers and government officials to keep their lavish lifestyles, with little accountability.

The drivers against more protectionism are mainly the following:

International politics and China's international prestige

The main damper on the growth of protectionism will be external in the form of the 'international responsibility', which will increasingly be expected from China as a major economic power. It will be politically difficult for China, with its huge trade surpluses, to limit foreign access to its markets. Protectionist measures act to increase isolation and decrease recognition from the outside world, something which the current leadership is sensitive to. However, this argument only applies as far as it is fully understood by China's political leaders, which currently seems to be the case. Whether or not this will also apply to the next generation of China's leadership remains to be seen.

China's economic interest

An overly protectionist policy could affect foreign investment in China and could have an impact on employment and also on the general competitiveness of certain sectors. For instance, some people in China are complaining of the costs of CNC controls for machinery, but on the other hand, China needs imported CNC control for the development of its manufacturing industry. Protectionism might also have a negative impact on the lifestyle (e.g. in terms of product availability) of China's emerging middle class – which is increasingly determining the political agenda.

Economic interests of Chinese companies

As Chinese companies internationalize, they will want to have access to international markets and will want their technologies to be protected both inside and outside of China. Obviously this is – given the low presence of

Chinese companies abroad – a weak driver at present, but we think it will become stronger within the next 3–5 years period.

There are a variety of interests influencing this increase in economic nationalism. It is our opinion that the drivers in favour of stronger, more independent domestic industries and greater protectionism are currently stronger and are likely to remain so over the next 5 to 10 years.

Conclusion: Impact on Foreign Direct Investment

China clearly has an excess of capital, and increasingly believes – after 20 years of Opening and Reform – that it has sufficient management experience. Technologically China might not be on a par with western countries, but China perceives that the technology transferred has come at too high a price, with too many strings attached, cannot be fully assimilated, and is therefore only a second alternative to independent Chinese R&D. In addition, foreign companies are seen as trying to monopolize certain sectors.

In our view the impact of the increasing nationalistic sentiment in the economy is already showing. The main impact will be with large, visible projects and in specific strategic sectors, such as automotive, steel & metals, energy, financial services, telecom, IT etc., where access barriers are being increased. This trend will continue in our view.

In addition there is and will continue to be an impact on the general investment environment, although we do not consider this to be a very significant or wide spread impact at this moment. China will certainly not engage in a 'anti-foreign investment campaign' or significantly restrict overall access for foreign companies. The main impact could be in the tightening of regulation and legislation such as competition law, or the early change in tax law for the foreign companies, standards favourable to domestic companies etc.

China has had a very open market until now: foreign invested companies produce 25% of China's industrial product, over 60% of all exported products are produced by foreign companies and China's trade surplus might be growing, but it remains relatively small (32 billion US$ in 2004 and 102 billion in 2005 on a total trade volume of 1.4 trillion US$); overall this situation will remain so and we do not consider that China will see a 180 degrees shift in its foreign investment policy. Within the government, there is not a uniform opinion, and there have been encouraging signs lately such as the confirmation by China's Ministry of Commerce of the acquisition by the Carlyle Group of China's largest Construction Equipment Manufacturer, and the increasingly aggressive stance of China on IPR infringement (which used to benefit Chinese companies considerably). However, at least for the foreseeable future, it is quite possible that the market will not remain as open as before, and that foreign companies will have to be more active and creative to receive the 'warm welcome' they used to get so much more easily in the past.

Mr. Jan Borgonjon is a founder and the president of InterChina Consulting. He is furthermore the founder of the China European International Business School (CEIBS – China's leading business school and ranked 22nd worldwide (Financial Times, 2005)) and currently remains on the Board of Directors.

InterChina Consulting is an international consulting firm with offices in China, Europe, and USA. InterChina offers strategy and corporate consulting to clients in the automotive, machinery, textiles, food and chemicals industry.

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China's Real Reform Risk

For many, China's fast-paced economic reform is a source of constant anxiety. It is sometimes reflected in a disconnect between economists and political and social analysts and commentators. The caricature of this disconnect has the "block head" economists cheering China's reform, while those who are more culturally and socially "aware" wring their hands, worry-sick because of potential social upheavals. There has been no shortage of Cassandra forecasting imminent social eruptions in China as a consequence of reform.

Throwing tens of millions of state sector workers out on the street while dismantling of the cradle to grave social welfare that they once enjoyed do seem like a recipe for social instability. Such a scenario was convincing enough for concocting best selling titles like "The Coming Collapse of China". (It appeared over five years ago and is still being sold in your airport book stands. I am not sure how the adjective "coming" is exactly defined as a time frame; six months? six years? two decades?)

One fact is not in dispute. China's fast-paced economic reform has made tens of millions of state sector workers redundant. Many may have found new employment in the expanding private sector, but the chances are they would

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not have found steady jobs with benefits anywhere similar to what they had while working for the government. Needless to say, things are a lot worse for those stuck being unemployed.

So is China's reform process steadily building up an army of unemployed and under-employed whose mounting frustration would, at some point, lead to some kind of explosion? I believe China's reform is not risk free – but the real risk lies somewhere else, and, contrary to common belief, fastest the pace, lesser the risk.

Most of the laid-off state sector workers are over 45 years old. Many of them had failed to finish high school because of the Cultural Revolution. Without exaggeration, the Cultural Revolution is the defining event of their lives. Apart from their disrupted education (hence their inability to find new employment in China's increasingly competitive labor market today), many saw their families torn apart and physically displaced, close friends and relatives persecuted, and, at the end, all had to settle with bitter disillusionment whatever ideological fervor they might have earlier. For the vast majority of this generation, life has been getting better since the Cultural Revolution.

Social scientists call this "relative deprivation". We feel satisfied or deprived against a certain benchmark, and we all have different benchmarks. For the Cultural Revolution generation, who also happens to be the generation that bears much of the burden of China's economic reform today, they now live in a new golden age, regardless of whether they are employed, under-employed, or unemployed. They may complaint about this or that now and again, but it is inconceivable that they would dream of upsetting the apple cart. This is because their benchmark is what they went through in the Cultural Revolution.

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The next DMI Executive Development Program concerning opportunities and threats of doing business in India and China with faculty members of leading Asian universities and renown European experts will be held from 26th to 29th October 2006 in Geneva (further information: www.davosmi.org).

Dr. Yuwa Hedrick-Wong
Chief Strategist, Davos Management Institute

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Dr. Yuwa Hedrick-Wong is chief strategist at Davos Management Institute and serves as MasterCard International's economic advisor in Asia/Pacific. He was guest lecturer at the Graduate School of Business, University of Chicago, Singapore (2000 – 2001); and visiting professor at the School of Management of Fudan University in Shanghai, China (2005). Recent publication: Yuwa Hedrick-Wong, Malaysia's Temptation, Forbes Asia, December 26, 2005, p. 32.

The real risk of China's economic reform is that it may not be going fast enough. Fast-paced reform benefits the younger generation, who are much better educated, technologically savvy, and avid consumers tuned into trendy urban lifestyles. Young adults in their early twenties today are the first products of the Single Child policy introduced in the late 1970s. As children they were spoiled rotten as we all know. They grew up in relative affluence and have never been cowed by the brute force of the state. Their unbridled ambition could be jarring – I was quite taken aback when I surveyed a class in a business school in Shanghai recently. I asked the class what their plans are when they graduate. An overwhelming 2/3 plans to start their own businesses. This is not the jarring note. The jarring note is half a dozen of them added, for good measure, that they plan to become a millionaire within five years! Their frustration, and therefore potential for social unrest, is the real risk today if their rising expectations are dashed because of faltering economic reform.

This is borne out by the MasterIndex of Consumer Confidence, a bi-annual survey that is conducted twice a year in Asia. In China, urban residents in Beijing, Shanghai and Guangzhou are covered by this survey. China's urban residents in these three cities have never been shown to be pessimistic about the future since the survey was launched in 1993. (By way of contrast, Japanese consumers turned optimistic only in late 2005 after being pessimistic for the previous 13 years.) A score of 50 denotes a neutral attitude, anything above 50 is optimistic and below 50 pessimistic. 100 is the maximum optimism score, and 0 is the maximum pessimism score. The score for China has never fallen below 75 in the past 13 years – a period of time that encompasses the recession in 1993/94, the regional financial crisis in 1997, 9/11 in 2001, and the SARs outbreak in 2003. When the data is disaggregated for those who are 20 – 30 years old, the average score over a 13 year period is as astonishing 89.

To avoid social unrest, China has to maintain its fast-paced reform, not slowing down. Ironically, China is in an enviable position to achieve a win-win-win situation with fast reform. The younger generation wins with an expanding private sector and more career opportunities. The government wins because it delivers growth and prosperity, and hence legitimacy. And, eventually, the older workers will win as well with faster economic growth.

China's Emergence

Trends, Consequences and Strategies for Swiss Enterprises

This article retraces the development of China, key related trends and the impact that this emerging nation may well have on our global economy.

The consequences for Swiss enterprises, particularly for SMEs, are of major importance. Coping with competition from Asia, as well as making good on China's opportunity, are challenges that need be tackled in order to remain globally successful in the coming years and decades.

Paradoxically, Switzerland's high cost and quality production structure have brought its economy into a better position to benefit from China's development than the rest of the developed world. Nevertheless, it is time for Swiss niche leaders to develop their strategies to take a strong position in China and Asia, so as to achieve long term global success. In so doing, they will keep generating the margins and the innovations that support the Swiss quality of life.

Supermarket and workshop of the world

Having conquered the mass consumer goods markets (clothing, household appliances, electronics, among others), industrial components, machinery and all other types of equipment are becoming a growing part of Chinese exports.

China already produces 80% of the world's consumption of tractors, 60% of the penicillin, 50% of the vitamin C, 70% of the DVD players, 50% of the telephones, 60% of the artificial diamonds and 75% of the world's watches (among others).[1]

In the last ten years China has become a gigantic workshop for the world, where all sorts of products are manufactured, ever more competitively. The People's Republic is taking the role that Britain had around 1830, which was taken over by the US in the early 20th Century[2,3,4] (interestingly, both Britain and the US became the dominant world powers towards the end of the 19th and 20th Centuries, respectively).

With the cancellation of the global multi-fibers agreement and the removal of the textiles export quotas by the end of 2007, China is expected to become severe competition even for the poorest of the textiles producers, such as Indonesia. This is to the point that some expect China's share in world textiles output to jump from 30% to 50% within a couple of years.

Yet while China's world market share of the lowest-tech items grows, by 2009 the country is expected to produce 74% of the world's mobile phones[5] – at the high end of the technology spectrum.

China's ability to produce competitively, and in massive volumes, the world's cheapest and also some of the highest-technology products is made possible both by the size of China's working population and by the staggered economic development of the country, from the coastal east to the inner west. To understand China's potential impact on our world it is essential to realize that the country is far from being one unified market. It is actually a composite economy at different stages of development in different areas, from the very advanced in Shanghai to the archaic ways in parts of Tibet.

The under-developed, very low cost areas are able to provide competitive low-tech products, which are then fed into the technology chain and into developed areas. Undeveloped China provides low living costs and components to the whole country, including the areas that produce competitive high-tech products.

Low production costs are here to last

300 million Chinese (a population about the size of the US) live in cities.[6] An equivalent number is estimated to have benefited from the economic development of the past 25 years.

Yet, about another billion (if we consider unofficial estimates) have seen minimal, or no, improvement in their lifestyles: they are waiting and hoping for better economic opportunities.

Bringing prosperity to these one billion countryside inhabitants is not an easy task: in joining the WTO, China has lowered its tariffs to the point where Soya beans, for example, are cheaper when imported from the United States than homegrown.

To cope with the competition generated by China's integration into the world economy, her government is planning to urbanize 300 million surplus farmers in the coming 15 years. Again, this is roughly equivalent to the population of the US, newly looking for work. This is in addition to the demographic increase in the working-age population: about the population of Taiwan being added to the city labour markets every year for 15 years…

As a result, unemployment in cities is growing[5]. To compensate, families have put education as a top priority, slowly but surely spreading pressure to most levels of the job market: in Shanghai for instance, newly-graduated students' salary expectations dropped by an extraordinary 30-50% between 2003 and 2004[7].

After mostly negative, or very low, inflation from 1998 to 2003, the consumer price index increased by about 4% in 2004 and only 2% in 2005.[5] Yet these increases are probably mainly due to the global increase in energy and commodities prices. At any rate, they do not influence the competitiveness of the Chinese economy worldwide, as is demonstrated by the constant increase of Chinese exports.

Many expect the Chinese RMB Yuan to be further re-evaluated to reach a fairer international trade balance. Yet, such an adjustment would actually account for the steady loss in value of the US Dollar, to which the Yuan was pegged until July 21 2005. Besides, such a currency appreciation is bound to remain low – a few percent per year, considering the additional pressure that it would bring to Chinese farmers, already in competition with American Soya bean and other agricultural products.

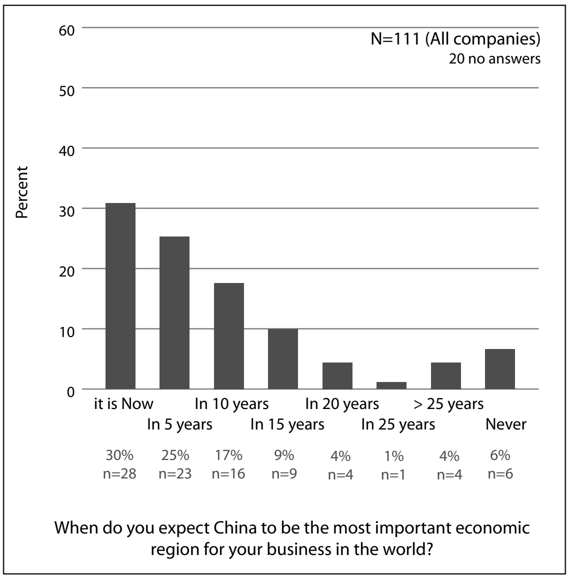
Still, even as the Yuan increases in value against other world currencies, it is very unlikely that China's cost levels will rise – within the next ten to fifteen years, at least – until her surplus labour is absorbed. (Also see Chapter VIII Sourcing & Purchasing for current cost levels and more arguments.)

Economic superpower candidate

The current middle class of about 100 million consumers is expected to grow to 400-500 million by 2012, making China a market bigger than the US[8].

Meanwhile, the need for machinery and equipment to satisfy the production needs of this new 'Workshop of the World' is already a considerable opportunity for developed economies and Switzerland.

To provide sufficient work opportunities for China's population, her economists estimate that growth needs to reach a minimal annual rate of 7% for the decade to come. (GDP grew by 9.5% in 2004, and is expected to reach 9% in 2005[9].)



Source: Swiss China Survey 2005

As a matter of fact, steady, rapid development in China is made necessary by dire social circumstances – public protests have steadily increased over the last decade[10]. Economic development is not only the 'irrefutable argument', as advertised on billboards in Shanghai, but it is – first and foremost – the main priority of the Chinese government in order to keep the one billion people living in undeveloped China waiting quietly for a better life. Yet, this works to our benefit: China's long-awaited domestic market is finally turning into a reality for Switzerland too.

Since 2001, China (including Hong Kong) has been buying more Swiss goods than any other nation in Asia. The bilateral trade balance (including Hong Kong) showed CHF 3 billion in Switzerland's favour in 2004 from a total bilateral trade of about CHF 7 billion. Moreover, imports by China and Hong Kong are growing faster than Chinese exports to Switzerland.

Astonishingly, over 50% of respondents in China to the Swiss China Survey estimate that the country will represent the most important economic area for their businesses within the next five years. The same research also clearly shows that low production costs are a far less important reason to enter China than acquiring local market share and preventing competitors from developing.

Be it in 20 or 50 years, all signs indicate that China is on track to become the biggest world market and the first economic power, unless the current development process is halted by a social, political, financial crisis an epidemic or any other catastrophe.

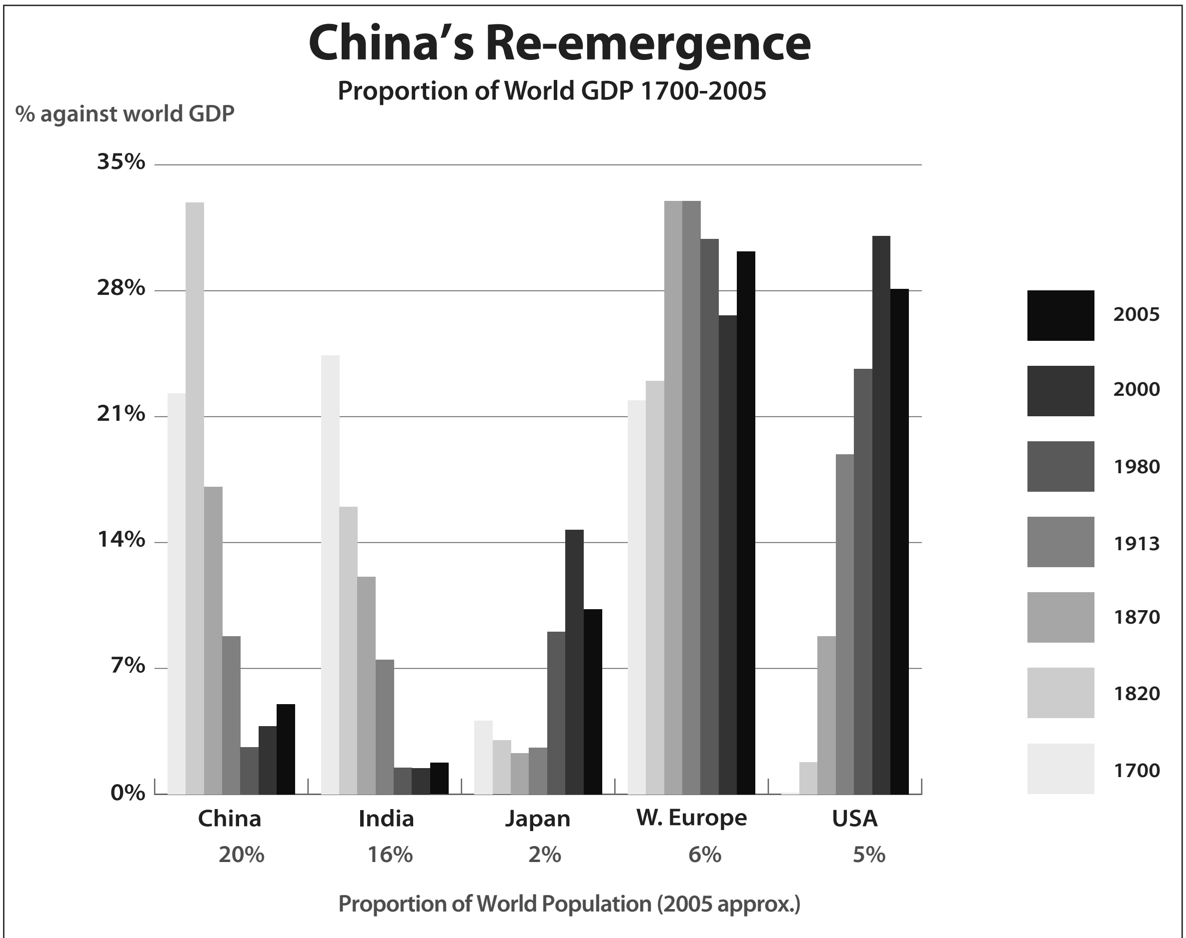
As surprising as it seems to us, it is actually only natural for China and the Chinese that their country should be a superpower. Indeed, the Middle Kingdom was the most important world economic power from 800 until 1820, less than 200 years ago. At that time, the country accounted for over 30% of world GDP. Today, and after the 25 years of growth that we have just experienced, the People's Republic accounts for just about 4% of the global economy: all in all, China's economic development has only just begun…

Future R&D powerhouse

Paradoxically, Swiss high production costs and the shedding of the labour-intensive jobs in the 80s have put Switzerland in a better position than her European neighbours to withstand the shock of permanently low-cost Chinese products for a decade or more. Besides, Switzerland is well-positioned to tap the opportunities for the sales of production machinery, one of its economic pillars and one of its major exports to China with watches. Overall Switzerland has more to gain than to lose from China, as bilateral trade figures clearly show.

Yet, if only through the constant pressure on prices and margins, the economic transformation of China will have deep global effects in all branches that are not luxury, high technology or containing high levels of well-protected intellectual property.

Particularly important to take into consideration is the increase in Research & Development (R&D) activity in China. Indeed with the increase of production it is only natural that R&D follows.



Notes: GDP data from 1700 to 1913 were converted to 1990 international Geary-Khamis dollars. GDP data from 1980 to 2005 are current prices in US$
Sources: GDP from 1700 to 1913 - Maddison, A. (2004)."The World Economy: Historical Statistics". OECD (Organization for Economic & Cooperation Development)
GDP from 1980 to 2005 - "World Economic Outlook Database". IMF (International Monetary Fund) April 2006. www.imf.org

Large research centers have been setup by many multinationals over the past two to three years. R&D centers are currently opening at the rate of 200 per year. Domestic patent applications are growing at a rate of 20-30% per year[12]. China was fifth worldwide in the publication of scientific papers in 2003 (a yearly growth of 20.6%) while citation of Chinese scientific articles has increased by 30 to 40%[13], indicating a growing quality of the articles as well. The China-US Business Council reports that according to current trends, China will spend more on R&D than the EU by 2010[14].

Japan's development from a good imitator to a world-class creator of technology may indicate the path that China will follow. A key difference, yet, is that China's salaries will take much longer to rise due its developed and very large undeveloped economies that coexist, giving it an unprecedented cost advantage for a long time to come.

Impact on International SMEs

Chinese producers are a major source of competition in consumer goods. They are increasingly beginning to dominate this sector of production, in volume at least. After producing for brands, they are actively developing their own names or finding shorter routes by acquiring foreign ones; the purchase of IBM by the Chinese PC manufacturer, Lenovo, is an example of what can be expected.

Yet, in many key areas of consumer goods (automotive, telecommunications and IT, life sciences), China's market is dominated by foreign players. Nestlé, Roche, Firmenich, Volkswagen, Nokia, to name just a few, all have commanding China market shares in their areas of expertise. These brands have brought themselves into dominant positions to acquire and keep the lion's share of the Chinese market.

While the Chinese consumer goods market is the turf of large companies, and mostly a battle between Chinese and locally-established multinationals, the supply of equipment and industrial goods to the Chinese enterprises and the locally-established foreign subsidiaries is a market in the making; it presents considerable and growing opportunities for Swiss SMEs.

The smaller the SME, the more timing is of the essence: small firms cannot afford to invest too early and wait for returns, neither can they put up sufficient resources if they start late and try to catch up. It might be early for some international companies to start activities in China, in any case, an evaluation of the specific market is needed for most firms: in the words of Dr Heinrich von Pierer – Siemens' CEO, "It has now become a bigger risk not to do business with China than to do so".

Behind the China Kaleidoscope

Order the guide

The China Entry & Operations Guide (512 pages with many charts) can be ordered online or via email info@chinaguide.ch. The book costs CHF 190.– plus shipment and is delivered within five days of payment receipt.

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China leadership: the ladder to global leadership

As implied in this quote, not serving China's market early enough entails the risk of witnessing Chinese firms growing domestically and dominating the local market. In the case of industrial goods, domestic suppliers are encouraged to provide foreign multinationals in China (and their Chinese competitors) with cost-competitive, domestically-made goods, supported by local services.

When Chinese producers become able to serve international companies in China, they will inevitably start to export and become actors to reckon with on world markets. Chances are that they will also be fierce competitors to the Swiss niche champions. Conversely, and over the longer term, being successful on the Chinese market will be necessary in order to achieve the economies of scale and competitive production for global leadership.

Considering a market that is potentially twice the size of the EU, the US and Japan combined along with China's strong and enduring cost advantages, it is safe to say that, in the future, market leadership for a particular product in the Middle Kingdom will eventually contribute in a key way to achieve global leadership.

In the coming decades, only the development of the rest of Asia – and particularly India's – could reduce the extent of China's global pre-eminence as a world market and production base. Yet, China's current head start in Asia and her key advantages (highest market potential and best quality/price ratio, both in a wide range of products) will also ensure that virtually every non-luxury or high-technology product will be more effectively produced in China for China.

As a result, practically all international producers – including SMEs – that do not set up in China may expect to face serious competition from this country – if not now, in the future quite certainly.

China's emergence as the workshop of the world and future economic superpower means that every international enterprise will not be able to ignore China: they will eventually need an Asian production base, at least, to serve China competitively. But setting up production in China will offer the additional advantage of being in the key market of the region.

For a future successful international business, Swiss SMEs might as well aim at achieving a leading position in China and reduce the risk of facing Chinese competitors, globally active in the future.

Innovation: a must for enterprises in Switzerland

Establishing a successful Asia/China strategy may go a long way to develop business and prepare for the future. Serving global customers in different locations or offering a bigger range of products made possible by cheaper Asian production will support production at home (studies show that firms that delocalize maintain a bigger workforce at home than those that do not).

Yet it may not be enough for the home operation to overcome lasting price pressure from emerging countries: to maintain competitive production in the mother company, Swiss firms will need to continue their rapid pace of innovation – develop new technologies, new or better-performing products, new manufacturing processes and new business strategies.

However, in order to guarantee technological innovation, maintaining production in Switzerland will be crucial. Technology is intimately linked with industrial activities: it only lives and feeds innovation as long as production continues.

Moreover and since technologies feed and grow on each other, maintaining a healthy, varied and dense fabric of production technologies at home will be vital for the continued development of Swiss innovation.

Creating a strategic advantage for the Swiss economy

The internationalization in key emerging markets of Swiss SMEs and their innovation at home will maintain their margins and, ultimately, uphold Switzerland's living standards and quality of life. Swiss quality in every aspect may then continue to generate efficiency and added value in the virtuous circles that we have witnessed in the past decades.

China is certainly the most promising of the emerging markets but, also, it is one of the most difficult to deal with, for large and smaller companies alike. The know-how necessary to develop the right concepts and be operationally efficient in China, the experience of the market and of the business culture remain the privilege of the few experts that have accumulated the necessary experience in the 25 years of China's opening.

By maintaining and developing their networks, by conducting practical research, sharing experience and developing support instruments for SMEs, Swiss institutions in China and Switzerland provide resources, China know-how, guidelines for efficient operation and access to the best available specialists on China business. In so doing, these support organizations strive to offer Swiss enterprises the key ingredients to develop the edge that they need for success in China.

In addition, support to make good on China's opportunities offers Swiss enterprises increased competitiveness on global markets and the possibility to prevent the development of new competition in Asia.

Finally, the incomes generated by new China and Asian markets and the savings made on the lower-tech Asian products can be concentrated on innovation at home, ultimately ensuring that the Swiss economy benefits from a strategic advantage in the decades to come.

by Nicolas Musy
Chief Editor "Behind the China Kaleidoscope"
A Guide to China Entry and Operations
CH-ina (Shanghai) Co. Ltd. 2006

For further information please contact:
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Sourcing out Jobs to China

How Communication Management Secures Success

The ongoing hype about China is mostly related to the huge business potential the country is promising to Swiss enterprises but does not reflect the sentiment in Switzerland. Having cost efficiencies, the potential of a new supplier market with low wages and reduced labour rights and a vibrant entrepreneurial environment in mind, many business newcomers tend to neglect the potential downside risks such as the uncertain outcome of the China engagement and new kinds of unpredictable events caused by fundamental differences in culture, religion, political culture and ethical standards. While a growing number of managers are increasingly aware about the complexity of the Chinese market, challenges in the home market especially in the relationship with all relevant stakeholders tend to be neglected. The majority of stakeholders don't share the management's optimism or even enthusiasm and perceive risks rather than benefits.

As a matter of fact, the China venture and the outsourcing of jobs to China may have a significant impact on a company's reputation built over years. In order to prepare the stakeholders for the China challenge the management has to meticulously plan each step of the expansion and collateral communication activities beforehand. Communication Management is turning out to be the key factor for a successful outcome in this process.

The stakeholders' diverging agenda

While the management and potential investors are upbeat about the prospects of the China project, most of the stakeholders are afraid of becoming loser in the "game". And they all have individual concerns: Employees are fearful about losing their jobs or about a gradual erosion of a long-term earned status and labour rights. Dealing with peers from a completely different culture with an unknown language may only be appealing for a small percentage of mostly younger staff; preoccupation and enthusiasm will co-exist among staff and thus cause tensions. The Supervisory Board's concern are related to the management's capability to deal with a variety of new business and cultural challenges in China. Swiss authorities will fight against the company's exodus from the country as an employer and tax payer. Opposing the political and human rights environment and working conditions in China critical journalists from Swiss media will question the company's commitment to global ethical and human right standards. Long term suppliers probably fear the loss of an important client and thus a source of revenues. Virtually over night a small or medium sized enterprise can be exposed to critical activist groups which require a particularly sensitive "treatment". Globally organized human rights or environmental activists' general criticism of China may overshadow the company's China venture from the very beginning. Last, but not least, existing key clients wonder if the attention of the local management will be distracted from the Swiss market and the personal client-relationships.

Managing all these challenges properly without distracting the company's attention to the ongoing daily business means a huge challenge to the management.

Communication is key

In order to avoid speculations and gossips about the China project the top management has to design a clearly structured communication plan. However, there is no standardized "tool box" available to manage this process smoothly and effectively. This plan has to define meticulously the target audiences, messages, media and timing while comprising all appropriate on- and offline media.

In this critical phase the CEO has to lead the communication management process. In his new role as "Chief Communication Officer" the CEO must be fully aware that he or she is under particular observation. Everything he or she does is a form of verbal or non-verbal communication.

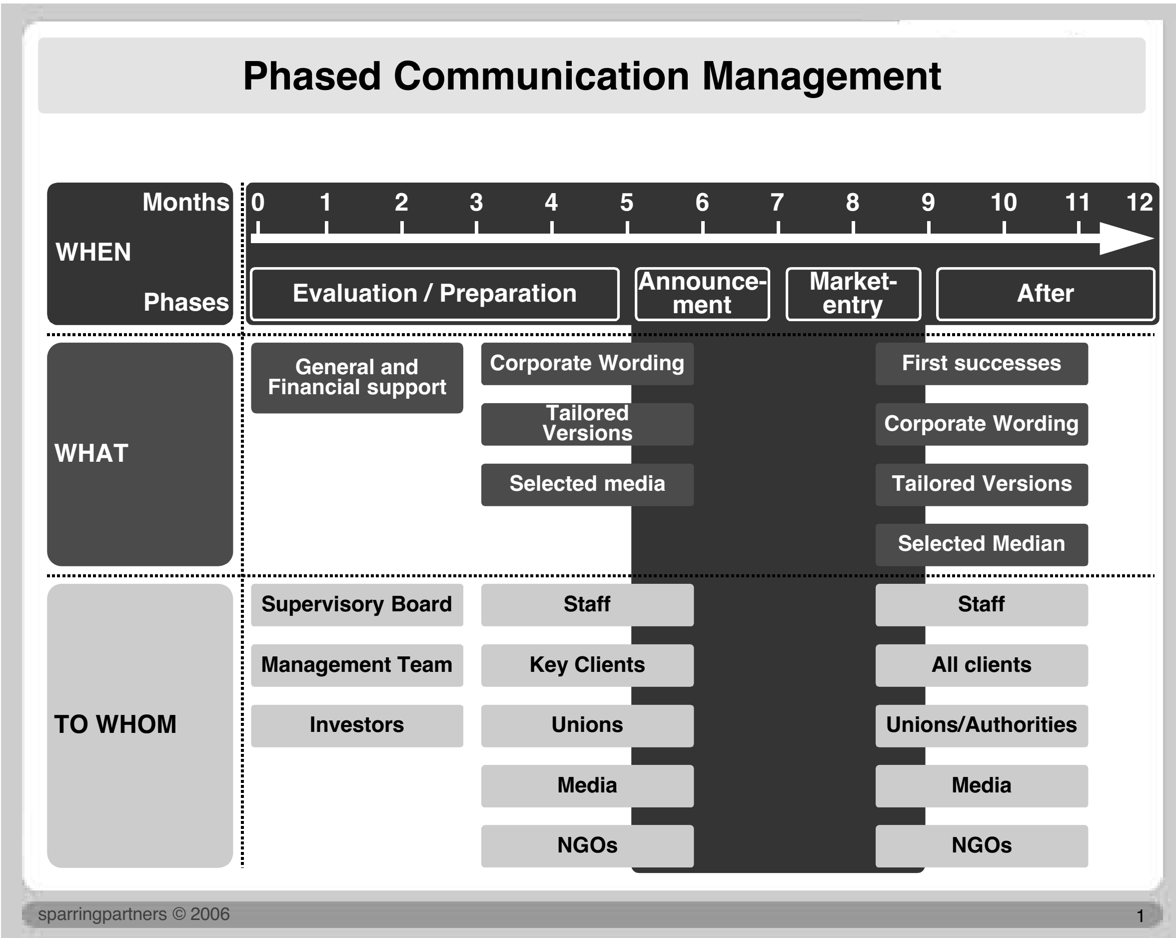
Beforehand the CEO should structure the process defining key parameters:

– Verbalisation of China strategy: What are the key objectives?
– Identification of relevant stakeholders in this process. Where are the main concerns located? What are possible counter arguments?
– Planning the next 12 months: Definition of a project and communication task force and a clear, unmistakable and plausible wording describing the reasons and objective of the outsourcing of jobs
– Definition of a task force led by CEO
– Emergency scenarios and adequate argumentation lines

The key parameter for the CEO is to have control over the entire process. Step by step the CEO has to win over the key stakeholders' support for the venture starting with the constituencies inside the company.

1.) In a first step the CEO has to win the long-term commitment of the Supervisory Board and the Investors. In order to achieve this, the manager has to gain an in-depth understanding of the opportunities and the potential risks of the venture. If the manager is not a China expert himself he is well advised to consult multi-disciplinary China experts to highlight potential risks from various angles. The CEO should not try to convince the board through naïve enthusiasm, but is well advised to be over-critical himself and be well prepared to any critical questions. Before presenting the plan to the board the CEO should identify his or her supporters and opponents within the board and prepare convincing answers to potential critical questions.

2.) With the backing of the board and the financial support from the investors it is time to inform the peers on the management support and calculate the consequences. It is pivotal that the management is aware of all financial and organizational consequences caused by the decision. A corporate wording has to be developed with respect to stakeholders' expectations and concerns. In order to avoid whistle-blowing the CEO has to act quickly. Informal information may cause disastrous effects.



3.) The CEO has to inform key clients and staff and make sure that these key constituencies hear the message from him/her personally or a person of trust. The CEO should highlight the potential gains from the change such as innovation, new products and markets and joint business potentials.

4.) The CEO should communicate successes early, never over-promise and inform about difficulties and time delays but never let doubts arise over his/her personal commitment to lead this project to success.

Communication Monitoring

It is important to measure the effectiveness of the communication plan on an ongoing basis. An analysis of the media publications including internet, weblogs as well as staff satisfaction surveys provide relevant insights but can not replace the CEO's ongoing personal contact with key stakeholders.

Bernhard Bauhofer is Managing Partner of Sparring Partners, a Management Consulting Company specialized on Reputation Management. Based in Wollerau, Switzerland the company operates internationally, in China in cooperation with Swiss-Asia Ltd.

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Assessment and Training Methods in China

Thomas Schuerch

It is no secret that Chinas' on-going and fast economic growth creates a nearly endless increasing need for specialists. But availability of human resources with proven experiences are rare and can only partly satisfy demand. As a result, companies in China struggle to find and bind high-skilled and experienced employees. Many employers are even forced to adjust salary structures too often in order to satisfy highly promising employees or candidates. To conquer increasing gap between available workforces and business growth, companies turn their focus on already existing employees more closely while using assessments.

Assessments in combination with aligned training and development programs indeed appear as a suitable method to identify, develop, motivate and bind existing employees more effectively. Some global operating companies can (or have to) apply corporate in-house assessment programs. Many of them enrich their in-house methods with external programs. But for most companies in China, access to such in-house assessment tools is not given. They have no choice than to out-source this sensitive but crucial HR matters to external suppliers. But what are the parameters to focus on in China, when appointing an external assessment consultancy suitable to your company's needs? See basic check-list on page 62.

Especially for the purpose of binding employees, demand for assessments in China will increase.

But despite the lack of resources and high employee-turnover, companies in China are facing another challenge: It is estimated that majority of local employees working for foreign companies in China are using approximately 60–70% of their potential at work only. As a result, those employees mostly perform just average. Why is that?

The main reason for a low "use of potential" is because employees' responsibilities or working environment is not in-line with their background, experiences or motivation anymore. Once employed for a specific position

Comparison "use of potential at work" in %		
Above average (< 80%)	**Mr. WANG** Xxx	(93%)
	Mr. XU Xxx	(91%)
	Mr. CAO Xxx	(89%)
	Ms. ZHANG Xxx	(86%)
Average (73% +/- 10%)	**Mr. LIU** Xxx	(80%)
	Mr. SMITH X	(76%)
	Ms. XU Xxx	(75%)
	Mr. CHU Xxx	(72%)
	Ms. ZHENG Xxx	(71%)
	Ms. WANG Yyy	(69%)
Below average (> 66%)	**Mr. MULLER** X	(65%)
	Mr. WANG Zzz	(60%)
	Mr. CHEN Xxx	(59%)
	Ms. YAO Xxx	(55%)
	Mr. DONG Xxx	(53%)

Methods / Services have to be executed in local language and even adjusted to local culture:
To achieve reliable results and achieve long-lasting impact, Assessment and Training methodologies have to be held in local language and should even be adjusted to local culture. Participants need to be able to understand and express in their native language.

Referring to work environment:
Conclusions evaluated through Assessment and Training programs have to precisely refer and focus on participants' work environment based on a tailor-made Competency- or Dimension model to make use of it.

Assessment in combination with Development:
Executing assessments to understand participants' strengths and weaknesses is only the Begin. The real challenge comes afterwards, when trying to achieve a change in behavior through trainings or development programs. It is therefore crucial to know, if the appointed Consultancy has experience in delivering measurable success in not only assessing, but in developing employees as well.

References:
Although it is sensitive and confidential, successful Consultancies will be able to offer you references from previous assignments.

Quality of Consultants who will execute the assessments and trainings:
Executing assessment and training programs request maturity, life and work experience to achieve impact. Participants do not take advice easily from too young and un-experienced Consultants. Consulting firms who offer lower fees, will most likely appoint less experienced "Senior"-Consultants. It is therefore recommended to personally meet the Consultants who will execute the assessment and training programs first. Do not hesitate to request examples of previous made written conclusions as well.

Fix all fees:
Makes sure from begin, that daily or hourly fees are fixed and expenses are precisely defined as well.

Time investment:
Fix the amount of time each of your employees will have to spend for the Assessment or Training respectively Development Program.

suitable to their background and experiences, working environment even within 1 year can change significantly in China due to a new appointed management, change of policy, fast company growth, restructuring, merger with another company, etc. Although change of responsibilities does have a positive learning and development effect, employees do not adjust with their new working environment appropriate and struggle to apply their full potential.

"Use of potential at work" methodologies therefore are now becoming very popular in order to help top-, average- or even under-performing employees to perform better. When adjusting employees' potential better with their responsibilities, employees are more motivated and satisfied. If more satisfied, loyalty to company increases, quality delivery is higher and more stable. Sales revenue might even increase as well.

Some "use of potential" methods not only show current use of potential, they as well precisely revile in which competencies (responsibilities) each employee has a possibility to increase. It is of course not recommended to invest money for training in competencies where employee can hardly develop. (see bar graph: "use of potential at work")

In the event when potential and performance of several employees has been assessed, companies receive an interesting overview about how effective employees are performing in this branch. Based on this information, local management can change responsibilities of certain job-levels for example.

To grow and tackle global competition, corporations are entering markets such as China. To succeed in China, market surveys and customer behaviour studies are seen as essential and fully accepted in order to win and keep customers. What is considered as normal and essential towards products should be seen as essential and normal in terms of human resources as well. Assessments as "surveys" to understand your own employees, and tailor-made training programs as "marketing strategy" to win and keep your staff!

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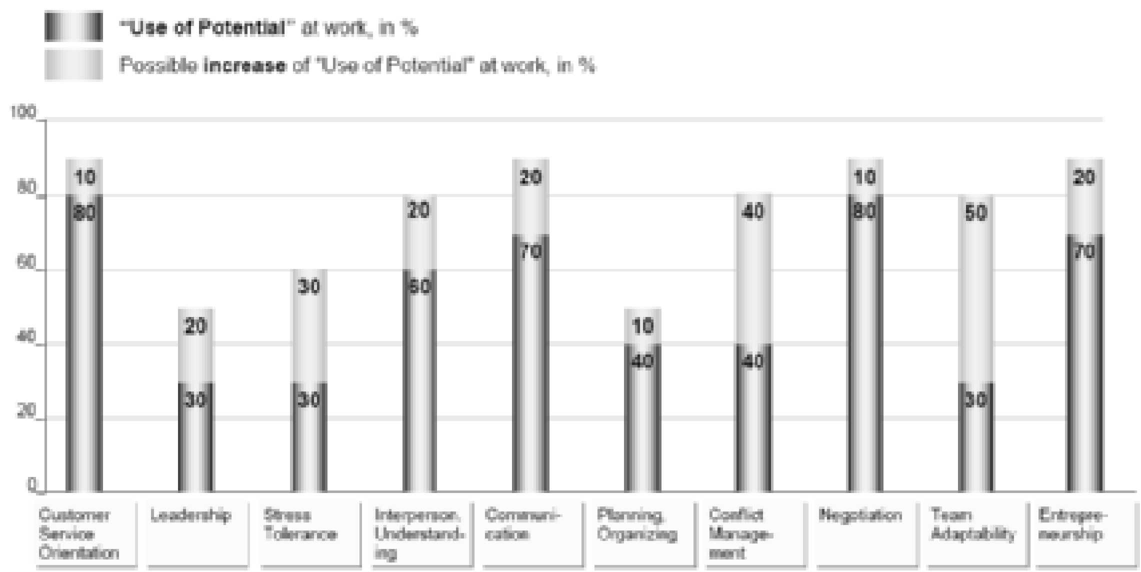


"Use of Potential at work" assessment reports can be used as basis for decision making in order to increase employees' performance, when making decisions for Successor-Planning, or for analyzing Short-Listed candidates during hiring process.

The World Looks to China – and How do the Chinese See Switzerland?

China is the largest growth market in Asia, is making huge strides in all areas and is defining its role and acceptance on the world stage. The choice of China as the venue for the 2008 Olympic Games in Peking and for the Expo 2010 in Shanghai underlines the country's international stature. Under the aegis of Presence Switzerland, official Switzerland will substantially increase its activity in China over the coming years. To find out how potential target groups see Switzerland, Presence Switzerland conducted a survey into how the Chinese see Switzerland.

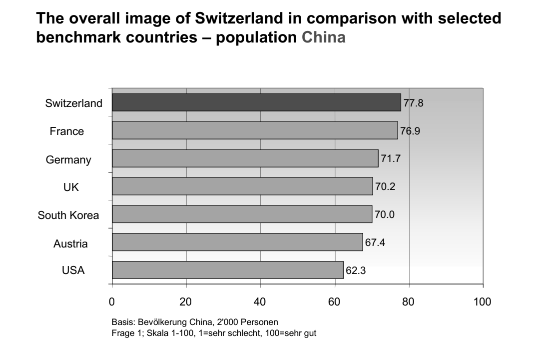
Ideal starting position: Switzerland enjoys high standing

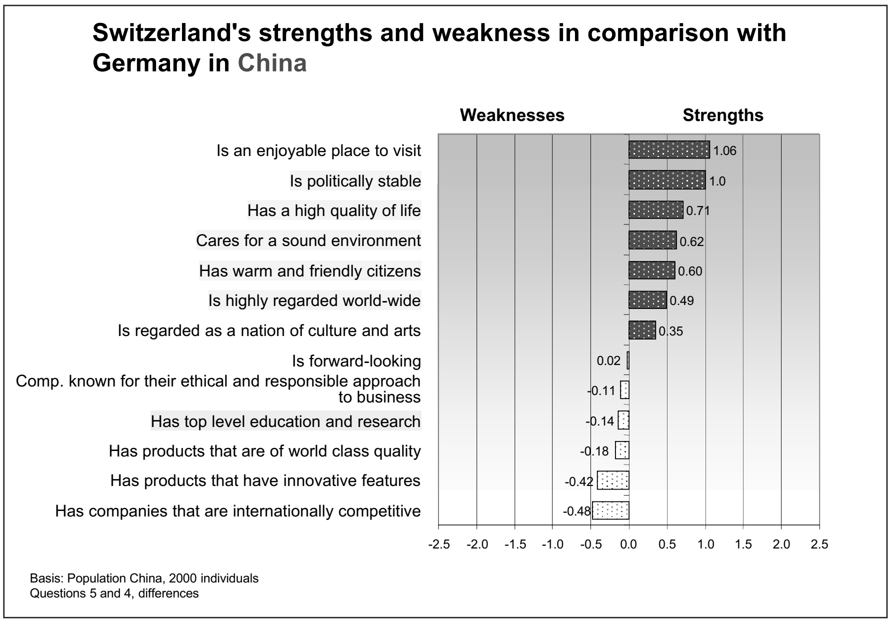
The survey questioned random samples of the urban population in China (2,000 persons) and Hong Kong (400 persons) as well as random samples of various opinion leader groups (politicians, managers, journalists and students – a total of 960 persons).

Whether in comparison with neighbouring European states or with the USA and South Korea, Switzerland enjoys a very good image, both with the general population and with opinion leaders. They were especially positive about socio-economic factors such as political stability, the high quality of life, environmental awareness, education and training, as well as the friendliness of the Swiss people. The respondents rated this image aspect as very important for a country's attractiveness and reputation. The assessment of Swiss products is more critical, with regard for example to future orientation or innovative products.

Benchmark: strong position of Switzerland in international comparison

In order to define Switzerland's position in China more precisely, a comparison with other countries is particu-





larly important and makes it possible to draw more specific conclusions.

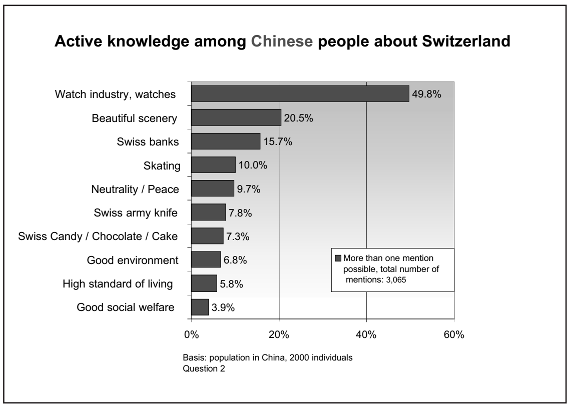
Overall image: on a scale of 0 – 100 Switzerland occupies first place, ahead of the benchmark countries and a total of 77.8 points. It is followed by France, Germany, Great Britain, South Korea, Austria and the USA. The most popular holiday destination was France, followed by Switzerland.

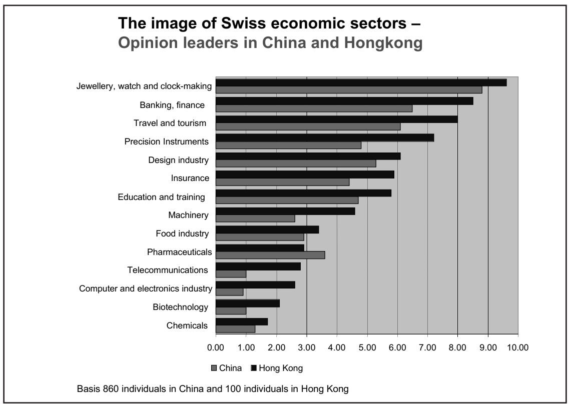
Switzerland's competitiveness, economic innovativeness and world-class quality products enjoy a somewhat weaker image in comparison. The image category education and research, although it receives a good evaluation, is also weaker in international comparison. There is a clear discrepancy between self-perception and perception by others. This can be attributed to a lack of information.

The homogeneity of the results is a striking feature. As only very few Chinese people have direct experience of Switzerland, perceptions are strongly influenced by public information soruces and by opinion leaders. In Hong Kong, where over 20 % of respondents had already visited Switzerland (for China the figure was 1.7%) and 25.8% are in contact with Swiss nationals (the figure for China is 11%), the perception of Switzerland is correspondingly more sophisticated.

Focused strategy: Switzerland will strengthen its presence in China

These good results are not a reason for us to sit back and rest on our laurels. On the contrary – on the basis of the results of the survey, Presence Switzerland, in conjunction with its institutional partners, (Pro Helvetia, Location:Switzerland, Osec, etc.) and Swiss representations in China will increase the presence of official Switzerland in China.





From 2007 to 2011 a communication campaign will be implemented that will include thematically tailor-made activities as well as the "House of Switzerland" at the summer Olympics in Peking in 2008 and the Swiss Pavilion at Expo 2010 in Shanghai.

In strategic terms, the campaign will concentrate on quality of life (environment, innovation) and the international aspect of Switzerland (neutrality, international Geneva, prestige, quality, excellence). These strengths will be used to reduce the information deficit regarding Swiss innovativeness by means of specific project content. In brief, the target groups will have their present knowledge of Switzerland updated and complemented.

The campaign will be addressed first and foremost to opinion leaders, with special emphasis on universities and media as target groups. A wider public will be reached through the activities surrounding the Olympics and the Expo.

Switzerland's presence in Switzerland provides an exceptional and attractive communication platform for the private sector. Various sponsoring options are possible, offering a high return on investment for a wide variety of marketing and communication goals.

The detailed results of the study are available on our web page: www.presence.ch

For further information please contact:

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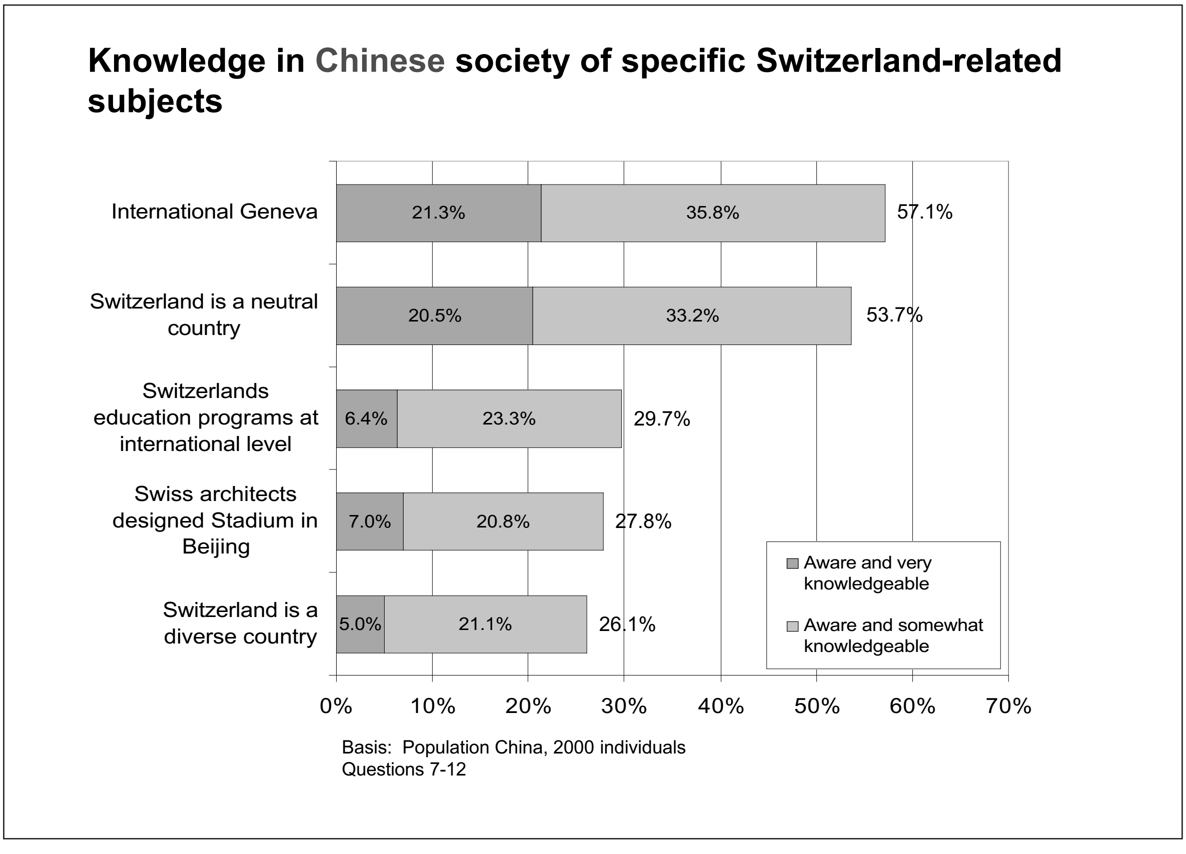
or visit website: www.presence.ch



Tips on Establishing a Chinese Clientele

Hotelleriesuisse introduced its brochure "Swiss Hospitality for Chinese Guests" to a larger audience shortly after Switzerland has been granted the Authorized Tourist Destination status by the Chinese government. Published jointly by hotelleriesuisse and Swiss Tourism, the brochure was created in consultation with the China specialist Gérald Béroud of Lausanne.

The approach that maintaining successful Chinese business relations depends on an understanding of the Chinese way of doing things forms the basis of the brochure. In particular, the brochure includes information about the People's Republic of China, Chinese culture, mentality and language as well as typical Chinese conventions used in the conduct of business. The publication also offers numerous practical tips on how to attract Chinese guests. The brochure comes in glossy paper, colour throughout and in a handy A5 format.

The publication is available in English, German or French for downloading at www.hotelleriesuisse.ch.

Alternatively, you may order a hard copy from:

Hotelleriesuisse
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P.O. Box
3001 Bern / Switzerland
Tel. +41 (0) 31 370 42 86
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E-mail: isabel.garcia@hotelleriesuisse.ch

Swiss Village at Tennis Masters in Shanghai

Featuring the world's best eight tennis players, the Tennis Masters Cup (TMC) is the most prestigious annual tournament. In November 2006, it will be held in the state-of-the-art Qi Zhong tennis stadium in Shanghai for the second time. Roger Federer, number one in the men's world rankings, captured the hearts of the Chinese at the TMC 2005 in no time. Swiss tennis whiz and everybody's darling Federer has already qualified for this year's tournament.

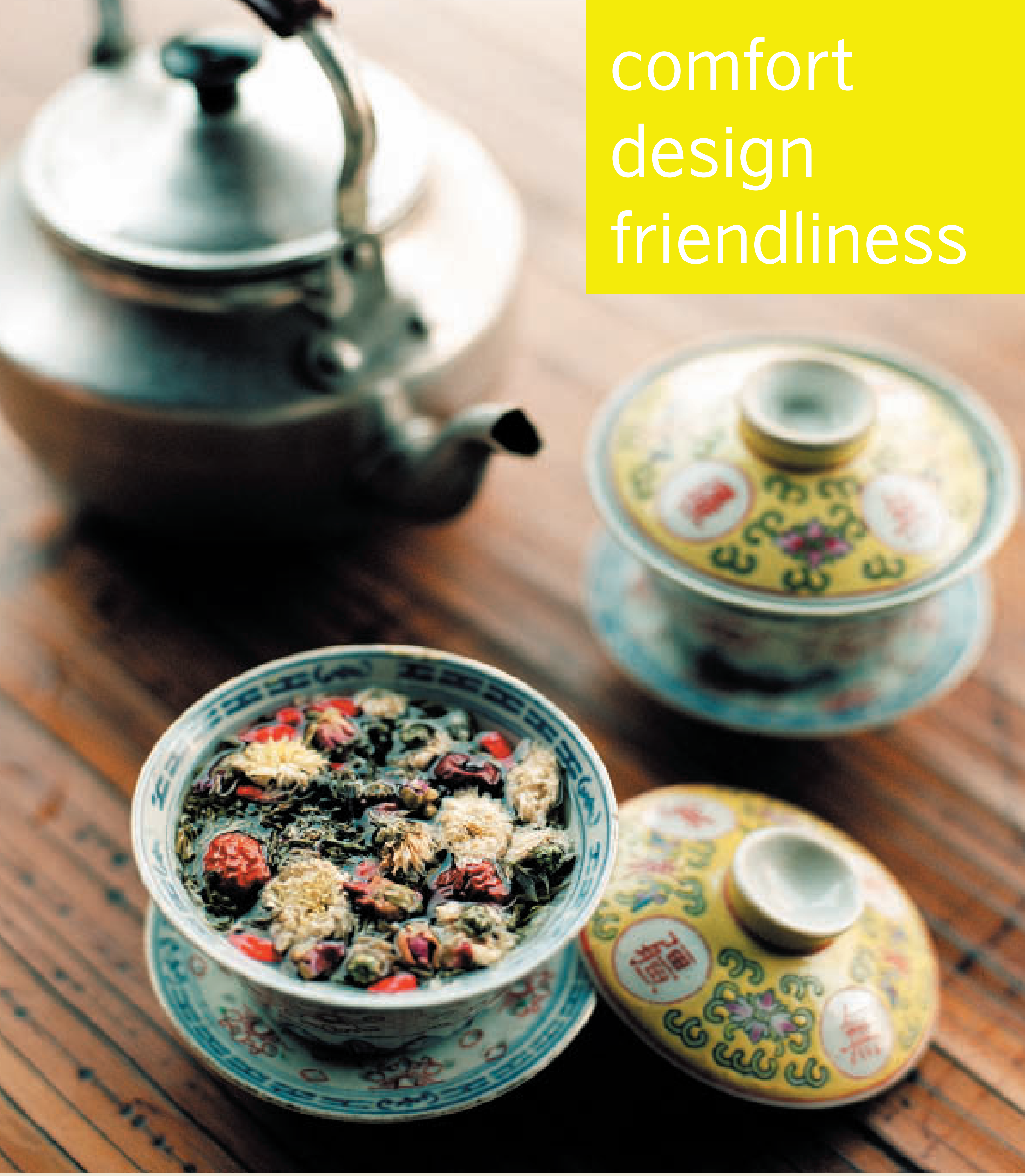
It is the high and steady 'Swiss quality' typical of Roger Federer's tennis play that we would like to use in view of an image transfer for Swiss companies wishing to gain a foothold on the booming Chinese market. To this end, a project called Swiss Village will be launched at this year's TMC in Shanghai: an attractive contact platform, based on the idea of taking this highly prestigious event as an opportunity to present Switzerland in a positive light as a creative, innovative country in all its facets.

The project "Swiss Village"

The project is designed to show the broad diversity of Switzerland's culture and economy. The project offers Swiss businesses and organizations the possibility of presenting their products and services to the Chinese growth market, fostering existing relations and establishing new contacts. The Swiss Village will be built up in cooperation with around 15 to 20 sponsors/partners. In addition to product and service presentations, the Swiss Village may also house customer events. The project will be under the patronage of the Swiss-Chinese Chamber of Commerce.

The target audience

The main target audience of the Swiss Village project will be the approximately 120,000 visitors to the TMC. These open-minded, well-experienced Chinese business



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people are part of Shanghai's and China's opinion-forming elites. Many of the Chinese visitors to the TMC are already maintaining professional relations with foreign businesses.

The partners

On the occasion of this event, corporate partners who contribute to sponsoring the Swiss Village project will have access to a high-level, low-cost meeting platform. The project is aimed at both Swiss companies of any size which have already set up business in China (with local branch office or representative) and companies which aim to position themselves on this emerging market.

Top chef Stefan Meier to cook

Experience a number of culinary highlights in the Swiss Village hosted at the Shanghai Tennis Masters Cup 06.

Stefan Meier, well-known for his first-class catering services, has a passion for top events with culinary highlights. For 23 years, he and his colleague Hubert Erni have been running the gourmet restaurant "Rathauskeller" (www.rathauskeller.ch), awarded with 17 Gault Millau points, in the old town of Zug.

It was during his years of travel and apprenticeship in the Palace Hotels in Lausanne, Vevey, Geneva, Zermatt, Lugano and St. Moritz that Stefan Meier acquired a taste for traditional French cuisine. His proper career began with top chef Louis Pelletier, who had a lasting impact on Meier, encouraging him to explore new flavours and ideas.

Today, Stefan Meier's exquisite meals and dishes stand for uniqueness, creative wealth and authenticity.

Gourmet restaurant on the Swiss Village platform

From November 13 to 20, 2006, Stefan Meier will create a culinary dream exclusively for the Swiss Village. Invite your clients, business partners and friends, and let the chef enchant you with his art of cooking. A first-rate eight-course menu is awaiting you and your guests in Shanghai.

Organized and Guided Trip to the TMC 2006

Just as in 2005, we organize a trip to the TMC 2006 with about 50 participants from Switzerland. Corporate sponsors wishing to book this trip for their agents or clients will benefit from preferential terms.

The trip packages include the following services:

- 8 days' stay from Saturday, November 11 to Monday, November 20, 2006 or 4 days' stay from Wednesday, November 15 to Monday, November 20, 2006
- outbound and return flight with Lufthansa or KLM
- accommodation at the Pudong Renaissance Hotel

– transfer to the hotel and the Qi Zhong stadium
– admission ticket to the TMC (long option for one week, short option for semi-finals and finals)
– various guided sightseeing trips to places in and around Shanghai
– on-the-spot assistance by Swiss students of sinology

Guests may also choose from several additional programmes*:

– November 20, 3 days Beijing
– November 20, 7 days Hainan/Hong Kong
– November 20, 5 days Kunming/Hong Kong

* Including flight, incidental flight charges, hotel, breakfast, daily meal in a select restaurant, transfers, on-the-spot guidance by experts who are proficient in Chinese.

Individual coaching with 'China Coaching Express'

In order to optimally prepare their appearance on the Swiss Village platform held at the TMC 2006, participants benefit from 'china coaching express', an efficient, tailormade coaching programme that we offer for individuals or groups.

Speaker: Catherine Hool, sinologist lic. phil. I, lived in Beijing and Hong Kong for several years. She has long-time professional experience with the Federal Department of Justice and Police, giving presentations on China, Mongolia and Afghanistan.

For further information as well as on contributions by partners, trip expenses and coaching charges, please contact one of the organizers below:

R & P Business Creation AG
Rudolf Räber Bahnhofstrasse 17
CH-6403 Küssnacht
Phone 041 240 68 68
Fax 041 852 05 10
raeber@rp-bc.com

wickpr AG
Communications consulting
Christian Wick
Weinbergstrasse 29
P.O. Box
CH-8035 Zurich
Phone 043 244 84 00
christian.wick@wickpr.ch

Roger Federer captured the hearts of the Chinese at the TMC 2005 in no time.

Forest of Olympic Nations in Beijing 2008

If I knew that it was the end of the world tomorrow,
I would plant an apple tree today.

Martin Luther

There was a time when the Olympic Games were dedicated to the gods. During the opening ceremonies in antiquity, athletes entered the holy grove of Olympia while ceremonies took place.

Today this spirit is being reflected within the peaceful reunion of many of the world's nations. Dedicated to this Olympic history, one official representative of each participating nation will plant a tree on a specially designed site; this will take place as a prologue before the opening ceremonies. A Forest of Olympic Nations is being created.

A festive event, supported by media, will introduce the Olympic forest.

Each tree symbolizes a different country that grows towards the others during its consistent development. A tree symbolizes the originating of life and reminds of the forever applicable conformity with a natural law of life that includes all creations on earth. Each tree represents a sense of being deeply rooted, a sense of stability and vitality within each nation's culture.

While the Olympic Fire symbolically lights up the sprit, water represents the source of all life in the forest's centre.

The idea

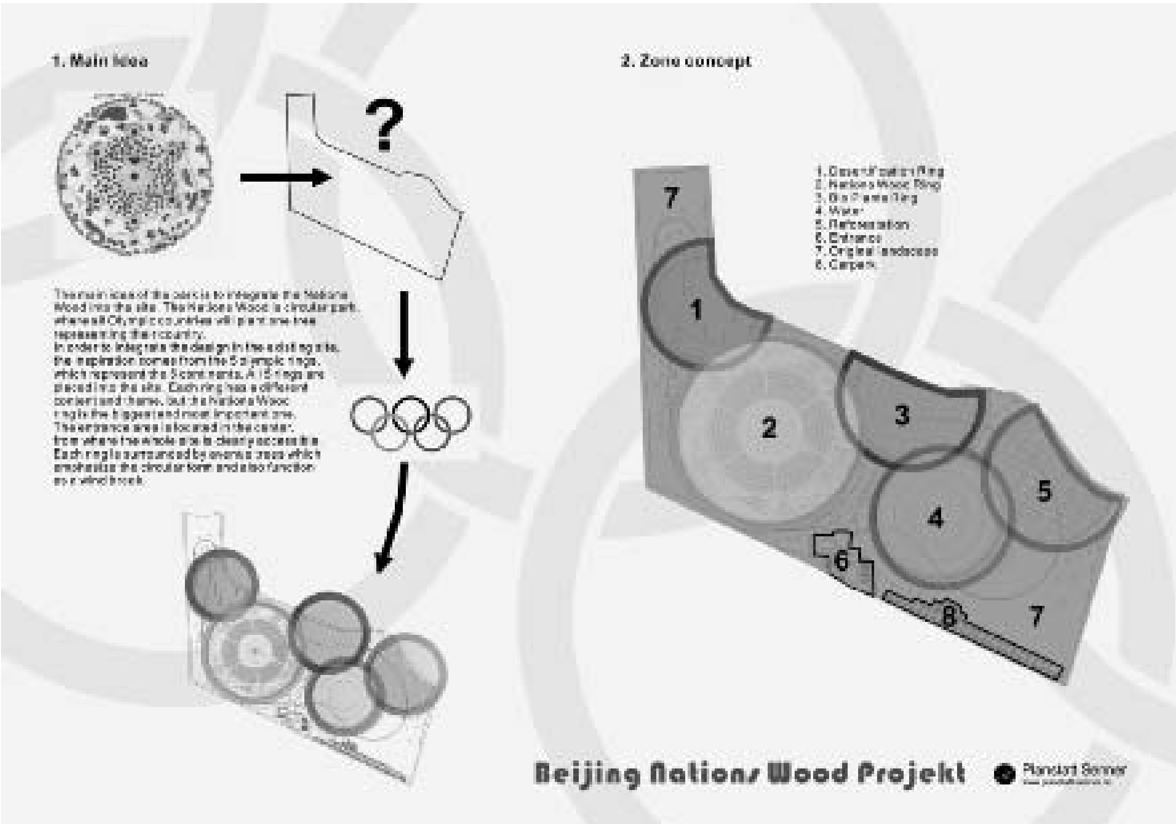
The Olympic Forest is a memorial for the friendly union of people across all cultures and nations. It is a growing symbol that leads into the future – beyond generations. An ecological concept for the surrounding area's design shall demonstrate foundations of global conditions of life to its visitors. This duplicates to the visitor, how nature and environment are being protected when climatic conditions of fauna and flora are being considered. This learning experience will be supported by information about natural regeneration of water and renewable energies. It becomes obvious that the unified effort of all people alone will enable to sustain the basis of life.

The Olympic Forest will continue to live and offer a platform and space for international events in the future. Visitors from all over the world can become aware of all nations' global responsibility towards nature and creation.

By paying a symbolic fee into a communal fund, each nation will contribute to a valuable environmental and social project for China as a result of the communal tree planting event.

A future yearly fee by each participating country finances each tree's 'adoption' and the site's maintenance. At the same time this maintains each nation's relationship with the Olympic Forest.

(continued on page 72)



BEIJING 2008

Forest Of The Olympic Nations

* A great event during the Olympic Games *

Each invited country symbolically plants one tree on Chinese ground

A LIVELY SYMBOL FOR THE OPENING CHINA`S TOWARDS THE WORLD

A PERMANENT SIGN OF PEACE AND UNITY OF NATIONS

An initiative of the Beijing Forestry Department of International Cooperation

An Olympic Forest devoted to global responsibility of all people
towards nature and environment

This international event will be presented in public through media. You and your company are cordially invited to support this idea with your financial engagement.

Responsible:

Dr. Wang Xiaping- Director General BFDIC / Secretary General Beijing Forestry Society
By an idea of Oliver Krach

Your contact for further information: Mr Oliver Krach – Bodanstrasse 10 – CH 8280 Kreuzlingen, Switzerland
Email: oliverkrach@yahoo.de / Cell-CH: +41-76-589 13 31 / Cell–China: +86-137-1776 578

Character

All trees are being accentuated as a vital, symbolic element of the project. Related to the trees' characteristics, the design of tree grove and any constructional element is being determined by calmness and simplicity.

A generous structuring of space leads to this atmosphere. Materials used for squares and pathways are chosen to be simple and discreet.

Structure

In the tree grove's centre is a spacious square including an open hall for concerts and other events. Around the tree grove five pavilions representing the five Olympic rings are being positioned, each with the same distance from each other.

A sixth pavilion, making up a circular shape symbolizes China as a host of the Games. Visitors access the central square trough open gates which make it feel like a space on its own.

Central water feature

A round water feature is the site's centre, accessible for people from all sides in the same way. In order to express the relation between earthly life and spirituality, a water column originates from the middle into the air. A separately designed light architecture enhances this meaning. Additionally, the entire tree grove is being illuminated.

Nation trees

According to the diversity of nations, a tree list is being put together which contains many different tree species. It considers regional climatic conditions. All nations select a tree with the biggest possible relation to its culture. Each tree that is dedicated to a nation is being labelled and accessible through a network of pathways.

Elements of Art

Artworks, created by artists from each nation, are located next to each tree. Each artwork symbolizes the fruit of each nation. The works are designed with similar materials and integrate discreetly into the tree grove as a whole.

Surrounding

A nature park is being designed around the centrally shaped tree grove, drafted according to ecological principles. Visitors are invited to stay and experience this nature park, led by pathways. The site is freely accessible at all times.

Entry area

Apart from sanitary facilities, administrative buildings and restaurants, theme houses are set up in the entry area. These are supposed to demonstrate the Olympic Forest's idea and development as well as the ecological design of surrounding areas and different cultures with different basics of life.

Original idea and project supervision by:
Oliver Krach
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Switzerland

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Mobile DE +49 / (0)160 / 720 53 28
Mobile CH +41/ (0)76 / 589 13 31
Mobile-China +86 / 137 177 65 782

Switzerland at the Expo 2010 Shanghai

Switzerland is the 11th nation to accept the invitation to participate at the category A – duration 6 months – World Exposition in Shanghai in 2010. The Federal Council's motivation to be present has manifold reasons. Not only does Switzerland have a long standing tradition with World Expos and is a member of the Executive Committee of the B.I.E. (Bureau international des Expositions in Paris) but the contribution to the Expo is of political, economic, scientific and cultural importance and will provide a unique platform not only for official Switzerland but also for companies doing or seeking business in China.

Even before the invitation by the Chinese government was conveyed to the Swiss Confederation, organizations and companies from the private sector have stressed on the importance of Switzerland's participation at the Expo. "Better City, Better Life" is the motto of this Expo and will allow to further strengthen the positioning of Switzerland as an urban, environmentally conscious and innovative nation. The Swiss presence on this occasion will be further enhanced by a multifaceted supporting programme and PR campaign that is due to be launched in 2007 and will run until 2011.

Following to the substantial success at the World Expo 2005 in Aichi Japan, Presence Switzerland will again be in charge of the coordination of a strong Swiss presence that intends to provide unique Marketing and PR opportunities for Swiss companies interested in China.

One task, one Switzerland

Common action to promote a common goal: Together with its partners, Presence Switzerland carries out its mission of promoting Switzerland's image abroad and good relations with other countries.

The mission of Presence Switzerland: to convey knowledge about Switzerland, to create understanding and empathy for our country and to highlight its diversity and attractiveness. Presence Switzerland acts within a broad network to carry out and coordinate this task. Our Swiss partners include Pro Helvetia, Switzerland Tourism, OSEC, seco, swissinfo and youth and sports organizations. Swiss embassies and consulates as well as Swiss schools are among the main partners of Presence Switzerland abroad. More information about our tools and activities on: www.presence.ch

For further information please contact:

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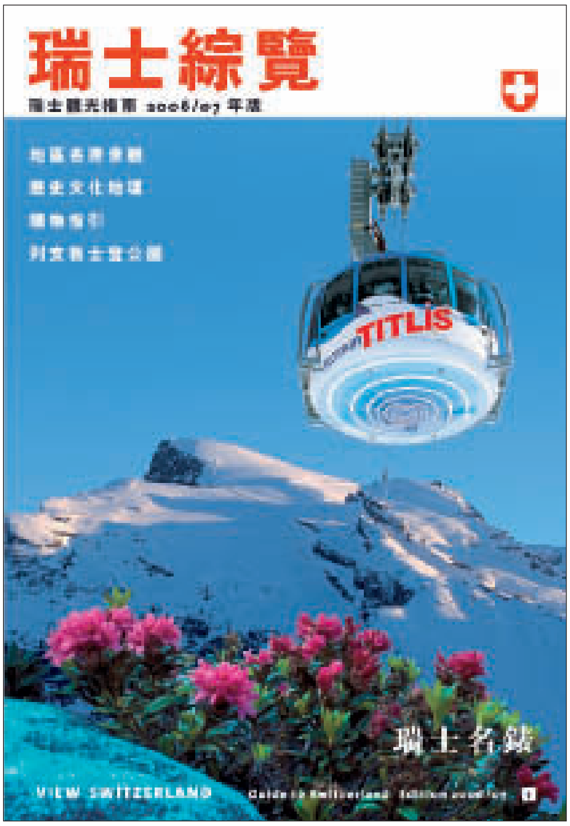
www.presence.ch
www.expo2010china.com

Switzerland at the Expo 2005 Aichi:
www.dynamic-switzerland.jp

Visitor Guide VIEW SWITZERLAND in Chinese

Published annually, the first time in 1998, the new and updated edition has been out for distribution in China since early May 2006. The publication is free and targeted at Chinese travelling to, or interested in, Switzerland. Switzerland Tourism, leading Tour Operators and Travel Agencies, Swiss Representations, are distributing the publication. It has achieved high popularity amongst the tourist trade in China and is considered as a very popular upmarket guide of its kind.



The publication comes in glossy paper, with most beautiful pictures, colour throughout and in a handy A-5 format. It contains highly informative material about Switzerland, its history, culture, geography and people. Highlighted are major cities, tourist destinations and places of interest. Also included are editorials on economy and finance as well as a new article featuring famous Swiss personalities, past and today. The publication also includes useful traveller's information, major events in Switzerland and an in-depth review of the history of the Swiss Watch Industry and its major brands.

The guide is a valuable handout for Chinese visiting Switzerland and Swiss companies. Members of the Swiss-Chinese Chamber of Commerce are entitled to a limited number of free copies. Newly this offer is also extended to members of the chapters in Beijing and Shanghai. Stocks of the publication are kept in both cities. For cost reasons, however, postage has to be charged.

The publication has also proven to be very popular amongst advertisers wishing to reach Chinese interested in, or visiting, Switzerland.

Please address your enquiries directly to the publisher:

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Fax +41 (0)41 371 03 55
email pius@ruckstuhl-media.ch

NEW:

"SWISS Folklore Show" – Rigi Kulm 1.600m/6.000ft

Every Friday Night!

First Show: May 19th, 2006
Last Show: October 27th, 2006
(except: July 28th, 2006)

Swiss Folklore Show Programme

- **05.40 p.m.** Train ride with Europe's first ever mountain railway from **Vitznau to Rigi Kulm** or take one of the scheduled connections during the day from Goldau, Weggis or Vitznau
- **06.10 p.m.** Arrival at Rigi Kulm
- **06.30 p.m.** Alphorn tones will welcome you to the Swiss Folklore Show in the **Hotel Rigi Kulm**

- **06.45 p.m.** The Swiss Folklore Show begins. While you are having dinner or just a drink you listen to traditional Swiss Folklore music and see which unusual objects are used as an instrument. Learn how to play the Alphorn and take a picture for your photo album.

- **07.45 p.m.** End of the Swiss Folklore Show
- **08.10 p.m.** Departure with the cogwheel train from Rigi Kulm to Vitznau
- **08.50 p.m.** Arrival in Vitznau

Swiss Folklore Show Package

A. Mt. Rigi ticket, Swiss Folklore Show, 2 drinks of personal choice
B. Mt. Rigi ticket, Swiss Folklore Show, 3-course menu
C. Mt. Rigi ticket, Swiss Folklore Show, 3-course menu and 2 drinks of your personal choice

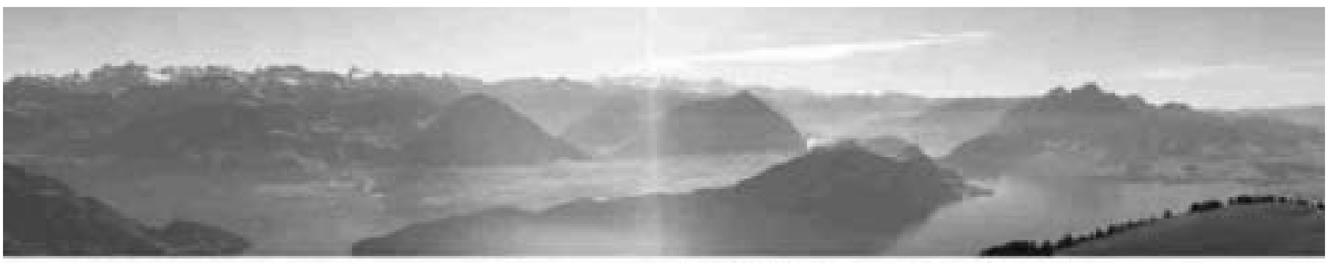
Menu 1: Melted Cheese "Raclette Style" – Fried sausage served with Swiss Rösti (pan fried potatoes) and salad, Swiss chocolate mousse

Menu 2: Melted Cheese "Raclette Style" – Roasted chicken breast with French fries and salad, Swiss chocolate mousse

Menu 3: Melted Cheese "Raclette Style" – Älplermagronen served with apple puree (Speciality of Central Switzerland made of noodles with cream, onions, cheese and potatoes) and salad, Swiss chocolate mousse

For reservation and Swiss Folklore Show Packages please contact:
Mt. Rigi Railways CH-6354 Vitznau
Phone: +41 41 399 8787 Fax: + 41 41 399 87 00
www.rigi.ch rigi@rigi.ch

Or contact your incoming agent!



Rado – the Continuation of a Success Story

Rado Launches four New Integral 'Chrono' Models

The Rado 'Integral' enjoys tremendous popularity worldwide. A decisive reason for this is its unique design, which unites watch and bracelet in harmonious symbiosis. This has made the 'Integral' into an exceptionally successful model that enchants with its ageless elegance and incomparable wearer-comfort. The new 'Chrono' models give the 'Integral' line an additional dimension – the continuation of the success story is guaranteed!

Integral 'Chrono' – elegance coupled with exciting sportiness

The 'Chrono' versions captivate with the skillful fusion of their pure elegance with the sportiness of a modern chronograph. The design is defined by the clear lines of the sapphire crystal that covers the whole watchcase. Just as streamlined and stylish: the three display windows, the characteristic hands and the offset Arabic numerals. Hands and hour-index points are specially coated so that the time can be easily read, even in darkness.

Apart from the strengths of its design, the new Rado creation has an impressive inner life. The ultra-modern ETA Swiss Made movement offers everything that the demanding chronograph user could want: 1/10ths of a second, 30-minute counter and small seconds counter. In addition there is a large seconds counter plus ADD and SPLIT functions.

Beautiful forever

As usual with Rado watches, the value-perpetuating scratchproofness of the new 'Integral' models is a compelling feature. The upper surface of the case is protected by the scratchproof, all-encompassing sapphire crystal. Scratchproof and enduringly beautiful too is the bracelet, a combination of steel and spaceflight-proven high-tech ceramics. On request, the Integral 'Chrono' is also available with a hand-sewn leather strap.

The customer is always right

Customers have the choice among four different versions. These versions vary in the distinctiveness of their colouring in the area of the dial and bracelet.

The Rado Sintra XXL Automatic with Sapphire Crystal Back

Characteristically modern and once again a step ahead of the spirit of the times: the new Rado Sintra Automatic from the successful Sintra XXL range. With a transparent sapphire crystal back offering a view of the precise and extraordinarily beautiful self-winding movement, the new timepiece from this Swiss watchbrand displays dynamic transparency. Combined with dial graphics designed to match the form of the case, and the unmistakeable brilliance of the scratch-resistant high-tech ceramics of case and bracelet, the result is a refreshingly refined yet contemporary watch with inspection window.

(continued on page 78)

Rado Sintra XXL Automatic with sapphire crystal back

Technical data

References:	629.0662.3.010	platinum
	629.0663.3.015	black
Case:	Black or platinum-coloured high-tech ceramics	
Case back:	High-tech ceramics with metallized sapphire crystal, laser engraving in the back	
Case size:	34mm x 32mm, incl. high-tech ceramics fastenings: 34mm x 44.6mm	
Movement:	ETA 2892-A2 movement with rhodanized bead decoration and heat-blued screws	
Dial:	Black dial: 11 appliqué steel-coloured Arabic numbers, oscillating anchor, date display at 6 o'clock	
	Platinum-coloured dial: 11 appliqué dark grey Arabic numbers, oscillating anchor, date display at 6 o'clock	
Crystal:	Spherically curved sapphire crystal, metallized	
Bracelet:	Black or platinum-coloured high-tech ceramics Titanium safety clasp	

Aesthetics and dynamism – a creative interplay

Dynamism, activity and aesthetics – they all contribute to characterizing our life today. They also characterize the design of the new Rado Sintra XXL down to the smallest detail. The gentle curvature of the sapphire crystal glass allows a clear view of the dial with its generously proportioned Arabic numerals. Prominent hands add to its dynamic appearance. The clear-cut lines and red logo with the stylized, oscillating anchor, Rado's symbol that indicates a self-winding movement, lend an additional note of refinement to the dial. The gently barrel shaped case and integrated bracelet mirror that of the recognisable flowing lines of the Sintra range. Crafted from either precious platinum coloured or black high-tech ceramics these elements provide maximum scratch-resistance.

Another mark of technical progress is a feature that you can't help noticing every day. On the Rado Sintra XXL Automatic, you can observe the technology, beat by beat, second by second. A scratch-resistant sapphire crystal back yields a view of the very heart of the watch – a mechanical ETA self-winding movement. The finely decorated movement with heat-blued screws has a power reserve of over 38 hours.

Watchmakers with insight

Since the inception of the brand in 1957, Rado engineers have perpetually sought out harder, rarer materials for their watches. Together with the unmistakeable designs that distinguish the Rado collection, these are the pillars of Rado's steadfast company philosophy. Genuinely outstanding performance in scratch-resistance and lasting value is provided by the scratch-resistant high-tech ceramics that Rado was the very first watchmaker to introduce and which is still a defining feature in the Rado collection today. The scratch-resistant high-tech ceramics alone is the product of many years of experience in research and outstanding specialist knowledge. This results in incomparable scratch-resistance and durability for Rado watches that constitutes eternal pleasure for the wearer.

Visit the 10th China International Fair for Investment & Trade and Enjoy Xiamen

Located on the southeast coast of China, with an area of 1565 sq kilometers and a population of 2.14 million, China's beautiful subtropical "Garden Island" of Xiamen is a famous hometown for overseas Chinese and Taiwanese. This ancient trading port was one of China's first four Special Economic Zones (SEZs), and is today one of China's top international ports.

The beautiful subtropical island of Xiamen has been accredited as an international Nations in Bloom City, National Sanitary City, National Garden City, National Model City for Environmental Protection, and National Excellence in Tourism City. Known as the "Most Agreeable City in China", this scenic island boasts temperate weather, subtropical oceanic climate, mild and rainy, neither sweltering in summer nor freezing in winter with an annual average temperature of 21 °C.

Deemed as China's "cleanest city", this island community of the northeast coast in the Fujian province continues to rocket to the top of vacation destination lists. It possesses all of the manifestations of a major city while still maintaining the alluring charisma of a vacation resort. Towering four-star hotels with highbrow international restaurants and trendy nightclubs share the streets with ancient temples and classic colonial style buildings, exhibiting a rare display of synchronic vision for the past and present. An aura of white beaches and green mountains complement its urban offerings lending it the kind of vacation options normally only associated with small South Pacific islands.

The Port of Xiamen ranks among the top ten in China, with 51 international sea routes. It is also one of the major aviation hubs in East China.

Like most of China's other coastal cities, Xiamen shares a similar past of endless control struggles. During the 1600s, the Dutch attempted to incorporate it into its fattening colonial empire, but were rebuffed by the legendary Zheng Chenggong, a local warrior whose military heroics are immortalized with statues and museums throughout the Xiamen area.

Following China's defeat in the Great Opium Wars the British took up residency and opened Xiamen's harbor to other nations such as France, Germany and Portugal. The resulting architecture of that time initially symbolized humiliation with the locals, but is now fully embraced as the foundation of Xiamen's character and burgeoning tourism industry.

Xiamen, itself, comprises of seven different districts, including neighboring Gulangyu Island.

For further information and for travel booking, please contact:

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Heerenschuerlistrasse 23
CH-8051 Zurich, Switzerland
Tel : +41/44/311 72 17
Fax: +41/44/311 72 54
Handy: +41/76 583 72 17
Email: otofrei@yahoo.com

Itinerary Recommended

Day 1 Zurich–Shanghai–Xiamen
On arrival you will be met by hotel staff and transferred to your hotel. You will be free for the rest of the day.

Day 2–6 September 7–11 CIFIT

Day 7 visit Nanputuo Temple and try the delicious vegetarian food of the restaurant which is one of the most famous one in southeast Asia. Afternoon to Hulishan Canon Platform, originally built in the Qing dynasty (1644–1911) to fend off foreign imperialists, the platform boasts a huge nineteenth century heavy artillery piece produced by the German conglomerate Krupp, with a maximum range of 10,000 meters. Considered a serious threat then, the canon still dominated the defenses half a century later when a Japanese warship was gunned down during the anti-Japanese War (1937–1945).

Day 8 morning drive to the ferry port and take a ferry to Gulangyu. You may wander in this wonderful island and visit such sights as Sunlight Rock and Shuzhuang Garden. In the afternoon return by ferry to Xiamen. Flightback Zurich via Shanghai.

Day 9 arrived at Zurich.

The 10th International Fair for Investment & Trade

- September 7, 16:00, Press Conference on Fair Preparation
- September 7, 19:00, Opening Welcome Party (banquet)
- September 8, 9:00, Opening Ceremony
- September 8–9, 20:00, Entertainment Party
- September 8, International Investment Forum
- September 8, in the afternoon, ASEM Trade and Investment Forum
- September 7–11, Seminars on hot issues related to attracting foreign investment and overseas investment and briefings on trade and investment policy of ASEM members
- September 9–11, "Matchmaking Symposium for Foreign Investment Projects in China", "Matchmaking Symposium for Chinese Investment Cooperation Projects" and "Matchmaking Symposium for Chinese Enterprises to Go Global"
- September 10, 16:00, Members Symposia
- September 11, 16:00, Press Conference on CIFIT Outcome

Membership Card Values

The Membership Card of the Chamber is a gesture to say thank you and to give you a special status as a member of the Swiss-Chinese Chamber of Commerce. The Membership Card is valid for one year and will be renewed with every consecutive year after the payment of the membership fee.

The card not only identifies you as a legitimate member of the Chamber but also entitles you to benefit from services rendered by us and the Chapters in Switzerland and the People's Republic of China. Besides our events, members can take advantage of hotel-bookings, consumptions at Chinese restaurants and suppliers of Chinese goods at reduced rates.

Further services will be added according to new partner agreements and are regularly going to be announced in the Bulletin. Below you find the list of Chinese restaurants and suppliers in Switzerland, where you get 10–30 % off the regular price, when showing your personal membership card.

RESTAURANTS

China Restaurant Rhein-Palast
Untere Rheingasse 11
CH-4058 Basel
✆ 061-681 19 91 Fax 061-261 99 46

China Restaurant BAO TAO
Bernstrasse 135
CH-3627 Heimberg
✆ 033-437 64 63 Fax 033-437 64 62

Cheng's China Restaurant (mit Seeterrasse)
Marktgasse 15
CH-8640 Rapperswil
✆ 055-210 17 70 Fax 055-410 14 51

Restaurant Züri-Stube
Steinwiesstrasse 8
CH-8032 Zürich
✆ 044-267 87 87 Fax 044-251 24 76
E-mail: info@tiefenau.ch

BAMBOO INN
Culmannstrasse 19
CH-8006 Zürich
✆ 044-261 33 70 Fax 044-870 38 88
closed on mondays

Restaurant CHINA-TOWN
Bälliz 54
CH-3600 Thun
✆ 033-222 99 52 Fax 033-222 99 52

CHINA GARDEN
Schützengasse 12
CH-8001 Zürich
✆ 044-211 71 00 Fax 044-212 35 61

Mishio Restaurant & Take away
Sihlstrasse 9
CH-8001 Zürich
✆ 044-228 76 76, Fax 044-228 75 75
Website: www.mishio.ch

SHANGHAI
Bäckerstrasse 62/Helvetiaplatz
CH-8004 Zürich
✆ 044-242 40 39

ZHONG HUA
Zähringerstrasse 24
CH-8001 Zürich
✆ 044-251 44 80 Fax 044-251 44 81

SUPPLIERS / FURNISHINGS

GALLERY JJ – "East Meets West"
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CH-6300 Zug
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E-Mail: galleryjj@hotmail.com

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E-Mail: info@catvoyages.com
Website: www.catvoyages.com

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Website: www.FTE.ch

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E-Mail: info@tiantan.ch
Website: www.tiantan.ch

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Steinwiesstrasse 8
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✆ 044-267 87 87 Fax 044-251 24 76

(For hotel-bookings in China, please turn to the Chamber directly.)