Table of Content

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For full overview of useful contacts in China and Switzerland turn to pages 102 & 103 in this issue.

Remarkable Times

H.E. Ambassador DONG Jinyi and his spouse Mrs SUN Guoqin during their visit in Ebikon and Lucerne in June. (F.l.t.r.) Susan Horváth, Executive Director, Swiss-Chinese Chamber of Commerce, Economic and Commercial Counsellor WANG Heliang, Mrs Sun, Jürgen Tinggren, President Schindler Group Elevators and Escalators, H.E. Dong, Kurt Haerri, Senior Vice President Schindler Elevators and FENG Haiyang, Councillor, Embassy of the P.R. of China.

First, I would like to raise some thoughts of remembrance for the victims of the utterly devastating Sichuan earthquake. The tragedy cannot be expressed in words adequately. Families lost their next relatives and their children and all the possessions. The world has noticed with lasting impressions how fast and determined China has reacted to this natural disaster. A wave of solidarity as never seen before swept over China. People across the whole Nation expressed their commiseration and donated money to support the rescue efforts and the reconstruction of the destroyed region. Our help is needed too and we call on all readers and friends of China to support projects as described in this issue (see page 8,9).

But there are good news too and indeed, it is a very great and most remarkable moment to look at: The Olympic Games 2008 in Beijing. This is not only a milestone in the history of China; it goes far beyond that. It somehow concludes China's return as an economic superpower. In case it has not yet been realized sufficiently, it is now more than time that the world recognizes the fastest economic growth period in human history and consequently the irresistible shift of global power to the East.

Representing 700 members of the Swiss-Chinese Chamber of Commerce, I would like to congratulate the Peoples Republic of China for the most successful opening policy in the last 30 years and to express at the same time our sincere gratitude for all the great opportunities given to Swiss enterprises to conduct business along this most impressive path of economic development.

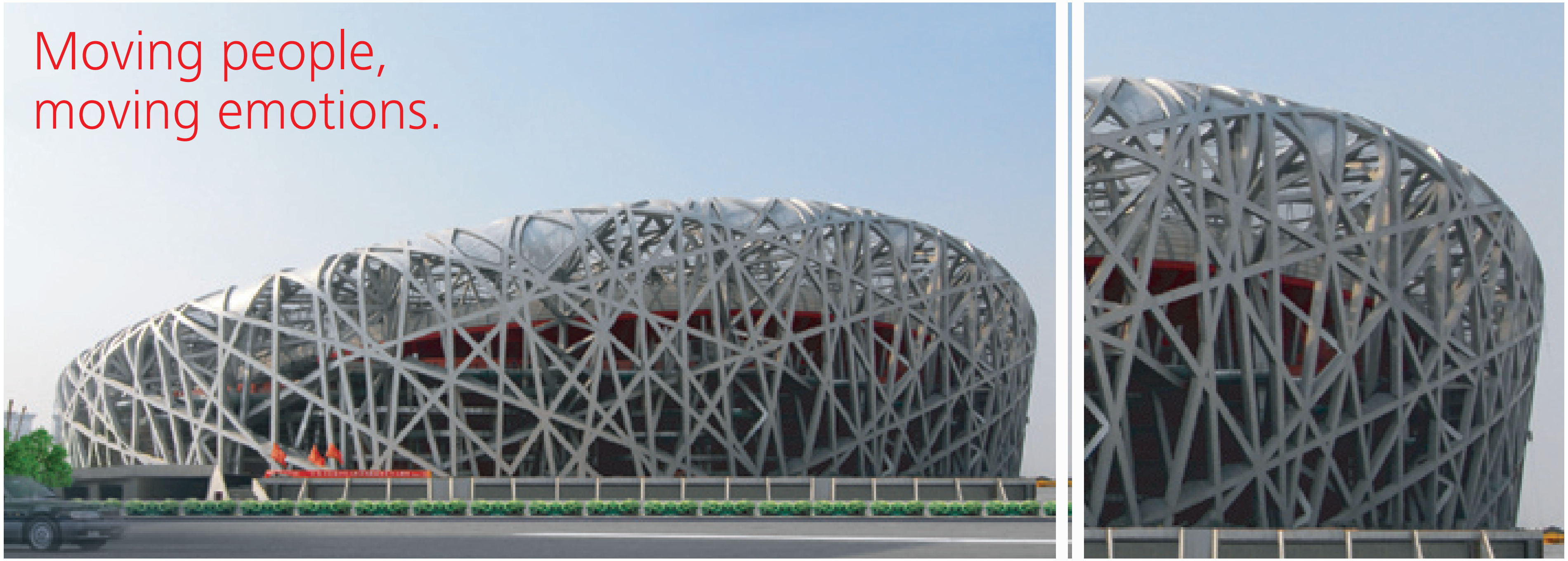
Further, I would like to express a wish. The Olympic Games stand for fair competition in various disciplines between athletes from all over the world.

By looking forward to the years to come, I wish that this Olympic Spirit become a role model for business contests in a globalized environment where the athletes – regardless of their origin – always meet each other with mutual respect and understanding. To have equally the same rights and duties shall certainly also be part of our business competition. Striving for best performance while respecting mutually agreed rules and regulations shall not only be limited to the world of sports but also be a strong fundamental base in the discipline of global business. And even beyond competition, a platform to establish and maintain friendship and mutual respect across our nations.

I do wish China and its entire population strength and confidence in overcoming difficult times. And I also wish them marvellous Olympic Games and all the very best for the post Olympic area. We as Swiss entrepreneurs and representatives of the Swiss-Chinese Chamber are more than happy to make some contributions towards the continuation of China's path of development.

Kurt Haerri

President Swiss-Chinese Chamber of Commerce
Member of Steering Board House of Switzerland Beijing 2008
Senior Vice President Schindler Elevator Co. Ltd.



瑞士迅达与奥运满怀同样的热情：我们迎送如织的人流，我们传递火热的激情，我们倾心于最完美的表现。

以此热情，迅达将在2008年北京奥运会上迎送全世界的嘉宾。作为全球领先的电扶梯供应商，让我们感到非常自豪的是，我们的产品将在包括国家体育场"鸟巢"在内的多个奥运场馆设施中为全世界的热情观众提供优质服务。

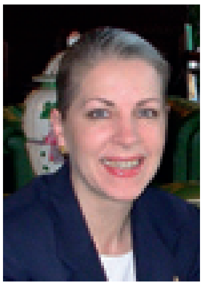
The Olympic Games and Schindler share the same passion: we move millions of people, we create emotions and we fascinate through high performance.

Therefore Schindler also moves the world during the Olympic games 2008 in Beijing. As an internationally successful supplier of elevator and escalator solutions we are proud to have installed our products in several Olympic sites including the National Stadium in Beijing.

迅达(中国)电梯有限公司
www.schindler.com

Schindler

General Assemblies



Dear Members, dear Readers

Over seventy members and guests attended the Annual General Meeting on June 3rd in Zurich. The Chamber was privileged to welcome as **guest of honour and speaker** of the day **Josef M. Mueller, former Head of Nestlé Greater China Region**, who was elected as **new President for the Geneva Chapter** the same day. From the **State Secretariat for Economic Affairs** (SECO), the Chamber welcomed **Mr. Massimo Baggi**, Head of Division Asia/Oceania, who reported on the activities of SECO in China during 2007. Besides the Board members and the members of the two Chambers, high-ranking representatives from the Embassy of the P.R. of China and the Federal Department of Foreign Affairs (DFA) followed the presentations and the speech of Josef M. Muller, depicting China as a fascinating country and a challenging market.

Chamber President, Kurt Haerri, led through the General Assembly, which approved the activity report, the accounts and this year's budget unanimously.

This year's General Assembly has been combined again with the General Assembly of our partner organization, the **Swiss-Hong Kong Business Association** (SHKBA), led by its **President, Dr. Kurt Moser.** The members of the two Chambers unanimously approved changes regarding the Articles of Associations in view of their close cooperation.

Regarding changes of the Board, Kurt Haerri and the Chamber warmly welcomed **Arshad Chaudhry,** Vice President, Nestlé S.A., **Hermann Gamper,** Tradelane Manager Asia-Pacific, DHL Logistics (Switzerland) Ltd., **Dr. Reto Schiltknecht,** Group General Counsel, Zurich Financial Services, and as mentioned above, **Josef M. Mueller,** former Head of Nestlé in Greater China Region and IMD Executive in Residence, as newly elected members of the Board of the Chamber.

Kurt Haerri also thanked the Members of the Executive Committee and the re-elected **auditors Ernst & Young,** as well as all members for their highly appreciated support of the Chamber.

In 2007, the resources of the Chamber were again kept at a minimum (head-count in Zurich 1.8, Geneva

New Members

Since January 2008:

Zurich

Joy CHOU	Feusisberg
Zurmont Madison Private Equity	Zurich
Alovista AG	Schaffhausen
Wenger & Vieli	Zurich
Markus Good	Zurich
The Research Board Inc.	Richterswil
A.I.M. Group Zürich AG	Zurich
SwissAim GmbH	Herisau
Phuntsok Gyalzur	Rapperswil
Philip Mosimann	Zurich
Shang-Dao	Geneva
Callyandi GmbH	Zurich
Brugg Kabel AG	Brugg
MCT-KUMMLI	Reinach/AG
Sallfort AG	Basle
TESTEX	Zurich
Markus Herrmann	Interlaken
BRALOBA AG	Biel
Reto Welte	Zurich

Geneva

Mme Yan ZHANG	Morges
Mme Bizheng LIN	Fribourg
MERCURIA ENERGY TRADING S.A.	Geneva
VALMED S.A.	Sion
EURASCOM – EURASI	Fribourg
POLATER Sàrl	Renens/Vaud
Me. Sébastien PEDROLI	Lausanne
RÜEGER S.A.	Crissier
Me. Joëlle CHU	Geneva
YPSOS CONSEILS EN GESTION	Geneva

New President of the Geneva Chapter

Josef M. Mueller

Former Head of Nestlé in Greater China Region
IMD Executive in Residence
Business Advisor – Asia/Europe

Josef M. Mueller is of Swiss nationality and was born on October 14, 1947 in Switzerland. He completed his schooling and commercial and economic studies in Switzerland and holds an MBA degree from I.M.D. (formerly IMEDE) in Lausanne, Switzerland. He spent his entire professional career on important international assignments with the Nestlé Group: out of 35 years, he spent 32 years abroad, out of which 28 years in Asia, including 19 years in the Greater China Region.

He joined the Nestlé Group in Switzerland in 1972 as international operational auditor with assignments in Europe, North America and South Africa. After 4 years of solid introduction to Nestlé's operations in various countries, his subsequent career brought him to the Far East (Hong Kong, Taiwan, Philippines) where he continuously progressed into senior positions in Sales and Marketing Management. In between these transfers, he spent some 3 years at Nestlé Headquarters in Switzerland with business development responsibilities for Far Eastern countries.

During 1992–1995, he was Head of Nestlé in Pakistan and during 1995–1998 Head of Nestlé in Korea. In mid 1998, he moved to Beijing and took over the responsibilities for Nestlé in China as Chairman and CEO of Nestlé (China) Ltd. and, in mid-2000, his responsibilities were further expanded as Head of Nestlé in the Greater China Region where in 2007 Nestlé employed over 13'000 permanent staff and operated 21 factories and one R&D Centre (2nd to open in 2008). He also was nominated as Consultant to the Yunnan and Shaanxi Provincial Governments and was Vice President of the Beijing Association of Enterprises with Foreign Investment.

Upon his recent retirement from Nestlé, he maintains an active interest in global business activities, in particular in Asia/Greater China Region as well as Europe. He has been invited to serve as a Senior Advisor by various organizations and as an 'Executive-in-Residence' at IMD, International Institute for Management Development, Lausanne/Switzerland. He is a member of the Board of Directors of the Bühler Group in Switzerland and of three Nestlé's joint ventures in China, namely Shanghai Totole Food Ltd. and Shanghai Totole First Food Ltd. in Shanghai and Haoji Food Ltd. in Sichuan Province.

He speaks German, English and French and has a basic knowledge in some other languages.

Nestlé is Switzerland's largest industrial company and the world's leading nutrition, health and wellness company with 480 factories in 86 countries and 276'000 employees around the world. Nestlé products are sold in more than 1 million outlets in the Greater China Region.

0.5) and the Chamber's overall cost effectiveness remained unsurpassed, despite moving-expenses regarding change of the office and rising market requirements and costs. The new membership fees, effective since 2007, will not solve the continuous lack of human resources to tackle the overall workload and dynamism of China's economic rise, but it will avoid deficits, which would have to be covered by the capital fund of members.

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

2008 is a remarkable time indeed: It is the year of the **Olympic Games in Beijing,** but also the year of the **30th Anniversary of China's Opening-up to the Outside World.** The **Chinese Ministry of Commerce** (MofCom) will organize an exhibition to commemorate the history and the economic developments of the past three decades. And it will also present China's foreign trade as well as its bi- and multilateral relationships, of which the Swiss-Chinese Chamber of Commerce and its members were and still are part of since 1980.

Susan Horváth
Executive Director, Member of the Executive Board

Summer Holidays

The offices of the Chamber in Zurich will be closed from **July 21st until August 15th 2008.** Various events, information and services can be found on the website of the Chamber: **www.sccc.ch**

Reconstruction in Sichuan

School & Housing Sponsorship Project

The Swiss Business Community in China, under an initiative of SwissCham Shanghai, cosponsored by SwissCham Beijing and in cooperation with the Swiss Embassy, the Consulates General in Shanghai and Guangzhou, the Swiss Club in Shanghai and the Swiss Society in Beijing, aims to help with the earthquake relief, meet local needs and provide the region with immediate support. We are glad to facilitate the wish of many members and friends who would like to show their compassion and solidarity with the countless people in need.

A special team has evaluated the need and the possibility to set up an earthquake-proof school building in one of the worst hit areas. To make sure students can go back to school as soon as possible, we need your help to build up a permanent and safe school. Furthermore we target to support the construction of affordable housing, in addition to the school.

The project is under the patronage of the Ambassador of Switzerland to China, the Swiss General Consuls and SwissCham Shanghai and already has the support of major Swiss businesses.

China is suffering from the most devastating earthquake in 30 years and needs all the help it can get! Let Swiss Business and the Swiss community at large join the effort.

Don't wait donate!

Dante Martinelli
Ambassador of Switzerland

Christian Guertler
President SwissCham Shanghai

Steering Committee

The project is lead by a steering committee with the following representatives:

Co-Presidents:

- Stephan Titze, Syngenta (CEO China, Vice-President SwissCham Shanghai),
- Felix Sutter, PriceWaterhouseCoopers (Partnership Director, SwissCham Beijing Board member)

Members:

- Gustav Erne, Luwa, (General Manager)
- Christian Guertler SC Holding Ltd. (Partner, President SwissCham Shanghai)
- Daniel Heusser, Virtuarch (Architect; General Manager)
- Krystyna Marty, Economic Counselor of the Embassy of Switzerland / William Frei, Consul General of Switzerland in Shanghai (on alternate basis)
- Matthew Reilly, Zurich Insurances (Chief Administration Officer, Greater China/Southeast Asia)
- Andreas Widl, Oerlikon (Head Asia)
- Others to be determined/ confirmed

The Steering Committee is formed of delegates of major donors, stake holding organizations and experts. Currently, the Steering Committee has 7 members. The steering committee is furthermore open to companies who are willing to donate more than 0.5 million CNY.

How can you participate?

If you wish to participate in the project and/or donate an amount of money, please contact Mrs Liv Minder, Executive Director, directly at Tel: +86 21 6149 8208 or write to info@sha.swisscham.org Please note: All administrative and logistic cost which may occur will be borne by SwissCham Shanghai. The donations will go in full to the project. For further information visit the webpage of SwissCham Shanghai: www.swisscham.org/sha

Donations can be paid to the following account with the comment: Sichuan

Bank: Bank of Shanghai
Account Name: Swiss Chinese Chamber of Commerce
Account No: 316007-03000572143
Bank Address: No 585, Zhongshan Dong Er Road, Shanghai, China

Tax Treatments for Charitable Purposes

Considerations when donating money to charity appeals in China

Representative Offices in China are not advised to make charitable donations from the China bank accounts as business taxes will be levied on the expense. We recommend that a representative office makes donations via their head office, i.e. the headquarters located outside China, and the money transferred from the parent company and not the RO.

Upon receiving receipts from the relevant charity, the donor is suggested to be identified as the parent company, rather than the RO in China, to avoid business tax being levied on the donation. The Beijing tax bureau states that it is important both the donation and the receipt show the amount was sent from overseas and that it does not go through the RO's books.

For Wholly Foreign Owned Enterprises and Joint Ventures the following stipulations apply, that under current Chinese tax regulations, the allowable deduction of donation for tax purpose is no more than 12% of the total annual profit as according to the calculation of the FIE's taxable income.

In addition, some tax preference policies are currently being discussed at the State Administration of Taxation to offer further incentives to tax payers when making donations for such disasters.

Readers are recommended to check with their local tax bureau as regional tax treatments may vary slightly, or contact the regional Dezan Shira & Associates office for further advice on tax treatments for charitable purposes. The firm does not levy fees for such assistance.

www.dezshira.com

New Ambassador of the P.R. of China to Switzerland

H.E. DONG Jinyi
new Ambassador of the P.R. of China to Switzerland

Born in November 1949, in Tianjin.

1974–1981	Staff Member, Embassy of the People's Republic of China in the Republic of France
1981–1985	Staff Member, Third Secretary, Second Secretary, Protocol Department of Ministry of Foreign Affairs
1985–1990	Second Secretary, First Secretary, Embassy of the People's Republic of China in the Republic of France
1990–1994	First Secretary, Deputy-Chief of Section, Section Chief, Protocol Department of Ministry of Foreign Affairs
1994–1997	Counselor, Protocol Department of Ministry of Foreign Affairs
1997–2001	Counselor, Minister-Counselor, Embassy of the People's Republic of China in the Kingdom of Belgium and Mission of the People's Republic of China to the European Communities
2001–2002	Deputy-Director General, the General Office of Ministry of Foreign Affairs
2002–2005	Director General, the General Office of Ministry of Foreign Affairs
2005–2008	Ambassador Extraordinary and Plenipotentiary, Embassy of the People's Republic of China in the Republic of Italy and the Republic of San Marino
2008–	Ambassador Extraordinary and Plenipotentiary, Embassy of the People's Republic of China in the Swiss Confederation

Married with one son.

For information about the Chinese Embassy in Switzerland please visit: www.china-embassy.ch

New Head of Swiss Business Hub China

Claudio Mazzucchelli
new Head of Swiss Business Hub China

Mr Claudio Mazzucchelli was born in 1958 in Lugano, Switzerland, where he completed his studies. In 1982 he joined the Federal Department of Foreign Affairs and between 1983 and 1993 he was assigned to several Swiss diplomatic or consular posts abroad. In 1993 Mr Mazzucchelli was posted in China as Head of the Commercial Service of the Swiss Embassy in Beijing. In 1998 he returned to the Headquarters of the Department of Foreign Affairs in Berne where he dealt with the reorganization of the Swiss trade promotion network. In 2002 Mr Mazzucchelli opened the Swiss Business Hub UK, an integral part of the Swiss Embassy in London, and headed it until June 2008. Mr Mazzucchelli will officially start in Beijing on 25 August 2008.

Swiss Business Hub China Beijing
Phone: 0086 10 8532 8787
E-Mail: bei.sbhchina@eda.admin.ch

China Visa Issuing Regulations

The announcement of new issuing regulations for China visas has kept many foreign businessmen surprised and guessing. The fact that business visas (F class) now have to be applied for in the applicant's home country as well as prolonged processing times and additional documentary proof complicate the visa process significantly. According to a flash survey conducted by the German Chamber of Commerce in Hong Kong, the majority of respondents expect this to have a substantial negative impact on their businesses. It is, however, important to note that China's new visa regulations are not stricter or more troublesome than those of many other developed countries. So it is not the change itself that mostly concerns foreign businesses, but the unexpected nature of the measure which reflects a general unpredictability of actions.

But what are the reasons for this new policy? Security concerns of the government in view of the upcoming Olympics are certainly one part of the answer. Beijing simply wants greater control over who will be in the country when the world's eyes are on China. On the other hand, this might also be a measure to prevent foreigners from living and working in China on F visas and thus avoid paying taxes.

China visa regulations at a glance

Type of visa: Most new regulations apply to the issuing of F visas. This type of visa is used by most foreigners to conduct business with partners or clients in China during their visits.

Application process: Applications have to be submitted to the China embassy or consulate in the applicant's home country. Exception: Foreigners who are Hong Kong residents can apply in the SAR. The minimum processing time is five days. The issuing of rush or express visa has been suspended.

Documentary proof: An original invitation letter by the Chinese government ministry (usually at the local foreign affairs office) has to be applied for by a locally registered entity. This could be the company's Chinese WFOE or a local Chinese company. Representative offices don't count as locally registered entities and cannot apply for the letter. In addition to the letter, documents confirming a hotel booking and a return flight have to be submitted.

Validity & entry terms: All new F visas entitle the holder to a single or double entry and are only valid for 30 days in general. The option of multiple entries has been generally suspended. Persons who stay in China for longer than 90 days continuously or more than 180 days in one calendar year should apply for a Z visa, which can then be changed to a residency permit.

Due to inconsistent information from official sources and different implementation practices, the information above is given under reserve. To obtain updated information on China visas, contact your home country's Chinese embassy or Consulate.

Members of the Swiss-Chinese Chamber of Commerce *in Switzerland should contact the Chamber by e-mail: info@sccc.ch*

Starting September 1st 2008, visa applications will be valid with new application form only.
Look also on www.china-embassy.ch

China Clampdown on Expatriate Registration Requirements

Expatriate China Staff PSB Registrations to be enforced from 1st July, 2008.

The Chinese Public Security Bureau issued new guidelines today to hotels and apartment management companies concerning the registration of foreigners in China, set to take effect July 1.

The PSB, a part of China's domestic police force charged with policing public security and immigration residence registration and immigration affairs for foreigners, has insisted that the existing regulations for the registration of foreigners in China must be strictly adhered. Violators and those who fail to report, be they individuals or building management, will be subject to fines the bureau has said.

Guests staying in Hotels and Serviced Apartments

Guests must be registered upon arrival with the PSB by the hotel and if separate, serviced apartment management company. Usually this procedure is automatic with input from the hotel being directly fed into the local PSB computer at the check-in procedure, with no additional action being required from the guest. However, daily checks are now in operation with the PSB physically visiting hotels to request copies of the hotels in-house guest list to make sure they match the PSB's own records. If they do not, the hotel / serviced apartment will be fined RMB5,000 per missing entry. Hotel guests under these circumstances would not be fined. However it does mean that foreigners wishing to stay at an hotel in China must provide full passport and visa credentials in order to check in.

Expatriate Employees Living In Private Apartments

The apartment management company should be contacting foreign tenants / residents and requiring them to register with the local PSB. If this is not done, both the management company and the foreigner can be fined RMB5,000. It is important to note that this rule applies to any foreign person living in any apartment or private dwelling – even if it is for just for one night. If staying overnight or visiting friends in China, registration must be carried out upon arrival with the local PSB office responsible for the area within 24 hours of arrival.

We strongly recommend all expatriate personnel living in apartments in China register with the local PSB prior to July 1st to avoid problems.

Dezan Shira & Associates
www.dezshira.com
www.china-briefing.com/news

Federal Councillor Leuthard Wraps up Free-Trade Talks in China

Swiss Federal Councillor Doris Leuthard

Free trade, human rights and the environment have dominated a three-day visit to China by Economics Minister Doris Leuthard in May. The ministry said that Leuthard fulfilled her main objective, which was to hold meetings with the new Chinese trade minister, Chen Deming.

The economics minister met Chen's predecessor, Bo Xilai, almost one year ago, establishing an initial framework for trade discussions.

Both governments have described the latest talks in Shanghai as constructive.

Switzerland and China have pledged to continue discussions, which still remain at an early stage, according to spokesman Christophe Hans.

Hans added that a number of contentious issues remained unresolved – primarily concerns surrounding intellectual property in Switzerland's heavy machinery, pharmaceutical and chemical industries.

China is Switzerland's largest trading partner in Asia and a net importer in those sectors.

Confidence

Leuthard expressed confidence following the talks that Chinese authorities were improving their response to intellectual property theft, but more progress is still needed, the ministry said.

The Swiss government has already completed a feasibility study on free trade between the two countries. It concluded that a deal would be mutually beneficial.

China, the world's largest country in terms of population, is slated to conduct its own review, although a deadline has yet to be set.

Once complete, the two countries will engage in a joint evaluation, according to the ministry.

Environment and human rights

Cooperation on environmental issues between the two countries was another major item on Leuthard's agenda.

China, which is to play host to the Olympic Summer Games in August in the capital Beijing, is bedevilled by increasingly grim environmental problems.

The country's rapid economic growth has been accompanied by equally astonishing challenges including heavy smog and poor water quality in its major cities.

It has also received criticism for its construction of the Three Gorges Dam, the world's largest.

During her visit, Leuthard identified the potential for Switzerland to share its water quality expertise as part of a regional trial project in China, although neither side released details.

On the human rights front, the economics minister reiterated the government's welcoming of a Chinese offer to meet envoys of the Dalai Lama.

Source: swissinfo with agencies

China's Cabinet Sets Tasks for New Term

NPC, CPPCC Annual Sessions 2008 & 17th CPC National Congress

China's State Council, or the Cabinet, arranged its working plan for a new five-year term in the first plenary session held in March. Presided over by reappointed Premier Wen Jiabao, the State Council set its goals as: to achieve further economic progress; improve people's livelihood; push forward social justice as well as advance opening up and reforms.

New Cabinet formed with 5 "super ministers"

China's parliament approved Premier Wen Jiabao's nomination of a new Cabinet, including five "super ministers" who are put on the frontline of a major government reshuffle. The "super ministers" include minister of industry and information Li Yizhong, minister of transport Li Shenglin, minister of human resources and social security Yin Weimin, minister of environmental protection Zhou Shengxian and minister of housing and urban-rural construction Jiang Weixin.

"From this lineup, we can see the new requirements on the Cabinet ministers, set by the current social and economic development: capacities in strategic thinking and policy-making, administration and overall coordination", said Chi Fulin, executive president of the China Institute for Reform and Development.

Li Yizhong is widely known as former head of State Administration of Work Safety and a seasoned professional in petrochemical industries and state assets management. Li Shenglin has worked in factories and served as Mayor of Tianjin before he became vice-minister in charge of the former State Economic and Trade Commission and later, vice-minister in charge of the National Development and Reform Commission (NDRC).

New minister of environmental protection Zhou Shengxian used to work in China's northwest, a region of adverse environmental and natural conditions. He served as director of the State Forestry Administration and the State Environmental Protection Administration respectively before Monday's nomination.

The new minister of human resources and social security Yin Weimin is a master of economics, and Jiang Weixin worked in the real estate sector and served as vice-minister in charge of the NDRC.

The current government reshuffle is expected to address focal issues in China's economic and social development, and to seek all-round, coordinated and sustainable development, said Prof. Li Junpeng of the National School of Administration. "The 'super ministers' therefore need to be enterprising and innovative."

Observers say the reshuffle is more an exploration of China's overall administrative reform, rather than a simple downsizing. The performance of the new government is also crucial to China's future development.

In comparison with the previous Cabinet consisting largely of technocrats, most of the 35 new Cabinet members are well-grounded in their specialities including economics, law, political science, agriculture, administration, science and philosophy.

At least five of them hold doctoral degrees, including Commerce Minister Chen Deming, Health Minister Chen Zhu, Foreign Minister Yang Jiechi, minister of agriculture Sun Zhengcai and minister in charge of the State Population and Family Planning Commission Li Bin.

Some of the ministers studied overseas: Foreign Minister Yang Jiechi at London School of Economics and Political Science, and Minister of Education Zhou Ji at State University of New York. The two non-Communist ministers, Chen Zhu and Minister of Science and Technology Wan Gang, were trained in France and Germany respectively. "Their profound experience will help them stand firm in the process of reform and opening up, remain cool-headed and make practical judgments in complicated situations", said Prof. Li Junpeng.

More than 10 ministers were born after New China was founded in 1949 and witnessed the country's impoverished and unrestful past, and the momentous changes in the 30 years of reform and opening up. Many of the new Cabinet members, including Premier Wen Jiabao, had worked as farmers or workers or in other grass-roots posts. "They share similar experiences: they suffered the worst natural calamity in recent decades in the early 1960s, and their avid desire for knowledge was dampened by the Cultural Revolution (1966–1976)", said Wang Ronghua, president of Shanghai Academy of Social Sciences.

Analysts say the coming five years will be a crucial period for China to implement the "Scientific Outlook on Development", and maintain sustained and balanced growth. "The public is watching how the new Cabinet will boost sustainable development by transforming the economic growth pattern, provide basic and secure public services to promote social harmony, and deepen political reforms through administrative restructuring", said Chi Fulin.

China to spend CNY95 billion on relief and reconstruction

China has pledged to spend at least CNY95 billion on reconstruction and relief operations after the

Sichuan earthquake. CNY25 billion was earmarked for disaster prevention and relief work in the quake-affected area and a further CNY70 billion will be spent on reconstruction this year, with more money promised to come in the next two years. To pay for the reconstruction, Premier Wen Jiabao ordered a 5% cut in the central government's budget. All governmental and party organizations were instructed to cut back their spending on meetings, travel, vehicle procurement and construction of new office buildings.

Source: Xinhua News and other

Chen Deming confirmed as Minister of Commerce

Chen Deming
new Minister of
Commerce
of the P.R. of China

The National People Congress (NPC) Standing Committee approved the appointment of Chen Deming, former governor of Shaanxi Province, as Minister of Commerce during the 31st session of the Standing Committee end of last year.

Chen, born in 1949, replaces 58-year-old Bo Xilai, who was appointed Communist Party chief of south-western China's Chongqing municipality on Dec. 1, 2007.

Chen, who holds a doctorate in management, spent most of his early career life in eastern China's Jiangsu Province before he was appointed vice governor of Shaanxi Province in 2002. In 2005, he was appointed governor of the province.

He moved to Beijing in 2006 after being appointed vice minister of the State Development and Reform Commission. In late 2007, he was appointed vice commerce minister.

Chen's predecessor Bo Xilai was appointed commerce minister in 2004. He is now also a member of the Political Bureau of the 17th Communist Party of China Central Committee.

Xinhua News Agency

China's Environmental Concerns

Although China's rapid expansion fuels the global economy and reduces the country's rate of poverty, a negative outcome of this growth is the impact on the environment. The industrial growth is damaging China's natural resource base, which has been generating environmental problems all across the country. The issues include land degradation, deteriorating water quality and water scarcity, severe air pollution and declining natural forest cover. The health and prospects of current and future generations are being affected by this development and the growing global concern is whether China can continue to sustain such development without action being taken. The government has begun creating programs to cope with urbanisation and clean up the damage announced in China's 11th Five-Year Plan, which marked the beginning of a more environmentally-conscious era.

Urban Development

Demographic trends in China show that the population is continuously increasing. The urban population which was approximately 430 million in 2001 might reach 850 million by the year 2015, and the number of cities with over 100,000 people is estimated to increase from 630 (2001) to over 1,000 (2015).

China's urban population has grown in cities of all sizes. Nevertheless, townships of between 5,000 and 10,000 people are witnessing the fastest growth. Although efficient and effective improvements of water supply and enhancement of water treatment have progressed in China's large cities, environmental management in the expanding towns and townships remains a challenge. Pollution in these smaller urban settings is not well monitored and their development plans include only limited provision to concentrate on.

The most pressing problem is water. The United Nations (UN) says China is one of the 13 most water-scarce countries in the world, with about one-quarter of the world's average water resources. According to SEPA (State Environmental Protection Administration), the Chinese Government has decided to invest largely in developing technologies to treat water pollution. Three big state-funded programs for the research and development of such technologies have been approved. These programs, to last between 2008 and 2020, will support research of technologies to remedy pollution in rivers, lakes, drinking water and in water body environments.

Growing Impact of Climate Change in China

In January 2008, the United Nations Convention to Combat Desertification held their annual conference in Beijing – the city which in early spring is always clouded in dust from the ever-increasing desertification in its western and northern regions. While desertification in China is being driven by poor land management and excessive industrialisation on fragile grasslands, climate change is aggravating these problems.

China emits high levels of greenhouse gases due to its economy being based mainly on heavy industries. SEPA has insisted that by the end of 2007 China would see a drop in overall emissions of such pollutants. China has targeted reducing sulfur dioxide and chemical oxygen emissions – two of the main contributors – by 10% between 2006 and 2010.

In order to reach this goal, China has started to ease the short-term effect of climate change by implementing new programs such as artificial precipitation. The Chinese government has also begun to adopt stricter energy conservation legislation with the assistance from international organisations in order to combat threats that climate change may bring to China.

Energy, Air Pollution and Greenhouse Gases (GHG)

China is the third largest consumer of coal and oil and the second largest source of greenhouse gas emission. One would assume that there would be environmental controls implemented to prevent these emissions, but China has always been known to be the most inefficient manufacturing producer.

Small coal mines, oil refineries and other ecologically unsafe businesses will attract most of the attention in the fight to eliminate outdated production

(KEYSTONE/Alessandro Della Bella)

methods. Nevertheless, these actions are also taking place to encourage these companies to restart their production, but in better environmental conditions. However, according to officials, China is and will continue to close down small enterprises which waste resources and damage the environment.

Waste Reduction

In order to reduce the amount of waste produced, several programs will come into effect, starting 1st of June 2008.

A measure that will affect most Chinese citizens in their daily lives is the planned distribution-ban of free plastic bags by retailers which is a potentially major step in addressing the country's large municipal waste problem. Chinese municipalities generate approximately 190 million tons of trash per year, and that amount is rapidly increasing. Landfills are quickly reaching their capacity and China will have to create an estimated 1,400 new landfills over the next 25 years in order to satisfy the increasing amount of garbage accumulated and to make up for poorly managed existing landfills.

Leaking solid waste landfills have already rendered 50,000 hectares of land around cities useless, which poses a serious land constraint problem, as China supports 25 percent of the world's population with seven percent of the arable land. China is facing growing ecological and human health threats from brownfield sites (stemming from both older landfills that lack proper linings and some new landfills that are poorly managed). A further provocation to the problem is the illegal dumping of municipal and industrial waste. The incineration of waste also emits chemicals, namely dioxins, furans and mercury, which are harmful to human health in China and abroad.

Only a few large and medium-sized cities have adopted comprehensive municipal waste reduction programs and recycling rates in these waste producing cities remains low. Positive policies emerging in China include discharge fees on those responsible that do not comply with relevant environmental law and incentives to reduce, recycle and reuse wastes. "Landfill gas capture" projects have also begun to turn the methane gas produced during the biodegradation of organic matter into a fuel to be used by industries and vehicles. China has also implemented stricter laws on the importation of solid waste, yet illegal e-waste dismantling and ship-breaking operations continue to function.

Green Investments

China is one of, if not the most attractive renewable energy resource market in the world in terms of growth potential. At present, the vast majority of investments are coming from state-owned, nationwide power groups such as China Huaneng, China Guodian and Shenhua. The Chinese government has labeled this industry as an encouraged sector for foreign investments, allowing foreign companies to come in with no restrictions on their capital structure.

The larger manufacturers of renewable energy have to invest heavily in equipment. As an example, many of the world's largest wind-power equipment manufacturers are selling to or manufacturing in China. Wind-power concession projects offer an incentive for foreign turbine manufacturers to set up factories in China, since they require a certain proportion of equipment to be produced domestically. Two of the world's largest wind-power technology companies, Denmark's Vestas and Spain's Gamesa, have invested in their own manufacturing plants in Tianjin. Nevertheless, these companies will have serious competitors in the future, since local manufacturers are growing very strong in the same direction.

China has become more famous as one of the world's biggest polluters, but its drive for clean power is at least boosting incentives for a greener future.

Eco-City Plan

China's urbanisation program will see 60% of the population living in cities within a decade. What's more, a rising standard of living means that, by 2020, people will require 10 square meters more of living space than what they have now. The country is already home to 16 of the world's 20 most polluted cities. As housing demands continue to push urban capacity, sustainable models are being developed to ease the environmental burden.

One of the most prestigious projects is an eco-city which will ultimately house 500,000 people, designed by the UK engineering consultancy firm Arup. This eco-city is being developed on a neighbouring Shanghai-island called Chongming which is situated at the mouth of the Yangtze River. It is planned to be the first truly environmentally and economically sustainable city. The island is almost the size of Manhattan and is surrounded by wetlands that form one of the most important migratory bird sanctuaries in China, known as Dongtan.

The city is expected to be finished by 2010, the same year the Expo will be held in Shanghai, which will help to attract even more tourists for this occasion. Facilities such as accommodation and exhibition centers will be provided on the island.

Dongtan eco-city will be linked to the mainland by an 18-mile long bridge-tunnel which also crosses two smaller islands. However, city planners are committed to protect the existing eco-system on the island and plans include expanding the forest areas and set aside parts of the island for sustainable farming. Some projects have been already completed such as an organic vegetable processing plant, an international conference center and a commercial office complex. Conventional cars will be banned in the city center, while the plans envision capturing and purifying water, waste management recycling, reducing landfills that damage the environment, and creating combined heat and power system.

Although, plans are moving extraordinarily fast, the final obstacle is as usual politically-related. After the quick development of the master plan for the city, final authorisation of the funds for the project has paused. At the moment all big projects are waiting for approval causing some concern whether the project will go through. However, as China has a high-profile commitment towards environmental issues, it would be a surprise if the project was not passed.

Tax Plan for Environmental Protection

The Chinese government has been discussing a taxation plan to promote environmental protection. There are several key plans that are currently being studied and appraised by the Ministry of Finance and the State Administration of Taxation and State Environmental Protection Administration and may be approved and implemented later this year.

Examples of these plans include:

- The first plan suggests that the government collects tax from companies in accordance with how much they earn from the products which consume resource or pollute the environment.

- The second plan suggests that companies would pay tax according to how much pollutant they have discharged, adding that the tax will target the discharge of sulfur or sulphide, carbon dioxide, sewage, solid waste and other forms of pollutant.

- The third plan would ask consumers of potentially polluting products, such as fossil fuel, ozone-consuming commodities, fertilizer and pesticide, to pay tax.

Other than the plan for the implementation of an environmental tax, the country has already adopted laws for environmental protection and other regulations. It is encouraging domestic companies to introduce more environment-friendly technology and production models. The government is also trying to make the public aware of the growing concerns for the environment.

Conclusion

Many believe that the future of the country's environmental reform is linked to its economic expansion, as breakneck industrialisation appears ever more to be at the expense of ecological protection. People blame the lack of a genuine free-market enterprise for the government's struggle in meeting its own environmental-protection goals. Fines for non-compliant factories are the equivalent to a slap on the wrist and energy reduction goals are impossible without investment in newer technologies and business innovations.

Recognition of the dire need for the governmental policies and incentives could not come any sooner. However as is usual in China many of the tax breaks and benefits are unclear and generally companies willing to "green" their businesses are unsure whether a tax-break incentive exists or how such schemes could be of an advantage. The pressure for China will intensify in 2008 as the deadline for the Olympics draws nearer and already the Ethiopian world-record holder Haile Gebrselassie will not participate in the marathon event due to possible health risks caused by the polluted air. It is everyone's hope that China is determined to disprove its reputation for economic expansion at all costs and put forward an image of a more "sustainable development".

by Klaus Koehler, Managing Director, Klako Group

If you require assistance with the above subject, please contact us at info@klako.com with your detailed questions.

SWISS Inaugural Flight to Shanghai

SWISS launches new daily non-stop service to Shanghai with VIP business and political invitees

SWISS inaugurated its new daily service between Switzerland and Shanghai today when flight LX 188 departed from Zurich at 13:05 operated by an Airbus A340. The passengers aboard the first flight included Swiss Federal Councillor and Minister for Economic Affairs Doris Leuthard. And the inaugural ceremony in Zurich prior to departure was attended by H.E. Dong Jinyi, China's ambassador to Switzerland, Thomas E. Kern, CEO of airport operator Unique and Rolf P. Jetzer, Chairman of the Board of Swiss International Air Lines. The flight's boarding was formally opened by SWISS CEO Christoph Franz together with Federal Councillor Leuthard.

SWISS inaugurated its new Zurich–Shanghai service today. The new flights, which are operated with Airbus A340 equipment, provide a daily non-stop connection with mainland China to complement the airline's existing services to and from Hong Kong, and should further raise SWISS's profile and presence in the growing Chinese market.

The new route offers promising prospects: recent years have seen sizeable increases in the numbers of Swiss tourists visiting China and vice versa; and on the business front, trade volumes between the two countries have increased by almost 50% since 2005. "The demand for business travel between Zurich and Shanghai is growing all the time", said SWISS Chairman of the Board Rolf P. Jetzer, "so we are delighted to be further expanding our long-haul network with the addition of our new non-stop Zurich-Shanghai service." Jetzer was also aboard the inaugural flight to Shanghai, together with SWISS Chief Network & Distribution Officer Harry Hohmeister and invited guests.

Also aboard the initial flight to Shanghai was Swiss Federal Councillor and Minister for Economic Affairs Doris Leuthard, who underlined the importance of the new SWISS service. "Good air connections greatly enhance Switzerland's appeal as a business centre and a tourist destination", she explained. "And I'm extremely pleased that this new non-stop SWISS service to Shanghai will substantially strengthen the air links between Switzerland and China. After all, China is one of our most important trading partners in Asia."

The new service will also benefit from the fact that Air China and Shanghai Airlines recently joined Star Alliance, giving SWISS two well-established local partners offering onward connections from Shanghai to domestic destinations throughout China. And SWISS and Lufthansa are further raising customer benefit by coordinating their services to and from Shanghai. As a result, SWISS customers can choose to travel to Shanghai at various times of the day, either directly from Zurich or via Lufthansa's Frankfurt or Munich hubs.

Opening of inaugural flight at Zurich Airport (f.l.t.r.): Harry Hohmeister, Chief Network and Distribution Officer, LX – Dr. Christoph Franz, CEO, LX – Federal Councillor Doris Leuthard – Dr. Rolf Jetzer, Chairman of the Board, LX – Chinese Ambassador to Switzerland, DONG Jinyi.

History: New SWISS Air Services to Shanghai

A new arrival and a welcome return

In introducing its new daily non-stop service between Zurich and Shanghai, SWISS is writing a further chapter in the story of Sino-Swiss aviation – a story that began over three decades ago and has had some unusual moments along the way. The timing could not be better for SWISS's new service. But let's look back at the beginnings of these activities.

For a long period following its foundation in 1949, the People's Republic of China remained largely cut off from the rest of the world. It was only in the early 1970s that the country began to cautiously open one or two doors to the West. And Switzerland was one of the first countries to which China reached tentatively out. That's no coincidence: as Beijing had not forgotten, the Swiss had been one of the first nations to formally recognise the new Communist regime.

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Captain Vinzenz Frick (5th f.l.) and his crew of the first flight to Shanghai on May 9th.

Swiss pioneers

So it was that in June 1972 the Chinese government invited a Swiss delegation to visit the country. The party was formally received in the Great Hall of the People by Deputy Prime Minister Li Xiannian. The Swiss delegation included Dr. Heinz Haas, Swissair's Secretary General and "foreign minister", whose diplomatic skills were pivotal in developing the airline's intercontinental network. Fine words were exchanged over possible future collaborations, and both sides agreed to embark on discussions soon about a Swiss-Chinese air services agreement. Negotiating with China – which was a major power by virtue of its size, but was also a developing country with strong sensitivities – called for a skilful blend of pragmatism and tact. But by November 1973 the new air services agreement was signed and sealed. And it included a contractual agreement with the Civil Aviation Administration of China (CAAC), which was the country's aviation authority and state airline rolled into one.

The Chinese had been negotiating with the French, too. And it was Air France that was given the privilege of being the first western airline to fly to Beijing. What is remarkable, though, is that Swissair – which became the second western airline to serve China – was permitted to fly to a second Chinese destination as well as the capital right from the start. As a result, Swissair was the first western airline to add Shanghai to its network. There remained many further traffic rights nuts to crack, however: all the countries involved in the new route had to give their approval, too. A plan to serve Beijing en route to Japan, for instance, was sunk by its clear rejection by the Japanese authorities. Agreement also had to be reached with the CAAC on what type of aircraft should be used. While Swissair, which was in the process of switching its Far East operations to Douglas DC-10s, pressed for a widebody operation, the Chinese pronounced themselves "unauthorised" to negotiate on this.

Finally, on April 1, 1975, Swissair's first service to China took off, operated by a Douglas DC-8. Introducing the new route was clearly a bold business decision and an investment in the future. In the first few years, the new services were highly unlikely to see any substantial traffic growth: while China had the biggest population of any country in the world, the only people allowed to leave it were official delegations and development workers, and few business or tourist travellers ventured to it in these early years. Swissair, however, saw a sizeable strategic importance in establishing a foothold in this market of the future and helping integrate it into Switzerland's foreign and trading policy. And so, before further foreign airlines were permitted to fly to the country, Swissair found itself in an enviable position in which travellers to China from the entire Western Hemisphere – including the Eastern USA – were virtually forced to travel to Beijing or Shanghai via Zurich or Paris. Westbound, Swissair carried Chinese customers all over the world (including many development workers who were active in Africa in large numbers during the Cold War). These times were a unique experience, too, for the first Swissair representatives and station managers in Maoist China. Most of the local people had never seen foreigners before, and looked at them as if they were from a different planet. With infrastructural and communications problems aplenty, and a complex and unpredictable state system to contend with, too, these pioneers faced a major challenge in establishing the new operations. And the flights on the China routes were just as exciting for the crews.

Switzerland also became one of the first-ever foreign destinations of the CAAC. And when the first CAAC flight – operated by a Soviet-built aircraft – landed in Zurich, the reception committee was amazed to discover that not a single member of its crew spoke any foreign language! The Chinese had an interpreter travelling in the cockpit to translate all the radio communications. The crew was also prohibited from moving around freely in any foreign country. So they were taken to the Chinese Embassy in Bern, and had to spend the whole time there until their return flight.

The journey to the Jumbo

Being able to fly to both Beijing and Shanghai was a major privilege in these early years. Sadly, however, traffic volumes to the latter did not develop in line with expectations: long held back by the central government, Shanghai only began its rapid development into the powerful business centre that it is today in the second half of the 1980s. As a result, Swissair withdrew service to its second Chinese destination only two years after it began. All in all, however, Swissair's Chinese operations developed favourably as the country gradually opened up and tourist traffic began to grow. Yet it was still some time before the DC-8s could be replaced by DC-10s and the number of weekly services could be increased. While the original route had involved intermediate stops in Athens and Karachi, the more advanced widebodies allowed the flight to be operated non-stop via Siberia, an arrangement that was continued in the 1990s when MD-11s replaced the DC-10s.

There may have been only a few aircraft on the apron at Shanghai Airport in 1995, but appearances were deceptive. The city was undergoing rapid development, and had set itself the goal of becoming the "dragon's head" of China and a major world business centre by the turn of the millennium. It was a policy that put it in direct competition with Hong Kong, which had previously served as the hinge between China and the world's markets. Managers from all over flocked to Shanghai, and western companies began setting up branch operations, embarking on joint ventures and developing local production facilities on a grand and massive scale. It was high time for Swissair, too, to return to the city and open a new representation. And on September 26, 1995 the first Swissair Boeing 747 (a passengers-and-cargo "Combi" version) landed at Shanghai Airport. Almost simultaneously, a Swiss consulate was opened in the city. There were only about a hundred Swiss nationals living in Shanghai at the time (according to official figures, at least); but those numbers soon began to grow. And today, the Swiss population runs to several thousand.

From Swissair to SWISS

The explosive business growth that China has continuously experienced since the 1990s has been accompanied by rapid increases in air travel volumes, too. Needless to say, the grounding of Swissair on October 2, 2001 dealt a major blow to the long-standing aviation ties between China and Switzerland. The grounding, and the subsequent collapse of the Swissair Group, prompted a steady reduction in air services. MD-11s with the Swiss cross on their tails continued to serve Beijing until the end of March 2002, but Shanghai was dropped once more from the schedules. And Swiss International Air Lines, the new company which commenced operations in 2002, only continued to fly to Beijing until October 28 of that year and then withdrew the service as it strove to resize its route network. Hong Kong was left as SWISS's sole Chinese destination.

SWISS continued to maintain commercial offices with small staffs in Shanghai and Beijing, though. These operations are intended primarily to maintain relations with local customers who have been loyal to Swissair and SWISS over the years, and to offer them SWISS flights via Hong Kong or Bangkok. They have also been endeavouring to win business from Chinese expatriates living in Europe and thereby generate higher business volumes. SWISS's acquisition by Lufthansa in 2006 prompted the airlines' local organisations to move into shared premises, though the personnel of both companies continued to hold their previous functions.

Ribbon cutting at Shanghai Pudong Intl. Airport on arrival (f.l.t.r.): JIA Rui Jun, General Manager, Shanghai International Airport Co., Ltd. (Pudong & Hong Qiao), Federal Councillor Doris Leuthard and Swiss Ambassador to China, Dante Martinelli.

SWISS has derived particular benefit from the synergies generated by its team-up with Lufthansa, as the latter has long been Europe's dominant airline in the Chinese market. Lufthansa currently offers no fewer than 46 flights a week connecting Germany with Beijing, Shanghai, Guangzhou, Nanjing and Shenyang.

Return to Shanghai

The Swiss companies which had set up operations in China were keen for service to be resumed to Beijing and/or Shanghai throughout SWISS's early years. But the airline simply didn't have the aircraft to introduce the new services. Only its business success of the last two years, and the fleet expansion that this has permitted, have given SWISS the resources needed to fulfil its long-held desire to return to China and thereby expand its position in the world's biggest market. There could hardly be a more favourable time to do so, and not only because of the coming Olympic Games: China is currently undergoing phenomenal economic development. And the Shanghai region in particular is witnessing growth and expansion the likes of which have not been seen since the "rush" in the USA a century ago. Trade between China and Switzerland has also been posting double-digit annual percentage growth since 2004 on both the export and the import front, reflecting the present dynamics. China is now Switzerland's second-most-important

SWISS's new non-stop Zurich–Shanghai service

Zurich – Shanghai			
LX 188	13:05	06:35+	(daily)
Shanghai – Zurich			
LX 189	09:15	15:40	(daily)

+ the following day

trading partner in Asia (after Japan); and it could soon be the number-one.

"When it comes to our new service to Shanghai, we don't intend to do things by halves", said SWISS CEO Christoph Franz when the decision to add the city to the network was taken a year ago. As a result, Shanghai will receive daily non-stop service from the start of operations on May 9. The flights will be operated using the company's Airbus A340-300 widebody aircraft, which offer eight First Class, 48 Business Class and 172 Economy Class seats along with 20 tonnes of cargo capacity. The departure times of 13:05 for Zurich and 09:30 for Shanghai have been carefully selected to meet the needs of both business and leisure travellers as effectively as possible. SWISS has also harmonised its new service with those of Lufthansa, which already serves Shanghai with 27 weekly flights, to provide an overall timetable that is as comprehensive as possible for Swiss and German-based travellers, who can choose from three departures spread throughout the day to and from the partners' three hubs of Zurich, Frankfurt and Munich. At the Chinese end of the new operation, SWISS and Lufthansa are closely linked with their new Star Alliance partners Air China and Shanghai Airlines, which provide connecting domestic services to and from various Chinese cities.

Air Traffic Volumes in Shanghai Over the Years

Pudong Airport

Year	Movements	Passengers	Cargo (million tonnes)
1999	3'917	296'800	0.0119
2000	58'306	5'543'700	0.2159
2001	77'575	6'899'000	0.3525
2002	107'335	1'104'700	0.6350
2003	134'276	15'063'600	1.1893
2004	178'683	21'021'700	1.6422
2005	205'046	23'541'800	1.8567
2006	231'994	26'788'600	2.168
2007	253'532	28'920	No information

Pudong Airport was opened in 1999, and was expanded through the opening of a second terminal this year. International flights account for 95% of its traffic, and around 25% of these are to and from Europe. The decline in passenger numbers in 2002 was due to the SARS epidemic.
(Source: Shanghai Airport Authority)

Hongqiao Airport

Year	Movements	Passengers	Cargo (million tonnes)
1999	135'110	14'329'400	0.6125
2000	102'222	12'139'400	0.4923
2001	116'495	13'761'400	0.4500
2002	117'875	13'667'100	0.4399
2003	109'403	9'692'400	0.2085
2004	150'794	14'889'200	0.2900
2005	169'954	17'797'400	0.3596
2006	177'626	19'336'500	0.3636
2007	187'045	22'632'962	No information

Hongqiao was Shanghai's only airport up until 1999. It became the city's domestic airport after Pudong opened. Its only international flights are to Tokyo Haneda and Seoul Gimpo.
(Source: Shanghai Airport Authority)

LX 188/189: the key to success

"I feel pleased, proud and privileged to be 'back'", says Markus Schmid, who served as Swissair Country Manager in China from 1995 to 2001 and is currently Head of SWISS's Far East organisation. "The good reputation that Switzerland and Swiss civil aviation enjoy with the Chinese authorities and the Chinese people has been a great help in getting our operations ready to begin in May", he continues. Schmid has also been able to draw on the services and support of an experienced and highly motivated team which is convinced that the flight numbers chosen – LX 188 and LX 189 – will ensure the new venture's success: to the Chinese, the numbers 8 and 9 stand for good luck and riches.

In introducing its new non-stop service between Switzerland and China, SWISS is meeting a tangibly-growing need among business travellers. It is also providing much-improved tourist travel opportunities. And it is doing so in both directions, because the times when foreigners travelled to China but no Chinese were permitted (or able) to leave their own country are well and truly over. The numbers of Chinese who can afford a trip abroad are increasing all the time. We are now seeing growing flows of travel-hungry Chinese tourists coming to Europe, too. And, as is the case with Japanese travellers, Switzerland is one of their favourite destinations.

Switzerland's close collaboration with Switzerland Tourism (the Swiss tourist board) has been a vital component in ensuring the best possible positioning in the Chinese market. Switzerland Tourism was, incidentally, the first foreign national tourist organisation to receive a licence to operate in China and open an office there, which it did in 1998/99. The promoters of tourism in China are also delighted to see the Schengen Agreement extended to Switzerland this year: the agreement means that Chinese tourists travelling to Europe who also wish to visit Switzerland can do so on the same tourist visa. (In the past, the need to obtain a separate visa has deterred many

Shanghai captured by Markus Schmid, Head of SWISS Far East.

a Chinese tourist in Europe from including Switzerland in their itinerary.)

All the signs are favourable, then, for a successful start to SWISS's new Zurich–Shanghai service. "We expect our new flights to have very high load factors", says Markus Schmid. "And we're also confident that our cargo and mail business will develop well on the route, and that the capacities available will all be fully utilised. We'll be selling our new services in China, in Switzerland and in all our other main European markets. And the Swiss economy, with its strong links to China and the huge concentration of commercial activities in and around Shanghai, should be a tremendous boost to the new route, too." Which is, of course, why SWISS has chosen Shanghai for its historic return to Mainland China.

For further information please contact:

SWISS Corporate Communications
Phone: +41 848 773 773
communications@swiss.com
www.swiss.com

Other Airline Matters

Beijing's airport's Terminal 3 opens for business

Terminal 3 at Beijing's Capital International Airport was officially inaugurated on February 29. Designed by British architect Norman Foster, the floor area of the terminal is equivalent to 170 football fields and is the largest structure ever built. The terminal houses 64 restaurants and 90 shops. It handled 47 flights on the first day of operation, including three international flights. The terminal has special bridges to accommodate the Airbus A380.

China and Taiwan agree on charter flights, tourism

In the first official meeting in more than 9 years between semi-government representatives of China and Taiwan, agreements were reached on an increase in regular non-stop charter flights and bilateral tourism. "Today [June 12] was the most important day in the history of cross-Strait relations", said Chiang Pin-kung, Chairman of the Taipei-based Straits Exchange Foundation (SEF). The two sides agreed to have 36 non-stop charter flights every weekend from July 4. These would be increased after the Olympic Games to 96 every weekend. Further talks on daily cargo charter flights and full regular scheduled direct flights would follow within three months. Apart from special holidays, there have been no regular direct flights between China and Taiwan for 60 years. The two sides also agreed to allow 3,000 Chinese citizens a day to visit Taiwan as tourists from mid-July. Both sides also agreed to open semi-official representative offices in Beijing and Taipei to further improve relations and facilitate the issuance of tourist visas. Mainland tourists now have to go to Hong Kong to apply for visas to visit Taiwan. President Hu Jintao – in his capacity as Secretary General of the Chinese Communist Party – met with SEF Chairman Chiang pin-kung and his delegation.

China Southern Airlines, Air China and China Eastern Airlines were each given four slots a week for flights to Taiwan. Hainan Airlines, Shanghai Airlines and Xiamen Airlines will each operate two weekly flights. The services will begin on July 4, 2008.

Various Sources

2008 Olympic Games Beijing

Join in the Highlight of the Year
Celebrate with your Key Contacts – Organise your Event in Beijing

The House of Switzerland 2008

offers you the ideal location from August 1 to 24, 2008 in Beijing
special offers for Swiss companies and entrepreneurs

Another great sporting highlight takes place in August, just a few weeks after the UEFA EURO 2008™ – the Olympic Games in Beijing. Never before has China hosted such an important event on its territory and it has promised to make this year's Olympics go down in history as the greatest sporting event of all time.

And that promise will be kept if the brisk activities that are already taking place before the event's starting shot are anything to go by. Private companies and public institutions worldwide have already begun utilising the Olympic Games as a popular marketing platform to position themselves in China's promising and attractive market.

Switzerland will also have an official presence at the Games with its famous House of Switzerland. The official Swiss guesthouse is backed by a decade-long tradition as a firm fixture at the Olympic Games. The House not only provides a popular meeting place for the Olympic team and athletes but also is open to fans and the local and international public. Since 2006, Swiss firms have also had the chance to use the House as a strategic marketing platform and as a place to host corporate events for their clients and staff alike.

You too can profit from this unique platform and use this exceptional opportunity to host your own event at the Olympic Games! The House of Switzerland team would be happy to help you with organisational matters and warmly welcomes you to the House of Switzerland 2008 in China!

The exhibition area with 12 display stands.

The House of Switzerland 2008 in Beijing

Switzerland is proud to present its largest and most comprehensive Swiss house to date, with an unprecedented location in an exhibition space exceeding 3,700 m² in Beijing's 798 Art Zone! The House is the ideal venue for your corporate events, offering a broad palette of services, including first-class catering services, an exclusive lounge to while away time and specially furnished function-rooms. Invite your clients and VIP guests to a special event and pamper them in Swiss style.

The House of Switzerland belongs to the select few national guesthouses at the Olympic Games that are open to the general public. This means that your event does not have to be restricted to your VIP contacts; think of the added value for your event if members of the public and media could also attend.

The House of Switzerland's 3,700 m² space encompasses five areas: the exhibition area with its own seating area, the public restaurant, the separate VIP zone, a cinema and national Swiss television's broadcast studio.

Twelve Swiss firms will have the opportunity to present themselves and their products in the attractive exhibition area. Thanks to the unique ambience in this zone, these companies will have a strong advantage when it comes to forging new and important contacts in China's aspiring market, as well as maintaining old ones.

After Valais' successful stint at the Olympic Winter Games 2006 in Turin, this year the Lucerne region will be the House of Switzerland 2008's exclusive partner. This marks the second time that such a partnership has taken place. Using the motto, 'The Essence of Switzerland', canton Lucerne and the Lake Lucerne Region will be presenting itself as a must-see travel destination and dynamic economic hub. In addition, Lucerne's presence will lend the House additional allure.

Services at the House of Switzerland 2008

The House of Switzerland 2008 opens its doors in a timely and fitting fashion for Switzerland's National Day on August 1, 2008. This means that it will be open for its guests a week before the Olympic Games actually begin. It will then remain open until the end of the Games on August 24, 2008, without a break. During the House's time in operation from August 1 to 24, 2008, Swiss firms or private individuals can book various function rooms for corporate or promotional events and take advantage of the House's other services. Let us help you organise an event tailored exclusively to your needs.

1. Function rooms
Three types of function rooms are available for hire within the House of Switzerland:

<u>The Cinema – a first-class projection room with complete infrastructure:</u>
Our in-house cinema has space for 60–120 people (165m²). It is equipped with a large screen, concert-style seating and state-of-the art technical infrastructure, which make it ideal for firm or product presentations, lectures, screening promotional films and live appearances of all kinds.

- Hire per day (including infrastructure) RMB 8,100 / CHF 1,200
- Hire per ½ day (including infrastructure) RMB 4,800 / CHF 700
- Hire per hour (including infrastructure) RMB 1,400 / CHF 200

<u>The Piazza – the central meeting zone:</u>
This meeting zone in the heart of the House offers a large space for bigger events, measuring approximately 600 m². The Piazza can hold up to 600 people, depending on the furnishings. The Piazza can be furnished and staffed according to your requirements. Our professional catering team are on hand to create a special menu for your event, should you so wish. Prices on request.

2. VIP Zone
The separate VIP Zone with its exclusive restaurant is located in a quiet part of the hall. This exclusive dining area with elegant décor has 160 places reserved solely for VIP guests from business and politics. The VIP Zone is where you can invite your special guests to an intimate lunch or dinner. The professional catering team will make your party feel at home in this culinary enclave and will create special menus at your request. For table reservations and menu queries, please send an email to:
booking@houseofswitzerland.org

3. Public restaurant
The public restaurant in the House of Switzerland is open daily from 10.00 until 02.00 and is open to all (no reservation required). There is room for up to 100 people in this stylish restaurant, who will be looked

The Piazza offers space for up to 600 people.

The VIP Zone has room for 160 people.

The public restaurant is open to all visitors from 10.00 until 02.00.

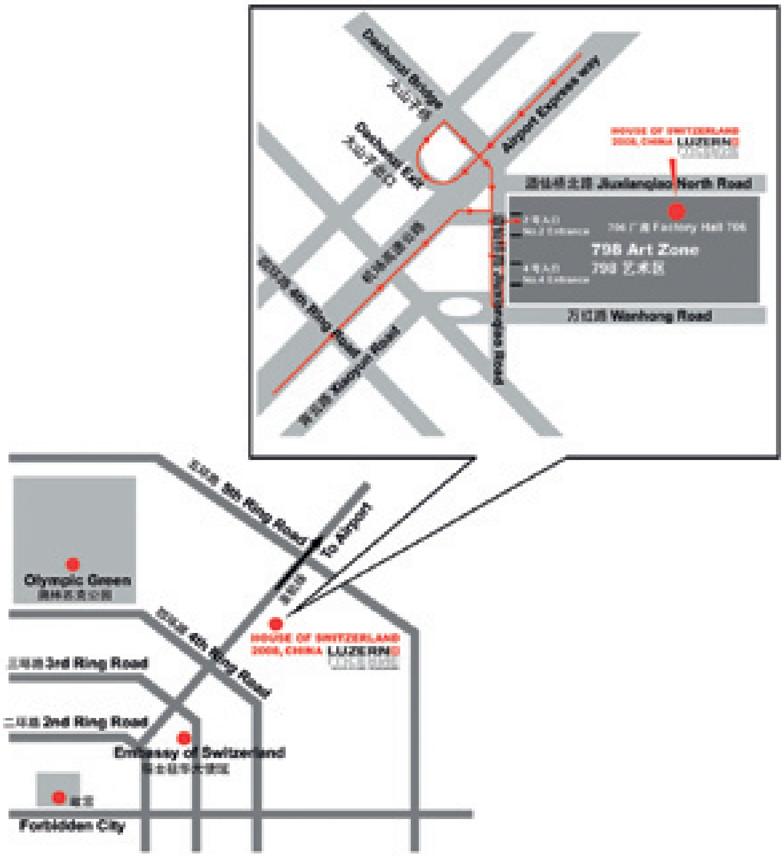
Service overview

Function room	Number of places	Technical infrastructure	Catering	Price
Cinema	max. 120	Projection, Sound, Light	On request	1 Day: RMB 8,100 / CHF 1200
				½ Day: RMB 4,800 / CHF 700
				Per Hour: RMB 1,400 / CHF 200
Piazza	max. 600	Projection, Sound, Light	On request	On request
VIP Zone	max. 160	TV	10.00–02.00	Dependent on menu attached
Public Restaurant	max. 100	Sound, TV	10.00–02.00	Dependent on menu attached

after well. Additional entertainment is provided in the shape of television screens showing Swiss television programmes and live transmissions of the Games.

4. Catering services

As the official catering firm of the House of Switzerland, Gamma Catering AG, can offer you a highly delectable, specially chosen Swiss-Chinese fusion of cocktail bites and finger foods. Gamma Catering only uses the best products, offering the highest standards in Swiss quality.



The House of Switzerland 2008 is located in the hip-and-happening artists' district Dashanzi in North-East Beijing close to the Olympic Green und the embassy area. (Its address: Factory Hall 706, Dashanzi 798 Art District, 2, Jiuxianqiao Lu, Chaoyang, Beijing)

Profiting from our experience

- Our elegant function rooms and central and attractive location in Beijing's artists' district guarantees you the highest visibility and presence before and during the Olympic Games 2008;
- Thanks to the House of Switzerland's official status, you can profit from our first-class and official relations with the host country, the Beijing Organising Committee for the Games of the XXIX Olympiad (BOCOG) and opinion leaders from Chinese businesses and politics;
- As the hub of Switzerland's official presence at the Olympic Games in China, we are a nexus to leading personalities from Swiss politics and business. It goes without saying that we are in close contact with the Swiss Olympic Team and Swiss athletes;
- The House of Switzerland with its unparalleled concept offers you and your guests a special and unforgettable venue for your events;
- Our broad palette of services, including the finest in Swiss cuisine, ensures a great atmosphere and laid-back entertainment;
- Last but not least we can help you organise your event from planning to logistics with our professional and uncomplicated support, so that you can sit back and enjoy yourself with your guests.

Contact details

For reservations and further information, please contact Mr Olivier Roos, Presence Switzerland Executive Manager China, (E-Mail: olivier.roos@eda.admin.ch), who will gladly assist you with your queries.

Please be aware that reservations can only be considered in the order they are received, due to administrative reasons.

We look forward to welcoming you and your guests to the House of Switzerland 2008 this summer in Beijing!

Let There be Games Without 'Sanction'

China-bashers must realise the country has come a long way from Mao's era; also, if China is not perfect, no society is.

The decision that the 2008 Olympic Games should be held in Beijing was bound to be risky. Given, however, that it was taken, it behoves everyone, the Chinese and the international community, to ensure that the Games succeed and are not marred by untoward incidents and emphatically not by any official 'sanction', such as boycotting the opening ceremony.

China is not perfect. Very far from it. But no society is; and China deserves to be viewed through multiple prisms. First, China has come a remarkably long way – socially, economically, culturally and, yes, politically – in the last three decades since Deng Xiaoping's reforms.

Can anyone at the time of Mao Zedong's death, with the embers of the Cultural Revolution still smouldering, have possibly imagined the standard of living and the freedom that hundreds of millions of Chinese enjoy today? Of course it is not the freedom one enjoys in the West. But China should be viewed in respect to the last couple of hundred years of among the world's most traumatic and violent histories, with the West (and Japan) having played quite malign roles.

There are millions of Chinese tourists travelling around the globe and there is a huge publications and media industry. China doesn't score too badly in some of the major global indices either. For example, in Transparency International's corruption perception index, it ranks 72nd out of 179, on a par with the democracies of Brazil, India and Mexico; and in the very important UNDP human development index, China does well in life expectancy, education and gender empowerment.

Remember China has come from being, not too long ago, one of the world's poorest and war-ravaged countries. If current trends are sustained, in another 30 years, China could be a predominantly middle-class society with bourgeois values. This will be unprecedented.

Second, let us look at historical parallels. China is heavily criticised in the West for its violations of labour rights and environmental pollution. There is indeed in these areas an urgent imperative for improvement. But Western or Japanese factory and mine owners a century ago were hardly paragons of human rights and ecological soundness.

No country has succeeded in achieving a socially just and green industrialisation. The number of miners in the UK who died in the pits per day at the time of D.H. Lawrence were about the same as the numbers today in China. This is not meant to condone China's abuses, but surely the criticism should be more circumspect.

Similarly, while China is enjoined, implicitly or explicitly, to embrace 'Western values', this merits further reflection. From the time of its unification in 1870 to becoming a society espousing liberal principles of human rights, it took Germany some eight decades, with abysmal carnage having occurred during that period.

Indeed it is only at the end of the last century that Europe (as a continent) can be said to have espoused 'European values'. It was after 1975, following the deaths of the dictators Francisco Franco and Antonio de Oliveira Salazar, that Spain and Portugal abandoned fascism and all the associated violations of human rights.

In Eastern Europe it has been far more recent, and far from perfect. For example, while the Roma population in one of the European Union's newest member, Romania, may not evince the same publicity and sympathy as the Tibetans, they are not any better treated.

As to the United States, while it tends to be strident in condemning others on human rights, its own historical and current records hardly merit respect, let alone adulation.

And, finally, perhaps the most egregious case of Western hypocrisy lies in its attacks on Chinese policy in Africa. If Darfur is a reason to boycott the Beijing Olympics, what about Iraq and London in 2012?

I repeat, none of this is meant to condone China's behaviour, but it is certainly intended to caution strongly against over-reaction and threats of spoiling the Beijing Olympics.

It is in everyone's interests, both the Chinese and the rest of the planet, to encourage China to achieve further economic growth, albeit on a more equitable and sustainable basis. A predominantly urban middle-class society tends to be 'better' behaved. The Beijing Olympics could, and should, be an important landmark in China's journey to modernity, prosperity and welfare.

It is China's coming-out party. And if the party is spoiled by unwarranted and largely unjustified foreign self-righteousness, there could be a risk that China will turn back inwards and become rigidly totalitarian, and socially repressive. For the global economy and the global community, this would be quite simply catastrophic.

By Jean-Pierre Lehmann

The writer is professor of international political economy, and founding director, The Evian Group at IMD, a leading global business school based in Lausanne, Switzerland.

Prof. Jean-Pierre Lehmann

May 2008 Update

China: Annual Economic Report

Appreciation of the economic problems and issues

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

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

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

Repeatedly, **the Chinese government named overheating and inflation as the main concerns of current economic policy.** The Consumer price index (CPI) rose 4.8% year on year in 2007. Inflation gains new highs every month, with the last peak of 8.7% in February 2008. The sharp rise in inflation is mainly caused by rising food prices, especially the rise in pork prices – due to weak supply and the outbreak of diseases – but further China is also more affected by prices of internationally traded goods since its entry to the WTO in 2001.[3]

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

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

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

Due to surpluses in external trade capital inflows continued to boost liquidity. Last year, official foreign exchange reserves increased by US$ 459 billion, amounting to a record high of US$ 1.529 trillion.[6] China's trade partners, especially the US and the EU, pursue to exert **pressure on China to further ease exchange rate controls.** Since its decoupling from the US$ in July 2005 the Yuan has appreciated 13%.[7] Currently, the Yuan is traded close to 7 per dollar, this represents an appreciation of nearly 4% in the first quarter alone, or a 17% annualised pace.[8] Experts do not anticipate a continued appreciation at that pace and expect the Chinese government to continue its intervention in foreign-exchange markets amid concerns about the impact of a stronger currency on farmers and the export sector.

Reforms in Chinas financial sector continue. In early December 2007, the State Administration of Foreign

1 China Daily, 11 January 2008
2 Economist Intelligence Unit, Country Report, March 2008
3 World Bank, China Quarterly Update, February 2008
4 People's Bank of China, www.pbc.gov.cn
5 Bloomberg, 10 March 2008
6 World Bank, China Quarterly Update, February 2008
7 IMF, 15 February 2008
8 UBS Investment Research, China Focus, 9 April 2008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Exchange (SAFE) enlarged the quota for qualified foreign institutional investors (QFII) from US$ 10 billion to US$ 30 billion. Subsequent to the latest China – U.S. strategic economic dialogue in December 2007, China agreed to allowing foreign companies the issuance of RMB-denominated stocks, corporate bonds and financial bonds. **The China Securities Regulation Commission (CSRC) – the securities market regulator – is going to examine the impact of foreign participation in Chinese securities companies** and will come up with policy recommendations. Swiss banks are in a good position to enter this new market: Credit Suisse and Morgan Stanley have each signed agreements with Chinese companies to establish investment banking joint-ventures in mainland China. Along with Goldman Sachs and UBS, these are the only foreign investment banks that the CSRC is considering to allow to underwrite IPOs and conduct advisory and research services in the mainland Chinese capital market. Currently, foreign firms can earn a maximum of 33% equity in such joint ventures.

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

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

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

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

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

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

Several Chinese banks have declared their exposure to the sub-prime market, with the Bank of China being the most affected. The Chinese Banking Regu-

9 Economists Intelligence Unit, Country Report, March 2008
10 World Bank, China Quarterly Update, February 2008

Essential Economic Data

	2004	2005	2006	2007
GDP (RMB billion)*	16.028	18.869	22.117	24.662
GDP (USD billion)*	1.936	2.303	2.774	3.242
GDP per capita (RMB)	12.329	14.426	16.832	18.641
GDP per capita (USD)	1.489	1.761	2.111	2.450
GDP growth (%)**	10,1	10,4	11,1	11,4
CPI inflation (%)*	3,9	1,8	1,5	4,8
Population (billion)	1,300	1,308	1,314	1,323
Unemployment rate				
Level-registered (Millions)*****	8.3	8.4	N/A	N/A
Rate-registered in urban (%)*****	4.2	4.2	4.1	4.0
EIU estimates (average in %)**	9.9	9.0	9.5	9.5
Fiscal balance (% of GDP)**	-1.3	-1,2	-0,8	0,1
Current account balance (% of GDP)*	3,6	7,2	9,4	11,1
Total External Debt (% of GDP)***	12.8	12,2	11,4	11
Debt-service ratio (% of exports)****	3.4	3,1	2,3	N/A
Reserves, incl. Gold (USD billion)****				
in months of imports	12	13	16,7	17,6

*Sources: * IMF World Economic Outlook, April 2008 / ** EIU, Country Report, March 2008 / *** EIU, China Hand, January 2008 / **** Worldbank 2007 / ***** National Bureau of Statistics of China*

China: Structure of the Economy

	2001	2002	2003	2004	2005*	2006	2007
Distribution of GDP							
Primary Sector	15,8%	15,3%	14,4%	15,2%	12,4%	11,7%	11,7%
Secondary Sector	50,1%	50,4%	52,2%	52,9%	47,3%	48,9%	49,2%
Tertiary Sector	34,1%	34,3%	33,4%	31,9%	40,3%	39,4%	39,1%
Distribution of Labor							
Primary Sector	50,0%	50,0%	49,1%	47,0%	44,8%	42,6%	n/a
Secondary Sector	22,3%	21,4%	21,6%	22,5%	23,8%	25,2%	n/a
Tertiary Sector	27,7%	28,6%	29,3%	30,5%	31,4%	32,2%	n/a
(of which state sector)	10,5%	9,7%	9,2%	8,9%	11,2%	n/a	n/a

*Sources: NSB, *MofCom*

latory Commission decided in late January to set up a task force in order to track exposure of Chinese banks to the sub-prime market and to serve as an early warning system for potential problems.

International and regional economic agreements

Country's policy and priorities

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

Since China's accession to the WTO in 2001, the country has implemented almost all of its WTO commitments and has made significant progress in many areas. Foreign companies have continued to profit from reduced tariffs, the elimination of import licences and quotas, the opening of more sectors for foreign participation (especially services sectors), and the easing of restrictions on business operations.

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

Under its WTO accession commitment, China "fully" opened up its banking industry to foreign competition in December 2006. Having progressively relaxed restrictions over the past five years, China allows foreign banks **access to its RMB retail business and lifts all geographic and client constraints** on their operations, eliminating any existing non-prudential measures restricting ownership, operations, internal branching and licenses.[12] The revised Regulation on the Administration of Foreign-funded Financial Institutions by the State Council also allows **subsidiaries of foreign banks** to offer foreign exchange and RMB services to all customers, meaning both corporate and retail customers just as domestic banks, and also permits **branches of foreign banks** to continue doing foreign exchange business with all customers and RMB business with foreign and Chinese enterprises as they did before.[13] Critics say that from a macro point of view, this doesn't mean much for the banking system. Foreign banks will continue to face significant regulatory and market barriers. To offer the full range of local currency services, foreign banks must incorporate their Chinese subsidiaries locally which means high capital requirements. Another obstacle for foreign banks will be the licensing and approval process for individual business lines and branch networks. So far, 21 foreign banks – none of them Swiss – have been allowed to incorporate their Chinese branches into subsidiaries.

11 Economic Intelligence Unit, China Hand, February 2008

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

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

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

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

Following the **suspension of the Doha round talks** in July 2006, China expects first the US and then the EU to take major steps to unlock negotiations, thus opening the door to G20 and G33 concessions. While China keeps engaging in multilateral trade discussions and protecting its interests within the WTO it has also started bilateral trade deals and free-trade agreements (FTAs) with strategic partners. As China has become a dominant trading nation, the government sees bilateral accords as a useful tool for pursuing the country's strategic interest.

China-ASEAN Free Trade Agreement (CAFTA)

After its successful accession to the WTO, China turned itself to ensuring the conclusion of regional free trade agreements. In November 2002, China began official negotiations with ASEAN and signed a framework defining the liberalisation of trade in several steps to lead to the establishment of CAFTA by 2010 for the original ASEAN members (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) and by 2015 for the newer and less developed members (Cambodia, Laos, Myanmar, Vietnam). The framework agreement states the objectives of the group with China and **aims to lower bilateral tariffs to 0–5% on most goods and eliminate non-tariffs barriers.** However, it doesn't detail the FTA's institutional set-up, relying on future consultations. The negotiations ended in October 2004 and the partners signed several trade pacts a month later at the ASEAN-meeting in Vientiane, Laos. The tariff reduction programme was launched in July 2005, the start of a comprehensive implementation of CAFTA.

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

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

During the 10th ASEAN – China Summit in January 2007 **China and ASEAN signed a Trade in Services Agreement** under which service providers will enjoy improved market access, including national treatment in business services, construction and engineering related services, tourism and travel related services, transport and educational services, telecom services and other service related sectors. The accord came into effect in July 2007. China and ASEAN have also been working on a investment agreement, but so far consensus on several issues hasn't been reached. At the 11th ASEAN – China Summit in November 2007, state leaders stressed to urge an acceleration of the negotiations on the Investment Agreement, with the aim of concluding negotiations in 2008. At the same time the leaders of the ten ASEAN member countries affirmed their strong commitment to **accelerate the establishment of a FTA with China by 2015.**

Other international free trade negotiations

- China and **Chile** signed a FTA at the APEC-Summit in Busan, South Korea, in November 2005 (only a year after negotiations started) which has come into effect on 1 October 2006 and will eventually lift customs fees on the trade of 97% of all trade goods. Bilateral talks on a FTA in services started in January 2007, the sixth round of talks took place in March 2008 and negotiations are expected to finish in 2008.
- After 15 rounds of negotiations, China and **New Zealand** signed a free trade agreement on 7 April 2008. This is the **first FTA China signed with a developed country.** Talks on the agreement had started in 2004 after New Zealand became the first rich country accepting China as a market economy. Under the FTA, New Zealand will phase out all tariffs on imports from China (textiles, clothing and footwear) until 2016. China will remove tariffs on 96% of its imports from New Zealand until 2019 with tariffs on some products (especially diary products, meat, wool, etc.) being cut to zero. **Beyond trade in goods, the agreement covers the services sector,** from insurance and banking to education and labour supply as well as investment. The accord will take effect on 1 October 2008 and must still be formally ratified by New Zealand's Parliament.

14 Economic Intelligence Unit, China Hand, March 2008

DIREKTE SAMMELCONTAINER «SAMPAN» AB SÜDCHINA UND HONGKONG IN DIE SCHWEIZ

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- Comprehensive China – **Australia** FTA-negotiations were launched in April 2005, but due to substantial stumbling blocks, namely in agriculture and industrial goods, are making relatively slow progress. During the tenth round of negotiations, taking place at the end of October 2008, the parties were able to reduce some difference meanwhile overall progress in the negotiations continued to be slow.
- After five rounds of negotiations since April 2005, China and **Pakistan** have agreed on market access and signed a FTA on 24 November 2006. Under the agreement China and Pakistan will reduce or eliminate tariffs on all products in two phases, the first phase began on 1 July 2007. In the first five years both sides will cut tariffs on imports in five categories up to 85 percent. The second round of talks on the "services" chapter was held in August 2007.
- In May 2007 China and **Peru** launched a first joint feasibility study in Beijing with the aim to conclude the study within three months. In January 2008 a first round of talks took place. Both sides decided to boost bilateral trade and investment in the coming months, ahead of the free trade deal planned to ink in November during the annual Asian-Pacific Economic Cooperation (APEC) forum.
- China and **Switzerland** decided in July 2007 to look on both sides into the feasibility of a possible FTA.
- China and **South Korea** conducted two rounds of joint research in 2005 and 2006 which will form the basis for exploring the possibility of initiating FTA negotiations. The last round of talks on a joint study of an FTA took place in October 2007.
- China has also started negotiations on a bilateral FTA with the **Gulf Cooperation Council** (GCC) and plans to follow suit with **MERCOSUR**, and the **Southern African Customs Union** (SACU).
- Chinese efforts to promote a free trade agreement with **India** haven't been successful so far as the Indian industry stands against it for fear of cheap Chinese imports. The Indian commerce ministry stated that negotiations on free trade agreement were unlikely to start in 2008.

Outlook for Switzerland (potential for discrimination)

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

In July 2005 Switzerland and the other three members of the European Free Trade Association (EFTA) proposed China to consider a feasibility study about an FTA. In subsequent meetings the Chinese side stated that the idea of an **EFTA-China FTA "should be considered very seriously"** but that it faced serious resource-constraints due to the Doha Round and an increasing number of bilateral free trade negotiations. Although China reconfirmed in December 2006 to be basically willing to conclude an FTA with all EFTA members, it doesn't seem to want negotiations with the EFTA as a group. Recent developments in Chinese economic relations with Iceland and Norway demonstrate that China now seems to prefer bilateral FTA with the EFTA-members.

Iceland has become the first European country to launch a FTA feasibility-study with China. Started in May 2005, after Iceland recognised China's full market economy status, which is a prerequisite for any FTA-negotiation with China, the study was concluded in July 2006. Negotiations concerning the FTA started in April 2007, a third round of negotiations is foreseen for May, 2008. **In March 2007 Norway also announced to recognise China as a full market economy.** The FTA feasibility-study has been completed and negotiations should be starting in the current of 2008.

Seco figures show an important upturn above average in bilateral trade figures following the conclusion of recent FTAs. As both the position of China as an economic partner for Switzerland and the number of FTA between China and other industrial countries will increase, the potential for discrimination will follow the same path unless progress is made in the Doha Round or Switzerland-China FTA plans materialise. On the occasion of **Federal Councillor Leuthard's official visit to China in July 2007 a joint declaration on economic cooperation** was signed. The declaration shall strengthen the bilateral relations on trade, investment and intellectual property rights. Further Switzerland has **recognised China as a market economy**. Both sides agreed to conduct **internal feasibility studies towards a possible Free Trade Agreement.** These studies will investigate if the conditions for an FTA are given. **Two Memorandums of Understanding** (MoU), one on **Investment Promotion** and one on **Intellectual Property,** were concluded during the 17th meeting of the Sino-Swiss Joint Commission taking place at the end of May 2007. The implementation of these two MoUs is a first step to the fulfilment of the Joint Declaration. A first meeting of the working group on intellectual property rights took place at the beginning of September 2007.

Foreign trade

Development and general outlook

Trade in goods

2007 was yet another remarkable year for China's trade performance. Chinese imports and exports grew to a total of US$ 2.1.738 trillion, an increase of 23.5% over 2006. Exports rose 25.7% to US$ 1.218 billion and imports increased 20.8% to US$ 955.8 billion. While the year 2006's trade surplus of US$ 177.46 billion was considered an excellent result, **the year 2007's trade surplus figure, standing at US$ 262.2 billion an increase of 84.7%,** is both outstanding and problematic as it raises increasing concerns with China's main trading partners, in particular the US and EU with their huge trade deficits.

China's most important export markets were the EU-25 (US$ 245.2 billion, 20.1% of total exports), the USA (19.1%), Hong Kong[15] (15.1%), Japan (8.4%) and the ASEAN-States (7.7%). The most important countries and/or regions of origin from which China imported products were Japan (US$ 134.0 billion, 14.0% of total imports), the EU-25 (11.6%), the ASEAN-States (11.3%), South Korea (10.9%), Taiwan (10.6%), and the USA (7.3%).

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

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

The problem of the countless state-owned enterprises (SOEs), which are inefficient to run and flood the market with overproduction goods, changes nothing to the fact that China has expanded to a dominant position in nearly all areas of industrial production.

Trading partners of the People's Republic of China

Exports to Country/ Region 2007	Billion USD	Share %	Growth in % to a comparable previous period
USA	232,7	19,1	14,4
Hong Kong	184,4	15,1	18,8
Japan	102,1	8,4	11,4
South Korea	56,1	4,6	26,1
Germany	48,7	4,0	20,8
Netherlands	41,4	3,4	34,2
United Kingdom	31,7	2,6	31,0
Singapore	29,6	2,4	27,8
Russia	28,5	2,3	79,9
Taiwan	23,5	1,9	13,1
EU-25	245,2	20,1	29,2
ASEAN	94,2	7,7	32,1
EFTA	5,9	0,5	37,3
Iceland	0,092	0,01	18,8
Liechtenstein	0,010	0,00	-9,3
Norway	2,201	0,18	29,4
Switzerland	3,601	0,30	43,5
Total	**1218,0**	**100**	**25,7**

Trading partners of the People's Republic of China

Imports from Country/ Region 2007	Billion USD	Share %	Growth in % to a comparable previous period
Japan	134,0	14,0	15,8
South Korea	103,8	10,9	15,6
Taiwan	101,0	10,6	16,0
USA	69,4	7,3	17,2
Germany	45,4	4,7	19,8
Malaysia	28,7	3,0	21,8
Australia	25,9	2,7	33,8
Philippines	23,1	2,4	30,8
Thailand	22,7	2,4	26,2
Brazil	18,3	1,9	42,0
EU-25	111,0	11,6	22,4
ASEAN	108,4	11,3	21,0
EFTA	7,5	0,8	35,2
Iceland	0,04	0,00	-10,9
Liechtenstein	0,02	0,00	75,0
Norway	1,61	0,17	29,1
Switzerland	5,84	0,61	37,3
Total	**955,8**	**100**	**20,8**

Source: Ministry of Commerce

As opposed to the classic developing countries with cheap industrial production, **China has not only the advantage of lower costs, but more importantly of**

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

a higher technical competence. China's manufacturing industries have until now mainly exported low value consumer goods (textiles, clothes, shoes, toys), but Chinese firms and businesses with foreign participation are increasingly producing higher-standard products (home appliances, consumer electronics, computers, mobile phones, etc.), which is in line with the Government's new FDI strategy.

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

Bilateral trade

Trade in goods[16]

Swiss export growth to mainland-China (according to Swiss customs data) **was faster in 2007** than in previous years, growing by 31.66% to CHF 5.41 billion. Imports went up 21.61% to CHF 4.78 billion, resulting in a **trade surplus of CHF 624.14 million for Switzerland.**[17] In comparison, growth rates were still at a very high 19.15% (exports) and an almost equal 18.36 % (imports) in 2006 with a Swiss trade surplus of CHF 171.9 million. When combining trade data between Switzerland and Hong Kong with that of mainland China for the year 2007 there was a **significant CHF 4.11 billion surplus in favour of Switzerland,** keeping up with the 2006 figure.

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

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

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

China is a priority country in the framework of Swiss exports promotion and, as can be seen by the areas which experienced strong increases in exports in 2007 (machinery, chemicals and pharmaceuticals, precision instruments, watches and jewellery). **Switzerland has a great comparative advantage in sectors which matter to Chinese importers.** One example is the constant and increasing demand for advanced technology and production equipment linked to the progress of China's manufacturing sector and its development of infrastructure across the country. This sector offers and will continue to offer excellent prospects to Swiss producers of machinery and manufacturing instruments, also bearing in mind that the business-cycle has peaked in some areas.

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

In their answers to a **Seco-survey** in November 2005, carried out by the Swiss Embassy, over half of the Swiss

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

17 The picture looks brighter for Switzerland if the data for the trade between Switzerland and Hong Kong is added. Altogether, exports amounted to CHF 10.7 billion in 2007, and imports to CHF 5.97 billion. In 2007, Swiss exports to China (incl. Hong Kong) made up 4.27% of global Swiss exports, meanwhile bringing China (incl. Hong Kong) to the position of Switzerland's most important export market and trade partner in Asia, ahead of Japan (3.27%).

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

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		2006	2007	in %	share (%)	2006	2007	in %	share (%)	in CHF
1	Agricultural products	98.837.097	116.062.704	17,43	2,43	21.414.577	25.044.357	16,95	0,46	-91.018.347
2	Energy carriers	221.023	408.979	85,04	0,01	925.076	1.254.582	35,62	0,02	845.603
3	Textiles, apparel, shoes	780.988.503	849.770.765	8,81	17,77	110.286.184	140.204.688	27,13	2,59	-709.566.077
4	Paper, paper products, printed matter	25.364.807	32.752.269	29,12	0,69	23.479.125	24.378.146	3,83	0,45	-8.374.123
5	Leather, rubber, plastics	203.310.435	271.396.084	33,49	5,68	65.704.763	93.313.444	42,02	1,73	-178.082.640
6	Chemicals, pharmaceuticals	526.470.812	602.598.801	14,46	12,60	761.601.326	949.013.789	24,61	17,56	346.414.988
7	Construction materials, ceramics, glass	59.407.751	70.529.098	18,72	1,48	9.419.186	24.332.419	158,33	0,45	-46.196.679
8	Metals and metal products	283.255.919	362.898.201	28,12	7,59	183.857.033	248.408.833	35,11	4,60	-114.489.368
9	Machinery, apparatus, electronics	967.876.471	1.223.875.127	26,45	25,60	1.872.561.861	2.261.543.245	20,77	41,84	1.037.668.118
10	Vehicles	45.758.631	74.270.394	62,31	1,55	8.317.226	26.275.605	215,92	0,49	-47.994.789
11	Precision instruments, watches, jewellery	579.297.452	712.978.191	23,08	14,91	674.897.344	946.142.633	40,19	17,50	233.164.442
12	Furniture, toys	347.765.189	447.067.090	28,55	9,35	20.563.214	31.887.592	55,07	0,59	-415.179.498
13	Precious metal, precious stones, gemstones	5.269.799	8.008.455	51,97	0,17	351.499.655	631.195.495	79,5	11,68	623.187.040
14	Objects of art and antiques	7.568.492	8.355.974	10,40	0,17	941.532	2.115.711	124,71	0,04	-6.240.263
	Total	**3.931.392.381**	**4.780.972.132**	**21,61**	**100,00**	**4.105.468.102**	**5.405.110.539**	**31,66**	**100,00**	**624.138.407**

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

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan - Feb 07	Jan - Feb 08	in %	share (%)	Jan - Feb 07	Jan - Feb 08	in %	share (%)	in CHF
1	Agricultural products	17.235.111	27.306.568	58,44	3,09	2.242.660	3.785.328	68,79	0,39	-23.521.240
2	Energy carriers	-	-	-	-	231.307	321.287	38,90	0,03	321.287
3	Textiles, apparel, shoes	157.802.492	178.141.332	12,89	20,13	22.734.198	28.121.816	23,70	2,90	-150.019.516
4	Paper, paper products, printed matter	4.536.730	6.186.740	36,37	0,70	2.757.551	9.676.621	250,91	1,00	3.489.881
5	Leather, rubber, plastics	41.830.792	48.298.794	15,46	5,46	13.010.105	15.631.163	20,15	1,61	-32.667.631
6	Chemicals, pharmaceuticals	103.453.523	121.090.542	17,05	13,68	151.168.931	149.713.966	-0,96	15,46	28.623.424
7	Construction materials, ceramics, glass	11.084.106	12.351.521	11,43	1,40	3.403.291	2.916.967	-14,29	0,30	-9.434.554
8	Metals and metal products	63.097.978	63.868.277	1,22	7,22	34.977.216	41.127.053	17,58	4,25	-22.741.224
9	Machinery, apparatus, electronics	193.055.306	224.157.036	16,11	25,33	278.363.090	386.243.092	38,76	39,89	162.086.056
10	Vehicles	10.445.054	16.412.313	57,13	1,85	10.855.976	5.593.684	-48,47	0,58	-10.818.629
11	Precision instruments, watches, jewellery	109.850.117	101.289.113	-7,79	11,45	121.923.920	194.126.267	59,22	20,05	92.837.154
12	Furniture, toys	76.362.594	82.894.529	8,55	9,37	4.103.827	3.576.356	-12,85	0,37	-79.318.173
13	Precious metal, precious stones, gemstones	1.115.340	687.639	-38,35	0,08	39.978.659	127.038.349	217,77	13,12	126.350.710
14	Objects of art and antiques	1.363.097	2.170.311	59,22	0,25	1.262.512	331937	-73,71	0,03	-1.838.374
	Total	**791.232.240**	**884.854.715**	**11,83**	**100,00**	**687.013.243**	**968.203.886**	**40,93**	**100,00**	**83.349.171**

Source: Schweizer Oberzolldirektion, Swiss Impex companies doing business in China estimated that the **business climate is overall positive.** They often mentioned that the Chinese mar ket 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.

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

Due to the underdeveloped state of Chinese stock markets and because the national currency isn't fully convertible, **foreign investment is 90% direct investment** and very often greenfield-investment. This system constrains foreign investors but leaves China less vulnerable to attacks on international financial markets as it makes capital withdrawals from direct investments more difficult to arrange. The acquisition of state owned enterprises (SOEs) by foreign investors was made possible under certain conditions in the spring of 2004. The goal is to create an actual market for mergers and acquisitions (M&A). However, as a recent OECD-project on cross-border mergers and acquisitions, co-financed by Seco, has shown, "the regulatory framework for cross-border M&A remains fragmentary, over-complex and incomplete."[18] **Amended foreign Mergers & Acquisitions (M&A)-regulations have entered into force on 8 September 2006.** Although the foreign business community has welcomed the new regulations as they somewhat clarify the complex regulatory environment, concerns have been raised about the use authorities will make of their new competences: Acquisitions of a target company in a key industry, acquisitions which might affect national economic security or acquisitions which involve a change of control of a famous trademark or established Chinese brand must be reported to the Ministry of Commerce. Failing with this requirement could entail termination or reversal of the deal. Future acquisitions may well be subject to much tighter control and further scrutiny by the Chinese Government. A lack of clarity on terms such as "key industry" and "national economic security" has reinforced those fears. However, some commentators do not agree with the general view that we are **witnessing a "backlash"** but claim that nationally sensitive sectors such as defense and media as well as large state owned enterprises have always been off-limits to foreign investors. As China opens up new avenues for privatisation and M&A involving big state companies **certain prudence by Chinese authorities only seems normal** to those observers.

The loosening of legal regulations and the awareness that various joint ventures (JV) have experienced difficulties with their Chinese partners has influenced more and more foreign investors to tend towards establishing wholly foreign owned enterprises (WFOE). The transformation of an existing JV into a WFOE is time and again attempted, but is in general constrained by considerable administrative and high (compensation) costs. After measures to administrate international investment in the area of trade and changes to the laws on foreign trade came into force on 1 June and 1 July 2004 respectively, **foreign investors have been authorised to set up and run WFOE in the areas of distribution, retail trade and wholesale since 11 December 2004.**[19]

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

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

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 unauthorised until it is explicitly and officially approved of. Thus many firms practice their activities in a legal grey area intentionally brought about or at least tolerated by the local authorities, but this understanding can be ended at any time.

In 2007, **foreign businesses invested US$ 74.8 billion in China, up 13.59% from the previous year.** The number of foreign projects approved by the Chinese authorities decreased 8.69% in 2007. The stronger manufacturing capacity, mainly the result of surging FDI inflows in the past few years, has become a major driving force behind China's export surge. **After the first year since 1999 of declining investment in 2005, China's FDI continued to grow by 75.19% during the first two months of this year,** amounting to US$ 18.13 billion.

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

China's industrialisation is mainly fuelled by foreign businesses' investments, in particular out of Hong Kong and the ASEAN region. 37.05% of FDI came from Hong Kong in 2007, making it by far the most important national origin (US$ 27.7 billion in 2007). A considerable proportion of the investments from Hong Kong come from businesses that left China in the first place for tax purposes and now reinvest to the mainland. The same cycle occurs with the Virgin Islands (the second most important national origin of investment with 22.14% of the 2007 total). **In 2007 South Korea, Japan and the USA were the next largest foreign investors (4.92%, 4.8% and 3.5% respectively) with a dramatic slowdown of –7.89%, –24.59% and –12.79% respectively. In 2007, Switzerland's share of new FDI in China amounted to 0.4% (US$ 299 million).**

Bilateral investment flows

At present, about 300 Swiss firms with over 700 branches are represented in China, employing around 55'000 people. Estimates put the total amount of direct investments at **CHF 8.07 billion[20], making Switzerland one of the most important national origins of FDI.** However, the precise amount is unknown, since earlier inquiries on the matter by the Swiss Embassy in Beijing were largely ignored by the enterprises. Following indications of the Ministry of Commerce (MofCom), China granted 97 projects with Swiss participation in 2007 (123 in 2006). In 2007 the actual Swiss FDI totalling US$ 299 million saw an increase of 52% over 2006.

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

A large majority (over three quarters) of the companies that replied to the Seco-survey mentioned that they 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.

Trade, economic and tourism 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**

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

crucial for Swiss companies established in China. Further, the official representative of Switzerland – the Embassy in Beijing, the Consulate General in Shanghai and the Consulate General in Guangzhou, established in November 2006, – has to take on a particular role in the arrangement or relief of such contacts.

Swiss Business Hub China (SBH China)

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

Location:Switzerland "China"

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

Swiss-Chinese Chamber of Commerce and SwissCham China

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

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

Presence Suisse

Swiss awareness in China is raised through a number of projects including cultural, artistic and architectural ones. The image that is being depicted by Presence Suisse is one of an innovating country placing values such as quality and well-being as key. **Switzerland enjoys a positive, although largely stereotypical image in China.** The goals of Presence Suisse are thus to bring further awareness and understanding of Switzerland to the population in China in order to create stronger relations while the country continues to gain importance in the global economy. Currently, the focus is on the preparation for the 2008 Olympic Games in Beijing. Presence Suisse and its partners, especially Lucerne Tourism, are setting up the "House of Switzerland", an official guesthouse where Switzerland will be presented to international and local guests and which will be open to the public. The next upcoming important event will be the 2010 World Expo in Shanghai. Besides this, Presence Suisse, in close cooperation with private and public institutions, is involved in several smaller projects positioning Switzerland as an innovative, internationally minded country with a high quality of life and environmental awareness.

Tourism

A consequence of the growing Chinese economy and the rise of (urban) incomes is the **booming tourism industry** for travel outside of China: 34.5 million Chinese travelled abroad in 2006[21] and is expected to reach 100 million by 2020.[22] Therefore China is a key future market for the Swiss tourism industry. Switzerland was granted **Approved Destination Status** (ADS) by the Chinese Government in 2004. Following the implementation of the policy in September that year, there was a noticeable increase in accepting visa applications. New checks and guidelines were at the same time put into place to reduce the risk of travellers remaining in Switzerland illegally.

In 2007 125'456 visa were issued to Chinese citizens, an increase of about 22% compared to the previous year. In this respect **Switzerland's entry to the Schengen-Agreements, which should become**

21 Ministry of Public Security
22 World Tourism Organisation

operational on 1st of November 2008 is expected to be further beneficial: Swiss Tourism anticipates over 316'000 Chinese overnights in Switzerland by the end of the year 2009[23]. Swiss Tourism was established in Beijing in 1998 and a second branch should be opened in Shanghai, but is still facing some registration issues. The launch of a direct air link between Zurich and Shanghai from 9 Mai on is expected to further boost Chinese outbound tourism to Switzerland.

Education

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

Though the (private) school sector has shown increasing interest in attracting Chinese students to their institutions, the overall number of student visa demands has gone down in recent years. This is partly due to the high costs, perceived limited benefit of studying abroad and bad publicity due to abuses which have taken place in some hotel and tourism management schools. In order to tackle these issues and to promote a positive image of Swiss colleges and universities in China, the Education Section of the Swiss Embassy participated for a first time at the China International Education Exposition in October 2007. As this proofed to be an effective way for direct contacts with the relevant media, participation at this exposition will very likely be pursued and further, participation at the Beijing International Education Exposition in the beginning of May is programmed.

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

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

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

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

Interest for Switzerland as a financial location, potential for development

Switzerland's reputation as a financial location – as far as there is such a perception among the general public – is generally positive, especially with the Chinese Government, the National Bank and the regulatory bodies of the financial sector. Bilateral financial consultations amongst relevant authorities started in 2005. The Swiss Banking Association initiated a constructive dialogue with Chinese financial authorities in 2006 on issues of mutual interest to Chinese and Swiss financial services industries. So far both, the President of the Governing Board of the Swiss National Bank and the Chairman of the Swiss Banking Association have met high-level financial authorities in Beijing. The leading Swiss banks, which have acquired minority participations in Chinese banks and insurance companies, regularly receive Chinese officials and financial sector professionals for trainings and know-how exchange.

Krystyna Marty
Head Economic and Commercial Section
www.eda.admin.ch/Beijing

Various Short News

GDP and Inflation Figures Released

China's economy grew by 10.6% in the first quarter, compared to the same period last year. Inflation in March reached 8.3%, lower than the 11-year high of 8.7% in February. The figures mean the government will continue its tight monetary policy in the coming months. The People's Bank of China immediately raised the proportion of deposits that large commercial banks must keep by 0.5 percentage points to 16% – the 16th such increase since mid-2006. Food prices rose by 21% in the first quarter, accounting for 6.8 percentage points of the 8% rise in the consumer price index in that period. Industrial production in the first quarter rose 16.4% from a year earlier, 1.9 percentage points lower than in the same period of 2007. Investment in fixed assets surged 24.6%, which was 0.9 percentage points higher than a year earlier. A higher investment growth together with higher tourism revenues from the Beijing Olympics is expected to offset the impact of slower export growth. Retail sales climbed 20.6% in the first quarter, with both urban and rural spending increasing rapidly. The growth rate was 5.7 percentage points higher than a year earlier.

- The number of people officially living in poverty could double to 80 million if the government raises the poverty line from CNY1,067 to CNY1,300 per annum.
- China's National Social Security Fund (NSSF) aims to double its CNY500 billion under management to CNY1 trillion by 2010. The fund booked a realized gain of CNY108.4 billion or returns of 39% on investments last year. The pension fund plans to expand investment in finance, transportation, energy and stocks.
- Fan Gang, a member of the People's Bank of China Monetary Policy Committee, has warned that China is seeing an even stronger capital inflow now, despite some nations suffering a credit crunch, adding that the capital inflow will add up to excessive liquidity and worsen inflation.
- More than USD80 billion in speculative funds moved into China in the first quarter, against USD120 billion in all of last year, according to Zhu Baoliang, an economist with the State Information Center. The hot money inflows added to China's money supply, giving rise to inflationary pressures.
- The Bank of China (BOC) expects the yuan to rise 18% against the euro by the end of next year as the European Central Bank comes under pressure to cut interest rates. The yuan has declined 7.3% against the euro since the Chinese currency's peg to the U.S. dollar was scrapped in July 2005.

China's May Trade Surplus Drops 9.9%

China's trade surplus in May dropped 9.9% from a year earlier to USD20.2 billion. Exports increased 28.1% last month to USD120.5 billion, while imports climbed 40% to USD100.3 billion. In the first five months, the mechanical and electrical equipment sector accounted for 58.8% of exports. The overall trade volume in May rose 33.2% to USD220.8 billion. During the first five months, the EU remained China's largest trading partner.

More FDI, but Less Enterprises Approved

China used USD42.78 billion foreign direct investment (FDI) in the first five months this year, an increase of 54.97% from the same period last year, the Ministry of Commerce (MOC) said. Meanwhile, the number of newly-approved foreign-funded enterprises shrank 20.95% to 11,915 in the first five months. The actual use of FDI in May jumped 37.94% from a year earlier to CNY7.76 billion and the number of newly-approved foreign-funded enterprises dropped 10.94% to 2,425.

Hong Kong Investment in China Rises 114%

Hong Kong invested USD15.1 billion in mainland China in the first four months of the year, 113.7% more than in the same period last year, according to the Ministry of Commerce. Total trade between Hong

Kong and mainland China grew 9.3% to USD62.98 billion, with exports to Hong Kong up 8.5% to USD58.57 billion and imports from the city 20.5% higher at USD4.41 billion.

Beijing Plans to Impose a Tax on Commercial Properties

The Beijing Local Taxation Bureau plans to impose a tax on commercial properties, including offices and factories, in the middle of this year. The rate is expected to be set between 0.8% and 1.4%. Analysts expect the number of transactions for commercial properties to drop if the tax is introduced. Economist Yi Xianrong of the Chinese Academy of Social Sciences said that in order to curb the growth in property prices, the tax rate should be set at 5% or more. A further step might be the introduction of a tax on residential properties.

- The Beijing municipal government will spend CNY2.9 billion to build and purchase 500,000 square meters of houses and flats and rent them to low-income residents at affordable prices. The average property price rose 17.5% in Beijing last year.
- Hong Kong-listed Hsin Chong Construction Group said it would focus on property development in faster growing cities in China. The company is now 59% owned by Mission Hills Group, a hotel resort operator managing the world's largest golf club, located between Shenzhen and Dongguan.
- According to informed sources, U.S. developer Tishman Speyer won the bid for Lot F in New Jiangwan City in Shanghai's northern Yangpu district for CNY6.8 billion. The price per square meter is CNY7,555. The company is co-owner of New York's Rockefeller Center.

China Raises Energy Prices

The Chinese government raised the retail price of diesel by 18.1% and the price of petrol by 16.7% effective June 20. Electricity tariffs will increase on July 1 by 4.7% on average. The benchmark retail prices of gasoline and diesel oil would were raised to CNY6,980 and CNY6,520 per ton. The price rises translate into mark-ups of CNY0.8 and CNY0.92 per liter. The price of jet fuel sold to wholesalers was raised by 25.2% to CNY7,450 a ton. The higher prices could prompt businesses and people across China to use less fuel and electricity, potentially slowing China's oil consumption. Following the news, world oil prices immediately dropped more than USD4 per barrel. Until now, the government's preoccupation with consumer price inflation had many economists wondering when fuel prices would be allowed to rise at all. Prices for petrol and diesel had been fixed since November 1. China became the eighth Asian country to raise fuel prices in the past month. Subsidies to farmers, public transport, low-income families and taxi drivers will be increased. The price increase is expected to hurt the transport sector, as well as companies with high transport costs. Fuel prices in China remain 30% to 38% below world prices.

95% of SMEs are Privately Owned

There are 42 million SMEs in China, of which more than 95% are privately owned, according to the National Development and Reform Commission (NDRC). They make up more than 99% of the country's enterprises and contribute up to 60% of GDP, about half of total tax revenues and more than three quarters of urban employment.

- There are now 7.7 million people in China with liquid assets worth between CNY200,000 and CNY8 million and a further 345,000 with liquid assets in excess of CNY8 million, according to consultancy Bain & Co.

- Property prices in China's 70 major cities rose 9.2% in May year on year. The fastest rise was recorded in Urumqi (22.0%), while prices in Beijing increased 15.7%.

European Chinese Center to be Built in Rotterdam

Volker Wessels and Shanghai Construction Group have signed a €100 million contract in Shanghai to jointly build the European Chinese Center (ECC) in Rotterdam's port area of Katendrecht. In the first phase 36,000 square meter will be built, to be expanded later to 100,000 sq m. The business center will house Chinese companies, offices and a hotel.

China and Japan Reach Agreement on East China Sea

China and Japan have reached a principled agreement on the joint exploitation of oil and gas fields in the East

China Sea, prior to the delimitation of the sea border between China and Japan without prejudicing their respective legal positions. A bitter dispute has centered on Beijing's exploitation of the Chunxiao field, which lies within China's economic zone, but just a few kilometers from the median line, and which Tokyo has said could draw gas from its side. Under the deal, the Chinese state-owned energy companies operating in Chunxiao will welcome the participation of Japanese investors in the field. The deal sets aside a large block of territory for joint exploration, but would not prejudice both parties' respective legal positions on the demarcation of the economic zone boundary. Estimated known oil reserves in the disputed fields are a modest 92 million barrels, but more reserves may be found.

Source:
Flanders-China Chamber of Commerce (FCCC) Newsletters edited by Michel Lens.
Disclaimer: the views expressed in the newsletter are not necessarily those of the FCCC.

China-Made Bullet Train to Link Beijing and Tianjin

The first Chinese-made bullet train has completed a test run, and will begin service between Beijing and Tianjin in August.

The new train is designed to run at 300 kilometers an hour and will link the two cities starting August the 1st, a week before the opening of the Beijing Olympics. It will cut travel time between Beijing and Tianjin to around 30 minutes less than half the current travel time of 70 to 80 minutes.

In the meantime, sources say the Ministry of Science and Technology and the Ministry of Railways are looking closely at plans for a 350-kilometer-an-hour train to run between Beijing and Shanghai. That high-speed link has been in talks for years.

Currently, China's fastest home-made trains run up to just 250 kilometers an hour. Those trains, which debuted last April, link Beijing with Harbin, Shanghai and Guangzhou.

New Navigation System Set for Beijing Olympics

China's independently developed Compass Navigation Satellite System (CNSS) has acquired area navigation capacity and will first be used for the 2008 Beijing Olympic Games, the Shanghai Morning Post reported from the NaviForum Shanghai 2007 press conference.

Soon the self-developed CNSS with similar functions to the Global Positioning System will be able to navigate tours. "Currently the CNSS has 5 navigation satellites and more will be launched in 2008", Ran Chengqi, vice director of the China Satellite Navigation Engineering Center said at the press conference.

The country established a trial compass navigation system in 2003 and this trial system could provide positioning, timing, and telegraph functions for China and the surrounding areas. It has been applied to transportation, fishery, exploration, and forest fire prevention; the subsequently established CNSS has improved function.

This system will be used to divert traffic and monitor game venues during the Beijing Olympic games. It can tell the driver the shortest way and find him the route by which he can most quickly get to his destination, considering the actual state of the roads.

It is predicted that the CNSS will be used in Shanghai before 2010.

China's Top 10 Scientific and Technological Achievements in 2007

China announced its top 10 achievements in scientific and technological progress in 2007. A total of 547 academicians from the Chinese Academy of Science and Chinese Academy of Engineering participated in the voting.

1. "Chang'e-1" successfully launched and clear moon surface images obtained

2. Ultra-deep drilling rig successfully developed
   Baoji Oilfield Machinery Co., Ltd. successfully developed China's first 12,000-m ultra-deep drilling rig with independent intellectual property rights. This is the first 12,000-m land AC variable frequency electric rig developed in the nation and in the world.

3. Cancer treatment study made significant progress
   A research team led by biophysical researchers with the Chinese Academy of Sciences, Liang Wei and Hang Haiying, published their research paper about "nano-micelles delivering chemotherapeutic drugs directly to cancer cells" in the Journal of the National Cancer Institute of the United States on July 4th. Chen Yan's research group with the Shanghai Institute of Life Sciences, under the Chinese Academy of Sciences, also published a research report on the discovery of a new target for cancer treatment.

4. Six-atom Schrodinger "cat" state achieved

The Hong Kong Science & Technology Park (HKSTP) with an area of 22 hectares is the home of some 200 technology companies. With its unique location at the gateway to the Pearl River Delta and Southern China, it provides the ideal platform for access to this emerging global leader and for managing dialogue and knowledge exchange. www.hkstp.org

5. Fossils of dormant animal eggs from 632 million years ago found

6. First domestically-developed regional plane rolled out of the workshop

7. World's largest bird-like dinosaur fossil found
   Chinese scientists found the fossils of a giant theropod (beast-footed dinosaur) in 8,000 year old sedimentary rock in the Erlian Basin of Inner Mongolia. The dinosaur is about 8 meters in length, and stands more than 5 meters high. It is comparable to the famous tyrannosaurus in figure, and weighs approximately 1,400 kg.

8. Breakdown of the Born-Oppenheimer Approximation in the interaction of fluorine and deuterium atoms discovered

9. First wildlife germplasm bank established
   As one of the major national science projects, the Wildlife germplasm resource bank, in Southwest China, was established at the Kunming Institute of Botany, under the Chinese Academy of Sciences. After its completion, the resource bank will include a seed bank, vitro plant germplasm resource bank, DNA bank, and microbial seed bank. It will collect and preserve 190,000 copies (strains) of 19,000 varieties of germplasm resources.

10. Record high yield of new soybean variety: 371.8 kg/mu

In addition, the academicians voted for the world's top ten achievements of scientific and technological progress in 2007:

1. Development of embryonic stem cells using human skin cells
2. Discovery of Earth-like extra-solar planets
3. Confirmation of global warming as an indisputable fact
4. Graphics drawn for dark matter in universe
5. Successful tracing of the photon
6. Discovery of many genes that cause various diseases
7. Accomplishment of the first "genome transplant" in living organisms
8. Creation of a DNA brake
9. Progress in new energy research and development technologies
10. Achievement of a record in quantum communications distance

Source:
China Environment and Research Newsletter
Previous newsletters can be downloaded from the website of the Embassy of Switzerland in China: www.eda.admin.ch/beijing

Note: New Counsellor and Head of Science, Education, and Health Section, Mr Markus Reubi, took office in March 2008 at the Embassy of Switzerland in the People's Republic of China.

Manufacturing BestPractice

How Flowerpots can Beat Chinese Producers

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Everyone is looking for an edge in China's increasingly competitive economy, but not everyone is going about it the same way. Having squeezed all they could out of cheap labor, Chinese companies have caught the automation bug. They're busy investing in upgrading factories and equipment to increase productivity. Foreign companies, meanwhile, are racking their brains over how to counter rising costs for labor and other inputs, and the renminbi's appreciation against other currencies. Some are even moving factories to Vietnam or India.

What most foreign companies in China and almost all Chinese companies have not realized yet is that the key to enhancing productivity lies in lean manufacturing. Chinese producers are upgrading product quality and improving productivity through more modern, automated production processes. InterChina Consulting, together with Staufen AG, believes that this offers an opportunity for foreign manufacturers to gain an edge by applying Best Practice production principles. The strategy of maximizing value while minimizing waste, otherwise known as "lean manufacturing", is a concept originally developed by Toyota Motors Corp. Amazingly enough, many foreign companies in China do not apply these principles.

Lean manufacturing empowers workers and operators, an approach seldom applied by more autocratic Chinese producers. A western factory in Suzhou sought to cultivate that sense of empowerment by giving each machinery operator a potted plant to nurse. A part of the workers' annual bonuses depended on how well they cared for their flowers during a one-year period. In general, Chinese employees tend not to take good care of equipment and do not want to be responsible for maintaining machines, equipment or any other assets that do not belong to them. They generally expect other employees to clean and maintain the equipment and tools they use. The flowerpot exercise helped to nurture the workers' sense of responsibility, encouraging them to take more care with tools and machines. It's an approach that does not require adding expensive equipment to boost productivity and reduce waste.

Until recently, Chinese manufacturers generally have sought to avoid professionalizing the production process. The average mindset was focused on "low investment with the highest possible quick return" – a tendency reflecting the uncertainties in a fast-chang-

Key Differences between Western and Chinese Production Methods and Investment Decisions

	Foreign-invested, Western producers in China	Local, Chinese companies
Location	– Expensive coastal area – around expensive megacities; higher expectations for quality standards boosts building and staff expenses by 50%–200%	– "Unknown" provinces and cities with cheaper land, buildings and people
Management / Staff qualification	– High requirements of investor lead to higher and longer pay-role (e.g. just the requirement for "English language skills" raises costs by 20%–30%! – Staff expect higher wages / salaries from an FIE	– Organization is built around the "owner" – Staff qualification requirements are lower and the salaries are cheaper – From time to time, social insurance is not paid – Controlling function is not common
Purchasing costs	– Suppliers will add an "FIE surcharge" which can easily reach 5%–25% (after negotiations)! – Focusing on the already developed "premium class" suppliers in China = higher costs	– The total supply base is bigger – The payment terms are more "flexible". "Payment in cash" without taxes further reduces costs
Corporate Governance	– All official requirements will be followed and will increase costs	– Expensive legal requirements. Often bypassed through good "local guanxi"

Source: InterChina Consulting & Staufen Analysis

Differences between Classic, Lean and Chinese Production Philosophy

	Classic Western Production Philosophy	Lean Manufacturing	Production reality in China
Market Demand/ Environment	– Standardized – Predictable – Large volume of same unit	– Customers expect customized products – Modular design reduces amounts of variants and helps to reduce order fulfilment complexity	– Chaotic – Unpredictable and fast changing – Relative small volumes of ame unit
Production system	– Batch orientation with functional organization – Applying of single methods instead of an integrated system	– Process orientation of organization and plant layout – Lean production system (TPx) partially on a high level	– Batch orientation with functional organization – No standardized system – Minor awareness for waste within processes – Extensive inventories
Machine park (example)	– Fancy expensive machining centres for mass production – Excessive automation	– Flow orientation – decentralise machining concepts – smaller, more flexible equipment	– 5 semi-automatic lines, grouped by technology (job-shop layout) – Low output efficiency per line
Investment per machine	– Huge Investments for production equipment and manufacturing lines – Long term oriented	– Medium – Mid-term oriented	– Low – Short-term oriented – Considering upfront investment costs only
Quality	– High – but with high efforts and costs. – Focus on “inspecting the quality” (centralized inspection)	– High – Efficient use of raw-material – In-process self-inspection by workers. Focus on producing quality – Line inspection	– Low quality output – More raw materials are used – Considerable amount of scrap / waste is produced, which is then sorted out manually – Centralized inspection department (no line inspection)

Source: InterChina Consulting & Staufen Analysis

ing economy. “Who knows if the market for my product will still exist in one year or the whole industry in five years?” one small Chinese sanitary products maker told us. Such manufacturers have tried to minimize investment risks by avoiding spending on advanced equipment, relying instead on a more flexible resource – cheap, unskilled labor.

This approach contrasts with classic western production philosophy. But Chinese producers are now changing their strategy, largely due to rising labor costs. We see this trend in several major industries. Over three-quarters of Chinese food producers that InterChina has visited in the past year have recently doubled or tripled their production capacities. To boost output and improve quality, they are installing automated equipment. Other examples include cigarette production (Shandong Tobacco’s factory features fully automated processes) and photovoltaic cell production (for leading players like Suntech or Solarfun, economies of scale are paramount).

This obsession of Chinese producers with upgrading equipment will merely enable them to automate and expand production, improve product quality and ensure greater consistency. But this is no “silver bullet”. The down side is that they may lose the flexibility they relied on in the past. Companies that apply lean manufacturing will gain an advantage over those that rely only on automation because they will be able to maintain higher levels of flexibility.

Where do Western producers stand in China?

Can foreign-invested producers beat local competition by applying the same automation strategy? Probably not. Foreign manufacturers will always have a higher cost base. A European automotive industry manufacturer estimates his structural cost disadvantage (both homemade by investors and local, basic conditions) can easily add up to 30% of his total costs.

Why the change of heart among Chinese producers?

1. **They deal with higher cost.** Many Chinese factory bosses now realize that machines are easier to manage than people. With the new Labor Contract Law (effective since Jan 1, 2008), access to cheap and replaceable migrant workers on flexible terms has become more difficult and costly. Such workers require at least a yearly contract, including employment benefits. In some regions or industries, the cost of labor for Chinese factories is rocketing by up to 30% a year, motivating Chinese factory bosses to seek higher automation levels.

2. **They aim at less waste.** Besides labor, other input costs (e.g. oil, chemicals, plastics, steel, etc.) have risen, too. Chinese producers are now more anxious to minimize scrap. In the past, "high quality" was achieved by sorting out bad output units by hand; this waste has now become painfully expensive.

3. **They target quality markets and export markets.** Export-oriented Chinese producers (e.g. households/white goods, TV sets etc.) recognize the need to upgrade production quality to successfully compete on an international level. Automation helps them to improve consistency and secure the confidence of overseas customers. Chery's auto factory in Anhui province features a fully automated plant with a modern building, spacious work environment and the most advanced production equipment to target quality markets. However, only the production steps which are crucial for product quality are upgraded. Other steps are handled manually. A leading wafer company uses scrap wafers to producer solar-grade wafers and has over 1,000 people to select and clean the scrap wafers. For more quality-critical production steps, only a few hundred workers are used.

4. **They comply with governmental standards and regulations.** In most industries in China, factories range from small, dirty workshops to state-of-the-art facilities. Tightening governmental standards can have a significant impact. For example, the Chinese government's pursuit of high quality standards for drug safety means that new investments by Chinese drug manufacturers resemble plants built in the West.

5. **They can afford it.** Some factory owners can now actually afford to invest in production upgrades – these are typically cash-rich companies of a certain scale (i.e. private first-tier automotive component producers). Many smaller Chinese producers suffer from meager cash-flow and thin margins. For them, an upgrade to automated production remains prohibitively costly and is also perceived to be way too risky. With the recent worsening of the credit situation in China in the recent months, bank loans come at indecently high interest rates, making machinery investments financed by loans almost impossible. Such players may cling to the "classic", short-sighted Chinese production model while grappling with shrinking margins and, eventually, consolidation of production capacities in their industry.

Foreign producers must cut costs (e.g. by switching to locally sourced products). But this alone will not give them a real edge against fast-growing Chinese competitors who are improving their quality day-by-day. For many foreign producers, their technology advantage was their China market entry ticket – and this advantage is now at risk. They may react by introducing more expensive equipment to the plant – and undermine any cost advantages initially gained.

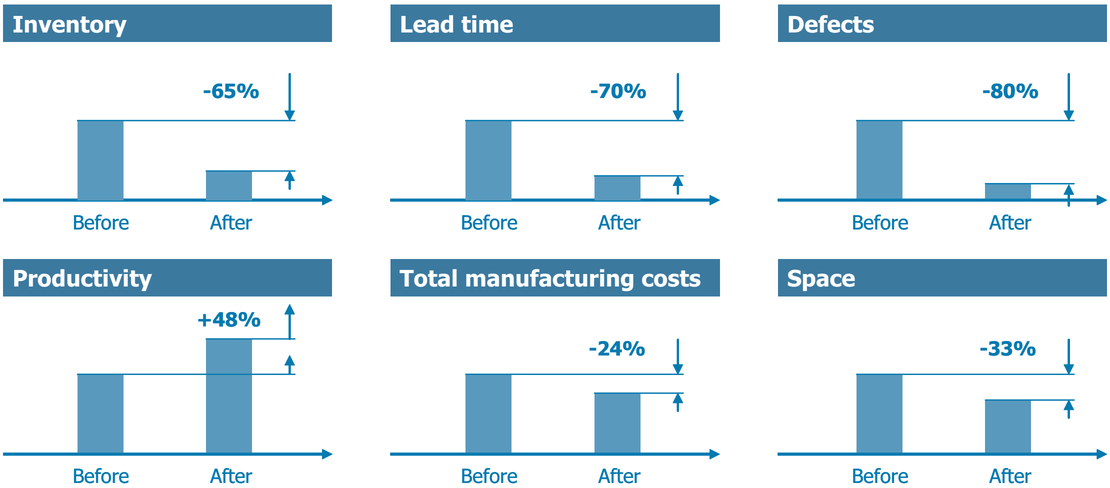
At the same time, foreign producers can be quite satisfied with 15% growth in production sales year-on-year. Foreign production managers have their hands full dealing with this level of growth, not realizing that the overall market (and especially the Chinese competition) is actually growing at a rate of 25%. The typical reaction to this is to flirt with targeting medium- or low-quality segments to get in on that fast growth. Unfortunately, if not done well, such tactics can be disastrous.

Prescription for Western producers in China: Performance leadership through excellent operations management

Hoping to survive on the low end or medium market segment is like gambling with a determined, undesirable outcome for your investment in China. The only long-term successful strategy for Western producers is striving for performance leadership with proven market acceptance for the delivered cost/performance ratio.

Many foreign investors or managers in China mistakenly compare the costs of their China plants with Western countries' cost levels. However, a better approach is to compare China investments and costs with those of Chinese competitors, in order to fix the right benchmarks. Operating a factory by the same principles and methods as local competitors will never help you recoup your cost disadvantages. The only solution is to provide better products of better

Typical Results from the Application of Lean Implementation Projects in China



Source: STAUFEN Analysis

quality and good, flexible service, manufactured with an excellent, lean production system.

The potential impact of implementing a lean-production system on costs and flexibility of Western factory operations in China is tremendous (see chart above). It is not always necessary to invest in the latest technology or fully automated factory equipment. Installing, organizing and operating a factory according to smart, lean principles is the key.

Globally, the "lean approach" has generated plenty of success stories over past decades. A lean manufacturing culture is neither Japanese nor Western. Interestingly, European and American production managers tend to shy away from applying Best Practice production principles, while Japanese companies never hesitate – they apply the same lean manufacturing management in their Chinese plants as in their Japanese operations.

How Can Western Producers Achieve This? Keys to Succeeding in Implementing Lean Production in China

The implementation of a dynamic lean manufacturing system could easily take three to four years in China. Therefore, it is crucial to set out with the right strategy and milestones.

Success-factor 1: Rethink your strategy

Do you really know how your Chinese market works? The market and consumers are different from your country, so products have to be adjusted to local Chinese standards. Otherwise, you'll end up spending too much money and time on marketing. Make sure your product fits local market demand, and ensure your headquarter will buy into adapting your product or product portfolio to local needs. This discussion can be time consuming and difficult.

A German-based machine tool equipment MNC initially tried to penetrate the Chinese market with the top selling machines from Europe. Although it succeeded in localizing production and setting up its supply chain, sales figures showed the company miles behind plan. Only after urgent demands by the local general manager for a "China-adapted product", and hard talks with the company's Product Marketing, R&D and Group Management was he able to get a product to match market demand. The adaptations were mainly aimed at simplifying the product by removing fancy cost drivers. The machine was also re-enforced to stand up to rough local operator behavior. Today, this company is one of the most successful machine tool manufacturers in China. The morale: Ensure that local customer expectations are incorporated into your product strategy.

After the necessary adaptation of your marketing mix, the focus turns to operational excellence – especially given the fore-mentioned higher cost base in China.

Success-factor 2: Define the mission & vision for your Chinese operation

You have to develop an operational vision for your Chinese factory by communicating both with your employees and with management at the parent company headquarters. This should outline the factory's role in the domestic order-fulfillment and in its global group production network for the next three to five years. Where do you want to be with your factory in 2011? If this helpful question is answered and jointly discussed with your local management, it will be relatively easy to map out how to get there. An "Operational Roadmap to Excellence" will provide proper guidelines for your management and staff in China. The resulting continuity and long-term basis for the daily decisions and actions will be greatly appreciated by your Chinese staff.

Success-factor 3: Implementation of a Lean production system

Lean manufacturing cannot be implemented in the blink of an eye. Lean is a marathon, not a sprint. The transition from the so-called "batch and queue" mind-

Sequences in Best Operational Processes

Implementation Sequence	Phase	Characteristics
1	**Reliability**	▪ No unplanned machine downtimes ▪ Standardized and documented work flow ▪ Visual management as on-site instrument of control ▪ Qualified operators
2	**Flow**	▪ Transition from job-shop manufacturing (functional layout) to flow production (process layout) ▪ Interlinking of neighboring processes
STOP		
3	**Rhythm**	▪ Sales and production planning is precisely coordinated ▪ Products are produced according to customer demand (= customer tact time) ▪ Short tool changeover times
4	**Pull**	▪ The demand of downstream processes sets the pace and pulls from upstream processes ▪ The right part at the right time in the right amount at the right place

Source: STAUFEN Analysis

set to the flow-oriented Lean approach takes around 3–4 years. It is important to stick to the Lean-principles throughout every step of the implementation.

Success factor 4: Management and leadership as an accepted role model
"Go to the Genba!" "Genba" is a Japanese word meaning the place where something happens. We believe most managers in China spent too much time in fruitless meetings and avoid visiting the Genba, or factory floor, where the real action occurs. "Go to the Genba" can be described as "Go, see, support, & solve" and it's a highly effective principle for communication, problem solving and getting to know what's going on at the shop floor level. Expatriates in Chinese operations should get out there instead of hiding in meeting rooms and offices.

Success-factor 5: Reduce waste within your operation – daily, step-by-step
A core responsibility for all employees should be the identification and reduction/abolishment of waste. To begin with, it is helpful to focus first on improving the reliability of all of your processes, which reduces one or many of the "7 Wastes" simultaneously. The second phase of Lean Implementation aka flow reduces the amount of inventory, which shortens the manufacturing lead time. Ensure everybody is aware that overproduction and excess inventory is considered as the "root of all evil" regarding a wasteful manufacturing operation.

The "7 Wastes" in Manufacturing

The "7 Wastes" in manufacturing	
1. Defects	5. Inventory
2. Overproduction	6. Motion
3. Transportation	7. Process
4. Waiting	+1: Unused creativity

Source: STAUFEN Analysis

Success-factor 6: What are the China Challenges when implementing a Lean production system?
The guiding principles of lean manufacturing are the same the world over. Three indicators – quality, cost, and service level – always determine overall performance. Therefore is it not necessary to revamp production systems to suit Chinese realities. The basic structure and inherent logic of all the methods used remains the same.

A German-based multinational auto parts and drive automation company with several production centers in China faced the critical question: Does the European production system fit China's environment or do we need a different manufacturing model? The company decided to use its proven lean manufacturing system with slight changes. It was amazingly successful. China is of course in many ways different from Europe or the US but the principles for running successful lean manufacturing are generally the same. Lean manufacturing has been the best and most successful way to run a factory for the past 40 years.

At the same time, managers must make adjustments. This is the first "China challenge". For example, when it comes to structured problem solving, the ability of local workers and managers is generally very low. This means that the group brainstorming approach often used in western companies to drill down to the root cause of a problem is virtually impossible in the typical Chinese factory setting. Carrying out "lean" or other improvement projects requires teaching not just special skills but also basic skills like group discussion. Equally important, everybody involved must be given multiple opportunities on-the-job to apply the freshly learned skills in a "safe environment", where employees will not be penalized for making mistakes.

The strong hierarchical structure of Chinese companies poses another challenge. One powerful element of lean production is the interlinking of neighboring processes. This means that autonomous departments will suddenly have to work closely together. In such a setting, a department manager often will have to compromise his own departmental objectives for the sake of overall performance. This is a completely alien approach for Chinese managers. For example, the manager of a CNC milling workshop would seek to keep the utilization rate for his expensive machinery high, despite unstable downstream demand, resulting in unnecessarily large inventories of semi-finished goods. In a hierarchically structured company, the CNC milling workshop manager will fight hard to keep production high while the logistic manager will fight for smaller warehouses and higher inventory turnover. Now, the voice of a third manager, the assembly line head, comes into play. He suffers from huge amounts of rework due to the miserable quality of the milled parts. All three of them, together with all others involved, have to work together on a solution that will optimize the entire process, not individual departments.

Conclusion

Lean manufacturing is the key to success for foreign producers in China

China has become too expensive for Western producers to compete effectively without Best Practice principles at a time when Chinese manufacturers are becoming more productive and automated. The distinction between Chinese production quality and Western production quality is starting to blur.

Western producers don't need to sink money into the latest and most expensive production equipment. Instead, Best Practice principles can create a distinct and hard-to-copy advantage for Western producers. Before considering a move into a remote area of China or to other, less developed countries like Vietnam, they should try lean manufacturing.

By Franc Kaiser (InterChina Consulting) &
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Identifying and Managing Risk in China

Are you aware of the internal and external risks associated with your investments in China? Does your operation know and act upon all reporting requirements and tax liabilities? Are there internal loopholes jeopardising business success?

External Risks

Foreign firms that are new to the region usually focus on market success alone. They don't know the prevalent regulatory requirements their China companies are facing. But compliance with the rules and regulations is a conditio sine qua non for success: in the entry phase, during the "life time" of the operation and for its closure. Non-compliance can result in fines, hide shortcomings and ultimately incur unwanted liabilities, cost and the need to clean up a mess that could have been avoided.

Entry phase

Q: What should investors watch out for before setting up a company?

A: The Chinese government has recently revised its "Catalogue Guiding Foreign Investment in Industry" including different levels of investment acceptability: encouraged, restricted and prohibited. An encouraged project allows the foreign investor to set up a Wholly Foreign-Owned Entity (WFOE); approval can be obtained at a local level. As for restricted projects, the participation of a Chinese partner or approval from the central government in Beijing might be required. Prohibited projects are not allowed for foreign investments at all. Investors need to check what category their projects fall under. Otherwise, they might waste time and money on pre-investment work such as market analysis or target search only to find out that they operate in the restricted category where, instead of the planned WFOE, only a Joint Venture (JV) with a Chinese partner is allowed. In certain protected industries, their investment may even be completely prohibited.

Q: How does this affect foreign investors?
A: Encouraged projects enjoy preferential tax rates. Newly encouraged projects include R&D facilities, the high-tech industry, modern logistics, energy

saving and qualified environment or water protection amongst others. If such a project was not encouraged before, the revision could result in possible tax benefits for the investor. On the other hand, investors in real estate or mining of rare metal, categories that are now considered restricted, will gradually lose preferential treatment over the next five years.

Life time

An example for compliance issues during the life time of a China company are executives in WFOEs and Representative Offices (RO). They need to exercise certain duties on behalf of the shareholders and the law:

Q: What are the duties of the General Manager (GM) of a WFOE?
A: The GM is in charge of managing business operations, implementing board resolutions, organising the execution of the company's annual operational and investment plans, hiring or dismissing the Vice Manager and CFO, and any other duty set forth by the Articles of Association (AoA).

Q: What are the duties of the Chief Representative (CR) of a RO?
A: The CR is usually the person responsible for the daily running of the RO. He or she is legally responsible, acts of CRs have binding force. Since the Chinese law does not specify the limitation of his or her authority, the foreign company is advised to give a clear framework of rules and limits.

In line with the related laws and regulations, there are certain requirements on tax and accounting reporting in China:

Q: What has to be reported for a WFOE?
A: WFOEs have to report Business Tax or Value Added Tax (depending on the type of business being conducted), Stamp Duty and Individual Income Tax on a monthly basis, Corporate Income Tax every quarter and an Annual Consolidated Inspection and Annual Tax Clearance. On the accounting side, a full set of bookkeeping has to be reported monthly while Annual Audits and Annual Foreign Exchange Audits have to be performed on a yearly basis.

Q: What has to be reported for a RO?
A: There has to be a monthly report on Individual Income Tax, while Business Tax, Corporate Income Tax and Stamp Duty usually have to be reported quarterly. The Annual Tax Clearance also applies to ROs. A monthly Expense Report and the Annual Audit are accounting reporting requirements.

Closure

The process of closing, for example, a RO is one demanding a large amount of regulatory requirements. One cannot close a RO without submitting accounting records for three years, and if the records are unclear or reveal unpaid taxes harsh penalties await the culprit. More information on "How to close a RO" can be found in the November issue of CHINA FOCUS.

Internal Risks

Apart from the risks of not complying with reporting rules and laws, foreign companies also face internal risks. These arise from misconducts in the China company that range from accounting irregularities to fraudulent behaviour of staff. In order to manage these risks, they need to be identified at an early stage and managed accordingly.

Chops have a special meaning in the Chinese business world as most documents only become legally binding by affixing a chop:

Q: What different chops are there?
A: The company chop has the highest legal effect. In some cases, the individual chop of the CR/LR is required in addition. The finance chop is also of particular importance. Since chops basically replace signatures in China, the person with this chop has power over company and bank account.

Q: What to watch out for when it comes to chops?
A: The unauthorised and inappropriate use of chops can cause legal and financial problems for the RO or WFOE and eventually the foreign company. Whoever is in possession of the finance and individual chops can issue cheques and payment vouchers. Therefore, it is important that chops are kept by several trustworthy people.

There are certain alarm signals that a China entity may go down a wrong path:

Q: What are general alarm signals?
A: If the China entity departs from standard company policies such as approval procedures, alarm bells should ring in the overseas headquarters. Other signs can include changes in customer claims, cumulative return of sold goods and business transactions with unknown third parties, e.g. cash sales.

Q: Are there any other signs?
A: An obvious divergence from key performance indicators in sales can be an alarm signal, so can changes in sales figures by customer per territory or granted discounts. Family relationships of staff within the company or with suppliers and customers should be watched closely. Sudden lifestyle changes can indicate newly gained wealth and therefore also be a sign of misconduct.

Risk management includes the execution of precautionary measures that help detect possible shortcomings:

Q: What precautionary measures can be taken?
A: By implementing a system of Corporate Governance, internal risks can be managed early on. This includes:

- Set up an employment handbook with clear operational guidelines in English and Chinese
- Segregate duties by establishing different organs (Board of Directors, Chairman, Directors, GM)
- Implement a 'four-eye principle' i.e. split responsibilities between GM and CFO and have them control each other
- Know your key customers and suppliers personally
- Institute a regular risk management reporting system which helps keeping the China operations on track
- Rotate staff, especially in sales, purchase and quality control
- Outsource non-core activities such as accounting, payroll, tax payments
- Verify employment contracts including termination, confidentiality, identification
- 'Meet the people' i.e. general staff: someone in the firm often knows about fraud or non-compliance and is willing to tell!
- Execute internal audits

For a complete overview and advice on the points mentioned, please contact:

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Searching for the Right Site

How new regulations hamper SME's search for a suitable location for their production facilities and what they can do about it.

What do the Bohai Bay, the Yangtze River Delta and the Pearl River Delta have in common? Known to be the main destination for foreign Small and Medium Sized Enterprises (SMEs) investment, these regions around Beijing, Shanghai and Hong Kong may no longer be just that. A number of law and regulation changes make it increasingly difficult, especially for SMEs, to find a suitable investment location.

Challenges for foreign SMEs

Since January 2007, land prices in government-owned development zones as well as joint venture industrial parks have skyrocketed. Wuxi New District, for example, experienced a price increase from RMB 175 to 460 per sqm in one year.

One driving force behind these price rises is a new land policy which segments land into 15 price levels. By setting the minimum land price for an area, this strictly enforced policy restricts zones from offering illegally subsidised dumping prices. The shifting of business focus from wealthy regions to the less developed areas is another government strategy affecting land prices. For example, policy makers in Jiangsu province are actively trying to move investment from the south to the less developed north by strongly limiting industrial land quotas in the southern regions.

The development zones themselves are also increasingly selective in the types of investments they accept and the incentives they offer. Prior to an investment approval, companies must provide a feasibility report that contains investment size, product descriptions and expected tax revenues. In line with increased environmental protection efforts, the possible use of pollutants in the production process and the plant's energy efficiency have to be included in the report as well. After submitting all relevant information, companies must enter a newly introduced land bidding process: yet another way of driving prices. All of the above-mentioned measurements particularly hurt SMEs with investments below USD 5 million, who are not the prioritised target group of development zones.

Possible strategies to cope

As it becomes more difficult to obtain land that is both affordable and logistically favourable, SMEs are in need of strategies that help them deal with the rising challenges. One of them could be renting. It requires significantly less investment and risk for a new market entrant to rent a workshop and "test the waters" than it does to purchase land from the very beginning. Depending on the location, rental prices average out at RMB 10–15 per sqm and month compared to RMB 280 per sqm for purchasing land. Fiducia's analysis of development zones in the Yangtze River Delta shows high demand for industrial rental space, especially for standard sized workshops of 3,000–4,000 sqm supporting heavy industries. If buying is still the preferred option, SMEs can consider looking to city-level or county-level development zones for less expensive land.

However, while cost is a crucial factor, the location of a production site can be just as important. Remote areas are most likely cheaper in terms of land, construction and labour costs, but their disadvantages can be a drag on operations. Infrastructural limitations or simply the distance to customers and suppliers are obvious downfalls. Inconvenient locations may also make it difficult to attract and retain qualified staff.

A key to getting into the right development zone at affordable cost is to find one where the local government favours companies from the foreign SME's industry. Having local R&D ability, being an industry leader or having above average growth potential can also turn out to be beneficial to winning approval or getting incentives. These can come in the form of low-rate financing or discount workshop rentals. Relationship-building with the director of a development zone should be another strategy to focus on. As the key decision maker, the director has an excellent contact network with the local approval authorities and the ability to create leeway in terms of investment incentives.

Source: Fiducia China Focus Newsletter
Fiducia Management Consultants
www.fiducia-china.com

Securing Profits when Sourcing from China

How a Hong Kong structure can help foreign sourcing operations minimize risk and maximize profits.

As many foreign companies continue to source from China via Hong Kong (HK), it is worthwhile to take a closer look as to why this model enjoys ongoing popularity and how to implement an efficient set-up. There are many good reasons for companies to manage their supply chain from HK: a good infrastructure, a legal framework based on British law, a transparent and efficient banking system, fair taxation, a fully convertible currency and a qualified workforce. But with all these advantages come the downsides of high office rental prices, increased salaries and rising material and production costs across the board. So how does the HK sourcing model remain competitive?

No storage costs and less financial risk

The option of selling goods 'Free On Board' (FOB) from China has become a huge success factor for foreign companies that have set up shop in HK. The big retailers in US & Europe who are a major customer group of many toy, textile and hard goods trading companies are increasingly asking for this option which also helps the traders avoid many of the former risks associated with selling big numbers of merchandise. By opening a letter of credit to the HK Limited Company which is then passed on to the China supplier, the danger of non-payment by the customer can be easily eliminated. This has particular significance if the order is customised specifically according to the customer's needs: special brand name, colour, functionality or simply the packaging make it impossible to sell goods to another customer. Apart from smaller financial risks, the cost of logistics and expensive storing which often make up 3–5% of a transaction can be saved. Thus, direct FOB business leads to a faster time to market and to lower prices both of which can boost competitiveness in times of rising sourcing costs throughout the region.

HK Limited Company as a black box

Sourcing operations in HK that serve European and American customers often need to walk a tightrope to meet demands. With product life cycles getting shorter and disloyal customers merely looking at the price tag, these customers might try doing direct business with the respective Chinese suppliers. Therefore, many buyers have found it very useful that by channelling business via a HK company the risk of disclosing their Chinese suppliers can be avoided. When the final goods are shipped, all related documents, labels, addresses and other hints are rewritten in HK so that customers as well as suppliers only know the HK Limited Company, but do not know each other.

Streamlining sourcing operations

Outsourcing the functions of order processing, re-invoicing and logistics arrangements proves to be an additional factor that can streamline operations. As many goods are seasonal, a lot of buyers don't require full time staff. They work with service companies that efficiently handle the administrative side of the business according to the often cyclical demands. Additionally, this separation of important functions provides a second set of eyes that controls payment streams and reduces the risks that are often associated with China sourcing: unclear money streams, shady book-keeping practices and bribery.

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China Getting Tougher for EU-Business

European firms are facing a toughening business environment in China, according to Joerg Wuttke, President of the European Chamber of Commerce in China.

Launching the EU Chamber's 2007 European Business in China Position Paper, Wuttke said: "The investment climate is becoming more complex and challenging for foreign businesses operating in China", adding that "companies in some sectors face new or increased requirements in areas such as technology transfer". In addition, the transfer of technology mandated by Beijing, "threatens the core of European business if you let go your entire technology", he said.

Wuttke also highlighted the finance and telecoms sectors, where domestic competitors still enjoy state-protected competitive advantages. "We are seeking a non-discriminatory investment climate", he added. "We seek fair and impartial treatment."

The 2007 EU Paper identifies technical barriers to trade and investment, such as: "homegrown standards, the lack of adoption of international standards and arduous approval procedures".

Below are the published highlights of the 2007 EU Chamber Position Paper:

Recent Positive Developments

- Two-way trade between EU and China has grown by 21.6% in 2006, exceeding EUR 250 billion.
- Large scale economic reforms in most sectors.

Joerg Wuttke is General Manager and Chief Representative of BASF China, based in Beijing. He also worked with ABB for 11 years; in fact his first professional encounter with China was in 1988 as the Finance and Administration Manager of ABB Beijing. In 1990 he returned to Germany as Sales Manager of ABB Power Plants Division. In 1993 he became Chief Representative ABB China in Shanghai and in 1994 moved to the President's Office of ABB China in Beijing.

In 1999 Mr Wuttke was founding member of the German Chamber of Commerce in China and from 2001–2004 the Chairman of the Board. He is presently the President of the European Chamber of Commerce in China.

- Continued European investment into China, over EUR 3.7 billion in 2006.
- Improved consultation in the drafting of certain legislation such as the Labour Contract Law, the Property Law and the ongoing work on the Patent Law and Energy Law.
- Promulgation of new legislation, including China's first Anti-Monopoly Law.
- Opening up of the banking sector to foreign participation; reduction of capital requirements.
- Intensified efforts on energy saving and emission reduction, and the publication of the national action plan on Climate Change.
- The introduction of National Phase III emission standards (similar to Euro III) for new vehicles nationwide.

Joerg Wuttke
President,
European Chamber of Commerce in China

Challenges

- Emerging trend within some regulatory bodies towards unequal treatment of foreign companies through protectionist measures.
- Continued lack of effective deterrence against IPR infringements.
- Need for greater consistency, implementation and enforcement of laws and regulations, particularly at the local level.
- Continued limitations on investment in certain industries such as automotive, telecoms, petrochemicals, and energy.
- Technical barriers to trade and investment in the form of home-grown standards, the lack of adoption of international standards and arduous type approval procedures.
- Sufficient time should be granted between the promulgation and the effective date of laws and regulations.
- Forced technology transfer for participation in certain sectors.
- Lack of independent regulators in certain sectors, which results in the lack of effective, transparent and independent decision-making.
- Distortions in energy prices that discourage energy saving and greater dissemination of advanced environmentally friendly technologies.

By Gary Bowerman
The News, September 2007
European Union Chamber of Commerce in China website:
www.europeanchamber.com.cn

Annual Economic Report Hong Kong

Appreciation of the economic problems and issues 2007

General overview of HK's economy: With broad-based growth in both the external and domestic sectors in 2007, the economy of Hong Kong recorded its fourth consecutive year of above-trend growth. Real GDP growth reached 6.3% in 2007, followed by 8.5% in 2004, 7.1% in 2005 and 7% in 2006. Domestic demand has resumed its growth momentum since the start of 2005, and is playing an important role in the current economic upturn. Following a 6% growth in 2006, private consumption perked up further by 7.8% (the biggest growth since 1993) in 2007, on the back of firmer employment prospects, mild increase in real wages and the increasing asset prices. Demand was especially strong in consumer goods and services. Total retail sales increased by 13% in value or 10% in volume over 2006. After more than five years of deflation, consumer prices have been gradually edging up along with the solid economic recovery, rising by 2% in both 2006 and 2007.

Fixed investment grew robustly at 6.0% in 2007, with corporate spending on machinery and equipment being the main driver. Labour market continues to improve. The unemployment rate was 3.4% in Nov. 2007 – January 2008, down visibly from 4.8% in 2006 and 4.0% in 2007.

As for external factors, total merchandise trade grew by 9.8% to US$ 712 billion whereas total service trade grew by 13% to US$ 124 billion in 2007. There were over 28 million visitors (+12%) to Hong Kong and their spending was estimated to have exceeded US$ 16.7 billion (+8.9%) in 2007. Mainland visitors, account for 55% of total tourist arrivals, reached 15.5 million (+14%).

Policy Address: In his Policy Address delivered in October 2007, the Chief Executive Donald Tsang undertook 10 major infrastructure projects, including some cross-boundary infrastructure projects such as the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Hong Kong-Zhuhai-Macao Bridge and the Hong Kong-Shenzhen Airport Co-operation Project. The value added of the 10 major infrastructure projects would be more than US$ 12.8 billion annually, amounting to 7% of the GDP in 2006, and some 250,000 additional jobs would be created. The government is also looking at providing additional convention and exhibition facilities to cater for longer term demand. To further strengthen Hong Kong as a global financial centre, the government will promote integration of the financial systems of Hong Kong and the mainland, develop an Islamic financial platform and promote international arbitration services in Hong Kong. On trade development, the government will assist Hong Kong enterprises in the Pearl River Delta to restructure, upgrade and relocate, and implement the Action Agenda of the National 11th Five-Year Plan to enhance the competitiveness of Hong Kong.

Economic integration with Mainland China: Hong Kong's trade with China is to a large extent related to outward processing activities. More than 80% of Hong Kong manufacturers have established production facilities in China. Hong Kong's domestic exports are confined to about 4% of its total exports while re-exports account for about 96% of its total exports. Hong Kong is the most important entrepôt for China. If re-exports to and from China are included, about 21% of China's foreign trade was handled via Hong Kong.

Hong Kong is the largest source of overseas direct investment in China. By the end of 2006, among all the overseas-funded projects registered in China, 45% were tied to Hong Kong interests. The stock of utilized capital inflow from Hong Kong amounted to USD 280 billion, accounting for 41% of the national total. On the other hand, China is the biggest investor in Hong Kong. According to the HK Census and Statistics Department, China's cumulative direct investment in Hong Kong was USD 260 billion or 35% of Hong Kong's total stock of inward direct investment at the end of 2006. It is estimated that there are over 2,000 mainland-backed enterprises registered in Hong Kong, with total asset exceeding USD 220 billion.

Hong Kong is a key offshore capital-raising centre for Chinese enterprises. As of December 2007, 439 Mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies with total market capitalisation of USD 1,544 billion or 58% of the market total. In the past 10 years, mainland companies have raised more than USD 130 billion in Hong Kong.

For information on the Closer Economic Partnership Arrangement (CEPA) and Pan-Pearl River Delta (PPRD) Cooperation, please refer to 2.2 and 2.3.

Restructuring of HK enterprises in the Pearl River Delta PRD: According to the Hong Kong Trade Development Council (HKTDC), there are about 57,500 HK-funded factories in the PRD. In a move to upgrade the processing trade and to contain the production activities of "high energy consumption, high pollution and resource consumption" industries, China has strengthened its control of the

(Imre DER / HKTDC)

processing trade and adjusted relevant regulations since the second half of 2006. Measures taken include lowering and lifting the export tax rebate rate of certain products, and expanding the catalogue of products under the prohibited category and restricted category in processing trade. China has also tightened regulations and enforcement with regard to clean production and environmental protection. Furthermore, the labour contract law, which took effect in January 2008 in China, will increase overall labour costs of HK-funded companies by 10% to 20% in 2008. In addition to such changes, the operating cost is also pushed by the appreciation of the yuan.

A survey conducted recently by the Federation of Hong Kong Industries shows that 15% of the respondents were considering to move their production facilities out of the mainland while 20% of the respondents planned to close down their business. 65% of the respondents would adopt a wait-and-see attitude towards the investment strategy of their PRD business while 35% of the respondents planned to downsize their investments.

The PRD business environment is encountering drastic challenges. Undoubtedly labour and resource-intensive or low-value-added enterprises will be hit the most by the new policies. It is estimated that more than 10,000 HK-funded firms in the PRD will be adversely affected. From a long-term perspective, it is a necessity for the HK-funded firms in the PRD to move up the supply chain.

"Hong Kong Stock Through Train Scheme": The State Administration of Foreign Exchange (the mainland currency regulator) announced the "Hong Kong stock through-train scheme" in August 2007 to allow individual investors from the mainland invest directly in HK-listed stocks. It could serve as a means to help the balance of China's current account and ease upward pressure on the yuan at a time of concern about bubbles in mainland asset prices.

The news then triggered a surge in share prices in Hong Kong. However, the launch has been delayed amid reports that mainland officials are concerned that inexperienced mainland investors will be out of their depth and exposed to big risks. The outflow of capital may also be out of control. In November 2007, Premier Wen Jiabao stated that the central government needed more time to assess the risks of the scheme. Zhou Xiaochun, Governor of the People's Bank of China, made a supplement in March 2008 that in order to curb overheating and overcapacity at home, China would increase channels for excess liquidity to invest in overseas market. Hong Kong would not be the sole beneficiary and options might include London, Tokyo and Singapore and etc. In other words, the positive impacts of this individual overseas direct investment programme on the local stock market will not be as great as what was anticipated before. Since the stock market in China is now in the process of adjustment, the scheme looks less urgent and its details and exact timetable are unknown yet.

Public Finance: The HKSAR Government's finances have improved dramatically and an estimated consolidated surplus will reach US$ 14.8 billion in 2007/08. It is an all-time high surplus and equivalent to 7.2% of the GDP. The fiscal windfall is largely due to good land sales, high stamp duty receipts from stock market transfers and rising revenues generating from profits and salary taxes. The revenues of the government have always fluctuated sharply since above mentioned revenues are volatile income and subject to economic cycle. Consequently the government finds it difficult to project future revenues accurately and budget for long-term planning.

In order to broaden the tax base, the government launched a consultation about an introduction of a Goods and Services Tax (GST) in 2006. It met with strong opposition from the community and the government then announced not to advocate the GST in end December 2006. For all the need to broaden the tax base, there is no clear consensus from the community on how to achieve this objective.

Competition Policy: Hong Kong has long been recognised as the world's freest economy. However, as Hong Kong enterprises grow in strength, coupled with an increased presence of multinational companies, there are fears that these forces are capable of cornering the market. A public consultation on competition policy, launched by the HKSAR Government, was completed in February 2007. While the public generally supports the introduction of a competition law, there are concerns that the new law may adversely affect normal business operations, in particular those of small and medium enterprises. To address their worries, the government will announce the details of the proposed legislation for public discussion before introducing the bill, hopefully in the 2008–09 legislative session.

According to a survey conducted by a local university, many retailers, especially supermarkets, abused their market power against suppliers. Many retailers dictated prices, demanded exclusivity and forced suppliers to share promotion fees. In this sense, possible introduction of a competition law may facilitate Swiss suppliers and products entering the market.

US Dollar peg: The Linked Exchange Rate System (HK$ 7.8: US$ 1) has been introduced to stabilize the then volatile economy and financial market since 17th October 1983. Even though the Hong Kong economy is now more and more integrated to China and the US dollar has been very weak recently, the HKSAR Government has reaffirmed its commitment to maintain the dollar peg. The government claims that the dollar peg system has been running effectively in both good and bad times.

Nevertheless, the appreciation of the yuan and weakening of the US dollar will result in higher import prices and accelerate the inflation rate to 4.5% (official forecast) in 2008. Economists predict that the inflation rate will be higher than the official forecast and it will affect the low-income and disadvantaged groups the most.

Possible impacts of the US sub-prime crisis and credit crunch on the Hong Kong economy: The sub-prime crisis and the credit crunch in the US has not affected the stability of the local banking system. It will nevertheless turn the trade outlook of Hong Kong with uncertainty. The local stock market has reacted to plunge severely. Domestic demand is expected by the HKSAR Government to become an important growth engine for the economy. Now the repercussions of the financial market turbulence have yet to fully play out and the adverse impacts on the local consumer sentiment is an area to watch out.

International and regional economic agreements

HK's policy and priorities

Hong Kong is a free port which thrives on free trade. Its open door policy has enabled it to become the world's 11th largest trading economy and an international financial and commercial centre serving the Asia-Pacific region and China. The cornerstone of this approach is a strong and credible multilateral trading system.

Hong Kong is a founding member of the World Trade Organization (WTO). Hong Kong became a member of the Asia-Pacific Economic Cooperation (APEC) and the Pacific Economic Cooperation Council (PECC) in 1991. Hong Kong belongs, in its own right, to the Asian Development Bank (ADB) and the World Customs Organization (WCO). Since April 1994, Hong Kong has been an observer of the Trade Committee of the Organization for Economic Cooperation and Development (OECD).

Closer Economic Partnership Arrangement (CEPA)

CEPA, the first ever regional trade agreement signed between China and Hong Kong, covers 3 broad areas: a) trade in goods, b) trade in services and c) trade and investment facilitation. It was first signed in 2003 (which is often regarded as CEPA I) and as a living agreement, the scope of market access and liberalisation measures have been expanded progressively under CEPA II – IV in subsequent years. CEPA V, which included further liberalisation measures in service sectors, was signed by the Central and Hong Kong Governments in June 2007.

a) Trade in goods

Starting from 1 January 2006, the mainland has granted all products of Hong Kong origin tariff free treatment upon applications by local manufacturers and subject to satisfying the agreed CEPA rules of origin (ROOs). From January 2004 to June 2007, a total of 24,174 Certificates of Hong Kong-origin (CEPA) were approved, incurring a total value of US$ 1,110 million.

With the emergence of an increasingly wealthy middle class in China, the demand for quality products with a `made in Hong Kong' label, such as food, clothing, watches, medical and health products, are expected to increase.

b) Trade in services

Taking the five phases of CEPA together, China has agreed to provide preferential treatment to Hong Kong service suppliers in 38 service areas[1]. Broadly speaking, the liberalis ation permits earlier access ahead of China's WTO timetable and lower thresholds of the market entry for Hong Kong service suppliers to China. In some sectors, like audiovisual services, transport services and distribution services, the concessions go beyond China's WTO commitments. Apart from WTO-plus access, CEPA V enables Hong Kong services suppliers to enjoy CAFTA[2]-plus access to the mainland market. In other words, Hong Kong services suppliers will have a better market access to the mainland market than their counterparts in ASEAN.

Until February 2008, the Trade and Industry Department has issued Certificate of Hong Kong Service Suppliers to 1,172 "Hong Kong companies" to enable them to apply to the Chinese authorities to launch their business in China. Any company or service provider of any nationality including Swiss companies can apply as a Hong Kong Service Supplier or a Cepa-qualified company if the company in question meets all the criteria: i) it is incorporated in Hong Kong; ii) it has operated for 3–5 years (depending on sectors); iii) it is liable to pay Hong Kong profits tax and iv) it employs 50% of its staff locally. Most of the applications came from the sectors of logistics and transport, distribution, advertising, construction and management consultancy.

c) Trade and investment facilitation

Both China and Hong Kong have agreed on enhancing co-operation in trade and investment facilitation in 8 areas including trade and investment promotion and customs clearance facilitation. Application procedures for Chinese enterprises to invest in Hong Kong have been streamlined. According to the information provided by the Mainland authorities, a total of 603 Mainland enterprises have been granted approval for investing in Hong Kong between 2004 and 2006, with planned investment totalling US$ 3.9 billion.

Economic Benefits

According to a study of the HKSAR Government released in June 2007, CEPA created more than 38,500 jobs and the CEPA-induced capital investment reached about US$ 1 billion in 2004–2007.

Speakers of a Hong Kong seminar in Zurich in February (f.l.t.r.): Dr. Kurt Moser, President, Swiss-Hong Kong Business Association (SHKBA), Bjorn Segerblom, overseas representative in Europe of HK Science & Technology Parks, Winchell Cheung, Director, Germany & Central Europe of HKTDC, Dr. Esther Nägeli, Vice-President SHKBA and Duncan Pescot, special representative for HK Economic & Trade Affairs to the European Communities, The Government of the HK SAR.

Out of 15.5 million (13.6 million in 2006) Chinese tourists to Hong Kong in 2007, 8.6 million (6.6 million in 2006) Chinese tourists travelled under the individual visit scheme (IVS) which was introduced in CEPA. It is arguable that many Chinese tourists would still have travelled to Hong Kong even without the IVS. Nevertheless, the IVS facilitates people's flow, promotes cross-boundary understanding and tighten business contact between the mainland and Hong Kong. These benefits are intangible and difficult to measure and quantify.

CEPA offers a good platform for Hong Kong products and services to have an effective access to China even though they have to face intensifying competition from Chinese companies and multinational competitors.

It has also helped to rebuild confidence in the economy after a prolonged period of economic slowdown caused by the Asian financial crisis and aggravated by the SARS outbreak. Although the strong rebound in consumption, investment, and overall economic growth in the past few years may not be entirely attributable to CEPA, CEPA is undoubtedly an important confidence booster that has helped to kick-start the recovery.

The mainland has undergone rapid economic development over the past two decades. The secondary industry has thrived and has outstripped develop-

1 It includes accounting, advertising, airport, audiovisual, banking, building cleaning services, computer and related services, cultural, convention and exhibition, distribution, elderly services, environmental services, freight forwarding agency, individually owned stores, information technology, insurance, job referral agency, job intermediary, legal, logistics, management consulting, market research, medical and dental, patent agency, photographic services, printing services, professional qualification examinations, public utility services, real estate and construction, sporting services, storage and warehousing, securities and futures, services related to management consulting and project management, telecom, tourism, trade mark agency, translation & interpretation services and transport.

2 China and ASEAN have agreed to establish a China-ASEAN Free Trade Area (CAFTA) by 2010, having reached agreements on both Trade in Goods and Trade in Services.

ment in the tertiary industry. To achieve more balanced growth and to take the economy's development to a higher level, the Chinese Government has acknowledged the need to strive for quality growth supported by an efficient services sector. The significant part of CEPA to the mainland lies with the intangible benefits, that is, the transfer of quality capital and management and professional skills to the mainland for its long term economic development.

More information on CEPA is available at the website of the TID (http://www.tid.gov.hk/english/cepa/index.html).

Outlook for Switzerland

According to the information in our possession, some Swiss companies in Hong Kong take advantage of CEPA and have been qualified as Hong Kong Service Suppliers under CEPA and operating their business in China.

A Swiss company, qualified as a Hong Kong Service Supplier under CEPA, mentioned that CEPA as a whole was "useful, positive and beneficial" to their business in China. However, CEPA was an agreement signed between the Central Government and HKSAR Government and its implementation depended on the co-operation of various provinces, municipalities, cities and local authorities. According to their experience, they had to encounter problems such as bureaucracy, different legal system, sophisticated tax regime, unpredictable modification and different interpretation of rules and regulations at the early stage of their entry to China. After some years of practical experience and more openness of China in general, their operation is now much smoother than before.

Pan-Pearl River Delta (PPRD) Cooperation

The "Pan-Pearl River Delta (PPRD)[3] Regional Co-operation Framework Agreement" was signed in 2004. The PPRD regional governments agreed to strengthen cooperation in 10 areas – infrastructure, investment, business and trade, tourism, agriculture, labour, education and culture, information and technology, environmental protection, health and prevention of infectious disease.

During the 4th PPRD Regional Co-operation and Development Forum in June 2007, according to the HKSAR Government, Hong Kong would continue to capitalise on its niche in financial services to facilitate PPRD enterprises to raise capital and go global through Hong Kong. Moreover, the HKSAR Government would establish an information exchange platform between relevant sectors in Hong Kong and the PPRD provinces and regions in order to facilitate industrial upgrading, restructuring and relocation. Moreover, Hong Kong could serve as a bridge connecting the PPRD Region with ASEAN countries as far as trade and investment are concerned.

Foreign trade

Development and general outlook

Trade in goods

According to the HKTDC, Hong Kong is the world's 11th largest trading economy. Total exports of Hong Kong increased by 9.2% and reached US$ 345 billion in 2007. Domestic exports dropped to US$ 14 billion (–19%) whereas re-exports grew to US$ 331 billion (+11%). Major export markets were China (49% of total exports), the US (14%), Japan (4.4%), Germany (3%) and UK (2.8%). Major export products were electrical machinery and apparatus (24%), telecom equipment (16%), office machines and computers (9.7%), clothing (8.3%) and textiles (3.9%).

3 The PPRD region, also known as "9+2", comprises nine provinces/regions including Fujian, Jiangxi, Hunan, Guangdong, Guangxi, Hainan, Sichuan, Guizhou and Yunnan, as well as Hong Kong and Macao Special Administrative Regions.

Participants at the Chinese New Year reception in Zurich in 2008. Among the guests: former Ambassador ZHU Bangzhao, Minister Edgar Dörig and Ambassador Monika Rühl Burzi.

Trading Partners of Hong Kong 2007

	Country	Exports (USD millions) by country of origin	Share (%)	Var.* (%)
1	China	167,735	49	+13
2	USA	47,205	14	-0.8
3	Japan	15,329	4.4	-0.7
4	Germany	10,400	3	+7.2
5	UK	9,598	2.8	+1.7
6	Taiwan	6,786	2	+1.6
7	Korea Rep	6,786	2	+2
8	Singapore	6,468	1.9	+3.8
9	Netherlands	5,695	1.7	+8.2
10	France	4,561	1.3	+6.7
	EU	46,633	14	+5.6
24	**Switzerland**	**1,813**	**0.5**	**+13**
	Total	344,553	100	+9.2
	Country	**Imports (USD millions) by country of origin**	**Share (%)**	**Var.* (%)**
1	China	170,468	46	+12
2	Japan	36,837	10	+7.2
3	Taiwan	26,295	7.2	+5.2
4	Singapore	24,971	6.8	+18
5	USA	17,791	4.8	+12
6	Korea Rep	15,307	4.2	-0.2
7	Malaysia	8,054	2.2	+4.1
8	Thailand	7,356	2	+8.1
9	Germany	6,160	1.7	+8.1
10	Philippines	6,127	1.7	+17
	EU	26,229	7.1	+8.1
12	**Switzerland**	**4,563**	**1.2**	**+27**
	Total	367,694	100	+10

* year-on-year basis

Sources: Hong Kong Census & Statistics Department, Hong Kong Trade Development Council

Imports rose to US$ 368 billion (+10%) in 2007, following a 12% increase in 2006. Major supplier countries were China (46% of total imports), Japan (10%), Taiwan (7.2%), Singapore (6.8%) and the US (4.8%). Major import products were electrical machinery and apparatus (26%), telecom equipment (13%), office machines and computers (8.7%), clothing (5.2%) and textiles (3.7%).

Regulations: Hong Kong is a free port and there is no tariff on general imports except duty on liquors, tobacco, hydrocarbon oil and methyl alcohol. Financial Secretary John Tsang proposed in his recent Budget Speech to exempt the duties on wine, beer and all other alcoholic beverages except spirits.

There are no regulatory measures impinging on international trade other than those required to discharge international obligations or to protect health, environment and access to hi-technology.

Trade in services

Exports of services amounted to US$ 83 billion (+14%) in 2007, following a strong increase of 14% in 2006. It included: trade-related services (31% of total exports of services, increased by 13%), transportation services (29% of total exports of services, increased by 5.8%), travel services (17% of total exports of services, increased by 19%), financial services (15% of total exports of services, increased by 34%), other services (8% of total exports of services, increased by 11%) and insurance services (0.6% of total exports of services, increased by 23%).

In 2006 (latest available information), exports of services by main destinations were China (US$ 17.6 billion, 25% of total, grew by 7.1%), the US (US$ 15.3 billion, 22% of total, grew by 19%), the UK (US$ 5.7 billion, 8% of total, grew by 32%), Japan (US$ 5.1 billion, 7.2% of total, grew by 15%) and Taiwan (US$ 4.7 billion, 6.5% of total, grew by 2.8%).

Import of services amounted to US$ 41 billion (+10%) in 2007. It included: travel services (37% of total imports of services, increased by 8%), transportation services (31% of total imports of services, increased by 10%), other services (17% of total imports of services, increased by 13%), trade-related services (7% of total imports of services, increased by 12%), financial services (6% of total imports of services, increased by 32%) and insurance services (2% of total imports of services, increased by 19%).

In 2006 (latest available information), imports of services by main sources were China (US$ 9.8 billion, 27% of total, grew by 7%), the US (US$ 5.5 billion, 15% of total, grew by 8%), Japan (US$ 3.1 billion, 9% of total, grew by 7%), the UK (US$ 2.9 billion, 8% of total, grew by 10%) and Australia (US$ 2.1 billion, 6% of total, grew by 2%).

Bilateral trade

Trade in goods

According to the HKTDC, Switzerland was the 17th largest trading partner of Hong Kong in 2007. Switzerland was Hong Kong's 12th largest supplier and 24th largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 5.3 billion (+13%) in 2007. Major Swiss exports included watches and clocks (46% of total, increased by 25%, CHF 2.4 billion in value), jewellery & precious metal

(29% of total, increased by 1%, CHF 1.5 billion in value), machinery (8.3% of total, increased by 4.5%, CHF 440 million in value) and chemical and pharmaceutical products (8.2% of total, increased by 13%, CHF 438 million in value).

Renowned brands and luxury items from all over the world are well presented in Hong Kong. According to the Nielsen Global Luxury Brands Study released in March 2008, Hong Kong consumers are the most brand conscious in the Asia Pacific region with 40% consumers claiming to buy luxury products and designer brands, significantly exceeding the regional average of 15%. Their survey also revealed that over US$ 770 per capita was spent on luxury products in Nov. 07 – Jan. 08.

Swiss products, such as watches, jewellery, clothing, footwear, leather goods and skin care products, enjoy an excellent reputation in the market. They are not only appealing to local consumers, but also winning popularity among tourists, in particular from China (tourists from China reached 15.5 million or 55% of total visitor arrivals in 2007). Hong Kong is a window of the world to Chinese tourists who have high consuming power. According to an established watch and jewellery retailer group in Hong Kong, Chinese tourists account for about 70% of sales of Swiss hi-end watches in their shops.

Investments in machinery and equipment continued to increase by 6.6% in 2007, after a remarkable growth of 19% in 2006. There are good prospects for Swiss equipment in the fields of textile and clothing industry, electronic industry, watch industry, printing industry and telecom industry. Although many local industrialists have shifted their production bases to China and the S.E. Asian countries, these offshore production bases are nevertheless owned and run by them. In addition, as mentioned in 1.4, it is a necessity for HK-funded factories in the PRD to move up the supply chain. There will be a good market potential for Swiss automation technology and green production technology.

Hong Kong's total exports to Switzerland dropped to CHF 1.2 billion (–18%) in 2007. Major total exports included jewellery & precious metal (53% of total, decreased by 31%, CHF 626 million in value), watches and clocks (22% of total, increased by 7.5%, CHF 260 million in value), machinery (12% of total, decreased by 22%, CHF 143 million in value) and textiles and garments (4.8% of total, grew by 16%, CHF 56 million in value).

In 2007, Swiss exports to mainland China (CHF 5.4 billion in value) and Hong Kong (CHF 5.3 billion in value) accounted for 5.2% of global Swiss exports, bringing China (incl. Hong Kong) to the position of Switzerland's most important market and trade partner in Asia, ahead of Japan (3.3%). On the other hand, Swiss imports from China (CHF 4.8 billion) and Hong Kong (CHF 1.2 billion) totalled CHF 6 billion. Switzerland got a trade surplus worth CHF 4.7 billion.

According to the Hong Kong Census and Statistics Department (HKCSD), Swiss exports to Hong Kong totalled USD 4,563 million (+27%) in 2007 of which goods worth US$ 1,563 million were re-exported to other countries and notably to China. Swiss goods worth US$ 700 million (grew by 15%) were re-exported to China via Hong Kong in 2007. Major products were watches and clocks (US$ 229 million), silver and platinum (US$ 70 million), textile machinery (US$ 32 million), colouring matter (US$ 28 million) and measuring instruments (US$ 26 million).

There has been a notable growth for Swiss products entering China via Hong Kong in recent years, from US$ 518 million in 2005 and US$ 610 million in 2006 to US$ 700 million in 2007. In this regard, Swiss exporters and manufacturers may make use of Hong Kong as a known entrepôt and trade hub (which has a huge cluster of traders who are experienced in the market of China) to do business with China.

On the other hand, Hong Kong exports to Switzerland totalled US$ 1,813 million in 2007. Among them, products of Chinese origin worth US$ 1,095 million (grew by 12%) were re-exported to Switzerland via Hong Kong. Major products were watches and clocks (US$ 489 million), clothing (US$ 143 million), electrical machinery (US$ 93 million), jewellery (US$ 69 million) and telecom equipment (US$ 38 million).

Trade in services

According to the HKCSD, Hong Kong's exports of services to Switzerland amounted to US$ 717 million (1% of total exports of services, increased by 14%) in 2006 (latest available information). Switzerland ranked 14th largest market for Hong Kong's exports of services. It consisted of transportation services (US$ 234 million), travel services (US$ 30 million), insurance services (US$ 2.6 million), financial services (US$ 99 million), trade-related services (US$ 190 million), and other services (US$ 158 million).

Hong Kong's imports of services from Switzerland reached to US$ 271 million (0.7% of total imports of services, increased by 12%) in 2006. Switzerland ranked 20th largest supplier in this category. It consisted of transportation services (US$ 52 million), travel services (US$ 43 million), insurance services (US$ 30 million), financial services (US$ 23 million), trade-related services (US$ 3.7 million) and other services (US$ 119 million).

Hong Kong wants to position itself as an international trade, logistic and financial centre. Demand for logistic services and financial services[4] are expected to increase whereas Switzerland is known for its excellence in service industries, particularly in financial services.

4 Financial services cover investment banking services, deposit services, security and commodity brokerage services, portfolio management services, trust services, financial consultancy services, foreign exchange services and etc.

Bilateral trade Switzerland – Hongkong, 2006 and 2007

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		2006	2007	in %	share (%)	2006	2007	in %	share (%)	in CHF
1	Agricultural products	726.005	1.449.497	99,65	0,12	31.093.202	55.016.326	76,94	1,04	53.566.829
2	Energy carriers	1.017	-	-	-	107.189	91.568	-14,57	0,00	91.568
3	Textiles, apparel, shoes	53.417.313	70.255.832	31,52	5,93	147.362.703	142.278.236	-3,45	2,69	72.022.404
4	Paper, paper products, printed matter	2.816.106	2.917.318	3,59	0,25	7.888.537	18.450.642	133,89	0,35	15.533.324
5	Leather, rubber, plastics	6.924.884	8.536.489	23,27	0,72	48.952.186	60.489.447	23,57	1,14	51.952.958
6	Chemicals, pharmaceuticals	11.382.274	16.283.273	43,06	1,37	378.598.166	426.045.413	12,53	8,04	409.762.140
7	Construction materials, ceramics, glass	2.130.804	4.314.969	102,50	0,36	19.125.656	15.213.147	-20,46	0,29	10.898.178
8	Metals and metal products	11.223.476	12.024.785	7,14	1,01	59.543.066	60.327.148	1,32	1,14	48.302.363
9	Machinery, apparatus, electronics	184.388.860	140.012.605	-24,07	11,81	410.063.847	427.838.578	4,33	8,08	287.825.973
10	Vehicles	1.048.534	1.335.096	27,33	0,11	372.997	1.690.268	353,16	0,03	355.172
11	Precision instruments, watches, jewellery	548.614.621	560.867.091	2,23	47,30	2.416.263.544	2.951.355.960	22,15	55,72	2.390.488.869
12	Furniture, toys	7.375.687	8.218.865	11,43	0,69	42.655.351	38.368.376	-10,05	0,72	30.149.511
13	Precious metal, precious stones, gemstones	606.643.759	344.235.917	-43,26	29,03	1.117.005.084	1.083.984.414	-2,96	20,46	739.748.497
14	Objects of art and antiques	19.804.587	15.243.715	-23,03	1,29	14.645.802	15.881.925	8,44	0,30	638.210
	Total	**1.456.497.927**	**1.185.695.452**	**-18,59**	**100,00**	**4.693.677.330**	**5.297.031.448**	**12,85**	**100,00**	**4.111.335.996**

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

	Total	**5.387.890.308**	**5.966.667.584**	**10,74**	**100**	**8.799.145.432**	**10.702.141.987**	**21,63**	**100**	**4.735.474.403**

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

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan - Feb 07	Jan - Feb 08	in %	share (%)	Jan - Feb 07	Jan - Feb 08	in %	share (%)	in CHF
1	Agricultural products	647.036	140.853	-78,23	0,07	5.623.606	9.581.424	70,38	1,04	9.440.571
2	Energy carriers	-	-	-	-	11.548	30.415	163,38	0,00	30.415
3	Textiles, apparel, shoes	10.918.349	14.619.960	33,90	7,62	22.689.240	27.434.653	20,91	2,98	12.814.693
4	Paper, paper products, printed matter	589.127	624.786	6,05	0,33	1.177.684	2.383.338	102,38	0,26	1.758.552
5	Leather, rubber, plastics	1.868.816	1.449.969	-22,41	0,76	9.671.981	12.849.250	32,85	1,40	11.399.281
6	Chemicals, pharmaceuticals	1.706.132	927.470	-45,64	0,48	62.319.309	65.701.133	5,43	7,15	64.773.663
7	Construction materials, ceramics, glass	521.622	501.283	-3,90	0,26	3.857.790	2.463.366	-36,15	0,27	1.962.083
8	Metals and metal products	1.706.463	1.816.486	6,45	0,95	7.977.531	9.366.993	17,42	1,02	7.550.507
9	Machinery, apparatus, electronics	22.621.260	24.492.936	8,27	12,76	53.063.938	67.730.177	27,64	7,37	43.237.241
10	Vehicles	232.650	535.235	130,06	0,28	544.454	233.962	-57,03	0,03	-301.273
11	Precision instruments, watches, jewellery	74.430.063	94.793.402	27,36	49,40	382.298.910	541.456.448	41,63	58,88	446.663.046
12	Furniture, toys	1.404.967	1.290.177	-8,17	0,67	7.652.898	4.922.130	-35,68	0,54	3.631.953
13	Precious metal, precious stones, gemstones	38.410.411	49.543.115	28,98	25,82	114.421.503	173.325.521	51,48	18,85	123.782.406
14	Objects of art and antiques	1.242.687	1.151.908	-7,31	0,60	571.991	2.056.275	259,49	0,22	904.367
	Total	**156.299.583**	**191.887.580**	**22,77**	**100,00**	**671.882.383**	**919.535.085**	**36,86**	**100,00**	**727.647.505**

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

	Total	**947.531.823**	**1.076.742.295**	**13,64**	**100**	**1.358.895.626**	**1.887.738.971**	**38,92**	**100**	**810.996.676**

Source: Schweizer Oberzolldirektion, Swiss Impex

Direct Investments

Development and general outlook

According to the HKCSD, at the end of 2006, the stock of Hong Kong's inward direct investments was up by 42% to US$ 740 billion. Major investor countries were China (US$ 260 billion or 35% of total, grew by 60%), British Virgin Islands BVI (US$ 250 billion or 34% of total, grew by 53%), the Netherlands (US$ 50 billion or 6.8% of total, grew by 19%), Bermuda (US$ 45 billion or 6.1% of total, grew by 29%) and the US (US$ 36 billion, 4.8% of total, increased by 38%).

China featured highly both as a destination for Hong Kong's outward direct investment (US$ 271 billion or 40% of total, ranked 2nd after BVI) and as a source of HK's inward direct investment (as mentioned earlier). The substantial cross-boundary investment between China and Hong Kong reflected the close economic links between the two places.

The ratios of inward and outward direct investments were 391% and 357% of GDP respectively in 2006. It reflected Hong Kong as a highly externally oriented economy and an important business centre in the region with substantial cross-boundary investment. The highly ranked BVI and Bermuda reflected a common practice of Hong Kong and foreign enterprises in setting up non-operating companies in these offshore financial centres (known as tax haven economies) for channelling direct investment funds back to Hong Kong.

According to the International Monetary Fund (IMF), inward portfolio investments to Hong Kong reached US$ 592 billion (+35%) in 2006. Major investor countries were China (106 billion or 18% of total, grew by 159%), Cayman Islands (US$ 76 billion or 13% of total, grew by 38%), the UK (US$ 72 billion or 12% of total, grew by 2.9%), Bermuda (US$ 70 billion or 12% of total, grew by 56%) and the US (US$ 65 billion or 11% of total, grew by 12%).

In Hong Kong, there is neither restriction on inward and outward investments nor nationality restrictions on corporate or sectorial ownership.

Bilateral investment flows

According to the HKCSD, Swiss direct investments in Hong Kong rose to US$ 4.1 billion (0.6% of total, grew by 28%) and ranked the 11th largest investor country in 2006. Swiss portfolio investments in Hong Kong reached US$ 1.3 billion (0.2% of total, insignificant change in the stock) and ranked 23rd investor country in 2006, according to the IMF.

As at 1st June 2007, 47 Swiss companies have set up their regional headquarters in Hong Kong. 64 Swiss companies have set up their regional offices whereas 63 Swiss companies have set up their local offices in Hong Kong. They are classified in various sectors : banking, beauty products, chemicals & pharmaceuticals, consultants, electronics, foodstuffs, freight forwarding, inspection, insurance, machinery/engineering, textiles & garments, watches/jewellery and trading houses, etc .

According to the HKCSD, the outward direct investments from Hong Kong to Switzerland for 2002, 2003 and 2004 were US$ 1.49 billion (ranked 14th), US$ 780 million (ranked 17th) and US$ 564 million (ranked 18th) respectively. The HKCSD compiles for top 20 recipient countries only. As Switzerland dropped out of this category in 2005 and 2006, the corresponding figure is no longer available.

Consulate General of Switzerland, Hong Kong
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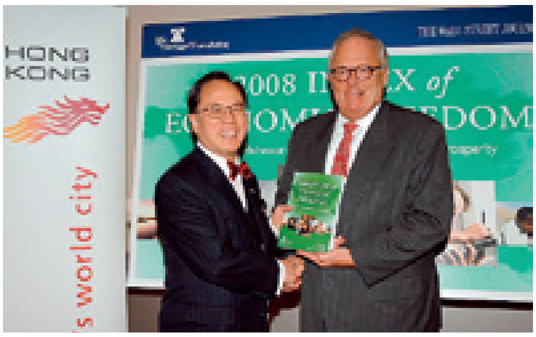
www.eda.admin.ch/hongkong

Hong Kong – World's Freest Economy

Hong Kong claimed the top spot as the world's freest economy for the 14th straight year in a study released by Washington-based think tank, the Heritage Foundation.

The 2008 Index of Economic Freedom covered 157 economies worldwide after assessing them on 10 economic freedom factors. Hong Kong scored top marks on four factors: trade freedom, investment freedom, financial freedom and property rights. The city also ranked among the top 10 in other areas such as freedom, government size, monetary freedom and labour freedom.

Second and third place went to Singapore and Ireland respectively.



Chief Executive Donald Tsang receives his copy of the 2008 Index of Economic Freedom from Heritage Foundation President Dr Edwin Feulner.

Financial Secretary John Tsang said the government was determined to uphold Hong Kong's position as the freest economy in the world. "We see the role of the government as that of a facilitator. We provide a business-friendly environment where all the firms can compete on a level playing field and establish an appropriate regulatory regime to ensure the integrity and smooth functioning of a free market", he said.

The report also noted the city's simple business regulation and highly flexible labour market. Investment in Hong Kong was strongly encouraged with virtually no restrictions on foreign capital.

A separate report released recently showed that more Hong Kong people wanted to start their own businesses amid the rosy economic outlook. The 2007 entrepreneurship study showed one out of 10 Hong Kong people had tried starting their own businesses, up from 3 per cent in a 2004 similar study. It was also the second highest rate among so called "high income countries", following Iceland where the rate was 12.5 per cent. The United States came third with 9.6 per cent.

The findings coincided with the latest Hong Kong Company Registry figures, showing a record 22.9 per cent rise in newly registered companies in 2007.

The study was conducted by Global Entrepreneurship Monitor (GEM), a non-profit research oganisation led by Boston's Babson College and the London Business School. Last year's study was the fourth GEM Hong Kong report, in which 2,000 people were interviewed between May and October.

Source: HK Trader (www.hktrader.net), a free online newsletter of the Hong Kong Trade Development Council.

Hong Kong Business Associations Worldwide

The Federation of Hong Kong Business Associations Worldwide is a unique network of 31 Hong Kong Business Associations in 23 countries with over 11,000 individual associates. Among them is also the Swiss-Hong Kong Business Association founded in 2004 in Zurich.

These Hong Kong Business Associations were started by overseas traders, buyers and professionals, who have strong business links to Hong Kong in their respective countries, for the purpose of networking and exchanging of business information and ideas. Each of these Associations has their own individual members who are top business people and SMEs in their home country. They are Hong Kong's closest allies and partners in the world market.

With the help of the Hong Kong Trade Development Council (TDC), these Associations formed the Federation of Hong Kong Business Associations Worldwide in November 2000. The Federation aims to achieve synergy among the global network of Hong Kong Business Associations. It provides an effective base for member associations to network and exchange information, thereby, generating business opportunities.

The Federation is a non-profit-making organisation limited by guarantee.

Participants during the Europe Forum of the Federation of HK Business Associations Worldwide in Amsterdam, Netherlands, in May. Dr. Esther Nägeli, Vice-President, represented the Swiss-Hong Kong Business Association.

The 9th Hong Kong Forum in Oct 2008

The 9th Hong Kong Forum will be held on 30–31 Oct 2008, with Pan-PRD side trip to Fujian on 27–29 Oct 2008. Associates will gain many business matching and networking opportunities, exclusive insider market intelligence and access to various leading trade fairs. Take a glimpse of this year's program now and be sure to pre-schedule your trip to Hong Kong this October!

For registration and more information on the HK Forum visit: www.hkfederation.org.hk/forum/forum2008/

2008–09 Budget of the Hong Kong SAR Government

Financial Secretary Mr. John Tsang issued his first budget with the slogan "Ready to Face, Dare to Hope" on 27th February 2008. The Hong Kong economy was vibrant in 2007. Although in the latter half of the year the external economic environment was beset with the US sub-prime mortgage problem and credit crunch, the GDP still grew by 6.3% (8.6% in 2004, 7.1% in 2005 and 7% in 2006). Labour market further improved and unemployment rate dropped to 3.4%, the lowest since the first quarter of 1998.

With the continued economic upturn, the HKSAR Government's finances have improved dramatically. An estimated consolidated surplus will reach HK$ 115.6 billion (US$ 14.8 billion). It is an all-time high surplus and equivalent to 7.2% of the GDP. The fiscal windfall is largely due to good land sales, high stamp duty receipts from stock market transfers and rising revenues generating from profits and salary taxes.

Thanks to the healthy state of the government finances, the government will allocate additional resources to implement initiatives in 4 main areas – promoting long-term development, supporting disadvantaged groups, leaving wealth with the people and providing for the future. The measures in the Budget will reduce government revenue by HK$ 35.5 billion (US$ 4.6 billion) and increase operating expenditure by HK$ 41.5 billion (US$ 5.3 billion) in 2008–09. Furthermore, the Government intends to make available HK$ 50 billion (US$ 6.4 billion) to support the health care financing arrangements.

Mr. John Tsang stated that he would adhere to 3 principles – commitment to society, sustainability and pragmatism – in management of public finances to ensure a stable foundation of public service.

For an overview of the detailed actions regarding the 2008–09 budget, please contact the Chamber or the Consulate General.

Financial position – estimates and medium range forecast

Based on the revenue, expenditure and other proposals set out in the budget, the government forecasts a deficit of HK$ 7.5 billion (US$ 962 million) in 2008–09, which accounts for 0.4% of the GDP. The government expects a return to a surplus from 2009–10 onwards and the surplus will increase to HK$ 75 billion (US$ 9.6 billion) in 2012–13. Please refer to Appendix 1 for further information.

Economic outlook for 2008

The HKSAR Government believes that the sustained rapid economic growth of China and Hong Kong's increasing economic integration with China will cushion the impact of the global economic slowdown on Hong Kong. Hong Kong's economy has staged a strong recovery over the past few years with a marked improvement in employment and a rise in asset prices. The financial position of most enterprises and individuals has improved and both consumer sentiment and investor confidence are strong. Domestic demand will very likely remain a major driving force of economic growth in 2008. The government forecasts GDP to increase by 4 to 5% in 2008, lower than that in the past 4 years but still higher than the average trend growth rate for the past 10 years. Given economic expansion and high global commodity prices, inflation rate is estimated to rise to 4.5% in 2008. Nevertheless, the effect of the sub-prime crisis in the US on China and Hong Kong in particular is not clear.

Comments on the Budget

The budget, a combination of one-all giveaway and tax concessions, intends to please all strata of the community. It is a political necessity given the record surplus resulting from the booming economy. However, it is largely confined to one-all measures rather than long-term commitments. The concerns of the HKSAR Government are in a sense understandable as the deficit of HK$ 70 billion (US$ 9 billion) in 1997/98 may still be a fresh memory. The revenues of the government have always fluctuated sharply since they rely heavily on stamp duties, land premiums and profits and salaries taxes from a very narrow tax base. Stamp duties and land premiums are volatile income and subject to economic cycle. Consequently the government finds it difficult to project future revenues accurately and budget for long-term planning. Indeed the record surplus of HK$ 115.6 billion (US$ 14.8 billion) is four and a half times its original forecast.

In order to broaden the tax base, the government launched a consultation about an introduction of a Goods and Services Tax (GST) in 2006. It met with strong opposition from the community and the government then announced not to advocate the GST in end December 2006. For all the need to broaden the tax base, there is no clear consensus from the community on how to achieve this objective.

Financial position of the HKSAR Government 2008–09 estimates and medium range forecast

	2008–09 (HK$ billion)	2009–10 (HK$ billion)	2010–11 (HK$ billion)	2011–12 (HK$ billion)	2012–13 (HK$ billion)
Operating revenue	249.4	293.0	309.2	329.0	353.8
Operating expenditure	255.7	237.3	251.5	267.8	286.5
Operating surplus/(deficit)	(6.3)	55.7	57.7	61.2	67.3
Capital revenue	58.5	60.4	59.9	63.4	67.5
Capital spending (including payments from the Capital Investment Fund)	57.0	63.4	62.7	57.8	59.8
Repayment of government bonds and notes	2.7	3.5	–	–	–
Capital financing surplus/(deficit)	(1.2)	(6.5)	(2.8)	5.6	7.7
Consolidated surplus/(deficit)	(7.5)	49.2	54.9	66.8	75.0
– as a percentage of GDP	0.4%	2.7%	2.8%	3.2%	3.3%
Fiscal reserves	477.4	526.6	581.5	648.3	723.3
– as a number of months of government expenditure	18	21	22	24	25
– as a percentage of GDP	27.7%	28.5%	29.4%	30.7%	32.0%
Public expenditure	332.1	320.7	335.3	347.5	369.0
– as a percentage of GDP	19.2%	17.4%	17.0%	16.4%	16.3%
Exchange rate: US$1 to HK$7.8 (March 2008)					

Source: HKSAR Government Annual economic report: Macao 2007

The budget keeps the old age allowance at HK$ 705 (US$ 90) a month and refuses to raise it to HK$ 1,000 (US$ 128) – as suggested by some concerned groups. Instead, there is only an one-off payment for the elderly people of HK$3,000 (US$ 385). It has drawn a lot of criticism from the community who believes the government can do more to help the elderly people. From the viewpoint of the government, to raise the old age allowance will have a profound impact on the government budget since Hong Kong has an increasing elderly population whereas the tax base is narrow and revenues from stamp duties and land premium are unpredictable.

Health care is another area that presents a great challenge to the community because of an ageing population. Health care reforms have been stalled due to a lack of public consensus. By earmarking HK$ 50 billion (US$ 6.4 billion) from the fiscal reserves for a health fund, the government has regained the initiative by injecting some money to the pool before asking contribution from every citizen to share the costs of medical services.

Macao is small in both size and population. Macao, which consists of Macao Peninsula, Taipa and Coloane, covers 28.6 sq. km with population of about 530,000 residents. In the run-up to the handover of Macao from Portugal to China in December 1999, Macao suffered decline of GDP for 4 straight years. The public order was then threatened by notorious organised crime and fights between rival triad gangs.

An economic upturn started in 2000 and has been growing unceasingly for 8 years. At the back of real GDP growth at 28%, 7% and 17% in 2004, 2005 and 2006 respectively, real GDP further expanded by 27% in 2007. The robust economic growth has been undoubtedly driven by tourism and the gaming industry (please refer to 1.3 for more details).

Retail sales rose to an all-time record of US$ 1,774 million (+33%), whereas inflation rose to 5.6% (5.2% in 2006) in 2007. The unemployment rate fell to 3.1% (3.7% in 2006) in 2007 and further dropped to 2.9% in the first quarter of 2008.

As far as merchandise trade is concerned, total exports dropped very slightly to US$ 2,542 million (– 0.2%) whilst total imports increased to US$ 5,365 million (+18%) in 2007. On the other hand, exports of services reached US$ 14.5 billion (+38%) and imports of services amounted to US$ 2.6 billion (+37%) in 2007.

Concerns of the public

Although gaming liberalisation sounds very successful in the booming Macanese economy, social discontent rose to a certain extent in the last two years.

The 8th HKTDC World SME Expo

Exploring China and Emerging Markets Opportunities

The 8th HKTDC World SME Expo will be held in Hong Kong during 10–12 December 2008. The Expo has become the most powerful international platform connecting small and medium sized enterprises (SMEs) with opportunities around the world.

Emerging Markets' economies are booming, and the region's demand for quality business partnerships has never been stronger. Attending World SME Expo gives overseas visitors an advantage in emerging markets and an entry point into the Chinese mainland, the standout performer in the global marketplace.

SMEs from all over the world will meet and connect, exchange ideas, find business partners over three intensive days of practical seminars, forums, industry-specific networking and business matching activities.

In 2007, the World SME Expo attracted:
- 327 exhibitors from 45 countries and regions, including 119 from the Chinese mainland
- more than 26,000 visitors
- more than 4,000 Chinese mainland enterprises from 30 provinces and cities
- more than 1,300 SMEs from 68 countries and regions

The 8 HKTDC World SME Expo is a well-defined and effective business platform, housing two major zones.

Solutions Hall is the hub for not-to-be missed business solutions, and a one-stop-shop for:
- China Trade Services
- Legal and Accounting
- Management and Marketing
- Financing
- IT and E-Business
- Trade Support

Opportunities Hall brings together the latest market intelligence, business opportunities and potential partnerships from around the world. It will feature dedicated sections for:
- China Opportunity
- Global Business Connections
- Industries Meet
- Market Development (Exclusive to HKTDC)

For further information and registration, please visit: http://info.hktdc.com/dm/cp506889/index_em.html
Hong Kong Trade Development Council
www.hktdc.com

Citizens demanded anti-cronyism, anti-corruption, transparent labour import scheme and actions against influx of illegal workers.

Low-skilled local workers thought they were not sharing the benefits of the economic boom. Instead, they found their wages dragging down by illegal workers, rising housing prices and leading to higher living costs.

The Aos' case* revealed loopholes in the land zoning system in which land was suspected to be given away to developers at prices well below market value, thus breeding cronyism and corruption. Since the handover, only one plot of land was sold through open bidding in 2004. Under mounting public pressure, the Macao SAR Government promised to enhance transparency in land sales and zoning. The first site for open bidding in nearly four years was sold in January 2008. The public welcomed it as a small but commendable step towards a transparent system.

* Ao Man-long, former Secretary for Transports and Public Works of the Macao SAR Government, was sentenced to 27 years' imprisonment on charges of accepting bribery, money laundering and abuse of power in February 2008. It is the most serious corruption scandal exposed after the establishment of the Macao SAR in 1999.

To address rising housing prices, the Macao SAR Government pledged to build over 7,000 Home-Ownership Scheme Housing HSH units by 2009 and build a further 19,000 HSH units by 2012.

The widening wealth gap is another serious problem for the Macao SAR Government to tackle. The GDP per capita looks very impressive and reached USD 36,357 in 2007. However, the wealth has gone mainly to the richest few locals and overseas gaming investors. To ease the public discontent, the Macao SAR Government announced a few measures in April 2008 including a one-off cash subsidy and an electricity bill subsidy to every resident and household.

An immediate impact of all these relief measures and improvements was that the rally or protest on May 1 this year was more peaceful and on a much smaller scale than the last two years.

A full report can be ordered at the Chamber or the Consulate General.

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Short Legal News

European Union – China IPR SME Helpdesk

Web service dedicated to intellectual property in China launched in May 2008

A new Web site on intellectual property rights (IPR) was recently launched on the basis of an EU funded project: the "China IPR SME Helpdesk". This Helpdesk aims at introducing European SMEs to the protection and enforcement of their intellectual property rights in China. The Helpdesk's services are free of charge and offered in its offices by appointment (in 8 of the main Chinese cities), through telephone and online inquiry points.

For further info visit:
www.china-IPRhelpdesk.eu

Various Legal Reports

Working Rules on the Release of Export License

Issued By Ministry of Commerce
Subject Export License
Promulgated on September 7th 2007
Effective From September 7th 2007
Source www.mofcom.gov.cn

The Ministry of Commerce has revised the Working Rules on the Application for and Release of Export License (WaiJingMaoPeiFa[1999] No. 743) of the former Ministry of Foreign Trade and Economic Cooperation.

Export license referred to in the Rules is the Export License of the People's Republic of China, and the Quota and License Administrative Bureau shall be responsible for conducting the uniform administration, surveillance, inspection and guidance of the work on the release of export license under the authorization of the Ministry of Commerce.

The Rules consist of 26 articles in 7 chapters, namely, General Rules, Acceptance of an Application for an Export License, Examination of an Application for an Export License, Release of an Export License, Use of an Export License, Administration of the Releasing Authority, and the Supplementary Provisions.

The validity term of an export license shall be not more than six months, and it shall be automatically invalidated at the expiration of such a time limit. If an export license is used beyond the year, the expiration date of the validity of the export license shall be not in excess of the end of February next year.

The Working Rules on the Application for and Release of Export License (WaiJingMaoPeiFa[1999] No. 743) and the Interim Working Rules on the Online Application for and Release of Export License (ShangPeiFa[2003] No. 475) of the Ministry of Commerce shall be repealed.

The Rules has three attachments, namely, Attachment 1: Application Form for an Export License of the People's Republic of China; Attachment 2: Application Form for the Return (Replacement) of an Export License of the People's Republic of China; and Attachment 3: Provisions for the Contents of an Export License of the People's Republic of China.

For full report (March 2008 issue) and others, look on the website of: Wenfei Attorneys-at-Law Ltd. www.wenfei.com/publications.html

Provisional Administrative Measures of the People's Republic of China on Bonded Port Areas

Issued By China Customs
Subject Bonded Port Areas
Promulgated on September 3rd 2007
Effective From October 3rd 2007
Source www.customs.gov.cn

China Suffers First Defeat at WTO

China has suffered its first defeat at the World Trade Organization (WTO) since it joined in 2001, as a preliminary WTO finding agrees with a complaint from the European Union, Canada and U.S. that the current restrictions on the importation of foreign-made car parts are protectionist. Under existing Chinese rules, its carmakers must use 60% Chinese-made parts or pay higher taxes. The ruling says China must end this policy to meet its WTO obligations.

The WTO will make its final report later this year, when the Chinese government will have the opportunity to appeal.

Flanders-China Chamber of Commerce (FCCC) Newsletter

Successful Study Trip to China

The Legal Chapter together with Zurich University, LLM Programme International Business Law, and the Europa Institut at the University of Zurich, organised the 4th *China Study Trip to Hong Kong, Shanghai and Beijing (May 31 – June 11, 2008)*. The Study Trip led a group of 50 practicing lawyers and other professionals to China. They represented various industry areas, including information technology, pharmaceutical, banking, insurance, infrastructure, biotechnology. Among the participants there were also representatives from various law firms, courts, governments and the stock exchange. The programme included lectures at Hong Kong University and at Fudan University in Shanghai, court sessions, visits to law firms, arbitration centres and foreign companies doing business in Hong Kong, Shanghai and Beijing. Company visits ranged from a leading bank at its offices in a high-rise building in Hong Kong to the on-site visit of production facilities in the outskirts of Shanghai. The programme showed many of the challenges that foreign investors and local businesses alike face when implementing their projects. Visits to and discussions with high level government authorities – among other the Vice-President of the National People's Congress – gave first-hand information on China's current economic and legal development in this rapidly changing market against the backdrop of the recent occurrences in China, especially the earthquake in Sichuan Province and the world economic situation. The social programme allowed a cultural approach to Chinese conventions. In Beijing the Study Trip also participated in the first Sino-Swiss Competition Law Dialogue. Overall the participants rated the programme to have been an excellent introduction into the legal, economic, social and cultural environmental aspects of doing business in China.

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The organizers of the Study Trip (first row on the left) Dr. Esther Nägeli and Prof. Andreas Kellerhals with the participants of the programme at the Ministry of Foreign Affairs in Beijing.

Various News on Banking Matters

Chinese Bank Profits Rose 83% Last Year

Chinese banks' pre-tax profits surged 83% to a record CNY610 billion last year, fueled by loan growth of 16% and an increase in fee income from the stock market. Earnings at the big four state-owned banks broke through the CNY300 billion mark. Industrial and Commercial Bank of China was the top earner with profits exceeding CNY100 billion, followed by China Construction Bank, Bank of China and Agricultural Bank of China, which had profits of more than CNY90 billion, CNY80 billion and CNY30 billion, respectively. "The strong upturn in profitability in 2007 was one of the most positive developments in the Chinese banking sector in recent years as it puts banks on the path to long-term self-sufficiency", Fitch Ratings' China banking analyst Charlene Chu was quoted in the South China Morning Post. UBS predicts pre-tax earnings growth at 11 of the biggest banks will fall to 18% this year.

- The People's Bank of China will stick to its tighter monetary policy, dashing the hopes of lenders for some relaxation in lending curbs to reduce the risk of an economic slowdown. The bank denied media reports that it was considering to establish an offshore yuan trading center in Hong Kong.
- The State Administration of Foreign Exchange (SAFE) has warned foreign banks against violating foreign exchange rules to allow foreign speculative capital to enter the Chinese stock and real estate markets disguised as "trade or investment".
- Institutional investors traded CNY2.08 trillion of bonds through Chinese banks last year, up 63% from 2006. Bank of Nanjing was the most active trader with deals worth CNY428.5 billion or 20.6% of the total. China Merchants Bank, with a turnover of CNY316.3 billion, ranked second. 44 banks made 19,764 deals, up 30% from 2006.
- JP Morgan Chase and Standard Chartered Bank have received approval to underwrite Chinese government bonds. The decision comes four years after the first license was granted to HSBC. Foreign underwriters are still not allowed to participate in corporate bond issuances.
- China Investment Corp (CIC) is hiring external foreign fund managers in the next few months to help it invest in hedge funds and private equity as well as in traditional assets such as bonds and shares. In a show of transparency, CIC has invited a large number of asset management firms to apply, making selection a tough task.
- China Minsheng Banking Corp received approval to buy a 4.9% stake in U.S.-based UCBH Holdings for USD95 million. The deal marks the first strategic investment in a banking institution in the United States by a Chinese bank.

Non-Performing Loans on the Increase

The China Banking Regulatory Commission (CBRC) announced that non-performing loans (NPLs) held by the top five state lenders rose to CNY1.11 trillion at the end of December from CNY1.08 trillion at the end of September. The NPL ratio of the top banks rose to 8.05% at the end of December from 7.83% three months earlier. One reason was the rise of NPLs at the Agricultural Bank to 23.64% at the end of last year, from 23.55% at the end of 2006 due to stricter accounting rules. Its outstanding non-performing loans increased by CNY84 billion, to CNY816.1 billion at the end of last year. Agricultural Bank holds more than 50% of the overall NPLs in China's banking industry.

- The number of Chinese New Year bank card transactions rose 59.7% compared with last year. Account holders used their cards to spend CNY29.4 billion in 66.4 million transactions during the week-long holiday.
- PICC Property and Casualty, China's largest non-life insurer, has received regulatory approval to sell up to CNY10 billion worth of ten-year subordinated bonds ahead of its anticipated domestic listing this year. The company hopes to diversify into life insurance and banking.
- Huadian Power International Corp plans to sell CNY5.3 billion worth of bonds with warrants in Shanghai to fund asset buys from its parent company and new projects. The company will use CNY2 billion to buy stakes of 49% to 100% in four power plants.
- ICBC Credit Suisse Asset Management has raised CNY3.15 billion, which represents only 15% of the USD3 billion quota granted by the State Administration of Foreign Exchange (SAFE). The first four QDII products run by Chinese fund managers raised about CNY30 billion each last year.
- Liu Mingkang, Chairman of the China Banking Regulatory Commission (CBRC), said banks should lend to power and grid companies to help them restore power and to well-run businesses to help them return to normal operations. But they should not hand out money to poorly managed firms just because they had suffered from the storms.

- Foreign currency loans by domestic financial institutions in Shanghai rose 45.2% to USD1.68 billion in January from a year earlier and 13.1% from the end of last year.

Banks Warned About Lending to Developers

The China Banking Regulatory Commission (CBRC) has warned banks to step up controls on lending to developers amid growing fears that unsustainable property prices may trigger a rebound in bad loans. Rising inflation, interest rate rises and a credit squeeze on high-end properties have increased the risk of banks' exposure to the real estate market, which is estimated to be around 25%, but could be as high as one-third of their loan books. The correction in the stock market has also increased the risk of defaults from punters who gambled on large stock gains to pay off their mortgages.

Banks Asked to Report Hot-Money Flows

The State Administration of Foreign Exchange (SAFE) has asked banks to report monthly data on yuan accounts opened by non-mainland residents and organisations, a move designed to curb hot-money flows. The requirement covers eight types of accounts, including those opened by qualified foreign institutional investors.

Source: Flanders-China Chamber of Commerce (FCCC) Newsletter

Bye Bye US Dollar

As more and more Chinese suppliers are fed up with exchange rate fluctuations, the Euro might become the country's next trading currency.

Despite uncertainty in international capital markets, the Chinese currency Renminbi (RMB) has strongly appreciated in value against the US Dollar (USD) since China introduced its exchange rate reform in July 2005 (see chart). The more than 15 % increase in value and expected future volatility has strong repercussions for many European companies buying from China.

Chinese suppliers from a wide range of industries such as car spare parts, toys, textiles as well as gifts and home products have recently changed from quoting in USD to Euro (EUR). Many of the 700,000 Chinese suppliers listed on Alibaba.com, now quote in EUR, British pounds, Australian Dollar or RMB when receiving enquiries from companies outside the United States. As there is often a time delay of a month or more between signing contracts and settling payments, Chinese suppliers fear for the true value of their prices that have been quoted in USD. The fluctuations in the USD/RMB exchange rate have reduced actual amounts received by sellers to such a dramatic low that they refuse to continue accepting payments in the once internationally preferred trading currency, the USD. Indications that the era of the USD is coming to an end solidify as even large companies such as Cosco, a listed Chinese shipbuilding company, have declared to submit future quotations in RMB when exporting. In search for other ways of price stabilisation, some Chinese suppliers have reduced the validity of their quotes from previously 30–60 days down to seven days.

As a result, European traders have to readjust their calculations more often than before in order to remain competitive. European companies that are sourcing products via Hong Kong will be affected as well. Up to now, those companies profited from a relatively weak USD when paying out suppliers while receiving strong Euro payments from their customers in Europe. It still remains to be seen whether the impact of this development is large enough to drive more sourcing companies to look into regions outside of China in search for new suppliers.

Source: China Focus Newsletter
by Fiducia Management Consultants
www.fiducia-china.com

Credit Suisse Wins Approval for China Securities Joint Venture

Credit Suisse and Founder Securities announced in June that they have received approval from the China Securities Regulatory Commission ("CSRC") to establish a joint venture in China. This marks the first approval that the CSRC has granted since the new regulations relating to the establishment of Sino-foreign securities companies were announced in December 2007. Through this newly formed entity, Credit Suisse will be able to provide investment banking services to clients in the domestic China market.

The joint venture is 33.3% owned by Credit Suisse, with the remainder held by its partner Founder Securities. With this approval, the joint venture is entitled to engage in the sponsoring and underwriting of A-shares, foreign investment shares and government and corporate bonds.

Paul Calello, CEO of Credit Suisse Investment Bank and member of the Executive Board said: "We are very pleased with this latest development in our commitment to the Chinese market. Founder has strong local knowledge; Credit Suisse has strong international capability. It is a compelling combination."

"This is a very important milestone in the implementation of Credit Suisse's ambitious Asia Pacific growth strategy, particularly for a vitally important country like China", commented Kai Nargolwala, CEO of Credit Suisse Asia Pacific and member of the Executive Board.

Investment Banking

In its Investment Banking business, Credit Suisse offers securities products and financial advisory services to users and suppliers of capital around the world. Operating in 57 locations across 30 countries, Credit Suisse is active across the full spectrum of financial services products including debt and equity underwriting, sales and trading, mergers and acquisitions, investment research, and correspondent and prime brokerage services.

Wei Xin, Chairman of Founder Group, said: "I am convinced that excellent opportunities lie ahead for the joint venture. Chinese clients are increasingly demanding more sophisticated financial solutions as well as access to a truly global platform for specialized financial services and products. Many Chinese corporations and individuals are expanding their businesses across the globe and there is a growing demand for leading financial institutions to support these efforts."

Lei Jie is currently Chairman of Founder Securities and will be appointed as Chairman of the joint venture. He has over 15 years of experience in investment banking industry in China.

Neil Ge will be appointed as Chief Executive Officer of the joint venture. Mr Ge is currently Managing Director at Credit Suisse's Investment Banking Shanghai Representative Office. He will relocate from Shanghai to Beijing for this role.

Credit Suisse

As one of the world's leading banks, Credit Suisse provides its clients with private banking, investment banking and asset management services worldwide. Credit Suisse offers advisory services, comprehensive solutions and innovative products to companies, institutional clients and high-net-worth private clients globally, as well as retail clients in Switzerland. Credit Suisse is active in over 50 countries and employs approximately 49,000 people. Credit Suisse's parent company, Credit Suisse Group, is a leading global financial services company headquartered in Zurich. Credit Suisse Group's registered shares (CSGN) are listed in Switzerland and, in the form of American Depositary Shares (CS), in New York. Further information about Credit Suisse can be found at www.credit-suisse.com.

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UBS Announces Product JV in China

UBS Global Asset Management announced end of January 2008 that it has signed a product joint venture agreement with Gemdale Corporation, a leading listed real estate developer in China.

UBS Global Asset Management has entered into a 50:50 product joint venture agreement with Gemdale Corporation. The product joint venture marks the first of its kind for UBS Global Asset Management in China and could lead to further initiatives in the future.

The product joint venture will invest in residential development projects in first-tier and selected second-tier cities in China. The product joint venture will focus on geographically diversified investments within China and will be managed jointly offshore by UBS Global Asset Management and Gemdale.

The product joint venture will draw upon the fund management expertise within UBS Global Asset Management's Global Real Estate business and the property development and industry expertise of Gemdale.

The signing ceremony was attended by Paul MARCUSE, Head of Global Real Estate, Lijian CHEN, Head of Global Real Estate – Greater China, James HONG, Chairman of Greater China, from UBS Global Asset Management and Ning ZHANG, Head of Asset Management, UBS Securities, China. Gemdale attendees included its Chairman, Kevin LING, President, Huagang ZHANG, Assistant President, Charles J. HUANG and Executive Director, Geoffrey GUO, amongst others.

Commenting on the deal, Lijian CHEN stated: "This partnership creates a platform to participate in what we regard as outstanding real estate investment and development opportunities in China." Chairman Kevin LING added: "With this initiative, Gemdale is establishing a strategic partnership with UBS. This marks an important step forward for Gemdale in its efforts to globalize its business."

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Spoilt for Choice

Selecting Management Personnel

Dr. Karl Waldkirch
Founder & Chairman
ASC Hanlong,
Shanghai

Medium-sized companies must decide whether to employ expatriates, thus managers from the West, or local Chinese managers in executive positions.

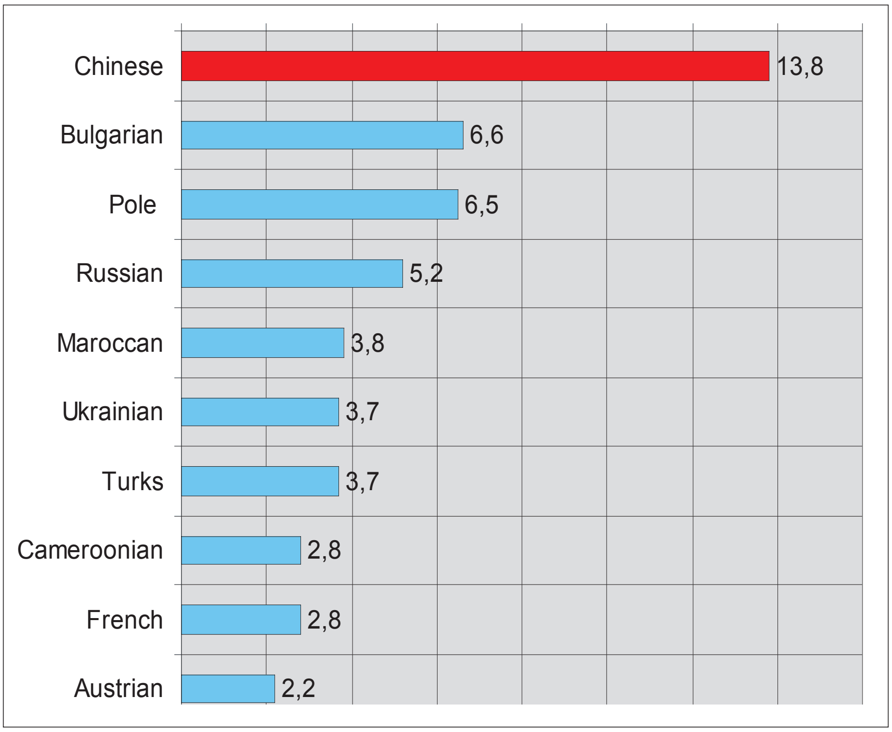
Particularly smaller-sized companies, who cannot fill vacancies within their own organisation, are forced to recruit an external career changer, thus a manager from the West, specifically for the foreign assignment in China. Another alternative, which is being frequently practiced, is to employ local Chinese managers. Due to the comparative cost advantages compared to an expatriate, there is a big demand on the Chinese labour market for well-trained Chinese managers. Notably in the fast growing metropolises such as Peking, Shanghai and Canton there is a shortage of local "High Potentials", i.e. managers with professional competence, a command of English and professional experience in the designated industry.

According to a poll by ASC carried out among Chinese managers working on higher management levels for German foreign subsidiaries, these are prepared to quit their jobs for a more attractive offer. Within one year one third of managers resign from their jobs at their own request to pursue a new job. The reasons for Chinese managers to change in their professional career are not of a financial nature and are also not in a vertical career advancement.

The management style from the West is being put to the test

Apart from the monetary aspects, the fact that foreign bosses often do not sufficiently respond to local managers (as is demanded in the Confucian fiduciary duty) also plays a role. Especially here the medium-sized companies, who are often managed very personally and are owned by one family, have an advantage. If anything they can give the Chinese employees the feeling of welfare; they care about their employees. Likewise the training preferences of the ambitious managers are frequently not realised. This results in the search for something new and in the end resigning from the job. More than 80 percent of investors send their assembly specialists and their start-up production specialists for several months to China. Temporary support from the parent company is necessary as well for setting-up the financial manage-

The Chinese Studying in Germany
Country of origin of foreign students studying at German universities



Quelle: Focus Nr. 35 (27.08.07)

Advantages and disadvantages of different personnel alternatives

Valuation criteria	Manager delegated from parent company	Manager from the West recruited for China	Local Chinese Manager	A Chinese person, who has studied in Germany
Bond to the parent house, loyalty	•••	••	•	••
Product know-how, knowledge of the strategy of the parent company	•••	•	•	••
Knowledge of the country and market in China	•	••	•••	••
Intercultural competence (interaction with Chinese specialists)	•	••	•••	•••
Knowledge of Chinese	•	••	•••	•••
Knowledge of the German corporate structure and its decision structure	•••	••	•	•
Migration phenomenon	•	•	•••	•••
Annual salary raise	•	•	•••	•••
Payroll	•••	••	•	•• •••
••• high / •• medium / • low				

Source: ASC Data Research 2008

ment and accounting system. Apart from these short-term deployments, German companies place a reliable manager from the parent company on a permanent basis, where, besides the size of the involvement, the period of deployment also depends on the legal form and the capital share respectively. For involvements with more than 100 employees, the positions of managing director and manager of the financial management and accounting system are occupied by German managers. With regard to subcontractors to the automotive industry, local managers are trained in quality management in the long-term, who then replace foreign engineers. In more than 90 percent of companies with full production, the quality department is in Chinese hand. For long-term planning the investor cannot do without local managers. On the basis of cost alone, a foreign involvement must be competitive compared to a Chinese company. However this is not the case when expatriate salaries make costs skyrocket.

Another option, that is chosen sometimes, is to employ a Chinese graduate in Germany with e.g. job training for one year in the German parent company. The biggest number of foreign students in Germany now comes from the People's Republic of China. Ahead of Bulgaria, Poland and Russia, the Chinese account for 13,8% of foreign students, i.e. approx. 270,000 Chinese students are enrolled at German universities.

Build up mutual trust

As the example of a medium-sized company from Moenchengladbach demonstrates, it is decisive that a personal contact to Chinese managers is established from the very beginning. The patriarch of the company takes the employee under his wing. The trust which the Chinese colleague feels as well as the training and further education opportunities bind him/her to the German parent company. However should Chinese students, who have been educated at a German university or college, be employed, the following points should be taken into account:

- Most personnel departments are "on the wrong track" if they believe that Chinese, who have studied in Germany, are content with a local salary in China. Experience proves different: in 6 out of 10 cases a Chinese, who has a German employment contract for the first time, expects a delegation and expat-package respectively if he gets another job in China in the future.

- Due to a long period of absence Chinese, who have studied or worked in Germany, have often lost contact to local networks in China, i.e. this comparative advantage disappears over time.
- The deployment of a Chinese person makes only sense where he/she has the corresponding contacts.
- After a long period working in Europe, it is often difficult for Chinese to find their way in China again as they no longer know how business life functions there.
- Joining a German company is often viewed as a return-ticket or as a steppingstone to the homeland.
- Although Chinese coming from Germany have lower salary expectations than "normal" expatriates, they often expect additional benefits, e.g. housing allowance or travel allowance and
- Once Chinese return to China after a period studying abroad, they fall back into their old role models, for example they are subordinate to existing hierarchies of the Chinese partner or to someone's seniority.

Company Profile

The ASC – Asia Success (ASC-Group) with its head office in Germany possess two centres of competence in Hong Kong and Shanghai and cooperation partners in India. Through ASC's rapid and dynamic growth in the recent years the ASC Group is one of the leading providers of consulting services for German and international clients with its business focused mainly on the Asian markets.

The ASC Group offers customer-made solutions in the following fields: market research and entrance strategies and their implementations, client satisfaction measurement and evaluation, Sourcing/supplier auditing, Sales and marketing/branding, product placement and positioning, Management and Company Audit, M&A Due Diligence and sustainable solutions, interim management, internal auditing and benchmarking, HR Recruitment: Executive Search/Searching Personnel (locals/expatriates), Employee branding and retention, management training, teambuilding solutions.

The Team of the ASC Group is also highly specialised in building up and running a Research & Development Center (BOT) according to client's requirements and needs.

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China's Generation Y: The Next HR Challenge

The most daunting HR management issues in China today are the twin troubles of recruitment and retention of qualified staff. But as younger Chinese come of age, namely China's Generation Y (born in the 1980s), new challenges are being posed. It is quite possible that China's Generation Yers are the least well understood, and therefore least effectively managed, among local workers. Companies striving for sustainable leadership in China have no option but to develop a solution for managing Generation Yers. This is not just a matter of reducing the risks and costs of high turnover rates due to rampant job hopping. This is an opportunity to harness China's best educated generation so far, workers confident in their ability to contribute and who have a stronger aptitude than their elders for independent thinking.

Those companies that take the lead now will hold a competitive advantage over their rivals, since future generations are bound to be even more 'Y' than Generation Y itself. Companies that fail to respond to this challenge will only face worse turnover rates. What is needed is a more sophisticated approach to HR management, covering the spectrum from talent development to managerial practices to corporate culture. In this article, we provide insight into Generation Y, and look at how best to manage and nurture your young workforce to produce the corporate leaders of tomorrow.

For a full report contact the Chamber or:
InterChina Consulting Shanghai Office
www. interchinaconsulting.com

The China HR Paradox

People Shortages in the Land of Billions!

This study is a joint project of Swiss Center Shanghai, SwissCham, Swiss-Chinese Chamber of Commerce and OSEC. Containing the results of a survey of Swiss companies in China and 8 case studies of successful employers, it provides an accurate overview of human resources management and an in-depth analysis of experience of Swiss companies in China. It also identifies best practices for the successful recruitment, management and retention of Chinese workforce, provides practical information on the new labor legal framework as well as a detailed analysis of China's job market, its trends and future developments.

For more related information, do visit
www.chinaguide.ch

Exhibition Industry to Overcome Growing Pains

China's Trade show industry has extraordinary growth rates, but its structural problems are not much smaller.

The good news first: China's exhibition industry is growing, all current industry figures (2006) indicate a significant rise. The 3,800 fairs and exhibitions in China made the industry's direct sales volume jump up to RMB 14 billion, a year-to-year increase of over 20%. All over the country, new convention and exhibition centres spring up like mushrooms with the result that China's exhibition space of around three million square metres has exceeded the one of Germany (2.6 million sqm), the original 'kingdom of exhibitions'.

Tough challenges in the exhibition industry

The problem is that the industry is not ready for its own boom. Amongst the many obstacles exhibitors and professional visitors currently face, a prominent one is the fact just mentioned: the lack of controlled and strategic growth. In 2004, Shanghai alone hosted 5.5 exhibitions per week. In the same year, more than 50 exhibitions on (consumer) electronics took place, the number of trade shows on automotive and components or on pharmaceuticals and medicinal products was even higher. The oversupply of trade shows in China is striking. Germany on the other hand, with its long and successful trade show history, only hosts about one tenth of China's exhibitions a year, but amongst these are the world's biggest IT exhibition (CeBIT), automobile show (IAA) and book fair (Frankfurter Buchmesse), all organised by exceptionally professional exhibition companies. The bottom line is simple: quality counts.

While exhibition space might not be scarce in China, sensible planning is. Beijing and Shanghai could easily use more space whereas many of the shiny new halls in second-tier areas are frequently running under capacity. Mostly built as symbols for the success of regional projects, their actual necessity is questionable at the least. Inconvenient locations, impractical constructions and insufficient infrastructure support (in vital areas such as accommodation, transportation, or communication) lead to an unsurprising result: a low number of international companies attending Chinese trade fairs. Even though the focus is slowly shifting, the majority of exhibitors and buyers remains Chinese. The poor efforts of some organisers to 'internationalise' fairs by simply relabelling them attests to nothing but an obvious lack of professional management.

The main reason why many international companies shy away from a trade show engagement in China, however, is a 'usual suspect' on the country's international to-do list: IP theft. Legislation in this field has improved constantly over the years, yet implementation remains the problem. If a foreign company cannot be sure about the safe exhibition of patent-loaded products, why should it even consider displaying its know-how on Chinese ground?

No lost cause

Despite all these difficulties, there is hope for China's trade fair industry. The enormous potential the market undoubtedly has, is beginning to show. First steps towards professionalism are visible.

One of the industry's most urgent needs, the consolidation of the scattered market, is being tackled: Explosive growth rates attract main players such as Messe Frankfurt or Koelnmesse from Germany or US-based Reed regardless of the momentary market conditions. And in turn, it is the entry of these exhibition experts that gives a much-needed professional boost to the industry: in terms of management, structures, skills and, most importantly, market shares. The rapid and unregulated industry growth over the last decade produced a mostly unconsolidated market and the government's support for some prestigious yet unsuccessful fairs and exhibitions created artificial competition. But with the market entry of international exhibition organisers the industry will become more mature, more professional and more attractive to an international audience.

The problem of seemingly uncontrolled distribution of convention and exhibition centres all over the country, has been approached on by the PRC's government. Its strategic solution aims for the sensible establishment of 'exhibition belts' focusing the attention on China's main industry centres. More regulatory control on exhibition assignments by an industry-wide umbrella organisation will further reduce redundancy in both numbers and topics: a move beneficial to exhibitors, visitors and organisers.

As for IP infringement, China's trade show organisers are willing to take on the fight. They implement IP protection on a more private and direct basis. The theft of technical know-how from exhibition booths is tackled through stronger security presence onsite and a stricter enforcement of already existing rules and regulations. The most important measurement, however, are thorough access controls to premises and special sections of fairs. Only registered attend-

Be prepared: before the exhibition

1) Get market overview including market size, density, development, competitors etc.
2) Identify target segments, test exportability and acceptance of products, get information on target region and industry
3) Select exhibitions carefully and only after extensive research
4) Analyse target group of exhibition: will international buyers/exhibitors attend? Helpful information can be retrieved from chambers of commerce or similar institutions
5) Calculate costs carefully, some countries give fund support for leading exhibitions
6) Consider the IP issue, don't display IP-sensitive products
7) Translate marketing collateral and stationery into Chinese
8) Select and train exhibition staff in regard to language skills, cultural understanding and qualifications
9) Visit exhibition in advance in order to detect possible pitfalls
10) Ensure in-time shipment of display products, include a safety buffer

Be careful: onsite measurements

1) Don't leave products unattended, the danger of 'product pirates' is significantly higher in China
2) Don't hand out product catalogues to everyone, only display product sheets with little or no technical information
3) Only disclose important product details to relevant clientele
4) Hold seminars, take part in panel discussions in order to increase exposure, credibility and customer retention
5) Hold receptions for VIP customers or important officials
6) Organise press briefing for important contract signings
7) "Traders bring customers": a very important target group

Be alert: after the exhibition

1) Perform follow-up for promising leads
2) Monitor Chinese competitors and their products, watch out for cases of IP infringement
3) Create feedback on exhibition success: areas of improvement, possible IP hazards

ants are allowed to enter, an effective way of keeping the number of 'product pirates' at a low.

On its way to professionalism, China's trade show industry can learn a lot from its "smaller brother" Hong Kong: the Special Administrative Region has been considered Asia's exhibition hub for years. Hong Kong has built its success in this area on invaluable industry-related assets such as top-quality venues with high efficiency rates, experienced management by professional staff, and excellent peripheral services. But also general business perks such as international connectivity and an advantageous location at the heart of Asia help Hong Kong maintain its prime position amongst competitors on the continent.

Source: China Focus Newsletter
Fiducia Management Consultants
www.fiducia.com

Forum & Fairs in China

The Asian Manufacturing Forum

The Asian economy is the most active and potential part of the world economy. The key to achieve sustainable development of Asian manufacturing is innovation, opening and uphold the diversity as well as achieving breakthroughs in structural reforms. In order to guarantee the birth of a new Asia, economic cooperation partners in Asia should open to other regions while maintain the consistency of Asian countries and its mutual opening up.

Asian Manufacturing Association is a non-government organisation which was initiated and established by some of the manufacturing enterprises of Asia, which is devoting to promote communication the manufacturing industry inside Asia as well as with Europe and the Americans.

The members of the association are mainly concentrated in the field of automobile manufacturing, engineering machinery, textiles, petrochemical industry and electronics.

The main activities organised by the association are the Asian Manufacturing Forum and the Forum on Manufacturing Industry of China.

The first Asian Manufacturing Forum has taken place in December, 2006 in Beijing. The forum obtained strong support from not only Chinese government leaders but also some of the top 500 enterprises in the world.

The second **Asian Manufacturing Forum will be held from September 23 to September 24, 2008 in Shenyang, China.** The subject of the forum is to construct the sustainable development of Asian manufacturing. During the forum, there will be many special conferences respectively focus on "Automotive Industry", "Household Appliances Industry", "The Industrialization Path", and so on. And for the first time, the association will award the "Star of Asian", and the "Asian Enterprises Award". At the meantime, Asian manufacturing competitive reports will also be released.

The first Forum on Manufacturing Industry of China has been hold successfully in Beijing in December 2007.

And the second Forum on Manufacturing Industry of China has been held in June 2008 with the subject on: the selection of industrialisation path under the background of global economic integration.

These two forums are the "weatherglass" of the development of Asian manufacturing industry. The association is inviting members of the Chamber to attend the annual forum of Asian Manufacturing Forum and Forum on Manufacturing Industry, in order to jointly discuss issues on how to cope with the transferring of European and American manufacturing to Asia, and the sustainable development of the manufacturing in Asia together.

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The China International SME Fair

The 5th China International Small and Medium Enterprises Fair (CISMEF), the greatest pageant for small and medium enterprises, will be held from **September 22 to 25, 2008, in Guangzhou City, P.R. China.** Organised by the Government of People's Republic of China, CISMEF has been successfully held for 4 sessions since 2004, attracting 700,000 sellers and buyers from 35 countries worldwide and 30 provinces in China.

The CISMEF is not only the biggest fair which focuses on small & medium enterprises in mainland China, but also is the most comprehensive fair which is composed by 9 industry fields, which namely, Electronic Information & IT products, Textiles & Garments, Food & Beverage, Medicine, Household Applicances & Machinery, Building Materials, Papermaking, Automobile and Petrochemistry.

The 5th CISMEF invites Korea as the Country of Honor this year. 500 Korean enterprises will attend this session, meanwhile, other thousands of enterprises from EURO and ASIA will be participated this fair. It is the perfect chance to start your business career with us.

The 5th CISMEF will be attended by over 50 countries and regions. In this session, CISMEF will release the related information about investment projects, financing methods, training projects and relevant political regulation of Guangdong Province even China. You could also choose the project you interested to invest, purchase or negotiate. On our CISMEF website, services such as Custom Declaration, Intellectual Property Right and Freight Forward etc. also provided for your conveniences.

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Significant Reform of the Canton Fair

Approved by the Ministry of Commerce of the People's Republic of China, the 104th session of China Import and Export Fair (also renowned as the Canton Fair) has adjusted its exhibition period by splitting 2 phases into three and will be held from 15 October to 6 November, 2008. Each phase will last 5 days instead of 6 with 2 intervals for 4 days each. All three phases will be held in the Pazhou Complex, while Liuhua Complex will no longer be used.

After splitting the Canton Fair into 3 phases, the Phase 1 of the 104th session is from 15 to 19 October, exhibiting Large Machinery and Equipment, Small Machinery, Bicycles, Motorcycles, Vehicle Spare Parts, Chemical Products, Hardware, Tools, Vehicles (Outdoor), Construction Machinery (Outdoor),

Household Electrical Appliances, Consumer Electronics, Electronic and Electrical Products, Computer and Communication Products, Lighting Equipment, Building and Decorative materials, Sanitary and Bathroom Equipment, and International Pavilion.

With an interval from October 20 to 23, Phase 2 is from October 24 to 28, exhibiting Kitchenware & Tableware, General Ceramics, Art Ceramics, Home Decorations, Glass Artware, Furniture, Weaving, Rattan and Iron Arts, Gardening Products, Stone and Iron Products (Outdoor), Household Items, Personal Care Products, Toiletries, Clocks, Watches & Optical Instruments, Toys, Gifts and Premiums, Festival Products.

With the second interval from October 29 to November 1, Phase 3 is from November 2 to 6, exhibiting Men and Women's Clothes, Kids' Wear, Underwear, Sports and Casual Wear, Furs, Leather, Downs & Related products, Fashion Accessories and Fittings, Home Textiles, Textile Raw Materials & Fabrics, Carpets & Tapestries, Food, Native Produce, Medicines and Health Products, Medical Devices, Disposables and dressings, Sports, Travel and Recreation Products, Office Supplies, Shoes, Cases and Bags.

The implementation of 3 phases of the Canton Fair will continue to maintain its features and advantages as a comprehensive trade show. The area of related specialised exhibition sections will be enlarged, and according to sourcing objectives and exhibits' usage, exhibition sections will be rearranged conforming to overseas buyers' habits and general practice of exhibition classification of international exhibitions. Therefore, the specialis ation of the Canton Fair will be improved.

With care and support from the central government, trading delegations, various associations, and a large number of exhibitors and buyers all over the world, under the correct leadership of the Ministry of Commerce of People's Republic of China and People's government of Guangdong Province, and with wholehearted support from People's Government of Guangzhou Municipality and related departments, the significant reform of the Canton Fair for one session in 3 phases will certainly succeed, and provide more business opportunities to numerous buyers.

For more information, please refer to:

www.cantonfair.org.cn
Foreign Liaison Department
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China Business Opportunity Symposium

The first CBO Symposium with the topic "Chinese Companies Becoming Global Players: Strategies for Success" took place on 21 January, 2008 in Geneva, Switzerland.

As one of the most influential emerging markets, China has changed, is changing and will continue to change the global economic landscape. This is the explicit message that China has sent to the world. Chinese companies are expanding their activities and several are expected to join the ranks of global multinationals in the next 5 to 10 years. The Chinese market is highly competitive for all market players, both national and international.

As preamble to the World Economic Forum Annual Meeting 2008, the first China Business Opportunity Symposium provided a platform for current and future companies to share best practices and what they consider to be the key ingredients of success for growth.

Held in the beautiful city of Geneva, Switzerland, the CBO Symposium has proven itself to be a unique experience of sharing and networking. Close to 100 guests from government, business leaders, and academic visionaries discussed hot topics that included: "Going Public", "Founding partnerships", and "Being local as a global player".

Shang-Dao, the organiser, wishes to thank PricewaterhouseCoopers, Geneva Financial Center, Banque Privee Edmond de Rothschild, Vacheron Constantin, ABB, Zürich Financial Services, Swiss-Chinese Chamber of Commerce and the Chamber of commerce industry and services of Geneva for their invaluable support which was one of the main factors in making this CBO successful.

Shang-Dao is a non-profit association, based in Geneva, Switzerland. Its goal is to promote business and cultural exchange between China and Europe by creating networks, organising conferences, trade

China Business Opportunity VIP meeting

The Economic Development Office of the Republic and State of Geneva, Switzerland, the China Federation of Industrial Economics, and Shang-Dao in cooperation with the Swiss-Chinese Chamber of Commerce are pleased to invite you to:

Chinese Companies Becoming Global Player: Strategies for Success

September 9th 2008, Geneva, Switzerland
14.30–18.00 followed by dinner

(details and venue will be communicated later)

fairs, business clubs, and other activities focusing on China and Chinese business.

2008 China Entrepreneur Summit

Shang-Dao will also serve as the overseas representative at the 7th China Entrepreneur Summit in Beijing from December 6–7th, 2008.

With the success over the past 6 consecutive years, China Entrepreneur Summit (CES), hosted by the China Entrepreneur Magazine and the China Entrepreneur Club, has become a high-level platform for exchanges among senior government officials, business leaders and academic elites. Moreover, as a top-grade annual business event it provides a stage for promoting entrepreneurship displaying the image and personality of entrepreneurs. CES commits itself to the promotion of exchanges between the Government and Industry and integration of Chinese and international business fundamentals. Each summit has attracted wide attention and won universal recognition from the business world with its insightful and far-sighted themes and high-level guest speakers. Nearly 4000 business leaders from large SOEs, renowned private companies and multinationals attended the CES in the past 6 years.

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Hosted in Shanghai for the Last Time

Tennis Masters Cup, November 8–17, 2008

For the fourth consecutive year, R&P Business Creation AG organises a trip to Shanghai to the finals that feature the world's best tennis players. Roger Federer has played all three previous finals, the last two of which he has won convincingly. While Roger has already qualified for this year's Masters Cup, Switzerland's second player, Stanislas Wawrinka, has a good chance to be participating, too.

The group will be guided personally by Rudolf Räber, who speaks Chinese fluently.

The all-inclusive arrangement comprises: flights with Swiss International Airlines from Zurich, accommodation at the centrally-located 5-star Radisson New World hotel, an A+ series ticket, guided trips, transfers and daily lunch in selected restaurants.

For further information:

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The Hamburg Summit: China Meets Europe

From 10 to 12 September 2008 the Hamburg Chamber of Commerce will host the third "Hamburg Summit: China meets Europe". Initiated in 2004 and organised on a two-year basis, this high-calibre business conference has become an international point of reference for the development of business relations between China and Europe.

China and Europe can look back to a long tradition of cooperation and mutual respect for each other's cultural identities and economic achievements. China's policy of a gradual opening up over recent years has strongly contributed to intensifying the dialogue on key economic and political issues, such as sustainable development, the protection of the environment and global resources, as well as research and development.

It is in Europe's and China's interest, that the Chinese economy continues to grow and to open up, and that China takes its place as a major player in the system of global economic rules and policies. The "Hamburg Summit" has set itself the general objective to actively foster this process by promoting the enhancement of mutual understanding and dialogue on a wide range of key topics of common interest. The active participation of Wen Jiabao, Prime Minister of the People's Republic of China and of his high-ranking delegation at the "Hamburg Summit" 2006 acknowledges the importance of this event for the Chinese central government in Beijing. According to all participants, the conference has been a huge success, offering a unique forum to exchange ideas and experience.

The upcoming third "Hamburg Summit" aims to continue with the tradition of the previous editions and will foster the development of a mature strategic partnership between the EU and China. The concept will mostly keep the structure of the first two conferences. Throughout nine panels, top-class speakers and experts from China and the EU will have the chance to discuss the current achievements and challenges of energy policies and technologies, research & development strategies, banking and finance joint activities, etc. One of the panels will also deal with China's position within Asia and with the resulting governmental and corporate strategies for meeting the challenges posed by the new constellation of economic powers in the whole region. In addition, this year's conference stands out for its special focus on environmental protection. Representatives of major European and Chinese companies will address the ongoing challenge of effectively combining economic development and environmental sustainability.

The "Hamburg Summit" 2008 will welcome international renowned experts, such as BASF Board Member Dr. Martin Brudermüller, Jack So, Chairman of the Hong Kong Trade Development Council, Simon Brooks, Vice-President of the European Investment Bank, David Marsh, Chairman of the London and Oxford Capital Markets, as well as Jörg Wuttke, President of the European Union Chamber of Commerce in China. Furthermore, representatives of the China Federation of Industrial Economics will attend the conference with a high-level delegation of leading Chinese businessmen and decision makers.

As "Summit" initiator and organiser the Hamburg Chamber of Commerce is proud that this event has become one of the most significant platforms for corporate executives and public leaders dedicated to work jointly to enhance economic cooperation between China and Europe.

For further information and recent updates please visit the conference website:
www.hamburg-summit.com

or contact Jens Aßmann:
jens.assmann@hk24.de
Phone +49(0)40 361 38-287

Merger of Swiss Internet Providers

Strategic Merger of TIC The Internet Company Ltd. and green.ch Ltd.

The two leading independent Swiss Internet Service Providers TIC The Internet Company Ltd., and green.ch Ltd. have successfully merged in April 2008. This strategic alliance will enable the new company, which will operate on the market under the name "green.ch The Internet Company", to continue to strengthen its leading position as an Internet provider for SMEs, business customers and residential customers. This merger will create the number one provider for SMEs in Switzerland. New CEO of green.ch is Franz Grüter.

The TIC and green.ch merger represents an important milestone for both companies. It will not only secure their continued existence in the long-term, but also lead to increased growth and a much stronger market position. Thanks to the use of existing synergies and complementary ICT products and IT services, customers will enjoy even more comprehensive service in the future.

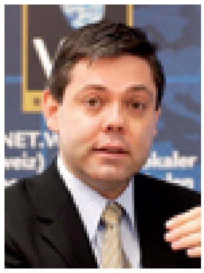
As a result of the two companies' strategic alliance, customers, staff and partners can look forward to long-term strength and security.

In addition, the fusion enables the efficient exploitation of synergies, and complements products and services in significant ways. TIC is a leader in complex national and international VPNs, Data Center projects and China services, while since its foundation green.ch has been successful in the sectors broadband Internet Access with ADSL and VDSL as well as in Hosting, Co-Location and Hosted Exchange.

The company created by the merger will operate on the market as "green.ch The Internet Company". The name TIC will be discontinued. green ch. will clearly position itself on the market as a comprehensive Internet provider for SMEs, company clients and private individuals, offering both standardized IT services as well ICT solutions tailored to individual customer needs.

Franz Grüter, Board Chairman and CEO of TIC The Internet Company Ltd., will run the merged green.ch as new CEO. The previous CEO of green.ch, Guido Honegger, will continue to be available to the company in an advisory capacity. About 80 employees will work for the new company.

green.ch expects further consolidation in the Swiss telecommunications and ISP market. The company's aim is to continue to play a leading, active role in this development process.



Franz Grüter, CEO of green.ch The Internet Company

green.ch The Internet Company

- Swiss-wide activity with locations in Rotkreuz (ZG), Brugg (AG) and Lausanne (VD), with over 100'000 SMEs, company clients and private individuals
- Swiss-wide own IP backbone network with over 70 nodes (POPs), data connections within Europe and fiber-optic direct connections to China
- Swiss-wide number 1 in Hosted Exchange
- Swiss-wide number 1 for Internet services to China
- Over 45,000 ADSL, SDSL and VDSL connections
- Leader in Webhosting (Windows/Unix) and Sharepoint (greenDisk)
- Modern Data Center services and Co-Locations in Zurich, Brugg, Lucerne/Kriens, Berne and Geneva

About green.ch The Internet Company

green.ch is the leading full service provider for SMEs, national and international business customers and residentials. It is active throughout Switzerland as a whole, and has many partners in Europe, North America and China. Innovative IT solutions, from infrastructure operation with managed solutions to complete outsourcing services reduce IT costs for customers while simultaneously boosting productivity and security. The comprehensive services include Internet dedicated lines, ADSL, VDSL, VoIP, company networks (IP-VPN and MPLS), data centers, co-location, hosted exchanges, hosting/web hosting and managed security.

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CH-1006 Lausanne

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Road Warriors Get Ready

Lenovo Delivers "No Compromises" Ultra-portable ThinkPad X300 Notebook PC

Lenovo unveiled in Paris in February 2008 its highly-anticipated ThinkPad X300 notebook PC, designed for today's most demanding road warriors, and the thinnest and lightest full-function notebook in its class[1]. The ultra-thin, ultra-portable ThinkPad X300 notebook measures less than 1.85cm at its thinnest point, or approximately the height of a U.S. quarter coin, and has a starting weight as low as 1.33kg[2].

The ThinkPad X300 combines a number of leading technologies such as solid-state drive storage, a LED backlit display, ultra-long battery life and enhanced wireless connectivity. Rated 'Gold' by the Electronic Product Environmental Assessment Tool (EPEAT) for its superior environmental attributes, it also features a number of environmentally-conscious technologies, such as low-voltage processors.

"The ThinkPad X300 notebook marks a major milestone for the ThinkPad family", said Peter Hortensius, senior vice president, Notebook Business Unit, Lenovo. "ThinkPad has been pioneering notebook PC design for more than 15 years, raising the bar on innovation, and focusing on the core needs of ThinkPad users, namely quality, reliability and functionality. Our customers told us that they wanted a notebook that was amazingly thin and light, but that they still wanted their battery options, their USB ports and of course, their DVD burner. Well the waiting is over and it's all there in the ThinkPad X300, our thinnest and lightest ThinkPad ever."

Designed for Maximum Mobility & Performance

The versatile ThinkPad X300 notebook PC offers models that can be configured for extreme portability starting at just 1.33kg[2], or maximum battery life of up to 10 hours[3] or a balance between the two with a convenient built-in DVD burner. With its compact, thin and light design, the notebook packs a powerful punch, providing a full suite of innovative features to meet users' mobile computing needs.

Expanded Multimedia: The ThinkPad X300 notebook offers an optional built-in 7-millimeter slim DVD burner for easy, flexible, on-the-go multimedia capabilities. It also includes stereo speakers, digital microphone and an integrated camera.

Extreme Durability: Constructed with advanced carbon and glass fiber, the ThinkPad X300 notebook's Next Generation ThinkPad Roll Cage helps protects the notebook from falls and drops that can occur in mobile environments. These same materials are used in building airplanes and Formula One race cars to help reinforce their structure without adding additional weight.

Ultimate Wireless Connectivity: Ultimate Wireless Connectivity: Users have a variety of connectivity options at their fingertips including models enabled for WWAN[5], WLAN[6], GB Ethernet and modem.

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1 Compared to major vendors offering 13-inch widescreen notebook PCs: Sony, Dell, Apple, Asus and Fujitus Siemens. Full featured defined as including technologies such as built-in DVD burner, selection of USB ports, Ethernet connection, replaceable battery and more.

2 Weight of 2.9 pounds achieved with configuration of standard 3-cell lithium polymer battery and empty bezel/no integrated DVD burner.

3 Battery life (and recharge times) will vary based on many factors, including use of Battery Stretch and other system settings and usage. A description of the environment under which the test was performed is available upon request. 10 hour battery life achieved with configuration of 6-cell Li-Ion plus Option Bay 3-cell Li-Polymner battery without integrated DVD/multiburner. See www.pc.ibm.com/ww/thinkpad/batterylife/.

4 Lenovo tests performed compared 1.8-inch 64 GB SATA SSD Samsung RBX to 2.5-inch RPM SATA HD used in Lenovo ThinkPad notebooks.

5 WWAN Service Providers: Requires separate agreement with select third party service provider, and is subject to credit approval and applicable service agreement/terms, rate plan and coverage maps of the provider. Service is available in select metropolitan markets, not available in all areas. Service provider, not Lenovo, is solely responsible for service. Lenovo customers may be contacted after purchase to activate service. Special credit and tenure restrictions and additional charges may apply to international roaming. A network connection, third-party software, additional hardware, and/or subscription to a third-party service may be required for certain solutions/applications. Additional restrictions apply. Offer subject to change.

6 11n Wireless LAN Mini-PCI Express Adapters: are based on the Draft Release Version 1.0 of the IEEE 802.11n specification, which has not been finalized.

Clearer, Crisper Viewing Experience: The notebook's 13.3-inch LED backlight WXGA+ high resolution display provides brighter and more energy-efficient performance than LCD displays.

Enterprise-Level Security: Equipped standard with an integrated fingerprint reader, I/O port disablement and 32-byte password protection, the notebook offers a layered security approach to help protect data and unauthorized access.

Enhanced Performance and Data Protection: The notebook comes equipped with a 1.8-inch 64 GB SSD that provides more than twice the performance of a regular 2.5-inch hard drive.[4] With no moving parts, the technology offers more than four times greater shock resistance as well as greater energy efficiency than traditional hard disk drives and contributes to the notebook's thin and light design.[4] The notebook also comes with the latest Intel® Core 2™ Duo processor technology, up to 4 GB memory and Lenovo's ThinkVantage Technologies.

"Intel® Centrino® processor technology powers Lenovo's X300 notebooks, offering a no compromise solution for users. Intel's leading edge technology delivered reduced size components by more than 50% without compromising the performance or battery life users have come to expect, enabling Lenovo to develop one of the thinnest and fully featured designs today." Christian Morales, Vice President of the Sales and Marketing Group and General Manager of Intel Europe, Middle East and Africa (EMEA).

In its first big test out the gate, the ThinkPad X300 notebook PC will support team members on the official aircraft of the Beijing 2008 Olympic Torch Relay as it launches a demanding 137,000-kilometer, five-continent "marathon" next month. Often departing from torch relay cities late at night and arriving at the next city in the early hours of the morning, and with no margin for error, the torch team will rely on Lenovo technology to support nearly 22,000 torchbearers, in more than 130 cities worldwide.

About Lenovo

Lenovo (HKSE: 992) (ADR: LNVGY) is dedicated to building the world's best engineered personal computers. Lenovo's business model is built on innovation, operational efficiency and customer satisfaction as well as a focus on investment in emerging markets. Formed by Lenovo Group's acquisition of the former IBM Personal Computing Division, the company develops, manufactures and markets reliable, high-quality, secure and easy-to-use technology products and services worldwide. Lenovo has major research centers in Yamato, Japan; Beijing, Shanghai and Shenzhen, China; and Raleigh, North Carolina. For more information see www.lenovo.com.

The ultra-thin, ultra-portable ThinkPad X300 notebook by Lenovo.

Designed for the Environment

Rated Gold by EPEAT, the ThinkPad X300 notebook stands out as one of the most environmentally-responsible PCs in the industry. Lenovo designed the notebook to include environmentally-conscious technologies such as energy-efficient SSD and arsenic-free LCD glass and mercury-free LED displays. The energy-efficient LED display helps the ThinkPad X300 notebook achieve up to 35 percent lower power consumption than previous models. Lenovo also uses recyclable packaging.

Pricing and Availability[7]

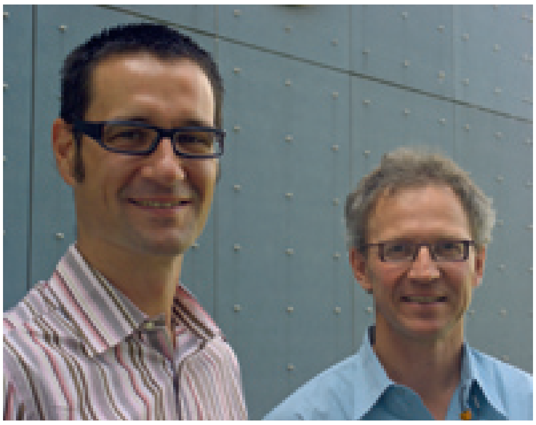
The ThinkPad X300 notebook starts at approximately CHF 4'300.–. It is available through Lenovo business partners.

For further information please contact:

Lenovo (Schweiz) GmbH
Yvonne Wehrli
Zürcherstrasse 39
8952 Schlieren
Mobile: 079 583 20 55
E-Mail: yweh@lenovo.com

7 Prices do not include tax or shipping and are subject to change without notice. Reseller prices may vary. Price does not include all advertised features. All offers subject to availability. Lenovo reserves the right to alter product offerings and specifications at any time without notice.

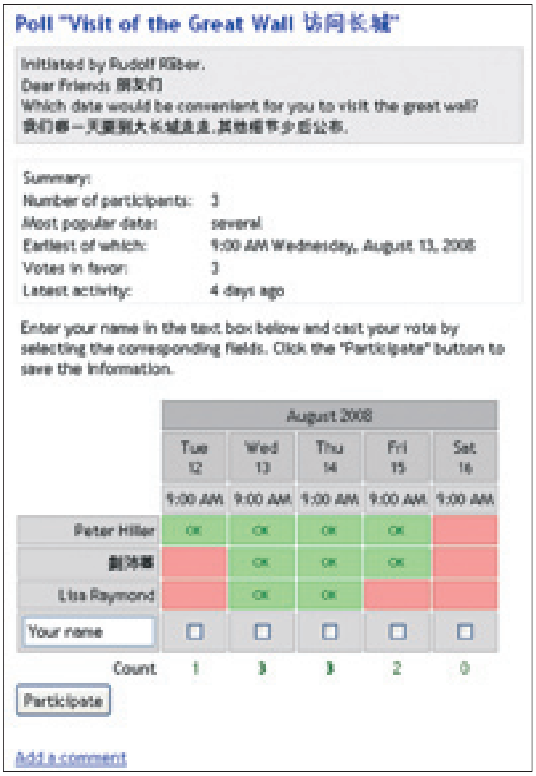
Scheduling Meetings the Swiss Way



(f.l.t.r.) Michael Naef, founder of Doodle and Rudolf Räber, responsible for China.

Some 20 per cent of the Swiss internet users agree on one thing: When coordinating schedules for a meeting is likely to require more time and effort than the meeting itself, there is only one way out: Doodle. The booming Swiss Web tool is now to be launched in China.

Everybody has been there: Coordinating a meeting with several participants can easily turn into a nerve-wracking back-and-forth of phone calls and e-mails.



The limited availability of busy people does not only drive legions of project managers and secretaries to despair, but it is also estimated to result in costs that are beyond imagination. This Web tool, which has been created by a Swiss start-up company, offers an elegant way of resolving the scheduling dilemma.

Growing rapidly

Thanks to its easy use and its obvious purpose – finding a common denominator –, the application has seen the number of its users grow between 300 and 400 per cent every year. Slowly but steadily, Doodle has evolved from a one-man hobby operation to a fully-grown business with internationally renowned investors that has received great attention in the media well beyond the Swiss borders. Being available in almost 20 languages, Doodle is now used by millions of people around the world to schedule events and carry out all kinds of polls.

Targeting China

Spurred by its success in Europe and backed up by well-known investors, Doodle's expansion is taking another giant leap forward. With its Chinese translation and a mobile application ready for take-off, Doodle is now, under www.doodle.cn, entering the Chinese market with the aim of becoming the local reference Web tool for scheduling events. According to its founders, the Swiss origin of the multi-awarded

About Doodle

Doodle is the leading online scheduling tool. The service, which is financed by advertising, is free of charge and attaches great importance to simplicity and usability. Users don't need to register or install any software. Doodle has been translated into 20 languages, with more languages being added regularly. Doodle can be used for both private and business purposes, such as in companies, clubs or authorities. A feature that is particularly useful to international organizations is its possibility to schedule events across different time zones.

www.doodle.ch or www.doodle.cn

tool is an asset in view of its international expansion, since Switzerland is commonly associated with qualities such as punctuality and the adherence to schedules.

Easy to use

Doodle owes its success, which has already produced a number of copyists, mainly to the fact that it is simple to use. Within a few seconds, an organizer can enter his suggestions for event dates into the system and send a link to the participants in order to start a poll. By gathering all replies, Doodle provides a simple tabular overview of the current state of affairs and the most favorable choice of date. Contrary to comparable applications, Doodle does not require any registration. Polls may be accessible to all participants or solely to the organizer.

For further information please contact:

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Phone (direct): +41 41 240 68 68
E-Mail: rr@doodle.ch

Callyandi

English-Chinese Mobile Phone Interpreting Service

Travelling in China and finding it difficult to make yourself understood? From July 8th 2008, help will be just a mobile phone call away. The young Zurich company Callyandi GmbH has filled an important gap in the market with its live English-Chinese mobile phone interpreting service.

Easy and direct

If you're having difficulty, for example, communicating the address of your hotel in English to your taxi driver, ring our service and explain the problem. Then just hand your telephone to the driver and one of our interpreters will translate the address into Mandarin or Cantonese for you.

Callyandi's interpreters can be contacted 24 hours a day, 365 days a year.

The idea

The idea was born on the eve of a trip to China. Callyandi's founders Christian Waldvogel and Markus Schaub were discussing the communication problems facing travellers in China and how useful it would be to have an interpreter along.

A mobile phone interpreting service, they thought, would help break down language barriers and enable business people and tourists to travel more freely within China.

Problems making yourself understood in China? – professional English-speaking agents help you out in any situation.

The test

Christian Waldvogel travelled to China and tested how often a live interpreting facility would prove useful. He encountered a whole range of different situations where a service of this kind would come in handy – when making hotel reservations, ordering meals in restaurants, travelling by taxi, and trying to find his way in the Hutongs of Beijing. The further that he ventured away from the centre, the more difficult it became to communicate.

Waldvogel got around the problem by ringing up friends and acquaintances who could speak Chinese and asking them to translate. His experiment proved how valuable a mobile phone interpreting service would be.

Can't find your way around the forbidden city? – With CALLYANDI, help is just a phone-call away.

The development of the business

Keeping in close contact, Schaub and Waldvogel began to develop the business idea. While Schaub was busy in Switzerland finding out whether any similar services existed, Waldvogel was having meetings in Beijing with Beat Bürgi from the Swiss Business Hub, who confirmed the men's belief that they had discovered a gap in the market. Mr Bürgi was enthusiastic about the idea's potential and conducted some research that testified to the feasibility of the project. Waldvogel and Schaub decided to draw on additional expertise, bringing Lukas Blum (legal expert and PR consultant) and Noel Boller (a businessman with experience of call centres and tourism) on board.

Over the next few months, key issues were resolved. For instance, it became clear that software-based systems could not compete with a personal service. Only humans have the sensitivity and the contextual understanding to provide high-quality interpreting. The service was christened Callyandi and the limited liability company, of the same name, was registered in March 2008 in Zurich.

Former Zurich mayor and China expert Thomas Wagner gave the four young entrepreneurs valuable support. Wagner was enthusiastic about the idea and with his considerable experience, provided important input, helping the company to get into contact with the right partners.

Exploratory talks with business leaders and China specialists have shown that there is considerable interest in Callyandi from the B2B sector, as well as from independent travellers.

The company has developed a pricing structure that will enable firms, including small ones in particular, to give their staff and their families the benefit of using Callyandi on a daily business. This will increase the wellbeing of their staff and enable them to work more effectively, as well as relieving the burden on colleagues who speak Chinese. It will also reduce the amount of money spent on interpreters.

The company promises to provide a quality service that is easy to access. Callyandi customers should be able to make themselves understood at any time of day and in any situation. They should be connected directly with an interpreter without having to go through a lengthy dialling procedure.

The choice of a Chinese partner with a call centre in Guangzhou, as well as the careful definition and strict implementation of quality standards are of great importance. The recruitment and briefing of the interpreters and comprehensive quality management are part of these measures.

Callyandi – easy understanding

Both Chinese and English speakers can profit from the mobile phone interpreting service, which makes its own small contribution to intercultural communication by promoting understanding and reducing misunderstandings.

Numerous companies and organisations have expressed an interest and are eagerly awaiting the launch of the service. The company will be represented at the Olympic Games thanks to its co-operation with Presence Switzerland. The state-run organisation, which promotes the image of Switzerland abroad, has recommended Callyandi to its guests.

There will be special introductory offers for business customers who sign up within the first month. If you are interested, please contact Callyandi directly.

For more information, business customers should ring:
+41 44 400 33 22
or e-mail b2b@callyandi.com

For calling credit, visit: www.callyandi.com
Register or ring our call centre:
+86 4006 228 227 (international)
4006 228 277 (from China)

(f.l.t.r.) Christian Waldvogel and Markus Schaub, Callyandi GmbH's managing directors.

Muhai Tang – In the Ocean of Music

A Wanderer between Cultures

In China the conductor Muhai Tang is a star. And he is the chief conductor of the Zurich Chamber Orchestra (ZKO). Though as a young man everything looked very different. But determination and lucky coincidence brought Muhai Tang not only into the concert halls of the world, but also made the passionate musician into a cultural mediator like no other.

The Swiss film production company, TILT Production, highlights for the first time the eventful life between cultures and the dedicated work of this dazzling personality with a documentary film project. The project is currently in pre-production and the producer is looking for other partners.

"In a globalized world, cultural interest in others is the key to understanding strangers." – Muhai Tang

A life like a movie script

Muhai Tang's biography reads like a film script: born 1949, the founding year of the People's Republic of China; in his youth, away from his family, he serves in a music corps of the People's Army. After abandoning any hope of a career as a conductor he is given the opportunity to pursue his passion – at what in the musical profession is a ripe age of 23. He begins conducting and composition studies at the Shanghai Music Conservatory.

About Muhai Tang

Muhai Tang was born in 1949 to an artist family. His father is the Chinese film pioneer Xiaodan Tang. Since the 1930s, Xiaodan has – in spite of changing political systems – continuously made films. Muhai's mother, Weije Wan, was a film-cutter. Today she lives in Shanghai as a writer and cares for her 100-year-old husband.

During the Cultural Revolution Muhai Tang served in the remote People's Liberation Army outpost in Urumchi.

In 1972, he began his studies at the Shanghai Music Conservatory. In 1979, he visited Europe for the first time. This was the start of an international career.

Today Muhai Tang is married to the Korean concert pianist Ju Hee Suh and father of a 4-year-old daughter. As a global nomad he commutes between Zurich, Shanghai, Antwerp and the world's major concert halls.

Jump-start from Cardinal Ratzinger – and Herbert von Karajan

Muhai Tang's talent develops and in 1979 he receives a scholarship from the College of Music Munich, sponsored by former Wuerzburg Cardinal Ratzinger – now Pope Benedict XVI. He travels with the Siberian railway to Europe for the first time. In 1983, he takes part in the Karajan Conducting Competition. Though he looks to have won the competition, he is disqualified due to a formality (at 33 he exceeds the age limit). "Give talented Chinese an orchestra!" is what the juror and star conductor Herbert von Karajan is said to have remarked. And he put his money where his mouth is: Karajan presented the unknown Muhai Tang the gift of conducting a concert by the Berlin Philharmonic. This debut is a resounding success and marks the start of a precipitous international career resulting in further global guest performances.

The list of his appearances reads like the map of the international music world. He conducts the London Philharmonic, the Salzburg Festival, the Dresden Staatskapelle, the Bavarian Radio Orchestra, the French National Orchestra, in addition to philharmonic orchestras in St. Petersburg, Tokyo and Warsaw, and symphony orchestras in Sydney, Tokyo, Washington and Hamburg.

Get involved!

Strategic partnerships between business and culture are mutually beneficial. Through the universal language of music, the film about Muhai Tang connects two cultures that are increasingly moving closer economically. A project like this is like bridge building. It brings people emotionally closer.

Such a partnership for Swiss companies operating in China would bring significant benefits. Due to its theme, the film has particularly good prospects for broad distribution in China – as well as internationally. Increased interest from Chinese film festivals and national television is expected through the fame and star status of the protagonist. Thus, the film will be noticed by the Chinese public. Furthermore, China's cultural and economic elite knows Muhai Tang very well. To them, he is an identifiable figure, someone who successfully crossed into the Western world while still living and conducting in China.

Partners receive exclusive access to the film and can invite their clients in Switzerland or China to select events (screenings) or surprise clients with gifts (DVD).

Your company would be named in connection with a positive chapter of Swiss-Chinese relations leading to a happy end. Get in touch with us.

www.tiltproduction.com

From the Berlin Philharmonic to Zurich and Shanghai

The musical nomad Muhai Tang also accepts permanent commitments in Europe, Australia and China. Since 2006, Muhai Tang has been stationed in Switzerland as chief conductor of the Zurich Chamber Orchestra (ZKO). His concerts are not only extremely worth listening to and bring the ZKO international recognition, but they are also worth seeing, because the expressive conductor makes his passion for music in his work visible with his baton.

In addition, Muhai Tang is currently professor and department head of orchestra management at the Shanghai Academy of Music. In this capacity he maintains the artistic exchange between Chinese and European universities. He is committed to cultural exchange between young musicians from the East and West.

One of today's most expressive conductors

Muhai Tang was introduced to Western culture through classical music. Through his background he provides access to the immense treasures of Chinese cultural heritage. In this way, he is able to act as an ideal mediator between worlds, while enriching both.

Chinese history appears in exemplary fashion in Muhai Tang's life. He lived through significant social change and made personal developments typical for the Chinese of his generation. Major historical caesurae find expression in their individual destinies. And yet, Muhai Tang is different. He entered Western culture early through music and now lives as a mediator between the worlds.

The Film: Muhai Tang – In the Ocean of Music

The Swiss film industry is known worldwide for its documentaries. In the best tradition, the film project "Muhai Tang – In the Ocean of Music" should be made as a portrait of an extraordinary life. Music is a global language and the film production company TILT Production and director Markus Unterfinger want to bring Chinese society and culture, which are becoming increasingly important for Western Europeans, to a broad public. For such a project, the charismatic protagonist and his external and internal career from East to West are ideal models.

Broad support and the search for other partners

The film project is in pre-production and can already count on broad support. With national Swiss television (SF DRS) and the cooperative network 3SAT the first co-production commitments have been made and guarantee film distribution in German-speaking countries. Further support is coming from the state and private sources.

However, financing in Switzerland, as well as in China, is not complete. TILT Production is still in search of partners who feel personally addressed by the film project and Muhai Tang's global message, and who could imagine making a financial commitment to the project. In particular companies who want to build bridges between Switzerland and China are predestined for collaboration. So if you are interested and would like to know more, do not hesitate to contact us. Collaboration can be adapted to individual needs.

Contact information:

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Email: winkler@tiltproduction.com
www.tiltproduction.com

China Festival 2008 in Crans Montana

"The world is a gentle riddle, which our madness makes terrible, pretending to interpret it according to its own truth."

Umberto Eco

The world is a gentle riddle … its diversity, its fabulous complexity and subtlety, its richness offer everything to be happy, paradise could still exist, and yet … Umberto Eco doesn't point out the evil due to conflicts of interest but due to the madness to interpret the world according to its own truth. A sentence to meditate at a time of globalization bringing together so many different cultures, so quickly, so near to each other, without adequate preparation, thus creating so much violence … The last Tibetan crisis showed for example how quickly the image of China could change and what anger can suddenly break through the former fascination, bringing out latent fears and resentments in front of this huge unknown country, forcing Europeans to change habits and acquired rights.

Festival of the Inhabited Worlds

One's own interpretation of the world, pretending to be The Truth, may be the "Gordion Knot" to cut, if we don't want to live in a powder keg! That is the challenge the **Association "Divers><cité"** is aiming to tackle through the organization of the **"Festival des Mondes Habités"** (Festival of the Inhabited Worlds), crossing points of views in a serious and yet still light way, thanks to the participation of specialists and artists, webbing their approaches with the intellect, the senses, the heart and the soul; or in more concrete words, through different kinds of events: symposia, exhibitions, films, wellness and artistic workshops, concerts, shows, etc.

The events will take place in **Crans-Montana**, a cosmopolitan quarter of the globalized Earth-city. The perfect place then to harbor a peaceful and joyful encounter of different views and cultures of its different populations and to learn how to cultivate and exploit their diversity.

Ways to live in a globalized Earth-city

This project met the aims of the **"Globlab Dia-Logos"** from the EPFL, directed by **Professor Jacques Lévy**, "a commitment, a philosophy and a tangible objective to encourage the research on society's main challenges, through constant interactions between searchers and members of the public, powerful stakeholders and ordinary people". Therefore, the association "Divers><cité" and the "Globlab Dia-Logos" combined for this innovative and open-minding adventure, searching for concrete ways to communicate and live together in this globalized Earth-city.

To meet this challenge is not only a matter of goodwill or nice intentions. It needs a deep research, involving first of all the "tools" used to think, to communicate and to dialogue within such a complex society. The first tools are the signs, starting with graphic signs, which have a tremendous unconscious influence on the way of thinking, as **Jacques Gernet**, Professor at the Collège de France, will explain on July 18th and 19th at the Château Mercier in Sierre (cf. Program "Les Signes, Instruments de la Pensée").

Research meant for (inter)action

The graphic and visual signs of the world, their cohabitation as well as their interactions with the thoughts are precisely the fields which **Ruedi Baur** and his team **"Design2Context"** has been exploring for many years. This research is in fact the starting as well as the salient point of the festival. Ruedi Baur, President of the association "Divers><cité" is the first pillar of this innovative, open-minding searching adventure, which will continue to explore further communication and thinking tools beyond the signs, such as languages, images, informatics…

This theoretical as well as experimental research is meant for **action**. It tends to help every member of society, especially those handling and doing business between two worlds, to communicate and understand each-other better, to progress and evolve thanks to their exchanges, to find together the best possible solutions for the problems they meet. The search for adequate combinations of signs and languages, respecting and relating their diversity, could prefigure better ways to live together in general, working the tension between singularity of the parts and coherence of the whole. A relationship constantly in movement, as well as each of its components, which should never cease to work at openness and flexibility.

The members of the Chinese-Swiss Chamber of Commerce would therefore be most welcome to visit and participate in this "Festival des Mondes Habités" (cf. Programme) that starts on **July 19th** 2008 with an opening day and dinner dedicated to the victims of the earthquake in Sichuan. On **August 4th and 5th** 2008 the theme "habiter" (to inhabit) – the world, agglomerations, homes, bodies – will be explored through crossed Chinese and Swiss views at the issues raised by the limited resources of a globalized world – an opportunity to take part at the very basis of this aimed culture of dialogue.

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The Beijing Games at the Olympic Museum

Besides the permanent exhibition regarding the Olympic Movement and Games, the Olympic Museum in Lausanne has created a special exhibition.

From February to October 2008, in the framework of the Games of the XXIX Olympiad in Beijing, the Olympic Museum is focusing on China, with a major exhibition both inside and outside in the park, a wide range of events and a broad educational programme. Beijing 2008 will be a chance to discover modern China with the Olympic Games acting as a catalyst, but also traditional China. To put this project in place, the Museology and education and cultural services sections have sought the services of two eminent figures: Roger Pfund as artistic director and Gérald Béroud as adviser and coordinator.

Parallel to the exhibition, a vast programme of educational and cultural events will take place in five main phases, from 6 February 2008 (the Chinese New Year) to 16 October (end of the 28th Olympic Week).

Open daily from 9 a.m. to 6 p.m.
For information and reservations
call 021-621 65 11

Le Musée Olympique

Quai d'Ouchy 1
CH-1006 Lausanne

www.olympic.org

Yangtze Transport: Accessing China's Interior

- **Yangtze container volumes increase 38 per cent in 2007 as domestic trade surges**
- **Huge spending on transport networks opens up the interior to more inward investment**

Container traffic volumes on the Yangtze River surged to a record high of 5.54 m teu in 2007, an increase of 38 per cent over the previous year, according to a report published today entitled 'Yangtze Transport 2008: Accessing China's Interior'. Figures from the Yangtze River Administration under China's Ministry of Transport show that cargo throughput of the major ports along the Yangtze trunk line stood at 918m tons, up 16.6 per cent from the previous year.

Despite these upward trends, however, the river is a heavily underutilised transport resource. Traffic remains heavily concentrated in the lower reaches where the shipping conditions are better, the local economies are more dynamic and access to the sea is easier. Cargo throughput in the Jiangsu ports up to Nanjing, located just 300 km from the sea, accounted for two-thirds of the Yangtze's total in 2007.

The ongoing dredging programme at the mouth of the Yangtze is one factor that has contributed to the surge in overall shipping volumes. Indeed, massive investment along the length of the river along with its supporting road, rail and air cargo network is rapidly changing China's economic landscape, according to the report.

About Yangtze Transport 2008

The first edition of this bilingual report was published in 2006. The second edition, completely updated and revised, contains 12 chapters of independent analysis on key transport issues, including government policies, investment opportunities, shipping trends along the Yangtze and the changing nature of the road, rail and air cargo networks in the region. The guide also profiles the 24 major port cities along the Yangtze trunkline, detailing the most important industries, leading companies, investment zones and the local transport infrastructure. Each port city profile also features a local transport map and case studies of foreign-invested enterprises already operating there. Price £190.

By summer 2009 when the Three Gorges Dam is completed, Beijing planners will have realised their ambition of creating an all-year-round shipping channel to allow 10,000 dwt barge fleets to sail from Chongqing to Shanghai – a distance of some 2,500 km – within no more than seven days. Huge sums of money are also being spent to build a Riverside Expressway, a Riverside Highway and a Riverside Railway, all running parallel to the Yangtze and due to open in the next few years. The Riverside Expressway, which will be completed by the end of 2010, will reduce the journey time by car between the two municipalities to around 24 hours.

In addition to these major national projects, money is also being poured in at a local level. Chongqing municipal government, for instance, invested Rmb27bn in transportation infrastructure in 2007 alone, an increase of 124 per cent over the previous year. In January 2008, Sichuan signed an agreement with the Ministry of Railways to build six railway lines that will pass through the province. They will cost Rmb310bn to build and will have a total length of 4,900 km, of which 1,900 km will be in the province itself. Most of the lines will be completed by 2012. By then, train journeys from Chengdu to the neighbouring provincial capital cities such as Guiyang, Lanzhou, Kunming, Xian and Wuhan will be only four hours.

According to Chongqing's transport infrastructure blueprint, approved by the central government, five major road routes will be established by 2020; they will not only link China's largest city with neighbouring inland provinces such as Hubei, Hunan, Guizhou and Sichuan, but also to the Yangtze River Delta and the Pearl River Delta beyond. This will fulfil the government's plan to establish Chongqing as the regional logistics hub for the upper reaches of the Yangtze, together with Wuhan on the middle reaches and Shanghai on the lower reaches. In this sense, China is looking to follow the experience of the US, whose current world economic dominance dates back to the 19th century when it started to build its trans-continental railway network, followed decades later by the interstate highway system. These vast transportation arteries opened up America's interior, allowing Midwest cities such as Chicago and Detroit to flourish as part of the country's industrial heartland.

To order or for further information contact:
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The Best of Switzerland to Pop-Up

Stand-up-Switzerland AG, the publishing house in Zurich dealing with the production of 3D pop-up picture books has only been founded in 2006. Since then, six of those veritable volumes in 3D large format have been published, from which Swiss landmarks pop-up, from the Bundeshaus to the Rhine Falls; nearly a quarter meter high and half a meter wide, true to scale, colorfast and true to the original down to the very detail. And, an ideal gift to bring along when visiting the Olympic Games 2008 in Beijing for example.

Currently, Albi Matter, the editor, who has also launched two of the most successful music events for years, the International Country Music Festival and the International Dixie & Blues Festival, is editing the volume "Best of Switzerland" as the up-to-date high point. In the centerfold, even three of the impressive, spot-lacquered pop-ups arise, showing the motifs of Eiger, Mönch and Jungfrau, the Matterhorn and the Kapell-Bridge produced by specialists in extravagant handicraft in China. The remaining 78 pages contain many colorful and illustrative pictures and a lot of information in German, French, English, Spanish, Chinese and Japanese.

In addition, the picture book includes the CD "Best of Swiss Folk Music" inside the cover as a special gag. In its period style Emmentaler-cheese cover, it contains a collection of coherent pieces of music, from the ringing of cow bells to original yodeling sounds gathered by Swiss folk music star Carlo Brunner.

Along with the six volumes published before and the Best-Of edition hot off the press, there is also a series of 3D double-cards with a variety of 15 motifs available. All these pieces of art, well worth to be collected, may be purchased in bookstores and at kiosks or ordered straight from direct sales at www.stand-up-switzerland.ch. And whoever fears such a purchase to tear a hole in his purse may be pleasantly surprised. The Best of Switzerland edition costs no more than CHF 69.80, a volume of the first series CHF 49.80 and one double-card CHF 14.50.

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Members of the Swiss-Chinese Chamber of Commerce get a rebate, if ordering ten and more books.

Hans Jakob Roth
179 Seiten, Abb., Tab., Kt
CHF 29.90
Verlag Hans Huber, 2008

Für Geschäftsleute und Führungskräfte wird die Zusammenarbeit mit China immer wichtiger. Der promovierte Wirtschaftshistoriker und Asien-Spezialist Hans Jakob Roth hat aus seiner 25-jährigen Erfahrung ein Modell erarbeitet, das eine wertvolle Unterstützung für alle ist, die sich im interkulturellen Umgang sowohl im Wirtschafts- wie im Ausländeralltag mit China auseinandersetzen wollen. In «Leitfaden China» werden zunächst die Unterschiede zwischen der westlichen Individualgesellschaft und der chinesischen Kollektivgesellschaft beschrieben. Anschließend wird auf der strategischen und operativen Ebene erläutert, wo diese Unterschiede zwischen Ost und West liegen und wie sie sich z. B. auf einen Erstkontakt für eine Geschäftsbeziehung auswirken. Seine Ausführungen reichen vom Geschäftsverhalten bis hin zur richtigen und erfolgreichen Unternehmensführung. Der Autor geht dabei über die reine Beschreibungsebene hinaus und zeichnet anhand der sozialen Strukturen und ihrer Dynamik ein Erklärungsmodell, das es erlaubt, die Alltagsphänomene in China tiefer zu begreifen. Anhand dieses Modells wird es möglich, nicht nur operativ auf das andere kulturelle Umfeld einzugehen, sondern auch Aktivitäten vorausschauend zu planen. Während rechtliche Fragen – Lizenzerteilungen, Unternehmensform, Personaleinstellungen etc. – heute durch Anwälte oder Berater bearbeitet werden können, ist dieser nützliche Leitfaden ein unentbehrlicher Ratgeber, auch in einem anderskulturellen Umfeld effektiv und effizient auftreten und handeln zu können.

Bestellung

Erhältlich im Buchhandel
oder über
www.verlag-hanshuber.com

Urs Schoettli
240 Seiten, 50 s/w Abbildungen,
CHF 38.–
NZZ Libro – Buchverlag Neue Zürcher Zeitung

China ist wieder zu einer Grossmacht mit globalen Ambitionen geworden. Seinem rasanten wirtschaftlichen Aufstieg stehen grosse innere Probleme gegenüber:
gesellschaftlich, politisch, ökologisch.

Mit Riesenschritten ist China in den letzten zwei Jahrzehnten auf die Weltbühne zurückgekehrt. Die Renaissance des Reichs der Mitte ist für alle Staaten von Bedeutung. Der wirtschaftlichen und sozialen Modernisierung steht aber ein gefährlicher politischer Reformstau gegenüber. Das Riesenland sieht sich mit gewaltigen Umweltproblemen, einem eskalierenden Reichtumsgefälle und wachsenden sozialen Spannungen konfrontiert. Die westlichen Industriestaaten leiden unter der Abwanderung von Jobs ins Billiglohnland China. Die USA befürchten, dass China zu einer für sie bedrohlichen Macht aufsteigen wird. Die Weltgemeinschaft muss ein Interesse an einem stabilen, wohlhabenden und friedlichen China haben. Chaos in einem Land mit 1,3 Milliarden Menschen würde die ganze Erde in Mitleidenschaft ziehen. Dies muss Anlass für eine differenzierte Beurteilung der Risiken und Chancen in Chinas künftiger Entwicklung sein. Urs Schoettli, Korrespondent der «Neuen Zürcher Zeitung» in Peking, führt in die Geschichte und die Gegenwart Chinas ein, kompetent und spannend wie kaum ein anderer.

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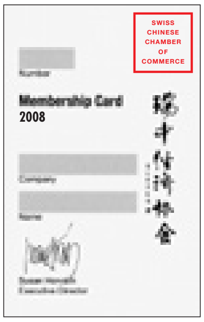

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The card not only identifies you as a legitimate member of the Chamber but also entitles you to benefit from services rendered by us and the Chapters in Switzerland and the People's Republic of China. Besides our events, members can take advantage 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.

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