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For full overview of useful contacts in China and Switzerland turn to pages 94 & 95 in this issue.

China Still Growing Despite Global Economic Downturn

(F.l.t.r.) Vivian Liu, Deputy Director Investment Promotion Bureau, Kurt Haerri, Max Pfister, President of the Lucerne State Government, Ma Ming Long, Member of the Standing Committee of CPC Suzhou Municipal Committee and Secretary of CPC SIP Working Committee, Adelbert Bütler, CEO Bucherer Group and Chairman Lucerne Tourism Board, Sun Yanyan, Vice Chairman SIP

China's economy has continued to feel the heavy burden of the global financial crisis. As the World Bank's June quarterly update shows, China's respond to the crisis has been a success so far. The World Bank revised its estimate for the Chinese economic growth to 7.2% against its March forecast of only 6.5% growth for this year. Evidence of strength abounds. Surprisingly Auto sales in China climbed 14% in the first five months to nearly 5 million and the market could reach 11 million units this year. Encouraging too for the environment is the fact that much of the growth came from cars equipped with smaller engines. The importance of the property market in China is comparably very high as property accounts for about 25% of fixed asset investment. Remarkably, not a single major property developer went bust during the recent downturn, helped in part by a massive injection of money into the economy by the government so far this year to goose the economy. A proactive fiscal policy and the stimulus package worth 4000 billion Yuan (about 590 billion US Dollars) designed to accelerate construction of infrastructure and to seek balanced development between urban and rural areas have proven to be very effective. However, the underlying trend is still that of a Chinese economy massively dependent on exports, and the news we are getting from the United States and Europe is that any significant recovery is some time away and this will certainly impact Western consumer purchases. The rapid past expansion of gross and net exports is not going to return in due time. China needs more growth from domestic demand – consumption in particular. China must move, instead, towards an economy led by private rather than public demand, towards consumption rather than investment, towards labour-intensive services rather than capital-intensive industry and towards reliance on domestic rather than foreign markets. Striving towards this direction, China can have the confidence to emphasize on forward looking policies and structural reforms.

While the world's third largest economy is still growing remarkably fast despite the global economic downturn, it must be noticed that excellent government relations between China and Switzerland in areas such as foreign trade and economic cooperation are subject of most critical importance. In this respect, we are indeed delighted about the visits of Prime Minister WEN Jiabao and the Minister of Commerce, Mr CHEN Deming early this year. These are very promising signs for a smooth development of friendly ties between the two Nations and a solid base for our ongoing cooperation. A partnership for mutual economic and cultural exchange signed between the Suzhou Industrial Park and the Canton of Lucerne represents just one example of the opportunities for Switzerland taking place under the umbrella of excellent top level government relations and friendly ties between our two Nations. I am indeed looking forward to many other opportunities for mutual collaborations and exchange.

Kurt Haerri

President Swiss-Chinese Chamber of Commerce
Senior Vice President Schindler Elevator Co. Ltd.

Moving Expo. Moving Shanghai.

Schindler is to supply 94 escalators and moving walks for the two most important structures at the 2010 world exhibition in Shanghai: the showpiece China state pavilion, and the main access route, the Expo Boulevard.

Safe and reliable mobility is essential in these landmark structures because more than 350,000 people are expected to pass through them every day during the six-month Expo. Afterwards, they will remain as permanent landmarks of Shanghai.

As a specialist in elevators and escalators, Schindler supplied the 2008 Beijing Olympics, the Expo 2008 in Zaragoza, Spain, and the Olympics of Athens (2004) and Sydney (2000), to name just a few global events and exhibitions.

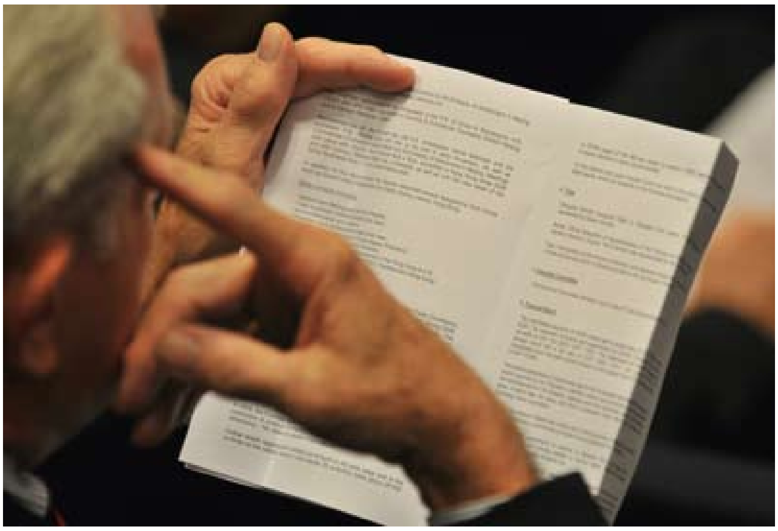
世博之动力 上海之活力

迅达将为2010年上海世博会最耀眼的两大永久性建筑提供94台自动扶梯和自动人行道：气势恢宏的中国国家馆和作为世博会主通道的世博轴。

自动扶梯将成为这些建筑内的主要乘客的交通工具，确保他们安全性和可靠性是这些建筑物最为关注的因素之一，因为在6个月世博会期间，预计这两大建筑每天都会接待超过350000人次的游客。在世博会之后，中国馆和世博轴也将成为上海的永久性地标建筑。

作为全球电梯和自动扶梯的专家，迅达已经成为2008年北京奥运会、2008年西班牙萨拉戈萨世博会、2004希望雅典奥运会、2000年悉尼奥运会等众多重大国际性活动的主要垂直交通方案供应者。

General Assemblies



All photos by courtesy of YU Hao.

Dear Members, dear Readers

On May 26th, close to 120 members and guests attended the Annual General Meeting of the Swiss-Chinese Chamber of Commerce and the Swiss-Hong Kong Business Association, held at the Credit Suisse Forum in Zurich. The Chamber was privileged to welcome as guest of honour and speaker of the day, Peter Brabeck-Letmathe, Chairman of the Board of Nestlé S.A. In his keynote address on creating shared value in China, he presented Nestlé's long term business strategy, which he summarised as follows:

- "You must create value for society in order to have long term business success and create value for shareholders."
- Creating shared value is "not an image-building exercise or philanthropy, but a part of basic business operations".
- "Nestlé creates value particularly in Rural Development, Water, and Nutrition."

The Chamber also welcomed Ambassador Monika Rühl from the State Secretariat for Economic Affairs (SECO), who gave a report on the bilateral economic relations between Switzerland and China during 2008.

On behalf of the Embassy of the People's Republic of China, Counsellor FENG Haiyang and Commercial and Economic Counsellor WANG Heliang attended this year's General Assembly.

Chamber President, Kurt Haerri, led through the General Assembly, which approved the activity report, the accounts and this year's budget unanimously. He also thanked the auditors Ernst & Young Ltd. for their report and confirmed their re-election for 2009. The statements of income and expenditure for Zurich (including the Ticino Chapter) closed with a profit, whereas the Geneva Chapter closed with a small loss. The consolidated accounts overall reflect a year without a major project creating income, and a challenging economic climate with uncertainties caused by the economic downturn.

Yet, 2008 was a remarkable year in many ways. Highlights were the Olympic Games in Beijing in August, or the inaugural flight of SWISS in May, to launch the new daily non-stop service Shanghai. And last but not least, the Chamber had the honour to organize a special event with Federal Councillor Doris Leuthard in September.

In 2008, the Chamber also welcomed the new Ambassador of the P.R. of China, DONG Jinyi and the new Ambassador Blaise Godet from the Embassy of Switzerland in Beijing.

Today, over 500 members are registered at the Swiss-Chinese Chamber of Commerce and about 80 members at the Swiss-Hong Kong Business Association, making it the 3rd largest Chamber in Switzerland.

Overall, the Chamber's resources and general infrastructure costs, despite rising market demand and prices, were kept at a minimum (head-count in Zurich 1.8, Geneva 0.5).

At the General Assembly of the **Geneva Chapter**, the members elected unanimously Josef M. Mueller, former Head of Nestlé in the Greater China Region and IMD Executive in Residence, as new Board member and as Chairperson.

The **Legal Chapter Zurich**, led by Chairperson Dr Esther Nägeli, organized two stand alone events as well as the 7th Zurich International Forum on Chinese Business Law and a study trip to China in cooperation with the Zurich University, LL.M. Programme International Business Law.

The **Swiss-Hong Kong Business Association**, founded in 2004 and managed by the Swiss-Chinese Chamber of Commerce, is presided by Dr Kurt Moser. The association organized the now well institutionalized Chinese New Year reception in Zurich, plus various seminars with representatives from Hong Kong during 2008.

Changes in the Board were approved as follows. Newly elected to the Board:
Christopher D. Snook, Head of International Coordination, Novartis International AG

Kurt Haerri, Susan Horváth, Peter Brabeck-Letmathe (f.l.t.r.).

Peter Brabeck-Letmathe, Chairman of the Board, Nestlé S.A., during his speech on “Creating Shared Value”.

Prof Dr Rudolf Minsch, Member of the Executive Board, economiesuisse
Dr Roy Suter, Head International Government and Industry Affairs, Zurich Insurance Company
Yves Serra, President and CEO, Georg Fischer Ltd.
Martin Steinbach, Managing Director, Sector Head Banks & Trade Finance, UBS AG

Resigning Board members:
Alexandre F. Jetzer, Novartis AG
Gregor Kündig, economiesuisse
Dr Reto Schiltknecht, Zurich Financial Services
Dr Kurt E. Stirnemann, Georg Fischer Ltd.
Marco Suter, UBS AG

The Chamber gives a warm welcome to the new Board members and would also like to thank those who have contributed to the successful development of the Chamber, be this through their support in the Board, in the activities of the Chamber or through their membership.

Susan Horváth
Executive Director, Member of the Executive Board

New Members

Since January 2009:

Zurich

Avireal AG	Kloten
Ms FANG Wu Ling	Wynau
Akupunktur Kang Fu GmbH	Wetzikon
Mali International AG	Beringen
HR Consulting Asia-Europe	Zurich
Ms Bi BO	Zurich
Securiton AG	Zollikofen
Swiss Executive Search AG	Pfäffikon/SZ
Probst Rechtsanwälte	Winterthur
Herzog International Consulting AG	Zurich
Neumann International AG	Zurich
Alpine Sightseeing GmbH	Zurich
Swiss Gastro Bakery Holding AG	Menzingen
Booz & Company GmbH	Zurich
Endress+Hauser AG	Reinach
SERV, Schweizerische Exportrisikoversicherung	Zurich
Russell Reynolds Associates	Zurich
Mr Rudolf WALDER	Küsnacht

Geneva

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Me. Etienne PATROCLE	Morges
Katzarov S.A.	Geneva
Barons Financial Services S.A.	Geneva
Clicmobile Pacific	Geneva
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Mme Jie WU	Lausanne
Felco S.A.	Les-Geneveys-sur-Coffrane
Mme Zhuoyan PLUMEZ	Dardagny
M. Alexandre SOFIA	Mézières
Régie Nydegger & Cie.	Granges-Paccot
M. Joël ROCHAT	Geneva

Ticino

BSI S.A.	Lugano

Audience welcoming guest speaker Peter Brabeck-Letmathe.

Peter Brabeck-Letmathe.

(F.l.t.r.) Board members Bruno W. Furrer, Jean-Michel Chatagny, Vice President Richard Friedl and Ambassador Monika Rühl (SECO).

Josef M. Mueller, President of Geneva Chapter and former Head of Nestlé Greater China (l.).

Board members Beat Krähenmann (l.) and Christopher D. Snook (r.).

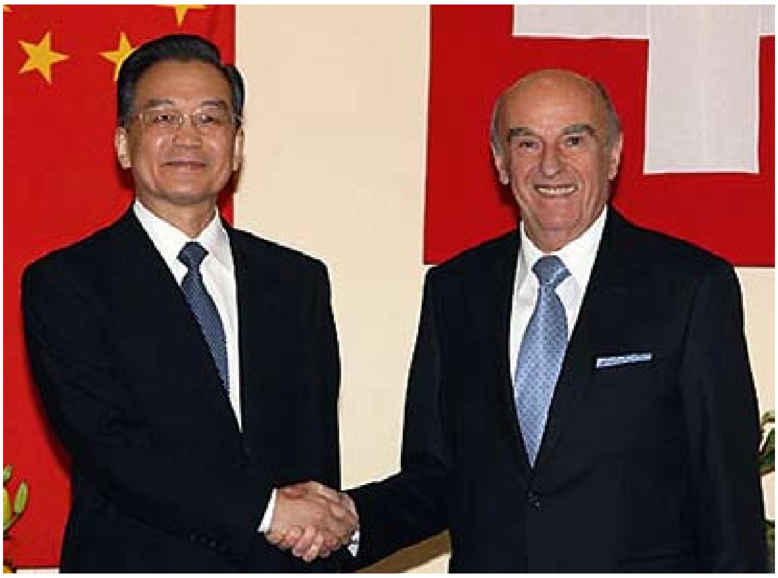
Kurt Moser, President, Swiss-Hong Kong Business Association.

Peter R. Schmid, Treasurer SCCC.

Counsellor FENG Haiyang, Embassy of the P.R. of China.

Official Working Visit to Berne by Chinese Prime Minister WEN Jiabao

On 27 January 2009 President Hans-Rudolf Merz received the Chinese Prime Minister WEN Jiabao on an official working visit. President Merz was joined in the discussions by Vice-President Doris Leuthard, Federal Councillor Pascal Couchepin, head of the Federal Department of Home Affairs and Federal Councillor Micheline Calmy-Rey, head of the Federal Department of Foreign Affairs. A new bilateral investment protection agreement was signed during the meeting. Both parties also agreed on the preparation of a joint feasibility study on a future free trade agreement.



President Hans-Rudolf Merz with Chinese Prime Minister WEN Jiabao on an official working visit in Berne.

The working meeting with Prime Minister WEN Jiabao was the first official high-level meeting since the State visit by President JIANG Zemin in March 1999. In addition to the subject of relations between Switzerland and China, discussions focussed on the economic situation against the backdrop of the current global financial crisis, political dialogue, human rights dialogue and bilateral cooperation in the fields of science and technology.

Questions concerning economic cooperation were also discussed. Both sides agreed on the preparation of a joint feasibility study on a future free trade agreement between Switzerland and China. The Swiss-Chinese working group set up for this purpose should begin work in the second half of 2009 with the aim of deciding on the commencement of negotiations at the earliest opportunity.

The Federal Council delegation stressed during the discussions that significant progress had been made in identifying the causes of the financial crisis, and that there was a clear need to improve regulation in specific areas. Discussions on this issue primarily take place in the framework of the G-20. As one of the world's most important financial centres, Switzerland should be involved in the discussions.

In the course of the working visit, a new bilateral investment protection agreement was signed. It replaces the existing agreement from 1986, which no longer adequately satisfies today's needs. Thanks to the new agreement, Swiss investors on the Chinese market will be the first to benefit from a higher level of legal protection. Swiss direct investment in China currently amounts to almost CHF 5 billion placing Switzerland fifteenth on the list of China's most important investors.

Chinese direct investment in Switzerland is currently still relatively modest. It is hoped that the new investment protection agreement will have an encouraging effect.

The Federal Council delegation raised the subject of the goal to institutionalise broad political dialogue contained in the 2007 joint declaration of intent between Switzerland and China on the promotion of dialogue and cooperation. The bilateral dialogue on human rights established in 1991 and the human rights situation in China were also discussed.

Following the discussions in Berne, the Chinese delegation, which also included the Foreign Minister, the Chairman of the National Development and Reform Commission – China's economic steering body – and the Minister of Commerce, travelled on to the WEF Annual Meeting in Davos.

New Agreement on the Mutual Promotion and Protection of Investments

The Minister of Trade of the People's Republic of China, Chen Deming, and Federal Councillor Doris Leuthard, the head of the Federal Department of Economic Affairs, signed a new agreement on the mutual promotion and protection of investments between Switzerland and China in Bern on 27th January 2009.

The scope of existing bilateral agreements related to investment

Switzerland and China signed an Agreement on the Mutual Promotion and Protection of Investments (APPI) in 1986 that came into force in 1987. This

Prime Minister WEN Jiabao during the WEF in Davos.

agreement, which was concluded on the basis of the realities and constraints in China at the time, no longer met today's requirements. On the one hand, the agreement did not grant investors of the other party national treatment, and on the other hand, it gave foreign investors only limited access to the international arbitration mechanism. This mechanism allows investors to settle investment disputes directly with the host state (settlement of disputes between investors and states). Negotiations for a new APPI were therefore launched in December 2006 during State Secretary for Economic Affairs Jean-Daniel Gerber's visit to Beijing, and were brought to a successful conclusion less than a year later.

The main provisions of the agreement cover the handling of foreign investments by the host country, the transfer of capital and investment income, compensation for expropriation and dispute settlement procedures (between an investor and a contracting party, and between the two contracting parties).

This new APPI with the People's Republic of China will provide notable improvement, in particular concerning the settlement of disputes between investors and states. It will place Swiss investors among the first to benefit from a high level protection under international law on the Chinese market.

Our investment relations with China

The flow of foreign direct investment to China has placed China among the most popular FDI destinations in the world. FDI in China increased from USD 4 billion in 1991 to 40 billion in the mid-1990s, exceeding 80 billion at the end of 2007 when capital participation of foreign investors in Chinese banks was allowed. The current volume of foreign direct investment in China is estimated at USD 350 billion. Since the ground-breaking achievement of the company Schindler, which became the first joint venture created (1980) between Chinese and foreign partners, Swiss companies have been quick to take advantage of the potential of the Chinese market.

Swiss companies have a strong foothold in China: the more than 300 companies set up there have 700 branches and employ around 110,000 people (end of 2007). The volume of Swiss direct investment in China is currently close to CHF 5 billion, which

Bilateral relations between Switzerland and China

Initial contacts between Switzerland and the Chinese Empire were established by traders and missionaries as long ago as the mid-17th century. Trading relations developed at a rapid pace in the second half of the 18th century, leading in 1912 to the opening of a Swiss trading agency in Shanghai. The first official contacts between the two countries were made in 1906. Relations between Switzerland and the Republic of China were codified in a **treaty of friendship** in 1918, a few years after the fall of the Qing dynasty.

Since the foundation of the People's Republic

Switzerland recognized the newly-established People's Republic of China on 17th January 1950, one of the first Western states to do so. It simultaneously withdrew recognition from the Republic of China (Taiwan). Contacts with the People's Republic were not initially close, owing to internal turmoil in China and the Cold War. The People's Republic made its first appearance on the international stage when Chinese premier Chou En-lai took part in the **Indochina Conference in Geneva** in 1954. Bilateral relations between Switzerland and China have developed at a brisk pace since Deng Xiaoping launched his policy of liberalization and reform in 1979.

Broad contacts

Today the People's Republic is one of Switzerland's most important partners in Asia, as is evidenced by the visits paid to Switzerland by high-ranking Chinese figures and vice versa. The range of subjects on which contacts are maintained has become broader: politics, commerce, migration, science and technology, education, the environment, health, tourism, culture. The two countries have conducted a human-rights dialogue since 1991. China has been Switzerland's **most important trading partner** in Asia since 2002. Switzerland is one of the few Western countries to have a positive balance of trade with the People's Republic. On 25 of September 2007 Switzerland and China signed a Memorandum of Understanding on the intensification of political consultations and the further deepening of bilateral relations. Close contacts have also been established at the civil-society level – with local authorities, non-governmental organizations, academic institutions and artists' groups.

makes Switzerland the 15th largest foreign investor in China. Chinese investments in Switzerland, on the other hand, which currently focus on trading houses and SMEs operating in the service and industry sectors, are still fairly modest, although this is expected to increase in the near future.

The role of investment protection agreements

Despite the importance of international direct investment for the world economy, there is not yet a universally recognised organisation in this field, comparable, for example, to the WTO for international trade in goods and services. Bilateral investment protection agreements aim to close this gap.

These agreements enhance legal certainty and protection against non-commercial risks, and thereby contribute to increasing the attractiveness and competitiveness of the country concerned in the eyes of foreign investors.

At present, Switzerland, which ranks among the most important direct investment source countries (in 2007, Switzerland ranked 7th in absolute terms and 1st per capita; the total volume of direct investments from Switzerland was nearing USD 700 billion and Swiss companies employed more than two million people abroad), has concluded bilateral investment protection agreements with around 120 countries.

Source: Federal Department of Economic Affairs

For further information on the new agreement please contact:

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State Secretariat for Economic Affairs (SECO)
Federal Council Delegate for Trade Agreements
Tel. +41 (31) 324 08 62

www.seco.admin.ch

Chinese Minister of Commerce CHEN Deming with Buying Mission to Europe

On his visit to Switzerland end of January, Prime Minister WEN Jiabao announced that he would send a buying mission to Europe. Just one month later, on 26 February 2009, Chinese Minister of Commerce CHEN Deming visited Zurich with a 120-strong delegation of high-ranking officials and business representatives of industry associations in the field of machinery and electronics, textile, chemicals, pharmaceuticals and health care, service and trade as well as energy and environmental technology.

Highlight after the opening of the Sino-Swiss Economic and Trade Forum by Federal Councillor and head of the Federal Department of Economic Affairs Doris Leuthard and the Chinese Minister of Commerce CHEN Deming, was the signing of a Memorandum on the intensification of technical cooperation in the field of environmental technology. During the forum, both Ministers also emphasized the importance to intensify relations between Swiss and Chinese companies in order to counter the global economic crisis.

The reason for the visit was to make a concrete contribution to tackle the economic crisis, prevent protectionism and re-establish confidence in trade. To that effect, the Sino-Swiss Economic and Trade Forum also served as a platform for Swiss companies,

Federal Councillor Doris Leuthard and Minister of Commerce CHEN Deming shake hands after the signing of the Memorandum on the intensification of technical cooperation in the field of environmental technology.

Swiss and Chinese company representatives during the signing of company agreements to strengthen their cooperation.

among them ABB, Holcim and various SMEs such as Swiss sapphire watchmaker Century, who signed agreements with Chinese company representatives to strengthen their cooperation. According to CHEN Deming, the signed contracts are worth about US$ 300–400 million. The agreements between Swiss and Chinese companies are "good news to our business", said Doris Leuthard. "They signed contracts which will safeguard jobs and strengthen the cooperation between Swiss and Chinese companies in different fields in our economy."

It is only China's growth that could enable the world economy to grow in the years to come, and on the other hand, the Chinese industrial sector faces the need for significant expansion and modernisation. "This delegation to Europe is a clear indication of China's readiness to work with Europe to tide over the crisis", and "it sets up a win-win example for the international community", CHEN said to the audience.

The pressure to deliver a large scale event with Swiss and Chinese ministries and where the Chinese delegation could meet Swiss business representatives was on the Swiss-Chinese Chamber of Commerce (SCCC), which organized the Sino-Swiss Economic and Trade Forum with 10 days of preparation time only. However, this indicated the importance of quick action. "We think it is better to get going straightaway", CHEN Deming said, by promising more high-level visits from China this year.

Within a few days, more than 230 Swiss firms from large, medium and small enterprises registered for the forum, attended by more than 350 people at the Hotel Dolder Grand in Zurich. The forum was hosted by FDEA and MOFCOM and from the private sector by SCCC, co-hosted by economiesuisse, Swissmem and OSEC.

Chinese Minister of Commerce CHEN Deming lead the group to Germany before arriving in Switzerland and continued his journey to Spain and the UK.

Part of the over 350 guests from China and Switzerland attending the Sino-Swiss Economic and Trade Forum.

Switzerland Strengthens cooperation with China on the environment

Switzerland and China will cooperate more strongly to ensure that economic growth can be shaped in a more sustainable and environmentally-sound manner. To this end, a joint working group is to be established to examine the potential for cooperation in the areas of technology transfer, energy efficiency, renewable energies and the efficient use of resources. The group will submit proposals on the shape of this cooperation.

In view of China's massive and sustained economic growth, the Chinese industrial sector faces the need for significant expansion and modernisation. As such it is increasingly confronted with environmental and climate policy challenges, which require the more efficient use of resources (energy, water, raw materials) and the use of modern technologies. It is against this backdrop that China is interested in stronger cooperation with Switzerland.

Switzerland's cooperation with China should follow on from the successful experiences to date in the field of climate and trade policy. As part of economic development policy, SECO, for example, has contributed to the drafting of a national waste strategy in China, which encourages the economically and environmentally sensible recycling of waste electrical and electronic equipment and concepts to reduce the environmental footprint. Now the focus should shift to the targeted strengthening of environmental technology exchanges between the two countries at company level.

Economic relations between Switzerland and China have long been outstanding. The many government-level consultations have played a decisive role in that respect. China is already one of the most important foreign markets for the Swiss economy. Bilateral trade with China has developed extremely dynamically in recent years. In 2008, economic exchanges with China even reached new record levels (exports to China: CHF6.11bn (+12.8%); imports from China: CHF4.99bn (+4.4%); balance of trade: CHF+1.12bn, an increase of +8.8% compared to the previous year). Switzerland is consequently one of the countrys to run a balance of trade surplus with China.

Inward investors looking at Switzerland

Just two weeks after the visit of CHEN Deming, in March, CHEN Lin, Deputy Director General of the Department of Outward Investment and Economic Cooperation of MOFCOM, led a delegation to look at the inward investments in Switzerland. The delegation represented several ministries, a trade association and around 30 companies from a variety of sectors.

A seminar organized in Schaffhausen by the Switzerland & Trade Investment Promotion China, gave Swiss companies the opportunity to meet potential investors from China. Besides using the seminar as a platform for information exchange and networking, the Chinese delegation was given insight into the tax and banking system of Switzerland by representatives of Ernst & Young and Credit Suisse. Participants also learned about the investment experience in Switzerland of Huawei Technologies Switzerland Co. Ltd., and met with representatives from Trade & Investment Promotion offices from other Swiss regions such as Basle, Geneva and the Greater Zurich Area.

After the seminar, the Chinese delegation visited Continental Automotive Switzerland Ltd. and Georg Fischer Piping Systems Ltd., before leaving for Spain the next day.

Honorary guests and speakers of the seminar in Schaffhausen. CHEN Lin, Deputy Director General, MOFCOM (3rd f.l. standing), WANG Heliang, Economic & Commercial Counsellor of the Chinese Embassy (r.f. CHEN).

Sources:
Swiss-Chinese Chamber of Commerce,
Federal Department of Economic Affairs (FDEA),
Switzerland Trade & Investment Promotion China

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Chinese Minister of Science and Technology WAN Gang Visiting Switzerland

Minister WAN Gang speaks to an audience of 1'400 Swiss business people, politicians and media representatives.

For the third time in 2009, a high representative of the Chinese government paid a visit to Switzerland. From June 23rd to 25th, Prof. WAN Gang, Minister of Science and Technology of the People's Republic of China travelled to Zurich to meet with Swiss business people and representatives of the world of science and technology.

At an official dinner, organized by the principal association of the Swiss mechanical and electrical industries, Swissmem, Minister WAN Gang emphasized the importance of the cooperation between Switzerland's highly developed industry and the Peoples Republic of China.

On the second day of his stay in Switzerland, Minister WAN Gang attended first a demonstration at the Department of Mechanical and Process Engineering of the ETH's Measurement and Control Laboratory where students of Professor Lino Guzzella develop an economical hydrogen powered car. Already, the so-called PAC-Car can travel about 2'000 km on 1 litre of petrol innovative technology; an energy-saving technology for future car productions at the ETH.

China also shows a great interest in the clean-water projects of the EAWAG, the center of aquatic research of the ETH. In close cooperation with public water utilities and the private sector, EAWAG is developing more effective methods for the treatment of drinking water. Membrane filtration is playing a key role in these efforts. The versatility and relatively low costs of this approach can help to ensure safe drinking water supplies – not only in Switzerland but also in developing and emerging countries.

After a short lunch with the Vice-President of the European Commission, Günter Verheugen and representatives of the Swiss Mechanical Industry and Technical Universities, Minister WAN Gang gave a conference to some 1'400 business people, politicians and the media. He again emphasized the great potential of Swiss industry and technology especially to develop future-oriented solutions for countries like China.

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Professor Lino Guzzella (left) and Minister WAN Gang "driving" in the economical hydrogen powered car.

(F.l.t.r.) Kathy Riklin, National Councillor, Johann N. Schneider-Ammann, President Swissmem, WAN Gang, Minister of Science and Technology of the P.R. of China, Regine Aeppli, President of the Government of the Canton of Zurich, Fritz Schiesser, President of the ETH-Board.

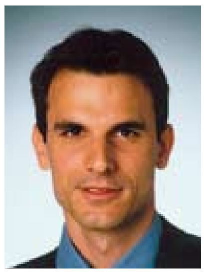
Changes at the Swiss Embassy, Beijing

New Head of the Economic and Commercial Section

Yannick Roulin was born in 1976 in Fribourg. After having graduated in International Relations with a specialisation in International Economics, he spent several months studying and travelling in the US and in various countries of Latin America, where he also worked for a local NGO in Guatemala. Back to Switzerland, he joined a Public Relations Firm based in Zurich, collecting funds for the regional societies of the Red Cross. He then became in charge of the team responsible for the fundraising in the whole French speaking region. He later went back to university to get a Master in International Law at the Graduate Institute of International Studies. During that period, Mr Roulin also worked half-time at the Geneva Centre for Security Policy (GCSP), doing research and analysis in security issues.

In 2002, he joined the Federal Office for Refugees of the Department of Justice and Police, working in the Asylum Procedure Division. Two years later, he entered the Federal Department of Foreign Affairs and was sent as a diplomatic trainee to the Swiss Embassy in Ottawa, Canada. Back to Berne in March 2005, he joined the Political Section of the European Integration Office FDFA/FDEA in charge of the relations between Switzerland and the EU.

In August 2009, he will take up his new function as Head of the Economic and Commercial Section at the Embassy of Switzerland in Beijing. Mr Yannick Roulin is married and has a little daughter.



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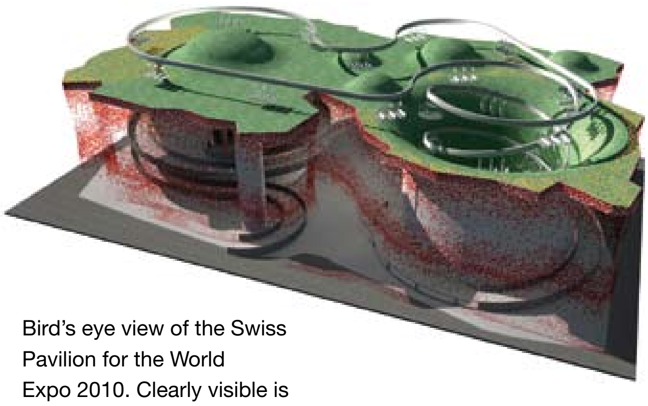
EXPO 2010 – "Better City, Better Life"

Networking platform Swiss Pavilion 2010 at the EXPO 2010 Shanghai

World exhibitions are representative platforms directed at an international public and play an important role from both a political and economic point of view as well as in a scientific and cultural sense. They provide an opportunity to impart knowledge, to set up and expand networks, and to promote contact between different cultures. Moreover, they serve to create and improve the image of a country abroad.



Bird's eye view of the Swiss Pavilion for the World Expo 2010. Clearly visible is the roof with the green meadow and the chair lift which symbolize the rural space of Switzerland.

In relation to the theme of EXPO 2010 Shanghai "Better City, Better Life" Switzerland is in a position to make an important and interesting contribution, having a good deal of know-how in both areas. In China, Switzerland is reputed for its high quality of life. In the eyes of the Chinese, Switzerland's quality of life is to be measured not only by the beautiful mountain scenery and the clean air but also by its political stability, good educational opportunities and an assured future. From these points of view, and many others, Switzerland has achieved a very high standard.

The Swiss Pavilion will make a contribution to the EXPO sub-theme "rural-urban interaction". According to the principle of yin and yang, rural and urban areas are two complementary and opposing poles. The one is conditional upon the other and the two together assure a balance. A regular and healthy interaction between the two poles is the basic prerequisite for sustainable and harmonious development in balance with ecological, economic and social aspects. In Switzerland, awareness of the importance of complete interaction between rural and urban zones is strong owing to the geographical characteristics of the country. Urban and mountain areas are complementary and necessarily interdependent. Switzerland is aware of this fact and for many years has been striving to find sustainable ways of protecting and conserving its natural heritage as well as improving living conditions in urban areas. Some of these best practice cases from Switzerland will be presented in the Swiss Pavilion 2010.

From the VIP Lounge, VIPs can view the big-screen movie "The Alps" through a large glass window.

For Switzerland EXPO 2010 Shanghai is not only a unique opportunity, to project a stronger and more sustainable image of Switzerland in Asia but also to create and develop a new and significant network of relations. Therefore the doors of the official Swiss Pavilion are also open for companies and organizations, offering an ideal location for networking events, product presentation, promotional activities, VIP meetings or any other kind of event.

All events can be held in the VIP facility of the Swiss Pavilion 2010. This special area on the third floor of the main cylinder in the pavilion will offer a unique atmosphere. It comprises of a lounge (120 m^2) which offers an attractive location for cocktails or casual meetings in a comfortable lounge setting. The stylish interior decor and the imposing view into the exhibi-

The large VIP Lounge in the Swiss Pavilion provides high-level VIP facilities.

tion hall with the large format movie "The Alps" offer a unique Swiss experience. The lounge offers space for approximately 80 persons.

The so called "theatre" (60 m^2) next to the lounge is a fully equipped conference room for up to 40 persons which offers space for meetings, get togethers or presentations and disposes of a standard infrastructure.

Official caterer for the Swiss Pavilion is Gamma Catering. They provide a selection of cocktail finger food and beverages or VIP dinners in the public restaurant located on the ground floor of the Swiss Pavilion.

We are looking forward to welcoming you in the Swiss Pavilion 2010!

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China: Annual Economic Report

Appreciation of the economic problems and issues

June 2009 Update

Although China's finance sector is not directly affected by the financial crisis, China's real economy was hit hard by the global economic downturn. For the first time in five years, China only reached a single-digit growth rate of 9.0% in 2008. In terms of quarters, it was up 10.6% for the first quarter, 10.1% growths for the second, 9.0% for the third and 6.8% for the fourth.[1]

In the first quarter of 2009, the growth rate declined further to 6.1%, the country's lowest quarterly growth in gross domestic product in nearly two decades.[2]

The government quickly reacted to the downturn with the announcement of an RMB 4 trillion (US$ 586 billion, Euro 458 billion) past November and an aggressive loosening of monetary policy. Therewith, China's macroeconomic policies experienced a dramatic change – from "preventing economic overheating and curbing inflation" at the beginning of last year to "maintaining growth through expanding domestic demand". The **most pressing priority for the Chinese government is to support economic growth amid concerns that rising unemployment could lead to widespread social unrest**.

The drop in growth is mainly due to weak external demand and a slowdown in real estate development in 2008. **While the construction-focused stimulus package has partly offset the impact of the global economic downturn, it will not be enough to bring the Chinese economy back to previous double digit growth rates.**

The stimulus package is focusing on infrastructure investment, mainly railways, airports, power grid (45% of total spending), reconstruction of areas affected by the Sichuan earthquake (25%), environmental projects (9%) and low-cost housing (7%). The government emphasizes to strengthen control and avoid misallocation of funds and corruption. However, as project approvals are done within a short time, fears remain that some funds will be misspent by local governments on investment projects with questionable economic value. Further, concerns are rising that the cost of the stimulus package will be much larger than anticipated by official figures. China plans a budget deficit of 3% of GDP[3] for the present year. As the central government is only accounting for a quarter of the two year investment program, local governments have to come up for the majority of the funds which are not counted into the official figures.

The People's Bank of China (the central bank) has loosened monetary policy in recent months by lifting loan quotas, drastically reducing interest rates and cutting the reserve requirement ratio. **Credit lending has increased significantly since the beginning of this year.** In the first quarter, credit lending stood at RMB 4.6 trillion, almost as much as for the entire year of 2008 and 20% higher than in 2007.[4] Although new lending has moderated in April–May, some officials have expressed unease with the rapid growth of bank lending which could lead to a misallocation of credit, rise in nonperforming loans and increases the risk of an asset market bubble.

Mainly state owned enterprises which get the support from the government are benefiting from the credit flows while for small and medium sized enterprises it remains difficult to get additional financing.

Industrial production accelerated in May, together with a marked acceleration in fixed asset investment growth and an increase in retail sales.[5] China's real estate sector which saw its worst slump in a decade in 2008, shows signs of recovering with housing sales picking up. However, new real estate activity still remains modest. The **latest data[6] show support for the government's stance that the stimulus package already shows its effects** and that China will become one of the first countries to recover from the economic crisis. While the government is maintaining optimism it also acknowledges the consisting risks in admitting that the foundation for a recovery is not yet solid.[7] The external demand remains weak with exports continuing to decline and it remains unclear how long consumption and government influenced spending will hold up and help China to deal with the global recession. After all, China's economy is quite integrated into the world economy and its full recovery depends on external demand.

1 National Bureau of Statistics: "Statistical Communiqué of the P.R.C. on the 2008 National Economic and Social Development", 26 February 2009.
2 EIU Country Report China, June 2009.
3 Wall Street Journal: "China stimulus plan has hidden cost", 10 June 2009.
4 EIU Country Report China, June 2009.
5 The monthly reported retail sales are composed of goods sold to households, enterprises and government agencies.
6 National Bureau of Statistics of China: http://www.stats.gov.cn/english/
7 Bloomberg: "China's economy is in critical phase of recovery", 17 June 2009.

Essential Economic Data

	2004	2005	2006	2007	2008
GDP (RMB billion)*	15.988	18.321	21.192	25.730	30.067
GDP (USD billion)*	1.931	2.235	2.657	3.382	4.401
GDP per capita (RMB)*	12.299	14.012	16.122	19.477	22.646
GDP per capita (USD)*	1486	1.710	2.022	2.560	3.315
GDP growth (%)**	10,1	10,4	11,6	13	9
CPI inflation (%)***	3,9	1,8	1,5	4,8	5,9
Population (billion)	1,300	1,308	1,314	1,321	1,328
Unemployment rate					
Level - registered (millions)***	8.3	8.4	N/A	N/A	N/A
Rate - registered in urban (%)***	4.2	4.2	4.1	4.0	4.2
EIU estimates (average in %)**	9.9	9.0	9.5	9.2	9.2
Fiscal balance (% of GDP)**	-1.3	-1,2	-0,8	0,6	-0,3
Current account balance (% of GDP)*	3,6	7,2	9,5	11,0	10,0
Total External Debt (% of GDP)****	12.8	12,2	11,4	11	8,5
Debt-service ratio (% of exports)****	3.4	3,1	2,4	2,2	1,8
Reserves, incl. Gold (USD billion)**** in months of imports	12	13	16,7	17,6	N/A

*Sources: * IMF World Economic Outlook, April 2009 / ** EIU, Country Report, June 2009 / *** National Bureau of Statistics of China / **** State Administration of Foreign Exchange, PRC / ***** World Bank*

Contrary to the inflationary pressure China faced in the past year, China's consumer and producer prices are now continuing to decline. China's consumer price index fell 1.4% in May compared to the previous year, the fourth straight month of drops while the producer price index fell 7.2% in May from a year earlier, marking the sixth consecutive month of decline.[8] The rapid fall in inflation from a high of 8.8% in February last year has its reasons in several one-off shocks such as bad weather and a disease which significantly diminished the country's pig stock in 2007 but also weakening domestic demand. A **quick rebound in prices is not expected in the short term** as external demand is anticipated to stay weak and an oversupply of industrial products will continue, ensuring that price competition remains intense.

China's huge foreign reserves of US$ 1.95 trillion remain a hot topic for many discussions. China holds the largest part of its foreign assets in US treasuries. In past months, several high-level **Chinese officials have expressed their concerns about the safety of Chinese assets** as they fear that the massive US spending could undermine the value of treasuries and some have called for the creation of a new reserve currency. So far, China continues to buy US treasuries but the government is making plans on how to make the yuan more useful across Asia and make its currency system less depending from the US dollar. In a pilot program the government designated five cities, allowing them to conduct foreign trade fully in yuan instead of US dollars or other major global currencies. Further, the central bank has set up currency swaps worth several billion dollars with different countries[9] in a move to make the yuan more available outside China.[10]

The deep structural changes necessary to transform China's growth model from one led by exports and investments to one led by domestic consumption have not yet taken place. The **adjustment of these structural imbalances is a long-term challenge which requires policy changes**. These should include the deregulation of key services sectors which are still inaccessible for private sector participation and the creation of a well functioning social safety net.

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

8 Wall Street Journal: "China's consumer prices fall again, but pace slows", 11 June 2009.
9 Argentina, Malaysia, South Korea, Hong Kong, Belarus, Indonesia
10 Wall Street Journal: "China to modernize currency system", 14 April 2009.


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China: Structure of the Economy

	2001	2002	2003	2004	2005	2006	2007	2008
Distribution of GDP (%)								
Primary Sector	15,8%	15,3%	14,4%	15,2%	12,4%	11,7%	11,7%	11,3%
Secondary Sector	50,1%	50,4%	52,2%	52,9%	47,3%	48,9%	49,2%	48,6%
Tertiary Sector	34,1%	34,3%	33,4%	31,9%	40,3%	39,4%	39,1%	40,1%
Distribution of Labor (%)								
Primary Sector	50,0%	50,0%	49,1%	47,0%	44,8%	42,6%	40,8%	N/A
Secondary Sector	22,3%	21,4%	21,6%	22,5%	23,8%	25,2%	26,8%	N/A
Tertiary Sector	27,7%	28,6%	29,3%	30,5%	31,4%	32,2%	32,4%	N/A
(of which state sector)	10,5%	9,7%	9,2%	8,9%	11,2%	N/A	N/A	N/A

Sources: National Bureau of Statistics of China

from reduced tariffs, the elimination of import licences and quotas, the opening of more sectors for foreign participation, and the easing of restrictions on business operations. Nevertheless, concerns relating to market access remain, but they are now focused on China's laws, policies, and practices that deviate from 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.[11]

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

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 to pursue the country's strategic interest.

China-ASEAN Free Trade Agreement (CAFTA)

In 2002, China and the Association of Southeast Asian Nations (ASEAN) signed the Framework Agreement on Comprehensive Economic Cooperation – an umbrella agreement providing general provisions on the establishment of an ASEAN-China Free Trade Area (CAFTA). Under the CAFTA, a zero-tariff market is targeted to come into force in 2010 for the six original ASEAN members[12] and in 2015 for the newer and less developed members.[13] Within the Framework Agreement different protocols and agreements were signed in order to eliminate tariffs and non-tariff barriers and strengthen the liberalisation of trade in services and investments.

The latest one, an agreement on trade in services, was signed in January 2007. China and ASEAN have defined 11 major fields as directions for future cooperation, including agriculture, information and telecommunications, transport, tourism, Mekong River exploitation, energy, culture, human resource, and the environment.

It follows from China's tightening ties with ASEAN that the country would **press for 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 in 2005 in Malaysia.

Other international free trade negotiations

While multilateral trade has been developing rapidly, China has also signed several bilateral free trade agreements in 2008, and is expected to sign more this year.

- China and **Pakistan** signed an agreement on trade in services in February 2009. The pact, which is to be effective as of the first half of the year, will lead to a China-Pakistan comprehensive free trade zone including trade in goods, trade in services and investment (a free trade agreement between the two countries had already been signed in 2006). Specifically, Pakistan will relax its shareholding restrictions on China's investment in sectors of construction, telecom, finance, distribution, health care, environmental protection, tourism, transportation, research and development and IT education. The sectors that China will open mainly include min-

11 Economic Intelligence Unit, China Hand, February 2008.
12 Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand
13 Cambodia, Laos, Myanmar, Vietnam

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ing, environmental protection, health care, tourism, sports, transportation, translation, real estate, computer, marketing consultancy, according to the Chinese Ministry of Commerce.

- China and **Peru** signed a free trade agreement in November 2008. The pact will eventually eliminate tariffs on about 90% of goods traded between the two countries, according China's Ministry of Commerce.
- China and **Singapore** signed the China-Singapore Free Trade Agreement (CSFTA) in October 2008, making the first comprehensive bilateral FTA between China and another Asian country. The agreement covers areas including trade in goods, rules of origin, trade remedies, trade in services, movement of natural persons, investment, customs procedures, technical barriers to trade and sanitary and economic cooperation.
- China signed in October 2008 a trade deal with **Senegal** to offer zero-tariff treatment to more than 400 categories of goods imported from Senegal.[14]
- China and **Chile** signed an agreement of free trade in services in April 2008. The two nations committed themselves to opening up their service sectors in accordance with WTO rules, under a supplementary agreement to their formal free-trade pact signed in 2005. The service free-trade agreement covers 23 sectors in China, including computers, management consulting, mining, sports, environment and air transport.
- In April 2008, China signed an FTA with **New Zealand**, marking the first such deal between the biggest developing country and a developed 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. The agreement covers not just goods but also services, from insurance and banking to education and labour supply as well as investment. China sends more students to New Zealand than any other country and is its fourth-largest source of tourists.
- In January 2004, the Closer Economic Partnership Arrangement (CEPA), the first regional trade agreement between China and **Hong Kong**, went into effect. The CEPA initially covered the three areas of trade in goods, trade in services, and trade and investment. It has since been expanded several times. Most recently, the two sides agreed on Supplement VI, which will give Hong Kong firms greater and easier access to the mainland market for tourism, securities and banking services once it goes into effect on 1 October 2009.[15]

FTA negotiations with other countries will continue in 2009:

- In January 2009, China and **Costa Rica** began their first round of FTA negotiations. The first round of talks covered issues including intellectual property, technical obstacles to trade, health measures and services and investment. They completed the third round of negotiations in June 2009, which addressed issues like services, commercial defense, controversies solutions, commercial values, and other issues of cooperation.[16]
- China and **Australia** are currently negotiating a free trade deal. A framework agreement was signed in October 2003 and talks began in May 2005, after the conclusion of a feasibility study. Negotiations have been challenging, due to substantial stumbling blocks, namely in agriculture and industrial goods. A 13th round of formal negotiations was held in December 2008.
- Norway and China completed a feasibility study and launched the official Sino-Norway FTA Negotiation in October 2008. The 4th round of negotiations was held in June 2009, including discussions on commodity and service trade, investment, rules of origin, SPS/TBT, trade facilitation, settlement of disputes, trade remedy and IPR.[17]
- FTA negotiations between Iceland and China began in April of 2007, and by May 2008 four rounds of negotiations were completed.[18]
- 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.
- **India** and China have completed a feasibility study on their proposed Free Trade Agreement. It now awaits the approval of the leadership of the two countries to take it to the next level so that steps to conclude the Free Trade Agreement can be taken at the earliest.
- 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).

<u>Relations between China and Taiwan</u>

Recent months have brought significant developments in the relationship between China and Taiwan and eased trade between the two. After over ten years without any negotiations, cooperative meetings between Chinese and Taiwanese representatives have taken place since Ma Ying-jeou took office as Taiwan's president in 2008. Mr Ma has led a more

14 Xinhua: "China signs zero-tariff trade deal with Senegal", 18 October 2009.

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

16 Xinhua: "China, Costa Rica make progress on FTA talks",18 June 2009.

17 Ministry of Commerce of the PRC: http://english.mofcom.gov.cn/newsrelease/newsrelease.html

18 http://www.marketavenue.cn/upload/news/NEWS_36969.htm

postive attitude towards relations with the mainland than his predecessor Chen Shui-bian. Improved relations can be seen in developments such as China's **acceptance of Taiwanese participation as an observer at the World Health Assembly** for the first time in May 2009[19]. On 26 April 2009, the two sides signed an agreement which **opened the financial markets and allows direct investment in Taiwan from the mainland**. At the same time, two other agreements were also signed to **increase flight connections and cooperation for crime fighting** between the mainland and the island. Further economic links, such as listing of Taiwanese funds on the Shanghai exchange[20], are under consideration but are difficult to realise before the signing of a Memorandum of understanding on financial supervision and other regulatory improvements. Mr Ma and his Taiwanese representatives are interested in ultimately signing a comprehensive trade pact with China. The mainland has not rejected this idea, but there are still many complicated issues to be resolved before such an agreement can be reached.[21]

Outlook for Switzerland (potential for discrimination)

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

In January 2009, Chinese Prime Minister Wen Jiabao made an official working visit to Bern during which the further strengthening of economic cooperation was also discussed. **Both sides agreed on the preparation of a joint feasibility study on a possible FTA between Switzerland and China.** With regard to the joint feasibility study a workshop between Swiss and Chinese government officials and industry representatives was held in Beijing this April.

During Prime Minister Wen's visit to Switzerland a **revised bilateral investment protection agreement was signed** which will provide notable improvements especially with regard to the transfer of returns on capital and investment, compensation for expropriation and dispute settlement procedures.[22]

In February 2009, Federal Councillor Doris Leuthard and Chinese Minister of Commerce Chen Deming signed a **MoU on the intensification of technical cooperation in the field of environmental technology**. Therewith, the two countries want to strengthen the exchange of environmental technologies on the company level.

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

Exports to Country/ Region	Billion USD	Share %	Growth in % to a comparable previous period
Jan – Dec 2008			
USA	252,3	17,7%	8,4%
Hong Kong	190,7	13,3%	3,4%
Japan	116,1	8,1%	13,7%
South Korea	74,0	5,2%	31,9%
Germany	59,2	4,1%	21,6%
Netherlands	45,9	3,2%	10,9%
United Kingdom	36,1	2,5%	13,9%
Russia	33,0	2,3%	15,8%
Singapore	32,3	2,3%	9,1%
India	31,5	2,2%	31,3%
EU	292,9	20,5%	19,5%
ASEAN	114,1	8,0%	21,1%
EFTA	6,6	0,5%	11,3%
Iceland	0,09	0,01%	0,0%
Liechtenstein	0,01	0,00%	0,0%
Norway	2,56	0,18%	16,4%
Switzerland	3,90	0,27%	8,4%
Total	**1428,5**		**17,3%**
Jan – April 2009			
USA	62,7	18,6%	-15,7%
Hong Kong	44,7	13,2%	-23,8%
Japan	29,7	8,8%	-18,3%
South Korea	15,5	4,6%	-25,7%
Germany	14,3	4,2%	-17,7%
Netherlands	9,7	2,9%	-35,7%
United Kingdom	8,5	2,5%	-31,4%
India	8,4	2,5%	13,0%
Singapore	7,9	2,3%	-17,9%
Italy	6,1	1,8%	-19,0%
EU	67,2	19,9%	-23,6%
ASEAN	27,9	8,3%	-21,7%
EFTA	1,7	0,5%	N/A
Iceland	0,014	0,0%	-57,7%
Liechtenstein	0,002	0,0%	-37,1%
Norway	0,782	0,2%	-7,0%
Switzerland	0,853	0,3%	-24,3%
Total	**337,4**		**-20,5%**

Source: China's Customs Statistics

19 South China Morning Post: "Deput Appearance", 19 May 2009.
20 Wall Street Journal: "Taiwan ETFs May Get Shanghai Listing", 16 May 2009.
21 Financial Times: "China and Taiwan sign agreements to open financial sectors", 27 April 2009.
22 The new agreement still has to be ratified by both countries. The old agreement dating back to 1986 is valid until the implementation of the new agreement takes place.

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

Imports from Country/ Region	Billion USD	Share %	Growth in % to a comparable previous period
Jan – Dec 2008			
Japan	151,0	13,3%	12,7%
Taiwan	103,3	9,1%	2,3%
USA	81,4	7,2%	17,3%
Germany	55,8	4,9%	22,9%
Australia	37,4	3,3%	44,4%
Malaysia	32,1	2,8%	11,8%
Saudi Arabia	31,0	2,7%	76,1%
Brazil	29,7	2,6%	62,3%
Thailand	25,6	2,3%	12,8%
Angola	22,4	2,0%	72,3%
EU	132,7	11,7%	19,5%
ASEAN	117,0	10,3%	7,9%
EFTA	9,5	0,8%	26,3%
Iceland	0,04	0,00%	0,0%
Liechtenstein	0,03	0,00%	50,0%
Norway	2,10	0,19%	30,4%
Switzerland	7,30	0,64%	25,0%
Total	**1133,1**		**18,5%**
Jan – April 2009			
Japan	34,8	13,3%	-28,0%
South Korea	27,3	8,8%	-25,7%
USA	23,1	8,1%	-17,4%
Taiwan	21,1	5,7%	-40,8%
Germany	15,1	4,0%	-12,9%
Australia	10,5	3,0%	-9,4%
Malaysia	7,6	2,4%	-23,0%
Thailand	6,3	2,3%	-24,1%
Brazil	5,9	2,1%	-16,0%
Saudi Arabia	5,5	0,1%	-35,9%
EU	35,3	13,5%	-15,7%
ASEAN	26,9	10,3%	-32,0%
EFTA	2,9	1,1%	N/A
Iceland	0,01	0,00%	-36,5%
Liechtenstein	0,01	0,00%	-2,7%
Norway	0,88	0,33%	28,5%
Switzerland	2,00	0,76%	-9,7%
Total	**262,0**		**-28,7%**

Source: China's Customs Statistics

Foreign trade

Development and general outlook

Trade in goods

Exports have significantly contributed to China's GDP growth in recent years. **Due to the financial crisis and the slumping global demand, China's exports and imports dropped in the past months.** In 2008, the total trade value reached US$2.56 trillion, a growth of 17.8% compared to the previous year. The growth rate dropped below 20% for the first time since seven years. Exports were up 17.2% to US$1.43 trillion and imports reached US$1.13 trillion, up 18.5%. Therewith, China's trade surplus reached US$295.5 billion, a growth of 12.5% over the previous year.[23]

In 2008, China mostly imported from Japan (13.3% of total imports), Taiwan (9.1%) and the US (7.2%). The country's main export destinations were the US (17.7% of total exports), Hong Kong (13.3%) and Japan (8.1%).

With China's major export markets all in recession, exports have been falling on a monthly basis since last November. Imports were depressed by destocking of raw materials and sharply lower commodity prices pushed down the nominal value of imports. In the first five months of 2009, China's export fell by 21.8% amounting to US$ 426.1 billion while its imports fell even more by 28%, totalling to US$ 337.3 billion.[24] The continued decline of exports diminished hopes that the collapse in external trade flows has bottomed out. Although trade is declining, most analysts expect China's trade surplus to persist.

The unexpected deterioration in China's export prospects is causing concerns to the government. According to the State Council, the falling exports are the biggest challenge for China's economy.[25] Declining orders and weak sales have forced the closure of many enterprises, particularly in the export-reliant industrial sector. According to official numbers, up to 8.7 million people have lost their job.[26] So far different measures have been introduces such as an increase in tax rebates for many items and more support for credit and insurance for overseas sales. Further, the government has pledged to keep the currency stable. A devaluation of the yuan would risk tensions with China's most important trading partners. Anyway, China fears an intensified protectionism from the part of its major trading partners which could additionally hurt its export industry. Some Chinese officials are concerned that other countries were abusing the WTO rules on economic stimulation such as anti-dumping duties and subsidies, while others were raising trade barriers. In order to distance itself from any protectionist measures, China sent trade delegations to Europe and the US to procure goods, services and technologies.[27]

23 National Bureau of Statistics: "Statistical Communiqué of the People's Republic of China on the 2008 National Economic and Social Development", 26 February 2009.
24 General Administration of Customs of the P.R.C., China's Customs Statistics, May 2009.
25 Bloomberg: "China sees grim job market, deeper impact from global crisis", 3 June 2009.
26 People's Daily: "China sees some recovery in employment, more efforts needed: State Council", 4 June 2009.
27 South China Morning Post: "Beijing warns against tide of protectionism", 17 February 2009.

Bilateral trade

Trade in goods[28]

China is one of the most important foreign markets for the Swiss economy. Bilateral trade with China has developed extremely dynamically in recent years. In 2008, economic exchanges with China even reached new record levels: Swiss exports to China grew by 12.8% to CHF 6.11 billion and imports from China went up by 4.5% to CHF 4.99 billion, resulting in a trade surplus of CHF 1.12 billion. The total trade volume went up by 8.9% compared to the previous year.

Combining the trade data of mainland China and Hong Kong, exports grew by 15% and imports went up by 7.7%, resulting in a trade surplus of CHF 5.9 billion. The total trade volume (including Hong Kong) increased by 12.4% compared to the previous year.

The most important imports of goods out of China are machinery, apparatus and electronics (2008 share of imports 26.5%), textiles, apparel and shoes (17.7%), precision instruments watches and jewellery (14%) and chemicals and pharmaceuticals (13.1%).

Exports from Switzerland to China are dominated by machinery apparatus and electronics (39.00%), precision instruments, watches and jewellery (20.7%) and chemicals and pharmaceuticals (18.8%).

While imports from China kept on growing by 8.8% in the first quarter of 2009, exports from Switzerland went down by 18.8%. Switzerland suffered a trade deficit of CHF 104.6 billion in the first three months of 2009.

Direct investments

Development and general outlook

The international financial decline has also influenced direct investments in China. **Foreign direct investment (FDI) in China still increased, but much more slowly in 2008 than in previous years.** According to the Ministry of Commerce foreign direct investment reached US$ 92.4 billion in 2008, a growth of 23.6% compared to the previous year.[29] Starting in October 2008, foreign investment declined and continued to do so at least until May 2009. The Chinese government has responded with some measures to try to minimize the losses from decreased investment. In March 2009, the Ministry of Commerce announced the facilitation of certain foreign investments by giving provinces the authority for approvals.[30] This change applies to the establishment and alteration of an investment company with registered capital of or less than US$ 100 million by foreign investors.[31] Further, the **Ministry of Commerce plans to streamline procedures for FDI approval and channel more FDI to China's central and western regions**. Investments in sectors such as hi-tech, services and environmental protection are encouraged. The government is confident that even though growth in FDI is slowing this year, China will remain an attractive destination for foreign investors due to its dynamic economy.

Some foreign observers fear that China's response to the financial crisis has also **increased nationalism and protectionism of domestic industry**. They point especially to the government's US$ 586 billion stimulus program. Much of the money committed to this stimulus is going to sectors in which foreign companies face relatively high discrimination, such as the railway industry.[32] Further, the government has recently introduced an explicit "buy Chinese" policy in order to ensure the use of Chinese products. This move might intensify tensions with trade partners and increase protectionism around the world.[33]

Since 2006, China's FDI policy has shifted from export led growth to quality investment supporting domestic led growth. The shift is a result of the general economic policy adopted by the 11th Five Year Plan and set out in detail in the 11th Five Year Plan on the Utilization of Foreign Investment. **China has decided to shift its policy of attracting foreign business from "quantity" to "quality" and to push its industry up the value chain.** In a move to create a tax neutral FDI policy, the new Corporate Income Taxation Law (CIT) which went into effect on 1st January 2008 removed many of the preferential treatments foreign companies previously enjoyed to create a more equal environment.[34]

Foreigners are still excluded or confined to a minority participation in particularly sensitive

28 The figures discussed in this section can be found in annexe 4.
29 Xinhua: "China's FDI up 23.6% in 2008", 15 January 2009.
30 The Wall Street Journal: "Foreign Investment in China Falls", 17 March 2009.
31 Circular of the Ministry of Commerce on Delegation of the Authority to Examine and Approve the Establishment of Investment Companies by Foreign Investors, 6 March 2009.
32 The Wall Street Journal: "Foreign Business Say China is Growing More Protectionist", 28 April 2009.
33 Financial Times: "Buy China's policy set to raise tensions", 16 June 2009.
34 "Five Major Changes of the New Corporate Income Tax law and the Impact on Foreign Investment in China": 5 June 2008.

Bilateral trade Switzerland – P.R. China, Jan. – Dec. 2007/2008

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan – Dec 2007	Jan – Dec 2008	in %	share (%)	Jan – Dec 2007	Jan – Dec 2008	in %	share (%)	in CHF
1	Agricultural products	116.026.641	125.170.015	7,88%	2,51%	24.998.757	26.074.109	4,30%	0,43%	-99.095.906
2	Energy carriers	408979	63902	-84,38%	0,00%	1254582	1604409	27,88%	0,03%	1.540.507
3	Textiles, apparel, shoes	849.828.450	883.622.228	3,98%	17,69%	140.229.806	206.823.726	47,49%	3,38%	-676.798.502
4	Paper, paper products, printed matter	32.747.003	34.185.529	4,39%	0,68%	24.388.738	31.551.113	29,37%	0,52%	-2.634.416
5	Leather, rubber, plastics	271.422.642	256.083.389	-5,65%	5,13%	93.313.444	98.632.704	5,70%	1,61%	-157.450.685
6	Chemicals, pharmaceuticals	602.828.379	681.555.598	13,06%	13,64%	949.125.359	1.147.331.739	20,88%	18,77%	465.776.141
7	Construction materials, ceramics, glass	70.576.378	74.540.839	5,62%	1,49%	24.332.419	20.329.941	-16,45%	0,33%	-54.210.898
8	Metals and metal products	362.907.512	381.043.838	5,00%	7,63%	248.421.909	276.611.917	11,35%	4,53%	-104.431.921
9	Machinery, apparatus, electronics	1.224.036.877	1.323.877.628	8,16%	26,50%	2.268.526.930	2.383.644.745	5,07%	39,00%	1.059.767.117
10	Vehicles	74.282.974	76.043.683	2,37%	1,52%	31.012.085	30.955.423	-0,18%	0,51%	-45.088.260
11	Precision instruments, watches, jewellery	713.130.557	700.408.621	-1,78%	14,02%	948.630.172	1.266.693.651	33,53%	20,73%	566.285.030
12	Furniture, toys	447.513.387	443.843.663	-0,82%	8,88%	31.887.592	38.263.423	19,99%	0,63%	-405.580.240
13	Precious metal, precious stones, gemstones	8.005.075	4.451.258	-44,39%	0,09%	631.195.495	576.048.786	-8,74%	9,43%	571.597.528
14	Objects of art and antiques	8.507.614	10.898.442	28,10%	0,22%	2.115.711	6.919.970	227,08%	0,11%	-3.978.472
	Total	**4.782.222.468**	**4.995.788.633**	**4,47%**	**100%**	**5.419.432.999**	**6.111.485.656**	**12,77%**	**100%**	**1.115.697.023**

Bilateral trade Switzerland – P.R. China, Jan. – Mar. 2008/2009

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan – Mar 2008	Jan – Mar 2009	in %	share (%)	Jan – Mar 2008	Jan – Mar 2009	in %	share (%)	in CHF
1	Agricultural products	39.092.667	33.224.052	-15,01%	2,49%	5.084.041	7.607.637	49,64%	0,62%	-25.616.415
2	Energy carriers					510293	404027	-20,82%	0,03%	404.027
3	Textiles, apparel, shoes	238.511.677	234.127.928	-1,84%	17,53%	41.671.186	46.615.939	11,87%	3,79%	-187.511.989
4	Paper, paper products, printed matter	8.572.984	8.323.155	-2,91%	0,62%	13.949.283	6.993.062	-49,87%	0,57%	-1.330.093
5	Leather, rubber, plastics	65.301.791	66.064.737	1,17%	4,95%	24.289.768	19.085.055	-21,43%	1,55%	-46.979.682
6	Chemicals, pharmaceuticals	167.876.978	169.736.961	1,11%	12,71%	245.832.071	280.067.463	13,93%	22,75%	110.330.502
7	Construction materials, ceramics, glass	16.296.040	16.695.305	2,45%	1,25%	4.701.504	4.078.247	-13,26%	0,33%	-12.617.058
8	Metals and metal products	86.070.866	93.784.704	8,96%	7,02%	63.057.529	51.885.901	-17,72%	4,21%	-41.898.803
9	Machinery, apparatus, electronics	313.120.924	416.130.690	32,90%	31,15%	578.285.731	555.427.889	-3,95%	45,11%	139.297.199
10	Vehicles	23.441.745	27.870.209	18,89%	2,09%	7.795.169	6.327.272	-18,83%	0,51%	-21.542.937
11	Precision instruments, watches, jewellery	150.920.850	146.597.315	-2,86%	10,97%	291.666.752	235.347.731	-19,31%	19,11%	88.750.416
12	Furniture, toys	114.635.642	121.421.730	5,92%	9,09%	7.467.633	4.885.171	-34,58%	0,40%	-116.536.559
13	Precious metal, precious stones, gemstones	1.397.783	870.701	-37,71%	0,07%	232.444.295	8.613.466	-96,29%	0,70%	7.742.765
14	Objects of art and antiques	2.546.544	1.046.303	-58,91%	0,08%	361.587	3.981.444	1001,10%	0,32%	2.935.141
	Total	**1.227.786.491**	**1.335.893.790**	**8,81%**	**100%**	**1.517.116.842**	**1.231.320.304**	**-18,84%**	**100,00%**	**-104.573.486**

Source: Schweizer Oberzolldirektion, Swiss Impex

China: Foreign Direct Investment

Rank	Country/ Region	FDI (mio USD)	Share (%)	Variation (%) year on year
2008				
1	Hong Kong	41.036	44,41%	48,13%
2	Virgin Islands	15.954	17,27%	-3,62%
3	Singapore	4.435	4,80%	39,27%
4	Japan	3.652	3,95%	1,76%
5	Cayman Islands	3.145	3,40%	22,34%
6	South Korea	3.135	3,39%	-14,76%
7	United States	2.944	3,19%	12,54%
8	West Samoa	2.549	2,76%	17,51%
9	Taiwan	1.899	2,05%	7,01%
10	Mauritius	1.494	1,62%	12,10%
	EU	4.995	5,41%	30,12%
	Switzerland	242,6	0,26%	-18,86%
	Total	**92.395**		**23,58%**
2009 (Jan. to Mar.)				
1	Hong Kong	10.388	47,70%	-13,30%
2	Virgin Islands	3.013	13,83%	-40,23%
3	Singapore	1.143	5,25%	-7,55%
4	Japan	981	4,50%	-8,36%
5	Cayman Islands	843	3,87%	-11,42%
6	USA	575	2,64%	-42,80%
7	South Korea	664	3,05%	-37,14%
8	West Samoa	600	2,76%	-21,85%
9	Taiwan	379	1,74%	-25,56%
10	Mauritius	356	1,63%	-24,58%
	EU	1.323	6,08%	-12,60%
	Switzerland	94	0,43%	49,21%
	Total	**21.777**		**-20,56%**

Source: Ministry of Commerce

or strategic sectors of the economy.[35] The withdrawal of capital and profits from China is possible, but barriers remain and make the process complex and tedious for businesses.

With regard to mergers and acquisitions (M&A), regulations are stringent and occasionally formulated in a vague and open-ended language. Due to the declining inflow of foreign investment into China, the government has **relaxed M&A regulations, delegated more approval powers to local governments and allowed banks to extend loans to finance M&A**.

In December 2008, the China Banking Regulatory Commission (CBRC) issued the new "Guidelines on Risk Management of Loans Extended by Commercial Banks for Mergers and Acquisitions". These provide better financing opportunities for M&A by allowing banks more freedom in providing loans for M&A transactions. The guidelines apply to Chinese incorporated companies, including foreign-invested ones. Nevertheless, other barriers, such as the impossibility of converting equity injections by the foreign parent companies into RMB, still act as obstacles for foreign companies who want to make use of the new regulations.[36]

Overall, M&A investments still form only a minor component of total foreign investment.[37]

To some, the implementation of a new **anti-monopoly law** introduced in August 2008 also appears to specifically target foreign investments in China. While no domestic firms consolidations or acquisitions have been convicted under the law, it has been used to prevent several foreign attempts. Perhaps most prominent of these was Coca-Cola's offer for Huiyuan, China's largest juice producer. Since Huiyuan is a private company previously free of government restrictions, the rejection of the bid could imply an increased protectionism and additional barrier to foreign investment.[38] Besides the anti-monopoly law, Chinese authorities have also found individual reasons to prevent other foreign investments in domestic enterprises over the past two years.[39] Another example of support for local (monopolistic) enterprise over foreign investors can be seen in recently passed **new postal law**, which bans foreign-owned firms from the document-delivery market and leaves this mostly to the monopolistic China Post.[40]

Besides the foreign investment coming into the country, **China has also become a source of outward direct investments**. In order to secure inputs for its industry, China is especially investing in natural resources overseas. Chinese companies have taken over stakes in Australian mining enterprises and other outbound resource investment has gone to state-controlled companies, including large deals with Russian and Venezuelan oil companies.

At the beginning of June, the Australian Rio Tinto mining company has scrapped a planned US$ 19.5 billion investment by Aluminium Corp. of China (Chinalco). The deal, which would have been the largest Chinese foreign investment abroad, met opposition from some shareholders, economics and politics fearing the consequences of giving China direct access to natural resources. The collapse is a setback in China's striving to increase the global reach of its state-owned companies.[41]

35 http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=87372
36 International Law Office: "Green Light for Chinese Banks to Finance Mergers and Acquisitions", 23 January 2009.
37 China Daily: "Is M&A the right way for China?", 14 May 2009.
38 The Economist: "Coca Cola and China: Hard to Swallow", 19 March 2009.
39 The Economist: "Unfavoured Nation", 1 April 2009.
40 The Economist: "Return to Sender", 30 April 2009.
41 Wall Street Journal: "Rio Tinto scuttles its deal with Chinalco", 5 June 2009.
42 http://www.snb.ch/ext/stats/fdi/pdf/en/1_1_CH_Direktinve_Kapitalexporte.pdf

However, with China's growing foreign reserves, **the country's foreign outbound investment is likely to grow further in the coming years**. The large state-owned enterprises which enjoy financial and political support from the central government will continue to play a leading role in investing abroad.

Bilateral investment flows

At present, about 300 Swiss firms with over 700 branches are represented in China, employing several tens of thousands people. Swiss direct investments in China in 2007 amounted to CHF 774 million[42], making Switzerland an important origin of FDI. In the same year, the accumulated amount of Swiss investment in China reached CHF4.75 billion. Following indications of the Ministry of Commerce (MofCom), China granted 108 (97 in 2007) projects with Swiss participation in 2008 with a total amount of US$242.6 Mio.

Switzerland has economic agreements with China regarding investment protection and avoidance of double taxation. A revised investment protection agreement was signed in February this year and is expected to come into force in the coming months. This updated investment protection agreement will allow a higher protection of Swiss and Chinese investments in the respective host country.

So far, Chinese direct investment in Switzerland is still modest. The state-owned Bank of China announced in November 2008 the opening of a private banking arm and an institutional management fund subsidiary in Geneva. This is the first time a Chinese bank starts operating in Switzerland. Huawei, a Chinese telecom equipment manufacturer opened a branch in Switzerland in October 2008. In May this year, Suntech, a manufacturer of solar photovoltaic cells and modules, announced to relocate its European headquarter from London to Schaffhausen.

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 crucial for Swiss companies established in China.** Further, the official representations of Switzerland – the Embassy in Beijing, and the Consulates General in Shanghai, Guangzhou and Hong Kong – have to take on a particular role in the arrangement of such contacts.

<u>Swiss Business Hub China (SBH China)</u>

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

From 2010 on, the Swiss Business Hub will also assume the mandate for inward investments which is currently done by the Switzerland Trade and Investment Promotion (a merger between Location Switzerland and Osec). Therewith, the SBH China will also manage the promotion of Switzerland as a business location to potential Chinese investors. 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 the 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 registered in Switzerland and China respectively. Among their members are the leading Swiss companies in the trade, industry and financial sectors. The network consists of about 800 companies and individual members. The Swiss-Chinese Chamber of Commerce was first set up in Zurich in 1980 and established a branch in Beijing in 1995. The latter obtained the status of an independent chamber of commerce according to Chinese law in 2001. As a result, two national organizations are operated today with three regional branches in Switzerland (Zurich, Geneva, Lugano) and three in China (Beijing, Shanghai and Guangzhou). **Their purpose is to promote and support the global success of the Swiss business community in China.** Simultaneously, SwissCham China assists a growing number of China-based enterprises in their dealings with Swiss partner companies.

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

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 emphasising values such as quality and well-being. **Switzerland enjoys a positive, although largely stereotypical image in China.** The goals of Presence Suisse are thus to bring further awareness and understanding of Switzerland to the population in China in order to create stronger relations while the country continues to gain importance in the global economy. The next upcoming important event will be the World Expo 2010 in Shanghai. Switzerland's official pavilion will address the EXPO sub theme "rural-urban interaction".[43] 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: More than 34.4 million Chinese travelled abroad in the first three quarters of 2008, up 14.8% to the same period previous year.[44] Therefore China is a key strategic growth market for the Swiss tourism industry. Switzerland was granted **Approved Destination Status** (ADS) by the Chinese Government in 2004. Following the implementation of the policy, there was a noticeable increase in accepting visa applications. New checks and guidelines were at the same time put into place to reduce the risk of travellers remaining in Switzerland illegally.

In 2008 89'059 tourist visas were issued to Chinese citizens. Switzerland Tourism reports 214'225 overnights from Chinese (not including Hong Kong) visitors to Switzerland for 2008, which represents a 6.9% decrease from 2007. In the first three months of 2009, the number of tourists from mainland China to Switzerland increased by 23.1%. With the spread of H1N1 flu, however, there has been a drastic drop in outgoing tourism, with a complete stop by May 2009. Nevertheless, the earlier development is promising and Switzerland Tourism predicts a long-term annual growth rate of 10–15% in normal years. **Switzerland's entry to the Schengen-Agreements, which became operational at the beginning of December 2008 brings some advantages** but also creates a competition for the easiest visa and complicates exact tracking of visitor numbers. Switzerland Tourism was established in Beijing in 1998 and a second branch opened in Shanghai in August 2008.

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, focusing on **increased scientific cooperation**. In April 2007 State Secretary Kleiber signed a joint statement

43 www.swisspavilion.ch
44 Xinhua, 23 October 2008.

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. Each year the Swiss – respectively Chinese – government offers 17/18 full-time scholarships to the partner country. In addition, 30 Swiss students are awarded a partial scholarship from the Chinese government to adjust the financial balance.

The Swiss education sector has shown an increasing interest in attracting Chinese students to its institutions. As a result of a larger offer of study programmes taught in English in most Swiss universities, there is also a growing interest among the Chinese audience. The Science and Education Section of the Swiss Embassy is actively involved in promoting Swiss education opportunities throughout China. This includes participation at the China International Education Exposition and other similar educational events such as conferences, workshops and presentations at the 38 top-universities in China.

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, officially **opened 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.

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

Switzerland's strengths as an investment location are currently promoted in China by Switzerland Trade and Investment Promotion but from next year on the Swiss Business Hub will take over this task (cf. section 5.1). Besides this, the cantons have their own investment promotion agencies. Switzerland Trade and Investment Promotion, who carries out systematic market analysis and development has organised some high-level seminars, elaborated brochures, manuals and presentations and assists cantons in their own endeavours in the very demanding Chinese market. Switzerland is most actively advertised with emerging globalizing Chinese companies as a location for international headquarters and business control centres. Cooperation opportunities with the very innovative export-oriented Swiss economy are also highlighted. With a number of recent Chinese investments in different parts of Switzerland **the joint efforts of Switzerland Trade and Investment Promotion the cantons and the service sector have already generated results**. Main competitors in Europe include Belgium, France, Germany, the United Kingdom, the Netherlands and Sweden. Like in other Asian countries Switzerland is perceived as a premium location in the heart of Europe, but high living-costs and barriers for entry of Chinese workforce are on the flip-side.

Euro-China virtual exhibition and sourcing fairs

- **International Virtual Exhibition and Investment Forum, October 2009**
- **"Best of China" – International Sourcing Fair on the internet, September and October 2009**

BusinessGlobal.com, a leading international virtual exhibition center on the internet and CEATEC (China-Europe Association for Technical and Economic Cooperation) are the organizers of the fair, the first World Trade and Investment Expo on the Internet. It is a platform for international trade and investment promotion for enterprises, municipalities, international trade promotion agencies and government departments and organizations.

To find out more about the two events,
visit www.businessglobal.com
or send an email to info@businessglobal.com
or call at phone +35722581450

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. 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.

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Yangtze Delta Region at the Eve of Expo

Amid the thickening global gloom with unclear depth and duration, ***China seems to be turning towards the half light moments****, illumined by the recent fresh economic indicators[1]. The country has been striving for an* ***economic growth target of 8% for 2009****, while* ***the Shanghai led Yangtze Delta Region (YRD)****, China's economic powerhouse, is aiming at* ***a GDP increase of above 9%****. Whether the official target could be in reach is somehow doubted, yet credible forecasts by private sector economists still range from 5% to 8%. On one hand, people with closer links to the top authorities tend to think more positively in expectation of further stimulus measures in the pipeline, or are at least confident about the final result by official numbers. On the other hand, people from the east coast Shanghai region witness that their region is putting up heavy infrastructure investment again, determined to be shining on the spotlight for six months during the World Expo 2010. It might be too early to conclude a recovery, but the decreases are narrowing and it is believed that the global bottom out, no matter when and how, will be well related to China, which has risen to become the world 3rd largest and one of the fastest growing economy today.*

Signs of stabilised bottom

Some of China's 1st quarter data signalled that the economy has stabilised at a slower declining pace, starting to react positively to the government's huge stimulus plan[2]. Without detailed numbers, the Shanghai region also reported better-than-expected economic growth for the first three months of 2009.

The Purchase Management Index (PMI)[3] of China's manufacturing sector has increased for four consecutive months since last December, reaching 52.4 in March. Unlike the global credit crunch, China reported a record surge in bank loans and money supply in March. The 1st quarter's bank lending (totalled RMB 4'580 billion) is approaching the government's full-year target of RMB 5,000 billion.

However, it is too early to announce that China will be the first to rebound, as negative indicators still show continued weakness. As a result of the collapsed demand from the US and Europe, export has declined for 6 straight months. The FDI in China fell for a fifth consecutive month since last November. Due to the heavy dependence on external consumption, industrial outputs, especially in the coastal Shanghai region, remain low despite of the stimulus plan.

A quick look at the hard facts of 2008

China overtook Germany to become the world's third-largest economy after the US and Japan, and won the most gold metals at Beijing Olympics in 2008. But its economy declined to **a seven-year low of 9% growth last year**, as a result of both the world financial crisis and nature disasters of earthquake and snowstorm. It was also the first time since 1992 that **Shanghai reported a under double-digital GDP growth rate of 9.7%**, marking a sharp deceleration from the previous 13.3%. The other two foreign-market oriented provinces in the region, Jiangsu and Zhejiang, showed a similarly sharp slowdown in their growth rate.

Swiss-Yangtze-Delta Region Trade Relations*

	Import from Switzerland				Export to Switzerland			
	2007		2008		2007		2008	
	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %
Shanghai	1,563	39.38	2135.72	36.62	318.0	20.31	356.68	12.28
Jiangsu	520.0	21.88	693	33.31	442.0	28.41	662	49.66
Zhejiang	236.46	56.16	301	27.66	401.43	47.34	525	30.86
Anhui	20.61	- 28.8	41.09	99.34	14.35	13.98	9.16	-36.18
Delta Region	**2'319.46**	**36.40**	**3'129.72**	**34.93**	**1'161.43**	**31.74**	**1'543.68**	**32.91**
China	**5'842.79**	**37.3**	**7'350**	**25.7**	**3'600.60**	**43.5**	**3'900**	**8.4%**

Source: Chinese authorities

Swiss Investment in Delta Region

In the Region	Swiss Investment						Accumulated by end of 2008		
	Project		Contracted million USD		Actually million USD		Project	Contracted million USD	Actually million USD
	2007	2008	2007	2008	2007	2008			
Shanghai	31	37	56.76	106.06	N/A	N/A	334	1’739.06	N/A
Jiangsu	20	20	195.06	146.98	196.26	121.84	156	933.36	749.59
Zhejiang	1	6	5.39	96.22	39.24	39.97	61	316	184
Anhui	0	0	0	0	0	0	6	39.86	N/A
Delta Region	**52**	**63**	**257.21**	**349.26**	**N/A**	**N/A**	**551**	**2’988.42**	**N/A**
China	**102**	**108**	**N/A**	**550**	**299.8**	**240**	**1’154**	**N/A**	**3’050**

Source: Chinese authorities

Nevertheless, China’s development in the last decade was indeed huge and it presents one of the very few economies that are still expanding. Meanwhile, **the YRD, with 2% of land area and 10% of the country’s population, continued to contribute more than 20% to the total GDP**.

Influenced by the credit crisis, number of FDI projects decreased in China but actually utilised capital has increased. It is also noteworthy that **Shanghai remains the favourite destination for foreign investment** as a result of its effort to attract FDI in the tertiary sector and to promote regional headquarter economy.

The New Twin-Track Plan of Shanghai

As part of the efforts to battle against the global economic downturn, Shanghai has been recently granted **state-level support to build the city into a major international financial centre and shipping hub by 2020**. The State Council announced this general goal together with guidelines for the city to create “a multi-layered financial market system” and to promote the opening of financial services. On the shipping front, an integration of port resources within the Yangtze River Delta, with Shanghai as the hub, will be further enhanced.

Practically the **Shanghai’s “twin track” plan will include a number of administrative measures and tax policies**. The first move from the central government was to allow Shanghai, together with another four cities in the Pearl River Delta near Hong Kong, to use the RMB as a standard of payment for international trade; a trial operation that has been discussed in Shanghai for several years. This step forward and the set duration until 2020 may imply a timetable for fully convertible currency in the city.

Sources close to the municipal government also disclosed that the city will expand the area of Pudong and establish a new Linggang District by splitting the current Nanhui District. Thus, the enlarged Pudong District[4], where the Lujiazui Financial Zone[5] is located, will be the main financial area in the future, and the new Linggang District, which embraces the Yangshan Deep Water Harbour, will become the sub city centre for the shipping economy. By consolidating the major locations of the two centres, this move will undoubtedly lead to a new round of infrastructure investment.

Other measures in line with the “twin track” will include **preferential tax policies for the ship financing and the leasing business, funds to attract talents, and encouragement measures for market liberalisation and financial innovation**. Also, as part of the blueprint, Shanghai plans to encourage the development of technologically advanced industries in Pudong. The Zhangjiang Park in Pudong qualifies for a RMB1 billion industrial fund set by the government to develop its bio-pharmaceutical industry[6].

1 China’s economy grew 6.1% in the first quarter 2009, down from 6.8% in the fourth quarter of 2008. It is the slowest growth in 20 years, but other date as industrial production and investment show encouraging signs.
2 As part of its efforts to cope with the global financial crisis, last November Chinese central government launched a four-trillion-yuan (about USD 586 billion) stimulus package with ten industrial revival policies to provide several pillar sectors with funding support, tax breaks and other favourable policies.
3 An indicator that reflects market dynamics in a timely way. It is generally believed that when the PMI is above 50, it indicates that the overall manufacturing sector is expanding, while below 50 indicates that the overall manufacturing sector is contracting.
4 New Pudong District area will be expanded to over 900 km², from the current 573.4 km².
5 Shanghai is already China’s financial hub. The Lujiazui Financial Zone is home to the country’s largest stock market, its major futures market for metals and energy, its gold bourse and foreign exchange centre.
6 The pharmaceutical industry in the park reported earning of RMB9.53 billion last year, an increase of 15%.

YRD: Gears up for the Expo

Shanghai has once again become a big construction ground, spreading from the Expo site with pavilion building work to the other parts of the city, in an overall face-lifting project. After a successful and green Olympics in Beijing, Shanghai and the surrounding region are determined to move on to the spotlight next year. The **overall budget for the 2010 Shanghai World Expo totalled RMB 28.6 billion (USD 4.2 billion)**, nearly twice as much as the Beijing Olympics. The money includes RMB18 billion for the construction of the 5.28 km² Expo site and RMB10.6 billion for the daily operation of the May-to-October event expecting 70 million visitors.

With the Expo theme of "Better City, Better Life", **the urban traffic system and intercity transportation in the YRD will be the primary beneficiary of the event**. An integrated traffic network of water, land and air transportation has been built at a faster than usual pace. An allround construction of urban rail transport system (including subway and light rail) as well as the renovation of the road network around the Expo Site is under way, which will extend the total length of Shanghai's metro lines to 877 km from the current 235 km. The integrated transportation network within the YRD, as well as the closer cooperation through the sharing of resources and services, will promote the economic development of the whole region.

Swiss presence in the YRD: Current and Future Perspectives

Despite of the deepening of the global slowdown in 2008, the **Sino-Swiss trade still reported a positive growth rate**, with imports from Switzerland expanding 25.7% and exports to Switzerland slightly increasing 8.4% over the year. However, Swiss export to China has slowed down since the 4th quarter of last year, which reported negative growth since last October. **The YRD continued to play an important role in the bilateral economic relation**: more than 40% of both imports and exports is conducted in this region. While Switzerland still enjoyed a trade surplus with China, the city of **Shanghai again contributed more than half to the total surplus**. In the meantime, the more export-oriented Zhejiang Province exported more to Switzerland, and Jiangsu Province saw a relatively balanced trade with Switzerland, with its exports surging nearly 50% in the year.

Amid global uncertainty and a changing economic landscape, **the YRD remained the primary destination for Swiss investment. Last year, 63 new Swiss invested projects** chose to locate in the region, accounting for 60% of the total Swiss investment in China, in terms of both numbers of projects and contracted capital. For the first three months in 2009, already three companies celebrated the inauguration of their presence or expansion in the region, adding to the **accumulated projects number of more than 550**[7].

Of course, there is no exception in today's interdependent business world. Swiss companies in the region are facing a challenging time with a decline of orders and slowing exports, though the depth of impacts varying from sector to sector. Those sectors with more exports exposure, like textile and apparel industries, are affected heavily, while construction related industries benefited from the new round of infrastructure investment.

Generally speaking, 2009 is a very tough year for business. Until the 1st half of 2008, the majority of Swiss invested companies in the region have been enjoying outstanding growth since established. But the overall growth and profits are expected to decline or plateau this year, according to the Swiss companies. However, they are working hard on finding ways out of the crisis.

First of all, the vast population in China implies **a huge potential demand**. Chinese consumption has declined consistently as a share of GDP in correspondence to the declining share of labour income in the GDP, while the government share in the economy has risen. The government started spending to revamp China's health care system and improve people's livelihood, in an effort to encourage the reluctant consumers. Secondly, **there is adequate supply of labour force**. The 20 million migrant workers who recently lost their job in the recession, plus 10 million college graduates make up for a huge entry level workforce. Moreover, **professionals are more available and at lower price** as some foreign invested companies are downsizing their presence. After all, the government's massive stimulus measures and the record high 950-billion-yuan (USD139 billion) fiscal deficit plan for 2009 will bring new business opportunities.

Swiss companies in the region could better stand the economic turmoil as they are usually operating on broader margin with high technology and added-values. The crucial business environment will help to reduce or weaken their local competitors, who used to compete at a low price with low technology and a very slim margin. By introducing new products and services, Swiss companies could gain more market shares from their local competitors. For those who have already well established in the region, the decelerated pace could be used as a "structural break", since more time could be used for staff training, R & D, restructuring of sales strategy, and, more importantly, to obtain talents. It might be also a good time to enhance efficiency and cost control, as they will be more readily accepted by the employees and business partners.

The end of the tunnel?

It is very hard to judge whether the signs of narrowing decline predict a recovery. But the 8% GDP growth

7 According to data by Chinese authorities.

Current Economic Indicators* of the Swiss Consular Area

Year		2007		2008	
		Volume	Growth Rate (%)	Volume	Growth Rate (%)
GDP (billion RMB)	**China**	**24’953.0**	**11.9**	**30’067.0**	**9.0**
	Shanghai	1’200.12	13.3	1’369.82	9.7
	Jiangsu	2’556.01	14.8	3’000.00	12.5
	Zhejiang	1’863.84	14.5	2’148.69	10.1
	Anhui	734.57	13.9	887.42	12.7
	Consular Area	**6’354.54**		**7’405.93**	
Total Retail Sales of Consumer Goods (billion RMB)	**China**	**8’921.0**	**16.8**	**10’848.8**	**21.6**
	Shanghai	384.78	14.5	453.71	17.9
	Jiangsu	783.81	18.3	966.14	23.3
	Zhejiang	621.4	16.7	744.17	19.8
	Anhui	240.37	18.4	296.55	23.4
	Consular Area	**2’030.36**		**2’460.57**	
Completed Investment in Fixed Assets (billion RMB)	**China**	**13’723.9**	**24.8**	**17’229.1**	**25.5**
	Shanghai	445.86	13.6	482.95	8.3
	Jiangsu	1’227.06	21.8	1’506.15	22.7
	Zhejiang	843.28	11.1	930.00	10.4
	Anhui	510.59	44.0	678.89	33.3
	Consular Area	**3’026.79**		**3’597.99**	
Exports (billion USD)	**China**	**1’218.0**	**25.7**	**1’428.5**	**17.2**
	Shanghai	143.93	26.7	393.65	19.9
	Jiangsu	203.73	27.0	238.04	16.9
	Zhejiang	128.3	27.2	154.29	20.3
	Anhui	8.82	29.0	11.35	28.8
	Consular Area	**484.78**		**797.33**	
Imports (billion USD)	**China**	**955.80**	**20.8**	**1’133.1**	**18.5**
	Shanghai	139.05	22.1	212.91	10.3
	Jiangsu	145.94	18.1	154.23	5.7
	Zhejiang	48.54	26.9	56.86	17.0
	Anhui	7.11	31.3	9.08	27.6
	Consular Area	**340.64**		**433.08**	
Foreign Direct Investment (during the period)					
Projects (billion USD)	**China**	**37’888**	**-8.69**	**27’514**	**-27.35**
	Shanghai	4’206	3.6	3’748	-10.9
	Jiangsu	5’986	-8.5	4’236	-29.2
	Zhejiang	2’919	-18.5	1’858	-36.3
	Anhui	520	-12.2	256	-49.4
	Consular Area	**13’631**		**10’098**	
Contracted (billion USD)	**China**	N/A	N/A		
	Shanghai	14.87	2	17.11	15.1
	Jiangsu	43.58	12.4	50.73	16.4
	Zhejiang	20.4	6.8	17.82	-12.6
	Anhui	3.57	42.8	2.06	-33.2
	Consular Area	**82.42**		**87.72**	
Actually Utilised (billion USD)	**China**	**82.66**	**13.8**	**92.40**	**23.6**
	Shanghai	7.92	11.4	10.08	27.3
	Jiangsu	21.89	25.6	25.12	14.7
	Zhejiang	10.37	16.6	10.07	-2.8
	Anhui	3.0	120	3.49	16.4
	Consular Area	**43.18**		**48.76**	

Source: Chinese Authorities
** All statistics not including Taiwan, Hong Kong and Macao; Figures of the year 2007 is the revised ones (10th April 2008); Growth rates are price-adjusted.*

General remarks:
1. GDP volumes are at prices of the reported years (not adjusted).
2. GDP growth rates are price-adjusted.
3. All figures are based on the unrevised data of China’s statistical authorities.

is both an economic and a political task for China. Governments at all levels will do their utmost to ensure the economic growth and employment. Short term demand could be created by boosting construction of infrastructure and public works, which could, on the other hand, lead to overcapacity in many sectors. A balance between investments, export-led growth and private consumption as a growth driver remains the big challenge.

It is said that a new stimulus plan with focus on boosting private consumption is in the pipeline, in order to sustain the current "fragile recovery". For the Shanghai led YRD, even more moves could be expected, as the Expo usually leaves a rich legacy in the hosting cities.

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Jiangsu Province, China – in Short

Location Jiangsu Province is situated in the eastern part of China by the Yellow Sea, bordering Shanghai. The province covers an area of 102,600 square kilometers, 1.06% of the total area of the country. The Yangtze River flows from west to east, and the Beijing-Hangzhou Grand Canal from north to south through the province. There are some low hills and hilly land dotting the southwest and northern borders, covering 14% of the province's total area. The area of plains covers 69% and the water surface takes up 17% of the province.

Population By the end of 2008, the total population of Jiangsu was 76.7 million, leaving Jiangsu to be the most densely populated province in China with average 783 persons per square kilometer.

Economy Jiangsu province is one of the most economically developed regions in China. In 2008, the GDP of the province reached RMB 3040 billion, ranking the third place in China, up 12.5%. GDP per capita is US$5,700 in Jiangsu, which is nearly double the nation's average. Jiangsu Province is China's number one industrial power house, the industrial output lists the first place in China. The ratio of added value of three industries is primary industry 6.9%, manufacturing industry 55% and the service industry 38.1%. Main industries of Jiangsu are electronics, telecommunication equipment, textiles, petro-chemicals, metallurgical industry and machinery building. Their output value makes up over 80% of the gross industrial output value of the province.

Foreign Trade and Economic Cooperation Jiangsu province ranks the second by volume of trade in the country. In 2008, the import and export volume of the province reached US$ 392.27 billion, showing an increase of 12.2% over the previous year, of which US$ 238.04 billion for export volume, up 16.9% and US$ 154.23 billion for import, up 5.7%. By the end of 2008, Jiangsu has altogether approved more than 80,000 foreign invested projects, involving US$ 167.0 billion paid-in foreign investment. Jiangsu province is actively engaged in overseas investment and technological cooperation. By the end of 2008, Jiangsu has made US$ 1.6 billion investment in some 80 countries and regions.

Jiangsu and Switzerland There exists long term investment and trade ties between Jiangsu and Switzerland. By the end of 2008, there are 180 Swiss invested projects in Jiangsu province, with a total investment of US$2.3 billion. The import and export trade between Jiangsu and Switzerland in 2008 reached US$1.35 billion, up 40% as compared with the previous year.

Future focus of Cooperation between Jiangsu and Switzerland Precision machinery building, pharmaceuticals, biological products, environment protection technology and service sector are strongly recommended and encouraged. On June 10, 2009, the State Council of China has officially approved and endorsed the development strategy for the coastal region of Jiangsu province as a national development strategy. According to this development strategy, emphasis will be put on the building comprehensive transportation hubs, basis for new types of industries, development zones for land reserve resources, harmonious place with excellent environment for people to enjoy their life and key area of economic growth. Huge development plans will unfold and our Swiss friends are welcome to visit Jiangsu for cooperation.

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Economic Report Hong Kong 2008

General overview of HK's economy

As a result of the financial crisis and a slow-down in the global economy, Hong Kong's economy suffered a heavy blow in the latter half of 2008. GDP growth fell successively from 7.3% in the first quarter, to 4.3% in the second quarter, 1.7% in the third quarter, and -2.5% in the fourth quarter. For 2008 as a whole, GDP grew by 2.5%, lower than the trend growth rate over the past 10 years. Growth of exports of goods and services slowed to 2% and 5.6% respectively while private consumption growth slowed significantly to 1.8% in 2008. The labour market condition has started to worsen amid business contraction triggered by the global economic crisis. The unemployment rate has been on an uptrend for a few months, registering 5% for the three-month period ending February 2009. It was the highest since Feb.–April 2006.

Visitor arrivals reached 29.5 million (+4.7%) in 2008. Mainland visitors, account for 57% of total tourist arrivals, reached 16.8 million (+8.9%).

Bilateral Trade

According to the Hong Kong Census and Statistics Department (HKCSD), Switzerland was the 14th largest trading partner of Hong Kong in 2008. Switzerland was Hong Kong's 12th largest supplier and 20th largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 6.2 billion (+17%) in 2008. Major Swiss exports included watches and clocks (44% of total, increased by 11%, CHF 2.7 billion in value), jewellery & precious metal (35% of total, increased by 41%, CHF 2.1 billion in value), chemical and pharmaceutical products (7.3% of total, increased by 3.6%, CHF 454 million in value) and machinery (6.2% of total, dropped by 13%, CHF 382 million in value).

In 2008, Swiss exports to mainland China (CHF 6.1 billion in value) and Hong Kong (CHF 6.2 billion in value) accounted for 5.7% of global Swiss exports, bringing China (incl. Hong Kong) to the position of Switzerland's most important market in Asia, ahead of Japan (3.3%). On the other hand, Swiss imports from China (CHF 5 billion) and Hong Kong (CHF 1.4 billion) totalled CHF 6.4 billion. Switzerland got a trade surplus worth CHF 5.8 billion.

Hong Kong's total exports to Switzerland rose to CHF 1.4 billion (+22%) in 2008. Major total exports included jewellery & precious metal (59% of total, increased by 36%, CHF 853 million in value), watches and clocks (20% of total, increased by 13%, CHF 292 million in value), machinery (9.8% of total, decreased by 1.4%, CHF 141 million in value) and textiles and garments (3.2% of total, dropped by 19%, CHF 46 million in value).

According to the HKCSD, Swiss exports to Hong Kong totalled USD 5,980 million (+31%) in 2008 of which goods worth US$ 1,901 million were re-exported to other countries and notably to China. Swiss goods worth US$ 867 million (grew by 24%) were re-exported to China via Hong Kong in 2008. Major products were watches and clocks (US$ 275 million), medicaments (US$ 125 million), silver and platinum (US$ 70 million), measuring instruments

Guests during the Chinese New Year reception in Zurich listening to the piano concert of Colleen Lee. Front row: Winchell Cheung, Director, Germany & Central Europe, Hong Kong Trade Development Council, Dr Kurt Moser, President, Swiss-Hong Kong Business Association, Mary Chow, special representative for Hong Kong Economic and Trade Affairs to the European Communities and Edgar Dörig, Minister, Federal Department of Foreign Affairs (f.l.t.r.).

Bilateral trade Switzerland – Hongkong, Jan. – Dec. 2007/2008

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan – Dec 2007	Jan – Dec 2008	in %	share (%)	Jan – Dec 2007	Jan – Dec 2008	in %	share (%)	in CHF
1	Agricultural products	1413841	1736144	22,80%	0,12%	55.016.326	69.203.127	25,79%	1,11%	67.466.983
2	Energy carriers					91568	131367	43,46%	0,00%	131.367
3	Textiles, apparel, shoes	70.255.832	66.683.797	-5,08%	4,65%	142.270.296	148.447.098	4,34%	2,39%	81.763.301
4	Paper, paper products, printed matter	2.917.318	2.944.621	0,94%	0,21%	18.450.642	15.249.777	-17,35%	0,25%	12.305.156
5	Leather, rubber, plastics	8.528.649	9.162.564	7,43%	0,64%	60.489.447	65.323.692	7,99%	1,05%	56.161.128
6	Chemicals, pharmaceuticals	16.283.273	7.335.177	-54,95%	0,51%	426.045.413	442.399.396	3,84%	7,11%	435.064.219
7	Construction materials, ceramics, glass	4.314.969	2.074.151	-51,93%	0,14%	15.213.147	12.144.722	-20,17%	0,20%	10.070.571
8	Metals and metal products	12.024.785	11.420.316	-5,03%	0,80%	60.326.900	55.856.736	-7,41%	0,90%	44.436.420
9	Machinery, apparatus, electronics	139.970.062	138.917.617	-0,75%	9,70%	427.821.698	372.336.084	-12,97%	5,99%	233.418.467
10	Vehicles	1335096	2600876	94,81%	0,18%	1.690.268	3.039.395	79,82%	0,05%	438.519
11	Precision instruments, watches, jewellery	560.661.491	769.099.702	37,18%	53,68%	2.951.054.606	3.343.515.246	13,30%	53,76%	2.574.415.544
12	Furniture, toys	8.218.865	9.677.913	17,75%	0,68%	38.367.129	31.865.974	-16,94%	0,51%	22.188.061
13	Precious metal, precious stones, gemstones	344.235.917	397.091.411	15,35%	27,71%	1.083.984.414	1.599.310.717	47,54%	25,72%	1.202.219.306
14	Objects of art and antiques	15.243.715	14.038.992	-7,90%	0,98%	15.881.925	60.244.623	279,33%	0,97%	46.205.631
	Total	**1.185.403.813**	**1.432.783.281**	**20,87%**	**100%**	**5.296.703.779**	**6.219.067.954**	**17,41%**	**100%**	**4.786.284.673**

Bilateral trade Switzerland – Hongkong, Jan. – Mar. 2008/2009

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan – Mar 2008	Jan – Mar 2009	in %	share (%)	Jan – Mar 2008	Jan – Mar 2009	in %	share (%)	in CHF
1	Agricultural products	241599	201113	-16,76%	0,07%	15.890.082	12.347.548	-22,29%	0,86%	12.146.435
2	Energy carriers					44719	39467	-11,74%	0,00%	39.467
3	Textiles, apparel, shoes	19.352.055	10.954.129	-43,40%	3,74%	36.731.884	33.971.595	-7,51%	2,38%	23.017.466
4	Paper, paper products, printed matter	924.538	537.433	-41,87%	0,18%	2.631.597	1.743.100	-33,76%	0,12%	1.205.667
5	Leather, rubber, plastics	2.149.448	2.270.263	5,62%	0,77%	17.801.418	17.486.123	-1,77%	1,22%	15.215.860
6	Chemicals, pharmaceuticals	1.443.611	2.068.405	43,28%	0,71%	106.619.851	71.666.775	-32,78%	5,02%	69.598.370
7	Construction materials, ceramics, glass	877.754	654.801	-25,40%	0,22%	4.318.241	5.190.316	20,20%	0,36%	4.535.515
8	Metals and metal products	2.527.666	2.585.297	2,28%	0,88%	13.987.236	7.159.825	-48,81%	0,50%	4.574.528
9	Machinery, apparatus, electronics	35.653.350	25.892.309	-27,38%	8,84%	91.659.661	70.149.588	-23,47%	4,91%	44.257.279
10	Vehicles	806757	306673	-61,99%	0,10%	573.105	556.650	-2,87%	0,04%	249.977
11	Precision instruments, watches, jewellery	204.682.976	158.329.972	-22,65%	54,04%	767.198.890	618.628.186	-19,37%	43,31%	460.298.214
12	Furniture, toys	1.935.780	1.955.572	1,02%	0,67%	6.736.827	6.470.186	-3,96%	0,45%	4.514.614
13	Precious metal, precious stones, gemstones	125.255.070	82.678.482	-33,99%	28,22%	238.266.628	576.966.654	142,15%	40,39%	494.288.172
14	Objects of art and antiques	3.176.975	4.560.511	43,55%	1,56%	2.927.132	6.013.236	105,43%	0,42%	1.452.725
	Total	**399.027.579**	**292.994.960**	**-26,57%**	**100,00%**	**1.305.387.271**	**1.428.389.249**	**9,42%**	**100,00%**	**1.135.394.289**

Source: Schweizer Oberzolldirektion, Swiss Impex

(US$ 36 million), machine tools (US$ 32 million) and colouring matter (US$ 25 million).

There has been a notable growth for Swiss products entering China via Hong Kong in recent years, from US$ 518 million in 2005, US$ 610 million in 2006, US$ 700 million in 2007 and US$ 867 million in 2008. 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.

According to the HKCSD, Hong Kong exports to Switzerland totalled US$ 2,659 million in 2008. Among them, products of Chinese origin worth US$ 1,366 million (grew by 25%) were re-exported to Switzerland via Hong Kong. Major products were watches and clocks (US$ 559 million), silver and platinum (US$ 170 million), clothing (US$ 146 million), electrical machinery (US$ 103 million), jewellery (US$ 80 million) and telecom equipment (US$ 33 million).

Excerpt from the report by the Consulate General of Switzerland in Hong Kong

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Biotech Centre Opens at HK Science Park

Hong Kong Science and Technology Parks Corporation (HKSTP) has reinforced its commitment to the biotechnology industry with the opening of a dedicated Biotech Centre end of April 2009. The initiative was accompanied by the launch of a Life Science Acceleration Programme (LAP) jointly with Hong Kong's Innovation and Technology Commission (ITC), and the signing of a Memorandum of Understanding (MOU) with leading global pharmaceuticals company Pfizer, Inc.

Financial Secretary, Mr John C. Tsang (third from left) officiated at the grand opening of the Biotech Centre at Hong Kong Science Park in conjunction with Permanent Secretary of Commerce and Economic Development Commission for Communications and Technology, Mr Duncan Pescod (second from right), accompanied by Chairman of Hong Kong Science and Technology Parks Corporation Mr Nicholas Brooke (center) and Chief Executive Officer, Mr E. Anthony Tan (right).

The opening of the new centre represents another milestone in HKSTP's drive to help Hong Kong become a hub for innovation in biotechnology in the Pearl River Delta region. The initiative will also help boost economic diversity, create new employment opportunities, nurture new talents and attract international players to Hong Kong.

Officiated by the Financial Secretary of Hong Kong SAR, Mr John C. Tsang and Permanent Secretary of Commerce and Economic Development for Communications and Technology, Mr Duncan Pescod, the opening unveils the 200,000-square-foot centre, incorporating two dedicated life science buildings. The buildings provide cutting-edge equipment and wet laboratory facilities for shared use, technical engineering support and an SME centre, which will be an ideal home for many small and medium-sized enterprises.

HKSTP's continuing efforts in the biotechnology sector are also highlighted by two other initiatives. One is the LAP, a long-term, biotechnology-based funding and development scheme launched in partnership with the ITC. The scheme targets to offer financial aid to 10 life science projects, with a total value of up to HK$93 million. Under the scheme, funds will be awarded under three programmes to incubatees for research assistance and acquisition of laboratory equipment, to help accelerate their growth beyond concept stage to attract venture capital. The other initiative is the newly signed MOU with Pfizer, which recognises Hong Kong as a preferred partner providing incubation facilities and services support for projects that Pfizer invests in this region.

"LAP is intended to help accelerate life science research projects through the difficult period to the 'venture capital-ready' stage. In addition we will maintain our efforts to bring international players and expertise to Hong Kong. On that note, we are very happy about our new partnership with Pfizer, a recognised world leader in the pharmaceuticals industry", said Mr Nicholas Brooke, Chairman of HKSTP.

These initiatives highlight the importance of biotechnology, which HKSTP has identified as a focus cluster for development for Hong Kong and the region. "With the unveiling of the Biotech Centre, HKSTP has further signaled our intent and dedication to this sector", said Mr Brooke.

There are currently 17 companies at Hong Kong Science Park from a cross section of pharmaceutics and biologics, Chinese medicine, medical device and diagnostics, regenerative medicine and molecular tools and reagent.

Hong Kong's research strength is well documented. It has the largest biomedical output of any single city in China, when measured by peer-reviewed research papers, according to a report published in November 2009 by life science consultancy Ventac Partners. As a whole, those research papers were of the highest quality in China.

Capitalising on Hong Kong's research capabilities, HKSTP offers a number of significant benefits for biotechnology start-ups in the form of support programmes and networking events. The first two Science Park Applied Research Commercialisation (SPARC) Forums – platforms for commercialising selected technologies – focused on biotechnology and have successfully fostered relationships between investors and start-ups. HKSTP also maintains close collaboration with universities in Hong Kong and overseas, which enables partner companies to tap substantial academic expertise.

HKSTP's incubation programmes boast a strong track record for Hong Kong's technology clusters. Of organisations that have been incubated at Science Park, 217 have already graduated, and over 75% (168 companies) of those are in business to date. Four of these have succeeded in achieving IPOs, and over HK$500 million in venture capital funds has been raised. With this solid foundation, Hong Kong Science Park's biotechnology sector is well set to make similar achievements, which will bring economic, environmental and social benefits to Hong Kong and the region.

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AFMT Licensed Technologies in Beijing

*The **Future House USA** near Beijing, China will receive more attention in mid July when the Government of China hosts the US Secretaries of Energy and Commerce to tour the facility and discuss clean energy initiatives.*

Of key importance for the China Ministry of Construction is the earthquake and energy performance of SIP construction techniques. It is reported that many Chinese citizens are wary of living under concrete roofs following the recent earthquake. In addition, with energy cost and air quality issues rising in China; there is great concern for better control of the indoor living environment.

The Future House USA is a zero net energy structure built entirely of R CONTROL SIP's. It has 28 electronic monitors tracking the performance and became fully operational in the last few weeks. The AFMT Licensed Technologies are not only helping to improve the environment, but are also making the construction and packaging industries more efficient.

Visitors to Beijing who wish to visit the Future House USA may contact AFMT to make an appointment.

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What Will You Do in China in 2009?

Imagine your raw materials prices drop; more employees become available at lower salaries; you are able to renegotiate contracts with suppliers; competition diminishes; and local government supports you more than ever. Is this a dream, or could it be China in 2009 for your company?

With the current economic situation, we still believe that China is in a better position in comparison to the global economy. In this white paper we illustrate how this situation can create opportunities for you including the different steps necessary to maintain profitability and refocus strengths.

There are five main trends which will create opportunities:

- Government support
- Market consolidation
- Domestic demand
- Accessibility of lower-cost regions
- Availability of lower local financing

How the situation can create opportunities for you

We expect the majority of FIEs (Foreign-Invested Enterprises) in China to survive the global crisis. This is because FIEs stand to gain from the current accelerated industry maturity and potentially will benefit from the government's stimulus plan. However, while many opportunities exist for the mid to long-term, for most clients the focus lies on the immediate future. This may necessitate revisiting past assumptions and approaching the changed environment creatively and flexibly.

For instance, in the past six months, Fiducia has advised clients how to improve the China operations' bottom line: in the case of an industrial services firm this resulted in a 20% annualised cost reduction; for other clients we have streamlined processes and restructured sales channels. The following table outlines specific immediate actions we have helped clients to take, areas to maintain or even increase profitability throughout the year and steps to capture future growth beyond 2009.

What next?

The global economic crisis will impact China less severely than other parts of the world, and so China should continue to play a crucial role in any international companies' strategy. FIEs should achieve immediate results and position for the future in order to convince their headquarters that China continues to hold the best opportunity for growth. We would be happy to share our experience and discuss your opportunities.

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

	FOCUS (by timeline)		
FUNCTION (by urgency)	**1. "Generate Immediate results"**	**2. "Weather 2009?"**	**3. "Position for the future?"**
A. Finance & Organisation (incl. HR, Controlling, Corporate Governance)	– Adjust KPIs to new settings and monitor – Develop contingency plans – Share resources across business units – Adjust non-essential overheads	– Strengthen cashflow, re-finance – Benchmark best practices and improve internal processes and their effectiveness	– Win more support/ independence from global headquarters – Set up China advisory board – Outsource non-core functions (e.g. accounting)
B. Supply chain	– Renegotiate terms and cost with suppliers – Monitor suppliers' health – Identify alternative supply sources	– Develop suppliers' ability to reduce costs	– Adjust the level of value addition in China
C. Sales & distribution	– Review customer credit terms – Review SG&A	– Carry out A/B/C customer review – Optimise sales processes – Streamline distribution channels	– Strive to be "preferred supplier"
D. Strategy	– Divest unprofitable business units	– Analyse products' contribution – Review market (including competition) on monthly/quarterly basis to catch upturn	– Adjust product offering & positioning – Identify growth niches/pockets – Target growth in Western China and smaller cities

China Manufacturing Competitiveness Study 2008–2009

China's Influence in the Global Economy Continues to Gain Strength, Especially in Manufacturing Intensive Industries

The Duality of China as mega growth and source market creates opportunities and challenges for multinational companies (MNCs) from developed markets, including Swiss companies.

***A study co-authored by Booz & Company and the American Chamber of Commerce in Shanghai (AmCham Shanghai) in February 2009** found that rising costs, declining rates of domestic growth, and decreased demand for Chinese exports are pressuring multinational corporations that operate in China. At the same time, the global business community increasingly views China as an essential player in an eventual turnaround of the global economy, especially in industrial and manufactured goods. As a result, many multinational manufacturers have strengthened their commitment to China as a key base of operations for Asia. Anecdotal evidence in the Swiss press suggests that the same holds true for Swiss companies, who are finding that China remains one of the few bright spots for growth.*

The survey of 108 foreign invested manufacturing companies operating in China found that unemployment and softer consumer demand, especially from the developing middle class, led to a decline in domestic sales and exports among 40 percent of survey respondents. Still, the second annual "China Manufacturing Competitiveness 2008–2009" study found steady evolution in the manufacturing sector and a resounding commitment among MNCs to remain in China and expand operations.

Despite the challenges of the downturn and steadily increasing manufacturing costs, the MNCs surveyed were fairly optimistic about China's efforts to position itself as a world-class manufacturing center. Government focus on manufacturing infrastructure development and product safety improvement, coupled with more MNCs upgrading their manufacturing facilities, has reduced interest in locating manufacturing operations in lower-cost countries like India and Vietnam.

"China is not immune to the pressures of the recession, and many operations here are definitely starting to feel pain, like most everyone in the world", said Ronald Haddock, Partner with Booz & Company based in Zurich, who had previously spent ten years with Booz & Company in the Firm's offices in Shanghai, Seoul and Mumbai. "Even though costs of operation in China have risen, government investments in infrastructure and product safety are paying off, as manufacturers increasingly commit to professionalizing their operations here. And so, we may also see a beneficial impact of the crisis: more attention to *how* we manufacture in China versus *how much* we manufacture", added Haddock.

Easing cost pressures and continuing improving China's image and ability to meet global production and trade benchmarks were recurring areas of interest among survey respondents. Among the study's key findings:

- **Effects of the downturn:** In spite of prospects for robust growth, the worldwide economic downturn has negatively impacted China's domestic market. Consumer demand in Western countries has tumbled, which has placed downward pressure on the country's export market, while domestic sales are also softening significantly, leading to a significant decline in domestic sales and exports. As a result, the majority of respondents felt it was important for the Chinese government to ease cost pressure on local manufacturers, in addition to focusing on worker training, education, and job creation.

- **Major challenges in the manufacturing sector:** Nearly three-fourths (73 percent) of respondents said that enforcing intellectual property protection was "important" or "very important". Other manufacturing sector issues ranked similarly include improving education and productivity of Chinese labor (67 percent), increasing quality and safety standards for Chinese-made products (66 percent), and welcoming foreign investment (62 percent). Respondents reported that the Chinese government has made noticeable progress on improving manufacturing infrastructure and incremental progress on protecting intellectual property rights.

- **Committed to China:** Despite the downturn, doing business in China is becoming more expensive. However, even as companies report rising costs in China – by as much as 15 percent this year compared to 10 percent last year, centered primarily on labor and management – fewer companies

Ronald Haddock
Vice President
Booz & Company GmbH

Dr Jochen Schilcher
Principal
Booz & Company GmbH

expressed an interest in relocating their manufacturing facilities out of China in the next five years (10 percent this year vs. 17 percent last year). The number of companies who expressed concern about China losing its competitive edge to lower-cost countries like India and Vietnam fell by more than half. Nearly 50 percent of respondents expressed an interest in growing their mainland China production capacity over the next couple of years.

- **Best practices are no longer a luxury:** This year's survey incorporated new questions about implementing production technology and found that nearly 25 percent of respondents were upgrading their Chinese facilities with state-of-the-art technology. At the same time, the Chinese government has made efforts to improve industrial infrastructure, as it continues its quest to become a higher-value manufacturing location. Overall, this has led to a significant trend in the Chinese manufacturing sector to incorporate greater innovation across the board, ultimately resulting in greater performance and competitive advantage. Best practices, such as advanced statistical forecasting, lean systems, and optimized product flows are more prevalent than ever before with 39 percent of companies adopting some aspect of these practices, vs. 27 percent last year.

- **Success lies in China's duality:** The most successful MNCs harness the dual opportunities of China as a source of exports as well as a huge domestic market, compared to their competitors whose narrower objectives were typically either taking advantage of labor advantages on a limited scale or only importing products into China's growing domestic market. A dual strategy – pursued by 57 percent of respondents, up from 47 percent a year ago – integrates both sales and sourcing strategies. The study also found that key opportunities for MNCs in bolstering the soft domestic market include expanding product and service offerings to meet middle- and local-market demand.

About Booz & Company

Booz & Company is a leading global management consulting firm, helping the world's top businesses, governments, and organizations. Our founder, Edwin Booz, defined the profession when he established the first management consulting firm in 1914. Today, with more than 3,300 people in 59 offices around the world, we bring foresight and knowledge, deep functional expertise, and a practical approach to building capabilities and delivering real impact. We work closely with our clients to create and deliver essential advantage.

Visit www.booz.com/ch to learn more about the company.

Study Implications

According to Booz & Company and AmCham Shanghai, the survey findings indicate that developing strong manufacturing capabilities in China is central to MNCs achieving a stronger competitive position across their global supply networks, particularly in the current economic climate. For companies that are already on this path, the imperative is to stay focused on intensifying their efforts in China to strengthen what they have started. For companies just realizing China's role strategically and operationally in their businesses, now is the time to develop a robust China agenda and assess the potential for a dual strategy.

Further, determining the right manufacturing strategy in China is strongly related to the advantaged capabilities that companies strive to develop. Across a broad set of manufacturing best practices, the most successful companies do not try to adopt all capabilities; rather, they focus only on those practices that are most relevant to how they seek to drive success in the market.

Lessons for Swiss Companies

In the wake of the current global downturn, growth and profitability are a particular challenge to countries where exports or foreign trade are a major contributor to GDP. For Switzerland as a whole, the importance of success in manufacturing is increasing in the face of ongoing challenges in the financial services sector, with increasing risks to the overall balance of funds managed by the banking sector.

"In the face of a potential decline in the assets managed by Switzerland's financial institutions, the need for the manufacturing sector to contribute more in absolute and relative terms to the GDP of Switzerland is likely to grow, in order to support the balance of the GDP generation in Switzerland. Yet, rising competition from abroad will make this a major challenge", said Dr Jochen Schilcher, a Principal with Booz & Company in Zurich.

Historically, Swiss based technology and manufacturing companies succeeded through superior product innovation which yielded industry leadership in a range of complex, manufactured products. Many of the leading players in their respective global industries hail from Switzerland, and have become household names in product categories as diverse as power generation and distribution, elevators and escalators, solar power generation components and systems, food processing, textile machines, automotive components, precision measurement and monitoring and building technologies, just to name a few.

The dominance of innovation as a primary driver of Switzerland's "industrials" business model is increasingly being threatened by rapid innovators – and in some cases imitators – stemming from low cost countries, with China perhaps the greatest threat. The success of Swiss-designed and manufactured products in China at the high end of the price/value end of the spectrum is an established fact. Yet, a common refrain within China and other emerging markets is that Swiss-designed products, similar to those of Germany, are often over-specified for the actual needs of much of the market, and more often than not, more costly than businesses or consumers are able or willing to spend. The result is frequently reverse engineering of Swiss products, followed by de-contenting to take out costly, but non-essential functionality, or in some cases, simply creating reasonable facsimiles of these products in China. The net result: lost sales by Swiss-based MNCs.

Beyond the market potential of China, much of relocation of manufacturing to China has been driven by the desire of companies to access lower cost labor and lower cost sources of inputs in an effort to stay cost-competitive. Over the years, the supply base in China for a range of products has become more and more competitive, to the point where all but the most complex or arcane components can either already be found in China, or suppliers can be relocated to China. For example, very recently, Airbus' first A320 single aisle passenger jet was rolled off of the assembly line in China, and is now in the process of being evaluated prior to being put into operational use.

For Swiss-based manufacturers, the questions that many have been (or should be) asking themselves include:

- Would the market for my products be larger if designs were modified to meet a broader range of requirements for varying functionality and price points to conform to the Chinese market? What designs are truly global and which should I customize for China?
- What are the implications for my own global competitiveness by leveraging the China market to significantly grow overall sales? What advantages related to scale will I get if I do so, and how can these be applied to other markets around the world?
- To accomplish the above, what changes in products, go-to-market approach, business and organization models are required?
- What are the consequences of not leveraging China for growth and cost competitiveness? How long will it be before competitors from China and other emerging markets compete directly against my company in Switzerland and other developed markets?
- Could I eventually become a take-over target by a Chinese company if I fail to achieve a certain size or market position?

Depending on how a company answers these questions, the result is likely to be that China will feature prominently on a company's agenda for one or more of the following reasons:

- Offensive reasons – China is fundamentally essential to drive growth, hence becoming large in China is an essential pillar to a company's strategy
- Defensive reasons – companies need to get large in China to pre-empt low cost country competitors from entering into the home market with advantaged products and services, and doing so with scale economies developed in China

The second annual study by Booz & Company and AmCham Shanghai clearly shows that more and more companies are in fact harnessing the "duality" of China as growth and source market and have a range of offensive and defensive reasons to continue to grow their overall value chain presence in China. In the wake of today's global downturn, China's relative strength will continue to grow, further underscoring the importance to Swiss MNCs of developing a well thought-out, "total strategy" for China, and executing it well.

Study Methodology

Using a combination of online surveys, on-site visits, and in-depth interviews, the American Chamber of Commerce in Shanghai (AmCham Shanghai) and Booz & Company surveyed 108 manufacturing companies doing business in China about their perceptions of China as both a sales market and production center for domestic distribution and exports. As the global economic downturn worsened in November and December, follow-up questions were posed to these companies to gauge the impact of the worldwide recession on their Chinese strategies. Of the companies surveyed, 82 percent were wholly owned by foreigners, 11 percent were joint ventures between multinationals and Chinese partners, and 7 percent were categorized as "other."

The manufacturers' industries included consumer, industrial, healthcare, and materials. About 40 percent of the respondents have an additional major presence in China beyond their manufacturing footprints, including representative offices, regional or global headquarters, regional or global procurement centers, and regional or global research and development centers.

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Risk Management for SMEs

With an amendment to the Swiss Code of Obligations as from 01.01.2008, details regarding the execution of a risk assessment are newly required in the notes to the annual financial statements per 31.12.2008. These regulations apply, regardless of the size and purpose, for all corporations ("Aktiengesellschaften"), limited companies ("GmbHs") and, under certain circumstances, for foundations too.

i-Risk GmbH, a spinoff from the Swiss Federal Institute of Technology (ETH) Zurich and a company specialised in risk management, has developed, under the mandate of the Asia2Europe member ABT Treuhand Group, a practical tool based on Excel for small companies. It enables every entrepreneur and Board member to identify and assess risks quickly and to determine possible countermeasures.

The tool is comprised of the following components:

A risk management checklist

The first step is to identify the possible risks that exist within a company. i-Risk uses a standardised checklist with 56 possible risks.

They are sub-divided into the following risk categories:
a) Strategic risks
b) Financial risks
c) Operational risks
d) External risks

For each of the risk categories, there are four empty fields which can be used for companyspecific risks.

Risk assessment

In a second step, you can go through all the risks in the checklist and select by mouse-click whether or not each risk is relevant for your business.

If you believe that a risk is relevant for your company, the potential damage (extent of damage) needs to be assessed if the risk occurs. For this purpose, you have a scale available from 1 (small damage) to 6 (major damage).

You must then define the likelihood that the risk in each case will occur on a scale from 1 (smallest likelihood) to 6 (largest likelihood). All the selections are made by mouse-click.

Evaluation of the risk analysis

Once you have completed your assessment of all the risks in the checklist, you receive a risk matrix for your company, illustrating your risk exposure and highlighting the ten largest risks.

There then follows a summary of all relevant risks including their evaluation by size. On this sheet, you have the opportunity to enter measures to reduce the relevant risks.

Source: Asia2Europe Newsletter
www.asia2europe.net

For further information and implementation of this software solution, please contact:
arthur.exer@abt.ch or rolf.brun@abt.ch of the ABT Treuhand Group who will be pleased to be of assistance to you at any time.

Reducing HR Costs in the Downturn

Unfortunately, the downturn is not a joke. These days, most companies need to find ways to reduce costs to face lower levels of business and keep everybody happy. The PRC Labor Contract Law puts rather strict conditions on employers in changing remuneration or work time or in terminating labor contracts. Besides, there are no provisions in the Chinese welfare system for part time unemployment as available in Switzerland, so that steps to reduce labor costs need to be taken very carefully. On the other hand, subsidiaries with a small number of employees may not reduce their employee beyond a minimum level and keep the competences to serve their customers.

To deal with the current downturn, Chinese companies and Chinese government units are implementing reduction of both working hours (and corresponding income reduction) and reduction of salaries. Can foreign companies do the same?

Changing Employment Policies

The Labor Contract Law provides that, in case of major changes in the macro economic environment, companies intending to change their policies regarding working hours, rest, leave, benefits to reduce costs shall discuss with the employee representative congress or with all the employees and decide on the issue through consultations with the Trade Union or with employee representatives.

Reducing Salary or/and Working Time

Additionally, in case economic changes render the labor contracts unpractical, it can be revised under mutual consultation and agreement of both the company and its employees. In other words, if the company intends to introduce any reduction of salaries or working hours and corresponding salaries for part or all employees, it may only happen with the agreement of all employees concerned. Besides, an addendum to the existing employment contract or a new employment contract needs to be signed. (In particular, however, the newly set salary shall be above the city's minimum salary for 100% employment.)

Downsizing

If consultations with employees do not lead to new employment agreements, the company is allowed to terminate the related labor contract by paying employees the legal compensation. The Labor Contract Law also provides the upper limitation of such legal compensation.

However, faced with the alternative of lay-offs, our experience is that employees would rather collectively temporarily agree to reduction of salaries and/or work time, provided the reductions are generally reasonable and are well explained to all those concerned.

In addition, the Labor Contract Law allows lay-offs in the following situations:

1. A company can lay off its employees legally when such company is on the verge of bankruptcy;
2. If a company has serious difficulties in production and/or business operations, the company can lay off its employees; however, in practice, it's always hard to define "serious difficulty", and the company will have to provide evidence of the "serious difficulties" it faces (such as losing 50% of its turnover, for example);
3. The enterprise switches production, introduces a major technological innovation or revises its business method, and, after amendment of employment contracts, still needs to reduce its workforce.

Moreover, if economic or any of the above circumstances makes it necessary to reduce the workforce by 20 persons or more or by a number of persons that is less than 20 but accounts for 10% or more of the total number of the enterprises' employees, the company may reduce its workforce 30 days after it has explained the circumstances to its Trade Union or to all of its employees, has considered the opinions of the Trade Union or the employees and has subsequently reported the workforce reduction plan to the labor administration.

One remark in this regard is that, if the company re-hires employees within six months of lay-offs, the dismissed personnel shall be firstly informed and offered with the job openings.

Finally, as it is often the case in China, the current labor related laws allow for a range of interpretations. As a result, different practices are applied in different locations and different types of circumstances. Understanding the local practice is essential to a successful restructuring, not only to avoid legal difficulties but also because employees are likely to agree with the local practice as well.

Feel free to contact us by replying this email, should you need any support with respect to HR management and the legal situation, such as devising restructuring plans, changing company policies, reducing salaries or staff or minimizing know-how loss.

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Nicolas Musy
Founder CH-ina

Salaries for Senior Manufacturing and Industrial Positions

Following client demand for salary information, this article will provide you with an overview of salaries in the manufacturing and industrial sector.

This information is provided by courtesy of talent2 (www.talent2.com). These indicators are compiled based on actual and recent assignments filled and validated with periodic checks with diverse industrial clients in China. It is provided as information guide only.

The above indicators vary from industry to industry, company to company and location to location. The indicators are applicable for foreign industrial companies (typically Wholly-Owned Foreign Enterprises) with a manufacturing investment of USD 10M, employing 200+ local headcount and have an average country revenue of USD 10M–50M. Larger foreign companies with a higher revenue base tend to pay significantly more than smaller companies.

Remuneration guides for China Representative Offices are less than WOFEs. Their business scales are smaller versus manufacturing-based operations. Representative Offices typically have 10–50 headcount.

Remuneration indicators are gross (not local-tax deducted) and cover 12 or 13 months. Other components such as variable compensation, incentive scheme pay-out, housing, tax equalisation benefits etc. are not included. Company practices vary again to attract and retain talent. Expatriate remuneration indicators will vary depending on the country-of-origin and tax equalisation factors.

Generally, senior Hong Kong-based talent has China market responsibility. Senior PRC talent tend to be based either in Beijing and Shanghai where foreign companies are generally located. Guangdong-based PRC talent tend to have provincial-level responsibility, versus Beijing and Shanghai talent who generally have pan-China coverage.

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

Category	Years of Experience	Hong Kong	Beijing	Shanghai	Guangdong
		Annual Base Salary Only, Variable Excluded			
		HK$	RMB		
Management					
MD, CEO, VP	20+	1.3M-2.0M	1.2M-1.5M	1.2M-1.5M	-
General Manager Sales & Manufacturing Operation	15-20	1.2M-1.5M	800K-1.2M	800K-1.2M	800K-900K
Functional					
Supply Chain Director	10-15	800K-1.2M	600K-700K	600K-700K	400K-600K
Procurement Director	10-15	800K-1.2M	600K-700K	600K-700K	400K-600K
EHS Director	10-15	800K-1M	500K-600K	500K-600K	400K-600K
Quality Director	10-15	800K-1.2M	600K-700K	600K-700K	300K-400K
Manufacturing					
Factory/ Plant Manager, 250+ headcount	15-20	800K-1.2M	800K-900K	800K-900K	800K-900K
B2B Sales					
Regional Director, Asia responsibility	10-15	800K-1.2M	900K-1M	900K-1M	-
China Sales Manager	10-15	700K-900K	700K-900K	700K-900K	500K-600K
HR					
HR Director	15-20	800K-1.5M	700K-800K	600K-700K	400K-500K
Finance					
Finance Director	10-15	800K-1.5M	800K-1M	700K-800K	-

by courtesy of talent2 (www.talent2.com)

Chinese Machine Tool Market: Slowdown but no Recession

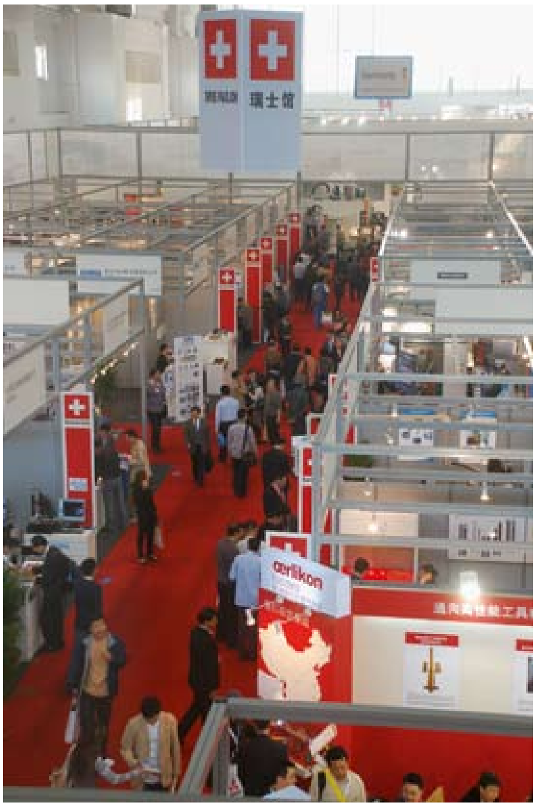
On the background of the worldwide financial crisis, the 11th China International Machine Tool Show (CIMT2009) was held on April 6-11, 2009 at China International Exhibition Center (New) in Beijing. 1222 machine tool manufacturers from 28 countries gathered at the acclaimed fair, one of the four biggest machine tool shows in the world. Over 175'000 people visited the Swiss national pavilions where some 40 Swiss companies showed their products. Contrary to all expectations the 2009 machine tool show achieved much better results than expected.

"We notice a slowdown of the Chinese economy but we cannot see any recession like in Europe or in the United States", said Michael Orschel, Asian sales manager of Feintool, the Swiss based leading supplier of fine blanking technology for the car industry, "China's market still has an annual growth of more than 6%." Dr Frank Brinken, CEO of StarragHeckert added: "We are very confident what concerns our China-business this year." The main factor for that optimistic look into the future is the huge governmental investment program to upgrade the national infrastructure and to build up a domestic Chinese car and aircraft business as well as to construct thousands of new medical centers. "China will need big machine tools and we are in a very good position", said Dr Hans-Martin Schneeberger, who's company is a world leading manufacturer of linear motion system technology.

This year CIMT showed, Swiss manufacturing is highly competitive and of superior quality in Europe. Its manufacturing industry plays an important role in the whole GNP. Sophisticated machine tools keep Switzerland a leader of world manufacturing, and Swiss people manage their "tiny place" in Europe with superior wisdom. The Swiss Mechanical and Electrical Engineering Industries is strongly committed to its projects in China and attaches great importance to a long term cooperation with China. With an export rate of over CHF 300 million China is one of the most important markets for the Swiss machine tool industry.

The robust growth of the Swiss machine tool industry could not be achieved without the promotion, coordination and innovation of SWISSMEM. The association not only organized some 40 Swiss companies to participate in every session of the China International Machine Tool Show in recent years, but also emphasizes very much on the education and training of Chinese manufacturing talent. In 1999, SWISSMEM initiated and organized Chinese students to meet Swiss technology for the first time. With the support of Chinese Ministry of Education and the Swiss Embassy in China, SWISSMEM funded 22 engineering students from 11 science and engineering universities to visit the China International Machine Tool Show. This year the students came from Tsinghua University, Shanghai Jiaotong University, Southeast University, Sichuan University, Xi'an Jiaotong University, South China University of Technology, Inner Mongolia University of Technology, Harbin Institute of Technology, Beijing Institute of Technology, Huazhong University of Science and Technology and Kunming University of Science and Technology. Accordingly, the Secretary General of Swissmem Machine Tool Manufacturers, Mr Christoph Blättler said: "Facing the economic crisis, we need to attract internationalized talents, to find new motivation and headspring for the development of Swiss mechanical industry."

Through a series of activities like visiting top notch mechanical manufacturing plants we can support these students in getting a first hand experience of our industry. We hope more Chinese students can make



The gathering crowd of visitors at the Swiss National Pavilion during the 11th China International Machine Tool Show.

Chinese students visiting Sino-Swiss joint venture GF Agie Charmilles Industrial Electronics Co., Ltd. in Beijing.

use of this international platform to get to know Switzerland, the Swiss machine tool industry, Swiss enterprises and the current status as well as the future of the world's machine tool industry and let them have the international view of this industry. This will be good for their career opportunities and will hopefully influence their personal choice. In order to support this, all of the participants received an official Certificate of Attendance in this program.

Under the arrangements of SWISSMEM, at the Swiss pavilion during the show, Swiss engineers gave the students detailed demonstration and presentation about technology and concept of advanced machine tools. Meanwhile the students made also a site tour at the workshop of Sino-Swiss joint venture Beijing GF Agie Charmilles Industrial Electronics Co., Ltd., being exposed to the factory manager's briefing and technicians' presentation. Furthermore, the students had the opportunity to join in the Swiss Evening reception hosted by Swissmem. An official from Swiss Business Hub at the Swiss Embassy in China said, "On the one hand, China and Switzerland have a long history of economic and trade cooperation and enjoy a friendly and constructive relationship. We hope to strengthen bilateral economic and trade exchanges, promote understanding and communication between our two peoples as well, especially the young generation's knowledge and understanding about Switzerland, which is critical to the future of bilateral relations."

The Swissmem Young People Program was very much acclaimed by all of the 22 students. "My view has been broadened, the most impressive thing is that the machine tools of China also have modernized designing, however when you see carefully, we can find the imperfections of the detail, of the skill and lack of creating ability." Mr Ye Yicong from Tsinghua University said. Another student Ms Li Yiqun from Beijing Institute of Technology expressed her view on this program, "Not only did this activity make me start to love my major, but also it shows me the gap between China and foreign countries in this industry and its bright future. But for myself, I need to work harder and take more responsibilities."

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Swissmem Christoph Blättler with the 22 students of the Young People Program.

Moving China Moved FH Students

Insight China is a program for students of FHNW. During a two week trip to China in Beijing and Shanghai they visited Chinese and European companies. The group also made it to the far west of the country and were guests at state owned Petro China in Urumqi. The delegation learned, that China shifts from cost driven to quality driven production and that sustainability is a big issue indeed.

Our delegation arrived in Beijing on a Saturday morning. The sky was blue which is, everyone who has been there before would agree, not very common for the Chinese capital city. But this very morning in early April we found clear skies. For us, 21 students and 5 professors from University of Applied Sciences Northwestern Switzerland (FHNW), it was the beginning of a mind clearing two weeks journey, too. Beside the big economic metropolitan cities Beijing and Shanghai we also made it to the far west of the country. We visited the province of Xinjiang and the city of Lanzhou, which is the capital of Gansu province located in central China.

A highlight of the preparatory seminar: a panel with the presidents of Swiss-Chinese, Swiss-Indian and Swiss-American Chambers of Commerce as well as representatives of China and the United States.

Insight China is Organized by Students for Students

We went to the Middle Kingdom as participants of the Insight China project. This two part seminar is organized by final year students in International Management. The first part consists of a one week intensive preparatory seminar in Switzerland with real expert speakers such as Prof Dr Dr Harro von Senger or Mr Kurt Haerri who is the president of Swiss Chinese Chamber of Commerce. This year even a representative of the Chinese government gave a speech. Mr Rengang Huang works for the permanent Chinese mission to the WTO in Geneva and spoke about the stimulus package of official China to counter the current economic downturn. The second part of Insight China is a two week onsite trip during which the participants visit companies, factories, universities, cultural hotspots and – probably the best thing about it – have encounters with Chinese managers, workers and students as well as expatriates.

Combine Theory and Practical Experiences

Fanna Kong, one out of three students on the core project team and herself native Chinese, explains the purpose of Insight China. "The participating students have the opportunity to see how business is conducted in China, to learn about the differences and potential pitfalls. At the same time the seminar enables to deepen ones understanding of the culture and contemporary lifestyle of Chinese people." In 2009 Insight China kicked off in the eight consecutive year. Professor Michael Jeive, the supervising professor, adds that Insight China is a unique opportunity for students and the first and still most notable such program in the Swiss education environment. "It adapts the idea of a University of Applied Sciences perfectly, we combine theory and practical experiences, involve students and private companies and discuss the latest questions and challenges of daily business."

People Management is Key

No sooner said than done. After having visited all the impressive and famous sights such as the Great Wall and the Forbidden City in and around Beijing on the weekend we arrived, the Monday after we started our tightly scheduled company visits. We started at the offices of the China subsidiary of Swiss-Swedish ABB. Together with Ms Margrit Reck who leads the Human Resources department we discussed the current situation at the personnel frontiers. Ms Reck outlined that fluctuation at the very moment is not as a problem as it was half a year ago. ABB however continues to take tremendous efforts to recruit and retain the best people and put their workers at ease. "Finding and retaining appropriate staff is one of the key challenges of businesses in China", Ms Reck told us. The current slowdown takes some pressure away indeed but in the long run companies who manage to retain highly skilled locals are going to stand out.

Exchange with managers from China: participants discuss the process of oil production at Petro China.

Suspended Orders

When we visited SATCO (Shanghai Alstom Transport Co. Ltd.) in Shanghai one and a half week later we learned that HR at the moment is all about capacity management. The China joint venture of Alstom, who is and for many years has been the main sponsor of Insight China, produces trains for the Shanghai Metro system. Their French manager explained that they are strongly engaged with the buildup of the Shanghai subway network and are planning to expand to other first and second tier cities. When we were walking through the production halls, we saw how several of the violet colored vehicles are being assembled. According to the SATCO manager, many of the projects are currently suspended.

Tremendous Potential

In China, our delegation barely noticed the crisis in daily life. The shopping streets of Xuhui area in Shanghai were crowded, so were the malls in Lanzhou and Urumqi; and the discotheques around Beijing's San Li Tun were packed with young hedonistic people. At Schindler, another Swiss company we visited in Shanghai Mr Robert Boog, a sales manager, introduced our delegation to the Chinese elevator market. He made clear that in the future there is still an enormous potential in the housing segment. "Imagine that an average apartment complex in China has up to twenty floors", Mr Boog said. "It is true though that especially in the top-end segment there are many projects on hold right now." But the long term perspective is very bright.

Further Growth in the Long Run

At a panel in the preparatory week, a highlight of this years Insight China project bringing together the presidents of the Swiss-Chinese, Swiss-Indian and Swiss-American Chamber of Commerce as well as Mr Huang, Mr Richard Rorvig, a representative of the American embassy in Switzerland and Peter Oertli, the common believe was, that the current crisis has an impact on China indeed but that this is a very temporary slowdown. In the long run the country is expected to see further growth. Urs Schoettli who gave a speech before the panel outlined that the Chinese government decided to now grow "harmonious" which means growth rates of 8 percent instead of 12. China has a certain vacuum to be filled and an economy which is still very government steered; two good reasons why they could come out stronger than ever.

So, at the Panel in the preparatory seminar and Schindler and SATCO in Shanghai the picture was so far coherent for us. The general manager of SATCO cut right to the chase of the matter: "The question for us is now, whether we should hire 200 or more people and risk not having enough work or to not hire or even let go people and then not being ready as the economy rises again." For him it is not about finding people, it is about managing capacity.

Quality becomes more Important

For others it is about developing people and with that developing their businesses towards a more quality driven approach. When we visited several Chinese companies in the centrally located Gansu province we learned that the massive labor force still is a big comparative advantage for the Chinese economy. Every China traveler can experience that easily when having dinner in a restaurant. You are likely to be greeted by half a dozen waitresses. But on the other side the Chinese economy is moving forward, too. We visited two textile companies: Goldsmart Garments in Shanghai and Tianshan Textile in Urumqi. Their General Managers both explained that they today no more only pitch on prices but also on quality. "We are exposed to the very competitive offers of Cambodian or Sri Lankan competitors", said Mr Luke Wang, founder and owner of the Goldsmart imperium, "but they don't have the same skilled workers." According to Mr Wang Chinese workers not only have more experience what puts Chinese companies on a better respective point on the learning curve, they also have an outstanding work morale and both the possibility and will for education. All in all a winning combination according to Mr Wang.

What it practically means to develop people we learned when we visited several production sites. All over the halls of Tianshan's factories in the outskirts of Urumqi there were banners with slogans like "never comprise on quality". At a plant serving the Chinese market of the German pumps maker Netzsch the general manager told us, that every worker runs through an education program with some three months training in Germany. At TBEA, a Chinese producer of transformers based in Xinjiang, we learned that they actively support the further development of their staff with training and job rotation. Wherever we went it became obvious that Chinese companies try to convert their businesses from solely low cost driven producers to more marketing oriented innovators. Ms Rachel Wang, the daughter of Goldsmart founder and owner Mr Wang, is the boss of a subsidiary that produces branded clothing for the domestic market. "We are using innovative materials such as bamboo", Ms Wang explained, "and we are selling our merchandise over the web."

"They do not need us here"

This example does not only show how Chinese companies try to move away from the common OEM production but also that they start to rely on the domestic market. Many of the companies visited in central China solely serve the domestic market. On our delegation were not only business students but also some chemists and engineers. They were very impressed when walking through the production sites of TBEA in Urumqi, Snow Beer, a small brewery in Lanzhou, or Schindler Electronics in Suzhou Industrial Park. They follow the same standards and processes as we do, also in terms of safety and quality assurance. One student stated with a mixture of excitement and apprehension: "They do not need us here." Also in reflection that our delegation only saw a tiny little glimpse of China, that local governments, particularly in Gansu and Xinjiang, perceived our delegation important enough to show us around the most prestigious places and accompanied us with local journalists, and that in other areas production schemes still might be behind Europe, we notified the future potential of China and that they are moving forward in big steps. Especially during our one week stay in Gansu and Xinjiang provinces we got to know many companies that are fully embedded in domestic value chains without exceptions.

Shihezi: An Artificial Oasis in the Desert

That China is moving forward we learned in the far west of the country, too. Imagine a bare land, stonily, mostly brown and yellow. You ride a rattling bus on a sandy highway no more than two hours away from a city that is known as the world's most remote city from sea. Out there in the desert you suddenly enter a huge and green oasis. You will find heroic avenues with green borders, ornamented buildings and mothers moving prams on the pavements. Now this is not fiction. This city is called Shihezi and lies in the northwestern Chinese province of Xinjiang, about a two hours car ride away from the capital city of Urumqi.

Now why would someone go there? Shihezi stands for the awakening of China, for the hunger of a whole nation for a better life and for the aspiration that anything is possible. Ironically students who joined the People's Liberation Army started to building up Shihezi from scratch in the fifties, shortly before some very challenging decades started for China. Today the city is a symbol for an ecological and comfortable city life. "We earned the Dubai International Award for Best Practices in Improving the Living Environment", our tour guide explained with real pride on his face.

The local government showed us around some PVC production sites. They established a micro lifecycle with the local farmers and other factories. Emissions of one plant are used as an input in another. Similarly they are trying to keep the water in the system. The model shown to us, which had the size of a living room, demonstrated a perfect sustainable cycle. Whether this in reality works indeed, and it might work in largely state owned monopoly companies whose outputs are mainly defined by the ecologically available inputs, is a different question. What our delegation learned in Shihezi is that the Chinese are very much aware of the need of more sustainability and ecology for their future growth. And for their future living environment, too.

Xinjiang is Rich in Resources

During the preparatory week Dr Xian Chu Kong held a remarkable presentation about Xinjiang's strategic importance for China due to the fact that it is rich in resources on the one hand side and an important transit land for goods on the other hand. In the next ten years it might easily become an important region for transporting oil and gas, too, since China urges to become less dependent on the Indian and Indonesian sea and thus is building pipelines in the Northwest.

Meeting with Petro China

In Urumqi we were guests at Petro China, which is a subsidiary of state owned oil giant China National Petroleum Corporation (CNPC). It is certainly an

The model of sustainable production around Shizei city is explained to the group.

extraordinary experience to visit the marbled and gilded headquarters of such a big and strategically important corporation. Our delegation immediately realized that the real money is still earned with traditional patterns. After a brief introduction into his company in a banquet hall like meeting room Mr Liu Jiyuan, deputy President of Petro China, showed us around the production facilities. He said that they still have remarkably amounts of untouched oil fields in Xinjiang. At the same time Petro China continues to allocate resources in Africa, such as in Sudan where the company has made major investments.

Now what about the spirit of Shihezi, that city famous for greenery and better living standards? We visited Petro China and found the rich in resources Xinjiang we were expecting, but on the same day in the afternoon we visited Goldwind, a small innovative producer of windmills. These are sold to the domestic markets, mostly to government funded projects for wind farms all across the country. In contrast to the somehow stiff Petro China visit, with a strict protocol and interpreters, Goldwind kept up the innovative spirit. The general manager wore jeans and spoke English. Still, both companies are Chinese, both are located in Xinjiang. According the leaders in Beijing China wants to extent the share of sustainable energies in the next twenty years significantly. They follow a very pragmatic approach of small steps.

Talking to Water Supply Students

We learned during our stay in China that pragmatism is part of the Chinese lifestyle: the way they improvise kitchens on the street, the way they substitute missing chairs, the way they come up to foreigners in public in order to practice their English and so on. Some two hours flight further east from Petro China and Goldwind we met students from Lanzhou Jiaotong University. FHNW has a long term very successful partnership with Gansu Training Center for Senior Government Officials. Every year some Chinese managers receive training at FHNW for several months. The Gansu Training Centre was in charge of our delegation's stay in Gansu province. They organized multiple company visits and arranged myriad encounters such as with the students from Jiaotong University. When they introduced themselves they told us that they study "Water Supply and Recycling". Our first reaction was a little worn-out smile. You study law or medicine, but how to separate garbage?

But with a little more reflection we realized how pragmatic this is. China has the power and the size to put some thousands of students all over the country through a Master's program in waste management. When we were talking to the students in Lanzhou, most of them were our juniors by five or more years, we found very open hearted and interested people, not necessarily personally ambitious but certainly passionate about their future. 19 year old Carmen told us: "I want to study abroad for some years and travel and learn about your culture, but I might want to live and work in China afterwards. That is why I am learning English now."

China thinks Ahead

In the preparatory seminar Prof Dr Dr Harro von Senger introduced us to the '36 strategems'. He pointed out, that the Chinese think in much longer terms than we do. We found on our journey that this is true, although the very high speed development and sparkling fast moving everyday life in the newly developed areas. China invests in new production concepts in the far northwest, it creates master programs in water supply decades before water is the biggest problem on earth and nineteen year old Carmen learns in English today to be able to get educated in the west and then later grab a better job and living in China.

Text by Philipp Nueesch
Photos by Matthias Mosimann

More information on Insight China:
www.insightchina.ch

Insight China is a unique opportunity to get in touch with highly dedicated and talented students in an exposed international and future-oriented environment for sponsors. Please also read the Blog of the 2009 delegation at:
www.insightchina.ch/blog

and find the latest newsletters at:
www.insightchina.ch/newsletters

About Insight China

Insight China is a two part seminar offered by the University of Applied Sciences Northwestern Switzerland (FHNW) and organized by final year International Management students. The successful applicants run through a preparatory week with expert speakers and presentations on business, culture, law and society in China. The prep seminar is followed by a two weeks onsite trip during which companies, government institutions and cultural hotspots are visited. The participants have encounters with Chinese managers, workers and students as well as expatriates. Insight China provides them the unique opportunity to gain intercultural competencies, field experiences in a real business environment and the possibility to combine theory and practical know-how. The program is co-financed by sponsors. It allows them first class access to highly dedicated and talented students and exposure in an international and innovative environment.

Transaction Services in China

JIAYE You
Manager, Transaction Services
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In China M&A activities have exploded in recent years as domestic and international players move to solidify their position in this fast-growing market. However, for most European investors, China presents a number of M&A challenges. In the following pages, we will examine areas which we think European investors should be aware of when they do acquisitions in China, one of the most dynamic environments for M&As in the world today.

China's deal environment

Sophisticated and conservative M&A regulation environment

Although M&A regulations are continuously improving and the Chinese government has made a determined effort to become more responsive to the concerns of the deal community, the changes in regulation and the more rigorous enforcement have increased the uncertainty. Regulations are still evolving. There are still a lot of grey areas awaiting clarification by the Chinese authorities. Moreover, nationalistic sentiments result in considerable emphasis on protection of national interests and economic security, which in turn drives the conservativeness.

Because of China's rapidly evolving regulatory environment, European investors must continuously monitor the rules and regulations that underpin their structuring decisions. Flexibility needs to be built in and adapted to changes in the regulatory environment.

Potentially inconsistent interpretation of regulations between local and state-level authorities

Despite its reputation for centralisation, China's regulatory system will often give local officials considerable discretion on how national directives should be applied in the local context. Local officials will sometimes bend the rules to benefit one or more parties. There are also instances where they either misinterpret national regulations or apply them incorrectly. European investors should be aware that central government interpretations will always take precedence. If discrepancies are discovered, back-taxes and possibly severe penalties could be charged.

Compliance issues are not uncommon

As many local companies are "champions" of the local economy, it is not unusual to come across business practices that are in technical violation of the rules, which themselves might be enforced in a discretionary manner. Be somewhat leery when you encounter a good deal of "friendly" advice – from negotiating partners, industry peers and other sources – on how to navigate these grey zones. European investors should also not conclude that just because a practice is firmly rooted in the local business culture, it is either legal or too widespread to attract scrutiny. It is critical, however, to distinguish between practices that are accepted merely because they are common and those that are in strict compliance with Chinese law. Furthermore, European investors also need to carefully consider whether their China acquisitions are compatible with their home country compliance provisions.

A culture driven by personal relationships

Cultural differences should never be under-estimated. Personal connections are without question a critical part of Chinese business culture, as little gets done without them. Yet relying too heavily on relationships when doing deals in China can raise additional risks, particularly when the assurance of a trusted adviser, sympathetic local official of negotiating partner takes place verbally instead of in a written contract.

Questionable reputation and integrity of the local partners and alliances

China has been called the "Wild East": some managers have been known to employ all manners of questionable practices to win and perhaps personally prosper in China's wide open markets. However, such persons should not simply be ruled out in order to reduce risk and increase opportunity.

> 审时度势，因地制宜
>
> **Size up the situation and adjust measures to local conditions**

Be prepared for gaps

Process gap

In comparison to European companies, Chinese companies have less sense of confidentiality and are not accustomed to having to undergo a due diligence process. Letters of intent are usually signed at a very early stage based on representation. Inadequate respect for written agreements should be expected and sometimes no commitment can be obtained even with a written MOU.

Regulatory approval may need to be obtained from different levels of authorities. The process, therefore, can be time consuming. European investors should be aware that the continuous communication with regulatory authorities is essential.

Chinese entrepreneurs tend to change their minds easily. The irregular "on and off" may prove to be difficult for European investors to follow. Patience is of the essence for success.

Information gap

The quality and availability of information is lower than what European investors are accustomed to. There is very little public information and most companies are not audited, and even if they are, the quality of the audit can be inadequate. Chinese companies emphasise less on administration and accurate record-keeping than day-to-day operations and seldom use financial information to measure performance. Under-investment in necessary IT can also be a serious problem, resulting in a lack of management analysis and business information, no budget control or poor forecasting and projections. In addition, many Chinese companies maintain several sets of books – one for the tax bureau, one for internal use and perhaps a third ledger to show to the bank. Financial statements are often deliberately manipulated for different purposes.

European investors can overcome these pitfalls by starting the due diligence process at an early stage. Efforts need to be made to educate the Chinese vendors. Focusing on key issues rather than the overall picture and looking to future performance under your ownership can help bridge the gap.

Valuation gap

For a variety of reasons, foreign investors and domestic enterprises often approach the M&A process with very different price expectations. The stage for mismatched expectations is often set by the fact that each side may have different preferences with regard to valuation. Valuation methods preferred in China can vary significantly from international norms (net asset valuation vs. discounted cash flow concepts).

Some Chinese sellers, particularly those lacking deal experience, simply start with the expectation of exacting a high price in a market where more money is chasing deals than ever before, regardless of their fundamentals.

In addition, Chinese law requires that the statutory valuation of State Owned Enterprises (SOEs) be performed by specially licensed local appraisers, usually chosen by the target and with sometimes questionable skills and motivation. The State also requires special approval if the selling price falls below 90% of the statutory valuation.

For European investors, negotiations are often confounded by the absence of comparable deal data and other key market information. The growing popularity of M&As in China and the role of well-funded financial investors means that buyers – particularly first-time buyers unfamiliar with the business environment – may pay a higher premium for their acquisitions. We strongly recommend that European investors get involved and closely monitor the valuation process.

取长补短，同舟共济

Overcoming one's weaknesses by acquiring another's strong points: cooperate and act with solidarity

Some typical deal issues

Local accounting practice

PRC GAAP accounting standards have been increasingly adjusted to international IFRS principles and efforts are under way to promote financial know-how. However, in practice, accounting standards are not always applied correctly, intentionally or involuntarily. Most commonly seen examples include: improper revenue recognition, un-invoiced or off-the-book sales, under-accrual for rebates, product warranties and under-table payments, etc. Some of these errors are difficult to correct due to insufficient information.

Related party transactions

Many Chinese companies have complex corporate structures and a significant volume of related party transactions, both in trading and financing. In order to better understand the post-deal sustainability of the business, it is important for the European investor to identify these transactions, understand the underlying arrangements and their financial impact.

Assets

Unclear title to assets

The rights to many assets in China, especially land, can be imprecise and may impose limitations on use; sometimes the same assets may be pledged to several third parties as liens on loans.

Nature of land use rights

Questions related to the transferability of land use rights often arise during the due diligence and sometimes have significant financial implications as the State may demand payment before approving a transaction, depending on the nature of land use rights (i.e. granted, allocated, collectively owned).

Idle and non-core assets

Chinese companies, particularly SOEs operating as "social communities", hold many non-core assets, such as employee housing, hospitals, schools and restaurants. These assets are of little or no value to the acquirer, however, sometimes, foreign investors are expected to continue providing these social benefits.

Liabilities

Commitments and obligations are not always completely recorded. Contingent liabilities, including bank guarantees provided for related or third parties might not be fully disclosed. Chinese companies, especially SOEs may have material under-provision for people-related liabilities, such as, social security contributions, post retirement benefits, "internal retirement schemes" (similar to early retirement in the West) and costs for converting SOE employees' statuses away from guaranteed job security ("iron rice bowl"). Non-compliance with tax regulations could also lead to significant tax exposure. Therefore, extensive due diligence is required to identify, as best as possible, any and all such liabilities, after which an appropriate deal structure can be settled upon. Among the most fundamental decisions a buyer must make is whether an asset or equity deal would make more sense, given the results of the due diligence and the buyer's risk tolerance.

Other matters

We would also like to raise your attention to, but not limit ourselves to, the following potential deal issues in China:

- Non-compliance with safety, health and environmental regulations;
- Overstaffing, particularly in SOEs;
- Blurred distribution channels;
- Different business goals of joint venture partners;
- Difficulty in integrating Chinese companies into European corporate structures and business culture;
- Overreliance on key management.

Conclusion

Because M&As in China present their own unique complications, we recommend that European investors approach acquisition opportunities very systematically: align objectives for the transaction with local stakeholders from day 1; communicate and demonstrate the value of foreign investment effectively to all stakeholders; take control quickly and establish a certain culture to avoid doubt. Western investors may also find it helpful to have on board a well-experienced negotiation team who is very well-versed in the target's industry and market. Such a team helps to focus the negotiations and will bring about a successful acquisition in China with much less at stake.

> 运筹帷幄，决胜千里
> **Devise strategies in the commanding tent, and win victories in remote places**

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Legal Matters in Short

New Insurance Law for China

A major revision of the law governing insurance in China is expected to offer better protection for insureds and reinforce controls on insurers when it goes into effect October 1, 2009. The changes should mostly benefit international companies doing business and insuring their interests in China, although some aspects of the increased supervision of local insurance companies by the government may bring price increases.

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Food Safety Law: A Law That Concerns Many

On February 28th, 2009, the Food Safety Law was adopted by the 7th meeting of the Standing Committee of National People's Congress of China (hereinafter "the Law"). The Law will became effective as of June 1st 2009.

The Law will affect many persons and companies, not only because in general, food safety is a matter closely related to the health or even lives of a vast amount of people in and outside of China, but also because this Law specifically grants rights to each individual consumer, directly or indirectly.

But also from a pure business point of view, this Law will affect many persons and companies: the Law regulates not only the food businesses, but also food-related businesses (packages, container, washing detergent, disinfector, food production equipments, etc.), certain conveniences-providers for food business (operators of centralized market, booth owners, organizers for food exhibition & sales, etc.), and others (advertisers for food products, food transporters, etc.).

Patent Law of the PRC

On 27th December 2008, the National People's Congress approved the revision of the PRC Patent Law with the purpose to provide China with a protection of patents that will be both in line with national interests and supportive of domestic innovation.

China's Patent Law has been revised two times since its first promulgation in 1984, first in 1992, then again in 2000. However, many large international corporations feel reluctant to put their money in Chinese market considering the poor intellectual property protection and the unpredictable enforcement of the Patent Law.

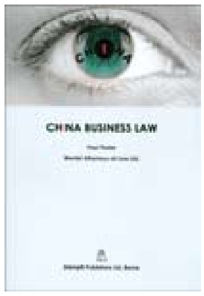
Due to the promulgation of the third revision, just before New Year 2009, and to become effective as of October 1st 2009, it is believed that the Chinese government will show more determination in enforcing patent rights and grant more patents to encourage innovations in the country.

Summaries from China Legal Report
Full reports are available at:

www.wenfei.com

New Book on Chinese Business Law

Wenfei Attorneys-at-Law Ltd. recently published the book "China Business Law"



Over the last ten years, the Chinese rules governing domestic and international transactions and business in general have become rather complex. Chinese law has made remarkable progress and, therefore, Wenfei Attorneys-at-Law Ltd., namely Paul Thaler, its Managing Partner, was approached by a leading publisher for legal publications to write a comprehensive overview of the present China Business Law. Very recently, the "China Business Law" got published by the Swiss Staempfli Publishers Ltd.

In this book, after providing an insight into the general legal system of China, the author focuses on the most important laws and rules that govern business in China. With regard to the structure of the explanations, the traditional structure of continental law has been chosen. Where necessary, however, special chapters that take into account the unique features of Chinese law (i.e. State-owned entities (SoE), Foreign Direct Investment, Land Use Rights, and Foreign Exchange Control) have been introduced.

This book addresses foreign legal professionals, managers as well as students. Foreign legal professionals will realize that Chinese law itself is sometimes not very different; it is the law's implementation and enforcement that deserves special attention and sometimes concern. Managers hopefully realize that doing business in China might appear to be very free and personal, but eventually many rules are in place that should be known and respected. Students will be encouraged to understand that China has spent remarkable efforts to create a legal system that facilitates co-operations with the rest of the world. In light of the global economic crisis, it might be the right time for many readers to make an effort to understand better the new framework of Chinese Business Law.

If you have any questions regarding this book,
please do not hesitate to contact Paul Thaler
at paul.thaler@wenfei.com.

Please place orders with Staempfli Publishers Ltd.
order@buchstaempfli.com

Taxes for Representative Offices and Limited Companies in China

Once FIEs have been successfully established in China whether in the form of a Representative Office or Limited Company, they tend to believe the biggest hurdle has been dealt with. However it is as equally important as during the establishment process to pay close attention to the PRC's ever changing laws and regulations when it comes to operating and maintaining the entity – especially in regards to the tax system.

Representative Offices (RO)

A RO, although indirectly operational, is liable for filing and paying Business Tax, Enterprise Income Tax, and Individual Income Tax for the employees as well as Stamp Tax. This may sound strange to many FIEs, especially as a RO is a non-profit-making center, however the Chinese government does require that tax be paid as they consider that by having such an office in China, profit is at least being made in the parent company.

It is therefore recommended to keep a series of bookkeeping accounts based on all the expenses of the RO and all original receipts should be kept in the office for a minimum of five years according to the PRC Law. On a monthly and/or quarterly basis, the RO will then pay approximately 10% tax on its total expenses for that period.

If the parent company is a manufacturing entity, the RO can apply for tax exemption status, meaning they would no longer be liable to file and pay Business Tax and Foreign Enterprise Income Tax.

Additionally Annual Audits and Annual Inspections are necessary for ROs and must be completed before May each year.

Limited Companies in China

A Limited Company is liable for filing and paying the below mentioned taxes as well as Individual Income Tax for the employees and potentially a series of other taxes depending on the activities of the entity. It is therefore required that the company has an approved accounting software system to conduct monthly bookkeeping, and to create all government required financial statements and tax declarations.

Profits Tax. The Profits Tax rate of 25 percent has been implemented for both foreign and domestic companies in 2008 and is paid on a quarterly basis.

Business Tax. Business Tax is imposed in relation to transactions on services provided by enterprises. An example would be after-sales services, quality control services, installation of equipment, etc. Business Tax is levied on gross turnover at rates between 3 percent and 20 percent. The most common rates are either 3 percent or 5 percent and it is paid on a monthly basis.

Value Added Tax (VAT). The Chinese government rules that all enterprises and individuals that are engaged in the sale of goods, provision of processing, repairs and replacement services, and import of goods within China have to pay Value Added Tax (VAT). In China, companies are divided into two categories depending on their registered capital and revenue earned.

1. General Tax Payer Status

The benefit of having the General Tax Payer Status is that it gives the company the right to issue VAT receipts to its clients in China. The General Tax Payer Status is usually important for FIEs that trade in industrial related products and not so much when trading in consumable products to individual customers. In January 2009 the requirements for the application for a General Tax Payer Status changed, in that now the company has to have a registered capital of at least RMB 1 million and an annual sales turnover of RMB 800,000 (previously this was RMB 1.8 million). The general VAT rate for General Tax Payers is 17 percent. The General Tax Payer will usually purchase goods during the course of doing business. The VAT paid is known as Input VAT. The Input VAT can be deducted from the Output VAT which has to be paid when selling products. The VAT Payable is calculated on a monthly basis using software provided by the tax bureau.

<u>General Tax Payer Status – Export of Goods</u>
When a trading / distribution / manufacturing company exports goods from China to overseas, it can apply for a refund of the initial 17 percent VAT. The amount of the refund depends on the goods that are being exported. Export companies must follow a formal approval process to apply for a VAT refund. They have to submit a series of documentation (most importantly the customs document and foreign exchange certificate) to their responsible tax authorities for the approval. As a result, if a company cannot complete the VAT filing for export sales within 90 days after exportation these sales must be deemed as local sales and are taxed with 17 percent VAT.

General Tax Payer Status – Import of Goods
When goods are being imported by a General Tax Payer, customs duty and VAT of 17 percent have to be paid on the imported goods. Should the goods go into a Bonded Logistics Park or Free Trade Zone (in case of a WFOE for example), these payments only occur once the goods are being imported into "domestic China". For further domestic sales in China, 17 percent VAT will be added onto the invoice.

2. Small Scale Tax Payer Status

Small Scale Tax Payers are companies where the annual taxable sales value falls below RMB 800,000 and the registered capital is below RMB 1 million. The current VAT rate for Small Scale Tax Payers is 3 percent which has been reduced from 4 percent since 2009. Small Scale Tax Payers cannot deduct Input VAT.

Small Scale Tax Payer Status – Export of Goods
When goods are being exported from China there is no VAT implication for Small Scale Tax Payers. However, as mentioned above should the company fail to submit all documentation in time, the sales will be considered as a domestic sale. In this case, the company would be liable to pay 3 percent VAT.

Small Scale Tax Payer Status – Import of Goods
When goods are being imported by a Small Scale Tax Payer, customs duty and VAT of 17 percent have to be paid on the imported goods. Should the goods be delivered into a Bonded Logistics Park or Free Trade Zone (in case of a WFOE for example), these payments only occur once the goods are being imported into "domestic China". For further domestic sales in China, 3 percent VAT will be added onto the invoice. This means that the initial 17 percent paid on the import cannot be offset and has to be considered as a cost.

Customs Duties. Customs Duties are imposed on goods imported into or exported out of the PRC at various rates. For certain categories of goods, a zero rate may apply. Meanwhile, VAT and, if applicable, Consumption Tax is also imposed on the importation of goods.

Consumption Tax. Consumption Tax is levied on manufacturers and importers of specified categories of consumer goods, including tobacco, alcoholic beverages, ethyl alcohol, cosmetics, skin and hair care products, jewelry, fireworks, gasoline and diesel, automobile tires, motorcycles and small automobiles. The rates range from 3% to 50%. Consumption Tax is imposed in addition to applicable customs duties and VAT.

Stamp Tax. All enterprises and individuals who execute or receive "specified documentation" are subject to Stamp Tax. Rates vary between 0.005% on loan contracts to 0.1% for property leasing and property insurance contracts. A flat amount of RMB 5 applies to certification evidencing business licenses and patent, trademark or similar rights.

Annual Audits and Annual Inspections are necessary for Limited Companies and must be submitted before May each year. The Annual Audits must be conducted by a local Certified Public Accounting firm.

Consideration for Ease of Tax Operation

Obtain Advice

The biggest mistake a FIE can make when handling taxes in China is trying to do it by itself. For tax matters it usually does pay to seek professional advice in advance. In China, the tax and regulatory environment changes very rapidly. Virtually every week you see new circulars, regulations and laws coming out. On top of all this, because of China's vastness, there are regional variations, so the interpretations of tax laws and regulations tend to vary from location to location by the different tax bureaus. In addition, the practices of the tax authorities may differ, which adds to the complexity of the system. It is therefore important to seek professional advice and be kept updated on all the recent developments and changes.

Be organized

It is highly recommended for all FIEs to have two sets of books. It is a requirement of PRC Law to have the accounting in Chinese; however it is strongly advised to have simultaneously the information in English. An English version helps the headquarters to be able to understand and to be organized in terms of the content and the filing system.

Aware of tax bureaucracy and enforcement

The Chinese tax authorities have a wide network of tax bureaus throughout China. We have seen a growing trend towards enforcement in recent years, including targeted or random audits. In recent circulars there has been an enhanced emphasis on tax compliance. The enforcement is relatively fair, but the circulars do highlight the concept of "key" tax payers, "key" industries and "key" companies, however this does not mean that smaller companies will not be investigated.

Discretion given by the tax bureau

Because of the regional variations, in practice many tax laws and regulations are subject to the interpretation of the responsible tax bureau. To that extent the local tax officers do have a certain degree of discretion. How much discretion is exercised in non-compliance cases generally depends on the specific circumstances involved, including the nature of the omission, the taxpayer's level of cooperation, whether or not there is reasonably sufficient internal control in identifying issues, and whether or not the tax payer is willing to come forward and voluntarily disclose these issues rather than sit and wait for the authorities to audit them. All of this will play in the final outcome. In some cases the tax authorities may decide to waive some of those penalties, but generally speaking there will be interest charges and some degree of punitive measures.

Conduct internal audits

Although companies in China are not required by law to perform internal audits, more and more FIEs are becoming aware of the importance of it as an effective tool to ensure the companies are operating in an effective and efficient way, the financial reports submitted to the government authorities and public are reflecting the true position and performance of the companies and most importantly that the companies are in compliance with the relevant laws and regulations.

Outsourcing Administration Functions

Many companies look to outsource their administrative functions, such as accounting, tax filing, payroll and other corporate governance functions to external consultants. This benefits the investor in two ways:

1. Professional advisors often provide a "new set of eyes" or they can predict what problems may arise and they offer a greater level of understanding of the corporate environment; bringing experience and best practice across all business functions – from finance, accounting, legal and IT
2. They can act as independent "Administrative Managers" making sure that the Limited Company / Rep Office is in compliance in all aspects of operations. This can be an asset for investors who want to only focus on the company's day-to-day activities and alleviate any financial and business risks.

Conclusion

Developing a China tax strategy is the key to any companies' success in China. This does not only include seeking advice on and being in compliance with China's tax law, but for internal companies to arrange beneficial profit allocation strategies among its entities.

For some international businesses, structuring investments into China via Hong Kong can make a lot of sense. Concerns over direct exposure to China liabilities, ease of a future sale of a China investment, and certain tax planning and profit distribution capabilities as mentioned above can make the insertion of a holding company as part of the China strategy an interesting option. It is recommended to seek professional advice concerning the best available options and strategies associated with the China approach.

by Klaus Koehler
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Direct All-cargo Flight from Geneva to Shanghai

Lufthansa Cargo and the Geneva International Airport Authorities (AIG) inaugurated on 9th July 2009, a direct "all cargo" connection to the Chinese city of Shanghai.

Every fortnight, on Thursdays, Lufthansa's freight subsidiary will be flying to the Chinese metropolis with a Boeing 747-400 ERF aircraft operated by Jade Cargo. This plane, of a new generation and therefore producing less noise and less pollution, offers a capacity of 102 tons.

Applied Materials, a company based in Cheseaux (VD), has been the first customer of the new cargo flight. Amongst others, the company produces equipment for the fabrication of solar photovoltaic cells and energy efficient glass. Until now, their load had to be transported by road to one of the European hubs offering flights to China. Henceforth, they can take advantage of a direct cargo connection right to their door.

The cargo flight between Geneva and China responds to an important demand expressed by the Swiss market as well as companies established in the French neighbourhood. This flight represents a major opportunity for the whole region. It enlarges favourably the offer of Geneva International Airport's cargo activity: per year, approximately 55'000 tons of freight are being handled through AIG.

Geneva International Airport becomes the 7th European Lufthansa Cargo station to operate direct flights to China. In total, Lufthansa Cargo offers now 20 weekly "all cargo" direct flights between different European cities and China.

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The Chinese Telecommunication Industry

One specific characteristic of the Telecommunication industry, no matter which country, is the scalability and recurring revenues the business generates. Meaning as higher the subscriber base of an enterprise gets, as higher the scalability effects are.

Knowing this fact, there is no other country except China where the current, as well as the potential subscriber base for telecommunication services is bigger. The overall figures the Chinese Telecommunication industry has to offer are impressive in every aspect. And even in times of general economic downturns, the Chinese Telecommunication industry keeps on growing strongly, and investments into infrastructure are further increased.

China owns the world's largest telecommunication networks in terms of both network capacity and number of subscribers. One of the core industries of the country – the telecom industry has experienced double-digit growth in the past decade. And the recent move by the government aimed at restructuring the domestic telecom industry has brought around a wave of rapid development and deployment of telecom infrastructure throughout the country, according to "Restructuring and 3G – New Dimensions for China Telecom Sector", a recent market research report.

The move has ended with three main players on the domestic telecom industry, China Telecom, China Mobile and China Unicom. These operators have been planning to invest billions of dollars into the development of world-class telecom infrastructure in the country. This has led to the growing demand for convergence, allowing operators to optimally utilize their existing networks while offering new set of telecom services, such as fixed-line, voice, TV and broadband.

China's telecommunications market saw its revenue expand by 7% to RMB 814 billion in 2008 (US$ 119.1 billion). Even in January 2009 China generated total telecom revenues of RMB 62.94 billion (US$ 9.21 billion) in January, up 5.7% when compared to the same period of 2008.

China gained in only one month (January 2009) 8.49 million new mobile phone subscribers, pushing the country's total figure up to 649.72 million mobile phone users at the end of January 09. This means an increase of nearly 200 million new mobile subscribers within the last two years!

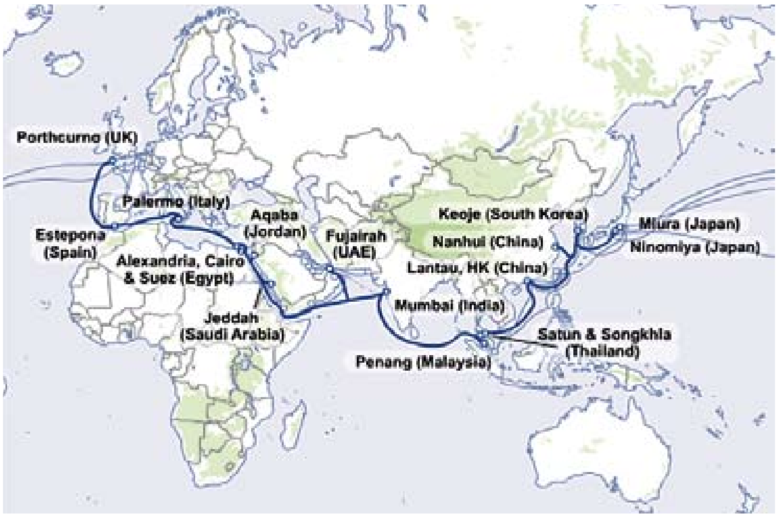
The biggest player within the mobile phone market is clearly China Mobile. In January 2009 China Mobile gained 6.67 million additional mobile phone subscribers, pushing its total subscriber base up to 463.92 million. This is more than the whole popula-

Franz Grueter,
Chairman green.ch Ltd.
www.green.ch

Major business indicators for China's telecom industry as of January 31st, 2009

Business Indicators	Traffic Volume	Year on Year Change (%)
Local Fixed Line Telephone Traffic	45.69 bln calls	-16.82
Local Dial-Up Internet Traffic	807.41 mio calls	-31.9
Long Distance Fixed Line Telephone Traffic	6.41 bln minutes	-20.4
Domestic Long Distance Fixed Line Telephone Traffic	6.35 bln minutes	-20.1
International Outgoing Fixed Line Telephone Traffic	33.87 mio minutes	-29.9
Outgoing Fixed Line Telephone Traffic to Hong Kong, Macao and Taiwan	29.17 mio minutes	-50
Total Mobile Phone Traffic	258.29 bln minutes	16.4
Domestic Long Distance Mobile Phone Traffic	15.11 bln minutes	25
International Mobile Phone Traffic	62.62 mio minutes	7.7
Mobile Phone Traffic to Hong Kong, Macao and Taiwan	78.32 mio minutes	-4.2
SMS messages	69.7 bln	27.6
IP Telephone traffic	9.42 bln minutes	-19.2
Domestic Long Distance IP Telephone Traffic	9.3 bln minutes	-19.1
International IP Telephone Traffic	71.35 mio minutes	-25.8
IP Telephone traffic to Hong Kong, Macao and Taiwan	42.94 mio minutes	-32.7

Source: Chinese Ministry of Industry and Information Technology (MIIT)



Picture shows one of the main fibre connections between China and Europe.

tion of the United States, and is making China Mobile to the most profitable Chinese Telecommunication firm. China Mobile makes more profit than all the other Chinese Telecommunication companies together.

It is interesting to see that despite all this very impressive figures the penetration rates of Internet Broadband, Mobile Phone Services and other Telecommunication Services is still on a low level compared to Western European countries or the US. It also shows the large potential for further growth in the future. China's telecom industry, fueled by GDP growth of 8 to 10 percent over the next five years, will continue to grow on all fronts.

China is also ranked number one in the world in the number of internet users, exceeding the US, at 221 million in 2008. Source: DCCI

Despite of all the growing elements of the Chinese Telecommunication Market, there are also fields and trends where revenues and numbers of customers go down. Simultaneously with the increasing number of mobile phone users, the number of fixed line customers goes down. This trend can also be seen in other countries. The penetration rate of fixed-line phones at the end of January was 25.8 percent, while the penetration rate of mobile phones was 48.5 percent. It is expected that this trend will go on for the coming years.

Telecommunication Connections between China and other countries

China not only invests heavily into its national telecom infrastructure. The country also works on large improvements and enhancements of its connections into international telecommunication networks. For a long time the international telecommunication connections, especially between Europe and China were weak and less reliable.

Several reasons led to the situation that most of the high performance fibre connections that were built in the past to connect China to other countries and continents were built between China and the United States. Fibre connections to Europe were harder and more expensive to build. Until today there are mainly two ways where fibre connections are in place between Europe and China. One line goes from Hong Kong, via India and the Middle East to Europe. Others go from Hong Kong via Beijing, Mongolia and Russia to Europe. Hong Kong was for a long time the single point of entry for all international telecommunication connections to China. Hong Kong was also the big bottle neck, and peering points were in many cases hopelessly overloaded.

The results were slow, unreliable connections between China and Europe with very large latency times and huge packet losses. In practice it resulted in poor data connections, mainly between Europe and China. Companies that were depending on reliable high performance Data and Voice connections in Europe were suffering in many cases.

China has worked the past few years with large international companies and partners to heavily improve its connections to the rest of the world. New and additional fibre connections were built to the US as well as to Europe. Companies such as FLAG and

Business Indicators	Subscribers (mio)	Change from 2008 year end (Mio)
Total Fixed Line Telephone Subscribers	339.79	-1.02
Urban Fixed Line Telephone Subscribers	231.52	-0.48
Urban Residential Fixed Line Telephone Subscribers	139.26	-16.79
Rural Fixed Line Telephone Subscribers	108.27	-0.54
Rural Residential Fixed Line Telephone Subscribers	95	-1.14
Total Mobile Phone Subscribers	649.72	8.49
Mobile Data Service Subscribers	276.01	22.09
Dial-Up Internet Subscribers	11.84	-2.53
Special Line Internet Subscribers	0.09	0.03
Broadband Internet Subscribers	84.63	1.21
of which: xDSL Subscribers	69.09	2.06

Source: Chinese Ministry of Industry and Information Technology (MIIT)


greenConnect
CHINA
IDENTITY. www.comzept.com

Indian Tata improved connections to Europe by building additional high performance fibre data connections between China and Europe. Other companies such as Swiss based green.ch started operating fibre connections between Europe and China and were peering their networks with Chinese Carriers to tremendously improve connections between China and Europe.

So, today quality of telecommunication services between China and other countries improved tremendously.

It will be very interesting to see what next steps will be in the fast growing Chinese Telecommunication Industry. Already today many Chinese spend a greater percentage of monthly income on pre-paid phone cards than Americans spend on food. This says a lot about the perceived importance of telecommunications in the today's Chinese society.

Franz Grueter is chairman of green.ch Ltd. Today, green.ch Ltd. belongs to the top 5 Telecommunication companies in Switzerland, offering its customers high performance Internet and Telecommunication Services in Europe as well as China. Franz Grueter has a profound knowledge of the Chinese Telecommunication market, worked for nearly two years in China, and has successfully built up the international expansion of green.ch into China. Green.ch operates since 2005 direct fiber connections between different western European countries and China. Franz Grueter has a degree in marketing and electrical engineering.

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Luxury Made by Rado

r5.5 CHRONOGRAPH

Instinctive. Natural. A synthesis of two talents. Following on from a re-interpretation of one model in 2007 and the creation of a watch box, the r5.5 by Rado, represents the third stage of the collaboration with Jasper Morrison. The creation, all in high-tech ceramic, re-emphasizes the brand whose fame lies in merging separate components. A perfect fit.

Fusing the case and bracelet, an ongoing preoccupation for Rado, is today demonstrated in this wistful esthetic model. The bracelet is merely an extension of the case gradually getting narrower. Their lines fuse naturally together, a technical achievement despite its apparent simplicity resulting in a striking visual impact. The progressively reducing links with their matt ceramic finish lend a dynamic profile to the refined bracelet; it appears as one, hugging the wrist.

The properties of the material reinforce the serenity of the design. Dull luster. Clarity. Sensuality. The dial has a distinctive square silhouette with curved edges, on which the details are highlighted in white through a slightly iridescent surface. The indexes and hands stand apart in their effervescent quality. A finely brushed finish allows a continuous captivating play of light. Beneath the sapphire crystal are simply two counters, reducing it to its essential functionality, activated through two curved rectangular push-pieces.

Available in one size only, but with a three-hand option. A refined watch, quite restrained. Functional simplicity. Swiss made.

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News from Georg Fischer in China

Production Officially Launched at the Kunshan Iron Foundry

For a number of years, GF Automotive has been producing aluminium castings in China for the Chinese automotive industry. Now the Swiss company's foundry will also manufacture cast iron components locally. On May 15, right on schedule, the Kunshan iron foundry started up its regular production, making GF Automotive an even more flexible partner for the Asian market. GF is one of the few manufacturers in China offering safety components made of spheroidal graphite. The manufacturing process used in the new plant produces light-weight components to the highest Swiss standards and is unique in China. The plant has already received numerous orders from Chinese and international customers, ensuring that it will run at high capacity from the outset. GF customers and business partners, together with the Executive Committee and employees of Georg Fischer, inaugurated the facility.

The new plant in Kunshan is a further milestone in the strategy ongoing expansion of Georg Fischer in the fast-growing Asian markets. The first step along this road was the light-metal foundry opened in Suzhou in 2005. The 300 employees in Suzhou manufacture aluminium products by pressure die casting primarily for the Chinese market. The new iron foundry in Kunshan is located only 30 kilometres away, creating synergies between the two plants. Georg Fischer Automotive has invested CHF 50 million (RMB 320 million) in the new facility. The Chinese market, which is growing despite the economic crisis, has substantial demand for spheroidal graphite safety parts such as swivel bearings, wheel mounts and transverse rods. In addition, new Chinese legal provisions on exhaust gases and vehicle fuel consumption levels are driving demand for light-weight components manufactured to the latest standards.

Josef Edbauer, Head of GF Automotive, is very upbeat about the future of this new plant: "Even if the economic crisis causes a small dip on the Chinese automotive market – we are confident that the Kunshan foundry will be a success." On the inauguration day, the machines started producing the first components for Chinese carmakers in the presence of the guests.

Located in the Economic & Technical Development Zone of Kunshan, Georg Fischer Automotive (Kunshan) Co. Ltd. is strategically placed, with a secure energy supply and good transport links. On a total surface of 56,000 sq. metres, the foundry was built in the record time of 16 months. The 22,000 sq. metre production hall rests on 1,500 concrete piles. The core of the plant is the four electric furnaces, each with eight megawatts of power and a capacity of ten tonnes. The annual total smelting capacity of the production line is 35,000 tonnes. The facility consists of a smelter, plus a mould and shot blast plant along with a separate office wing. The Kunshan plant has two 31.5 megawatt transformers, which provide 10 kilovolts of voltage to the furnaces. GF Automotive can expand the foundry's smelting and mould capacity if necessary.

(May 15th 2009) General view of the new iron casting plant Kunshan, Georg Fischer Automotive (Kunshan) Co. Ltd. In the front the commercial office with the guard-house and on the left side the power station and ware house. In the background the long building is the production hall.

(March 8th 2008) Frank Klooss, Project Manager of Iron Casting China at the unimproved ground of Georg Fischer Automotive (Kunshan) Co. Ltd. in Kunshan city, east Chinas Jiangsu province.

(July 28th 2008) First building measures of the foundry in the Economic & Technical Development Zone in Kunshan.

The product range of the Kunshan plant includes the following components made of the highly cost-effective material spheroidal graphite:

- Swivel bearings for passenger vehicles
- Steering knuckles for passenger vehicles
- Wheel mounts for passenger vehicles
- Control arms for passenger vehicles
- Crankshafts for passenger vehicles
- Wheel hubs for commercial vehicles
- Small axles for commercial vehicles
- Brake callipers for commercial vehicles

A host of advantages for GF customers in China

Chinese automakers benefit in a number of ways from Georg Fischer's presence in Kunshan. For one thing, GF can respond flexibly and swiftly to customer wishes and changes in needs. In the constantly fluctuating and highly competitive Chinese automotive market, this is of utmost importance because it means that components don't take weeks to arrive by sea. Customers in China can also purchase parts from GF more cheaply than from other providers because cast iron is less expensive than welded or forged iron designs, yet the quality is identical.

Unlike GF, most providers of safety parts in China do not venture to produce iron castings. As Mujia Zhang, Head of GF Automotive in China, explains, "If you want to manufacture safety components made of cast iron, you first have to master the process." Georg Fischer has almost 30 years of experience with spheroidal graphite safety components under its belt and is continuously improving its engineering design. GF Automotive is regarded as an international materials and process specialist in this area. The plant in Kunshan has the same far-reaching know-how as the European plants of GF and also employs the Central Laboratory in Switzerland to ensure quality control. Zhang explains: "Thanks to our light-weight construction, we achieve a significant reduction in weight with our thin-walled safety components made of spheroidal graphite." Another advantage is that the spheroidal graphite castings from GF require significantly less space than comparable aluminium parts and can be used where space is at a premium.

The foundry in Kunshan, which will initially work one shift with 110 employees, will introduce a second shift in September with 170 employees. Next year, the plant will go over to a three-shift operation with 250 employees. The facility has a total of 140,000 sq. metres of land earmarked for construction, where another four modules can be built.

Georg Fischer activities in China

Corporation

Georg Fischer's first investment in China dates back to 1993 when it launched a joint venture to create the Beijing Agie plant, today known as Beijing Agie Charmilles Industrial Electronics Co. Ltd., which develops and produces electric discharge machines (EDM) for use in the tool and mould-making industry. Today, the GF Corporation has 24 companies in China, including 15 production facilities in Suzhou, Shanghai, Beijing, Changchun, Sichuan, Tianjin, Zhuozhou, Shenzhen, Changzhou and now Kunshan.

China and the Asian markets are, moreover, important markets for Georg Fischer, with all three Corporate Groups (GF Piping Systems, GF Automotive and GF AgieCharmilles) represented in the region. In 2008, sales in China increased by 10 % in local currencies.

Encouraging growth rates in China have gone hand in hand with a steady increase in the workforce, which in 2008 reached as many as 1,803 employees through investment in people and the provision of high-quality training. China is represented on Georg Fischer's Board of Directors, too. In 2005 Zhang Zhiqiang was the first Chinese citizen to be named a member of the Board of a European public company.

Georg Fischer is well established in China. With the pivotal base it has developed for research, development and production, it can utilize joint resources efficiently. In 2008, the three Corporate Group operations in China generated over CHF 356 million (RMB 2.2 billion) in sales worldwide.

GF Piping Systems

GF Piping Systems' first Chinese enterprise was a joint manufacturing and distribution venture founded in 1997 under the name Georg Fischer Piping Systems Ltd., Shanghai in Pudong. The company manufactures complete piping systems including pipes, valves and fittings in plastic materials for a wide range of applications for the building technology market and for the plant engineering sector. New, recently developed products are also exported to other countries in Asia. In 2000 Georg Fischer bought into a joint venture known as the Chinaust Group, whose establishment goes back to 1987. The Chinaust Group is a leading supplier plastic piping systems for gas and water distribution and offers speciality plastic pipes as well as components for the automotive and truck industry.

Companies within Georg Fischer Piping Systems in China include:
– Changchun Chinaust Automobile Parts Corp. Ltd., Changchun
– Chinaust Plastics Corp. Ltd., Zhuozhou
– Chinaust Plastics (Shenzhen) Co. Ltd., Shenzhen
– Chinaust Plastics (Sichuan) Corp. Ltd., Sichuan
– Hebei Chinaust Automotive Plastics Corp. Ltd., Zhuozhou
– Shanghai Chinaust Automotive Plastics Corp. Ltd., Shanghai
– Shanghai Chinaust Plastics Corp. Ltd., Shanghai
– Shanghai Georg Fischer Chinaust Plastics Fittings Corp. Ltd., Shanghai
– Georg Fischer Piping Systems Ltd., Shanghai
– Georg Fischer Piping Systems (Trading) Ltd., Shanghai
– Georg Fischer Piping Systems Ltd., Beijing
– Central Plastics Co. Ltd., Tianjin

GF Automotive

China is an important market for the entire automotive industry, both as a sales destination and as a manufacturing location. GF Automotive is systematically increasing its production capacity in the region so as to be able to supply regional and global markets from its local base. With its facility in Suzhou, GF Automotive already has substantial capacity in light-weight casting. The new plant in Kunshan will make iron casting an important technology in the region, with a wide range of products. Kunshan is one of GF Automotive's 14 plants in Germany, Austria, Canada and China.

Companies within GF Automotive in China include:
– Georg Fischer Automotive (Suzhou) Co. Ltd.
– Georg Fischer Automotive (Kunshan) Co. Ltd.

(December 19th 2008) Employees of Georg Fischer pose at a ceremony for the first melt at the plant of Georg Fischer Automotive (Kunshan) Co. Ltd. in Kunshan city, east Chinas Jiangsu province.

GF AgieCharmilles

GF AgieCharmilles has sales and service companies and its own production capacity in China. In the medium term, capacity in China will be expanded so as to enable GF AgieCharmilles to manufacture entry-level and standard milling machines in local and emerging markets for global customers, as it already does in the EDM segment. China has become the largest market for machine tools and will build on this strength.

GF AgieCharmilles intends to maintain its position as the leading systems provider in Europe and the USA and assume a leadership role in Asia.

Companies within GF AgieCharmilles in China include:
– ACM East China (HK) Ltd., Hongkong
– ACM North China (HK) Ltd., Hongkong
– Agie Charmilles China (HK) Ltd., Hongkong
– Agie Charmilles China (Shanghai) Ltd., Shanghai
– Agie Charmilles China (Shenzhen) Ltd., Shenzhen
– Agie Charmilles China (Tianjin) Ltd., Tianjin
– Beijing Agie Charmilles Industrial Electronics Co. Ltd., Beijing
– Beijing Agie Charmilles Technology & Service Ltd., Beijing
– Changzhou Agie Charmilles Machine Tool Co. Ltd., Changzhou

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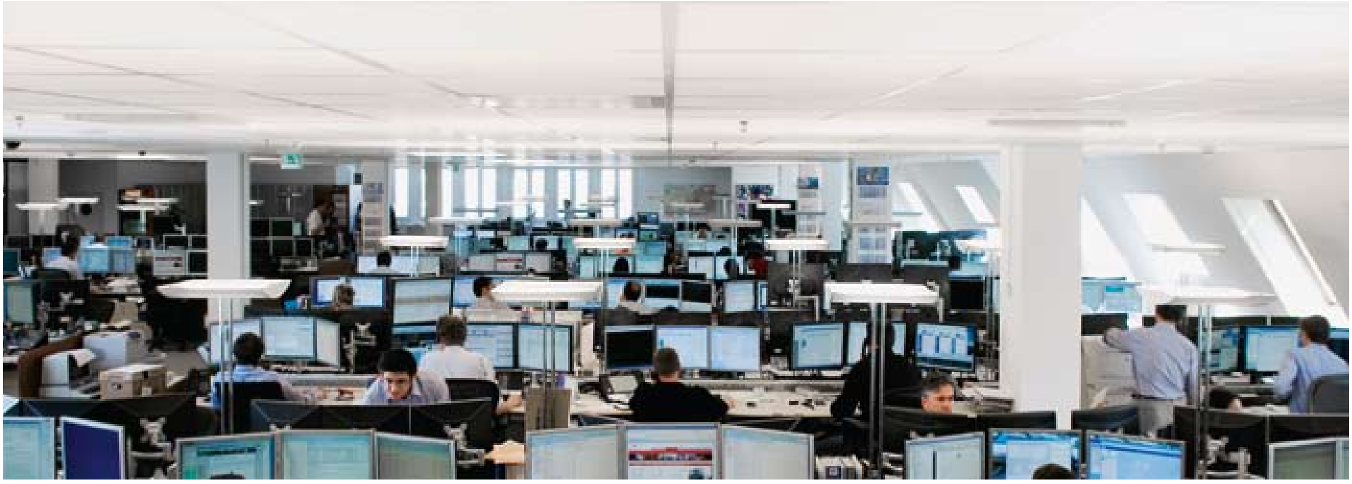

Mercuria trading floor in Geneva.

Strong Year for Swiss Trader in China

2008 was an extraordinarily challenging year for businesses worldwide. The international banking system came under dramatic pressure, leading to a sharp tightening of liquidity and credit. For energy trading companies active in China, like Mercuria Energy Group, that challenge was accompanied by unprecedented price volatility.

Starting the year near $97 dollars a barrel, the Brent crude price reached an all time high of $144 per barrel in July and finally collapsed by a massive 75% to $36 a barrel towards the end of December. The global recession led for a time to a massive reduction in oil consumption. During the first half of the year, the distance between oil fundamentals and prices became more and more evident. Investors from the financial community massively increased their presence in the oil futures market, acquiring at one stage around forty percent of the open positions on the Nymex. These investments were typically driven by a desire for diversification. They were intended to be a hedge against inflation and currency movements, rather than a true investment in oil fundamentals. For a time in 2008, oil futures became considered as just another asset class, to be held in the portfolio of a pension fund or endowment. These investors, some of them operating on a very large scale, played little attention to what was going on in the physical market, and many of them did not see the signs of weakness that were gradually reflected in physical and time differentials.

Swiss Executive with ties to China

Pierre Alain Avoyer spent 20 years working and living in Asia, working in executive positions in major global and Swiss companies.

He joined Mercuria Energy in December 2007 as Mercuria's Vice President for Corporate Affairs. He is active in the Swiss-Chinese Chamber of Commerce, serving as member of the Executive Committee and Treasurer of the Chamber's Geneva Chapter.

Two Mercuria chartered vessels during ship-to-ship transfer in the North Sea.

Creation of success, despite economic downturn

Despite these challenging market conditions, Swiss owned and run Mercuria Energy enjoyed sustained and substantial growth in 2008. Total sales increased by 38%, with new energy products such as power, gas and carbon emissions certificates contributing significantly to total product sales. Gross turnover for the Group was $46.9 billion, one third larger than in 2007, and more than seven times the turnover of 2004, the company's first year. That placed Mercuria among the five largest independent energy trading companies in the world.

How was growth achieved in a difficult year? The key was a significant increase in trading activities: volumes of oil and other products traded in the year reached over 81 million metric tons, up from 61 million in 2007. Mercuria continued to seek out the best available trading talent, and to provide them with the support of professionals in law, finance, accounting, shipping, operations, IT, business development, communications, human resources and corporate affairs.

China – one of the fastest growing markets

Risk management structures proved robust, as did strict credit risk controls. Mercuria's main trading floor in Geneva was supported by growing volume handled from Singapore, Beijing, Chicago and Calgary. The Group increased the diversity of its crude oil supply sources with larger purchases in the U.S.

Mercuria Terminals Flushing B.V., Vlissingen, The Netherlands.

and Canada, northern Europe, Africa and Latin America. Opportunities in some markets caused by the departure of certain participants were quickly acted upon. Mercuria increased the amount of storage capacity it either owns or leases around the world to about thirty million barrels, which proved helpful late in the year, as oil futures became more expensive than physical oil for immediate delivery, a situation known as 'contango'. The fastest growing markets for Mercuria Energy in 2008 were the United States and China.

In China, Mercuria Energy has two companies. Mercuria Energy Trading (Beijing) Co. Ltd. helps the Group to find profitable business opportunities and connects the Group's global resources with China's domestic markets and producers. Mercuria Investment Consulting (Beijing) Co. Ltd. takes primary responsibility for all Chinese business and assists the Group to evaluate and manage investment projects in China.

2009 and 2010 are likely to be challenging years for global businesses, and for energy traders in particular. Although banks have been supportive of trading lines, credit for asset acquisitions remains relatively tight. Mercuria Energy executives say they are cautious about the future, but they are also confident.

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Mercuria supports Beijing Music Festival

A Mercuria-sponsored concert of opera highlights from Verdi, Puccini and Wagner at the Forbidden City Concert Hall was well attended in October 2008. The Deutsche Oper Berlin Orchestra was featured, with soloists including soprano He Hui and bass Kurt Rydl and conductor Matthias Foremny. The company will this year again sponsor a concert as part of the Beijing Music Festival, including violin concerti by Mozart and Beethoven. Featured will be 13-year-old Chinese prodigy Yin'ou Kalin, and Israeli-born virtuoso Pinchas Zuckerman.

The Swiss "Plum Blossom" in China

TITONI and the Success Story of a Small Swiss Watch Company in China

Daniel Schluep
CEO, Titoni Ltd.

The names of large Swiss corporations active in the Middle Kingdom such as Novartis, Nestlé, Holcim or UBS have been familiar to Chinese business people for many years. In the age of globalisation this has long since ceased to be remarkable. That smaller Swiss companies have also managed to make a name for themselves in the Chinese market, and not just in commercial circles, is, however, more of a surprise. Titoni Ltd., a watch company located in Grenchen with a ninety-year tradition, is one of these remarkable small companies with – one can say this without exaggeration – a unique history and special ties to the Middle Kingdom.

Titoni – the plum blossom

According to a 2006 image study by the Swiss Federal Department for Foreign Affairs, half of the Chinese people surveyed associate the key word "Swiss" with watches. But anyone who believes that only the giants of the Swiss watch industry such as Rolex or Omega are familiar there is quite mistaken: from Harbin to Shenzhen, from Urumuqi to Kunming, from Beijing to Shanghai – the Swiss TITONI brand is familiar everywhere in China where it proudly bears the name "Meihuabiao", a reference to the plum blossom logo that adorns the dials of all Titoni watches.

Titoni's ninety years as an independent family business and, beyond this, its fifty years of success in the Chinese market are truly remarkable achievements. This success certainly required a great deal of patience and perseverance, but above all also considerable foresight: in the days of Mao Zedong hardly anyone else was interested in doing business with "Red China". Bruno Schluep, the son of the company founder, saw things differently, however. As one of only a few leading figures in the Swiss watch industry,

Titoni Lightbox in Shanghai.

in 1959 he welcomed a delegation of the Chinese state organisation "China National Light Industrial Products Import and Export Corporation" to his company. A year later Titoni Ltd. had already received its first Chinese orders, at a time when foreign watches were regarded as luxury goods in China and were burdened with a 180 percent import duty.

Understanding of foreign mentalities

In the course of the past decades much has changed, not only in Switzerland, and in particular in the watch industry, but above all in China. There, the policy of economic opening under Deng Xiaoping has fundamentally altered the framework conditions for foreign businesses. Two important factors for successful cooperation with Chinese partners have, however, remained unchanged over the past fifty years: mutual trust and a sense of responsibility towards customers and one's products. An understanding of Chinese mentalities has always been regarded by the responsible persons at Titoni Ltd. as a basic precondition for the success of business dealings with China. This is also the view of the current CEO, Daniel Schluep, a member of the third generation who has headed the family business since 1981. "Our long years of activity in China were and still are a great opportunity, not only from a business viewpoint, but above all from a human perspective. Over the course of all the years of cooperation with China we have been able to make many contacts that have often also led to personal friendships. Above all, these personally tinged relationships have helped us to better understand Chinese culture and thereby to further develop ourselves quite individually."

With the admission of the Peoples Republic of China to the WTO in 2001 and the opening of Chinese markets, competition intensified, including for Titoni Ltd. However, thanks to its excellent relationships and distribution channels extending into all Chinese provinces, the traditional Grenchen brand has been able to maintain and sometimes even increase its market shares. This is also because customers know about the tradition and quality of the Titoni brand and value its unique personality. That the strong concentration process in the Swiss watch industry likewise poses challenges to an independent family firm like Titoni Ltd. is certainly no secret. But with the right attitude, long years of experience and new marketing strategies, they are not insurmount-


TITONI
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shaping
moments of life
Treasure the past, embrace the future I www.titoni.ch
Master Series

Titoni Showroom in Guangzhou.

able. “As a family business”, states Daniel Schluep, “we offer unique products of the highest quality, not mass-produced goods, which, given our size, we could not produce anyway. We decide what we wish to do and what not. That is a great advantage for our market development: our decisions are made quickly, but we can maintain our course for a long time. We can implement long-term decisions and do not need to constantly make new plans on the basis of short-term quarterly statistics.”

Opening of Titoni Boutiques

The financial crisis that erupted late last year in the West has now also reached China, with the result that the optimism of many foreign watch companies that they could quickly make a lot of money in the Middle Kingdom has evaporated. A stronger wind is blowing against the luxury goods industry, despite the official statements to the contrary by managements that base their hopes on optimism. However, there are limits to playing with glamour and glimmer. Titoni Ltd. has never been very impressed by these trends from the luxury and fashion world. For decades the Grenchen watch firm has to a much greater extent focused on classicism and elegance. The company wished and still wishes to continue to offer customers first-class timepieces that meet the highest technical and aesthetic demands, quality products – “Made in Switzerland” – that are also affordable. That is of central importance for a market like China where only a very small section of the population can afford luxury watches.

After-sales service is very important for Titoni Ltd. As a family business, it ranks personal customer service very high on the list of its priorities. And that is especially labour-intensive in a marketing system with more than 800 sales outlets on the mainland alone. Together with its local contract partners, including four information bureaus, and in close coordination with a Swiss representative, these “guanxi” have been maintained for many years. In order to bring customers a bit closer to the Titoni company philosophy, the company has set up boutiques over the past few years, for example in the cities of Beijing, Shanghai, Chongqing, Zhengzhou, Harbin, etc. These “showrooms” offer the Chinese the opportunity to become familiar with the entire range of Titoni models and thereby to draw on the services of the best-trained watchmakers.

Titoni advertising in Southeast Asia in the 1960s.

For a number of months, Titoni Ltd. has been working with a specialized Zurich consulting firm on a new marketing strategy in order to better face the manifold challenges of the future. The aim is to convey in both images and sounds the identity of the Titoni brand and the values it embodies for employees, partners and customers alike. This is also intended to set the brand apart from its competitors. As its core message, the Titoni brand expresses a specific attitude towards life: “Genuine Pride”. It refers to the high quality demands made on mechanical timepieces (90 percent of all Titoni watches are mechanical self-winding) based on long years of commitment to Swiss craftsmanship and a love of precision.

Facts and Figures on Titoni Ltd.

- Family-operated business, founded in Grenchen in 1919 under the name of FELCO
- Swiss manufacturer of timepieces “Made in Switzerland”
- Independent small company owned for three generations by the Schluep family
- Current CEO: Daniel Schluep
- Number of employees: 50
- Specialized in the manufacture of mechanical self-winding watches (approx. 90 percent of its production)
- Brand positioned in the middle to upper price segment
- Sales of watches in Europe, Russia, India, the Middle East, Southeast Asia and China (since the late 1950s)
- Approximately 800 sales outlets in China (besides Hong Kong, Taiwan, Macao) as well as roughly 50 service centres on the mainland

Titoni Headquarters in Grenchen.

A feeling of "undisguised pride" is probably also the right phrase to describe the ninety-year history of Titoni as an independent family business with its close ties to China. No etiquette book for China offering seemingly simple recipes for doing business in the Middle Kingdom could guarantee the success of a small Swiss company in the Chinese market. The key to success is ultimately the factor of the person who is at home in both cultural worlds and who also knows how to present himself modestly. Then, naturally, the framework conditions, the right partner, the right place. Titoni has clearly benefited from this over the past fifty years, no doubt also coupled with a bit of luck. We in Grenchen know that to be able to continue to enjoy this luck in the years ahead, it must be nourished and cultivated like a plant exposed to strong winds.

by: Matthias Messmer

A book on the 90 years' history of Titoni Ltd. is available for the price of CHF 20.– at:

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The Hidden Infrastructure of a Market

Why Some Have Success in China and Others Don't

Many ways lead to China, but only some of them to success in business there. Even thirty years after economic reform policy was launched in the People's Republic of China, there are still many Western CEOs who leave the Chinese market without success and return to their home countries frustrated and without a clue. Why is that? It is surely not because managers from Europe would not be conscious of cross-cultural differences. Today any responsible key account manager receives a thorough training in Chinese mentality, manners and conventions. Anybody flying to Beijing or Shanghai knows very well that business cards must be handed over with both hands, that Chinese delegations are multitudinous and strictly hierarchical, and that formal group harmony and saving face are of utmost importance – to the effect that during business talks you'll never hear a "No!" from your Chinese counterparts. Why then do some indeed have success in China whereas others fail and go away empty-handed?

When playing by the rules of the game is not enough

One reason is that there is much more to cross-cultural differences than a set of explicit rules of etiquette that you could learn just like that, in a schematic way. Like in everyday life, subliminal nonverbal communication plays an important role in business talks, too. In order to acquire an understanding of this kind of communication, you need to accumulate substantial cultural experience, and this means: long-term hands-on experience on the spot. Only through this experience a certain intuition is developed, a tacit knowledge which is crucial for assessing personalities and situations in business life.

This is one reason, but not the only one nor the most important. Connections and contacts are the nuts and bolts of business, and as everybody knows this applies particularly to business in China. However, having good connections in the sense of *guanxi* does not

In 2007, Table Tennis Club Neuhausen got the chance to do the training and play together with the Chinese professional table tennis players in Tianjin. It was organized by the HIC, with the support of the Tianjin Government.

Our Customers in our showroom in the office of HIC-Shanghai, which is also open to public visitors.

automatically imply that you get to the right connections for a certain product or deal. For there are indeed quite a few actors in the China business who have good or better contacts to quite a lot of people. Yet, this as such does not guarantee any success whatsoever. Instead, what is really essential is to be able to identify the ties that will become necessary for a specific business at a certain point and to know how to establish them, with whom and when. This is to say that what matters most in China is to know how to find a way through a jungle of economic and political interests, an often incalculable jungle that you better not walk into without a local guide.

Digging deeper pays off

"I call it the infrastructure of a market, everything depends on it", says Robert Herzog, CEO of Herzog International Consulting in Zurich. "Consultations and negotiations are processes that develop on different levels simultaneously. The economic facts are just one thing. They are important, how could they not be? And of course, interpersonal relationships and emotions also have a vital part to play. But this is by far not all. Below a surface of numbers, brands, strategies and personalities, markets – just like business or interpersonal relationships – have infrastructures which may be inconspicuous at first sight. These infrastructures have political, cultural, social, personal and of course, again economic dimensions. Only if you get at the hidden points of intersection of an infrastructure can you keep your business under control and steer it. This is true of foreign markets in general and of Chinese markets in particular."

During a presence of over 15 years in China, Herzog International Consulting has acquired substantial expertise and a comprehensive network that allows to analyze the infrastructure of Chinese markets and to make them serve the goals of our clients. Whether it is a textile company sourcing in China, a civil engineering specialist trying to place a cement additive on the Chinese market, a producer of solid fuel boilers who seeks to expand to China, or a pharmaceutical consulting firm offering strategic marketing services to Chinese pharmacies – together with the consultants of Herzog International they all explored and sounded the infrastructures of their business terrains in China and took advantage of them. "The first step counts", says Carlo Wolff, general manager of Herzog International in Shanghai, "a lot can go wrong if you don't prepare it well. But if you do, then soon you can go ahead on your own."

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Tenant Representation

Maximizing Real Estate Lifecycle Management

Companies regard Tenant Representation not only as one of the most effective means of obtaining the 'right' location, but also a means of obtaining the 'right' building, services and conditions – all at optimum cost. Experience has shown that an integrated Real Estate Lifecycle Management approach that includes demand analysis, planning and implementation yields the greatest benefits. That approach is amply demonstrated by the Balsberg office building, the former headquarters of Swissair, where Real Estate Lifecycle Management has been combined with Integral Facility Management (FM) to create a highly successful property. Situated in the immediate vicinity of Zurich's airport, this property combines an excellent location with a groundbreaking utilization concept.

When considering the establishment of a European Headquarters, companies from the Far East, in particular those from China, are increasingly discovering Switzerland's local qualities. The choice of the 'right' location is now seen within an added, strategic, dimension. It makes sense to consult a specialist when making such a decision.

The need for a comprehensive services specialist

The key to satisfactory Tenant Representation lies in the provision of maximum benefit for tenant and user alike. This requires a comprehensive service portfolio provided by competent partner who has access to a national and international network. Based on a broad range of competencies, Avireal ranks among the leading providers in the area of Tenant Representation. Both tenants and buyers, with an interest in office or sites for production (and in particular those companies from abroad), routinely benefit from such comprehensive service by operating economically in an efficient environment with transparent operating costs.

Avireal's scope of service ranges from demand analysis to the identification of suitable sites, to tenancy agreement negotiations, to interior design and finally to assistance during the relocation into the completed space. Experts in the real estate business providing comprehensive Facility Management services know what to look for when searching for the right property and routinely do so. A current example is that of Aryzta, the investment company that purchased the Swiss Gourmet Bakery Hiestand and set up its headquarters for Europe, the Middle East and Asia at a prominent location in Zurich – a location developed by Avireal.

Dr Marko Virant
CEO, Avireal Ltd.

An example: the Balsberg office building…

Thanks to Avireal ingenuity, the former headquarters of Swissair known as the 'Balsberg', has been con-

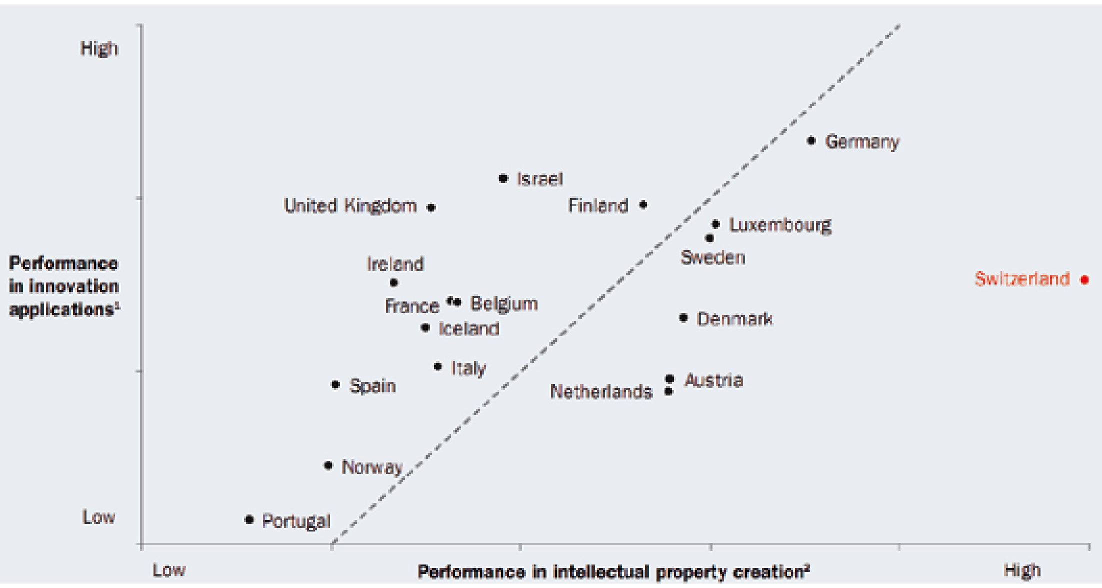

Figure: Although many inventions occur in Switzerland, comparatively little is directly implemented or produced (Swiss American Chamber Study by Boston Consulting Group).

Avireal's Spring Aperitif 2009 with Prof Dr Lothar Späth, former Minister President of Baden-Württemberg, TV host Stephan Klapproth and start-up entrepreneurs Dr Urs Thomet, Chief Scientific Officer of Genionics and Prof Dr Markus Gross, ETH Zurich and Director of Disney Research (f.r.t.l.).

verted from a single to a multiple tenant occupancy building in record time. This nearly 75'000 square metre facility serves as a prime example of 'how-its-done' offering maximum flexibility to its users. Prominent firms such as Nobel Biocare, Hyatt International or Swissôtel have joined the ranks of others like them and relocated to the Balsberg. Once the home for the national airline's logistics sector, the lower floor of the Balsberg is now the site of a new Business Centre equipped with state of the art technical equipment, including video conferencing, facilities for simultaneous translations, etc. With a capacity of up to 800, the Avireal Business Centre is routinely used for seminars and a variety of top events. Its outstanding location enables one to be at an airport check-in counter in about 5 minutes or in the centre of Zurich in 10. The renowned Hilton and Mövenpick hotels are within walking distance. As an added bonus, the Balsberg office building is in conformance with 'Minergie' standards – the Swiss equivalent of the 'Green Building' standard. Compared to its previous condition, the building's energy consumption has virtually been halved.

…and Zurich Airport

Within a range of comprehensive tasks, technical FM at airports represents a particular challenge for property management. When seeking to establish oneself at the highest degree of complexity, no infrastructure provides better conditions than those found at airports. Aircraft stands, emergency, catering, technical, training and communications facilities abound. Avireal, as a primary service provider at both Geneva Cointrin and at Zurich Unique Airport, ensures the efficient, uninterrupted operation of critical facilities – and has done so at those airports – since their founding. Avireal has a reputation for dealing with highly complex infrastructure and has, through its experience, gained incomparable expertise to do so. Longevity and expertise are underscored by Switzerland's oldest computer centre which is still in operation and a firm part of Avireal's FM airport grounds portfolio.

General planner – world wide

Lifecycle analysis and costing of individual and complex properties requires specialised knowledge of building issues as well as an integrated FM approach. Here, decades of airport experience pays off. As a key planner, Avireal has, over the years, consistently made vital contributions to the development of Zurich Airport. Today, and in addition to such contributions, it organises regular training seminars for members of the Airports Council International (ACI) staff, transferring its knowledge to the world's airport community. As a result, it is increasingly asked to provide expert opinion and planning services to that community, e.g. Swiss First Class Lounge at JFK Airport, Runway Improvements in Trinidad and Airside Safety in Malta.

Growth through innovation

Avireal extends its innovative ideas to the market and public by routinely organizing discussions at its Balsberg Business Center. This year the critical questions of "Do we in Switzerland optimally use the commercial potential of our ideas?" was the hot topic for debate at Avireal's 2009 Spring Aperitif. Prominently attended by Prof Dr Lothar Späth, former Minister President of Baden-Württemberg (now a top manager) and start-up entrepreneurs Prof Dr Markus Gross and Dr Urs Thomet, this discussion was rounded out with more than 200 prestigious guests from industry and politics alike. The guests included the CEO of Unique Zurich Airport, Thomas Kern, the Executive Director of the SCCC, Susan Horváth, CEO of the Swiss American Chamber, Martin Naville and many others who enjoyed an evening of lively discussion.

Invention and implementation skills are in great demand

In an absorbing introductory address, Avireal CEO, Dr Marko Virant, explained that Switzerland may emerge from the current economic crisis in a strong position only if it positioned itself a step ahead of the competition in regards to inventions and their implementation. According to a study of the Boston Consulting Group (see image), which had been commissioned by the Swiss American Chamber, implementation has great potential in this part of the world. Dr Marko Virant stated: "Switzerland is traditionally an excellent location for innovation and entrepreneurship. This leading position, however, can only be maintained in the future if efforts are continuously intensified. The path from idea to functioning solution, from patent to economic implementation requires strength and resilience. Anyone pursuing this course must not only be prepared for setbacks and risks but also be ready for unforeseen opportunities. While an individual inventor or entrepreneur can both win and lose through innovation, society can only win. After all, thirty-five percent of the Swiss GDP is a direct result of strongly innovative and export-oriented companies, who have almost exclusively contributed to the net growth of employment in Switzerland over the past years."

Inspiring panel discussion

Under the excellent stewardship of TV host Stephan Klapproth, the experts challenged one another and the audience in an inspirational discussion on motivation. It soon became evident that formulas as to how implementation-strong innovations are created are as versatile as the personalities who drive them forward.

Prof Lothar Späth used his experience from the turnaround phase of Zeiss Jena to plead for courage to "do everything in difficult situations, even what was not originally planned". ETH Professor and Head of the Disney Research Centre Zurich Markus Gross sited the driving power of scientists and entrepreneurs to see their own invention launched on the market as motivation. Finally, Biochemist Dr Urs Thomet took the example of his Alzheimer research to refer to the intrinsic motivation to use innovations to provide the entire society with a service. The high-calibre panel agreed that innovation in this country was often followed by an overly critical technical phase of analysis that delayed the project's finalization until a competitor reached the same goal and advantage. Instead of such delays, one should use the time to orient an invention towards genuine customer benefits and suitable risk financing. Swiss society should, therefore, support individual excellence whole-heartedly rather than hamper it, as well as demand the same commitment from its economic players.

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Avireal

The firm was established in 1972 as a planning office and real estate company for Swissair, Avireal (**Avi**ation **Real** Estate). The company was then spun off from the holding company as independent entity with SAirGroup as main shareholder in January 1997. Since 2005, Avireal is privately owned and now employs 200 staff in Zurich, 100 in Geneva and about 1,400 in Dubai.

Recent achievements where Avireal AG was responsible for planning, actualizing and maintaining:

- The winning entry for the SBB Lounge competition that led to the first of many such lounges in Switzerland
- A new corporate headquarters for Aryzta in Zurich
- A new First Class & Business Lounge for Emirates Airlines at Zurich Airport
- The computer centres of Swiss Basel and Zurich

Avireal's architects and engineers are oriented in the Minergie standard, the Swiss equivalent for green buildings design, whose advantages lie in a balanced indoor climate, reduced energy costs and increased lifespan of building components.

Customers and friends gather at Zurich's Belvoirpark to celebrate Brainforce's 30th anniversary.

Brainforce Celebrates 30th Anniversary

Since 2004, the Swiss pioneer of the interim management industry has also had a presence in China

Martin Schneider
CEO and Chairman
of the Board
Brainforce AG

Compared to a human life thirty years is not a long time. However, thirty years is a long time for the young industry of interim management service providers. This market has experienced a real boom, particularly in the last few years. In 1979, Schweizer Brainforce AG was the first company which specialised in 'hiring out' highly qualified managers for a particular period. Today, the temp agency is part of the everyday business of national and multinational companies, and Brainforce AG has become the biggest supplier in the German-speaking region of Europe. China represents one of the largest growth markets for Brainforce. In mid-June, Brainforce AG celebrated its 30th anniversary in Zurich.

"The industry has undergone a huge transformation in the last few years", says Martin Schneider, CEO and Chairman of the Board of Brainforce AG. "Managers who only make their expertise and experience available to a company for a limited time before accepting another position in Beijing after just 6 months – that was unheard of 30 years ago." In the meantime, interim management has become respectable and companies ranging from small SMEs to large corporations rely on quick help provided by interim managers. In contrast to someone who is purely a consultant, the interim manager implements his concepts operationally and assumes full responsibility until the task has been completed. For instance, the managers are often engaged to bridge management gaps or in project management. In this respect, the company benefits from external expertise and the experience of the managers.

Over the last few years the prospect of lucrative business transactions has enticed thousands of Western companies to enter China's growth market. However, the companies that are keen to expand are not only faced with big profits there, but also above all with administrative, legal and economic challenges. Even ambitious projects often fail due to insufficient preparation and a lack of know-how. Western management expertise has to be introduced to the company, and the right employees and business partners for successful cooperation need to be found locally. It is also becoming increasingly difficult to find highly qualified professionals in China. Since 2004, Brain-

About Brainforce AG

Brainforce AG was formed in 1979 in Zurich and is now the leading supplier in the interim management sector in German-speaking countries. Martin Schneider has been the owner and CEO of the Brainforce Group since the end of 2007. Brainforce currently has locations in Zurich (headquarter), Munich, Shanghai, Bangkok, Hong Kong, Moscow and Johannesburg. Management and project management, such as bridging management gaps (CEO, CFO and others), restructuring, replacement procedures and supporting expansion abroad are the core activities of Brainforce. The company possesses an HR-pool with over 3,500 specialised managers and is a member of the AIMP.

For further information go to www.brainforce-ag.com.

force AG under the leadership of Martin Schneider has pushed ahead with its expansion in Asia. China with its two major commercial centres of Hong Kong and Shanghai plays a particularly important role. "I have noticed that many of our European customers want to enter the Asian market, but in many places they are simply lacking the right project manager and the necessary expertise. That is what sparked the idea to go where our customers need us", is how Schneider explains this crucial step.

Martin Schneider takes a rational approach to the gloomy economic forecasts for the next few years: "The first few months of this year have not been easy for any of us, neither the suppliers nor our customers, and we are of course also feeling the effects in China. Nevertheless, the last few years have also proven how strong and innovative the country is. In many sectors, we are already recording an improvement in China's economy."

All in all, Brainforce AG is able to give a very positive assessment after 30 years. The company's commitment in China was also reflected at the anniversary celebration. In mid-June, customers and friends were invited to an Asian-themed evening in Zurich's Belvoirpark. Following a visit to Museum Rietberg and the exhibition of the Chinese painter Luo Ping, the guests had plenty of time to exchange ideas away from daily business routine at the cocktail party dinner.

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Kuoni Acquires Holding in ET-china

The Kuoni Group acquired an equity holding of about 32% in Et-china.com International Holdings Limited (Et-china) as of 3 June 2009. The holding was previously owned by Gandhara Master Fund Ltd. The acquisition makes Kuoni the biggest single shareholder in this important Southern Chinese travel corporation: Et-china is one of South China's best-known tour operators through its GZL subsidiary, and also provides a leading internet platform in China for individual travel arrangements. The acquisition is a major step in Kuoni's endeavours to substantially expand its activities in the fast-growing Chinese travel market.

Founded in Guangzhou in 2000, Et-china today owns a majority stake in Guangzhou International Travel Services (GZL), which specialises in group inclusive-tour arrangements both within China and to destinations abroad. GZL is one of South China's best-known travel brands, and also holds a licence to offer foreign travel products. Et-china also operates a leading internet platform in China for air tickets, hotel reservations and rental car arrangements for individual travellers. And the company further maintains a joint venture established in 2003 with China Southern Airlines, the country's biggest air carrier, under which it is the sole distributor of the airline's e-tickets. With some 160 travel agencies, its call centre and its well-known internet portal, Et-china is well positioned within the Chinese travel market. The company has a customer base of about 1.5 million, and has been listed on London's AIM stock exchange since August 2007. Et-china generated total turnover for 2007 of about CHF 200 million, and currently has around 1,400 employees.

Kuoni acquires the holding of about 32% of Et-china from Gandhara Master Funds Ltd., which was to date the company's biggest single shareholder. The purchase price for the acquisitions of the equity holding amounts to GBP 5.3 million (around CHF 9.2 million). Kuoni will also assume a seat on the Et-china board of directors. In accordance with the company's articles of incorporation, the Et-china board has approved Kuoni's acquisition of this stake of over 30% without the need to make an offer to acquire the company in full. The new equity holding will be assigned to Division Style within the Kuoni Group.

"In acquiring its holding in Et-china, Kuoni is embarking on a key long-term strategic partnership with one of China's most important travel corporations", says Peter Rothwell, CEO of the Kuoni Group. "This expansion of our activities in China is one of the biggest milestones to date in the more than 100 years of Kuoni's company history."

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Neue Partnerschaft Emeishan und Rigi

Am 6. März 2009 wurde während einer Unterschriftszeremonie im Hotel Hong Zhu Shan (Emeishan, Sichuan Provinz, V.R. China) die Partnerschaft der beiden Berge besiegelt. Die RIGI BAHNEN AG ist seit 2004 aktiv auf dem chinesischen Markt tätig. In 2007 wurde ein Mt. Rigi Niederlassungsbüro in Beijing eröffnet und mit einer einheimischen Repräsentantin besetzt.

Erste Gespräche zu einer möglichen Partnerschaft der beiden Berge fanden im September 2008 statt. Mit Hilfe des chinesischen Generalkonsuls in Zürich wurde der Prozess im Vorfeld angestossen. Mit der Partnerschaft zu Emeishan soll eine dauerhafte und intensive Beziehung zwischen den beiden Bergen aufgebaut werden. Der vereinbarte 3-Jahres-Plan beinhaltet derzeit verschiedene Projekte in der Zusammenarbeit zwischen den beiden international bekannten Bergen.

Der Emeishan («emporragender Augenbrauen-Berg») ist einer der vier heiligen buddhistischen Berge in China. Mit einer Höhe von 3099 Metern ragt er aus dem Becken der Provinz Sichuan. Der Name Augenbrauen-Berg stammt einer Theorie zufolge von der länglichen Form des Grates, der übrigens aus geeigneter Perspektive eine verblüffend ähnliche Silhouette zeigt wie die Rigi. Eine weitere Gemeinsamkeit findet sich auch in den beiden spektakulären Nebelmeeren von Emeishan und der Rigi. 1996 wurde Emeishan zusammen mit dem nahen Leshan in die Liste des UNESCO-Welterbes aufgenommen.

Die Fotoaufnahme zeigt die Vertreter von Emeishan und der Rigi-Repräsentantinnen Frau Elke Guth (Mitte), Verkaufsleiterin Ausland, und Frau Kathy Li Hui, Marktverantwortliche Rigi in China. Weiter waren bei der Unterzeichnung der «Sistermountain-Vereinbarung» Vertreter von Schweiz- und Luzern-Tourismus anwesend.

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Chinese Language and Thought Patterns

The Chinese language is the last important language still completely written in characters derived from images carved originally on bones, tortoise shells, and stones, or carved into the moulds for bronze vessels. All other languages which were based on pictograms have died out and/or have, in the course of their development, changed into syllabic languages where the image was no longer used as a word but started to be used as a syllable. A number of characters became thus necessary to form a single word. There are, of course, some characteristics in Chinese words that could be interpreted as first steps into the same direction, like e.g. the use of characters as roots in a character composed of a root and a stem, or of stems used in the character only to indicate the pronunciation of the word – clearly first steps into syllabic development.

It is interesting to ask oneself why the Chinese language has never gone further than these initial steps and why it is still written in characters that can be traced back thousands of years (see Lindqvist 1990).

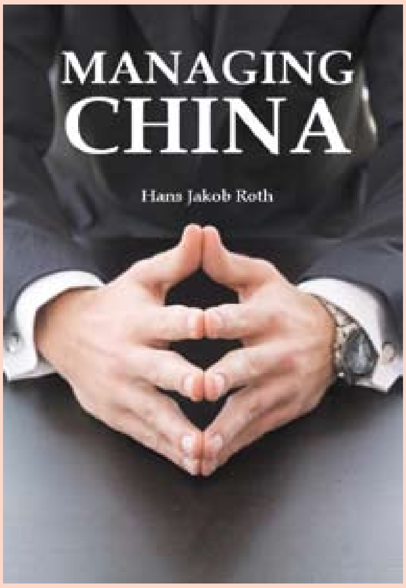
There are several assumptions we can make when looking more closely at this phenomenon. The first is that it was not necessary to simplify further than what had been done. The last step of simplification of characters was introduced by the Communist Party after the foundation of the People's Republic of China in 1949. The aim to educate the broader masses led the party to simplify the characters in order to make them easier to learn. Chinese has gone through a long way of simplification from the first written characters found on tortoise shells and bones to the way characters are written nowadays. Lindqvist demonstrates these developments in a few characters in her classical study about the written language (op. cit.). The simplification of characters after 1949 was therefore a step done many times before without endangering Chinese culture, a fear both Taiwan and Hong Kong still share today. Both places have kept the unsimplified versions of the Ming Dynasty, fearing a loss of cultural clarity if they changed the system. How far the argument is politically motivated is not a question here. The reality is that the simplification on the mainland had a strong impact on teaching and on literacy in the newly founded People's Republic. But the Communist government, contrary to a number of governments around the world, has not been ready to go further and to change to the Western alphabet. Chinese characters have been preserved, although there was a very vivid discussion in intellectual and political circles on the topic in the fifties and sixties of the last century.

Modern measurement of brain activities has shown that different brain regions are active when reading a Chinese text compared to an English one. When reading Chinese the original pictures of the characters are often evoked, activating brain regions usually used when looking at pictures. Furthermore, tonality in the Chinese language has a different influence on brain activity compared to reading Western words written with letters. The characters may thus have had an influence on Chinese thought patterns as well. In order to explain, we need to look more closely at the environment in which writing and speaking have developed and in which the characters are still used today.

Hans J. Roth
Consul General
Swiss Consulate
General in
Hong Kong

Density in the Asian sense

Chinese society has always been marked by a very strong population density. People tended to live along waterways where they could grow rice, their staple food. Irrigation was introduced to move away from these dangerous river banks as they were flooded quite often, destroying the harvests and bringing about long periods of hunger. People started to make important efforts to move to higher lands. They had to construct elaborate irrigation systems in order to do so. Population density increased and people remained closely together in these newly created surroundings.



Hans J. Roth is among the few experienced China hands who had already started their contact with the People's Republic of China in the 1970s. His extensive work on political, economic, legal and cultural issues gives him an excellent overview over the last 30 years of Chinese development.

Extensive contact with foreign and Chinese companies during his posting in Shanghai as Swiss Consul-General from 2001 to 2006 and his current assignment in the same position in Hong Kong have given him a deep insight into management issues of companies operating in China.

His long China experience led him to the development of an intercultural model, allowing to grasp behavioural differences as well as other thought patterns in a very convincing way. Operational issues being in general quite well known, this book goes one step further and provides a manager with a model to better streamline the strategic issues of management in a Chinese social environment.

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The first complaints about population density in China were expressed some two thousand years before they were voiced in England by Malthus at the end of the 18th century. His Chinese predecessor, an official called Han Feizi, left us a text in which he described three generations living together, a father having five sons of whom each had five sons, too. The density thus created was in his eyes the reason why there was hunger and theft. Interestingly enough he already used a mathematical model to explain the overpopulation of the Han Dynasty like his European counterpart. Malthus' "Treatise on Population" was published in London in 1798. In his text he expresses his fears of a growing population in mathematical terms, too. His concern was based on his assumption that food was growing on a linear scale, whereas population would grow geometrically, thus leading to an increasingly bigger gap between food production and human procreation.

But with a view to Chinese conditions in the Han Dynasty, density should not be seen in modern demographic terms. Density must be put in relation to Stokols' distinction between "density" and "crowding" (see bibliography). Density in the Han period was essentially linked to the level of agricultural production at that time. The population burden on the land was obviously very heavy. Population was at the ceiling of what food production would allow and relaxation of demographic pressure was usually only possible through natural calamities like floods or draughts which would lead to thousands of deaths, alleviating in this way the burden for the survivors of these catastrophic events.

Density in the Asian sense was thus historically linked to crowding. It is accompanied by a strong reduction of private space and has a very direct influence on psychic freedom through these physical limitations to personal space. The integration of a Chinese person in his or her family goes much further than anything to be found even in the European Middle Ages or in the European South. The psychic consequences were essentially the differences mentioned by Stokols – pure demographic density on the one hand and crowding on the other.

All that counts: participating in the here and now

This strong integration of a Chinese person in his or her social environment has an effect on Chinese perception, limiting it both spatially and temporally to a much narrower horizon than in the Western world. The Chinese equilibrium of tension between proximity and distance is strikingly different from a Western person. Here and now is the scene where things happen. The idea that the present is linearly integrated between past and future is not a dominating topic, the concentration is nearly exclusively on the present at hand.

This difference in perception between the East and the West in relation to the natural and social surroundings has profound influences on both behaviour and thought patterns and may actually be part of the reason why Chinese written language is still using characters derived directly from pictograms. On the other hand the preservation of the written language strengthened the traditional perception patterns.

China has, in fact, never developed a subject – object differentiation, in my personal view due to the social conditions in which people live. Due to the lack of distance, a Chinese person has never been an observer of things happening around him. He has rather been a participant. Furthermore, persons remain strongly integrated in their group, with the group's concerns dominating individual endeavours. This is why China has never developed a central perspective. If the "me" is not clearly defined, no "personal standpoint" can possibly develop. Without a standpoint and without a distance to the surrounding environment, a strong limit to psychic freedom becomes evident. Under these conditions it is impossible to make a differentiation between near and far, the two start to coincide. The absence of any central perspective in Chinese landscape painting is one consequence, preservation and use of Chinese characters in written language may be another.

The strong pragmatic and concrete patterns resulting from these characteristics did not only have an influence on behaviour patterns, thought patterns have been influenced as well as the written language demonstrates. Being near makes for an excellent understanding of an actual situation, here and now. At the same time it also creates problems for analysis and even more so for abstraction. Although the first categorisations in Chinese language have been introduced by the roots of Chinese characters – two drops of water indicating something frozen, three drops of water something liquid, for instance – categorisation did not go further than this. The written language remained very concrete and the image still dominates the mind of a reader.

Distance allows new perception of reality

Language has therefore been an important factor for the survival of this strong concrete and pragmatic attitude. The lack of perception of distance, created at least partly by these concrete pictures in the written language, was probably the most important factor for China's loss of global leadership in technological development. China was not only the inventor of many decisive technical innovations, she was technologically leading the world well into the 17th century (see Needham 1993). Why did she lose this leadership? Modern technological developments were only possible with new scientific methods developed in Europe essentially from the Renaissance onwards, but having their roots in ancient Greek achievements. These European developments became possible due to the new independence gained by the individual. The person stepped outside the borders created by his own group. The distance thus created, allowed a new

perception of reality. It finally allowed modern analysis and abstraction. Without this subject – object differentiation the developments in the arts, in astronomy or in any other science would have been much more difficult or even impossible to achieve.

Although it may never be clear how language influences thought and how thought patterns shape language on their part, it can hardly be denied that the survival of Chinese characters had an influence on the development of these patterns. The characters may only have been part of the influence to keep these concrete and pragmatic views of reality, but written language formed part of the conditions whose effects last until today.

by Hans J. Roth
Consul General
Consulate General of Switzerland in Hong Kong

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The Art of Paper-cutting – East Meets West

Paper-cuts featuring the Appenzellerland and the Toggenburg realised by Chinese Gold Medal Winning Artists

- *An example of a cultural exchange programme between China and Switzerland.*
- *An example of a vivid dialogue between Chinese and Swiss art and culture.*
- *Traditional simplicity, intricacy and creativity used in modern works of art.*
- *The use of an ancient technique to depict modern life and emotions.*

Cow Market by artist: HUA YueXiu.

Historical Background

China is one of the nations where the old tradition of paper-cutting is still alive. Paper-cutting in China is one of the best-known and most representative examples of the country's intangible cultural heritage. The beginning of paper-cutting dates back 2000 years to the Han Dynasty, when "paper-making" is generally thought to have begun. Paper-making is one of the four great inventions in ancient China and in a way the art of paper-cutting was a logical step ahead in China's tradition of paper-making. It is not merely a traditional art or craft, it is a living cultural feature related to religion and emotions. Nowadays paper-cuttings are still used for some traditional Chinese festivals and in folklore. However, it is also accepted as an artistic way of expressing oneself rather than a kind of folklore.

Since the beginning of the 21st century, The UNESCO Convention for the Protection of the Intangible Cultural Heritage (ICH) has rapidly increased its influence on China. The art of paper-cutting is included in the protection list of China's National Intangible Cultural Heritage.

Switzerland is a country with a multitude of national characteristics and an impressive cultural heritage and also looks back on a long tradition of paper-cutting. Moreover, Switzerland is also a country of great diversity. Each province has its own style. The Appenzellerland and the Toggenburg show their characteristic features in different ways, which inspires the artists' creativity.

Cutting together with a Swiss artist.

The Concept of the Exhibition

To use a traditional eastern art form to depict western traditions and culture;
to fill an old art form with new life;
to show Swiss festivals and cultural traditions through a new art form.

In 2007 the Ernst-Hohl-Culture-Foundation decided to launch a project on paper-cutting within the cultural exchange programme between China and Switzerland based on the above ideas. The works of the artists involved can now be seen in the exhibition **"The Art of Paper-cutting – East meets West"**, the concept of which is to use Chinese paper-cuts to depict the culture and the traditions as well as characteristic scenes of everyday life in the Appenzellerland and the Toggenburg. It's a kind of commissioned art work and thus a combination of genuine art and a way of expressing one's personal experiences and interpretations as an artist and therefore typical of the various challenges encountered when east meets west.

Realisation

As in most contemporary artistic activities paper-cutting starts off with an artist's design. The artist's thoughts, personal experiences and technique influence the quality and the style of his work. This project focused on the regions with distinct and unique styles and noticeable influence on the development of paper-cutting in China. The Director of the Intangible Cultural Heritage Research Center at the Chinese Central Academy of Fine Arts, Professor Qiao Xiao-Guang, helped to find some famous artists from different regions. Bearing in mind that regional differences have a great impact on the style of the paper-cuts, the artists who were eventually chosen are from different areas in China where their paper-cuts are held in high esteem. They are famous, extremely creative, full of passion and most of them have won gold medals in various national and international paper-cutting competitions.

In the summer of 2008 five Chinese paper-cutting artists were invited to visit Switzerland in two groups in order to get the feeling of Swiss local culture and local life. They saw the landscapes of the Appenzellerland and the Toggenburg, visited local museums, participated in traditional folk festivals and experienced the local way of life and the daily routine of the locals.

Some other paper-cutting artists who were not able to come to Switzerland were given photos, DVDs and other detailed information on the culture and the traditions of the Appenzellerland and the Toggenburg as a basis to enable them to create their own paper-cuts. These paper-cuts, will also be shown in the exhibition together with some photos that were taken for reference purposes.

The Artists and Their Works

The artists are mostly from Beijing, Inner Mongolia, and the Shandong, Shaanxi and Sichuan provinces. Mrs Wang HongChuan is from BaoTou, Inner Mongolia. She used paper of different colours for her paper-cuts, which vividly reveal the passions of life and display a distinctly poetic style. In her creative work, she combined some special techniques from other fields of arts with her own views of Swiss life, Swiss customs and the country's traditions. Mrs Hua YueXiu is from the Shaanxi province. Her paper-cuts tell stories. They are simple but charming, rich in content and full of life. The works of Huang Ying (Sichuan Province) express deep emotions. Mr Xu Yang is from Beijing. His paper-cuts show the bold style of the northern school. He tells stories using

Alpstobete by artist: HUANG Ying.

elaborate figures in complex scenes. Mrs Jin FengJie lives in the Shan Dong province. She works in the tradition of her local paper-cutting school, which is frank but smart. The works of the farmers from northern Shaanxi reveal the typical Shaanxi style, which is extremely useful for stories. Their paper-cuts are rich in detail, the figures simple, the message direct, and the emotions genuine and unrestricted.

Exhibition in Zurich (2009)

"The Art of Paper-cutting – East meets West", opens in "the Haus Appenzell" (Zurich) on 2nd October, 2009 and runs until 30th of January, 2010.

The paper-cuts will be shown by topics in the exhibition. The topics include some traditional customs and characteristics of the Appenzellerland, such as the Chläuse, the Bloch, the Landsgemeinde, Fronleichnam, Alpfahrt, Alpstobete, Viehschau, the land-

The Spirit of Bloch by artist: WANG HongChuan.

scape from the Säntis to the Kronberg, folk music, folk dances, cheese making and modern ways of life etc. Some examples of traditional Chinese paper-cuts by the artists involved will also be shown in the Zurich exhibition.

Exhibition in China (2010)

On 17th January 2010, which is also the 60th anniversary of the establishment of diplomatic relations between China and Switzerland, the opening ceremony of **"The Art of Paper-cutting – East meets West"** will be held in Beijing. The exhibition is intended to enhance the bilateral cultural and art exchange between the two countries. Apart from the paper-cuts, some original photos of the same topics will be on display too, so that the public in China may get a better idea of the culture and the traditional festivals in the Appenzellerland and Toggenburg. Four or five internationally renowned Swiss paper-cutting artists will also show their works in this exhibition, which can first be seen in Beijing before moving to Nanjing and Chengdu or Chongqing.

Cultural Exchange

The protection and sustainable development of the world's cultural diversity among different nations is one of the ethical values advocated by UNESCO. Due to the trend towards globalisation culture has come to play an increasingly important role in our competitive world and helps to build bridges for the communication between the nations. This paper-cutting exhibition as part of the cultural exchange programme between Switzerland and China can be seen as a new approach to show the cultural diversity and sustainable development of both countries. Such an exhibition may well lead to a steady exchange of paper-cutting works of art between China and Switzerland.

The exhibition in China is supported by Pro Helvetia, the Swiss Embassy in Beijing, the governments of Appenzell Innerrhoden and Appenzell Ausserrhoden, the Cantonal Department of Culture of St. Gallen, as well as a number of foundations in Switzerland.

Silvesterklaus by artist: XU Yang.

The Ernst-Hohl-Culture-Foundation

Haus Appenzell

The Ernst-Hohl-Culture-Foundation provides a showcase for the culture of the eastern part of Switzerland. It focuses on launching and organising various promotional activities in the Zurich area as well as in other parts of Switzerland and abroad. The foundation advocates not only the culture of Eastern Switzerland both nationally and internationally but it also offers foreign cultures a platform. Furthermore, it organises various events in accordance with its mission.

For more information please see our homepage www.hausappenzell.ch (in German only)

All places and venues in Switzerland and China can be used as promotional platforms by Swiss firms.

For further information please contact:
info@hausappenzell.ch

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“First European Chinese Ensemble ZHdK” during a concert in Zurich.

First European Chinese Ensemble

The “First European Chinese Ensemble ZHdK” gave a concert on 29th April 09 at the ETH Zurich Treffpunkt Science City. The audience was twice as large as expected by the organizer. People were revealing the enthusiasm towards Asia and Swiss-Chinese music.

The ensemble uses Chinese traditional musical instruments such as pipa, zhongruan, daruan, erhu, guzheng, guqin, xiao, dizi, Chinese percussion instruments as well as western instruments which are each members’ original instruments. In concert, members express music by own strength in western classical and Jazz music skills in connection with Chinese music and its instruments, techniques and expressions. The repertoire is not restricted to Chinese traditional pieces and also includes new compositions. The resulting sound does not only reflect the present world we live in, but also the direction of cultural movements: East and West are not longer separated, but merge into something new – that will be in turn the ground for future developments.

Information about the Music Director

YANG Jing, Chinese pipa soloist and composer, teacher at the Music Department of Zurich, University of the Arts (Zürcher Hochschule der Künste / ZHdK) and Lucerne University of Applied Sciences and Arts (Hochschule Luzern/ HSLU). She is the Music Director and founder of the First European Chinese Ensemble, which has been established in Zurich in 2008 under the long-term support from ZHdK.

For further information visit:
www.yangjingmusic.com

The Swiss and much experienced musician of Chinese origin, YANG Jing, composed and arranged all concert pieces. Through these compositions, the ensemble is able to try out how different sound sources could merge and how they can lead to new creations. The great musical traditions and the instrumental playing from East and West provide the fundamental guarantee of quality and chances. The development of this unique ensemble through the time and constant efforts will add a dimension to our

YANG Jing, internationally renowned Chinese pipa soloist and composer.

today's music stage. It offers listeners the joy to experiencing a fresh musical sound world.

It is truly a big task for young European musicians to manage both Western and Chinese musical instruments at the same time. Playing traditional Chinese musical instruments in varied styles. It takes time, but we already heard the remarkable results in this second concert of this ensemble. From August 9th, the ensemble will have 5 concerts in Switzerland, including a performance at the Festival der Künste Zürich 09 (September 13th 09).

For detailed information visit:
www.asiamusic.ch

or contact:

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Zürcher Kammerorchester – China Tournee

ZKO Concerts in Beijing, Zhengzhou & Shanghai

In May the Zürcher Kammerorchester and the Zürcher Sängerknaben, two of the most renowned musical ambassadors of the town on the Limmat, flew to China for a week. The Chinese conductor Muhai Tang, a great admirer of Haydn, was particularly happy to conduct Joseph Haydn's Oratorio "The Creation" shortly before the 200th anniversary of his death in the cities of Peking (Grand Theatre Beijing), his hometown Shanghai (Concert Hall Shanghai), and the capital of the Henan, Zhengzhou (Concert Hall Zhengzhou). In order to explain the story of the genesis to the Chinese audience, the famous actress Cao Lei took over the role of narrator (instead of the recitatives). The long journey was worthwhile: all three concerts were a great success. The hospitality and the fascinating Chinese metropolises, with their many sights and attractions made it very difficult for the orchestra to take leave, and the ZKO hopes that there will be many opportunities to perform in China again.

Zurich Chamber Orchestra

Founded immediately after the Second World War by Edmond de Stoutz, the Zurich Chamber Orchestra is now one of the leading ensembles of its kind. During the ten-year leadership of Howard Griffiths, which began in the mid-1990s, the ensemble consolidated its status as a chamber orchestra of international importance. Muhai Tang was appointed the orchestra's Artistic Director and Principal Conductor at the beginning of the 2006/2007 season.

The Zürcher Kammerorchester © Thomas Entzeroth

Regular invitations to international festivals, performances in the major musical centres of Europe, extended concert tours through various European countries as well as the United States and China bear witness to the Zurich Chamber Orchestra's worldwide reputation. Numerous critically acclaimed CDs document the ensemble's artistic work.

Besides cultivating a broad repertoire ranging from baroque to classical and from romantic to contemporary music, the Zurich Chamber Orchestra not only frequently attracts attention by rediscovering forgotten composers, but also by collaborating with musicians from other genres such as jazz, folk music and popular entertainment. The encouragement of young instrumentalists and prospective lovers of classical music (such as at children's concerts) is as important to the Zurich Chamber Orchestra as is the continuous

Advertisement for the ZKO Concert with conductor Muhai TANG in Shanghai.

collaboration with internationally celebrated soloists such as Vladimir Ashkenazy, Sir James Galway, Hilary Hahn, Mischa Maisky, Güher and Süher Pekinel, Mikhail Pletnev, Fazil Say or Andreas Scholl.

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"Beijing – A Travel in Time"

New photo book by Susanne Scherer

The second photo book documents the changes, which happened in Beijing in the years between 2001–2008.

Beijing today looks quite different than in 2001. But still, you can find the quiet and peaceful "Hutongs" in the middle of the busy and bustling metropole. Old and new are so close together – a phenomenon, Scherer has not experienced in another city yet, at least not to that extreme. Beijing has been changing into a world city – with all its positive and negative aspects – and yet, it has preserved a human face.

"Photography – is for me the expression and art to see through a lens and to picture the micro- and macro cosmos around myself. It's a form of capturing the 'beauty of life' in all it's aspects and to realize that all the things we do every day and which them we live every day, can turn into something meaningful, beautiful and poetic. For me, it's not the 'bold, mundane and spectacular' things, it's the small and unpretentious item, which becomes 'impressive and meaningful'. That is, what fascinates me, inspires me and what I want to express in my photography", says Scherer.

Book info
b/w photos, hardcover, 104 pages, edition 2009
regular price: CHF 65.–
for members of SCCC: CHF 58.–

Still available
Photo book "Between two worlds"
(China-Switzerland)
b/w photos, hardcover, 134 pages, edition 2005
regular price: CHF 65.–
for members of SCCC: CHF 58.–

Both books can be ordered directly at the photographer:
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Summer Holidays

The offices of the Chamber in Zurich will be closed from July 20th until August 15th 2009.

Various events, information and services can be found on the website of the Chamber: **www.sccc.ch**

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Membership Card Values

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

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

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

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Restaurant CHINA-TOWN
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Mishio Restaurant & Take away
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