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瑞中經濟協會

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For full overview of useful contacts in China and Switzerland turn to pages 106 & 107 in this issue.

In the Wake of Western Stabilization

China has already approached struggling European countries with financial aid already last year, and promised to buy other EU countries government debts recently. China would get much more return for the Dollar if it focused on stimulating its own domestic markets for goods and services. Certainly, a stabilized Western economy is of vital importance for the Chinese economy which still very much depends on exports to the US and to the Euro zone, hence, the Chinese bailout to support Europe in its public debt crisis also serves its own interest. China certainly is a beneficiary of economic globalization. But it has to be noticed that domestic demand contributed 90% of China's 10% economic growth in 2009. This however is a strong signal that the exports will not any longer be such a vital pillar of its economy as it was the case in the past. This leads to the conclusion that China becomes a very constructive player in the reform of the global economic governance structure. China worked already closely with the international community to address the financial crisis and promoted global recovery and growth. The world will come to see that the constructive role China has played in global governance is helpful in getting the world economy back towards full recovery and prosperity. It is more than just a good sign that the emerging economic super power is willing and most of all able to cope with the burden as just recently in regard of taking concerted actions to support European financial stabilization.

While the domestic economy continues to growth on a rather high speed, it is of significant importance for Swiss companies to deeply analyze opportunities beyond the "golden banana", the developed East Coast and the South of China. More and more international corporations are to learn that their operations in mainland China cannot be run by means of a single country organization but rather with a continental structure with many entities with well established networks in many regions. Adapting a decentralized "Going West" strategy is the ultimate precondition to defend global market share in almost all business segments.

While progress towards a free trade agreement between China and Switzerland is being made, it shall be noticed that our Federal Councillor Doris Leuthard has left the Federal Department of Economic Affairs to take the lead of another important ministry. On behalf of our Chamber and all our member companies, I would like to express my sincere gratitude to Federal Councillor Doris Leuthard for her most remarkable achievements in the bilateral relations with China. Excellent progress has been made in many areas. We now warmly welcome our new Federal Councillor Johann Schneider-Ammann as head of the Federal Department for Economic Affairs. We are looking forward with great confidence to continue to build the solid ground for friendly ties and prosperous bilateral economic relations with China.

Kurt Haerri
President Swiss-Chinese Chamber of Commerce
Senior Vice President, Schindler Elevators Ltd.

2011 Business/Public Holidays in China and Hong Kong

CHINA

Jan 1–3	New Year's Days
Feb 2–8	Spring Festival
Feb 3	Chinese New Year
Apr 3–5	Qing Ming Festival
Apr 30 – May 2	Labour Day
Jun 4–6	Dragon Boat Festival
Sept 10–12	Mid-Autumn Festival
Oct 1–7	National Day Holiday

HONG KONG
(additional to above)

Apr 22	Good Friday
Apr 24/25	Easter Sunday/Monday
May 1	Labour Day
May 10	The Buddha's Birthday
Jun 6	Tuen Ng Festival
July 1	HKSAR Establishment Day
Oct 5	Chung Yeung Festival
Dec 25	Christmas Day

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。

www.schindler.com

Schindler

2011 – Moderation and Rebalancing

Dear Members, dear Readers,

just a few days ago, the Year of the Tiger came to an end. A year of anniversaries, such as the 30th anniversary of the Swiss-Chinese Chamber of Commerce and the 60th anniversary of the diplomatic relations between Switzerland and China. And we also gave farewell to the largest world exhibition ever, the Expo 2010 in Shanghai. It has been a year filled with numerous successful events and many high-ranking bilateral visits.

2011 is the Year of the Rabbit, which is a symbol of endurance, placidity and luck. According to Chinese tradition, the Rabbit brings a year in which you can catch your breath and calm your nerves. It is a time for negotiations and concessions and the themes may be moderation and rebalancing.

For China, 2010 has been a year of strong growth compared with the overall global economy. China reported on January 20th 2011, that its GDP grew 10.3 percent to $5.88 trillion USD in 2010 and that it will officially take over Japan as the second largest economy in the world after February 16th when Japan releases its GDP data. If China can maintain this rate of growth it will eclipse the United States by as early as 2017, according to the projections of the UK National Institute of Economic and Social Research.

According to the Ministry of Commerce (MOFCOM), China's Foreign Direct Investment (FDI) in 2010 reached $105.5 billion USD, the first time that it exceeds the $100 billion USD level, with a 17 percent increase from 2009. FDI was fuelled by robust development in the service sector and the growth in the country's central and western regions.

China has been adopting an export-led growth model for almost 30 years. Indeed, in October the country reported a trade surplus of USD 27.1 billion and at the beginning of 2011 China surpassed Germany as the largest exporter in the world.

However, as domestic industries shift focus from basic consumer products to advanced technologies and machinery, the general consensus among economists and Chinese political leaders is that the country needs to be less reliant on exports and become more domestically driven. Urbanization and the increasing growth of the middle class will lead to increased domestic consumption and demand for foreign goods. The booming economy and huge domestic market potential are key factors of attracting foreign investment.

Looking at 2011, the Chinese government will be announcing its 12th Five-Year-Plan (FYP) after the final approval by the NPC in March 2011. According to an article published in the People's Daily, China invited for the first time international expertise and distinguished thinkers to advise and to focus on how China's 12th FYP can be designed to rebalance economy, environmental and social performance, and to reflect a global perspective. China will most likely continue the trend of economic prosperity, despite the complexity of the process, which requires considerable skill at navigation.

In the Year of the Rabbit we should seek calm to help us through challenging times and to rebalance and reflect. It is a time for negotiation. Don't force issues, be moderate. Make it a long-term goal to create a balanced and peaceful lifestyle, so you will be able to navigate through 2011 and beyond successfully.

Happy New Year, everyone!

Susan Horváth
Executive Director, Member

2011 – Year of the Rabbit

1915, 1927, 1939, 1951, 1963, 1975, 1987, 1999, 2011

The Chinese New Year 4709, or 2011 in the Western calendar, is the Year of the Rabbit – the fourth sign in the Chinese Zodiac –, which begins on February 3, 2011 and ends on January 22, 2012. It is also known as the Lunar New Year or the Spring Festival and is the most important of the traditional Chinese holidays. The year of the Rabbit is traditionally associated with home and family, artistic pursuits, diplomacy, and keeping the peace. Hence, 2011 is very likely to be a relatively calmer one than 2010 both on the world scene, as well as on a personal level.

The Year 2011 ushers the Wood Rabbit in a Metal Year. Since the metal element generally works against the wood element, at least some uncertainties and continued troubles carried over from the roller-coaster Tiger Year are expected. The three words that best describe the Rabbit: calm and gentle, but persistent; it is a symbol of endurance. 2011 we will have to learn to live with less and with concessions.

New Members

Since July 2010:

Zurich

Podium in WEALTH SA	Zurich
Meela.biz	Berne
La Roche & Co Banquiers	Basle
Intertrust (Suisse) SA	Geneva, Zug, Vaduz
ALS Solutions AG	Islikon
iValue GmbH	Zug
Barbara SENN	Zurich
Markus BERNHARD	Zurich
Diener Syz Real Estate	Zollikon
REMATRADE Maschinen AG	Bottighofen
BLR & Partners	Thalwil
studiodivine	Biel/Bienne
coresystems ag	Windisch
AJIA LLC	Niederglatt ZH
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Roger AFFOLTER	Hombrechtikon

Ticino

Avv. Andrea FIORAVANTI	Lugano
Robert SHARRATT	Vico Morcote

Geneva

Diligence Global Business Intelligence	Geneva
Stéphane GARD	Lausanne
Bolliger & Mabillard Ingenieurs Conseils SA	Monthey
MONTRES DEWITT SA	Geneva
ALPADIS SA	Nyon
Addax Petroleum Ltd.	Geneva
Ville de Martigny	Martigny
RITSCHARD SA	Geneva
Florence VIALLETON	Geneva
AZFRA	Geneva
FCG Financial Consultancy Group SA	Saconnex
PIAGET	Geneva

General predictions for 2011

2011 will be a peaceful year and we should seek tranquillity. While officially over, the impact of the recession will remain. We will not recover quickly.

Yet, a Rabbit is a lucky sign and despite all the challenges, Rabbits have an uncanny gift of choosing the right things. Good taste and refinement will shine on everything and people will acknowledge that persuasion is better than force. A time in which diplomacy, international relations and politics will be given a front seat again.

But do not confuse the serene landscape as necessarily joyous. We're over the shock of hard times and are hunkering down to the basics. A time to watch out that we do not become too indulgent. The influence of the Rabbit tends to spoil those who like too much comfort and thus impair their effectiveness and sense of duty. Law and order will be lax, rules and regulations will not be rigidly enforced. We will all have a tendency to put off disagreeable tasks as long as possible.

Selfishness is the new norm, but not necessarily out of spite or malicious behaviour. We desperately want to hang on to what we have and defend against those who threaten us. Many will avoid confrontation and dislike hostile action. Rabbits rely on keen survival abilities.

Nations will also become more insular and increasingly lock down their borders to protect against the "other". However, 2011 will also see new movements projecting a distinct national identity.

Money can be made without too much labour. Our lifestyle will be languid and leisurely as we allow ourselves the luxuries we have always craved for. A temperate year with unhurried pace. For once, it may seem possible for us to be carefree and happy without too many annoyances.

People born in the Year of the Rabbit

People born in the Year of the Rabbit are keen, wise, fragile, tranquil, serene, considerate, fashionable, and kind. Generally, they are quite calm, do not exhibit aggressive behaviour, and will avoid confrontation at all costs. They are quite keen and pay close attention to the situations developing around them. They are intelligent and quick, and pursue their ideals all their lives in a precise and orderly way. One of the most cautious signs in the Chinese Zodiac, they are the chess players who take their sweet time before making a move. Yet, they are also the ones most likely to win any intricate game of strategy. These personality traits also spill into their romantic dealings, and rabbits will not commit to any one person right away.

They are good hosts and warm-hearted companions. They have good communication skills and know the art of saving face and giving consideration to the interests of both sides. Despite their outwardly calm demeanours, rabbits are extremely shrewd in business dealings and may never show their hand until just the right moment. They are also quick to bolt from any perceived danger and intuitively know when to fold and run.

New Swiss Consul General in Shanghai

Heinrich Schellenberg

Herr Heinrich Schellenberg ist zum neuen Schweizerischen Generalkonsul in Shanghai ernannt worden und hat seine neue Arbeit Anfang Oktober 2010 aufgenommen.

Heinrich Schellenberg wurde 1964 in Zürich/ZH geboren und ist in Zollikon und Zürich/ZH heimatberechtigt. Er trat 1991 in den Dienst des Eidgenössischen Departements für auswärtige Angelegenheiten und wurde sukzessive in Mexiko, Bern, Bangkok, Stockholm und Bern eingesetzt. Seit November 2007 übte er die Funktion des ersten Mitarbeiters bei der Schweizerischen Botschaft in Mexiko aus.

Personal Profile

Date of birth
29th of February 1964
Place of birth
Zurich, Switzerland
Personal life
Married to Mrs Grisel Sandoval Schellenberg, two children
Academic Degree
Law / University of Zurich, Switzerland

Career

from October 2010
Consul General and Head of the Consulate General of Switzerland in Shanghai
2007–2010
Deputy Chief of Mission of the Embassy of Switzerland in Mexico City
2004–2007
Minister and Deputy Head of the Political Division VI, Responsible for Crisis Management and Travel Advice
2001–2004
Deputy Chief of Mission of the Embassy of Switzerland in Stockholm
1998–2001
Deputy Chief of Mission of the Embassy of Switzerland in Bangkok, with responsibility also over Cambodia, Laos and Myanmar
1993–1998
Diplomatic Appointee, then Deputy Head of the Human Rights Section, responsible for Neutrality Law and International Legal Assistance
1991–1993
Joined the Swiss Diplomatic Service, training in Berne, Mexico and Geneva
1990–1991
Union Bank of Switzerland, Zurich
1989–1990
Legal Researcher, Institute of Foreign & Comparative Law, University of South Africa, Pretoria
1983–1988
Law Degree, University of Zurich

Federal Department of Foreign Affairs
www.eda.admin.ch

New Senior Adviser East Asia at SECO

Felix Rosenberger

Born (1975) near and living in Zurich, Felix Rosenberger has majored in Japanese Studies and Political Science in Zurich, passing more than a year studying in Kyoto. Relying on his other career after his studies, he spent 2007/08 as a Military Staff Officer and Deputy Head of Military Intelligence in the headquarters of the UN Mission in the Democratic Republic of Congo (MONUC). Mr Rosenberger's interest in Japan and Asia again won over, when he was offered an internship at SECO's Bilateral Economic Relations Asia / Oceania Division to promote the Switzerland-Japan Free Trade and Economic Partnership Agreement. Starting in January 2010, he took over the Japan Desk part-time and is full-time responsible for the whole of East Asia since October 2010.

For further information please contact Mr Rosenberger at the new address of SECO:

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www.seco.admin.ch

China Comes to Lugano and Ticino

The business community in Ticino has been actively promoting Ticino as a destination for an international base for overseas companies, with the support of Cantone governments. With this key strategic motivation, the Corporate Development department of BSI bank, a SCCC member, promoted and supported a visit to Ticino on the 15th and 16th of September, 2010 by 100 Chinese entrepreneurs from a wide range of industrial sectors, in collaboration with the Cantone Ticino and the City of Lugano.

The event germinated from a Chinese government initiative aimed at promoting Chinese businesses expanding abroad. On September 15th, BSI Corporate Development helped the Ticino Government and welcomed a first group of senior officials from the Zhejiang province preceding the larger entrepreneur delegation. The delegation took a helicopter flight offering great panoramic views of the Ticino landscape and opportunities to appreciate of how economic and cultural activities are managed. The Chinese visitors were indeed very impressed. They appreciated the many reasons why Switzerland, particularly Ticino, is a great destination for Chinese companies moving abroad. Their perception of Swiss stability, quality and professionalism was reinforced.

On September 16th, the City of Lugano, Ticino Canton and BSI, together with the University of Applied Science (SUPSI) welcomed the delegation of 100 Chinese entrepreneurs of Zhejiang at the "Ticino-Zhejiang Entrepreneurs Symposium" held at Palazzo dei Congressi in Lugano.

The delegation was led by Tie Jianshe, President of the Chinese Council for the Promotion of International Trade – CCPIT, Zhejiang Sub Council, as part of the Zhejiang government-sponsored initiative of "Zhejiang enterprises going to Europe" tour. More than 50 companies from ship construction, mining, manufacturing, apparel were present.

The event was a great success. The Association of Ticino Industries reported that more than 6 regional based companies found commercial partners and began among the Chinese delegates. At the lunch hosted by SCCC member BSI Bank, CCPIT Zhejiang Sub Council has signed collaboration agreement to further promote the exchange and trade and commerce with the Ticino Chapter of SCCC and with the Economics Division of Canton.

The Chinese delegates emphasized their appreciation of experiencing Swiss natural beauty, financial strength and organizational efficiency first hand and expressed again the interests to open European Headquarters in Switzerland and particularly in Ticino.

Reception at Castello Sasso Corbaro with top Ct. Ticino and City of Lugano officials as well as BSI representatives N. Mordasini, Board member, F. Casati and L. Wang, Corporate Development.

Business lunch with Chinese entrepreneurs.

This appreciation is a welcome result of efforts by the Department of Corporate Development of BSI, which has long been active in monitoring possible synergies with China. Led by Dr Fabio Casati and supported by Dr Liqun Wang, the Department has been involved in Corporate Development discussions and activities with Chinese institutions and is already working on corporate finance mandates for Chinese entrepreneurs willing to grow internationally. In doing so, both sides appreciated the similarities between different cultures and the importance of attention to details in business interactions. The multi-culture and diverse expertise ingrained in the BSI Corporate Development team was acknowledged to have played a key role in facilitating smooth and efficient collaboration, overcoming the obvious language barriers. In conclusion, in Ticino, SCCC continues to facilitate the community to deepen its understanding of Chinese culture and entrepreneurship with the support of its members such as BSI. Indeed, SCCC followed up with concrete projects of collaboration with CCPIT members later in October 2010, when BSI Corporate Development colleagues visited China.

For further information please contact:

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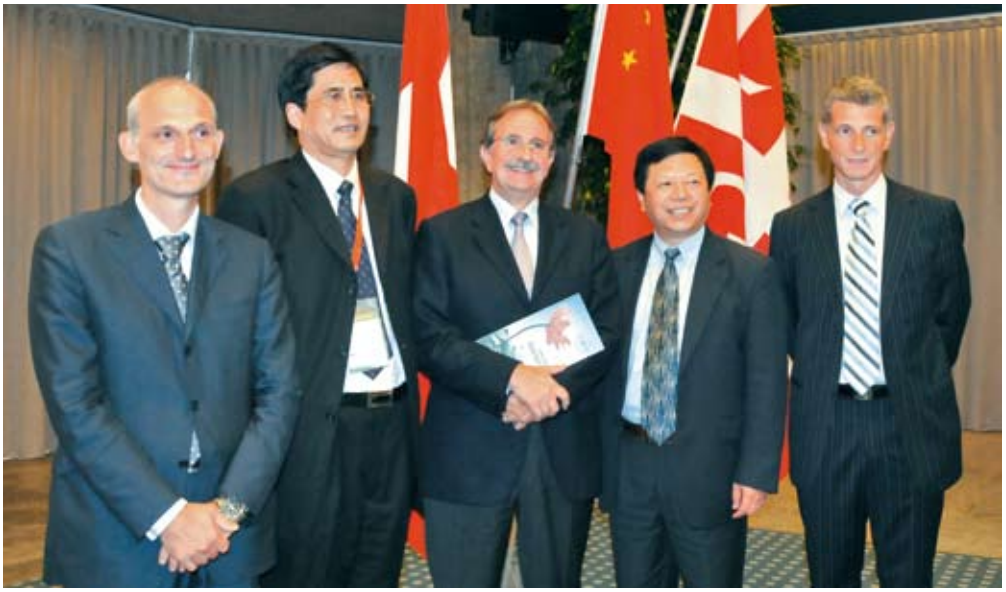
Tie Jianshe, Chairman CCPIT, Zhejiang Sub Council, and Dr G. Aprile at BSI foresteria in Lugano.

Theo Brun, Chairman of SCCC Ticino Chapter signs collaboration agreement with CCPIT Zhejiang Sub Council.



From left: F. Casati, Head of Corporate Development, BSI, Z. Shao, Vice Chairman CCPIT, G. Giudici, City mayor of Lugano, T. Jianshe, Chairman CCPIT and A. Coduri, Director of economics division, Cantone Ticino.

Switzerland Trade & Investment Promotion

CICC China International Capital Corporation Ltd. in Switzerland

On September 29th, the Swiss-Chinese Chamber of Commerce in cooperation with Credit Suisse welcomed representatives of China International Capital Corporation Ltd. headed by Huang Haizhou, Managing Director Sales & Trading Department.

The CICC delegation consisting of 12 Fund Managers and CIO's from reputable Chinese companies were led through the day by Susan Horváth, Executive Director of the Swiss-Chinese Chamber of Commerce & Investment Promotion China Representative, and were warmly welcomed by Werner Raschle, Regional Head Central Switzerland and Managing Director of Credit Suisse, Lucerne. The programme included presentations about Credit Suisse and the Swiss economic outlook in general, followed by a networking cocktail on the Lake of Lucerne to meet the five representatives of the Swiss Cantons attending the event. The boat trip was an ideal acquisition platform in a relaxing atmosphere for the Swiss and the Chinese participants.

BYD Shenzhen in Switzerland

On August 17th/18th, the Swiss-Chinese Chamber of Commerce, responsible for the mandate Switzerland Trade and Investment Promotion on the Swiss side organized two challenging days for Mr Chen, BYD Europe B.V. to visit Swiss companies working in the fields of IT Products, mobile phone ODM, netbook, machine to machine wireless communication modules and of Green Energy, LED lighting, energy storage systems, smart grid, smart meter and PV panels.

Esther Poertig

Mr Hanson Chen, Europe Regional Business Development Manager, was led through the days by Esther Poertig, Senior Project Manager of the Swiss-Chinese Chamber of Commerce. Six Swiss companies opened their doors, production and research centres so as to further negotiate with BYD Shenzhen. The programme included a visit to a biodiesel plant as well as visits to reputable Swiss companies in demand. They were seen as building bridges among the Swiss and the Chinese companies and to foster the under-

The delegation of China International Capital Corporation Ltd. at the premises of Credit Suisse in Lucerne.

Hanson Chen, Europe Regional Business Development Manager of BYD with Esther Poertig of SCCC at Schurter.

standing of Switzerland as an attractive location for both Chinese business and investors such as BYD Shenzhen.

Switzerland Trade & Investment Promotion considers BYD Shenzhen as a reliable partner and therefore supports BYD representatives in China and Switzerland. Under the banner "Switzerland Trade & Investment Promotion", the OSEC provides services for direct investors, employers, managers, consultants and other facilitators to receive information about Switzerland as a business location. Regarding the activities in Switzerland, OSEC has commissioned the Swiss-Chinese Chamber of Commerce to host Chinese delegations and investors.

Zhuhai Delegation with Executive Vice Mayor in Switzerland

On October 22nd, the Swiss-Chinese Chamber of Commerce in cooperation with Zhuhai Investment Promotion Bureau organized an Executive Luncheon in Zurich for the Zhuhai Delegation led by Mr Huo Rongyin, Executive Vice Mayor of Zhuhai Municipal People's Government, Guangdong Province.

The Zhuhai delegation consisting of 11 high-ranking government officials including the General Director of Exit and Entry Frontier Inspection as well as the Director of Zhuhai National Hi-tech Industrial Development Zone was led by Mr Huo Rongyin, the Executive Vice Mayor of Zhuhai Municipal People's Government. Representatives of reputable Swiss companies and the Zhuhai delegation were warmly welcomed to Switzerland by the Swiss-Chinese Chamber of Commerce & Investment Promotion China Representatives.

The Executive Luncheon included welcoming remarks on behalf of Switzerland Trade & Investment Promotion and a presentation about the latest development and the economical outlook of Zhuhai Guangdong Province. The Luncheon provided representatives of the Cantons also attending the event an ideal networking platform to further location acquisition with Zhuhai governmental officials. The Swiss company representatives strengthened existing bilateral business cooperation and elaborated on further negotiation opportunities. On the basis of such interaction, Switzerland as well as Zhuhai are looking forward to deepening their friendship and economic collaboration.

Executive Vice Mayor of Zhuhai Municipal People's Government, Guangdong Province, Huo Rongyin, with Susan Horváth, Executive Director of the SCCC & Investment Promotion China Representative.

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Free Trade Negotiations between Switzerland and China Officially Launched

Federal Councillor Johann N. Schneider-Ammann, Head of the Federal Department of Economic Affairs, met on January 28, 2011 at the World Economic Forum in Davos with the Chinese Minister of Commerce Chen Deming to officially launch negotiations between Switzerland and the People's Republic of China in view of concluding a Free Trade Agreement, and to discuss other issues of common interest.

During their meeting, Federal Councillor Johann N. Schneider-Ammann and Minister of Commerce Chen Deming signed a Memorandum of Understanding officially launching the negotiations on a Switzerland-China Free Trade Agreement with a broad scope. Within weeks, negotiating teams from the two countries will convene to conduct the negotiations. At the press conference, both Ministers expressed their belief that the Free Trade Agreement will provide mutually beneficial framework conditions, contribute to increased bilateral trade and economic exchanges, and reinforce cooperation in a variety of areas. They also underlined their wish to see the negotiations proceed swiftly.

Federal Councillor Johann N. Schneider-Ammann and Minister of Commerce Chen Deming signed a Memorandum of Understanding during the WEF in Davos (January 28, 2011) officially launching the negotiations on a Switzerland-China Free Trade Agreement.
(AP Photo)

Federal Councillor Schneider-Ammann stated that the negotiations are foreseen to cover trade in goods, trade in services and other relevant issues and areas of cooperation such as intellectual property rights and the promotion of investments, with a view to enhance bilateral relations and promote sustainable development.

Besides launching the negotiations, the two Ministers reviewed bilateral economic relations and discussed issues of common interest. China is since 2002 the most important trading partner of Switzerland in Asia and trade between Switzerland and the People's Republic of China is growing faster than overall Swiss external trade. In the first eleven months of 2010, Switzerland has exported 6,7 billion CHF worth of goods to China (+ 34%) and has imported in the same period 5,6 billion CHF (+ 18%). Switzerland is one of the few Western countries to enjoy a positive trade balance with the People's Republic of China.

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Towards a Switzerland-China Free Trade Agreement: State of Play

(Thereafter you find the presentation by Ambassador Christian Etter, Delegate of the Swiss Government for Trade Agreements, State Secretariat for Economic Affairs (SECO), Federal Department of Economic Affairs, Bern, Switzerland, held at the Joint Alumni Conference of the Swiss Global Business Forum, Rüschlikon, 1 October 2010.)

Today is a good day to talk about China, as today is the National Day of China, commemorating the foun-

dation of the People's Republic of China. 2010 is also a good year to talk about Switzerland-China relations, as this year marks the 60th anniversary of diplomatic relations between Switzerland and China.

It is a great pleasure for me to share with you at the Global Business Forum of the Joint Alumni Conference 2010 a few thoughts on a significant recent development in Swiss foreign economic policy.

This morning, the Swiss Federal Council adopted the mandate for the negotiations on a free trade agreement between China and Switzerland. Let me tell you how it came about that China and Switzerland looked into the possibility of a bilateral free trade agreement and inform you about the intentions and expectations that will guide the negotiations from the Swiss side.

Before doing so, it might be useful to present the basic ideas behind the general strategy and orientation of the Swiss foreign economic policy, particularly regarding free trade agreements.

Switzerland's foreign economic policy aims at furthering sustainable prosperity of the people living in Switzerland. The Swiss economy is characterized by a high degree of internationalisation in trade and investment, as well on the export as on the import side. With a total population of below eight million people the domestic market is of limited size. At the same time, economies of scale of modern technologies of production and methods of business administration and marketing normally require much larger markets than this. Therefore, access to foreign markets for companies established in Switzerland, and for their employees, is vital. This is not only true for big companies selling their products to large numbers of customers, but also for small and medium sized companies. Such companies often are highly specialized offering niche products, services or combined solutions that are more or less tailor made to the specific needs of specific customers. As there is, in each national market, only a limited number of customers for any such niche product or service, it is important that there is access to as many markets as possible without unnecessary obstacles to trade.

For these reasons, it is obvious that Switzerland's economy depends to a large extent on opportunities to trade goods and services internationally and to engage in cross-border investment. As a consequence, the main objective of Swiss foreign economic policy is to reduce obstacles to international trade and investment, to eliminate as far as possible discriminatory treatment on foreign markets, and to promote stable and foreseeable international framework conditions for economic exchange.

There are three priority instruments of Swiss market opening policy:

1. Membership in the World Trade Organisation (WTO);
2. The conclusion of bilateral agreements with the European Union (EU); and
3. The Negotiation of free trade agreements (FTA) with partners outside the EU.

The interests of Switzerland as a medium sized economy with a wide geographical diversification of export destinations are best served by multilateral trade liberalization in the WTO. Unfortunately the

Doha round of multilateral trade negotiations, which are intended to bring trade liberalization among WTO members at a higher level, is lacking progress since several years. Hence, the prospects for improvements of market access on a worldwide scale in the foreseeable future are rather blurred. This does not mean that the WTO has lost its value. The WTO with its existing multilateral agreements, in particular the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS) and the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) still constitute the basis of the quasi-universal trading system. Without these existing, and as such well functioning, WTO-agreements countries such as Switzerland would have no assurance of participation in worldwide international economic exchange and could not make use of their comparative advantages to the extent it is possible now.

On a regional level, Switzerland has chosen to seek deeper integration with the European Union, by far the major trading partner of Switzerland, accounting for roughly 60% of Swiss exports and above 70% of Swiss imports. I won't go into the details of the network of bilateral agreements between Switzerland and the European Union established in the last 40 years. I just note that the more recent bilateral agreements concluded by Switzerland and the European Union are about harmonization of national legislation and regulations, with a view to provide single market conditions for Swiss and European Union economic operators on each other's territory.

Despite the predominant trade relations with the European Union, free trade agreements with partner countries outside Europe have become another significant instrument of Swiss foreign economic policy since the 1990s. Trade with partners outside the European Union accounts for 40% of Swiss exports, and the share is increasing. This trend is due, inter alia, to the shift in economic power from North to South and, in particular, from West to East. In order to make use of this tendency, it is important to improve market access to important partners around the world and to secure stable framework conditions with them.

Concluding bilateral and plurilateral free trade agreements has become a global trend. This is at least in part due to the lack of progress in the WTO-Doha round, referred to before. As it has become more difficult to find agreement among the 150-plus members of the WTO, countries with similar ambitions and similar interests regarding liberalization have increasingly entered into preferential agreements, i.e. free trade agreements providing for levels of liberalization between two or a limited number of parties going beyond the WTO. The fast increasing number of free trade agreements around the world comes with an increased potential of discrimination. If a trading partner of Switzerland concludes free trade agreements with main competitors of Switzerland, e.g. with the EU, the USA or Japan, Swiss exports are at a disadvantage, unless Switzerland also negotiates a free trade agreement with this trading partner.

Looking at the map of Switzerland's free trade agreements, there are agreements in force or under negotiation with South Eastern European and Mediterranean countries, with important partners in the Americas, in Asia, plus South Africa.

Recent Swiss free trade agreements, e.g. the ones concluded with Japan, South Korea, Singapore, Chile, the Gulf Cooperation Council, etc. not only cover trade in goods but a broad range of additional subjects, such as trade in services, the protection of intellectual property rights, investment, government procurement.

Most of the free trade agreements to which Switzerland is a party were negotiated in the framework of the European Free Trade Association (EFTA). EFTA is the trade association of the Western European non-EU-member countries Switzerland, Norway, Iceland and Liechtenstein. However, there is no obligation to do free trade agreements in the context of EFTA. E. g., Switzerland has negotiated the free trade agreement with Japan on a bilateral basis, and also the upcoming negotiations between China and Switzerland will be a bilateral process.

Free trade agreements do matter. Looking at Switzerland's trade statistics, growth rates of exports plus imports with free trade partners are considerably higher than the growth of overall trade flows of Switzerland. From 1988 to 2008 Switzerland's total trade flows with the world increased annually on average by 5.7%. By comparison, Swiss exports plus imports with free trade partners grew on average by more than 10% in the four years following the entry into force of the respective free trade agreements.

Similarly, free trade agreements seem to have a positive impact on foreign direct investment. Over the same period (1988 – 2008) worldwide Swiss foreign direct investment increased annually on average by 12.6%, while the annual growth rate of Swiss FDI directed towards free trade partners was on average 18% in the four years following the entry into force of the respective free trade agreements.

Being aware of the limitations of such statistical calculations, these figures show what appear to be significant positive effects of preferential agreements on trade and investment relations.

How does Switzerland select prospective negotiation partners? The following four criteria are used by the Swiss government as guiding principles:

1. Current and potential economic importance of a prospective partner country;
2. Existing or potential discrimination resulting from free trade agreements concluded by a prospective partner with main competitors of Switzerland;
3. Prospects for successful conclusion of the negotiations;
4. Consistency with Swiss foreign policy objectives.

Looking at China, there is no doubt that one of the world's three largest economies and trading nations in the world fits the principle of economic importance without further question. In the last decade, China accelerated its industrialization and globalization at a very fast pace. The growth of GDP in

the last decade exceeded an average of 9% annually. The Chinese GDP per capita has tripled over the same period. Nevertheless, compared to highly developed countries, average income levels in China are still relatively low. Given the recent growth rates and huge efforts in research and technology development by the Chinese economy this should be read as an indicator of future potential regarding further increase of productivity and wages.

For Switzerland, China is the most important trading partner in Asia. China is now Switzerland's third largest supplier of goods worldwide and the fourth market for Swiss exports (after the EU, the USA and Japan). That is why the negotiations with China are a top priority on the Swiss foreign economic policy agenda.

Regarding the second principle, China has also appeared on the map of Free trade agreements. China's accession to the WTO in December 2001 was the international mirror image of the Chinese policy of internal reform and opening up of the economy. This policy also paved the way for free trade agreements considered by China as an instrument of foreign economic policy. China negotiated free trade agreements first in Asia, with Hong Kong and Macau, and then with the ASEAN group of countries, later China concluded free trade agreements with New Zealand and Chile. Now China is negotiating free trade agreements with Australia, Norway and others, and is exploring negotiations with countries such as Korea, Japan, India and more. So it seems to be the right time that also China and Switzerland start working on a free trade agreement.

Considering the third principle, the prospects for a successful conclusion of a free trade agreement between Switzerland and China, a joint study group – composed of government officials of China and Switzerland mandated by the competent Ministers of both sides – came to the conclusion that such an agreement appears to be feasible. The Joint Study Group delivered its report in August 2010. The group found that the economies of Switzerland and China are both competitive and complementary. Therefore, a comprehensive free trade agreement would be mutually beneficial, significantly improving the framework conditions for economic exchange and cooperation between Switzerland and China. The Joint Study Group recommended that negotiations on a free trade agreement between the two countries should be launched as soon as possible.

When it comes to the fourth principle, it is important to note that, since many years, Switzerland and China entertain excellent bilateral relations in various fields of cooperation. As mentioned earlier, this year marks the 60th anniversary of diplomatic relations between Switzerland and the People's Republic of China. Since then a rich texture of bilateral political and economic contacts has developed, with exchanges in trade and investment, science, technology and education, culture, with technical cooperation on environmental technologies and sustainable water management to name just a few examples, with dialogues

Ambassador Christian Etter with Federal Councillor Doris Leuthard (President in 2010) during the Swiss-Economic Forum in Beijing in August. (Photo by R. Minsch)

on topics such as the protection of intellectual property rights, clean production, human rights, and on financial policy. Considering these broad activities, a free trade agreement would nicely complement, in the field of trade and economic exchange, the already intense bilateral relations.

The objectives of Switzerland pursued in the free trade negotiations with China is to ensure, to the extent possible, legally secured, non-discriminatory access for Swiss companies to the Chinese market and vice versa, by the elimination or lowering, as the case may be, of tariff and non-tariff barriers to trade. The Free trade agreement should provide enhanced opportunities for the further development of the Swiss-Chinese trade and investment relations and of cooperation in many fields, contributing to sustainable growth and employment in both countries.

More specifically, the objective is to eliminate tariffs on industrial products and to eliminate or lower tariffs on a number of agricultural products. The objective includes targeted improvements of market access for services, enhanced protection of intellectual property rights, promotion of investments, and cooperation on matters such as competition, government procurement and sustainable development.

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This speech was prepared with the support of Mr D. Kurek and Mr M. Zbinden, SECO

60th Anniversary of Diplomatic Relations between Switzerland and China

Tuesday 14 September 2010 marked the 60th anniversary of the establishment of diplomatic relations between Switzerland and the People's Republic of China. Since 1950, and especially since the policy of opening and reform in China, bilateral relations have steadily intensified and diversified. In the course of 2010, various events were held in Switzerland and in China to celebrate this anniversary.

Switzerland was one of the first western countries to recognize the government of the People's Republic of China. Diplomatic relations were established on 14 September 1950. This laid the foundations for the good, varied and dynamic relations that Switzerland and China enjoy today.

The People's Republic of China is one of Switzerland's main partners in Asia, as underlined by the numerous and regular visits at the highest level between the two countries. In January 2010, Deputy Prime Minister of the State Council of the People's Republic of China LI Keqiang paid an official visit to Berne. This was followed by an official visit in July by WU Bangguo, speaker of the Chinese parliament. In June Federal Councillor Micheline Calmy-Rey travelled to Beijing and Shanghai and conducted the political dialogue on bilateral regional and global issues on the basis of the memorandum of understanding signed in 2007. In August in Beijing, President of the Confederation Doris Leuthard signed a statement of intent with China on the start of negotiations on a bilateral free trade agreement.

Ambassador Wu Ken and President of the Swiss Confederation, Micheline Calmy-Rey, attended the New Year's gathering in January and mutually wished both countries a prosperous year 2011 and a positive development of the Sino-Swiss ties.

There is a wide spectrum of subjects in the bilateral agreements between the two countries, including politics, business, migration, science and technology, education, environment, health, tourism and culture. Contacts at the level of parliament, cantons, provinces and towns as well as civil society (researchers, artists, tourists) have steadily intensified in recent years. In 1991 Switzerland initiated its first ever human rights dialogue – with China. It has continued regularly since then, focusing in each case on different priority areas.

Since 2002, China has been Switzerland's main trading partner in Asia. Bilateral trade relations are developing very dynamically. Today China is Switzerland's third largest supplier globally and is the fourth largest export market for Switzerland after the EU, the USA and Japan. Switzerland is one of the few western countries to have a positive trade balance with China. It is represented by an embassy in Beijing to which a Swiss Business Hub is attached and by three general consulates in Shanghai, Hong Kong and Guangzhou. Since 2008 Swissnex in Shanghai has been promoting networking between educational institutions in China and in Switzerland.

In the course of 2010 various events were organized to celebrate the anniversary year. On 14 September Federal Councillor Micheline Calmy-Rey opened the photograph exhibition Happy@60 initiated by the FDFA. It was opened simultaneously in Berne and in Beijing. For this exhibition, Chinese photographer Zhu Yinghao and Swiss photographer Petri de Pità were commissioned to portray the lives of 60-year-old men and women in China and Switzerland from the viewpoint of happiness. In Shanghai Swiss light artist Gerry Hofstetter illuminated Shanghai landmarks – the Lupu Bridge and the prestigious marine promenade Bund to mark the 60th anniversary.

Source: Federal Department of Foreign Affairs
www.eda.admin.ch

60-Jahr-Jubiläum in Bern

(Ansprache von Botschafter Wu Ken beim Empfang zum 60-Jahr-Jubiläum der Aufnahme der diplomatischen Beziehungen zwischen der Volksrepublik China und der Schweizerischen Eidgenossenschaft.)

Heute treffen wir mit grosser Freude zusammen, um das 60-Jahr-Jubiläum der Aufnahme diplomatischer Beziehungen zwischen der Volksrepublik China und der Schweizerischen Eidgenossenschaft zu feiern. Zuerst darf ich Sie herzlich willkommen heissen und danke Ihnen aufrichtig für Ihr Kommen.

China und die Schweiz sind zwar geographisch sehr weit voneinander entfernt, aber die freundschaftlichen Kontakte zwischen beiden Völkern haben eine lange Tradition. Kurz nach der Gründung der Volksrepublik China haben die chinesische Regierung und die schweizerische Regierung, ausgehend von den grundlegenden Interessen beider Völker, eine Entscheidung von weitreichend strategischer Sicht und ungewöhnlicher politischer Weisheit getroffen, diplomatische Beziehungen zwischen den beiden Ländern aufzunehmen. Damit wurde ein neues Kapitel in den traditionell freundschaftlichen Beziehungen zwischen den beiden Ländern aufgeschlagen.

Seither sind gut 60 Jahre vergangen. Wenn man im Licht der Gegenwart in die Vergangenheit zurückblickt, stellt man fest, dass die Beziehungen zwischen China und der Schweiz eine ungewöhnliche Entwicklung erfahren haben.

In diesen 60 Jahren sind die politischen Beziehungen zwischen den beiden Ländern mehr und mehr gereift. Mittlerweile sind enorme Veränderungen in China, in der Schweiz und in der Welt zu verzeichnen. Aber die bilateralen Beziehungen zwischen den beiden Ländern haben die Prüfung trotz allerlei komplizierter Faktoren und wechselvoller internationaler Lage bestanden und haben sich gut entwickelt. Insbesondere in den letzten Jahren haben beide Seiten ihre Bemühungen verstärkt, ausgehend von der Gesamtsituation, ihre bilateralen Beziehungen auf lange Sicht zu betrachten, mit Gleichberechtigung und gegenseitigem Respekt die Anliegen des Partners zu berücksichtigen, durch Suche nach Gemeinsamkeiten bei gleichzeitiger Beibehaltung der Meinungsverschiedenheiten sowie durch Intensivierung der Dialoge und Konsultationen alle aufgetauchten Differenzen zu behandeln. Zwischen unseren beiden Ländern besteht ein reger Austausch auf hoher Ebene. Die effektiven Koordinationen und die effizienten Kooperationen in den internationalen Angelegenheiten verstärken sich. Das gegenseitige politische Vertrauen vertieft sich ständig. Die bilateralen Beziehungen befinden sich zurzeit in der besten Periode ihrer

S.E. Botschafter WU Ken

Der neue Botschafter der Volksrepublik China in der Schweiz, S.E. Wu Ken, wurde im Januar 1961 geboren und stammt aus der Provinz Hunan der VR China. Er schloss mit einem Bachelor ab, ist verheiratet und hat einen Sohn.

- 1986 – 1987
  Mitarbeiter bei der Personalabteilung des Außenministeriums der Volksrepublik China
- 1987 – 1988
  Aufbaustudium an der Universität Frankfurt in der Bundesrepublik Deutschland
- 1988 – 1990
  Attaché bei der Abteilung für Sowjetunion und Osteuropa des Außenministeriums der Volksrepublik China
- 1990 – 1993
  Attaché und Dritter Sekretär bei der Botschaft der Volksrepublik China in der Bundesrepublik Deutschland
- 1993 – 1998
  Dritter Sekretär, Stv. Referatsleiter und Referatsleiter bei der Personalabteilung des Außenministeriums der Volksrepublik China
- 1998 – 2001
  Botschaftsrat der Botschaft der Volksrepublik China in der Republik Österreich
- 2001 – 2003
  Stv. Leiter der Personalabteilung des Außenministeriums der Volksrepublik China
- 2003 – 2007
  Leiter der Personalabteilung des Außenministeriums der Volksrepublik China
- 2007 – 2010
  Ausserordentlicher und Bevollmächtigter Botschafter der Volksrepublik China in der Republik Österreich
- seit Sept. 2010
  Ausserordentlicher und Bevollmächtigter Botschafter der Volksrepublik China in der Schweiz

Geschichte. Das von beiden Seiten unterzeichnete Memorandum of Understanding zur Intensivierung der politischen Konsultationen und der weiteren Vertiefung der bilateralen Beziehungen schafft den wegweisenden Rahmen für die künftige Entwicklung der chinesisch-schweizerischen Beziehungen.

In diesen 60 Jahren hat sich die pragmatische Zusammenarbeit zwischen den beiden Ländern wesentlich entwickelt. Das bilaterale Handelsvolumen ist von 6.18 Millionen US-Dollar im Jahre der Aufnahme diplomatischer Beziehungen auf nahezu 9.7 Milliarden US-Dollar in der ersten Hälfte dieses Jubiläumsjahres angestiegen. Heute ist China der wichtigste Handelspartner der Schweiz in Asien und der drittwichtigste Zulieferer bzw. der drittwichtigste Absatzmarkt für Schweizer Produkte in der Welt. Die Schweiz gilt auch als ein wichtiger Handelspartner, Investitions- und Technologielieferant Chinas in Europa. Zurzeit betragen die Direktinvestitionen aus der Schweiz in China 6 Milliarden Schweizer Franken. Die Investitionen chinesischer Unternehmen in der Schweiz haben auch im Bereich Energie, Telekommunikation und Software Fortschritte gemacht. Vor kurzem haben die beiden Seiten angekündigt, dass die Machbarkeitsstudie für ein bilaterales Freihandelsabkommen abgeschlossen ist und in naher Zukunft Verhandlungen über ein Freihandelsabkommen zwischen China und der Schweiz aufgenommen werden sollen. Die Zusammenarbeit im Bereich Wissenschaft, Technologie, Bildung, Umweltschutz und Finanzen zwischen den beiden Ländern ist ebenfalls von Erfolg gekrönt. All das hat nicht nur den beiden Völkern reale Vorteile gebracht, sondern auch eine solide Basis für die Zusammenarbeit in der nächsten Phase geschaffen.

In diesen 60 Jahren hat sich die Freundschaft zwischen den beiden Völkern ständig vertieft. Ein chinesisches Sprichwort heisst: Die staatlichen Beziehungen sind auf die freundschaftlichen Gefühle der Völker angewiesen. In diesem Sinne können wir mit Freude feststellen, dass in den letzten Jahren der kulturelle Austausch zwischen China und der Schweiz sowie das Interesse der Bevölkerungen an gegenseitigem Kennenlernen immer intensiver wurde. Hier möchte ich nur auf zwei bemerkenswerte Beispiele hinweisen:

Erstens, an der EXPO 2010 in Shanghai präsentiert sich die Schweiz mit einem Pavillon zum Thema „Interaktion zwischen Stadt und Land". Der Schweizer Pavillon gehört seit Beginn zu den beliebtesten und meist beachteten Pavillons. Gemäss schweizerischer Statistik lockte er in den ersten drei Monaten über eine Million Besucher an. Die chinesischen Medien berichteten in diesem Zeitraum in rund 1000 Beiträgen über den Schweizer Auftritt. Heute Abend wird „Culturescapes China 2010" in Basel eröffnet. Vom 16. September bis 7. Dezember 2010 werden 62 unterschiedliche Projekte aus den Bereichen Musik, Tanz, Theater, Performance, Literatur, Film und Bildender Kunst Schweiz-weit zu Gast sein. In den kommenden drei Monaten öffnet sich die Schweizer Kulturlandschaft für über 400 Künstlerinnen und Künstler. Diese vielfältigen Veranstaltungen werden nicht nur einen brillanten Regenbogen der freundschaftlichen Kontakte zwischen den beiden Ländern zeichnen, sondern auch eine neue Plattform und gute Chancen für das gegenseitige Verständnis und die weiteren Kontakte zwischen beiden Völkern bieten.

Zweitens, vor meiner Abreise in die Schweiz habe ich im Internet gesurft, um herauszufinden, wofür sich Chinesen bezüglich der Schweiz besonders interessieren. Es wurde deutlich, dass die von Chinesen am meisten besprochenen Themen gerade von „Swiss-made" zu „Schweizer Besonderheiten" übergehen. Viele Personen diskutieren online darüber, was China beim Aufbau einer harmonischen Gesellschaft und für eine nachhaltige Entwicklung von der Schweiz lernen kann und auf welchen Gebieten die beiden Länder Austausch und Zusammenarbeit verstärken können. Das Ergebnis zeigt, dass im Durchschnitt der Volkswille zum Ausbau der chinesisch-schweizerischen Beziehungen über eine fundiertere Grundlage verfügt und die dauerhafte Entwicklung dieser Beziehungen unerschöpfliche Triebkraft birgt.

Obwohl die Zeit so schnell vergeht, bleibt das echte Gefühl ewig bestehen. Wir werden nicht vergessen, dass die Schweiz zu den ersten westeuropäischen Ländern zählt, die das neue China kurz nach seiner Gründung anerkannt und mit ihm diplomatische Beziehungen aufgenommen haben. Wir werden nicht vergessen, dass berühmte schweizerische Unternehmen seit der Reform und Öffnung Chinas mehrfach Rekorde aufstellten in der Investitionszusammenarbeit zwischen China und dem Ausland. Wir werden nicht vergessen, dass die Schweiz als eines der ersten europäischen Länder China nach dem Beitritt zur WTO als Marktwirtschaft anerkannt hat. Wir werden auch nicht vergessen, dass die schweizerische Regierung und das schweizerische Volk mehrmals bei schweren Naturkatastrophen in China dem chinesischen Volk Betroffenheit ausgedrückt und Katastrophenhilfe geleistet haben. Ich möchte diese Gelegenheit wahrnehmen, der schweizerischen Seite für ihre Unterstützungen und Hilfe aufrichtig zu danken.

Es gibt ein chinesisches Sprichwort: „Wenn man Wasser trinkt, sollte man an seine Quelle denken." Die in den letzten sechs Jahrzehnten getragenen reichen Früchte der chinesisch-schweizerischen Beziehungen sind Ergebnisse gemeinsamer Anstrengungen beider Regierungen und beider Völker. Jeder Fortschritt der bilateralen Beziehungen ist auf Bemühungen von zahlreichen Freunden, einschliesslich aller hier Anwesenden zurückzuführen. In diesem besonderen und feierlichen Moment hegen wir mehr Bewunderung für die weise Voraussicht der führenden Persönlichkeiten früherer Generationen unserer beiden Länder, und wir schätzen die wertvollen und unermüdlichen Bemühungen unserer beiden Völker.

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Bei dieser Gelegenheit möchte ich alle Persönlichkeiten aus verschiedenen Kreisen unserer beiden Länder, die wichtige Beiträge zum Freundschaftswerk China-Schweiz geleistet haben, meiner vorzüglichen Hochachtung versichern. Dank ihres stillen und fleissigen Pflügens und Jätens in den letzten sechs Jahrzehnten können die Blumen der Freundschaft und Zusammenarbeit zwischen China und der Schweiz so gut gedeihen.

Die internationale Lage erlebt derzeit tief greifende und komplizierte Veränderungen. Die verschiedenen globalen Probleme und Herausforderungen mehren sich. Die gegenseitige Abhängigkeit aller Länder wächst fortwährend. Es gilt schon als Trend der Zeit, durch Zusammenarbeit nach Sicherheit und Frieden zu streben. Unter diesen neuen Umständen entspricht es den grundlegenden Interessen unserer beiden Länder und Völker, Austausch und Zusammenarbeit auf allen Gebieten sowie in den globalen Angelegenheiten weiterhin zu verstärken. Die chinesische Seite will sich, indem sie auf Aufrichtigkeit, gegenseitiges Vertrauen, beiderseitigen Nutzen, gemeinsame Errungenschaften und Entwicklung besteht, mit der schweizerischen Seite gemeinsam darum bemühen, die freundschaftlichen Beziehungen der Zusammenarbeit zwischen den beiden Ländern auf eine neue Stufe zu heben und einen aktiven Beitrag zum Aufbau einer harmonischen Welt mit dauerhaftem Frieden und gemeinsamer Prosperität zu leisten.

In der chinesischen Kultur bedeuten 60 Jahre einen Zyklus und symbolisieren einen neuen Anfang. In diesem wichtigen Verbindungsmoment der bilateralen Beziehungen die Tätigkeit als der 14. Botschafter Chinas in der Schweiz aufzunehmen, ist mir eine Ehre, aber auch eine erhabene Mission und eine grosse Verantwortung. Ein chinesisches Sprichwort sagt treffend: „Wer mehr ernten will, muss mit mehr Fleiss und Eifer pflügen und jäten." In der Schweiz sagt man: „Freundschaft muss man pflegen, damit sie gedeiht." In diesem Sinne werde ich mich auf meinem ehrenvollen und bedeutenden Posten verantwortungsbewusst und pflichtgetreu um eine dynamische Weiterentwicklung der chinesisch-schweizerischen Beziehungen unermüdlich bemühen und erwarte dafür auch aufrichtige, grosszügige Unterstützung von der schweizerischen Regierung und Persönlichkeiten aus allen Kreisen.

In der Hoffnung, dass wir alle Hand in Hand und Schulter an Schulter ein neues Kapitel in den freundschaftlichen Beziehungen der Zusammenarbeit zwischen unseren beiden Ländern und in der Freundschaft zwischen unseren beiden Völkern aufschlagen, möchte ich mich bei Ihnen nochmals für Ihr Kommen ganz herzlich bedanken.

Bern, 16. September 2010

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Web: www.china-embassy.ch

Economic Mission to China: Impressions

President Doris Leuthard paid an official visit to China from 10 to 14 August 2010, accompanied by a high-ranking business delegation. The main aims of the mission were to hold official talks with Chinese President Hu Jintao and a meeting with the Chairman of China's National People's Congress, Wu Bangguo. Further meetings at government level were held in order to strengthen and consolidate relations between the two countries and improve access to the Chinese market for Swiss products and investments. Talks also focused on the 60th anniversary of diplomatic relations and the joint feasibility study with a view to a free trade agreement between Switzerland and China.

In Chongqing, the first port of call, President Doris Leuthard held official talks with the Mayor Huang Qifan and party secretary Bo Xilai. She also used the opportunity to take stock of the local economic situation in the context of the "Go West" strategy of the Chinese government, which is designed to encourage foreign businesses to participate in opening up and developing Western China.

The second stop on her visit was Shanghai, where she primarily cultivated contacts with the Chinese authorities and met representatives of Swiss business in the city. President Leuthard also visited the Swiss Pavilion at Expo 2010 in Shanghai on 12 August, Switzerland's National Pavilion Day, and

attended the official ceremony in Switzerland's honour.

The last stage of the trip took President Leuthard to Beijing, where she was received by the Chinese Head of State and Party Secretary, President Hu Jintao, for an official working visit. She also met Wu Bangguo, the Chairman of China's National People's Congress. The schedule also included meetings with representatives of the Chinese government and festivities to mark the 60th anniversary of diplomatic relations between Switzerland and China.

In economic terms, China (including Hong Kong) has since 2002 been Switzerland's most important trading partner in Asia. It is worth noting that Switzerland is one of the few western countries to have achieved a trade surplus in dealings with China since 2003. In 2009, the bilateral trade volume amounted to around CHF 10.6 billion. Economic exchanges saw Swiss exports reach CHF 5.5 billion, while imports from China amounted to CHF 5.1 billion. The level of Swiss investments in China had reached around CHF 6.8 billion by the end of 2008. Trade relations with China are continuing to develop at a faster pace than overall Swiss export trade.

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President Doris Leuthard with Party Secretary Bo Xilai in Chongqing. (Photo R. Minsch)

The Basle Symphony Orchestra in Shanghai celebrating the partnership between the two cities. (Photo R. Minsch)

President Doris Leuthard and Chinese Minister of Trade, Chen Deming, witnessing the signing ceremony at the Sino-Swiss Economic Forum in Beijing. (Photo R. Minsch)

Farewell to the Swiss Pavilion 2010

Manuel Salchli
Director Swiss Pavilion

An event of enormous proportions that spanned over six months, the 2010 World Expo came to an end on October 31. The first solar cell was removed from the interactive and intelligent façade of the Swiss Pavilion that day by Manuel Salchli, Pavilion Director, marking the closure of the Swiss Pavilion 2010 and its successful operation during the past six months. It was also the first step in the dismantlement of the Pavilion, which will be rebuilt in Zhongjiang County of Sichuan Province in 2011.

The show's over and the results are in: Shanghai has been host to a record-breaking event. The 2010 World Expo has been the largest-ever fair organized, occupying an area of 5.3 sq km which is twice the size of Monaco. It was the first Expo in a developing country and had the highest-ever number of participants with 189 countries and 57 international organisations represented. The most anticipated statistic did not fail to meet expectations: A total of 73 million people visited over the six month period. Of this 73 million, 97% were Chinese tourists from other parts of the country, attesting to the value of the Expo as not just an event for other countries to come to China, but also a chance for local Chinese who cannot travel abroad (less than 3% have a passport) to experience other cultures.

In keeping with the Expo's overarching theme of sustainability – "Better City, Better Life" – the city of Shanghai has embraced green technology, using electric vehicles and installing energy-saving air conditioning and water filters. Pavilions at the Expo showcased environmental innovations and solutions for future urban development. What was equally important was conveying the idea of environmental awareness.

Only a few structures will remain on the site, confirmed are the China Pavilion, the Theme Pavilion, the Cultural Center, the Expo Center and the Expo Boulevard. In observing the seemingly strict rules of the event's governing body, the Bureau of International Expositions, countries have to dismantle their pavilions and give back the land 'as it was'.

Inside the Swiss Pavilion (Photo by R. Minsch)

Several Basel-based corporations were able to use Basel's presence as a platform – here at the Architectures Day – during the Expo 2010.

The dismantlement of the Swiss Pavilion began on November 1st with the removal of the 10,000 solar cells from the intelligent façade. Visitors who reserved cells ahead of time received them till end of January 2011. "We believe this innovative technology will go on conveying the spirit of the Swiss Pavilion and Shanghai Expo into thousands of Chinese people's homes for years to come", Manuel Salchli said.

During the 184 exhibition days, the Swiss Pavilion has welcomed around 2,8 million visitors in total with a daily capacity of approximately 10,000 visitors. 136 events, exhibitions and performances were held in the Swiss Pavilion to present the diversity of Switzerland to visitors. Snow Pavilions, Swiss Pavilion umbrellas and Logitech mouses were the three most popular items sold in the pavilion store and Swiss dish Raclette was the most popular food in the Swiss Pavilion restaurant.

"We are proud that the Swiss Pavilion was one of the most popular pavilions at Shanghai Expo 2010 from the very first day. Just like Switzerland is a small country, the Swiss Pavilion cannot compete with others by numbers of visitors, but I believe that we've managed to showcase a new image of Switzerland to Chinese visitors", Manuel Salchli said. "We are so grateful for the support from the Expo Bureau, our staff, volunteers and all the visitors who came and stood in line to see the Pavilion. We look forward to more cultural exchanges between Switzerland and China in the future."

Various sources

For further information, please visit:
www.swisspavilion.ch
Presence Switzerland PRS
www.presence.ch

Basel and Shanghai: A Successful City Partnership – Now and in the Future

Basel and Shanghai are two cities that have discovered their shared interests and wish to further expand their strengths within the framework of the successful city partnership which has been in existence since 2007. The two major research centers, business centers and cities of culture promote thriving exchanges – from academic symposia and business platforms through political delegations and working visits for junior managers to a lively cultural exchange.

With Shanghai, Basel has found an attractive city partner in a highly promising target market. Even though the two cities differ greatly in size, their economic interests are nevertheless similar: Shanghai and Basel are both established centers of academia and the life sciences, have strong economies and are considered to be cities of culture. The city partnership also focused on these particular fields, whereby a special emphasis was placed upon the environmental topic of sustainability.

Following almost two years of preparation, in November 2007 State Councillor Dr Carlo Conti and Deputy Mayor TANG Dengjie signed an agreement on the city partnership in Shanghai. A "Memorandum of Understanding" was subsequently drawn up for the years 2008 to 2010. This governs the cooperation between the Canton of Basel-Stadt and the city of Shanghai. A thriving and broad-based partnership has already sprung up, with initial projects and exchange programs in the fields of health, education, business and culture. In the interim, on August 11, 2010 Shanghai's Deputy Mayor SHEN Jun and Basel's State Councillor Hans-Peter Wessels signed a new "Memorandum of Understanding" in Shanghai for the years 2011 to 2013. This sets out the framework for continuing the successful cooperation, and also opens up new fields of cooperation. These include, for example, plans to establish direct flights between Shanghai and Basel for goods as well as for passengers, the possible realization of a Chinese cultural institution in Basel as well as continuing expert exchanges in the field of sustainability.

Key focal points of the city partnership

The University Hospital Basel fosters cooperation with the Medical Schools of the Universities of Fudan, Jiao Tong and Tongji in Shanghai. In 2008 and 2009 this led to reciprocal working visits and scientific symposia in Basel and in Shanghai, and is being intensified on an ongoing basis. In this conjunction, the partnership has also enabled medical professionals to gain personal insights into hospitals, emergency wards and emergency services. Following an initial summer school in Basel, the program is now being extended to include a summer school in Shanghai for Basel-based students. This is intended to provide students and young researchers with the opportunity to engage in fruitful cultural and academic exchanges, thus creating an attractive platform upon which to recruit talented academics in Basel and in Shanghai.

Signing of the MoU for the years 2011–2013 with Deputy Mayor SHEN Jun and State Councillor Hans-Peter Wessels in Shanghai in August 2010.

Chinese Moon Festival in Basle with Executive Councillor Dr Carlo Conti and Ambassador WU Ken in September 2010.

In May and June 2009 the first exchange program brought four qualified young professionals from Shanghai to Basel. These were then able to learn firsthand about Western (corporate) culture at employees such as Basel's public transport companies, the Department for Environmental Affairs and Energy, the Basel Congress Centre or Basel Tourismus, gathering important professional experience for the future. In return, young managers from the Basel region had the opportunity to work in Shanghai in May and June 2010.

Following the extremely successful completion of this pilot phase, preparations are now being made to extend this exchange to the years 2011 and 2012. The program is part of the long-term China strategy pursued by the School of Business FHNW, and is being conducted on behalf of Basel's City Marketing Department and in cooperation with the Shanghai Economic Management College.

The World Expo 2010 Shanghai

The World Expo in Shanghai from May to October 2010 offered a unique platform with which to raise the profile of Basel's strengths and attractions amongst the Chinese public. At the same time, it also made it possible to establish and to deepen contacts with Eastern and global markets. Under the motto "Better Water – Best Urban Life" the three Swiss cities used a dedicated exhibition pavilion, approximately 700 m² in size, to show how the sustainable use of public bodies of water can boost a city's quality of life, thereby constituting one of the city's important competitive advantages. Basel, for example, presented itself as an attractive location, a centre of innovation and ultimately as an active city partner of Shanghai. Within the framework of "Basel Week" in May 2010 and the "Basel-Shanghai-Days" in August 2010, numerous Basel-based individuals and institutions such as the University of Basel, the University Hospital Basel, the FHNW, i-Net Basel and the Department for Environmental Affairs and Energy fostered their respective collaborations. In addition, Swiss special interest and business organizations in Shanghai, along with several Basel-based corporations – in particular also including several Basel-based architects – were able to use Basel's presence as a platform.

Active exchanges at the official level help promote the various cooperative programs, thus enabling these to be developed further. Along with reciprocal encounters at the specialist level, regular encounters also take place at the highest political level. For example, Executive Councillor Dr Carlo Conti inaugurated an original Basel Basilisk fountain in a public park in the centre of Shanghai in April 2009. The fountain – a gift from the City of Basel to the people of Shanghai – is a symbol of the friendship between the partner cities. In June 2009, Shanghai's Mayor HAN Zheng honoured Basel with a visit, and was received by the President of the Executive Councillor Dr Guy Morin. In May 2010 the President of the Executive Councillor Dr Guy Morin and Mayor HAN Zheng as well as Basel's Vice President of the Executive Councillor Dr Carlo Conti and Shanghai's Deputy Mayor TANG Dengjie held a meeting at the World Expo 2010 in Shanghai within the context of the "Basel Week" to discuss their joint interests.

Basilisk fountain – a symbol of the friendship between the partner cities Basle and Shanghai.

Reciprocal intercultural exchange

When it comes to getting to know and understand partners better, a key role is also played by culture. In addition, Basel's Museum of Cultures is planning a series of exhibitions on China in 2011: the two-part exhibition "On Stage – the Art of the Peking Opera" as well as the exhibition "ChinatownTM", explores questions relating to the imagination and reality of present-day Chinatowns. Cultural exchanges are similarly active in the other direction: On August 11, 2010, the evening before Swiss Day at the World Expo, Basel's Symphony Orchestra presented a gala concert in Shanghai as part of its tour of China. This was attended by the Federal Swiss President Doris Leuthard. Three months later, on November 17, 2010, the Shanghai Philharmonic Orchestra staged a concert at Basel's Stadtcasino. From September to December 2010, China's cultural landscape, and in particular the port city of Shanghai, will be the focal points of Basel's "CultureScapes China" Festival.

Further information about the Basel-Shanghai city partnership is available under www.basel.ch.

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China: Annual Economic Report

Appreciation of the economic problems and issues

November 2010

China's economic growth remained robust during the first three quarters of 2010, increasing by 10.6% compared to the same period last year. In the third quarter, growth moderately decelerated to 9.6% year-on-year, after having expanded by 11.9% in the first quarter and 10.3% in the second quarter.[1] This **moderation in growth was broadly expected as the impact of the government stimulus starts to fade and the government took measures to curb inflation and cool the property market.**

While economic recovery in other major economies is still slow, China's policy makers have become more confident that the right measures were taken earlier to avoid a serious downturn as well as an overheating.

During the second quarter, China has surpassed Japan to become the world's second-largest economy after the United States. Due to Japan's continued weak growth, China's economy is expected to overtake Japan's for the full year. This is another sign for China's increasing dominant role in the world economy. China has already become the biggest market for automobiles and mobile phones and has surpassed Germany to become the largest exporter. The country is expected to account for around one-third of global economic growth this year.[2]

After slowing down for several months, China's economic momentum bottomed out in July and has started to stabilize since. Although the impact of the government stimulus (RMB 4 trillion, US$ 586 billion, CHF 693 billion) introduced in late 2008 starts to cease, **fixed investment is still one of the key drivers of economic growth.** Property construction has kept up remarkably well, despite several steps taken by the government to cool the housing market. Industrial production and retail sales have also performed well during the first three quarters. Trade continued to expand, although at a lower rate. During the first three quarters, imports increased by 42.2%, faster than exports which grew by 34.0%. Trade surplus reached US$ 120 billion.[3] Export growth is expected to moderate, in line with the modest economic growth of China's trading partners.

Currently, the government's main concern is how to contain rising inflation and constantly high property prices. The consumer price index (CPI) rose by 4.4% in October,[4] the highest figure since October 2008. A continued rice in food prices is the main driver of inflation. It is expected that the annual inflation will exceed the government's 3% target. **In a surprise move, the People's Bank of China (the central bank) raised the one-year benchmark deposit and lending rates** by 0.25 percentage points in mid October.[5] This was the first rate rise since December 2007, when inflation was over 6%. Although the economic impact from the higher interest rates is expected to be minimal, the move is broadly interpreted as signal by the authorities that they are determined to cool the property market and manage inflation expectations. **More interest rate increases are likely to follow.**

1 National Bureau of Statistics.
2 Bloomberg: "China overtakes Japan as World's Second-Biggest Economy", 16 August 2010.
3 National Bureau of Statistics.
4 National Bureau of Statistics.
5 Wall Street Journal: "China shifts course, raises interest rates", 20 October 2010.

China: Structure of the Economy

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Distribution of GDP (%)									
Primary Sector	15,8%	15,3%	14,4%	15,2%	12,4%	11,7%	11,7%	11,3%	10,60%
Secondary Sector	50,1%	50,4%	52,2%	52,9%	47,3%	48,9%	49,2%	48,6%	46,80%
Tertiary Sector	34,1%	34,3%	33,4%	31,9%	40,3%	39,4%	39,1%	40,1%	42,60%
Distribution of Labor (%)									
Primary Sector	50,0%	50,0%	49,1%	47,0%	44,8%	42,6%	40,8%	39,6%	n/a
Secondary Sector	22,3%	21,4%	21,6%	22,5%	23,8%	25,2%	26,8%	27,2%	n/a
Tertiary Sector	27,7%	28,6%	29,3%	30,5%	31,4%	32,2%	32,4%	33,2%	n/a
(of which state sector)	10,5%	9,7%	9,2%	8,9%	11,2%	n/a	n/a	n/a	n/a

Source: National Bureau of Statistics

Essential Economic Data

	2004	2005	2006	2007	2008	2009
GDP (RMB billion)*	15.988	18.494	21.631	26.581	31.405	34.050
GDP (USD billion)*	1.932	2.257	2.713	3.494	4.520	4.985
GDP per capita (RMB)*	12.299	14.144	16.456	20.117	23.648	25.511
GDP per capita (USD)*	1486	1.726	2.064	2.645	3.404	3.735
GDP growth (%)**	10,1	10,4	11,6	13	9	9,1
CPI inflation (%)***	3,9	1,8	1,5	4,8	5,9	-0,7
Population (billion)	1,300	1,308	1,314	1,321	1,328	1,335
Unemployment rate Level-registered (millions)***	8.3	8.4	N/A	N/A	N/A	N/A
Rate-registered in urban (%)***	4.2	4.2	4.1	4.0	4.2	N/A
EIU estimates (average in %)**	9.9	9.0	9.5	9.2	9.2	9.2
Fiscal balance (% of GDP)**	-1.3	-1,2	-0,8	0,6	-0,3	-2,2
Current account balance (% of GDP)*	3,6	7,1	9,4	10,6	9,6	6,0
Total External Debt (% of GDP)****	13.6	13,1	12,5	11,1	8,6	8,6
Debt-service ratio (% of exports)*****	3.4	3,1	2,4	2,2	2	n/a
Reserves, incl. Gold (USD billion)***** in months of imports	12	13	16,7	17,6	n/a	n/a

*Sources: * IMF World Economic Outlook, October 2010 / ** EIU, Country Report, November 2010 / *** National Bureau of Statistics of China / **** IMF Country Report, July 2010 / ***** World Bank*

In April, the government had already introduced different measures to cool the housing market and curb speculative purchases in order to make housing more affordable for average citizens. At the end of September the government further required banks to stop providing mortgages to buyers of third homes, while minimum deposits for first-time buyers were increased from 20% to 30%. **So far, the measures taken did show only few results.** Property sales declined and housing prices stayed flat for a few months. However, sales picked up again in September and October while prices also rose again.[6]

The government's infrastructure spending was accompanied by an aggressive loosening of credit policy. In the past year, new loans reached RMB 9'600 billion (CHF 1'573 billion[7]), almost the double of 2008. A large proportion of this new bank lending is expected to have poured into stimulus projects set up by local governments[8] and into the stock and housing market. **Banks now face problems with regard to bad loans resulting from last year's lending surge.** According to a recent government survey, about one-fourth of the RMB 7'700 billion in outstanding loans are facing serious default risks.[9]

Criticism regarding China's exchange rate regime has intensified during the past months. In June, China had de-pegged its currency from the US dollar and introduced a certain degree of exchange rate flexibility but its currency has only appreciated marginally since. The US and the EU and many of China's other trade partners are frustrated because one of the world's largest trading countries keeps an artificially low exchange rate. In October, the US Treasury delayed its semi-annual currency report, which assesses the exchange rate policy of trading partners, and therewith retarding its decision on whether to label China a currency manipulator. In September the House of Representatives passed a bill which would allow the US government to impose punitive tariffs on products from countries that manipulate their exchange rates. The bill still needs approval from the Senate and the likelihood of such a law being passed is considered rather low.[10]

Although China has pledged to adjust its exchange rate, **fears persist that drastic currency swings could lead to economic instability.** Therefore, authorities have made it clear that they will only allow "gradual" changes in the exchange rate.

6 Wall Street Journal: "China's battle on property prices not over", 21 October 2010.
7 Average exchange rate in 2009.
8 Local governments in China are not allowed to have debts i.e. to borrow directly from banks. In order to finance projects they set up special investment vehicles to borrow from banks and in capital markets.
9 Wall Street Journal: "China Faces Risks From Government Debt, Bad Loans", 15 October 2010.
10 Financial Times: "US Treasury delays ruling on renminbi", 15 October 2010.

However, **the country's foreign-exchange reserve have reached US$ 2.648 trillion[11] by the end of September which makes it hard for China to explain that its currency policy is not a driver of global imbalances.** China by contrast is concerned about the US governments decision to inject another US$ 600 bn into its economy. Chinese officials have warned that it might lead to excessive capital flows into emerging markets, creating asset bubbles and pushing up international commodity prices. China's foreign exchange regulator already announced measures to tighten the monitoring of hot-money inflows which could put further pressure on the yuan's appreciation.[12]

In its efforts to diversify its foreign exchange holdings, China started to buy more South Korean and Japanese government bonds earlier this year. After record purchases China cut its Japanese holdings by a net 2.02 trillion yen (US$ 24.5 bn) in August and by another 770 billion yen (US$ 9.5 bn) in September.[13] According to Chinese analysts, **China will nevertheless continue to diversify its reserve holdings by acquiring bonds from major economies.**

In another move to encourage the international use of the yuan, the central bank announced in August a pilot scheme which will allow foreign financial institutions[14] to invest in the domestic interbank bond market.

In mid October, the central committee of the **Chinese Communist Party discussed and approved the 12th Five Year Plan which sets the country's development strategy for the period between 2011 and 2015.** The full plan will be adopted and unveiled at the annual meeting of the National People's Congress (China's legislature) next March. The proposal focuses on the importance of economic rebalancing. Particularly on the **strengthening of domestic demand** through expanding consumption and the need to improve people's livelihood by adjusting income distribution and develop a more comprehensive social safety net. Further emphasis is put on the need to adjust the economic structure by upgrading traditional industries and develop new strategic industries especially in the areas of energy efficiency and environmental protection. Another major theme is the **balancing of the regional development** by fostering urbanization and pushing the development of inland regions.[15]

Although the 11th five year plan (2006–2010) already aimed at promoting quality instead of quantity and proposed structural changes, progress has been low. Investment and exports as a share of GDP are still by far more important than household consumption. It will require further substantial policy changes in order to shift the growth model.

International and regional economic agreements

Country's policy and priorities

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

Since China's accession to the WTO in 2001, the country has implemented almost all of its WTO commitments and has made significant progress in many areas. Foreign companies have continued to profit from reduced tariffs, the elimination of import licences and quotas, the opening of more sectors for foreign participation, 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.[16]

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

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

Tensions with major trading partners, in particular with the US and the EU, have accelerated in the wake of the economic crisis. Trade disputes exist over a range of issues and have aggravated protectionist fears among all three parties. According to the Min-

11 Wall Street Journal: "China forex reserves see record gain", 14 October 2010.
12 Wall Street Journal: "China SAFE Pledges to Curb Hot Money Inflows", 9 November 2010.
13 People's Daily: "China sells Japanese bonds for a second month in a row", 10 November 2010.
14 Banks in Hong Kong and Macau which already conduct renminbi clearing, foreign central banks involved in currency swap deals and international banks participating in renminbi settlements are allowed to apply for investment quotas.
15 Communiqué of the Fifth Plenum of the 17th CPC Central Committee – Beijing Review
16 Economist Intelligence Unit, China Hand, February 2008.

istry of Commerce, China has been a major target of trade protectionist measures worldwide in the past year and expects charges in the future due to the subdued growth prospects in most developed nations.[17]

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 came into force in 2010 for China and the six original ASEAN members[18] and will be expanded in 2015 by including the newer and less developed ASEAN members.[19] 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 investment, was signed in August 2009. Together with an agreement on trade in services that was signed in January 2007, the negotiation process with regard to CAFTA is completed. China and ASEAN have defined 11 major fields as directions for future cooperation, including agriculture, information and telecommunications, transport, tourism, Mekong River exploitation, energy, culture, human resource, and the environment.[20]

Trade links between China and the original ASEAN members are still modest compared to the ones with their other trade partners, but they are expected to grow further in the future. While government officials from all parties emphasize the win-win situation expected from the CAFTA, some sectors which directly compete with Chinese products (such as textiles and garments, tires, steel and footwear) fear they cannot keep up with Chinese competitors.[21]

In support of the CAFTA a first stage of a China-ASEAN Fund on Investment Cooperation amounting to US$ 1 billion was established at the end of 2009. The fund which is under government direction will eventually reach US$ 10 billion and invest in cooperation projects in areas such as transportation facilities, public utilities, communication, energy and resources.[22]

It follows from China's tightening ties with ASEAN that the country would **press for further regionalism.** In the framework of ASEAN+3 (China, South Korea and Japan) efforts to strengthen regional financial stability in East Asia were intensified. In March this year, the Chiang Mai Initiative Multilateralization Agreement between the ASEAN+3 members and Hong Kong came into effect. The multilateral currency swap totalling US$ 120 billion shall address balance of payment and short-term liquidity difficulties in the region by supplementing the existing international financial arrangements.[23]

Other free trade agreements

While multilateral trade has been developing rapidly, China also signed several bilateral free trade agreements in 2009, and is expected to sign more this year.

- In January 2009, China and Costa Rica began their first round of FTA negotiations. The 6th round of talks was held in February 2010. An agreement was reached on trade in goods and services, rules of origin, customs procedures, technical barriers to trade, sanitary and phytosanitary measures, dispute settlement, trade remedy and intellectual property rights. The agreement was signed on 8 April, 2010 in Beijing, the implementation should follow in the second half of this year, after both governments have concluded their respective approval procedures. Under the agreement, tariffs shall be gradually eliminated on over 90% of the products traded between the two countries.[24]
- China and **Pakistan** signed an agreement on trade in services in February 2009 which took effect in October the same year. The pact leads to a China-Pakistan comprehensive free trade zone including trade in goods, trade in services and investment (a free trade agreement on goods between the two countries was already signed in 2006). Specifically, Pakistan will relax its shareholding restrictions on China's investment in sectors of construction, telecom, finance, distribution, health care, environmental protection, tourism, transportation, research and development and IT education. The sectors that China will open mainly include mining, environmental protection, health care, tourism, sports, transportation, translation, real estate, computer, marketing consultancy.[25]
- China and **Peru** concluded negotiations for a free trade agreement in November 2008. The pact was signed in April 2009 and entered into force at the beginning of March 2010. It will gradually reduce tariffs on about 90% of goods traded between the two countries.[26]

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17 China Daily: "Experts warn of impacts from trade protectionism", 9 April 2010.

18 Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand

19 Cambodia, Laos, Myanmar, Vietnam

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

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

22 Global Times: "China, ASEAN strengthen financial ties", 22 October 2009.

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

24-26 Ministry of Commerce: http://fta.mofcom.gov.cn

- 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.[27]
- China and **Chile** signed a supplementary agreement on free trade in services in April 2008 which entered into force on August 1, 2010. 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. Moreover the two countries have already completed six rounds of negotiation talks in regard of a FTA in investment.[28]
- In April 2008, China signed a FTA with **New Zealand**, marking the first such deal between the biggest developing country and a developed economy. Under the FTA which came into effect in October 2009, New Zealand will phase out all tariffs on imports from China (textiles, clothing and footwear) until 2016. China will remove tariffs on 96% of its imports from New Zealand until 2019 with tariffs on some products (especially dairy products, meat, wool, etc.) being cut to zero. The agreement covers not just goods but also services, from insurance and banking to education and labour supply as well as investment. China sends more students to New Zealand than any other country and is its fourth-largest source of tourists.
- In January 2004, the Closer Economic Partnership Arrangement (CEPA), the first regional trade agreement between China and **Hong Kong** as well as between China and **Macao**, went into effect. The CEPA initially covered the three areas of trade in goods, trade in services, and investment. It has since been expanded several times. Supplement VI went into effect on 1 October 2009, and shall give Hong Kong and Macau firms greater and easier access to the mainland market for certain service sectors.[29] The Supplement VII between Hong Kong and mainland China was signed on 27 May, 2010 and will enter into force on 1 January, 2011. It further relaxes Hong Kong's market access to the mainland in 14 service sectors such as medical services, technical testing, analysis and product testing and social services.[30]

Free trade agreements under negotiation

- China and **Australia** are currently negotiating a free trade deal. A framework agreement was signed in October 2003 and talks began in May 2005, after the conclusion of a feasibility study. Negotiations have been challenging, due to substantial stumbling blocks, namely in agriculture and industrial goods. A 15th round of negotiations was held in June 2010. A further round of negotiations is scheduled to take place later in the year.[31]
- **Norway** and China completed a feasibility study and launched the official Sino-Norway FTA Negotiation in October 2008. The 8th round of negotiations took place in September 2010 and included discussions on commodity and service trade, investment, rules of origin, SPS/TBT, settlement of disputes and IPR.[32]
- FTA negotiations between **Iceland** and China began in April of 2007, and by May 2008 four rounds of negotiations were completed. Due to Iceland's application for EU membership in July 2009, no further talks are currently taking place.
- In July 2004, China and the **Gulf Cooperation Council (GCC)** announced the launch of FTA negotiations. Till now, five rounds of negotiations have taken place with the last round held in June 2009. An agreement was reached on the majority of issues concerning trade in goods. Negotiations on trade in services are also launched.[33]
- In June 2004, China and the **Southern Africa Customs Union (SACU)**[34] announced the launch of free trade negotiations. So far, no negotiations have taken place.[35]

Free trade agreements under consideration

- China and **South Korea** conducted two rounds of joint research in 2005 and 2006 which will form the basis for exploring the possibility of initiating FTA negotiations. Negotiations are expected to start this year or in the first half of next year.[36]
- **India** and China have completed a feasibility study on their proposed free trade agreement in fall 2007. It now awaits the approval of the leadership of the two countries to commence FTA negotiations.
- The commerce ministers of **China, Japan and South Korea** agreed in May this year to complete

27 Xinhua: "China signs zero-tariff trade deak with Senegal",18 October 2009.
28 Ministry of Commerce: http://fta.mofcom.gov.cn
29 Xinhua: "Chinese mainland market opened wider to HK businesses", 9 May 2009.
30 South China Morning Post: "Cepa boosts six pillar industries", 28 May 2010.
31 Australian Government, Department of Foreign Affairs and Trade: www.dfat.gov.au
32 Ministry of Commerce: http://fta.mofcom.gov.cn
33 Ministry of Commerce: http://fta.mofcom.gov.cn
34 South Africa, Botswana, Namibia, Lesotho, Swaziland
35 Ministry of Commerce: http://fta.mofcom.gov.cn
36 China Daily: "China, South Korea to kick off FTA talks", 28 May 2010.

Trading partners of the People's Republic of China

Exports to Country/Region

Exports to Country/ Region	Billion USD	Share %	Growth in % to a com-parable previous period
Jan – Dec 2009			
USA	220,8	18,4%	-12,5%
Hong Kong	166,2	13,8%	-12,8%
Japan	97,9	8,1%	-15,7%
South Korea	53,7	4,5%	-27,4%
Germany	49,9	4,2%	-15,7%
Netherlands	36,7	3,1%	-18,4%
United Kingdom	31,3	2,6%	-13,3%
Singapore	30,1	2,5%	-6,9%
France	21,5	1,8%	-7,9%
Australia	20,6	1,7%	-7,2%
EU	236,3	19,7%	-19,4%
ASEAN	106,3	8,8%	-7,0%
EFTA	5,4	0,4%	
Iceland	0,05	0,0%	-41,8%
Liechtenstein	0,01	0,0%	-28,3%
Norway	2,68	0,2%	4,5%
Switzerland	2,67	0,2%	-32,0%
Total	**1.201,7**		**-16,0%**

Exports to Country/ Region	Billion USD	Share %	Growth in % to a com-parable previous period
Jan – Sept 2010			
USA	205,5	18,1%	30,7%
Hong Kong	152,4	13,4%	33,1%
Japan	86,5	7,6%	24,1%
Germany	49,6	4,4%	40,2%
South Korea	49,5	4,4%	31,0%
Netherlands	35,9	3,2%	25,8%
India	29,5	2,6%	33,1%
United Kingdom	27,8	2,5%	25,8%
Singapore	24,0	2,1%	16,4%
Italy	22,2	2,0%	49,8%
EU	226,1	19,9%	35,0%
ASEAN	99,5	8,8%	36,2%
EFTA	4,4	0,4%	15,8%
Iceland	0,051	0,0%	43,7%
Liechtenstein	0,006	0,0%	27,9%
Norway	2,119	0,2%	21,9%
Switzerland	2,208	0,2%	9,8%
Total	**1.134,6**		**34,0%**

Imports from Country/Region

Imports from Country/ Region	Billion USD	Share %	Growth in % to a com-parable previous period
Jan – Dec 2009			
Japan	130,9	13,0%	-13,1%
Taiwan	85,7	8,5%	-17,0%
USA	77,4	7,7%	-4,8%
Germany	55,8	5,5%	0,0%
Australia	39,4	3,9%	5,4%
Malaysia	32,3	3,2%	0,7%
Brazil	28,3	2,8%	-5,3%
Thailand	24,9	2,5%	-3,0%
Saudi Arabia	23,6	2,3%	-23,9%
Russia	21,3	2,1%	-10,7%
EU	127,8	12,7%	-37,0%
ASEAN	106,7	10,6%	-8,8%
EFTA		0,0%	
Iceland	0,03	0,0%	-5,3%
Liechtenstein	0,05	0,0%	61,0%
Norway	3,10	0,3%	42,4%
Switzerland	6,90	0,7%	-6,1%
Total	**1.005,6**		**-11,2%**

Imports from Country/ Region	Billion USD	Share %	Growth in % to a com-parable previous period
Jan – Sept 2010			
Japan	127,9	12,6%	38,4%
South Korea	101,7	10,0%	39,7%
Taiwan	86,2	8,5%	44,3%
USA	73,0	7,2%	33,8%
Germany	54,1	5,3%	34,8%
Australia	43,2	4,3%	51,3%
Malaysia	36,4	3,6%	66,3%
Brazil	27,7	2,7%	30,6%
Thailand	24,3	2,4%	39,4%
Saudi Arabia	23,8	2,3%	57,0%
EU	123,4	12,2%	33,4%
ASEAN	111,8	11,0%	51,1%
EFTA	14,5	1,4%	98,6%
Iceland	0,030	0,0%	10,9%
Liechtenstein	0,051	0,0%	47,6%
Norway	2,390	0,2%	-0,5%
Switzerland	12,042	1,2%	147,5%
Total	**1.014,0**		**42,2%**

Source: China's Custom Statistics

a joint feasibility study with regard to a possible free trade agreement within two years. A second meeting of a joint committee consisting of representatives from government, business and academia took place at the beginning of September. A third round is scheduled to take place in December.[37]

- Also in May 2010, China initiated feasibility studies for a FTA with **Mongolia**. China is the main importer of mineral products from Mongolia and wants to strengthen its cooperation with Mongolia in natural resources.[38]

Relations between China and Taiwan

After over ten years without any negotiations, cooperative meetings between Chinese and Taiwanese representatives have taken place since Ma Ying-jeou took office as Taiwan's president in 2008. 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[39]. In 2009 different agreements to strengthen cooperation were signed in order to facilitate mainland investment in Taiwan's financial markets, increase flight connections, strengthen cooperation for crime fighting and cooperation in agricultural quarantine inspection, industrial product standards and inspection and certification.

Negotiations on a **Economic Cooperation Framework Agreement (ECFA)** started in 2010. Although the ECFA was highly controversial and widely discussed in Taiwan, the deal was signed on 29 June, after five rounds of negotiations. The ECFA is widely regarded as a **milestone in institutionalising cross-Strait relations** as it provides for the first time a legal framework for the economic ties that have developed over the past three decades. Under the agreement, which took effect on September 12, both sides agreed to gradually reduce and remove trade and investment barriers and to seek ways to further strengthen economic cooperation in areas such as financial cooperation, IPR, customs cooperation, etc.[40] Critics fear the agreement will lead to a flood of cheap Chinese goods, an exodus of well-trained professionals and especially a growing dependence on China. The Ma administration underlines that the ECFA will facilitate similar economic pacts with other countries. Talks with Singapore are said to be underway.[41]

Outlook for Switzerland (potential for discrimination)

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

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

Both sides started to draft the joint feasibility study at the beginning of this year. The joint study group met three times between February and August and managed to conclude the study.[42] On the occasion of the visit of President Leuthard to China in August this year, **a MoU was signed stating that the joint feasibility study was concluded and that both parties agreed to launch negotiations in the near future.** Negotiations will probably start at the beginning of next year. Therewith, a substantial and important progress in the FTA was made within this year.

In January 2009 a **revised bilateral investment protection agreement was signed** which provides notable improvements especially with regard to the transfer of returns on capital and investment, compensation for expropriation and dispute settlement procedures. The revised agreement entered into force on 13 April this year.[43]

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 at company level.

In 2010, Switzerland and China are celebrating the 60th anniversary of the establishment of diplomatic relations. On this occasion, several high-level visits on both sides took place such as the visit of Vice Premier Li Keqiang to Switzerland in January this year, the visit of Federal Councillor Micheline Calmy-Rey to Beijing and Shanghai in June, the visit of the President of the Swiss Confederation, Mrs Doris Leuthard, to China in August and the visit of

37 Ministry of Commerce: http://fta.mofcom.gov.cn
38 People's Daily: "Free trade deal with Mongolia on the cards", 12 May 2010.
39 South China Morning Post: "Deput Appearance", 19 May 2009.
40 Xinhua: "Landmark cross-Strait economic pact takes effect", 13 September 2010.
41 Economic Daily News: "Priority option in pushing for FTA", 7 November 2010.
42 For the joint feasibility study, please visit: http://www.seco.admin.ch/themen/00513/02655/02731/04118/index.html?lang=de
43 For the agreement, please visit: http://www.eda.admin.ch/eda/de/home/topics/intla/intrea/dbstv/data59/e_20092659.html

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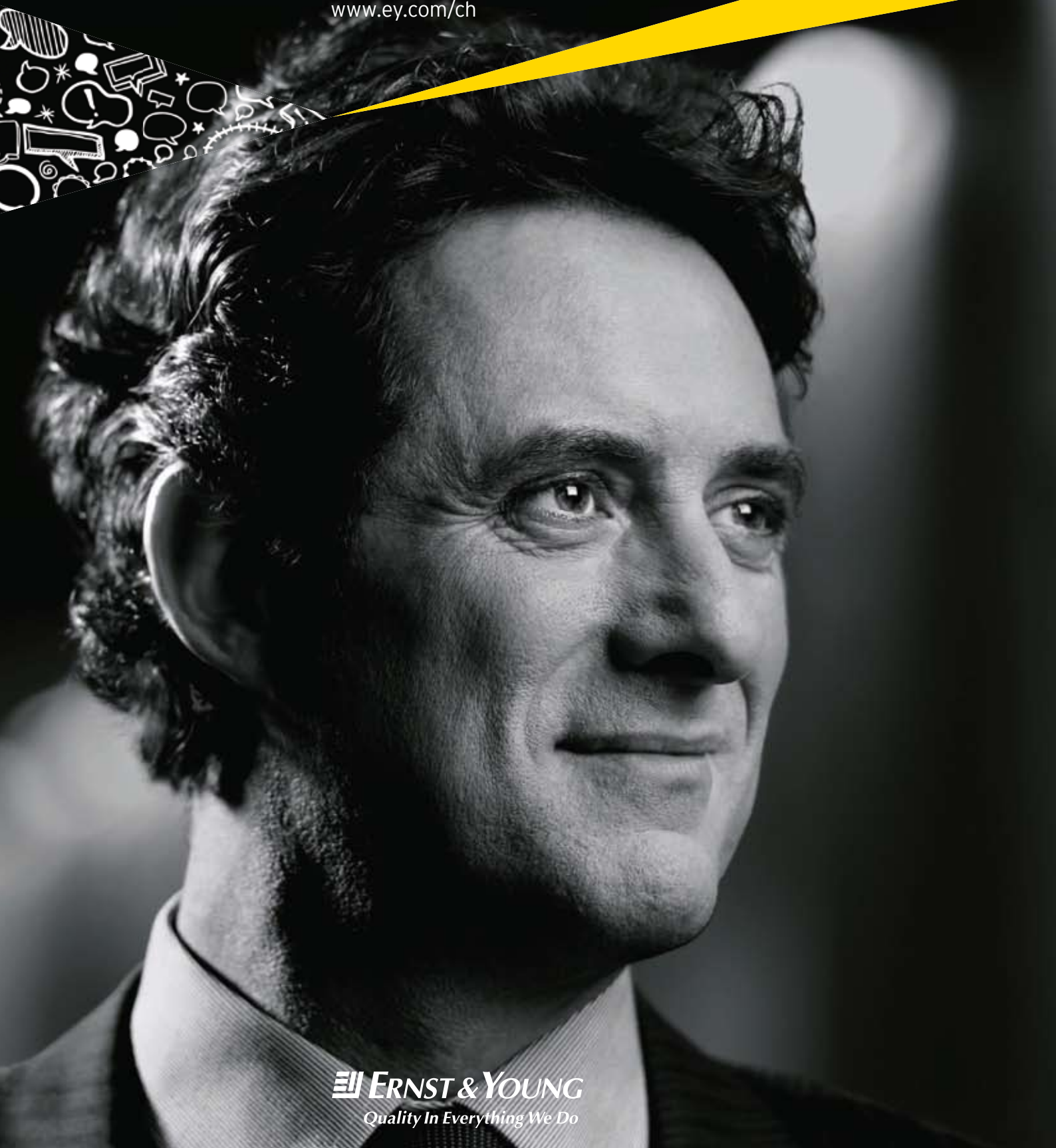

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Federal Councillor Moritz Leuenberger to Shanghai in September.

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 declined in 2009.** While import growth was strong, external trade negatively affected GDP growth in the past year. **In 2009, the total trade value reached US$ 2.21 trillion, a drop of 13.9% compared to the previous year.** The growth rate dropped below 20% for the first time since seven years. Exports decreased by 16.0% to US$ 1.20 trillion and imports reached US$ 1.01 trillion, down 11.2%. Therewith, China's trade surplus reached US$ 196.1 billion, a decrease of 34.2% over the previous year.

China's exports rebounded strongly towards the end of 2009 and during the first three quarters of 2010. From January to September, exports reached US$ 1134.6 billion, a growth of 34.0% compared to the same period last year, while imports grew by 42.2% year-on-year and reached US$ 1014.0 billion. The trade surplus remained positive with US$ 120.6 billion, however the surplus decreased by US$ 14.9 billion or 11% compared to the same period last year.

From January to September, Chinas most important export markets were the E.U. (19.9% of total exports), the United States (18.1%), Hong Kong (13.4%) and the ASEAN countries (8.8%). During the same period, China's most important import sources were Japan (12.6% of total imports), closely followed by the EU (12.2%), the ASEAN countries (11.0%) and South Korea (10.0%). China's most important trading partners were the EU (16.3% of total trade), the United States (13.0%) and Japan (10.0%).[44]

Due to China's stimulus-related investment boom, demand for commodities such as iron, copper and oil has been rising in recent months. At the same time manufacturers have been restocking on imported components necessary for the export processing sector. Although the monthly trade balance turned negative in March this year – for the first time in six years – exports have quickly recovered and surpassed imports in the following months. **The trade surplus is expected to remain substantial in the coming years.**

Most countries and regions have been benefiting from the strong Chinese demand during the recent months. Chinese imports from the U.S. grew by 33.8% during the first nine months, those from the EU by 33.4%. China's neighbouring countries saw their exports rising as well; Japan's exports to China rose by 38.4%, Malaysian exports by 66.3% and those of the ASEAN-countries in all by 51.1%. Due to its investment boom China's demand for resources and commodities has increased substantially. Therewith, Australian exports to China rose by 51.3% and imports from Africa grew by 73.7%. During the same period Chinese imports from India (year-on-year rise of 62.1%), Brazil (30.6%) and Saudi-Arabia (57%) also experienced an impressive growth.[45]

However, **trade tensions with some countries remain** and are not only limited to the U.S. and the EU. Japanese traders and government officials criticized China for blocking the export of rare earths – a set of mineral elements crucial for the production of high-tech products – amid a recent territorial dispute between the two countries. China denied that there was any embargo on shipments.[46] In November the Ministry of Commerce announced new rules and procedures for companies applying for the export of rare earths. Rare earth producers especially have to ensure an environmental friendly and resource-efficient production.[47]

Bilateral trade

Trade in goods[48]

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 general, bilateral trade with China is developing at a higher rate than Switzerland's overall foreign trade.

The economic crisis also negatively affected Sino-Swiss bilateral trade. In 2009, Swiss exports to China fell by 10% to CHF 5.5 billion while imports from China still went up by 3.3% and reached CHF 5.2 billion, resulting in a slight trade surplus of CHF 300 million. The total trade volume reached CHF 10.7

44 General Administration of Customs of the P.R.C., China Customs Statistics, September 2010.
45 EIU Country Report China, October 2010.
46 New York Times: "Japan calls on China to resume rare earth exports", 24 October 2010.
47 People's Daily: "China issues new rare-earth rules", 12 November 2010.
48 The figures discussed in this section can be found in annexe 4.
49 Swiss Federal Customs Administration
50 National Bureau of Statistics. "Statistical Communiqué of the P.R.C. on the 2009 National Economic and Social Development", 26 February 2010.
51 Ministry of Commerce.
52 "Five Major Changes of the New Corporate Income Tax law and the Impact on Foreign Investment in China": 5 June 2008. http://fdi.gov.cn:8080/pub/FDI_EN/News/Focus/Subject/News-The%20focus/taxlaw03/t20080605_93658.htm

billion, a decrease of 4.3% compared to the previous year.

Bilateral trade recovered well during the first three quarters of 2010. Swiss exports to China increased by 30.3% to CHF 5.19 billion compared to the same period last year while imports from China grew by 19.7% to CHF 4.56 billion, leaving a slight trade surplus of CHF 633 million for Switzerland. The total trade volume reached CHF 9.75 billion, up 25.2% year-on-year.

Combining the trade data of mainland China and Hong Kong, exports increased by 22.6% to CHF 9.93 billion and imports grew by 24.3% to CHF 5.73 billion, leaving a trade surplus of CHF 4.2 billion. The total trade volume (including Hong Kong) reached CHF 15.66 billion, up 23.1% compared to the same period last year.

The most important import goods from China are machinery, apparatus and electronics (Jan. to Sept. 2010 share of imports 36.0%), textiles, apparel and shoes (15.3%), chemicals and pharmaceuticals (12.1%) and precision instruments, watches and jewellery (11.7%).

Exports from Switzerland to China are dominated by machinery, apparatus and electronics (Jan. to Sept. 2010 share of exports 40.6%), precision instruments, watches and jewellery (23.8%) and chemicals and pharmaceuticals (17.2%).[49]

Direct investments

Development and general outlook

The financial crisis negatively affected foreign direct investment (FDI) to China, not because of suppressed market prospects for China but because foreign investors were facing financing problems in their domestic countries. In 2009, FDI therewith fell by 2.6% to US$ 90 billion.[50]

However, FDI has recovered well during the first three quarters of 2010, reaching US$ 74.34 billion, a growth of 16.6% compared to the same period last year. Therewith **China's FDI growth is almost back to the pre-crisis level.**[51]

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

In a move to create a tax neutral FDI policy, the new Corporate Income Taxation Law (CIT) which went into effect on 1 January 2008 removed many of the preferential treatments foreign companies previously enjoyed to create a more equal environment.[52]

Bilateral trade Switzerland – P.R. China, Jan – Sept 2009/2010

	Class of goods	Import in CHF		Δ	Import share (%)	Export in CHF		Δ	Export share (%)	Trade balance in CHF
		Jan – Sept 2009	Jan – Sept 2010	in %		Jan – Sept 2009	Jan – Sept 2010	in %		
1	Agricultural products	90.026.687	90.184.029	0,17%	1,98%	26.936.775	38.188.433	41,77%	0,74%	-51.995.596
2	Energy carriers	12.924	12.747	-1,37%	0,00%	1.104.646	3.137.642	184,04%	0,06%	3.124.895
3	Textiles, apparel, shoes	693.637.141	697.138.755	0,50%	15,29%	146.699.934	113.785.357	-22,44%	2,19%	-583.353.398
4	Paper, paper products, printed matter	25.985.594	27.626.643	6,32%	0,61%	19.390.733	16.275.124	-16,07%	0,31%	-11.351.519
5	Leather, rubber, plastics	182.657.576	213.464.693	16,87%	4,68%	65.735.197	103.385.130	57,28%	1,99%	-110.079.563
6	Chemicals, pharmaceuticals	455.540.311	550.264.859	20,79%	12,07%	917.719.079	893.002.521	-2,69%	17,20%	342.737.662
7	Construction materials, ceramics, glass	48.718.515	60.956.358	25,12%	1,34%	15.398.082	20.459.751	32,87%	0,39%	-40.496.607
8	Metals and metal products	239.191.068	278.357.925	16,37%	6,11%	167.084.113	275.259.666	64,74%	5,30%	-3.098.259
9	Machinery, apparatus, electronics	1.242.257.639	1.640.275.773	32,04%	35,98%	1.580.765.810	2.109.251.784	33,43%	40,63%	468.976.011
10	Vehicles	71.560.200	82.038.665	14,64%	1,80%	25.456.499	34.851.594	36,91%	0,67%	-47.187.071
11	Precision instruments, watches, jewellery	418.660.310	531.313.103	26,91%	11,66%	900.412.591	1.236.164.952	37,29%	23,81%	704.851.849
12	Furniture, toys	333.008.632	376.120.221	12,95%	8,25%	21.377.531	25.556.528	19,55%	0,49%	-350.563.693
13	Precious metal, precious stones, gemstones	3.036.672	5.634.872	85,56%	0,12%	78.184.411	302.011.284	286,28%	5,82%	296.376.412
14	Objects of art and antiques	2.562.808	5.022.646	95,98%	0,11%	17.066.524	20.278.174	18,82%	0,39%	15.255.528
	Total	**3.806.856.077**	**4.558.411.289**	**19,74%**	**100%**	**3.983.331.925**	**5.191.607.940**	**30,33%**	**100%**	**633.196.651**

Source: Federal Customs Administration

In April this year, the State Council issued an opinion on FDI which confirms its approach followed since 2006. In order to **continue the promotion of "quality over quantity"**, the following five investment areas shall be further encouraged: high-end manufacturing industry, high-tech industry, modern service industry, new energy industry and energy-efficient and environmentally clean industries. **Preferential policies for land use and tax breaks shall help to attract foreign investment into these encouraged categories.** China further has a special interest to **channel foreign investment to its central and western regions.** In order to enable these regions to experience a similar development as the coastal areas, tax breaks and labour intensive industries are now formally encouraged in the central and western regions.

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

Although the opinion proposes to improve the foreign exchange management for FIEs, it unfortunately does not provide concrete instruction on how this should be implemented.

The government also proposes **to expand the scope of utilization of foreign capital** by for instance encouraging the participation of foreign capital in the reform and restructuring of domestic enterprises by means of equity participation and mergers and acquisitions (M&A) and allowing A-share listed companies to get investment from both domestic and foreign strategic investors.[53]

At the beginning of March, **the administrative measures for the establishment of foreign-invested partnerships** (FIP), promulgated by the State Council in December 2009, became effective. China's Partnership Enterprise Law has been in force since June 2007, but only Chinese domestic enterprises or individuals could become partners. The new measures now provide a framework for foreign-invested partnerships – partnerships between two or more foreign entities or individuals, or jointly with Chinese individuals, legal persons or other Chinese organisations – and therewith a new vehicle for foreign investment. The government will **encourage foreign companies and individuals possessing "advanced technologies" and "management experience" to establish FIPs in China.** The definition of these two features remains unclear. The current restrictions regarding foreign investments in certain industries also applies to FIPs, however for the allowed industries the FIP measures facilitate investment to China by eliminating the requirement for prior approval by the Ministry of Commerce or its local offices. No specific details are given regarding the required capitalization of FIPs and the status of foreign investment funds which are in general often structured as partnerships.[54]

The adoption of China's first Anti-Monopoly Law in August 2008 was received with mixed feelings by many foreign businesses. Multinational companies feared the law could serve as a tool to allow for protectionist measures against foreign companies in China. A main concern are the broad and vague provisions which leave much scope for decision making to the responsible Chinese authorities. Up to now, more then 140 mergers were reviewed under the law and the **regulators seem to use a fairly conservative approach, not using the law exclusively against foreign companies.** So far, only Coca Cola's attempt to acquire Huiyuan – China's largest juice producer – was blocked.[55]

Currently, **the government is in the process of developing new rules for national security review of mergers & acquisitions** between Chinese and foreign companies. While the Anti-Monopoly Law provides for such a review, respective implementation regulations have not yet been published. The plan under discussion provides for the establishment of a multi-ministry committee, headed by an official at vice-premier level. Although details of the implementations such as the definition of "national security" or the industries considered to be important to national security are not yet clear, the new review mechanism will further complicate the regulatory approval for M&A.[56]

In general, regulations with regard to mergers and acquisitions (M&A) 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.**

Foreigners are still excluded or confined to a minority participation in particularly sensitive or strategic sectors of the economy.[57] The withdrawal of capital and profits from China is possible, but barriers remain and make the process complex and tedious for businesses.

In recent months, **foreign companies have increasingly complained that the business environment in China is deteriorating and foreign investment is no longer welcome.** Especially the State Council's attempt to promote "indigenous innovation" – a plan to support the creation and commercialization of domestic technology by requiring products to have Chinese intellectual property in order to qualify for the government procurement catalogue – was strongly criticized.[58] In April the government decided to soften those rules and pledged that foreign companies shall not be discriminated in the Chinese market.[59] **On different occasion, high-level officials underlined China's commitment to foreign investment.** In September, Premier Wen Jiabao assured foreign investors that China is striving to create an open and

fair environment for foreign investors. Wen promised that "all enterprises registered in China according to Chinese law are Chinese enterprises" and that equal treatment would be given to products from foreign and Chinese invested companies in government procurement.[60]

Despite this criticism, China remains a top FDI destination. By 2009, China's accumulated FDI stock amounted to US$ 473 billion, well ahead of other large developing and transition economies such as Brazil (US$ 401 billion), India (US$ 164 billion) or Russia (US$ 256 billion).[61] According to the Ministry of Commerce, FDI to China will continue to grow in the long-run due to increasing domestic demand and improving labor quality. However, concerns remain regarding how to maintain a high FDI growth rate in the short-term as China is adjusting its FDI policy in order to channel more investment into the service sector and to its central and western regions.[62] A recent UNCTAD survey shows that China will remain a top destination for inward FDI in the period of 2010–2012.[63]

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. China's investment in Africa attracted attention again in May, when the country announced multi-million investments in the development of cement plants in South Africa and Mozambique, an oil refinery in Nigeria and the mining sector in Zambia.[64]

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.

A report on the foreign investment of Chinese companies released by the China Council for the Promo-

China: Foreign Direct Investment

Rank	Country/ Region	FDI (mio USD) 2009	Share (%) 2009	Variation (%) year on year
1	Hong Kong	46.075	51,18%	12,27%
2	Virgin Islands	11.299	12,55%	-29,18%
3	Japan	4.105	4,56%	12,40%
4	Singapore	3.605	4,00%	-18,71%
5	South Korea	2.700	3,00%	-13,88%
6	Cayman Islands	2.582	2,87%	-17,90%
7	USA	2.555	2,84%	-13,21%
8	West Samoa	2.020	2,24%	-20,75%
9	Taiwan	1.881	2,09%	-0,95%
10	Germany	1.217	1,35%	35,22%
	Switzerland	300,0	0,33%	23,66%
	Total	**90.033**		**-2,60%**

Source: Ministry of Commerce

Rank	Country/ Region	FDI (mio USD) Jan to September 2010	Share (%) Jan to June 2009	Variation (%) year on year
1	Hong Kong	41.427	55,73%	34,80%
2	Virgin Islands	7.668	10,31%	-8,12%
3	Singapore	3.754	5,05%	48,73%
4	Japan	2.913	3,92%	-9,67%
5	USA	2.083	2,80%	10,86%
6	South Korea	1.954	2,63%	-1,21%
7	Cayman Islands	1.833	2,47%	-7,94%
8	Taiwan	1.784	2,40%	37,97%
9	West Samoa	1.377	1,85%	-22,81%
10	Netherlands	817	1,10%	39,42%
	Switzerland	177,4	0,23%	-20,49%
	Total	**74.340**		**16,58%**

53 http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=120748
54 http://fdi.gov.cn/pub/FDI_EN/Laws/GeneralLawsandRegulations/RegulationsonForeignInvestment/P020091204372347037162.pdf
55 Financial Times: "Life after China's Antimonopoly Law", 20 October 2010.
56 Jones Day Antitrust Alert: "China plans national security review of foreign investments", March 2010.
57 http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=87372
58 Wall Street Journal. "Beijing revises procurement policy", 13 April 2010.
59 China Daily: "Wen assures Europe on trade, investment options in China", 30 April 2010.
60 People's Daily: "Premier Wen assures foreign firms in China", 14 September 2010.
61 Vale Columbia Center on Sustainable International Investment, Inward FDI in China and its policy context, 18 October 2010.
62 China Daily: "Foreign investment slows down", 16 October 2010.
63 UNCTAD, World Investment Prospects Survey, September 2010.
64 Economist Intelligence Unit, Country Report China, May 2010.

tion of International Trade, noted that the biggest challenges were difficulties in accessing financial support, limited knowledge of Chinese brands by consumers abroad and concerns about the quality of Chinese products.[65]

Bilateral investment flows

At present, about 300 Swiss firms with over 700 branches are represented in China, employing several tens of thousands people. According to Chinese statistics, Swiss direct investments in China in 2009 amounted to US$ 300 million, an increase of 33%. In the first three quarters of 2010, Swiss companies invested US$ 177.4 million, decreasing by 20.5%.[66]

Switzerland has economic agreements with China regarding investment protection and avoidance of double taxation. **A revised investment protection agreement was signed in 2009 and came into force on 13 April 2010.** This updated investment protection agreement will allow a higher protection of Swiss and Chinese investments in the respective host country. The main provisions of the agreement cover the handling of foreign investments by the host country, the transfer of capital and investment income, compensation for expropriation and the introduction of new dispute settlement procedures such as the possibility for a company to unilaterally submit disputes to international arbitration.[67]

So far, Chinese direct investment in Switzerland is still modest but started to increase significantly in the past years. The state-owned Bank of China opened a private banking arm and an institutional management fund subsidiary in Geneva in November 2008. This is the first time a Chinese bank starts operating in Switzerland. Huawei, a Chinese telecom equipment manufacturer opened a branch in Switzerland in October 2008. In May 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. The official representations of Switzerland – the Embassy in Beijing, and the Consulates General in Shanghai, Guangzhou and Hong Kong – therefore have to take on a particular role in the arrangement of such contacts.**

Swiss Business Hub China (SBH China)

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

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

Swiss-Chinese Chamber of Commerce and Swiss-Cham China

Swiss-Chinese Chamber of Commerce and Swiss-Cham 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.

65 People's Daily: "Financing remains difficulty for Chinese companies' outbound investment", 28 April 2010.

66 Ministry of Commerce.

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

Of course there are also a number of experienced private consultants who 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.

This year's most important event was the 2010 World Expo in Shanghai. The official Swiss Pavilion dealt playfully with the EXPO sub theme "rural-urban interaction". The Swiss Pavilion attracted about 2.8 million visitors and was one of the most popular pavilions at the Expo. It offered an invaluable platform for Swiss communication abroad and strengthened Switzerland's image in China.[68]

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

Tourism

A consequence of the growing Chinese economy and the rise of (urban) incomes is the **booming tourism industry** for travel outside of China: 47.66 million Chinese travelled abroad in 2009, up 4% compared to the previous year[69]. Therefore China is a key strategic growth market for the Swiss tourism industry. Switzerland was granted **Approved Destination Status** (ADS) by the Chinese Government in 2004. Following the implementation of the policy, there was a noticeable increase in accepting visa applications. New checks and guidelines were at the same time put into place to reduce the risk of travellers remaining in Switzerland illegally.

Switzerland Tourism operates two offices in mainland China, one in Beijing and one in Shanghai. Switzerland Tourism reports 271'717 overnights from Chinese visitors (not including Hong Kong) to Switzerland in 2009, an increase of 26.8% compared to the same period last year. Switzerland Tourism predicts a long-term annual growth rate of 10–15% in normal years. **Switzerland's entry to the Schengen-Agreements, which became operational at the beginning of December 2008 brings some advantages** but also creates a competition for the easiest visa and complicates exact tracking of visitor numbers.

Education

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

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

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

Swissnex

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**

68 www.swisspavilion.ch

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

in Shanghai in August 2008. Swissnex exploits the potential of cooperation in the areas of research, technology, innovation and culture. A **structured scientific cooperation program with China** was signed in 2003. The program, which is receiving around CHF 9 million of federal funding between 2008 and 2011, is designed to promote lasting cooperation between Chinese and Swiss universities and research institutions in the areas of life sciences and biotechnology, environment, sustainable urban development, material sciences and medicine. Swissnex Shanghai has the task of coordinating programme activities in China and of establishing an efficient system for selecting students and researchers wishing to take part in the program. Swissnex Shanghai also has the task of **positioning Switzerland as a leading location in terms of higher education, research and innovation**, which it has successfully done during the Expo 2010 and Einstein exhibition, the two major events in 2010.

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

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

Interest for Switzerland as a financial location, potential for development

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

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On the Expo Paved Way

Economic Prospects in the Post-Expo Shanghai Region

After 184 days and a record of 73 million visitors, the Shanghai Expo 2010 was declared a great success. While it will take time to analyse the costs and benefits, the event has surely brought the world's attention to Shanghai and the Yangtze Delta Region and stimulated the economy.

Shanghai didn't officially release its quarterly and half year economic data in 2010[1]. According to sources close to the government, **the city's economy has returned to double-digital growth with a 12.7% increase after the slow-down in 2008 and 2009[2].**

With direct and indirect investment in the Expo 2010 amounting to USD 59 billion, Shanghai benefited from a significant upgrading in infrastructure, including 10 additional subway lines, new airport

terminals and high speed train connections. Furthermore, the 5.28 km² Expo site, which used to be old factories and residential areas, will be turned into a comprehensive commercial area for exhibitions, office buildings and tourist attractions. The infrastructural investments will cement Shanghai's reputation as a premier destination and help it on its way to a first rate metropolis.

Preliminary estimates by the China Tourism Academy showed that the Expo is supposed to have brought in more than RMB 80 billion (USD 12 billion) in tourism revenue for Shanghai and the neighbouring Yangtze River cities. On the other hand, the significant influence of the Expo on science, technology and culture, as well as people's mindset will be lasting much longer.

Shanghai Pudong by night. (Photo by R. Minsch)

Current Economic Situation

The Shanghai led YDR region, including the provinces of Jiangsu and Zhejiang, reported higher than average growth rate for the first 10 months of this year. Industrial production in Shanghai expanded 16.7% in October on an annual basis, rising further from 15.9% in September. The combined production of the city's six key industries[3] increased 17.3% in one year. Meanwhile, the city's foreign trade continued to record stable growth, with exports up 18.1% and imports up 27.6% in October. The strong recovery in trade led **Shanghai to overtake Singapore to become the world's biggest container port** in August. Throughput for the first nine months jumped 18.5% to 21.6 million TEU's.

Robust upturn of exports are also reported in both provinces of Jiangsu and Zhejiang. The exports and imports volume (USD 378 billion) of **Jiangsu** for the first 10 months has exceeded the total of last year, with exports and imports up 37.5% and 42.1% respectively, ranking first among China's provinces. Zhejiang followed as No. 2 in foreign trade growth rate, reporting a total foreign trade volume of USD 147.5 billion.

With strong exports recovery, **the Yangtze River Delta Region continues to play a crucial role in the country**. The entire GDP of the region accounts for 22% of the national sum, with only 2% of China's land area and 11% of the Chinese population.

However, **Shanghai stays cautious despite all those rosy numbers**. As pointed by the Mayor Han Zheng, the recovery was upon the figures from the same period in 2009, which was the lowest in recent years. Furthermore, the economy has heavily relied on investment. China took advantage of the global financial crisis to step up its investment in infrastructure, notably transportation in the interior. Shanghai

1 Unofficial reports said the data is being verified by the National Statistic Bureau in an effort to "balance" the regional development.

2 As China's major economic engine, Shanghai has reported for 16 consecutive years double-digital growth until 2008. The city's economic growth slowed down to 9.7% in 2008 and 8.2% in 2009 due to both financial crisis as well as its industrial restructuring.

3 Electronics, automobiles, petro-chemistry, fine steel, machinery equipment and biomedicine.

Table 1: Economic Indicators* of the first 3 quarters in Shanghai

GDP (billion RMB)	2010 Q1 – Q3		2009 Q1 – Q3	
	Volume	Growth rate (%)	Volume	Growth rate (%)
Total	1210.1	11.5	1012.5	7.1
Primary Industry	5.65	-3.5	5.56	0.7
Secondary	517.5	19.5	424.7	-0.6
Tertiary	687.8	5.7	591.2	14.1
Financial	135.5	2.9	134.1	31.1
Real estate	67.1	-22.9	68.4	29.8

Source: Shanghai Statistic Bureau
**Growth rates are price-adjusted; figures of the year 2009 are not revised ones.*

hitched the ride for the preparation of the World Expo. Last year, its spending on investment hit RMB 100 mio/km² (USD 15 mio/km², excluding the area of Chongming Island). Meanwhile, in the provinces of Jiangsu, Zhejiang and Anhui, investment accounted for 34%, 43% and 92% of GDP respectively. Limited by land and resources, this type of growth is surely unsustainable. This has been well noted by the Shanghai government.

Table 1 shows the economic structure of Shanghai for the first 3 quarters. The tertiary and primary sectors lag behind the growth of the secondary industry in the year 2010. The current share of the three sectors in Shanghai stands at 0.7%: 39.9%: 59.4%, compared to 1%: 24%: 75% in Beijing and 10%: 47%: 43% of China. Although the contribution of service sector stands much higher than the national average, it is significantly lower than the capital city, not to say the major world financial centres, as over 90% in New York and over 85% in London. China launched its national strategy to establish Shanghai as an international financial and shipping centre by the year 2020. **Shanghai still has considerable space to develop in the fields of modern service industry including financial sector, as well as advanced manufacturing industry.**

The Twelfth Five-Year-Plan (FYP)

Review of 11th and the draft of 12th

With curtains falling at the Expo Shanghai 2010, the city also concluded its 11th Five-Year-Plan for social and economic development. The first annual development report for Shanghai was released recently to review its efforts and progress in the past five years. According to the report, Shanghai's average annual growth rate has been 11% in the 11th five year period, with per capita GDP reaching USD 11'000, a level that places it by some rankings above two thirds of the countries worldwide. Its foreign trade accounted for 1/4 of the country's total, making it the world's largest port in terms of cargo throughput, while in the financial sector, the volume of stock transaction ranked world no. 3, and no. 1 for the volume of gold spot trading.

December 2nd, the city released its 12th Five-Year-Plan, starting 2011. The plan focuses on a more service-industry backed economy and innovation in all sectors. In addition to the national strategy of building an international financial and shipping centre, the city government reiterated its desire to make the city also a global economic and trading hub. To achieve this goal, Shanghai will continue its move towards service industries and shift major manufacturing capacity to high-technology and high value-added industries. The city government is aware that the economic restructuring will be accompanied by a levelling-out of growth. Thus **the 12th Five-Year-Plan aims at securing a year-on-year GDP growth rate of 8%, starting 2011.**

It is worth noting **that inflationary pressure and the risk of a property bubble have topped the agenda of the Chinese government at all levels**. Rising prices have eroded confidence among Chinese consumers, thereby hampering efforts to boost consumption as the new driving force of the economy. There are systematic matters that will require some long term solutions.

Acceleration of the construction of two centres

With a large financial system and a strong backup by the real economy, Shanghai is already the nation's financial hub. But the major obstacles towards a world financial centre, which include the convertibility of the currency, capital control, as well as the legal system and soft infrastructure, still remain. As the first steps, the city plans to become the onshore centre of trading, pricing and clearing of Chinese currency assets, playing a complementary role to Hong Kong as the two cities jointly reinforce the RMB's internationalisation drive[4].

Meanwhile, the **city pledges to speed up innovation in shipping financial services in an effort to attract not only the shipping business but also high value-added services to Shanghai.** The development of offshore banking, shipping insurance, shipping leasing and financing are under discussion. A cluster of supporting infrastructure, as well as preferential tax policy, are in the pipeline.

To strengthen its position as a logistics hub, Shanghai will further expand both its sea and river port facilities, and improve their connection with air transportation.

Currently, the biggest challenge for the city to achieve its two centres goal is the lack of talents. Shanghai has now only 1% of its population, about 198'000 people working in the financial sector, compared to around 10% in New York or Hong Kong. The shortage of professionals is a bottleneck to further development of the financial sector, yet high housing prices and income taxes have been the major hurdle to attract more talents.

New Stimulus

Disneyland project

Every five-year-plan needs to support specific projects. For the 10th FYP it was the Yangshan deep-water port and related projects, while the 11th was the World Expo. The government is keen to integrate the

4 Since China started to use RMB for some trade settlement in July last year, RMB 70.6 billion (USD 10.7 billion) worth of trade deals were transacted in the mainland currency with 75% being conducted in Hong Kong.

Current Economic Indicators* of the Swiss Consular Area

Year		2009.1–6		2010.1–6	
		Volume	Growth Rate (%)	Volume	Growth Rate (%)
GDP (billion RMB)	**China**	**13'986.2**	**7.1**	**17'284.0**	**11.1**
	Shanghai	661.2	5.6	798.02	20.7
	Jiangsu	1'553.05	11.2	1'900	14.5
	Zhejiang	1'004.4	6.3	1'190	13
	Anhui	451.29	11.8	553.72	15.4
	Consular Area	**3'669.94**		**4'441.74**	
Total Retail Sales of Consumer Goods (billion RMB)	**China**	**5'871.1**	**15.0**	**7'266.9**	**18.2**
	Shanghai	250.61	13.8	292.10	17.5
	Jiangsu	553.15	17.2	648.33	18.4
	Zhejiang	403.2	13.7	476.26	19.0
	Anhui	162.04	18.5	193.21	19.1
	Consular Area	**1'369**		**1'609.9**	
Completed Investment in Fixed Assets (billion RMB)	**China**	**9'132.1**	**33.5**	**11'418.7**	**25.0**
	Shanghai	216.09	9.6	220.77	2.2
	Jiangsu	826.67	24.7	1'021.17	23.5
	Zhejiang	438.7	13.4	516.4	17.7
	Anhui	390.6	32.7	511.11	30.9
	Consular Area	**1'872.06**		**2'269.45**	
Exports (billion USD)	**China**	**521.5**	**-21.8**	**705.1**	**35.2**
	Shanghai	62.55	-22.3	83.51	33.5
	Jiangsu	84.87	-24.8	122.48	44.4
	Zhejiang	58.75	-19.6	82.22	39.7
	Anhui	4.0	-24.9	5.45	36.4
	Consular Area	**210.17**		**293.66**	
Imports (billion USD)	**China**	**424.6**	**-25.4**	**649.8**	**52.7**
	Shanghai	57.98	-24.8	88.30	52.3
	Jiangsu	59.06	-25.7	92.12	56
	Zhejiang	24.28	-17.1	35.29	45.2
	Anhui	2.74	-41.8	5.47	89.5
	Consular Area	**144.06**		**221.18**	
Foreign Direct Investment (during the period)					
Projects (billion USD)	**China**	**10'419**	**-28.36**	**12'400**	**18.8**
	Shanghai	1'468	-17.3	1'687	14.92
	Jiangsu	1'997	-13.4	2'268	13.6
	Zhejiang	653	-24.9	890	36.3
	Anhui	127	-8.0	123	-1.6
	Consular Area	**4'245**		**4'968**	
Contracted (billion USD)	**China**				
	Shanghai	6.66	-19.7	7.48	12.20
	Jiangsu	24.41	-15.1	27.14	10.8
	Zhejiang	6.17	-21.1	8.52	38.1
	Anhui	0.7	-32.3	0.68	53.8
	Consular Area	**37.94**		**43.82**	
Actually Utilised (billion USD)	**China**	**43'01**	**-17.9**	**51.43**	**19.58**
	Shanghai	5.16	2.5	5.37	4.11
	Jiangsu	13.06	-14.6	15.21	16.5
	Zhejiang	4.87	-13.5	5.32	9.2
	Anhui	1.98	5.2	2.47	25
	Consular Area	**25.07**		**28.37**	

Source: Chinese Authorities

** All statistics not including Taiwan, Hong Kong and Macao; Figures of the year 2009 are the revised ones (November 2009); Growth rates are price-adjusted.*

Swiss–Yangtze-Delta Region Trade Relations*

	Import from Switzerland				Export to Switzerland			
	2009.1–6		2010.1–6		2009.1–6		2010.1–6	
	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %	Million USD	Growth rate %
Shanghai	895	-13.27	1284	43.54	141	-3.3	152	7.55
Jiangsu	280	-17.91	424.96	51.7	167	-56.6	238.1	43
Zhejiang	132	7.76	150	11	257	10.4	300	19
Anhui	17.41	32.83	12.43	-28.6	3.21	-25.7	6.7	109
Delta Region	**1'307**	**-12.6**	**1'858.96**	**42.2**	**565**	**-26.0**	**690.1**	**22.14**
China	**3'014.11**	**-13.0**	**8'415.42**	**179.9**	**1'268.29**	**-32.7**	**1'282.47**	**1.1**

Source: Chinese authorities

city's post-Expo plans as a key project into the 12th five-year blueprint.

Five days after the closing ceremony of the Shanghai World Expo, Shanghai and the Walt Disney Company signed a cooperation agreement and officially launched the **Shanghai Disneyland project,** which is so far the largest joint Chinese-foreign modern service project in China. The park shall reportedly open its doors by 2013 and plans are calling for it to eventually be as big as Disney World in Florida.

The Shanghai Disneyland project, which has an investment of **RMB 25 billion** for its first phase will serve, together with the just-closed Expo, as the major engines to promote modern and international tourism in the Yangtze River Delta area and create international tourism brands[5].

Non-Expo related infrastructure projects

China's massive stimulus package to fight the global financial crisis has led to 700 new airports, world class highways, bridges and dams in the past two years. Shanghai didn't receive a big share of it, as most expo-related projects were already under way before the crisis. The next few years' infrastructure projects will serve the city's goal to be a logistic hub, which include **rail links and the continuing Yangshan deep water harbour project.** For example, the Beijing-Shanghai high-speed railway line has just completed the overall track-laying and will be put into formal operation in October 2011. The RMB 220.9 billion (USD 33 billion) project will span three municipalities (Beijing, Tianjin and Shanghai) and pass through four provinces (Hebei, Shandong, Anhui and Jiangsu), connecting by rail nearly a quarter of the country's population, at a speed of 350 km/h. The significantly improved transportation system will surely mark China's economic map.

On the other hand, the construction of the intangible infrastructure, for advanced information technology and broadband service, is also listed in the next five-year-plan.

In the Region	Swiss Investment						Accumulated by end of June 2010		
	Project		Contracted million USD		Actually million USD		Project	Contracted million USD	Actually million USD
	2009.1–6	2010.1–6	2009.1–6	2010.1–6	2009.1–6	2010.1–6			
Shanghai	1	10	6.80	76.78	N/A	N/A	366	1'286.52	N/A
Jiangsu	6	5	65.03	8.76	87.48	35.91	186	1'102	855
Zhejiang	2	3	2.93	530	32.18	44	67	368	262
Anhui	0	1	0	8.18	0	6.16	6	48.04	N/A
Delta Region	**9**	**18**	**74.76**	**615.54**	**N/A**	**N/A**	**544**	**2'983.86**	**N/A**
China	**34**	**38**	**N/A**	**N/A**	**180**	**140.4**	**1'262**	**N/A**	**3'370**

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.

Business Prospects 2011: a good year with challenges

China has fast recovered from the global financial crisis. With the restoration of business confidence, **the year 2011 is expected to be a good one for business, with consumption booming and the process of urbanization continuing[6].**

The fast growing economy as well as increased wages are boosting private consumption especially in high and low end markets. Luxury goods are strengthening their presence in China; foreign invested companies are spreading their sales from bigger cities to hundreds of smaller cities. The market is indeed vast, but very complex in terms of diversity of culture, customs, climate and consequently different products preference and acceptance, price and quality sensitivity and shopping behaviour.

On the other hand, **local competition is getting tougher** and the technology gap between foreign invested and Chinese companies is closing at a quicker pace. The local companies gain their competitive advantages through rapid development, flexibility and more sophisticated products and innovation.

One of the bigger challenges for many foreign companies in the Yangtze Delta Region are the rising business costs, which are believed to be a long term trend. Due to the surge in salaries, shrinking land supply and appreciation, industrial cost is expected to increase by 3 to 4 times by the year 2020. However, foreign invested companies have reported strong corporate earnings in China. Growth points fall in the high-value added, capital and technology intensive sectors, shifting the concept of "Made in China" to "Consumption in China".

As of December 1, **foreign companies in China are paying the same amount of taxes as their Chinese counterparts,** marking the end of the tax holidays foreign investments have enjoyed for 30 years. But companies categorized in high-technology and financial sector still enjoy preferential tax rate. The new taxation policy streamlines foreign capital in the preferred direction and squeezes out investment in the low-end manufacturing industry. However, some local city and county governments are continuing to give favours to foreign companies in an effort to attract more foreign direct investment.

Situation of Swiss companies in the YRD

Swiss companies have been in a better position to weather the economic downturn, as they are mainly powered with high technology and operate in the high end market. With huge state funding being channelled towards infrastructure development nationwide, Swiss companies in related sectors are positively impacted. However, some sectors, like textile and electronics, are more affected by the external changes. For the year 2010, **strong recovery and earnings are reported.**

The Consulate witnesses a shift of business gravity to this part of the world. Just for the 2nd half of 2010, it participated in 8 openings of Swiss companies in the Yangtze Delta Region. The observed trend is to locate regional headquarters and R&D facilities in Shanghai, while actual manufacturing plants in neighbouring provinces in locations well served by expanding and improved transportation links.

Recent visits to the authorities and Swiss companies in the consular area reflects a sustained economic dynamism in the region. **Renewable energy, new material, energy-efficiency and ecological know-how, as well as high-end manufacturing and financial service will be new growth areas** for bilateral cooperation, as reiterated by local governments. Looking at the business environment, high technology and innovation are known as the competitive edge of Swiss companies. Rising salary and fierce completion have led to higher demand of automation and integrated process, which offers opportunities for Swiss companies which are technology leaders in their sector. Of course, to obtain the market position and recognition in China has not been an easy process. Local competition, human resources (both skilled workers and management), infringement of IP rights are the major challenges faced by Swiss companies, meanwhile continuous innovation, sales network, service and customer relations, R&D with adapted local solutions are the common contributors to the success stories in the region.

Summary by Ms Stella Nie

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(for full address see "Usefull Addresses", page 106–107)

5 According to the "Regional Planning for the Yangtze River Delta Area" officially approved by the State Council in 2010, the Yangtze River Delta area shall be established as a world-class urban agglomeration with strong international competitiveness. In 2015, the Yangtze River Delta area will be the first in China to achieve the goal of building a well-off society in a comprehensive way and by 2020 it will be the first area to realize modernization.

6 InterChina Insight: http://www.interchinaconsulting.com

Annual Economic Report: Hong Kong

2010 Update

General overview of HK's economy

The Hong Kong economy continued to see a robust growth in the third quarter of 2010. Real GDP expanded further by 6.8% year-on-year, following a strong growth of 7.2% in the first half of 2010. On a quarter-to-quarter comparison, it was the sixth consecutive quarter of expansion. Merchandise exports maintained strong momentum in the third quarter, surging by 21% year-on-year. The strong domestic demand and further expansion in intra-regional production activity in the Asian markets provided the main impetus. Exports of services were vibrant, up 14.0% year-on-year in the third quarter. Inbound tourism thrived on the surge in visitor arrivals from the Mainland and other Asian markets. Riding on improving employment situation and rising incomes, private consumption expenditure picked up further and grew by 5.7% year-on-year in the third quarter of 2010. Labour market continued to improve and unemployment rate dropped to 4.2% in July–September 2010. Inflation rate rose by 2.3% in the first nine

Bilateral trade Switzerland – Hong Kong

	Exports (CHF million)	Change in %	Imports (CHF million)	Change in %	Trade Balance	Total Imp./ Exp.	Change in %
1990	2'265	4.3	902	-17.3	1'363	3'166.8	-
1995	2'843	-10	642	-4.3	2'201	3'485.3	10
2000	3'842	31.9	895	36.3	2'947	4'736.1	32.7
2001	4'039	5.1	679	-24.1	3'360	4'718.6	-0.4
2002	4'479	10.9	824	21.3	3'655	5'304	12.4
2003	4'002	-10.7	648	-21.3	3'353	4'650.9	-12.3
2004	4'073	1.8	822	26.6	3'251	4'894.2	5.2
2005	4'012	-5.3	1'674	52.4	2'338	5'686	16.2
2006	4'694	17	1'457	-13	3'237	6'151	8.2
2007	5'296	12.8	1'185	-18.6	4'111	6'481	5.4
2008	6'219	17.1	1'440	21.5	4'779	7'659	17.9
2009	5'426	-12.7	1'104	-23.3	4'322	6'530	-14.7
Jan–Oct 2010	**5'283**	**16**	**1'277**	**36**	**4'006**	**6'560**	**19**

Major products

	Jan–Oct 2009		Jan–Oct 2010		
	% of total	CHF million	% of total	CHF million	% Change Jan–Oct 2009/10
Exports					
1. Watches and clocks	38	1'741	47	2'477	42
2. Jewellery and precious stones	42	1'908	31	1'630	-15
3. Chemical and pharmaceutical products	6.9	316	8.7	458	45
4. Machinery	5.6	254	6.3	332	31
Imports					
1. Jewellery and precious stones	56	521	65	826	59
2. Watches and clocks	23	217	19	239	10
3. Machinery	11	104	8.2	105	1
4. Textiles and garments	3	28	2.8	31	3.8

(figures based on Federal Customs Administration data)

months of 2010. It is expected to go up further due to higher import prices amid a weaker US dollar and elevated food and commodity prices.

The property prices in Hong Kong have risen by about 47% since the global financial crisis in 2008. The soaring property prices are one of the greatest concerns in the community. On one hand, the risk of asset market bubble is increasing. On the other hand, the general public is discontented with unaffordable property prices. The government therefore introduced new anti-property speculation measures on 19th Nov. 2010. To enhance risk management in mortgage lending by banks in Hong Kong, the Hong Kong Monetary Authority announced guidelines to banks to lower further the Loan-to-Value ratio to 50–60% for mortgages on residential properties with a value at or above worth HK$ 8 million. The government also introduced a Special Stamp Duty from 5% to 15% (which depends on the length of holding periods) on residential properties on top of the current property transaction stamp duty.

Outlook for Swiss exports to Hong Kong

The economy of Hong Kong has displayed strong resilience through the global financial crisis. The government has revised the GDP growth upwards to 6.5% for 2010. Local consumer sentiment is strong, supported by the improving income and job prospects. As to business sentiment, the latest survey conducted by the government indicates that large enterprises remain positive about the near-term business outlook.

Renowned brands and luxury items from all over the world are well presented in Hong Kong. Swiss products, such as watches, jewellery, clothing, footwear, leather goods and skin care products, enjoy an excellent reputation in the market. They are not only appealing to local consumers, but also winning popularity among tourists, in particular from Mainland China (tourists from Mainland China reached about 16.5 million or 63% of total visitor arrivals in Jan–Sept 2010). Hong Kong is a window of the world to Chinese tourists who have high consuming power. Tourists from Mainland China account for about 70%–80% of sales of Swiss hi-end watches in Hong Kong. Swiss medium-priced watches with brands known to mainland consumers also perform very well in the market. According to the Federation of the Swiss Watch Industry, Swiss watch exports to Hong Kong rose by 42% year-on-year in Jan–Oct 2010. If compared with the first ten months of 2008, it still grew by 8.4%. In the sector of beauty products, according to a leading cosmetic retailer, tourists from Mainland China account for about 40–50% of their total sales in Hong Kong.

The growth of the Swiss exports was not confined to watches only. A few categories of Swiss products exporting to Hong Kong recorded a remarkable growth in Jan–Oct 2010. It included machinery (+31%), chemical and pharmaceutical products (+45%) as well as agricultural, food and beverage products (+92%).

Bilateral trade Switzerland – Hongkong, Jan – Sept 2009/2010

	Class of goods	Import in CHF		Δ	Import	Export in CHF		Δ	Export	Trade balance
		Jan – Sept 2009	Jan – Sept 2010	in %	share (%)	Jan – Sept 2009	Jan – Sept 2010	in %	share (%)	in CHF
1	Agricultural products	516.363	854.650	65,51%	0,07%	39.177.669	73.476.566	87,55%	1,55%	72.621.916
2	Energy carriers					96.554	64.401	-33,30%	0,00%	n.a.
3	Textiles, apparel, shoes	30.617.811	29.586.881	-3,37%	2,52%	99.448.763	68.785.280	-30,83%	1,45%	39.198.399
4	Paper, paper products, printed matter	1.363.706	1.989.850	45,91%	0,17%	13.697.359	11.020.135	-19,55%	0,23%	9.030.285
5	Leather, rubber, plastics	5.033.599	5.301.272	5,32%	0,45%	43.762.772	47.876.270	9,40%	1,01%	42.574.998
6	Chemicals, pharmaceuticals	5.367.732	4.990.366	-7,03%	0,42%	275.240.417	409.001.573	48,60%	8,63%	404.011.207
7	Construction materials, ceramics, glass	1.645.047	1.718.964	4,49%	0,15%	13.228.307	13.834.440	4,58%	0,29%	12.115.476
8	Metals and metal products	7.424.546	9.359.935	26,07%	0,80%	31.676.628	38.927.617	22,89%	0,82%	29.567.682
9	Machinery, apparatus, electronics	86.843.917	90.003.596	3,64%	7,65%	209.146.832	289.476.820	38,41%	6,11%	199.473.224
10	Vehicles	3634985	2.286.880	-37,09%	0,19%	1.710.431	837.414	-51,04%	0,02%	-1.449.466
11	Precision instruments, watches, jewellery	426.318.156	621.004.098	45,67%	52,80%	1.883.142.702	2.710.112.731	43,91%	57,16%	2.089.108.633
12	Furniture, toys	4.934.435	8.100.498	64,16%	0,69%	21.031.059	14.731.074	-29,96%	0,31%	6.630.576
13	Precious metal, precious stones, gemstones	219.288.212	377.207.290	72,01%	32,07%	1.478.967.785	1.040.208.452	-29,67%	21,94%	663.001.162
14	Objects of art and antiques	13.964.421	23.802.214	70,45%	2,02%	11.847.442	23.220.620	96,00%	0,49%	-581.594
	Total	**806.952.930**	**1.176.206.494**	**45,76%**	**100%**	**4.122.174.720**	**4.741.573.393**	**15,03%**	**100%**	**3.565.366.899**

Source: Federal Customs Administration

The global financial crisis galvanized the HKSAR Government's thinking on economic diversification. The Task Force on Economic Challenges has identified to promote six promising industries including education services, medical services, testing and certification, environmental industries, innovation and technology as well as cultural and creative industries. Swiss equipment and know-how has an edge and a good market potential in medical services, testing and certification, environmental industries as well as innovation and technology. There is an increasing demand for upgrading and automation in the industries in the Pearl River Delta. It will offer business opportunities for Swiss companies which can provide solutions and technology to enterprises in the Pearl River Delta.

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Switzerland and Hong Kong Sign Double Taxation Agreement

On December 6th 2010 in Hong Kong, Switzerland and Hong Kong signed a double taxation agreement (DTA) in the area of taxes on income. The DTA contains provisions on the exchange of information which are in accordance with the OECD standard and were negotiated in line with the parameters decided by the Federal Council. The DTA will contribute to the positive development of bilateral economic relations.

On the whole, it was possible to agree on beneficial solutions in the areas that are important for the Swiss economy. Withholding tax exemption was agreed for dividend payments to companies that hold a stake of at least 10% in the company making the payment, as well as for dividend payments to pension funds and the central bank. In the other cases, the withholding tax rate will be 10%. Interest will generally be exempt from withholding tax, and the limit for the tax the source state is entitled to levy on royalty payments will be 3%. Hong Kong will be able to tax Swiss companies that do not have a fixed place of business in Hong Kong only under certain conditions and in the case of service activity lasting more than 270 days. The agreement contains an arbitration clause as well as a provision on the exchange of information in accordance with the OECD standard.

After negotiations finished, a report on the agreement with Hong Kong was submitted to the cantons and business associations concerned for their comments. The Conference of Cantonal Finance Directors and the business associations largely approved the signing of the agreement.

Stages between signature and entry into force

After a double taxation agreement (DTA) has been signed, the Federal Council submits the signed agreement together with a dispatch to parliament. Parliament is responsible for approving DTAs, and decides whether a given DTA will be subject to an optional referendum. Under the current practice, DTAs that provide for significant additional obligations are subject to an optional referendum. The first ten DTAs with an extended administrative assistance clause were approved by parliament on 18 June 2010. The deadline for the optional referendum expired unused on 7 October 2010.

The agreement can enter into force once the partner state has provided its approval. Once ratified, the agreement will enter into force. This occurs either when diplomatic notes are dispatched or when the instruments of ratification are exchanged. The point in time of entry into force depends on the agreement reached. The application of the provisions depends on the arrangements agreed in the DTA. As a rule, the new provisions are applicable from 1 January of the calendar year following the date of entry into force.

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(Photo by HKTDC)

Report on CEPA – Supplement VII

The Closer Economic Partnership Arrangement (CEPA) is the first ever regional trade agreement signed between China and Hong Kong. It was signed in 2003 and came into effect from January 2004. It covered 3 broad areas, namely 1) trade in goods, 2) trade in services and 3) trade and investment facilitation. As the CEPA adopts a building block approach, the scope and liberalization measures were expanded under its supplements II – VI during 2004–2009. The latest Supplement VII was signed on 27th May 2010, witnessed by the Chief Executive Donald Tsang and Mr Jiang Zengwei, the Vice-Minister of Commerce from the Central Government. The new liberalization measures will take effect from 1st January, 2011.

Trade in goods

At present, all products of Hong Kong origin, except for a few prohibited articles, can be imported into the mainland tariff free under the CEPA. Nevertheless, as the tertiary sector accounts for about 92% of GDP in Hong Kong, the real significance of the CEPA lies in the trade in services.

Trade in services

The CEPA Supplement VII provides 35 market liberalization and trade and investment facilitation measures in 19 sectors. Two new sectors "specialty design" and "technical testing, analysis and product testing" are added to the Supplement VII, bringing the total number of liberalized service sectors from 42 to 44[1].

Major market liberalization measures cover tourism, medical services, financial services, professional services as well as small and individual businesses.

On tourism, Hong Kong travel agents established on a wholly owned or joint venture basis in Beijing and Shanghai municipalities are allowed to apply to operate, on a pilot basis, group tours to Hong Kong and Macao for residents registered with permanent residence in the Beijing and Shanghai municipalities.

On medical services, Hong Kong service suppliers are allowed to set up wholly owned hospitals in the municipalities of Shanghai and Chongqing, and the provinces of Guangdong, Fujian and Hainan. They are also allowed to set up convalescent hospitals in

1 The 44 service sectors include legal services, accounting, construction and real estate, medical and dental, advertising, management consulting, convention and exhibition, telecommunications, audiovisual, distribution, insurance, banking, securities and futures, tourism, transport, freight forwarding agency, storage and warehousing, logistics, air transport, information technology, professionals qualification examinations, cultural and recreational, trade mark agencies, patent agencies, job referral agencies, job intermediaries, individually owned stores, computer and the related services, market research, management consulting services, public utility, building-cleaning, photographic, printing, translation, environmental, social services, sporting, mining services, scientific and technical consulting, rail transport, research and development, specialty design as well as technical testing, analysis and product testing.

the form of wholly owned, equity joint venture or contractual joint venture in Guangdong Province.

No requirement is imposed on the total investment in setting up hospitals by Hong Kong service suppliers on an equity joint venture or contractual joint venture basis in Guangdong Province, and no restriction is imposed on the ratio of capital investment between Hong Kong and Mainland partners in setting up hospitals in the form of equity joint venture or contractual joint venture in the municipalities of Shanghai and Chongqing, and the provinces of Guangdong, Fujian and Hainan.

Furthermore, 12 categories of statutory healthcare professionals who are registered to practise in Hong Kong (medical practitioners, Chinese medicine practitioners, dentists, pharmacists, nurses, midwives, medical laboratory technologists, occupational therapists, optometrists, radiographers, physiotherapists and chiropractors) are allowed to provide short-term services in the Mainland.

On banking, a Hong Kong bank that has maintained a representative office in the Mainland for more than one year can apply to set up a wholly foreign-funded bank or a foreign bank branch. A Hong Kong bank's operating institution in the Mainland can apply to conduct renminbi business, if it has been operating for more than two years and profitable for one year prior to the application. Foreign banking institutions established in the Mainland by Hong Kong banks can establish specialized institutions to provide financial services to small enterprises.

On securities, the Mainland and Hong Kong will deepen cooperation in financial services and product development, and index-tracking exchange-traded funds constituted by Hong Kong listed stocks will be launched in the Mainland at an appropriate time.

On construction, Hong Kong professionals who have obtained the Mainland's class 1 registered architect qualification or class 1 registered structural engineer qualification, are allowed to act as partners to set up construction and engineering design offices in the Mainland, without restrictions on the ratio of the number of Hong Kong partners to the number of Mainland partners and the ratio of the total capital contributed by the Hong Kong partners to that by the Mainland partners.

Hong Kong professionals who have obtained the Mainland's class 1 registered architect qualification or class 1 registered structural engineer qualification through mutual recognition are also allowed to register and practise in Guangdong.

On air transport, sales agencies set up by Hong Kong service suppliers in the Mainland in the form of wholly owned enterprises, equity joint venture or contractual joint venture, are allowed to operate air transport sales agency services on the domestic routes in the Mainland. Hong Kong service suppliers can also operate aircraft repair and maintenance services in the Mainland in the form of wholly owned enterprises or with majority shareholding in the enterprises.

On technical testing and product testing, testing organisations in Hong Kong can cooperate with designated Mainland organisations to undertake testing of products under the China Compulsory Certification System on a pilot basis. However, these testing organisations have to be accredited by the accreditation body of the HKSAR Government to be capable of performing testing for the relevant products under the China Compulsory Certification System.

On specialty design, Hong Kong service suppliers are allowed to set up wholly owned enterprises in the Mainland to provide specialty design services.

In addition, the CEPA Supplement VII will benefit individuals and small businesses. Such measures include allowing registered healthcare professionals to provide short-term services in the Mainland, allowing Hong Kong permanent residents to take the qualification examination for real estate valuer in the Mainland, and allowing Hong Kong permanent residents with Chinese citizenship to set up individually owned stores in the Mainland to provide services in the areas of marriage, renting and leasing of comic books, and pet clinics.

Trade and investment facilitation

The CEPA Supplement VII fosters the joint development of the cultural and environmental industries of both sides, mainly through strengthening exchanges and communication between relevant organisations.

For cooperation in innovation and technology industry, both sides agree to progressively involve Hong Kong research institutes and enterprises in the national innovation system, encourage Hong Kong research personnel and organisations to participate in national science and technology projects, and strengthen exchanges and cooperation between the two places in high technology research, development and application, fundamental scientific research, etc.

As regards cooperation on education, both sides agree to support the Mainland's education institutions and Hong Kong's higher education institutions to jointly provide education programmes, to establish joint research facilities and to nurture talent at undergraduate or above level in the Mainland.

For testing and certification, both sides agree to strengthen cooperation between the relevant authorities, and the Mainland will also assist Hong Kong's testing laboratories to be recognized under the international multilateral systems on mutual recognition of testing and certification that are open to national member bodies.

Economic Benefits

On the whole, the CEPA Supplement VII will expedite and facilitate Hong Kong service industries to enter and expand in the Mainland market, and foster service industries' integration and professional

exchanges of the two sides. Moreover, most of the market liberalization and facilitation measures cover the four pillar industries (tourism, financial services, professional services as well as trading and logistics) and the six industries (medical services, education services, environmental industries, testing and certification, innovation and technology as well as cultural and creative industries) in which the HKSAR Government is keen to promote. It will help consolidate the status of Hong Kong as an international financial, trade, shipping, logistics and high value-added service centre. It will also lay the foundation for the two sides to jointly develop the said six industries.

According to the HKSAR Government, the CEPA-induced business receipts obtained by operations established by Hong Kong service suppliers in the Mainland amounted to HK$ 198.5 billion during 2007–09. During the same period, companies in Hong Kong obtained additional business receipts totalling about HK$ 55.1 billion due to the CEPA.

Under the CEPA, the Individual Visit Scheme has been extended to 49 Mainland cities. By March 2010, over 49 million Mainland visitors have come to Hong Kong under the scheme. In cumulative terms, visitors under the Individual Visit Scheme brought about additional spending totalling over HK$ 84.8 billion during 2004–09.

As at end 2009, owing to liberalization of trade in services and the Individual Visit Scheme under the CEPA, a total of 54,700 jobs were created in Hong Kong whereas 40,600 jobs were created in the Mainland.

by Wing Kai, Chan
Consulate General of Switzerland in Hong Kong
Trade Section

Short News on HK

HK Gets Prized AAA Rating

HK has been given its first ever "AAA" sovereign rating from Standard & Poor's (S&P) thanks to the territory's high degree of economic flexibility and healthy fiscal position. The agency expects HK to maintain a strong capacity to weather external shocks. Economists said the upgrade is given in recognition of the prudent measures taken by the government to temper runaway property prices. HK's credit strengths are its net external assets – which S&P predicts may exceed 300 percent of the local gross domestic product, the accumulated government fiscal reserves, and the above-average growth potential for a high-income economy.

(Photo by Graham Uden)

IMF Backs Measures to Stabilise Property Market

The International Monetary Fund (IMF) said it supported recent moves by the HK government to stabilize the residential property market. "These measures are a proactive and a well-calibrated response to the current upswing in the HK property price cycle", the IMF said in its latest report on HK. "They will have an important impact in shifting the property market to a more sustainable path", the report said. The measures to cool the property market were introduced by Financial Secretary John Tsang on November 19. They included the levying of an additional stamp duty of up to 15 per cent for flats sold within two years of purchase, and raising down payments for mortgages.

New Visa Rule to Bring HK$ 5.6b Windfall

HK could see a rise in mainland visitors, when a new visa rule makes it easier for four million more migrant workers in Shenzhen to travel to the city. From December 15th 2010, restrictions are relaxed for almost all migrant workers in the special economic zone travelling to HK. The travel industry speculates the change could see the city reap an extra HK$ 5.6 billion a year. In the past, non-permanent residents of Shenzhen had to apply in their home province for visas. Professor Francis Lui, head of the economics department at HK University of Science and Technology, estimated the measure could bring a 0.5 per cent rise in local gross domestic product.

Source: Monthly press review of the Consulate of Switzerland in Hong Kong

To get the full review on a monthly basis, please contact the Swiss-Hong Kong Business Association:
Email info@swisshongkong.ch

Hong Kong's Growing Demand for and Use of Yuan

Hong Kong's growing demand for and use of yuan has ignited a debate over whether the local dollar's 27- year peg to the greenback should be scrapped in favour of a link to China's currency.

Yuan deposits at the city's banks more than doubled to a record 149 billion yuan ($ 22 billion) in the last six months, the monetary authority said October 29. Hong Kong dollar volatility rose last week to the highest level of the year as exchange-rate policy took center stage at FinanceAsia's "RMB Rising" conference in the city. Hong Kong Monetary Authority Chief Executive Norman Chan said today that there was no plan to change the peg, which has made the Hong Kong dollar Asia's worst performer of 2010.

The fixed exchange rate means monetary policy is largely dictated by the US, where a 10 percent jobless rate and sliding home prices prompted the central bank to favour near-zero interest rates and the printing of money to sustain economic growth. Hong Kong's unemployment is the lowest since 2008 and real-estate values jumped 50 percent since the start of 2009. "Hong Kong has a growth rate that is linked to the fastest-growing economy in the world, which is China, and because of its fixed currency link, a monetary policy that is linked to the weakest", said Goetz Eggelhoefer, a Singapore-based partner with Rohatyn Group, an emerging-markets fund manager with $ 3 billion of assets. "Hong Kong faces the impossible trinity. It can't have strong growth, loose monetary policy, a weak currency and no asset inflation. Something has to give."

Yuan testing ground

The yuan has gained 24 percent since the start of 1999, the fourth-best performance of 25 emerging-market currencies tracked by Bloomberg, and President Barack Obama is under pressure from US lawmakers to seek faster appreciation.

China ran up a record $ 28 billion trade surplus with the US in August. Senate Finance Committee Chairman Max Baucus, a Montana Democrat, said in a statement last month that "China's decision to undervalue its currency has been a persistent thorn in the side of our relationship".

China needs to take steps to boost domestic demand rather than let the currency appreciate to improve global trade, said Mexican billionaire Carlos Slim. In an interview in New York, Slim also said competitive devaluations "won't succeed" and could spur inflation should commodity prices remain high. "If China salaries get increased and people work less they will have more time and more money to spend", Slim, the world's richest man according to Forbes magazine, said. "This domestic demand will also help other countries in the world."

Overseas trade

China, which took sovereignty of Hong Kong in July 1997, maintained the dollar link as it used the city as a hub for overseas trade and a testing ground for the opening of its financial markets.

"You can't say that, if we change the peg system, the pressure on inflation and home market would be eased", HKMA's Chan told lawmakers in the city today. The yuan's lack of convertibility and restrictions on holdings of China's government debt means the currency can't take the place of the US dollar in the existing arrangement, John Greenwood, architect of Hong Kong's peg and an adviser to the monetary authority, said in a separate e-mail.

When the currency board Greenwood designed was adopted in 1983, China accounted for 18 percent of Hong Kong's trade and the US 21 percent, official figures show. China made up 49 percent in the first nine months of 2010 and the US 8 percent.

Loosened restrictions

Mainland regulators have loosened restrictions on the yuan's use in international trade since the start of 2009 and allowed the development of an offshore market for the currency this year in Hong Kong.

"Within the next one to two years the HKMA is going to have to make a choice", Peter Redward, the head of Emerging Asia research at Barclays Plc, said in a phone interview. "That is to allow the process to continue and the economy to become increasingly yuan-denominated or to do something to stop that process. Assuming that they don't want to stop people owning yuan accounts, they will have to look at the possibility of re-pegging to the yuan."

The spot rate for yuan in Hong Kong rose 0.6 percent last month to 6.5805 versus the greenback, and the Shanghai rate gained 0.3 percent to 6.6708. Non-deliverable forwards show traders are betting on a 3.3 percent advance in the onshore rate in the coming year, according to data compiled by Bloomberg.

Implied volatility

The Hong Kong dollar has been kept at about HK$ 7.80 versus the greenback since 1983 and from 2005 allowed to trade up to five cents of either side of that level. Hong Kong's dollar was little changed last month at HK$ 7.7508 and 12-month forwards trade at HK$ 7.7314.

One-year implied volatility on the city's currency, a measure of price swings cited by traders when pricing options, climbed 0.48 percentage point in October

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to 1.2 percent, the biggest monthly increase in two years. It reached this year's high of 1.25 percent on October 27.

The city's central bank was forced last week to tap its yuan swap arrangement with the People's Bank of China after demand for trade settlement using the currency exceeded expectations. The Authority plans to draw 10 billion yuan through the arrangement, out of the annual maximum of 200 billion, Deputy Chief Executive Officer Arthur Yuen said October 28.

Monetary policy

China's economy expanded 9.6 percent from a year earlier in the third quarter, while the US had growth of 3.1 percent, official figures show. Hong Kong's gross domestic product gained 6.5 percent in the second quarter.

The People's Bank last month raised its benchmark interest rates for the first time since 2007, while the Federal Reserve may announce this week it will pump more money into the US economy. Economists at Bank of America Corp. and Goldman Sachs Group Inc. predict the Fed will say it plans to buy $ 500 billion of fixed-income assets after a November 2–3 policy meeting.

"Hong Kong is becoming much more integrated now with the mainland than it was before", said Rajeev de Mello, head of Asian investment at Western Asset Management Co., which oversaw $ 482 billion of assets at the end of 2009. "The quantitative easing in the United States is not compatible with the growth and inflation outlook for Hong Kong."

Bubble risk

Cheap borrowing costs are driving asset prices higher in Hong Kong, and HKMA's Chan said October 18 that a housing bubble poses the biggest threat to financial stability in Asia.

A gauge of real-estate values in Hong Kong has gained 16 percent this year, following a 29 percent advance in 2009, according to an index produced by Centaline Property Agency Ltd., the city's biggest privately held real estate broker. Home prices in September dropped from a year earlier in 12 of 20 US cities tracked S&P/Case-Shiller indexes.

Five-year credit-default swap contracts on China's US dollar bonds dropped seven basis points last month to 60 basis points, CMA prices show. That followed a 19 point drop in September. Credit-default swaps typically decline as investor confidence improves and rise as it deteriorates.

Yields on China's 3.28 percent bond due August 2020 rose 37 basis points last month to 3.7 percent, according to China bond prices. The extra yield investors demand to hold benchmark 10-year Chinese government bonds rather than similar-maturity US government debt rose to the most in at least five years in October, according to data compiled by Bloomberg. The gap was 110 basis points at the end of last week, the data show.

By Shelley Smith
Bloomberg, November 2010

With assistance from Katrina Nicholas and Lilian Karunungan in Singapore, Sophie Leung in Hong Kong, Fabiola Moura in New York and Belinda Cao in Beijing.
Editors: James Regan, Sandy Hendry

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Prepare for opportunity. Economist Intelligence Unit The Economist

CHAMPS – China's Fastest-growing Cities

An extract from a report from the Economist Intelligence Unit's Access China service

Executive summary

- The CHAMPS represent the top 20 fastest-growing large cities in China.
- The CHAMPS tend to be located in China's central provinces with large rural populations, which will fuel urbanisation.
- The rise of the CHAMPS reflects China's transition to a consumption-driven economy, with growth moving away from the export-led eastern seaboard.
- Urbanisation will enable China to continue to post healthy growth for at least 20 years despite an ageing population. China's urban population will not start to decline until 2037, when it peaks at 880m. The CHAMPS represent considerable growth potential.
- Over the next decade to 2020, the population of the top 20 emerging cities will grow by 27% to 85m, making central China a global hotspot for business opportunity. By contrast, the population of China's richest 20 cities will only grow by 19% to 100m. The richest cities will still be important but they are already crowded markets.
- In 2009 average incomes in China's richest 20 cities were 42% higher than in the top 20 emerging cities. By 2020 that gap will have fallen to 15%. Thus the best growth opportunities for products targeted at high-income earners will in most cases be in the inland cities.
- Market uptake of numerous types of consumer goods is still rapidly increasing in the CHAMPS, even though such consumer markets in wealthier cities are approaching saturation. Mobile phones, air conditioners and personal computers are expected to perform exceptionally well in the CHAMPS.

Access China

The Economist Intelligence Unit has developed new models for forecasting population growth and economic performance down to the city level in China. When combined with our data on business conditions across all of China's 287 prefecture-level cities, the new forecasts give unparalleled insight into business opportunities in this rapidly emerging new segment of the global economy.

Economist Intelligence Unit benchmarking allows businesses to identify which cities will be particularly attractive for specific kinds of business: for example, Shenzhen has strong needs in the health and education sectors. Guangzhou has the best logistics but some of the worst industrial pollution – a good place for supply centres and strong demand for clean technology.

Introduction

In 2007 the birth of the new "New China" took place, the beginning of the key trend that will define China for the next generation – the rise of inland Chinese cities. China's past 30 years of growth were characterized by the exceptionally strong performance by the coastal cities, but this changed in 2007 when inland China started growing at a faster pace than the coastal area. The global financial crisis accentuated the trend, as it hit the export income of the coastal powerhouse while leaving the less trade-exposed inland cities relatively untouched. But the trend did not end with the crisis – it is here to stay. Economic data for the third quarter of 2010 reaffirmed the picture: growth in central China was 18.9%, compared with 15.6% in the eastern region.

Against this backdrop, the Economist Intelligence Unit has sought to identify the champions of global growth – the fastest-growing cities in the world's most vibrant economy. The CHAMPS are among the top 20 cities. They include a broad range, from Chongqing, the Yangtze River metropolis, to the explosive coal-centred economy of Pingdingshan. However, they all have one thing in common: rapid increases in population, income and infrastructure development.

We also identify China's future nerve centres – megacities fed by the largest-scale urbanisation in history. Zhengzhou, the capital of Henan province, will in 2020 have a bigger economy than Sweden, Hong Kong or Israel. China's megacities will attract

a relatively high proportion of upperincome earners and their sizes will offer economies of scale and scope that will drive productivity growth in the service sectors.

There is a wide disparity between incomes in rich cities like Beijing, Shanghai and Shenzhen and the poorer inland cities. Businesses looking for new opportunities in China face difficult questions about how to position themselves. Will the recent strong growth record of some cities continue?

Does income level translate directly to business opportunity? The ground floor of the building in which the Economist Intelligence Unit has an office in Beijing's CBD is an example. China is in the middle of a long-term retail boom, with sales growing in double digits every year, yet this ground floor is a luxury shopping ghost town – almost every retailer there closed shop in February 2010. The luxury mall found the high-income Beijing market attractive but in the end too crowded. However, the mall has surviving branches in five other cities: Changsha, Urumqi, Shenyang, Chongqing and Chengdu. These are all inland cities and three of them are in our top 20 emerging cities list. Inland China beckons with both high growth rates and less crowded markets.

Who are the CHAMPS?

The Economist Intelligence Unit took a close look at China's 287 prefecture-level cities and forecast their respective populations using a unique methodology that adjusts for urbanisation and flows of migrant labour within China. We then culled all cities with a population of less than 1m by 2014, and ranked the remaining 86 cities by a variety of growth measures including our forecasts of population and real GDP growth. The CHAMPS are Chongqing, Hefei, Anshan, Maanshan, Pingdingshan and Shenyang, taken from our list of the top 20 fastest-growing Chinese cities. The top 20 major cities in China show a strong performance from central provinces like Anhui and Henan, but parts of the north-east – cities such as Shenyang – also stand out. Anhui and Henan have large rural populations, fuelling urbanisation. Inner Mongolia also performs well on the back of a broad-based mining boom, despite its low population.

Anshan, a steel town, has relatively slow population growth but is experiencing a solid investment boom in heavy industry driven by the government in Beijing. Shenyang also shares these characteristics – like the rest of the north-east it suffers from slow population growth but this is offset by strong investment. Maanshan and Chongqing get a head start from their position on the Yangtze River, giving them low transport costs. Coal is the backbone industry in Pingdingshan.

All of the CHAMPS, with the exception of Xiamen, are inland – Xiamen sneaks in owing to the relatively rapid expansion of its built-up urban area. Inland China is large and diverse but our top 20 cities show some clear patterns. Anhui province has five of the cities. The southern part of the province benefits from good waterways and proximity to the rich east coast.

Although the CHAMPS tend to have lower incomes than their east coast counterparts, they are by no means poor. The chart above shows when the top cities pass through an annual income threshold of Rmb 30,000 (about US$ 4,500 at current exchange rates), with the top 20 cities highlighted in bold. In fact, the average income in a top-20 city in 2009 was roughly Rmb 17,000, on par with China's average urban income level. This means that CHAMPS consumers are representative of the bulk of China's urban population.

To access the full report, as well as further featured analysis on China, register for free at: www.eiu.com/champs

If you are interested in trialling the Economist Intelligence Unit's Access China service, please contact your local representative, Renate Guenther on +41 (0) 22 56 62 484 or renateguenther@economist.com

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Inside the Growth Engine

China Research – December 2010

"The sky is high and the emperor is far away" is an old Chinese saying that refers to how much local officials can achieve themselves with little supervision from above. It is an adage that is very relevant to China's dynamic expansion today as much of the country's growth is being driven by local initiatives and developments, rather than by Beijing. Chinese reforms have empowered local governments with unprecedented economic authority following a process of economic decentralisation that began in 1979. Indeed local officials in China's provinces and cities have occasionally reduced the effectiveness of Beijing's policies, as shown by the capital's recent difficulties in cracking down on property speculation. This brings to mind a modern rendering of the old saying, namely that "there are policies above and counter-measures below".

A *"bottom up"* perspective on China, rather than the usual "top down" one, has thrown up some extraordinary statistics:

- By 2020, China will have six provinces with an annual GDP of more than USD 1 trillion, equal to six countries the size of Russia (or Spain or Canada).
- With 47% of the population now living in cities, eight Chinese cities have a population of more than 10m, and 93 have more than 5m. By comparison, in the US only New York City has a population of more than 5m.
- Beijing, China's Washington DC, is also China's Silicon Valley. Its Zhongguancun area saw 23 hightech IPOs in 2009, against just one for Silicon Valley. There have been another 35 IPOs so far in 2010.
- Kunshan, one of 2,000 county-level cities, produces more than half of the world's notebook PCs, or 85m units – and yet IT manufacturing is not even its top-ranked industry.
- Suzhou, one of 280 prefecture-level cities, has a per capita GDP which is 70% and 46% higher than Beijing and Shanghai, respectively.
- Jiangsu, a province little known to outsiders, is poised to overtake the much better-known southern province of Guangdong to become China's largest provincial economy as early as 2012.
- The 1.5m inhabitants of Erdos, a city rich in natural resources in the otherwise poor western part of the country, will have a higher GDP per capita than Hong Kong in three years time.
- Among the 1m villages – the lowest unit in the administrative chain – there are some extraordinary contrasts, for example, between the fiercely-capitalist Huaxi, where every ex-farmer is a millionaire, and the communist Nanjie, where collective interests still prevail over those of individuals.

What does it mean for China's future when *local officials have widespread powers* over land sales, infrastructure, commercial and residential property construction, natural resource exploration and foreign direct investment?

First, *sizzling growth should continue for at least another five years.* Local governments have managed to beat Beijing's growth targets by a few percentage points every year since 1980. Published data for the coming 12th Five-Year Plan from 2011 to 2015 show most provinces remain ambitious in their targets.

Second, these growth ambitions have increased inter-regional competition. Provinces have far more ambitious plans for the expansion of their *rail networks and clean energy* activities than those stipulated by national targets. In some cases, the local target is double the national one. One reason for this is that to get promoted in China, you have to outperform your peers. The danger, however, is that over-investment leads to overcapacity. For example, Kunshan's strong position in IT is being challenged by the municipality of Chongqing. Together they could soon supply 80 per cent of the world's notebook PCs – raising concentration risks as well as oversupply concerns.

Third, *overcapacity may lead to bad credits.* For example, a recent report submitted by the China Academy of Science to the State Council raised concerns about unsustainable debt levels and the risk of loss-making activities. It noted that the 1,000 km Wuhan to Guangzhou bullet train, which started operating earlier this year, was running at less than half its capacity and would never make enough money to pay off the loans used to finance it.

Fourth, policies at the centre risk being less effective if they are quietly *resisted by local authorities.* Beijing launched its fierce crackdown on property speculation in April – and yet eight months on, not only have prices barely moved downwards, volumes actually rose again in September and October. Not a single city has rolled out the much expected property tax. *Vested interests* have also blunted Beijing's repeated calls for consolidation in the country's iron and steel industry.

Fortunately, Beijing is increasingly aware of this challenge to its *policy effectiveness.* It consistently requires Beijing officials to gain in-depth local experience and promotes prominent local officials to

national level. A large-scale campaign is underway, making local postings for promising new leaders mandatory.

Starting from the top, eight out of nine of the Politburo's Standing Committee (China's highest decision-making body) were Party secretaries for at least one province or municipality. Xi Jinping, the man widely seen as China's leader-in-waiting, is a good example. He has spent 31 years away from Beijing in various positions, which includes being Party secretary for two provinces and for one municipality.

What emerges is a more complex picture of China than even many experts have assumed. For anyone hoping to conclude a business deal in China it offers this message: don't assume you only have to deal with decision-makers in Beijing. You must also make sure local officials are on your side.

*This is an edited extract of a 245p report by **HSBC Global Research, Inside the growth engine.** China Research, December 2010 by Zhang Zhiming, HSBC's Global Head of China Research. Reproduced with permission.*

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Confidence of Swiss Companies in China

The confidence index of Swiss companies in China reaches an all time high of 79% for the year 2011, reveals the recent SwissCham China Business Sentiment Survey 2011. Finding suitable talent and growing Chinese competition are the top concerns.

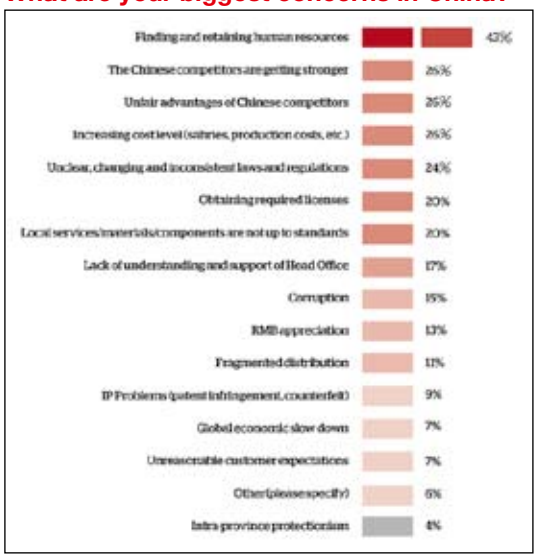
"That is a plus of 5% compared to last year, and a plus of 16% compared to two years ago", reports Nicolas Musy, Board Member of SwissCham and Managing Director of the Swiss Center Shanghai (SCS). The index for the period of the next five years climbed from a high 80% to 81%. These are the findings of the recent "Swiss Business Sentiment Survey 2011", conducted by SwissCham China in cooperation with CEIBS (China Europe International Business School) among 54 high-ranking survey participants. A value of 0% in the survey means "no confidence at all" whereas 100% represents an "extremely high" level of confidence.

The Business Sentiment Survey does not only show that the Swiss business community is highly optimistic about the future. It also reveals the most important factors of success and the biggest concerns. Mr Musy: "As in last year's survey, finding and retaining human resources is the top concern of Swiss business leaders." The second biggest concern is the stiffer Chinese competition. "The survey participants state that the Chinese competitors are getting stronger. A total of 73% considers the competition in China as 'tougher' or 'much tougher' compared to the country of origin", reports the SCS Managing Director. Other major concerns are about unclear, changing and inconsistent regulations as well as unfair advantages of Chinese competitors. Interestingly, concerns about intellectual property rights and corruption have a low relevance to the vast majority of participants.

According to the survey, Swiss companies intend to increase their labour force to a lesser extent compared to the year before. Head count is assumed to go up by 16% in 2011. Last year, the average intended increase was +21%. Top success factors of Swiss enterprises in China include the company image and reputation, a good strategy and the quality of the management team, the competitiveness of the product and service, the price-quality ratio and the strength of the brand.

Nicolas Musy
Managing Director
SCS

What are your biggest concerns in China?



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Analysis of Current Situation in China

H.E. Ambassador Blaise Godet

Shortened text of a presentation given at the 4th International Joint Alumni Conference on October 1, 2010 at the Swiss Re Centre for Global Dialogue in Rüschlikon, ZH by H.E. Mr Blaise Godet, Ambassador of Switzerland in Beijing.

These days, a foreign visitor finds a recovered and self-confident China. The times when DENG Xiaoping recommended the party to focus on the inner development of the country in the first place, while attaching only subordinate importance to international affairs seem to be long gone.

One has to admit that China can legitimately be proud of recent and forthcoming achievements: the Beijing Olympic Games in 2008, the World Exposition in Shanghai; the Asian Games in Guangzhou later this year; the reconstruction efforts undertaken after the two earth quakes in Sichuan and Qinghai as well as after the severe floods in Gansu; and not to forget the stimulus plan, amounting to roughly USD 600 billions, which contributed to financing the numerous construction sites across the country (roads, airports, ports, subway lines, resident buildings, etc.) and seems to have lifted the economy out of the undertow of the economic crisis that was looming 18 months ago.

There is hardly any month that passes without the central or provincial government inaugurating an airport, a congress centre, a high-way or an opera. Looking around, one gets sometimes overcome by the feeling that the resources of this country are unlimited.

However, it seems to me that China's economic achievements contrast with a certain sluggishness of the political system. If the practice set in place under the team of JIANG Zemin and his premier minister ZHU Rongji will be continued, the actual tandem with HU Jintao and WEN Jiabao, which took over in 2003, will remain in power until 2012. Accordingly, we should then witness the arrival in the first row of the current vice president XI Jinping and the vice premier LI Keqiang. It seems likely that the successors will take on the prudent and efficient manner of guiding the country owing to which China is now ranking the second largest economy in the world, what allows it to maintain a dialog at eye level with the USA.

In particular with Washington there are many topics to be discussed and the relationship is often soaked with mistrust. Among the hot issues there are the RMB exchange rate, judged artificially under-valued by Washington; Taiwan, to which the US sold weapons in January; Iran, which China is treating carefully in view of its dependence on Iranian oil supply; Afghanistan, where the USA want China to engage more in security issues; the Democratic People's Republic of Korea, where China's support is essential for the viability of the regime; human rights, even though Mrs Clinton has apparently decided not to turn it into a bone of contention; and eventually the global warming. Nevertheless, due to the importance for the international system as well as the vital financial and commercial interdependence, both countries pragmatically try to intensify bilateral relations. The striking point is the multiplication of contacts and visits at all levels between both capitals, which substantiates the idea of a permanent dialog upon different topics with not only a bilateral but also a global scope, creating a de facto G2. However, Beijing officially refuses the idea of participating a Sino-American duopoly – a so called Chimerica – but prefers to emphasise its engagement within the G20.

Today, the Party leadership is following a moderate path. The Political Bureau's Standing Committee (9 members) follows in fact a centrist approach, yet still closer to the conservative nationalists than the proponents of a more far-reaching opening of the society. One has to be aware of the fact that the Chinese instinctively reject instability and disorder from which they suffered so hard in the past. For the first time in two centuries the majority of the Chinese people experience a constant improvement of their living condition, without an apparent risk that the situation might turn into chaos. The party's legitimacy is based on this slow, yet constant raise of achievements. It is very possible, that if today free elections were held, the power of the CCP would be confirmed with a comfortable majority, since the majority of the popu-

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lation agrees with the overall leading strategy of the party. However, there is one issue endangering the monopoly of the party: corruption. The leadership in Beijing is well aware of this problem and is attempting to solve it through the improvement of inner-party democracy. At the same time, in the provinces and big cities more action is taken against those accused of having misused public funds. For the time being the Party has the means – owing to its success in achieving economic prosperity – to come to grip with the bold internet users who are expressing their dissatisfaction with the shady practices of certain local authorities.

If there is one topic that China does not want to be lectured on or may even think that others should learn from China, it is the field of human rights. China is demonstrating with pride its success in fighting poverty and famine. It emphasises that never before so many individuals (we speak of 300 to 400 millions) were lifted out of poverty in such a short period of time and that this undeniable success facilitates the relations between Beijing and the developing countries. As a consequence it is not with the attitude of a penitent that China approaches the Western countries in the different human rights dialogues. Much more so it expresses the conviction that the imprisonment of some dissidents is a price well worth paying in order to maintain the sacrosanct social stability and the strategy of a controlled opening up.

The same strategy of control explains the rigidity that Beijing shows in the Tibet issue as well as the manner of dealing with the Dalai Lama. No matter whether the exile government ultimately strives for the autonomy or the independence, it is out of question to tolerate that a province could openly jeopardise the Chinese authority and even less so if the given province comprises a significant part of the countries' territory and is rich in natural resources and eventually threatens to evoke similar endeavours in other provinces. Xinjiang, with its Uighurs is also a "difficult" autonomous region, as in the opinion of some people it threatens to slip into the spiral of "terrorism", "fundamentalism" and "extremism", which Beijing currently describes as the three worst plagues. It is by the way with respect to this concern that Beijing has founded the "Shanghai cooperation organisation" which gathers with Russia and China the majority of Central Asian republics. Eventually the Taiwan issue still triggers strong defensive reactions in spite of the warming up of the relations across the strait and the policy of gradual rapprochement put in place by president MA Ying-Jeou since his accession to power in 2008.

China does not maintain a dialog with its international partners about these sensible topics which are called core interests by Beijing. They are all arrayed around the maintenance of the security of the political system, national sovereignty, territorial integrity (Taiwan, Tibet, Xinjiang) and the stable development of China's society and economy. They illustrate that domestic concerns have still priority in the definition of the foreign policy and that the defence of universal values plays only a secondary role.

There is yet another reality that foreign visitors to China – even if they go there frequently – may not always be aware of: the rise in the value chain of industrial production: Very often people in the West still imagine China as a giant production workshop of unsophisticated goods like toys or shoes. Of course, this is still the case. However, China counts more and more companies that generate a high value added, in particular in the fields of electric vehicles, electronic imagery, solar energy, micro mechanics, telecommunications and new communication technologies. China's economic take-off is thus also a qualitative one.

Nevertheless it would be erroneous to think that there appear no clouds on the sky: In certain places the environment is in a deplorable condition, the industrial production is often little efficient, the health system is precarious not to say inexistent, which as well applies to the social security. China has thus to experience enormous investments, which the United States and Europe have already undertaken. A social security system and a health system that merits its name is nothing but a question of equality. It addresses in the end the sustainable development of China's growth. If Beijing wants to overcome the stalemate of an economy mainly based on exports, which caused China to accumulate an immense amount of dollars (2'400 billions!) and to be in some way dependent on the American Treasury, another growth model has to be put in place. This model would logically have to take into account the satisfaction of the domestic market's needs, which implies an increase of the domestic wages in real terms (we have already seen some strikes in (foreign) companies) as well as a better coverage of health and social insurance. In fact, if a Chinese worker feels defenceless against a stroke of fate, he will always conserve his inclination to accumulate savings.

However, the growth of the industrial and financial product range does not mean that the Chinese markets is about to be westernised. Certainly, as a consequence of China's accession to the WTO, the economic legislation has been adapted. Yet, foreign companies keep on operating in a somewhat opaque, unstable and sometimes discriminatory legal environment. They also have to be aware of the fact that in case of legal dispute they will not be able to count on an independent judicial examination. In China the tribunals are not there to oppose the regime. They clearly stand in the service of the Party.

When sometimes I hear of the difficulties Swiss firms encounter, I get the impression that there is a critical size for a company to engage in this market. There is no universally applicable recipe that guarantees success. However, I feel tempted to say that if a company

thinks of settling in China without clear strategy and solely due to the lower costs of labour, neglecting other existing obstacles (local partners, local customs, bureaucracy, etc.), it might encounter some disappointments. In China a rough business climate prevails and profit margins are narrow (maybe the luxury industry is an exception) so that eventually only a sufficient volume of booked orders will justify an investment.

In order to facilitate the work of our businessmen, Switzerland has made big efforts towards establishing a bilateral free-trade agreement, not only to reduce the customs duties, but also to improve the market access conditions in general. The interest is reciprocal, since for Beijing the negotiations with Berne would be a training field with a non EU-member State that has a nevertheless very diversified economy, before entering a similar dialog with Brussels. The SECO hopes that our negotiations could start on the beginning of next year, what seems realistic to me, considering that a Memorandum of Understanding was signed to that effect on the occasion of the recent official visit of President Leuthard last August. According to the Swiss view the scope of application of the agreement should be as broad as possible and contain in addition to the usual tariff specifications regulations on services (including financial services), intellectual property and competition policy. In any case Switzerland will insist on the inclusion of an evolutive clause that allows both parties to periodically re-examine the scope of the application of the agreement with a view to widening it.

Also China's hunger on natural resources has to be mentioned. It can be felt on all the continents, even in crisis regions like Sudan or Afghanistan. This deployment also stirs security issues, since China needs to protect itself and its strategic economic interests, in particular with its naval force. To this end the mission of the navy has been extended: Instead of restraining itself to defending its coast lines, it shall henceforth secure the protection of the Chinese strategic interests, as it is doing today in the range of the naval operation "Atalanta" in Somalia.

Eventually I would like to mention the bilateral relations that are getting increasingly dense and diverse (diplomacy, security, investments, human rights, humanitarian aide, global warming, culture and tourism, science, education and research). Moreover, the relationship would further benefit from an extension towards fields such as legal assistance, migration, finance and banking services. The initiation of a financial dialogue, as it is wished by the Chinese side, would allow to tackle certain domains where our expertise is well established: 1) banking training "capacity building"; 2) improvement of the conditions regarding the access to the financial market; 3) stock-exchange-, banking- and finance regulation problems; 4) diversification of reserve assets. Paradoxically, the Uighur affair, which the Chinese have

handled with soberness after an initial wrathful reaction, seems to have revealed the maturity of our bilateral relations. This is illustrated by the fact that this issue has not been turned into a stumbling block for our most important current dossier: the free trade agreement.

In conclusion I hope that my comments, sometimes critical, have translated the strong impression which China has made upon me: a very energetic country, determined to fight against poverty and keen to learn and to open up to that effect. In other words China appears ready to draw lessons even from foreign practice, but it will do so at its own pace and shall not let other countries dictate the orientation of its political, economic or social course. In a nutshell China is giving us an example of "opening under control".

Beijing, October 8, 2010

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Die trügerische Harmonie zwischen Obama und Hu

Frank Sieren

Der Staatsbesuch von Chinas Präsident Hu in den USA war eine Begegnung zwischen Aufsteiger und angeschlagener Weltmacht.

Selten hat es in Friedenszeiten in einem so kurzen Zeitraum eine so dramatische Machtverschiebung zwischen zwei Großmächten gegeben wie zwischen China und den USA. Noch seltener ist, dass Sieger und Verlierer trotzdem nicht feststehen.

Deshalb waren Staats- und Parteichef Hu Jintao und US-Präsident Barack Obama sehr vorsichtig bei ihrem Treffen. Gerade weil keiner der beiden aufzutrumpfen versuchte, war Hu Jintaos Amerika-Reise der wichtigste Besuch zwischen den beiden Großmächten, seit Deng Xiaoping 1979 als erster chinesischer Spitzenpolitiker die USA besuchte.

Die Weltmacht USA spricht nun von einer Win-win-Beziehung, ein Slogan, mit dem sich Peking noch vor einigen Jahren auf die Zehenspitzen stellte, um mit Washington auf Augenhöhe zu kommen. Nun wählen die Amerikaner dieses Stichwort, um zu verschleiern, dass sie inzwischen weiche Knie bekommen haben: Im August 2008 gaben die Chinesen den entscheidenden Impuls für den Beginn der Weltfinanzkrise, als sie sich öffentlich weigerten, den völlig überschuldeten, halbstaatlichen Immobilienfinanzierern Fanny Mae und Freddy Mac weiterhin Geld zu geben. Damit führten sie der Welt vor, was vorher nur Insider wussten: China ist die Bank of America.

Peking hat dann, selbst sehr erschrocken über das Ausmaß des Zusammenbruchs, den globalen Absturz mit einer schnellen und umsichtigen Konjunkturpolitik abgefedert und mit einem Wachstumsboom die westliche Exportindustrie in Euphorie versetzt. Bei G20-Gipfeln, den IWF-Sitzungen und Weltklimakonferenzen sind die Chinesen infolgedessen von Beisitzern zu Wortführern geworden. Und sie genießen im Uno-Sicherheitsrat inzwischen das Wohlwollen eines Großteils der aufstrebenden Entwicklungsländer – sei es aus Bewunderung oder nur aus Wirtschaftsopportunismus.

Die chinesische Führung ist außerdem dabei, ihre Armee so zu modernisieren, dass sie den Aktionsradius der Amerikaner empfindlich einschränken kann. Nun ironischerweise auch mit Hilfe von amerikanischer Flugzeugtechnik, die zwar für die zivile Luftfahrt gedacht ist, aber natürlich auch militärisch genutzt werden kann. Chinesen und Amerikaner haben anlässlich dieses Besuchs eine entsprechende Vereinbarung im Wert von mehreren Hundert Millionen US-Dollar unterzeichnet.

So weit ist es schon: Obama muss neue Arbeitsplätze gegen mittelfristige militärische Sicherheit eintauschen. Denn die USA leiden immer offensichtlicher unter ihren Schwächen. Während die Unternehmen vor Geld und Kreativität nur so sprühen, verschuldet sich der Staat immer tiefer. Die Arbeitslosigkeit bleibt erschreckend hoch. Die Weltwährung US-Dollar ist ein Wackelkandidat geworden.

Niemand in der amerikanischen Regierung hat in den letzten Jahren die Machtverschiebung härter zu spüren bekommen als Finanzminister Timothy Geithner. Seitdem er im Amt ist, versucht er, Peking mit der Brechstange dazu zu bewegen, den Yuan aufzuwerten. Magere 3,6 Prozent sind ihm die Chinesen bisher entgegengekommen. Die Amerikaner sind auf bestem Wege, dem British Empire nun als großer Absteiger zu folgen. Damals wie heute konnten sich die Verlierer lange nicht eingestehen, dass ihre Rolle endlich ist.

Die Stabilität und Harmonie, die uns die beiden mächtigsten Männer der Welt vorspielen wollen, ist also trügerisch. Immer wieder betonten sie, wie wichtig es für die Welt ist, gut zusammenzuarbeiten. Das verrät viel über die Befürchtungen hinter den Kulissen der Macht. Denn der Übergang von einer alten zu einer neuen Weltmacht ist in der Geschichte nur selten krisenfrei verlaufen. So selten, dass man sich trotz der engen wirtschaftlichen Verflechtung heute nicht darauf verlassen sollte.

Vor allem die Absteiger neigen dazu, in solchen Umbrüchen unberechenbar zu werden. Sie haben viel zu verlieren, müssen deshalb mehr riskieren und machen dann Fehler, die ihre Lage noch verschlimmern.

Immer mehr Geld zu drucken könnte sich etwa als ein Fehler herausstellen, der am Ende den Machtverfall der USA beschleunigt.

Frank Sieren, Bestseller-Autor, Dokumentarfilmer und Korrespondent der ZEIT, lebt seit über 15 Jahren in Peking. Die LONDON TIMES nennt ihn einen der „führenden deutschen Chinakenner“. Mit klugen Argumenten und klaren Analysen greift er immer wieder in die aktuelle China-Debatte ein. Seine Bestseller sind unter anderem „Der China-Code“ (2005), „Der China-Schock“ (2008) und „Die Konkubinenwirtschaft. Warum westliche Unternehmen in China scheitern und die Chinesen an die Weltspitze stürmen“ (2008).

Der Weltmachtkampf ist allerdings noch längst nicht entschieden. Die Antworten auf die großen Fragen dieser epochalen Machtverschiebung zeichnen sich noch nicht annähernd ab. China muss sich damit beschäftigen, wie nachhaltig ein Wohlstand mit eingeschränkter Mitbestimmung sein kann. Und für die Amerikaner steht zur Debatte, wie stabil eine Demokratie ist, der das Geld ausgeht. Es ist zu befürchten, dass sich die amerikanischen Absteiger mit ihrer Frage früher beschäftigen müssen. Die chinesischen Aufsteiger können ihre Widersprüche im Rausch des Wirtschaftsbooms noch ein wenig länger verdecken. Aber auch das sagt noch nichts darüber aus, wer am Ende besser dasteht.

Frank Sieren (Handelsblatt, 21. Januar 2011)

A Rising China's Place in the World Economy

After 30 years of breakneck growth, China overtook Japan to become the world's second largest economy in 2010. The reaction in the West to this stunning success has been mixed. It boils down to one question: what role will China play in the world?

In future the rest of the world should expect China to play a more active role in areas such as climate change, poverty alleviation, global infrastructures, and reform of the international monetary system. In its long history China has remained an inward-looking country, a tendency most obviously expressed in its Great Wall. Despite occasional bellicose reactions to what it regards as provocations, China harbors no ambition to become a hegemonic power.

But as Zbigniew Brzezinski notes, a "drift into escalating reciprocal demonisation" is the worst possible outcome for Asia's stability, as well as for American-Chinese relations. Avoiding this will require careful economic management, especially as the world welcomes 2011 without any shortage of challenges.

An uneven and unstable global recovery, the threat of protectionism and fiscal pressures all require strong and coordinated action. China can and must play a critical role – just as it did during the global financial crisis, when China did more than any other economy to pull the world out of the recession.

China will remain an important engine of global growth for years to come, but its economy is changing too. Over the next four years China will accomplish a paradigm shift from export and investment-driven growth to a more balanced pattern. As a result growth rates may be significantly lower, if more sustainable.

The Chinese government has already identified escalating inflation, currently at 5.1 per cent, as the most important near-term risk. Global liquidity over-

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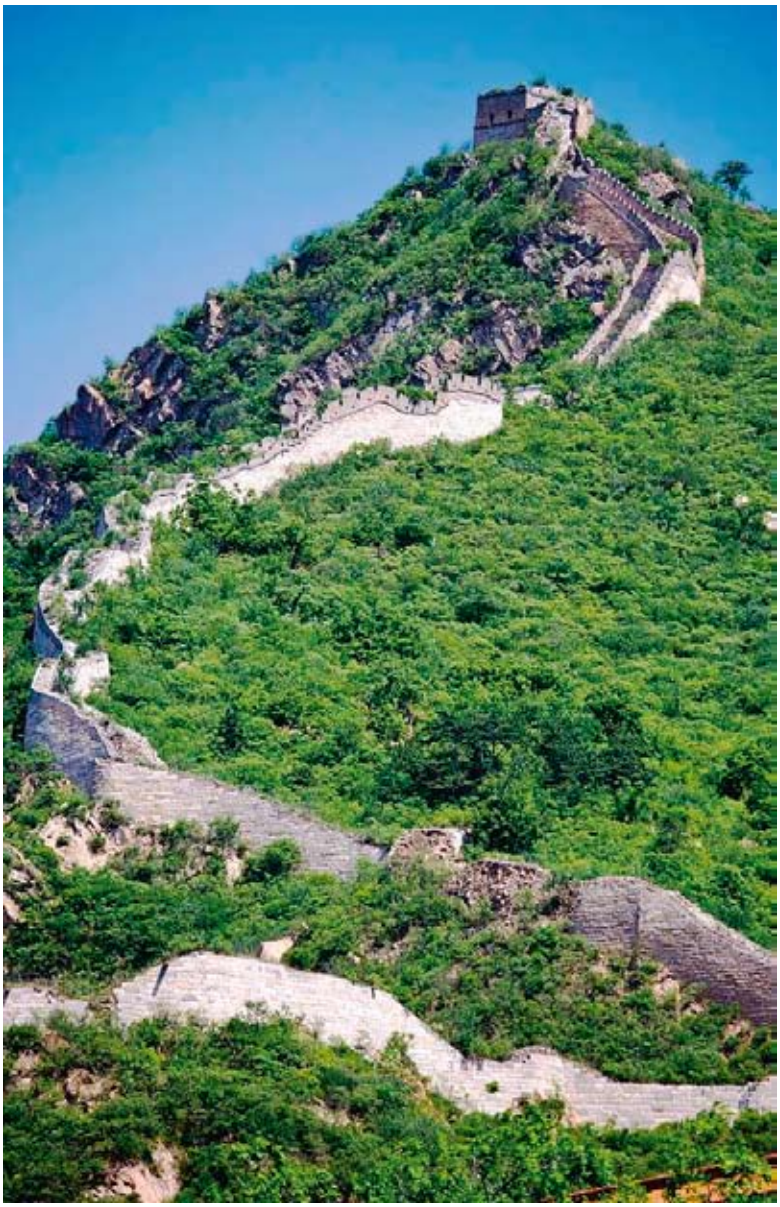
Prof. Yu Yongding

hangs have led to rising input costs, but China's recent credit binge is probably the main culprit. High investment growth and strong export performance has constrained production capacity. With abundant liquidity and strong demand, inflation is inevitable.

The tug-of-war between real estate developers and the central government is still ongoing. To avoid a Japan-style boom and bust, China must stabilize property prices, while acting to satisfy the public's demand for affordable housing. Crucially, China must be willing to make short-term sacrifices, such as asset price adjustments or temporary employment losses in certain sectors, to guarantee the long-term stability. Its extremely strong fiscal position and low debt can ease any pain, ensuring domestic demand does not suffer dramatically.

These are tough choices. Failure to cool the economy will have serious consequences for China's long-term growth. But a hard landing would shake confidence in emerging markets, and set back the global economy by many quarters, if not years.



America's attempts to blame an undervalued Renminbi for its economic woes are by and large without merit. A stronger currency would benefit the US, but also help China promote structural adjustment and contain inflation. China must also choose between maintaining large current account surpluses and lower reserve accumulation, meaning having fewer dollars to plough into the US government securities. Lower reserve accumulation means less central bank intervention in the foreign exchange market, which in turn means tolerating greater appreciation.

In any case, China's current account surplus-to-gross domestic product ratio has been dropping fast, due to factors such as the real appreciation of CNY. Capital flows will remain a problem when China is trying to rein in inflation and asset bubbles. Like other emerging economies, China has to strengthen its management on cross-border capital inflows, even though some of these flows are not speculative in nature.

China's leadership has stated repeatedly in the past that nothing will be done to destabilize sovereign bond markets. Nevertheless, the US and Eurozone must act responsibly towards creditors.

China has been supportive of the Eurozone, but must urgently seek clarification as to whether its holdings of periphery debt will be part of any restructuring plan. Currently, according to market observers, the numbers for Ireland and Greece don't add up. Until such clarification is provided, or the Eurozone comes up with a permanent resolution mechanism, China should give no commitment to supporting the Eurozone through direct government bond purchases, as this risks throwing good money after bad.

America must change course too. At present the US is debasing its currency through more quantitative easing, while President Barack Obama's recent tax deal failed to address the deficit in a way which would allay the fear of its creditors. As a result 2011 could be the year where China sends a clear message to the US: do not expect any more munificence.

The lack of alternatives to the dollar as a reserve currency has bred a false sense of security within the US. Yet when China reduces its current account surplus and diversifies away from US dollar assets, a reduction in Chinese buying will be felt in Treasury markets.

Some in Washington might dismiss this as bluffing, but surely a healthier US fiscal balance is in everyone's interests? Like China, the US must make sacrifices. There is much to be done in 2011. China should be bold and face up to its responsibilities, but we will also demand that the rest of the world reciprocates.

By Yu Yongding

The writer is an academician with the Chinese Academy of Social Sciences and a former member of the monetary policy committee of the Chinese central bank.

Ventures Abroad Facing a Bumpy Road

Rush to take advantage of "opportunities" without careful analysis may prove risky for companies

With the rapid growth of China's economy and its fast-paced integration with the global market, "Chinese companies going global" has suddenly become a hot topic. As they venture abroad on what will surely be a journey full of twists and turns, Chinese companies will not only face global competition and external pressure, but they will also have to significantly improve their management skills at the internal level.

In 2005, for example, China National Offshore Oil Corporation (CNOOC) made a bid to acquire UNOCAL – one of the largest US-based oil companies. However CNOOC ultimately withdrew its bid after the US Congress expressed doubt about the State-owned Chinese oil giant's acquisition intentions. Even as the financial crisis battered the global economy, this type of resistance has kept cropping up.

Then, at the beginning of 2009, Rio Tinto refused a tender offer from Aluminum Corporation of China (Chinalco), undeterred by even a $ 195 million penalty for breach of contract. And recently, China has come under fire from some countries' media concerned about the country's announced intention to invest in Greece in an effort to help the debt-laden country emerge from the financial crisis.

China's rise has sparked some fears about Chinese companies' international expansion. However, this doesn't mean that Chinese companies can do nothing but wait until these sentiments abate. One possible strategy would be for Chinese companies to set their sights on becoming minority shareholders in foreign companies, rather than aiming for controlling shares. This approach is already being successfully used by China Investment Corporation. Another option is for China's privately-owned companies to become the driving force behind the country's efforts to go global. One of the latest examples is Geely's acquisition of Volvo.

The country's economic success in past years often overshadows the fact that Chinese companies still have a very short history. In fact the typical Chinese company, such as Lenovo and Haier, can only trace its origins back to the mid-1980s. The relative infancy of these firms, combined with China's late start in management education, means that Chinese companies have to "cross the river by feeling for stones", and learn how to manage through practice and frequent reflection. Therefore, there is an urgent need for them to "catch up" by acquiring systematic management knowledge.

While many Chinese companies are agile and have lofty ambitions, some of them lack the efficient management systems and processes needed to implement their goals. China's imperfect institutional environment and rapidly changing marketplace entice many domestic companies to rush to take advantage of "opportunities" without careful analysis.

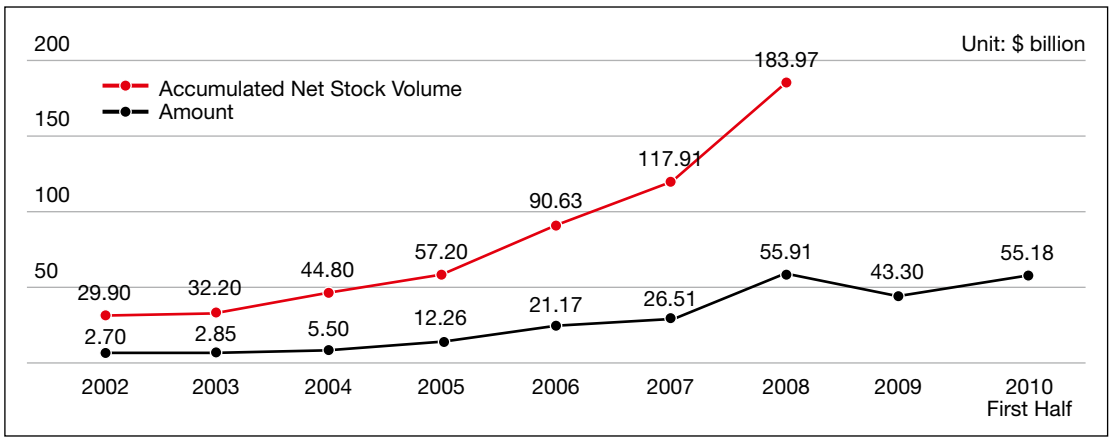
This can create problems, at the integration stage, for Chinese companies that invest in companies from abroad.

Another challenge comes from Chinese firms' comparatively limited experience in cross-cultural management. Although they have accumulated a lot

Zhu Xiaoming
Executive president and professor of management at CEIBS

Pedro Nueno
President and professor of entrepreneurship at CEIBS

China's outbound direct investment 2002–2010



Source: The Ministry of Commerce

Unsuccessful cases of Chinese companies going global

Time	Acquirer	Acquiree	Industry	Deal	Key Failure Factors
2004	Shanghai Automotive Industry Corporation	Ssang Yong	Automotive	$ 500 million	Labor Union
2004	TCL	Thomson Alcatel Mobile Phones	Household appliances	–	Integration
2005	BenQ	Siemens Mobile Division	Mobile phone manufacturing	€ 50 million	Integration
2005	China National Off-shore Oil Corporation	UNOCAL	Oil	$ 18.5 billion	Political resistance
2005	Sinochem Group	Incheon Oil Refinery Co Ltd	Oil	$ 560 million	Market access restriction
2005	China Mobile	Pakistan Tele-communications	Telecom	$ 1.406 billion	Government intervention
2007	China Minsheng Bank-ing Corp Limited	UCBH Holdings Inc	Finance	$ 129 million	Inadequate risk analy-sis, financial crisis
2008	Ping An Insurance (Group) Co of China	Fortis NV	Finance	€ 2.15 billion	Inadequate risk analy-sis, financial crisis
2009	Aluminum Corp of China	Rio Tinto	Mining	$ 19.5 billion	Political resistance
2009	China National Petro-leum Corporation	Verenex Energy Inc	Oil	$ 460 million	Political resistance

Source: CEIBS *ZHANGYE / CHINA DAILY*

of knowledge from their export activities, their main businesses are still located in China, and international staff members make up a very small percentage of their workforce. Their management teams are also unskilled in cross-cultural management.

To fill these gaps and overcome these hurdles, business schools in China have an important role to play in facilitating Chinese companies' efforts to go global. In 1994, the Chinese Government and the European Union had the foresight to jointly establish the China Europe International Business School (CEIBS) with the stated mission of "nurturing management talents capable of competing in the global market".

Over the years, the school has assembled a team of international faculty members, with a large majority of CEIBS professors obtaining their PhDs from world-renowned European and US-based universities or business schools. And up to 40 percent of CEIBS' MBA participants come from outside China. In program design, career development, teaching methodologies and its campus design, CEIBS meets or exceeds international standards. Designed by Pei Cobb Freed & Partners and IDOM, leading architectural firms from the USA and Europe, respectively, CEIBS' Shanghai and Beijing campuses are cradles where management talents are nurtured with a combination of international perspectives and cross-cultural management skills.

CEIBS, by its very nature as a dual-continent collaboration, also offers valuable lessons on how to succeed on an international level. Over the years, we have learned, for example, that respect for each other is one of the factors critical to the successful integration of a multicultural team. Any major international business decision will have many variables, can be seen from different perspectives – and there is always some degree of uncertainty. Past experiences in different cultural settings may suggest a certain line of action; but humility, respect for others' opinions and a willingness to work as part of a team to build on what others see as key points, may lead to a rich and flexible action plan that garners a lot of support during implementation. An integrated team of strong leaders who respect each other will focus their time and energy on working towards common goals, inspiring the rest of the organization to do the same.

In addition, a Chinese company that wants to succeed globally must hire local and international managers willing to play a meaningful role in different parts of the world. Huawei is a case in point: 20,000 of the company's 100,000 employees are non-Chinese; and there are many foreign faces among its middle managers and senior executives.

Through joint ventures and alliances, both sides' resources and advantages can be fully leveraged; but potential areas of cultural conflict should be addressed. Many managers want to be in full command; but joint ventures and alliances may require that they learn to listen, not just lead. There will also be a need for greater attention to strategy and implementation – and the willingness to learn from each other. Successful joint ventures, alliances and acquisitions can be excellent ways to enter the global markets but they require the capacity to create winning multicultural teams. Fortunately, the values needed for a successful organization transcend national borders and are truly global: ethics and transparency, hard work, treating employees as individuals who crave opportunities for self-development and growth, responsibility towards society, generosity, mutual respect, and enthusiasm.

By Zhu Xiaoming and Pedro Nueno
(China Daily, Sept. 2010)

New Incoterms Effective 1 January 2011

The International Chamber of Commerce (ICC) announced that Incoterms® 2010 launched in September 2010, come into effect on 1 January, 2011.

To keep up with the rapid expansion of world trade and globalization, the Incoterms rules are revised about once a decade. Since the last revision in 2000, much has changed in global trade and the current revision will take into account issues such as developments in cargo security and the need to replace paper documents with electronic ones.

The 2010 edition includes 11 terms instead of the 13 in the previous edition. The following terms from Incoterms 2000 have been deleted from the list: DAF, DES, DEQ and DDU. Two new terms have been added to the list: DAT and DAP. DAT replaces Incoterms 2000 rule DEQ. DAP replaces Incoterms 2000 rules DAF, DES and DDU.

Whilst Incoterms 2000 had four categories, Incoterms® 2010 has two categories only:

Rules for any mode of transport
CIP – Carriage and Insurance Paid
CPT – Carriage Paid To
DAP – Delivered At Place
DAT – Delivered At Terminal
DDP – Delivered Duty Paid
EXW – Ex Works
FCA – Free Carrier

Rules for sea and inland waterway transport only
CFR – Cost and Freight
CIF – Cost, Insurance and Freight
FAS – Free Alongside Ship
FOB – Free On Board

In addition to the 11 rules, Incoterms® 2010 includes:

- Extensive guidance notes and illustrative graphics to help users efficiently choose the right rule for each transaction;
- New classifications to help choosing the most suitable rule in relation to the mode of transport;
- Advice for the use of electronic procedures;
- Information on security-related clearances for shipments;
- Advice for the use of Incoterms® 2010 in domestic trade.

Used in international and domestic contracts for the sale of goods, Incoterms help parties avoid misunderstandings by clearly identifying the obligations of the buyer and seller.

Featuring the two new rules, the Incoterms® 2010 edition reflects advances in international trade over the last decade, and is an essential tool for trade. Used in both international and domestic contracts for the sale of goods, the rules simplify the drafting of such contracts and help avoid misunderstandings by clearly setting out certain obligations of buyers and sellers.

The International Chamber of Commerce (ICC) has issued the new Incoterms Book which will be in use from 1st January 2011.

For more information on the Incoterms® rules, please visit the official Incoterms® website: www.iccwbo.org/incoterms

Product Certification in China "CCC-I" Replaced by "CC-IS"

In the last issue of the Bulletin (1/2010, volume 94), we looked at China Compulsory Certification (CCC). We will now look in more detail at the CC-IS, the certification for information security products that has now replaced the CCC-I.

CC-IS is the **Chinese certification scheme for information security products.** The certification is compulsory **for government procurement,** and voluntary in all other cases. Many state owned enterprises (SOEs), including most banks and airlines,

Klaus Ziegler
President and
Owner of Quality
Partnerships GmbH

have also begun voluntary implementation of these same standards.

Between May and July 2010, information security products for government procurement were supposed to obtain the China Compulsory Certification (CCC) mark for Information Security products ("CCC-I").

In mid-July 2010, the China Certification and Accreditation Administration of the PRC (CNCA) published a notice [2010, No. 26] stating that information security products for government procurement must **now obtain the "CC-IS" mark and no longer the "CCC-I" mark.**

The new certification is called "National Certification for Information Security Products". Nevertheless, the procedures for obtaining the certification and the CCC Catalogue have not been modified.

13 product categories require CC-IS; they are listed in the *Catalogue of Products Subject to Compulsory Certification* (CCC Catalogue). The 13 products categories can be divided into two main groups:

Group I: Certification of these product categories follows the standard procedure for all products requiring CCC certification listed in the *CCC Catalogue.* Based upon current regulations and under normal circumstances, the process for obtaining the relevant CC-IS certificate takes between 70 and 80 days.

Group I: No Cryptography

- Network security separated cards and line selectors
- Data backup and recovery products
- Anti-spam products
- Intrusion detection system products
- Network vulnerability scanning products
- Security audit products
- Site restoration products

Group II: Products falling under these product categories require a certification of their cryptography called "Cipher Test Certification" before applying for CC-IS. Such certification is issued by the *Office of the State Commercial Cryptography Administration* (OSCCA). The combined certification of CC-IS and cryptography can take up to 200 days.

Group II: Cryptography

- Firewall products*
- Isolation and exchange of information security products*
- Secure routers
- Smart cards COS
- Secure operating system products
- Secure database system products

* According to the level of protection of the product, you may not need the "Cipher Test Certification".

CC-IS registration is valid for **5 years** and renewal should be initiated about 3 months before expiration. Before leaving the factory, all products must be labeled with the appropriate CC-IS mark, either on the item itself, the packaging, or both.

For further information, please contact:

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CCC at a glance

- CCC stands for *China Compulsory Certification*
- Needed for 23 categories of products, if placed on the Chinese market
- Based on Chinese National Standards (GB-Standards)
- Initial testing and factory inspection mandatory
- Annual follow-up inspection(s) required
- Officially, the process requires 90 days, but in practice, much longer.
- Costs vary greatly according to tested products and factory locations
- Implemented since 2002
- Certificates are now valid for 5 years

Representative and Branch Offices

New Regulations for Representative Offices with Effect from March 2011

China's state council again shows commitment to monitor representative offices. China Focus clarifies the differences and additions between the new 2011 and previous 2010 regulations.

With effect from March 1st this year, representative offices of foreign companies in China (RO) will have to deal with increased administrative burden and more restricted operating conditions. After a first tightening of rules in the beginning of last year (China Focus March & April 2010), a new law is now cementing the previous changes and adding some further points which altogether leads to increased reporting duties, tightened requirements for compliance and much higher penalties in cases of non-compliance. Significant new penalties include personal fines and even blacklisting of individuals.

With this move Beijing further strengthens its previous intentions to end the widespread use of ROs to conduct operational activities. The tolerance for this is decreasing and foreign companies should be prepared to face stricter controls and more stringent application of the existing regulations.

Rules Announced in Jan/Feb 2010	New Rules with Effect from March 1, 2011
Mother company has to exist for at least 2 years at date of RO formation.	Confirmed. In addition articles of association of parent company have to be submitted.
Registration certificate valid for 1 year. Supporting documents including proof of mother company's existence to be resubmitted annually.	No further provisions on the validity of the registration certificate. Yearly submission of a report on the activities of the RO to be submitted along with audit report.
Maximum of 4 representatives.	Confirmed. No additions to 2010 rule.
On-site inspections within 3 months of establishment, penalties applicable if RO lacks office space or employees, changed address without re-registration, or has official documents issued at more than one district.	Non-compliance fines up to RMB 500,000 against RO and RMB 10,000 against individuals. Profits and assets derived from irregular activities can be confiscated.
Non-compliance may result in RO being blacklisted and facing difficulties when extending registration or de-registering.	Serious breaches may result in revocation of registration certificate. Mother company and representatives can be blacklisted for 5 years.
ROs can no longer be exempt from Corporate Income Tax (CIT), stronger supervision of accounting records, effective CIT rate ("deemed profit tax rate") of ROs increased.	Confirmed.
	Establishment and changes to RO have to be published in designated public media (details forthcoming).

Comparison of two Types of Branch Offices

China Focus offers insights on the pros & cons and differences between a representative branch company (light) and an independent branch company (full).

If a Wholly Foreign Owned Company (WFOE) wants to expand its physical presence in China, there are two possibilities:

1) Set up a representative branch company that is established for liaison purposes on behalf of the main WFOE akin to a representative office;
2) Set up an independent branch company with its own business license and proper business operation rights.

The table below gives an overview about the different aspects at issue with the two types of branches.

Source: Fiducia Management Consultants

How Can Fiducia Help You?

Despite the harsher environment a RO may still be the right choice for market entry into China. If you would like to discuss how the new regulations will affect your RO in China, considering to switch to a WFOE or want to close your RO please email to:

contact@fiducia-china.com.

www.fiducia-china.com

Items	Branch Type	
	Representative Branch Company	Independent Branch Company
Parent company's business scope	No right to execute contracts. Contracts have to be executed by the parent company.	Can execute contracts and do business with clients in its own name.
Branch company's business scope	No right to purchase and issue invoices. Invoicing is to be done by its parent company.	Can purchase invoices from the local authority and issue them.
Accounting requirements	Set up a journal ledger of expense by category, periodically report to parent company for bookkeeping with legal documents.	Set up a complete bookkeeping system, independently measure and recognize revenue and expense.
Auditing requirements	Audit financial statements of parent company only.	Audit consolidated financial statements of parent company and branches.
Tax & other aspects	Only parent company can perform tax declaration.	Branch company can perform tax declaration locally. Annual CIT liquidation tax done by parent company.
Time to set up	Around 3 month (not regarding any special industry-specific licenses or certifications).	Around 5 months (not regarding any special industry-specific licenses or certifications).
Name	There is no discernable difference in the naming convention between the two branch types. Examples include: English: HQ name + location + Branch Company, e.g.: ABC Trading (Shanghai) Co., Ltd. Beijing Branch Company Chinese: 总公司名称+地区+分公司, e.g.: ABC 贸易（上海）有限公司北京分公司	

How Does VAT Work in China?

Value added tax (VAT) is a tax on the estimated market value added to a product or material at each stage of its manufacture or distribution, ultimately passed on to the consumer. Personal end-consumers of products and services cannot recover VAT on purchases, but businesses are able to recover VAT (input tax) on the products and services that they buy in order to produce further goods or services that will be sold to yet another business in the supply chain or directly to a final consumer.

In China, VAT is administered by the State Administration of Taxation (the import VAT is collected on behalf by customs), and the revenue from it is shared

between the central government (75%) and local governments (25%). VAT should be paid by enterprises or individuals who engage in:

- Selling of merchandise;
- Providing processing, repairing or assembling services;
- Importing goods.

Two Types of Taxpayer

There are two kinds of VAT taxpayer in China: Small-scale Taxpayer and General Taxpayer. Differentiation is based on the criteria of:

- Turnover of sale of goods & services;
- Condition of accounting system.

The qualification of the Small-scale Taxpayer is a) the taxpayer is engaged in the production of goods or in the provision of taxable services as its sole or principal business and its annual turnover is less than RMB 500,000; or b) the taxpayer is engaged in the wholesale or retail of goods and its annual turnover is less than RMB 800,000. Taxpayers with respective annual turnovers above these figures are eligible to register as a General Taxpayer through an application to the tax authorities, providing their registered capital is at least RMB 1 million. Interestingly, a Small-scale Taxpayer who maintains a sound accounting system and is able to provide accurate records for taxation purposes can also register.

The standard VAT rate for General Taxpayer is 17%. The current VAT rate for Small-scale Taxpayer is only 3%. So why would the General Taxpayer status be more favourable? Because: 1) Most of the domestic customers require VAT invoices as they are usually General Taxpayers themselves and can deduct their VAT paid; and 2) Small-scale Taxpayers are not allowed to deduct input VAT, so their VAT paid is part of their costs, which means lower profit margins. Overall, the General Taxpayer qualification brings fiscal advantages to a company, but challenges include difficulties in providing contracts, purchase orders and documentary proof for registration. This can be especially tough for start-ups that have yet to book revenue. Furthermore, General Taxpayers have to either buy individual VAT invoices or purchase a special VAT invoice printing machine.

Reduced Rates or Exemptions

General Taxpayers enjoy a reduced rate of 13% that applies to the products listed below:

- Edible vegetable oil and grain;
- Tap water, heating, cooling, hot water, various types of gas, coal/charcoal products for household use;
- Books, newspapers, magazines;
- Feeds, agricultural fertilisers, chemicals and machinery.

Some items are exempt from VAT altogether, such as self-produced primary agricultural products; contraceptive medicines and devices; antique books purchased from the public; instruments and equipment imported for direct use in scientific research, experiment and education; imported materials and equipment granted/ gifted by foreign governments or international organisations.

Calculating VAT

General Taxpayers need to calculate the output tax and the input tax for the current period separately. Then the difference between the output tax and the input tax shall be the actual amount of VAT payable.

Small-scale Taxpayers are taxed on the basis of the revenue derived from sales of goods or provision of taxable services by applying proper rate but Small-scale Taxpayers cannot deduct input VAT.

Below are the corresponding VAT calculation formulas:

General Taxpayer

– Actual Tax payable = Output tax payable for the current period – Input tax payable for the current period.

– Output tax payable = Sales revenue in the current period × Applicable tax rate.

Small-scale Taxpayer

Tax payable = Sales revenue × Applicable rate.

China VAT Update: Circular 57 – Export VAT Refund revoked for 406 items

Back in mid 2007 the Ministry of Finance and the State Administration of Taxation made a major announcement to reduce or eliminate Export VAT Refund for 2,831 items. In June 2010, the government announced again an elimination of Export VAT Refund for a further 406 items. China Focus evaluates the implications of the new adjustment and analyses the bigger picture.

VAT on an item purchased in China can be claimed back if it contributes to the manufacture an exported good, and Export VAT rates differ between 5%, 6%, 9%, 11%, 13% and 17% depending on the item. The government has over the years reduced or revoked Export VAT rebate of certain items, resulting in additional costs for manufacturing exported goods, and in the end higher prices for the customer. Many Chinese suppliers have razor-thin profit margins and being able to claim back Export VAT is a big asset.

The latest announcement to revoke Export VAT refund for 406 items affects the following groups of products:

- Nonferrous metal products
- Alcohol
- Silver powder
- Corn starch
- Plastic, rubber and glass products
- Pesticides, pharmaceutical and chemical products

Export VAT on the 406 items is now effectively zero, which disincentivises the exporting of the affected products. Before the change, manufacturers could effectively use the Export VAT rebate to offset the actual tax that they had to pay (output tax minus input tax, see China Focus September 2010 "How does VAT work in China" for detailed explanation). Therefore it was financially desirable to export these goods rather than sell domestically.

Options

To recover the lost Export VAT rebate, the supplier could:

- Pass the cost on to the buyer, however this may affect demand if the customer is not happy with increased prices;
- Self-finance, which would leave demand unaffected;
- Focus on the domestic market, which might have been overlooked as the focus was previously on exporting. The domestic market may have areas that were previously untapped.

What it definitely will have are new areas to explore, given that China is a growing economy.

What to make of this?

The affected goods are now deemed as domestic sale, whether they are exported or not, and still subject to "domestic" VAT. These goods are considered to be polluting, high energy-consuming or domestically sourced goods that are scarce, thus the government wants to deter exporting of these goods. But if there is no difference in exporting or selling domestically, is this adjustment a strong enough action to discourage export of these goods? If the government really wanted to discourage exports, one option would be to impose an export duty.

The general consensus about the 2007 Export VAT adjustment of 2,831 items was that the government wanted to discourage activities of certain low-value industries where China in many cases already has a major market share (e.g. 89% of US toy imports in 2007), and encourage the move to higher-value industries, such as machinery and telecoms equipment. This time round, the products affected suggests that China is addressing environmental concerns and wants to improve the quality of exported goods.

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

SAT Issues Notice for Export Tax Refund Inspection

In order to rein in export tax fraud activity and strengthen the management of export tax refund, SAT issued a notice on August 30th, announcing procedures for enterprises whose tax refund may be subject to inspection by the Tax Refund Authority (TRA).

Effective September 1st, 2010, business may be selected for tax refund inspection if changes in exporting operation exceed reasonable range. For example, business is required to do a self-inspection if exporting goods experience a 10% price increase per unit since last shipment or the volume of monthly goods exported sees a climb of 20% or more from the prior month. Exports with higher than normal "export cost in terms of foreign exchange" would also warrant a self-inspection request from TRA. According to the announcement, exporting enterprises need to pay special attention to the monetary amount they claim monthly from suppliers and Asian regions they export to which already have low tax and shipping cost.

Exporters who receive inspection notice from TRA would have to conduct a self-inspection following the checklist given by the authority. It has to be completed and submitted within one month, with an extension of three months for unexpected delay. If the self-inspection does not justify the changes, TRA will initiate a further investigation, which will greatly slow the process of the tax rebate.

Exporting enterprises should be vigilant for operational changes, and act in timely manner if required to do a self-inspection.

Source: The JLJ Group
www.jljgroup.com
For more information, please email to
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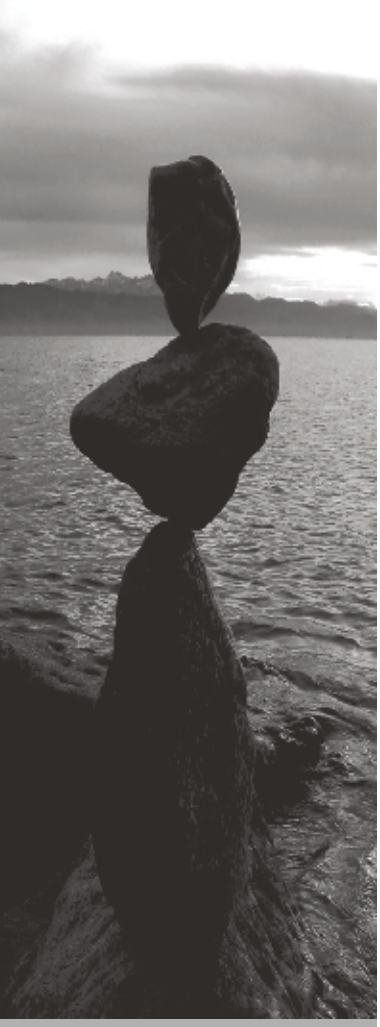

Wenfei Attorneys-at-Law Ltd. (Wenfei Law), an independent Swiss law firm with offices and cooperations in Zurich, Beijing and Shanghai, provides legal counseling and assistance in all fields of corporate and commercial law as well as dispute resolution for SMEs and large international companies doing business in China. **Wenfei Law** was the first Swiss law firm in China and is still the only Swiss firm offering quality services rendered by PRC and Swiss lawyers, both in China and Switzerland.

瑞士文斐律师事务所（瑞士文斐）是一家在瑞士注册的独立的律师事务所，并在苏黎世、北京和上海均设有联络机构。瑞士文斐致力于为在中国谋求发展的跨国公司和中小企业提供公司法、商法和争议解决等所有领域的法律咨询和协助。瑞士文斐是中国第一家瑞士律师事务所，并且目前是唯一在中国和瑞士均由中瑞籍律师提供优质服务的瑞士律师事务所。

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New Regulations for Foreign Enterprises & Foreign Nationals

The Chinese State Council recently issued Circular Guofa [2010] No. 35, announcing that foreign invested enterprises, domestic enterprises and individuals are all subject to Urban Construction and Maintenance Fee (UCMF) and Education Surtax (ES). This new regulation is now in place.

The government has decided to unify the tax environment for both foreign and domestic entities. With effect from December 1, 2010, UCMF and ES will be imposed on Value Added Tax, Business Tax and Consumption Tax payable. Previously, foreign enterprises and foreign nationals were exempt from UCMF and ES. This will not be the case after December 1, 2010.

The applicable UCMF and ES rates vary, depending on local practices. Generally, the applicable tax rate of ES is 3%. UCMF is 7% for a taxpayer in a city, 5% for a taxpayer in a county town or town, and 1% for a taxpayer living a place other than a city or town. As most foreign enterprises are located in urban areas, UCMF will have to be paid at the higher end of the range.

Considerations

As this regulation is new for foreign companies, here are some points to note:

- Check which business transactions will be affected by these new rules;
- Establish the scope of the changes to the systems and processes that UCMF and ES filing will require;
- Consider contractual issues (revisit and revise tax clauses) and communicate these changes with customers;
- File UCMF and ES together with VAT/Business Tax/Consumption Tax filing.

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SAT Adjusts Non-Resident Taxpayer Registration Requirements

The State Administration of Taxation recently adjusted how non-resident taxes are managed, further regulating registration and documentation requirements for non-resident taxpayers.

Guoshuihan [2010] No. 290, issued on June 21, adjusted several changes and supplements to the Non-Residential Tax Treatment Management Notice (Guoshuifa [2009] No. 124. Namely, it changes the requirement from "signature of the primary tax authorities" into "signature of the tax authorities which received the tax documentations or applications". It also defines some of the terms of the original notice, including "identification of taxpayer" and "most recent year".

According to the updated notice, non-residents can only be exempted from submitting materials if they have submitted those materials to the same tax authority. Those who need to apply for approval or file reports to different tax authorities would have to submit relevant materials separately.

It also stipulates that the withholding agent should complete registration procedures in accordance with Article XIII of the Non-Residential Tax Treatment Management Notice, regardless of whether the taxpayer has provided relevant information to the tax authorities. If the taxpayer fails to provide required information to a withholding agent, the agent shall not implement the relevant tax treaty treatment.

Source: The JLJ Group

Preferential Tax Policies for Technological-Advanced Service Enterprises

On November 5th, the Chinese government issued a Circular on Tax Policies for Technologically-advanced Service Enterprises, specifying preferential enterprise income tax (EIT) policies for advanced technology service enterprises.

Outsourcing service enterprises, which are qualified as technologically-advanced, can be subject to a preferential EIT rate of 15% rather than the unified 25% rate. This Circular was retrospectively effective as of July 1, 2010 and will be effective until December 31, 2013. Moreover, it is applicable to advanced technology service enterprises that are located in 21 cities, including: Beijing, Tianjin, Shanghai, Chongqing, Guangzhou, Dalian, Shenzhen, Wuhan, Harbin, Chengdu, Nanjing, Xi'an, Jinan, Hangzhou, Hefei, Nanchang, Changsha, Daqing, Suzhou, Wuxi and Xiamen.

In addition, the education cost, that does not exceed 8% of the company's total salary outcome, can be removed from the calculation of its total income. The amount that exceeds 8% will be carried forward to following tax years.

The circular specifies the qualification requirements for Technologically-advanced Service Enterprises, as well as administration measures.

Source: The JLJ Group
www.jljgroup.com

Highlights of New Legislation

Customs
Decision of the General Administration of Customs on Revising the Measures of Customs of the People's Republic of China for Supervision of the Entry and Exit of Non-Private Articles of Resident Offices.
Issued on: November 1, 2010
Effective from: December 5, 2010

Measures of Customs of the People's Republic of China for the Supervision of Inbound and Outbound Means of Transportation.
Adopted on: October 14, 2010
Issued on: November 1, 2010
Effective from: January 1, 2011

E-Commerce
Notice of the Ministry of Commerce on Developing E-Commerce Examples.
Issued on: October 27, 2010

Environment
Letter of the Ministry of Environmental Protection on Soliciting Comments on the Regulations on the Administration of Environmental Protection in Connection With the Import of Solid Waste (for Trial Implementation) and the Regulations on the Administration of Environmental Protection in Connection With the Import of Silicon Waste and Scrap (for Trial Implementation).
Issued on: October 21, 2010

Foreign Exchange
Notice of the State Administration of Foreign Exchange on Issues in the Strengthening of the Control of Foreign Exchange Transactions.
Issued on: November 9, 2010

Government Procurement
Measures for the Accreditation of Government Procurement Agencies.
Issued on: October 26, 2010
Effective from: December 1, 2010

Insurance
Notice of the China Insurance Regulatory Commission on Issuance of the Implementation Guidelines for Comprehensive Risk Management in Life Insurance Companies.
Issued on: October 24, 2010

Intellectual Property
Notice of the General Office of the State Council on Issuance of the Special Action Plan for Combating Intellectual Property Right Infringements and the Production and Sale of Counterfeit or Shoddy Goods.
Issued on: October 27, 2010

Investment Fund
Notice of the China Securities Regulatory Commission on Publicly Soliciting Comments on the Measures for Administration of the Sale of Securities Investment Fund Units (Amended Draft).
Issued on: November 1, 2010

Judiciary
Regulations of the Supreme People's Court on Issues Concerning the Application of the Law in the Trial of Travel Disputes.
Adopted on: September 13, 2010
Issued on: October 26, 2010
Effective from: November 1, 2010

Processing Trade
Decision (II) of the General Administration of Customs on Amending the Measures of Customs of the People's Republic of China for the Supervision of Goods in Connection With Processing Trade.
Adopted on: October 14, 2010
Issued on: November 1, 2010
Effective from: December 5, 2010

Transportation
Regulations on the Administration of the Transportation of Radioactive Articles by Road.
Issued on: October 27, 2010
Effective from: January 1, 2011

Source: Baker&McKenzie
China Legal Developments Bulletin
October – December 2010
www.bakermckenzie.com
or visit website to download recent issue:
www.sccc.ch

DKSH to Provide Market Expansion Services for Meiji in Thailand and China

DKSH, the leading provider of Market Expansion Services with a focus on Asia, will provide marketing, sales, distribution, and logistics services to Meiji Holdings Corp., Ltd. in Thailand and China.

At the signing ceremonies in Bangkok and Shanghai on January 7th 2011, DKSH and Meiji have finalized and signed agreements that will lead to a new phase of expansion of Meiji in Thailand and China. DKSH's Business Unit Consumer Goods will provide marketing, sales, distribution, and logistics services to Meiji in these two strategically important markets.

Meiji Holdings Corp., Ltd. employs over 14,000 people. Its main business is the management of business operations of subsidiaries manufacturing and selling confectionaries, milk, dairy products, and pharmaceuticals and incidental/related operations, with headquarters in Tokyo, Japan.

Meiji has extended its presence in overseas markets over the past 20 years. In China, DKSH will provide Market Expansion Services for Meiji's infant nutrition and confectionary businesses in selected regions while DKSH Thailand will provide services to all sales channels nationwide for Meiji's amino collagen business in the health, beauty, and lifestyle categories.

"We are delighted that Meiji has chosen DKSH as their Market Expansion Services partner in China and Thailand. We have a long and very successful presence in both Thailand and China with a strong customer base and are confident that these local business partners will also be excited about the opportunity to have access to Meiji's high-quality products. Furthermore, we are very honoured by this partnership and look forward to a long and successful cooperation with Meiji", says Somboon Prasitjutrakul, Global Business Unit Manager Fast Moving Consumer Goods and President of DKSH Thailand.

A done deal: DKSH is to provide Market Expansion Services for Meiji in Thailand (picture) and China.

About DKSH

DKSH is the leading Market Expansion Services Group with a focus on Asia. As the term "Market Expansion Services" suggests, DKSH helps other companies and brands to grow their business in new or existing markets. With 560 business locations in 35 countries – 20 of them in Europe and the Americas – and 22,000 specialized staff it is one of the top 20 Swiss companies ranked by sales and employees. In 2009, DKSH generated annual gross revenues of CHF 8,600 million. The company offers any combination of sourcing, marketing, sales, distribution and after-sales services. It provides business partners with expertise as well as on-the-ground logistics based on a comprehensive network of unique size and depth. Our operations in Taiwan are categorized under the following four distinct and highly specialized Business Units: Consumer Goods (FMCG and Luxury & Lifestyle), Healthcare, Performance Materials, and Technology. Although DKSH is a Swiss company with headquarters in Zurich, it is deeply rooted in communities all across Asia Pacific. This is because the company looks back on a more than 140-year-long tradition of doing business in and with the region.

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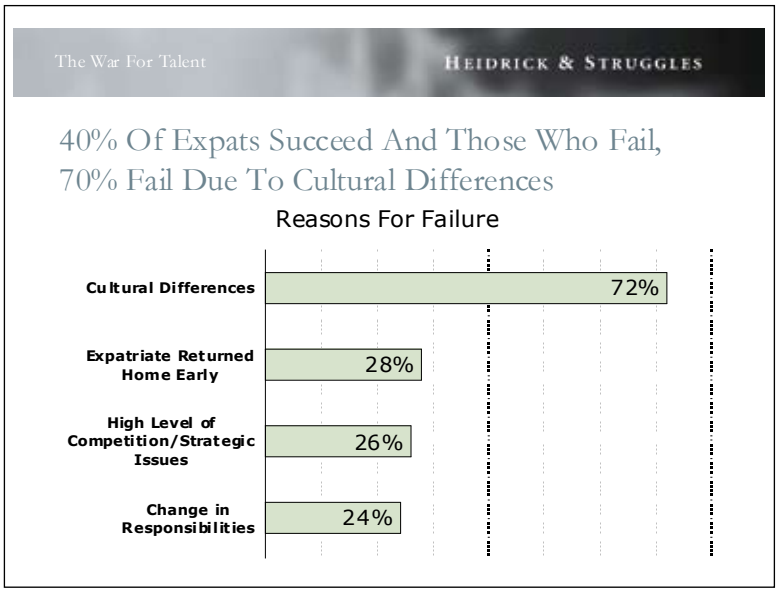
Leadership Development in China

Benoit Consulting & True Colours – business partners from Switzerland and Hong Kong – are both human resource consulting companies which focus on assessment services, management development, coaching and training to help professionals and companies to best achieve their potential. They have set up offices in Bern (Switzerland), Hong Kong, Shanghai and Guangzhou and provide services for multinational firms and medium-sized companies as well as government departments in Switzerland and China.

"It's a huge and growing market and there is a need for Swiss companies to send strong and successful managers to China and vice versa. The Chinese also need professional support when they establish companies in Switzerland or in Europe. We have a strong focus on assessment and management development and set the standard for professional assessment centres. For example, we employ the 'four eyes principle', meaning that at least two specialists evaluate each candidate together to increase the degree of evaluation reliability", says Andreas Benoit, owner of Benoit Consulting. And Susanne Sahli from True colours adds: "There are internationally evaluated methods beyond the interview process, to minimize risk and make the best decisions for your company. People leave people, not companies. A professional recruitment process achieves a higher success rate by gathering more in depth information about the individual. The interest a company shows in each individual is reflected back as loyalty and shows employees that their company cares."



Source: Heidrick & Struggles; Mr Jerome Bucher; 2006

Why Assessment & Development Centers?

"How can I find out how good a leader really is, especially when he or she needs to work in another culture? What are his/her strengths and weaknesses as a leader? How can we ensure we select the best new leader for a specific position? And finally: how can we create a development plan for potential leaders?" Those are typical questions HR and line managers are faced with.

Why do almost all successful companies regularly use Assessment and Development Centers?

- Selecting the wrong person for the job is very expensive
- Many projects fail (whether due to time, cost or result)
- Highly skilled leaders are KEY to success
- Successful teams are KEY to a company's success
- Assessment Centers offer a second (external and neutral) opinion
- They are useful as a basis for creating a development plan
- They offer a better understanding of work-related strengths and weaknesses

An Assessment Centre is an effective instrument for the successful selection and development of high calibre staff. Assessments are considered the most reliable[1] suitability-diagnostic instrument available and are used to evaluate current competencies (diagnosis) and future potential (prognosis).

As briefly mentioned above, direct and indirect costs for an unsuccessful hiring add up to 1.5 to 3 times the annual salary. Selecting people for responsible positions no longer depends just on the results of an interview and a hunch that they will work out. In the competitive global marketplace, many candidates have great CVs featuring prestigious universities and highly polished interview skills. That doesn't necessarily mean they are right for the job or can be good leaders. In addition to recruiting, assessments can also be used for succession and career planning, training and development, team dynamics, integration of staff from merging companies and cross cultural issues.

"Imagine you need to set up a regional office in Hong Kong or Mainland China, and want to hire a manager able to lead a multicultural team. The temptation is to send an already successful manager from your overseas headquarters. You need, however, to

1 Gaugler, Rosenthal, Thornton & Bentson, 1987

ensure that the new leader has strong interpersonal skills and is open enough to understand different cultural sensitivities. Our job is to provide solutions so that you can make the best decision", explains Susanne Sahli, Director at True Colours.

Benoit Consulting & True Colours are sharing their expertise with the Chinese market through their collaboration with universities, multinational firms and government departments. They use a variety of tools, including management tasks, case studies, role plays, ability tests, structured and competency focused interviews and, for example, the "Business-focused Inventory of Personality" (BIP), an internationally recognized personality questionnaire *(see below for details)* to evaluate professionals.

"We don't take a 'one system fits all' approach; we listen to what the actual problems or what the necessary competences of an organization are, and design our assessment centres according to the actual needs", says Lois Elvey, Senior Consultant at Benoit Consulting. *"Our goal is to offer excellent professional services. We try our best to understand a company's or government department's culture and customize our services to their specific needs",* says Andreas Benoit, Director of Benoit Consulting.

Both companies are highly motivated to help its Swiss and Chinese clients to bridge the gaps with their partners through assessment services, management development, coaching and other HR services. It is also hoping to set up an onshore training centre in China at some stage in the future.

Besides daily business, the companies are involved in two important projects: BIP Questionnaire for China and Project IN-Q.

BIP Questionnaire for China

The original German version of the BIP Questionnaire was developed in 2003 by Dr R. Hossiep and Mr M. Paschen and is edited and distributed by HOGREFE Limited, Germany. In the meantime this tool exists in several different languages and includes various different cultural norms, but not in Chinese with a norm group specific to China. In 2008, Andreas Benoit, director from Benoit Consulting obtained a license from Hogrefe Editor to implement this tool in China. With the aid of Hans Jakob Roth (former Consul General of Switzerland for Shanghai and Hong Kong), Andreas Benoit and his team professionally translated this tool and have started to build the Chinese norm group.

"Developing a Chinese norm for personality at work has become increasingly important over the last decade as a result of changes in a number of work related factors, including: globalisation, an ever stronger Chinese economy and socioeconomic development. As a result of these global and national

About Benoit Consulting

Professional, objective evaluation of the specific skills required.

Founded in 2001, Benoit Consulting specializes in providing assessment centres and development programmes tailored to the client's specific needs in Europe and Asia. Consultants with many years of experience offer services in German, French, English and Chinese. Benoit Consulting's high standards exceed industry guidelines – from supporting the client through the process of identifying the requirements, to the employing two assessors to evaluate each candidate. A detailed report and a personal feedback are always offered and no tool is included without a full scientific evaluation of its validity. For larger projects, in addition to the internal specialist team, Benoit Consulting can also call on a pool of independent specialists and has excellent contacts in the Chinese market.

Andreas Benoit, Director of Benoit Consulting. Mr Benoit has a master's degree in psychology and a diploma in systemic therapy. He was specialized in the evaluation of leadership potential, assessment services and management development at Credit Suisse. Since 2001, he has worked as an independent expert providing assessment services, management development and coaching with offices in Bern, Switzerland and Hong Kong and Shanghai, China. He is a specialist in the design, development, implementation and management of individual and group assessments at executive and management levels; graduate asessments; management development programs; team and organisation development; customized training and workshop modules.

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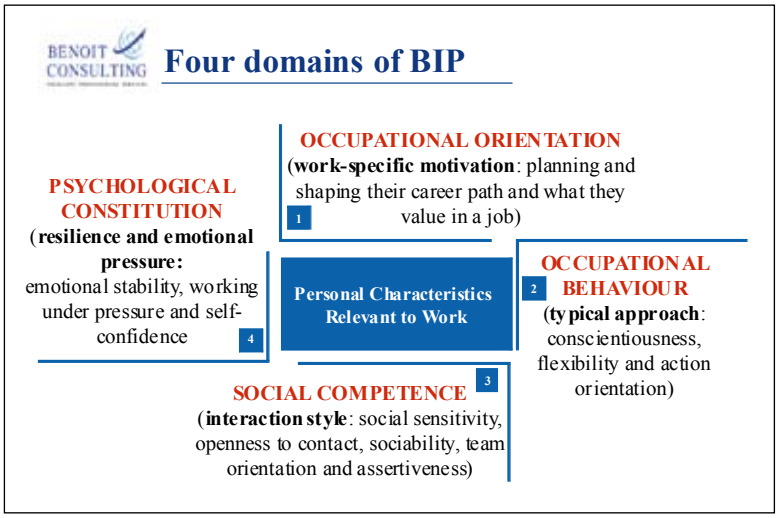

trends, creating a cultural specific norm group for China has become essential. There is also evidence that different aspects of personality at work have a different significance and importance in different cultures, which in turn influences the nature of personality at work", Andreas Benoit says.

While the personality-work interface has received increasing interest for more than a decade, most personality studies have been confined to Western industrial nations, most notably Germany, United States and Britain. Few studies have been conducted in Asian countries such as China and Singapore, that have different cultural backgrounds and organisational structures, and few of them are comparative studies that can be used to compare the differences with Western findings.

This study attempts to address: how employees' work style and motivation relates to different managerial and specialist levels. In particular, the Business-Focused Inventory of Personality (BIP) questionnaire study explores the extent of the differences between Western countries and China. The findings of this study can help both national and international organisations to measure and develop Chinese leadership competences. Specifically this improves the accuracy of measurement, which improves understanding of the Chinese work style and motivation, which thus enables employers to better select candidates. In addition to the above information about Chinese personality at work, it is planned that the study will provide useful insights into Chinese employers' perceptions of work style and motivation issues and the use of personality at work in their organisations.

Project IN-Q – a project for a globalized world

Nantys AG, a Swiss partner company, and Benoit Consulting are also working on a cultural questionnaire for China, which measures an individual's ability to adapt to a different culture.

In an ever more interconnected world, with economic aspects of life increasingly linked to socio-economic development, the workforce of tomorrow, in industri-

Susanne Sahli

Areas of Expertise:

- Corporate background combined with entrepreneurship and exposure in Europe and Asia
- Certified executive coach with both Australian and Swiss Institutes. Over 10 years of experience in coaching senior executives and executive trainees
- Certified in a number of psychometric assessment tools and certified A&DC observer and assessor
- HR projects include strategic HR consulting, executive coaching, facilitating team building-, communication- and intercultural processes, leadership development and implementing and running corporate assessment and development centers
- Trainer for change management and communication skills workshops

Susanne Sahli, born and educated in Switzerland, is co-founder and Managing Director of True Colours HR Solutions Ltd. Today, Susanne combines her entrepreneurship and experience in the area of people management. Her philosophy and passion is to help organizations and individuals to change from within to achieve positive changes.

Susanne is certified in a number of psychometric assessment tools, a qualified Executive Coach and holds a Higher Business Diploma in Economics from the Institute of Management Studies in Bern/Switzerland. She is fluent in English, French, German and Swiss German.

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alized countries and elsewhere, will need to develop new skills if they are to keep pace with the increasingly intense competition. These skills will clearly include intercultural competence, often identified as one of the most important prerequisites when dealing with the growing demands of exchanges between people from completely different cultures.

The fundamental thinking behind the project "IN-Q": In order to measure and further develop these intercultural competences, there is a need for diagnostic tools which identify current individual strengths and weaknesses in this area. While it is true that there are already a number of established methods for addressing this, and indeed various researchers worldwide who are set to study it, this project offers the opportunity to involve leading experts in the further development of an existing rudimentary measuring instrument and also to position Switzerland as an important competency centre for intercultural questions. Furthermore, the definition of prognostic validation criteria will ensure that the test measures exactly what it claims to measure.

"In other testing systems, assumptions are made about the ability to measure particular criteria, such as professional success, without this hypothesis being put to the test in any detailed way. In contrast, the present project will define criteria for measuring actual behaviour typifying intercultural competence at a very early stage, to enable subsequent testing of the reliability of the tool's predictions. The use of a sophisticated IT platform to host the testing instrument will serve to guarantee security and worldwide availability", Sebastien Simonet, Senior Consultant from Nantys AG says.

This also means that new reference norms can be quickly added to the system and immediately made available to users around the world. Furthermore, locating and managing the web-based architecture in Switzerland will facilitate system maintenance and supplementary development work. Parallel to the instrument itself, training material will be developed which will, firstly, cover the appropriate use of the instrument and the interpretation of the corresponding results and, secondly, include personal development measures for employees to improve the level and consistency of intercultural competence.

As a well known proverb says, *"The right time, the right place and the right people in the right position are the keys to success".* With that in mind, Benoit Consulting, True Colours and their business partners are working continuously to offer the very best services to their clients in both China and in Switzerland. Furthermore both companies are members of GAPI (Global Alliance for Performance Improvement) www.gapiconsult.com. The GAPI network allows us to cover large international mandates.

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Learning by Doing

There are a Number of Ways to Develop Technical Talent

Companies in China often complain about the lack of technical talent. Fiducia's Client Relationship Manager Christian Groeger writes in BusinessForum China about increased cooperation between foreign companies and local educational institutions in efforts to tackle this issue.

China's education system produces millions of university graduates with technical or related degrees every year. In fact, they accounted for 30–40 per cent of China's six million graduates in 2009 alone. At the same time, the unemployment rate among graduates has stayed above 20 per cent for years, and companies in China often complain about graduates' lack of practical knowledge and experience, which makes them less readily employable. The problem also persists at the level of skilled workers who have a technical college or similar secondary education background.

Resolving this problem cannot be achieved quickly, but all the time demand for skilled workers keeps on growing. As a result, China-based companies and Chinese education institutions are coming up with ways to fill the gap in experienced talent by co-designing more practical academic courses or focusing on vocational training.

Too much theory

In recent years, China has embarked on a massive expansion of higher education: Whereas in 1998 there were 3.4 million students enrolled at university in China, in 2009 this figure climbed to over 20 million. The focus of the expansion was primarily quantitative. The proportion of academics in the entire Chinese workforce is around seven per cent, far behind developed nations, which have a ratio of 25–40 per cent.

The downside to such rapid expansion is a mismatch between the course selection offered by Chinese universities and industry requirements. Most research and development (R&D) in technical fields has a distinctly theoretical focus. Applied research is less emphasized and links with corporate enterprises are rare, while the study curricula and didactic methods are often not suitable to the needs of companies. In addition, university studies have traditionally been strongly associated with white collar positions – technical disciplines included.

Vocational education has historically played a rather minor role in Chinese higher learning and only recently has the importance of developing a national education policy for qualified technical staff been acknowledged. Many institutions for vocational training were originally incorporated in pre-reform-era state-owned enterprises and have been spun off in the modernisation drives of the 1990s. Since becoming independent entities, many have been upgraded to university or college status, which more often than not has caused a shift in focus away from applied use to theory.

Working with industry

To answer the need for technical staff with practical qualifications and hands-on experience, a number of foreign companies, local vocational or academic institutions, and their overseas counterparts have begun cooperating. These cooperations have resulted in the sharing of know-how in didactic methods and application techniques.

Following the global trend for the internationalisation of academia, many leading universities in China have started joint programmes with partner institutions to build a network of international contacts and benefit from foreign expertise. A prime example is Tongji University in Shanghai, one of the most prestigious Chinese universities and a centre for engineering research.

Tongji University has established a number of international programmes in technical subjects with partners in France, Italy, and Australia, among others. With historically strong ties to Germany, Sino-German academic cooperation at Tongji University is especially intensive. The Sino-German College for Graduate Study set up in 1998 offers graduate students a programme to earn a master's degree in a range of study fields such as electrical engineering and mechanical engineering.

In 2004, the sister programme of the Chinese-German School of Applied Sciences was set up, offering undergraduate bachelor degrees in mechatronics, vehicle service/customer service, and facility management. The four-year course aims to introduce the German academic model of applied sciences study to Chinese universities. Currently, a consortium of 26 partner universities from across Germany pools its resources in the programme.

One-third of the technical training courses are held by German professors and lecturers from industry, and participants also study German and English as part of their curriculum. During the first three years at Tongji University, a total of seven months is dedicated to practical courses and internships. In their final year in Germany the students spend another term in an enterprise, where they also have the chance to prepare their bachelor thesis on a usage-based topic.

One of the industry partners of the school, Marquardt Switches in Shanghai, is actively involved in a course preparing the Chinese programme participants for job interviews. Marquardt GM Peter Schaumann reasons: "This is a good way to become familiar with the students, so we will know who to later select for internships in our company."

During the internships, the Head of Engineering develops applied research projects with the interns, such as working on switch pilot batches at the company's laboratory. "Compared to German trainees, their practical skills still lag behind, but they make up for this through their motivation and dedication", notes Schaumann. "Structured analytical thinking and a Western working style take some time to sink in, and it takes one to two years to really know if a student or employee fits in with the company, so we make use of the opportunity to get to know them early on."

However, most students see the programme not as a fast-track to a qualified technical career but as a stepping stone to earning a master's degree or PHD. Almost 90 per cent of the school's graduates plan to go on to further studies, and the programme's partner enterprises have difficulties in convincing them to gain more valuable practical experience through employment instead.

The programme director, Tobias Specker, explains: "The programme participants face strong pressure from their families and environment to succeed. For companies seeking commitment, it is important to develop a long-term strategy and provide a clear career perspective. One possibility is to offer opportunities for further education while at work, for example through distance learning or weekend master's courses. If this is not possible, it is better to be patient and concentrate on the longer perspective, so the students can join after completing their education a year or two later. Continuity of commitment in growing technical staff is often underestimated at headquarters. It is therefore essential to have effective communication and coordination between the Chinese subsidiary and the overseas headquarters on this matter."

Hands-on experience

Below the university level, there exist a number of models for vocational education with a practical focus aimed at foreign companies in China. These range from short-term supplementary courses to complete vocational study programmes running over several years.

To introduce the German dual system of vocational training and practical experience, the German Chamber of Commerce in Shanghai and the Chien Hsiung Vocational School in Taicang, an industrial city in the outskirts of Shanghai, formed a programme with the support of a number of companies in the region. In the first graduate class of 2010, 93 trainees completed a three-year course to receive a basic foundation in tool making or mechatronics, with two-thirds of the curriculum being practice-oriented.

Georg Hofäcker, General Manager of PWO High-Tech Metal Components in Suzhou and one of the initiators of the programme, has employed graduates from both disciplines. "China will not make up for 100 years' experience in vocational training in a matter of a few years, but the direction and approach are definitely the right way to move forward", he says.

Even so, there remain some teething problems. Summing up his experiences, he states: "The instructors at the vocational school have not always paid the same attention to issues such as cleanliness and work safety as we have in the practical part of the programme. Also, we perceived that some of our employees from the mechatronics programme showed a certain sense of entitlement and saw themselves as white collar workers belonging in an air-conditioned office rather than on the workshop floor."

Hofäcker estimates that the skilled workers out of the programme are about as versatile on the workshop floor as if PWO had trained them for three years internally – with the difference of not having to pay a full salary during that time period and using less in-house resources for training. While the programme fees are paid for by the company, the employees have to repay the cost of training if they end their three-year contract prematurely. On the other hand, if the new employees prove able to further grow their skills, the company also offers them a development plan with the chance to become a working student at the company's German headquarters.

The Shanghai Bavarian Vocational Training Consulting Company also offers courses tailored to the needs of foreign enterprises. Students who complete a two-year curriculum with a Chinese vocational school have the opportunity to go through an additional one-year programme for tool makers focused on practical application, comprehensive exercises, and developing an autonomous working style. After the first half-year at the programme's own workshop laboratory, the students spend another three months as interns in partnering enterprises and eventually complete a comprehensive working project for their final examination.

Students learning the ropes in a real workshop environment.

One of the companies making use of the programme is German grinding machine producer Koerber Schleifring. Its participation is part of a multi-faceted strategy that is also supported by a cooperation agreement with Tongji University, where the company has equipped a grinding laboratory and takes part in applied R&D and course projects. In addition, Koerber Schleifring has established a training centre at its facility in Jiading. Originally designed to provide training and technical knowledge to Chinese customers, the company's own service technicians also have the opportunity to go through several consecutive training courses on grinding applications there.

"Taking part in our internal technical training courses leads to greater motivation of the employees and we've realized that they become more active in developing their own ideas", Martin Abendschein, a product manager at Koerber Schleifring acknowledges. "We see no alternative to a proactive employee and trainee engagement in the face of a shortage of qualified technical staff. This is also in line with our localisation policy. We only have a few positions filled by Europeans – to secure a consistently high quality level and to provide tutoring and up-to-date technical knowledge, but the goal is to make even these expat postings redundant in the medium to long run."

Finding the right solution

The decision of whether to buy, grow, or import the necessary talent depends of course on the requirements for the position in question and the labour market environment for the specific industry. Nevertheless, as the range of alternatives for securing qualified technical staff broadens, the strategies of companies also become more diversified. With such an array of programmes and approaches on offer, it is possible for a company operating in China to find a solution that best fits its specific needs.

This article was first published in the September issue of BusinessForum China, it is also available on their website www.bfchina.de.

Corruption in China – Risks and Remedies

On September 30, Transparency International Switzerland, the Swiss-Chinese Chamber of Commerce (SCCC) and the State Secretariat for Economic Affairs (SECO) held an event about corruption in China. It revealed that there are no ready-made solutions to the problem. However, the participants learned that there are several possibilities to minimize the risk of corruption.

In China, the negative effects of corruption are recognized even among top-level officials. President Hu Jintao himself called corruption one of the biggest obstacles for the country's economic progress. However, as Urs Schoettli, a former correspondent in China for the "Neue Zürcher Zeitung", made clear during his speech, there is a difference between the official attitude towards corruption and what happens in real life. Schoettli illustrated this with an example: A Chinese journalist in a remote province disclosed the corrupt practices of the local governor. The latter simply made use of his network of relationships in Beijing – a short time later the journalist sat in prison. "The sky is high and the emperor is far away", said Schoettli, reciting an old Chinese saying which still seems to be applicable today.

As the case of the above mentioned journalist shows, the forms of corruption in China are complicated and not always easy to understand for foreigners. Much depends on personal relationships. One's own personal network, known as "Guanxi" in China, serves as a basis for business, as well as the exchange of (smaller or bigger) favours. Urs Schoettli explained that Guanxi has a long tradition in China. Its existence can lead to problems for foreign companies because the personal networks are hard to understand. If, for example, an agent recommends a certain supplier, it is not clear whether he only does so to do an old friend a favour. Therefore, there are some risks associated with Guanxi that are relevant for Swiss companies, especially in case of incidents linked to corruption.

Lukas Siegenthaler of the SECO explained how companies should deal with situations when they are asked to pay bribes. The SECO supports Swiss companies in China by giving advice to them and, if there is a concrete corruption case, seeking contact with the authorities in China or other countries. If, for example, a Swiss company has evidence that a competitor has paid a bribe, the SECO discusses the matter with the diplomatic mission of the competitor's country of origin and clarifies whether there is a possibility of taking legal action against the respective company. The cooperation among states is a necessity, Siegenthaler said, because corruption is a classic

Transparency International's Corruption Perceptions Index 2010 (excerpt)

Rank	Country	Score
1	Denmark	9.3
1	New Zealand	9.3
1	Singapore	9.3
4	Finland	9.2
4	Sweden	9.2
6	Canada	8.9
7	Netherlands	8.8
8	Australia	8.7
8	**Switzerland**	**8.7**
15	Austria	7.9
15	Germany	7.9
17	Japan	7.8
20	United Kingdom	7.6
22	United States	7.1
25	France	6.8
33	Taiwan	5.8
78	**China**	**3.5**
154	Russia	2.1
176	Afghanistan	1.4
176	Myanmar	1.4
178	Somalia	1.1

Urs Schoettli talked about the difference between the official attitude towards corruption in China and what happens in real life.

global problem. "The goal is a level playing field for all competitors", he concluded.

"Be proud to say no!"

Bertrand Perrin, researcher at the "Institut de lutte contre la criminalité économique" in Neuchâtel and board member of Transparency International Switzerland, explained to the participants the legal situation in detail. Since the year 2000, bribery of foreign officials is illegal according to the Swiss penal law. Less known is the fact that it is not only individual employees that can be penalized. If a company has not taken the necessary steps to prevent corruption, it may be punished as well.

Kurt Haerri, president of the SCCC and Managing Director of the Top Range Division at Schindler, showed how enterprises can counter corruption effectively. Six years ago, Schindler was involved in a corruption case in the Benelux, which caused severe damage for the company. To avoid such negative consequences, it thereafter intensified its efforts in countering corruption. Haerri made this visible by introducing Schindler's code of conduct. He underlined the responsibility of the employees, particularly managers, in helping to implement such standards. "Be proud to say no!" – that is his advice to employees who are confronted with the demand to pay a bribe.

Like Schoettli earlier, Haerri also stressed the role of Guanxi in Chinese business. Sellers often choose customers from their own network, he said. Such closeness between a seller and a client involves the risk that the two conspire and that the employee passes confidential information on to the customer. During his activity in China, Kurt Haerri learned that strict controls are necessary to prevent corruption.

The speech of Mark Livschitz of Baker & McKenzie offered an insight into how corrupt practices are typically conducted. According to Livschitz, it is crucial to know where opportunities for potential perpetrators hide in order to identify and fight corruption. "Think like a thief", Livschitz recommended. If one knows how corrupt players try to cover up their activities, one can stop them earlier. Often, fictional intermediaries or societies are used to cover up bribe payments. There are several "red flags" which help to detect corrupt practices. For example, implausibly high consultancy fees or bills to offshore companies far away from where the concerning project was conducted indicate that something is suspect.

Livschitz also gave the participants useful tips about how illegal activities can be prevented. He recommended creating a risk scheme in which different scenarios are combined with their respective probability of occurrence. By doing so, companies get a good overview of the areas that demand special measures.

Jean-Pierre Méan introduced Transparency International's tools for companies to prevent corruption.

Rules alone do not suffice

The president of Transparency International Switzerland, Jean-Pierre Méan, explained to the participants Transparency International's "Business Principles for small and medium enterprises". Méan has worked for several globally operating companies and was involved in the creation of TI's Business Principles. This document can serve companies as a guide to develop their own anti-corruption program. Together with the asso-

Kurt Haerri talked about his experiences with corruption in China.

Transparency International's Bribe Payers Index 2008 (excerpt)

Rank	Country	Score
1	Belgium	8.8
1	Canada	8.8
3	Netherlands	8.7
3	**Switzerland**	**8.7**
5	Germany	8.6
5	Japan	8.6
5	United Kingdom	8.6
9	United States	8.1
21	**China**	**6.5**
22	Russia	5.9

ciated checklist (see intro in box) the Business Principles help small and medium enterprises to counter corruption within the organization. Méan underlined that it does not suffice to write down rules and guidelines for the employees. It is equally important to teach them how they can avoid corruption or how they should react in situations where a bribe is demanded. Furthermore, the implementation of the anti-corruption program should be continuously evaluated.

In practical workshops, the participants then discussed concrete scenarios and worked out possible solutions, which they presented afterwards to the plenum. During these workshops, many seemingly easy principles proved to lead to complex challenges in practice. Should an invitation to a fine restaurant already be recognized as bribery? How should one react if a potential customer asks to conduct business through an intermediary?

There is no cure-all solution to prevent corruption in China. Nevertheless, the event showed the participants how simple methods can minimize the risk of corruption. What is true for doing business in every other country in the world, is also true for China: Knowledge about the country, the culture and the political circumstances are absolutely necessary if a company wants to avoid corruption and the damage it causes.

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Wie verhindern Sie Korruption in Ihrer KMU?

Korruption ist Missbrauch einer Vertrauensstellung zu privatem Nutzen. In der Wirtschaft ist das der Kauf einer «ökonomisch nicht begründbaren Entscheidung». Korruption kann in verschiedenen Formen auftreten: Einem Unternehmen wird ein öffentlicher Zuschlag zugesprochen, weil es die Mitglieder der Vergabekommission zu einem luxuriösen Wochenendprogramm in St. Moritz eingeladen hat. Oder eine Unternehmung erhält einen Auftrag der Gemeinde erst, nachdem sie der Partei des Gemeindepräsidenten eine grosszügige Spende gemacht hat. Bei einem anderen Unternehmen werden Rohstoffe regelmässig bei der Firma der Cousine des Materialbeauftragten eingekauft, ohne dass andere Zulieferer berücksichtigt werden. Oft ist bei Geschenken und der Vergabe von Aufträgen die Grenze zwischen Erlaubtem und Unerlaubtem unklar, die Grauzone umso grösser.

Der tatsächliche Schaden

Bei einer Bestechungshandlung ist oft weder ein direktes Opfer ersichtlich noch ein unmittelbarer Schaden lokalisierbar. Trotzdem ist Bestechen im Endeffekt für alle Seiten – selbst für das korrupte Unternehmen – schädlich. Warum?

Man kann davon ausgehen, dass Korruptionszahlungen von einem Marktteilnehmer geleistet werden, der ansonsten nicht wettbewerbsfähig wäre. Ressourcen werden fehlgeleitet, sodass volkswirtschaftlicher Schaden entsteht. Auch für das Unternehmen zahlt sich Korruption nicht aus: Müssen erst Ressourcen aufgewendet werden (z. B. Extrakosten für das Wochenendprogramm, wertvolle Weihnachtsgeschenke etc.), sinkt der Reingewinn am erhaltenen Auftrag. Ausserdem garantiert die Zahlung solcher Bestechungsgelder nicht, dass der Auftrag dem Bestechenden tatsächlich zugesprochen wird. Korruptionsgelder sind nicht einklagbar und werden oft à fonds perdu gezahlt. Zudem muss der Bestechende damit rechnen, dass er das nächste Mal von der Konkurrenz übertroffen wird.

Aus strafrechtlicher Sicht sind korrupte Vorgehensweisen nicht erlaubt und werden als Verbrechen mit bis zu fünf Jahren Zuchthaus bestraft. Schon mit der ersten Zahlung macht sich ein korruptes Unternehmen dadurch erpressbar. Es ist schwierig, aus dem einmal entstandenen Teufelskreis auszubrechen. Wird ein Korruptionsfall aufgedeckt, ist der Reputationsschaden für die Firma gross und die folgenden Umsatzeinbrüche sind schmerzhaft. Eine Unternehmung – auch eine KMU – hat einen Wettbewerbsvorteil, wenn sie über ein Anti-Korruptionsregelwerk verfügt.

Um KMU dabei zu unterstützen, Korruptionsrisiken zu erkennen und entsprechende Massnahmen einzuführen, hat Transparency International Schweiz eine Checkliste zur Selbstevaluation entwickelt. Es ist nicht Ziel dieser Checkliste, konkrete Korruptionshandlungen aufzudecken. Vielmehr soll die gründliche Beantwortung der Fragen aufzeigen, in welchen Bereichen eine Korruptionsgefährdung besteht.

Auf der Internetseite finden Sie einen Schnelltest: www.transparency.ch/de/aktivitaeten/Privatwirtschaft/Selbstevaluation/index.php

Eine ausführliche Version ist bei Transparency International Schweiz kostenlos zu beziehen.

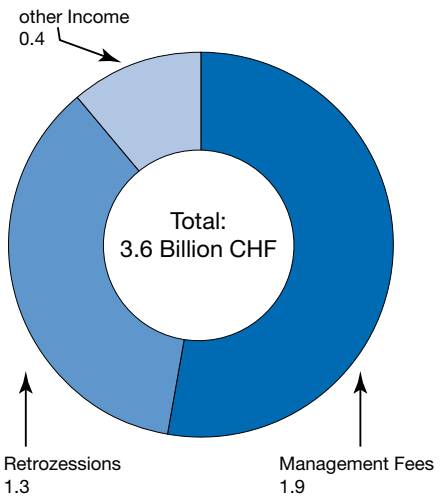
Retrocessions and Kickbacks in Asset Management in Switzerland

Retrocession is the German term for kickbacks, trailer fees, finders fees and other payments made to Asset Managers by banks and other financial institutions in Switzerland. These payments come from client money, hence are property of the client, but are still all too often not disclosed to the client.

Retrocessions, Retros for short, have been a highly contentious issue over the past few years. In Switzerland, as elsewhere, a client entrusts the care of his money to an Independent Asset Manager (IAM). The IAM works with a 3rd party bank where the client has deposited the assets. The IAM receives a limited power of attorney to trade the account on behalf of the client. The management fee is generally about 1% of AUM per year, though this can vary. In addition, completely separate to the management fee, most IAMs receive "Retrocessions" and other kickbacks on trading commissions, brokerage, depot administration fees, funds and structured product emissions. The IAM also often receives a finders fee from the bank for bringing new money, ranging from 0.2 to 1%. Before the landmark Swiss Supreme court ruling in 2006, most IAMs did not disclose these payments in any way to the client. Even the existence of Retrocessions was often denied by the IAMs.

Swiss IAM Income on Private Client Assets

Independent Asset Managers in Switzerland
Gross Income for bank-independent
Asset Managers 2008 in Bio. CHF



Estimates are based on data from the Swiss Banking Institute of the University of Zürich and the Swiss National Bank
Source: Börsen Zeitung (Germany)

Background and statistics

There are about 2,600 Asset Managers (AMs) in Switzerland with some CHF 500 Billion of private client money under management. Total Retros paid annually is estimated at about CHF 2 Billion per year. Of these 2,600 AMs, around 100 are banks and 2,500 are independent asset managers. About 80% of the IAMs take Retrocessions as part of revenue. Though disclosure of the existence of Retros is slowly improving, the "how much gets paid" is still generally not disclosed. Best estimates are that Retrocessions make up about 35% of the average IAMs total annual revenues.

Basic Retrocessions paid to IAMs by one globally active Private Bank in Zurich are as follows:

Trading and brokerage commissions:	50%
Fiduciary deposits:	50%
Depot Account maintenance charges:	20%

For every CHF 1 brokerage paid to the bank by the client, the IAM receives CHF 0.50 back from the bank not disclosed to the client. The conflict of interest is not subtle, the IAM has a strong incentive to trade the account. With 50 cents on the dollar back for every trade you would expect high turnover on IAM managed accounts, which we often see in practice. Further, selection of depot bank/broker is too often driven not on the basis of best execution, cost and service quality, but the question "who pays the highest Retros?".

Assessing the impact

Consider Retrocessions as a tax, specifically, a wealth tax. Assuming "blanket" constant Retro rates and ignoring management fees and charges. Table 1 below shows the effect on a CHF 1,000,000 portfolio, with an assumed 6% p.a. return, over 20 years with Retro rates ranging from 0–1%. The total impact on return we will call the Retro "Drag". This is the total loss in return directly resulting from Retrocessions. Let the rate of return be r, the retro rate be t and N number of years. The assumed Future Value Interest Factor (FVIF) for our wealth tax analogy is: $FVIF = [(1+r)(1-t)]^N$

Martin Straub

Table 1: Assets under Management and Retro Drag

Assets under Management	Rate of Return	Years Invested	Retro Rate	Total Return	Retro Drag	Comments
CHF 1'000'000	6.0%	20	0.00%	CHF 2'207'135	0.00%	The clean Asset Manager, no Retros.
			0.20%	CHF 2'081'258	5.70%	The relatively restrained Asset Manager.
			0.40%	CHF 1'960'084	11.19%	The Average Asset Manager.
			0.60%	CHF 1'843'446	16.48%	The IAM pushing Funds and Structured Products.
			0.80%	CHF 1'731'183	21.56%	The IAM with an active management strategy.
			1.00%	CHF 1'623'138	26.46%	And above. More common than you would think.

The Retro Drag column is the percentage of total return the IAM is appropriating from his client over 20 years. The average IAM takes an estimated 0.4% p.a. in Retros. Note that the drag is far greater than the Retro rate itself, a Retro rate of 0.4% p.a. has a 11.2% negative effect on portfolio performance over 20 years. The Retro rate on funds and structured products ranges from 1–5%, should the client end up with a 60–80% allocation, with frequent rebalancing the IAM can easily move to an annual Retrocession take of over 1% – invisible to the client. Like a tax, Retros consume a greater share of investment growth as Retro rate or investment horizon increases. Today, the level of Retros is still in most cases not disclosed to the client, even when their existence is disclosed. Moreover, portfolios are subject to an almost infinite variety of different Retro regimes depending on asset classes held, types of Funds, types of security, the depot bank holding the assets and trading frequency/account turnover. Most insidiously, like a tax, Retros consume a greater share of investment growth as the Retro rate or investment horizon increases as shown in Figure 2 below. Unlike taxes however, the client is generally not aware that these payments take place. Invisible, insidious, unethical.

Figure 1: Impact of Retrocessions on Portfolio Return over 20 years

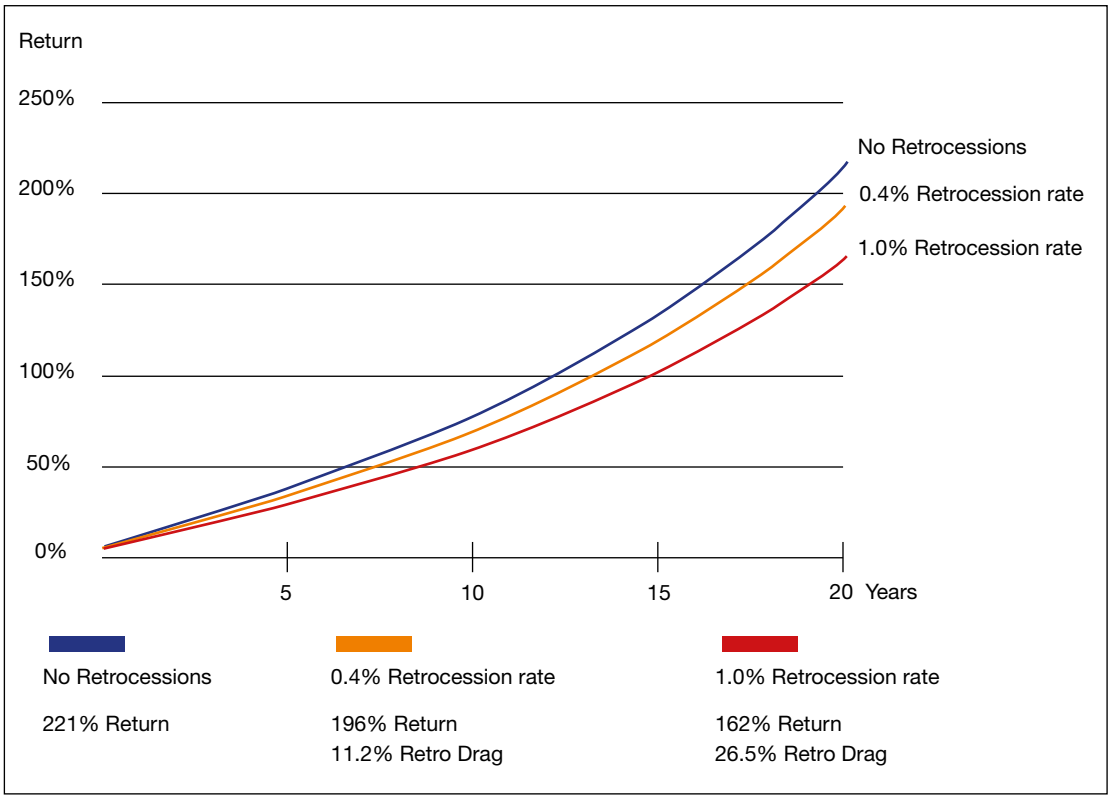


Table 2: Depot account with CHF 1 mio under management

Type of Cost?	Fees and charges paid?		Retrocession?		Net fees and charges?	
	%	Amount	%	Amount	%	Amount
Depot account maintenance fee (on CHF 1,000,000)	0.25%	2'500	50.00%	1'250	0.125%	1'250
Subtotal		**CHF 2'500**		**CHF 1'250**		**CHF 1'250**
Market Transactions? Brokerage (16 trades @ CHF 25,000)	1.00%	4'000	50.00%	2'000	0.50%	2'000
Forex brokerage (CHF 100,000 p.a.)	1.00%	1'000	20.00%	200	0.80%	800
Subtotal		**CHF 5'000**		**CHF 2'200**		**CHF 2'800**
Financial Products? Mutual Funds (Holding: CHF 400,000)	1.20%	4'800	50.00%	2'400	0.60%	2'400
Fund Sales to client (Upfront load on CHF 100,000)	2.00%	2'000	100.00%	2'000	0.00%	0
Structured Products (Holding: CHF 100,000)	2.00%	2'000	50.00%	1'000	1.00%	1'000
Hedge Funds (Holding: CHF 100,000)	3.00%	3'000	40.00%	1'200	1.80%	1'800
ETFs (Holding: CHF 200,000)	0.30%	600	0.00%	0	0.30%	600
Individual Securities (Holding: CHF 200,000)	0.20%	400	0.00%	0	0.20%	400
Subtotal		**CHF 12'800**		**CHF 6'600**		**CHF 6'200**
Overall Total		**CHF 20'300**		**CHF 10'050**		**CHF 10'250**

Source: Florian Schubiger, Vermoegenspartner AG

Explanatory Notes:

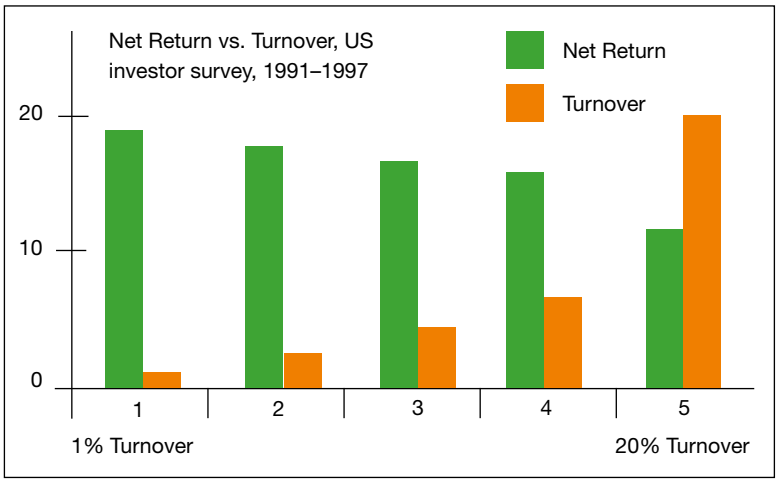
1. There are extra fees and charges, e.g., administration, postage, or numbered account costs. Retrocessions can also be agreed on these.
2. These amounts are the effective fees and charges paid by the client, when the IAM retains all Retro payments.
3. Common types of Retrocessions are shown in this example. IAMs may pass on Retros as discounts.
4. This is the true cost to the client, if the IAM would reimburse all Retros to the client.
5. Assumption of 16 transactions with an average volume of CHF 25,000. The account is being turned over every two and a half years. Retros on Forex trades can vary greatly.
6. The level of Funds in the portfolio is intentional at 40%. There are still IAMs who invest total AUM in actively managed funds. This sum of up front loads results when CHF 102,000 active funds with a 2% up front load (NAV 100,000 plus 2,000 up front load) are purchased annually. With structured products, emission costs are contained in the gross fee. These vary from product to product by several percent. In general, no Retros are paid on index products and ETFs.

Note that a 1% annual "Retrocession Rate" costs the client a quarter of his real return over 20 years. As Einstein once said, "Compound interest is the most powerful force in the universe".

The table below illustrates the ease with which a 1% annual Retro rate can be achieved on an individual account. The asset classes have been chosen intentionally to illustrate the effect and potential income to an IAM. Figures do not include the IAM management fee, which comes on top.

As can be seen from the table, CHF 20,300 is the cost to the client, of which CHF 10,050 is passed back to the IAM as Retrocessions. The real cost of services provided to the client is half what is charged: CHF 10,250. Clearly, the high Retrocessions on funds and structured products make it rather challenging to act in the clients best interests. Bear in mind that there are funds with up to a 5% up-front load creating incentive to both purchase for and turn over these funds in client portfolios. Enabling the IAM in good years to steer the Retro take to well over 1%. We see this in practice with many IAMs buying large volumes of fund and structured products for their clients, even when the client is wealthy enough to achieve diversification through other means.

Figure 2: Negative Impact of Trade Frequency on Returns



Source: Barber & Odean, Journal of Finance, 2000

Furthermore, the more an asset manager trades an account, the more he earns. A clear conflict of interest. A result of this conflict of interest is that the "Retro-induced" increased account turnover often further reduces returns. Figure 3 below is from an often quoted study of turnover frequency vs. investment return.

Regulatory Issues and Some Perspective

IAMs are self-regulated in Switzerland, subject to the Swiss Financial Markets Authority (FINMA). There are 11 recognized Self-Regulatory-Organisations (SROs) and each IAM is obliged to join one. In October 2008 FINMA released a guidelines document, *"Eckwerte zur Vermögensverwaltung"*, or *"Corner values of the asset management"*. This document contained concrete recommended minimum standards for disclosure, transparency, reporting, fees, content of the asset management contract, and detailed requirements for the treatment and disclosure of Retrocessions. Unfortunately the standards are recommendations only and in no way enforceable, so you as client must still take care.

From an Anglo-Saxon point of view, self-regulation appears to have failed. However, Switzerland has never experienced the big blow-ups that plague hyper-regulated Anglo-Saxon systems. There has never been a Bernie Madoff, nor a Michael Milken, an Ivan Boesky, a Dennis Levine. Big financial blow-ups like Lehman, Bear Sterns, AIG, Enron and numerous others where investors lose their shirts don't tend to happen here. The Swiss consensus way does seem to protect the investor – at a cost. In the last 80 years, there has not been a single major bank failure in Switzerland – *where investors have lost serious money.* Consider the cost to investors in the wake of the S&L crisis, the petrodollar crisis, or the recent sub-prime debacle. Participants seem to understand that there are lines not to be crossed and act to restrain themselves in collective self-interest. These unwritten rules, the spirit of the law rather than the letter is broadly respected. Simply abolishing Retros, attractive though the thought may be is probably not feasible. Increased disclosure, transparency and better investor education seems the best answer.

Conclusion

The basic problem with Retros is not that they exist, it is that they are not disclosed and not transparent. More transparency and better disclosure will probably make them go away of their own accord over time. FINMA also seems to think that with full disclosure of Retrocessions, clients will either migrate over time to other providers or demand better deals. More IAMs are offering and switching over to "Retrocession-free" models and the Swiss market is moving slowly toward

About the Author

Martin Straub is the founder and managing partner of Envisage Wealth Management. He has over 15 years experience in financial services working with a variety of institutions. He began his career in commercial banking with Standard Chartered Bank in Zurich, moving into Investment Banking with Merrill Lynch in 1994. In 1998 he joined Accenture, the global consulting company in their financial services practice, specializing in private banking, capital markets and investment banking. In 2000 Martin became manager responsible for Accentures private equity program working with entrepreneurs throughout Europe.

After leaving Accenture in 2002, Martin became an independent consultant specializing in project and service management in financial services. He was involved in and lead diverse projects, eg., manager for the development and global rollout of an investment solution toolset for a global wealth manager and setting up a business service center for a private bank. With Capgemini in 2005 he was involved in the production of that years "World Wealth Report". More recently he has worked at Zurich Financial Services where he specialized in service management in insurance. Insurance remains a particular interest given its flexibility as a planning tool and growing use in wealth management.

Martin graduated from Flinders University in South Australia with degrees in Economics & Accounting (1992) and Chemistry (1990). He has written and spoken widely on the issues around asset manager compensation and payments in asset, fund management and insurance.

increased transparency. Admittedly very slowly. In the longer run Retros should disappear or be transformed into other forms of disclosed compensation, without heavy handed regulation, which often creates crazy incentives, distorts market signals and can lead to unexpected results – sometimes worse than the problem intended to fix. There is an opportunity for some IAMs to win new clients through better service levels, as clients are willing to pay for better service. FINMA seems to be taking the approach of increased disclosure to enable both client and IAM to act in their own self-interest to either get rid of Retrocessions altogether or make them a legitimate, disclosed, service-level linked component of compensation.

If you or your clients have managed accounts with an asset managers in Switzerland, you (or your clients) may well be losing a large part of your return to unnecessary fees and costs. This is as certain a loss as a market downturn, but an unnecessary one. Because we are living in an increasingly transparent world, a portfolio analysis and check of what you (or your clients) are potentially losing may well make sense. Because these formerly hidden costs are increasingly disclosed and can often be negotiated away.

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Swiss Chinese Financial Organisation

Until recently, China was primarily famous for its large and rapidly growing exports of low-tech products driven by cheap labour.

Today, we are facing a new China – with the largest and still quickly increasing foreign reserves, and a voracious appetite for commodities, luxury goods, technologies, designs and know-how. Since the financial crisis, we are also witnessing an emerging trend – China is becoming a leading player in global capital and financial markets.

Famous for its stable political environment and its sophisticated financial services industry, Switzerland has the necessary resources, financial know-how and experience to drive and shape this trend. Financial service sectors such as private banking, commodity trading and asset and pension fund management, just to name a few, are comparative advantages of Switzerland's economy. At the same time, this financial know-how & expertise is of great interest to the emergent Chinese economy, which is eager to also play a major role in global finance.

Based on this conviction, the Swiss Chinese Finance Organization (SCFO) was recently founded in Geneva by financial professionals engaging in investment activities between China and Switzerland. As a non-profit organization, SCFO is committed to build up a professional network and community specialized in financial and investment businesses between these two countries.

The members of the organisation have access to key contacts through the SCFO network and specific knowledge base. SCFO periodically invites finance professionals to networking events in various cities of Switzerland to exchange ideas and to foster mutually interesting business opportunities. Further, the organisation will organize various workshops, conferences and business oriented activities to achieve their goals going forward.

Yun Fang, Jianbo Xue and Daniel Lucchetta, Vice Presidents of SCFO, during launch event in Zurich in November 2010.

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Please visit and contact us at www.scfo.ch

The Emerging Importance of Asia's Real Estate Markets

Dr Juerg Syz

"The world turned upside down" was the headline of a special report of The Economist on April 15th 2010. The global financial crisis that started in 2007 uncovered profound structural problems in developed economies, including the US and Europe, and revealed a massive shift of economic power from the west to the east.

Emerging Asia's countries enjoy low government and private debt as well as rapid GDP growth. Salaries have grown strongly in countries such as China, which will help the transition to a more consumption-based economy. Meanwhile, productivity gains have largely offset the higher labour costs such that the unit cost of labour grew inline with inflation.

Today we are in the midst of a major transformation – both demographically and economically – in most of emerging Asia. China and India are in the vanguard of a wave of urban expansion that is restoring the global prominence that Asia enjoyed before the European and North American industrial revolution. By 2025, nearly 2.5 billion Asians will live in cities, accounting for almost 54% of the world's urban population. India and China alone will account for more than 62% of Asian urban population growth and 40% of global urban population growth from 2005 to 2025.

Diener Syz Real Estate

Diener Syz Real Estate is an investment company offering specialized expertise in Asia's real estate markets. Our goal is to make the region's most attractive investment opportunities accessible to foreign investors, to capitalize on international expertise, and to tap the outperformance of emerging Asia's real estate markets.

Our investment approach takes advantage of a broad range of investment instruments to optimally address prevailing market cycles in Asia's very dynamic market environment. Our strong local presence allows direct access to the most attractive investment opportunities.

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Never before in history have two of the world's largest nations urbanized at the same time, and at such a pace. This process will drive fundamental shifts, which will have significant consequences for the world economy. Investments into real estate in Asia will become an integral part of every professionally diversified portfolio.

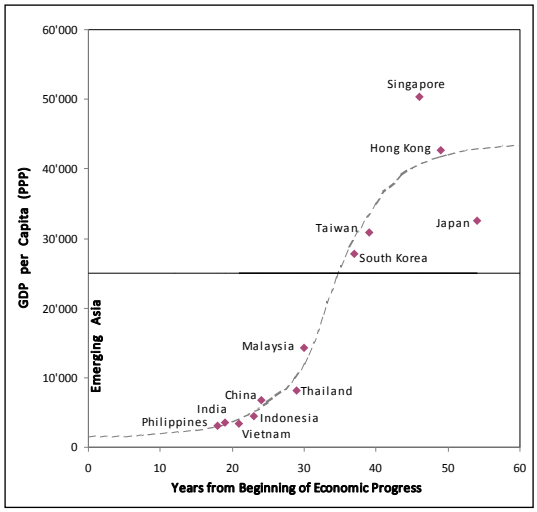
This article provides an overview and comparison of the Asian property markets. We specifically look at the giant markets in China and India, their potential followers Indonesia, Vietnam and the Philippines, the more mature markets of Thailand, Malaysia, South Korea and Taiwan, as well as the developed markets including Singapore, Hong Kong, and Japan.

Real Estate strongly correlates with GDP

Emerging Asia's solid economic recovery from the financial crisis unveiled the strength of the region, standing in sharp contrast to the slow and fragile recovery in Europe, Japan and the US.

History shows that GDP growth leads to increasing demand for real estate. Past growth patterns of emerging markets show a high correlation between GDP growth and property prices, while stocks largely anticipate future growth and barely outperform their developed markets' counterparts. The GDP growth curve over time gives an impressive illustration of the development potential of the real estate markets of emerging Asia.

Figure 1: Asia's GDP S-curve over time



The demand for real estate is mainly driven by the rising urban middle and upper classes. The number

of urban households with true discretionary-spending power in India could increase sevenfold, to 90 million households, by 2025. In China, that number could more than quadruple to nearly 280 million by 2025, accounting for more than three-quarters of all China's urban households. Similar developments are expected for other emerging Asian countries.

Asian property markets compared

India and China will continue to be the dominant growth engines in the region for the foreseeable future. From 2005 to 2025, India will need to add 700 to 900 million square meters of floor space a year. In China, the respective figure is more likely to be 1.6 to 1.9 billion square meters.

However, while all eyes are on these two emerging giants, the remarkable growth story of Vietnam, Indonesia and the Philippines is widely under-appreciated. Further, real estate markets in Singapore and Japan offer interesting opportunities after a considerable correction. On the other hand, record prices were paid this year in Hong Kong's residential markets, and several governments worry about assets appreciating too quickly. Hence, many Asian countries saw the introduction of tightening policies to slow down the growth of the real estate market. Often, the goal is to take the heat out of the luxury residential market, which is (overly) fuelled by Asia's new rich.

China: balancing urban transformation

The Chinese real estate market is by far the largest in Asia. In fact, it should be seen as a set of numerous regional and sub-markets. Economic development in Chinese cities are quite distinct, with 8.2% GDP growth in rather rich Shanghai and 14.9% in Chongqing where income levels are less than a third of the ones in Shanghai. The current massive extension of infrastructure – particularly high-speed trains – results in city clusters that represent economic units. For example, people in cities in the Yangtze River delta such as Ningbo, Suzhou, Nanjing, and Hangzhou can reach Shanghai within an hour by high-speed train. Similar clusters emerge in the Pearl River Delta in the south and in the Bohai Rim in the north.

In the context of its history, China still finds itself in a massive transformation from state-provided housing to a private housing market. Until the early 1990s, urban dwellers in China were provided an apartment by their employers or the government, with rents set at less than 5% of their salary. Only thereafter, the government began to truly privatize housing by selling apartments to their residents at a low price, conducting a vast redistribution of wealth from the government to the people. In a very short period of time, a record homeownership rate of more than 80% was reached. The price of housing in China has risen as the economy has expanded, but housing price has been significantly slower than GDP growth.

(Photo by R. Minsch)

Today, the government officially still owns all urban land and grants long-term land use rights through auction sales. Considering demand fuelled by ongoing urbanization, inventories in most cities are still low – at the current sales pace, there are only a few months worth of inventory, and demand exceeds new supply in many cities.

Besides the demand of urban first time buyers, upgrading is a paramount driver of demand. According to a recent survey of Beijing Tsinghua University, 56% of China's middle-class families are considering buying a new, larger home in the near future. The massive spending on properties implies that about 73% of private wealth of urban Chinese is tied up in real estate. While 85% of households in 24 major Chinese cities own an apartment, only 18% of them have invested in the stock market.

Construction accounts for about 6% and the real estate sector for about 4% of the Chinese GDP. This makes the sector an important pillar not only for private households but also for the overall economy. The

government hence follows the development of the real estate market closely and – in contrast to most other countries – has the means to considerably influence it. It is however hard to impact individual submarkets, respectively to level out the imbalances between Chinese cities. In 2009, first-tier cities accounted for 8% of total urban population and 8% of floor space sold, but for 22% of urban residential property sales. This implies that prices are almost three times higher than in other Chinese cities.

A correction in first-tier cities' high-end market would be manageable and healthy for the long-term stable development. Very limited borrowing and low loan-to-value ratios imply that banks would not suffer as they typically do in the west.

Savers or speculators?

Taking a closer look at demand for real estate in major Chinese cities, one finds that there are more and more households that buy second and third homes, while others still cannot afford to buy the first one. This social problem is amplified by the increasing disparity of income resulting from fast economic growth and by the rising property prices itself.

The main reason why people with increasing wealth buy more property than they actually need is saving. Because the pension and health systems are still developing and people prefer not to rely on them, the savings rate of China is extraordinary high compared to other large economies. But as Chinese citizens are typically restricted to invest abroad, there are little alternatives to save reasonably. Depositing cash on a bank account is unfavourable, as inflation exceeds interest rates and hence the earnings of hard work would slowly decrease in real value over time. The domestic stock market is expensive and volatile, so property investment seems to be a good (and practically the only left) choice.

A speculative property bubble is typically characterized by high leverage and/or the absence of demand for housing or office space. Although mortgage demand increased recently, it is still at a relatively moderate level in an international context. The government issued several policies that allow only very limited leverage for second and third homes, trying to take out the speculative element of saving by investing in real estate.

Japan's property bubble – a costly lesson

China faces today the task of shifting its sources of growth away from exports and investment toward private consumption. This is a similar challenge to that of Japan in the 1980s. At that time, Japan's growing share of the global export market inflamed protectionist sentiments, resulting in the Plaza and Louvre accords. These agreements forced Japan to appreciate the yen against the dollar by 51% from 1985 to 1987. Currency speculation caused the yen to continue appreciation after the coordinated intervention. The pressure arose from the US' large current account deficit and the yen appreciation was meant to help the US to emerge from its recession. The parallels to today's situation with China are striking.

The accord largely failed to fulfill its primary objective of alleviating the trade deficit with Japan because this deficit was due to structural rather than monetary conditions. Later on, the recessionary effect of the strengthened yen in Japan's export-dependent economy created an incentive for an expansionary monetary policy that lasted for too long and – in combination with a boost in consumer and mortgage credit – led to the Japanese asset price bubble of the late 1980s.

In 1989, property prices reached their peak. In Tokyo's Ginza district, some properties fetched about USD 1 million per square meter. Thereafter, prices of prime office buildings in Tokyo's financial districts slumped by more than 95%, and Tokyo's residential homes were traded at less than a tenth from their peak. The deleveraging process contributed to Japan's stagnation that lasted even longer than the so-called "lost decade".

Today, the Chinese government is well aware of this piece of economic history and will do everything to avoid that it is repeated. China's leaders will not give up currency control for the time being, and limit land and apartment hoarding as well as mortgage lending. Instead of providing cheap credit to everyone, China engages in social housing programs that target to make homes affordable for lower income households.

Incredible India: the land of extremes

While China has captured global attention for manufacturing, India has established a formidable reputation as the business process and services offshore hub of the world, primarily due to its large number of English speaking and well-educated working population. In contrast to the numerous state-owned companies in China, many enterprises in India are effectively owned and controlled by influential families. But while China has developed a set of practices to influence the development of the real estate market and the pattern of urbanization, India has barely paid attention to its urban transformation.

In India's major cities, prices are overly expensive, and the country lacks a strong central authority to enforce law and to plan urban development. India has more renters and fewer owner-occupiers than China,

and land hoarding is a common practice, attracting more speculative (local) money from the very rich upper class. Income dispersion is a major problem in the country, and the means for redistribution are limited.

The increase in foreign speculative money inflow has been addressed by the recent issue of a three-year lock-in policy, a measure that prohibits the repatriation of capital before three years from completion (with some exceptions) and hence may prevent overseas investors from participating in the direct real estate investment market. Also, higher interest and home loans rates directly impact housing affordability for local households.

India today has on the one hand many very rich families and very expensive properties in prime locations, and on the other hand tremendous poverty and inexpensive land outside the major city centers. If the country is able to fix its urban operating model, it has the potential to reap a demographic dividend from the increase – of an estimated 250 million in the next decade – in the working-age population.

Next in line: Indonesia, Philippines, Vietnam

Beyond the enormous potential of China and India, there are other emerging champions in Asia, particularly Indonesia, Vietnam and the Philippines. All three benefit from structural positives, most importantly from a young and growing population that will bring long-term dynamism to their economies.

Indonesia stands out by population size, being the fourth most populous country in the world after China, India and the US. Nowadays, the demand of China and India drive the economy of resource-rich Indonesia, but the country can become an important regional growth engine itself once momentum builds up. As the economic expansion involves an increasing number of the working population, there is a natural increase in demand for commercial real estate in major cities like Jakarta. However, improvements in the local capital markets are needed to effectively allocate domestic and foreign investment, to trigger local entrepreneurship and to make the country less depended on its natural resources.

Vietnam is a natural site to follow in the footsteps of China, where manufacturing is becoming more expensive, prompting low margin producers to explore cheaper locations. Besides a moderately large and young population that has good work ethics, Vietnam's government structure is similar to the one of China, enabling efficient urban redevelopment and infrastructure modernization. This is by far the country's most significant advantage over many other Asian economies.

As the statistics on Vietnam's exports in 2009 show, with its main exports still a mixture of lower value-added products and natural resources, it is still fairly early for a large scale manufacturing push. As Vietnam starts to capture a larger share of low value-added manufacturing and gradually moves up the manufacturing value-add chain, it will broaden and deepen the range of manufacturers in the country. They will, in turn, require management, coordination, engineering and other specialist work which will create a stream of demand for commercial properties.

Prime office rents and real estate prices in Ho Chi Minh and Hanoi are already very expensive, a result of very limited supply. Laws and regulations are still not yet very compatible with international private real estate standards, and there are only a handful of investment funds that have established a presence in that market. The challenge remains for the Vietnamese government to develop a less opaque and more stable business environment, as some of the most attractive opportunities are likely to emerge in Vietnam during the upcoming decade.

In contrast to Vietnam, the Filipino- and English-speaking **Philippines** is more likely to follow India's path of a strong business process outsourcing economy. 46.5% of workers involved in the services sector are responsible for 56.2% of GDP. The services sector will continue to grow in significance in line with the continued global trend towards more offshore services and job specialization. This will be a key factor leading the Philippines' commercial real estate markets to develop similarly to India, with a particular emphasis on IT and business services type facilities. After a decline in 2009, rental levels in Manila gradually stabilized at a moderate level, as occupier demand started to pick up.

Politically risky: Thailand

Bangkok is one of the few Asian metropolises that is still relatively inexpensive, but the political stability of the country is a major concern. According to the Political & Economic Risk Consultancy (PERC) rankings, Thailand exhibits the highest political and economic risk in the region, along with India. On the fundamental side, labour cost is still moderate, and the country is well able to compete with the Chinese export sector. Because of the political uncertainties, investment volumes collapsed in the third quarter of 2010, but Bangkok benefits from limited new supply, and improvement in occupier demand is expected in the medium term – provided a relatively stable political environment.

Mature Asian real estate markets

Elsewhere in the region the industrialized markets of Hong Kong, Singapore, South Korea and Taiwan all reported strong economic figures, underpinned by improving intra-regional trade. Inline with most Asian countries, Taiwan – where valuations are still considered attractive – as well as South Korea recently

switched to a more restrictive monetary policy to curb inflation and to stabilize asset price appreciation. As Asia will be the most active M&A and private banking market in the upcoming decade, banks are increasingly relocating their professionals from New York and London to Hong Kong and Singapore.

In **Hong Kong,** the financial gateway to China, average prices are back to 1997 levels, and a handful of commercial and top residential apartments were traded at astronomical prices. Most of the activity at the top end is driven by mainland buyers eager to get capital offshore, and there is a lingering impression that price increases are fragile and artificial. While some transactions seem terribly overpriced, a sharp, broad market correction is unlikely in the short term, given the limited supply in central Hong Kong and the massive demand from more and more high-income households. However, once China gradually opens its financial markets (over the next 10 years or so), Shanghai as the designated financial center of mainland China will be strengthened, and Hong Kong will lose some of its prominence.

Singapore also benefits from the shift of financial activities towards Asia and becomes an even more important wealth management center. It is considered very stable (politically and economically) and real estate prices are likely to further rise in the short term as the additional demand finds only very limited supply. Again, once reasonable alternatives emerge, Singapore's position could be weakened. In the Asian crisis of 1997, house prices fell by 70% in Singapore. Thanks to limited leverage, non-performing mortgages accounted for only 2% to 3% at that time. In 2010, Singapore was a standout performer with prime office rents returning to growth after six consecutive quarters of decline during the global financial crisis.

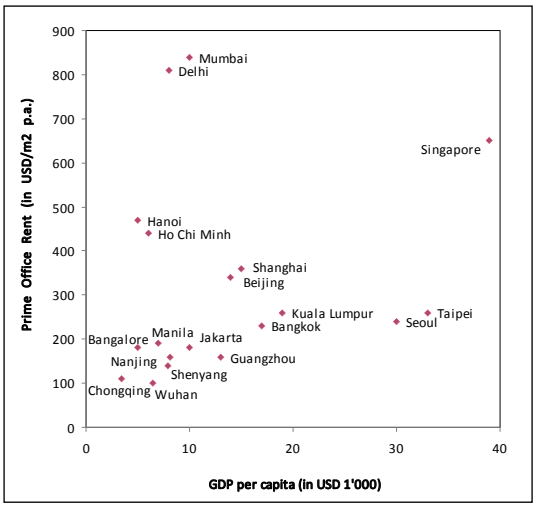
Japan on the other hand faces a number of structural challenges, including fiscal imbalances and demographics marked by a declining birth rate and an aging population. However, real estate transaction activity and investment volume increased recently, as prices seem to have hit bottom. Japan is currently attracting interest from property funds and investors from all over the world – including the largest players in the real estate investment industry – that look for bargain deals and distressed assets.

Prime office rents hint tomorrow's hot spots

Prime office rents are a main indicator to compare real estate markets of large cities. In combination with the respective city's development stage, measured by GDP per capita, they give a fair indication of future real estate price development.

Mumbai, Delhi as well as Hanoi and Ho Chi Minh City catch eyes, as rents are very high compared to GDP per capita. This is partly attributable to a limited supply of prime office space in those cities. In contrast, Taipei and Seoul should see increases in rents in the medium term. Singapore is a good indicator of the direction China's top cities like Shanghai and Beijing may take.

Figure 2: Prime office rents versus GDP per capita



Implications for investors

Global investors are increasingly aware that Asia will lead the rest of the world in GDP growth over the next decades and are increasing their allocation to the region to achieve long-term superior returns.

Real estate is the asset class that is most directly linked to GDP. Compared to the Western world, most Asian countries have high GDP growth and savings rates, implying excellent long-term prospects for their real estate markets. The general shift in economic and geopolitical power from the west to the east and the excellent outlook of Asian real estate markets will lead to an increase in the allocation of real estate Asia in any professionally diversified investment portfolios.

Sources:
ANREV; CB Richard Ellis; CEIC; Centaline; Credit Suisse Research; Cushman & Wakefield; Deloitte; Diener Syz Real Estate; DTZ Research; Hurun Wealth Report; IMF; Jones Lang LaSalle; Knight Frank; KPMG; LaSalle Investment Management; McKinsey Global Institute; Morgan Stanley Research; National, Provincial, and Municipal Bureaus of Statistics; People's Bank of China; Political & Economic Risk Consultancy Ltd; PricewaterhouseCoopers; Reuters Real Estate; Savills; UBS Research; Xinhuanet

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China Meets Weggis

The five-star deluxe Park Hotel Weggis will be the spectacular setting for the Fourth Chinese Festival, when the culture of this vast country will be celebrated.

Between 22 January and 13 February 2011, travel and culture enthusiasts as well as gourmets will find plenty of opportunities to indulge their passions as they discover more about the Middle Kingdom. Visitors will have a chance to experience China's traditions, music and culture because this event will feature every aspect of the country – including the arts, gastronomy and business.

This will be a unique festival, accompanied by authentic Sichuan cuisine from the iconic DARONGHE Restaurant in Chengdu and spellbinding music from the Hong Kong Chinese Orchestra. This impressive event will also include a series of interesting lectures by leading speakers, and an art exhibition by the SongZhuang Artist Village Gallery that will offer visitors profound insights into the country's customs, both traditional and modern.

The five-star deluxe Park Hotel Weggis is open year round and is the host of the Fourth Chinese Festival from January 22 until February 13, 2011.

An Exclusive Food Happening

Mouthwatering Chinese meals will be served in the Sparks Restaurant during the China Festival. Guests can enjoy richly-flavored specialties of Sichuan cuisine from the DARONGHE Restaurant and can also take part in a traditional tea ceremony. Chengdu's DARONGHE restaurants are regarded as bywords for Sichuan cuisine in China and ever since the first DARONGHE restaurant was opened in 1999, countless guests have been prepared to stand in line all day in the hopes of a table.

2011 Chinese New Year Concert in the Lucerne Culture and Congress Center (KKL)

As part of this large-scale China Festival, the Park Hotel Weggis and Obrasso Classic Events will be staging a major musical event at the Lucerne Culture and Congress Center (KKL): the 2011 Chinese New Year Concert will take place on 4 February 2011. The melodies of the Hong Kong Chinese Orchestra will afford a unique insight into the world of China as the Year of the Rabbit is ushered in with appropriate musical accompaniment.

This orchestra is deeply rooted in China's cultural heritage. Its repertoire embraces traditional as well as contemporary music, and the ensemble breaks new ground by combining different forms and styles.

The Hong Kong Chinese Orchestra is one of China's best-known orchestras and is affiliated to the Leisure and Cultural Services Department. Since it was established in 1977, the orchestra has composed over 1900 pieces and has received numerous awards.

Series of Lectures

The lecture series that will accompany the China Festival focus on the breathtaking developments in the Middle Kingdom. Political, economic and cultural aspects of China will be explained by speakers such as **Liang Jianquan,** Consul-General of the People's Republic of China in Zurich, **Prof. Dr TCM Yongguang JIANG,** Professor of Traditional Chinese Medicine at Lucerne, **Jürg Schmid,** Director of Switzerland Tourism, **Peter Achten,** the Asia correspondent, and **Kurt Haerri,** President of the Swiss-Chinese Chamber of Commerce. **Dr Uli Sigg,** an influential collector of Chinese art, and **Dr Thomas Wagner,** former Mayor of Zurich, will comment on aspects of China yesterday and today during a stimulating panel discussion.

Exhibitions

As part of the Festival, artists from the SongZhuang Artist Village Gallery will express their feelings and experiences in traditional as well as modern style as they mix the worlds of dreams and reality. Their works show the conflict as well as the harmony between east and west, and visitors will be drawn into

Tea doctors at the Park Hotel Weggis.

a world where struggle and confusion are matched with grace and elegance, with aspects that are beautiful as well as ugly. The SongZhuang Artist Village Gallery plays a key role in east-west communication and is numbered among the best and largest galleries on the contemporary Chinese art scene.

An overall glance at the hotel

Relais & Chateaux and Swiss Deluxe Park Hotel Weggis, five stars superior and open year round, offers 52 guest rooms and suites, including the uniquely designed Adara Suites featuring unadulterated views of Lake Lucerne, luxurious baths and amenities, in-room wine coolers and the latest in technology. Private spa cottages, themed spa treatment rooms and therapies as well as Japanese gardens provide a tranquil respite in which to unwind. The hotel incorporates modern day luxury design and style in the original hotel structure where the Mark Twain and Queen Victoria Suites are located.

Award-winning fine-dining restaurants, Annex, Sparks and The Grape offer a Mediterranean-Asian cuisine, a light Sparkling Cuisine as well as a Californian fusion cuisine and ambience in an atmosphere of elegance and high style. The signature Aquarius Hall is the perfect venue in which to create unique occasions with its glass panels and uniquely LED lighting. A century-old restored "Vinothek" hosts private wine pairings and over 2,600 labels lovingly overseen by award-winning Sommeliers.

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Das Grosse Chinesische Neujahrskonzert

„Das Grosse Chinesische Neujahrskonzert" fand am Freitag, 4. Februar 2011, zum dritten Mal im fantastischen weissen Konzertsaal des KKL Luzern statt. Das Hong Kong Chinese Orchestra mit seinem Chefdirigenten Yan Huichang wurde für die 13. Tournee ausgewählt.

Die Geschichte „Des Grossen Chinesischen Neujahrskonzerts" beginnt im Jahre 1998. In diesem Jahr veranstaltete Wu Promotion Co., Ltd., die erste private Orchesteragentur Chinas, zur Feier des chinesischen Neujahrsfests im Goldenen Saal des Wiener Musikvereins ein Konzert der besonderen Art: Chinesische Musikerinnen und Musiker, damals vom „China National Traditional Orchestra Beijing", brachten zum ersten Mal traditionelle chinesische Musik nach Wien. In fantasievollen Kostümen wurden dem Publikum traditionelle chinesische Orchesterstücke auf traditionellen, im Westen weitgehend unbekannten Instrumenten näher gebracht.

Präsentiert wird die grosse Vielfalt der chinesischen Musik durch ein jedes Jahr wechselndes chinesisches Orchester, ausgewählt von einem Expertengremium. Diese Orchester, die zu den bedeutendsten und bekanntesten des Landes gehören, stammen aus den verschiedensten Teilen Chinas, wodurch in jedem Jahr die traditionellen Klänge einer anderen Region widergespiegelt werden. Während in einem Jahr sinnliche Weisen über die Träume der Menschen gespielt werden, kann das Publikum im nächsten Jahr an den Erzählungen des alltäglichen Lebens, am Lieben und Leiden der Menschen, teilnehmen.

In diesem Jahr kann „Das Grosse Chinesische Neujahrskonzert" auf insgesamt mehr als 75 Konzerte auf

drei Kontinenten in über 30 Städten zurückblicken. Mehr als 1.000 chinesische Musikerinnen und Musiker konnten bisher über 100.000 Besucher in ganz Europa mit ihren musikalischen Fähigkeiten begeistern. Schon im zweiten Jahr, 1999, wurde mit Berlin eine deutsche Stadt eingebunden. Danach hat sich die jährliche Veranstaltung rasant entwickelt, sodass heute neben Deutschland und Österreich auch die Länder Schweden, Dänemark, die Niederlande, Finnland, Russland, die Schweiz, Luxemburg, Italien und Ägypten dieses besonders eindrucksvolle Ereignis aufführen.

Fernsehübertragungen durch den Österreichischen Rundfunk ORF (1998), 3sat (1998), Arte (1999), den Sender Freies Berlin (1999), das chinesische Fernsehen China Central Television CCTV (1998/1999/2005/2006), das SF Schweizer Fernsehen (2006) und den Russischen Sender Kultur 3 (2007) haben „Das Grosse Chinesische Neujahrskonzert" in der Vergangenheit einem breiten Publikum in Europa und China näher gebracht. 2008 wurde die Tournee des „China Traditional Orchestra Guangdong" für die Spezialreportage „Europa wir kommen" vom Österreichischen Rundfunk ORF begleitet und während der Olympischen Spiele europaweit ausgestrahlt.

Part of the Hong Kong Chinese Orchestra, which has currently an establishment of 85 musicians.

Hinter dem Neujahrskonzert steht auch weiterhin der Wunsch, die Klänge traditioneller chinesischer Musik über die Grenzen Chinas hinaus zu verbreiten und den Besuchern unbekannte Weisen vorzustellen, die sie vom fernen Reich der aufgehenden Sonne träumen lassen.

2011, anlässlich des Jahrs des Hasen, präsentieren wir dem europäischen Publikum eines der renommiertesten traditionellen chinesischen Orchester, das Hong Kong Chinese Orchestra.

Das Grosse Chinesische Neujahrskonzert
Hong Kong Chinese Orchestra
Yan Huichang, Dirigent

Obrasso Classic Events
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The Hong Kong Chinese Orchestra

The Orchestra was founded in 1977 and is the only professional, full-sized Chinese orchestra with 85 musicians in Hong Kong. It came under the management of the Hong Kong Chinese Orchestra Limited on 1st April, 2001 when the latter took over from the Leisure and Cultural Services Department of Hong Kong. Mission Statement: The Hong Kong Chinese Orchestra is united in its commitment to offering excellence in Chinese music. With a contemporary momentum and a professional spirit, it aims to strive for the peak in music and attain the status of a world-class orchestra that is the pride of Hong Kong people.

The Orchestra is deeply rooted in the Chinese cultural heritage. Its performance format and repertoire include both traditional Chinese music and contemporary full-scale works. It also explores new frontiers in music through commissioning new works of various types and styles, and over the years, has commissioned over 1,900 original compositions and arrangements, many of them have won awards at home and abroad. The Orchestra currently has an establishment of 85 musicians who perform in the four sections comprising bowed-strings, plucked-strings, wind and percussion instruments. Traditional as well as improved Chinese instruments are incorporated.

Maestro Yan Huichang has won the acclaim of the music circles in China and abroad for his artistic and conducting talents.

bconnected – the Swiss Jazz-funk Band

Founded in 1994 by the Swiss guitarist Eugene Montenero, ***"bconnected"*** *knew since its creation, to preserve a strong identity. In presenting their show in Shanghai and Beijing, among many others, the band consolidated its reputation in China for over 11 years now and will continue with unique concerts in 2011.*

In November 2007, the 7th record "TABULA RASA" comes to confirm the strong will of the band to be leaded towards new musical horizons, by introducing sonorities there coming from Asia and North Africa.

With already 16 years of experience, the band is in its full maturity, each one being able to feel in the direction which it wishes and with the intention to bring to the collective new connections. Because of this opening mind towards the world, bconnected is in perpetual evolution but keeping its roots in the tradition of the jazz music.

Their individual background is impressive and the musical assessment group is tight. The 7 records carried out of 16 years of career mark a beautiful regularity. One can still add tours in China from 1994 to 2010, concerts in various areas of the world, from Lausanne to Shanghai, some prestigious festivals such as Montreux Jazz Festival, Shanghai Grand Theater, Shanghai Jazz Week Festival, International Festival of the Arts, Kunming, Hong-Kong International Jazz Festival, JZ Jazz Festival Shanghai, Beijing Nine Gates Jazz Festival, Backstage Live Jazz Club Hong-Kong, JZ Club Shanghai, Pridi Jazz Club Nanjing, Forestry University Nanjing, Dalian University, Chengdu High School College, Dali Basket Ball Stadium, Chongqing Arena, Kunming Art Center, Kunming Theater, and many others.

In 2005, the group's founder, Eugene Montenero created his own production label, thereby, his desire is to promote Swiss culture in China, by exporting Swiss artists.

In October 2010 was the last tour of bconnected in China, supported by the Swiss watchmaker Titoni, this tour has benefited greatly from the expected success among Chinese listeners! In presenting their show at JZ Jazz Festival Shanghai, Beijing Nine Gate Jazz Festival, among many others, the band consolidated its reputation in China for over 11 years now.

In 2011, in collaboration with the talent agency based in Shanghai CPAA Ltd, bconnected propose unique concerts with the participation of a Chinese pop star singer, and with many Chinese artists as well.

For further information, please contact:

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bconnected live at Beijing Nine Gate Jazz Festival 2010, feat. The Chinese Erhu player: Shih Ni Chun, Dominique Favre (keyboard), Xavier Nussbaum (sax), Eugene Montenero (guitars), Daniel Ciccone (percussions), Yoann Julliard (drums), Rodrigo Lucio (bass).

Swiss Ball 2010 – Jazz up Your Night!

When you enter the lobby of the Intercontinental Beichen and walk up the swirling stairs, you can already feel the velvet atmosphere of the Swiss Ball that SwissCham Beijing and the Swiss Society Beijing are about to open on this 20 November 2010. The sound of a solitary saxophone wraps you up in its soft blue melody, outside from a distance the Water Cube, all lit up, glows, welcoming the guests on this Saturday evening.

One can hear the clinking of the glasses of Champagne and sparkling wine, and the laughter of the guests chatting with each other in the cocktail area; friends and business colleagues who gather one last time before Christmas and who would not miss this special evening for anything.

When the Ball Room opens, a magical scene reveals itself in front of the crowd; beautifully decorated tables, all in black with bright orange "Birds of Paradise" bouquets blooming in the middle, ocean blue light on the stage, discreet spotlights on each table and a video of the Montreux Jazz Festival's concerts displayed on two screens. The Ambassador to China, H. E. Blaise Godet, opens the Ball with his welcoming words and the party can start.

The "Pierre Pradat Trio" fills the room with Bill Evans' singing melodic lines. A soft blue touch suffuses in the air, the atmosphere is calm and mysterious; notes fly and flow in a warm wave of musical chords. The audience is wrapped up by the colourful and smooth tones, in an atmosphere of impressionist harmonies that vibrate around us.

The 280 guests are seated and enjoy the fantastic menu: wild salmon gravlax and foie gras, steamed sword fish fillet stuffed with crab and caviar, vodka shots and sherbet, grain-fed veal steak, cheese platter and a final concerto of chocolate desserts… a delight for the taste buds!

In the middle of the dinner, the "No Name Trio" brings its gypsy jazz music and leads the audience to a world of chromatic combinations with exotic trills and glissandos. The atmosphere becomes slowly more vivid with the pinched strings of the guitars and the full and suave voice of the accordion, a fast swinging rhythm and minor harmonies fill in the air. The guests are getting up to enjoy the exotic mango-passion-fruit sherbet and generous vodka shots, whilst feeling more fidgety and up to some gypsy dance. The main course arrives and the chatters increase.

It is just time for the Lucky Draw. The funds will be donated to the FXB Association which delivers sustainable results for children affected by poverty and Aids. The lucky guests are being spoilt with prices from a night at the Intercontinental to brunches and buffets, spas and flight tickets and the audience is more and more excited. The dessert buffet is ready for the sweet tooth, there is a charming fountain of liquid cacao where one can dip pieces of fruits, a confectioner is preparing artistic sculptures in caramelized sugar, different platters of chocolate cakes, chocolate mousse, chocolate truffles, chocolate candies parade on the buffet enticing the guests to a mouthful of deep dark unctuousness… a revelation to the senses!

When "Time Machine" – the Swiss band specially invited for the evening – finally makes its explosive entrance with disco funk music, that means that time for real dancing has come. The tables are empty, not a single person is seated; everyone is on the dance floor. The crowd seems transformed; claps, steps, pirouettes, laughter, shouts, the frenzy goes wild, a wind of disinhibition gushes in, the people are unstoppable. Suddenly the dancer that had timidly surfaced in each of the guests is fully out now, ready to "jazz it up" till the end of the night. In SwissCham's history, should it be the Chinese, the Swiss or the other attendees of the ball all agree to say: "It was the best Swiss Ball ever!"

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"No Name Trio" playing gypsy jazz music. Daniel Brustman, Zoe Wang and Nico Torrese (l.t.r.).

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Are You a Member of SCCC?

The largest Swiss network for China business

To become a member of the Swiss-Chinese Chamber of Commerce, founded by pioneer Swiss businessmen in 1980, please visit the website at **www.sccc.ch**. Look under Membership Application and join a network with a vast variety of experiences in/with China, starting with the first industrial Joint Venture in China "made by Switzerland" and connecting you to the fastest growing region of the world today.

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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