Smooth Course for Sino-Swiss Relations

While gliding through the euro zone crisis, Switzerland continues to form closer ties with China

By Audrey Murray

ALTHOUGH it is surrounded on all borders by members of the European Union (EU), Switzerland is suffering less from the financial turmoil plaguing its euro zone neighbors. The country reporte d a record trade surplus of CHF 23.8bn (USD 24.3bn) in 2011, with China increasingly filling the void left by a weaker EU economy. Switzerland is also one of a small number of countries to have a positive balance of trade with China, with exports to China totalling CHF 14.7bn (USD 14.9bn) last year. Many are dubbing China the "Swiss export engine," as it is now the fourth largest importer of Swiss goods.

What stands to impact the Sino-Swiss trade relationship the most in the forthcoming years is a proposed free-trade agreement between the two countries. While more and more Swiss service industries are setting up shop in China, the two countries are most closely bound by their trading relationship. Bilateral trade between the two countries rose by 54 per cent in 2011, and a free-trade agreement promises to bring even more growth.

Free-Trade Agreement

China and Switzerland formally launched negotiations for a free-trade agreement in January 2011 after the completion of a joint feasibility study. At the Sino-Swiss Economic Forum in Beijing this July, Swiss Economics Minister Johann Schneider-Ammann said that he believed the two countries would be able to finalise an agreement before the end of the year.

According to Kilian Widmer, head of the Shanghai office of the Swiss Business Hub China, Swiss exports to China are dominated by three main sectors. "Machines and machine tools account for about 35 per cent of our exports, while pharmaceuticals are around 20 per cent. Including Hong Kong, watches account for about 30 per cent." China's largest export industries to Switzerland include machinery, textiles, and electronics. The overlap in machinery suggests the difference in demand between the two countries: the Swiss source less expensive parts from China, while the latter buys higher-precision, and more expensive, equipment from Switzerland.

A free-trade agreement would benefit Swiss companies exporting goods to China. "For Swiss companies, certain goods [imported into China] are still taxed quite heavily compared to what we tax similar goods [imported into] Switzerland," explains Michael Lehmann, General Manager of sim (selective international management), a Swiss consulting company based in Shanghai. Lehmann says he would also expect to see an increase in output in both economies.

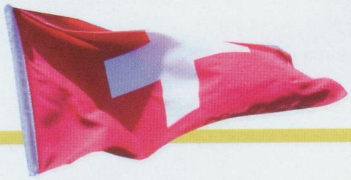
The free-trade agreement can also have important implications for other European countries looking to negotiate similar alliances with China. According to Widmer, "It's very significant, because Switzerland will be the first European country with whom China will have this type of agreement." China can use a Sino-Swiss free-trade agreement to gauge the possible effects of similar pacts with the entire EU or certain member countries. "It will also be a learning opportunity not only for China but also for the rest of Europe," says Lehmann.

Green Products and Innovation

Many predict that clean technology will provide the biggest opportunities for Swiss industry in the near future. The Chinese government has made energy efficiency one of the priorities in its new five-year plan, which means enormous potential for Swiss companies specialising in this industry.

Facts and Figures

Population
7,655,628 (July 2011 est.)
GDP (PPP)
USD344.2bn (2011 est.)
GDP per capita
USD43,900 (2011 est.)
Source: CIA



"Switzerland is one of the leading countries when it comes to green building know-how, and we can bring in a great deal of experience from Switzerland and adapt it to the Chinese market," says Juerg Syz, co-founder of Diener Syz Real Estate, an investment services company that brings Swiss investment to China. The Chinese government's focus on sustainable building brings benefits for foreign investors. Certified green building projects "get benefits such as tax breaks, higher plot ratios, and general support from the local government," he says. Syz believes that his firm's success is partly rooted in expertise with clean technology and green design. "You need to bring knowledge along with investment," he continues. "This gives us an edge to find better local partners, because they know they'll have better results with the government if they go with us."

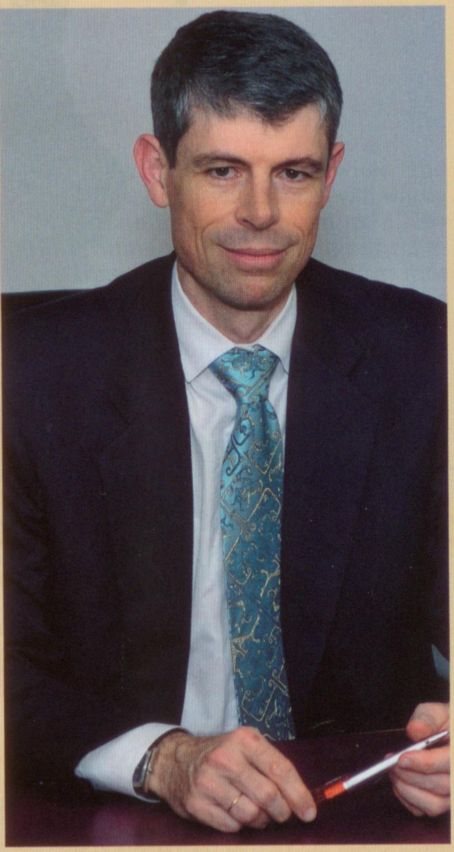
The Swiss have an advantage in this sector, as their domestic building standards are rather strict when it comes to energy efficiency. "Newly-constructed buildings in Switzerland would probably all be considered 'green' buildings if you compare them with standards in other selected Western countries," says Widmer.

Switzerland is also poised to fill the need for other clean technologies. Swiss technology has always been a source of pride, and some attribute this to the Swiss education system, which includes vocational schooling from a young age." You notice this for example in the traditionally very strong machine tools sector," says Widmer. "Our experts start to specialise after mandatory school duty finishes at age 15. This allows you to be a specialist at an earlier age, which helps the industry and the whole economy."

Lehmann also notes that close collaboration between universities and the private sector provides a better-trained workforce. "We have universities of applied sciences that have very close relations with companies, which results in a balance of work experience and education. They also have joint programs between universities and companies to develop new products and processes." This, he says, helps Switzerland achieve a high degree of innovation.

Lukas Huber, Asia Director for the investment promotion agency Greater Zurich Area, which helps foreign companies invest in Switzerland, remarks that many Chinese machinery companies are coming to Switzerland to upgrade their technology. Their goal,

In Conversation with Heinrich Schellenberg, Consul General of Switzerland in Shanghai



SBR: Once signed, how would the proposed free-trade agreement between China and Switzerland affect both countries?

HS: The specific consequences will depend on the results of our negotiations, but it can be assumed that overall trade relations will receive a strong boost. One sector that will benefit is our machine-building industry; right now, it accounts for more than one third of our exports to China, as China is very eager to acquire our machines and upgrade their production quality. Another sector that stands to benefit is the watch industry. At the moment, it is very costly to import watches into China.

Taxes are quite low for Chinese products imported into Switzerland. Generally speaking, we have low customs duties and we have a wide network of free trade agreements.

SBR: Looking at the domestic market in China, do you see Chinese competition on the horizon for Swiss luxury brands?

HS: One of the main concerns of Swiss companies is the rise of Chinese competitors who are quickly catching up, also technologically. But when it comes to the luxury sector, I think branding and image are very important, and China still has some way to go in this area.

SBR: Aside from the free-trade agreement, what do you think are some of the most important developments in the Sino-Swiss economic relationship?

HS: One major development is the increase of Chinese tourism in Switzerland. This has undergone a 50 per cent growth rate every year for the last three years. The Chinese have come to represent 3.3 per cent of the market, which is very significant because they have become the number one tourism market in Asia and are catching up with important markets in Europe. According to Ctrip, Switzerland is considered to be the most attractive tourism destination in Europe by individual Chinese tourists.

SBR: Which Swiss industries do you think will experience the biggest growth in China in the next few years?

HS: One sector that is underdeveloped so far, in which Switzerland is very strong, is financial services. The growth potential for that sector is enormous. Currently, access for foreign firms remains very limited, but China plans to gradually open up in this sector.

Another sector in which we are also very strong is pharmaceuticals. Right now, China has an aging population and low penetration of the market by foreign pharmaceutical firms. With an increase in purchasing power, people are spending more and more on health. So this offers huge opportunities for pharmaceutical companies.

SBR: What trends do you see in Chinese companies moving to Switzerland?

HS: Chinese firms are starting to see that Switzerland is a very interesting place to build European headquarters and that it also serves as a gateway to Europe. We're not a member of the EU, but we have very good access to the EU thanks to 120 bilateral agreements. Switzerland is very stable, and we have a very highly qualified labour force. We offer tax advantages (the average corporate tax is fairly low) and a high quality of life.

he says, "is to secure certain technologies in Switzerland and exploit them in the [Chinese] market." As more and more Chinese companies look to go green, Switzerland stands to benefit.

China is also turning to Switzerland for green urban planning. In this sector, Chinese authorities are asking for increasingly higher quality. "And they are increasingly asking for Swiss quality," Widmer says. The city of Basel has signed memorandums of understanding with Shanghai to form a partnership that promotes cooperation and exchange between the two cities. As part of this agreement, the city of Shanghai partnered with a Basel-based financing platform for sustainable infrastructure.

Zhenjiang Ecopark

In July, the Chinese and Swiss governments signed a memorandum of understanding to work together to build an ecopark in the Zhenjiang Economic and Technological Development Zone (ZETDZ) in Jiangsu Province. The project, which represents a step towards the energy efficiency goals outlined in the Chinese government's 12th Five Year Plan, offers opportunities to Swiss companies specialising in clean technology and green design.

"Both parties will try to promote the use of new environmental and energy technology on a large scale," says Carina Steiner, Managing Director of Cleantech Switzerland, the official Swiss export platform charged with overseeing the project. She adds that another goal of the project is to strengthen the market for companies offering applications of these technologies.

The ZETDZ currently boasts investment from multinational corporations, including Wal-Mart, Fiat, and Mitsubishi, and a variety of manufacturing industries, but "the transformation and upgrading of these traditional industries is urgently needed," Steiner says. "The focal point of this upgrading is high value-added goods, low energy consumption, less pollution and intensive manufacturing modes, all of which are required for the introduction of advanced technology and experience."

Services Industry

Another area in which many see growth potential for Swiss companies in China is the services industry. Current regulations have somewhat limited Swiss entry into this market, but as the Chinese demand for foreign banking, consulting, and other services rises, greater numbers of Swiss companies are looking to enter China.

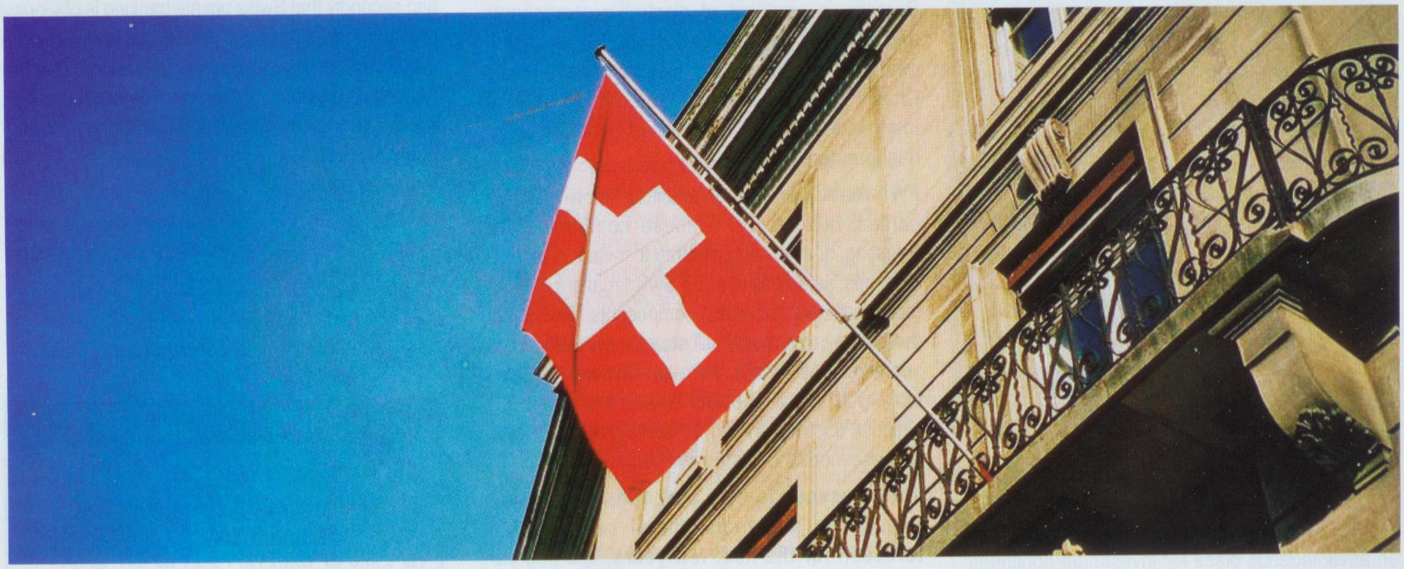
Rapid accumulation of wealth in the country has created an opportunity for niche financial service companies. "China is a strategic market because the number of wealthy people is growing more rapidly here than anywhere else," says Syz. At present, Swiss companies have a competitive edge. "There are a lot of Chinese banks, but their services aren't necessarily up to speed," he says.

Syz cites UBS, a Swiss financial services company, as a success story in China, and credits their success to a well-planned strategy. He states that with regard to the further establishment of operations on the mainland, "UBS appointed the former chief executive of the Hong Kong Monetary Authority as a board member, which was a strong signal." When they opened their offices in China, they hired a large amount of local staff to better position themselves. Small-to-medium sized Swiss enterprises, he says, have to take strategy into similar consideration when moving to China. In particular, he adds, some smaller Swiss financial services firms fail to prioritise physical presence on the mainland, and this can be problematic. Still, Syz is optimistic about the future for smaller Swiss service providers in China. "It's getting easier to set up a business and find partners, and the Swiss communities are rather strong right now in certain cities."

>> China's largest export industries to Switzerland include machinery, textiles and electronics <<

Swiss R&D in China

Swiss research and development (R&D) is



Banking in Switzerland maintains the reputation of quality the industry has enjoyed for centuries.
Source: OCRA

also growing in China, as Swiss companies look to penetrate Chinese markets. "Right now, [Swiss companies] see a lot of stagnation in Europe," says Widmer. "A lot of them are looking to China as a growth market. But it's still a very difficult market to enter."

>> As more and more Chinese companies look to go green, Switzerland stands to benefit <<

Nicolas Musy, a founding partner of China Integrated, a strategic and project management firm for foreign companies in China, notes two trends in Swiss R&D in China. While a small group of Swiss multinational companies are setting up large research facilities here, small and medium enterprises are establishing Chinese operations for product development as part of their worldwide corporate R&D strategy. Specifically, he says, "there are a lot of R&D units doing engineering locally for Swiss companies. According to surveys, at least two thirds of Swiss companies have set-up or are planning to set-up an R&D unit."

Some of this is driven by the different demands of Chinese consumers, but a lot is motivated by the differences in production. In Europe, Musy explains, it is often more cost-effective to invest in expensive, but more fully automated, machinery because of high labour costs. On the contrary, in China it is generally cheaper to use simpler machines that require more manual labour. This means that companies that manufacture machinery, a strong Swiss industry in China, have to develop new ranges of more basic products, even if the products are sold to foreign companies manufacturing on the mainland. The more cost-efficient products are typically also sold in other emerging economies.

Nevertheless, any Swiss company that manufactures in China stands to benefit from local R&D. "If you want to benefit as much as possible from local production, you have to fully understand how it works and how to design so that you fully utilise the local production capacities," says Musy. To do that, he adds, companies need a local engineering presence.

While some Swiss companies come to China for a growing market of consumers, others set up presence in China to tap into a growing talent pool and expertise. The approach used by Swiss pharmaceutical giant Novartis exemplifies the benefits larger companies can gain from opening research centers in China. Novartis is investing more than USD1bn in research centers across the country. "Certain types of diseases are much more common in Asia," Musy explains, citing liver cancer as an example. This makes China a much more strategic base of operations for research on these diseases.

While Musy says that costs are not motivating the current migration of Swiss R&D to China, in the long run many companies expect to reduce costs by conducting research here. "Chinese universities, and their facilities, are getting better and better," he says.

China Comes to Switzerland

Although Chinese companies have not entered Switzerland at the same rate their Swiss counterparts have entered China, some domestic firms are starting to target the European market and are establishing offices in Switzerland. According to Heinrich Schellenberg, the Consul General of Switzerland in Shanghai, there are currently around 60 companies with from mainland China offices in his homeland, though he hopes that this number will grow in the near future.

Lukas Huber from the Greater Zurich Area says he notices Chinese solar technology and telecommunications companies moving to Switzerland in large numbers. Telecommunications equipment and infrastructure companies, he says, "usually have products and services that are so sophisticated that they require a local presence to service customers and sell solutions." These types of industries require physical offices in Europe, and Switzerland's labour force, tax codes, and central location make the country an attractive choice as a base for European operations. Schellenberg cites Huawei, which recently surpassed Ericsson to become the largest telecommunications equipment manufacturer in the world, as a success story for Chinese enterprises looking to move to Switzerland. In June, the company was selected as the sole managed services partner for Sunrise, the Switzerland's second largest telecommunications company. According to Huber, Huawei's Swiss operations will have 400 employees by the end of 2012.

He also predicts that, in the future, Chinese banking and services firms will follow their customers abroad. "When Chinese companies go to Europe, they want to receive services from their Chinese banks," he explains. Large banks in the US and Europe were able to expand by providing their customers with international coverage, and Huber expects Chinese financial institutions to do the same in Switzerland. SBR

Swiss timepieces and luxury brands continue to enjoy popularity in China.

Source: Wikimedia