Economic Report 2023

China

31 May 2023

Executive Summary

- *The Chinese economy was held back by mobility restrictions in 2022 but is expected to resume its role as the global economy's growth engine in 2023. It accounts for one third of global growth, 18% of global GDP and approximately 15% of world trade (excluding intra-EU trade).*
- *While it keeps attracting foreign direct investment, the Chinese government attempts to reduce external vulnerability and emphasizes self-reliance. Meanwhile, it struggles to reduce urban youth unemployment and to overcome a property crisis.*
- *Monetary policy remained loose throughout 2022, thanks to relatively low inflation. The government provided generous fiscal stimulus before it eventually abandoned its prolonged "zero-Covid" strategy in December 2022.*
- *China continues to implement economic planning and industrial policies by guiding its state-owned enterprises, granting land use rights, tax breaks and other forms of subsidies, and through local content requirements. Sectoral focus has expanded to include the digital economy, capitalizing on China's big data resources. The production of advanced semiconductors is however restricted by US export controls.*
- *China's trade with Russia grew by almost 30% in 2022 as a consequence of the war in Ukraine. China also consolidated its trade relations with neighboring countries through the Regional Comprehensive Economic Partnership (RCEP) which facilitates the expansion of cross-border supply chains.*
- *Swiss companies benefit from preferential market access and enhanced legal security in China due to the Sino-Swiss Free Trade Agreement which entered into force in 2014. Bilateral trade in goods amounted to CHF 36.3 bn (+8.2% YoY) in 2022, trade in services reached CHF 8.7 bn (+16.2 YoY).*
- *The China-Switzerland Stock Connect, launched in July 2022, allows Chinese companies to raise capital by issuing Global Depository Receipts (GDRs) in Zurich.*

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1 ECONOMIC OUTLOOK AND ECONOMIC POLICY DEVELOPMENTS

1.1 Economic outlook

China's GDP grew by 3% in 2022, well below the official growth target of around 5.5%, due to the economic impact of Covid restrictions and large-scale lockdowns, and despite an array of fiscal and monetary stimulus.[1] It was the second lowest GDP growth rate since 1976.[2] For 2023, the Chinese government set a growth target of around 5%, in line with market estimates and the IMF forecast.

The extended zero-Covid policy in 2022 hit retail sales hard, leading to a contraction by 0.2% for the whole year. Fixed-asset investment,[3] on which Beijing relied heavily to stem downturn risks, increased 5.1% in 2022, while industrial production[4] grew by 3.6% and energy consumption by 3%. In December 2022, the urban surveyed unemployment rate stood at 5.5% (but it was three times higher for people aged 16-24).[5] With subdued demand and in the absence of an energy price shock, the consumer price index (CPI) for the whole of 2022 remained moderate and rose only 2% year on year, while the producer price index (PPI) increased 4.1%. Finally, China's trade surplus reached a record USD 878 bn in 2022 (+30%), as exports grew by 7% despite weakening U.S. and European demand for Chinese products.[6]

China's economy is expected to rebound in 2023 as mobility and activity resume after the lifting of pandemic restrictions, providing fresh opportunities and a boost to the global economy. Even so, China still faces significant economic challenges. The contraction in real estate remains a major issue, and a slowdown in external demand may be compounded by geopolitical risks.

Historically, China's fast growth was fuelled by a high savings / high investment economic model. Household consumption accounts for less than 40% of GDP, about 20 percentage points below the global average. Investment greatly enhanced productivity as long as China was underdeveloped. More recently, however, the rising total-debt-to-GDP ratio (now at 273%) indicates that investment (especially real estate and infrastructure) has become less productive. Nevertheless, China continues to invest 40-45% of GDP every year, the highest figure ever recorded by any country.[7]

Having reached a peak at 1'413 million, China's population started shrinking in 2022; the working age population (nearly 900 million) already peaked a few years ago. While China's demographic dividend thus keeps diminishing, the government is bent on delivering a "talent dividend" by investing in higher education. Nevertheless, the IMF expects China's GDP growth to fall below 4% over the next five years, in the absence of structural reforms.[8]

In Q1 2023, the removal of virus control measures resulted in China's GDP growing by 4.5% YoY. Growth was led by consumption, particularly of services like transports and catering. Fixed asset investment by the private sector increased a mere 0.6% from January to March while state-led investment advanced 10%. The property sector was still in downturn as investment in property declined 5.8% YoY. Youth unemployment rose to 20% in April 2023, near a historical record.

1.2 Economic policy developments

The 20th Congress of the Chinese Communist Party took place in October 2022. The CPC reaffirmed its goal to build "a great modern socialist country in all respects and to advance the rejuvenation of the Chinese nation through a Chinese path to modernization". In terms of economic policy, China's top

[1] In Q2 2022, China's economy stagnated (GDP +0.4%) as lockdown restrictions across the country (especially in Shanghai between April and May) hit factory activity, logistics and private spending. Source: National Bureau of Statistics (2023), "Preliminary Accounting Results of GDP for the Fourth Quarter and the Whole Year of 2022", retrieved from http://www.stats.gov.cn/english/PressRelease/202301/t20230118_1892204.html, last accessed on March 28, 2023.

[2] The weakest expansion since then was 2.2% in 2020, the first year of the pandemic.

[3] A gauge of expenditure on items including infrastructure, property, machinery and equipment.

[4] A gauge of activity in the manufacturing, mining and utilities sectors.

[5] National Bureau of Statistics (2023), "National Economy Withstood Pressure and Reached a New Level in 2022", retrieved from http://www.stats.gov.cn/english/PressRelease/202301/t20230117_1892094.html, last accessed on March 28, 2023.

[6] General Administration of Customs of the People's Republic of China (GACC) (2023), "China's Total Export & Import Values, December 2022 (in USD)", retrieved from http://english.customs.gov.cn/Statics/09772730-2628-4c25-84ff-794d05f1adce.html, last accessed on March 28, 2023.

[7] Michael Pettis (2023), "The Only Five Paths China's Economy Can Follow", retrieved from https://carnegieendowment.org/chinafinancialmarkets/87007, last accessed on April 18, 2023.

[8] International Monetary Fund (IMF) (2023), "China's Economy is Rebounding, But Reforms Are Still Needed", retrieved from https://www.imf.org/en/News/Articles/2023/02/02/cf-chinas-economy-is-rebounding-but-reforms-are-still-needed, last accessed on March 28, 2023.

decision-makers displayed a greater emphasis on security and self-reliance.

The Government Work Report, delivered by outgoing Prime Minister Li Keqiang at China's annual parliamentary meetings in March 2023, set a vast range of economic and development tasks for the country, including the 2023 GDP growth target (around 5%), and outlines how China plans to achieve these goals.[9] The rather conservative growth target will leave the new economic team, led by new Prime Minister Li Qiang, with more policy flexibility. A moderate increase in the deficit-to-GDP ratio from 2.8% to 3.2% indicates that the fiscal stance will be looser but not excessively so.

The Report calls for attracting more foreign capital in 2023 and recognizes that "implementing the national treatment of foreign companies" is important in this regard. Heeding this call, the central and provincial governments initiated a charm offensive directed mainly at Asian, Middle Eastern and European investors. One mechanism proposed in the Report to attract more foreign capital is to "expand market access and increase the opening-up of the modern service industry".[10]

The property sector has been in turmoil since 2021 when major real estate developers defaulted on debts and most lost their access to capital markets. Property sector investment fell 10% in 2022, the first yearly decline since records began in 1999. The crisis was triggered by regulatory measures introduced in 2020 aimed at de-leveraging the sector; in November 2022, the government reversed its stance by easing restrictions and instructing state-owned banks to substantially ramp up lending to real estate developers. However, debt restructuring of distressed developers (and their suppliers) made very slow progress.

Strict regulations had also been imposed on China's platform economy when the government took steps to rein in monopolistic behaviour in 2020, possibly also the result of what it perceived as political aspirations by prominent entrepreneurs. As a result, investment and financing in China's internet sector plunged and employment suffered. In an effort to counter the economic headwinds, Beijing sent signals in early 2023 that the regulatory overhaul (what some characterized as "tech crackdown") was nearing completion. But the institutional and regulatory framework for the digital economy (e.g. definition of data property rights) remains work in progress.

Meanwhile, rising local government debt – and especially the so-called "hidden debt" held by local government financing vehicles (LGFVs) – has been a major concern for the central government for many years. While local governments' reliance on the proceeds from land transactions remains excessive, authorities shy away from exploring other sources of revenue through tax reform. The central government has made efforts to reduce debt through mechanisms such as enabling local governments to swap their debt for special purpose bonds.[11]

Throughout 2022 and into 2023, China's monetary policy was supportive. The People's Bank of China (PBOC) cut the reserve requirement ratio (RRR) twice and kept liquidity adequate at a reasonable level. The PBOC lowered both one-year loan prime rate (LPR) and over-five-year LPR (15 basic points and 35 basic points respectively) in 2022, reducing the costs of new loans for borrowers. Efforts were also made to promote internal and external balance, enhancing the flexibility of the RMB exchange rate. In 2023, the government claimed that it will maintain a sound monetary policy in a more targeted and effective manner.

2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

2.1 Priority sectors

The Chinese economy is characterized by one of the world's highest shares of manufacturing in GDP (40% according to official statistics, cf. Annex 1). While rural and industrial development remain political priorities, the service sector's development has been slowed down by the zero-Covid policy and prior government interventions.

China's manufacturing sector benefits from strong and flexible ecosystems for prototyping, sourcing, mass producing and distributing, which still makes it the world's largest manufacturing hub. It accounts for nearly 30% of global manufacturing output, with the value-added output of the manufacturing sector

[9] The State Council of the People's Republic of China (2023), "2023 Report on the Work of the Government", retrieved from https://npcobserver.com/wp-content/uploads/2023/03/2023-Government-Work-Report.pdf.

[10] Cf. chapter 5.1 of this report.

[11] Local government special purpose bonds (SPBs) are one of the main ways through which the central government provides funds to local governments to bankroll major infrastructure projects.

hitting CNY 33'500 bn (CHF 4'755 bn).[12] While China continues to produce more than half of the world's supply of steel, textiles, footwear, or toys, the high-tech manufacturing sector and in particular the production and assembly of computers, mobile phones and other ICT equipment is a driving force for China's high-quality economic development.[13] The value added of the high-tech manufacturing and equipment manufacturing grew in 2022 by 7.4% and 5.6% respectively.[14]

China's transition to a more sustainable post-industrial services and consumption-driven economy made slow progress in 2022: Due to sanitary restrictions and the crisis in the residential construction sector, the value added of hotels and catering services (-2.3%) and real estate (-5.1%) decreased in 2022. Transport, storage, wholesale and retail trade stagnated, while financial intermediation (+5.6%) and ITC services (+9.1%) kept growing rapidly.[15]

The pandemic has further boosted e-commerce and digital methods of payment: In first-tier cities, residents pay on average 80% of their monthly expenditures through mobile payment services.[16] By June 2022, the number of digital payment users reached 0.9 billion and 77.5% of mobile users use digital payments every day. In general, COVID-19 has accelerated the adoption of existing digital technologies in China, including e-commerce engagement.

The 14th Five Year Plan (FYP) incorporated digital economy as one of the priorities in the 2021-2025 period. In February 2023, the State Council issued a "Digital China Plan"[17] which sets out a roadmap for advancing Chinese-style modernization in the digital age. According to official accounts, China is on track to become the world's biggest data producer by 2025 (its data output grew 10.5% in 2022 to reach 8.1 zetabytes). It boasts 6.5 million data center racks and 2.3 million 5G base stations.

China's structural dependence on key foreign technologies remains a fundamental deficiency.[18] In October 2022, the U.S. implemented new export controls on advanced chips as well as semiconductor design and manufacturing technologies, targeting China's artificial intelligence (AI) and semiconductor industries. The Chinese government, on the other hand, continues ramping up efforts and pouring resources into computing capacity and indigenous AI development.

2.2 Opportunities for Swiss companies

While "reform and opening-up" remains an element of official rhetoric, industrial policy and national security imperatives have become dominant during China's pandemic-induced self-isolation. Like other foreign-owned enterprises, Swiss companies are facing increased uncertainty regarding their market access and issues like cross-border data transfer regulations, intellectual property rights infringements, and debt recovery. On the other hand, China's increasingly sophisticated economy offers a broad range of opportunities for quality products and services.

<u>Consumer Goods sector</u>

The Chinese government has vowed (but so far failed) to make consumption the "main driving force" of the economy. The end of the pandemic brings a shift in demand from consumer goods to services, while luxury goods may benefit from a bout of "revenge spending". Swiss products and services are associated with very high quality by 78% of Chinese consumers.

<u>Mechanical, electrical and metal industry.</u>

Swiss machines and technologies are demanded in many industries, as Chinese customers lift their

[12] China Daily (2023), "China passes121 trillion yuan, pointing to steady recovery", retrieved from http://global.chinadaily.com.cn/a/202302/28/WS63fe1c4aa31057c47ebb1586.html, last accessed on April 14, 2023.

[13] China Daily (2023), "Deputies stress strength in manufacturing", retrieved from https://www.chinadaily.com.cn/a/202303/10/WS640a6fbca31057c47ebb3697.html, last accessed on April 14, 2023.

[14] National Bureau of Statistics of China (2023), "National Economy Withstood Pressure and Reached a New Level in 2022", retrieved from http://www.stats.gov.cn/english/PressRelease/202301/t20230117_1892094.html, last accessed on April 14, 2023.

[15] National Bureau of Statistics of China (2023), "The 2022 National Economic and Social Development", retrieved from http://www.stats.gov.cn/english/PressRelease/202302/t20230227_1918979.html, last accessed on April 14, 2023.

[16] Daxue Consulting, "Payment methods in China: How China became a mobile-first nation", retrieved from https://daxueconsulting.com/payment-methods-in-china/, last accessed on May 9, 2023.

[17] Stanford University, "Translation: 'Plan for the Overall Layout of Building a Digital China'", retrieved from https://digichina.stanford.edu/work/translation-plan-for-the-overall-layout-of-building-a-digital-china/, last accessed on April 25, 2023.

[18] MERICS (2020), "China's digital platform economy", retrieved from https://merics.org/en/report/chinas-digital-platform-economy-assessing-developments-towards-industry-40, last accessed on April 25, 2022.

quality standards and strive towards the target “specific measures for innovation, quality, intelligent manufacturing, and green production” set by the 14th five-year plan. China’s automotive sector is experiencing particularly strong growth and is at the forefront of the development of electric vehicles.

Healthcare

An aging population and increasing demand for modern treatment are contributing to the pharma and healthcare market growth. Swiss innovative medtech products in categories which China has not mastered well have good business potential. 19 However, the pre-market approval, especially for medtech class II and III products, is highly time-consuming and cost-intensive, and volume-based procurement (VBP), where applicable, greatly reduces profitability. The preferential policies applied in Hainan Boao Lecheng International Medical Tourism Pilot simplify the approval process of clinically urgently needed drugs and medical devices.20

Cleantech

China makes great strides in reducing local air and water pollution even though its de-carbonization goals are markedly less ambitious than Europe’s.21 Improving the energy efficiency of buildings is a case in point: According to a climate action plan22 released in October 2021, all new buildings are to be built according to green standards by 2025. While the construction sector is undergoing a consolidation, Swiss green building system and products suppliers may still find interesting opportunities in the full supply chain covering planning, design, construction and operation stages.23

3 FOREIGN ECONOMIC POLICY

3.1 China’s policy and priorities

In 2020, China adopted its “Dual Circulation Strategy” – prioritizing domestic consumption (“internal circulation”) while remaining open to international trade and investment (“external circulation”) – in an attempt to enhance both innovation and self-reliance. Geopolitical tensions and the sluggish outlook for global trade may have accentuated the perception that China needs to reduce its external vulnerability; however, it continues to have a very high stake in the preservation of the multilateral trading system.

It has been 22 years since China's accession to the World Trade Organization (WTO). While China's reforms over the years have accelerated cross-border trade flows and led it to become the largest trader of goods and the second largest trader of services, there is still debate about how and to what extent China has implemented its WTO commitments. As of April 2023, 49 cases of WTO’s rules violations had been filed against China, mainly for opposing IPR enforcement, illegally restricting access to its domestic market or for granting illegal subsidies to its domestic industries.[24] China applied to accede to the plurilateral Agreement on Government Procurement (GPA) in 2007 but negotiations are still going on.

China has been active and supportive in regional network building in Asia-Pacific Economic Cooperation (APEC) and the Regional Comprehensive Economic Partnership (RCEP). The RCEP was signed in 2020 and entered into force in 2022. It is currently the world’s largest trading bloc. Under RCEP, China will secure greater market access in East Asia and strengthen its role in regional production networks and supply chains. Joining RCEP marked a turning point for China to deepen its domestic reform and opening up process.

China submitted its application to join the Comprehensive and Progressive Agreement for Trans-

[19] S-GE Report (2021), “How to enter the Chinese market as a Swiss MedTech company”, retrieved from https://www.s-ge.com/en/publication/industry-report/20213-c3-china-medtech-report-medt2, last accessed on April 25, 2022.

[20] S-GE Factsheet (2021),”Hainan Boao Lecheng City: Unique Opportunities for Swiss Healthcare Companies to enter the Chinese Market”, retrieved from https://www.s-ge.com/en/publication/fact-sheet/20214-c3-china-medtech-opportunities-hainan, last accessed on April 18, 2023.

[21] China intends to supply 20% of its total energy consumption from non-fossil fuels in 2025, to achieve peak CO2 emissions before 2030 and to reach carbon neutrality in 2060.

[22] NDRC (2021), “Action plan for carbon dioxide peaking before 2030”, retrieved from https://en.ndrc.gov.cn/policies/202110/t20211027_1301020.html, last accessed on April 25, 2022.

[23] S-GE Fact sheet (2022), “China’s ambitious national policies and action plans aiming to improve the energy efficiency of buildings”, retrieved from https://www.s-ge.com/en/publication/fact-sheet/2022-e-clean-china-c5-energy-efficiency-buildings-china, last accessed on April 25, 2022 .

[24] WTO (2022), “Member Information: China and the WTO”, retrieved from https://www.wto.org/english/thewto_e/countries_e/china_e.htm, last accessed on April 5, 2023.

Pacific Partnership (CPTPP) in September 2021. However, China's ability to comply with CPTPP rules remains questionable, especially provisions on labour, procurement, SOEs, subsidies, e-commerce and cross-border data transfer. Any negotiations are unlikely to succeed amid the current political tensions.

China also applied to join the Digital Economy Partnership Agreement (DEPA) in November 2021. The DEPA members Chile, New Zealand and Singapore set up a working group in 2022 to examine the application. China will need to ramp up efforts to increase its standards on data openness and transparency in order to be admitted to DEPA. In particular, many current cross-border data transfer policies in China are different from requirements outlined by DEPA.

To date, China has a total of 23 free trade agreements (FTA) involving 26 countries and regions (ASEAN, Cambodia, Mauritius, Maldives, Georgia, Australia, Korea, Switzerland, Iceland, Costa Rica, Peru, Singapore, New Zealand, Chile, Pakistan, Hong Kong and Macao). Meanwhile, another eight new FTAs are under negotiations with Gulf Cooperation Council, Sri Lanka, Israel, Norway, Moldova, Panama, Palestine, and Ecuador.[25]

Embedded in the constitution since 2018, the Belt and Road Initiative (BRI) provides a framework for shaping and securing China's investment in infrastructure abroad. Such investment has been prioritized and downsized during the pandemic but remains an instrument of foreign economic policy.[26]

3.2 Outlook for Switzerland (potential for discrimination or comparative advantage)

Swiss companies benefit from privileged market access for goods and services in accordance with the Sino-Swiss Free Trade Agreement which entered into force in mid-2014. Noting that the FTA has proven to be an effective instrument to enhance bilateral trade and investment, both sides agreed in 2017 to explore possibilities of further enhancing the FTA. In the meantime, the sub-committees established under the FTA are actively promoting its proper implementation.

The RCEP likely leads to some trade diversion and increases the competition for Swiss exporters within the Asia-Pacific region. Swiss companies established in the region may benefit from intra-regional trade facilitation.

The proposed Comprehensive Agreement on Investment (CAI) between China and the EU could improve market access for EU companies by eliminating joint venture requirements, prohibiting forced transfer of technologies, and facilitating administrative procedures. The negotiations were concluded "in principle" in December 2020 but the ratification process has stalled.

4 FOREIGN TRADE

4.1 Developments and general outlook

4.1.1 Trade in goods

China has been the world's top trading nation for six consecutive years. In 2022, its total foreign goods trade volume reached a record high of USD 6'310 bn, up 7.7% YoY. Exports rose 10.5% YoY to USD 3'594 bn and imports went up 4.3% to USD 2'716 bn. Overall, China had a trade surplus of USD 878 bn. ASEAN remained China's largest trading partner, followed by the EU and the U.S. (cf. Annex 3).

In the wake of Russia's war of aggression against Ukraine and Western sanctions, bilateral trade turnover between Russia and China grew by almost 30% in 2022.[27] Russia is now China's leading energy supplier, while China's exports of mechanical and electrical products, automobiles, and auto parts to Russia all grew substantially. Both parties agreed to increase trade and optimize their bilateral trade structures, including infrastructure, logistics, and increasing financial cooperation such as using Ruble and RMB in settlements.

In another significant development, the United States in October 2022 imposed new rules aimed at

[25] MOFCOM (2023), "China FTA Network", retrieved from http://fta.mofcom.gov.cn/english/index.shtml, last accessed on March 27, 2023.

[26] Green Finance&Development Center (2023), "China Belt and Road Initiative (BRI) Investment Report 2022", retrieved from https://greenfdc.org/china-belt-and-road-initiative-bri-investment-report-2022/, last accessed on March 27, 2023.

[27] Russia Briefing (2023), "China-Russia Trade Breakdown and Future Development Trends", retrieved from https://www.russia-briefing.com/news/china-russia-trade-breakdown-and-future-development-trends.html/, last accessed on May 10, 2023. Russian imports from China increased 67% yoy in the first 4 months of 2023.

restricting China's ability to obtain advanced computing chips, develop and maintain supercomputers, and manufacture advanced semiconductors. US allies like the Netherlands and Japan later announced semiconductor technology export controls of their own. In early 2023, China's semiconductor imports dropped by 45.1% YoY, while integrated circuits also decreased by 26.5%.

China's "zero Covid" policy impacted domestic demand but had a rather limited direct effect on foreign trade. The most consequential episode was the strict and extended Shanghai lockdown that delayed traffic and may have reduced China's foreign trade by 3 to 4% in April / May 2022.[28] The Shanghai containerized freight rate which had reached a peak in December 2021 remained at a very high level until mid-2023 but then dropped significantly. Commodities' import volume decreased (e.g. coal -10.4%, crude oil -2.7%) but prices and value increased.[29]

Despite China's re-opening following the end of the "zero-Covid" policy in December 2022, imports showed a 10% YoY decline and exports fell by 12% in the first two months of 2023. With global trade losing momentum, China's exports are poised to remain slow.

4.1.2 Trade in services

According to the Chinese Ministry of Commerce, in 2022, China's total services trade value stood at USD 888.7 bn, grew by 12.9% YoY. Exports of services increased 12.1% YoY to USD 423.9 bn while imported services were up by 13.5% YoY and reached USD 464.8 bn. Overall, the services trade resulted in a deficit of USD 41 bn.

China's main service exports are transport services (36%), telecommunication, computer and information services (20%), and construction services (6%). China's imports mainly consisted of transport services (36%), travel services (25%), and intellectual property royalties (10%).[30] Travel services remained subdued but recovered a little (+8.4% YoY)[31] while transport services were the fastest growing sector in terms of import and export. Imports of insurance services also grew at a very rapid pace.

China's growth in 2023 will likely be driven by private consumption of non-tradeable services, but outbound tourism is also expected to see a significant recovery.

4.2 Bilateral trade

4.2.1 Trade in goods

Switzerland's total trade in goods with China amounted to CHF 36.3 bn (+8.2% YoY) in 2022 and the Swiss trade deficit reached a record CHF 4.5 bn (cf. Annex 4). These figures do not take into account Swiss gold[32] exports to mainland China which grew by 78.9% to 483.1 tonnes in 2022 (CHF 26.2 bn), plus a mere gold imports from mainland China (CHF 0.2 bn). Including gold, total bilateral trade thus amounted for CHF 62.7 bn (+29.8% YoY) with a goods trade surplus of CHF 21.5 bn for Switzerland.[33]

Apart from gold, Swiss exports to China totalled CHF 15.9 bn in 2022, up 2.1% YoY. In terms of value, exports consisted mainly of products of the chemical and pharmaceutical industry (41.1%), precision instruments, clocks, watches and jewellery (32.3%), and machines, appliances and electronics (17.6%).

Growth was driven by a surge in demand for pharmaceuticals (CHF 5 billion, +18%), while watch exports decreased to 2.5 billion (-13%). Exports of machines, appliances and electronics increased by 4.9%.

Swiss imports from China amounted to CHF 20.4 billion (+13.5%) in 2022, mainly relating to machines, appliances and electronics (41.6%), textiles, clothing, shoes (15.4%), and products of the chemical

[28] Banque de France Eco Notepad (December 2022): How much do China's regional lockdowns affect international trade? retrieved from https://blocnotesdeleco.banque-france.fr/en/blog-entry/how-much-do-chinas-regional-lockdowns-affect-international-trade, last accessed on May 11, 2023.

[29] Chinese Academy of International Trade and Economic Cooperation of Ministry of Commerce of the the PRC: China's Foreign Trade Report (Autumn 2022). Data for the first 10 months of 2022.

[30] Chinese Academy of International Trade and Economic Cooperation of Ministry of Commerce of the the PRC: China's Foreign Trade Report (Autumn 2022). Data for the first 10 months of 2022.

[31] State Council (2023), "China's services trade up 12.9% in 2022", retrieved from http://english.scio.gov.cn/pressroom/2023-01/30/content_85080051.htm, last accessed on April 5, 2023.

[32] "gold" in this section refers to "gold bars and other precious metals, coin, precious stones and gems as well as works of art and antiques".

[33] All data in this section: FCA (2023) "Swiss-Impex", retrieved from https://www.gate.ezv.admin.ch/swissimpex, last accessed on April 18, 2023.

and pharmaceutical industry (10.8%). Growth was driven by computers (CHF 2.2 billion, +18%), smartphones (CHF 1.8 bn, +5.4%) and certain semiconductor devices and chemical compounds, while textile imports continued a decreasing trend (-3.3%) which had begun in 2021.

In the first quarter of 2023, excluding gold, Chinese imports to Switzerland amounted to CHF 4.8 bn (-4%). Swiss exports to China saw negative growth as well and reached CHF 3.9 bn (-3.5%).

4.2.2 Trade in services

China is Switzerland's seventh biggest trade in services partner worldwide. The bilateral trade in services was hit hard by the pandemic in 2020 when travel restrictions strongly affected tourism, business travels and the work of consultancies. The situation improved in 2022, when total bilateral trade in services amounted to CHF 8.7 bn (+16.2 YoY), as Swiss services exported to China totalled CHF 5.5 bn (+16% YoY) and Chinese services imported by Switzerland totalled CHF 3.2 bn (+16.6% YoY).[34]

5 DIRECT INVESTMENTS

5.1 Developments and general outlook

Foreign direct investment in China is subject to a negative list which excludes foreign investors from certain industries. The current list was updated on January 1, 2022, it reduced the number of sectors restricted or prohibited from 33 to 31, by easing access to the automobile sector as well as the satellite TV broadcast ground receiving facilities sector.[35] An additional negative list for market access comprises industries that are prohibited or restricted to private investment by companies. The last version issued on March 25, 2022 covers 117 industries (6 prohibited and 111 subject to approval, qualification, licensing measures, or requisite legal procedures); it brought some opening in the financial sector while the media sector was further curtailed.[36]

FDI inflows to China officially amounted to USD 189.1 bn in 2022 (+8 % YoY), consolidating China's position as the second most important investment destination behind the United States. According to China's Ministry of Commerce, large projects with contracted FDI of more than USD 100 million accounted for 53% of China's actual use of foreign capital. High-tech manufacturing and particularly electronic and communication equipment manufacturing was a main driver of FDI.[37] Hong Kong, Singapore and the British Virgin Islands remain the biggest sources of China's FDI stock (cf. Annex 5). There are strong indications that mainland investors, perhaps due to China's capital controls and tax laws, resort to "round-trip" investment. There also seems to be a tendency among multinationals to finance FDI from reinvested profits.[38]

Chinese FDI outflows decreased 16% to USD 150 bn in 2022.[39] The trend away from mergers and acquisitions towards more greenfield projects persisted; in Europe, it was driven by new EV battery factories. Mining and metals (mainly lithium and gold mines) was the only sector to see some M&A growth. Newly signed engineering, procurement and construction (EPC) projects decreased 2.1% to USD 253 bn. In total, 79 Chinese enterprises were among the top 250 global contractors.[40]

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[34] SECO (2023), Services Trade Cockpit, retrieved from https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/handel_mit_dienstleistungen.html, last accessed on April 14, 2023.

[35] Investment Policy Hub (2022), "Issued new Negative List for Foreign Direct Investment", retrieved from https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3792/china-issued-new-negative-list-for-foreign-direct-investment, last accessed on April 27, 2022.

[36] Dezan Shira and Associates: China Briefing – China's 2022 Negative List for Market Access, retrieved from https://www.china-briefing.com/news/chinas-2022-negative-list-for-market-access-restrictions-cut-financial-sector-opening/, last accessed on May 11, 2023.

[37] China Briefing (2023), "China Records Steady FDI Growth in 2022", retrieved from https://www.china-briefing.com/news/china-records-steady-fdi-growth-in-2022/, last accessed on April 14, 2023.

[38] Jungbluth, Cora et al. (2023): Gewinne deutscher Investoren in China – eine erste empirische Bestandsaufnahme.

[39] OECD: FDI in figures (April 2023): https://www.oecd.org/daf/inv/investment-policy/FDI-in-Figures-April-2023.pdf

[40] EY (2023), "EY releases the Overview of China outbound investment of 2022", retrieved from https://www.ey.com/en_cn/news/2023/02/ey-releases-the-overview-of-china-outbound-investment-of-2022, last accessed on April 14, 2023.

5.2 Bilateral investment

The stock of Swiss FDI in Mainland China was CHF 26.045 bn (+0.6 bn) in 2021. FDI flows were CHF 2689 million (-130 million) in 2021.[41] According to the Swiss Business in China Survey 2022, Swiss companies' plans to invest in China were at their highest ever level in early 2022, mainly driven by high profit and revenue growth expectations. In the wake of the Shanghai lockdown, however, business sentiment cooled down dramatically and many companies reviewed their investment plans.[42] Travel restrictions may also have led business executives to postpone investment decisions.

2022 saw only 3 acquisitions of Swiss firms by Chinese investors, with a total investment value at USD 96 million, the purchase prices for 2 of the 3 transactions not being publicly known. The drop from previously 9 in 2021 reflects a regional trend of fewer transactions, with generally lower investment value. Switzerland ranks ninth as a destination of Chinese investment in Europe.[43]

6 ECONOMIC AND TOURISM PROMOTION

6.1 Swiss foreign economic promotion instruments

Main actors of Swiss economic promotion in China

- Swiss Business Hub (SBH) China: represents the official Swiss trade and investment promotion agency Switzerland Global Enterprise (S-GE).
- Cantonal / regional promotion representatives for investment promotion: GZA (Greater Zurich Area), GGBA (Greater Geneva Bern Area), Basel Area and Schaffhausen (through Generis) have local representatives in China.
- Swiss Chamber of Commerce (SwissCham): The main networking, interaction and information platform for Swiss companies established in China has chapters in Beijing, Shanghai, South and South-West China and cooperates with the Swiss Chamber of Commerce in Hong Kong and the Swiss-Chinese Chamber of Commerce in Switzerland.
- Switzerland Tourism: The marketing and sales organization for Switzerland as a travel, vacation and conference destination has offices in Beijing and Shanghai.

Activities/Events

As competence centre for Swiss companies for regulatory compliance and due diligence, the SBH China published articles and organized webinars on various topics in collaboration with S-GE. Nevertheless, economic promotion activities were significantly impacted by sanitary restrictions.

The SBH China and S-GE attracted seven Swiss companies to join the Swiss Pavilion at the second edition of China International Consumer Products Expo (Hainan Expo), which took place from 26 to 30 July 2022 in Haikou, Hainan Province. Hainan Expo is one of the four major exhibition platforms for China's all-round opening up, along with China International Import Expo (CIIE), China International Fair for Trade in Services (CIFTIS), and China Import and Export Fair (Canton Fair).

6.2 The host country's interest in Switzerland

Switzerland remains highly appreciated as an attractive tourism destination as well as a place of education and study, particularly among Chinese people with higher education and income. Whereas until end of 2019, Chinese visitors had constituted the third largest tourist group in Switzerland, the travel restrictions linked to the pandemic between 2020 and 2022 severely disrupted tourism and other services, permitting only exceptional individual travelling. The lifting of restrictions and the gradual resumption of flight connections is now expected to boost arrivals and overnight stays well beyond

[41] Swiss National Bank (2022), "Swiss direct investment abroad – by country and country group", retrieved from https://data.snb.ch/en/topics/aube/cube/fdiaustlanda?fromDate=2012&toDate=2021&dimSel=d0(T0,T1,B3,T2,T3,T4,CN,T5,T6) , last accessed on April 12, 2023.

[42] Tomas Casas-Klett / Nicolas Musy / Zhen Xiao: The Swiss Business in China Survey 2022, retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4217068, last accessed on May 11, 2023.

[43] EY (2023), "Fewer Chinese corporate acquisitions and investments in Europe and Switzerland", retrieved from https://www.ey.com/en_ch/news/2023/02/fewer-chinese-corporate-acquisitions-and-investments-in-europe-and-switzerland, last accessed on April 12, 2023.

the moderate increase recorded in 2022.[44]

The education and research environment in Switzerland is attractive to young Chinese. For the academic year 2022/2023, 3519 Chinese students were enrolled at Swiss Universities (+38.5% increase since 2020/2021), among which 228 at the Bachelor level, 1'870 at the Master level, 173 in continuous education programs and 1248 PhD students. Both at Master and Doctorate level, Chinese nationals represent the 4th most important cohort of international students and researchers in Switzerland (respectively 10.5% and 7,9 % of the total) – behind Germans (15,9% and 22.3%), French (17% and 8.8%) and Italians (12.1% and 12.5%).[45]

Switzerland as a financial center

Swiss banks and other financial institutions received better ratings in China than foreign competitors in terms of both quality and corporate responsibility, according to an opinion survey conducted in May and June 2022. However, the freezing of certain Russian assets due to Switzerland's adoption of EU sanctions may have unsettled some Chinese customers who rely on the Swiss financial center as a safe haven.

The China-Switzerland Stock Connect was launched on 28th of July 2022, allowing Chinese companies to seek secondary listings on the SIX Swiss Exchange by issuing Global Depository Receipts (GDRs)[46] Nine Chinese companies floated in Zurich in 2022, raising a total of USD 3.2 bn. More companies are preparing for a listing in an effort to raise capital and fund their international growth.[47]

[44] FSO (2020), *"Hôtellerie"*, retrieved from https://www.bfs.admin.ch/bfs/fr/home/statistiques/tourisme/hebergement-touristique/hotellerie.assetdetail.24805173.html, last accessed on April 11, 2023.

[45] FSO (2021), *"Etudiants des hautes écoles universitaires: tableaux de base",* retrieved from https://www.bfs.admin.ch/bfs/fr/home/statistiques/education-science/personnes-formation/degre-tertiaire-hautes-ecoles/universitaires.assetdetail.24345364.html, last accessed on April 11, 2023.

[46] SIX (2022), "*China-Switzerland Stock Connect: Enhancing Access to Capital and Opportunity"*, retrieved from https://www.six-group.com/en/newsroom/news/the-swiss-stock-exchange/2022/stock-connect-gdrs.html, last accessed on April 12, 2023.

[47] The following webpage provides daily updates on the listed companies and their shares : https://www.six-group.com/en/products-services/the-swiss-stock-exchange/market-data/shares/share-explorer.html?listingSegment=DE, last accessed on April 12, 2023.

ANNEX 1 – Economic structure

Economic structure of the host country

	2017	2022
Distribution of GDP		
Primary sector	**7.9%**	**7.3%**
Manufacturing sector	**40.5%**	**39.9%**
Services	**51.6%**	**52.8%**
- of which public services	**n/a**	**n/a**

Distribution of employment	**2016**	**2021**
Primary sector	**27.7%**	**22.9%**
Manufacturing sector	**28.8%**	**29.1%**
Services	**43.5%**	**48.0%**
- of which public services	**n/a**	**n/a**

Source(s):

National Bureau of Statistics of China, “Statistical Communiqué of the People's Republic of China on the 2022 National Economic and Social Development”, retrieved from http://www.stats.gov.cn/english/PressRelease/202302/t20230227_1918979.html, last accessed on April 12, 2023

National Bureau of Statistics of China, China Statistical Yearbook, retrieved from http://www.stats.gov.cn/sj/ndsj/2022/indexeh.htm, last accessed on April 12, 2023

ANNEX 2 – Main economic data

Host country's main economic data

	2021	2022	2023 est.
GDP (USD bn)*	**17'759**	**18'100**	**19'374**
GDP per capita (USD)*	**12'572**	**12'813**	**13'721**
Growth rate (% of GDP)*	**8.5**	**3.0**	**5.2**
Inflation rate (%)*	**0.9**	**1.9**	**2.0**
Unemployment rate (%)*	**4.0**	**4.2**	**4.1**
Fiscal balance (% of GDP)*	**-6.0**	**-7.5**	**-6.9**
Current account balance (% of GDP)*	**1.8**	**2.3**	**1.4**
Total external debt (% of GDP)**	**15.6**	**15.0**	**15.6**
Debt-service ratio (% of exports)**	**40.8**	**n/a**	**n/a**
Reserves (months of imports)**	**17.3**	**n/a**	**n/a**

*Source: IMF (2023), "World Economic Outlook database: April 2023", retrieved from www.imf.org/external/pubs/ft/weo, last accessed on April 12, 2023

**Source: IMF (2023), "2022 Article IV Consultation (February 2023)", retrieved from https://www.imf.org/en/Publications/CR/Issues/2023/02/02/Peoples-Republic-of-China-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-529067 , last accessed on April 12, 2023

ANNEX 3 – Trade partners

Trade partners of the host country   Year: 2022

Rank	Country	Exports *from the host country* (USD million)	Share	Change	Rank	Country	Imports *to the host country* (USD million)	Share	Change
1	United States	581’782.8	16.2%	1.2%	1	Taiwan, China	238’091.7	8.8%	-4.6%
2	Hong Kong, China	297’538.5	8.3%	-15.0%	2	Korea, Rep.	199’667.1	7.4%	-6.5%
3	Japan	172’927.4	4.8%	4.4%	3	Japan	184’497.0	6.8%	-10.2%
4	Korea, Rep.	162’621.4	4.5%	9.5%	4	United States	177’644.4	6.5%	-1.1%
5	Viet Nam	146’959.9	4.1%	6.8%	5	Australia	142’091.5	5.2%	-13.1%
6	India	118’501.5	3.3%	21.7%	6	Russian Federation	114’149.0	4.2%	43.4%
7	Netherlands	117’731.0	3.3%	15.1%	7	Germany	111’399.1	4.1%	-7.1%
8	Germany	116’226.6	3.2%	1.0%	8	Malaysia	109’879.0	4.0%	11.8%
9	Malaysia	93’711.3	2.6%	19.7%	9	Brazil	109’522.0	4.0%	-0.4%
10	Taiwan, China	81’586.8	2.3%	4.2%	10	Viet Nam	87’960.6	3.2%	-4.7%
55	*Switzerland*	7’618.5	*0.2%*	*22.2%*	14	*Switzerland*	49’714.0	*1.8%*	*31.2%*
	EU	561’969.9	15.6%	8.6%		EU	488’999.1	18.0%	2.3%
	ASEAN	567’287.1	15.8%	17.7%		ASEAN	408’054.0	15.0%	3.3%
	Total	3’593’601.5	100%	7.0%		Total	2’715’998.8	100%	1.1%

Source(s): GACC (2023), Gross Value of Import and Export by countries for 2022 (USD), retrieved from http://www.customs.gov.cn/customs/302249/zfxxgk/2799825/302274/302277/4185050/index.html, last accessed on April 13, 2023

ANNEX 4 – Bilateral trade

Bilateral trade between Switzerland and the host country

	Export (CHF million)	*Change (%)*	**Import** (CHF million)	*Change (%)*	**Balance** (in million)	**Volume** (in million)
2018	12’180	6.8	14’242	9.6	-2’063	26’422
2019	13’392	10	14’894	4.6	-1’502	28’286
2020	14’734	10	16’096	8.1	-1’361	30’830
2021	15’573	5.7	17’948	11.5	-2’375	33’521
2022 *(Total 1)**	**15’905**	**2.1**	**20’376**	**13.5**	**-4’470**	**36’281**
2023 (1st quarter)**	**3’913**	**-3.7**	**4’792**	**-4.0**	**-878**	**8’705**

*) ‘Economic’ total (total 1): not including gold bars and other precious metals, currencies, previous stones and gems, works of art and antiques

**) Change (%) from the previous year

Exports	**2021** (% of total)	**2022** (% of total)	**Change (%)**
1. Chemicals, pharmaceuticals	37.3	41.0	12.5
2. Precision instruments, watches, jewellery	36.3	32.3	-9.0
3. Machines, appliances, electronics	17.2	17.6	4.9
4. Metals	4.3	4.8	12.9
5. Leather, rubber, plastics	1.1	1.0	-6.7
6. Forestry and agricultural products, fisheries	1.3	1.0	-10.1
7. Textiles, clothing, shoes	1.2	0.9	-19.2
8. Vehicles	0.6	0.4	-10.1
9. Stones and earth materials	0.5	0.4	-29.0
10. Paper, printing industry	0.2	0.2	2.5
11. Various goods, musical instruments, etc.	0.2	0.2	-25.8
12. Energy source	0.1	0.0	16.6

Imports	**2021** (% of total)	**2022** (% of total)	**Change (%)**
1. Machines, appliances, electronics	39.9	41.5	18.1
2. Textiles, clothing, shoes	18.0	15.4	-3.3
3. Chemicals, pharmaceuticals	9.4	10.8	31.1
4. Precision instruments, watches, jewellery	9.8	8.2	-4.6
5. Various goods, musical instruments, etc.	7.9	7.0	1.6
6. Metals	5.0	5.9	33.9
7. Vehicles	3.0	4.1	56.3
8. Leather, rubber, plastics	4.0	4.0	14.8
9. Forestry and agricultural products, fisheries	1.2	1.2	17.0
10. Stones and earth materials	1.0	1.0	8.5
11. Paper, printing industry	0.7	0.8	15.6
12. Energy source	0.1	0.0	-68.7

Source(s): Federal Office for Customs and Border Security

ANNEX 5 – Main investing countries

Main investing countries in the host country **Year: 2021**

Rank (by inflow)	**Country**	**Direct investment** (USD, stock)	**Share**	**Variation** (stock)	**Inflows over past year** (USD bn)
1	Hong Kong, China	1’433.1	54.7%	+10.1%	131.8
2	Singapore	120.8	4.6%	+9.3%	10.3
3	British Virgin Islands	180.1	6.9%	+3.0%	5.3
4	Korea, Rep.	90.2	3.4%	+4.6%	4.0
5	Japan	123.0	4.7%	+3.3%	3.9
6	United States	92.7	3.5%	+2.8%	2.5
7	Cayman Islands	49.4	1.9%	+5.3%	2.5
8	Macao, China	21.7	0.8%	+11.3%	2.2
9	Germany	38.1	1.5%	+4.7%	1.7
10	Untied Kingdom	27.6	1.1%	+4.5%	1.2
	EU	121.5	4.6%	+4.4%	5.1
14	*Switzerland*	*9.6*	*0.4%*	*+7.9%*	*0.7*
	Total	2’620.8	100%	+7.4%	181.0

Source(s): Ministry of Commerce of the People's Republic of China (2023), “Statistical Bulletin of FDI in China (2022)”, retrieved from http://images.mofcom.gov.cn/wzs/202211/20221102151438905.pdf, last accessed on April 13, 2023