

MINISTRY OF THE ECONOMY AND FOREIGN TRADE & THE LUXEMBOURG

State Visit to the People's Republic of China, 4th – 9th of September 2006

About 100 business people participated in the economic mission to Beijing and Shanghai, organized within the framework of the State Visit to China. The Luxembourg Chamber of Commerce offered a special programme both for manufacturing and financial companies. In all, 35 firms from various sectors were on the lookout for new business opportunities. The Macro Euro-China Entrepreneurs Club (MECEC) under the leadership of its Executive Director Mr Lu Dong was hired to arrange the business meetings for the Luxembourg Partnership. In Beijing and Shanghai a total of 160 bilateral business meetings took place, with some Luxembourg companies succeeding in concluding new contacts on the spot: Villeroy & Boch received a large order for tableware from the Meridien Hotel in Beijing; Domaines Vinsmoselle will sell between 500,000 and one million bottles of Moselle wine to China and the Bofferding Brewery will sell large quantities of beer to a well-known chain of restaurants King Mang. In the industrial city of Langfang, 50 km north of Beijing, in the presence of HRH the Grand Duke, IEE officially opened a new production site to manufacture sensors for the Chinese automotive market.

Economy information

Information sessions about China and its economy were also a part of the mission programme. "What will the Chinese economy look like 10 years down the road" was the topic of a breakfast seminar organized by the Luxembourg Chamber of Commerce in close cooperation with the EU Chamber of Commerce in China (EUCCC). Trade ties between China and Luxembourg will grow further in the years to come, necessitating a strategic alliance in the form of a cooperation agreement between the Luxembourg Chamber and the China Council for the Promotion of International Trade (CCPIT). Established in 1932 CCPIT represents all sectors of the economy and is the most important and largest institution of foreign trade in China.

The programme for the financial delegation started on 4th September with a breakfast briefing featuring Mr Janssens de Varebeke, President of the European Chamber of Commerce in China and Chief Representative of Fortis, who presented the latest developments in the Chinese financial sector. Banks dominate, with 54% of total assets of all financial institutions, the ratio of bank assets to stock market capitalization plus bonds outstanding is more than 300% and the Shanghai World Financial Centre opens in 2008.



Financial system overview

The banking system comprises: **four** state-owned commercial banks with combined assets representing 69.5 % of the **total**; 13 joint-stock commercial banks; 112 city commercial banks; 8 rural commercial banks and 30,000 credit cooperatives. Regulation is from the People's Bank of China (monetary policy) and the China Banking Regulatory Commission (supervision and regulation). Numerous restrictions are imposed on products and services for both domestic and foreign banks and although recent reforms have been liberalised somewhat, the banking and financial sector does not yet meet the needs of a market economy. Main problems are related to non-performing loans, underdeveloped capital markets, weak regulatory frameworks, weak intermediation services, etc...

On 11th December 2006 the transitional period for accession of China to the WTO will end and the banking market will open up to foreign banks, helping restructuring through massive capital injections and IPOs. The European Chamber of Commerce has good reasons to believe that the China Banking Regulation

Commission will reduce the high capital requirements for foreign bank branches by the end of the year, but the access conditions for partnerships will become more stringent.

Bank of China

There was also a visit to the Bank of China HQ. Founded in 1912, in 1994 it was converted into a wholly state-owned commercial bank which together with the other three wholly state-owned commercial banks constitutes the main pillars of the country's financial industry.

It is the most internationalised commercial bank in the country and established in 1979 and 1991, both Bank of China Luxembourg Branch and Bank of China (Luxembourg) S.A. (37 employees) have been serving Chinese individuals and institutions in Europe. In fact, Bank of China's Luxembourg branch was the first established abroad after the foundation of the People's Republic. The SA was established to entitle it to a European passport to business in all the EU member countries.



CHAMBER OF COMMERCE PROMOTING TRADE

Luxembourg economy explained

On 5th September, a seminar, entitled "Your privileged partner in Europe" took place at the Kerry Centre Hotel in Beijing. After the opening remarks of HE Mr Jean Asselborn, Deputy Prime Minister, Minister for Foreign Affairs, Mr Pierre Gramegna, Director of the Luxembourg Chamber of Commerce presented an overview of the Luxembourg economy. The Chairman of Profil (Luxembourg Financial Industry Federation), Mr Michel Maquil pointed out the advantages of the Luxembourg financial centre as a gateway to the European financial markets. The audience of more than 100 guests also listened to a panel discussion on the growth in the Luxembourg and European fund industry, led by Mr Robert Hoffmann, Director General of the Association of the Luxembourg Fund Industry. The following day, the Luxembourg delegation met representatives of the China Securities Regulatory Commission, the State Administration of Foreign Exchange and the China Banking Regulatory Commission.



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On 7th September, a breakfast briefing, organized by the Consul General of the Grand Duchy in Shanghai, Mr Pierre Ferring, and the Benelux Chamber of Commerce in China, aimed raise awareness of Chinese business practices. In particular, the current situation of foreign banks operating in China was presented by Mr Marcus Wassmuth in the light of a new position paper by the European Union Chamber of Commerce in China. Then followed a visit to the Shanghai Stock Exchange. Created in November 1990, it now has the largest trading floor in the world.

From a structural point of view, the Stock Exchange of Shanghai currently faces some challenges. Most of the capital is in the hands of the state and rules are unclear, limiting liquidity and transaction volumes. Also, most trades are made by small carriers with institutions playing a lesser role than is usual. Many of the best-known Chinese companies such as China Mobile and PetroChina are only listed on the Hong Kong market. The principal index the Composite SSI Index, started in 1990 at 96,05 points and is today around 1,650, but performance in the last five years has been poor.

Bourse understanding

Considering bilateral Chinese-Luxembourg relations, a Memorandum of Understanding was signed between the Luxembourg Stock Exchange and the Shanghai Stock Exchange on Friday 8th September in the Marriott Hotel in Shanghai. In this context, reference was made especially to reinforced co-operation in the field of bond management, a field in which the Stock Exchange of Shanghai could only learn from the professionalism and know-how of the Luxembourg Stock Exchange. The Bourse will aim to promote the listings of Chinese companies in Luxembourg. Finally the programme of the financial delegation ended with the financial seminar and a buffet-reception in the presence of His Royal Highness The Grand Duke.

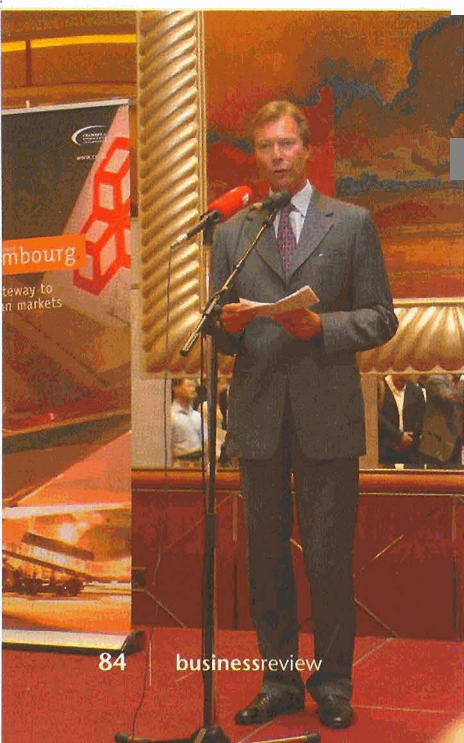
The European Union Chamber of Commerce in China

The European Union Chamber of Commerce in China is the voice of European Business in China. It was formed in October 2000 by 51 founding members, with the support of the Delegation of the European Commission in Beijing. Today the European Chamber is proud to represent over 1,000 European businesses, from leading European multinationals to SMEs, in seven cities across China.

The Chamber is built around 25 industry-specific related Working Groups and 6 horizontal Working Groups such as Corporate Social Responsibility, Intellectual Property Rights or Human Resources. The Working Groups which bring together senior executives across every sector for strategic discussion ranging from market access to the evolution of the business environment in China. The Chamber actively focuses on conveying the operational business concerns of European companies to policy makers through dialogue.

A specific working group, representing more than 20 leading European financial institutions, recently worked out recommendations which were transmitted to the financial authorities of China, in order to accelerate the future development of this sector and to facilitate the activities of European financial institutes in China.

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