

Introduction

According to a recent World Bank report, HK's governance has improved since 2002. This contradicts many assessments by insiders. HK emerges as the world leader in regulatory quality thanks largely to its free economy and low tax regime. It also fares particularly well in corruption control. The campaign for the election of the new chief executive has just begun.

Domestic politics

Growing predictability of chief executive's election: Donald Tsang, the favourite of Beijing, resigned as acting chief to run for the top HK post and Henry Tang took over as acting chief executive. He endorsed Tsang's candidacy who also received support from many business and political leaders. Earlier lawmakers amended the election law with a 33-21 vote. It was a last step in resolving a legal battle around the chief executive's term. There are two other candidates: Lee Wing-tat, the chief of the Democratic Party, and Chim Pui-chung, a veteran lawmaker known as the "angry man from Chiu Chow" who said he was motivated by a desire to avoid an uncontested election. The candidate from the Democratic Party will campaign with a platform including the defence of HK's autonomy, the introduction of universal suffrage by 2007, a strong lobbying effort for the city's interests in Beijing and the maintenance of low tax and competitiveness. Some observers say that the main danger to Donald Tsang could come from Beijing loyalists who are numerous in the Election Committee. They feel shabbily treated by the central government and are obsessed by the vision of a former colonial officer, whom they accuse of opportunism, being handed the top job in what is supposed to be the new post-colonial era.

Direct elections not so important says HSBC outgoing CEO: For him HK needs forceful leadership rather than an elected chief executive to secure its future. He added that a very facilitative civil service that got things done has lately been partly eroded. Topping the policy agenda should be the maintenance of HK's status as an international financial centre which on the short term is secure because Shanghai would remain focused on the challenge of managing China's own growth.

Officials escape blame for Legco's poll chaos: the special panel report on last September LEGCO elections weaknesses listed a catalogue of mistakes which can be avoided: lack of training, flawed design of ballot paper and boxes leading to chaos. However it stressed that there was no fundamental or major problem in the existing electoral system and procedure

Is HK still dying? The answer of an editorial published in the Wall Street Journal is that the central issue of HK's future remains the unreformed nature of the dictatorship in China, a dictatorship that has changed very little in the past decade and which has spawned a web of attempts to stamp HK's miracle out of existence.

World Bank assessment: According to a World Bank study HK is better governed than three years ago, but has a long way to go to match many western democracies. The city scored higher marks for accountability, effectiveness of government and anti-corruption efforts last year than in 2002. Its ratings on three other governance-related indicators - political stability, the quality of regulation and rule of law - were also up, according to the survey of 209 states and territories. An observer warned against complacency and said that the rule of law had been damaged by Beijing's decision last year to rule out early universal suffrage.

PLA could be called in for WTO meeting: The Chinese armed forces role would be confined to electronic surveillance of airspace if Wanchai is declared a no-fly zone. Stating that it has become commonplace to secure the airspace directly above high-profile international meetings, the article mentioned that "During the World Economic Forum in Davos in January, the Swiss authorities strictly regulated helicopter traffic ferrying dignitaries, and civil aircraft were allowed in and out of the "exclusion zone" subject to identification".

Low turnout for demonstrations: Only a few thousands marked May Day with calls to protect workers by legislating on minimum wages and maximum work hours. A 44 hours per week was proposed by Democrats. The turnout for the annual march commemorating the 1989 Tiananmen massacre hit a new low with only 1400 people joining the protest. The July 1st mass rally will be used by the democratic camp

to hold a mock referendum on public support for electing the chief executive and the legislature by universal suffrage.

International affairs

WHA: In his first visit to Europe, the Secretary for Health, Welfare and Food, Dr York Chow, attended the World Health Organisation's 58th World Health Assembly (WHA) in Geneva. He participated as a member of the Chinese delegation.

Surrender of Fugitive Offenders: HK and the Republic of Finland, signed a bilateral agreement concerning the surrender of fugitive offenders. The agreement is the 14th bilateral arrangement that HK has signed on the surrender of fugitive offenders. It sets out the conditions for the surrender of fugitive offenders between the two places, and contains safeguards found in similar international agreements.

A HK outsider aids a troubled Manila: Tony Kwok, former head of HK's Independent Commission Against Corruption, has become adviser to the Filipino government on how to combat corruption. His three years assignment is an indication of increasing regional cooperation to fight corruption.

Legco slams "distortion of history" by Japanese: Legco passed a motion condemning the Japanese books which distort historical facts and has appealed to Tokyo to abandon militarism.

Vatican could abandon Taiwan for Beijing: The head of HK's catholic diocese Bishop Joseph Zen said the Vatican is anxious to open talks with Beijing and is ready to give up its ties with Taiwan.

Transborder affairs

Transfer of Sentenced Persons: HK and Macao signed the Arrangement on Transfer of Sentenced Persons (TSP) between the two Special Administrative Regions. HK has a programme to establish a network of bilateral TSP agreements with other jurisdictions. TSP agreements have been signed with the United States, the United Kingdom, Sri Lanka, Italy, Thailand, the Philippines and Portugal.

Hongkongers in mainland detention: There are often complaints about the lack of consular protection for HK citizens arrested in China. The last case is about the correspondent of the Singapore's Straits Times, a HK citizen, who was detained as he was travelling in the mainland. There is confusion occurring about the reasons of his arrest. Some reports say he was collecting secret interviews with Zhao Ziyang, a Communist leader purged for opposing the 1989 Tianamen square massacres. Others state he was spying.

Integration - HK & Guangdong: The Chief Secretary for Administration, Mr D. Tsang, and the Executive Vice-Governor of Guangdong Province, Mr Tang Bingquan, co-chaired the Fifth Working Meeting of the HK/Guangdong Co-operation Joint Conference in HK. They agreed on priority areas for the coming few months: economic and trade co-operation, construction of major infrastructure and co-operation at control points, tourism co-operation, logistics development, co-operation in technology and co-operation in language education.

Pan-PRD co-operation: A team of HK's government visited Yunnan Province to enhance understanding of the province and foster closer working relations and communication between the two governments, with a view to enhancing co-operation in the Pan-Pearl River Delta (PPRD) region. This is the seventh visit made by the HKSAR Government to the PPRD region. The first six visits (to Hainan, Jiangxi, Sichuan, Fujian, Hunan and Guangxi provinces) took place from December 2004 to April 2005. The PPRD region includes nine provinces in the Mainland - Fujian, Jiangxi, Hunan, Guangdong, Guangxi, Hainan, Sichuan, Guizhou and Yunnan - and HK and Macao Special Administrative Regions.

Police clash with workers at HK firm: Some 500 workers at a Guangdong jewellery factory owned by a HK businessman clashed with police during a protest against harsh working conditions, which they claim have left many of them with a disabling lung disease. The workers accused the factory of not providing them protective gear. The factory stopped production in February after more and more workers were found to have the disease. The workers suspect the HK owner was trying to escape his responsibility after they found he had been secretly transferring machinery and equipment to another factory.

Shenzhen on the brink: The Special Economic Zone has expanded so rapidly that it is running out of space and resources. It needs a profound restructuring since energy shortages have become endemic recent years. There is also an increased thirst for water and scarcity of land.

Legal affairs and human rights

Racial harmony plan to go ahead: Bowing to pressure the government will launch a pilot community development project to promote racial harmony targeting initially Nepalese and Pakistani communities. Laws against racial discrimination should be in place by 2006 to outlaw race discrimination. Four years ago the UN called on HK to compete legislation requiring compliance with the International Convention on the

Elimination of all Forms of Racial Discrimination. Shop staffs are considered the most racist, a Home Affairs Bureau study on public attitudes has found.

UN says more work needs to be done on rights law: The UN Committee on Economic, Social and Cultural Rights has called HK to expand its anti-discrimination laws to cover sexual orientation and age and to establish a human rights institution. It also appealed to include new arrivals from the mainland under the proposed anti-racial discrimination law. The committee welcomed raising the age of criminal responsibility to 14, the establishment of the Poverty Commission and the Sexual Minorities Forum as well as the enactment of the Marital Rape Ordinance and the Law on Prevention of Child Pornography but criticised the lack of protection against discrimination and abuse of foreign domestic helpers as well as a clear asylum policy.

Falun Gong victory on right to protest: The Court of Final appeal has unanimously overturned the convictions of 8 Falun Gong members for assaulting and obstructing police in a case that was widely seen as the test of judicial independence and the right of protest in HK. It underscores crucial differences between the treatment of dissidents in HK and the mainland.

Hundreds march for law to protect gays: The march marked the 1st International Day against homophobia.

Economy

Economic situation: The growth momentum of the HK economy continued with GDP growing solidly further by 6.0%. On a seasonally adjusted quarter-to-quarter comparison, GDP expanded for the seventh straight quarter, by 1.5% in real terms in the first quarter of 2005. Externally, merchandise exports grew by a further 8.9% in real terms over a year earlier. Exports of services attained a further notable growth at 8.6% in the first quarter over a year earlier. Private consumption expenditure went up further by 4.6% in real terms in the first quarter over a year earlier. Overall investment spending reverted to a 2.2% increase in real terms in the first quarter of 2005. Not only that investment in machinery, equipment and software resumed positive growth in the quarter, building and construction activities also turned around to a modest increase after nine straight quarters of fall-off. The seasonally adjusted unemployment rate fell to 6.1% in the first quarter and further to a 41-month low of 5.9% in the three months ending April 2005. In the first four months of 2005, the year-on-year increase in the Composite Consumer Price Index was 0.4%.

Trade outlook: It's increasingly overshadowed by a number of risks in the external environment: sustained high crude oil prices, the Mainland economy may settle back due to the government's recent tightening measures to cool down the overheated property market, should the US dollar continue to strengthen it would entail a relative loss in HK's export competitiveness, and actions by the US and the EU to set new curbs on imports of Chinese-made textiles. Overall, the GDP is expected to attain growth of 4.5-5.5% in real terms in 2005. The official forecast of inflation rate for 2005 is 1.5%.

HK's economy ranked the most competitive in Asia and second in the world: only to the US in the annual survey of 60 economies conducted by the International Institute for Management Development (IMD) in Switzerland. According to the director of the survey, HK's scores in the key areas of economic performance, government and business efficiency and infrastructure had all improved. He attributed the city's strong position largely to its ability to ride on China's economic coattails.

CEPA: Visiting London the Secretary for Commerce, Industry and Technology, Mr John Tsang, said that the Mainland and HK Closer Economic Partnership Arrangement (CEPA) is the key to the future economic integration of HK and the Mainland. In response to claims that CEPA does not offer any advantages to the Mainland, he said CEPA was by no means a one-way street. It enables HK to connect the Mainland's nascent services industry with the rest of the world, and acts as a stepping-stone for the Mainland to progress towards its World Trade Organization commitments to liberalise its services sector. Besides, CEPA would help expose Mainland enterprises to international experiences and practices, and improve their corporate management through the engagement of HK professionals. Noting that the Central Government introduced in last August a new initiative to streamline the application process for Mainland enterprises wanting to set up business in HK, Mr Tsang pointed out that in the last four months of 2004 alone, 68 Mainland enterprises were granted approval to invest US\$470 million in HK, nearly half of the total for the whole year. "It seems that Mainland enterprises are finding HK as useful a platform to access world markets as international companies find us to access the Mainland market," Mr Tsang said.

HOFEX, hospitality and tourism: The 11th Asian International Exhibition of Food & Drink, Hotel, Restaurant & Foodservice Equipment, Supplies & Services (HOFEX 2005) attracted over 1800 companies and 30'000 industry buyers from 70 countries and regions. In his opening speech, taking a closer look at the food and hospitality industries in HK, S. Ip, the Secretary for Economic Development and Labour

declared that HK's restaurants and hotels contributed over \$27 billion towards HK's total GDP in 2003. At the end of 2004, restaurants, fast food shops and hotels accounted for over 8% of the city's workforce.

US Dollar peg – introduction of a band: In the biggest overhaul undertaken of the 21-year-old US dollar peg (US\$1 for HK\$7.8), the HK Monetary Authority (HKMA) introduced 3 refinements to the Linked Exchange Rate System on 18 May 2005: a) strong-side convertibility undertaking to buy US dollars at an exchange rate of US\$1 for HK\$7.75, b) weak-side convertibility undertaking to buy US dollars at an exchange rate of US\$1 for HK\$7.85 in five weekly steps by 20 June 2005, c) within the zone defined by the levels of the convertibility zone, the HKMA may choose to conduct market operations aimed at promoting smooth functioning of the Linked Exchange Rate System. The longer term objective of introducing the band was to snuff out speculation on a revaluation of the HK Dollar linked to a possible revaluation of the Yuan. Mr Tang, the Financial Secretary, said that the Government has no plan or intention to change the HK's Linked Exchange Rate System. The IMF welcomed these 3 refinements. The immediate effect was the rise of local interest rate and outflow of "hot money" betting on gains arising from a possible appreciation of the Yuan.

Health

SARS survivors face funding crunch: The HK\$150 million trust fund pool is dwindling, with hundreds of victims still suffering. The nightmare for SARS survivors continues as they worry about the government abandoning them to face impoverished futures in ill health. While all are afraid of losing financial support when their individual limits in the special SARS fund are reached, some are accusing the government of planning to sweep them aside despite their disabilities. SARS first emerged in southern China in late 2002 and struck HK in March the next year. By the end of the outbreak in June 2003, 1'755 people had been infected locally and 351 had died.

Obesity: HK health officials may introduce laws to regulate what food children get in their school lunch boxes amid growing concern over rising childhood obesity levels. It is hoped legislation could be put in place by 2007.

Environment

Air pollution: A co-operation arrangement between Mainland China and the HKSAR on tackling air pollution was signed on May 26. Under the co-operation arrangement, staff from the two sides will engage in regular exchanges of knowledge, views and experience in air pollution control. Joint studies will be commissioned on policies and technologies for tackling air pollution. The first joint event under the co-operation arrangement will be a workshop on in-use vehicle emission control and vehicle fuels to be held later this year.

Tsang hit over green plan: Environmentalists have attacked the Sustainable Development Council's inaugural report as trivial and vague and called for a more aggressive approach. They have particularly criticized targets in the areas of waste management, renewable energy and urban living space as too conservative and lacking in meaningful action.

Cross harbour swim: The authorities said they hope to revive in 8 years this HK tradition last held in 1978.

Disney will serve shark fin: Angry environmentalists have hit out at the company's "cultural sensitivity" excuse for serving shark's fin soup.

Varia

Olympic body to discuss HK equestrian events: Talks will be held between the International Olympic Committee and the International Equestrian Federation on whether to allow HK to host the equestrian events at the 2008 Games.

Press articles related to Switzerland

Weekend Standard, April 30-May 1, 2005: **High as a Swiss train:** The Glacier Express may be slow but the 250'000 passengers who travel across the roof of Europe on it don't seem to mind.

The Standard, 10 May 2005: **SAR scientists in liver cancer drug breakthrough:** Scientists from the Polytechnic University have created a drug they say can treat liver cancer and prolong a sufferer's life for several months without killing normal cells. The university announced that the drug won two awards at the 33rd International Exhibition of Inventions, New Techniques and Products of Geneva recently.

Government's Press Release, 17 May 2005: **Granting of the transfer of banking licence of Credit Suisse to Credit Suisse First Boston:** The HK Monetary Authority announced today (May 17) that it had

granted the transfer of the banking licence of Credit Suisse to Credit Suisse First Boston under the Banking Ordinance. CSFB changed its name to Credit Suisse immediately following the Merger.

The Standard, 18 May 2005: **Sport – Swiss Idol gets vote as best of the best:** Tennis ace Roger Federer was rewarded for his magnificent 2004 season when he was handed the 2005 Laureus World Sportsman of the Year award in Estoril, Portugal.

The Standard, May 2005, supplement: **Where the industry meets:** BASELWORLD, in the eight days from 31 March to 7 April, once again clearly confirmed its leading position as worldwide event for the watch and jewellery industry.

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