

Press review prepared by the Consulate General of Switzerland in HK

### Economy

**Double-tax pact to cut burden of HK firms:** Beijing and HK sealed an agreement on avoidance of double taxation, which is expected to reduce the tax burden of HK companies doing business and investing on the mainland. Officials also said the agreement would put HK ahead of Macau and Singapore in terms of the low tax rate applied under the scheme. CE Donald Tsang said: "A comprehensive double taxation arrangement with the mainland, together with Ceps (the Closer Economic Partnership Arrangement), will provide added incentives for international investors to enter the mainland market through HK."

**GDP growth slows to 5.2%:** HK's economy grew 5.2% in the second quarter from a year earlier, decelerating sharply from a revised 8% expansion in the first quarter. Government economist Kwok Kwok-chuen said that the moderate growth was expected as external trade weakened.

**HK exports rise 10% but fears of US growth on the horizon:** Total exports rebounded strongly last month to HK\$219.57 billion, up 10.7%, as re-exports and domestic exports recorded healthy double-digit growth. Imports also rose 11.4%, to HK\$224.72 billion. "Export performance in the coming months will hinge on how a number of risk factors play out. They include particularly the run-up of oil prices, a possible slowdown in US economic growth, as well as exchange rate fluctuations," a government spokesman said.

**Luxury goods shunned as retail sales growth eases:** Shoppers flocked to department stores but steered clear of jewellery and valuables as growth in retail sales in June eased slightly to 5.2% year on year at HK\$17.4 billion, the government said. Growth in retail sales for the month was down from May's 5.3% and below a consensus estimate of 6.4%.

**GST would wreck crucial industries, say Liberals:** "If the government is introducing a goods and services tax GST, it will most likely utterly destroy three of the four pillar industries in Hong Kong - tourism, logistics and retailing," the Liberal Party says. Thousands of people from the catering, retail and logistics industries joined a march organised by the Liberal Party to protest against the proposed goods and services tax. On the other hand, Secretary for Financial Services and the Treasury Frederick Ma said GST had been implemented in more than 135 jurisdictions. He cited Australia as an example and said that the country had only experienced initial inflation in the first two years. "We expect that our experience would be similar, producing no marked effect in the short term, while in the long run the effect will be positive," he said.

**Democrats want to work with rivals in opposition to GST plan:** The Democratic Party will seek to join two other parties in the legislature to oppose the introduction of a goods and services tax, in a move to strengthen opposition to the controversial levy proposed by the government. The two other parties, the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) and the Liberal Party, have already voiced their objections to the tax.

**CCB makes history:** HK's benchmark Hang Seng Index HSI turned a new page in its 37-year history with the inclusion of China Construction Bank CCB as its first H-share constituent. CCB's inclusion in the blue-chip index means HSI is becoming more representative of the market, in which mainland firms account for a substantial portion of daily turnover. The trading volume of H shares (foreign shares of Chinese companies which are listed in the HK Stock Exchange) relative to the market as a whole has been increasing.

**Wealth gap seen as threat to stability:** HK's widening wealth gap is raising alarm bells and could become a structural rather than short-term problem with further economic integration with the Pearl River Delta, a government think-tank warns.

### Domestic politics

**Democrats face risk of fading, says veteran:** Once the dominant bloc in the legislature, the Democratic Party now only has nine of the 60 seats, the third largest after the Democratic Alliance for the Betterment and Progress of Hong Kong and the Liberal Party. Martin Lee, the founding chairman of the Democratic Party, conceded that the party was in danger of shrinking further.

**Liberals back direct election for 2012 chief executive poll:** The Liberal Party told CE Donald Tsang that they would support direct election for the chief executive poll in 2012. But the business-affiliated party remained non-committal about a timetable for a fully directly elected Legislative Council.

**Coalition needed to usher in universal suffrage:** Donald Tsang should introduce a ruling coalition to smooth the way for universal suffrage in 2012, the Liberal Party chief James Tien said. He would push the chief executive to lobby the central government for such power-sharing

**Unions join forces in minimum wage drive:** More than 20 labour unions will step up their calls for a minimum wage with a series of actions next month, including a 30-hour hunger strike outside Government House. Other events planned - including a demonstration, a public forum and a city-wide campaign - are all aimed at pressing CE Donald Tsang to address the issue in his next policy address in October.

### Relations HK – China

**Business leaders and academics ready for five-year-plan summit:** Thirty business, academic and community leaders will meet next month to gather ideas on how HK can develop under Beijing's 11th five-year plan. Participants, called by CE Donald Tsang, will also look for ways the city can be a more effective intermediary for China's development. A government source says a key agenda item will be how HK can maintain its role as a financial centre in light of a growing challenge from Shanghai. The city should take a more active role in preparations for the next national blueprint than it did for the current one, said Victor Fung, chairman of the Greater Pearl River Delta Business Council.

### Environment

**HK polluters pay the cost as mainland cracks down:** HK businessmen who own polluting industries in the Pearl River Delta are now paying the price, with up to 20 % of them forced to suspend operations or close down, a manufacturers group has revealed. Peter Leung, director of the HK Economic and Trade Office in Guangdong, said he had received many calls from HK factory owners concerning their difficulties since the mainland enforced stricter pollution controls in July.

**Executives worry about city's bad air:** An alarming 95% of top executives with the American Chamber of Commerce say they are worried about air quality in HK. The chamber survey also found four out of five business leaders know of professionals who are considering leaving HK or have left because of air pollution. "The survey puts objective numbers on the very serious business outcomes that may result if more is not done sooner about cleaning HK's air," chamber chairman Steve Marcopoto said.

**Sulfur dioxide in Guangdong up 87 % since 1997:** Emissions of a key pollutant in Guangdong have increased 86.7 per cent since 1997, the provincial government's environmental reports show. The reports show the release of sulfur dioxide in the province rose from 693 kilotonnes in 1997 to 976 kilotonnes in 2002 and 1,294 kilotonnes last year.

### Transborder affairs

**Joint customs post for bridge scrapped - chief sees progress:** Guangdong and HK have ruled out a unified immigration and customs clearance facility for the proposed bridge linking the city with Zhuhai and Macau. CE Donald Tsang said the bridge could be built once the central government approved it after remaining issues of financing were settled. But no timetable was mentioned.

### Legal affairs and human rights

**Officials try to calm fears over spy laws:** The legislation, required to make covert surveillance and electronic tapping operations constitutional, was passed by the Legislative Council after a walkout by lawmakers who opposed it. CE Donald Tsang dismissed criticism the new laws were flawed and fears that they opened the way for abuses of power by law enforcement agencies. "I believe our system is as good as those among the most democratic jurisdictions in the world. The public can rest assured about that," he said. Lawmakers critical of the legislation vowed to keep a close watch on the appointments and any problems arising from enforcement.

**Falun Gong members sue over arrests:** Fifteen Falun Gong followers arrested during a 2002 protest in Western are seeking more than HK\$1.5 million compensation from the police for alleged unlawful arrest and false imprisonment. A total of 16 followers, including four Swiss nationals, were arrested and jointly charged the next day with one count of obstruction of a public place and another of carrying out an act whereby obstruction may occur.

### International

**Banks sever links with N Korea:** Banks in HK, Macau and several Asian countries are slowly cutting back on contacts with North Korean companies, a top US Treasury Department official said. "There is sort of a voluntary coalition of financial institutions saying that they don't want to handle this business anymore, and that is causing financial isolation for the government of North Korea," Stuart Levey, the treasury's undersecretary for terrorism and financial intelligence said. "They don't want to be the banker for someone who's engaged in crime, as the North Korean government is."

### **Press articles related to Switzerland**

**Big lift for village's tourism hopes:** Train passengers will be able to ride the world's tallest lift, located in the heart of the Alps, after Swiss authorities gave the project a green light last week. The 800-metre lift will link a high mountain valley to a station on the longest rail tunnel in the world, housing a new high-speed train line between Zurich and Milan. The Porta Alpina station and lift project would cost an estimated 50 million Swiss francs (HK\$314 million), the canton of Graubunden said. "This region has great expectations for economic and tourism development," said Arno Lanfranchi, project leader for the authorities in Graubunden. The lift shaft is far taller than the Taipei 101 building in Taiwan, the world's tallest building.

**South China Morning Post (SCMP), 1<sup>st</sup> August:** 6-page supplement of the National Day of Switzerland included an interview with Consul General, general information about Switzerland and Liechtenstein, bilateral trade and investment statistics, promotion of cultural exchanges and editorial reports on food, travel, finance and watch making.

**Hong Kong Commercial Daily (Chinese press), 1<sup>st</sup> August:** Supplement of the National Day of Switzerland included an interview with Consul General, bilateral trade and investment statistics, promotion of cultural exchanges and Swiss hi-tech and general information about geography, economy and tourism in Switzerland.

**Takungpao (Chinese press), 1<sup>st</sup> August:** Supplement of the National Day of Switzerland included an interview with Consul General, review on excellent relation and development between Switzerland and China, areas where Switzerland and HK could co-operate to develop the market in mainland, bilateral trade and investment statistics, promotion of cultural exchanges and Swiss technology and general information on tourism and hotel schools in Switzerland.

**HK Economic Journal (Chinese press), 9<sup>th</sup> August:** Although there are different measures to fight against drug addiction in Europe, drug addicts are increasing in numbers over there except in Switzerland. Switzerland adopted extraordinary and integrated measures 10 years ago and it bears fruit now. The Swiss government believes that their anti-drug strategy makes people feel drug addiction is a shameful illness and drug addicts are losers.

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