

## Annual economic report: Hong Kong 2005

### 1. Appreciation of the economic problems and issues

**General overview:** The Hong Kong (HK) economy is back in full health, with the **real GDP** rising above trend for more than two years, **up by 8.6% in 2004, 7.3% in 2005 and 8.2% in the opening quarter of 2006**. Consumer spending has posted a solid growth amid stronger consumer sentiment and improving employment prospects. Once reaching almost 9% in 2003, the unemployment rate of HK fell to 5.6% in 2005 and 4.9% in May 2006, the lowest since 2001. Retail sales grew by 6.8% in value in 2005 and another 6.9% in Jan-April 2006. Also, after more than five years of deflation, consumer prices have been gradually edging up along with the solid economic recovery, rising by 1.1% in 2005 and 1.7% in Jan-April 2006. Exports and imports of goods grew by 11.4% to US\$288.5 billion and 10.3% to US\$298.6 billion respectively in 2005. A total of 23.4 million visitors (+7.1%), or 3.4 times the size of local population, came to HK in 2005. Mainland visitors (13.4 million in 2005) now account for more than half of total tourist arrivals.

**Integration with Mainland China:** Chief Executive Donald Tsang mentioned at his Policy Address that HK's strategy was to "leverage the Mainland and engage ourselves globally" and consolidate the role of HK as a key international financial, trading, transportation and information hub of China. According to the HK Trade Development Council, HK is the most important **entrepôt** for Mainland China and about **22% of China's foreign trade is handled via HK. HK is the largest source of overseas direct investment in China** of which the stock of utilized capital flow amounted to US\$260 billion in 2005, accounting for 42% of the national total. The individual visit scheme for Mainland residents to visit HK (first introduced in July 2003) has been extending to 44 cities. **China is HK's second largest source of external investment**. It reached to US\$131 billion (29% of total) in end 2004. HK is a **key offshore capital-raising centre for Chinese enterprises**. Market Capitalisation of China-related Stocks reached US\$458,795 million or 38% of total at the Main Board and US\$1,521 million or 14% of total at the Growth Enterprise Market in end May 2006. Renminbi (RMB) business, approved by the Central Authorities, is expanding in HK. The Mainland and HK Closer Economic Partnership Arrangement (CEPA) I, II and III was signed in 2003-5. Please refer to 2.1.1 for more information. HK also signed the "Pan-Pearl River Delta (PPRD) Regional Cooperation Framework Agreement" in 2004. Please refer to 2.1.2 for more information. For the first time, **the central government has included HK in its latest Five-Year Economic Plan which underlined that HK should focus on developing its finance, logistics, tourism and services industries in the next five years**.

**Competitive Policy:** HK has long been recognised as the world's freest economy. However, as HK enterprises grow in strength, coupled with an increased presence of multinational companies, there are fears that these forces are capable of cornering the market. An introduction of a Statement on Competitive Policy in May 1998 has then seen more open and competitive telecom market whereas there is not much improvement in other sector-specific competition policies. The HK Government recently established an independent Competition Policy Review Committee to review the effectiveness of the existing competition policy. The Consulate General of Switzerland will keep an eye on its development or possible legislations if it will facilitate Swiss companies to operate and grow.

**Public Finances:** HK's fiscal account returned to a surplus of US\$ 2.7 billion or 1.6% of GDP for the fiscal year 2004/05, compared with a deficit of US\$ 5.1 billion or 3.3% of GDP for 2003/04 and a weakening position in 1998-2003. For the fiscal year 2005/06, the government forecasts the fiscal account to achieve a surplus of US\$ 0.7 billion or 0.4% of GDP. As HK Government wants to secure a stable source of government revenue (it has been and is still dependable on volatile revenue items such as land premiums which are subject to economic fluctuations), a goods and services tax (GST) is being considered. From making a decision to introduce GST to its actual implementation will take

about three years. Should it be finally implemented, how it would affect consumer sentiments and sales of Swiss consumer goods remains to be seen.

**US Dollar peg:** The Linked Exchange Rate System (HK\$7.8:US\$1) was introduced to stabilize the very volatile economy and financial market on 17 October 1983. Since the HK economy is more and more integrated to the Mainland China, there are some talks and speculations if HK\$ will be linked to the Renminbi (RMB). During the visit of the wpa (Wirtschafts- und währungspolitischer Arbeitskreis) to the HK Monetary Authority (HKMA) in May 2006, the HKMA told the wpa and the Consulate General of Switzerland that they had **no intention to change the existing system**. First and most importantly, the RMB is not fully convertible. Secondly, as HK is an international finance centre and facing the global economy, the USD is the right anchor currency.

## 2. International and regional economic agreements

### 2.1 HK's policy and priorities

HK is a free port which thrives on free trade. Its open door policy has enabled it to become the world's 9th largest trading economy and an international financial and commercial centre serving the Asia-Pacific region and China. The cornerstone of this approach is a strong and credible multilateral trading system. HK is a founding member of the World Trade Organization (WTO) and this testifies to HK's dedication to an open and free multilateral trading system. HK hosted the 6<sup>th</sup> Session of the WTO Ministerial Conference which was joined by a Swiss delegation headed by the Federal Councillor Joseph Deiss in Dec. 2005.

HK became a member of the Asia-Pacific Economic Cooperation (APEC) and the Pacific Economic Cooperation Council (PECC) in 1991. Since April 1994, Hong Kong has been an observer of the Trade Committee of the Organization for Economic Cooperation and Development (OECD).

#### 2.1.1 Closer Economic Partnership Arrangement (CEPA)

CEPA was the first ever regional trade agreement signed between China and HK<sup>1</sup>. Under the three phases of CEPA, China has given **all products of HK origin** (except prohibited articles) **tariff free treatment**, upon applications by local manufacturers and upon the CEPA rules of origin (ROOs) being agreed and met.

Taking the three phases of CEPA together, China has agreed to provide **preferential treatment to HK service suppliers** in 27 service areas<sup>2</sup>. Broadly speaking, the liberalization permits earlier access for HK service suppliers to the Mainland market, ahead of China's WTO timetable. In some sectors, like audiovisual services, transport services and distribution services, the concessions go beyond China's WTO commitments.

Both sides agree on enhancing co-operation in trade and investment facilitation in seven areas<sup>3</sup>.

According to the Trade and Industry Department (TID), since its implementation in Jan. 2004, CEPA had created 30,000 jobs and goods worth US\$ 610 million (about 1.6% of domestic reports between Jan. 2004-April 2006) exporting to the mainland tariff-free. To date, the TID has issued Certificate of Hong Kong Service Suppliers to 971 " Hong Kong companies "<sup>4</sup> to enable them to apply to the Mainland authorities to launch their business on the Mainland. The most popular sectors are logistics and transport, distribution, advertising, construction and management consultancy.

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<sup>1</sup> CEPA I, II, III were signed in 2003, 2004 and 2005 respectively.

<sup>2</sup> It includes accounting, advertising, airport, audiovisual, banking, cultural, convention and exhibition, distribution, freight forwarding agency, individually owned stores, information technology, insurance, job referral agency, job intermediary, legal, logistics, management consulting, medical and dental, patent agency, professional qualification examinations, real estate and construction, storage and warehousing, securities and futures, telecom, tourism, trade mark agency and transport.

<sup>3</sup> It covers trade and investment promotion, customs clearance facilitation, commodity inspection and quarantine, electronic business, transparency in laws and regulations, co-operation of small and medium enterprises and co-operation in Chinese traditional medicine and medical products.

<sup>4</sup> Any company or service provider of any nationality (**including Swiss companies**) can apply as a HK Service Supplier or a Cepa-qualified company if i) it is incorporated in HK ; ii) it has operated for 3-5 years (depending on sectors); iii) it is liable to pay HK profits tax and iv) it employs 50% of its staff locally.

CEPA has been offering new business opportunities in China for HK businesses and service suppliers, enhancing the attractiveness of HK to overseas investors. The zero import tariff preference, including the adoption of more flexible ROOs for watches, has the potential to attract to HK manufacturing of brand name products, or manufacturing process with high-value added content or substantial intellectual property input. The WTO-plus liberalization measures for services trade will give companies in HK a head start over their competitors from other economies.

According to Mr. Raymond Young, director-general of the TID, the preferences under CEPA are still far from being exploited to the full. With the emergence of an increasingly wealthy middle class on the mainland, the demand for quality products with a 'made in Hong Kong' label, such as food, clothing, watches, medical and health products, will increase, and these are all within the scope of CEPA. A local academic added that over the longer term HK should focus on being a service hub for the Pearl River Delta region and avoid ruinous competition with the mainland. With CEPA, HK should pursue long-term win-win deals that clearly provide different roles for HK and the mainland. HK's service sector is more important and HK should focus on value-added services.

More information on CEPA will be available at the website of the TID:  
(<http://www.tid.gov.hk/english/cepa/index.html>)

### 2.1.2 Pan-Pearl River Delta (PPRD) Cooperation

The "Pan-Pearl River Delta (PPRD)<sup>5</sup> Regional Co-operation Framework Agreement" was signed in 2004. The "9+2" (please see footnote 5) governments agreed to strengthen cooperation in 10 areas – infrastructure, investment, business and trade, tourism, agriculture, labour, education and culture, information and technology, environmental protection, and health and prevention of infectious disease.

During the Third PPRD Regional Co-operation and Development Forum in June 2006, according to the HKSAR Government, HK would continue to make use of its strengths in financial services, tourism, logistics, economic and trade and professional services, as well as its international experience and network, to **promote regional development in collaboration with PPRD provinces/regions**. Moreover, HK could serve as **a bridge connecting the PPRD Region with ASEAN countries** in the area of commerce and trade. It can assist ASEAN enterprises to invest in the PPRD Region with its profound experience in interacting with the Mainland. HK can also assist enterprises in the PPRD Region to explore business opportunities in ASEAN countries and provide a platform for their development in ASEAN markets.

## 2.2 Outlook for Switzerland

According to the information in our possession, some Swiss companies in HK take advantage of the CEPA and have been qualified as HK Service Suppliers under CEPA and operating their business in Mainland.

A Swiss company, qualified as HK Service Suppliers under CEPA, mentioned that CEPA as a whole was **useful, positive and beneficial** to their business in China. However, CEPA was an agreement signed between the Central Government and HKSAR Government and its implementation was down to various provinces, municipalities, cities and local authorities. According to their experience, they had to **encounter problems** such as bureaucracy, different legal system, sophisticated tax regime, unpredictable modification and different interpretation of rules and regulations. Also, problems varied in different cities, provinces and etc..

## 3. Foreign trade

### 3.1 Development and general outlook

#### 3.1.1 Trade in goods

According to the HK Trade Development Council (HKTDC), HK is the world's 11th largest trading economy.

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<sup>5</sup> The PPRD region, also known as "9+2", comprises nine provinces/regions including Fujian, Jiangxi, Hunan, Guangdong, Guangxi, Hainan, Sichuan, Guizhou and Yunnan, as well as Hong Kong and Macao Special Administrative Regions.

Total exports of HK posted a remarkable 11.4% gain and reached to US\$288 billion in 2005, with domestic exports and re-exports growing by 8% and 11.7%, respectively. The vibrant export growth was underpinned by Chinese hearty appetite for industrial inputs for export production, notably electronics parts and components due to stronger-than-expected global demand for electronics products, and sustained consumer demand from the US and the EU. HK's trade performance is in part fuelled by outward processing activities in Guangdong where the majority of HK companies have extended their manufacturing base. In 2005, 38% of Hong Kong's total exports to China were related to outward processing activities. HK's major export markets were China (45% of total), the US (16%), Japan (5.3%), Germany (3.2%) and UK (3.1%). Major export products were electrical machinery and apparatus (21%), telecom equipment (15%), office machines and computers (13%), clothing (9.4%), textiles (4.8%) and toys (4.1%).

Imports of HK rose to US\$ 299 billion (+10.3%) in 2005, following a 17% strong increase in 2004. Growth in retained imports has also picked up by 6.5% in 2005. Major supplier countries were China (45% of total imports, increased by 14% year-on-year (yoy)), Japan (11% of total, no variation yoy), Taiwan (7.2% of total, increased by 9% yoy), Singapore (5.8% of total, increased by 22% yoy) and the US (5.1% of total, increased by 7% yoy). Major import products were electrical machinery and apparatus (23%), telecom equipment (13%), office machines and computers (11%), clothing (6.2%) and textiles (4.6%).

**Regulations** : HK is a free port which maintains no tariffs<sup>6</sup> and no regulatory measures impinging on international trade other than those required to discharge international obligations or to protect health, environment and access to hi-technology.

### 3.1.2 Trade in services

Exports of services amounted to US\$ 61.5 billion, grew by 8.4% year-on-year (yoy) in real terms in 2005, following a strong increase of 18% in 2004. Trade-related services (34% of total exports of services, increased by 13% yoy), transportation services (32% of total exports of services, increased by 6% yoy), finance, business and other services (18% of total exports of services, increased by 5% yoy) and travel services (16% of total exports of services, increased by 7% yoy).

In 2004 (latest available information), exports of services by main destinations were China (US\$ 15 billion, 27% of total, 14% growth yoy), the US (US\$ 11.2 billion, 21% of total, 18% growth yoy), Taiwan (US\$ 4 billion, 7.3% of total, 23% growth yoy) and Japan (US\$ 3.9 billion, 7.2% of total, 21% growth yoy).

Import of services amounted to US\$ 32.4 billion, increased by 2.8% yoy in real terms in 2005. Trade-related services (7% of total imports of services, increased by 7.7% yoy), transportation services (29% of total imports of services, increased by 5.4% yoy), travel services (41% of total imports of services, dropped by 0.4% yoy) and finance, business and other services (23% of total imports of services, increased by 3.9% yoy).

In 2004 (latest available information), imports of services by main sources were China (US\$ 8.5 billion, 27% of total, 14% growth yoy), the US (US\$ 4.5 billion, 15% of total, 8% growth yoy), Japan (US\$ 2.7 billion, 9% of total, 35% growth yoy) and the UK (US\$ 2.3 billion, 7% of total, 29% growth yoy).

## 3.2 Bilateral trade

### 3.2.1 Trade in goods

According to the HKTDC, **Switzerland was the 17<sup>th</sup> largest trading partner of HK** in 2005. Switzerland was HK's **13<sup>th</sup> largest supplier** and **22<sup>nd</sup> largest export market**.

According to the Swiss Federal Customs Administration, HK's total exports to Switzerland reached Sfr. 1.4 billion (increased by 71%) in 2005. Major total exports included jewellery & precious metal (62% of total, increased by 123% year-on year yoy, Sfr. 875 million in value), machines (15% of total, increased by 44% yoy, Sfr. 215 million in value), watches and clocks (15% of total, increased by 17%

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<sup>6</sup> There is no tariff on general imports except duty on liquors, tobacco, hydrocarbon oil and methyl alcohol.

yoy, Sfr. 209 million in value) and textiles and garments (2.9% of total, decreased by 27% yoy, Sfr. 41 million in value).

**Swiss exports to HK totalled Sfr. 3.8 billion** (dropped by 5.6%) in 2005. Major Swiss exports included watches and clocks (46% of total, Sfr. 1.77 billion in value), jewellery & precious metal (27% of total, Sfr. 1 billion), machinery (9.6% of total, Sfr. 370 million) and chemical products (6.5% of total, Sfr. 250 million).

HK was the **second largest Swiss export market in Asia** in 2005 (accounted for 2.45% of total Swiss exports), next to Japan. Exports of watches and clocks grew by 7.7% whereas exports of jewellery and precious metal, machines and chemical products decreased by 19.5%, 6.9% and 17.4% respectively.

According to the HKTDC, Swiss exports to HK reached to US\$ 3,668 million in 2005 of which goods worth US\$ 1,381 million (38% of total) were re-exported to other countries and regions and most substantially to China. **Swiss goods worth US\$ 518 million (grew by 0.5% yoy and grew by 19% when compared with 2003) were exported to China via HK in 2005.** Major products were watches (US\$ 110 million), colouring matter (US\$ 33 million), textile machinery (US\$ 33 million), machine tools (US\$ 31 million) and silver and platinum (US\$ 23 million).

On the other hand, HK exports to Switzerland totalled US\$ 1,345 million in 2005 of which US\$ 875 million (grew by 7.8% yoy) were re-exports of China origin. Major products were watches and clocks (US\$ 311 million), textiles and garments (US\$ 145 million), jewellery (US\$ 50 million) and telecom equipment (US\$ 36 million).

The last two years together saw the fastest pace of economic growth (+7.3% in 2005 and +8.6% in 2004) in any two consecutive years since 1988. Economic expansion continued to be largely trade-led while domestic demand also played a role, with consumption well supported by steadily improving employment conditions. **Investments in machinery and equipment continued to increase** by 10.7% in 2005 (+11% in 2004). There are good prospects for **Swiss equipment applicable in textile and clothing industry, electronic industry, toy industry, watch industry, printing industry and telecom industry.** According to the HKTDC, 2005 saw some substantial growth in importing Swiss semi-conductors, electric valves and tubes (US\$ 298 million or +32% yoy), telecom equipment (US\$ 80 million or +82% yoy), textile machinery (US\$ 50 million or +9% yoy) and electrical apparatus (US\$ 35 million or +52% yoy).

As far as consumer goods and luxury items are concerned, all renowned brands from all over the world are well presented here. Swiss products, such as **watches, jewellery, clothing, footwear, leather goods and skin care products**, enjoy excellent reputation in the market. **They are not only appealing to local consumers, but also winning popularity among tourists**, in particular from Mainland China (tourists from Mainland China reached 12.5 million or 54% in 2005). HK is a window of the world to visiting Mainland tourists who have high consuming power.

As mentioned earlier, Swiss products worth US\$ 518 million were exported to China via HK in 2005. In this regard, **Swiss exporters and manufacturers can make use of HK as a known entrepôt and trade hub** (which has a huge cluster of traders who are experienced in the market of Mainland China) **to do business with China.**

**Fighting pollution** has moved up to the policy agenda of the Chief Executive of the HKSAR Government. Air pollution is costing HK over 1,600 lives and loss (including intangible costs) of US\$ 2.6 billion a year, according to a major survey. It is a complicated and regional issue. There are emissions from transport and power sector (polluting coal-fired plants) in HK. The air quality has been deteriorating in line with the prospering economic and industrial development in the Pearl River Delta PRD. There are a lot of polluting coal-fired plants and some factories even produce their own high polluting electricity in the PRD region. Any improvement certainly requires better collaboration between HK and Guangdong. Business-wise, Swiss environmental technology and in particular **emission reduction equipment and technology** has good potential not only in the HK market, but also in the Pearl River Delta.

### 3.2.2 Trade in services

According to the Census and Statistics Department (CSD), HKSAR Government, in 2004 (latest available information), HK's exports of services to Switzerland amounted to US\$ 604 million (+40% year-on-year yoy, 1.1% of total). Switzerland ranked 14<sup>th</sup> largest market for HK's exports of services. It consisted of transportation (US\$ 199 million), travel (US\$ 20 million), insurance services (US\$ 3.6 million), financial services (US\$ 90 million), merchanting and other trade-related services (US\$ 173 million) and other services (US\$ 118 million).

**HK's imports of services from Switzerland reached to US\$ 255 million** (+18% yoy, 0.8% of total) in 2004. **Switzerland** ranked **17<sup>th</sup> largest supplier** for HK's imports of services. It consisted of transportation (US\$ 42 million), travel (US\$ 55 million), insurance services (US\$ 37 million), financial services (US\$ 9.6 million), merchanting and other trade-related services (US\$ 0.4 million) and other services (US\$ 111 million). There was noticeable growth in transportation (+36% yoy), travel (+59% yoy) and insurance services (+13% yoy).

Since service industries are so predominant in the local economy and HK wants to position itself as a trade, logistic and tourist hub and an international financial centre as well as a service centre and funding centre for Mainland China in particular, **the prospects of Swiss exports of services to HK** such as banking, finance, insurance, logistics, tourism-related industries, business services and trading are **promising**.

## 4. Direct Investments

### 4.1 Development and general outlook

According to the CSD, at the end of 2004, the stock of HK's inward direct investments was up by 19% to US\$ 452 billion. Major investor countries were British Virgin Islands BVI (US\$ 132 billion or 29% of total, grew by 10% yoy), China (US\$ 131 billion or 29% of total, grew by 33% yoy), the Netherlands (US\$ 39 billion or 8.6% of total, grew by 19% yoy), Bermuda (US\$ 35 billion or 7.7% of total, grew by 7% yoy) and the US (US\$ 31 billion, 6.9% of total, grew by 29% yoy).

The ratio of inward and outward direct investments were 273% and 243% of GDP respectively in 2004. It reflected HK as a highly externally oriented economy and an important business centre in the region with substantial cross-boundary investment. The highly ranked BVI and Bermuda reflected a common practice of HK and foreign enterprises in setting up non-operating companies in these offshore financial centres (known as tax haven economies) for channelling direct investment funds back to HK.

China featured highly both as a destination for HK's outward direct investment (US\$ 155 billion or 39% of total, 2<sup>nd</sup> ranked after BVI) and as a source of HK's inward direct investment (US\$ 131 billion or 29% of total, 2<sup>nd</sup> ranked after BVI). The substantial cross-boundary investment between China and HK reflected the close economic links between the two places.

According to the International Monetary Fund (IMF), inward portfolio investments to HK reached US\$ 401 billion in 2004. Major investor countries were the UK (65 billion or 16% of total, grew by 33% yoy), the US (US\$ 60 billion or 15% of total, grew by 28% yoy), Cayman Islands (US\$ 47 billion or 12% of total, grew by 23% yoy), Bermuda (US\$ 47 billion or 12% of total, grew by 29% yoy) and Australia (US\$ 31 billion or 7.8% of total, grew by 21% yoy).

**There is no restriction on inward and outward investments nor nationality restrictions on corporate or sectorial ownership.**

### 4.2 Bilateral investment flows

The foreign direct investment statistics (FDI) have been enhanced in coverage in accordance with international standards and practices from reference year 1998. Comparable FDI statistics prior to 1998 are therefore not available.

According to the CSD, **Swiss direct investments in HK** have seen **increasing** in these few years : US\$ 1.8 billion (ranked 12<sup>th</sup>) in 1998, US\$ 2.7 billion (ranked 10<sup>th</sup>) in 1999, US\$ 2.5 billion (ranked 13<sup>th</sup>) in 2000, US\$ 2 billion (ranked 14<sup>th</sup>) in 2001, US\$ 2.4 billion (ranked 14<sup>th</sup>) in 2002 and US\$ 2.7 billion (ranked 11<sup>th</sup>) in 2003 and **US\$ 3.6 billion (ranked 11<sup>th</sup>) in 2004**.

Owing to confidentiality, the CSD is not in a position to disclose the sectors of Swiss direct investments.

At present, there are about 165 companies with Swiss interests in HK. They are classified in various sectors : banking, chemicals & pharmaceuticals, consultants, electronics, foodstuffs, freight forwarding, inspection, insurance, machinery / engineering, textiles & garments, watches / jewellery and trading houses, etc..

As at 1 June 2005, **38 Swiss companies** (39 Swiss companies in 2004) set up their **regional headquarters** whereas **73 Swiss companies** (70 Swiss companies in 2004) set up their **regional offices** in HK.

According to the CSD, **the outward direct investments from HK to Switzerland for 2002, 2003 and 2004 were US\$ 1.49 billion (ranked 14<sup>th</sup>), US\$ 780 million (ranked 17<sup>th</sup>) and US\$ 564 million (ranked 18<sup>th</sup>) respectively.**

The CSD is not in a position to disclose the sectors of outward direct investments from HK to Switzerland due to confidentiality. The corresponding statistics for 1998 to 2001 are not released because of insignificant value.

## **5. Trade, economic and tourist promotion**

### **5.1 Foreign economic promotion instruments**

The Consulate General of Switzerland, the Swiss Chamber of Commerce in HK, Switzerland Tourism and the Federation Horlogère are in charge of promoting Swiss economic interests in HK. There were two promotion campaigns “ **Switzerland Greets Hong Kong** ” and “ **Switzerland greets Macao** ” which took place in October 2004-March 2005 and November 2005 respectively.

Between October 2004 and March 2005, the Consulate General of Switzerland in co-operation with many Swiss - including the instrumental and strong support of Présence Suisse - and local institutions presented a series of some forty events of commercial, economic, cultural, academic and scientific nature under the motto “ Switzerland greets Hong Kong ”. It aimed at showcasing HK some of the core values which define Swissness, such as quality, innovation and well being. Please see our annual economic report 2004 for more information.

Switzerland and Macao signed an agreement on the mutual abolition of visa requirements and on the readmission of persons with unauthorized stays in October 2005. The Consulate General of Switzerland, with support from Présence Suisse, took this good opportunity to launch our promotion campaign “ Switzerland greets Macao ” showcasing a unique combination of precision, reliability, tradition, innovation and well-being through a series of cultural, educational, tourism-related and business events. Partners and sponsors included Switzerland Tourism, the Swiss Chamber of Commerce in HK, a few Swiss companies and authorities and organizations in Macao.

Programmes to **promote Swiss economic interests** included a seminar “ Switzerland, a Centre of Excellence in Global Banking “, presentations about Swiss tourism and promotion of Swiss wines, food and chocolate. Notably interesting, the Consulate General of Switzerland and the Swiss Chamber of Commerce in HK, with the support of the Macao Trade and Investment Promotion Institute, led a delegation of Swiss companies in HK to visit Macao for partners matching in the sector of hotel industry and hotel supplies which has been very flourishing there. Consul General Mr. François Barras gave a presentation about Swissness to the Macao business community. While Swiss participating companies were pleased with the result, the Consulate General of Switzerland received a few inquiries about various Swiss products from Macao companies after the event.

The Macao SAR Government described “ **Switzerland greets Macao** ” as **the first ever multi-dimensional promotional events in Macao organised by a foreign consulate**. The whole campaign received **favourable response** from the Macao Government, media, general public and partners (including enterprises and educational institutions) in Macao.

### **The Swiss Chamber of Commerce in Hong Kong**

It is an organization with the mission to provide business platform and networking for Swiss companies and individuals in HK. It has consensus voice of Swiss Business Community's view towards HK and Swiss Government. It acts as an access to Greater China and Asia Pacific Region.

Its membership is open to Swiss companies in HK and companies, individuals and young professionals that have strong ties with Switzerland.

It publishes quarterly issues of "The Bridge" and an annual membership directory. Joining forces as a Swiss business community of Beijing, Guangzhou, Shanghai and Switzerland to meet the challenges of China's rapid economic development.

It jointly organizes luncheons with the Swiss Association of Hong Kong and business chambers with guest speakers to serve as a valuable occasion to exchange information and ideas. Lately it has been enhancing its support to SME's in organizing workshops tailored to their particular needs (Finance Networking Workshop with topics such as Government funding/sponsoring schemes, China Networking Workshop, etc.).

Since a prime business concern of their members lies in the protection of environment, one of its current objectives is to contribute in finding solutions in issues related to environmental matters and particularly to the air pollution in the Pearl River Delta.

The Consulate General has a close co-operation with the Swiss Chamber of Commerce in HK, for example through the participation at Committee meetings, and through industry luncheons and jointly-organised workshops to allow exchange of views between representatives of various business sectors. The Swiss Chamber of Commerce has been our important partners for our promotional campaigns "Switzerland Greets Hong Kong" and "Switzerland Greets Macao".

The Consulate General often refers Swiss companies interested in the HK or the China market to the expertise and advice of its members.

### **Switzerland Tourism**

Switzerland Tourism has been another important partner of the Consulate General in the organisation of both campaigns "Switzerland Greets Hong Kong" and "Switzerland Greets Macao". They organised media trips and after their return, articles from visiting journalists were found in most popular newspapers and magazines. They also organised talks with traveller association, media, universities as well as photo exhibitions and Swiss food festival in HK. Promotional events under "Switzerland greets Macao" included travel talks in tourism institution, Swiss food festival and photo exhibition. All the above activities helped to promote Switzerland in excellent image and top quality branding. The impacts of "Switzerland Greets HK" even extended across the border where "Gruezi Shenzhen" was held in Shenzhen in July 2005.

**Switzerland won the most popular travel destination award** in a survey conducted by a magazine and Airport Express in 2005. When compared with Asian visitors including Mainland China, Taiwan, Japan and Korea, **visitors from HK were for the longest staid the longest time** in Switzerland in 2005.

### **Fédération horlogère**

The Bienne based Federation of the Swiss Watch Industry (FH) is a private, professional and non-profit association aiming to defend the watch industry's interests and contribute to its development. Its HK office has regular contacts with watch importers and manufacturers and represents their interests on various matters. One of its activities is the protection of its members' intellectual property rights in Asia (copies, abuses of "Swiss made", trademark infringements, etc.). Last year, the Hong Kong office carried out more than 11'000 seizures in Asia, seizing and destroying over 1,100,000 fake products. This year, the activities are expanded to Vietnam and India. In Hong Kong and Asia, the Federation also organizes various promotions including exhibitions, buyer's guides, diaries, etc. It also launched a watch collector's club called "The Art of Time Club" as well as a website on the watch industry ([www.fhs.hk](http://www.fhs.hk)).

## **5.2 Interests for Switzerland as a location for tourism, education and other services, potential for development**

To promote their institutions, representatives of Swiss private schools are regularly travelling to HK. A Swiss alumni gathering was held in 2005, after a successful one in 2004. The Consulate General of



Switzerland intends to intensify the promotion of Switzerland as a place for education by fostering **exchanges between universities of Switzerland and HK. An official visit** of Professor Arthur Li, Secretary for Education and Manpower, and its delegation (consisting of heads of universities in HK) **to Switzerland** was realized in April 2006. According to Professor Li, **the visit has been most fruitful and both sides have established useful dialogues with educational institutions and authorities.**

### **5.3 Interests for Switzerland as a location for investment, potential for development**

Switzerland has not yet signed a double tax treaty with HK. According to Location Switzerland: China, such a signing may facilitate HK investments to Switzerland. The Consulate General of Switzerland and the Swiss Chamber of Commerce in HK then organized a workshop to explain what it was about and also let Swiss companies in HK express their concerns and opinions in September 2005. Senior officials from the Inland Revenue Department HK, a European diplomat and tax experts from international firms gave presentations, followed by discussion and questions raised by Swiss companies which in general were rather doubtful about a double tax treaty.

**Johnson Electric**, a HK company and one of the biggest manufacturers of micro motors in the world, **acquired Saia-Burgess** in 2005. There are also some few examples that HK companies have acquired Swiss watchmakers and producers of watch movements as a means to extend marketing and distribution network, and/or to gain access to better technology and designs.

Apart from acquisitions, Switzerland as a location of **research and development centres or international headquarters** may be of interests to a limited number but well-established companies in HK.

### **5.4 Interests for Switzerland as a financial location, potential for development**

A delegation of the Swiss Bankers Association, headed by their CEO, Mr Urs P Roth visited HK to promote Switzerland as a Centre of Excellence in Global Banking. The Consulate General of Switzerland organised their meetings with medias, Swiss banks, the HKSAR Government, the HK Monetary Authority and a member of the Legislative Council representing banking sector of HK. Mr Roth also delivered a speech at a monthly luncheon organised by the Swiss Association of HK and the Swiss Chamber of Commerce in HK.

## **6. Useful internet links**

### **HK Government agencies:**

HKSAR Government Information Centre (<http://www.info.gov.hk/eindex.htm>)

Commerce, Industry & Technology Bureau (<http://www.citb.gov.hk>)

HK Economic and Trade Office, London (which is responsible to promote HK's interest in Switzerland (<http://www.hketolondon.gov.hk>))

Economic Development and Labour Bureau (<http://www.edlb.gov.hk>)

Trade and Industry Department (<http://www.tid.gov.hk>)

Census & Statistics Department (<http://www.info.gov.hk/censtatd>)

Invest HK (<http://www.investhk.gov.hk>)

Customs and Excise Department (<http://www.customs.gov.hk>)

Doing Business in HK (<http://www.business.gov.hk>)

HK Monetary Authority (<http://www.info.gov.hk/hkma>)

Office of the Commissioner of Insurance (<http://www.info.gov.hk/oci>)

Intellectual Property Department (<http://www.info.gov.hk/ipd>)

### **Swiss Government agencies and export promotion bodies**

State Secretariat for Economic Affairs (<http://www.seco.admin.ch/>)

OSEC Business Network Switzerland (<http://www.osec.ch/>)

### **Statutory trade promotion bodies :**

HK Trade Development Council (<http://www.tdctrade.com>)

### **Chambers and Associations:**

Swiss Chamber of Commerce in HK (<http://www.swiss-biz.org>)

Swiss Association of Hong Kong (<http://www.swiss-hk.com>)  
Federation of the Swiss Watch Industry, HK Office (<http://www.theartoftime.com>)  
HK General Chamber of Commerce (<http://www.chamber.org.hk>)  
Federation of HK Industries (<http://www.industryhk.org>)  
Chinese General Chamber of Commerce (<http://www.cgcc.org.hk>)  
Chinese Manufacturers' Association (<http://www.cma.org.hk>)

**Newspapers and press agencies:**

South China Morning Post (<http://www.scmp.com>)  
The Standard (<http://www.thestandard.com.hk>)  
Asian Wall Street Journal (<http://www.awsj.com.hk>)  
Xinhua News Agency (<http://www.chinaview.cn>)

**Trade exhibitions calendar :** (<http://www.tdctrade.com/exh-con>)

**Appendices**

1. Structure of economy
2. Main economic data table
3. " Trade partners " table
4. " Bilateral trade " table
5. Main investing countries table
6. List of main Swiss companies in HK

8 June 2006

**Appendix 1**

**Structure of Economy**

	<b>1999</b>	<b>2004</b>	<b>Variation</b>
<b>Spreading GDP (%)</b>			
Primary Sector	0.1%	0.1%	+/- 0
Secondary Sector	14.5%	9.9%	-32%
Tertiary Sector	85.4%	90%	+5.4%
- Part of Public Services	n.a.*	n.a.*	n.a.*
<b>Spreading Employment</b>			
Primary Sector	0.4%	0.4%	+/- 0
Secondary Sector	17.9%	14%	-22%
Tertiary Sector	81.7%	85.6%	+4.8%
- Part of Public Services	n.a.*	n.a.*	n.a.*

\*n.a. = not available

Source: Census and Statistics Department, HKSAR

## Appendix 2

Représentation suisse à: Hong Kong	
Pays: Hong Kong SAR, China	Date de la dernière mise à jour: 8 June 2006

### Principales données économiques

	2004	2005	2006
<b>PIB</b> (USD mia)	165.6	177.2	185.2-187 <sup>a</sup>
<b>PIB/habitant</b> (USD)	24,100	25,600	26,500- 26,800 <sup>a</sup>
<b>Taux de croissance</b> (% du PIB)	+8.6	+7.3	8.2 <sup>b</sup>
<b>Taux d'inflation</b> (%)	-0.4	+1.1	1.7 <sup>c</sup>
<b>Taux de chômage</b> (%)	6.8	5.6	5.1 <sup>d</sup>
<b>Solde budgétaire</b> (% du PIB)	-3.3	+1.6	+0.4 <sup>a</sup>
<b>Solde des transactions courantes</b> (% du PIB)	9.5	11.4	10.1 <sup>e</sup>
<b>Dette extérieure totale</b> (% du PIB)	1	0.9	unavailable
<b>Service de la dette</b> (% des exportations)	unavailable	unavailable	unavailable
<b>Réserves</b> (mois d'importations)	21	20	unavailable

**Source:** Census and Statistics Department of HKSAR Government, Hong Kong Trade Development Council, IMF

<sup>a</sup> forecast by the HKSAR Government

<sup>b</sup> first quarter of 2006

<sup>c</sup> Jan-April 2006

<sup>d</sup> Feb-April 2006

<sup>e</sup> forecast by IMF

### Appendix 3

Représentation suisse à: Hong Kong	
Pays: Hong Kong SAR, China	Date de la dernière mise à jour: 8 June 2006

### Partenaires économiques 2005

	<b>Pays</b>	<b>Exportations (USD millions) par le pays de résidence</b>	<b>Part (%)</b>	<b>Var.* (%)</b>
1	China	129,816	45	+14
2	USA	46,236	16	+6
3	Japan	15,202	5.3	+10
4	Germany	9,323	3.2	+16
5	UK	8,878	3.1	+5
6	Taiwan	6,465	2.2	+3
7	Korea Rep	6,185	2.1	+10
8	Singapore	5,967	2.1	+7
9	Netherlands	5,467	1.9	+29
10	France	4,063	1.4	+19
	UE	41,934	14.5	+16
22	<b>Suisse</b>	<b>1,345</b>	<b>0.5</b>	<b>+12</b>
	Total	288,484	100	+11

  

	<b>Pays</b>	<b>Importations (USD millions) par le pays de résidence</b>	<b>Part (%)</b>	<b>Var.* (%)</b>
1	China	134,530	45	+14
2	Japan	32,885	11	-
3	Taiwan	21,568	7.2	+9
4	Singapore	17,332	5.8	+22
5	USA	15,289	5.1	+7
6	Korea Rep	13,210	4.4	+3
7	Malaysia	7,327	2.5	+10
8	Thailand	5,956	2	+23
9	Germany	5,263	1.8	+3
10	Philippines	4,907	1.6	+14
	UE	22,661	7.6	+4
13	<b>Suisse</b>	<b>3,668</b>	<b>1.2</b>	<b>+6</b>
	Total	298,650	100	+10

\*Variation par rapport à l'année précédente

## Appendix 4 Relations économiques bilatérales Suisse – Hong Kong

### Accords économiques

- Hong Kong est partie contractante de l'OMC et l'est restée depuis le 1er juillet 1997 (nos relations bilatérales sont donc régies par l'OMC).
- Accord concernant la [promotion et la protection réciproque des investissements](#) du 22.9.1994, entré en vigueur le 22.10.1994.
- Accord relatif aux [services aériens](#) (signé le 26.1.88, entré en vigueur 1.1.93)
- Accord sur la suppression réciproque des [suppression réciproque des visas](#) (+ accord de **réadmission** (entrés en vigueur le 1.5.2000)
- Accord d'entraide judiciaire en matière pénale (signé le 15.3.1999, entré en vigueur le 16.10.2002)<sup>1</sup>.

### Echanges commerciaux

En 2005, Hong Kong (avec 2.45% du total de nos exportations) a représenté en Asie notre 2<sup>ème</sup> partenaire commercial - respectivement 1<sup>er</sup> partenaire si on considère globalement ces chiffres et ceux du commerce avec la Chine - après le Japon (3.75% des exportations suisses). **A noter qu'un courant significatif s'est développé entre la Suisse et la Chine via HK (montres et chimie spécialement)**<sup>2</sup>.

Alors que HK subissait le coup de frein général suite au 11 septembre 2001, nos relations commerciales bilatérales, quant à elles et malgré la morosité caractérisant le climat économique au plan mondial, retrouvaient non seulement un dynamisme réjouissant, mais encore surpassaient les meilleurs résultats engrangés jusque-là. Suite aux impacts du SRAS, l'année 2003 a marqué toutefois un fléchissement dans le courant des échanges, **vite oublié depuis**.

### Evolution des échanges<sup>3</sup>

Année	Exportations (CHF mio)	Variation annuelle	Importations (CHF mio)	Variation annuelle	Solde	Total Imp./Exp.	Variation annuelle
1990	2'265	4.3%	902	-17.3%	1'363	3'166.8	-
1995	2'843	-10.0%	642	-4.3%	2'201	3'485.3	10%
1999	2'912	13.5%	656	-7.0%	2'256	3'568.4	2.4%
2000	3'842	31.9%	895	36.3%	2'947	4'736.1	32.7%
2001	4'039	5.1%	679	-24.1%	3'360	4'718.6	-0.4%
2002	4'479	10.9%	824	21.3%	3'655	5'304.0	12.4%
2003	4'002	-10.7%	648	-21.3%	3'353	4'650.9	-12.3%
2004	4'073	1.8%	822	26.6%	3'251	4'894.2	5.2%
2005 (prov.)	3'846	-5.6 %	1'404	71.0%	2'442	5'251.0	7.3%
2006 (I-III)	1'103.3	42.0%	454.3	81.9%	649.0	1'557.6	-

<sup>1</sup> Premier accord de ce genre entre la Suisse et un pays asiatique

<sup>2</sup> According to the Hong Kong Trade Development Council, Swiss exports to Hong Kong reached US\$ 3,475 million of which US\$ 516 million (15% of total) were re-exported to Mainland China in 2004. On the other hand, Hong Kong exports to Switzerland totalled US\$ 1,198 million in 2004 of which US\$ 812 million (68% of total) were re-exports of Mainland China origin.

<sup>3</sup> Source: Administration fédérales des douanes

## Répartition par produits

Exportations	2004		2005 (chiffres prov.)		
	en % du total	en mio. CHF	en % du total	en mio. CHF.	Var. en % 2005/2004
1. Montres	<b>40.3</b>	1'642	<b>46.0</b>	<b>1'768</b>	+7.7
2. Pierres précieuses, bijouterie	<b>31.5</b>	1'285	<b>26.9<sup>4</sup></b>	<b>1'034</b>	-19.5
3. Machines	<b>9.8</b>	397	<b>9.6</b>	<b>370</b>	-6.9
4. Produits chimiques	<b>7.4</b>	303	<b>6.5</b>	<b>250</b>	-17.4

Sur le plan de l'importance des marchés pour les exportations horlogères suisses, les 3 premiers débouchés sont traditionnellement: les USA, HK et le Japon. Avec FS 1.77 mia (+ 7.7%), le rythme des résultats se ralentit toutefois un peu, après la hausse de +15 % en **2004** et l'excellente édition de Baselworld (après l'épisode SARS 03).

A noter qu'en sens inverse, la Suisse importe pour l'essentiel des boîtes et des bracelets de montres, (produits en grande partie en Chine et transitant par HK) / Valeur totale atteinte en 2002 :243 mio de FS).

Importations	2004		2005 (chiffres prov.)		
	en % du total	en mio. CHF	en % du total	en mio. CHF.	Var. en % 2005/2004
1. Pierres précieuses, bijouterie	<b>47.7</b>	392	<b>62.3<sup>5</sup></b>	<b>875</b>	+123.4
2. Machines	<b>18.2</b>	150	<b>15.3</b>	<b>215</b>	+43.6
3. Horlogerie	<b>21.8</b>	179	<b>14.9</b>	<b>209</b>	+16.8
4. Textiles et vêtements	<b>6.9</b>	56	<b>2.9</b>	<b>41</b>	-26.5

<b><i>Hausse significatives à signaler en 2005 pour les principales catégories de produits échangés<sup>6</sup></i></b>		
<b><i>A l'importation</i></b>		
<i>Catégories</i>	<i>Δ en %</i>	<i>Δ en mio CHF.</i>
Déchets et débris de métaux précieux	353.4	494
Diamants	82.9	215
Machines automatiques de traitement de l'information	49.2	94
Boîtes de montres-bracelets	12.2	90
Montres-bracelets, montres de poche et montres similaires	235.6	23

<sup>4</sup> dont: Platine 11.8 %

<sup>5</sup> dont: diamants 15.3 %

<sup>6</sup> Positions à 4 chiffres selon le tarif douanier suisse

## Appendix 5

Représentation suisse à: Hong Kong	
Pays: Hong Kong SAR, China	Date de la dernière mise à jour: 14 June 2006

### Principaux investisseurs 2004

Rang	Pays	Investissements directs (USD billion) (stock)	Part	Variation (stock)	Variation (USD billion) (flux)
1	British Virgin Islands	132	29%	10%	5.5
2	China	131	29%	33%	3.1
3	Netherlands	39	8.6%	19%	-2.0
4	Bermuda	35	7.7%	7%	2.9
5	USA	31	6.9%	29%	3.4
6	Japan	19	4.2%	4.4%	-0.4
7	Singapore	11	2.4%	49%	1.7
8	UK	9.0	2.0%	45%	1.8
9	Cayman Islands	7.9	1.7%	16%	0.5
10	Canada	3.7	0.8%	46%	0.6
	EU	55	12%	24%	-0.2
11	Switzerland	3.6	0.8%	33%	0.7
	Total	452	100 %	19%	20
Rang	Pays	Investissements de portefeuille (USD billion) (stock)	Part	Variation (stock)	Variation (USD) (flux)
1	UK	64.6	16%	33%	unavailable
2	USA	59.6	15%	28%	unavailable
3	Cayman Islands	47.4	12%	23%	unavailable
4	Bermuda	47.1	12%	29%	unavailable
5	Australia	31.1	7.8%	21%	unavailable
6	China	28.1	7%	43%	unavailable
7	Luxembourg	13.7	3.4%	27%	unavailable
8	Germany	11.2	2.8%	7.7%	unavailable
9	Republic of Korea	11.1	2.8%	11%	unavailable
10	Japan	10	2.5%	-3.8%	unavailable
	EU	unavailable	unavailable	unavailable	unavailable
	Switzerland	1.5	0.4%	66%	unavailable
	Total	401	100%	20%	unavailable

Source(s) : Census & Statistics Department, HKSAR  
 IMF



## Appendix 6

### List of main Swiss companies in HK

Swiss companies	Address
<b>Banking/Finance</b>	
UBS AG	52/F, Two International Finance Centre, 8, Finance St., Central, Hong Kong
Credit Suisse	23/F, Three Exchange Square, 8, Connaught Place, Central, Hong Kong
<b>Chemical/Pharmaceutical</b>	
Novartis Pharmaceuticals (HK) Ltd.	Room 3703 Windsor House, 311, Gloucester Road, Causeway Bay, Hong Kong
Roche Hong Kong Limited	32/F, Dah Sing Financial Centre, 108, Gloucester Road, Wanchai, Hong Kong
Zuellig Pharma Ltd.	Rm. 608, Devon House, Taikoo Place Quarry Bay, Hong Kong
Clariant (China) Ltd.	5/F, Sandoz Centre, 178-182, Texaco Road, Tsuen Wan, NT, Hong Kong
Sika Hongkong Ltd.	1507-12, 15/F, Block A, New Trade Plaza, STTL 372, On Ping St., Statin, NT, Hong Kong
<b>Logistics/Travel</b>	
Panalpina China Ltd.	Top Floor, Asia Terminals, Centre B, Berth 3, Kwai Chung Container Terminal, Kwai Chung, Hong Kong
Kuoni Travel Ltd.	3307-09, 33/F, Tower 1, The Gateway, Harbour City, 25, Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong
Swiss International Air Lines	10/F, Guangdong Investment Tower, 148, Connaught Road Central, Hong Kong
<b>Insurance</b>	
Swiss Reinsurance Co.	61/F, Central Plaza, 18, Harbour Road, Wanchai, Hong Kong
Zurich Life Insurance Co Ltd.	Levels 15-17, CityPlaza 3, 14 Taikoo Wan Road, Quarry Bay, Hong Kong
Winterthur Life Hong Kong Branch	33/F, Central Plaza, 18, Harbour Road, Wanchai, Hong Kong
<b>Machinery</b>	
ABB (Hong Kong) Ltd.	No. 3, Dai Hei Street, Tai Po Industrial Estate, Tai Po, N.T., Hong Kong
Schindler Lifts (HK) Ltd.	29/F, Devon House, Taikoo Place, 979, King's Road, Quarry Bay, Hong Kong

<b>Trading</b>	
DKSH	23/F, Tower A, Southmark, 11, Yip Hing St., Wong Chuk Hang, Hong Kong
Desco (HK) Ltd.	Suit 1107-11, 11/F, Tower 2, The Gateway, Harbour City, 25, Canton Road, Tsim Sha Tsui, Kowloon
Migros HK Ltd.	22/F, China HK City, Tower 2, 33, Canton Road, Tsim Sha Tsui, Kowloon
<b>Watches/Jewellery</b>	
Rolex (HK) Ltd.	14/F, Jardine House, 1, Connaught Place, Central, Hong Kong
The Swatch Group (Hong Kong) Ltd.	40/F, Manulife Tower, 169, Electric Road, North Point, Hong Kong
Golay Buchel & Co (HK) Ltd.	2203, Tower 1, Admiralty Centre, 18, Harcourt Road, Hong Kong
<b>Various</b>	
Bally Hong Kong Ltd.	17/F, Tower 2, China Hong Kong City, 33, Canton Road, Tsim Sha Tsui, Kowloon
SGS Hong Kong Ltd.	5-8/F, Metropole Square, 2, On Yiu Street, Yiu Lek Yuen, Shatin, NT
Nestle Hong Kong Ltd.	28/F, PCCW Tower, Taikoo Place, 979, King's Road, Quarry Bay, Hong Kong