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Annual economic report: Hong Kong 2006

1. Appreciation of the economic problems and issues

1.1 General overview: Hong Kong has experienced three years of strong economic growth. Real GDP expanded by 8.6% in 2004, 7.5% in 2005 and 6.8% in 2006. Domestic demand has resumed its growth momentum since the start of 2005, and is playing an important role in the current economic upturn. Following a 3.3% growth in 2005, private consumption perked up by 5.1% to reach US$115.7 billion in 2006, on the back of firmer employment prospects, mild increase in real wages and increasing asset prices. The unemployment rate, reaching almost 9% in 2003, fell to 7.9% and 6.8% respectively in 2004 and 2005 and dropped to 5.6% in 2006. The labour market continues to improve and the unemployment rate dropped to 4.3% in Dec. 2006 - Feb. 2007. After more than five years of deflation, consumer prices have been gradually edging up along with the solid economic recovery, rising by 1% in 2005 and 2% in 2006.

As for external factors, total merchandise trade grew by 10.5% to US$ 649 billion whereas total service trade grew by 13% to US$ 97 billion in 2006[1]. A total of 25 million visitors (+8%), or 3.7 times the size of local population, came to HK in 2006. According to the Hong Kong Tourism Board, total expenditure associated to inbound tourism was estimated to reach US$ 15 billion. Mainland visitors, account for 54% of total tourist arrivals, reached 13.6 million.

1.2 Economic integration with Mainland China

Hong Kong's trade with China is to a large extent related to outward processing activities. More than 80% of Hong Kong manufacturers have established production facilities in China. Hong Kong's domestic exports are confined to about 5% of its total exports while re-exports account for about 95% of its total exports. According to the Hong Kong Trade Development Council (HKTDC), Hong Kong is the most important entrepôt for China and about 21% of China's foreign trade is handled via Hong Kong.

On one hand, China is the largest source of external investment in Hong Kong. It reached to US$163 billion (31% of total) in 2005. On the other hand, Hong Kong 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. Hong Kong is a key offshore capital-raising centre for Chinese enterprises. Market capitalisation of China-related stocks reached US$809.7 billion or 48% of total at the Main Board and US$2 billion or 18% of total at the Growth Enterprise Market in 2006. Hong Kong surpassed New York as the second biggest market for Initial Public Offerings (US$ 40 billion), after London in 2006. It was indeed fuelled by listings of mega mainland companies. The Industrial and Commercial Bank of China (ICBC) and the Bank of China together raised a total of US$ 27 billion. The State Council permitted mainland financial institutions to issue Renminbi (RMB) bonds in Hong Kong in January 2007. It is regarded as a significant step to develop Hong Kong as an offshore RMB centre.

Mr. Henry Tang, Financial Secretary of the HKSAR Government, outlined the positioning of Hong Kong as a two-way platform for overseas investors accessing China and rest of the region – and for Chinese companies looking forward regional and global expansion.

The Closer Economic Partnership Arrangement (CEPA) is the first ever regional trade agreement signed between China and Hong Kong. It was signed in 2003 and came into effect since Jan. 2004. It evolves over time and new benefits are introduced in phases. Please refer to 2.2 for more information. Hong Kong also signed the "Pan-Pearl River Delta (PPRD) Regional Cooperation Framework Agreement" in 2004. Please refer to 2.3 for more information.

[1] Variations in % mentioned in this report are on year-on-year basis, unless otherwise stated.

For the first time, the Central Government has included Hong Kong in its latest Five-Year Economic Plan which underlined that Hong Kong should focus on developing its finance, logistics, tourism and services industries in the next five years. In this regard, the four Focus Groups of the Economic Summit on “China's 11th Five-Year Plan and the Development of Hong Kong” were then appointed and formed by Chief Executive Mr. Donald Tsang. These Focus Groups made specific recommendations to enhance competitiveness in the areas of logistics, financial services, trade and business, professional services and tourism. One of the key proposals is a so-called “free-walk scheme to allow mainlanders to invest foreign currency through Hong Kong and to make Hong Kong a testing ground for a full RMB convertibility. Other proposals include an establishment of a high-level mechanism to tackle air pollution, doubling the proportion of non-local university students to 20%, upgrade of air traffic control systems, a pilot Hong Kong-Shenzhen broadband network, exploration to create a medical centre of excellence and etc.. In the meantime, the HKSAR Government is studying these recommendations which may provide a key reference for Hong Kong's strategic development. Nevertheless, implementation of some proposed measures, particularly in the issue of financial services, has to depend on the policies and willingness of the Central Government.

1.3 Public Finances: The financial position of the HKSAR Government has improved notably as a result of strong economic recovery. The HKSAR Government forecasts that the consolidated surplus will reach US$ 7 billion in the fiscal year 2006/07, 10 times higher than the government original estimates. While restoring a fiscal balance is no longer the main focus of fiscal policy, the HKSAR Government is now placing more focus on promoting the economy and employment as well as improving people's livelihood. The HKSAR Government will expedite implementation of major infrastructure projects, which will create about 23,000 jobs in the next financial year.

The HKSAR Government stopped to launch an introduction of a controversial Goods and Services Tax (GST) after encountering many opposition voices. The HKSAR Government will study other options to broaden the tax base as the current revenue depends a lot on volatile income such as land premiums and stamp duty which are subject to economic cycle.

1.4 US Dollar peg: The Linked Exchange Rate System (HK$7.8: US$1) has been introduced to stabilize the very volatile economy and financial market since 17th October 1983. Even though the Hong Kong economy is now more and more integrated to China, the HKSAR Government has reaffirmed its commitment to maintain the dollar peg instead of a peg with RMB. First and most importantly, the RMB is not fully convertible. Secondly, as Hong Kong is an international finance centre and facing the global economy, the USD is the right anchor currency.

1.5 Environmental issue: Hong Kong is facing acute environmental pollution, particularly in respect to air quality. There are two types of air pollution, namely, local pollution caused by vehicles and power plants and regional air pollution in line with the rapid economic and industrial development in the Pearl River Delta PRD. On local front, the HKSAR Government has introduced measures and statutory controls to reduce emissions from the polluting sources. Electricity generation is the biggest source of air pollution and emission caps are imposed on the two power companies in the territory. All coal fired plants built after 1991 are required to have flue gas desulphurisation system and low nitrogen oxide burners. All new power plants approved after 1996 are required to use natural gas. On regional level, the HKSAR Government and the Guangdong Provincial Government have formulated the PRD Regional Air Quality Management Plan which aims to achieve specific emission reduction targets by 2010. Guangdong will not plan for construction of new coal-fired or oil-fired power plants in the PRD region and will proceed with the retrofitting of flue gas desulphurisation systems at existing power plants. In addition, liquefied natural gas (LNG) is being introduced for power generation.

The Environmental Protection Department of the HKSAR Government and the Environmental Protection Bureau of Guangdong Province announced the implementation framework of the emission trading pilot scheme for thermal power plants in the PRD region in January 2007. Both sides hope that through the setting up of this platform, thermal power plants from both sides will participate on a voluntary basis in emission trading. By making use of market forces and the flexibility of emission trading, power plants can be more proactive in coming up with different cost-effective emission reduction projects and consequently air pollutant emissions in the whole PRD Region can be reduced.

1.6 Necessity to move up the supply chain: A few local prominent business leaders warned that Hong Kong had to move up the supply chain and former business models might not work any more. In the past, Hong Kong entrepreneurs made use of low production cost on the mainland, particularly in the PRD region and paid little attention to environmental aspects. The tremendous economic development on the mainland in the last 2 decades has pushed production cost up and more stringent regulations on environmental protection have come into effect. Hong Kong businessmen either moved up the supply chain, moved to offshore or a more remote region, or at worst, wrapped up their business. They had to find their own niche and create their branding.

1.7 Competition Policy: Hong Kong has long been recognised as the world's freest economy. However, as Hong Kong enterprises grow in strength, coupled with an increased presence of multinational companies, there are fears that these forces are capable of cornering the market. The HKSAR Government will start to draft a cross-sector competition law, which is expected to include the setting up of a regulatory authority and a mechanism for exemptions.

According to a recent survey conducted by a local university, many retailers, especially supermarkets, abused their market power against suppliers. Many retailers dictated prices, demanded exclusivity and forced suppliers to share promotion fees. In this sense, possible introduction of a competition law may facilitate Swiss suppliers and products entering the market.

2. International and regional economic agreements

2.1 HK's policy and priorities

Hong Kong is a free port which thrives on free trade. Its open door policy has enabled it to become the world's 11th 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.

Hong Kong is a founding member of the World Trade Organization (WTO). Hong Kong 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).

2.2 Closer Economic Partnership Arrangement (CEPA)

CEPA, the first ever regional trade agreement signed between China and Hong Kong, covers 3 broad areas: a) trade in goods, b) trade in services and c) trade and investment facilitation.

a) Trade in goods

Under the three phases of CEPA[2], China has given all products of Hong Kong origin (except prohibited articles) tariff free treatment, upon applications by local manufacturers and upon the CEPA rules of origin being agreed and met.

According to the Trade and Industry Department (TID), since its implementation in Jan. 2004 to Dec. 2006, goods worth US$ 859 million were exported to China tariff-free. With the emergence of an increasingly wealthy middle class in China, the demand for quality products with a `made in Hong Kong' label, such as food, clothing, watches, medical and health products, are expected to increase.

b) Trade in services

Taking the three phases of CEPA together, China has agreed to provide preferential treatment to Hong Kong service suppliers in 27 service areas[3]. Broadly speaking, the liberalization permits earlier access for Hong Kong service suppliers to China, ahead of China's WTO timetable. In some sectors,

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[2] CEPA I, II and III were signed in 2003, 2004 and 2005 respectively

[3] 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.

like audiovisual services, transport services and distribution services, the concessions go beyond China's WTO commitments. Further liberalisation measures in 10 areas already covered by CEPA, which was announced in mid-2006, are expected to help and expand the business scope allowable in China for Hong Kong companies and lower the thresholds for them to set up business or provide services there.

Until February 2007, the TID has issued Certificate of Hong Kong Service Suppliers to 1,042 "Hong Kong companies"to enable them to apply to the Chinese authorities to launch their business in China. Any company or service provider of any nationality including Swiss companies can apply as a Hong Kong Service Supplier or a Cepa-qualified company if the company in question meets all the criteria: i) it is incorporated in Hong Kong; ii) it has operated for 3-5 years (depending on sectors); iii) it is liable to pay Hong Kong profits tax and iv) it employs 50% of its staff locally. Most of the applications came from the sectors of logistics and transport, distribution, advertising, construction and management consultancy.

c) Trade and investment facilitation

Both China and Hong Kong have agreed on enhancing co-operation in trade and investment facilitation in seven areas including trade and investment promotion and customs clearance facilitation. Application procedures for Chinese enterprises to invest in Hong Kong have been streamlined. Until mid-2006, about 380 Chinese enterprises have obtained approval to set up operations in Hong Kong, with investment totalling over US$2.2 billion.

Economic Benefits

CEPA offers a good platform for Hong Kong products and services to have an effective access to China. Nevertheless, they have to face intensifying competition from Chinese companies and multinational competitors.

According to the HKSAR Government, CEPA has created 29,000 jobs and generated US$692 million in services receipts and US$705 million in capital investment for Hong Kong in its first two years of implementation. Out of 13.6 million Chinese tourists to Hong Kong in 2006, more than 6.6 million Chinese tourists travelled under the individual visit scheme which was introduced in CEPA.

Hong Kong is a service-oriented economy (tertiary production accounting for 90% of its GDP) whereas tertiary production accounts for about 40% of China's GDP. China's liberalization measures in service sectors under CEPA offer new business opportunities for Hong Kong service suppliers. It is complementary and beneficial to both economies.

As far as China is concerned, CEPA benefits their consumers (trade in goods tariff free) and enhances the standards of their developing services industries and accelerates its integration with the world economy.

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

Outlook for Switzerland

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

A Swiss company, qualified as a Hong Kong Service Supplier 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 depended on the co-operation of 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.. After some years of practical experience and more openness of China in general, their operations became smoother though there were still puzzles to solve.

2.3 Pan-Pearl River Delta (PPRD) Cooperation
The "Pan-Pearl River Delta (PPRD)[4] Regional Co-operation Framework Agreement" was signed in 2004. The PPRD regional governments agreed to strengthen cooperation in 10 areas – infrastructure, investment, business and trade, tourism, agriculture, labour, education and culture, information and technology, environmental protection, health and prevention of infectious disease.

During the Third PPRD Regional Co-operation and Development Forum in June 2006, according to the HKSAR Government, Hong Kong would continue to make use of its strength 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, Hong Kong 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 China. Hong Kong 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.

3. Foreign trade
3.1 Development and general outlook
3.1.1 Trade in goods

According to the HKTDC, Hong Kong is the world's 11th largest trading economy. Total exports of Hong Kong increased by 9.4% and reached to US$315 billion in 2006. Domestic exports dropped to US$ 17 billion (-1%) whereas re-exports grew to US$ 298 billion (+10%). Major export markets were China (47% of total exports), the US (15%), Japan (4.9%), Germany (3.1%) and UK (3%). Major export products were electrical machinery and apparatus (23%), telecom equipment (15%), office machines and computers (13%), clothing (9%) and textiles (4.4%). The solid export growth was underpinned by Chinese hearty appetite for industrial inputs for export production, notably electronics parts and components due to steady global demand for electronics products, and sustained consumer demand from the US and the EU.

Imports rose to US$ 333 billion (+11.6%) in 2006, following a 10% increase in 2005. Major supplier countries were China (46% of total imports), Japan (10%), Taiwan (7.5), Singapore (6.3%) and the US (4.8%). Major import products were electrical machinery and apparatus (24%), telecom equipment (13%), office machines and computers (11%), clothing (5.6%) and textiles (4.2%).

Regulations: Hong Kong is a free port and there is no tariff on general imports except duty on liquors, tobacco, hydrocarbon oil and methyl alcohol. Financial Secretary Mr. Henry Tang proposed in his recent Budget Speech to reduce the duty rate on beer and other types of liquor containing not more than 30% of alcohol from the current 40% to 20% and that on wine from the current 80% to 40%. The reduction came to effect on 28th February 2007.

There are 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$ 73.4 billion (+8.7%) in 2006, following a strong increase of 11.3% in 2005. The breakdown was as follows: trade-related services (32% of total exports of services, increased by 12%), transportation services (31% of total exports of services, increased by 9%), travel services (16% of total exports of services, increased by 11%), financial services (12% of total exports of services, increased by 41%), other services (8% of total exports of services, increased by 9%) and insurance services (0.6% of total exports of services, increased by 13%).

In 2005 (latest available information), exports of services by main destinations were China (US$ 16.4 billion, 26% of total, grew by 9.6%), the US (US$ 12.9 billion, 21% of total, grew by 15%), Taiwan

[4] 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.

(US$ 4.5 billion, 7.3% of total, grew by 13%), Japan (US$ 4.5 billion, 7.2% of total, grew by 14%) and the UK (US$ 4.3 billion, 6.9% of total, grew by 28%).

Import of services amounted to US$ 33.5 billion (+6.3%) in 2006. The breakdown was as follows: travel services (38% of total imports of services, increased by 5%), transportation services (31% of total imports of services, increased by 8%), other services (18% of total imports of services, increased by 14%), trade-related services (7% of total imports of services, increased by 3%), financial services (4% of total imports of services, increased by 7%) and insurance services (2% of total imports of services, increased by 10%).

In 2005 (latest available information), imports of services by main sources were China (US$ 9.1 billion, 27% of total, grew by 8%), the US (US$ 5 billion, 15% of total, grew by 12%), Japan (US$ 2.9 billion, 9% of total, grew by 8%), the UK (US$ 2.6 billion, 8% of total, grew by 16%) and Australia (US$ 2 billion, 6% of total, grew by 7%).

3.2 Bilateral trade

3.2.1 Trade in goods

According to the HKTDC, Switzerland was the 17th largest trading partner of Hong Kong in 2006. Switzerland was Hong Kong's 14th largest supplier and 22nd largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to HK totalled CHF 4.69 billion (+17%) in 2006. Major Swiss exports included watches and clocks (42% of total, increased by 9%, CHF 1.9 billion in value), jewellery & precious metal (32% of total, increased by 31%, CHF 1.5 billion in value), machinery (9% of total, increased by 15%, CHF 420 million in value) and chemical and pharmaceutical products (8% of total, increased by 25%, CHF 361 million in value).

Hong Kong's total exports to Switzerland dropped to CHF 1.45 billion (-13%) in 2006. Major total exports included jewellery & precious metal (62% of total, decreased by 16%, CHF 905 million in value), watches and clocks (17% of total, decreased by 10%, CHF 242 million in value), machines (13% of total, decreased by 15%, CHF 184 million in value) and textiles and garments (3% of total, grew by 16%, CHF 49 million in value).

In 2006, Swiss exports to mainland China (CHF 4,094 million in value) and Hong Kong (CHF 4,692 million in value) accounted for 4.75% of global Swiss exports, bringing China (incl. Hong Kong) to the position of Switzerland's most important market and trade partner in Asia, ahead of Japan (3.64%). On the other hand, Swiss imports from China (CHF 3,922 million) and Hong Kong (CHF 1,457 million) totalled CHF 5,379 million. Switzerland got a trade surplus worth CHF 3,407 million.

According to the Hong Kong Census and Statistics Department (HKCSD), Swiss exports to Hong Kong reached to US$ 3,606 million[5] in 2006 of which goods worth US$ 1,455 million (40% of total) were re-exported to other countries and regions and notably to China. Swiss goods worth US$ 610 million (grew by 18%) were re-exported to China via Hong Kong in 2006. Major products were watches and clocks (US$ 173 million), silver and platinum (US$ 49 million), textile machinery (US$ 36 million), colouring matter (US$ 32 million) and machine tools (US$ 31 million).

On the other hand, Hong Kong exports to Switzerland totalled US$ 1,603 million (please see footnote 5) in 2006. Among them, products of China origin worth US$ 981 million (grew by 12%) were re-exported to Switzerland via Hong Kong. Major products were watches and clocks (US$ 367 million),

[5] There is a substantial deviation in the bilateral trade figures between the Census & Statistic Department of the HKSAR Government and the Swiss Federal Customs Administration. According to the Swiss Federal Customs Administration, Swiss imports to Hong Kong reached to CHF 4,692 million (+17%) whereas Hong Kong exports to Switzerland dropped to CHF 1,457 million (-13%) in 2006. On the other hand, according to the Hong Kong Census & Statistic Department (HKCSD), Swiss imports to Hong Kong dropped to US$ 3,606 million (-1.7%) and Hong Kong exports to Switzerland grew to US$ 1,603 million (+19%). The HKCSD explained that the deviation might be partly due to the difference of calculations between "by country" and "by country of origin". They cited an example of Swiss watches imported to HK. In case of "by country", watches imported to HK from Switzerland amounted to US$1.4 billion in 2006. In the latter case "by country of origin", watches of Swiss origin imported to HK amounted to 1.55 billion in 2006.

silver and platinum (US$ 61 million), textiles and garments (US$ 132 million), jewellery (US$ 48 million) and telecom equipment (US$ 30 million).

Business opportunities

The last three years marked the fastest pace of sustained above-trend growth in any three consecutive years since 1987. Economic expansion continued to be largely trade-led while domestic demand made an equally important contribution, with consumption well supported by steadily improving employment conditions. Investments in machinery and equipment continued to increase by 17% in 2006 (+13% in 2005) as many companies see increasing need to expand operation. There are good prospects for Swiss equipment in the fields of textile and clothing industry, electronic industry, watch industry, printing industry and telecom industry. Although many local industrialists have shifted their production bases to China and the S.E. Asian countries, these offshore production bases are nevertheless owned and run by them.

There has been a continued slack in building and construction activities in both the private and public sector since 1998[6]. As mentioned in paragraph 1.3 Public Finance, the financial position of the HKSAR Government has improved remarkably. The Government recently pledged to earmark US$ 3.7 billion a year on average for infrastructure projects which include road construction, drainage works, a new headquarters for the Civil Aviation Department, replacement of air traffic control system, Tamar development (a new quarters of the HKSAR Government and the Legislative Council) and etc.. Demand for building materials and equipment is expected to pick up slightly. The HKSAR Government will invite public tenders for provision of aviation equipment. The date and specifications of the tenders for aviation equipment are yet to fix and the Consulate General of Switzerland will inform potential suppliers in Switzerland of the project in due course.

As far as consumer goods and luxury items are concerned, all renowned brands from all over the world are well presented in Hong Kong. Swiss products, such as watches, jewellery, clothing, footwear, leather goods and skin care products, enjoy an excellent reputation in the market. They are not only appealing to local consumers, but also winning popularity among tourists, in particular from China (tourists from China reached 13.6 million or 54% of total visitor arrivals in 2006). Hong Kong is a window of the world to Chinese tourists who have high consuming power. According to an established watch and jewellery retailer group in Hong Kong, Chinese tourists account for about 70% of sales of Swiss watches in their shops.

There is a growing concern about food safety in Hong Kong after recent food safety incidents[7]. Consumers become more conscious about food quality and health issue. A niche market for quality food has been developing, which offers business opportunities for Swiss organic and health food items. A well-known food supermarket, whose target customers are middle-class, revealed that their organic products for sales have expanded from 200 items to 2,000 items in 4 years.

As mentioned earlier, Swiss products worth US$ 610 million were exported to China via Hong Kong in 2006. In this regard, Swiss exporters and manufacturers can make use of Hong Kong as a known entrepôt and trade hub (which has a huge cluster of traders who are experienced in the market of China) to do business with China.

As mentioned in paragraph 1.5, air pollution is a major cause of public concern. The two power companies[8] in Hong Kong are required by the HKSAR Government to reduce their emission and update their pollution control technology. Business-wise, Swiss environmental technology and in particular emission reduction equipment and technology, low nitrogen oxide (NOx) burners and equipment for liquefied natural gas (LNG) storage and receiving terminal will have marketing potential. According to findings of the “Study on the Potential Applications of Renewable Energy in HK”, there are 4 types of renewable energy, namely solar power, wind power, building integrated fuel cell and

[6] There has been a shrink in construction activities in both private and public sector due to economic slump resulted from the Asian financial turmoil and impacts of Severe Acute Respiratory Syndrome SARS. It recorded an average decrease of 6.7% per year during 1998-2006.

[7] Food safety incidents such as malachite green and nitrofurans residues found in fish, sudan dyes found in eggs and mislabelling of oil fish for cod.

[8] The Hong Kong Electric Co. Ltd. (http://www.heh.com) is a monopolist in electricity generation for Hong Kong Island whereas the CLP Power HK Ltd. (http://www.clpgroup.com) is a monopolist in electricity generation for Kowloon and the New Territories.

energy from waste, which are considered potentially feasible for wide-scale application in Hong Kong. A small-scale wind power station was commissioned in February 2006. The recommended targets of contribution from renewable energy to annual electricity demand are 1% in 2012, 2% in 2017 and 3% in 2022 and the Legislative Council is of the opinion that the Government's recommended targets are too conservative. In this regard, a potential larger scale of renewable energy application may provide business opportunities for Swiss companies working in this sector.

3.2.2 Trade in services

According to the HKCSD, Hong Kong's exports of services to Switzerland amounted to US$ 633 million (+4.8%, 1% of total exports of services) in 2005 (latest available information). Switzerland ranked 14th largest market for Hong Kong's exports of services. It consisted of transportation (US$ 193 million), travel (US$ 31 million), insurance services (US$ 0.4 million), financial services (US$ 126 million), merchanting and other trade-related services (US$ 130 million) and other services (US$ 153 million).

Hong Kong's imports of services from Switzerland reached to US$ 242 million (-5%, 0.7% of total imports of services) in 2005. Switzerland ranked 21st largest supplier in this category. It consisted of transportation (US$ 48 million), travel (US$ 46 million), insurance services (US$ 24 million), financial services (US$ 22 million), merchanting and other trade-related services (US$ 1.5 million) and other services (US$ 100 million).

Hong Kong wants to position itself as an international trade, logistic and financial centre. Demand for logistic services and financial services[9] are expected to increase whereas Switzerland is known for its excellence in service industries, particularly in financial services.

4. Direct Investments

4.1 Development and general outlook

According to the HKCSD, at the end of 2005, the stock of Hong Kong's inward direct investments was up by 15% to US$ 520 billion. Major investor countries were China (US$ 163 billion or 31% of total, grew by 24%), British Virgin Islands BVI (US$ 163 billion or 31% of total, grew by 23%), the Netherlands (US$ 42 billion or 8.1% of total, grew by 7.7%), Bermuda (US$ 35 billion or 6.7% of total, insignificant variation) and the US (US$ 26 billion, 5.1% of total, decreased by 16%).

China featured highly both as a destination for Hong Kong's outward direct investment (US$ 189 billion or 40% of total, ranked 2nd after BVI) and as a source of HK's inward direct investment (US$ 163 billion or 31% of total, ranked 1st). The substantial cross-boundary investment between China and Hong Kong reflected the close economic links between the two places.

The ratios of inward and outward direct investments were 293% and 264% of GDP respectively in 2005. It reflected Hong Kong 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 Hong Kong 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 Hong Kong.

According to the International Monetary Fund (IMF), inward portfolio investments to Hong Kong reached US$ 437 billion (+9%) in 2005. Major investor countries were the UK (69.5 billion or 16% of total, grew by 7.6%), the US (US$ 58 billion or 13% of total, dropped by 2%), Cayman Islands (US$ 55 billion or 12.5% of total, grew by 16%), Bermuda (US$ 45 billion or 10% of total, dropped by 4%) and China (US$ 41 billion or 9.5% of total, grew by 47%).

In Hong Kong, there is neither restriction on inward and outward investments nor nationality restrictions on corporate or sectorial ownership.

4.2 Bilateral investment flows

[9] Financial services cover investment banking services, deposit services, security and commodity brokerage services, portfolio management services, trust services, financial consultancy services, foreign exchange services and etc..

According to the HKCSD, Swiss direct investments in Hong Kong dropped to US$ 3.2 billion (-11%) and ranked 15th largest investor country in 2005.

At present, there are about 180 Swiss companies operating in Hong Kong. They are classified in various sectors : banking, beauty products, chemicals & pharmaceuticals, consultants, electronics, foodstuffs, freight forwarding, inspection, insurance, machinery / engineering, textiles & garments, watches / jewellery and trading houses, etc..

As at 1st June 2006, 42 Swiss companies set up their regional headquarters in Hong Kong. 68 Swiss companies set up their regional offices and another 68 Swiss companies set up their local offices in Hong Kong.

According to the HKCSD, the outward direct investments from Hong Kong to Switzerland for 2002, 2003 and 2004 were US$ 1.49 billion (ranked 14th), US$ 780 million (ranked 17th) and US$ 564 million (ranked 18th) respectively. The HKCSD compiles for top 20 recipient countries only. As Switzerland dropped out of this category in 2005, the corresponding figure is no longer available.

5. Trade, economic and tourist promotion
5.1 Foreign economic promotion instruments

The Consulate General of Switzerland, the Federation Horlogère, Switzerland Tourism and the Swiss Chamber of Commerce in Hong Kong are the organisations to promote Swiss economic interests in Hong Kong.

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 Hong Kong. It acts as an access to Greater China and Asia Pacific Region. It has consensus voice of the Swiss business community's view towards the HKSAR Government and the Swiss Government.

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

It publishes quarterly issues of "The Bridge" and an annual membership directory. It joins forces with the Swiss business communities in 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.

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 Hong Kong such as collaboration in projects and participation at its Committee meetings to exchange views with representatives of various business sectors.

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

Switzerland Tourism

According to Switzerland Tourism (ST), Hong Kong visitors staying overnight increased by 10.6% to reach 53,121 in 2006. Their length of stay in Switzerland is the longest (1.9 day) when compared with those from China (1.5 day) and Taiwan (1.4 day).

ST organised 10 media trips and generated 114 articles in most popular newspapers and magazines in 2006. Furthermore, they organised talks with media and key players in travel industry as well as participated in relevant trade shows and workshops. They supported some cultural and promotional events including promotion of Swiss food. All the above activities helped to promote Switzerland in excellent image and top quality branding.

Fédération Horlogère

The Bienne based Federation of the Swiss Watch Industry (FH) is a private, professional and non-profit association which defends the watch industry's interests and contributes to its development. Its Hong Kong 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.). The Hong Kong office carried out more than 11'900 seizures in Asia[10], seizing and destroying over 2,000,000 fake products in 2006. Their activities also expand to Vietnam and India in 2007. In Hong Kong and Asia, the Federation launched a watch collector's club called "The Art of Time Club" as well as a website on the watch industry (www.fhs.hk).

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

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

Some Hong Kong 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. A noteworthy acquisition was the acquisition of Saia-Burgess by Johnson Electric, a Hong Kong company and one of the biggest manufacturers of micro motors in the world.

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 Hong Kong.

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

A delegation of the Swiss Bankers Association visited Hong Kong to promote Swiss banking on annual basis in November 2006. The Consulate General of Switzerland organised their meetings with medias, Swiss banks and the Hong Kong Monetary Authority as well as their presentation at a local university.

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)

[10] The FH teams worked with relevant law enforcing bodies on the spot.

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:
Hong Kong Trade Development Council (http://www.tdctrade.com)

Chambers and Associations:
Swiss Chamber of Commerce in HK (http://www.swisschamhk.org)
Swiss Association of Hong Kong (http://www.swiss-hk.com)
Federation of the Swiss Watch Industry, HK Office (http://www.fhs.hk)
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:
South China Morning Post (http://www.scmp.com)
The Standard (http://www.thestandard.com.hk)
Asian Wall Street Journal (http://www.wsj-asia.com)

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

9th March 2007

<u>Appendix 1</u> **Structure of Economy**

	1995	**2005**	**Variation**
Spreading GDP (%)			
Primary Sector	0.2%	0.1%	-50%
Secondary Sector	16%	9.2%	-42.5%
Tertiary Sector	83.8%	90.7%	+8.2%
- Part of Public Services	N.A.*	N.A.*	N.A.*
Spreading Employment			
Primary Sector	0.6%	0.4%	-33.3%
Secondary Sector	27.1%	13.6%	-49.8%
Tertiary Sector	72.3%	86%	+18.9%
- Part of Public Services	N.A.*	N.A.*	N.A.*

*N.A. Not available

Source: Hong Kong Census and Statistics Department

Appendix 2

Représentation suisse à: Hong Kong	
Pays: Hong Kong SAR, China	Date de la dernière mise à jour: 23rd March 2007

Principales données économiques

	2005	**2006**	**2007**
PIB (USD billion)	177.2	188.8	196.3-198.2[a]
PIB/habitant (USD)	26,000	27,500	28,400-28,700[a]
Taux de croissance (% du PIB)	+7.5	+6.8	+4.5-5.5[a]
Taux d'inflation (%)	+1	+2	+2.5[b]
Taux de chômage (%)	6.8	5.6	4.3[c]
Solde budgétaire (% du PIB)	+0.3	+3.7	+1.6[a]
Solde des transactions courantes (% du PIB)	11.4	8.7[d]	7.8[d]
Dette extérieure totale (% du PIB)	0.9	0.9[e]	N.A.*
Service de la dette (% des exportations)	N.A.*	N.A.*	N.A.*
Réserves (mois d'importations)	19.8	18.3	N.A.*

Source: Hong Kong Census and Statistics Department, Hong Kong Trade Development Council, IMF

[a] forecast by the HKSAR Government
[b] year-on-year change in Jan-Feb 2007
[c] Dec. 2006-Feb. 2007
[d] forecast by IMF
[e] 3[rd] quarter of 2006
*N.A. Not available

Appendix 3

Représentation suisse à: Hong Kong	
Pays: Hong Kong SAR, China	Date de la dernière mise à jour: 12th March 2007

Partenaires économiques 2006

	Pays	**Exportations (USD millions)** *par le pays de résidence*	**Part (%)**	**Var.* (%)**
1	China	148,232	47	+14
2	USA	47,581	15	+2.9
3	Japan	15,439	4.9	+1.6
4	Germany	9,700	3.1	+4
5	UK	9,440	3	+6.3
6	Taiwan	6,680	2.1	+3.3
7	Korea Rep	6,650	2.1	+7.5
8	Singapore	6,232	2	+4.4
9	Netherlands	5,262	1.7	-3.7
10	France	4,275	1.4	+5.2
	EU	44,151	14	+5.1
22	***Switzerland***	**1,603**	**0.5**	**+19**
	Total	315,516	100	+9.4

	Pays	**Importations (USD millions)** *par le pays de résidence*	**Part (%)**	**Var.* (%)**
1	China	152,943	46	+14
2	Japan	34,377	10	+4.5
3	Taiwan	24,989	7.5	+16
4	Singapore	21,133	6.3	+22
5	USA	15,842	4.8	+3.6
6	Korea Rep	15,339	4.6	+16
7	Malaysia	7,736	2.3	+5.6
8	Thailand	6,805	2	+14
9	Germany	5,696	1.7	+8.2
10	Philippines	5,237	1.6	+6.7
	EU	24,258	7.3	+7
14	***Switzerland***	**3,606**	**1.1**	**-1.7**
	Total	333,308	100	+12

*Variation par rapport à l'année précédente
**There is a substantial deviation in the bilateral trade figures between the Census & Statistic Department of the HKSAR Government and the Swiss Federal Customs Administration. According to the Swiss Federal Customs Administration, Swiss imports to Hong Kong reached to CHF 4,692 million (+17%) whereas Hong Kong exports to Switzerland dropped to CHF 1,457 million (-13%) in 2006. On the other hand, according to the Hong Kong Census & Statistic Department (HKCSD), Swiss imports to Hong Kong dropped to US$ 3,606 million (-1.7%) and Hong Kong exports to Switzerland grew to US$ 1,603 million (+19%). The HKCSD explained that the deviation might be partly due to the difference of calculations between "by country" and "by country of origin". They cited an example of Swiss watches imported to HK. In case of "by country", watches imported to HK from Switzerland amounted to US$1.4 billion in 2006. In the latter case "by country of origin", watches of Swiss origin imported to HK amounted to 1.55 billion in 2006.

Sources : Hong Kong Census & Statistics Department, Hong Kong Trade Development Council

Appendix 4 Relations économiques bilatérales

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)[1].

Echanges commerciaux

En 2005, Hong Kong (avec 2.45% du total de nos exportations) a représenté en Asie notre 2ème partenaire commercial - respectivement 1er 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) [2].**
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[3]

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%
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[4]	4'012	-5.3 %	1'674	52.4%	2'338	5'686.0	16.2%
2006 (prov.)	4'692	17.0%	1'457	-13.0%	3'235	6'149.0	8.1%

[1] Premier accord de ce genre entre la Suisse et un pays asiatique
[2] 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.
[3] Source: Administration fédérales des douanes
[4] Dès 2005 chiffres incluant trafic de perfectionnement à façon, marchandises en retour et électricité

Appendix 5

Représentation suisse à: Hong Kong	
Pays: Hong Kong SAR, China	Date de la dernière mise à jour: 12th March 2007

Principaux investisseurs 2005

Rang	Pays	Investissements directs (USD billion) (stock)	Part	Variation (stock)	Variation (USD billion) (flux)
1	China	163	31%	24%	1.4
2	British Virgin Islands	163	31%	23%	-2
3	Netherlands	42	8.1%	7.7%	1.1
4	Bermuda	35	6.7%	0%	3.5
5	USA	26	5.1%	-16%	-10
6	Japan	17	3.2%	-11%	0.4
7	UK	11	2.2%	22%	-0.6
8	Singapore	11	2.1%	0%	1
9	Cayman Islands	8.6	1.6%	8.9%	0.7
10	Thailand	4.3	0.8%	411%	3.4
	EU	61	12%	11%	2.3
15	**Switzerland**	**3.2**	**0.6%**	**-11%**	**-0.5**
	Total	520	100 %	15%	-0.5
Rang	**Pays**	**Investissements de portefeuille (USD billion) (stock)**	**Part**	**Variation (stock)**	**Variation (USD) (flux)**
1	UK	69.5	16%	7.6%	N.A.
2	USA	58.2	13%	-2.3%	N.A.
3	Cayman Islands	54.8	12.5%	16%	N.A.
4	Bermuda	45.1	10%	-4.2%	N.A.
5	China	41.3	9.5%	47%	N.A.
6	Australia	32.2	7.4%	3.5%	N.A.
7	Japan	16.7	3.8%	67%	N.A.
8	Luxembourg	15.7	3.6%	15%	N.A.
9	Republic of Korea	12.3	2.8%	11%	N.A.
10	Germany	10.1	2.3%	-9.8%	N.A.
					N.A.
24	**Switzerland**	**1.3**	**0.3%**	**-13%**	N.A.
	Total	437	100%	9%	N.A.

*N.A. Not available

Sources : Hong Kong Census & Statistics Department, IMF