Consulate General of Switzerland, Hong Kong Hong Kong, 25th March 2008
512.0-ROH/CHW

Annual economic report: Hong Kong 2007

1. Appreciation of the economic problems and issues

1.1 General overview of HK's economy: With broad-based growth in both the external and domestic sectors in 2007, the economy of Hong Kong recorded its fourth consecutive year of above-trend growth. Real GDP growth reached 6.3% in 2007, followed by 8.5% in 2004, 7.1% in 2005 and 7% 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 6% growth in 2006, private consumption perked up further by 7.8% (the biggest growth since 1993) in 2007, on the back of firmer employment prospects, mild increase in real wages and the increasing asset prices. Demand was especially strong in consumer goods and services. Total retail sales increased by 13% in value or 10% in volume over 2006. After more than five years of deflation, consumer prices have been gradually edging up along with the solid economic recovery, rising by 2% in both 2006 and 2007.

Fixed investment grew robustly at 6.0% in 2007, with corporate spending on machinery and equipment being the main driver. Labour market continues to improve. The unemployment rate was 3.4% in Nov. 2007 **-** January 2008, down visibly from 4.8% in 2006 and 4.0% in 2007.

As for external factors, total merchandise trade grew by 9.8% to US$ 712 billion whereas total service trade grew by 13% to US$ 124 billion in 2007. There were over 28 million visitors (+12%) to Hong Kong and their spending was estimated to have exceeded US$ 16.7 billion (+8.9%) in 2007. Mainland visitors, account for 55% of total tourist arrivals, reached 15.5 million (+14%).

1.2 Policy Address: In his Policy Address delivered in October 2007, the Chief Executive Donald Tsang undertook 10 major infrastructure projects, including some cross-boundary infrastructure projects such as the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Hong Kong-Zhuhai-Macao Bridge and the Hong Kong-Shenzhen Airport Co-operation Project. The value added of the 10 major infrastructure projects would be more than US$ 12.8 billion annually, amounting to 7% of the GDP in 2006, and some 250,000 additional jobs would be created. The government is also looking at providing additional convention and exhibition facilities to cater for longer term demand. To further strengthen Hong Kong as a global financial centre, the government will promote integration of the financial systems of Hong Kong and the mainland, develop an Islamic financial platform and promote international arbitration services in Hong Kong. On trade development, the government will assist Hong Kong enterprises in the Pearl River Delta to restructure, upgrade and relocate, and implement the Action Agenda of the National 11th Five-Year Plan to enhance the competitiveness of Hong Kong.

1.3 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 4% of its total exports while re-exports account for about 96% of its total exports. Hong Kong is the most important entrepôt for China. If re-exports to and from China are included, about 21% of China's foreign trade was handled via Hong Kong.

Hong Kong is the largest source of overseas direct investment in China. By the end of 2006, among all the overseas-funded projects registered in China, 45% were tied to Hong Kong interests. The stock of utilized capital inflow from Hong Kong amounted to USD 280 billion, accounting for 41% of the national total. On the other hand, China is the biggest investor in Hong Kong. According to the HK Census and Statistics Department, China's cumulative direct investment in Hong Kong was USD 260 billion or 35% of Hong Kong's total stock of inward direct investment at the end of 2006. It is estimated that there are over 2,000 mainland-backed enterprises registered in Hong Kong, with total asset exceeding USD 220 billion.

Hong Kong is a key offshore capital-raising centre for Chinese enterprises. As of December 2007, 439 Mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies with total market capitalization of USD 1,544 billion or 58% of the market total. In the past 10 years, mainland companies have raised more than USD 130 billion in Hong Kong.

For information on the Closer Economic Partnership Arrangement (CEPA) and Pan-Pearl River Delta (PPRD) Cooperation, please refer to 2.2 and 2.3

1.4 Restructuring of HK enterprises in the Pearl River Delta PRD: According to the Hong Kong Trade Development Council (HKTDC), there are about 57,500 HK-funded factories in the PRD. In a move to upgrade the processing trade and to contain the production activities of "high energy consumption, high pollution and resource consumption" industries, China has strengthened its control of the processing trade and adjusted relevant regulations since the second half of 2006. Measures taken include lowering and lifting the export tax rebate rate of certain products, and expanding the catalogue of products under the prohibited category and restricted category in processing trade. China has also tightened regulations and enforcement with regard to clean production and environmental protection. Furthermore, the labour contract law, which took effect in January 2008 in China, will increase overall labour costs of HK-funded companies by 10% to 20% in 2008. In addition to such changes, the operating cost is also pushed by the appreciation of the yuan.

A survey conducted recently by the Federation of Hong Kong Industries shows that 15% of the respondents were considering to move their production facilities out of the mainland while 20% of the respondents planned to close down their business. 65% of the respondents would adopt a wait-and-see attitude towards the investment strategy of their PRD business while 35% of the respondents planned to downsize their investments.

The PRD business environment is encountering drastic challenges. Undoubtedly labour and resource-intensive or low-value-added enterprises will be hit the most by the new policies. It is estimated that more than 10,000 HK-funded firms in the PRD will be adversely affected. From a long-term perspective, it is a necessity for the HK-funded firms in the PRD to move up the supply chain.

1.5 "Hong Kong Stock Through Train Scheme": The State Administration of Foreign Exchange (the mainland currency regulator) announced the "Hong Kong stock through-train scheme" in August 2007 to allow individual investors from the mainland invest directly in HK-listed stocks. It could serve as a means to help the balance of China's current account and ease upward pressure on the yuan at a time of concern about bubbles in mainland asset prices.

The news then triggered a surge in share prices in Hong Kong. However, the launch has been delayed amid reports that mainland officials are concerned that inexperienced mainland investors will be out of their depth and exposed to big risks. The outflow of capital may also be out of control. In November 2007, Premier Wen Jiabao stated that the central government needed more time to assess the risks of the scheme. Zhou Xiaochun, Governor of the People's Bank of China, made a supplement in March 2008 that in order to curb overheating and overcapacity at home, China would increase channels for excess liquidity to invest in overseas market. Hong Kong would not be the sole beneficiary and options might include London, Tokyo and Singapore and etc.. In other words, the positive impacts of this individual overseas direct investment programme on the local stock market will not be as great as what was anticipated before. Since the stock market in China is now in the process of adjustment, the scheme looks less urgent and its details and exact timetable are unknown yet.

1.6 Public Finance: The HKSAR Government's finances have improved dramatically and an estimated consolidated surplus will reach US$ 14.8 billion in 2007/08. It is an all-time high surplus and equivalent to 7.2% of the GDP. The fiscal windfall is largely due to good land sales, high stamp duty receipts from stock market transfers and rising revenues generating from profits and salary taxes. The revenues of the government have always fluctuated sharply since above mentioned revenues are volatile income and subject to economic cycle. Consequently the government finds it difficult to project future revenues accurately and budget for long-term planning.

In order to broaden the tax base, the government launched a consultation about an introduction of a Goods and Services Tax (GST) in 2006. It met with strong opposition from the community and the government then announced not to advocate the GST in end December 2006. For all the need to broaden the tax base, there is no clear consensus from the community on how to achieve this objective.

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. A public consultation on competition policy, launched by the HKSAR Government, was completed in February 2007. While the public generally supports the introduction of a competition law, there are concerns that the new law may adversely affect normal business operations, in particular those of small and medium enterprises. To address their worries, the government will announce the details of the proposed legislation for public discussion before introducing the bill, hopefully in the 2008-09 legislative session.

According to a 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.

1.8 US Dollar peg: The Linked Exchange Rate System (HK$7.8: US$1) has been introduced to stabilize the then volatile economy and financial market since 17th October 1983. Even though the Hong Kong economy is now more and more integrated to China and the US dollar has been very weak recently, the HKSAR Government has reaffirmed its commitment to maintain the dollar peg. The government claims that the dollar peg system has been running effectively in both good and bad times.

Nevertheless, the appreciation of the yuan and weakening of the US dollar will result in higher import prices and accelerate the inflation rate to 4.5% (official forecast) in 2008. Economists predict that the inflation rate will be higher than the official forecast and it will affect the low-income and disadvantaged groups the most.

1.9 Possible impacts of the US sub-prime crisis and credit crunch on the Hong Kong economy: The sub-prime crisis and the credit crunch in the US has not affected the stability of the local banking system. It will nevertheless turn the trade outlook of Hong Kong with uncertainty. The local stock market has reacted to plunge severely. Domestic demand is expected by the HKSAR Government to become an important growth engine for the economy. Now the repercussions of the financial market turbulence have yet to fully play out and the adverse impacts on the local consumer sentiment is an area to watch out.

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. Hong Kong belongs, in its own right, to the Asian Development Bank (ADB) and the World Customs Organization (WCO). 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. It was first signed in 2003 (which is often regarded as CEPA I) and as a living agreement, the scope of market access and liberalization measures have been expanded progressively under CEPA II – IV in subsequent years. CEPA V, which included further liberalisation measures in service sectors, was signed by the Central and Hong Kong Governments in June 2007.

a) Trade in goods

Starting from 1 January 2006, the mainland has granted all products of Hong Kong origin tariff free treatment upon applications by local manufacturers and subject to satisfying the agreed CEPA rules of origin (ROOs). From January 2004 to June 2007, a total of 24,174 Certificates of Hong Kong-origin (CEPA) were approved, incurring a total value of US$ 1,110 million.

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 five phases of CEPA together, China has agreed to provide preferential treatment to Hong Kong service suppliers in 38 service areas[1]. Broadly speaking, the liberalization permits earlier access ahead of China's WTO timetable and lower thresholds of the market entry for Hong Kong service suppliers to China. In some sectors, like audiovisual services, transport services and distribution services, the concessions go beyond China's WTO commitments. Apart from WTO-plus access, CEPA V enables Hong Kong services suppliers to enjoy CAFTA[2]-plus access to the mainland market. In other words, Hong Kong services suppliers will have a better market access to the mainland market than their counterparts in ASEAN.

Until February 2008, the Trade and Industry Department has issued Certificate of Hong Kong Service Suppliers to 1,172 “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 8 areas including trade and investment promotion and customs clearance facilitation. Application procedures for Chinese enterprises to invest in Hong Kong have been streamlined. According to the information provided by the Mainland authorities, a total of 603 Mainland enterprises have been granted approval for investing in Hong Kong between 2004 and 2006, with planned investment totalling US$3.9 billion.

<u>Economic Benefits</u>

According to a study of the HKSAR Government released in June 2007, CEPA created more than 38,500 jobs and the CEPA-induced capital investment reached about US$ 1 billion in 2004-2007.

Out of 15.5 million (13.6 million in 2006) Chinese tourists to Hong Kong in 2007, 8.6 million (6.6 million in 2006) Chinese tourists travelled under the individual visit scheme (IVS) which was introduced in CEPA. It is arguable that many Chinese tourists would still have travelled to Hong Kong even without the IVS. Nevertheless, the IVS facilitates people’s flow, promotes cross-boundary understanding and

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[1] It includes accounting, advertising, airport, audiovisual, banking, building cleaning services, computer and related services, cultural, convention and exhibition, distribution, elderly services, environmental services, freight forwarding agency, individually owned stores, information technology, insurance, job referral agency, job intermediary, legal, logistics, management consulting, market research, medical and dental, patent agency, photographic services, printing services, professional qualification examinations, public utility services, real estate and construction, sporting services, storage and warehousing, securities and futures, services related to management consulting and project management, telecom, tourism, trade mark agency, translation & interpretation services and transport.

[2] China and ASEAN have agreed to establish a China-ASEAN Free Trade Area (CAFTA) by 2010, having reached agreements on both Trade in Goods and Trade in Services.

tighten business contact between the mainland and Hong Kong. These benefits are intangible and difficult to measure and quantify.

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

It has also helped to rebuild confidence in the economy after a prolonged period of economic slowdown caused by the Asian financial crisis and aggravated by the SARS outbreak. Although the strong rebound in consumption, investment, and overall economic growth in the past few years may not be entirely attributable to CEPA, CEPA is undoubtedly an important confidence booster that has helped to kick-start the recovery.

The mainland has undergone rapid economic development over the past two decades. The secondary industry has thrived and has outstripped development in the tertiary industry. To achieve more balanced growth and to take the economy's development to a higher level, the Chinese Government has acknowledged the need to strive for quality growth supported by an efficient services sector. The significant part of CEPA to the mainland lies with the intangible benefits, that is, the transfer of quality capital and management and professional skills to the mainland for its long term economic development.

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 at the early stage of their entry to China. After some years of practical experience and more openness of China in general, their operation is now much smoother than before.

2.3 Pan-Pearl River Delta (PPRD) Cooperation

The "Pan-Pearl River Delta (PPRD)[3] 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 4th PPRD Regional Co-operation and Development Forum in June 2007, according to the HKSAR Government, Hong Kong would continue to capitalise on its niche in financial services to facilitate PPRD enterprises to raise capital and go global through Hong Kong. Moreover, the HKSAR Government would establish an information exchange platform between relevant sectors in Hong Kong and the PPRD provinces and regions in order to facilitate industrial upgrading, restructuring and relocation. Moreover, Hong Kong could serve as a bridge connecting the PPRD Region with ASEAN countries as far as trade and investment are concerned.

[3] 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.

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 9.2% and reached US$345 billion in 2007. Domestic exports dropped to US$ 14 billion (-19%) whereas re-exports grew to US$ 331 billion (+11%). Major export markets were China (49% of total exports), the US (14%), Japan (4.4%), Germany (3%) and UK (2.8%). Major export products were electrical machinery and apparatus (24%), telecom equipment (16%), office machines and computers (9.7%), clothing (8.3%) and textiles (3.9%).

Imports rose to US$ 368 billion (+10%) in 2007, following a 12% increase in 2006. Major supplier countries were China (46% of total imports), Japan (10%), Taiwan (7.2%), Singapore (6.8%) and the US (4.8%). Major import products were electrical machinery and apparatus (26%), telecom equipment (13%), office machines and computers (8.7%), clothing (5.2%) and textiles (3.7%).

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 John Tsang proposed in his recent Budget Speech to exempt the duties on wine, beer and all other alcoholic beverages except spirits.

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$ 83 billion (+14%) in 2007, following a strong increase of 14% in 2006. It included: trade-related services (31% of total exports of services, increased by 13%), transportation services (29% of total exports of services, increased by 5.8%), travel services (17% of total exports of services, increased by 19%), financial services (15% of total exports of services, increased by 34%), other services (8% of total exports of services, increased by 11%) and insurance services (0.6% of total exports of services, increased by 23%).

In 2006 (latest available information), exports of services by main destinations were China (US$ 17.6 billion, 25% of total, grew by 7.1%), the US (US$ 15.3 billion, 22% of total, grew by 19%), the UK (US$ 5.7 billion, 8% of total, grew by 32%), Japan (US$ 5.1 billion, 7.2% of total, grew by 15%) and Taiwan (US$ 4.7 billion, 6.5% of total, grew by 2.8%).

Import of services amounted to US$ 41 billion (+10%) in 2007. It included: travel services (37% of total imports of services, increased by 8%), transportation services (31% of total imports of services, increased by 10%), other services (17% of total imports of services, increased by 13%), trade-related services (7% of total imports of services, increased by 12%), financial services (6% of total imports of services, increased by 32%) and insurance services (2% of total imports of services, increased by 19%).

In 2006 (latest available information), imports of services by main sources were China (US$ 9.8 billion, 27% of total, grew by 7%), the US (US$ 5.5 billion, 15% of total, grew by 8%), Japan (US$ 3.1 billion, 9% of total, grew by 7%), the UK (US$ 2.9 billion, 8% of total, grew by 10%) and Australia (US$ 2.1 billion, 6% of total, grew by 2%).

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 2007. Switzerland was Hong Kong's 12th largest supplier and 24th largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 5.3 billion (+13%) in 2007. Major Swiss exports included watches and clocks (46% of total, increased by 25%, CHF 2.4 billion in value), jewellery & precious metal (29% of total, increased by 1%, CHF 1.5 billion in value), machinery (8.3% of total, increased by 4.5%, CHF 440 million in value) and chemical and pharmaceutical products (8.2% of total, increased by 13%, CHF 438 million in value).

Renowned brands and luxury items from all over the world are well presented in Hong Kong. According to the Nielsen Global Luxury Brands Study released in March 2008, Hong Kong consumers are the most brand conscious in the Asia Pacific region with 40% consumers claiming to buy luxury products and designer brands, significantly exceeding the regional average of 15%. Their survey also revealed that over US$ 770 per capita was spent on luxury products in Nov. 07 – Jan. 08.

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 15.5 million or 55% of total visitor arrivals in 2007). 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 hi-end watches in their shops.

Investments in machinery and equipment continued to increase by 6.6% in 2007, after a remarkable growth of 19% in 2006. 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. In addition, as mentioned in 1.4, it is a necessity for HK-funded factories in the PRD to move up the supply chain. There will be a good market potential for Swiss automation technology and green production technology.

Hong Kong's total exports to Switzerland dropped to CHF 1.2 billion (-18%) in 2007. Major total exports included jewellery & precious metal (53% of total, decreased by 31%, CHF 626 million in value), watches and clocks (22% of total, increased by 7.5%, CHF 260 million in value), machinery (12% of total, decreased by 22%, CHF 143 million in value) and textiles and garments (4.8% of total, grew by 16%, CHF 56 million in value).

In 2007, Swiss exports to mainland China (CHF 5.4 billion in value) and Hong Kong (CHF 5.3 billion in value) accounted for 5.2% 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 (3.3%). On the other hand, Swiss imports from China (CHF 4.8 billion) and Hong Kong (CHF 1.2 billion) totalled CHF 6 billion. Switzerland got a trade surplus worth CHF 4.7 billion.

According to the Hong Kong Census and Statistics Department (HKCSD), Swiss exports to Hong Kong totalled USD 4,563 million (+27%) in 2007 of which goods worth US$ 1,563 million were re-exported to other countries and notably to China. Swiss goods worth US$ 700 million (grew by 15%) were re-exported to China via Hong Kong in 2007. Major products were watches and clocks (US$ 229 million), silver and platinum (US$ 70 million), textile machinery (US$ 32 million), colouring matter (US$ 28 million) and measuring instruments (US$ 26 million).

There has been a notable growth for Swiss products entering China via Hong Kong in recent years, from US$ 518 million in 2005 and US$ 610 million in 2006 to US$ 700 million in 2007. In this regard, Swiss exporters and manufacturers may 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.

On the other hand, Hong Kong exports to Switzerland totalled US$ 1,813 million in 2007. Among them, products of Chinese origin worth US$ 1,095 million (grew by 12%) were re-exported to Switzerland via Hong Kong. Major products were watches and clocks (US$ 489 million), clothing (US$ 143 million), electrical machinery (US$ 93 million) jewellery (US$ 69 million), and telecom equipment (US$ 38 million).

3.2.2 Trade in services

According to the HKCSD, Hong Kong's exports of services to Switzerland amounted to US$ 717 million (1% of total exports of services, increased by 14%) in 2006 (latest available information). Switzerland ranked 14th largest market for Hong Kong's exports of services. It consisted of transportation services (US$ 234 million), travel services (US$ 30 million), insurance services (US$ 2.6 million), financial services (US$ 99 million), trade-related services (US$ 190 million) and other services (US$ 158 million).

Hong Kong's imports of services from Switzerland reached to US$ 271 million (0.7% of total imports of services, increased by 12%) in 2006. Switzerland ranked 20th largest supplier in this category. It consisted of transportation services (US$ 52 million), travel services (US$ 43 million), insurance services (US$ 30 million), financial services (US$ 23 million), trade-related services (US$ 3.7 million) and other services (US$ 119 million).

Hong Kong wants to position itself as an international trade, logistic and financial centre. Demand for logistic services and financial services[4] 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 2006, the stock of Hong Kong's inward direct investments was up by 42% to US$ 740 billion. Major investor countries were China (US$ 260 billion or 35% of total, grew by 60%), British Virgin Islands BVI (US$ 250 billion or 34% of total, grew by 53%), the Netherlands (US$ 50 billion or 6.8% of total, grew by 19%), Bermuda (US$ 45 billion or 6.1% of total, grew by 29%) and the US (US$ 36 billion, 4.8% of total, increased by 38%).

China featured highly both as a destination for Hong Kong's outward direct investment (US$ 271 billion or 40% of total, ranked 2nd after BVI) and as a source of HK's inward direct investment (as mentioned earlier). 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 391% and 357% of GDP respectively in 2006. 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$ 592 billion (+35%) in 2006. Major investor countries were China (106 billion or 18% of total, grew by 159%), Cayman Islands (US$ 76 billion or 13% of total, grew by 38%), the UK (US$ 72 billion or 12% of total, grew by 2.9%), Bermuda (US$ 70 billion or 12% of total, grew by 56%) and the US (US$ 65 billion or 11% of total, grew by 12%).

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

According to the HKCSD, Swiss direct investments in Hong Kong rose to US$ 4.1 billion (0.6% of total, grew by 28%) and ranked the 11th largest investor country in 2006. Swiss portfolio investments in Hong Kong reached US$ 1.3 billion (0.2% of total, insignificant change in the stock) and ranked 23rd investor country in 2006, according to the IMF.

As at 1st June 2007, 47 Swiss companies have set up their regional headquarters in Hong Kong. 64 Swiss companies have set up their regional offices whereas 63 Swiss companies have set up their local offices 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..

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

[4] 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..

(ranked 18th) respectively. The HKCSD compiles for top 20 recipient countries only. As Switzerland dropped out of this category in 2005 and 2006, 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 in co-operation with the Swiss business communities in Beijing, Guangzhou, Shanghai and Switzerland to meet the challenges of rapid economic development in China.

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 ideas and information.

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 PRD.

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, Hong Kong visitors staying overnight increased by 3.1% to reach 54,770 in 2007. Their length of stay in Switzerland was 1.9 day, same as that in 2006.

Switzerland Tourism organised 10 media trips and talks with media and key players in travel industry as well as participated in relevant trade shows and workshops in 2007. 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.). 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 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.

5.3 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 2007. The Consulate General of Switzerland organised their meetings with media, Swiss banks, the Hong Kong Monetary Authority and the Securities and Future Commission.

5.4 Interests for Switzerland as a renowned fabric supplier

The Consulate General of Switzerland worked jointly with Swiss and Hong Kong partners to organize a gala dinner with fashion show in January 2008. Two high-end fashion brand names, one from Switzerland and another from Hong Kong, using mostly Swiss fabrics, presented their spring/summer 2008 collections at a five-star hotel. More than 310 guests from local and overseas, including some 50 Consul Generals and their partners attended. As Swiss watch industry, insurance and financial services are already well known and well presented in Hong Kong, it is hoped that with the gala dinner and fashion show, Swiss textiles can be introduced to the territory.

Both Swiss and Hong Kong participants were pleased with the outcome. More than 40 media from Switzerland, France, China and Hong Kong came for the show and produced extensive and positive media coverage.

6. Useful internet links

HK Government agencies:
HKSAR Government (http://www.gov.hk/)
Commerce and Economic Development Bureau (http://www.cedb.gov.hk/)
Trade and Industry Department (http://www.tid.gov.hk)
Census & Statistics Department (http://www.censtatd.gov.hk/)
Invest HK (http://www.investhk.gov.hk/)
Customs and Excise Department (http://www.customs.gov.hk)
HK Monetary Authority (http://www.info.gov.hk/hkma)
Office of the Commissioner of Insurance (http://www.oci.gov.hk/)
Intellectual Property Department (http://www.ipd.gov.hk/)

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

Appendix 1 **Structure of Economy**

	1995	2006	Variation
Spreading GDP (%)			
Primary Sector	0.2%	0.1%	-50%
Secondary Sector	16%	8.7%	-46%
Tertiary Sector	83.8%	91.2%	+9%
- Part of Public Services	N.A.*	N.A.*	N.A.*
Spreading Employment			
Primary Sector	0.6%	0.3%	-50%
Secondary Sector	27.1%	13.4%	-51%
Tertiary Sector	72.3%	86.3%	+19%
- Part of Public Services	N.A.*	N.A.*	N.A.*

*N.A. Not available

Source: Hong Kong Census and Statistics Department

Appendix 2

Principales données économiques

	2002	2003	2004	2005	2006	2007
PIB (USD mia)	159.9	158.5	165.8	177.3	189.2	206.7
PIB/habitant (USD)	23,466	23,150	24,100	26,000	27,600	29,800
Taux de croissance (% du PIB)	1.9	3.2	8.6	7.1	7.0	6.3
Taux d'inflation (%)	-3.0	-2.6	-0.4	1.0	2.0	2.0
Taux de chômage (%)	7.3	7.9	6.9	5.6	4.8	4.0
Solde budgétaire (% du PIB)	-4.8	-3.3	-0.3	1.0	4.0	7.2
Solde des transactions courantes (% du PIB)	7.9	10.4	9.5	11.4	10.8	11.2
Dette extérieure totale (% du PIB)	-	-	1	0.9	-	-
Service de la dette (% des exportations)	2.1	1.8	-	-	-	-
Réserves (mois d'importations)	22.6	23.3	21.1	19.8	18.6	19.6

Sources: HKSAR Government, IMF

Appendix 3

Partenaires économiques 2007

	Pays	**Exportations (USD millions)** *par le pays de résidence*	**Part (%)**	**Var.* (%)**
1	China	167,735	49	+13
2	USA	47,205	14	-0.8
3	Japan	15,329	4.4	-0.7
4	Germany	10,400	3	+7.2
5	UK	9,598	2.8	+1.7
6	Taiwan	6,786	2	+1.6
7	Korea Rep	6,786	2	+2
8	Singapore	6,468	1.9	+3.8
9	Netherlands	5,695	1.7	+8.2
10	France	4,561	1.3	+6.7
	EU	46,633	14	+5.6
24	**Switzerland**	**1,813**	**0.5**	**+13**
	Total	344,553	100	+9.2
	Pays	**Importations (USD millions)** *par le pays de résidence*	**Part (%)**	**Var.* (%)**
1	China	170,468	46	+12
2	Japan	36,837	10	+7.2
3	Taiwan	26,295	7.2	+5.2
4	Singapore	24,971	6.8	+18
5	USA	17,791	4.8	+12
6	Korea Rep	15,307	4.2	-0.2
7	Malaysia	8,054	2.2	+4.1
8	Thailand	7,356	2	+8.1
9	Germany	6,160	1.7	+8.1
10	Philippines	6,127	1.7	+17
	EU	26,229	7.1	+8.1
12	**Switzerland**	**4,563**	**1.2**	**+27**
	Total	367,694	100	+10

* year-on-year basis

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

Appendix 4 Bilateral Trade Table

Evolution des échanges[5]

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[6]	4'012	-5.3 %	1'674	52.4%	2'338	5'686.0	16.2%
2006	4'694	17.0%	1'457	-13.0%	3'237	6'151.0	8.2%
2007 (prov.)	**5'296.8**	**12.9**	**1'188.2**	**-18.4**	**4'108.6**	**6'485.0**	**5.4%**
2008 (janv.)	*477.9*	*35.1*	*113.9*	*67.8*	*363.9*	*591.8*	-

Répartition par produits

Exportations	*2006*		***2007 (prov.)***		
	en % du total	*en mio. CHF*	*en % du total*	*en mio. CHF.*	*Var. en % 2007/2006*
1. Montres	41.4	1'945	**45.9**	**2'433**	*25.1*
2. Pierres précieuses, bijouterie	32.1	1'507	**28.7**	**1'522**	*1.0*
3. Machines	8.9	421	**8.3**	**440**	*4.5*
4. Produits chimiques	6.8	322	**6.8**	**394**	*22.4*

Importations	*2006[7]*		***2007 (prov.)***		
	en % du total	*en mio. CHF*	*en % du total*	*en mio. CHF.*	*Var. en % 2007/2006*
1. Pierres précieuses, bijouterie	62.1	905	**52.7**	**626**	*-30.8*
2. Horlogerie	16.6	242	**21.9**	**260**	*7.5*
3. Machines	12.6	184	**13.0**	**143**	*-22.3*
4. Textiles et vêtements	3.3	49	**4.8**	**56**	*16.1*

[5] Source: Administration fédérale des douanes
[6] Dès 2005 chiffres incluant trafic de perfectionnement à façon, marchandises en retour et électricité
[7] tendance au recul

Appendix 5

Principaux investisseurs 2006

Rang	Pays	Investissements directs (USD billion) (stock)	Part	Variation (stock)	Variation (USD billion) (flux)
1	China	260	35%	60%	4.6
2	British Virgin Islands	250	34%	53%	4.1
3	Netherlands	50	6.8%	19%	1.4
4	Bermuda	45	6.1%	29%	-1.6
5	USA	36	4.8%	38%	10
6	Japan	19	2.6%	12%	0.5
7	UK	14	1.9%	27%	0.2
8	Cayman Islands	13	1.8%	51%	0.8
9	Singapore	11	1.5%	0%	-0.4
10	Taiwan	4.3	0.6%	13%	0.7
	EU	72	9.7%	18%	-0.8
11	**Switzerland**	**4.1**	**0.6%**	**28%**	**1.1**
	Total	740	100 %	42%	11
Rang	**Pays**	**Investissements de portefeuille (USD billion) (stock)**	**Part**	**Variation (stock)**	**Variation (USD) (flux)**
1	China	106	18%	159%	N.A.
2	Cayman Islands	76	13%	38%	N.A.
3	UK	72	12%	2.9%	N.A.
4	Bermuda	70	12%	56%	N.A.
5	USA	65	11%	12%	N.A.
6	Australia	43	7%	34%	N.A.
7	Luxembourg	21	4%	31%	N.A.
8	Japan	19	3%	12%	N.A.
9	Republic of Korea	14	2%	17%	N.A.
10	Germany	11	2%	10%	N.A.
					N.A.
23	**Switzerland**	**1.3**	**0.2%**	**0%**	N.A.
	Total	592	100%	35%	N.A.

*N.A. Not available

Sources : Hong Kong Census & Statistics Department, IMF