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Annual Economic report: Hong Kong 2009

Summary

The Hong Kong economy exhibited resilience in countering the global financial crisis and started to improve in the second quarter of 2009. The momentum picked up further and its GDP recorded a positive growth in the fourth quarter. For 2009 as a whole, the economy contracted by 2.7%, the first annual recession since 1998. On the contrary to the original estimate of the HKSAR Government, it turned out to achieve a budgetary surplus about US$ 3.3 billion in the fiscal year of 2009[1], thanks to high land premiums and a huge revenue from stamp duties in both the stock and property markets. The economic integration with Mainland China is going on. There will be more regional co-operation between Guangdong and Hong Kong in the fields of financial services, infrastructure and environment, as reinforced by the recent Framework Agreement on Hong Kong and Guangdong Co-operation. On the merchandise trade with the world, Hong Kong recorded a growth of 34% and 26% in imports and exports respectively in the first quarter of 2010. The notable growth was partly due to the low comparison base when the merchandise trade of Hong Kong was severely hit in the first quarter of 2009. That said, there are some positive signs in consumer confidence and business sentiment in line with a gradual fall of unemployment rate. Swiss exports of goods and services to Hong Kong are expected to benefit from an overall improvement of the local economy, an increasing demand of green technology and automation technology in industries in the Pearl River Delta as well as the robust consumption power of tourists from Mainland China.

Although the trend looks rosier than the last year, Hong Kong is facing some tricky challenges. On the domestic front, the HKSAR Government has to tackle an increasing risk of a property bubble and a huge gap between rich and poor. On the external environment, the fundamentals of the US and Europe are still shaky. Rising protectionist sentiment in the US and Europe is also a cause for concern.

1. Appreciation of economic problems and issues

1.1 General overview of HK's economy: The Hong Kong economy has been hit badly by the global economic crisis since 2008, but clear signs of improvements have been observed since the second quarter of 2009. For 2009 as a whole, GDP fell by only 2.7%. Merchandise trade was the most severely affected segment. The exports and imports of goods dropped by 12.6% and 11% respectively in 2009. Service trade performance fared better than merchandise trade. The exports and imports of services fell by 6.6% and 6.1% respectively. Fixed investment also dipped by 2.2%. Fortunately, consumer sentiment was not seriously affected. Private consumption expenditure dropped by only 0.3%. The unemployment rate has steadily come down in recent months, registering 4.4% in Jan-March 2010. It was the lowest unemployment rate since the fourth quarter of 2008. Both local and external price pressures have receded after the outbreak of the global economic crisis. The inflation rate was 0.5% in 2009. Visitor arrivals rose slightly by 0.3% to reach 29.6 million in 2009. Mainland visitors, accounted for 61% of total visitor arrivals, increased by 6.5% to reach 18 million. The influx of mainland visitors boosted the tourism-related sectors to a great extent.

The surging property prices resulting from the inflow of funds (mainly from mainland China) have aroused public concern about the difficulty of buying homes by Hong Kong inhabitants. One of the major challenges for the government is to work out a balance between preventing a property bubble and hindering the property market to crash.

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. In 2009, Hong Kong's domestic exports were confined to

[1] The HKSAR Government's fiscal year runs from 1st April to 31st March.

about 2.3% of its total exports while re-exports accounted for about 97.7% of its total exports. Hong Kong is the most important entrepôt for China. 62% of re-exports were of China origin and 51% were destined for China.

Hong Kong is the largest source of overseas direct investment in China. By the end of 2009, 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 US$ 396 billion, accounting for 41% of the national total. On the other hand, China is the biggest investor in Hong Kong. According to the Hong Kong Census and Statistics Department (HKCSD), China's cumulative direct investment in Hong Kong was US$ 296 billion or 37% of Hong Kong's total stock of inward direct investment at the end of 2008[2].

Hong Kong is a key offshore capital-raising centre for Chinese enterprises. As of December 2009, 524 mainland companies were listed in Hong Kong, comprising H-share, red-chip and mainland private companies with total market capitalization of US$ 10.4 trillion, 58% of the market total. For the past 10 years, mainland companies have raised more than US$ 226 billion via stock offerings (including IPO and Post IPO) in Hong Kong.

For information on the Closer Economic Partnership Arrangement (CEPA) and the Framework Agreement on Hong Kong and Guangdong Co-operation, please refer to 2.2 and 2.3

1.3 Situation 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 economic structure and contain the production activities of "high energy consumption, high pollution and resource consumption" industries, the Guangdong authorities has been pursuing orderly relocation of the PRD industries for a few years. Companies failing to upgrade their quality and technology either close down their factories or relocate to remote regions.

Enterprises staying in the PRD are facing both the shortage of labour and the rise of the labour costs (about 21% increase in the minimum wage in Guangdong with effect from 1st May 2010), according to the Federation of Hong Kong Industries. The considerable increase in the minimum wage will also raise the expectation of all other staff (at different levels) about the corresponding increase in their salaries and the labour costs will therefore be pushed up. To solve the labour issue in the long term, the Federation of Hong Kong Industries advises the HK-funded enterprises in the PRD to shift from labour-intensive production to capital-intensive production. The enterprises need to enhance the quality, automation level and value-added content of their products. In terms of business, the HK-funded enterprises have received more orders from overseas buyers since the second half of 2009. They are cautiously optimistic on the export outlook.

1.4 Public Finance: In the 2010-11 Budget released on 24th February 2010, Financial Secretary John Tsang has set three objectives: consolidating the recovery, developing the economy and building a caring society. The HKSAR Government has introduced fiscal stimulus and relief measures amounting to US$ 11.2 billion since 2008. It will rise to nearly US$ 14.1 billion with measures introduced in the budget this year. According to the financial results released by the HKSAR Government on 30th April 2010, expenditure amounted to US$ 37.5 billion whereas revenue amounted to US$ 40.8 billion, contributing to a surplus of US$ 3.3 billion for the year ended 31st March 2010. Thanks to high land premiums and a huge revenue from stamp duties in both the stock and property markets. The surplus further enhanced the very comfortable reserve position of the government and its reserves increased to US$ 66.7 billion as at 31st March 2010. Owing to huge investments in a few infrastructure projects, the government estimates that it will record budgetary deficits of US$ 3.2 billion, US$ 1.7 billion and US$ 0.9 billion over the next three years. It will achieve a budgetary balance by 2013-14.

1.5 New phase of tax policy: The Inland Revenue (Amendment) Ordinance 2010 and the Inland Revenue (Disclosure of Information) Rules came into effect on 12th March 2010. The Inland Revenue (Amendment) Ordinance 2010 enables the Inland Revenue Department to collect and transfer a person's information upon a legitimate and justified request from its comprehensive agreement for avoidance of double taxation partners, even if the department has no domestic tax interest in such information. To ensure taxpayers' privacy and confidentiality of the information exchanged, the Inland Revenue (Disclosure of Information) Rules also came into operation at the same time.

[2] Investment figures for 2009 will only be available by end Dec. 2010.

The above mentioned legislation enhances tax transparency. It enables Hong Kong to enter into comprehensive agreements for avoidance of double taxation with its trading partners and adopts the latest Organisation for Economic Co-operation & Development international standard on exchange of information. Switzerland and Hong Kong started negotiation of a comprehensive agreement for avoidance of double taxation in January 2010 and initialled the agreement in April 2010.

1.6 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. In response to the recent accusation by an US think tank at a hearing of the US House of Representatives that the Hong Kong dollars were undervalued, the Financial Secretary John Tsang rejected the claim that Hong Kong was a currency manipulator. He stressed that the dollar peg system (HK$7.8: US$1) has been implemented for more than two decades.

1.7 Statutory minimum wage rate: Hong Kong has a minimum wage system for foreign domestic workers but there is no legislation on a general minimum wage yet. The Provisional Minimum Wage Commission has been established to advise the government on the appropriate level of the initial statutory minimum wage rate. It will pave the way for the eventual legislation. At present, different stakeholders propose an hourly minimum wage rate ranging vastly from HK$ 20 (about US$ 2.6) to HK$ 33 (about US$ 4.2). The initial statutory minimum wage rate is not yet fixed. The government understands the importance to strike a good balance between forestalling excessively low wages and minimising the loss of low-paid jobs while sustaining the competitiveness of Hong Kong.

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 the city to become the world's 13th 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 in the Trade Committee of the Organization for Economic Cooperation and Development (OECD).

Hong Kong has so far concluded two free trade agreements with Mainland China (the Closer Economic Partnership Arrangement CEPA) and New Zealand. At present, Hong Kong is negotiating with the EFTA States (including Switzerland) for a free trade agreement.

Furthermore, Hong Kong has signed investment promotion and protection agreements with 16 countries including Finland, the Netherlands, Australia, Denmark, Sweden, Switzerland, New Zealand, Italy, France, Germany, Belgo-Luxembourg Economic Union, Austria, Japan, Korea, the United Kingdom and Thailand.

2.2 Closer Economic Partnership Arrangement (CEPA)

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 from Jan. 2004. It covered 3 broad areas, namely 1) trade in goods, 2) trade in services and 3) trade and investment facilitation. As a living agreement, the scope of market access and liberalization measures were expanded under CEPA II – VI in 2004-2009.

At present, all products of Hong Kong origin, except for a few prohibited articles, can be imported into the mainland tariff free under the CEPA. Since the tertiary sector accounts for more than 90% of GDP in Hong Kong, the real significance of the CEPA lies in the trade in services. Under the CEPA, the

Mainland has introduced liberalization measures covering 42 service sectors[3]. It is noteworthy that the latest supplements CEPA V and VI included some liberalization measures for early and pilot implementation in Guangdong Province. It covered accounting, banking, legal services, tourism, education, securities, transports, construction, environment, telecommunications, public utility, medical and dental, social services, convention and exhibition, placement and supply services of personnel as well as individually-owned stores. Guangdong is chosen as a testing ground for the pilot initiatives. It complements the policy direction enshrined in the Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020), which calls for intensive cooperation between Guangdong and Hong Kong.

Economic benefits

When the CEPA was signed in 2003, it was intended by the Central Government and the HKSAR Government as a booster to the then sluggish economy of Hong Kong which suffered high unemployment rates, consecutive deflation and a big property slump. The immediate benefits were felt from the early implementation of tourism services which brought an increasing inflow of Chinese tourists that stimulated tourism-related sectors in Hong Kong. Since then, the spending of Chinese tourists has been a driving force to support the retail sector in Hong Kong, in particular the market of luxury goods. Out of 18 million Chinese tourists to Hong Kong in 2009, 10.6 million Chinese tourists (59% of total and 10% more than in 2008) travelled under the individual visit scheme (IVS) which was introduced in CEPA.

CEPA has been an important mechanism that the Central and Hong Kong governments have employed to enhance financial cooperation. Under CEPA III, the Central government agreed to earnestly study the scope for expansion of Renminbi RMB business in Hong Kong. The RMB business has then been developed and expanded such as issues of RMB bonds and the cross-border trade settlement in RMB[4]. Under CEPA VI, the Chinese mainland and Hong Kong agreed to study the introduction on the mainland of open-end index-tracking exchange-traded funds (ETFs) backed by Hong Kong-listed stocks[5]. This will in future bolster the demand for Hong Kong stocks and give Hong Kong a key role in structuring related ETF products.

CEPA offers a good platform and lowers the thresholds 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.

The mainland has undergone rapid economic development over the past two decades. The tertiary industry has lagged behind the secondary industry. To achieve a more balanced growth and to take the economic development to a higher level, the Chinese Government has acknowledged the need to strive for quality growth supported by an efficient service 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.

2.3 Framework Agreement on Hong Kong and Guangdong Co-operation: The HKSAR Government and the Guangdong Provincial Government signed the Framework Agreement on Hong Kong and Guangdong Co-operation and witnessed by the State Vice-President Mr Xi Jinping on 7th April 2010.

[3] The 42 service sectors include legal services, accounting, construction and real estate, medical and dental, advertising, management consulting, convention and exhibition, telecommunications, audiovisual, distribution, insurance, banking, securities and futures, tourism, transport, freight forwarding agency, storage and warehousing, logistics, air transport, information technology, professionals qualification examinations, cultural and recreational, trade mark agencies, patent agencies, job referral agencies, job intermediaries, individually owned stores, computer and the related services, market research, management consulting services, public utility, building-cleaning, photographic, printing, translation, environmental, social services, sporting, mining services, scientific and technical consulting, rail transport and research and development.

[4] The Chinese Government approved the scheme of allowing settlement in RMB in the trade of Shanghai, Shenzhen, Guangzhou, Zhuhai and Dongguan with Hong Kong, Macao and the Asean member countries in July 2009. China has designated about 365 enterprises in the 5 mainland cities under the pilot scheme.

[5] Exchange Traded Funds (“ETFs”) are investment funds listed on the HKEx securities market. ETFs usually represent a portfolio of securities designed to track the performance of an index, offering investors an efficient way to obtain cost-effective exposure to specific markets or sectors.

The framework agreement has important implications. At the Central Government level, the Framework Agreement, which is endorsed by the State Council, has translated the macro policies of the Outline into concrete measures conducive to the development of Hong Kong and Guangdong, laying a foundation for incorporating the related initiatives into the National 12th Five-Year Plan. At the regional level, the Framework Agreement is the first agenda on Hong Kong/Guangdong co-operation ever endorsed by the State Council. It lays down the annual major work plans, provides a platform for Hong Kong/Guangdong co-operation, facilitates the updating of content in accordance with the position of annual co-operation developments, and seeks more "early and pilot measures". It sets clear targets and development positioning for Hong Kong and Guangdong co-operation, and outlines specific policies and measures.

The agreement covers Hong Kong and Guangdong in the fields of financial services, infrastructure, environment, education and manufacturing. The Central Government specifies Hong Kong to take the lead in creating a regional financial hub, with backup from other Pearl River Delta cities. The mainland will expand its Renminbi RMB cross-border trade settlement services to more regions, banks and industries. Both sides will facilitate the flow of key factors such as people, goods, information and capital across the boundary, with a view to building an international aviation, shipping and logistics hub and a modern economic circulation sphere. Both parties will implement a regional ecology and environment protection regime to create a high quality living area. Both parties will speed up the construction of cross-border transport infrastructure.

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 13th largest trading economy. Total exports of Hong Kong decreased by 12.6% to US$316 billion in 2009. Domestic exports dropped to US$ 7.4 billion (-36%) and re-exports fell to US$ 309 billion (-12%). Major export markets were China (51% of total exports), the US (12%), Japan (4.4%), Germany (3.2%) and the UK (2.4%). Major export products were electrical machinery and apparatus (26%), telecom, audio and video equipment (17%), office machines and computers (10%), clothing (7.2%) and textiles (3.1%).

Imports dropped to US$ 345 billion (-11%) in 2009. Major supplier countries were China (46% of total imports), Japan (8.8%), Taiwan (6.5%), Singapore (6.5%) and the US (5.3%). Major import products were electrical machinery and apparatus (27%), telecom, audio and video equipment (14%), office machines and computers (9.2%), clothing (4.5%) and textiles (2.9%).

Regulations: Hong Kong is a free port and there is no tariff on general imports except duty on strong liquors, tobacco, hydrocarbon oil and methyl alcohol.

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$ 86 billion (-6.6%) in 2009. It included: trade-related services (30% of total exports of services, decreased by 6.4%), transportation services (29% of total exports of services, decreased by 14%), travel services (19% of total exports of services, increased by 7.1%), financial services (13% of total exports of services, decreased by 7.3%), other services (8% of total exports of services, decreased by 7.6%) and insurance services (0.6% of total exports of services, decreased by 0.2%).

In 2008 (latest available information), exports of services by main destinations were China (US$ 22.5 billion, 25% of total, grew by 8.7%), the US (US$ 19.3 billion, 21% of total, grew by 8.1%), the UK (US$ 6.8 billion, 7.6% of total, grew by 2.8%), Japan (US$ 5.9 billion, 6.5% of total, grew by 2.1%) and Taiwan (US$ 4.7 billion, 5.2% of total, grew by 1.4%).

Import of services amounted to US$ 44 billion (-6.1%) in 2009. It included: travel services (36% of total imports of services, decreased by 1.1%), transportation services (31% of total imports of services, decreased by 14%), other services (17% of total imports of services, decreased by 5.1%), financial services (8% of total imports of services, increased by 10%), trade-related services (7% of total imports of services, decreased by 7.9%) and insurance services (1% of total imports of services, decreased by 11%).

In 2008 (latest available information), imports of services by main sources were China (US$ 12 billion, 26% of total, grew by 6.1%), the US (US$ 6.9 billion, 15% of total, grew by 11%), Japan (US$ 3.9 billion, 8.4% of total, grew by 12%), the UK (US$ 3.4 billion, 7.2% of total, grew by 6.7%) and Singapore (US$ 2.7 billion, 5.8% of total, grew by 15%).

3.2 Bilateral trade
3.2.1 Trade in goods

According to the Hong Kong Census and Statistics Department (HKCSD), Switzerland was the 12th largest trading partner of Hong Kong in 2009. Switzerland was Hong Kong's 11th largest supplier and 22nd largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 5,426 million (-12.7%) in 2009. Major Swiss exports included watches and clocks (40% of total, decreased by 20%, CHF 2,168 million in value), jewellery & precious metal (39% of total, decreased by 1.9%, CHF 2,118 million in value), chemical and pharmaceutical products (7.1% of total, decreased by 15%, CHF 384 million in value) and machinery (6% of total, decreased by 14%, CHF 328 million in value).

In 2009, Swiss exports to Mainland China (CHF 5,508 million in value) and Hong Kong (CHF 5,426 million in value) accounted for 5.8% of global Swiss exports, bringing China (incl. Hong Kong) to the position of Switzerland's most important market in Asia. On the other hand, Swiss imports from China (CHF 5,121 million) and Hong Kong (CHF 1,104 million) totalled CHF 6,225 million. Switzerland got a trade surplus worth CHF 4,709 million.

Hong Kong's total exports to Switzerland dropped to CHF 1,104 million (-23%) in 2009. Major total exports included jewellery & precious metal (55% of total, decreased by 29%, CHF 610 million in value), watches and clocks (23% of total, decreased by 13%, CHF 254 million in value), machinery (12% of total, decreased by 9.9%, CHF 127 million in value) and textiles and garments (2.8% of total, dropped by 31%, CHF 31 million in value).

According to the HKCSD, Swiss exports to Hong Kong totalled US$ 5,292 million (-11.5%) in 2009 of which goods worth US$ 1,677 million were re-exported to other countries and notably to China. Swiss goods worth US$ 736 million (-15%) were re-exported to China via Hong Kong in 2009. Major products were watches and clocks (US$ 231 million), medicaments (US$ 56 million), silver and platinum (US$ 47 million), measuring instruments (US$ 38 million), semi-conductors (US$ 31 million) and colouring matter (US$ 29 million).

There has been a substantial quantity of Swiss products entering China via Hong Kong in recent years from US$ 518 million in 2005, US$ 610 million in 2006, US$ 700 million in 2007, US$ 867 million in 2008 and US$ 736 million in 2009. 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.

According to the HKCSD, Hong Kong exports to Switzerland totalled US$ 1,879 million (-29%) in 2009[6]. Among them, products of Chinese origin worth US$ 999 million (-27%) were re-exported to Switzerland via Hong Kong. Major products were watches and clocks (US$ 403 million), clothing (US$

[6] There is a huge discrepancy between the figures of the Hong Kong exports to Switzerland provided by the Swiss Federal Customs Administration FCA and the HKCSD. Major deviations were found on items such as clocks and watches (US$ 670 million according to the HKCSD and CHF254 million according to the FCA), electrical and non-electrical machinery (US$ 270 million according to the HKCSD and CHF 127 million according to the FCA) as well as textiles and garments (US$ 129 million according to the HKCSD and CHF 31 million according to the FCA). Clarification with the FCA and the HKCSD is in progress and our next update report will include the findings.

134 million), jewellery (US$ 63 million), telecom equipment (US$ 59 million) as well as silver and platinum (US$ 45 million).

Outlook for Swiss exports to Hong Kong

The economy of Hong Kong has improved since the second quarter of 2009. It is expected to rebound to an annual growth of 4% to 5% in 2010. Retail sales have seen a significant growth in recent months, showing strong consumer confidence. In the first quarter of 2010, the value of retail sales increased by 18.8% on the year-on-year basis. Merchandise trade also improved remarkably and grew by 30% in the first quarter of 2010, whereas imports rose by 34% and exports rose by 26%.

Renowned brands and luxury items 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 Mainland China (tourists from Mainland China reached 18 million or 61% of total visitor arrivals in 2009). Hong Kong is a window of the world to Chinese tourists who have high consuming power. Tourists from Mainland China account for about 70% - 80% of sales of Swiss hi-end watches in Hong Kong. Swiss medium-priced watches with brands known to mainland consumers also perform very well in the market. In the sector of beauty products, according to a leading cosmetic retailer, tourists from Mainland China account for about 40-45% of their total sales in Hong Kong. In peak seasons, tourists from Mainland China account for more than 50% of their total sales.

According to the Federation of the Swiss Watch Industry, Swiss watch exports to Hong Kong rose by 34% in the first quarter of 2010 when compared with the first quarter of 2009 and grew by 14% when compared with the first quarter of 2008. The signs of recovery were further confirmed at the Baselworld 2010. Swiss watchmakers are optimistic, in particular, in the Asian market.

The growth of the Swiss exports was not confined to watches only. According to the HKCSD, a few categories of Swiss products exporting to Hong Kong recorded a remarkable growth in the first quarter of 2010. It included jewellery (increased by 55%), semi-conductors, electronic valves and tubes (increased by 52%), medicaments (increased by 157%), travel goods and handbags (increased by 74%), pearls, precious and semi-precious stones (increased by 125%) as well as inorganic chemicals (increased by 365%).

The global financial crisis galvanised the HKSAR Government's thinking on economic diversification. The Task Force on Economic Challenges has identified to promote six promising industries including education services, medical services, testing and certification, environmental industries, innovation and technology as well as cultural and creative industries. Swiss equipment and know-how has an edge and a good market potential in medical services, testing and certification, environmental industries as well as innovation and technology. Furthermore, as mentioned in 1.3, there is an increasing demand for upgrading and automation in the industries in the PRD. It will offer business opportunities for Swiss companies which can provide solutions and technology to enterprises in the PRD.

3.2.2 Trade in services

According to the HKCSD, Hong Kong's exports of services to Switzerland amounted to US$ 882 million (1% of total exports of services, dropped by 16%) in 2008[7]. Switzerland ranked 15th largest market for Hong Kong's exports of services. It consisted of transportation services (US$ 496 million), financial services (US$ 107 million), trade-related services (US$ 92 million) and other services (US$ 143 million). Figures on travel services and insurance services were unavailable due to confidentiality of information relating to individual establishments.

Hong Kong's imports of services from Switzerland reached to US$ 338 million (0.7% of total imports of services, increased by 5%) in 2008. Switzerland ranked 21st largest supplier in this category. It consisted of transportation services (US$ 85 million), travel services (US$ 40 million), insurance

[7] The trade in services figures for 2009 will only be available by end Feb. 2011.

services (US$ 36 million), financial services (US$ 38 million), trade-related services (US$ 9 million) and other services (US$ 130 million).

4. Direct Investments
4.1 Development and general outlook

According to the HKCSD, at the end of 2008, the stock of Hong Kong's inward direct investments fell by 31% to US$ 811 billion. Major investor countries were China (US$ 296 billion or 37% of total, decreased by 38%), British Virgin Islands BVI (US$ 262 billion or 32% of total, decreased by 39%), the Netherlands (US$ 53 billion or 6.5% of total, decreased by 22%), Bermuda (US$ 46 billion or 5.7% of total, decreased by 6.4%) and the US (US$ 32 billion, 3.9% of total, decreased by 11%).

China was the biggest source of HK's inward direct investment as well as the most important destination for Hong Kong's outward direct investment (US$ 336 billion or 44% of total). 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 377% and 352% of GDP respectively in 2008. 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 for channelling direct investment funds back to Hong Kong.

As mentioned in 1.5, Hong Kong completed the legislative proceedings to amend the Inland Revenue Bill in March 2010. It enhances tax transparency of Hong Kong. The amendment enables Hong Kong to adopt the OECD 2004 version of the Exchange of Information Article in comprehensive avoidance of double taxation agreements. However, Hong Kong and the above-mentioned offshore financial centres are not yet treaty partners (avoidance of double taxation agreement). In other words, there is no mechanism to exchange information for taxation purposes between them. Therefore the trend of channelling investment funds from these offshore financial centres to Hong Kong and vice versa seems unlikely to change in short term.

According to the International Monetary Fund (IMF), inward portfolio investments to Hong Kong amounted to US$ 555 billion (-29%) in 2008. Major investor countries were China (103 billion or 19% of total, dropped by 38%), the US (US$ 73 billion or 13% of total, grew by 2.8%), Cayman Islands (US$ 72 billion or 13% of total, dropped by 45%), the UK (US$ 70 billion or 13% of total, dropped by 5.4%) and Bermuda (US$ 43 billion or 7.7% of total, dropped by 59%).

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 were about US$ 5.4 billion (0.7% of total, grew by 32%) and ranked the 12th largest investor country in 2008[8]. Swiss portfolio investments in Hong Kong reached US$ 1.8 billion (0.3% of total, dropped by 27%), according to the IMF.

As at 1st June 2009, 46 Swiss companies have set up their regional headquarters in Hong Kong. 61 Swiss companies have set up their regional offices whereas 61 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 (ranked 18th) respectively. The HKCSD compiles for top 20 recipient countries only. As Switzerland dropped out of this category in 2005-2008, the corresponding figure is no longer available.

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[8] Bilateral investment figures for 2009 will only be available by end Dec. 2010.

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

The Consulate General of Switzerland, the Federation Horlogère, Switzerland Tourism, the Swiss Chamber of Commerce in Hong Kong and the Swiss-Chinese Chamber of Commerce/the Swiss-Hong Kong Business Association 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. For details, please visit its website www.swisschamhk.org.

Swiss-Chinese Chamber of Commerce/Swiss-Hong Kong Business Association

The Swiss-Chinese Chamber of Commerce is a non-profit association registered in Switzerland. The Swiss-Hong Kong Business Association is established by the Swiss-Chinese Chamber of Commerce and the Hong Kong Trade Development Council HKTDC. For details, please visit its website www.sccc.ch.

Switzerland Tourism

According to Switzerland Tourism, Hong Kong visitors staying overnight increased by 20% to 61,506 in 2009. Switzerland Tourism organised seven media trips, four travel talks in radio and ten travel seminars in 2009. 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. For details, please visit its website 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.

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)
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)

Trade exhibitions calendar:
Please refer to Hong Kong Trade Development Council (http://www.tdctrade.com)

Appendices

1. Structure of the economy
2. Essential economic data
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5. Main investor countries
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Appendix 1

Structure of Economy

	1995	**2006**	**2007**	**2008**	**% Change 1995 / 2008**
Spreading GDP (%)					
Primary Sector	0.2%	0.1%	0.1%.	0.1%.	-50%
Secondary Sector	16%	8.7%	7.7%	7.9%	-51%
Tertiary Sector	83.8%	91.2%	92.3%	92%	+9.8%
Spreading Employment					
Primary Sector	0.6%	0.3%	0.2%	0.3%	-67%
Secondary Sector	27.1%	13.4%	13.2%	12.6%	-51%
Tertiary Sector	72.3%	86.3%	86.6%	87.1%	+20%

Source: Hong Kong Census and Statistics Department

Appendix 2

Essential Economic Data

	2002	2003	2004	2005	2006	2007	2008	2009
GDP (USD billion)	159.9	158.5	165.8	177.3	189.1	207.1	215.2	209.4
GDP per capita (USD)	23,466	23,150	24,100	26,000	27,600	29,900	30,800	29,900
GDP growth (%)	1.9	3.2	8.6	7.1	7.0	6.4	2.5	-2.7
Inflation (%)	-3.0	-2.6	-0.4	1.0	2.0	2.0	4.3	0.5
Unemployment rate (%)	7.3	7.9	6.9	5.6	4.8	4.0	3.5	5.2
Fiscal balance (% of GDP)	-4.8	-3.3	-0.3	1.0	4.0	7.2	-0.3	0.8
Current account balance (% of GDP)	7.9	10.4	9.5	11.4	10.8	12.3	13.5	10.7(a)
Reserves (in months of imports)	22.6	23.3	21.1	19.8	18.6	19.5	22.3	33.9

(a) IMF forecast

Sources: HKSAR Government, IMF

Appendix 3

Trading Partners 2009

	Exports to country/region	Exports (USD millions)	Share (%)	Growth* (%)
1	China	161,955	51	-7.8
2	USA	36,569	12	-21
3	Japan	13,958	4.4	-10
4	Germany	10,172	3.2	-16
5	UK	7,650	2.4	-21
6	Taiwan	7,014	2.2	-0.4
7	India	6,703	2.1	0.2
8	Korea Rep	5,530	1.7	-13
9	Singapore	5,417	1.7	-24
10	Netherlands	4,778	1.5	-18
	EU	39,535	12	-20
22	**Switzerland**	**1,879**	**0.6**	**-29**
	Total	316,550	100	-12.6
	Imports from country/region	**Imports (USD millions)**	**Share (%)**	**Growth* (%)**
1	China	160,176	46	-11
2	Japan	30,304	8.8	-21
3	Taiwan	22,519	6.5	-8.5
4	Singapore	22,392	6.5	-10
5	USA	18,223	5.3	-5.7
6	Korea Rep	13,211	3.8	-13
7	Malaysia	8,720	2.5	2.8
8	Thailand	7,383	2.1	-9.7
9	India	6,744	2	-9.3
10	Germany	6,424	1.9	-6.2
	EU	26,749	7.7	-8.7
11	**Switzerland**	**5,292**	**1.5**	**-11.5**
	Total	345,174	100	-11

* year-on-year basis

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

Appendix 4 Bilateral Trade Table

Bilateral trade Switzerland – Hong Kong

	Exports (CHF million)	% Change	Imports (CHF million)	% Change	Trade Balance	Total Imp./Exp.	% Change
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	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	4'012	-5.3 %	1'674	52.4%	2'338	5'686	16.2%
2006	4'694	17.0%	1'457	-13.0%	3'237	6'151	8.2%
2007	5'296	12.8%	1'185	-18.6%	4'111	6'481	5.4%
2008	6'219	17.1%	1'440	21.5%	4'779	7'659	17.9%
2009	**5'426**	**-12.7%**	**1'104**	**-23.3%**	**4'322**	**6'530**	**-14.7%**

Major products

Exports	2008		2009		
	% of total	CHF million	% of total	CHF million	% Change 2008/2009
1. Watches and clocks	43	2'698	40	2'168	-20
2. Jewellery and precious stones	35	2'158	39	2'118	-1.9
3. Chemical and pharmaceutical products	7.3	454	7.1	384	-15
4. Machinery	6.1	382	6	328	-14

Imports	2008		2009		
	% of total	CHF million	% of total	CHF million	% Change 2008/2009
1. Jewellery and precious stones	59	853	55	610	-29
2. Watches and clocks	20	292	23	254	-13
3. Machinery	9.8	141	12	127	-9.9
4. Textiles and garments	3.2	46	2.8	31	-31

Appendix 5

Major investor countries/regions 2008

Rank	Country/Region	Direct investments (USD billion)	Share (%)	Growth (%)	Change of inflow (USD billion)
1	China	296	37%	-38%	9.7
2	British Virgin Islands	262	32%	-39%	**
3	Netherlands	53	6.5%	-22%	**
4	Bermuda	46	5.7%	-6.4%	-1.4
5	USA	32	3.9%	-11%	-2.8
6	Japan	21	2.6%	**	-0.8
7	UK	15	1.8%	-14%	-1.3
8	Cayman Islands	14	1.7%	-2%	-0.9
9	Singapore	14	1.7%	2%	-0.9
10	Cook Islands	7	0.9%	73%	0.86
	EU	81	10%	-16%	-2.8
12	**Switzerland**	**5.4**	**0.7%**	**32%**	*****
	Total	811	100 %	-31%	5.2
Rank	**Country/Region**	**Portfolio investments (USD billion)**	**Share (%)**	**Growth (%)**	**Change of inflow (USD billion)**
1	China	103	19%	-38%	N.A.
2	USA	73	13%	2.8%	N.A.
3	Cayman Islands	72	13%	-45%	N.A.
4	UK	70	13%	-5.4%	N.A.
5	Bermuda	43	7.7%	-59%	N.A.
6	Australia	34	6.1%	-21%	N.A.
7	Japan	32	5.8%	52%	N.A.
8	Luxembourg	16	2.9%	-41%	N.A.
9	Republic of Korea	15	2.7%	-25%	N.A.
10	Netherlands	11	2%	-15%	N.A.
24	**Switzerland**	**1.8**	**0.3%**	**-27%**	N.A.
	Total	555	100%	-29%	N.A.

*N.A. Not available
** Insignificant variation
*** Insignificant amount of inflow

Sources : Hong Kong Census & Statistics Department, IMF