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Hong Kong, 25th Nov. 2010

Annual Economic report: Hong Kong 2010 Update

1. Appreciation of economic problems and issues

1.1 General overview of HK's economy: The Hong Kong economy continued to see a robust growth in the third quarter of 2010. Real GDP expanded further by 6.8% year-on-year, following a strong growth of 7.2% in the first half of 2010. On a quarter-to-quarter comparison, it was the sixth consecutive quarter of expansion. Merchandise exports maintained strong momentum in the third quarter, surging by 21% year-on-year. The strong domestic demand and further expansion in intra-regional production activity in the Asian markets provided the main impetus. Exports of services were vibrant, up 14.0% year-on-year in the third quarter. Inbound tourism thrived on the surge in visitor arrivals from the Mainland and other Asian markets. Riding on improving employment situation and rising incomes, private consumption expenditure picked up further and grew by 5.7% year-on-year in the third quarter of 2010. Labour market continued to improve and unemployment rate dropped to 4.2% in July-September 2010. Inflation rate rose by 2.3% in the first nine months of 2010. It is expected to go up further due to higher import prices amid a weaker US dollar and elevated food and commodity prices.

The property prices in Hong Kong have risen by about 47% since the global financial crisis in 2008. The soaring property prices are one of the greatest concerns in the community. On one hand, the risk of asset market bubble is increasing. On the other hand, the general public is discontented with unaffordable property prices. The government therefore introduced new anti-property speculation measures on 19th Nov. 2010. To enhance risk management in mortgage lending by banks in Hong Kong, the Hong Kong Monetary Authority announced guidelines to banks to lower further the Loan-to-Value ratio to 50-60% for mortgages on residential properties with a value at or above worth HK\$ 8 million. The government also introduced a Special Stamp Duty from 5% to 15% (which depends on the length of holding periods) on residential properties on top of the current property transaction stamp duty.

1.2 Policy Address 2010-11: Chief Executive Donald Tsang delivered his Policy Address 2010-11 on 13th October 2010. Although the Hong Kong economy has stepped out of the shadow of the global financial crisis, Donald Tsang admitted that housing, the wealth gap and elderly welfare would be the principal issues to tackle. He proposed to increase land and housing supply, build about 15,000 flats for public housing each year, introduce "My Home Purchase Plan"¹, enhance the transparency of the sale of first-hand residential properties, solve the "inflated building" problem² and revise the Capital Investment Entrant Scheme to temporarily remove real estate from the investment asset classes under the scheme.

The Minimum Wage Ordinance was passed in July 2010. The government will submit the subsidiary legislation on the minimum wage level (initially set at HK\$ 28 or about US\$ 3.6 an hour) to the Legislative Council. The government expects the statutory minimum wage to come into force in the first half of 2011. Furthermore, the Secretary for Labour and Welfare will conduct a study on standard

¹ Under the plan, the government will provide some 5,000 small and medium flats to assist first-time home buyers from the sandwich class. The government will lease the flats to eligible applicants at prevailing market rent for a tenancy period of up to five years. Within a specified time frame, tenants of the Plan may purchase a flat at prevailing market price or in the private market and receive a subsidy equivalent to half of the net rental they have paid during the tenancy period, and use it for part of the down payment.

² The government's purpose of allowing private buildings to increase floor area to include green and amenity features is to enhance the living environment of private buildings. In recent years, many developers have used this concessionary policy to substantially increase the floor area of buildings, which has given rise to the so-called "inflated building" problem. The government now decides to tighten the policy and impose an overall cap of 10% for a number of features which still qualify for concession.

working hours. The government understands that it will be a complicated issue and has to be handled with care to strike a balance between the interests of various sectors.

Donald Tsang also proposed to enhance the community and home care services for the elderly and strengthen public healthcare services. In view of an ageing population and rising medical costs in Hong Kong, the government has put forward proposals for a voluntary Health Protection Scheme for public consultation. The government will consider to spend about US\$ 6.4 billion to support the said scheme and provide incentives for the public.

The government will work with Guangdong Province to seek to incorporate the Hong Kong-Guangdong co-operation into the National 12th Five-Year Plan. Hong Kong will strengthen co-operation with Shenzhen in the development of Qianhai, Shenzhen as a hinterland for Hong Kong's service industries. Thanks to improving relations between Mainland China and Taiwan, Hong Kong will endeavour to promote multi-faceted and multi-level exchanges with Taiwan.

Hong Kong will strengthen financial co-operation with China, particularly the internationalisation of the RMB. The government may seek the expansion of channels for enterprises to invest in China with the RMB raised in Hong Kong. The government will promote capital flows between banks in Hong Kong and China and attract more foreign enterprises to use the RMB settlement services in Hong Kong. It will encourage more enterprises to issue RMB bonds in Hong Kong as well as strengthen the linkage between products traded on the stock exchanges of Hong Kong and China.

According to the latest poll (released on 28th October) by the University of Hong Kong, Hong Kong people in general agreed with Donald Tsang's policy principles, but they were not optimistic of the outcome of his policy proposals, in particular, housing policies and the poverty alleviation measures. Nevertheless, the poll revealed that the majority of Hong Kong people supported his decision not to kick off local legislation for Article 23 of the Basic Law³.

When Donald Tsang spoke to business chambers about his policy address in November 2010, he highlighted the changing socio-political landscape in Hong Kong. He was aware of increasing social tension and public sentiment against the rich. The fruits of prosperity had not been trickling down to the grassroots level. He therefore asked the business community to respect and take corporate social responsibility or Hong Kong would pay a heavy price for social discontent and instability.

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. In Jan-Sept. 2010, Hong Kong's domestic exports were confined to 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 2008⁴.

Hong Kong is a key offshore capital-raising centre for Chinese enterprises. As of October 2010, the capitalization of China-related stocks in the Main Board of the Hong Kong Stock Exchange reached US\$ 1,228 billion or 46% of the market total.

For information on the Closer Economic Partnership Arrangement (CEPA), please refer to 2.2.

³ Article 23 of the Basic Law stipulates that the Hong Kong Special Administrative Region shall enact laws on its own to prohibit any act of treason, secession, sedition, subversion against the Central People's Government, or theft of state secrets, to prohibit foreign political organizations or bodies from conducting political activities in the Region, and to prohibit political organizations or bodies of the Region from establishing ties with foreign political organizations or bodies.

⁴ Investment figures for 2009 will only be available by end Dec. 2010.

1.4 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 US second round of quantitative easing, the government reaffirmed to maintain the dollar peg. The peg has served as a robust anchor of monetary and financial stability for Hong Kong, according to the HKSAR Government. The International Monetary Fund maintained its long-standing support for the dollar peg in its latest report released in November 2010.

1.5 Expiry of full deposit guarantee: The full deposit guarantee introduced by the HKSAR Government in October 2008 in response to the global financial crisis will expire at the end of 2010. With effect from 1st January 2011, the deposit protection scheme will cover up to HK\$ 500,000. According to the government, about 90% of depositors will be fully covered, at the higher end of international practice.

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 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 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 17 countries including Finland, Kuwait, 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 January 2004. It covered 3 broad areas, namely 1) trade in goods, 2) trade in services and 3) trade and investment facilitation. As the CEPA adopts a building block approach, the scope and liberalization measures were expanded under its supplements II – VI during 2004-2009. The latest Supplement VII was signed on 27th May 2010, witnessed by the Chief Executive Donald Tsang and Mr Jiang Zengwei, the Vice-Minister of Commerce from the Central Government. The new liberalisation measures will take effect from 1st January, 2011.

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. Nevertheless, as the tertiary sector accounts for about 92% of GDP in Hong Kong, the real significance of the CEPA lies in the trade in services.

The CEPA Supplement VII provides 35 market liberalisation and trade and investment facilitation measures in 19 sectors. Two new sectors "specialty design" and "technical testing, analysis and product testing" are added to the Supplement VII, bringing the total number of liberalised service sectors from 42 to 44⁵.

⁵ The 44 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,

Major market liberalisation measures cover tourism, medical services, financial services, professional services as well as small and individual businesses.

On the whole, the CEPA Supplement VII will expedite and facilitate Hong Kong service industries to enter and expand in the Mainland market, and foster service industries' integration and professional exchanges of the two sides. Moreover, most of the market liberalisation and facilitation measures cover the four pillar industries (tourism, financial services, professional services as well as trading and logistics) and the six industries (medical services, education services, environmental industries, testing and certification, innovation and technology as well as cultural and creative industries) in which the HKSAR Government is keen to promote. It will help consolidate the status of Hong Kong as an international financial, trade, shipping, logistics and high value-added service centre. It will also lay the foundation for the two sides to jointly develop the said six industries.

Out of 16.5 million Chinese tourists to Hong Kong in Jan-Sept. 2010, about 10.3 million Chinese tourists (62% of total and 37% growth year-on-year in the first three quarters of 2010) travelled under the individual visit scheme which was introduced in CEPA. At present, the individual visit scheme has been extended to 49 Mainland cities. As a matter of fact, 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.

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 26% to US\$ 286 billion in Jan-Sept. 2010. Domestic exports rose to US\$ 6.5 billion (+22% year-on-year) while re-exports rose to US\$ 279.5 billion (+26% year-on-year). Major export markets were China (53% of total exports), the US (11%), Japan (4.1%), Germany (2.6%) and India (2.5%). Major export products were electrical machinery and apparatus (29%), telecom, audio and video equipment (17%), office machines and computers (11%), clothing (6.2%) as well as watches, optical goods and photographic equipment (3.1%).

Imports rose to US\$ 318 billion (+29%) in Jan-Sept. 2010. Major supplier countries were China (45% of total imports), Japan (9.2%), Singapore (7.2%), Taiwan (6.9%) and the US (5.3%). Major import products were electrical machinery and apparatus (29%), telecom, audio and video equipment (13%), office machines and computers (9.6%), clothing (3.8%) as well as petroleum and petroleum products (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\$ 77 billion (+27%) in Jan-Sept. 2010⁶. In 2009, exports of services included: trade-related services (30% of total exports of services), transportation services (29% of total), travel services (19% of total), financial services (13% of total), other services (8% of total) and insurance services (0.6% of total exports of services).

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, research and development, specialty design as well as technical testing, analysis and product testing.

⁶ The breakdown of exports and imports of services by service group (such as trade-related services, transportation services and etc.) for 2010 will be available in Feb. 2011.

In 2008 (latest available information⁷), 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\$ 37 billion (+17%) in Jan-Sept. 2010. In 2009, imports of services included: travel services (36% of total imports of services), transportation services (31% of total), other services (17% of total), financial services (8% of total), trade-related services (7% of total) and insurance services (1% of total).

In 2008 (please see footnote 7), 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, Switzerland was the 12th largest trading partner of Hong Kong in Jan-Sept. 2010. Switzerland was Hong Kong's 11th largest supplier and 21st largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 5,283 million (+16%) in Jan-Oct. 2010. Major Swiss exports included watches and clocks (47% of total, increased by 42%, CHF 2,477 million in value), jewellery & precious metal (31% of total, decreased by 15%, CHF 1,630 million in value), chemical and pharmaceutical products (8.7% of total, increased by 45%, CHF 458 million in value) and machinery (6.3% of total, increased by 31%, CHF 332 million in value).

In Jan-Oct. 2010, Swiss exports to Mainland China (CHF 5,923 million in value) and Hong Kong (CHF 5,283 million in value) accounted for 6.6% 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 5,079 million) and Hong Kong (CHF 1,277 million) totalled CHF 6,356 million. Switzerland got a trade surplus worth CHF 4,850 million.

Hong Kong's total exports to Switzerland rose to CHF 1,277 million (+36%) in Jan-Oct. 2010. Major total exports included jewellery & precious metal (65% of total, increased by 59%, CHF 826 million in value), watches and clocks (19% of total, increased by 10%, CHF 239 million in value), machinery (8.2% of total, increased by 1%, CHF 105 million in value) as well as textiles and garments (2.3% of total, increased by 3.8%, CHF 29 million in value).

According to the Hong Kong Census and Statistics Department, Swiss goods worth US\$ 1,530 million were re-exported to other countries and notably to China (US\$ 701 million in value, increased by 34% year-on-year) via Hong Kong in Jan-Sept. 2010. Major products were watches and clocks (US\$ 211 million), silver and platinum (US\$ 118 million), medicaments (US\$ 48 million), measuring instruments (US\$ 33 million) and colouring matter (US\$ 28 million).

In Jan-Sept. 2010, products of Chinese origin worth US\$ 915 million (+24% year-on-year) were re-exported to Switzerland via Hong Kong. Major products were watches and clocks (US\$ 398 million), clothing and clothing accessories (US\$ 106 million), jewellery (US\$ 74 million), telecom equipment (US\$ 56 million) and electrical apparatus (US\$ 27 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, US\$ 736 million in 2009 and US\$ 701 million in Jan-Sept. 2010. 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.

⁷ Exports and imports of services by destinations for 2009 will be available in Feb. 2011.

Outlook for Swiss exports to Hong Kong

The economy of Hong Kong has displayed strong resilience through the global financial crisis. The government has revised the GDP growth upwards to 6.5% for 2010. Local consumer sentiment is strong, supported by the improving income and job prospects. As to business sentiment, the latest survey conducted by the government indicates that large enterprises remain positive about the near-term business outlook.

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 about 16.5 million or 63% of total visitor arrivals in Jan-Sept. 2010). 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. According to the Federation of the Swiss Watch Industry, Swiss watch exports to Hong Kong rose by 42% year-on-year in Jan-Oct. 2010. If compared with the first ten months of 2008, it still grew by 8.4%. In the sector of beauty products, according to a leading cosmetic retailer, tourists from Mainland China account for about 40-50% of their total sales in Hong Kong.

The growth of the Swiss exports was not confined to watches only. A few categories of Swiss products exporting to Hong Kong recorded a remarkable growth in Jan-Oct. 2010. It included machinery (grew by 31%), chemical and pharmaceutical products (grew by 45%) as well as agricultural, food and beverage products (grew by 92%).

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. There is an increasing demand for upgrading and automation in the industries in the Pearl River Delta. It will offer business opportunities for Swiss companies which can provide solutions and technology to enterprises in the Pearl River Delta.

According to the General Administration of Customs in China, Mainland resident passengers may bring in duty-free articles for personal use worth a total of RMB 5,000. The Customs in China will levy duty on article(s) whose value exceeds the duty-free limit. There have been reports in the local media that the Customs in China has in recent times adhered and implemented strictly to its tax rules on charging duty on items bought abroad (including Hong Kong) by mainland residents. This Consulate General and the Federation of the Swiss Watch Industry Hong Kong will monitor closely the development of the situation and its possible impacts on sales of watches and luxury goods. According to the Hong Kong Tourism Board, the number of mainland visitors to Hong Kong and their spending seems not much affected in the meantime.

Rents of retail shops and boutiques are extremely high in prime areas. According to the Federation of the Swiss Watch Industry Hong Kong, it is one of the biggest concerns to Swiss watch companies operating in Hong Kong. The government just introduced new measures such as lowering the loan-to-value ratio for mortgages and a levy of a Special Stamp Duty to address the overheating of residential property market (please see paragraph 1.1). It is too early to evaluate the effectiveness of the policy as well as its impacts on local consumer sentiment. Furthermore, since a levy of a Special Stamp Duty is not applicable to shops and commercial premises, some analysts fear that it may tempt investors and speculators to turn their attention to commercial properties and push the prices and rents of these properties even higher.

On the external front, the global economy continued to recover at an uneven pace across regions. Given that the growth of most advanced economies remained weak, it may pose a drag on external trade performance and hence the economic growth in Hong Kong.

3.2.2 Trade in services

According to the Hong Kong Census and Statistics Department, Hong Kong's exports of services to Switzerland amounted to US\$ 882 million (1% of total exports of services, dropped by 16%) in 2008⁸. 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 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 Hong Kong Census and Statistics Department, at the end of 2008⁹, 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.

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 Hong Kong Census and Statistics Department, 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 2008¹⁰.

As at 1st June 2010, 47 Swiss companies have set up their regional headquarters in Hong Kong. 57 Swiss companies have set up their regional offices whereas 73 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 Hong Kong Census and Statistics Department, 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

⁸ The trade in services figures for 2009 will only be available by end Feb. 2011.

⁹ Investment figures for 2009 will only be available by end Dec. 2010.

¹⁰ Bilateral investment figures for 2009 will only be available by end Dec. 2010.

recipient countries only. As Switzerland dropped out of this category in 2005-2008, 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 of the Swiss Watch Industry, 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

Switzerland Tourism organises media trips, travel talks in the media and travel seminars on regular basis. All the above activities help to promote Switzerland in excellent image and top quality branding.

The Federation of the Swiss Watch Industry

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
3. Trading partners
4. Bilateral trade between Switzerland and Hong Kong
5. Main investor countries

Appendix 1

Structure of Economy

	1995	2006	2007	2008	2009	% Change 1995 / 2009
Spreading GDP (%)						
Primary Sector	0.2%	0.1%	0.1%	0.1%	0.1%	-50%
Secondary Sector	16%	8.7%	7.7%	7.9%	7.8%	-51%
Tertiary Sector	83.8%	91.2%	92.3%	92%	92.1%	+9.9%
Spreading Employment						
Primary Sector	0.6%	0.3%	0.2%	0.3%	0.2%	-67%
Secondary Sector	27.1%	13.4%	13.2%	12.6%	11.8%	-56%
Tertiary Sector	72.3%	86.3%	86.6%	87.1%	88%	+22%

Source: Hong Kong Census and Statistics Department

Appendix 2

Essential Economic Data

	2003	2004	2005	2006	2007	2008	2009	2010
GDP (USD billion)	158.5	165.8	177.3	189.1	207.1	215.2	209.4	226 (a)
GDP per capita (USD)	23,150	24,100	26,000	27,600	29,900	30,800	29,900	32,000 (a)
GDP growth (%)	3.2	8.6	7.1	7.0	6.4	2.5	-2.7	6.5 (a)
Inflation (%)	-2.6	-0.4	1.0	2.0	2.0	4.3	0.5	2.3 (b)
Unemployment rate (%)	7.9	6.9	5.6	4.8	4.0	3.5	5.2	4.2 (c)
Fiscal balance (% of GDP)	-3.3	-0.3	1.0	4.0	7.2	-0.3	0.8	n.a.
Current account balance (% of GDP)	10.4	9.5	11.4	10.8	12.3	13.5	8.7	8.3(d)
Reserves (in months of imports)	23.3	21.1	19.8	18.6	19.5	22.3	33.9	n.a.

(a) HKSAR Government forecast

(b) year-on-year change in Jan-Sept. 2010

(c) July-Sept. 2010

(d) IMF forecast

Sources: HKSAR Government, IMF

Appendix 3

Trading Partners Jan-Sept. 2010

	Exports to country/region	Exports (USD millions)	Share (%)	Growth* (%)
1	China	152,215	53	32
2	USA	31,186	11	17
3	Japan	11,840	4.1	19
4	Germany	7,505	2.6	1
5	India	7,081	2.5	48
6	Taiwan	6,468	2.3	36
7	UK	5,670	2	2.7
8	Korea Rep	5,026	1.8	27
9	Singapore	4,775	1.7	22
10	Netherlands	4,225	1.5	27
	EU	31,825	11	11
21	Switzerland	1,738	0.6	27
	Total	286,056	100	26
	Imports from country/region	Imports (USD millions)	Share (%)	Growth* (%)
1	China	143,574	45	25
2	Japan	29,211	9.2	38
3	Singapore	22,738	7.2	44
4	Taiwan	21,797	6.9	38
5	USA	16,835	5.3	27
6	Korea Rep	12,781	4	41
7	Malaysia	8,053	2.5	29
8	Thailand	7,245	2.3	38
9	India	6,904	2.2	39
10	Germany	5,388	1.7	23
	EU	23,124	7.3	21
11	Switzerland	4,656	1.5	20
	Total	317,461	100	29

* 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	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	1'457	-13	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
Jan-Oct. 2010	5'283	16	1'277	36	4'006	6'560	19

Major products

Exports	Jan-Oct. 2009		Jan-Oct. 2010		
	% of total	CHF million	% of total	CHF million	% Change Jan-Oct. 2009/2010
1. Watches and clocks	38	1'741	47	2'477	42
2. Jewellery and precious stones	42	1'908	31	1'630	-15
3. Chemical and pharmaceutical products	6.9	316	8.7	458	45
4. Machinery	5.6	254	6.3	332	31

Imports	Jan-Oct. 2009		Jan-Oct. 2010		
	% of total	CHF million	% of total	CHF million	% Change Jan-Oct. 2009/2010
1. Jewellery and precious stones	56	521	65	826	59
2. Watches and clocks	23	217	19	239	10
3. Machinery	11	104	8.2	105	1
4. Textiles and garments	3	28	2.8	31	3.8

Appendix 5

Major investor countries/regions 2008 (latest available information)

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