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Hong Kong, 3rd July 2012

Annual Economic report: Hong Kong 2011

1. Appreciation of economic problems and issues

1.1 General overview of HK's economy: The Hong Kong economy sustained strong momentum on entering 2011. However, economic growth moderated progressively since the second quarter amid the re-emergence of the euro zone sovereign debt crisis and sluggish demand in advanced economies. The domestic sector stayed resilient throughout the year, partially offsetting the drag from the weaker performance of merchandise exports. For 2011 as a whole, the economy still registered 5% expansion, after a 7% growth in 2010.

Private consumption grew strongly by 8.6%. Bolstered by the continued expansion in public building and large-scale construction works, as well as a notable rebound in machinery and equipment acquisition, investment spending saw a robust growth of 7.2%. As for the external sector, exports of goods and services increased by 10% and 15% respectively. On the other hand, imports of goods and services rose by 12% and 9.8% respectively. Inflation rate grew by 5.3% while unemployment rate dropped to 3.4% in 2011.

In the first quarter of 2012, the Hong Kong economy grew slightly by 0.4% over a year earlier, after a 3.0% expansion in the fourth quarter of 2011. The lacklustre performance was mainly dragged by the notable fall-off in merchandise exports due to difficult external environment. The domestic sector still performed rather well in the first quarter. Private consumption expenditure held firm on the back of the much improved income conditions. Investment spending likewise grew strongly further, alongside active machinery and equipment acquisition and hectic public sector infrastructure works. The labour market remained virtually in a state of full employment, with total employment reaching a fresh record high. Unemployment rate was relatively low at 3.4% in the first quarter of 2012.

There have been sharp fluctuations in the property market in the past 15 years. The property prices reached a climax in 1997 and it slumped sharply in the aftermath of the 1997-98 Asian financial crisis and reached its lowest ebb in 2004, subsequent to the outbreak of the Severe Acute Respiratory Syndrome (SARS) in 2003. The real estate sector regained its growth momentum since 2005. By March 2012, overall flat prices surpassed the previous historic peak in 1997 by around 10%. While the soaring residential property prices lead to an increasing risk of a property bubble, it has also been a cause of social discontent.

The downside risks in the external environment remain notable. However, according to the HKSAR Government, the economy is poised to regain momentum gradually in the coming quarters. Exports should bottom out and revert to some growth during the year. In addition, the sustained vibrancy of inbound tourism and further growth of infrastructure spending will continue to support the local economy. Barring any abrupt deterioration of the euro zone debt situation, the government is optimistic that the forecast GDP growth of 1-3% for 2012 as a whole should be attainable.

1.2 Chief Executive Election: Leung Chun-ying won the Chief Executive Election on 25th March 2012: securing 689 votes from the 1,200-member election committee of largely business leaders and influential citizens, mostly loyal to the Government of the People's Republic of China. His term of office began on 1st July 2012. In his election manifesto, Leung Chun-ying proposed measures for the economic policy, housing, healthcare, education, environment, social welfare, religion, culture and arts. He pledged to increase public housing, reinstate the Commission on Poverty to help address income inequality and work on the introduction of 15-year free education. He would designate a new statutory body Financial Development Council as a means to further safeguard and consolidate Hong Kong as a world financial centre. He has proposed an administrative reshuffle including new posts of deputy chief secretary and deputy financial secretary and expansion of the current 12 bureaus to 14 bureaus. The reorganization will be subject to the approval of the Legislative Council.

Leung Chun-ying vowed to "seek changes while maintaining stability" during his election campaign. In his opinion, the long-held principle of "positive non-intervention" was unable to cope with new challenges facing Hong Kong. He would therefore want to build an appropriately proactive government.

It is expected that a more interventionist stance will probably be applied when the new government formulates its social and economic policies.

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 2011, Hong Kong's domestic exports were confined to about 1.9% of its total exports while re-exports accounted for about 98.1% of its total exports. Hong Kong is the most important entrepôt for China. About 15% of China's foreign trade was handled via Hong Kong in 2011.

On one hand, Hong Kong is the largest source of overseas direct investment in China. By the end of 2011, among all the overseas-funded projects approved in the Chinese Mainland, 44% were tied to Hong Kong interests. Cumulative utilized capital inflow from Hong Kong amounted to US\$ 526 billion, accounting for 45% 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\$ 401 billion or 37% of Hong Kong's total stock of inward direct investment at the end of 2010¹.

Hong Kong is a key offshore capital-raising centre for Chinese enterprises. As of December 2011, 640 mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies with total market capitalization of US\$ 1.2 trillion, or 56% of the market total. For the past 10 years, mainland companies have raised more than US\$ 240 billion via stock offerings (including IPO and Post IPO) in Hong Kong.

The Closer Economic Partnership Arrangement (CEPA) Supplement IX was signed between China and Hong Kong on 29th June 2012. For information on the CEPA, please refer to 2.2.

1.4 Offshore Renminbi RMB Centre: Renminbi RMB business in Hong Kong started in 2004. Initially, the arrangement covered mainly personal banking business, including deposit-taking, currency exchange, remittance, debit and credit cards, and cheque payments. Starting from 2007, Mainland financial institutions have been issuing RMB bonds in Hong Kong, and the range of issuers have expanded to the Ministry of Finance, the Mainland subsidiaries of Hong Kong banks, local and multinational corporations, and international financial institutions. The introduction of the pilot scheme for renminbi trade settlement in 2009 and its expansion in 2010 represents another breakthrough for the development of offshore RMB business in Hong Kong.

In April 2011, the first initial public offering (IPO) and listing of RMB-denominated real estate investment trust (REIT) was launched in Hong Kong. RMB-denominated shares will be important to the further development of the offshore RMB market in Hong Kong.

When Vice-Premier Li Keqiang visited Hong Kong in August 2011, he outlined a series of measures to boost Hong Kong as a leading offshore RMB centre. These measures included the expansion of RMB trade settlement scheme to cover the whole country, allowing qualified foreign institutional investors in Hong Kong to invest in Chinese equity market subject to initial quota of RMB 20 billion (RQFII scheme), use of RMB in direct investment in China, issuance of RMB-denominated bonds by Chinese enterprises and allowing mainland Chinese to invest indirectly in the Hong Kong stock market via exchange-traded fund.

The People's Bank of China and the Ministry of Commerce in Beijing issued administrative rules for conducting foreign direct investments FDI in RMB in October 2011. The People's Bank of China expected that the launch of settlement business for RMB-denominated FDI would encourage overseas use of RMB and support the development of the RMB market in Hong Kong.

Trade transactions settled in RMB through banks in Hong Kong increased from a monthly average of about RMB 31 billion in 2010 to RMB160 billion in 2011. Furthermore, Hong Kong hosts the largest pool of RMB liquidity outside Mainland China. At the end of 2011, offshore RMB deposits in Hong Kong reached nearly RMB600 billion. About 70% of the RMB deposits were held by corporate customers, over 15% of which were from overseas. This sizeable liquidity pool is meeting increasing global demand for RMB financing and investment. The Hong Kong market of RMB bonds (dim-sum bonds) is the largest outside Mainland China. In 2010, RMB bonds totalling RMB36 billion were issued by 16 issuers. In 2011, there were issuances of over RMB100 billion by 81 issuers.

¹ Investment figures for 2011 will only be available by Dec. 2012.

The Beijing Government announced a series of measures that support the development of offshore RMB business in Hong Kong on 30th June 2012. These measures included: further issuing RMB sovereign bonds in Hong Kong; arranging Mainland banks and enterprises to issue further RMB bonds in Hong Kong; further expanding the use of RMB outside Mainland; supporting the use of the Hong Kong platform by parties from other places to settle trade and investment transactions in RMB, developing the offshore RMB lending market and further enriching the variety of offshore RMB products in Hong Kong; further increasing the investment quotas, enlarging the range of participating entities, enriching the product variety and relaxing the investment restrictions in relation to the RMB Qualified Foreign Institutional Investors QFII scheme. Moreover, the Beijing Government would support the Guangdong Province in exploring pilot schemes for the further expansion of cross-border RMB businesses and the development of new RMB business activities among Guangdong Province, Hong Kong and Macau.

Hong Kong is fully aware that its offshore RMB business is by no means a monopoly. New York, London, Singapore and etc. are keen to develop such business too. Nevertheless, there are some unique features which will make Hong Kong a premier offshore RMB centre above other competitors: policy endorsement from the Beijing Government, the cultural affinities, a well-established financial infrastructure, sound risk management systems, close economic ties with the mainland, advantages of the first-mover, the largest pool of RMB liquidity outside China and fire wall protection in term of financial security for the Beijing Government.

On one hand, China makes use of Hong Kong as a good testing ground for the RMB internationalization. On the other hand, Hong Kong benefits a lot from such experimentation and consolidates its status as an international financial centre. It is indeed a win-win situation for both China and Hong Kong.

1.5 Situation of HK manufacturers in the Pearl River Delta PRD: According to an industry source, there are about 57,500 HK-funded factories in the PRD. The Chinese Manufacturers' Association of Hong Kong conducted a survey on its members operating in the PRD between March and May 2012. According to the survey, owing to a global economic slowdown, 35% of the responding companies anticipated their export orders received in 2012 would be less than that in 2011. However, domestic sales in China outperformed export sales in the US and Europe. Business prospect of Hong Kong enterprises in the PRD remained gloomy. Nevertheless, it was still better than that during the financial tsunami in 2008. The rising production cost has been a common phenomenon in the PRD in recent years. Apart from high labour cost and increasing raw material costs, labour shortage, compliance cost and risks caused by labour ordinance as well as fluctuation of RMB exchange rate were the major concerns of Hong Kong enterprises in the PRD.

The number of companies which planned to close down its business was reduced. It revealed that the industrial restructure in the PRD has been strengthened by industrial upgrading and competitiveness enhancement. Industrial upgrading, brand building and domestic sales development would be the three key drivers for the sustainable development of Hong Kong enterprises in the PRD.

1.6 Public Finance: In the financial year 2011-12, the government achieved another huge budgetary surplus of US\$ 8.6 billion (budgetary surplus of US\$ 9.6 billion in 2010-11) as revenue from several major items such as profits tax, land premium, salaries tax, stamp duty and investment income were higher than the original estimates. In fact, when the government prepared the budget last year, it was estimated to suffer a deficit of about US\$ 1.1 billion. The fiscal reserves stood at US\$ 86 billion as at 31st March 2012 (35% of GDP or 22 months of government expenditure).

Financial Secretary John Tsang often stresses on fiscal prudence. As a matter of fact, the Basic Law requires the achievement of a fiscal balance and keeping the budget commensurate with growth in GDP. He attributed the sovereign debt crises in some advanced economies to their lax fiscal discipline. However, a few academics, tax experts and lawmakers pointed out that despite vast fiscal reserves in the government coffers, he failed to tackle the structural problems such as ageing population, wealth gap and narrow tax base but resorted to one-off and short-term measures.

1.7 Competition Ordinance: The Competition Bill was introduced to the Legislative Council in July 2010. After prolonged scrutiny, it was finally passed by the Legislative Council on 14th June 2012. According to the HKSAR Government, the ordinance aims to provide a legal framework to curb anti-competitive conduct in various sectors, and to set up the Competition Commission and the Competition Tribunal responsible for enforcement of the legislation. The Competition Commission will conduct publicity campaigns and public education activities, and prepare the guidelines. It is expected that the whole preparatory process will take at least one year. In other words, the law will probably not take effect until 2014.

The Hong Kong General Chamber of Commerce, one of the biggest business associations in Hong Kong, believed that the bill was far from desirable. The bill could undermine the competitiveness of Hong Kong and impose unnecessary constraints on normal economic activities. On the other hand, critics said that the bill was a watered-down version due to the pressure of the business sector. The impacts of the ordinance might be restricted after the government offered a lot of exemptions, concessions and amendments. Nevertheless, critics admitted that it was a step in the right direction.

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 10th 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 concluded three free trade agreements with Mainland China (the Closer Economic Partnership Arrangement CEPA), New Zealand and the EFTA States (including **Switzerland**). The one with the EFTA States, signed on 21st June 2011, is Hong Kong's first free trade agreement with the European economies.

Hong Kong signed an agreement for avoidance of double taxation with **Switzerland** on 4th October 2011. Hong Kong is actively seeking to establish a network of such agreements with its major trading and investment partners.

According to the HKSAR Government, both the free trade agreement with the EFTA states and the agreement for avoidance of double taxation with Switzerland have been approved by the Legislative Council in Hong Kong.

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 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 – VIII in 2004-2011. The latest Supplement IX was signed on 29th June 2012.

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 about 93% of GDP in Hong Kong, the real significance of the CEPA lies in the trade in services.

Regarding trade in services, the two sides have so far announced 338 liberalization measures in 48 service sectors (education services was the latest addition under the CEPA Supplement IX)². On

² The 48 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, research and development, specialty design, technical testing, analysis

education services, Hong Kong educational institutions would be allowed to set up schools in Qianhai and Hengqin (both in Guangdong), as well as training bodies in China on a wholly-owned basis. The move could promote the bilateral flow of talent and cooperation between educational institutions. Moreover, new liberalization measures would be opened up on a trial basis in accounting, construction, medical services, telecommunications, environment, distribution, individually owned stores, etc.

To step up financial co-operation, the asset threshold for mainland enterprises to list in Hong Kong would be lowered. The Chinese authorities would also explore lowering the eligibility requirements for Hong Kong financial institutions to apply for qualified foreign institutional investor status to facilitate Hong Kong's capital investing in the capital markets in China.

During the visit to Hong Kong in August 2011, Vice-Premier Li Keqiang indicated that the Chinese market would be further opened up for Hong Kong services trade, with a view to basically achieve, through CEPA, liberalization of trade in services between the Mainland and Hong Kong before the end of the 12th Five-Year Plan period. The Supplement IX marked a further step by the two sides towards this goal. The various measures in the new Supplement would facilitate Hong Kong services industries to develop in the Chinese market. It would be conducive to the continued economic development of China and Hong Kong.

For more details on CEPA, please consult the website of the Trade and Industry Department of the HKSAR Government (<http://www.tid.gov.hk/english/cepa/index.html>).

3. Foreign trade

3.1 Development and general outlook

3.1.1 Trade in goods

According to the Hong Kong Trade Development Council, Hong Kong is the world's 10th largest trading economy. Total exports of Hong Kong increased by 10% to US\$ 428 billion in 2011. Domestic exports dropped to US\$ 8 billion (-5-5%) but re-exports rose to US\$ 420 billion (+11%). Major export markets were China (52% of total exports), the US (9.9%), Japan (4%), India (2.8%) and Germany (2.7%). Major export products were electrical machinery and apparatus (27%), telecom, audio and video equipment (17%), office machines and computers (11%), clothing (5.7%) and photographic apparatus, optical goods and watches and clocks (3.2%).

Imports increased to US\$ 483 billion (+12%) in 2011. Major supplier countries were China (45% of total imports), Japan (8.5%), Singapore (6.8%), Taiwan (6.4%) and the US (5.6%). Major import products were electrical machinery and apparatus (27%), telecom, audio and video equipment (14%), office machines and computers (9.5%), clothing (3.6%) as well as petroleum and petroleum products (3.3%).

Owing to unfavourable market conditions in Europe and the US, total exports decreased by 1.5% in the first quarter of 2012. On the other hand, growth of imports was very moderate (0.7%) in the first quarter of 2012.

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 rose to US\$ 121 billion (+15%) in 2011. It included: trade-related services (29% of total exports of services, increased by 13%), transportation services (27% of total exports of services, increased by 9.5%), travel services (23% of total exports of services, increased by 25%), financial services (12.5% of total exports of services, increased by 17%), other services (8% of total exports of services, increased by 11%) and insurance services (0.5% of total exports of services, increased by 7.5%).

and product testing, inter-disciplinary research and experimental development services, services incidental to manufacturing, library, museum and other cultural services as well as education services.

In 2010 (latest available information), exports of services by main destinations were China (US\$ 30 billion, 28% of total, grew by 30%), the US (US\$ 22 billion, 21% of total, grew by 24%), the UK (US\$ 8.1 billion, 8% of total, grew by 24%), Japan (US\$ 6.2 billion, 6% of total, grew by 14%), Taiwan (US\$ 4.4 billion, 4% of total, grew by 16%) and other destinations (US\$ 34 billion, 33% of total, grew by 22%).

Import of services amounted to US\$ 56 billion (+9.8%) in 2011. It included: travel services (34% of total imports of services, increased by 9.6%), transportation services (28% of total imports of services, increased by 7.7%), other services (20% of total imports of services, increased by 10%), financial services (7% of total imports of services, increased by 13%), trade-related services (9% of total imports of services, increased by 12%) and insurance services (2% of total imports of services, increased by 18%).

In 2010 (latest available information), imports of services by main sources were China (US\$ 13 billion, 27% of total, grew by 16%), the US (US\$ 7.4 billion, 14% of total, grew by 13%), Japan (US\$ 4.1 billion, 8% of total, grew by 22%), the UK (US\$ 3.4 billion, 7% of total, grew by 8.2%), Singapore (US\$ 3 billion, 6% of total, grew by 20%) and other sources (US\$ 19 billion, 38% of total, grew by 20%).

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 2011. Switzerland was Hong Kong's 9th largest supplier and 19th largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 7,902 million (+21%) in 2011. Major Swiss exports included watches and clocks (52% of total, increased by 28%, CHF 4,086 million in value), jewellery & precious metal (31% of total, grew by 26%, CHF 2,433 million in value), chemical and pharmaceutical products (5.7% of total, decreased by 15%, CHF 454 million in value) and machinery (5% of total, decreased by 3%, CHF 393 million in value).

In 2011, Swiss exports to Mainland China (CHF 8,831 million in value) and Hong Kong (CHF 7,902 million in value) accounted for 8% of global Swiss exports. Hong Kong, next to China, was Switzerland's second largest market in Asia. On the other hand, Swiss imports from China (CHF 6,299 million) and Hong Kong (CHF 1,643 million) totalled CHF 7,942 million. Switzerland got a trade surplus worth CHF 8,791 million.

Hong Kong's total exports to Switzerland amounted to CHF 1,643 million (+0.4%) in 2011. Major total exports included jewellery & precious metal (63% of total, decreased by 5.4%, CHF 1,038 million in value), watches and clocks (21% of total, increased by 24%, CHF 351 million in value), machinery (6.3% of total, decreased by 16%, CHF 104 million in value) and works of art and antiques (2.3% of total, increased by 39%, CHF 38 million in value).

According to the Hong Kong Census and Statistics Department, Swiss products worth US\$ 2,662 million were re-exported via Hong Kong to other countries and notably to China (US\$ 1,022 million, increased by 8.3%) in 2011. Major Swiss products via Hong Kong to China were watches and clocks (US\$ 399 million), silver and platinum (US\$ 132 million), measuring instruments (US\$ 63 million) and pearls, precious & semi-precious stones (US\$ 26 million).

There has been a substantial quantity of Swiss products entering China via Hong Kong in recent years (from US\$ 518 million in 2005 to US\$ 1,022 million in 2011). 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 Hong Kong Census and Statistics Department, products of Chinese origin worth US\$ 1,663 million (+28%) were re-exported to Switzerland via Hong Kong in 2011. Major products were watches and clocks (US\$ 836 million), clothing (US\$ 150 million), jewellery (US\$ 92 million), telecom equipment (US\$ 82 million) as well as silver and platinum (US\$ 44 million).

Outlook for Swiss exports to Hong Kong

The economy of Hong Kong slowed down notably in the first quarter of 2012. It was mainly dragged by the lull in exports amid a difficult external environment. Fortunately, the domestic sector still displayed strength to help cushion the overall economic performance. It is expected to stay relatively resilient due to improved income and virtual full employment. The latest quarterly business tendency survey

showed optimism among large enterprises while large scale infrastructure works in public sector should also render good impetus to domestic demand.

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 28 million or 67% of total visitor arrivals in 2011). Despite the volatile global economic environment, total visitor arrivals to Hong Kong exceeded 11.2 million in the first quarter of 2012, representing a year-on-year increase of 16%. About 7.9 million Mainland tourists (+21%) came to Hong Kong in the first quarter of 2012. 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 40-50% of their total sales in Hong Kong. Swiss exports to Hong Kong grew by about 20% in the first quarter of 2012. Watches and jewellery recorded a growth of 32% and 18% respectively.

Nevertheless, strong sales of international branded luxury products in Hong Kong have pushed the rents of prime retail areas absurdly high in recent years. Like-wise, rental costs of office premises in prime commercial districts and residential flats for expatriates are extravagant. High rental costs is one of the biggest challenges to foreign firms operating in Hong Kong. Moreover, the downside risks in the external environment, particularly the euro zone sovereign debt crisis, are watchful. If such a crisis deteriorates abruptly, the consumer sentiment in the region will certainly be affected.

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\$ 1,323 million (1.3% of total exports of services, grew by 53%) in 2010³. Switzerland ranked 13th largest market for Hong Kong's exports of services. It consisted of transportation services (US\$ 500 million), financial services (US\$ 138 million), trade-related services (US\$ 527 million) and other services (US\$ 117 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\$ 418 million (0.8% of total imports of services, increased by 22%) in 2010. Switzerland ranked 19th largest supplier in this category. It consisted of transportation services (US\$ 71 million), travel services (US\$ 47 million), insurance services (US\$ 27 million), financial services (US\$ 24 million), trade-related services (US\$ 22 million) and other services (US\$ 227 million).

4. Direct Investments

4.1 Development and general outlook

According to the Hong Kong Census and Statistics Department, at the end of 2010 (latest available information)⁴, the stock of Hong Kong's inward direct investments rose by 17% to US\$ 1,086 billion. Major investor countries were China (US\$ 401 billion or 37% of total, increased by 18%), the British Virgin Islands BVI (US\$ 353 billion or 33% of total, increased by 17%), the Netherlands (US\$ 78 billion or 7.2% of total, increased by 22%), Bermuda (US\$ 71 billion or 6.5% of total, increased by 22%) and the US (US\$ 39 billion, 3.6% of total, dropped by 2.5%).

China was the biggest source of Hong Kong's inward direct investment as well as the second largest destination for Hong Kong's outward direct investment (US\$ 394 billion or 42% of total)⁵. Guangdong Province was all along a popular location for Hong Kong's outward direct investments in China, accounting for 30% of Hong Kong's total outward direct investment in China. In brief, 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 486% and 417% of GDP respectively in 2010. 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

³ The trade in services figures for 2011 will only be available by Feb. 2013.

⁴ Investment figures for 2011 will only be available by Dec. 2012

⁵ The British Virgin Islands, an offshore centre for indirect channelling of direct investment funds, ranked the 1st largest destination for outward direct investment and accounted for 43% of the total in 2010.

companies in these offshore financial centres for channelling direct investment funds back to Hong Kong.

According to the International Monetary Fund (IMF), inward portfolio investments to Hong Kong amounted to US\$ 929 billion (+15%) in 2010. Major investor countries were Cayman Islands (US\$ 203 billion or 22% of total, increased by 25%), China (192 billion or 21% of total, increased by 27%), Bermuda (US\$ 106 billion or 11% of total, grew by 19%), the US (US\$ 91 billion or 10% of total, dropped by 1.1%) and the UK (US\$ 84 billion or 9% of total, dropped by 6.6%).

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\$ 6.3 billion (0.6% of total, decreased by 3%) and ranked the 13th largest investor country in 2010⁶. Swiss portfolio investments in Hong Kong reached US\$ 2.6 billion (0.3% of total, grew by 4%), according to the IMF.

As at 1st June 2011, there were 186 Swiss companies operating in Hong Kong: 39 regional headquarters, 69 regional offices and 78 local offices. They are classified in various sectors: banking, beauty products, chemicals & pharmaceuticals, consultants, electronics, food and beverage, freight forwarding, inspection, insurance, machinery/engineering, textiles & garments, watches/jewellery and trading houses, etc.

The Hong Kong Census and Statistics Department compiles for top 20 recipient countries for outward direct investments from Hong Kong only. As Switzerland is out of this category, the corresponding figure is therefore unavailable.

5. Trade, economic and tourist promotion

5.1 Foreign economic promotion instruments

The Swiss Chamber of Commerce in Hong Kong (SwissCham)

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.

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.

Switzerland Tourism ST

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. ST Hong Kong promotes Switzerland's tourist industry in Hong Kong, Macao and Southern China.

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 in 2005. Johnson Electric, one of the biggest manufacturers of micro motors in the world, is a listed company in Hong Kong. The Consulate General has not heard about any substantial investment from Hong Kong companies to Switzerland in 2011.

⁶ Bilateral investment figures for 2011 will only be available by Dec. 2012.

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 (www.gov.hk/)
Commerce and Economic Development Bureau (www.cedb.gov.hk/)
Trade and Industry Department (www.tid.gov.hk)
Census & Statistics Department (www.censtatd.gov.hk/)
Invest HK (www.investhk.gov.hk/)
Customs and Excise Department (www.customs.gov.hk)
HK Monetary Authority (www.hkma.gov.hk/)
Intellectual Property Department (www.ipd.gov.hk/)

Swiss Government agencies and export promotion bodies

State Secretariat for Economic Affairs (www.seco.admin.ch/)
OSEC Business Network Switzerland (www.osec.ch)

Statutory trade promotion bodies:

Hong Kong Trade Development Council (www.tdctrade.com)

Chambers and Associations:

Swiss Chamber of Commerce in HK (www.swisschamhk.org)
Swiss Association of Hong Kong (www.swiss-hk.com)
Federation of the Swiss Watch Industry, HK Office (www.fhs.hk)
HK General Chamber of Commerce (www.chamber.org.hk)
Federation of HK Industries (www.industryhk.org)
Chinese General Chamber of Commerce (www.cgcc.org.hk)
Chinese Manufacturers' Association (www.cma.org.hk)

Newspapers:

South China Morning Post (www.scmp.com)
The Standard (www.thestandard.com.hk/)

Trade exhibitions calendar:

Please refer to Hong Kong Trade Development Council (<http://www.hktdc.com/info/trade-events/EX/en/Exhibitions.htm>)

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 (latest available information*)

	1995	2007	2008	2009	2010	% Change 1995 / 2010
Spreading GDP (%)						
Primary Sector	0.2%	0.1%	0.1%	0.1%	0.1%	-50%
Secondary Sector	16%	7.7%	7.9%	7.8%	7%	-56%
Tertiary Sector	83.8%	92.3%	92%	92.1%	92.9%	+11%
Spreading Employment						
Primary Sector	0.6%	0.2%	0.3%	0.2%	0.1%	-83%
Secondary Sector	27.1%	13.2%	12.6%	11.8%	11.6%	-57%
Tertiary Sector	72.3%	86.6%	87.1%	88%	88.3%	+22%

*This set of figures for 2011 will only be available by Nov. 2012

Source: Hong Kong Census and Statistics Department

Appendix 2

Essential Economic Data

	2004	2005	2006	2007	2008	2009	2010	2011
GDP (USD billion)	165.8	177.3	189.1	207.1	215.2	208	223	243
GDP per capita (USD)	24,100	26,000	27,600	29,900	30,800	29,800	31,800	34,300
GDP growth (%)	8.6	7.1	7.0	6.4	2.3	-2.6	7	5
Inflation (%)	-0.4	1.0	2.0	2.0	4.3	0.5	2.4	5.3
Unemployment rate (%)	6.9	5.6	4.8	4.0	3.5	5.4	4.4	3.4
Fiscal balance (% of GDP)	-0.3	1.0	4.0	7.2	-0.3	0.8	4.1	3.5
Current account balance (% of GDP)	9.5	11.4	10.8	12.3	13.7	8.6	5.5	7*
Reserves (in months of imports)	21.1	19.8	18.6	19.5	22.3	34.6	28.7	26.2

*Q3 of 2011

Sources: HKSAR Government

Appendix 3

Trading Partners 2011

	Exports to country/region	Exports (USD millions)	Share (%)	Growth* (%)
1	China	224,020	52	9.3
2	USA	42,407	9.9	-0.4
3	Japan	17,328	4	5.9
4	India	11,989	2.8	26
5	Germany	11,444	2.7	11
6	Taiwan	10,932	2.6	24
7	Korea Rep	7,856	1.8	14
8	UK	7,524	1.8	-3.4
9	Singapore	7,211	1.7	10
10	Vietnam	5,914	1.4	37
	EU	46,089	11	6
19	Switzerland	3,219	0.8	29
	Total	427,853	100	10
	Imports from country/region	Imports (USD millions)	Share (%)	Growth* (%)
1	China	217,539	45	11
2	Japan	40,846	8.5	3.4
3	Singapore	32,635	6.8	7.2
4	Taiwan	30,887	6.4	7.2
5	USA	27,099	5.6	18
6	Korea Rep	19,227	4	12
7	Malaysia	11,412	2.4	5
8	India	11,103	2.3	21
9	Switzerland	10,139	2.1	52
10	Thailand	9,812	2	0.3
	EU	38,957	8.1	23
	Total	482,641	100	12

* 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%
2010	6'535	20.4%	1'636	36.6%	4'899	8'171	24%
2011	7'902	20.9%	1'643	0.4%	6'259	9'545	16.8%

Major products

Exports	2010		% of total	2011		% Change 2010/2011
	% of total	CHF million		CHF million		
1. Watches and clocks	49	3'186	52	4'086	28	
2. Jewellery and precious stones	29	1'926	31	2'433	26	
3. Chemical and pharmaceutical products	8.2	533	5.7	454	-15	
4. Machinery	6.2	405	5	393	-3	

Imports	2010		% of total	2011		% Change 2010/2011
	% of total	CHF million		CHF million		
1. Jewellery and precious stones	67	1'097	63	1'038	-5.4	
2. Watches and clocks	17	284	21	351	24	
3. Machinery	7.6	124	6.3	104	-16	
4. Works of art and antiques	1.7	27	2.3	38	39	

Source: Swiss Federal Customs Administration

Appendix 5

Major investor countries/regions 2010 (latest available information)

Rank	Country/Region	Direct investments (USD billion)	Share (%)	Growth (%)	Change of inflow (USD billion)
1	China	401	37%	18%	11
2	British Virgin Islands	353	33%	17%	16
3	Netherlands	78	7.2%	22%	-1.5
4	Bermuda	71	6.5%	22%	-4.4
5	USA	39	3.6%	-2.5%	-18
6	Japan	24	2.2%	9%	1
7	Cayman Islands	18	1.6%	-5.3%	2.4
8	Singapore	17	1.6%	13%	0.8
9	UK	16	1.5%	**	-0.4
10	Cook Islands	8.4	0.8%	-2.3%	0.5
	EU	107	9.9%	16%	-1.3
13	Switzerland	6.3	0.6%	-3%	0.6
	Total	1,086	100 %	17%	19
Rank	Country/Region	Portfolio investments (USD billion)	Share (%)	Growth (%)	Change of inflow (USD billion)
1	Cayman Islands	203	22%	25%	N.A.
2	China	192	21%	27%	N.A.
3	Bermuda	106	11%	19%	N.A.
4	USA	91	10%	-1.1%	N.A.
5	UK	84	9%	-6.6%	N.A.
6	Australia	35	3.8%	-15%	N.A.
7	Luxembourg	29	3.1%	32%	N.A.
8	Japan	24	2.6%	33%	N.A.
9	Republic of Korea	20	2.2%	18%	N.A.
10	France	15	1.6%	-17%	N.A.
20	Switzerland	2.6	0.3%	4%	N.A.
	Total	929	100%	15%	N.A.

*N.A. Not available

** Insignificant variation

Remarks: Investment figures for 2011 will only be available by Dec. 2012

Sources : Hong Kong Census & Statistics Department, IMF