512.0-HWR/CHW Hong Kong, 30th August 2013

Annual Economic report: Hong Kong 2012

1 Appreciation of economic problems and issues

1.1 General overview of HK's economy:

The external environment was unfavourable in 2012. In general, there were setbacks in external trade over the year, but domestic demand was stable. Due to weak demand from the advanced economies, the overall economy saw sub-trend growth throughout the year. GDP growth for 2012 as a whole was only 1.4%, much lower than the average of 4.5% over the past ten years. The weak fundamentals of the European and US economies weighed on the trade flows in Asia. For 2012, exports of goods saw moderate growth by only 1.3% in real terms. Exports of services were also dragged down by the unfavourable external environment and grew by only 1.2% in real terms in 2012. The domestic sector maintained stable growth in 2012. Thanks to high employment rate and improved income, private consumption grew by 4% in real terms for the year. Despite rather cautious business sentiments, building and construction activities as well as machinery and equipment acquisition remained buoyant, further driving up overall investment spending by 9.1% in 2012. The labour market was in a state of full employment while inflation rate dropped to 4.1% for 2012 as a whole.

The Hong Kong economy grew moderately in the second quarter of 2013, by 3.3% in real terms over a year earlier, slightly faster than the 2.9% growth in the first quarter. Domestic demand continued to render the key impetus to growth, while the external sector was still lacklustre amid an unsteady external environment. Hong Kong's total exports of goods, after excluding exports of non-monetary gold[1], showed only a modest growth in the second quarter. Meanwhile, exports of services picked up visibly, thanks to a surge in tourist spending during the second quarter. Private consumption expenditure rose further on the back of a strong labour market. Investment expenditure reverted to quite a notable growth after a brief dip in the first quarter, mainly on robust machinery and equipment investment and hectic infrastructure works. The residential property market cooled off visibly after the Government's introduction of further demand management measures in late February. Yet, overall flat prices in June still surpassed the 1997 historic peak by 40%. Also, the housing affordability ratio (the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) elevated at around 56% in the second quarter. Consumer price inflation held largely stable at 3.8% in the first half of 2013. In August 2013, the HKSAR government revised its GDP forecast at 2.5-3.5% for 2013.

1.2 Economic integration with Mainland China

Hong Kong is the most important entrepôt of Mainland China. Hong Kong was the second largest trading partner of China after the US, accounting for 8.8% of its total trade in 2012.

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 2012, Hong Kong's domestic exports were confined to about 1.7% of its total exports while re-exports accounted for about 98.3% of its total exports.

On one hand, Hong Kong is the largest source of overseas direct investment in China. By the end of 2012, 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$ 591 billion, accounting for 46% 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$ 390 billion or 36% of Hong Kong's total stock of inward direct investment at the end of 2011[2].

Hong Kong is also a key offshore capital-raising centre for Chinese enterprises. As of December 2012, 721 mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies with total market capitalization of US$1.6 trillion, or 57% of the market total. Since 1993, mainland companies have raised more than US$400 billion via stock offerings in Hong Kong.

[1] Gold not held as reserve assets (monetary gold) by the authorities.
[2] Investment figures for 2012 will only be available by Dec. 2013.

The Closer Economic Partnership Arrangement (CEPA) Supplement X was signed between China and Hong Kong on 29th August 2013. For information on the CEPA, please refer to 2.2.

1.3 Situation of HK companies in the Pearl River Delta PRD

The Pearl River Delta (PRD) is the major production, outsourcing and sourcing base for Hong Kong companies. According to a survey conducted by the Federation of Hong Kong Industries in March and April 2013, the mainland market, emerging markets, markets in the Southeast Asia and Middle East have better performance than the traditional markets (the US and EU) in terms of orders. About 80% of responding enterprises indicate that the business outlook is neutral and prudently positive. Most Hong Kong companies, especially those with production activities concentrated in the PRD region, have found it increasingly difficult to operate on the Chinese mainland over recent years. Their problems largely stem from higher labour and raw material costs, shortage of labour, a variety of taxes, strict labour and environmental protection laws as well as the Guangdong Government's initiatives aimed at upgrading the industrial structure of the region. Nevertheless, more than 80% of responding enterprises will not move their production out of the PRD. Major reasons include comprehensive supporting facilities for industries available in the PRD region, geographical proximity, unfamiliarity with places outside the PRD and intention of upgrading their manufacturing processes to meet stricter requirements. Faced by the lacklustre demand in the US and EU, about 70% of responding enterprises have tapped into domestic sales on the mainland and another 20% are considering to do so.

1.4 Inbound Tourism

In 2012, total visitor arrivals reached over 48.6 million (+16% year-on-year basis), almost seven times the size of Hong Kong population. Tourists from Mainland China totalled about 35 million in 2012 (72% of total visitor arrivals; +24% y-o-y). In the first half of 2013, total visitor arrivals rose to about 25.4 million (+14% y-o-y) whereas about 18.8 million came from Mainland China (74% of total visitor arrivals; +21% y-o-y).

Expenditure of incoming visitors recorded spectacular growth in the past decade. According to the Hong Kong Tourism Board, total tourism expenditure associated to inbound tourism reached a record high of US$ 38 billion in 2012. This represented a cumulative surge of 286% over 2002, or a notable average annual growth of 14.5% during the period. Apart from a sustained influx of incoming visitors, the surge in total tourism expenditure was also driven by rising per capita spending of visitors. Per capita spending of Mainland overnight visitors has exceeded that of non-Mainland visitors since 2007. At about US$ 1,100 in 2012, per capita spending of Mainland overnight visitors was 31% above that of the non-Mainland counterparts.

1.5 Public Finance

In the financial year 2012-13, the government achieved another huge budgetary surplus of US$ 8.3 billion (budgetary surplus of US$ 8.6 billion in 2011-12). The surplus, same as last few years, was largely driven by increased revenues from land sales, tax collections, stamp duties and dividend from the West Rail Property Development Ltd.. The fiscal reserves stood at about US$ 96 billion (36% of GDP or 23 months of government expenditure).

Financial Secretary John Tsang often cites the lessons of the USA and some European countries for their prolonged mismanagement of public finances and over-expanded welfare measures. In his own words, "we must maintain effective fiscal management and fiscal discipline by adhering to the principles of keeping expenditure within the limits of revenues and allocating resources where they are required. Any indiscriminate increase in expenditure will only impose a heavy burden on our next generation".

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 9th 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 four free trade agreements with Mainland China (the Closer Economic Partnership Arrangement CEPA), New Zealand, the EFTA States (including **Switzerland**) and Chile[3]. The one with the EFTA States, entered into force 1st October 2012, is Hong Kong's first free trade agreement with the European economies.

Hong Kong signed an agreement for avoidance of double taxation with **Switzerland** which entered into force on 15th October 2012. Hong Kong is actively seeking to establish a network of such agreements with its major trading and investment partners.

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. The agreements with Finland and Kuwait have not yet come into force

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 two sides broadened and enriched the content of CEPA and signed nine Supplements between 2004 and 2012. The latest Supplement X was signed on 29th August 2013.

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 and trade and investment facilitation. Supplement X provides for a total of 73 services liberalization and trade and investment facilitation measures, which include 65 liberalization measures for trade in services and 8 measures to strengthen co-operation in areas of finance and facilitate trade and investment of the two places. It brings the total number of liberalization measures for trade in services under CEPA and its previous Supplements to 403. Under Supplement X, all measures relating to the liberalization of trade in services will take effect from 1st January, 2014.

On financial co-operation, the Mainland agreed to study mutual recognition of fund products between the Mainland and Hong Kong, and to actively support qualified Hong Kong insurers to take part in compulsory traffic accident liability insurance business in the Mainland.

The Mainland also agreed to further strengthen co-operation in the areas of commodity inspection and quarantine, food safety, quality and standardization, and also in the area of intellectual property protection.

CEPA is the most liberalized free trade agreement signed by the Mainland. Supplement X to CEPA has included various CEPA-plus liberalization measures covered in the services agreement signed by the Mainland and Taiwan in late June this year under the Economic Cooperation Framework Agreement (ECFA). The various new measures will enable Hong Kong services industries to develop the Mainland market, and are conducive to the continued economic co-operation and development of the two places. The Central Government has pledged to achieve, through CEPA, liberalization of trade in services between the Mainland and Hong Kong before the end of the National 12th Five-Year Plan period. The signing of Supplement X marks a further step towards this goal.

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 9th largest trading economy. Total exports of Hong Kong increased by 2.9% to US$ 440 billion in 2012. Domestic exports dropped to US$ 7 billion (-10%) while re-exports rose to US$ 433 billion (+3.2%). Major export markets were China (54% of total exports), the US (9.9%), Japan (4.2%), Taiwan (2.4%) and Germany (2.3%). Major export products were electrical machinery and apparatus (27%), telecom, audio and video equipment (18%), office machines and computers (12%), clothing (5.1%) and photographic apparatus, optical goods and watches and clocks (3.3%).

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[3] The Agreement will enter into force on a date to be mutually determined by Hong Kong and Chile after completing necessary domestic procedures.

Imports increased to US$ 502 billion (+3.9%) in 2012. Major supplier countries were China (47% of total imports), Japan (8.4%), Taiwan (7.5%), Korea Rep. (5%), and the US (4.7%). Major import products were electrical machinery and apparatus (26%), telecom, audio and video equipment (16%), office machines and computers (11%), clothing (3.2%) as well as photographic apparatus, optical goods and watches and clocks (3.1%).

In the first half of 2013, total exports rose to US$ 214 billion (+3.2% y-o-y). Both the markets in Europe and the US fell by 3% and 3.2% respectively whereas exports to China and India recorded a growth of 5.7% and 5.4% respectively. On the other hand, total imports rose to US$ 246 billion (4.1% y-o-y). Imports from major supplier countries such as China, Taiwan, Korea Rep. and the US recorded growth from 4% to 10% whereas imports from Japan decreased by 11%.

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[4]

Exports of services rose to US$ 91 billion (+13%) in 2011 (latest available information[5]). Major items included: transport (35% of total exports of services, increased by 7.8%), travel (31% of total exports of services, increased by 25%), financial services (16% of total exports of services, increased by 11%), other business services (13% of total exports of services, increased by 4.7%), telecommunication and information services (2.4% of total exports of services, increased by 20%).

In 2011, exports of services by main destinations were China (US$ 29 billion, 33% of total, grew by 23%), the US (US$ 15 billion, 17% of total, grew by 0.7%), the UK (US$ 6.4 billion, 7.2% of total, grew by 1.1%), Japan (US$ 4.8 billion, 5.4% of total, decreased by 1.7%), Taiwan (US$ 4.5 billion, 5.1% of total, grew by 12%) and other destinations (US$ 29 billion, 33% of total, grew by 13%).

Import of services amounted to US$ 74 billion (+5.7%) in 2011. Major items included: travel (26% of total imports of services, increased by 9.7%), manufacturing services (24% of total imports of services, dropped by 6.3%), transport (24% of total imports of services, increased by 14%), other business services (14% of total imports of services, increased by 7%), financial services (5.2% of total imports of services, increased by 9.8%) and charges for the use of intellectual property (2.7% of total imports of services, increased by 1.8%).

In 2011, imports of services by main sources were China (US$ 32 billion, 44% of total, decreased by 0.9%), the US (US$ 8.2 billion, 11% of total, grew by 8.4%), the UK (US$ 4.2 billion, 5.7% of total, grew by 23%), Japan (US$ 4.1 billion, 5.6% of total, grew by 0.8%), Singapore (US$ 3.4 billion, 4.6% of total, grew by 11%) and other sources (US$ 22 billion, 29% of total, grew by 13%).

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 2012. Switzerland was Hong Kong's 9th largest supplier and 18th largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 8,275 million (+4.4%) in 2012. Major Swiss exports included watches and clocks (53% of total, increased by 6.8%, CHF 4,371 million in value), jewellery & precious metal (30% of total, grew by 1.9%, CHF 2,481 million in value), chemical and pharmaceutical products (5.9% of total, increased by 6.8%, CHF 485 million in value) and machinery (5.1% of total, grew by 8.1%, CHF 425 million in value).

In the first half of 2013, Swiss exports to Hong Kong dropped moderately to CHF 4,020 million (-4.1% y-o-y). Major items included watches and clocks (48% of total, decreased by 11%, CHF 1,935 million in value), jewellery & precious metal (37% of total, grew by 15%, CHF 1,484 million in value), chemical

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[4] The Hong Kong Census and Statistics Department completed a technical exercise in Sept. 2012 to implement the recommendations given in the Manuel on Statistics of International Trade in Services 2010. As a result, there are some changes in classification and enhancements in estimation method. These revisions cause some discrepancies in the trade in services statistics when compared with an economic report compiled by this Consulate last year.

[5] Trade in services figures for 2012 will only be available by Feb. 2014.

and pharmaceutical products (4.9% of total, decreased by 32%, CHF 196 million in value) and machinery (4.2% of total, decreased by 14%, CHF 167 million in value).

Hong Kong's total exports to Switzerland amounted to CHF 1,803 million (+3%) in 2012. Major total exports included jewellery & precious metal (62% of total, decreased by 2.1%, CHF 1,121 million in value), watches and clocks (22% of total, increased by 11%, CHF 389 million in value), machinery (5.9% of total, increased by 2.9%, CHF 107 million in value) as well as textiles and garments (4.1% of total, increased by 141%, CHF 73 million in value). In the first half of 2013, Hong Kong's total exports to Switzerland fell by 4.6% to CHF 876 million. Major items included jewellery & precious metal (58% of total, decreased by 13%, CHF 509 million in value), watches and clocks (23% of total, increased by 9.4%, CHF 205 million in value), machinery (7.7% of total, increased by 26%, CHF 67 million in value) as well as textiles and garments (3.8% of total, decreased by 18%, CHF 33 million in value).

In 2012, Swiss exports to Mainland China (CHF 7,828 million in value) and Hong Kong (CHF 8,275 million in value) accounted for 7.6% of global Swiss exports. Hong Kong was the largest market for Switzerland in Asia. On the other hand, Swiss imports from China (CHF 10,287 million) and Hong Kong (CHF 1,803 million) totalled CHF 12,090 million. Switzerland got a trade surplus worth CHF 4,013 million. In the first half of 2013, Swiss exports to Mainland China (CHF 4,088 million in value) and Hong Kong (CHF 4,020 million in value) accounted for 7.6% of global Swiss exports. Swiss imports from China (CHF 5,312 million) and Hong Kong (CHF 876 million) totalled CHF 6,188 million. Switzerland got a trade surplus worth CHF 1,920 million.

According to the Hong Kong Census and Statistics Department, Swiss products worth US$ 3,197 million were re-exported via Hong Kong to other countries and notably to China (US$ 1,121 million, increased by 9.7%) and Macao (US$ 669 million, increased by 48%) in 2012. Major Swiss products via Hong Kong to China were watches and clocks (US$ 388 million), telecom equipment (US$ 152 million), machine tools (US$ 80 million), measuring instruments (US$ 72 million) and medicaments (US$ 59 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$ 1,121 million in 2012). 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$ 1,567 million (-5.8%) were re-exported to Switzerland via Hong Kong in 2012. Major products were watches and clocks (US$ 880 million), clothing (US$ 122 million), jewellery (US$ 82 million) and telecom equipment (US$ 70 million).

Outlook for Swiss exports to Hong Kong

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. Hong Kong is a window of the world to Chinese tourists who are in general enthusiastic in shopping. Tourists from Mainland China account for about 70% - 80% of sales of Swiss hi-end watches in Hong Kong. Owing to an economic slowdown and anti-corruption measures on the Mainland, sales of Swiss hi-end watches were adversely affected whereas sales of Swiss medium-priced watches with brands were satisfactory in the first half of 2013.

Swiss exports of essential oils, perfume materials and toilet preparations (SITC 55) to Hong Kong rose remarkably and progressively from US$ 92 million in 2009 to US$ 216 million in 2012. Such growth was mainly driven by consumption of mainland tourists. According to a leading cosmetic retailer, tourists from Mainland China account for about 50% of their total sales in Hong Kong. There was a moderate decrease in spending per capita at their shops in the first half of 2013. However, they still recorded a decent growth in sales as they had more customers, especially from second-tier cities in China. It indicates that the market potential of mainland tourists is enormous due to the sheer size of the Chinese population.

Although some affluent mainland tourists look beyond Hong Kong and opt to go to Europe for their shopping sprees, Hong Kong remains a prime testing ground for foreign brands to showcase and get exposure to mainland consumers. Nevertheless, Swiss exports to Hong Kong, in particular luxury goods, are expected to drop due to anti-graft policies and weakening growth momentum in China.

Switzerland and China have signed a free trade agreement recently. According to an industry source, once the import duties in China decrease, it may affect to a certain extent the sales of medium-priced watches in Hong Kong while the sales of this category will increase in China. The impact of the free trade agreement on sales of hi-end watches in Hong Kong will be smaller. This segment of customers can afford travelling expenses. More importantly, it is the trustworthiness in general when they do shopping in Hong Kong.

3.2.2 Trade in services (please refer to footnote 4)

According to the Hong Kong Census and Statistics Department, Hong Kong's exports of services to Switzerland amounted to US$ 1,028 million (1.2% of total exports of services, grew by 20%) in 2011[6]. Switzerland ranked 14th largest market for Hong Kong's exports of services. It consisted of transport (US$ 581 million), other business services (US$ 198 million), financial services (US$ 169 million), telecommunication and information services (US$ 31 million), manufacturing services (US$ 3.3 million) and charges for the use of intellectual property (US$ 2.1 million). Figures on travel, construction, insurance as well as government goods and services were unavailable due to confidentiality of information relating to individual establishments.

Hong Kong's imports of services from Switzerland reached to US$ 460 million (0.6% of total imports of services, increased by 7.6%) in 2011. Switzerland ranked 19th largest supplier in this category. It consisted of transport (US$ 109 million), charges for the use of intellectual property (US$ 101 million), other business services (US$ 79 million), travel (US$ 70 million), financial services (US$ 54 million), insurance services (US$ 32 million), telecommunication and information services (US$ 3.5 million). Figures on construction as well as government goods and services were unavailable due to confidentiality of information relating to individual establishments.

4 Direct Investments

4.1 Development and general outlook

According to the Hong Kong Census and Statistics Department, at the end of 2011 (latest available information)[7], the stock of Hong Kong's inward direct investments rose by 0.9% to US$ 1,074 billion. Major investor countries were China (US$ 390 billion or 36% of total, decreased by 2.7%), the British Virgin Islands BVI (US$ 334 billion or 31% of total, decreased by 5.4%), Bermuda (US$ 76 billion or 7.1% of total, increased by 7%), the Netherlands (US$ 76 billion or 7.1% of total, increased by 0.5%), and the US (US$ 46 billion, 4.3% of total, grew by 18%). 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.

China was also the largest destination for Hong Kong's outward direct investment (US$ 429 billion or 42% of total). Guangdong Province was all along a popular location for Hong Kong's outward direct investments in China, accounting for 33% 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.

According to the International Monetary Fund (IMF), inward portfolio investments to Hong Kong amounted to US$ 826 billion (-11%) in 2011. Major investor countries were China (214 billion or 26% of total, increased by 11%), Cayman Islands (US$ 178 billion or 22% of total, decreased by 12%), the US (US$ 74 billion or 9% of total, dropped by 19%), Bermuda (US$ 74 billion or 9% of total, decreased by 30%), and the UK (US$ 63 billion or 7.6% of total, dropped by 25%).

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$ 6.6 billion (0.6% of total, increased by 16%) and ranked the 15th largest investor country in 2011[8]. Swiss portfolio investments in Hong Kong reached US$ 1.5 billion (0.2% of total, dropped by 42%), according to the IMF.

As at 1st June 2012, there were 217 Swiss companies operating in Hong Kong: 41 regional headquarters, 75 regional offices and 101 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.

[6] The trade in services figures for 2012 will only be available by Feb. 2014.
[7] Investment figures for 2012 will only be available by Dec. 2013.
[8] Bilateral investment figures for 2012 will only be available by Dec. 2013.

The Hong Kong Census and Statistics Department compiles for top 30 recipient countries for outward direct investments from Hong Kong only. As Switzerland is out of this category, the corresponding figure is therefore unavailable.

On one hand, Swiss direct investments in Hong Kong have increased from US$ 2.5 billion in 2000 to US$ 6.6 billion in 2011. On the other hand, the Swiss share in foreign investments remains rather stable. It accounted for about 0.6% (in average) of total foreign direct investments between 2000 and 2011. “

5 Trade, economic and tourist promotion

5.1 Foreign economic promotion instruments

Swiss Business Hub Hong Kong

A Swiss Business Hub SBH was officially opened in October 2012, emphasizing the great economic importance for Switzerland and Hong Kong. Its priority aims in particular to support Swiss SMEs in their entry to the Hong Kong market. In addition to promoting exports of services and products, it has the mandate from Switzerland Global Enterprise to be active in location & investment promotion. Furthermore the SBH operates as the co-ordination point for the new export platforms, Cleantech Switzerland, Switzerland Medtech, Swiss Health and Ingenious Switzerland.

Various events have been organized by the SBH in the course of 2013, the major ones being 2 Hong Kong Forums in Zurich and Geneva for Trade promotion and a VIP-Dinner for potential Hong Kong and Chinese Investors.

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 represents the Swiss business community to both the Swiss and HKSAR governments. 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 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 tourism, education and other services, potential for development

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.

Es besteht eine rege Zusammenarbeit zwischen Universitäten in Hongkong und der Schweiz. Neu ist die Zürcher Hochschule der Künste daran, lokale Workshops und Kurse anzubieten und die Zusammenarbeit mit lokalen Partnern auszubauen. Die EHL startet im Oktober 2013 eine engere Zusammenarbeit mit der Hotel- und Tourismusfachschule der Polytechnischen Universität.

5.3 Interests for Switzerland as a location for investment, potential for development

Some Hong Kong companies have acquired Swiss watchmakers and producers of watch movements as means to extend marketing and distribution network, and/or to gain access to better technology and designs. The Consulate General has not heard about any substantial investment from Hong Kong in Swiss companies in 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.

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

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. The introduction of the pilot scheme for RMB 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.

Since August 2011, a number of supportive measures have been introduced, including the expansion of the geographical coverage of the RMB trade settlement scheme to the entire Mainland China, the promulgation of the administrative arrangements for RMB foreign direct investment and the introduction of the RMB Qualified Foreign Institutional Investors (RQFII) scheme. All these measures serve to enhance the use and circulation of RMB funds between the onshore and offshore markets, facilitating the further development of Hong Kong as the offshore RMB business centre.

Trade transactions settled in RMB through banks in Hong Kong increased from a monthly average of about RMB 31 billion in 2010 and RMB 160 billion in 2011 to RMB 219 billion in 2012. Furthermore, Hong Kong hosts the largest pool of RMB liquidity outside Mainland China. Since August 2012, RMB services offered by Hong Kong banks have been extended to personal customers who are non-Hong Kong residents. At the end of March 2013, offshore RMB deposits in Hong Kong amounted to over RMB 810 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 RMB bond market in Hong Kong, or the dim-sum bond market, is the largest outside Mainland China. The outstanding amount of dim-sum bonds totaled RMB 258 billion at the end of March 2013, almost doubling the outstanding amount in 2011. There were issuances of over RMB 112 billion by 80 issuers in 2012. Over the years, the range of issuers in the RMB bond market in Hong Kong has broadened from predominantly the sovereign (Ministry of Finance of China) and banks in Mainland China to international financial institutions and companies from different parts of the world. Since 2011, issuers in the market further expanded to include non-bank institutions in Mainland China.

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. Switzerland is well-positioned to function as a conduit for business with China and for use of RMB. Over the last few years, the Swiss financial centre has been revamping its value proposition for RMB business, serving clients in China, Switzerland and other locations around the world. The strength of the Swiss financial industry includes an excellent financial market infrastructure, liquid financial market with comprehensive financial services, a reliable legal system and robust regulatory structures. It offers favourable conditions for the offshore RMB business with its high levels of assets under management and international commodity trading.

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 last but not least, 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.

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/)
Switzerland Global Enterprise (www.switzerland-ge.com)

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	2008	2009	2010	2011	% Change 1995 / 2011
Spreading GDP (%)						
Primary Sector	0.2%	0.1%.	0.1%	0.1%	0.1%	-50%
Secondary Sector	16%	7.9%	7.8%	7%	6.8%	-58%
Tertiary Sector	83.8%	92%	92.1%	92.9%	93.1%	+11%
Spreading Employment						
Primary Sector	0.6%	0.3%	0.2%	0.1%	0.1%	-83%
Secondary Sector	27.1%	12.6%	11.8%	11.6%	11.4%	-58%
Tertiary Sector	72.3%	87.1%	88%	88.3%	88.5%	+22%

*This set of figures for 2012 will only be available by Nov. 2013

Source: Hong Kong Census and Statistics Department

Appendix 2

Essential Economic Data

	2005	2006	2007	2008	2009	2010	2011	2012
GDP (USD billion)	177.3	189.1	207.1	215.2	208	228	248	262
GDP per capita (USD)	26,000	27,600	29,900	30,800	29,800	32,400	35,100	36,600
GDP growth (%)	7.1	7.0	6.4	2.3	-2.6	6.8	4.9	1.5
Inflation (%)	1.0	2.0	2.0	4.3	0.5	2.4	5.3	4.1
Unemployment rate (%)	5.6	4.8	4.0	3.5	5.4	4.3	3.4	3.3
Fiscal balance (% of GDP)	1.0	4.0	7.2	-0.3	0.8	4.2	3.8	3.2
Current account balance (% of GDP)	11.4	10.8	12.3	13.7	8.6	6.6	4.8	1.3
Reserves (in months of imports)	19.8	18.6	19.5	22.3	34.6	28.7	25.9	27.2

Sources: HKSAR Government

Appendix 3

Trading Partners 2012

	Exports to country/region	Exports (USD millions)	Share (%)	Growth* (%)
1	China	238,174	54	6.3
2	USA	43,398	9.9	2.3
3	Japan	18,458	4.2	6.5
4	Taiwan	10,364	2.4	-5.2
5	Germany	9,976	2.3	-13
6	India	9,895	2.2	-18
7	Korea Rep	7,545	1.7	-4
8	Singapore	7,173	1.6	-0.5
9	UK	7,072	1.6	-6
10	Vietnam	6,500	1.5	9.9
	EU	42,677	9.7	-7.4
18	**Switzerland**	**3,363**	**0.8**	**4.4**
	Total	440,301	100	2.9
	Imports from country/region	**Imports (USD millions)**	**Share (%)**	**Growth* (%)**
1	China	235,187	47	8.4
2	Japan	42,175	8.4	-1.7
3	Taiwan	37,408	7.5	3.5
4	Korea Rep	24,832	5	7.5
5	USA	23,481	4.7	-0.3
6	Singapore	13,922	2.8	-16
7	Malaysia	13,499	2.7	-9.2
8	India	12,982	2.6	-1.8
9	Thailand	10,189	2	-3.2
10	**Switzerland**	**8,099**	**1.6**	**2.5**
	EU	39,949	8	-0.2
	Total	501,559	100	3.9

* 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	7'927	20.9%	1'750	0.4%	6'177	9'677	16.8%
2012	**8'275**	**4.4%**	**1'803**	**3%**	**6'472**	**10'078**	**4.1%**

Major products

Exports	2011		2012		
	% of total	CHF million	% of total	CHF million	% Change 2011/2012
1. Watches and clocks	52	4'091	53	4'371	6.8
2. Jewellery and precious stones	31	2'436	30	2'481	1.9
3. Chemical and pharmaceutical products	5.7	454	5.9	485	6.8
4. Machinery	5	393	5.1	425	8.1

Imports	2011		2012		
	% of total	CHF million	% of total	CHF million	% Change 2011/2012
1. Jewellery and precious stones	65	1'146	62	1'121	-2.1
2. Watches and clocks	20	351	22	389	11
3. Machinery	5.9	104	5.9	107	2.9
4. Textiles and garments	1.7	30	4.1	73	141

Appendix 5

Major investor countries/regions 2011 (latest available information)

Rank	Country/Region	Direct investments (USD billion)	Share (%)	Growth (%)	Change of inflow (USD billion)
1	China	390	36%	-2.7%	3.8
2	British Virgin Islands	334	31%	-5.4%	-11
3	Bermuda	76	7.1%	7%	1.5
4	Netherlands	76	7.1%	0.5%	4.3
5	USA	46	4.3%	18%	22
6	Japan	25	2.3%	4.2%	-1.3
7	Singapore	23	2.1%	35%	9
8	Cayman Islands	14	1.3%	-22%	-0.2
9	UK	14	1.3%	-13%	-1.3
10	Cook Islands	9.6	0.9%	14%	0.3
	EU	105	9.8%	3.2%	3.8
15	**Switzerland**	**6.6**	**0.6%**	**16%**	**0.3**
	Total	1,074	100 %	0.9%	26
Rank	**Country/Region**	**Portfolio investments (USD billion)**	**Share (%)**	**Growth (%)**	**Change of inflow (USD billion)**
1	China	214	26%	11%	N.A.
2	Cayman Islands	178	22%	-12%	N.A.
3	USA	74	9%	-19%	N.A.
4	Bermuda	74	9%	-30%	N.A.
5	UK	63	7.6%	-25%	N.A.
6	Japan	35	4.2%	46%	N.A.
7	Australia	30	3.6%	-14%	N.A.
8	Luxembourg	28	3.4%	-3.4%	N.A.
9	Republic of Korea	17	2.1%	-15%	N.A.
10	France	14	1.7%	-6.7%	N.A.
21	**Switzerland**	**1.5**	**0.2%**	**-42%**	N.A.
	Total	826	100%	-11%	N.A.

*N.A. Not available

Remarks: Investment figures for 2012 will only be available by Dec. 2013

Sources: Hong Kong Census & Statistics Department, IMF