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Annual Economic report: Hong Kong 2013

1 Appreciation of economic problems and issues

1.1 General overview of HK's economy:

The domestic sector remained resilient amid challenges facing the global economy in 2013. The Hong Kong economy grew by 2.9% for the year, a marked improvement over 1.5% in 2012. The US and European economies were beset by a tepid recovery, which put a drag on Hong Kong's trade performance. Merchandise exports to the US shrank by 4% and those to the EU fell by 1% in 2013. China's economy is the driving force of economic growth in the region and underpins the Hong Kong economy. More than half of Hong Kong's exports of goods went to the Mainland market, outpacing other markets. Energy and raw material prices remained stable, alongside a generally moderate increase in import prices of food. Domestic price pressures, however, were more notable. The average headline inflation rate for 2013 as a whole was 4.3%. The unemployment rate averaged at a low level of 3.3%. Private consumption expenditure grew by 4.2%, thanks to the favourable job and income conditions. Investment rose only moderately at 3.3%, due to relapse in private sector construction activities.

Low interest rates and abundant liquidity have seen the local property market out of line with economic fundamentals, with heightened risk of a bubble. Before the supply-demand situation of the property market regains its balance, the HKSAR Government pledges to continue with its demand-side management measures such as imposition of Special Stamp Duty, Buyer's Stamp Duty and Double Stamp Duty on sales and transfers of property. According to the HKSAR Government, these measures serve to forestall an increased risk of a property bubble that would hamper the macro-economic and financial stability.

The HKSAR Government forecasts GDP growth of 3 to 4% in 2014, lower than the average annual growth rate of 4.5 per cent over the past decade. As for unemployment rate, barring any external shocks, the labour market is expected to remain in a state of full employment.

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 9.6% of its total trade in 2013.

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 2013, Hong Kong's domestic exports were confined to about 1.5% of its total exports while re-exports accounted for about 98.5% of its total exports.

On one hand, Hong Kong is the largest source of overseas direct investment in China. By the end of 2013, 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 about US$ 665 billion, accounting for 48% 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, China's cumulative direct investment in Hong Kong was US$ 457 billion or 37% of Hong Kong's total stock of inward direct investment at the end of 2012[1].

Hong Kong is also a key offshore capital-raising centre for Chinese enterprises. As of December 2013, 797 mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies with total market capitalization of US$1.8 trillion, or 56.9% of the market total. Since 1993, mainland companies have raised more than US$400 billion via stock offerings in Hong Kong.

Premier Li Keqiang announced at the Boao Forum on 10th April 2014 about mutual stock market access between Hong Kong and Shanghai, implementing the two-way opening up of the capital markets of the two sides. This pilot programme Shanghai-Hong Kong Stock Connect will allow Mainland investors who satisfy the eligibility criteria to trade for the first time eligible stocks listed on

[1] Investment figures for 2013 will only be available by Dec. 2014.

the Stock Exchange of Hong Kong (SEHK) through the Shanghai Stock Exchange (SSE) directly. At the same time, it will also allow Hong Kong and overseas investors to trade for the first time eligible stocks listed on the SSE through the SEHK directly. To launch Shanghai-Hong Kong Stock Connect, the preparatory work will take approximately six months.

The Shanghai-Hong Kong Stock Connect is a mutually beneficial development for both China and Hong Kong. For the Mainland, it will help increase the participation of institutional investors in the Shanghai securities market, which will promote the further development of the market in a step-by-step manner, enable Mainland investors to invest in overseas markets in an orderly way, enhance the opening up of the Mainland's capital market and promote the internationalisation of the Renminbi RMB. For Hong Kong, it will strengthen the strategic co-operation and interaction between the Hong Kong and the Mainland markets, catalyse the two-way RMB fund flows between the onshore and offshore markets, and further increase the liquidity of the offshore RMB market in Hong Kong, whilst reinforcing and enhancing Hong Kong's position as the premier international financial centre and offshore RMB business centre through this process.

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 FHKI in March 2014, the operating environment for Hong Kong manufacturers in the PRD remains difficult. The responding enterprises indicate that production costs are rising this year, with an average increase rate of 12% compared with last year.

Labour costs increased by more than 10% compared with last year. Labour problem and labour shortage is the major challenge faced by the majority of the Hong Kong manufacturers. 80% of responding enterprises indicate that their Mainland factories are short of labour, in particular salespersons, managerial and administrative staff. As it is difficult to hire workers, enterprises have to increase wages, welfare spending, bonus as well as expenses on training, thus increasing the total labour cost.

Compared to the findings of FHKI's surveys since 2012, the number of workers employed by Hong Kong manufacturers exhibits a decreasing trend. The survey conducted in 2012 indicated that about 40% of the enterprises employed in excess of 1,000 persons or more whilst the figure for 2014 is only 24%. The proportion of those employing more than 100 persons but less than equal to 500 persons jumps from 30% in 2012 to 40% in 2014. Enterprises tend to employ fewer workers and improve their productivity through automation.

About 70% of responding enterprises will not move their production out of the PRD. About 16% of enterprises retain the existing scale of production in the PRD whilst opening new production lines in other regions. 12% of enterprises are scaling down production but may move some of their production lines out of the PRD. Only 1% of them will move all production out of the PRD.

On relocating high value-added activities back to Hong Kong, 70% of the respondents indicate that they will definitely not do so while more than 20% of the enterprise will consider moving back.

About 54% of the respondents are optimistic about the prospects of their business whilst only about 10% are negative and very negative. It shows the sentiment has improved as only 45% of the respondents were optimistic about their business in the findings last year.

1.4 **Inbound Tourism**

In 2013, total visitor arrivals reached over 54 million (+12% year-on-year basis), about 7.5 times the size of Hong Kong population. Tourists from Mainland China totalled about 41 million in 2013 (75% of total visitor arrivals; +17% 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 to over US$ 42 billion (+15% y-o-y) in 2013. Per capita spending of Mainland overnight visitors has exceeded that of non-Mainland visitors since 2007. In 2013, per capita spending of Mainland overnight visitors was at about US$ 1,150. It is noteworthy that their spending patterns are rather different from visitors from other regions. Shopping accounts for 72% of their total spending while shopping only accounts for 15% and 22% of total spending of the US and European visitors respectively. Hotel bills (12% of total spending), meals outside hotels (9% of total spending) and entertainment (3% of total spending) are the major spending categories of Mainland visitors.

1.5 Public Finance

The government forecasted a budgetary surplus of US$ 1.5 billion for 2013-14. Fiscal reserves are estimated to reach US$ 97 billion by end-March 2015, representing about 34% of the GDP and equivalent to 22 months of government expenditure.

The HKSAR Government's overall fiscal position remains healthy in the short to medium term. However, Financial Secretary John Tsang warns that a structural deficit may become inevitable within 7 to 15 years. It will be brought about by an ageing population, increasing welfare expenditure and the relatively constrained growth of a mature economy.

He mentioned to examine different options and views from various sectors of the community and take forward appropriate measures. Whether the Government will work out a clear plan to curb public spending and raise revenues in the long run remains to be seen.

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[2]. 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.

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.

[2] The Agreement will enter into force on a date to be mutually determined by Hong Kong and Chile after completing necessary domestic procedures. Hong Kong has already completed the legislative procedures while the procedures in Chile are in progress.

According to the Hong Kong General Chamber of Commerce, CEPA serves as a useful test bed for China's avowed pursuit of great reforms and liberalization of its market while allowing China to better manage and control the opening up process. On the other hand, CEPA has also proven its worth to Hong Kong during times of economic crisis.

The most notable crisis took place the year that CEPA was signed in 2003 - the devastating after-effects of the SARS outbreak. The most immediate and visible impact of CEPA came in the form of relaxed restrictions on cross-boundary travel (Individual Visit Scheme IVS). Previously, most of them could only travel to Hong Kong under business visas or by joining group tours. Since then, over 114 million mainland residents have visited Hong Kong under the Individual Visit Scheme as at end-June 2013.

CEPA is nationality neutral. Therefore overseas-based companies incorporated in Hong Kong can enjoy the full benefits of CEPA. According to Invest Hong Kong, about a quarter of foreign invested companies indicated that CEPA was an important factor in their decision to set up or expand their operations in 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 9th largest trading economy. Total exports of Hong Kong increased by 3.6% to US$ 456 billion in 2013. Domestic exports dropped to US$ 7 billion (-7.6%) while re-exports rose to US$ 449 billion (+3.8%). Major export markets were China (55% of total exports), the US (9.3%), Japan (3.8%), India (2.3%) and Taiwan (2.2%). Major export products were electrical machinery and apparatus (28%), telecom, audio and video equipment (20%), office machines and computers (12%), clothing (4.8%) and photographic apparatus, optical goods and watches and clocks (3.3%).

Imports increased to US$ 521 billion (+3.8%) in 2013. Major supplier countries were China (48% of total imports), Japan (7.1%), Taiwan (6.4%), Singapore (6.1%), and the US (5.4%). Major import products were electrical machinery and apparatus (27%), telecom, audio and video equipment (17%), office machines and computers (9.9%), clothing (3.1%) as well as photographic apparatus, optical goods and watches and clocks (3%).

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$ 98 billion (+7.5%) in 2012 (latest available information[3]). Major items included: travel (34% of total exports of services, increased by 16%), transport (33% of total exports of services, decreased by 0.6%), financial services (16% of total exports of services, increased by 7.8%), other business services (13% of total exports of services, increased by 7.4%) as well as telecommunication and information services (2.4% of total exports of services, increased by 9.2%).

In 2012, exports of services by main destinations were China (US$ 34 billion, 37% of total, grew by 15%), the US (US$ 15 billion, 16% of total, grew by 0.2%), the UK (US$ 6.2 billion, 6.6% of total, decreased by 1.7%), Japan (US$ 5 billion, 5.4% of total, increased by 6%) and Taiwan (US$ 4.2 billion, 4.5% of total, decreased by 6%).

Import of services amounted to US$ 76 billion (+2.8%) in 2012. Major items included: travel (26% of total imports of services, increased by 5.2%), transport (24% of total imports of services, increased by 2.3%), manufacturing services (23% of total imports of services, dropped by 0.4%), other business services (14% of total imports of services, increased by 2.2%), financial services (5.1% of total imports of services, increased by 1%) and charges for the use of intellectual property (2.6% of total imports of services, increased by 0.1%).

[3] Trade in services figures for 2013 will only be available by Feb. 2015.

In 2012, imports of services by main sources were China (US$ 32 billion, 43% of total, increased by 1.1%), the US (US$ 8.1 billion, 11% of total, decreased by 2.3%), Japan (US$ 5 billion, 6.6% of total, grew by 20%), the UK (US$ 4.1 billion, 5.5% of total, decreased by 1.7%) and Singapore (US$ 3.5 billion, 4.5% of total, grew by 2.1%).

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 2013. Switzerland was Hong Kong's 10th largest supplier and 18th largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 8,201 million (-0.9%) in 2013. Major Swiss exports included watches and clocks (50% of total, dropped by 5.6%, CHF 4,125 million in value), jewellery & precious metal (35% of total, grew by 14%, CHF 2,839 million in value), chemical and pharmaceutical products (4.6% of total, dropped by 21%, CHF 381 million in value) and machinery (4.2% of total, dropped by 19%, CHF 346 million in value).

Hong Kong's total exports to Switzerland amounted to CHF 1,800 million (-0.1%) in 2013. Major total exports included jewellery & precious metal (59% of total, decreased by 5.7%, CHF 1,057 million in value), watches and clocks (24% of total, increased by 11%, CHF 433 million in value), machinery (7.2% of total, increased by 21%, CHF 130 million in value) as well as textiles and garments (3.4% of total, dropped by 16%, CHF 61 million in value).

In 2013, Swiss exports to Mainland China (CHF 8,766 million in value) and Hong Kong (CHF 8,201 million in value) accounted for 8% of global Swiss exports. Hong Kong was the second largest market for Switzerland in Asia. On the other hand, Swiss imports from China (CHF 11,422 million) and Hong Kong (CHF 1,800 million) totalled CHF 13,222 million. Switzerland got a trade surplus worth CHF 3,745 million.

According to the Hong Kong Census and Statistics Department, Swiss products worth US$ 3,377 million were re-exported via Hong Kong to other countries and notably to China (US$ 876 million, dropped by 22%) and Macao (US$ 864 million, increased by 29%) in 2013. Major Swiss products via Hong Kong to China were watches and clocks (US$ 403 million), measuring instruments (US$ 83 million), silver and platinum (US$ 58 million) and electrical apparatus (US$ 29 million). Major Swiss products via Hong Kong to Macao were watches and clocks (US$ 808 million) as well as jewellery (US 18 million).

Swiss products re-exporting to China via Hong Kong rose from US$ 518 million to US$ 1,121 million during 2005-2012. Last year saw a rare drop to US$ 876 million. On the other hand, Swiss products re-exporting to Macao via Hong Kong marked an annual growth of 51% in the last four years. With its huge casinos and hotels, Macao has established itself as a top tourist destination and luxury brand shopping centre for high rollers from China in recent years.

According to the Hong Kong Census and Statistics Department, products of Chinese origin worth US$ 1,552 million (-1%) were re-exported to Switzerland via Hong Kong in 2013. Major products were watches and clocks (US$ 883 million), clothing (US$ 109 million), telecom equipment (US$ 72 million) and jewellery (US$ 66 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 popular 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 low and medium-priced watches with brands performed very well in 2013. According to an industry source, the decline of hi-end watch sales was an adjustment after an abnormal growth of sales registered since 2010. Its sales remained healthy.

Swiss exports of essential oils, perfume materials and toilet preparations (SITC 55) to Hong Kong rose substantially from US$ 92 million in 2009 to US$ 216 million in 2012. However, it recorded a drop to US$ 193 million (-11% y-o-y) in 2013. According to a leading cosmetic retailer, tourists from Mainland China account for about 50% of their total sales in Hong Kong. They admitted that the growth in sales slowed down recently and they therefore reduced the Swiss inventories as destocking. It partly explained a decline of Swiss exports of cosmetic products to Hong Kong last year. Nevertheless, they felt that the market was in general satisfactory.

Some affluent mainland tourists look beyond Hong Kong and opt to go to Europe for their shopping sprees. Furthermore, owing to anti-graft policies and weakening growth momentum in China, it will to a certain extent affect sales of luxury goods in Hong Kong. On the other hand, we see increasing demand from mainland tourists for personal items and household goods such as foodstuff, medicine, ready-made wear as well as cosmetics and skin care products

According to a research brief released by the Legislative Council on 7th May 2014, Hong Kong residents accounted for 80% of total retail sales whereas mainland visitors and non-mainland visitors accounted for 14% and 6% of total retail sales respectively in 2004[4]. In 2013, Hong Kong residents accounted for 62% of total retail sales while mainland visitors and non-mainland visitors contributed 34% and 4% of total retail sales respectively. It shows a remarkable change of the retail landscape 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$ 1,237 million (1.3% of total exports of services, grew by 22%) in 2012[5]. Switzerland ranked 12th largest market for Hong Kong's exports of services. It consisted of other business services (US$ 578 million), transport (US$ 470 million), financial services (US$ 99 million) as well as telecommunication and information services (US$ 32 million). Figures on travel, construction, insurance, charges for the use of intellectual property 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$ 441 million (0.6% of total imports of services, decreased by 4.3%) in 2012. Switzerland ranked 19th largest supplier in this category. It consisted of transport (US$ 103 million), charges for the use of intellectual property (US$ 88 million), other business services (US$ 77 million), travel (US$ 68 million), financial services (US$ 53 million), insurance services (US$ 30 million) as well as telecommunication and information services (US$ 11 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 2012 (latest available information)[6], the stock of Hong Kong's inward direct investments rose by 15% to US$ 1,237 billion. Major investor countries were China (US$ 457 billion or 37% of total, increased by 17%), the British Virgin Islands BVI (US$ 404 billion or 33% of total, increased by 21%), the Netherlands (US$ 86 billion or 7% of total, increased by 13%), Bermuda (US$ 79 billion or 6.4% of total, increased by 3.9%) and the US (US$ 38 billion, 3.1% of total, decreased by 17%). 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.

The British Virgin Islands BVI was the largest destination for Hong Kong's outward direct investment (US$ 501 billion or 43% of total) in 2012. China ranked the second (US$ 471 billion or 41% of total). Guangdong Province was all along a popular location for Hong Kong's outward direct investments in China, accounting for 32% 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$ 987 billion (+19%) in 2012. Major investor countries were China (283 billion or 29% of total, increased by 32%), Cayman Islands (US$ 204 billion or 21% of total, increased by 15%), Bermuda (US$ 90 billion or 9.1% of total, increased by 22%), the US (US$ 78 billion or 7.9% of total, increased by 5.4%) and the UK (US$ 69 billion or 7% of total, increased by 9.5%).

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[4] The Individual Visit Scheme IVS was introduced in July 2003 as a tourism liberalization measure under the Mainland and Hong Kong Closer Economic Partnership Arrangement CEPA. The launch and progressive extension of IVS have fuelled the increase in Mainland visitors in recent years.

[5] The trade in services figures for 2013 will only be available by Feb. 2015.

[6] Investment figures for 2013 will only be available by Dec. 2014.

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$ 7.9 billion (0.6% of total, increased by 20%) and ranked the 13th largest investor country in 2012[7]. Swiss portfolio investments in Hong Kong reached US$ 2 billion (0.2% of total, increased by 33%), according to the IMF.

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 2012.

As at 1st June 2013, there were 216 Swiss companies operating in Hong Kong: 43 regional headquarters, 73 regional offices and 100 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

Swiss Business Hub Hong Kong

The 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 investment promotion, a task coordinated together with the SBH in Beijing.

Focus sectors for 2013 were Cleantech and Medtech and will continue to enjoy a particular attention also during 2014. In addition, the ICT industry has been targeted for following sectors; Financial Services, Software, E-government, E-learning, Data Centres and Mobile Apps.

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 and Swiss-Hong Kong Business Association are non-profit associations registered in Switzerland. 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.

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.

[7] Bilateral investment figures for 2013 will only be available by Dec. 2014.

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, RMB 160 billion in 2011, RMB 219 billion in 2012 to RMB 320 billion in 2013. 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 2014, offshore RMB deposits in Hong Kong amounted to RMB 945 billion. 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. In 2013, RMB financing activities remained buoyant with the issuance of bonds in Hong Kong amounting to RMB 117 billion and the outstanding amount of RMB bonds growing by 31% to RMB 310 billion. Outstanding renminbi bank loans totalled RMB 116 billion at the end of 2013, up 46% from 2012.

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. The most recent example is the introduction of the Shanghai-Hong Kong Stock Connect, as mentioned in 1.2 Economic integration with Mainland China.

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	2009	2010	2011	2012	% Change 1995 / 2012
Spreading GDP (%)						
Primary Sector	0.2%	0.1%	0.1%	0.1%	0.1%	-50%
Secondary Sector	16%	7.8%	7%	6.8%	6.9%	-57%
Tertiary Sector	83.8%	92.1%	92.9%	93.1%	93%	+11%
Spreading Employment						
Primary Sector	0.6%	0.2%	0.1%	0.1%	0.2%	-67%
Secondary Sector	27.1%	11.8%	11.6%	11.4%	11.4%	-58%
Tertiary Sector	72.3%	88%	88.3%	88.5%	88.4%	+22%

*This set of figure for 2013 will only be available by Nov. 2014

Source: Hong Kong Census and Statistics Department

Appendix 2

Essential Economic Data

	2006	2007	2008	2009	2010	2011	2012	2013
GDP (USD billion)	189.1	207.1	215.2	208	228	248	262	272
GDP per capita (USD)	27,600	29,900	30,800	29,800	32,400	35,100	36,600	37900
GDP growth (%)	7.0	6.4	2.3	-2.6	6.8	4.9	1.5	2.9
Inflation (%)	2.0	2.0	4.3	0.5	2.4	5.3	4.1	4.3
Unemployment rate (%)	4.8	4.0	3.5	5.4	4.3	3.4	3.3	3.3
Fiscal balance (% of GDP)	4.0	7.2	-0.3	0.8	4.2	3.8	3.2	0.6
Current account balance (% of GDP)	10.8	12.3	13.7	8.6	6.6	4.8	1.3	2.1
Reserves (in months of imports)	18.6	19.5	22.3	34.6	28.7	25.9	27.2	26.4

Sources: HKSAR Government

Appendix 3

Trading Partners 2013

	Exports to country/region	Exports (USD millions)	Share (%)	Growth* (%)
1	China	249,903	55	4.9
2	USA	42,475	9.3	-2.1
3	Japan	17,337	3.8	-6.1
4	India	10,680	2.3	7.9
5	Taiwan	9,918	2.2	-4.3
6	Germany	9,465	2.1	-5.1
7	Korea Rep	8,222	1.8	9
8	Vietnam	7,510	1.6	16
9	Singapore	7,510	1.6	4.7
10	UK	6,929	1.5	-2
	EU	42,893	9.4	0.4
18	**Switzerland**	**3,390**	**0.7**	**0.8**
	Total	456,370	100	3.6

	Imports from country/region	Imports (USD millions)	Share (%)	Growth* (%)
1	China	248,991	48	5.5
2	Japan	36,711	7.1	-8.1
3	Taiwan	33,576	6.4	6.9
4	Singapore	31,595	6.1	0
5	USA	28,164	5.4	7.4
6	Korea Rep	20,347	3.9	3.4
7	Malaysia	11,231	2.2	4.7
8	India	11,195	2.2	6.7
9	Thailand	9,941	1.9	6.4
10	**Switzerland**	**9,897**	**1.9**	**-1.7**
	EU	40,411	7.8	3.2
	Total	520,605	100	3.8

* 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%
2013	**8'201**	**-0.9%**	**1'800**	**-0.1%**	**6'401**	**10'001**	**-0.8%**

Major products

Exports	2012 % of total	2012 CHF million	2013 % of total	2013 CHF million	% Change 2012/2013
1. Watches and clocks	53	4'371	50	4'125	-5.6
2. Jewellery and precious stones	30	2'481	35	2'839	14
3. Chemical and pharmaceutical products	5.9	485	4.6	381	-21
4. Machinery	5.1	425	4.2	346	-19

Imports	2012 % of total	2012 CHF million	2013 % of total	2013 CHF million	% Change 2012/2013
1. Jewellery and precious stones	62	1'121	59	1'057	-5.7
2. Watches and clocks	22	389	24	433	11
3. Machinery	5.9	107	7.2	130	21
4. Textiles and garments	4.1	73	3.4	61	-16

Source : Swiss Federal Customs Administration

Appendix 5

Major investor countries/regions 2012 (latest available information)

Rank	Country/Region	Direct investments (USD billion)	Share (%)	Growth (%)	Change of inflow (USD billion)
1	China	457	37%	17%	-11
2	British Virgin Islands	404	33%	21%	5.2
3	Netherlands	86	7%	13%	-2.8
4	Bermuda	79	6.4%	3.9%	4.2
5	USA	38	3.1%	-17%	-18
6	Singapore	26	2.1%	13%	-8.4
7	Japan	22	1.8%	-12%	0.3
8	Cayman Islands	17	1.4%	21%	-0.9
9	UK	17	1.4%	21%	5.4
10	Cook Islands	15	1.2%	56%	0.5
	EU	122	9.9%	16%	3.6
13	**Switzerland**	**7.9**	**0.6%**	**20%**	**-0.4**
	Total	1,237	100 %	15%	-27
Rank	**Country/Region**	**Portfolio investments (USD billion)**	**Share (%)**	**Growth (%)**	**Change of inflow (USD billion)**
1	China	283	29%	32%	N.A.
2	Cayman Islands	204	21%	15%	N.A.
3	Bermuda	90	9.1%	22%	N.A.
4	USA	78	7.9%	5.4%	N.A.
5	UK	69	7%	9.5%	N.A.
6	Luxembourg	39	4%	39%	N.A.
7	Japan	37	3.7%	5.7%	N.A.
8	Australia	34	3.4%	13%	N.A.
9	Republic of Korea	22	2.2%	29%	N.A.
10	Singapore	15	1.5%	90%	N.A.
23	**Switzerland**	**2**	**0.2%**	**33%**	N.A.
	Total	987	100%	19%	N.A.

*N.A. Not available

Remarks: Investment figures for 2013 will only be available by Dec. 2014

Sources: Hong Kong Census & Statistics Department, IMF