512.0-HWR/CHW

Hong Kong, 27th May 2015

Annual Economic report: Hong Kong 2014

1 Appreciation of economic problems and issues

1.1 General overview of HK's economy:

Global economic performance was less than spectacular in 2014. Despite the steady performance of the Mainland's economy and signs of recovery in the US, trade performance of Hong Kong was beset by Eurozone's weakening economy and Japan's relapse into recession. Merchandise exports grew by 1% and service exports by 0.5% in real terms. As a result, the Hong Kong economy grew by only 2.3% last year, the third consecutive year with a growth rate lower than the annual average of 3.9% over the past decade.

The unemployment rate averaged at a low level of 3.2% for the year as a whole, sustaining a state of full employment. Private consumption expenditure maintained moderate growth, but investment expenditure was soft and sentiment turned cautious. With steady increases in labour costs and mild imported inflation, the headline inflation rate for 2014 was 4.4%.

In the latest round of review in February 2015, the HKSAR Government forecast Hong Kong's economy to grow by 1-3% for 2015 as a whole.

1.2 Economic integration with Mainland China

Hong Kong is the most important entrepôt of the Chinese mainland. According to the HKSAR government statistics, 60% of re-exports were of China origin and 54% were destined for the Chinese mainland in 2014. According to China's Customs statistics, Hong Kong is the second largest trading partner of the Chinese mainland after the US, accounting for 8.7% of its total trade in 2014.

Hong Kong's trade with China is to a large extent related to outward processing activities. In 2014, 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 the Chinese mainland. By the end of 2014, among all the overseas-funded projects approved in the Chinese mainland, about 45% were tied to Hong Kong interests. Cumulative utilised capital inflow from Hong Kong amounted to about US$746 billion, accounting for 49% of the national total. The Chinese mainland, on the other hand, is a leading investor in Hong Kong. According to the HKSAR Census and Statistics Department, the stock of Hong Kong's inward investment from the Chinese mainland amounted to US$428 billion at market value or about 32% of the total at the end of 2013[1].

Hong Kong is also a key offshore capital-raising centre for Chinese enterprises. As of December 2014, 876 mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies with total market capitalization of US$1.9 trillion, or 60% of the market total. Since 1993, mainland companies have raised more than US$400 billion via stock offerings in Hong Kong.

In November 2014, Shanghai – Hong Kong Stock Connect was launched to establish mutual stock market access between Hong Kong and Chinese mainland. It is widely anticipated that the Hong Kong-Shenzhen stock connect scheme will also commence in this year. This development is a significant breakthrough in the opening of China's capital markets as well as a landmark in the internationalization of Renminbi, which has also illustrated Hong Kong's strategic position in China's economic and financial reforms. The stock connects in the long term will help improve the corporate governance of listed companies in China.

The China Securities Regulatory Commission and the Hong Kong Securities and Futures Commission announced on 22nd May 2015 that the mutual recognition scheme allowing cross-border fund sales between Hong Kong and the mainland would start from 1st July 2015, with a total quota of RMB 600 billion (HK$760 billion). Financial Secretary John Tsang said it was a major breakthrough for the financial markets of Hong Kong and the mainland as it was the first cross-border fund sales agreement

[1] Investment figures for 2014 will only be available by Dec. 2015.

ever signed by the mainland. Not only will this arrangement expand the distribution network of the Hong Kong’s fund industry but it will also attract more funds to domicile in Hong Kong, which will help to build up Hong Kong's fund manufacturing capabilities and develop it into a full-fledged fund service centre.

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

1.3 Situation of HK companies in the Pearl River Delta PRD

According to a research report “Made in PRD Study IV” of the Federation of Hong Kong Industries released in Feb. 2015, Hong Kong manufacturers operating in the PRD region have encountered numerous challenges since 2008. Lacklustre international markets, coupled with discouraging factors in Mainland including the appreciation of Renminbi, labour shortages, rise in wage levels, labour disputes and policy adjustments to processing trade, Hong Kong manufacturers have reduced the size of their workforce, increased their investment in automation, promoted research and development (R&D) and design activities, and expanded domestic sales market so as to stay competitive.

The research also showed that the majority of Hong Kong manufacturers in the PRD had their first investment in the Mainland between 1980 and 2000. The level of investment reached the peak in the 1990s but started to shrink later on. In other words, Hong Kong manufacturers’ influence in the PRD has been contracting.

Small-and-medium enterprises (SMEs) still form the majority of Hong Kong manufacturers in the PRD, with over a half of them making an annual turnover of HK$ 50 million or less.

Hong Kong manufacturers in the PRD are characterized by their diversity. The three axes of manufacturing industries in the region are electronics, traditional industries (such as textiles, clothing and toys) and ancillary industries (such as metal production, plastic, moulding and paper printing). In the PRD these manufacturers together formed a relatively comprehensive, export-oriented value-added industrial chain.

The research found that the ratio of manufacturers using Hong Kong for import and export has declined. They are shifting their importing and exporting procedures to the Mainland. Although there is no sign of a complete shift in import and export channels, Hong Kong’s role as an entrepôt is facing challenges.

Most responding manufacturers still regard Hong Kong as a major source of capital to further their development on the Mainland. Company profits, bank loans and extra capital from shareholders are the major ways for them to raise capital, suggesting that Hong Kong banks and financial system have played a significant role in manufacturers’ financing.

Nearly half of the respondents have their amount of R&D expenditure less than 3% of their turnover volume, suggesting a relatively low level of R&D investment.

Before 2008, enterprises often relocated their production to Guangdong Province and other places on the Mainland. Since 2010, however, their relocation destinations have shifted to Southeast Asian countries and even back to Hong Kong, indicating the grim business environment in the PRD from the year onwards. Manufacturers that have relocated are mostly from labour-intensive industries, such as garment, textiles and toy production. Relocations of these enterprises are mostly of a partial nature, suggesting that most Hong Kong-funded manufacturers are still using the PRD as a production base while using their factories in the region to support and coordinate factories located in other countries.

1.4 Inbound Tourism

In 2014, total visitor arrivals reached about 60.8 million (+12% year-on-year basis y-o-y), equivalent to 8.4 times the size of Hong Kong population. Tourists from Mainland China totalled about 47 million in 2014 (78% of total visitor arrivals; +16% y-o-y). According to the Hong Kong Tourism Board, total tourism expenditure associated to inbound tourism reached to about US$ 46 billion (+8.5% y-o-y) in 2014.

While an influx of mainland visitors has benefited the Hong Kong economy, there is also increasing concern over the impact of the continuous growth in Mainland visitors on the local community, such as rising shop rentals, pushing up prices of daily necessities, shortage of basic supplies and usage of the public transport system as well as local facilities/amenities. There have been some protests and conflicts against mainland visitors and parallel traders (who buy their stock tax-free in Hong Kong to resell it in mainland China at a profit).

At the request of the HKSAR Government, the Central Government announced a new measure to adjust the "multiple-entry" Individual Visit Endorsements for permanent residents of Shenzhen by replacing it with the "one trip per week" Individual Visit Endorsements with immediate effect in mid-April 2015. In brief, the Shenzhen authority stops issuing the "multiple-entry" Individual Visit Endorsements, which are superseded by the "one trip per week" Individual Visit Endorsements to allow the endorsement holders to visit Hong Kong only once a week from Monday to Sunday. The new measure will not affect the "multiple-entry" Individual Visit Endorsements which have already been issued.

Based on the visitor arrival figures in 2014, with the assumption that the mode of visitors coming to Hong Kong remained unchanged, "one trip per week" Individual Visit Endorsements could reduce the number of visitor arrivals under the "multiple-entry" Individual Visit Endorsements by about 30% (or about 4.6 million), which is equivalent to about 10% of the Mainland visitor arrivals in 2014. Since the new measure does not affect the "multiple-entry" Individual Visit Endorsements which have already been issued, it will take time for the new measure to show full effect.

Nevertheless, the number of overnight mainland visitors has shown a declining trend in recent months. Loosened visa policies and favourable exchange rates have contributed to the increased number of people from China visiting Japan, South Korea and Europe instead of Hong Kong. Furthermore, the tension between mainland tourists and local residents as well as conflicts against parallel trading hurts the reputation of Hong Kong as a tourist destination.

1.5 Public Finance
The government achieved a budgetary surplus of US$ 9.3 billion for the year ended March 31, 2015. The overall fiscal position was more favourable than the original and revised estimates for the year, largely due to the extraordinary returns from profits tax, salaries tax, stamp duties, and land revenue.

The fiscal reserves stood at US$ 106 billion as at March 31, 2015. Financial Secretary John Tsang forecast an annual surplus in the Consolidated Account in the four years from 2016-17. Fiscal reserves are estimated to reach US$ 122 billion by end-March 2020, representing about 34% of GDP and equivalent to 22 months of government expenditure.

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 8th 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. The one with the EFTA States, entered into force 1st October 2012, is Hong Kong's first free trade agreement with 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 ten Supplements between 2004 and 2013.

At present, all products of Hong Kong origin, except for a few prohibited articles, can be imported into the mainland tariff free under CEPA. Hong Kong service suppliers enjoy preferential treatment in entering into the mainland market in various service areas. There are also agreements or arrangements on mutual recognition of professional qualification.

The Agreement on Achieving Basic Liberalization of Trade in Services in Guangdong was signed between the Hong Kong Special Administrative Region Government (HKSARG) and Ministry of Commerce under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) on 18th December 2014. The Agreement is also the first one drawn up by the Mainland making reference to international standards and in the form of pre-establishment national treatment and a negative list. The breadth and depth of liberalization surpass the previous CEPA measures. The Agreement was implemented on 1st March, 2015.

It contains a most-favoured treatment provision which states that any CEPA-plus preferential treatments offered by the Mainland to other countries and regions will be extended to Hong Kong so as to ensure Hong Kong will continue enjoying the most preferential liberalization measures offered by the Mainland.

The Agreement achieves early basic liberalization of trade in services between Guangdong and Hong Kong. It enables Hong Kong investors to take early advantage of opening up the Guangdong market in various service sectors, thereby deepening the cooperation and enhancing the competitiveness of the services industries of the two places. The framework and content of the Agreement also sets a model for basic liberalization of trade in services nationwide next year.

CEPA is nationality neutral. Therefore overseas-based and Swiss 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 8th largest trading economy. Total exports of Hong Kong increased by 3.2% to US$ 471 billion in 2014. Domestic exports maintained at US$ 7 billion (+1.7%) while re-exports rose to US$ 464 billion (+3.2%). Major export markets were China (54% of total exports), the US (9.3%), Japan (3.6%), India (2.6%) and Taiwan (2.2%). Major export products were electrical machinery and apparatus (30%), telecom, audio and video equipment (20%), office machines and computers (11%), clothing (4.3%) and photographic apparatus, optical goods and watches and clocks (3.2%).

Imports increased to US$ 541 billion (+3.9%) in 2014. Major supplier countries were China (47% of total imports), Taiwan (7.1%), Japan (6.8%), Singapore (6.2%), and the US (5.2%). Major import products were electrical machinery and apparatus (30%), telecom, audio and video equipment (17%), office machines and computers (9%), clothing (3%) as well as photographic apparatus, optical goods and watches and clocks (2.8%).

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$ 104 billion (+6.3%) in 2013 (latest available information[2]). Major items included: travel (37% of total exports of services, increased by 18%), transport (30% of total exports of services, decreased by 2.5%), financial services (16% of total exports of services, increased by 5.9%),

[2] Trade in services figures for 2014 will only be available by Feb. 2016.

other business services (12% of total exports of services, increased by 0.5%) as well as telecommunication and information services (2.5% of total exports of services, increased by 9.8%).

In 2013, exports of services by main destinations were China (US$ 32 billion, 41% of total, grew by 18%), the US (US$ 12 billion, 15% of total, grew by 0.8%), the UK (US$ 4.8 billion, 6.2% of total, increased by 0.4%), Japan (US$ 3.6 billion, 4.6% of total, decreased by 8%) and Taiwan (US$ 3.3 billion, 4.2% of total, decreased by 0.8%).

Import of services amounted to US$ 75 billion (-1.9%) in 2013. Major items included: travel (28% of total imports of services, increased by 5.7%), transport (24% of total imports of services, dropped by 1.4%), manufacturing services (20% of total imports of services, dropped by 17%), other business services (15% of total imports of services, increased by 0.1%), financial services (5.6% of total imports of services, increased by 7.1%) and charges for the use of intellectual property (2.7% of total imports of services, increased by 0.4%).

In 2013, imports of services by main sources were China (US$ 30 billion, 41% of total, decreased by 6.7%), the US (US$ 8 billion, 11% of total, decreased by 0.1%), Japan (US$ 5 billion, 6.8% of total, grew by 1.3%), the UK (US$ 4.1 billion, 5.6% of total, insignificant change in growth) and Singapore (US$ 3.4 billion, 4.6% of total, decreased by 0.8%).

3.2 Bilateral trade

3.2.1 Trade in goods

According to the Hong Kong Census and Statistics Department, Switzerland was the 11th largest trading partner of Hong Kong in 2014. Switzerland was Hong Kong's 10th largest supplier and 17th largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 8,119 million (-1%) in 2014. Major Swiss exports included watches and clocks (51% of total, insignificant change in growth/decline, CHF 4,123 million in value), jewellery & precious metal (34% of total, dropped by 2.7%, CHF 2,761 million in value), chemical and pharmaceutical products (4.4% of total, dropped by 6.8%, CHF 355 million in value) and machinery (4.3% of total, grew by 2%, CHF 352 million in value).

Hong Kong's total exports to Switzerland amounted to CHF 2,403 million (+32%) in 2014. Major total exports included jewellery & precious metal (67% of total, increased by 51%, CHF 1,613 million in value), watches and clocks (21% of total, increased by 13%, CHF 503 million in value), machinery (4.6% of total, dropped by 15%, CHF 110 million in value) as well as textiles and garments (2.1% of total, dropped by 17%, CHF 51 million in value).

In 2014, Swiss exports to Mainland China (CHF 8,890 million in value) and Hong Kong (CHF 8,119 million in value) accounted for 7.8% of global Swiss exports. Hong Kong was the second largest market for Switzerland in Asia. On the other hand, Swiss imports from China (CHF 12,174 million) and Hong Kong (CHF 2,403 million) totalled CHF 14,577 million. Switzerland got a trade surplus worth CHF 2,438 million.

According to the Hong Kong Census and Statistics Department, Swiss products worth US$ 3,476 million were re-exported via Hong Kong to other countries and notably to China (US$ 857 million, dropped by 2.1%) and Macao (US$ 900 million, increased by 4.2%) in 2014. Major Swiss products via Hong Kong to China were watches and clocks (US$ 429 million), measuring instruments (US$ 70 million), Semi-conductors, electronic valves & tubes (US$ 30 million) and electrical apparatus (US$ 28 million). Major Swiss products via Hong Kong to Macao were watches and clocks (US$ 852 million), perfumery and cosmetics (US$ 12 million) and jewellery (US$ 6 million).

According to the Hong Kong Census and Statistics Department, products of Chinese origin worth US$ 1,678 million (+8.2%) were re-exported to Switzerland via Hong Kong in 2014. Major products were watches and clocks (US$ 904 million), telecom equipment (US$ 100 million), works of art and antiques (US$ 83 million) and jewellery (US$ 65 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. As witnessed in last few years, tourists from Mainland China accounted for about 70% - 80% of sales of Swiss hi-end watches in Hong Kong.

However, in the first quarter of 2015, Swiss exports to Hong Kong dropped to US$ 2,196 million (-9.9%, y-o-y), according to the Hong Kong Census and Statistics Department. Major Swiss exports such as watches and clocks, silver & platinum and precious and semi-precious stones recorded a decrease of 15%, 38% and 16% respectively.

There is a combination of factors contributing to the negative growth of Swiss exports to Hong Kong. It includes an economic slowdown and anti-corruption measures on the Mainland. Some affluent mainland tourists look beyond Hong Kong and opt to go to Europe for their shopping sprees. Furthermore, loosened visa policies and favourable exchange rates have led to the increased number of people from China visiting Japan and South Korea instead of Hong Kong. As mentioned in former paragraph Inbound Tourism, the tension between mainland tourists and local residents as well as conflicts against parallel trading also give mainland tourists a negative psychological impact.

For the first quarter of 2015, total retail sales decreased by 2.3% in value compared with the same period in 2014, according to the Hong Kong Census and Statistics Department. Jewellery, watches and valuable gifts dropped by 17% (y-o-y) in the first quarter of 2015. On the other hand, the sales of food and alcoholic drinks, electrical goods and photographic equipment as well as consumer durable goods rose by 12%, 9.4% and 6.2% respectively. In other words, sales of hi-end luxury products may go through a downward adjustment while sales of mid-priced commodities still look fine.

The retail sales performance in the near term is likely to be constrained by the weaker performance of inbound tourism but the stable labour market conditions should still render support to local consumer sentiment.

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$ 1,098 million (1.1% of total exports of services, dropped by 11%) in 2013[3]. Switzerland ranked 13th largest market for Hong Kong's exports of services. It consisted of transport (US$ 499 million), other business services (US$ 413 million), financial services (US$ 106 million), telecommunication and information services (US$ 34 million) and charges for the use of intellectual property (US$ 3 million). Figures on travel, construction, insurance and 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$ 461 million (0.6% of total imports of services, increased by 4.7%) in 2013. Switzerland ranked 19th largest supplier in this category. It consisted of charges for the use of intellectual property (US$ 103 million), transport (US$ 74 million), financial services (US$ 65 million), insurance services (US$ 58 million), travel (US$ 55 million), telecommunication and information services (US$ 52 million) and other business services (US$ 44 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 2013 (latest available information)[4], the stock of Hong Kong's inward direct investments rose by 8.7% to US$ 1,344 billion. Major investor countries were the British Virgin Islands BVI (US$ 453 billion or 34% of total, increased by 6.4%), China (US$ 428 billion or 32% of total, dropped by 6.4%), the Netherlands (US$ 89 billion or 6.6% of total, increased by 3.8%), Bermuda (US$ 79 billion or 5.9% of total, dropped by 0.3%) and the US (US$ 45 billion, 3.3% of total, increased by 18%).

Mainland China was the largest destination for Hong Kong's outward direct investment (US$ 507 billion or 41% of total) in 2013. The British Virgin Islands BVI ranked the second (US$ 483 billion or 39% of total). Guangdong Province remained 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.

Mainland China and the British Virgin Islands (BVI) were both the major sources as well as the major destinations of Hong Kong's Direct Investments. The substantial cross-boundary investment between Hong Kong and the Mainland reflected the close economic links between the two places. Moreover, the importance of offshore financial centres such as the BVI and Bermuda to Hong Kong's external Direct Investments was due to their popularity for some Hong Kong enterprises in setting up non-operating companies to channel Direct Investment funds back to Hong Kong or to other places, and also for some non-resident enterprises in re-directing funds to Hong Kong.

According to the International Monetary Fund (IMF), inward portfolio investments to Hong Kong amounted to US$ 1,121 billion (+14%) in 2013. Major investor countries were China (356 billion or

[3] The trade in services figures for 2014 will only be available by Feb. 2016.
[4] Investment figures for 2014 will only be available by Dec. 2015.

32% of total, increased by 26%), Cayman Islands (US$ 257 billion or 23% of total, increased by 26%), Bermuda (US$ 108 billion or 10% of total, increased by 20%), the US (US$ 90 billion or 8% of total, increased by 15%) and the UK (US$ 66 billion or 6% of total, dropped by 4%).

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$ 8.4 billion (0.6% of total, increased by 5.8%) in 2013[5]. Swiss portfolio investments in Hong Kong reached US$ 1.4 billion (0.1% of total, decreased by 30%), according to the IMF.

The Swiss share in foreign direct investments remains rather stable. It accounted for about 0.6% (in average) of total foreign direct investments between 2000 and 2013.

As at 3rd June 2014, there were 242 Swiss companies operating in Hong Kong: 45 regional headquarters, 84 regional offices and 113 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.

After focusing on Cleantech and Medtech sectors in 2013, particular attention was given to the ICT industry in 2014 (Financial Services, Software, E-government, E-learning, Data Centres and Mobile Apps).

In terms of Swiss visibility and presence, both exhibitions COSMOPROF – the most important cosmetic fair in Asia – and ECO Expo Asia – environmental protection fair – will host again a Swiss Pavilion.

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

[5] Bilateral investment figures for 2014 will only be available by Dec. 2015.

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.

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:

Hong Kong was the first offshore market to launch renminbi business back in 2004. Since then, Hong Kong has become the global hub for renminbi trade settlement, financing and asset management, where a wide range of renminbi products and services is available to meet the needs of businesses, financial institutions, and investors. Renminbi activities in Hong Kong are supported by the renminbi liquidity pool in Hong Kong, which is the largest outside Mainland China. At the end of 2014, renminbi customer deposits and certificates of deposit issued by banks in Hong Kong together amounted to over RMB 1.1 trillion.

Hong Kong is the global hub for trade settlement in renminbi, serving both local and overseas banks and companies. In 2014, renminbi trade settlement handled by banks in Hong Kong grew over 60% year on year to total RMB6.3 trillion yuan. Over the same period, some RMB 6.6 trillion of Mainland China's external trade was settled in renminbi.

The first offshore renminbi bond was issued in Hong Kong in 2007. The renminbi bond market in Hong Kong, or the dim-sum bond market, has since developed steadily and is now the largest outside Mainland China. The outstanding bonds amounted to RMB381 billion yuan at end-2014, while more than 100 issuers issued bonds totalling RMB197 billion yuan over the whole year.

Over the years, the range of issuers in the renminbi bond market in Hong Kong has broadened from the sovereign (Ministry of Finance of China) and banks in Mainland China, to financial institutions andcorporates from different parts of the world, as well as corporates from Mainland China starting from 2011. At the same time, the range of investors has widened from institutional and private wealth investors to sovereigns, as well as banks, corporates, and retail investors.

Renminbi financing is also available in Hong Kong in the form of bank loans. The outstanding amount of renminbi loans in Hong Kong rose by over 60% year on year to RMB 188 billion at end-2014.

Offshore renminbi foreign exchange activities are most vibrant in Hong Kong, with the turnover of spot and forward transactions reaching US$ 30 billion equivalent on an average day. A wide range of renminbi financial assets is available in Hong Kong for investors from different parts of the world. In addition to dim sum bonds, investors can also access a variety of investment funds, commodity-linked products, ETFs, REITs, equities, and insurance policies.

Furthermore, through the Shanghai-Hong Kong Stock Connect (launched in November 2014), Hong Kong and international investors are able to invest in eligible shares listed on the Shanghai Stock Exchange, and Mainland investors can invest in eligible shares listed on the Hong Kong Stock Exchange directly. It is expected that the Hong Kong-Shenzhen stock connect scheme will also commence in this year. This direct linkage between the Hong Kong and Mainland capital markets represents a new channel for the cross-border use and circulation of renminbi.

Hong Kong has developed a highly efficient and reliable renminbi clearing and settlement platform – the renminbi Real Time Gross Settlement (RTGS) system – to facilitate banks from all over the world to make renminbi payments. At the end of 2014, 225 banks were participating directly in the renminbi RTGS system. In operation since 2007, the average daily turnover of the renminbi RTGS system exceeded RMB880 billion in December 2014, reflecting the critical role it plays in serving renminbi cross-border payments, and more importantly payments in the offshore market globally.

The Swiss financial center has a sizeable renminbi business, serving clients in China as well as clients in Switzerland and other locations around the world. Renminbi accounts with banks in Switzerland are available to private and corporate clients, and a rapidly growing number of products and services are available to commodity trade finance, private banking, and asset management clients.

There has been some positive development for the offshore RMB business in Switzerland. The Swiss National Bank (SNB) and the People's Bank of China (PBC) entered into a bilateral swap agreement in July 2014. In addition, the SNB has been granted a renminbi investment quota, which it can use to invest part of its foreign exchange reserves in the Chinese bond market. The signing of the bilateral swap agreement and the granting of a renminbi investment quota will further strengthen the collaboration between the PBC and SNB. It is a collaboration which highlights the increasingly close ties being forged between China and Switzerland.

The swap agreement enables renminbi and Swiss francs to be purchased and repurchased between the two central banks, up to a limit of 150 billion renminbi, or CHF 21 billion. This will allow liquidity in renminbi and Swiss francs to be made available to the relevant markets as required. The swap agreement is a key prerequisite for the development of a renminbi market in Switzerland.

Furthermore, China Construction Bank will open a branch in Switzerland and be authorized to act as renminbi clearing bank.

Hong Kong is fully aware that its offshore renminbi business is by no means a monopoly. Singapore, London, New York 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 renminbi.

There are some unique features which will make Hong Kong a premier offshore renminbi 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 renminbi 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 examples are the introduction of the Shanghai-Hong Kong Stock Connect, the forthcoming Shenzhen-Hong Kong Stock Connect and the mutual recognition of funds arrangement between the Mainland and Hong Kong, 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)

8 Zusammenfassung

Hongkong gilt seit Jahren als freieste Wirtschaft der Welt. Es werden keine Diskriminierungen gegenüber Firmen aus dem Ausland gemacht.

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	2010	2011	2012	2013	% Change 1995 / 2013
Spreading GDP (%)						
Primary Sector	0.2%	0.1%	0.1%	0.1%	0.1%	-50%
Secondary Sector	16%	7%	6.8%	6.9%	7%	-56%
Tertiary Sector	83.8%	92.9%	93.1%	93%	92.9%	+11%
Spreading Employment						
Primary Sector	0.6%	0.1%	0.1%	0.2%	0.1%	-83%
Secondary Sector	27.1%	11.6%	11.4%	11.4%	11.6%	-57%
Tertiary Sector	72.3%	88.3%	88.5%	88.4%	88.3%	+22%

*This set of figure for 2014 will only be available by Nov. 2015

Source: Hong Kong Census and Statistics Department

Appendix 2

<u>Essential Economic Data</u>

	2007	2008	2009	2010	2011	2012	2013	2014
GDP (USD billion)	207.1	215.2	208	228	248	261.2	273.3	287.9
GDP per capita (USD)	29,900	30,800	29,800	32,400	35,100	36,500	38,000	39,800
GDP growth (%)	6.4	2.3	-2.6	6.8	4.9	1.7	2.9	2.3
Inflation (%)	2.0	4.3	0.5	2.4	5.3	4.1	4.3	4.4
Unemployment rate (%)	4.0	3.5	5.4	4.3	3.4	3.3	3.4	3.2
Fiscal balance (% of GDP)	7.2	-0.3	0.8	4.2	3.8	3.2	1	3.2
Current account balance (% of GDP)	12.3	13.7	8.6	6.6	4.8	1.6	1.5	1.9
Reserves (in months of imports)	19.5	22.3	34.6	28.7	25.9	27.2	26.2	26.1

Sources: HKSAR Government

Appendix 3

Trading Partners 2014

	Exports to country/region	Exports (USD millions)	Share (%)	Growth* (%)
1	China	253,720	54	1.5
2	USA	43,776	9.3	3.1
3	Japan	16,860	3.6	-2.8
4	India	12,080	2.6	13
5	Taiwan	10,166	2.2	2.5
6	Germany	9,306	2	-1.7
7	Vietnam	8,565	1.8	14
8	Korea Rep	7,998	1.7	-2.7
9	Singapore	7,673	1.6	2.2
10	UK	6,962	1.5	0.5
	EU	43,988	9.3	2.6
17	**Switzerland**	**3,928**	**0.8**	**16**
	Total	470,866	100	3.2
	Imports from country/region	**Imports (USD millions)**	**Share (%)**	**Growth* (%)**
1	China	254,739	47	2.3
2	Taiwan	38,497	7.1	15
3	Japan	37,037	6.8	0.9
4	Singapore	33,436	6.2	5.8
5	USA	28,154	5.2	**
6	Korea Rep	22,505	4.2	11
7	Malaysia	13,101	2.4	17
8	India	12,319	2.3	10
9	Thailand	11,299	2.1	14
10	**Switzerland**	**10,165**	**1.9**	**2.7**
	EU	39,291	7.3	-2.8
	Total	540,903	100	3.9

* year-on-year basis
** insignificant

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%	1’825	-0.1%	6’376	10’026	-0.8%
2014	**8’119**	**-1%**	**2’403**	**31.7%**	**5’716**	**10’522**	**4.9%**

Major products

Exports	2013		2014		
	% of total	CHF million	% of total	CHF million	% Change 2013/2014
1. Watches and clocks	50	4’125	51	4’123	0
2. Jewellery and precious stones	35	2’839	34	2’761	-2.7
3. Chemical and pharmaceutical products	4.6	381	4.4	355	-6.8
4. Machinery	4.2	345	4.3	352	2

Imports	2013		2014		
	% of total	CHF million	% of total	CHF million	% Change 2013/2014
1. Jewellery and precious stones	59	1’070	67	1’613	51
2. Watches and clocks	24	445	21	503	13
3. Machinery	7.1	130	4.6	110	-15
4. Textiles and garments	3.3	61	2.1	51	-17

Source : Swiss Federal Customs Administration

Appendix 5

Major investor countries/regions 2013 (latest available information)

Rank	Country/Region	Direct investments (USD billion)	Share (%)	Growth (%)	Change of inflow (USD billion)
1	British Virgin Islands	453	34%	6.4%	19
2	China	428	32%	-6.4%	-24
3	Netherlands	89	6.6%	3.8%	-2.8
4	Bermuda	79	5.9%	-0.3%	-3.5
5	USA	45	3.3%	18%	18
6	Cayman Islands	34	2.5%	93%	2.8
7	Singapore	29	2.2%	10%	-0.4
8	Japan	26	1.9%	18%	-0.2
9	UK	20	1.5%	23%	-2.7
10	Cook Islands	15	1.1%	2.3%	0.7
	EU	130	9.6%	5.9%	-4.7
N.A.	**Switzerland**	**8.4**	**0.6%**	**5.8%**	**-2.1**
	Total	1,344	100 %	8.7%	4.1

Rank	Country/Region	Portfolio investments (USD billion)	Share (%)	Growth (%)	Change of inflow (USD billion)
1	China	356	32%	26%	N.A.
2	Cayman Islands	257	23%	26%	N.A.
3	Bermuda	108	10%	20%	N.A.
4	USA	90	8%	15%	N.A.
5	UK	66	6%	-4%	N.A.
6	Luxembourg	49	4%	26%	N.A.
7	Australia	27	2%	-21%	N.A.
8	Japan	24	2%	-35%	N.A.
9	Republic of Korea	18	2%	-18%	N.A.
10	Singapore	16	1%	7%	N.A.
23	**Switzerland**	**1.4**	**0.1%**	**-30%**	N.A.
	Total	1,121	100%	14%	N.A.

*N.A. Not available

Remarks: Investment figures for 2014 will only be available by Dec. 2015

Sources: Hong Kong Census & Statistics Department, IMF