512.0-RRE/CHW

Hong Kong, 16th May 2016

Annual Economic report: Hong Kong 2015

Executive Summary

The Hong Kong economy grew modestly by 2.4% in 2015, slightly slower than the 2.6% growth in 2014. Both exports of goods and services fell 1.7% and 0.6% respectively, reflecting the global trade slowdown. The drop in inbound tourism also dragged down the growth. Domestic demand remained the key force propelling economic growth to keep labour market in full employment through the year. Nevertheless, growth momentum in 2016 is expected to remain slow and uneven with considerable downside risks. The Hong Kong economy is projected to grow by 1-2% in 2016.

Hong Kong is the most important entrepôt of Mainland China. According to China's Customs statistics, Hong Kong is the second largest trading partner of China after the US, accounting for 8.7% of its total trade in 2015. Hong Kong is the largest source of overseas direct investment in China whereas China is a leading investor in Hong Kong. Hong Kong is also a key offshore capital-raising centre for Chinese enterprises. The Shanghai – Hong Kong Stock Connect and the Mainland-Hong Kong Mutual Recognition of Funds help to consolidate Hong Kong as an international financial centre and a premier offshore Renminbi RMB centre on one hand. On the other hand, these initiatives help to contribute the internationalization of RMB and gradual opening up of capital accounts in China.

According to a report released by the Federation of the HK Industries, both the number of Hong Kong enterprises operating in the Pearl River Delta and the size of labour force employed by these enterprises have fallen 40% from its peak in 2006-2007. They have encountered serious challenges such as lacklustre international markets, labour shortages, soaring production costs and the tightening up of labour laws. Hong Kong enterprises have significantly adjusted their operational strategies, including automation, enhancing human resources management, enhancing product design, branding development, promoting upgrading and transformation and relocating part of their production base to Southeast Asian countries.

Tourism contributes 5% to GDP and employs 270,000 people. While an influx of mainland visitors has benefited the Hong Kong economy since 2004, there is also increasing concern over the impact of the continuous growth in Mainland visitors on the local community. Last year marked the first annual decline of overall visitor arrivals since 2003. In the past few years, mainland visitors have become big spenders for luxury items such as watches, handbags and jewellery. The slowdown of inbound tourism particularly fewer mainland visitors, anti-corruption measures in China and the strong exchange rate of the HKD have hit sales of Swiss watches drastically.

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. It has conducted five rounds of free trade agreement negotiations with the Association of Southeast Asian Nations (ASEAN). It is expected that negotiations will be concluded this year. Furthermore, Hong Kong has entered into Comprehensive Double Taxation Agreements / Arrangement (CDTAs) with some 30 jurisdictions including Switzerland while those with another 12 countries/territories are still under negotiation.

According to the Hong Kong Census and Statistics Department, total exports of Hong Kong fell by 1.8% to US$ 462 billion while imports dropped to US$ 519 billion (-4.1%) in 2015. Switzerland was the 13th largest trading partner of Hong Kong in 2015. Switzerland was Hong Kong's 10th largest supplier and 19th largest export market. According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong (general total or total 2) [1] totalled CHF 24,235 million (+9.4%) in 2015. However, if we take economic total (total 1)[2] into account, Swiss exports to Hong Kong totalled CHF 5,740 million (-18%) in 2015. Like-wise, Swiss imports from Hong Kong (general total or total 2) reached to CHF 2,603 million (-8.2%) while Swiss imports from Hong Kong (economic total or total 1) was about CHF 1,366 million (-23%). Please refer to Appendix 4.

[1] General total (total 2) includes gold bars and other precious metals, coin, precious stones and gems as well as works of art and antiques.
[2] Economic total (total 1) does not include gold bars and other precious metals, coins, precious stones and gems, work of art and antiques.

The HKSAR Government is keen to develop innovation and technology industry as a new momentum for economic growth. The priorities would focus in the areas of smart city applications, robotics, healthy ageing, re-industrialization (high value-added technology industries and high value-added manufacturing processes) as well as information and communications technology. It may bring business opportunities to Swiss companies and organizations which are active in these sectors.

1. Economic problems and issues

1.1 General overview of HK's economy:

The Hong Kong economy grew modestly by 2.4% in 2015, slightly slower than the 2.6% growth in 2014. The global economy, which experienced the slowest growth since 2009 amid heightened financial volatility, posed a severe drag on global trade, thereby dampening Hong Kong's exports. Exports of goods and services fell 1.7% and 0.6%, respectively in real terms, against the growth of 0.8% and 1.1%, respectively in 2014. The slowdown in inbound tourism also added pressures. Domestic demand remained the key force propelling economic growth to keep labour market in full employment through the year. As external headwinds grew stronger, domestic demand softened in tandem, causing the economy to ease in the latter part of 2015. Inflation subsided further, thanks to softer import prices and tamed domestic cost pressures. Inflation retreated to 2.5%, marking the fourth consecutive year of easing. Local stock prices went on a global roller-coaster ride, showing sharp fluctuations during 2015. The Hang Seng Index climbed up to reach a seven-year high in April. Upon the spike in Greek debt crisis, trepidation about the negative spillovers of US interest rate hikes, slump of the Mainland stock markets and dimmer global economic outlook, it lost ground subsequently, finishing the year somewhat lower from a year earlier.

Growth momentum in 2016 is expected to remain slow and uneven with considerable downside risks, giving only a slim chance for a notable turnaround in global trade. The Hong Kong economy is projected to grow by 1-2% in 2016, compared to the 2.4% growth in 2015 and the average annual growth of 3.4% in the past ten years.

1.2 Economic integration with Mainland China

Hong Kong is the most important entrepôt of Mainland China. According to the HKSAR government statistics, 61% of re-exports were of China origin and 54% were destined for Mainland China in 2015. According to China's Customs statistics, Hong Kong is the second largest trading partner of Mainland China after the US, accounting for 8.7% of its total trade in 2015.

Hong Kong's trade with China is to a large extent related to outward processing activities. In 2015, Hong Kong's domestic exports were confined to about 1.3% of its total exports while re-exports accounted for about 98.7% of its total exports.

On one hand, Hong Kong is the largest source of overseas direct investment in Mainland China. By the end of 2015, among all the overseas-funded projects approved in Mainland China, about 45% were tied to Hong Kong interests. Cumulative utilized capital inflow from Hong Kong amounted to about US$832 billion, accounting for 51% of the national total. Mainland China, 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 Mainland China amounted to US$448 billion at market value or about 30% of the total at the end of 2014[3].

Hong Kong is also a key offshore capital-raising centre for Chinese enterprises. As of December 2015, 951 mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies with total market capitalization of US$1.97 trillion, or 62% of the market total. Since 1993, mainland companies have raised more than US$500 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. Owing to a slump in the Chinese stock markets last year, the Hong Kong-Shenzhen stock connect scheme has been pending. Nevertheless, Premier Li Keqiang hinted that it would commence in this year. This kind of stock connect schemes are 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.

[3] Investment figures for 2015 will only be available by Dec. 2016.

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). It was the first cross-border fund sales agreement ever signed by Mainland China. This arrangement will expand the distribution network of the Hong Kong's fund industry and 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. The first batch of three Hong Kong and four mainland funds was approved under the cross-border Mutual Recognition of Funds scheme in December 2015.

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

The Federation of Hong Kong Industries commissioned the China Business Centre of the Hong Kong Polytechnic University to conduct a report (published in November 2015) about Hong Kong manufacturers in the Pearl River Delta PRD. It showed that both the number of Hong Kong enterprises operating in the PRD and the size of labour force employed by these enterprises have fallen 40% from its peak in about 2006-2007. They have encountered serious challenges such as lacklustre international markets, labour shortages, soaring production costs and the tightening up of labour laws.

Under the pressure of labour shortage and rising labour cost, enterprises have gradually switched to a capital intensive mode and increased their procurement of equipment. Nearly three quarters of the enterprises have made purchases on Mainland-made equipment, reflecting the narrowing of the technological gap between Mainland-made and overseas equipment. Its price advantage is certainly an added attraction.

Since the global financial crisis in 2008, Hong Kong enterprises have significantly adjusted their operational strategies, including automation, enhancing human resources management, enhancing product design, branding development, promoting upgrading and transformation and relocating part of their production base to Southeast Asian countries. Enterprises that have relocated are mostly labour-intensive industries such as garment, textiles and toy industries.

Swiss perspective: The demand for automation, upgrading and transformation for industries in the PRD may bring business opportunities to Swiss companies.

1.4 Inbound Tourism

Tourism contributes 5% to GDP and employs 270,000 people. It provides plenty of job opportunities particularly for low-skilled workers. For some ten years, tourism and other related industries have experienced rapid growth through the support of the Mainland's Individual Visit Scheme and its related policies.

In 2015, total visitor arrivals reached about 59.3 million (-2.5% year-on-year y-o-y), equivalent to 8 times the size of Hong Kong population. It marked the first annual decline of overall visitor arrivals since 2003. Tourists from Mainland China totalled about 45.8 million in 2015 (77% of total visitor arrivals; -3% y-o-y). Worse still, total visitor arrivals dropped to 13.7 million (-11% y-o-y) whereas tourists from Mainland China dropped to 10.4 million (-15% y-o-y) in the first quarter of 2016, according to the Hong Kong Tourism Board.

The local tourism industry is facing keen competition as a result of a weakening external economy, devaluation of currencies of neighbouring places and their relaxation of visa requirements for Mainland tourists since last year. This, coupled with the "one trip per week" measure for Shenzhen residents, has caused a drop in visitor arrivals. While an influx of mainland visitors has benefited the Hong Kong economy since 2004, 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). Furthermore, problems arising from coerced shopping against mainland visitors have been plaguing the tourism sector.

The HKSAR Government has been reviewing the development strategy of tourism industry. Instead of seeking growth in visitor numbers, Hong Kong would like to move towards diversified and quality-driven high value-added services to attract more high-spending overnight visitors to Hong Kong.

Swiss perspective: In the past few years, mainland visitors have become big spenders for luxury items such as watches, handbags and jewellery in Hong Kong. According to the Hong Kong Census and Statistics Department, last year saw a decrease of overall Swiss exports to Hong Kong by 22% year-on-year (y-o-y). The notable decline included watches and clocks (-24% y-o-y), jewellery (-22% y-o-y) as well as pearls, precious & semi-precious stones (-39% y-o-y). In the first quarter of 2016, watches and clocks dropped further by 32% y-o-y while pearls, precious & semi-precious stones decreased by 31% y-o-y. Swiss jewellery got a better export performance (+15% y-o-y).

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. Tension between mainland tourists and local residents as well as conflicts against parallel trading also give mainland tourists a negative psychological impact.

1.5 Public Finance

The budget was delivered in Feb. 2016 and the public finances are still in a remarkable state in Hong Kong. As in the last few years, it contained billions in tax reduction and short-term relief measures. However, it is cautious about unsteady global economy in 2016. The SAR Government insisted that Hong Kong should follow the principle of keeping expenditure within the limits of revenue, avoid deficits, and keep the budget commensurate with economic growth.

The government just announced its provisional financial results for the year ended March 31, 2016. Expenditure amounted to US$ 55.8 billion whereas revenue reached US$ 57.7 billion, resulting in a surplus of US$ 1.9 billion. The consolidated surplus for the year is lower than the original and revised estimates for the year. This is mainly due to the less than estimated income from major revenue sources and substantial additional one-off expenditure incurred by the end of the year. The fiscal reserves stood at remarkable US$ 108 billion as at March 31, 2016 or equivalent to 24 months of government expenditure. The ample fiscal reserves can offer a good buffer to accommodate adverse shocks. Nevertheless, there is a need to address the long-term fiscal challenges presented by an aging population, shrinking work force and narrow tax base.

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 one of the largest trading economies in the world as well as an international financial centre. 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 has conducted five rounds of free trade agreement negotiations with the Association of Southeast Asian Nations (ASEAN). It is expected that negotiations will be concluded this year.

Hong Kong has entered into Comprehensive Double Taxation Agreements / Arrangement (CDTAs) with some 30 jurisdictions **including Switzerland (which entered into force in October 2012)** while those with another 12 countries/territories are still under negotiation. In the meantime, the Inland Revenue (Amendment) Bill 2016 is going through legislative proceedings at the Legislative Council. It will provide a legislative framework for the implementation of automatic exchange of financial account information in tax matters (AEOI) and enable Hong Kong to comply with the international standard for AEOI. The HKSAR Government expects that passage of this bill will be secured by the end of the legislative year in July 2016. Hong Kong intends to conduct AEOI only with its partners with which they have signed CDTA or tax information exchange agreement (TIEA). They will take bilateral approach instead of entering into a multilateral treaty with other jurisdictions.

Furthermore, Hong Kong has signed investment promotion and protection agreements with 18 countries including Canada[4], 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 have broadened and enriched the content of CEPA between 2004 and 2015.

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.

A new agreement was signed under framework of CEPA to basically achieve liberalization of trade in services between the Mainland and Hong Kong in November 2015. The main text of the Agreement sets out provisions for, among others, national treatment, most-favoured treatment, safeguard measures, exceptions, and investment facilitation. Hong Kong's favourable position to enjoy the most preferential liberalization measures of the Mainland is assured by the "Most-Favoured Treatment" provision of the Agreement, which specifies that any preferential treatment the Mainland accorded to other countries or regions, if more preferential than those under CEPA, will be extended to Hong Kong. The Agreement is scheduled to be implemented as from June 1, 2016.

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).

Swiss perspective: 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.

3. Foreign trade

3.1 Development and general outlook

3.1.1 Trade in goods

Total exports of Hong Kong fell by 1.8% to US$ 462 billion in 2015. Major export markets were China (54% of total exports), the US (9.5%), Japan (3.4%), India (2.8%) and Vietnam (2.1%). Major export products were semi-conductors, electronic valves & tubes (21%), telecom equipment (20%), parts and accessories of office machines/computers (5.2%), electrical apparatus (4.5%), pearls, precious & semi-precious stones (4%) and computers (4%).

Imports dropped to US$ 519 billion (-4.1%) in 2015. Major supplier countries were China (49% of total imports), Taiwan (6.8%), Japan (6.4%), Singapore (6.1%) and the US (5.2%). Major import products were semi-conductors, electronic valves & tubes (22%), telecom equipment (18%), computers (4.3%), pearls, precious & semi-precious stones (4%), electrical apparatus (3.9%) as well as parts and accessories of office machines/computers (3.3%).

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$ 106 billion (+1.8%) in 2014 (latest available information[5]). Major items included: travel (36% of total exports of services, dropped by 1.5%), transport (30% of total exports of

[4] Date of entry into force is subject to the completion of the domestic procedures required in Hong Kong and Canada.
[5] Trade in services figures for 2015 will only be available by Feb. 2017.

services, increased by 2.2%), financial services (16% of total exports of services, increased by 5.6%), other business services (12% of total exports of services, increased by 3.2%) as well as telecommunication and information services (2.6% of total exports of services, increased by 6.9%).

In 2014, exports of services by main destinations were China (40% of total, grew by 1.4%), the US (15% of total, grew by 3.5%), the UK (6.6% of total, increased by 8.4%), Japan (4.5% of total, insignificant variation) and Taiwan (4.1% of total, decreased by 0.4%).

Import of services amounted to US$ 73.5 billion (-1.7%) in 2014. Major items included: travel (30% of total imports of services, increased by 3.7%), transport (25% of total imports of services, increased by 1.5%), manufacturing services (16% of total imports of services, dropped by 20%), other business services (15% of total imports of services, increased by 2.1%), financial services (6% of total imports of services, increased by 5.2%), charges for the use of intellectual property (2.6% of total imports of services, dropped by 4.4%) as well as telecommunication and information services (2.6% of total exports of services, increased by 15%).

In 2014, imports of services by main sources were China (38% of total, decreased by 8.3%), the US (11% of total, increased by 0.5%), Japan (7.5% of total, grew by 8.7%), the UK (5.9% of total, increased by 3.6%) and Singapore (4.9% of total, increased by 5.9%).

3.2 Bilateral trade

3.2.1 Trade in goods

According to the Hong Kong Census and Statistics Department, Switzerland was the 13th largest trading partner of Hong Kong in 2015. Switzerland was Hong Kong's 10th largest supplier and 19th largest export market.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 24,235 million (+9.4%) in 2015. Major Swiss exports included jewellery, precious metal, gold, silver and coins (82% of total, increased by 19%, CHF 19,921 million in value), watches and clocks (13% of total, dropped by 23%, CHF 3,176 million in value), chemical and pharmaceutical products (1.4% of total, dropped by 4%, CHF 341 million in value) and electrical & non-electrical machinery (1.4% of total, dropped by 4%, CHF 336 million in value).

Hong Kong's total exports to Switzerland amounted to CHF 2,603 million (-8.2%) in 2015. Major total exports included jewellery, precious metal, gold, silver and coins (72% of total, decreased by 8.9%, CHF 1,864 million in value), watches and clocks (19% of total, dropped by 1.5%, CHF 495 million in value), electrical & non-electrical machinery (3.7% of total, dropped by 12%, CHF 97 million in value) as well as textiles and garments (1.3% of total, dropped by 31%, CHF 35 million in value).

As indicated by Appendix 4, there is a huge difference between the two sets of figures: general total (total 2) and economic total (total 1). General total (total 2) includes gold bars and other precious metals, coin, precious stones and gems as well as works of art and antiques whereas economic total (total 1) does not. The above mentioned figures are general total (total 2).

In 2015, Swiss exports to Mainland China (CHF 19,263 million in value) and Hong Kong (CHF 24,235 million in value) accounted for 15.6% of global Swiss exports. On the other hand, Swiss imports from China (CHF 12,388 million) and Hong Kong (CHF 2,603 million) totalled CHF 14,991 million. Switzerland got a trade surplus worth CHF 28,507 million[6].

It is also noteworthy that the bilateral trade figures compiled by the Swiss Federal Customs Administration differ greatly from that of the Hong Kong Census and Statistics Department (please refer to Appendix 3). Hong Kong official trade figures do not include trade in gold, silver and coins.

According to the Hong Kong Census and Statistics Department, Swiss products worth US$ 3,348 million (-3.7%) were re-exported via Hong Kong to other countries and notably to China (US$ 898 million, increased by 4.7%) and Macao (US$ 695 million, decreased by 23%) in 2015. Major Swiss products via Hong Kong to China were watches and clocks (US$ 475 million), measuring instruments (US$ 63 million), semi-conductors, electronic valves & tubes (US$ 47 million) as well as silver and platinum (US$ 44 million). Major Swiss products via Hong Kong to Macao were watches and clocks (US$ 626 million), jewellery (US$ 28 million) and medicaments (US$ 13 million).

[6] The figures are general total (total 2), including gold bars and other precious metals, coin, precious stones and gems as well as works of art and antiques

According to the Hong Kong Census and Statistics Department, products of Chinese origin worth US$ 1,583 million (-5.7%) were re-exported to Switzerland via Hong Kong in 2015. Major products were watches and clocks (US$ 897 million), telecom equipment (US$ 98 million), jewellery (US$ 91 million), electrical apparatus (US$ 46 million) and computers (US$ 41 million).

Outlook for Swiss exports to Hong Kong

According to the latest statistics released by the Hong Kong Census and Statistics Department, the value of total retail sales decreased by 12.5% year-on-year in the first quarter of 2016. Total sales in volume also decreased by 11.3% year-on-year for the same period. As regards the value of sales, jewellery, watches and clocks as well as valuable gifts decreased by 23.2%. Electrical goods and photographic equipment dropped by 24.6% while wearing apparel decreased by 11.3%. Commodities in department stores fell by 10.3%. It was overall the worst first-quarter performance since 1999, when a decline of total retail sales by 13.8% was recorded.

As per the statistics provided by the Federation of the Swiss Watch Industry, Swiss watch exports to Hong Kong recorded a steep downturn by 31.6% year-on-year in the first quarter of 2016.

The slowdown in inbound tourism continues to pose a severe drag to the retail sales. Anti-corruption measures on the Mainland have hit drastically sales of luxury items such as watch and jewellery. In addition to the uncertain global economic outlook, adjustments of local stock and property market had conceivably hurt local consumption sentiment. Looking ahead, the near-term outlook for retail sales will continue to depend on the performance of inbound tourism, and on the extent to which the local consumption sentiment is affected by the headwinds arising from the subpar economic conditions and external uncertainties.

The HKSAR Government is keen to develop innovation and technology industry as a new momentum for economic growth. The priorities would focus in the areas of smart city applications, robotics, healthy ageing, re-industrialization (high value-added technology industries and high value-added manufacturing processes) as well as information and communications technology. It may bring business opportunities to Swiss companies and organizations active in these sectors.

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$ 1,065 million (1% of total exports of services, dropped by 3%) in 2014[7]. Switzerland ranked 17th largest market for Hong Kong's exports of services. It consisted of transport (US$ 506 million), other business services (US$ 358 million), financial services (US$ 106 million), telecommunication and information services (US$ 45 million) and charges for the use of intellectual property (US$ 4.2 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$ 390 million (0.5% of total imports of services, dropped by 15%) in 2014. Switzerland ranked 22nd largest supplier in this category. It consisted of charges for the use of intellectual property (US$ 98 million), transport (US$ 72 million), financial services (US$ 61 million), travel (US$ 56 million), insurance services (US$ 46 million), other business services (US$ 35 million) and 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 2014 (latest available information)[8], the stock of Hong Kong's inward direct investments rose by 11% to US$ 1,488 billion. Major investor countries were the British Virgin Islands BVI (US$ 529 billion or 36% of total, increased by 17%), China (US$ 448 billion or 30% of total, increased by 4.7%), the Netherlands (US$ 96 billion or 6.5% of total, increased by 7.9%), Bermuda (US$ 79 billion or 5.3% of total, insignificant variation) and Cayman Islands (US$ 51 billion, 3.4% of total, increased by 50%).

The British Virgin Islands BVI was the largest destination for Hong Kong's outward direct investment (US$ 589 billion or 41% of total) in 2014. Mainland China ranked the second (US$ 585 billion or 41%

[7] The trade in services figures for 2015 will only be available by Feb. 2017.
[8] Investment figures for 2015 will only be available by Dec. 2016.

of total). Guangdong Province remained a popular location for Hong Kong's outward direct investments in China, accounting for 26% 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.

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$ 10 billion (0.7% of total, increased by 25%) in 2014[9].

The Swiss share in foreign direct investments remains rather stable. It accounted for about 0.6-0.7% (in average) of total foreign direct investments between 2000 and 2014.

As at 1st June 2015, there were 252 Swiss companies operating in Hong Kong: 43 regional headquarters, 82regional offices and 127 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.

According to the Hong Kong Census and Statistics Department, ranking of Switzerland as an investor country in 2014 is not available. The Department also added that due to precision consideration, statistics of outward direct investment of Hong Kong to Switzerland for 2014 cannot be provided.

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 solid economic ties between Switzerland and Hong Kong. Its priority aims in particular to support Swiss SMEs in their entry to the Hong Kong market, nowadays mainly through local distributors. In addition to supporting exports of services and products, the SBH is actively promoting Switzerland as an investment hub in the center of Europe, a task coordinated together with the SBH in Beijing.

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.

[9] Bilateral investment figures for 2015 will only be available by Dec. 2016.

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.

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 and Hong Kong as a premier 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 October 2015, renminbi customer deposits and certificates of deposit issued by banks in Hong Kong together amounted to around RMB 1 trillion.

Hong Kong is the global hub for trade settlement in renminbi, serving both local and overseas banks and companies. In the first ten months of 2015, renminbi trade settlement handled by banks in Hong Kong grew over 10% year on year to RMB 5.7 trillion. Over the same period, some RMB 5.9 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 RMB 367 billion at end-October 2015.

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 and corporates 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 56% year on year to RMB 294 billion at end-October 2015.

At the end of April 2015, the daily turnover of renminbi foreign exchange transactions in Hong Kong has reached US$93 billion equivalent. 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, exchange-traded funds, real estate investment trusts, equities, and insurance policies.

Through the Shanghai-Hong Kong Stock Connect, 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. This direct linkage between the Hong Kong and Shanghai capital markets represents a new channel for the cross-border use and circulation of renminbi. Nevertheless, the daily turnover was rather moderate. In 2015, the average daily turnover of Northbound (Hong Kong and foreign investors trade certain stocks listed in Shanghai Stock Exchange) and Southbound (mainland investors trade certain Stock Exchange Hong Kong securities) trading under Shanghai-Hong Kong Stock Connect was RMB6.4 billion and $3.4 billion respectively. As regards the Shenzhen-Hong Kong Stock Connect, Premier Li Keqiang hinted that it would commence in this year.

Under the Mainland-Hong Kong Mutual Recognition of Funds (MRF), qualified Mainland and Hong Kong funds can be offered directly to retail investors in each other's market. Hong Kong thus operates as a gateway for asset managers to access Mainland China's investors and vice versa. Please refer to 1.2 Economic integration with Mainland China.

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 October 2015, 217 banks were participating directly in the renminbi RTGS system. In operation since 2007, the average daily turnover of the renminbi RTGS system amounted to around RMB1 trillion in October 2015, reflecting the critical role it plays in serving renminbi cross-border payments, and more importantly payments in the offshore market globally.

The Swiss financial centre 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.

Since January 2015, Swiss financial institutions can make direct investments in China thanks to an investment quota (Swiss RMB Qualified Foreign Institutional Investor Quota RQFII) of up to a total of RMB 50 billion (CHF 7 billion). Direct trading between the Swiss franc and the RMB has been possible since November 2015.

The establishment of the China Construction Bank Zurich branch as renminbi clearing bank (commenced in end-November 2015) is a further milestone in the bilateral financial cooperation between China and Switzerland. The availability of renminbi clearing services will facilitate and promote the use of the renminbi in cross-border transactions between companies and financial institutions. Furthermore, the development of a renminbi market in Switzerland will contribute to the strength of Switzerland as a financial centre.

Hong Kong is fully aware that its offshore renminbi business is by no means a monopoly. London, Singapore, 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, forthcoming Shenzhen-Hong Kong Stock Connect and the mutual recognition of funds arrangement between the Mainland and Hong Kong.

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*)

	2009	2014
Distribution of GDP		
Primary Sector	0.1%	0.1%
Secondary Sector	7.8%	7.2%
Services	92.1%	92.7%
- of which public administration, social and personal services	18.2%	17.2%
Distribution of Employment		
Primary Sector	0.2%	0.1%
Secondary Sector	11.8%	11.4%
Tertiary Sector	88%	88.5%
- of which public administration, social and personal services	25.2%	26%

*This set of figure for 2015 will only be available by Nov. 2016

Source: Hong Kong Census and Statistics Department

Appendix 2

Essential Economic Data

	2014	2015	2016*
GDP (USD billion)	289.5	308	315.7-318.8
GDP per capita (USD)	40,000	42,200	42,900-43,300
GDP growth (%)	+2.6	+2.4	+1-2
Inflation (%)	+4.4	+3	+2.9
Unemployment rate (%)	3.3	3.3	3.3
Fiscal balance (% of GDP)	3.7	3.5	2.7
Current account balance (% of GDP)	1.3	3	3.1
Total external debt (% of GDP)	446	421	unavailable
Debt-service ratio (% of exports)	**	**	**
Reserves (in months of imports)	26.4	32.2	unavailable

* HKSAR Government and IMF forecast
**HKSAR Government has not compiled this set of figures

Sources: HKSAR Government; IMF

Appendix 3

Trading Partners 2015

Rank	Country/region	Exports from HK (USD millions)	Share (%)	Growth* (%)
1	China	248,271	54	-2.1
2	USA	43,871	9.5	0.2
3	Japan	15,740	3.4	-6.6
4	India	13,055	2.8	8.1
5	Vietnam	9,822	2.1	15
6	Germany	9,009	1.9	-3.2
7	Taiwan	8,337	1.8	-18
8	Singapore	7,494	1.6	-2.3
9	UK	7,020	1.5	0.8
10	Korea Rep	6,972	1.5	-13
	EU	42,965	9.3	-2.3
19	**Switzerland**	**3,458**	**0.7**	**-12**
	Total	462,215	100	-1.8
Rank	**Country/region**	**Imports to HK (USD millions)**	**Share (%)**	**Growth* (%)**
1	China	254,365	49	-0.1
2	Taiwan	35,178	6.8	-8.6
3	Japan	33,371	6.4	-9.9
4	Singapore	31,521	6.1	-5.7
5	USA	27,043	5.2	-3.9
6	Korea Rep	22,062	4.3	-2
7	Malaysia	12,062	2.3	-7.9
8	Thailand	10,886	2.1	-3.7
9	India	10,630	2	-14
10	**Switzerland**	**7,923**	**1.5**	**-22**
	EU	35,708	6.9	-9.1
	Total	518,772	100	-4.1

* year-on-year basis

Remarks : The compilation of this table is based on the source from the Hong Kong Census & Statistics Department. It does not include trade in gold, silver and coins, which is different from the current approach of the Swiss Customs Administration. It therefore shows a huge contrast if comparing with Appendix 4 Bilateral trade Switzerland – Hong Kong.

Source : Hong Kong Census & Statistics Department

Appendix 4 Bilateral Trade Table

Bilateral trade Switzerland – Hong Kong

	Exports (CHF million)	% Change	Imports (CHF million)	% Change	Trade Balance	Volumn (CHF million)
2005	4'012	-5.3 %	1'674	52.4%	2’338	5'686
2006	4’694	17.0%	1’457	-13.0%	3’237	6’151
2007	5'296	12.8%	1'185	-18.6%	4'111	6'481
2008	6'219	17.1%	1'440	21.5%	4'779	7'659
2009	5’426	-12.7%	1'104	-23.3%	4’322	6’530
2010	6’535	20.4%	1’636	36.6%	4’899	8’171
2011	7’927	20.9%	1’750	0.4%	6’177	9’677
2012 (total 2)**	15’178	*	2’811	*	12’367	17’989
2012 (total 1)***	6’970	*	1’392	*	5’578	8’362
2013 (total 2)**	47’765	215%	2’009	-29%	45’756	49’774
2013 (total 1)***	6’696	-3.9%	1’422	2.2%	5’274	8’118
2014 (total 2)**	22’157	-54%	2’836	41%	19’321	24’993
2014 (total 1)***	6’979	4.2%	1’775	25%	5’204	8’754
2015 (total 2)**	**24’235**	**9.4%**	**2’603**	**-8.2%**	**21’632**	**26’838**
2015 (total 1)***	**5’740**	**-18%**	**1’366**	**-23%**	**4’374**	**7’106**

* The Swiss Customs Administration made changes to the way it calculates imports and exports as of 1 January 2012. Since then, comparisons between 2012 and the previous years have no longer been possible. Data on Switzerland's foreign trade in gold, silver and coins are contained in the general total (total 2) starting in the data for 2012 and correspondingly increases this level considerably.

** General total (total 2) includes gold bars and other precious metals, coins, precious stones and gems, work of art and antiques.

*** Economic total (total 1) does not include gold bars and other precious metals, coins, precious stones and gems, work of art and antiques.

Major products (general total, total 2)

Exports	2014 (% of total)	2015 (% of total)
Jewellery, precious stones and precious metals	76	82
Watches and clocks	19	13
Chemical and pharmaceutical products	1.5	1.5
Machinery (electrical and non electrical)	1.6	1.3

Imports	2014 (% of total)	2015 (% of total)
Jewellery, precious stones and precious metals	72	72
Watches and clocks	18	19
Machinery (electrical and non electrical)	3.9	3.7
Textiles and garments	1.8	1.3

Source : Swiss Federal Customs Administration

Appendix 5

Major investor countries/regions 2014 (latest available information)

Rank	Country/Region	Direct investments (USD billion)	Share (%)	Growth (%)	Change of inflow (USD billion)
1	British Virgin Islands	529	36%	17%	17
2	China	448	30%	4.7%	22
3	Netherlands	96	6.5%	7.9%	3.7
4	Bermuda	79	5.3%	*	-6.5
5	Cayman Islands	51	3.4%	50%	-2.3
6	USA	49	3.3%	8.9%	-1.6
7	Singapore	41	2.8%	41%	5.8
8	Japan	29	1.9%	12%	0.6
9	UK	17	1.1%	-15%	2.7
10	Cook Islands	15	1%	*%	-0.7
	EU	131	8.8%	0.9%	4.6
**	**Switzerland**	**10**	**0.7%**	**25%**	**-1.4**
	Total	1,488	100 %	11%	39

*insignificant variation
**unavailable

Remarks: Investment figures for 2015 will only be available by Dec. 2016

Sources: Hong Kong Census & Statistics Department