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Annual Economic report: Hong Kong 2016

Executive Summary

The Hong Kong economy expanded at a slower pace in 2016 as global economic growth pace weakened to its lowest level since 2009. After a notable slackening in the first quarter of 2016, the economy regained momentum, picking up successively in growth to 3.1% in the fourth quarter, riding on the improvement in external economic environment. For 2016 as a whole, the economy grew by 1.9%. It is projected to improve and grow by 2-3% in 2017.

However, there are also some downside risks. These include the US interest rate normalisation, various uncertainties surrounding policy and political developments in the US and Europe, the possible rise of protectionist sentiment, elevated geopolitical tensions in various regions and overheating of the local property market.

Hong Kong is the most important entrepôt of Mainland China. According to the HKSAR government statistics, 59% of re-exports were of China origin and 54% were destined for Mainland China in 2016. According to China's Customs statistics, Hong Kong is the second largest trading partner of Mainland China after the US, accounting for 8.3% of its total trade in 2016. On one hand, Hong Kong is the largest source of overseas direct investment in Mainland China. Mainland China, on the other hand, is the second largest investor in Hong Kong.

Hong Kong is also a key offshore capital-raising centre for Chinese enterprises. As of December 2016, 1,002 mainland companies were listed in Hong Kong. Shanghai-Hong Kong Stock Connect (2014), mutual recognition scheme of cross-border fund sales between Hong Kong and the mainland (2015), Shenzhen-Hong Kong Stock Connect (2016) as well as the coming mutual bond market access between Hong Kong and Mainland China (Bond Connect) are significant breakthroughs in the opening of China's capital markets. It further facilitates two-way investment flows and consolidates Hong Kong's development as the global offshore RMB business hub.

According to the Hong Kong Census and Statistics Department, Switzerland was the 15th largest trading partner of Hong Kong in 2016. Switzerland was Hong Kong's 11th largest supplier and 21st largest export market[1].

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 18,194 million (-25%) while Hong Kong's total exports to Switzerland amounted to CHF 8,044 million (+208%) in 2016[2]. Major Swiss exports to Hong Kong included jewellery, precious metal, gold, silver and coins (80% of total), watches and clocks (13% of total), electrical & non-electrical machinery (1.8% of total) and chemical and pharmaceutical products (1.7% of total). Major Hong Kong exports to Switzerland included jewellery, precious metal, gold, silver and coins (93% of total), watches and clocks (4.6% of total), electrical & non-electrical machinery (1% of total) as well as textiles and garments (0.3% of total).

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.

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

Hong Kong has entered into Comprehensive Double Taxation Agreements / Arrangement (CDTAs) with 37 jurisdictions including Switzerland (which entered into force in October 2012) while those with another 13 countries/territories are still under negotiation. In addition, it has entered into Tax Information Exchange Agreements with 7 jurisdictions and been negotiating with another 3 jurisdictions.

Regarding automatic exchange of financial account information (AEOI), subject to the passage of the Inland Revenue (Amendment) (No. 3) Bill 2017, reporting financial institutions have to report to the Inland Revenue Department financial account information of tax residents of the 74 reportable jurisdictions (including Switzerland) starting from 2018. At present, the HKSAR Government has signed Competent Authority Agreements with Belgium, Canada, Guernsey, Italy, Japan, Korea, Mexico, the Netherlands, Portugal, South Africa and the United Kingdom. Negotiation with some other jurisdictions (including Switzerland) regarding Competent Authority Agreements is in progress.

Retail sales held largely stable in the first four months of 2017 compared with year-ago levels, amid the sustained recovery of visitor arrivals. In recent months, the drag from the fall in tourist spending eased and local consumer sentiment continued to hold up well. As per the statistics provided by the Federation of the Swiss Watch Industry, Swiss watch exports to Hong Kong dropped from CHF 1,133 million in Jan-April 2015 to CHF 815 million in Jan-April 2016 and CHF 777 million in Jan-April 2017. It showed that the contraction was moderate than last year.

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. In January 2017, Hong Kong and Shenzhen signed the Memorandum of Understanding to jointly develop an innovation and technology park at the Lok Ma Chau Loop, the border between Hong Kong and Shenzhen. It will offer business opportunities to Swiss companies and organizations active in these sectors.

1. Economic problems and issues

1.1 General overview of HK's economy:

The global economy operated in low gear in 2016 and recorded the slowest growth since the global financial crisis. The situation was particularly grim at the beginning of 2016, affecting the trade performance of Hong Kong. The subsequent abatement of downward pressures on the external front led to a rebound in Hong Kong's exports of goods, registering a year-on-year growth of 1.7% in real terms for 2016 as a whole. Exports of services, though showing some relative improvement during the year and picking up in the fourth quarter, still fell by 3.1% for the whole year. With the gradual recovery of tourism, the decline in the overall retail sales volume slowed notably to only 3.6% in the fourth quarter, but for the whole year it was still down by 7.1%.

Domestic demand strengthened in the latter half of 2016. Favourable employment and earnings conditions were conducive to sanguine consumer sentiment. The growth of private consumption expenditure gathered pace in the second half of last year, and investment expenditure also bounced back visibly. The unemployment rate averaged 3.4% while inflation rate was 2.4% for 2016.

The local economy picked up progressively from a marginal growth rate of 1% in the first quarter to 3.1% in the fourth quarter. For 2016 as a whole, there was a modest growth of 1.9%.

In the first quarter of 2017, Hong Kong's economic growth accelerated to 4.3% year-on-year in real terms, from 2% for 2016. The growth of private consumption expenditure quickened to 3.7%, from 1.8% for 2016. The investment expenditure increased by 6.4%, after the marginal decline of 0.3% for 2016. As to the external sector, the growth of exports of goods accelerated considerably to 9.2%, from 1.8% for 2016; while exports of services also increased by 2.6%, after the decline of 3.2% for 2016. In January-March 2017, the value of retail sales, in nominal terms, declined by 1.3% year-on-year, after the decline of 8.1% for 2016, due to the lack of growth in tourist spending. The economy is projected to grow by 2-3% in 2017.

However, there are also some downside risks. These include the US interest rate normalisation, various uncertainties surrounding policy and political developments in the US and Europe, the possible rise of protectionist sentiment as well as elevated geopolitical tensions in various regions.

Overall flat prices in March 2017 exceeded the 1997 peak by 85%, and mortgage payment-to-income ratio worsened further to around 66% in the first quarter of this year. Given the very low interest rate at present, such housing affordability ratio is alerting. The government warned that if currently low interest rates return to a “normal level” (which would mean a rise of 3%), home owners would have to set aside 86% of their monthly income for mortgage payments. Overheating in the property market will lead to great repercussions when the cycle turns.

1.2 Economic integration with Mainland China

Hong Kong is the most important entrepôt of Mainland China. According to the HKSAR government statistics, 59% of re-exports were of China origin and 54% were destined for Mainland China in 2016. According to China's Customs statistics, Hong Kong is the second largest trading partner of Mainland China after the US, accounting for 8.3% of its total trade in 2016.

Hong Kong's trade with China is to a large extent related to outward processing activities. In 2016, Hong Kong’s domestic exports were confined to about 1.2% of its total exports while re-exports accounted for about 98.8% of its total exports.

On one hand, Hong Kong is the largest source of overseas direct investment in Mainland China. By the end of 2016, 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$914 billion, accounting for 52% 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$419 billion at market value or about 26% of the total at the end of 2015[3].

Hong Kong is also a key offshore capital-raising centre for Chinese enterprises. As of December 2016, 1,002 mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies with total market capitalization of US$2 trillion, or 63% of the market total. Since 1993, mainland companies have raised more than US$500 billion via stock offerings in Hong Kong.

Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect were launched in November 2014 and December 2016 respectively. It is a mutual stock market access between Hong Kong and Chinese mainland, a significant breakthrough in the opening of China’s capital markets. It further facilitates two-way investment flows and consolidates Hong Kong’s development as the global offshore RMB business hub.

The China Securities Regulatory Commission and the Hong Kong Securities and Futures Commission approved the mutual recognition scheme which would allow cross-border fund sales between Hong Kong and the mainland. The scheme, which started on 1st July 2015, was the first cross-border fund sales agreement ever signed by Mainland China. This arrangement expands the distribution network of the Hong Kong’s fund industry and also attracts more funds to domicile in Hong Kong, which helps to build up Hong Kong's fund manufacturing capabilities and develops it into a full-fledged fund service centre.

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

Based on the traditionally close economic and trade relations with Mainland China, the HKSAR Government is positioning Hong Kong as the so called “super connector” within the Belt and Road initiative of the Central Government in Beijing.

[3] Investment figures for 2016 will only be available by Dec. 2017.

1.3 Inbound Tourism

Tourism contributes 5% to GDP and employs about 270,000 people (about 7% of total employment). It provides plenty of job opportunities particularly for low-skilled workers.

In 2016, total visitor arrivals dropped to 56.7 million (-4.5% year-on-year y-o-y), equivalent to 7.7 times the size of Hong Kong population. While there was a drop by 6.7% in arrivals from the Mainland (due to a decrease in same-day arrivals with the implementation of "one visit per week" policy[4]), the number of visitors from international markets increased by 3.1%. Tourists from Mainland China totalled about 42.8 million or 76% of total visitor arrival in 2016. In 2016, total tourism expenditure associated to inbound tourism amounted to US$38 billion, dropped 10% year-on-year.

In January-March 2017, visitor arrivals to Hong Kong increased by 3.7% year-on-year, after dropping by 4.5% in 2016; those from the Chinese mainland increased 3.8% year-on-year, after falling by 6.7% in 2016. The recent revival in visitor arrivals, if continued, could give an extra lift to Hong Kong's exports of services as well as boosting retail sector in the period ahead.

1.4 Public Finance

The public finance is very solid and healthy. The government recently announced its provisional financial results for the year ended 31st March 2017. Expenditure amounted to US$59.3 billion whereas revenue reached US$73.5 billion, resulting in a surplus of US$14.2 billion. This is mainly due to the increase in revenue from land sales and stamp duty. Fiscal reserves stood at US$122 billion as at 31st March 2017 or equivalent to 23 months of government expenditure.

Paul Chan took over as the Financial Secretary on 16th January this year when his predecessor John Tsang resigned to run for the Chief Executive Election. He made a proposal to set up a tax policy unit to review tax regime. The last serious debate on broadening the tax base happened in 2006 when the Government was still struggling to restore fiscal balance. The proposed solutions such as a goods and services tax were met with strong opposition from the society. Then Financial Secretary Henry Tang withdrew the plan citing lack of public support in December 2006.

It is always difficult to convince the public for a major tax revamp, not to mention the very strong fiscal surplus and reserves over the last decade. It is noteworthy to see how the public and business sectors will react to any proposal of new taxes such as a goods and services tax.

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 also joined the Asian Infrastructure Investment Bank (AIIB) in June 2017.

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.

[4] The Central Government limited Shenzhen permanent residents to just one visit per week to Hong Kong, a move aimed at reducing parallel trading activities and easing concerns over the impact of the continuous growth in Mainland visitors on the local community.

Hong Kong is now negotiating FTAs with the Association of Southeast Asian Nations (ASEAN), Georgia, Maldives and Australia. It is discussing a closer economic partnership arrangement with Macao as well. It is expected to reach an agreement with the ASEAN by the end of this year.

Hong Kong has entered into Comprehensive Double Taxation Agreements / Arrangement (CDTAs) with 37 jurisdictions **including Switzerland (which entered into force in October 2012)** while those with another 13 countries/territories are still under negotiation. In addition, it has entered into Tax Information Exchange Agreements with 7 jurisdictions and been negotiating with another 3 jurisdictions.

Regarding automatic exchange of financial account information (AEOI), subject to the passage of the Inland Revenue (Amendment) (No. 3) Bill 2017, reporting financial institutions have to report to the Inland Revenue Department financial account information of tax residents of the 74 reportable jurisdictions (**including Switzerland**) starting from 2018. At present, the HKSAR Government has signed Competent Authority Agreements with Belgium, Canada, Guernsey, Italy, Japan, Korea, Mexico, the Netherlands, Portugal, South Africa and the United Kingdom. Negotiation with some other jurisdictions (**including Switzerland**) regarding Competent Authority Agreements is in progress.

Furthermore, Hong Kong has signed investment promotion and protection agreements with 19 countries including Chile, Canada, 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. It concluded negotiation (pending signing) with Bahrain, Mexico, Myanmar and United Arab Emirates while negotiation with Iran and Russia are in progress.

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 January 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 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.

3. Foreign trade

3.1 Development and general outlook

3.1.1 Trade in goods

Total exports of Hong Kong fell by 0.58% to US$ 460 billion in 2016. Major export markets were China (54% of total exports), the US (9%), Japan (3.3%), India (3.3%) and Taiwan (2.1%). Major export products were semi-conductors, electronic valves & tubes (24%), telecom equipment (20%), parts and accessories of office machines/computers (4.5%), electrical apparatus (4.5%), pearls, precious & semi-precious stones (4.4%) and computers (4.1%).

Imports dropped to US$ 514 billion (-0.9%) in 2016. Major supplier countries were China (48% of total imports), Taiwan (7.3%), Singapore (6.5%), Japan (6.2%) and the US (5.2%). Major import products were semi-conductors, electronic valves & tubes (26%), telecom equipment (18%), computers (4.1%), pearls, precious & semi-precious stones (4%), electrical apparatus (3.7%) as well as parts and accessories of office machines/computers (2.9%).

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 dropped to US$ 103.7 billion (-2.4%) in 2015 (latest available information[5]). Major items included: travel (35% of total exports of services, dropped by 5.8%), transport (29% of total exports of services, dropped by 6.8%), financial services (18% of total exports of services, increased by 8.5%), other business services (13% of total exports of services, increased by 2.5%) as well as telecommunication and information services (2.7% of total exports of services, increased by 0.7%).

In 2015, exports of services by main destinations were China (40% of total, decreased by 3.4%), the US (15% of total, dropped by 2.8%), the UK (7.6% of total, increased by 11%), Japan (4.2% of total, decreased by 9.4%) and Singapore (3.8% of total, increased by 7.6%).

Import of services amounted to US$ 73.6 billion (+0.1%) in 2015. Major items included: travel (31% of total imports of services, increased by 4.7%), transport (23% of total imports of services, decreased by 5.9%), manufacturing services (16% of total imports of services, dropped by 2.7%), other business services (16% of total imports of services, increased by 2.8%), financial services (6.5% of total imports of services, increased by 8.5%), telecommunication and information services (2.6% of total exports of services, increased by 0.1%) as well as charges for the use of intellectual property (2.5% of total imports of services, dropped by 4%).

In 2015, imports of services by main sources were China (39% of total, increased by 2.4%), the US (11% of total, increased by 1.1%), Japan (7.8% of total, grew by 4.4%), the UK (5.9% of total, decreased by 0.6%) and Singapore (4.5% of total, decreased by 9.6%).

3.2 Bilateral trade

3.2.1 Trade in goods

According to the Hong Kong Census and Statistics Department, Switzerland was the 15th largest trading partner of Hong Kong in 2016. Switzerland was Hong Kong's 11th largest supplier and 21st largest export market[6].

[5] Trade in services figures for 2016 will only be available by Feb. 2018.
[6] Hong Kong official trade figures do not include trade in gold, silver and coins

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 18,194 million (-25%) in 2016. Major Swiss exports included jewellery, precious metal, gold, silver and coins (80% of total, dropped by 2.4%, CHF 14,594 million in value), watches and clocks (13% of total, dropped by 25%, CHF 2,383 million in value), electrical & non-electrical machinery (1.8% of total, dropped by 4.2%, CHF 322 million in value) and chemical and pharmaceutical products (1.7% of total, increased by 8.2%, CHF 318 million in value).

Hong Kong's total exports to Switzerland amounted to CHF 8,044 million (+208%) in 2016. Major total exports included jewellery, precious metal, gold, silver and coins (93% of total, increased by 299%, CHF 7,462 million in value), watches and clocks (4.6% of total, dropped by 25%, CHF 373 million in value), electrical & non-electrical machinery (1% of total, dropped by 13%, CHF 84 million in value) as well as textiles and garments (0.3% of total, dropped by 20%, CHF 28 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 2016, Swiss exports to Mainland China (CHF 26,751 million in value) and Hong Kong (CHF 18,194 million in value) accounted for 15% of global Swiss exports. On the other hand, Swiss imports from China (CHF 12,308 million) and Hong Kong (CHF 8,044 million) totalled CHF 20,352 million. Switzerland got a trade surplus worth CHF 24,592 million.

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$ 3,080 million (-8%) were re-exported via Hong Kong to other countries and notably to China (US$ 842 million, dropped by 6.2%) and Macao (US$ 665 million, dropped by 4.3%) in 2016. Major Swiss products via Hong Kong to China were watches and clocks (US$ 437 million), measuring instruments (US$ 75 million), jewellery (US$ 36 million) and semi-conductors, electronic valves & tubes (US$ 35 million). Major Swiss products via Hong Kong to Macao were watches and clocks (US$ 539 million), jewellery (US$ 90 million) as well as perfumery, cosmetics or toilet preparations (US$ 13 million).

According to the Hong Kong Census and Statistics Department, products of Chinese origin worth US$ 1,570 million (-0.8%) were re-exported to Switzerland via Hong Kong in 2016. Major products were watches and clocks (US$ 828 million), telecom equipment (US$ 124 million), jewellery (US$ 68 million), silver & platinum (US$ 67 million) and electrical apparatus (US$ 42 million).

Outlook for Swiss exports to Hong Kong

According to the Hong Kong Census and Statistics Department, the value and volume of total retail sales decreased by 1% and 1.4% respectively year-on-year in the first four months of 2017. As regards the value of sales, jewellery, watches, clocks and valuable gifts increased by 1.2%. Medicines and cosmetics increased by 3.5% while electrical goods and photographic equipment dropped by 21%. Food, alcoholic drinks and tobacco rose by 2.1% whereas clothing and footwear dropped by 2.8%.

Retail sales held largely stable in the first four months of 2017 compared with year-ago levels, amid the sustained recovery of visitor arrivals. In recent months, the drag from the fall in tourist spending eased and local consumer sentiment continued to hold up well. Looking ahead, the near-term outlook for retail sales will hinge on the recovery pace of inbound tourism as well as the resilience of local consumption sentiment in face of the US interest rate upcycle and other external uncertainties.

As per the statistics provided by the Federation of the Swiss Watch Industry, Swiss watch exports to Hong Kong dropped from CHF 1,133 million in Jan-April 2015 to CHF 815 million in Jan-April 2016 and CHF 777 million in Jan-April 2017. It showed that the contraction was moderate than last year.

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.

In January 2017, Hong Kong and Shenzhen signed the Memorandum of Understanding to jointly develop an innovation and technology park at the Lok Ma Chau Loop, the border between Hong Kong and Shenzhen. With a site area four times the size of Hong Kong Science Park, the 87-hectare Hong Kong/Shenzhen Innovation & Technology Park will be the largest innovation and technology platform ever set up in Hong Kong. It will offer 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$ 1,231 million (1.2% of total exports of services, increased by 15%) in 2015[7]. Switzerland ranked 12th largest market for Hong Kong's exports of services. It consisted of transport (US$ 474 million), other business services (US$ 400 million), financial services (US$ 251 million), telecommunication and information services (US$ 57 million) and charges for the use of intellectual property (US$ 11 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$ 418 million (0.6% of total imports of services, increased by 7.2%) in 2015. Switzerland ranked 22nd largest supplier in this category. It consisted of charges for the use of intellectual property (US$ 87 million), transport (US$ 86 million), financial services (US$ 73 million), travel (US$ 68 million), insurance services (US$ 40 million), other business services (US$ 40 million) and telecommunication and information services (US$ 12 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 2015 (latest available information)[8], the stock of Hong Kong's inward direct investments rose by 6.3% to US$ 1,582 billion. Major investor countries were the British Virgin Islands BVI (US$ 555 billion or 35% of total, increased by 4.9%), China (US$ 419 billion or 26% of total, decreased by 6.5%), Cayman Islands (US$ 110 billion, 7% of total, increased by 117%). the Netherlands (US$ 100 billion or 6.3% of total, increased by 4.2%) and Bermuda (US$ 73 billion or 4.6% of total, dropped by 7%).

The British Virgin Islands BVI was the largest destination for Hong Kong's outward direct investment (US$ 621 billion or 41% of total) in 2015. Mainland China ranked the second (US$ 603 billion or 40% of total). Guangdong Province remained a popular location for Hong Kong's outward direct investments in China, accounting for 27% (or US$ 164 billion) of Hong Kong's total outward direct investment in China. Cayman Islands ranked the third (US$ 58 million or 3.8% of total).

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, Cayman Islands 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.

[7] The trade in services figures for 2016 will only be available by Feb. 2018.
[8] Investment figures for 2016 will only be available by Dec. 2017.

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$ 11 billion (0.7% of total, increased by 3.5%) in 2015[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 2015.

As at 1st June 2016, there were 244 Swiss companies operating in Hong Kong: 51 regional headquarters, 80 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.

According to the Hong Kong Census and Statistics Department, ranking of Switzerland as an investor country in 2015 is not available. The Department also added that due to precision consideration, statistics of outward direct investment of Hong Kong to Switzerland for 2015 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 centre 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.

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.

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

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 are 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.

Financial market volatilities and uncertain outlook for the renminbi exchange rate weighed on offshore renminbi business globally in 2016. At the end of the year, renminbi customer deposits and outstanding certificates of deposit in Hong Kong stood at RMB 625 billion (-38% year-on-year).

Hong Kong is the global hub for trade settlement in renminbi, serving both local and overseas banks and companies. In 2016, renminbi trade settlement handled by banks in Hong Kong reached to RMB 4,542 billion.

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. Its issuance moderated to RMB 53 billion in 2016 due to uncertain outlook for the renminbi exchange rate.

Renminbi lending by banks in Hong Kong amounted to RMB 295 billion at the end of 2016, similar to the level a year before. Turnover in the renminbi Real Time Gross Settlement (RTGS) system remained at high levels, averaging RMB 864 billion daily in 2016. This demonstrates that Hong Kong continued to support a large amount of renminbi financial intermediation activities despite the shrinkage of the renminbi liquidity pool.

In November 2014, Shanghai-Hong Kong Stock Connect was launched to establish mutual stock market access between Hong Kong and Chinese mainland, a significant breakthrough in the opening of China's capital markets. In December 2016, Shenzhen-Hong Kong Stock Connect, with similar programme principles and design, was launched to further facilitate two-way investment flows and consolidate Hong Kong's development as the global offshore RMB business hub.

In order to promote the development of the bond markets in Hong Kong and Mainland China, the People's Bank of China (PBoC) and the Hong Kong Monetary Authority (HKMA) approved China Foreign Exchange Trade System & National Interbank Funding Centre, China Central Depository & Clearing Co., Ltd, Shanghai Clearing House (together the "Mainland Financial Infrastructure Institutions"), together with Hong Kong Exchanges and Clearing Limited and Central Moneymarkets Unit (together the "Hong Kong Financial Infrastructure Institutions"), to collaborate in establishing mutual bond market access between Hong Kong and Mainland China (Bond Connect) in May 2017. It is an arrangement that will enable Mainland and overseas investors to trade bonds tradable in the Mainland and Hong Kong bond markets through connection between the Mainland and Hong Kong Financial Infrastructure Institutions.

According to the HKMA, Bond Connect marks another milestone in the liberalisation of the Mainland's capital account. At the same time, it is another major move that uses the Hong Kong platform to strengthen the connectivity between the Mainland and global capital markets.

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.

The renminbi Real Time Gross Settlement (RTGS) system was upgraded from the Renminbi Settlement System in June 2007 with the Bank of China (Hong Kong) Limited as its Clearing Bank. The Clearing Bank maintains a settlement account with the People's Bank of China and is a member of China's National Advanced Payment System (CNAPS). The renminbi RTGS system in Hong Kong can be regarded as a technical extension of CNAPS in Mainland China, but governed by Hong Kong laws.

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.

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.

The Swiss renminbi hub is different from other financial centres thanks to its experience in wealth and asset management, its importance in commodity trade finance transactions, its excellent infrastructure and highly-skilled workforce.

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.

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	2015
Distribution of GDP		
Primary Sector	0.1%	0.1%
Secondary Sector	7.8%	7.3%
Services	92.1%	92.6%
- of which public administration, social and personal services	18.2%	17.5%
Distribution of Employment		
Primary Sector	0.2%	0.1%
Secondary Sector	11.8%	11.5%
Tertiary Sector	88%	88.4%
- of which public administration, social and personal services	25.2%	26.5%

*This set of figure for 2016 will only be available by Nov. 2017

Source: Hong Kong Census and Statistics Department

Appendix 2

Essential Economic Data

	2015	2016	2017*
GDP (USD billion)	307.5	319.1	332-335
GDP per capita (USD)	42,100	43,400	44,800-45,300
GDP growth (%)	+2.4	+1.9	+2-3
Inflation (%)	+3	+2.4	+2.6
Unemployment rate (%)	3.3	3.4	3.3
Fiscal balance (% of GDP)	3.5	3.7	0.6
Current account balance (% of GDP)	3	4.5	2.9
Total external debt (% of GDP)	421	414	unavailable
Debt-service ratio (% of exports)	**	**	**
Reserves (in months of imports)	32.1	35.5	unavailable

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

Sources: HKSAR Government, IMF

Appendix 3

Trading Partners 2016

Rank	Country/region	Exports from HK (USD millions)	Share (%)	Growth* (%)
1	China	249,163	54	+0.4
2	USA	41,544	9	-5.3
3	Japan	14,967	3.3	-4.9
4	India	14,962	3.3	+15
5	Taiwan	9,553	2.1	+15
6	Vietnam	9,253	2	-5.8
7	Germany	8,553	1.9	-5.1
8	Singapore	7,857	1.7	+4.8
9	Netherlands	7,356	1.6	+10
10	Korea Rep	6,928	1.5	-0.6
	EU	42,390	9.2	-1.3
21	**Switzerland**	**3,223**	**0.7**	**-6.8**
	Total	460,032	100	-0.5
Rank	**Country/region**	**Imports to HK (USD millions)**	**Share (%)**	**Growth* (%)**
1	China	245,748	48	-3.4
2	Taiwan	37,445	7.3	+6.4
3	Singapore	33,550	6.5	+6.4
4	Japan	31,628	6.2	-5.2
5	USA	26,493	5.2	-2
6	Korea Rep	25,157	4.9	+14
7	India	11,894	2.3	+12
8	Malaysia	11,613	2.3	-3.7
9	Thailand	10,588	2.1	-2.7
10	Philippines	7,663	1.5	+5.8
11	**Switzerland**	**7,111**	**1.4**	**-10**
	EU	34,235	6.7	-4.1
	Total	513,895	100	-0.9

* 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 mio.)	Change %	Imports (CHF mio.)	Change %	Trade Balance	Volume (CHF mio.)
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
2016 (total 2)**	**18'194**	**-25%**	**8'044**	**208%**	**10'150**	**26'238**
2016 (total 1)***	**4'853**	**-15%**	**1'132**	**-17%**	**3'721**	**5'985**

* 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	2015 (% of total)	2016 (% of total)
Jewellery, precious stones and precious metals	82	80
Watches and clocks	13	13
Machinery (electrical and non electrical)	1.4	1.8
Chemical and pharmaceutical products	1.2	1.7

Imports	2015 (% of total)	2016 (% of total)
Jewellery, precious stones and precious metals	72	93
Watches and clocks	19	4.6
Machinery (electrical and non electrical)	3.7	1
Textiles and garments	1.3	0.3

Source : Swiss Federal Customs Administration

Appendix 5

Major investor countries/regions 2015 (latest available information)

Rank	Country/Region	Direct investments (USD billion)	Share (%)	Growth (%)	Direct Investment Inflow during the year (USD billion)
1	British Virgin Islands	555	35%	4.9%	56
2	China	419	26%	-6.5%	26
3	Cayman Islands	110	7%	117%	52
4	Netherlands	100	6.3%	4.2	4.4
5	Bermuda	73	4.6%	-7%	7.6
6	Singapore	44	2.8%	7.7%	3
7	USA	40	2.5%	-18%	0.4
8	UK	33	2.1%	94%	7.2
9	Japan	29	1.8%	-0.3%	2.9
10	Cook Islands	13	0.8%	-13%	0.8
	European Union	150	9.5%	15%	12.9
*	**Switzerland**	**10.9**	**0.7%**	**3.5**	**2.2**
	Total	1,582	100 %	6.3%	173

*unavailable

Remarks: Investment figures for 2016 will only be available by Dec. 2017

Source: Hong Kong Census & Statistics Department