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Hong Kong: Economic Report 2020

Executive Summary

With the beginning of COVID-19 in January 2020, the city shut the borders to China. Ongoing travel restrictions have caused harm to the economy, especially but not exclusively to the travel industry which has decreased by 42.4%. As of 25 May 2021, Hong Kong has reported 11'834 cases and 210 deaths[1].

Hong Kong's GDP contracted in the year 2020 by 6.1%, the largest annual decline on record, while the unemployment rate rose to 5.9% from 2.9% in 2019. 2020 was also Hong Kong's first time to register two consecutive years of negative growth, after a 1.2% fall in 2019. Exports of goods fell mildly while export of financial services expanded moderately thanks to active cross-border financial and fund-raising activities.

The government introduced relief measures intended to help Hong Kong businesses survive the dramatic effect of COVID-19 and to assist the city's economy to recover from the pandemic. Measures include providing financing support in the form of SME Financing Guarantee Scheme, the Employment Support Scheme as well as introducing reduction in profits tax, income tax, property tax, specific-industries subsidies.

China's top legislative body imposed a sweeping national security law on Hong Kong in June 2020, and laid down a resolution to shake up the city's political system in May 2021 to make sure patriots would firmly dominate the city's legislature and other key political institutions.

Hong Kong economy is forecast to grow by 3.5% to 5.5% in 2021. Consumer price inflation is forecast at 1% in 2021. The tourism industry may take longer to fully recover.

Based on statistics of the Federal Customs Administration exports from Switzerland to Hong Kong without art pieces and precious metals decreased by 34.4 %. Imports from Hong Kong to Switzerland shrank 4.1%. This gloomy picture would look very different if art pieces and precious metals were included. It would result in an increase in trade volume. Trade in precious metals is very volatile and represents the biggest item in trade in both ways: 51.6% of total Swiss exports and 96.4% of total imports from Hong Kong.

Direct investments from Switzerland amounted to USD12 billion in 2019[2], an increase by 3.4%, with a share of 0.6% of the total FDIs in Hong Kong. According to the Hong Kong Census and Statistics Department, Hong Kong's imports of services from Switzerland reached to USD 0.5 billion (0.7% of total imports of services) in 2019. Switzerland ranked 19th largest supplier in this category whereas Hong Kong's exports of services to Switzerland amounted to USD 1 billion (1% of total exports of services) in 2019.

Hong Kong hopes to benefit from Mainland China's 14th Five Year Plan, the Regional Comprehensive Economic Partnership Agreement, the Guangdong-Hong Kong-Macao Greater Bay Area, and the Belt and Road Initiative.

[1] Worldometer COVID-19: Hong Kong

[2] Latest available information at the time of editing

1. Economic problems and issues

In 2020 Hong Kong registered for the first time two consecutive years of negative growth, after a 1.2% fall in 2019. The GDP contracted 6.1%, the largest annual decline on record, while the unemployment rate rose to 5.9% in 2020 from 2.9% in 2019. Exports of goods fell mildly (USD 503.5 billion, -1.5%) while export of services fell sharply (USD 63.5 billion, -37.6%). There's no change in export of financial services (USD 21.5 billion) thanks to active cross-border financial and fund-raising activities. The overall contraction can be attributed to COVID-19. Hong Kong economy is forecast to grow by 3.5% to 5.5% in 2021. Consumer price inflation is forecast at 1% in 2021. Inbound tourism may take longer to fully recover[3].

Impact of the COVID-19 pandemic
When COVID-19 started in early 2020, Hong Kong had yet to recover from the social turmoil of the protests which began in June 2019, due to a controversial extradition law. In a move to contain the spread of the virus, the city shut the borders to China and the World and restricted entry to non-residents as of 25 March, with all arrivals subjected to a 14-days quarantine, respectively 21-days. Such measures had an immediate and considerable impact on a city, which is not only an important logistic hub for goods but also for travelers.

According to the Hong Kong Tourism Board, total number of visitor arrivals in 2020 was 3.57 million, a 93.6% drop from 2019. Arrivals in January 2020 alone accounted for the majority of the annual total. Most people arriving in Hong Kong thereafter were visiting family members or traveling for other essential reasons, reducing the number of tourists to almost zero.

Compared to most advanced economies, the city has not seen large outbreaks. As of 25 May 2021, Hong Kong reported 11'834 cases and 210 deaths. Mass vaccination scheme, free for all residents, started in February 2021.

Lockdowns and the shutdown of international travel destroyed at least 40,000 jobs, with hospitality and (luxury)-retail businesses suffering the most. The sale of Swiss watches in Hong Kong experienced an important drop. The national carrier Cathay Pacific unveiled a loss for 2020 of USD 2.7 billion (2019: profit of USD218 million). The airline axed 8'500 and scrapped its regional carrier, Cathay Dragon[4].

During the acute phase of the pandemic, Hong Kong government introduced relief measures intended to help Hong Kong businesses survive the dramatic effect of COVID-19 and to assist the Hong Kong economy to recover from the pandemic. Measures include providing financing support in the form of SME Financing Guarantee Scheme, the Employment Support Scheme as well as introducing reduction in profits tax, income tax, property tax and specific-industries subsidies.

New Security Law
China's top legislative body imposed a sweeping national security law on Hong Kong in June 2020, and laid down a resolution to shake up the city's political system in May 2021 to make sure patriots would firmly dominate the city's legislature and other key political institutions.

Until recently, Hong Kong was leading the list of the Heritage Foundation's Index of Economic Freedom ranking. This year the index no longer includes Hong Kong because it "measures economic freedom only in independent countries where governments exercise sovereign control of economic policies.

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[3] HK Government: [2020 Economic Background and 2021 Prospects]
[4] [Cathay Pacific Annual Results 2020]

Hong Kong lost its high degree of autonomy due to the implementation of the New Security Law. [5] As a result, Hong Kong is now listed together with China on place #107 instead.

On the IMD World Competitiveness Ranking Hong Kong has dropped to the 5th in 2020; down from 2nd in 2019. The drop can be attributed to a decline in its economic performance, social turmoil in Hong Kong as well as the rub-on effect of the Chinese economy.

Growth forecast for 2021

Hong Kong's economy is expected to resume growth in 2021, but how much it will recover is subject to the high uncertainty associated with the pandemic. Taking into account the support from various government measures, the economy is forecast to grow by 3.5% to 5.5% in 2021. Consumer price inflation is forecast at 1% in 2021. In the first three months of 2021, its GDP jumped 7.9% year-on-year led by very strong growth of exports of goods. Yet the economic recovery was uneven and overall economic activity remained below the pre-recession level, as the pandemic, social distancing requirements and travel restrictions continued to weigh on certain economic segments[6].

2. International and regional economic agreements

2.1. Hong Kong's policy and priorities

Given the geographical and strategical position and the historical and political relationship with mainland China, Hong Kong has always been the major gateway for trades from and into mainland China. Hong Kong is a free port and is flourishing through 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 value of goods and services trade, including the sizable share of re-exports, is about four times GDP[7]. Hong Kong continues to link its currency to the USD[8] at a rate of HKD 7.8, maintaining an arrangement established in 1983 backed with a HKD4 trillion (CHF471bn) chest held in the Hong Kong Monetary Authority's Exchange Fund, one of the world's largest foreign exchange reserves that can be used to defend the currency.

Hong Kong is a founding member of the World Trade Organization (**WTO**) and has been participating actively in its activities. It has continued its separate membership after its return to China in 1997 using the name "Hong Kong, China". Hong Kong has also become a member of the Asia-Pacific Economic Cooperation (**APEC**) and the Pacific Economic Cooperation Council (**PECC**) in 1991 and in its own right, belongs 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**) and also joined the Asian Infrastructure Investment Bank (**AIIB**) in June 2017.

Since 2003, Hong Kong has been actively seeking to expand its Free Trade Agreement (FTA) network in order to secure favourable conditions for Hong Kong's goods and services to enter the Mainland and international markets. So far, Hong Kong has signed eight FTAs.

8 Free Trade Agreements in Force

- Mainland of China (**CEPA**, June 2003)
- New Zealand (**CEP** Agreement, March 2010)
- The Member States of the European Free Trade Association (**EFTA** including **Switzerland**, June 2011)

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[5] NIKKEI Asia: Heritage Foundation drops Hong Kong from 'economic freedom' index

[6] HK economy: GDP

[7] Forbes

[8] The HKD has been pegged to a narrow trading band between HKD7.75 and HKD7.85 per USD.

- **Chile** (September 2012)
- HK and Macao Closer Economic Partnership Arrangement (**HK-Macao CEPA**, October 2017)
- The Association of Southeast Asian Nations (**ASEAN**, November 2017)
- **Georgia** (June 2018)
- **Australia** (March 2019)

Free Trade Agreement Negotiation Concluded

- Maldives

Hong Kong's economy is increasingly tied to the mainland. **CEPA** is an economic agreement between Hong Kong and mainland China signed in June 2003 which qualifying products, companies and residents of Hong Kong enjoy preferential access to the mainland Chinese market. Many of the preferences surpass the concessions made by China upon its accession to the World Trade Organization. The CEPA covers three broad areas, namely trade in goods, trade in services, and trade and investment facilitation. Firms that do not yet have a foothold in Hong Kong should consider partnering with or acquiring eligible companies based in Hong Kong to take advantage of CEPA and gain 'first mover advantage' into the mainland markets.

Furthermore, Hong Kong has signed Investment Promotion and Protection Agreements (**IPPAs**) with 22 foreign economies including the ASEAN, Australia, Austria, Belgo-Luxembourg Economic Union, Canada, Chile, Denmark, Finland, France, Germany, Italy, Japan, Korea, Kuwait, Mexico, the Netherlands, New Zealand, Sweden, **Switzerland**, Thailand, United Arab Emirates and the United Kingdom. It concluded negotiation (pending signing) with Bahrain, Maldives and Myanmar and while negotiation with Iran, Russia and Turkey are in progress.

In October 2017, **Switzerland** has signed an agreement with Hong Kong for conducting automatic exchange of financial account information in tax matters (**AEOI**).

In January 2018, authorities and private sector representatives from Hong Kong and **Switzerland** signed three Memorandums of Understanding (**MOU**) in Switzerland on strengthening collaboration in financial markets, fintech and promotion of private wealth management[9].

Hong Kong and **Switzerland** also signed a comprehensive agreement on the avoidance of double taxation (**CDTA**) in December 2010. The CDTA would help investors better assess their potential tax liabilities from cross-border economic activities, foster closer economic and trade links between the two places, and provide added incentives for companies in Switzerland to do business or invest in Hong Kong, and vice versa.

After eight years of negotiation, the Regional Comprehensive Economic Partnership (**RCEP**) was signed on 15 November 2020 by 15 member states (ASEAN countries, China, Japan, South Korea, Australia and New Zealand). It is the largest Free Trade Agreement on the world, covering 2.2 billion people (almost 30% of the world's population) with a combined GDP of USD26.2 trillion and accounts for nearly 28% of global trade[10]. Once it's ratified, the RCEP agreement will come into effect as early as second half of 2021 according to HKTDC Research. This new agreement contains provision that goes beyond existing FTAs. Although Hong Kong is not a signatory of RECP, it will benefit from the agreement because most of the merchandise trade initiated and managed by Hong Kong based companies is produced in RCEP member states, particularly China. In other words these companies will have lower tariffs, simplified rules and procedures, and better market access. Hong Kong is very

[9] Press Releases: Governments of Switzerland and Hong Kong

[10] HKTDC: RCEP, Means for Business

interested in joining the RCEP and according to the Hong Kong government, it is ready to start talks on accession with the RCEP's member economies as soon as the RCEP is ready to take on new partners.

2.2. Outlook for Switzerland

The economic agreements signed by Hong Kong present no discrimination against Swiss importers and exporters. The CEPA signed with Mainland China is nationality neutral. Therefore Swiss companies incorporated in Hong Kong can enjoy the full benefits of CEPA.

2.3. Economic integration with Mainland China and Offshore Renminbi Centre

Given its strategic geographical location, well-developed infrastructure and international communication network, Hong Kong plays an important entrepôt role for the trade between the Mainland and the rest of the world. Mainland China has been Hong Kong's largest trading partner since 1985, with a total trade volume of USD547.3 billion (2020). It is accounting for about half of Hong Kong's total trade by value. In turn, the HKSAR is an important trading hub for the mainland and ranked as the fifth-largest trading partner of China in 2020. In terms of export sales, it's the second largest trading partner of China with USD 272.7 (10.5% of China's total exports)[11].

Hong Kong's neighbor Chinese province Guangdong remains an important outward-processing base for Hong Kong and Macau with its improved investment environment, infrastructure. Consisting of nine cities of the Guangdong province, Macau and Hong Kong, the Greater Bay Area (**GBA)** with a population of 71.2 million people (5% of China's total population), covering an area of 56,000 km^{2}, it is the largest and the richest economic region in South China[12]. GBA's combined regional GDP is USD 1,641.97 billion in 2018, which is equivalent to 12 percent of GDP for the whole of mainland China and would rank GBA as 12th biggest economy in the world.

Not only has Hong Kong remained China's key offshore financial and investment hub but its economic integration with the mainland continues to be most evident in the banking and finance sector. As at 31 December 2019, 30 of the 164 licensed banks in Hong Kong were of Mainland interests. In the deposit-taking business, two of the 17 restricted licensed banks and two of the 13 deposit-taking companies were of Mainland interests[13]. Furthermore, at the end of 2020, there are 1'319 mainland enterprises listed in Hong Kong, accounting for USD 4.8 billion or 80% of the total market capitalization in the city[14]. Hong Kong and China's capital markets are connected via the **Stock Connect scheme**, linking the Hong Kong Stock Exchange with its counterparts in **Shanghai** and **Shenzhen**, and the **Bond Connect mutual market** access scheme for bond markets. Ever since the launch of these initiatives, including the **Mutual Recognition of Funds**, access to China's capital markets has widened considerably in recent years and have reinforced Hong Kong's role as China's leading offshore RMB market. Nevertheless, it needs to be highlighted that such schemes do not involve real money exchanges. The mainland investor puts yuan in and takes yuan out. The capital market is still strongly controlled by the authority. In June 2020, the People's Bank of China, the Hong Kong Monetary Authority and the Monetary Authority of Macao announced the implementation of the two-way cross-boundary wealth management connect pilot scheme **Wealth Management Connect** in the Greater Bay Area, under which residents in Hong Kong, Macao and nine cities in Guangdong Province could carry out cross-boundary investment in wealth management products distributed by banks in the area[15].

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[11] *World's Top Exports: China's Top Trading Partners* by Daniel Workman

[12] Wikipedia

[13] HK Trade and Industry Department

[14] HKTDC: Financial Services Industry in HK

[15] South China Morning Post: *China's investors are flooding Hong Kong's capital market*

Since the reform and opening-up of the Mainland, its shares of Hong Kong's global trade had increased tremendously from 9.3% in 1978 to 52.1% in 2020 (USD544 billion)[16].

Hong Kong hopes to benefit from Mainland China's 14th Five Year Plan, the Regional Comprehensive Economic Partnership Agreement **RCEP**, the Guangdong-Hong Kong-Macao Greater Bay Area **GBA**, and the Belt and Road Initiative **BRI**. According to Hong Kong's Finance Secretary Paul Chan this could lead to an average annual growth of 3.3% in real terms from 2022 to 2025 whilst underlying inflation rate will average 2%. The Hong Kong government is positioning the city as the so called "super connector" within the BRI of the Central Government in Beijing.

Hong Kong was the first offshore market to launch Renminbi business in 2014 and since then it has become the largest offshore RMB clearing centre in 2020, the global hub for RMB trade settlement, financing and asset management, where a wide range of RMB products and services are available to meet the needs of businesses, financial institutions and investors. It supports the vibrant offshore RMB business with the deepest liquidity pool outside of mainland China of over USD 93.8 billion[17] sharing over 70% of the world's RMB payment settlements according to SWIFT statistics.

3. Foreign trade

3.1. Development and general outlook

3.1.1. Trade in goods

The Hong Kong economy is externally oriented and highly dependent on trade with the rest of the world. In 2020, the value of Hong Kong's total trade reached USD 1050.9 billion (-2.5% from 2019) or 308% of its GDP in 2020. The value of imports amounted to USD 547.4 billion (-3-3%). or 160% of its GDP. The value of exports was USD503.5 billion or 148% of GDP (-1.5%)[18].

In 2020, Mainland remained the biggest supplier by far. Major import products were electrical machinery, apparatus and appliances, telecommunications and sound equipment, office machines/computers and miscellaneous.

Major export markets were China, the US, Japan, Taiwan and India. Major domestic exports were plastics in primary forms, medicinal and pharmaceutical products, metalliferous ores and metal scrap, cereals and cereal preparations, and essential oils and resinoids and perfume materials; toilet, polishing and cleansing preparations.[19].

Hong Kong is a service economy while manufacturing accounts for only 1% of its GDP. The manufacturing sector has undergone a substantial relocation and restructuring process during the 1980s and early 1990s. Hong Kong has now a trans-boundary manufacturing base in China and other economies. Domestic exports represent only 1.1% of total exports whereas re-exports constitute 98.9% of total exports. Outward processing activities plays an important role in Hong Kong trade with China. In 2019, about USD 72 billion (25% of total, -8.3%) of Hong Kong's total exports to China were for outward processing in China.

[16] Census & Statistics: Total Exports, Total Imports

[17] CNY600 billion (1CNY = 0.564USD)

[18] External Merchandise statistics, 2019-2020

[19] Trade and Industry Department Hong Kong

3.1.2. Trade in services

According to Census and Statistics Department of Hong Kong, figures for 2020 will only be available in February 2022. The following figures relate to the year 2019 compared with 2018.

The services sector is very important to the Hong Kong economy with transport being the largest component in exports of services, accounting for 30.9% of the value of total exports of services in 2019. This was followed by travel (28.4%), financial services (21.2%) and other business services (13.6%). As for imports of services, travel accounted for 33.2% of the value of total imports of services in 2019, followed by transport (22.7%), other business services (14.7%) and manufacturing services (13.9%). The export of trade in services decreased by 9.9% to USD102.4 billion, and that of total imports of services decreased by 0.9% to USD81.3 billion. The government posted a decline in 2020 due to the fallout from the COVID-19 pandemic and the short-term outlook is still uncertain by the global epidemic development[20].

Hong Kong is an international financial centre and the financial services sector remains one of its most important economic pillars and has a big share of the total trade in services, it contributed to 21.3% of the city's GDP in 2019 and accounted for 273'000 jobs in 2019. The stock market was the 3rd largest in Asia and 5th largest in the world in terms of market capitalisation at the end of December 2020. There were 2,538 companies listed on the Hong Kong Exchanges (HKEx) in the same period, with a total market capitalisation of about USD6 trillion[21].

The mainland China and the United States of America were the top two main destinations of exports and main sources of imports of services of Hong Kong, followed by the United Kingdom, Japan and Singapore (respectively J, UK and SGP for imports)[22].

For trade in services, companies incorporated in Hong Kong by foreign investors can make use of CEPA as long as they satisfy eligibility criteria of a "Hong Kong Service Supplier" (for example, they must be engaged in business operation in Hong Kong for three to five years) or by partnering with or acquiring a CEPA-qualified company[23].

3.2. Bilateral trade

3.2.1. Trade in goods

The Swiss Federal Customs Administration's records show that Swiss exports to Hong Kong totalled CHF 3'625 million in 2020, a decrease of 34.4%, whereas the imports shrank by 4.2% to CHF 1'242 million. This figures do not include gold bars and other precious metals, coins, precious stones and gems, works of art and antiques. The picture looks very different, if these items were included. It would result in an increase of 26.3% of the trade volume between Switzerland and Hong Kong.

The biggest consignments that make a difference in trade are jewellery, precious stones and metals. These are a very volatile markets and represent the biggest items in trade in both ways:

- 51.6% of total Swiss exports to Hong Kong. The second biggest category are watches and clocks (28.5%)[24]
- 96.4% of total Swiss imports from Hong Kong to Switzerland (CHF 11'309 million, + 198%)

[20] Hong Kong Trade in Services Statistics, Figures for Trades in services for 2020 will only be available in Feb 2022

[21] HKTDC: *Financial Services Industry in Hong Kong*

[22] Census & Statistics Department, Exports, imports and net exports of services

[23] Trade and Industry Department, Hong Kong

[24] Swiss Impex

Gold dominates the bilateral trade

Hong Kong Gold market has over 100 years of established history. It is one of the most active physical gold trading markets in the world, and it plays an essential role in serving local demand and acting as a regional trading hub. The gold trading activities in Hong Kong have the advantage of the time zone and help set the tone of gold markets in Europe and the US later in the day.

The gold export to Hong Kong has dropped in 2020 due to the social unrest in 2019 and the pandemic. Less visitors in 2019 and close to no visitors during COVID-19 from mainland China has caused a drop in demand for gold in the local market. Meanwhile, the import of gold from Hong Kong has seen a growth in 2020. The pandemic upended the global gold trade, shutting the vast consumer markets of Asia while triggering a rush among Western investors to buy what they consider a safe financial asset through the crisis. It underlines how Western investors overtook Asian jewellery buyers as the main driver of gold demand in 2020. The trend of gold moving out of Hong Kong started in 2019 during the anti-government protests and picked up with the passing of the security law end of June 2020. According to Financial Times, investors had shifted about 10% of their physical gold from Hong Kong to countries such as Singapore and Switzerland over the past 12 months.
Another reason for the outflow of gold was the recent political development which created uncertainties. For some mainland investors the city is not considered as a gold offshore market anymore but as one of the mainland cities.
The following table shows the volatility of the gold trade:

	2016 (in US billion & quantity)	2017 (in US billion & quantity)	2018 (in US billion & quantity)	2019 (in US billion & quantity)	2020 (in US billion & quantity)
Imports from Hong Kong	6 (147,049 kg)	7.9 (201,122 kg)	2.2 (58,777 kg)	1.7 (39,616 kg)	9.1 (155,173 kg)
Swiss exports to Hong Kong	11.2 (281,691 kg)	7.9 (196,782 kg)	6.9 (167,742 kg)	1.6 (37,439 kg)	0.7 (15,118 kg)
HK re-exports of Swiss origin to other countries	17.8 (439,951 kg) (64% re-exported to China)	17.1 (422,893 kg) (64% re-exported to China)	13.9 (336,234 kg) (60% re-exported to China)	5.9 (137,015 kg) (73% re-exported to China)	2.6 (47,118 kg) (42% re-exported to China)

Key findings:

1. Swiss exports of gold to Hong Kong has been dropping in the last five years.
   Reasons:
   - China imports more gold directly
   - Hong Kong was hit by social unrest and Covid-19 in 2019 and 2020 respectively. Apart from re-exports purpose, unwrought gold is used for domestic consumption and jewellery industry. A drastic decrease of tourists, in particular tourists from China who are keen to buy gold and jewellery in Hong Kong, has caused a deep drop in demand for gold in the local market.
2. In recent years, Hong Kong's re-exports of gold of Swiss origin are much bigger than HK's imports of gold from Switzerland.

Reason: Hong Kong imports gold for re-export, mainly to China for manufacturing, domestic consumption and the local jewellery industry. Neighbouring areas in China account for 70% of China's total jewellery production and sales with most of the gold being imported via Hong Kong. The local gold trade has a long history and Hong Kong's close links to China, and the recent collaborations between the Shanghai Gold Exchange and the Chinese Gold and Silver Exchange, have further increased the importance of the gold market of the gold market in Hong Kong. The positive difference of import and re-export of gold of Swiss origin result from inventories of gold kept over decades by depositories and gold merchants. Moreover, gold unwrought or in semi-manufactured forms or in powder form (HS Code 7108) covers gold powder, raw bullion and refined bullion. After refining process in Hong Kong, the value moves up but it is still classified under the same code (HS Code 7108).

3.2.2. Trade in services

According to the Hong Kong Census and Statistics Department, Hong Kong's imports of services from Switzerland reached USD0.5 billion (0.7% of total imports of services) in 2019. Switzerland ranked 19th largest supplier in this category whereas Hong Kong's exports of services to Switzerland amounted to USD1 billion (1% of total exports of services) in 2019. Switzerland ranked 16th largest market for Hong Kong's exports of services[25].

4. Direct Investments

4.1. Development and general outlook

Foreign Direct Investment in Hong Kong at the end of 2019 decreased by 5.5% to USD 2'075 billion. Major investor countries were the British Virgin Islands BVI (33.9% of total), China (28.1%), Cayman Islands (9.5%). the UK (8.3%) and Bermuda (5.9%).
As for the total stock of Hong Kong's outward direct investment, it decreased by 2.3% over a year earlier to USD 2'012 billion. The slight decrease in the total stocks of Hong Kong's inward DI and outward DI at the end of 2019 were mainly attributed to some significant corporate restructuring activities taking place in that year[26].

Mainland China and the 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 centers such as the BVI, Cayman Islands and Bermuda to Hong Kong's external direct investments was due to their popularity (factors including taxation reasons and relaxed regulatory control) 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

According to the latest figures available, Swiss direct investments in Hong Kong reached USD 12.23 billion (+3.4%) in 2019[27]. The Swiss share in foreign direct investments is rather stable. It accounted for about 0.6-0.8% (in average) of total foreign direct investments between 2000 and 2019.

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[25] Census & Statistics Department, Hong Kong

[26] Hong Kong Government Press Release, 11 Dec 2020, latest figures available at the time of editing.

[27] Hong Kong Census & Statistics Department

As of 2020, there were 53 regional headquarters, 92 regional offices and 106 local offices in Hong Kong representing parent companies located in Switzerland as well as using Hong Kong as a gateway for doing business with the mainland of China and the rest of Asia. 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.

5. Trade, economic and tourist promotion

5.1. Foreign economic promotion instruments

Swiss Business Hub Hong Kong

The Swiss Business Hub (SBH) aims 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 also actively promoting Switzerland as an investment hub.

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 https://www.swisscham.org/hongkong/about-us-2/

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 https://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 www.fhs.hk

Hong Kong Economic and Trade Office, Berlin

The Hong Kong Economic and Trade Office in Berlin (HKETO Berlin) is the official representation of the Hong Kong Special Administrative Region (HKSAR) to eight central and eastern European countries. Set up under the Basic Law of the HKSAR and the working principle “One Country, Two Systems”, its mission is to promote bilateral ties, particularly as regards economic, trade, investment and cultural matters, between Hong Kong and Germany, as well as Austria, the Czech Republic , Hungary, Poland, Slovakia, Slovenia and Switzerland https://www.hketoberlin.gov.hk/en/

5.2. Hong Kong’s interest in Switzerland

5.2.1. Tourism, education and other services

Switzerland Tourism for Hong Kong, Macao and South China has an office in Hong Kong. In 2020, the Swiss hotel industry recorded 23.7 million overnight stays, of which 24’606 overnight stays in total are from Hong Kong visitors[28]. Compared to 2019, this corresponds to a decrease of 99.9% (167’159). The reason for this slump is the extraordinary situation in connection with COVID-19, the limited entry to Switzerland for overseas visitors, and the strict and long quarantine measures of Hong Kong government for returning residents.

There were about 300 Hong Kong residents studying in Switzerland in 2020.

[28] Bundesamt für Statistik, Switzerland

5.2.2. Interests for Switzerland as a location for investment, potential for development

Switzerland as a location for international headquarters or research and development centres may be of interest to a limited number but well-established companies in Hong Kong.

5.2.3. Interests for Switzerland as a financial centre

The Hong Kong Monetary Authorities (HKMA) held a virtual dialogue with Switzerland in November 2020. Both parties discussed the latest development in sustainable finance and fintech, opportunities arising from Hong Kong's latest measures to support the development of the private equity industry and the various Connect schemes between Hong Kong and the Mainland of China and views on international co-operation issues including the work of the Bank for International Settlements Innovation Hub Centre and the Financial Stability Board were exchanged.

Switzerland, as a world leader in assets and wealth management, has a competitive edge in this sector and benefits from political stability and economic strength, service quality, know-how of its workforce and its renowned reputation. The rise of billionaire entrepreneurs and the super-rich in Asia, particularly in China, will present long-term growth opportunities for wealth management business, despite volatile global financial markets.

Appendices

1. Structure of the economy
2. Essential economic data
3. Trading partners
4. Bilateral trade between Switzerland and Hong Kong
5. Major investor countries

Appendix 1

Structure of Economy (latest available information*)

	2010	**2017**	**2018**	**2019***
Distribution of GDP*				
Primary Sector	0.1%	0.1%	0.1%	0.1%
Secondary Sector	7%	7.6%	6.8%	6.5%
Services	92.9%	92.3%	93.1%	93.4%
- of which public administration, social and personal services	16.8%	18.2%	18.4%	19.6%
Distribution of Employment	**2010**	**2018**	**2019**	**2020**
Primary Sector	0.1%	0.1%	0.1%	0.1%
Secondary Sector	11.6%	11.6%	11.3%	10.8%
Tertiary Sector	88.3%	88.3%	88.6%	89.1%
- of which public administration, social and personal services	25.6%	27.1%	28.2%	27.8%

*This set of figure for 2020 will only be available by Nov. 2021
Source: Hong Kong Census and Statistics Department

Appendix 2

Essential Economic Data

	2017	2018	2019	2020	2021
GDP (USD billion)	341.4	363.5	367.7	341.3	365**
GDP per capita (USD)	46'180	48'782	48'980	45'176	49'000*
GDP growth (%)	+3.8	+2.9	-1.2	--6.1	3.5-5.5*
Inflation (%)	+1.5	+2.4	+2.9	0.3	1.6*
Unemployment rate (%)	3.1	2.8	2.9	5.9	4.4**
Fiscal balance (% of GDP)	5.2	2.1	-1.3	-9.5*	3.6*
Current account balance (% of GDP)	4.6	3.7	6.3	6**	4.7**
General government external debt (% of GDP)	1	0.9	0.9	0.7	unavailable
Total external debt (% of GDP)	462	468	454	510	****
Debt-service ratio (% of exports)	***	***	***	***	***
Reserves (in months of imports)	36.8	33	41.30	50	unavailable

* HKSAR Government forecast

**IMF forecast

***HKSAR Government has not compiled this set of figures

**** Unavailable at the time of report

Sources: HKSAR Government, IMF

Appendix 3

Trading Partners 2020

Rank	Country/region	Exports from HK (USD millions)	Share (%)	Growth* (%)
1	China	298’014	59	5.1
2	USA	33’185	6.6	-14.9
3	Japan	14’017	2.8	-9.7
4	Taiwan	12’629	2.5	11.6
5	India	12’487	2.5	-17.6
6	Vietnam	10’831	2.2	5.3
7	Netherlands	8’288	1.7	-5.2
8	Singapore	7’612	1.5	-17.5
9	Germany	7’600	1.5	-14.5
10	Korea	6’700	1.3	-7.6
…	EU**	35’924	7	-22
22	**Switzerland**	**2’498**	**0.5**	**-42**
	Total	503’528	100	-1.5
Rank	**Country/region**	**Imports to HK (USD millions)**	**Share (%)**	**Growth* (%)**
1	China	246’607	45	-6.5
2	Taiwan	52’012	10	22.8
3	Singapore	40’275	7	8.1
4	Korea	31’688	6	12.3
5	Japan	30’767	6	-5
6	USA	22’398	4	-17.9
7	Malaysia	21’013	4	1.2
8	Vietnam	12’903	2	28.4
9	Thailand	11’084	2	1.4
10	Philippines	8’986	2	-0.1
…	EU**	25’123	4.5	-35.6
14	**Switzerland**	**6’115**	**1.1**	**-31.4**
	Total	547’404	100	-3.3

*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

**2020 figures for the EU excludes the UK

Appendix 4: Bilateral Trade Table

Bilateral trade Switzerland – Hong Kong

	Exports (CHF mio.)	Change %	Imports (CHF mio.)	Change %	Trade Balance	Volume (CHF mio.)
2016 (total 2)**	18’291	-25%	8’180	+208%	10’150	26’238
2016 (total 1)***	4’853	-15%	1’132	-17%	3’721	5’985
2017 (total 2)**	15’747	-14%	9’227	+13%	6’520	24’974
2017 (total 1)***	5’345	+10%	1’193	+5.4%	4’152	6’538
2018 (total 2)**	15’670	-0.5%	3’831	-59%	11’839	19’501
2018 (total 1)***	5’944	+11%	1’199	+0.4%	4’745	7’143
2019 (total 2)**	9’873	-37%	3’801	-0.8%	6’072	13’674
2019 (total 1)***	5’524	-7.1%	1’296	+8.1%	4’228	6’820
2020 (total 2)**	**5’953**	**-39.9%**	**11’309**	**198%**	**-5’357**	**17’262**
2020 (total 1)***	**3’625**	**-34.4%**	**1’242**	**-4.2**	**3’385**	**4’867**

* 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	2018 (% of total)	2019 (% of total)	2020 (% of total)
Jewellery, precious stones and precious metals	72	60	51.6
Watches and clocks	19	27	28.5
Chemical and pharmaceutical products	3	4.8	7.8
Machinery (electrical and non-electrical)	2.1	3.1	5.8

Imports	2018 (% of total)	2019 (% of total)	2020 (% of total)
Jewellery, precious stones and precious metals	86	86	96.4
Watches and clocks	8.7	8.6	2
Machinery (electrical and non-electrical)	2.5	2.6	0.8
Works of art and antiques	0.8	1	0.1

Source: Swiss Federal Customs Administration

Appendix 5

Major investor countries/regions 2019 (latest available information)

Rank	**Country/Region**	**Direct investments (USD billion)**	**Share (%)**	**Growth (%)**	**Direct Investment Inflow during the year (USD billion)**
1	British Virgin Islands	633	33.9%	0.6%	33
2	China	523	28.0%	-0.9%	41
3	Cayman Islands	177	9.5%	10.6%	5
4	UK	154	8.3%	-0.6%	3
5	Bermuda	110	5.9%	5.8%	5
6	USA	45	2.4%	21.6%	5
7	Singapore	42	2.3%	2.4%	5
8	Japan	28	1.5%	-9.7%	2
9	Thailand	27	1.4%	12.5%	7
10	Cook Islands	18	1.0%	12.5%	1
	European Union	178	9.5%	10.6%	22
*	**Switzerland**	**12**	**0.6%**	**3.4%**	**1**
	Total	1’865	100.0%	-5.4%	74

*unavailable

Remarks: Investment figures for 2020 will only be available by Dec. 2021

Source: Hong Kong Census & Statistics Department