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Annual Economic Report: Hong Kong 2018

Executive Summary

The Hong Kong economy grew by 3% for 2018 as a whole. Growth remained strong at 4.1% on a year-on-year basis in the first half of 2018 but decelerated to 2.8% in the third quarter and further to 1.3% in the fourth quarter of 2018 owing to the US-Mainland trade tensions and US interest rate hikes.

Hong Kong is the most important entrepôt of Mainland China. According to the HKSAR government statistics, 57% of re-exports were of China origin and 55% were destined for China in 2018. According to China's Customs statistics, Hong Kong is the fourth largest trading partner of China after the US, Japan and South Korea, accounting for 6.7% of its total trade in 2018. In 2017, Mainland China was the largest destination for Hong Kong's outward direct investment and the second largest investor country in Hong Kong.

Hong Kong is also a key offshore capital-raising centre for Chinese enterprises. As of December 2018, 1,146 mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies, with total market capitalisation of around US$2.6 trillion, or 68% of the market total. Since 1993, mainland companies have raised more than US$800 billion via stock offerings in Hong Kong.

In February 2019, the Central Government promulgated the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area. In March 2019, the Central Government introduced new policy measures for taking forward the development of the Greater Bay Area to facilitate Hong Kong residents to develop, work and reside in the Mainland cities of the Greater Bay Area, as well as strengthen the convenient flow of people and goods within the Greater Bay Area.

According to the Hong Kong Census and Statistics Department, Switzerland was Hong Kong's 11th largest supplier and 21st largest export market in 2018[1].

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 15,670 million (-0.5%) in 2018. Major Swiss exports included jewellery, precious metal, gold, silver and coins (72% of total, dropped by 5.3%, CHF 11,316 million in value), watches and clocks (19% of total, increased by 19%, CHF 3,001 million in value), chemical and pharmaceutical products (3% of total, increased by 15%, CHF 488 million in value) as well as electrical & non-electrical machinery (2.1% of total, rose by 0.6%, CHF 331 million in value).

Hong Kong's total exports to Switzerland amounted to CHF 3,831 million (-59%) in 2018. Major total exports included jewellery, precious metal, gold, silver and coins (86% of total, dropped by 62%, CHF

[1] Hong Kong official trade figures do not include trade in gold, silver and coins

3,281 million in value), watches and clocks (8.7% of total, increased by 16%, CHF 332 million in value), electrical & non-electrical machinery (2.5% of total, dropped by 7.8%, CHF 95 million in value) as well as textiles and garments (0.8% of total, increased by 4.8%, CHF 31 million in value).

Hong Kong has signed eight free trade agreements, respectively with the Mainland of China, New Zealand, the Member States of the European Free Trade Association EFTA (including Switzerland), Chile, Macao, the Association of Southeast Asia Nations (ASEAN), Georgia and Australia. Hong Kong has also concluded the Free Trade Agreement negotiation with Maldives.

Hong Kong has entered into Comprehensive Double Taxation Agreements / Arrangement (CDTAs) with 40 jurisdictions including Switzerland. There are 15 countries/territories which are still under negotiation. In addition, it has entered into Tax Information Exchange Agreements with 7 jurisdictions.

Hong Kong's network for tax information exchange has been expanded since the Convention on Mutual Administrative Assistance in Tax Matters came into force in Hong Kong on 1st September 2018. Consequently, the Inland Revenue (Amendment) (No. 2) Ordinance 2019 increased the number of reportable jurisdictions from 75 to 126 with effect from 1st January 2020.

As of April 2019, Hong Kong has activated automatic exchange of financial account information (AEOI) with 57 jurisdictions through bilateral Competent Authority Agreements (bilateral CAA) or Common Reporting Standard Multilateral Competent Authority Agreement (CRS MCAA). As Switzerland and Hong Kong have completed its domestic approval procedures, the AEOI agreement will enter into force on 1st June 2019.

According to the HKSAR Government, Hong Kong GDP increased by 0.6% in the first quarter of 2019 over a year earlier. The HKSAR Government forecasts the Hong Kong economy to grow by 2-3% in 2019. The near-term economic outlook of Hong Kong is subject to a high level of uncertainty. If US-China trade tensions do not show any easing in the near term, they would pose a drag on the global economy and the Hong Kong economy would inevitably face greater downward pressure. It would jeopardize its external trade, retail sales, investment expenditure, asset markets and financial markets.

1. Economic problems and issues

1.1 General overview of HK’s economy

The Hong Kong economy grew by 3% for 2018 as a whole. Growth remained strong at 4.1% on a year-on-year basis in the first half of 2018 amid the favourable global economic environment. Yet, alongside moderating global economic growth and increasing external uncertainties, particularly those stemming from the US-Mainland trade conflict and US interest rate hikes, the pace of growth decelerated to 2.8% in the third quarter and further to 1.3% in the fourth quarter of 2018.

Compiled under the GDP accounting framework, Hong Kong’s total exports of goods grew moderately by 3.5% whereas exports of services grew by 4.9% in 2018. Imports of goods and imports of services grew by 4.9% and 2.2% respectively. Domestic demand was broadly resilient in 2018. Private consumption expenditure grew notably by 5.6%. Overall investment spending in terms of gross domestic fixed capital formation grew modestly by 2.2% in 2018. Nevertheless, the labour market tightened further with unemployment rate dropping to 2.8% in 2018. At the same time, underlying consumer price inflation rose by 2.6%.

The external environment facing the Hong Kong economy in 2019 is challenging. Moderating growth in many of Hong Kong's key trading partners would weigh on its exports of goods and services, which had already experienced a sharp deceleration in the latter part of 2018. Trade relations between the Mainland and the US are a key source of uncertainty for Hong Kong's export outlook. On the positive side, inbound tourism is likely to sustain its uptrend. As for domestic demand, consumer sentiment has turned more cautious in recent months and may remain so in the near term amid moderating economic growth, though the full employment situation should continue to provide some support. Investment expenditure may also lose some momentum as business sentiment has become less sanguine in the face of various external uncertainties. The Hong Kong economy is forecast to grow by 2-3% in 2019. It is predicated on the assumption that the US-Mainland trade tensions would not escalate.

1.2 Economic integration with Mainland China

Hong Kong is the most important entrepôt of Mainland China. According to the HKSAR Government statistics, 57% of re-exports were of China origin and 55% were destined for China in 2018. According to China's Customs statistics, Hong Kong is the fourth largest trading partner of China after the US, Japan and South Korea, accounting for 6.7% of its total trade in 2018.

In 2017, Mainland China was the largest destination for Hong Kong's outward direct investment (US$ 695 billion or 38% of total) and the second largest investor country (US$ 496 billion or 25% of total) in Hong Kong.

Hong Kong is also a key offshore capital-raising centre for Chinese enterprises. As of December 2018, 1,146 mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies, with total market capitalisation of around US$2.6 trillion, or 68% of the market total. Since 1993, mainland companies have raised more than US$800 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 Mainland China, 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. In July 2017, the mutual bond market access between Hong Kong and Mainland China (Bond Connect) was launched to promote the development of the bond markets in the two places.

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.

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.

The concept of the Greater Bay Area (GBA)[2] dated back to 2011 and was officially endorsed in the annual government report by Premier Li Keqiang in March 2017. A framework agreement was signed by the National Development and Reform Commission and the governments of Guangdong, Hong Kong and Macao in July 2017. The GBA's eleven cities offer a wide spectrum of industries and services such as financial and professional services in Hong Kong, innovation and technology in Shenzhen as well as manufacturing capabilities in Dongguan and other cities across the Pearl River Delta.

In February 2019, the Central Government promulgated the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area. In March 2019, the Central Government introduced new policy measures for taking forward the development of the Greater Bay Area to facilitate Hong Kong residents to develop, work and reside in the Mainland cities of the Greater Bay Area, as well as strengthen the convenient flow of people and goods within the Greater Bay Area.

These measures include the method for calculating "183 days" for paying individual income tax on the Mainland (that is, any stay of less than 24 hours on the Mainland will not count as a day of presence); providing tax relief by municipal governments to non-Mainland (including Hong Kong) high-end talents and talents in short supply tax by offsetting the tax differential between the two places; supporting the open recruitment of Hong Kong and Macao residents by public institutions in the Greater Bay Area; encouraging innovation and entrepreneurship in the nine Mainland cities of the Greater Bay Area by the youth of Hong Kong and Macao; supporting higher education institutions and scientific research institutes from Hong Kong and Macao to participate in projects under Guangdong technology programmes; introducing immigration facilitation reform pilots schemes in the Greater Bay Area, facilitating vehicles from Hong Kong and Macao entering and exiting Mainland ports; and expanding the implementation scope of the connection with the Speedy Customs Clearance between Customs administrations.

Smooth cross-border movements of capital, talents, goods and services are essential for any success in the Greater Bay Area. However, they fall under different tax, legal, administrative systems and customs jurisdictions. Its potential success rests on the support of the Central Government, co-operation and co-ordination between local governments and efforts of cross-institutions. Local governments need to collaborate on various issues such as free flow of goods, people and capital, regulatory harmonisation, tax initiatives, infrastructural support as well as inter-city positioning and their comparative advantages.

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

1.3 Inbound Tourism

Tourism contributes 4.5% to GDP (in terms of value-added) and employs about 260,000 people (about 7% of total employment). It provides plenty of job opportunities particularly for low- and medium-skilled workers.

In 2018, overall visitor arrivals increased by 11% to about 65 million (including one-day tourists), equivalent to 8.7 times the size of Hong Kong population. Visitors from Mainland China, which accounted for 78% of the total, rose by 15% to 51 million. According to the Hong Kong Tourism Board, per capita spending of overnight visitors from all other countries in general was about US$ 848 while

[2] The Greater Bay Area (GBA) consists of the special administrative regions of Hong Kong and Macao as well as nine cities of the Pearl River Delta region: Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Dongguan, Zhongshan, Huizhou and Zhaoqing. With a population of 67.65 million residing across a total area of 56,500 sq km, this region is one of the most developed areas in China.

that of mainland overnight visitors was about US$ 900 in 2018. It is noteworthy that shopping accounted for about 61% of total spending of mainland overnight visitors whereas shopping represented about 13% and 17% of total spending of American and European overnight visitors respectively.

1.4 Public Finance

The public finance is very strong and healthy. Expenditure for the year ended March 31, 2019 amounted to about HK$532 billion and revenue about HK$600 billion, resulting in a surplus of HK$68 billion (US$8.7 billion). The overall fiscal position was more favourable than the original and revised estimates for the year. The fiscal reserves stood at US$150 billion or equivalent to 26 months of government expenditure as at 31st March, 2019.

For the financial year 2019-20, total government revenue is estimated to be HK$626 billion while total government expenditure is estimated to be HK$608 billion. After repayment of bonds and notes, a surplus of HK$16.8 billion is anticipated. Fiscal reserves are estimated to reach US$151 billion by the end of March 2020, representing 39.4% of GDP or equivalent to 23 months of government expenditure.

Financial Secretary Paul Chan forecast an annual surplus in the Consolidated Account for the coming five financial years. Fiscal reserves are estimated at US$157 billion by end-March 2024, representing 33.7% of GDP or equivalent to 19 months of government expenditure.

1.5 Linked Exchange Rate System

Since 1983 the Hong Kong dollar has been linked to the US dollar at the rate of HK$ 7.8 to one US dollar. It is in essence a Currency Board system, which requires both the stock and the flow of the Monetary Base to be fully backed by foreign reserves. The Hong Kong Monetary Authority (HKMA) operates Convertibility Undertakings on both the strong side (at HK$ 7.75 to one US dollar) and the weak side (at HK$7.85 to one US dollar) of the Linked Rate of HK$ 7.80 to one US dollar. Within the Convertibility Zone between 7.75 and 7.85, the HKMA may choose to conduct market operations consistent with Currency Board principles with the aim of promoting the smooth functioning of the money and foreign exchange markets.

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 signed eight free trade agreements, respectively with the Mainland of China (June 2003), New Zealand (March 2010), the Member States of the European Free Trade Association EFTA (including Switzerland) (June 2011), Chile (September 2012), Macao (October 2017), the Association of Southeast Asia Nations (ASEAN) (November 2017), Georgia (June 2018) and Australia (March 2019). 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 also concluded the Free Trade Agreement negotiation with Maldives.

Hong Kong has entered into Comprehensive Double Taxation Agreements / Arrangement (CDTAs) with 40 jurisdictions including Switzerland (which entered into force in October 2012). There are 15 countries/territories which are still under negotiation. In addition, it has entered into Tax Information Exchange Agreements with 7 jurisdictions.

Hong Kong's network for tax information exchange has been expanded since the Convention on Mutual Administrative Assistance in Tax Matters came into force in Hong Kong on 1st September 2018. Consequently, the Inland Revenue (Amendment) (No. 2) Ordinance 2019 increased the number of reportable jurisdictions from 75 to 126 with effect from 1st January 2020.

As of April 2019, Hong Kong has activated automatic exchange of financial account information (AEOI) with 57 jurisdictions through bilateral Competent Authority Agreements (bilateral CAA) or Common Reporting Standard Multilateral Competent Authority Agreement (CRS MCAA). As Switzerland and Hong Kong have completed its domestic approval procedures, the AEOI agreement will enter into force on 1st June 2019.

Furthermore, Hong Kong has signed investment promotion and protection agreements with 20 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, Thailand and the ASEAN. It concluded negotiation (pending signing) with Bahrain, Maldives, Mexico, Myanmar and United Arab Emirates while negotiation with Iran, Russia and Turkey 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 2018.

A new agreement signed between the Hong Kong SAR Government and the Ministry of Commerce under the framework of the CEPA in December 2018. It consolidates and updates the commitments on liberalisation and facilitation of trade in goods under CEPA, and further enhances the level of liberalisation for trade in goods under CEPA. Starting from January 2019, goods of Hong Kong origin imported into the Mainland will fully enjoy zero tariff through the enhanced arrangement for rules of origin (ROOs). In addition to the existing product-specific ROOs (PSRs), a general ROO based on the calculation of the value added to the products in Hong Kong is introduced under the Agreement, thus allowing products currently without PSRs to instantly enjoy zero tariff upon importation into the Mainland subject to the fulfilment of the general ROO.

For more details on CEPA, please consult the website of the Trade and Industry Department of the HKSAR Government (https://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 rose by 7.3% to about US$ 533 billion in 2018. Major export markets were China (55% of total exports), the US (8.6%), India (3.2%), Japan (3.1%) and Taiwan (2.1%). Major export products were electrical machinery & apparatus (38%), telecom equipment (19%), office machines/computers (11%) and jewellery (5.6%).

Imports increased to about US$ 605 billion (+8.4%) in 2018. Major supplier countries were China (46% of total imports), Taiwan (7.2%), Singapore (6.7%), Republic of Korea (5.9%) and Japan (5.5%). Major import products were electrical machinery & apparatus (37%), telecom equipment (16%), office machines/computers (8.9%) and jewellery (5.8%).

Regulations: Hong Kong is a free port and there is no tariff on general imports except duty on strong liquors, tobacco, hydrocarbon oil and methyl alcohol.

There are no regulatory measures impinging on international trade other than those required to discharge international obligations or to protect health, environment and access to hi-technology.

3.1.2 Trade in services

Exports of services increased to US$ 104 billion (+6.3%) in 2017 (latest available information[3]). Major items included: travel (32% of total exports of services, increased by 1.9%), transport (29% of total exports of services, increased by 8.6%), financial services (20% of total exports of services, increased by 15%), other business services (14% of total exports of services, increased by 3.7%) as well as telecommunication and information services (2.7% of total exports of services, dropped by 0.3%).

In 2017, exports of services by main destinations were China (40% of total, increased by 4.7%), the US (14% of total, increased by 5.8%), the UK (8.2% of total, increased by 5.6%), Japan (4.3% of total, increased by 8.1%) and Singapore (4.2% of total, increased by 9.6%).

Import of services amounted to US$ 77.6 billion (+4.7%) in 2017. Major items included: travel (33% of total imports of services, increased by 5.6%), transport (23% of total imports of services, increased by 3.7%), other business services (15% of total imports of services, increased by 2.6%), manufacturing services (15% of total imports of services, increased by 3.5%), financial services (7% of total imports of services, increased by 16%), telecommunication and information services (2.5% of total exports of services, no significant variation) as well as charges for the use of intellectual property (2.5% of total imports of services, rose by 2.6%).

[3] Trade in services figures for 2018 will only be available by Feb. 2020.

In 2017, imports of services by main sources were China (38% of total, increased by 3.2%), the US (11% of total, increased by 0.9%), Japan (8.4% of total, grew by 8.8%), the UK (5.8% of total, increased by 4.6%) and Singapore (4.3% of total, increased by 5.4%).

3.2 Bilateral trade

3.2.1 Trade in goods

According to the Hong Kong Census and Statistics Department, Switzerland was Hong Kong's 11th largest supplier and 21st largest export market[4] in 2018.

According to the Swiss Federal Customs Administration, Swiss exports to Hong Kong totalled CHF 15,670 million (-0.5%) in 2018. Major Swiss exports included jewellery, precious metal, gold, silver and coins (72% of total, dropped by 5.3%, CHF 11,316 million in value), watches and clocks (19% of total, increased by 19%, CHF 3,001 million in value), chemical and pharmaceutical products (3% of total, increased by 15%, CHF 488 million in value) as well as electrical & non-electrical machinery (2.1% of total, rose by 0.6%, CHF 331 million in value).

Hong Kong's total exports to Switzerland amounted to CHF 3,831 million (-59%) in 2018. Major total exports included jewellery, precious metal, gold, silver and coins (86% of total, dropped by 62%, CHF 3,281 million in value), watches and clocks (8.7% of total, increased by 16%, CHF 332 million in value), electrical & non-electrical machinery (2.5% of total, dropped by 7.8%, CHF 95 million in value) as well as textiles and garments (0.8% of total, increased by 4.8%, CHF 31 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 2018, Swiss exports to Mainland China (CHF 29,585 million in value) and Hong Kong (CHF 15,670 million in value) accounted for 14.9% of global Swiss exports. On the other hand, Swiss imports from China and Hong Kong reached to CHF 14,431 million and CHF 3,831 million respectively. Switzerland got a trade surplus worth CHF 26,993 million.

It is 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$ 3,418 million were re-exported via Hong Kong to other countries and notably to China (US$ 756 million, increased by 0.9%) and Macao (US$ 835 million, increased by 26%) in 2018. Major Swiss products via Hong Kong to China were watches and clocks (US$ 312 million), measuring instruments (US$ 122 million), semi-conductors, electronic valves & tubes (US$ 48 million) as well as jewellery and goldsmiths' wares (US$ 31 million). Major Swiss products via Hong Kong to Macao were watches and clocks (US$ 728 million), jewellery and goldsmiths' wares (US$ 54 million), perfumery, cosmetics or toilet preparations (US$ 26 million) and medicaments (US$ 13 million).

[4] Hong Kong official trade figures do not include trade in gold, silver and coins

According to the Hong Kong Census and Statistics Department, products of Chinese origin worth US$ 1,574 million were re-exported to Switzerland via Hong Kong in 2018. Major products were watches and clocks (US$ 690 million), telecom equipment (US$ 200 million), jewellery and goldsmiths' wares (US$ 95 million), semi-conductors, electronic valves & tubes (US$ 71 million) and footwear (US$ 56 million).

Outlook for Swiss exports to Hong Kong

The economy growth of Hong Kong has slowed down since mid-2018 and its economic outlook for 2019 is subject to notable challenges. According to the HKSAR Government, Hong Kong GDP increased by 0.6% in the first quarter of 2019 over a year earlier. The moderation in growth was due to the weaker performance of the global economy and the various external headwinds. Private consumption expenditure increased marginally by 0.2% in the first quarter of 2019 over a year earlier. Overall investment expenditure continued to fall by 7.1% as business sentiment has turned cautious since the latter part of last year. In the first quarter of 2019, the value of total exports of goods decreased by 2.4% over the same period in 2018. Concurrently, the value of imports of goods decreased by 3.2%. Nevertheless, the labour market remained tight with unemployment rate at 2.8%.

For the first quarter of 2019 as a whole, year-on-year decreases were registered in the values of imports of some principal commodity divisions, in particular "electrical machinery, apparatus and appliances, and electrical parts thereof" (-7.7%), "office machines and automatic data processing machines" (-7.4%) and "non-metallic mineral manufactures" (-3.5%). However, a year-on-year increase was registered in the value of imports of "miscellaneous manufactured articles (mainly jewellery, goldsmiths' and silversmiths' wares)" (+5.7%).

While the HKSAR Government forecasts the Hong Kong economy to grow by 2-3% in 2019, there are some downside risks. If the US-Mainland trade tensions drag on or even intensify, it will affect consumer sentiment as well as spending's of mainland tourists and hence Swiss luxury products selling in Hong Kong.

The HKSAR Government is keen to push innovation and technology as a new economic driver for Hong Kong. It will offer business opportunities to Swiss companies which are active in these sectors such as biotechnology, artificial intelligence, smart city and financial technology.

For the Swiss economy, Hong Kong remains a highly important market, especially for the watch and luxury good industry, the financial industries as well as for regional headquarters for Asia Pacific.

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$ 1,043 million (1% of total exports of services, dropped by 13%) in 2017[5]. Switzerland ranked 17th largest market for Hong Kong's exports of services. It consisted of transport (US$ 248 million), other business services (US$ 401 million), financial services (US$ 267 million) as well as telecommunication and information services (US$ 73 million). Figures on travel, construction, insurance and government goods and services were unavailable due to confidentiality of information relating to individual establishments.

[5] The trade in services figures for 2018 will only be available by Feb. 2020.

Hong Kong's imports of services from Switzerland reached to US$ 452 million (0.6% of total imports of services, increased by 1.7%) in 2017. Switzerland ranked 19th largest supplier in this category. It consisted of travel (US$ 121 million), transport (US$ 78 million), charges for the use of intellectual property (US$ 71 million), financial services (US$ 81 million), other business services (US$ 50 million), insurance services (US$ 26 million) as well as 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 2017 (latest available information)[6], the stock of Hong Kong's inward direct investments rose by 20% to US$ 1,947 billion. Major investor countries were the British Virgin Islands BVI (US$ 638 billion or 33% of total, increased by 15%), China (US$ 496 billion or 25% of total, increased by 19%), Cayman Islands (US$ 153 billion, 7.9% of total, increased by 23%). the Netherlands (US$ 113 billion or 5.8% of total, increased by 11%) and Bermuda (US$ 84 billion or 4.3% of total, rose by 12%).

Mainland China was the largest destination for Hong Kong's outward direct investment (US$ 695 billion or 38% of total) in 2017. Guangdong Province remained a popular location for Hong Kong's outward direct investments in China, accounting for 27% (or US$ 184 billion) of Hong Kong's total outward direct investment in China. The British Virgin Islands BVI ranked the second (US$ 626 billion or 35% of total). Cayman Islands ranked the third (US$ 70 billion or 3.8% of total) while Bermuda ranked the fourth (US$ 37 billion, 2% 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.

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$ 11.3 billion (0.6% of total, dropped by 11%) in 2017[7].

The Swiss share in foreign direct investments remains rather stable. It accounted for about 0.6-0.8% (in average) of total foreign direct investments between 2000 and 2017.

[6] Investment figures for 2018 will only be available by Dec. 2019.
[7] Bilateral investment figures for 2018 will only be available by Dec. 2019.

As at 1st June 2018, there were 235 Swiss companies operating in Hong Kong: 54 regional headquarters, 83 regional offices and 98 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 2017 is not available. The Department also added that due to precision consideration, statistics of outward direct investment of Hong Kong to Switzerland for 2017 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 now also actively promoting Switzerland as an investment hub in the centre of Europe.

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 http://cn.swisscham.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 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. For details, please visit its website www.fhs.hk.

5.2 Interests for Switzerland as a location for tourism, education and other services, potential for development

Switzerland Tourism ST

Switzerland Tourism organises media trips, travel talks in the media and travel seminars on regular basis. All the above activities help to promote Switzerland in excellent image and top quality branding. ST Hong Kong promotes Switzerland's tourist industry in Hong Kong, Macao and Southern China.

5.3 Interests for Switzerland as a location for investment, potential for development

Some Hong Kong companies have acquired Swiss watchmakers and producers of watch movements as means to extend marketing and distribution network, and/or to gain access to better technology and designs.

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.

RMB customer deposits and outstanding certificates of deposit in Hong Kong increased to RMB 657.7 billion (+6.4% year-on-year) at end-2018.

Hong Kong is the global hub for trade settlement in renminbi, serving both local and overseas banks and companies. In 2018, renminbi trade settlement handled by banks in Hong Kong rose to RMB 4.2 trillion (+7.5% year-on-year).

On offshore RMB financing, the outstanding balance of RMB loans dropped to RMB 106 billion (-27% year-on-year) at end-2018. As for financing activities, offshore renminbi bond issuance regained momentum, increasing more than twofold to RMB41.9 billion in 2018.

Daily average turnover of Hong Kong's renminbi Real Time Gross Settlement (RTGS) system amounted to RMB1,010 billion, whilst the Society for Worldwide Interbank Financial Telecommunication SWIFT statistics showed that Hong Kong's share of global renminbi payments stood at about 70%.

In November 2018, the PBoC issued offshore bills of RMB20 billion for the first time in Hong Kong, expanding the spectrum of high-quality renminbi assets and improving the yield curve of renminbi bonds in Hong Kong. Together, these developments demonstrate Hong Kong's leading position as the global hub for offshore renminbi business.

As mentioned in 1.2, Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect were launched in November 2014 and December 2016 respectively. For the southbound trading, the annual trade turnover increased to HK$ 2,834 billion (+25% year-on-year) in 2018. As regards the northbound trading, the annual trade turnover increased to RMB 4,674 billion (+105% year-on-year) in 2018.

In July 2017, northbound trading of Bond Connect was launched, allowing overseas investors to invest in the Mainland interbank bond market. Since its introduction, Bond Connect has become an important channel through which international investors gain exposure to the Mainland bond market while taking advantage of the market infrastructure and financial services in Hong Kong. As at end-2018, 503 investors had registered as eligible Bond Connect investors. Daily turnover averaged RMB 3.6 billion in 2018, compared with RMB 1.5 billion during its initial launch in July 2017.

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. 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.

Switzerland and Hong Kong agreed to strengthen bilateral cooperation in the area of financial markets and to exchange views on international financial and tax matters. The Swiss State Secretariat for International Financial Matters and the Hong Kong Monetary Authority (HKMA) signed a Memorandum of Understanding (MoU) in January 2018. It serves as the basis for regular financial dialogue and sets out the two parties' willingness to strengthen financial markets cooperation, including in the area of RMB internationalisation, wealth management, infrastructure financing and international financial matters. The Swiss Financial Market Supervisory Authority also signed a MoU with the HKMA to enhance fintech collaboration with a view to facilitating financial innovation in the two places. Another MoU was signed by the Hong Kong Private Wealth Management Association and the Swiss Bankers Association to further collaborate to promote the development of private wealth management in Switzerland 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	2016	2017
Distribution of GDP			
Primary Sector	0.1%	0.1%	0.1%
Secondary Sector	7.8%	7.7%	7.6%
Services	92.1%	92.2%	92.3%
- of which public administration, social and personal services	18.2%	18.1%	18.2%
Distribution of Employment			
Primary Sector	0.2%	0.1%	0.1%
Secondary Sector	11.8%	11.6%	11.7%
Tertiary Sector	88%	88.3%	88.2%
- of which public administration, social and personal services	25.2%	26.8%	26.7%

*This set of figure for 2018 will only be available by Nov. 2019
Source: Hong Kong Census and Statistics Department

Appendix 2

Essential Economic Data

	2016	2017	2018	2019*
GDP (USD billion)	319.3	341.4	364.8	382
GDP per capita (USD)	43,500	46,180	48,958	50,542
GDP growth (%)	+2.1	+3.8	+3	+2.7
Inflation (%)	+2.4	+1.5	+2.4	+2.4
Unemployment rate (%)	3.4	3.1	2.8	2.8
Fiscal balance (% of GDP)	3.7	5.2	2.1	0.6
Current account balance (% of GDP)	3.9	4.6	3.5	3.2
General government gross debt (% of GDP)	0.06	0.06	0.05	unavailable
Debt-service ratio (% of exports)	**	**	**	**
Reserves (in months of imports)	36	36.8	32.7	unavailable

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

Sources: HKSAR Government, IMF

Appendix 3

Trading Partners 2018

Rank	Country/region	Exports from HK (USD millions)	Share (%)	Growth* (%)
1	China	293,244	55	+8.6
2	USA	45,743	8.6	+8.1
3	India	17,223	3.2	-15
4	Japan	16,579	3.1	+0.7
5	Taiwan	11,048	2.1	-3.6
6	Vietnam	10,670	2	+4.5
7	Germany	9,757	1.8	+3
8	Netherlands	9,143	1.7	+12
9	Singapore	8,865	1.7	+13
10	Thailand	7,767	1.5	+12
	EU	48,808	9.2	+9.7
21	**Switzerland**	**3,662**	**0.7**	**+11**
	Total	533,091	100	+7.3
Rank	**Country/region**	**Imports to HK (USD millions)**	**Share (%)**	**Growth* (%)**
1	China	280,291	46	+7.7
2	Taiwan	43,390	7.2	+2.7
3	Singapore	40,273	6.7	+9
4	Korea Rep	35,681	5.9	+10
5	Japan	33,329	5.5	+2.6
6	USA	29,632	4.9	+8.1
7	Malaysia	24,242	4	+65
8	India	11,846	2	-14
9	Thailand	11,809	2	+2.8
10	Philippines	9,888	1.6	+1.1
	EU	40,000	6.6	+3.9
11	**Switzerland**	**8,944**	**1.5**	**+24**
	Total	605,308	100	+8.4

*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)**	18’291	-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**

* 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	2017 (% of total)	2018 (% of total)
Jewellery, precious stones and precious metals	76	72
Watches and clocks	16	19
Chemical and pharmaceutical products	2.8	3
Machinery (electrical and non electrical)	2.1	2.1

Imports	2017 (% of total)	2018 (% of total)
Jewellery, precious stones and precious metals	94	86
Watches and clocks	3.1	8.7
Machinery (electrical and non electrical)	1.1	2.5
Textiles and garments	0.3	0.8

Source : Swiss Federal Customs Administration

Appendix 5

Major investor countries/regions 2017 (latest available information)

Rank	Country/Region	Direct investments (USD billion)	Share (%)	Growth (%)	Direct Investment Inflow during the year (USD billion)
1	British Virgin Islands	638	33%	+15%	42
2	China	496	25%	+19%	23
3	Cayman Islands	153	7.9%	+23%	21
4	Netherlands	113	5.8%	+11%	-0.2
5	Bermuda	84	4.3%	+12%	2.3
6	Singapore	49	2.5%	+31%	11
7	USA	42	2.2%	+3.9%	1.5
8	UK	37	1.9%	+2.8%	-1.9
9	Japan	32	1.6%	+14%	2.1
10	Taiwan	13	0.7%	-7%	-0.6
	European Union	171	8.8%	+9.6%	-1.9
*	**Switzerland**	**11.3**	**0.6%**	**-11%**	**0.1**
	Total	1,947	100 %	+20%	111

*unavailable
Remarks: Investment figures for 2018 will only be available by Dec. 2019

Source: Hong Kong Census & Statistics Department