

# Trade and Industry

Hong Kong is an international business and trade hub with many fundamental strengths, including a level playing field for businesses, rule of law, simple and low tax regime, free flow of capital and information, highly efficient markets, superb geographical location, world-class commercial infrastructure, etc. As provided for in the Basic Law, Hong Kong is a separate customs territory and may participate in relevant international organisations and trade agreements using the name "Hong Kong, China".

**Economic and Commercial Policies:** Hong Kong follows the economic policies of free enterprise and free trade. There are no import tariffs, while excise duties are levied on four types of commodities, namely liquors with alcoholic strength more than 30 per cent by volume, tobacco (except smokeless tobacco and alternative smoking products), hydrocarbon oil (motor spirit, aircraft spirit and light diesel oil) and methyl alcohol, for domestic consumption, irrespective of whether they are imported or locally manufactured. Tax is payable on the first registration of motor vehicles in Hong Kong.

The multilateral trading system under the World Trade Organization (WTO) is the cornerstone of Hong Kong's trade policy. As one of the most externally-oriented and open economies in the world, Hong Kong embraces the globalisation of trade and services and is an active member of the WTO, under the name of "Hong Kong, China".

Under "one country, two systems", Hong Kong benefits from the deepening of economic reform in the Mainland, and opportunities brought about by the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area.

**Trade in Goods:** The total value of all trade in goods in 2022 was HK\$9,459.1 billion, a decrease of 7.9 per cent compared with 2021.

	Value of trade (HK\$ million)				
	2018	2019	2020	2021	2022
Imports	4,721,399	4,415,440	4,269,752	5,307,792	4,927,467
Domestic exports	46,294	47,751	47,442	74,531	62,645
Re-exports	4,111,812	3,940,935	3,880,075	4,886,125	4,469,004

**Imports:** The main items include electrical machinery, apparatus and appliances, and electrical parts thereof (45.7 per cent of Hong Kong's total imports in 2022); telecommunications and sound recording and reproducing apparatus and equipment (11.3 per cent); office machines and automatic data processing machines (8.4 per cent); non-metallic mineral manufactures (3.4 per cent) and jewellery, goldsmiths' and silversmiths' wares, and other articles of precious or semi-

precious materials (3.1 per cent). The principal suppliers were the Mainland (42.2 per cent), Taiwan (11.9 per cent), Singapore (8.1 per cent), Korea (5.9 per cent) and Japan (4.9 per cent).

**Domestic Exports:** The main items include jewellery, goldsmiths' and silversmiths' wares, and other articles of precious or semi-precious materials (29.5 per cent of Hong Kong's total domestic exports in 2022); non-ferrous metals (9.2 per cent); and medicinal and pharmaceutical products (7.8 per cent). The major markets were the Mainland (37.1 per cent), the United States of America (11.9 per cent), Taiwan (10.5 per cent), Switzerland (6.0 per cent) and Singapore (4.3 per cent).

**Re-exports:** The principal items include electrical machinery, apparatus and appliances, and electrical parts thereof (49.7 per cent of Hong Kong's total re-exports in 2022); telecommunications and sound recording and reproducing apparatus and equipment (12.2 per cent); office machines and automatic data processing machines (10.9 per cent); non-metallic mineral manufactures (3.9 per cent) and professional, scientific and controlling instruments and apparatus (3.5 per cent). The main markets were the Mainland (57.0 per cent), the United States of America (6.4 per cent), India (3.8 per cent), Taiwan (3.3 per cent) and Viet Nam (2.5 per cent).

**Trade in Services:** With the remarkable structural transformation over the past few decades, the services sector has gained much prominence in the Hong Kong economy. In 2021, the services sector constituted a share of 93.7 per cent of Hong Kong's Gross Domestic Product (GDP). Key services sub-sectors in Hong Kong include financing and insurance (accounted for 21.3 per cent of Hong Kong's GDP in 2021), followed by public administration, social and personal services (20.5 per cent), the import/export, wholesale and retail trades (19.4 per cent) and real estate, professional and business services (9.1 per cent).

The total value of trade in services in 2022 was HK\$1,143.1 billion<sup>p</sup>, increasing by 4.4 per cent from 2021. Hong Kong has consistently been a net exporter of services. In 2022, Hong Kong exported HK\$649.3 billion worth of services, bearing a ratio of 23.0 per cent to Hong Kong's GDP, compiled based on the change of ownership principle.

The services sector constituted a share of 88.4 per cent of total employment in 2022.

**Trade and Industry Department:** The Trade and Industry Department (TID) handles Hong Kong's commercial relations with its trading partners, coordinates Hong Kong's participation in the WTO, the Asia-Pacific Economic Cooperation, the

<sup>p</sup> "Preliminary figure".

Organisation for Economic Co-operation and Development's Trade Committee, and the Pacific Economic Cooperation Council using the name "Hong Kong, China", and is committed to promoting and protecting Hong Kong's trading rights and trade interests.

TID has been working closely with the Mainland to introduce further liberalisation measures continually under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), and actively pursuing Free Trade Agreements (FTAs) and Investment Promotion and Protection Agreements (IPPPAs) with Hong Kong's trading partners, so as to secure more favourable conditions for Hong Kong's exports of goods and services as well as for Hong Kong investors' overseas investments.

Domestically, the department provides local business with various import and export licensing, registration and Certificate of Origin services. It offers general support services to business enterprises, in particular small and medium enterprises (SMEs), e.g. through administering various funding schemes. It also provides local enterprises with information on changes in major trading partners' import regulations.

**Industry and Commerce:** Hong Kong is the management control centre of a region-wide production network and a prominent international and regional services hub. It is also one of the world's leading exporters of a wide range of consumer goods.

**The Manufacturing Sector:** Since the 1980s, Hong Kong's manufacturing sector has gradually relocated labour-intensive production operations from Hong Kong to the Mainland or other economies in the Asia-Pacific region with lower production costs. At the same time, more resources have been allocated to high-tech and high value-added activities.

In 2021, manufacturing accounted for 1.0 per cent of the GDP. In 2022, employment in manufacturing took up 2.1 per cent of the total employment.

Hong Kong's manufacturing enterprises are mainly SMEs. Of the 7 845 manufacturing business units in end 2022, 98.7 per cent engaged fewer than 100 persons.

**The Services Sector:** The rapid growth of Hong Kong's services sector in the past few decades has made it one of the most service-oriented economies in the world. In 2021, the services sector constituted 93.7 per cent of Hong Kong's GDP.

In 2022, 88.4 per cent of the total employment were engaged in services sector. Like manufacturing, the majority (98.6 per cent) of the 357 493 service business units in end 2022 were SMEs (engaging fewer than 50 persons).

**CEPA:** CEPA is the first FTA concluded by the Mainland and Hong Kong respectively. It was signed in 2003 and fully implemented on January 1, 2004. Since then, the two sides have been expanding the scope and content of CEPA for achieving progressive liberalisation and facilitation of trade and investment.

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<sup>1</sup>EFTA comprises Iceland, Liechtenstein, Norway and Switzerland.

Under the CEPA framework, there are four subsidiary agreements covering different areas: (1) For trade in goods, all Hong Kong products meeting the CEPA rules of origin can enjoy zero-tariff preference upon importation into the Mainland. To deepen the liberalisation and facilitation of trade in goods between the two sides, the CEPA Agreement on Trade in Goods has four dedicated Chapters on "Customs Procedures and Trade Facilitation", "Sanitary and Phytosanitary Measures", "Technical Barriers to Trade" and "Trade Facilitation Measures in the Guangdong-Hong Kong-Macao Greater Bay Area". (2) For trade in services, the two sides have basically achieved liberalisation of trade in services. Under the CEPA Agreement on Trade in Services, Hong Kong service suppliers can enjoy preferential access in most service sectors in the Mainland market. A series of amendments to the CEPA Agreement on Trade in Services have been implemented since June 1, 2020, further opening the Mainland market to Hong Kong service suppliers. (3) For investment, the CEPA Investment Agreement provides that Hong Kong investors can enjoy investment protection and facilitation in the Mainland. (4) Under the CEPA Agreement on Economic and Technical Cooperation, the two sides are committed to enhancing cooperation in 22 areas to cater for the trend and needs for the development of the two places and promote the cooperation in the economic and trade areas of the "Belt and Road" Initiative and Guangdong-Hong Kong-Macao Greater Bay Area, with a view to setting the direction for closer cooperation in future.

**FTAs:** To assist Hong Kong enterprises in diversifying markets and securing better market access, the Government has been actively pursuing FTAs with Hong Kong's trading partners. In addition to the CEPA with the Mainland, Hong Kong has signed seven FTAs respectively with New Zealand, the Member States of the European Free Trade Association (EFTA)<sup>1</sup>, Chile, Macao, the Association of Southeast Asian Nations (ASEAN)<sup>2</sup>, Georgia and Australia.

**IPPPAs:** IPPPs help provide additional assurance to overseas investors that their investments in Hong Kong are protected, and enable Hong Kong investors to enjoy reciprocal protection in respect of their investments overseas. So far, Hong Kong has signed 22 IPPPs with foreign economies, with a geographic coverage over the Asia-Pacific region, Europe, Middle East, North America and South America.

**Government Support for Industry and SMEs:** In the context of the free market and free enterprise economic framework, the Government strives to provide a business-friendly environment for manufacturing and services sectors. This includes macroeconomic stability, a low and simple tax regime, provision of an excellent infrastructure, investment in education, training and human resources, and the effective protection of individual and intellectual property rights through Hong Kong's sound legal system.

SMEs are an important driving force in Hong Kong's economic development. As at December 2022, there were

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<sup>2</sup> ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

about 362 000 SMEs in Hong Kong. They constituted over 98.5 per cent of the territory's business units and accounted for about 44.4 per cent of private sector employment. The Government attaches great importance in supporting the development of SMEs.

TID operates various funding schemes to support the development of Hong Kong enterprises, in particular SMEs. These include the SME Export Marketing Fund (EMF), the Dedicated Fund on Branding, Upgrading and Domestic Sales (the BUD Fund), and the Trade and Industrial Organisation Support Fund, which assist enterprises in exploring markets and enhancing overall competitiveness.

In 2023, the Government injected \$500 million to the BUD Fund, increasing the commitment to a total of \$6.5 billion. Eligible enterprises enjoy an increased cumulative funding ceiling of \$7 million. "Easy BUD" was launched in June 2023 to expedite the processing of applications to enable more enterprises to make use of the BUD Fund to develop their business. Besides, the EMF has also been enhanced, including further increasing the cumulative funding ceiling per enterprise to \$1 million, and extending the special measure, which was originally scheduled to be effective for a period of two years and end in April 2023, to end in June 2026 so as to continue expanding the funding scope to cover exhibitions targeting the local market and online exhibitions, as well as relaxing the eligibility criteria to cover non-SMEs. As at May 2023, the total amount of grants approved under the BUD Fund and the EMF are \$3,670 million and \$4,762 million respectively.

In addition to funding support, the TID operates the Support and Consultation Centre for SMEs (SUCCESS) to provide free support services to SMEs in collaboration with industrial and trade organisations, professional bodies and other government departments. SUCCESS provides information on government business licensing requirements and updates on SME-related activities and facilities, organises seminars and workshops, and provides the "Meet-the-Advisors" Business Advisory Service.

With a view to providing SMEs with more convenient and tailored support services, the Government has consolidated the services of the existing SME centres, including SUCCESS under TID, the SME Centre under the Hong Kong Trade Development Council, SME One under the Hong Kong Productivity Council and the TecONE under the Hong Kong Science and Technology Parks Corporation, to provide "4-in-1" integrated services so that SMEs can obtain the necessary information on all government funding schemes at any service point. Besides, the "SME Link", a one-stop web portal, commenced operation in June 2022 to further enhance the "4-in-1" integrated services whereby SMEs could access comprehensive information and support services, including information on various government funding schemes and SME support services, from a single online platform.

To step up support service for SMEs on funding applications, a dedicated service team entitled "SME ReachOut" has commenced operation since January 2020 to help SMEs identify suitable funding schemes and provide direct support to SMEs who wish to apply for funding schemes through face-to-face or online meetings. Starting from October 2023, the services of "SME ReachOut" would be enhanced by for example providing SMEs with capacity building services.

The Small and Medium Enterprises Committee (SMEC) provides a platform for the Government to gauge the trade's views on issues affecting the development of SMEs and suggestions to support and facilitate SMEs' development and growth, while the Trade and Industry Advisory Board (TIAB) advises the Government on matters affecting Hong Kong's trade and industry. Members include businessmen, professionals, bankers, academics, representatives from organisations that provide support to SMEs and government officials.