The Mainland of China and Hong Kong Special Administrative Region

Some Important Facts

OVERVIEW

The Hong Kong Special Administrative Region (HKSAR) of the People’s Republic of China is firmly committed to an open market policy. This policy applies to all trade, as well as to all investments in the HKSAR.

Hong Kong has become a Special Administrative Region of the People’s Republic of China since 1 July 1997. The “One Country, Two Systems” principle provides the HKSAR with a high degree of autonomy in economic, trade, financial and monetary matters. This is guaranteed by the Basic Law, which ensures that the important elements making Hong Kong an international financial centre are extended well beyond 1997. These include continuation of the capitalist economic and trade systems, free movement of goods and capital, and status as a free port and separate customs territory. Tariff preferences and other similar arrangements obtained or made by the HKSAR are enjoyed exclusively by the HKSAR. The Basic Law also provides that the HKSAR may participate in relevant international organizations and international trade agreements using the name “Hong Kong, China”.

In 1986, Hong Kong became a separate contracting party to the General Agreement on Tariffs and Trade (GATT). Upon the establishment of the World Trade Organization (WTO) on 1 January 1995, Hong Kong became one of its founding members. Hong Kong also became a member of the Customs Cooperation Council (subsequently renamed the World Customs Organization) in 1987 and the Asia Pacific Economic Cooperation in 1991. The status of the HKSAR in these and other international organizations remains unchanged except that our participation is now under the name “Hong Kong, China”.

HONG KONG'S ECONOMY IN 2007

The Hong Kong economy is externally oriented and highly dependent on trade with the rest of the world. In 2007, the value of Hong Kong's total merchandise trade reached
HK$5,555.5 billion (US$712.2 billion), or around 344% of the Gross Domestic Product (GDP) in that year. The value of imports amounted to HK$2,868.0 billion (US$367.6 billion) or around 177% of GDP. The value of exports was HK$2,687.5 billion (US$344.5 billion) or around 166% of GDP. Hong Kong was the world's 12th largest trading entity in goods in 2007(Note 1) - 12th largest importer and 13th largest exporter.

The services sector continues to be very important to the Hong Kong economy. It contributed to 91% of the GDP in 2006 and accounted for 87% of the total employment in 2007. Hong Kong's trade in services grew steadily in the past decade. Total trade in services amounted to HK$973.5 billion (US$124.8 billion) or about 60% of GDP in 2007. In the same year, Hong Kong ranked 16th in the world league of commercial services trading entities - 19th largest importer and 12th largest exporter according to the latest report published by the WTO.

FACT 1:

HONG KONG AND THE MAINLAND OF CHINA ARE EACH OTHER’S MAJOR TRADING PARTNERS

- Since the Mainland embarked on its modernization programme, its share of Hong Kong’s global trade had increased significantly from 9.3% in 1978 to 47.5% (HK$2,638.0 billion or US$338.2 billion) in 2007. It has been Hong Kong’s largest trading partner since 1985.

- Hong Kong and the Mainland signed the “Mainland and Hong Kong Closer Economic Partnership Arrangement” (CEPA) in June 2003, providing tariff free treatment to all Hong Kong origin goods meeting the CEPA rules of origin, thus furthering the development potential of the trade between the two places.

- Hong Kong was the Mainland’s third largest trading partner (after the US and Japan (Note 2)) in 2007. Trade between the Mainland and Hong Kong in 2007 accounted for 9.1% of the Mainland’s total trade.
FACT 2:

HONG KONG IS AN IMPORTANT MARKET FOR THE MAINLAND GOODS

- Hong Kong was the Mainland’s second largest export market, taking up 15.1% (HK$1,438.8 billion or US$184.4 billion) of its total exports in 2007.

- The value of Hong Kong’s total imports from the Mainland was HK$1,329.7 billion (US$170.4 billion), accounting for 46.4% of Hong Kong’s total imports in 2007.

- In 2007, Hong Kong was a major market for goods exported from the Mainland, including:

  - machinery and mechanical appliances, sound equipment, parts and accessories thereof (Hong Kong was the Mainland’s No. 1 market, amounting to HK$881.2 billion or US$113.0 billion);

  - optical instruments, medical or surgical instruments, parts and accessories thereof (Hong Kong was the Mainland’s No. 1 market, HK$95.9 billion or US$12.3 billion);

  - articles of apparel and clothing accessories (Hong Kong was the Mainland’s No. 3 market, HK$69.5 billion or US$8.9 billion);

  - textiles and textile articles, except clothing (Hong Kong was the Mainland’s No. 1 market, HK$68.9 billion or US$8.8 billion);

  - pearls, precious stones, precious metals, imitation jewellery, coins (Hong Kong was the Mainland’s No. 1 market, HK$35.2 billion or US$4.5 billion);

  - toys, games and sports requisites, parts and accessories thereof (Hong Kong was the Mainland’s No. 2 market, HK$34.9 billion or US$4.5 billion);

  - plastics and articles thereof (Hong Kong was the Mainland’s No. 2 market, HK$27.1 billion or US$3.5 billion); and
- clocks and watches, parts thereof (Hong Kong was the Mainland’s No. 1 market, HK$8.8 billion or US$1.1 billion).

- In 2007, the ratio of Hong Kong’s domestic exports to the Mainland to Hong Kong’s imports from the Mainland was 1:33.

- The Mainland has been Hong Kong’s largest supplier in goods since 1982. In 2007, it was Hong Kong’s:

  - top supplier of consumer goods (62.6% of total, HK$476.9 billion or US$61.1 billion); raw materials and semi-manufactures (30.5% of total, HK$334.6 billion or US$42.9 billion); capital goods (57.0% of total, HK$480.1 billion or US$61.5 billion); and foodstuffs (23.8% of total, HK$18.4 billion or US$2.4 billion); and

  - second largest supplier of fuels (after Singapore) (22.3% of total, HK$19.6 billion or US$2.5 billion).

**FACT 3:**

**THE MAINLAND AS A MARKET FOR HONG KONG GOODS**

- In 2007, the Mainland was Hong Kong’s largest domestic export market, absorbing HK$40.6 billion (US$5.2 billion) worth of goods, or 37.2% of the total.

- Hong Kong was the Mainland’s eighteenth largest source of imports in 2007, accounting for 1.3% (HK$100.0 billion or US$12.8 billion) of the Mainland’s total imports.

- Hong Kong’s major domestic export items to the Mainland in 2007 were:

  - articles of apparel and clothing accessories (25.2% of Hong Kong’s total domestic exports to the Mainland, amounting to HK$10.2 billion or US$1.3 billion);

  - plastics in primary forms (14.1%, HK$5.7 billion or US$0.7 billion); and
- electrical machinery, apparatus and appliances (10.8%, HK$4.4 billion or US$0.6 billion).

**FACT 4:**

**HONG KONG IS AN IMPORTANT ENTREPÔT FOR THE MAINLAND**

- Re-exports of Mainland-origin goods through Hong Kong increased by 84.9% from HK$864.0 billion (US$110.8 billion) in 2002 to HK$1,597.8 billion (US$204.8 billion) in 2007. Goods re-exported to the Mainland through Hong Kong increased by 121.7% from HK$571.9 billion (US$73.3 billion) in 2002 to HK$1,267.7 billion (US$162.5 billion) in 2007.

- In 2007, the major destinations for Hong Kong’s re-exports of Mainland-origin goods included:

<table>
<thead>
<tr>
<th>Destination</th>
<th>HK$ billion</th>
<th>(US$ billion)</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1,597.8</td>
<td>(204.8)</td>
<td>100.0%</td>
</tr>
<tr>
<td>US</td>
<td>314.5</td>
<td>(40.3)</td>
<td>19.7%</td>
</tr>
<tr>
<td>EU (Note 3)</td>
<td>314.5</td>
<td>(40.3)</td>
<td>19.7%</td>
</tr>
<tr>
<td>Japan</td>
<td>102.9</td>
<td>(13.2)</td>
<td>6.4%</td>
</tr>
<tr>
<td>Singapore</td>
<td>31.6</td>
<td>(4.0)</td>
<td>2.0%</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>30.3</td>
<td>(3.9)</td>
<td>1.9%</td>
</tr>
</tbody>
</table>
• In 2007, the major suppliers of Hong Kong’s re-exports to the Mainland included:

<table>
<thead>
<tr>
<th>Source</th>
<th>HK$ billion</th>
<th>(US$ billion)</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1,267.7</td>
<td>(162.5)</td>
<td>100.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>177.5</td>
<td>(22.8)</td>
<td>14.0%</td>
</tr>
<tr>
<td>Taiwan, China</td>
<td>165.4</td>
<td>(21.2)</td>
<td>13.0%</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>81.7</td>
<td>(10.5)</td>
<td>6.4%</td>
</tr>
<tr>
<td>EU (Note 3)</td>
<td>78.0</td>
<td>(10.0)</td>
<td>6.2%</td>
</tr>
<tr>
<td>US</td>
<td>53.8</td>
<td>(6.9)</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

**FACT 5:**

**THE MAINLAND AS AN IMPORTANT LOCATION FOR OUTWARD PROCESSING ACTIVITIES**

• Since the launching of its modernization policy, the Mainland has set up several Special Economic Zones in its southern provinces. The Guangdong Province, with its improved investment environment, infrastructure, and proximity to Hong Kong, is an important location for Hong Kong’s manufacturers to conduct outward processing activities (Note 4).

• In 2007, 34.5% of Hong Kong’s total exports to the Mainland were for outward processing, reaching HK$451.5 billion (US$57.9 billion). In the same year, 58.6% of Hong Kong’s imports from the Mainland were related to outward processing, amounting to HK$780.0 billion (US$100.0 billion).

• Dongguan, Shenzhen and Guangzhou are popular cities for outward processing trade.

**FACT 6:**

**HONG KONG IS AN IMPORTANT LOCATION FOR THE MAINLAND INTERESTS**

• The Mainland was the largest source of inward direct investment in Hong Kong. At end-2006, the cumulative value of such investment was estimated at HK$2,024.3 billion (US$260.4 billion), accounting for 35% of Hong Kong’s total stock.
As at 1 June 2007, there were 93 companies from the Mainland with regional headquarters in Hong Kong. They were mainly engaged in wholesale, retail and import/export trades, finance and banking, transport and related services, business services, construction, architectural and civil engineering, information technology services and real estate, etc. Another 152 companies had set up regional offices in Hong Kong to oversee business activities in the region.

As at 31 December 2007, 12 of the 142 licensed banks in Hong Kong were of Mainland interests. In the deposit-taking business, 2 of the 29 restricted licence banks and 2 of the 29 deposit-taking companies were of Mainland interests.

**FACT 7 :**

**HONG KONG AS THE LARGEST FOREIGN INVESTOR IN THE MAINLAND**

- Hong Kong was the Mainland’s largest source of realized foreign direct investment, accounting for about 40% of the national total, with a cumulative value of HK$2,398.5 billion (US$307.5 billion) at end-2007.

- Hong Kong’s investments in the Mainland concentrate largely in the Guangdong Province. At end-2007, the cumulative value of Hong Kong’s realized direct investment in Guangdong was estimated at HK$940.3 billion (US$120.5 billion), accounting for 62% of Guangdong’s total. According to the statistics of Guangdong Province, more than 99,000 Hong Kong-invested enterprises have been approved by the Guangdong Province at end-2007.

- Hong Kong’s investments in the Mainland in the early years were mainly industrial investment, involving primarily outward processing arrangements. Over the years, Hong Kong businessmen have extended the scope of their investments in the Mainland to other sectors such as hotels and tourist-related services, real estate, retail trade, infrastructure construction and various business and communications services.

- According to a survey report published by the Federation of Hong Kong Industries in 2007, Hong Kong-related enterprises in the nine cities of the Pearl River Delta of the Guangdong Province hired around 9.6 million employees.
FACT 8:

HONG KONG PRACTISES FREE TRADE

- Hong Kong is a staunch supporter of the multilateral trading system and adheres to the WTO/GATT principles of non-discrimination and most-favoured-nation treatment. Hong Kong takes seriously its rights and obligations as a Member of the WTO. Our free trade policy applies to both merchandise trade as well as trade in services.

- Hong Kong was ranked the freest economy in the world in the US Heritage Foundation 2008 Index of Economic Freedom.

- Hong Kong does not subsidize its exports or any particular sector of the economy.

- Hong Kong does not levy any tariffs. Excise duties are levied on imported as well as domestically produced cigarettes and tobacco, alcoholic products, methyl alcohol and some hydrocarbon oils. In 2007, less than 2% of all imports were subject to excise duties.

- Hong Kong maintains a level playing field for foreign and local companies.

- Hong Kong does not maintain any barriers to trade.

Note 1: Unless otherwise specified, all rankings mentioned in this factsheet are worked out with the trade values of the individual members of the European Union (EU) being considered separately.

Note 2: If the European Union (EU) is considered as a single trading entity, Hong Kong ranked as the Mainland’s fourth largest trading partner in 2007.

Note 3: The figures quoted represent the composite figures of the 27 member states of the EU in 2007, which include Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovak, Slovenia, Spain, Sweden and the United Kingdom.
Note 4: Goods which undergo outward processing arrangements and claim Hong Kong origin status are strictly governed by Hong Kong origin rules. The Trade and Industry Department of the Government of the Hong Kong Special Administrative Region operates an effective administrative arrangement whereby goods manufactured in Hong Kong, but having undergone permissible outward processing activities, can be conferred Hong Kong origin status subject to Hong Kong origin rules being fully met.

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Exchange rate: According to the statistics from the Census and Statistics Department of the Government of the Hong Kong Special Administrative Region

US$1 = HK$7.801 (2007 approximate average rate)
US$1 = HK$7.799 (2002 approximate average rate)

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