

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, tobacco, hydrocarbon 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 will benefit from the deepening of economic reform in the Mainland towards a consumption and services-oriented economy, 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 2019 was HK\$8,404.1 billion, a decrease of 5.4 per cent compared with 2018.

Value of trade (HK\$ million)

	2015	2016	2017	2018	2019
Imports	4,046,420	4,008,384	4,357,004	4,721,399	4,415,440
Domestic					
exports	46,861	42,875	43,455	46,294	47,751
Re-exports	3,558,418	3,545,372	3,832,443	4,111,812	3,940,935

Imports: The main items include electrical machinery, apparatus and appliances, and electrical parts thereof (37.9 per cent of Hong Kong’s total imports in 2019); telecommunications and sound recording and reproducing apparatus and equipment (15.7 per cent); office machines and automatic data processing machines (8.0 per cent); non-metallic mineral manufactures (4.0 per cent) and jewellery, goldsmiths’ and silversmiths’ wares, and other articles of precious or semi-precious materials (2.5 per cent). The principal suppliers were the Mainland (46.6 per cent), Taiwan (7.5 per cent), Singapore (6.6 per cent), Japan (5.7 per cent) and Korea (5.0 per cent).

Domestic Exports: The main items include jewellery, goldsmiths’ and silversmiths’ wares, and other articles of precious or semi-precious materials (20.7 per cent of Hong Kong’s total domestic exports in 2019); plastics in primary and non-primary forms (8.4 per cent); and medicinal and pharmaceutical products (8.1 per cent). The major markets were the Mainland (43.3 per cent), the United States of America (7.7 per cent), Singapore (5.9 per cent), Macao (4.6 per cent) and Vietnam (4.2 per cent).

Re-exports: The principal items include electrical machinery, apparatus and appliances, and electrical parts thereof (39.8 per cent of Hong Kong’s total re-exports in 2019); telecommunications and sound recording and reproducing apparatus and equipment (18.7 per cent); office machines and automatic data processing machines (10.1 per cent); non-metallic mineral manufactures (3.9 per cent) and photographic apparatus, equipment and supplies and optical goods, and watches and clocks (2.7 per cent). The main markets were the Mainland (55.6 per cent), the United States of America (7.6 per cent), Japan (3.0 per cent), India (3.0 per cent) and Taiwan (2.2 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 2018, the services sector constituted a share of 93.1 per cent of Hong Kong’s Gross Domestic Product (GDP). Key services sub-sectors in Hong Kong include the import/export, wholesale and retail trades (accounted for 21.3 per cent of Hong Kong’s GDP in 2018), followed by financing and insurance (19.8 per cent), public administration, social and personal services (18.5 per cent) and real estate, professional and business services (10.4 per cent).

The total value of trade in services in 2019 was HK\$1,411.1 billion^p, decreasing by 7.6 per cent from 2018. Hong Kong is consistently a net exporter of services. In 2019, Hong Kong exported HK\$792.9 billion worth of services, bearing a ratio of 27.7 per cent to Hong Kong’s GDP, compiled based on the change of ownership principle.

The services sector constituted a share of 88.6 per cent of total employment in 2019.

Trade and Industry Department: The Trade and Industry Department (TID) handles Hong Kong’s commercial relations with its trading partners, coordinates HKSAR’s participation in the WTO, the Asia-Pacific Economic Cooperation, the Organisation of Economic Cooperation and Development’s Trade Committee, and the Pacific Economic Cooperation

^p “Preliminary figure”.

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, and actively pursuing Free Trade Agreements (FTA) and Investment Promotion and Protection Agreements (IPPA) with Hong Kong’s trading partners, so as to secure favourable conditions for Hong Kong’s exports of goods and services.

Domestically, the department provides local business with various import and export licensing, certification and registration 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: 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: The manufacturing sector of Hong Kong has undergone a substantial restructuring process during the 1980s and early 1990s. Hong Kong now has a large trans-boundary manufacturing base which combines high value-added and technology-intensive manufacturing processes in the territory with land- and labour-intensive processes in the southern part of the Mainland and other economies.

In 2018, manufacturing accounted for 1.0 per cent of the GDP. In 2019, employment in manufacturing took up 2.3 per cent of the total employment.

Hong Kong’s manufacturing enterprises are mainly SMEs. Of the 8 442 manufacturing business units in end 2019, 98.7 per cent were with persons 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 2018, the services sector constituted 93.1 per cent of Hong Kong’s GDP.

In 2019, 88.6 per cent of the total employment were engaged in services sector. Like manufacturing, the majority (98.4 per cent) of the 336 994 service business units were SMEs (engaging fewer than 50 persons) in end 2019.

Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA): CEPA is the first free trade agreement concluded by the Mainland and Hong Kong respectively. It was signed in 2003 and 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.

Under the CEPA framework, there are four subsidiary agreements covering different areas: (1) For trade in goods, all Hong Kong products can enjoy zero tariff upon importation into the Mainland market provided that CEPA rules of origin are

met. 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 to diversify markets and secure 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)¹, Chile, Macao, the Association of Southeast Asian Nations (ASEAN)², Georgia and Australia.

IPPAs: IPPAs 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 IPPAs 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 the maintenance of macro-economic 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 property rights through Hong Kong’s sound legal system.

SMEs are an important driving force in Hong Kong’s economic development. As at December 2019, there were about 342 000 SMEs in Hong Kong. They constituted over

¹ EFTA comprises Iceland, Liechtenstein, Norway and Switzerland.

² ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

98.4 per cent of the territory's business units and accounted for about 44.5 per cent of private sector employment. The Government attaches great importance in supporting the development of SMEs.

The TID operates various funding schemes to support the development of Hong Kong enterprises, in particular SMEs. These include the SME Loan Guarantee Scheme, 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 obtaining finance, exploring export markets and enhancing overall competitiveness.

The Government injected \$1 billion and \$2 billion to the EMF and BUD Fund respectively in December 2019 to further increase the funding support for enterprises. The cumulative funding ceiling for each enterprise under the EMF has been doubled from \$400,000 to \$800,000; and initial payment of up to 75 per cent of the approved government funding has been introduced. At the same time, the geographical coverage of the BUD Fund has been extended from the Mainland and the ASEAN to cover other economies with which Hong Kong has signed FTAs; the cumulative funding ceiling for each enterprise has been doubled to \$4 million, and the ratio of initial payment has increased from 25 per cent to up to 75 per cent of the approved government funding. As at May 2020, the total amount of grants approved under the EMF and the BUD Fund are \$3,851 million and \$1,153 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, private enterprises 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 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 in October 2019, so that SMEs can obtain the necessary information on all government funding schemes at any service point. In addition, 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.

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.