

HONG KONG : THE FACTS



Trade and Industry

Many factors contribute towards Hong Kong's international reputation as both a leading manufacturing complex and a major commercial centre within Asia. These include an economic policy of free enterprise and free trade, the rule of law, a well educated and industrious workforce, a sophisticated commercial infrastructure, a port and airport which are among the world's finest. The opening of the vast Mainland market following China's accession to the World Trade Organization (WTO) also provides impetus to bolster its role as an international services and trading hub.

Economic and Commercial Policies: Hong Kong follows the economic policies of free enterprise and free trade. There are no import tariffs, and revenue duties are levied only on locally manufactured or imported tobacco, alcoholic liquors, methyl alcohol and some hydrocarbon oils. There is also a tax payable on first registration of motor vehicles.

Except in the very broadest sense, economic planning as such is not practised by the Government of the Hong Kong Special Administrative Region (HKSAR). Although it provides the infrastructure both through direct services and by co-operation with public utility enterprises, the Government's major role is to provide a suitable and stable framework for commerce and industry to function efficiently and effectively with minimum interference. There is no protection or subsidisation of manufacturers in Hong Kong.

The cornerstone of Hong Kong's commercial policy is the rule-based multilateral trading system under the WTO. Given the externally-oriented and open nature of Hong Kong's economy, the development of international trade policy in and through the WTO is of vital importance to Hong Kong because of the possible impact on external trade, and its knock-on effect on industry and employment. Hong Kong is a member of the WTO, using the name "Hong Kong, China".

Trade in Goods: The total value of all trade in goods in 2005 was HK\$4,579.6 billion, an increase of 10.9 per cent compared with 2004.

	Value of trade (HK\$ million)				
	2001	2002	2003	2004	2005
Imports	1,568,194	1,619,419	1,805,770	2,111,123	2,329,469
Domestic exports	153,520	130,926	121,687	125,982	136,030
Re-exports	1,327,467	1,429,590	1,620,749	1,893,132	2,114,143

Imports: The main items were electrical machinery, apparatus and appliances, and electrical parts thereof (22.8% of Hong Kong's total imports in 2005); telecommunications and sound recording and reproducing apparatus and equipment (12.7%); office machines and automatic data processing machines (10.7%); articles of apparel and clothing accessories (6.2%); textile

yarn, fabrics, made-up articles and related products (4.6%); and photographic apparatus, equipment and supplies, optical goods, watches and clocks (2.7%). The principal suppliers were the mainland of China (45.0%), Japan (11.0%), Taiwan (7.2%), Singapore (5.8%), the United States of America (5.1%) and the Republic of Korea (4.4%).

Domestic Exports: The main items were articles of apparel and clothing accessories (41.3% of Hong Kong's domestic exports in 2005); electrical machinery, apparatus and appliances, and electrical parts thereof (13.8%); office machines and automatic data processing machines (10.1%); textile yarn, fabrics, made-up articles and related products (3.5%); plastics in primary forms (3.4%); and metalliferous ores and metal scrap (1.8%). The major markets were the mainland of China (32.8%), the United States of America (27.8%), the United Kingdom (5.4%), the Netherlands (4.0%), Taiwan (3.8%), Germany (3.2%), Japan (3.2%) and Singapore (3.0%).

Re-exports: The principal items were electrical machinery, apparatus and appliances, and electrical parts thereof (20.9% of Hong Kong's re-export in 2005); telecommunications and sound recording and reproducing apparatus and equipment (15.4%); office machines and automatic data processing machines (13.0%); articles of apparel and clothing accessories (7.4%); textile yarn, fabrics, made-up articles and related products (4.9%); and photographic apparatus, equipment and supplies and optical goods, watches and clocks (3.8%). The main markets were the mainland of China (45.8%), the United States of America (15.3%), Japan (5.4%), Germany (3.2%), the United Kingdom (2.9%), the Republic of Korea (2.2%), Taiwan (2.1%) and Singapore (2.0%).

Trade in Services: With the remarkable structural transformation over the past decade, the services sector has gained much prominence in the Hong Kong economy. In 2005, the services sector constituted a share of 90.6 per cent of Hong Kong's GDP. Key services sub-sectors in Hong Kong include the wholesale, retail and import and export trades, restaurants and hotels (accounted for 28.3% of GDP in 2005), followed by financing, insurance, real estate and business services (22.2%), community, social and personal services (19.3%), and transport, storage and communications (10.2%).

The total value of trade in services in 2005 was HK\$735.3 billion, making an increase of 9.4 per cent over that of 2004. Hong Kong is consistently a net exporter of services. In 2005, Hong Kong exported HK\$483.5 billion worth of services, bearing a ratio of 35.0 per cent to Hong Kong's GDP.

The services sector constituted a share of 86.0 per cent of total employment in 2005.

Trade and Industry Department: The Trade and Industry Department is responsible for handling the HKSAR's commercial relations with its trading partners, implementing trade policies and agreements, including the issue of certification of origin, export and import licensing (for instance, textiles, strategic commodities and reserved commodities), and certificates of Hong Kong service supplier, as well as providing general support services for the industrial sector and small and medium enterprises (SMEs).

The Hong Kong Trade Development Council: The Hong Kong Trade Development Council is the statutory body set up by law to promote Hong Kong's external trade in goods and services. It also promotes Hong Kong's image as the best trading partner in the region to the international business community with its 50 offices in 34 countries.

Industry: Hong Kong is the strategic 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, including textiles, clothing, toys, timepieces and jewellery. About 80 per cent of Hong Kong's manufactured products are for export.

The Manufacturing Sector: The manufacturing sector 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.

Manufacturing accounted for 3.4 per cent of the 2005 Gross Domestic Product (GDP) and took up 5.3% of employment in 2005.

Hong Kong's manufacturing enterprises are mainly SMEs. Of the 15 211 manufacturing business units in 2005, 98.5% were with persons engaged fewer than 100 persons. Large factories and SMEs are linked through an efficient and flexible subcontracting network so that they can respond swiftly to changes in external demand.

The Services Sector: The rapid growth of Hong Kong's services sector in the past two decades has made Hong Kong one of the most service-oriented economies in the world. The share of services sector in GDP increased from 68.3 per cent in 1980 to 90.6 per cent in 2005. Much of this growth was in the provision of producer services that supported Hong Kong's offshore production operations.

In 2005, 86.0% of the total employment were engaged in services sector. Like manufacturing, 98.3% of the 257 074 service business units were SMEs (engaging fewer than 50 persons).

Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA): CEPA is the first free trade agreement ever concluded by the Mainland and Hong Kong. The main text of CEPA (CEPA I) was signed on June 29, 2003 and came into full implementation on January 1, 2004. CEPA adopts a building block approach. The two sides subsequently entered into consultation and reached agreement on the second and third phases of further trade liberalisation measures (CEPA II and CEPA III). The further liberalisation measures of CEPA II and CEPA III were implemented on January 1, 2005 and January 1, 2006 respectively. In end June 2006, the two sides agreed on a new package of further liberalisation measures under CEPA, in which the measures for trade in goods took effect since July 1, 2006 and those for trade in services will take effect on January 1, 2007.

Under CEPA, the Mainland now provides preferential treatment to Hong Kong service suppliers in entering into

the Mainland market in 27 service areas. On trade in goods, the Mainland has given all imported goods of Hong Kong origin (except prohibited articles) tariff free treatment, upon applications by local manufacturers and upon the CEPA rules of origin being agreed and met. Under the trade and investment facilitation framework of CEPA, both sides have agreed to enhance co-operation in eight areas.

Government Support for Industry: In the context of the free market and free enterprise economic framework, the Government strives to provide a business-friendly environment for manufacturing and service industries. 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.

Support for SMEs: SMEs are an important driving force in Hong Kong's economic development. There were some 270 000 SMEs in Hong Kong in 2005. They constituted over 98 per cent of the territory's business units and accounted for about 50 per cent of private sector employment. The Government attaches great importance in supporting SMEs at various stages of development.

The Small and Medium Enterprises Committee (SMEC) was appointed by the Chief Executive (CE) to advise him on issues affecting the development of SMEs and suggest measures to support and facilitate their development and growth. The SMEC comprises renowned industrialists and businessmen, SME practitioners, bankers, academics, representatives of SME service providers and government officials. The SMEC submitted a report to the CE in June 2001, suggesting more than 30 recommendations on means to help SMEs further develop, including the setting up of four funding schemes. In his Policy Address in October 2001, the CE accepted the Committee's recommendations to set up four SME funding schemes to support SMEs. They are, namely the SME Loan Guarantee Scheme (formerly known as SME Business Installations and Equipment Loan Guarantee Scheme), the SME Training Fund (ceased accepting new applications from July 1, 2005), the SME Export Marketing Fund and the SME Development Fund. \$1.9 billion (with a total commitment of \$7.5 billion) were set aside for the four funding schemes to help SMEs secure loans for acquiring business installations and equipment, expand overseas markets, upgrade human resources, and enhance overall competitiveness. In May 2005, the Legislative Council Finance Committee agreed to provide additional funding of \$300 million to extend the operation of the SME Loan Guarantee Scheme, the SME Export Marketing Fund and the SME Development Fund. The total funding provision and government commitment of the schemes have been raised to \$2.2 billion and \$12 billion respectively.

The Support and Consultation Centre for SMEs (SUCCESS) is the Government information and advisory centre for SMEs run by the Trade and Industry Department. It collaborates with various industrial and trade organisations, professional bodies, private enterprises and other Government departments to provide SMEs with a comprehensive range of free business information and consultation services. On business information, SUCCESS provides comprehensive information on business licensing and certification requirements, and SME interested information, activities, services and facilities through a user-friendly website (www.success.tid.gov.hk). It also provides free access to business electronic databases, a reference library and a regular publication "SME Pulse". Furthermore, seminars, workshops and other activities are organised to help broaden SMEs' business knowledge and enhance their

entrepreneurial skills. On consultation services, SMEs seeking professional and expert advice may apply for the "Meet-the Advisors" Business Advisory Service or join the SME Mentorship Programme.

Industrial Land: In addition to industrial sites which are sold by public auction or tender, three industrial estates with a total of 217 hectares of fully serviced land have been developed and are managed by the Hong Kong Science and Technology Parks Corporation to accommodate companies in both manufacturing and service industries investing in new or improved processes which cannot operate efficiently in multi-storey buildings.

Manpower for Industry: Through the Hong Kong Institute of Vocational Education, the VTC School of Business and Information Systems, and training and development centres, the Vocational Training Council provides updated vocational education and training courses/programmes on the latest skills and know-how to meet the changing needs of both Hong Kong's industrial and commercial sectors.

Promoting Outstanding Achievements: The Hong Kong Awards for Industries, jointly organised by the major trade and industrial associations and industry support organisations under the steer of the Director-General of Trade and Industry on an annual basis give a high regard to outstanding achievements of companies in both the manufacturing and service sectors. There are seven award categories under the Awards Scheme, namely, the consumer product design, machinery and equipment design, customer service, environmental performance, innovation and creativity, productivity and quality, and technological achievement.

Support to Industry on Environmental Matters: The Government aims to assist manufacturers comply with various environmental requirements. To this end, the Trade and Industry Department has published an online guide to *Pollution Control Legislation Affecting Industries* in a dedicated webpage highlighting the legislative requirements relating to environmental protection and setting out the contact particulars of organisations that provide technical advice on compliance with the requirements.