Import and Export Trade Industry in Hong Kong

Overview

- Hong Kong’s total merchandise trade in 2017 increased by 8.4% to US$1,056 billion (HK$8,233 billion) after contracting by 0.7% in 2016.

- Hong Kong handles a large amount of offshore trade, estimated by the Hong Kong government at a value of US$544 billion (HK$4,244 billion) in 2016, down 2.1% over 2015. In comparison, re-exports amounted to US$455 billion (HK$3,545 billion) in 2016, down 0.4% over 2015.

- As at December 2017, 477,820 people were employed in the import and export sector, which had 100,523 establishments. In 2016, the sector accounted for 17.7% of Hong Kong’s GDP.

- Hong Kong handles a good portion of the Chinese mainland’s external trade. In 2017, about 13% of the mainland’s exports (valued at US$285 billion) and 15% of imports (US$268 billion) were handled via Hong Kong and 58% of Hong Kong’s re-exports were originated from the mainland.

Industry Data

<table>
<thead>
<tr>
<th>Import and Export Trade</th>
<th>December 2017</th>
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<tbody>
<tr>
<td>Number of Establishments</td>
<td>100,523</td>
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<tr>
<td>Employment</td>
<td>477,820</td>
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<table>
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<tr>
<th>Exports of Merchanting and Trade-related Services (US$ billion)</th>
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<tr>
<td>Year-on-year (Y/Y) growth</td>
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<td>Exports of Merchanting and Trade-related Services</td>
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<td>34.7</td>
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<td>Year-on-year (Y/Y) growth</td>
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<td>+11.0%</td>
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Sources: Gross Domestic Product (Quarterly), Census and Statistics Department

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Range of Services

Hong Kong's import and export trading firms are active in sourcing various types of goods, including raw materials, machinery and parts, and a wide range of consumer goods. There are three main types of sourcing activities: (1) sourcing goods produced in Hong Kong; (2) sourcing goods from around the region for re-exports; and (3) sourcing goods from one country to be shipped directly to a third country without touching Hong Kong ground.

The import business of Hong Kong trading firms is mainly generated by the distributing capabilities under the identity of agents or dealers. These trading firms usually specialise in one area of products and represent one or more foreign brands. Their trading map usually encompasses Hong Kong, the Chinese mainland (or certain parts of it) or other Asian countries.

Due to the development of trade supporting services on the Chinese mainland, trading firms increasingly source goods offshore for sales in international markets. Some of these goods are either transhipped via Hong Kong or shipped directly without touching Hong Kong ground. Such offshore trade is not reflected in Hong Kong's trade statistics. According to official statistics released in early 2018, Hong Kong's offshore trade in 2016 (including both “merchanting” and “merchandising for offshore transactions”) was estimated to be US$544 billion (HK$4,244 billion), down 2.1% over 2015. In comparison, re-exports totaled US$455 billion (HK$3,545 billion) in 2016, down 0.4% over 2015, representing some 83.5% of the amount of offshore trade.

Service Providers

Hong Kong's import and export trading firms are typically small, employing less than 10 persons on average. There were 100,523 import and export trading firms in Hong Kong as of December 2017, with the majority of them being SMEs. There are three broad categories of import and export trading firms:

- Left hand-right hand traders: these refer to trading firms which match sellers and buyers without adding any significant value to the process. These firms are characterised by the conduct of a straight-forward sourcing operation, usually identifying goods produced on the mainland or Hong Kong and shipping them to overseas markets. These firms rely on their specialist knowledge of the sources of products in the region and the low costs of their supplies as their main competitive advantages.

- Traders with some value-added services: many firms now source raw materials for their suppliers and provide finance for these materials. They often use letters of credit from their customers as a guarantee for raising finance for their purchase orders. Other firms develop a sub-contractor relationship with a number of factories in which they exert significant control over the management of production, including quality control.

- Traders with sophisticated value-added services: in certain cases exporting firms have added value to their traditional activity to such an extent that it may be difficult to retain the label of being exporters. For example, some firms have become designer and manufacturer of components for their supplier factories to produce finished goods, which the firms subsequently export. These firms add value mostly
from their design team and their competitive edge comes from their ability to design products which sell well in the target markets.

The business environment for Hong Kong's trading firms is becoming more challenging amid the growing trend toward direct dealing between customers and manufacturers, known as “trade disintermediation”. In response to trade disintermediation, Hong Kong traders adaptively provide more value-added services in addition to finding more competitive sources of supplies. For example, Hong Kong traders help their overseas clients inspect the goods produced by the manufacturers to ensure they meet the procurement standard, and monitor production schedules to meet delivery. Hong Kong traders can also help overseas buyers coordinate production when the buyers have a sudden surge in orders and quick turnaround is needed.

In 2016, the rate of gross margin [1] of merchanting improved to 6.5% from 6.3% in 2015 to reflect the gradual recovery of the export market, though still shy of 6.9% recorded in 2009. In the same year, the commission rate of merchandising [2] for offshore transactions stood at 7.1% (2015: 6.9%; 2014: 6.6%).

The operations of small and big trading firms are quite different. Smaller firms are usually strong in introducing foreign products to the mainland market. In most cases, they specialise in one area, such as medical equipment, and represent some foreign brands as their agents or distributors. Bigger trading firms are usually strong in sourcing products from the region. They usually have regional or even global sourcing networks and do not specialise on a particular type of product.

Exports

Hong Kong's import and export trading sector exports its services mainly in the form of offshore buying and selling of goods. Given Hong Kong's proximity and the relocation of Hong Kong’s manufacturing bases to the mainland, particularly the Pearl River Delta, the Chinese mainland is a major source of offshore trading activities. As Hong Kong manufacturers are diversifying their production activities to other low-cost countries, the offshore trading pattern is expected to reflect the move. In 2017, Hong Kong earned US$38 billion from exporting merchanting and trade-related services, accounting for 27.8% of total services exports.

Industry Development and Market Outlook

- Benefitting from the global economic recovery, Hong Kong’s total merchandise trade increased by 8.4% to US$1,056 billion (HK$8,233 billion) in 2017, after contracting by 0.7% in 2016. In the same period, Hong Kong’s merchandise exports saw a year-on-year increase of 8%, after decreasing by 0.5% in the previous year. In 2017, Hong Kong’s major export markets were the Chinese mainland (54.3% of total), the EU (9%) and the US (8.5%).

- In recent years, Asia has become a more integrated market, thanks to the various free trade agreements (FTAs) signed in the region. In particular, the product trade arrangements under the China-ASEAN Free Trade Area (CAFTA) pact, which commenced in 2005 with scheduled tariff elimination completed in 2010, have contributed to higher intra-Asian trade. In November 2015, China and ASEAN concluded an upgraded FTA that covers further liberalisation of trade as well as
economic, investment and regulatory cooperation. This FTA is seen as helping meet the target of boosting bilateral trade to US$1 trillion by 2020.

- Over the past few years, there has been an increase in companies in developed economies treating Asia as a market instead of a pure production base. During 2010-2016, North America’s exports to Asia expanded by a CAGR of 2%, surpassing the CAGR of 1% in respect of its exports to Europe in the same period.

- ASEAN as a group is the fourth largest export market and second largest trading partner of Hong Kong, with Vietnam having surpassed Singapore to become Hong Kong’s largest export market in ASEAN since 2013. To further capitalise on expanding bilateral trade, Hong Kong and ASEAN began formal negotiations on a *Hong Kong-ASEAN Free Trade Agreement (HAFTA)* in July 2014. In addition to the reduction and/or elimination of import tariffs, other key elements covered by the *HAFTA* include, rules of origin, liberalisation of trade in services, promotion and protection of investment, as well as intellectual property co-operation. The *HAFTA* is expected to enter into force on 1 January 2019 to foster stronger economic ties between Hong Kong and ASEAN and enhance Hong Kong’s role as a regional trading hub.

- The *Belt and Road Initiative (BRI)*, announced by Chinese President Xi Jinping in 2013, is an ambitious plan aimed at promoting economic and social cooperation among more than 60 countries along the proposed *BRI* corridors. This development will certainly lead to an expansion in the volume of international trade and create fresh demand and business opportunities for Hong Kong’s trade sector.

**The Closer Economic Partnership Arrangement between Hong Kong and the Mainland (CEPA)**

Under *CEPA*, Hong Kong service suppliers (HKSS) can provide, in the form of wholly owned operations, commission agents' services and wholesale trade services and to set up wholly owned external trading companies on the Chinese mainland.

After ten Supplements between 2004 and 2013 to keep widening and broadening the liberalisation measures in favour of HKSS, Hong Kong and the mainland entered into a subsidiary agreement under *CEPA* in 2014 to achieve basic liberalisation of trade in services in Guangdong (*Guangdong Agreement*). This was then followed by the *Agreement on Trade in Services (ATIS)* to extend the coverage of the 2014 agreement from Guangdong to the rest of the mainland from June 2016. Unlike the previous Supplements which adopted a positive-list approach to introducing liberalisation measures, the two latest *CEPA* agreements adopt a hybrid approach to granting preferential access to Hong Kong using both positive and negative lists. With basic liberalisation of trade in service between the Chinese mainland and Hong Kong now achieved, Hong Kong’s status as an international trade hub as well as the gateway to the mainland is set to strengthen. Please click to view further information on the latest *CEPA* agreements.
“Rate of gross margin” refers to the gross margin from merchanting expressed as a percentage of the sales value of goods involved, while “commission rate” is the commission from merchandising for offshore transactions expressed as a percentage of the sales value of goods involved. “Rate of re-export margin” is defined as the re-export margin expressed as a percentage of the value of re-exports.

The difference between “merchanting” and “merchandising” is that, an establishment engaged in “merchanting” takes ownership of the goods involved, whereas one engaged in merchandising transactions does not take ownership of the goods involved.