Economic and Trade Information on Hong Kong

- Hong Kong’s economy contracted by 3.2% quarter-on-quarter in real terms in the third quarter of 2019, after the fall of 0.5% in the preceding quarter, indicating that the Hong Kong economy has entered a technical recession. Considering the persistent notable downward pressures, the Government’s forecast of Hong Kong’s economic growth for 2019 is revised downwards from 0-1% in the August round of review to -1.3%.

- Overall consumer prices rose by 3% in November 2019 over the same month a year earlier, slightly lower than the corresponding increase of 3.1% in October 2019. With the elevated pork prices caused by disruptions to the supply of fresh pork, the Government’s forecast of Hong Kong’s underlying consumer price inflation for 2019 is revised upwards from 2.7% in the August round of review to 3%.

- The value of retail sales, in nominal terms, decreased by 24.3% year-on-year in October 2019 over the same month a year earlier, compared with a year-on-year decrease of 18.2% in September 2019.

- The labour market conditions showed signs of easing. The seasonally adjusted unemployment rate increased from 3.1% in August – October 2019 to 3.2% in the three months ending November 2019.

- Merchandise exports dropped by 1.4% in November 2019 over the same month a year earlier, after a year-on-year decrease of 9.2% in October 2019.

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>Latest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population, Year-end (mn)</td>
<td>7.41</td>
<td>7.49</td>
<td>7.52 *</td>
</tr>
<tr>
<td>Gross Domestic Product (US$ bn)</td>
<td>341.4</td>
<td>364.8</td>
<td>273.5 †</td>
</tr>
<tr>
<td>GDP Per Capita (US$)</td>
<td>46,180</td>
<td>48,958</td>
<td>--</td>
</tr>
<tr>
<td>Real GDP Growth (%)</td>
<td>+3.8</td>
<td>+3.0</td>
<td>-0.6 ‡</td>
</tr>
<tr>
<td>Inflation (% Change in Composite CPI)</td>
<td>+1.5</td>
<td>+2.4</td>
<td>+2.9 ‡</td>
</tr>
<tr>
<td>Unemployment Rate (%)</td>
<td>3.1</td>
<td>2.8</td>
<td>3.2 †</td>
</tr>
<tr>
<td>Retail Sales Growth (%)</td>
<td>+2.2</td>
<td>+8.7</td>
<td>-9 †</td>
</tr>
<tr>
<td>Number of Visitors (mn)</td>
<td>58.5</td>
<td>65.1</td>
<td>52.7 †</td>
</tr>
<tr>
<td>Visitor Arrivals Growth (%)</td>
<td>+3.2</td>
<td>+11.4</td>
<td>-10.0 ‡</td>
</tr>
</tbody>
</table>

* mid-2019; † January – September 2019; ‡ year-on-year change, January – September 2019; † year-on-year change, January – November 2019; † seasonally adjusted, September – November 2019; † year-on-year change, January – October 2019; † January – October 2019

Source: Census and Statistics Department, HKSAR
2. Strategic Position

- Hong Kong is the world’s freest economy. It is the world’s most services-oriented economy, with services sectors accounting for more than 90% of GDP.

- According to World Trade Organization (WTO), Hong Kong is the world’s 8th largest exporter of merchandise trade and the world’s 15th largest exporter of commercial services in 2018.

- According to the UNCTAD World Investment Report 2019, global FDI inflows to Hong Kong amounted to US$115.7 billion in 2018, ranked 3rd globally, behind only Mainland China (US$139 billion) in Asia.

- In terms of FDI outflows, Hong Kong ranked 3rd in Asia with US$85.2 billion, after Japan (US$143.2 billion) and Mainland China (US$129.8 billion).

- In terms of FDI stock, Hong Kong was the world’s 2nd largest host with US$1,997.2 billion, after the United States, and the world’s 4th largest investor with US$1,870.1 billion in 2018.

- According to a triennial survey conducted by the Bank for International Settlements, Hong Kong is the 2nd largest foreign exchange market in Asia and the 4th largest in the world in 2019, with the average daily turnover of forex transactions increasing by 44.8% from US$436.6 billion in April 2016 to US$632.1 billion in April 2019.

- Hong Kong is a global offshore RMB business hub. According to SWIFT, Hong Kong is the largest offshore RMB clearing centre in 2018, sharing about 79% of the world’s RMB payments.

- As at the end of December 2018, Hong Kong’s stock market ranked the 3rd largest in Asia and the 5th largest in the world in terms of market capitalisation. There were 2,315 companies listed on HKEx and the total market capitalisation of Hong Kong’s stock market reached US$3.82 trillion.

- Hong Kong is an important banking and financial centre in the Asia Pacific. Hong Kong is the 3rd leading global financial centre, only after New York and London, according to the Global Financial Centre Index.

- The Hong Kong International Airport is the world’s busiest airport for international air cargo since 1996. Hong Kong is also one of the world’s busiest container ports. In 2018, Hong Kong ranked 7th in the world in terms of container throughput.

3. Recent Government Initiatives

2019 Policy Address

The Chief Executive, Mrs Carrie Lam, unveiled her 2019 Policy Address on 16 October 2019. Below are some highlights:
• Raise the cap on the value of the properties eligible for a mortgage loan of maximum cover of 90% loan-to-value ratio from HK$4 million to HK$8 million for first-time home buyers.

• Invoke the Lands Resumption Ordinance and other applicable ordinances to resume three types of private land wholly for public housing, starter homes and related infrastructure development.

• Organise delegations and invite Mainland and Hong Kong enterprises to conduct joint promotional activities in the B&R economies.

• Seek the policy support of the relevant Central authorities to extend the incentives and facilitations currently enjoyed by Mainland enterprises to Hong Kong enterprises intending to set up businesses in the Mainland’s overseas Economic and Trade Co-operation Zones.

• Seek the policy support of the relevant Central authorities for tax concessions for Hong Kong enterprises wishing to shift from exports to domestic sales and streamlining of the approval process, with a view to enhancing their competitiveness in the Mainland domestic market.

• Extend the coverage of the Technology Talent Admission Scheme to companies outside the Hong Kong Science and Technology Parks Corporation and Cyberport and to cover new technology areas.

• Extend the coverage of the Researcher Programme, Postdoctoral Hub and Public Sector Trial Scheme to all technology companies conducting research and development activities.

• Inject $500 million into the Social Innovation and Entrepreneurship Development Fund to further promote social innovation.

• To implement the Railway Development Strategy 2014, commence detailed planning and design for the Tung Chung Line Extension, Tuen Mun South Extension and Northern Link.

The full text of the 2019 Policy Address can be found here.

2019-20 Budget

The Financial Secretary, Mr Paul Chan, unveiled his 2019-20 Budget on 27 February 2019. Below are some highlights:

• Issue the first batch of government green bonds to promote the development of green finance.

• Provide tax concessions for marine insurance and underwriting of specialty risks, and facilitate them to issue insurance-linked securities.

• Establish the Academy of Finance in mid-2019 to promote financial leadership development.
• Establish two innovation clusters in the Science Park focusing on “A.I. and robotic technologies” and “healthcare technologies”.

• Earmark $300 million to develop a geospatial data sharing platform and 3D digital maps of the whole territory.

• Assign and auction spectrums by batches to prepare for the development of 5G networks and services.

• Allocate $150 million to support the development of an online international dispute resolution platform.

The full text of the 2019-20 Budget can be found here.

Guangdong-Hong Kong-Macao Greater Bay Area

The Central Government unveiled the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (Outline Development Plan) on 18 February 2019. With the full support of the Central Government, Hong Kong will proactively integrate into the overall national development. Along with Macao, Guangzhou and Shenzhen, Hong Kong will be one of the core engines for development in the region.

The Outline Development Plan supports Hong Kong in consolidating and enhancing its status as international financial, transportation and trade centres, as well as an aviation hub and a global offshore Renminbi (RMB) business hub, and strengthening its role as an international asset management centre and a risk management centre.

The full text of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area can be found here.

4. Major Economic Indicators
Economic and Trade Information on Hong Kong

GDP Composition
% share of GDP

- Private consumption, 66.3%
- Government consumption, 9.9%
- Net domestic fixed capital formation, 21.7%
- Net exports of services, 0.0%
- Net exports of goods, -0.9%

The Four Key Industries
% share of value added in GDP

- Trading and logistics, 21.2%
- Financial services, 42.7%
- Professional services and other producer services, 19.7%
- Tourism, 12.0%
- Others, 4.5%

Real GDP Growth by Selected Components
Year-on-year % change

Retail Sales
Value and growth

Visitors Arrivals
Number and growth

Source: Census and Statistics Department, HKSAR
5. External Trade

**Merchandise Trade**

<table>
<thead>
<tr>
<th>(in nominal terms)</th>
<th>2017</th>
<th>Growth %</th>
<th>2018</th>
<th>Growth %</th>
<th>January – November 2019</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$ bn</td>
<td></td>
<td>US$ bn</td>
<td></td>
<td>US$ bn</td>
<td></td>
</tr>
<tr>
<td>Total Exports</td>
<td>496.9</td>
<td>+8.0</td>
<td>533.1</td>
<td>+7.3</td>
<td>466.4</td>
<td>-4.7</td>
</tr>
<tr>
<td>Domestic Exports</td>
<td>5.6</td>
<td>+1.4</td>
<td>5.9</td>
<td>+6.5</td>
<td>5.5</td>
<td>+2.4</td>
</tr>
<tr>
<td>Re-exports</td>
<td>491.3</td>
<td>+8.1</td>
<td>527.2</td>
<td>+7.3</td>
<td>460.8</td>
<td>-4.8</td>
</tr>
<tr>
<td>Imports</td>
<td>558.6</td>
<td>+8.7</td>
<td>605.3</td>
<td>+8.4</td>
<td>516.9</td>
<td>-6.9</td>
</tr>
<tr>
<td>Total Trade</td>
<td>1,055.5</td>
<td>+8.4</td>
<td>1,138.4</td>
<td>+7.9</td>
<td>983.3</td>
<td>-5.9</td>
</tr>
<tr>
<td>Trade Balance</td>
<td>-61.7</td>
<td></td>
<td>-72.2</td>
<td></td>
<td>-50.5</td>
<td></td>
</tr>
</tbody>
</table>

**Merchandise Trade Growth**

Year-on-year % change

**Merchandise Trade Value**

US$ billion

**Major Export Commodities**

% share of total merchandise exports

| Commodity                  | 2018
|---------------------------|-----
| Electronics               | 21.7
| Clothing                  | 68.3
| Toys and games            | 1.2
| Textile yarn and fabrics  | 3.1
| Food                      | 1.4
| Articles of precious jewellery | 1.4
| Watches and clocks        | 1.6
| Others                    | 1.8

**Major Export Markets for Goods**

% share of total merchandise exports

Source: Census and Statistics Department, HKSAR

**Trade in Services**
6. Investment Flows

- According to a HKSAR Government survey, Hong Kong's total stock of inward direct investment was estimated at US$1,963 billion at the end of 2018.

- One distinct feature of such direct investment was the indirect channelling of capitals from non-operating companies in tax haven economies.
7. Trade Policies, Trade Relations and Tax Treaties

Trade Relations
• Founding member of the World Trade Organization (WTO)
• Member of the Asia-Pacific Economic Cooperation (APEC)
• Member of the Pacific Economic Cooperation Council (PECC)
• Member of the Asian Development Bank (ADB)
• Member of the Asian Infrastructure Investment Bank (AIIB)
• Associate member of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)
• Observer of the Trade Committee of the Organization for Economic Cooperation and Development (OECD)

Trade Policies

• Hong Kong is a free port and does not levy any Customs tariff on imports or exports, except there are four types of dutiable commodities which are liquors, tobacco, hydrocarbon oil and methyl alcohol.

• The certification system in Hong Kong is to facilitate local products to be exported outside Hong Kong by certifying their origins. Imports do not require origin certification.

• Any persons who import or export any goods (other than exempted articles) are required to lodge accurate and complete import/export declarations to Hong Kong Customs within 14 days after the import/export of goods.

• Subject to certain conditions, shipping companies, airlines and freight companies which have registered with the Trade and Industry Department are exempted from the import/export licensing requirements for their transhipment cargoes.

Details of Hong Kong’s policies on import and export of goods can be found here.

Free Trade Agreements (FTAs)

FTAs in Force:

• Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)
• Hong Kong, China – New Zealand Closer Economic Partnership Agreement
• FTA between Hong Kong, China and the Member States of the European Free Trade Association
• FTA between Hong Kong, China and Chile
• Hong Kong and Macao Closer Economic Partnership Agreement (HK-Macao CEPA)
• Hong Kong, China – Georgia FTA
Economic and Trade Information on Hong Kong

- Hong Kong, China – ASEAN FTA

FTA Signed:
- FTA between Hong Kong, China and Australia

FTA Negotiation Concluded:
- Hong Kong, China – Maldives FTA

Details of the FTAs can be found [here](#).

**CEPA**

*CEPA* is a free trade agreement concluded by the Mainland and Hong Kong. The main text of *CEPA* was signed on 29 June 2003. The two sides continue to introduce further liberalization measures thereafter. *CEPA* covers 4 broad areas:
i. Trade in Goods

- Starting from 1 January 2006, the Mainland agreed to fully implement zero tariff on imported goods of Hong Kong origin that fulfil the Product Specific Rules of Origin (PSRs) under CEPA.
- In December 2018, the Agreement on Trade in Goods was signed. It introduced a general rule of origin based on the calculation of the value added to the products in Hong Kong in addition to the PSRs.
- Through the enhanced arrangement for rules of origin, all products of Hong Kong origin, except for a few prohibited articles, are covered under CEPA and eligible for zero tariff when entering into the Mainland market.

ii. Trade in Services

- Under CEPA, Hong Kong service suppliers enjoy preferential treatment in entering into the Mainland market in various service areas.
- In December 2014, the Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong (Guangdong Agreement) was signed, enabling early realisation of basic liberalisation of trade in services with Hong Kong in Guangdong.
- The Agreement on Trade in Services signed in November 2015 further enhances the liberalisation in both breadth and depth, including extending the implementation of the majority of Guangdong pilot liberalisation measures to the whole Mainland.

iii. Investment

- In June 2017, the Investment Agreement was signed under the framework of CEPA. It expands the market access commitments to non-services sectors outside the scope of the Agreement on Trade in Services and introduces obligations on investment protection to both services and non-services sectors.

iv. Economic and Technical Cooperation

- In June 2017, the Agreement on Economic and Technical Cooperation (Ecotech Agreement) was signed under the framework of CEPA. It consolidates and updates the economic and technical co-operation activities between Hong Kong and Mainland China in 22 areas.

Details of CEPA can be found [here](#).

Apart from FTAs, Hong Kong has signed Investment Promotion and Protection Agreements (IPPAs) with 21 economies, and concluded the negotiations with Bahrain, Mexico, Myanmar and the UAE, respectively; the IPPAs with Iran and Russia, respectively, are under negotiation. On the other hand, Hong Kong has concluded comprehensive double taxation agreements (CDTAs) with some 43 jurisdictions while those with another 14 countries/territories are still under negotiation.

For more information and assistance in establishing an operation in Hong Kong, please read the [Guide to Doing Business in Hong Kong](#), or contact InvestHK.

8. Economic Relations with Mainland China
Hong Kong is an important entrepôt for Mainland China. According to the HKSAR Government statistics, in 2018, 57% of re-exports were of Mainland origin and 55% were destined for Mainland China.

According to China Customs statistics, Hong Kong is the fourth largest trading partner of Mainland China after the US, Japan and South Korea, accounting for 6.7% of its total trade in 2018.

Hong Kong is the largest source of overseas direct investment in Mainland China. By the end of 2018, among all the overseas-funded projects approved in Mainland China, 46.3% were tied to Hong Kong interests. Cumulative utilised capital inflow from Hong Kong amounted to US$1,098.1 billion, accounting for 54.1% of the national total.

Hong Kong is also the leading destination for Mainland China’s FDI outflow. According to Chinese statistics, by 2018, the stock of FDI going to Hong Kong accumulated to US$1,100.4 billion, or 55.5% of the total outflow of FDI.

Mainland China, on the other hand, is a leading investor in Hong Kong. According to the HKSAR Government statistics, the stock of Hong Kong’s inward investment from Mainland China amounted to US$526 billion at market value or 26.8% of the total at the end of 2018.

Hong Kong is a technology marketplace for Mainland China. According to the Ministry of Science and Technology, in 2017, Hong Kong was the 8th largest source of technology imports for Mainland China in terms of contract value (US$788 million), accounting for 2.4% of the total.

Hong Kong is a key offshore capital raising centre for Chinese enterprises. As of the end of 2018, 1,146 Mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies, with total market capitalisation of around US$2.6 trillion, or 68% of the market total. Since 1993, Mainland companies have raised more than US$800 billion via stock offerings in Hong Kong.

As of December 2019, there were 14 licensed banks and 5 local representative offices, incorporated in Mainland China, operating in Hong Kong.

In November 2014, Shanghai-Hong Kong Stock Connect was launched to establish mutual stock market access between Hong Kong and Mainland China, a significant breakthrough in the opening of China’s capital markets.

In December 2016, Shenzhen-Hong Kong Stock Connect, with similar programme principles and design, was launched to further facilitate two-way investment flows and consolidate Hong Kong’s development as the global offshore RMB business hub.

In July 2017, the mutual bond market access between Hong Kong and Mainland China (Bond Connect) was launched to promote the development of the bond markets in the two places.

In December 2017, the Arrangement between the National Development and Reform Commission (NDRC) and the Government of the Hong Kong Special Administrative Region for Advancing Hong Kong’s Full Participation in and Contribution to the Belt
and Road Initiative (the Arrangement) was signed. The Arrangement serves as a blueprint for Hong Kong’s further participation in the Belt and Road Initiative.

9. HK Trade Statistical Highlight

- HK Trade Performance Highlight
- HK Ranking in World Merchandise Trade
- HK Ranking in World Commercial Services Trade


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