



Exporter Guide

HONG KONG

Economy Brief
August 2011

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KEY INDICATORS

ECONOMIC INDICATOR	COUNTRY
Population	7.12 million (2010)
GDP	US\$225 billion (2010)
GDP Growth Rate	6.8% (2010)
GDP Per Capita	US\$31,590 (2010)
Inflation	2.40% (2010)
Total Imports	US\$442.03 billion (2010)
Total Exports	US\$401.02 billion (2010)
Currency	Hong Kong Dollar
Exchange Rate	US\$1 = HK\$7.81 (as at August 2011) NZ\$1 = HK\$6.33 (as at August 2011)

Source: IMF World database, World Trade Atlas, www.oanda.com

OVERVIEW

Hong Kong and New Zealand

New Zealand has a strong trade and economic relationship with Hong Kong, with both being proponents for open markets and multilateral trading systems. On 1 January 2011, the New Zealand - Hong Kong Closer Economic Partnership Agreement entered into force, securing duty-free access for New Zealand goods into Hong Kong; liberalising trade in services and improving the business environment. Furthermore, negotiations began in 2010 on a protocol to promote and protect investment between New Zealand and Hong Kong.¹

Hong Kong is New Zealand's eleventh largest export market (NZ\$788 million, ye June 2011), with food and beverage products being the primary exports. Hong Kong also offers New Zealand companies an entry point and platform into China.

Economy

Hong Kong has a free trade economy, with an industrious work force and a modern, sophisticated commercial infrastructure. It also has one of the world's busiest container terminals and is a major transshipment centre for goods to and from China. It boasts an excellent telecommunications network that links it to the major cities of the world.



As one of the world's most open economies, Hong Kong was hit hard by the global financial crisis, but has recovered strongly thanks primarily to the growth of mainland China. Hong Kong's GDP grew by 6.8 percent in 2010 and growth is predicted to be between 4 to 5 percent in 2011.ⁱⁱ

Hong Kong is a service-based economy, with the services sector accounting for more than 90 percent of total GDP. Key industries include financial services, tourism, trading, logistics and professional services.ⁱⁱⁱ It also has an efficient wholesale and retail network catering to the growing consumption needs of an affluent population. Hong Kong's manufacturing sector has mostly relocated to mainland China, which provides cheaper labour, land and buildings. Its strategic location, excellent communications network and efficient infrastructure have made it a hub for trade, finance and business services in the region. In 2010, there were over 3,500 regional offices in Hong Kong representing parent companies located outside Hong Kong. Furthermore, 82 percent of these companies were responsible for business in mainland China, confirming Hong Kong's role as a gateway to the mainland.ⁱⁱⁱ

Closer integration with mainland China has strengthened the economy of Hong Kong. The rise in the purchasing power of mainland residents and businesses has had a positive impact on Hong Kong due to an increased demand for goods and services supplied through Hong Kong. In a move to more closely integrate with mainland China, a new supplement to the Closer Economic Partnership Arrangement (CEPA) was signed in 2009.

One of the biggest challenges facing Hong Kong is the growing spending pressures resulting from an ageing population and expected rise in health care costs.

Investment and Foreign Trade

Following a slight drop in 2009, Hong Kong's exports increased by 23 percent in 2010, and 15 percent year-on-year in January-June 2011. Re-exports from Hong Kong also amount to significant business, with mainland China, Japan and the United States being the main re-export destinations.

Hong Kong is also an attractive market for foreign direct investment. According to the UNCTAD World Investment Report 2011, Hong Kong was the world's third largest recipient of Foreign Direct Investment (FDI) flows in 2010, attracting US\$68.9 billion. Excluding tax haven economies, mainland China was the most important source of direct investment in Hong Kong (36.4 percent), followed by the Netherlands (6.8 percent), the United States (4.3 percent) and Japan (2.3 percent). Hong Kong has become the largest source of FDI in Asia, with FDI outflows amounting to US\$76 billion in 2010.ⁱⁱⁱ



POLITICAL

The Sino-British Joint Declaration on Hong Kong and the Basic Law of the Hong Kong Special Administrative Region (SAR, effective 1999) ensure that the “one country, two systems” agreement between Beijing and Hong Kong will extend at least until 2047. This gives Hong Kong SAR a Chief Executive and a legislature that is able to make autonomous decisions for Hong Kong independently from Beijing. The Rule of Law and its ultimate power were tested twice in 1999 when two controversial cases, which had already been decided by the highest court in Hong Kong, were referred to the mainland for final ruling and reversed. This cast some doubt on the promise of the “one country, two systems” philosophy and still is the basis for some about concern about impartiality.

An Election Committee votes on the Chief Executive (CE) and is made up of approximately 800 Hong Kong residents from four constituency groups: commercial, industrial, and financial interests; professionals; labour, social services, and religious interests; and the legislature, the Chinese People's Political Consultative Conference, and the P.R.C. National People's Congress. Current CE, Sir Donald Tsang Yam-kuen, came to office in 2005 and was re-elected for another five year term in March 2007. Tsang's current term will end in 2012.

CLOSER ECONOMIC PARTNERSHIP AGREEMENT

The establishment of the Closer Economic Partnership Agreement (CEPA) under the framework of the WTO aims to further promote trade and investment flows, as well as exchanges of talent, capital and technology, between Hong Kong and mainland China. Hong Kong and mainland China signed the main text of CEPA in 2003, with the mainland agreeing to eliminate import tariffs for 374 Hong Kong products and give preferential market access to Hong Kong service suppliers in 18 services sectors. Further liberalisation measures covering ten service sectors came into effect in 2007 and all products of Hong Kong origin, except for prohibited articles, became tariff free. However eligible products must fulfil the CEPA rules of origin to enjoy tariff-free treatment. In general, the liberalisation measures allow earlier access for Hong Kong service suppliers to the mainland ahead of China's WTO timetable.

The WTO-plus liberalisation measures are expected to give Hong Kong firms, especially SMEs, a head start. In the meantime, the mainland's move to allow its securities and futures companies to establish in Hong Kong should help broaden the intermediary base of Hong Kong, enhancing Hong Kong's role as a regional financial centre.



To be eligible to benefit from CEPA, a Hong Kong-based service provider must have its company incorporated in Hong Kong, and have been doing business locally for the past 3 to 5 years. The company must employ at least 50 percent of its staff in Hong Kong, and be liable for Hong Kong profits tax. On the other hand, manufacturers and distributors of goods must have their goods qualified as “made in Hong Kong”, i.e. 30 percent of value of the goods must be added in Hong Kong (includes R&D and design costs). However, it is not necessary for the company to be based in Hong Kong.

CEPA allows overseas service companies to benefit by partnering with, investing in, or buying into CEPA-qualified companies in Hong Kong. Overseas manufacturers or goods traders can also benefit by partnering with, or outsourcing to, a Hong Kong manufacturer. Again, there is no need for the overseas companies to have a base in Hong Kong.

For further information on CEPA, please visit the Hong Kong Trade Development Council’s website: <http://cepa.tdctrade.com>

BILATERAL TRADE

In the year ended June 2011, Hong Kong was New Zealand’s eleventh largest export destination, with exports of NZ\$788 million. Food and beverage products dominate, with the top exports being fresh crustaceans, dairy, meat, apples and kiwifruit. However, exports of software, telecommunications products, consultancy, and natural products are increasing. New Zealand’s main imports from Hong Kong include electrical and other machinery, optical and medical instruments and books.^{iv}

SECTOR OPPORTUNITIES

Food and Beverages

Hong Kong produces very little food and is reliant on imports for the bulk of its supplies. Hong Kong consumers are well supplied with the variety of food products available from around the world, demanding excellent quality while still being very price conscious. New Zealand has a clean and green image in the market and its products are largely competitive in quality, but less so in price due to relatively high production costs and, in recent years, the strong New Zealand dollar. New Zealand has niches in a number of areas with expatriates often searching for imported western style food products. Opportunities exist for specialised food and beverage products such as wines, organics, processed, unique or innovative food products for both the HRI and retail sectors. The use of ingredients unique to New Zealand can also differentiate New Zealand products from those of other countries. Some Hong Kong consumers are now more willing to pay a premium for organic and healthy food products.



Natural Products

An increasingly ageing and health conscious population, while still wedded largely to Chinese herbs and herbal medicines, shows a growing trend of using other health supplements and health foods which can improve wellbeing, longevity, or appearance. These products include honey, royal jelly, propolis, colostrum, green-lipped mussel extract, blueberry extract, primrose oil and Omega-3 oil. High income females are the main group of natural products consumers with many of them also fond of beauty and body slimming products. The market trend in Hong Kong is towards natural and organic.

New Zealand has been the strongest player in Hong Kong in the bee product category, with manuka honey being the leader. This unique product has made New Zealand widely known in the market. New Zealand manufacturers are also increasingly using extracts from the country's native flora and fauna as functional ingredients in new products. This is a very good point of differentiation for New Zealand companies. Product efficacy is the most important criterion for consumers in choosing a natural health product, followed by product safety. Consumers are willing to pay a premium for perceived quality and safety assurance.

Software

Hong Kong was slower to recognise the importance of the software industry, but is now catching up. Lack of skilled IT professionals means there are opportunities, not only for imported software, but also for software and IT personnel. Most hardware service providers are distributors of large international computer companies, and the largest ones combine service provision with software development and consultancy. Software service producers in Hong Kong are mainly value-added resellers, custom software developers / software houses, system and network integrators, electronic data processing departments, information system consultants, or hardware manufacturers who also design operating systems.

Telecommunications

Since 2000, the Hong Kong government has opened competition in all sectors of the telecommunications market. The local fixed network market was fully liberalised with no foreign ownership restrictions. The Fixed Telecommunications Network Services (FTNS) market has been fully liberalised since 1 January 2003, with no pre-set limit on the number of licences issued, nor specific requirement on network rollout or investment. Almost all households and commercial buildings are covered by the broadband network and 76 percent of households have broadband internet access. Internationally, Hong Kong's broadband penetration rate is among the highest in the world. In July 2009, the number of mobile service subscribers was boosted to 11.84 million, representing one of



the highest penetration rates in the world at about 169 percent. There is a high level of competition to provide public mobile phone services.

Environmental Consultancy

Pollution and waste management pose two of the major problems for the government. Air pollution resulting from mainland and near-saturated landfills are the most urgent issues. The government is therefore keen to explore relationships with consultants who can add value to infrastructure and introduce new technology.

Education and Training

Hong Kong students enjoy free education between Primary 1 to Form 3 (Year 9). In 2009, a new academic structure '3-3-4' was launched by the Education Bureau for junior secondary, upper secondary and university study. Other major reforms include IT in education and senior-secondary curriculum. Medium of instruction is still under a controversial debate. Currently, almost every secondary school hires a native English-speaking teacher. The Education Bureau actively engages in various teachers' professional development programmes.

Potential exists for overseas education, particularly for higher education as there are insufficient places for local students. Currently, around 1,400 Hong Kong students travel to New Zealand for study each year. Australia, UK and the United States are the dominant market players (each having roughly 25 percent market share). Other popular alternative means for further education include distance learning programmes provided by overseas institutions, associate degrees offered by subsidiaries of local universities and other vocational training.

Infrastructure Projects

The HK2030 development strategies have three major planning directions - providing a quality living environment; enhancing economic competitiveness; and strengthening links with the mainland.

The 29.6km-long Hong Kong-Zhuhai-Macao Bridge (HZMB) is one of the projects announced by the government to strengthen Hong Kong's connection with the Pearl River Delta Region. The three Governments are responsible for the construction and operation of the boundary crossing facilities and link roads to the bridge within their own territory. The project is targeted for operation by 2015/16 and will provide significant opportunities for social and economic development in the region in coming decades.

In addition, the old Hong Kong International Airport, Kai Tak, will be developed as the "Heritage, Green, Sports and Tourism Hub of Hong Kong". The 323 hectares of land will create a new urban node in East Kowloon supported by commercial and office developments, residential neighbourhoods, a variety of government, institution and



community facilities, a multi-purpose Stadium Complex and a Metro Park fronting Victoria Harbour. A cruise terminal and a tourism node will also be developed at the end of the former runway.

Other large-scale infrastructure projects in Hong Kong include a 5.5km-long Shenzhen Bay Bridge, a 7.4km-long Sheung Shui to Lok Ma Chau Spur Line and a 26-km long underground rail line to connect Guangzhou-Shenzhen-Hong Kong. The Mass Transit Railway of Hong Kong continues to expand its network by developing the Shatin to Central Link and the South Island Line (East).

USEFUL WEBSITES

The following websites are a useful starting point for further research into the Hong Kong market:

TRADE REGULATIONS, CUSTOMS AND STANDARDS

Hong Kong Customs & Excise Department	www.customs.gov.hk
US Commercial Service: 'Country Commercial Guide: Hong Kong'	www.export.gov
USDA Foreign Agricultural Service: Hong Kong Export Guide	www.fas.usda.gov

DOING BUSINESS GUIDES

The World Bank: 'Going Business Guide – Hong Kong'	www.doingbusiness.org
Deloitte: 'Investors' Guide Hong Kong'	www.deloitte.com

TARIFF GUIDE

World Trade Organisation: 'Tariff Database'	tariffanalysis.wto.org
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HONG KONG WEBSITES

Hong Kong Trade Development Council	www.hktdc.com/en-buyer/
Centre for Health Protection	www.chp.gov.hk/
Hong Kong – New Zealand Business Association	www.hongkong.org.nz
Invest Hong Kong	www.investhk.gov.hk
Food and Environmental Hygiene Department	www.fehd.gov.hk
Hong Kong Tourism Board	www.discoverhongkong.com/en/index.jsp
Government of Hong Kong SAR	www.gov.hk/en/residents/



TAXATION

Deloitte International Tax and Business Guide: 'Hong Kong'

www.deloitte.com

Inland Revenue Department

www.ird.gov.hk/

TIME DIFFERENCE

Time Zone Converter

www.timezoneconverter.com

CULTURAL AWARENESS AND ETIQUETTE GUIDE

Kwintessential: 'Doing Business Hong Kong'

www.kwintessential.co.uk

VISA REQUIREMENTS

Immigration Department

www.immd.gov.hk

PUBLIC HOLIDAYS

World Travels: 'Holidays'

www.worldtravels.com

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ⁱ Ministry of Foreign Affairs, Country Information: Hong Kong Special Administrative Region.

ⁱⁱ US Commercial Service, Background Note: Hong Kong, March 2011

ⁱⁱⁱ Hong Kong Trade Development Council (HKTDC), Economic and Trade Information on Hong Kong, July 2011

^{iv} World Trade Atlas

