
Exporter Guide

ICT MARKET IN HONG KONG

Market Profile
January 2011

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1 MARKET STRUCTURE

1.1 Market Overviewⁱ

Hong Kong's Information Technology (IT) market is one of the most advanced in the Asian region and among the highest performing on a per capita spend basis. Per capita IT spend was estimated at US\$616 in 2009, compared with US\$58 in China.

Software

Software sales were estimated at US\$1.1 billion in 2010 and are forecast to reach US\$1.4 billion by 2014. It is estimated that software accounts for around 25 percent of IT revenues. Hong Kong is viewed as the regional market leader in software development, however this is now being challenged by Shenzhen and Singapore.

Although Hong Kong is a minor player in the global software industry, there are several hundred independent software vendors. Most companies are small, employing ten people or fewer. Enterprise resource planning and e-commerce services are the main areas of expertise. Accounting, portal management and customer-relations management are the other common fields of specialisation. In contrast to the highly globalised local IT hardware manufacturing sector, only a small proportion of software firms serve markets beyond Hong Kong, although many have offices in China.

Recent growth has been in the enterprise resource planning (ERP), customer relationship management (CRM) and business intelligence areas. Also, software-as-a-service (SaaS) is enjoying popularity in Hong Kong.

Hardware

Hardware revenues were estimated to be US\$2.1 billion in 2010 and are forecast to reach US\$2.6 billion by 2014. Improvements in consumer spending power and new product releases are tipped to contribute to the growth. Additional improvements in business IT investment is expected to drive higher growth.

Recent revival in corporate and small medium enterprise (SME) investment is expected to underpin the market. The banking and financial services market is predicted to increase IT hardware purchases to gain/contribute to development plans.

Telecommunications

All sectors of Hong Kong's telecommunications market have been liberalised and there are no foreign ownership restrictions. It is estimated there are more than 5.2 million internet users including 2.2 million broadband users. In addition there are more than 12.6 million mobile phone subscribers with an estimated market penetration rate of 180 percent. In January 2010 there were 4.2 million third-generation (3G) subscribers in Hong Kong, representing around 59 percent of the population and one-third of all mobile-phone subscriptions, according to the industry watchdog, the Office of the Telecommunications



Authority (OFTA). Hong Kong has 5 mobile network operators and 189 internet service providers.

Most of the major 3G operators have deployed additional 3.5G services utilising High Speed Downlink Packet Access (HSDPA) technology which supports downloads at a speed up to 21 Mbps. With the launch of the CDMA2000 service in November 2008, users can now use roaming services through the network in addition to the GSM900/1800 and W-CDMA networks.

Competition in the market for fixed-line services is slightly weaker. Although many new fixed telecoms network services (FTNS) operators have entered the market since the sector's monopoly was ended in 1995 and most residential households now have a choice of FTNS operators, the previous monopoly holder, PCCW, is still the leading provider and has a universal basic-service obligation in FTNS. In the market for international services, however, PCCW's previous dominance has been substantially eroded.

In both fixed and wireless telecommunications there is a growing convergence between broadcast services, such as voice telephony, the Internet and television. The government's relaxed attitude towards censorship, combined with the high level of regulatory co-operation between the government bodies responsible for these fields, has facilitated the progress of convergence in Hong Kong. PCCW has been a global leader in this area, providing a full range of both voice and data services, but all carriers have benefited to some extent from the positive effect that convergence has had on demand for telecoms servicesⁱⁱ.

1.2 Market Drivers

Economic Growthⁱⁱⁱ

Hong Kong's economy expanded by 2.4 percent in real terms during 2010 after contracting 2.7 percent in 2009. Soaring property and equity prices over this period have boosted private consumption via the wealth effect. Hong Kong's property market is tipped to decline over the coming quarters after quickly rising. Hong Kong has a high rate of savings and this has contributed to a certain level of financial stability.

Government Policy^{iv}

The blueprint for information communications technology (ICT) strategy in Hong Kong is the SAR's Digital 21 Strategy. The aim of this strategy is to promote Hong Kong as Asia's wired city. In the recent 2008 update, five action areas were identified as priorities:

- Facilitating a digital economy.
- Promoting advanced technology and innovation.
- Developing Hong Kong as a hub for technological cooperation and trade.
- Enabling the next generation of public services.
- Building an inclusive knowledge based society.



The government has also pushed for stronger ICT cooperation between Hong Kong and China. In 2007, Hong Kong and China signed an important agreement on cooperation and exchange in it. One of the main focuses is to allow Hong Kong companies to participate in the development of new national standards and products.

Hong Kong Applied Science and Technology Research Institute (ASTRI)

The Institute was established in 2002 to stimulate the growth of technology-based industry. Its R&D projects cover the fields of photonic technologies, wireless communications, internet applications, integrated circuit design, biotechnology and Chinese medicine.

Cyberport

Cyberport is the HK\$16 billion (US\$2 billion) IT flagship project. It aims to create a cluster of IT/IS and multimedia content creation companies. Major facilities include a Digital Media Centre and a Wireless Development Centre.

Hong Kong Science & Technology Parks

The technology park is a multi-phased US\$1.5 billion project providing serviced premises for science and technology businesses. The shared facilities provide research and development (R&D), equipment, laboratories, conference facilities, wireless LAN and broadband internet. It also offers end-to-end services to support R&D initiatives in four industry clusters including IT and telecommunications.

1.5 Major Players

Although Hong Kong's IT market is far smaller than China's, it still has a high level of competition due to its proximity to other regional markets within Asia and its highly open industry, free of regulations (high level of competition). Lenovo is the market leader in hardware followed closely by HP, Dell and Acer. Major players in the software market include Microsoft, SAP and Oracle. In telecommunications the largest companies are PCCW, SmarTone and Hutchison.

1.6 Regulatory^v

Duties and tariffs

As Hong Kong is a free port, there are no customs tariffs on goods imported into or exported from Hong Kong. Excise duties are levied on only four types of goods, namely, liquors, tobacco, hydrocarbon oil and methyl alcohol. For more information on Hong Kong's general trade policy, import and export requirements and procedures, please see this website: www.tdc.trade.com/sme/iepract/index.htm



Product Standards

The Office of the Government Chief Information Officer (OGCIO) was set up on 1 July 2004 to provide leadership for the development of information and communications technology (ICT) within and outside the government.

Software Standards

The Government encourages developers of information technology and software products in Hong Kong to adopt the ISO 10646 standard/Unicode. In order to enhance competitiveness, software companies are encouraged to achieve Capability Maturity Model (CMM) standard and ISO 9000.

Telecommunication Standards

The Office of the Telecommunications Authority (OFTA) is the executive arm of the Telecommunications Authority, which is the statutory body responsible for regulating the telecommunications industry in Hong Kong. (www.ofta.gov.hk)

As for regulatory authorities for Internet Protocol television (IPTV) and mobile TV, OFTA regulates telecommunications carriage and spectrum, while Broadcasting Authority regulates the broadcast carriage, spectrum and content.

Hong Kong as a gateway to China

New Zealand concluded 'Closer Economic Partnership' (CEP) negotiations with Hong Kong in November 2009 and the CEP was signed by Minister of Trade Tim Groser and Secretary for Commerce and Economic Development Rita Lau on 29 March 2010. It will enter into force in 2011. There was NZ\$794 million in exports and NZ\$203 million imports between the two countries in the 2009 calendar year.

Information provided in this section is for reference only. When negotiating supply contracts and before beginning actual export, companies are advised to consult closely with their importer or distributor.



2 MARKET ENTRY AND DEVELOPMENT

2.1 Market Entry Strategies

Practical tips for New Zealand companies include:

Market knowledge – New Zealand companies should take time to have a sound knowledge of the local market before approaching buyers, as it will help with making more targeted sales pitches and sometimes avoid wasting time on approaching inappropriate companies.

Price and geographical barriers – New Zealand companies are often disadvantaged as their products or services are more costly than competitors, and the fact that New Zealand is remote from Hong Kong makes local companies feel New Zealand suppliers will be out of reach or not as responsive as others in after sales service. An ability to demonstrate competitive market support and after sales service is an essential part of an exporter's value proposition.

Language and cultural barriers – for certain products or services, language and culture will be issues. New Zealand companies are recommended to employ professional translators or consultants to adapt products to local market requirements.

Responsiveness – New Zealand companies are often considered to be too slow, by Hong Kong standards, to respond to communications. Companies selling to Hong Kong should have systems in place to ensure that enquiries and matters requiring follow up are responded to promptly.

Find the right partner – this is crucial to a company's success. It is important that the partnership is enhanced by joint marketing plans and timely communications about trends and developments in the market that present threats or opportunities for the business. Personal relationships are considered very important and it is recommended that a company visit the market in person to establish these relationships.

2.2 Points of Differentiation

For companies with commercial products, market entry strategies, distribution channels and pricing would need to be assessed on a case-by-case basis depending on the type of activity. New Zealand companies need to have a clear value proposition. They need to undertake comprehensive market research including an analysis of competitors and potential partners. From this a solid marketing and risk management plan can be developed.



There are a number of strategic issues for New Zealand exporters to Hong Kong to consider. These include:

- Raising awareness of New Zealand's capability.
- Developing a joint strategy with Hong Kong companies and suppliers/customers to promote the region and attract offshore investment.
- Building alliances for marketing and distribution to third markets.

New Zealand companies need to have a unique product to sell, especially in the fields of information technology, telecommunications and the internet. The Hong Kong market is very quick to adopt new products with distinctive value.

2.3 Intellectual Property

Protecting intellectual property (IP) – including products, design and processes, trademarks and patents, brand names and promotional material, user manuals, trade secrets and domain names – is one of the biggest issues New Zealand firms face when entering new markets. Hong Kong's laws and judicial system, including its regulations relating to IP, are independent from the Chinese system. Hong Kong's IP system is similar to UK's IP legislation. The Intellectual Property Department is responsible for administering intellectual property within Hong Kong: www.ipd.gov.hk

2.4 Distribution Channels

There is no single distribution solution that fits all businesses. How you choose to enter the market will depend largely on the nature of the product and your company's mid-term and long-term objectives. In Hong Kong, ICT products are mainly sold through distributors, systems integrators or directly into the retail market. For example, a small exporter, with limited capacity and limited financial resources, may first use an agent or distributor. Later they may establish a market presence. A physical presence in the market is very valuable, giving customers and businesses trust that this is a long-term relationship. Exporters can take more advantage of networking opportunities and identify and respond more quickly to changes in the business environment and customer trends.



3 MARKET RESOURCES AND CONTACTS

GOVERNMENT	WEBLINK
Census and Statistics Department	www.censtatd.gov.hk
Customs and Excise Department	www.customs.gov.hk
Electrical and Mechanical Services Department	www.emsd.gov.hk
Hong Kong Trade Development Council	www.tdctrade.com
Invest HK	www.investhk.gov.hk
Intellectual Property Department	www.ipd.gov.hk
Office of the Government Chief Information Officer	www.ogcio.gov.hk
The Office of the Telecommunications Authority	www.ofta.gov.hk
Trade and Industry Department	www.tid.gov.hk
ASSOCIATIONS	WEBLINK
Cyberport	www.cyberport.hk
Applied Science and Technology Research Institute	www.astri.org
Electronic Industries Association	www.hkeia.org
Information Technology Federation Limited	www.hkitf.org
Internet Service Providers Association	www.hkispas.org.hk
Productivity Council	www.hkpc.org
Science & Technology Parks	www.hkstp.org
Wireless Technology Industry Association Limited	www.hkwtia.org
Information and Software Industry Association	www.isia.org.hk
TRADE EVENTS	WEBLINK
International ICT Expo	www.ictexpo.tdctrade.com
Hong Kong Electronics Fair (Spring edition)	www.hkelectronicfairese.tdctrade.com
Hong Kong Electronics Fair (Autumn edition)	www.hkelectronicfairese.tdctrade.com



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- ⁱ Business Monitor International. *2010 Information Technology Report, Qtr 4.*
 - ⁱⁱ Hong Kong Government, www.gov.hk.
 - ⁱⁱⁱ Economist Intelligence Unit.
 - ^{iv} Hong Kong Government, www.gov.uk and Business Monitor International.
 - ^v US Commercial Service. *2010 Doing Business in Hong Kong and Macau.*

