
Market Profile for ICT in Hong Kong

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1.0 MARKET STRUCTURE

1.1 Background

Hong Kong is a trading hub not only for consumer goods but also a range of high-tech products, dominated by electronics-related items. In 2008, Hong Kong's exports of high-tech merchandise amounted to US\$174 billion. The majority are re-exports of high-tech products originating from mainland China and overseas countries. The mainland is the largest market for Hong Kong's high-tech exports, accounting for 60 percent of the total in 2008, followed by the US, Japan, Singapore and Taiwan.¹ This reflects Hong Kong's role as a trading hub for high-tech products in the regions, particularly with China.

The Hong Kong government has made substantial investment in providing the best possible infrastructure to nurture ICT businesses in Hong Kong.

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.

Government

The government has also been taking the lead in promoting e-commerce with the launch of the Electronic Service Delivery Scheme in 2000. More than 200 public services are now offered online.

1.2 Strengths and weaknesses of the market

Hong Kong maintains an edge in the business of technology thanks to a number of its intrinsic advantages and the "China" factor. All these help the economy survive weaknesses such as higher operating costs and lack of front-end R&D activities, and overcome challenges from competitors in the region and around the globe.

Hong Kong's advantages include the following:

- Conducive business environment
 - Ranked World's freest economy for the 14th consecutive year (2008 Index of Economic Freedom from Heritage Foundation/Wall Street Journal).
 - Low and simple taxes; free flow of information; free port status.
 - World class infrastructure: fully liberalised fixed line and mobile networks; 100 percent broadband coverage for commercial and residential areas; 129 percent mobile phone penetration.
 - Rule of Law: Independent judiciary; an international arbitration and mediation centre; stringent IPR (Intellectual Property Rights) protection and enforcement.
 - Availability of professional services (for example, licensing and patent registration).
- The China factor
 - Proximity to the mainland's huge industrial market, especially in the Pearl River Delta.
 - Technology companies facilitated by CEPA's opening of the mainland's merchandise trade and service markets to Hong Kong (CEPA stands for the Closer Economic Partnership Arrangement).

1.3 Known factors influencing growth rate

Hong Kong officially slid into recession in November 2008. The economy shrank by 7.8% (year on year) in the first quarter of 2009. This was the biggest contraction since the Asian financial crisis in the late 1990s. The Hong Kong SAR government has revised its full year GDP forecast down to a contraction of 5.5 to 5.6%. The Hong Kong economy is increasingly facing challenges of rising unemployment, increased competition from mainland China and an ageing population.

A global survey called Nielsen Consumer Confidence Index found that of the 46 countries surveyed consumers in Hong Kong are the 6th most concerned about the economy and that consumer confidence is continuing to decline.²

The continued growth in mainland China's economy is to some degree supporting the territory's economy. Although much slower than in recent years, China's GDP is expected to rise by around 6 percent.³

CEPA – Preferential trade access to China

Closer Economic Partnership Arrangement (CEPA) is China and Hong Kong's first free trade agreement which was signed in June 2003. It grants easier access to the China market for Hong Kong-made products, and Hong Kong-based service companies. This preferential treatment is available to people and businesses of all nationalities once they have become CEPA-qualified.

CEPA benefits apply to 1,108 product codes, covering over 90 percent of Hong Kong's exports to the mainland. Goods exported direct from Hong Kong to the mainland and made in Hong Kong are, or will be, eligible for zero tariffs.

Overseas companies which are not based in Hong Kong can take advantage of CEPA by outsourcing to, or partnering with a CEPA-qualified manufacturer or service provider in Hong Kong. For more information on CEPA see the website of the Trade and Industry Department, HKSAR government: www.tid.gov.hk/english/cepa/index.html

2.0 ELECTRONICS

2.1 Current market situation

Hong Kong serves as the key electronics parts sourcing and distribution hub for Asia. It has over 10,000 overseas and local electronics companies. Hong Kong's electronics industry is the largest merchandise export earner, accounting for almost 60 percent of Hong Kong's total exports in 2008 (US\$174 billion).

IT and multi-media products continue to be the star performers in the market. Wireless applications such as wireless LAN or Wi-Fi (wireless fidelity) has become a popular choice for wireless access to the internet. As for consumer electronics, digital products such as digital camcorders, digital cameras, and digital TV apparatus are in demand.

Most manufacturers have relocated the labour-intensive processes to mainland China for cost reasons. Hong Kong's traditional skills in manufacturing have created a vast production base in southern China. Riding on its success in manufacturing, Hong Kong now concentrates on the value-added end of the spectrum, doing product design, quality control, marketing, logistics support and management.

2.3 Market outlook

One of the focal areas is wireless application. Amid the popularity of broadband internet access, demand for wireless connections is on the rise. In particular, the solution of Wi-Fi is now a popular choice for wireless access to the internet. The GovWiFi programme has been progressively rolled out by the Hong Kong government from early 2008 and offers free Wi-Fi services at about 350 government premises for the general public.⁶ Currently there are more than 7,800 public Wi-Fi "hotspots"⁸ available in many locations such as coffee shops, PCCW telephone booths, and Hong Kong International Airport.

In consumer electronics, digitalisation is the major development trend in today's AV equipment sector. One of the prominent areas is digital imaging. The government announced in July 2004 the implementation framework for digital terrestrial TV (DTT). The existing two broadcasters, Asia Television Limited (ATV) and Television Broadcasts Limited (TVB) have launched DTT in December 2007, and by December 2008 33 percent of households were receiving digital TV.⁴ According to a public survey conducted in the first quarter of 2009, about one-third (around 770,000) households in Hong Kong receive DTT services via set-top boxes, integrated digital television sets and computers. Digital uptake

has grown as the DTT coverage has progressively been extended to reach some 75 percent of the population in Hong Kong.

The government aims to switch off analogue broadcasting in 2012. The consumer electronics industry is likely to benefit from consumer demand for digital products.

3.0 INFORMATION TECHNOLOGY

3.1 Current market situation

According to a survey conducted by the Hong Kong Productivity Council (HKPC), named “Study on Hong Kong IT Services Sector 2006”, nearly 80 percent of the Hong Kong IT service providers are SMEs with less than 20 employees. Most of the IT service providers surveyed specialised in software design and development, or in providing IT consultancy services.

The main businesses buying professional IT services in Hong Kong are in banking and finance; shipping, freight forwarding and logistics; trading and transportation.

3.1.1 Banking and finance

Applications now readily available include online banking, e-security trading (via internet, PDAs or mobile phones), the stock market’s electronic off-platform trading system and the interbank real time gross settlement (RTGS) system.

3.1.2 Shipping, freight forwarding and logistics

Hong Kong’s e-logistics service providers developed the Digital Trade and Transportation Network (DTTN) to meet the requirements of modern supply chain management.

Radio frequency identification (RFID) is used to facilitate warehouse management and supply chain management. The Hong Kong International Airport is now using this technology to facilitate its air cargo flow.

3.1.3 Trading

Given Hong Kong’s long history of trading, it is an advanced user of computerised import and export documentation. Tradelink Electronic Commerce Limited provides an electronic platform to facilitate transactions such as certificates of origin and trade declaration applications. In turn, these documents can be shared between government departments and different stakeholders along the supply chains.

3.1.4 Transportation

Founded by major transport operators in Hong Kong, Octopus Cards Limited developed the Octopus card by using RFID technology and launched it in 1997. Besides being used for

paying commuter transportation fees on the subway, buses and ferries, the cards have also been used for small retail payments since June 2003. Over 12 million Octopus cards are currently in use by Hong Kong's population of 7 million.

3.2 Service providers

IT services can be broadly divided into software and hardware services:

3.2.1 Hardware service providers

Most hardware service providers are distributors for large international computer companies, and the larger ones combine service provision with software development and consultancy.

3.2.2 Software service providers

According to the Hong Kong software industry survey conducted by the Hong Kong Productivity Council (HKPC) in 2004, there were about 700 independent software vendors (ISVs) in Hong Kong. Most companies were relatively small with 56 percent of them employing 1-10 full-time staff in Hong Kong.

Software service providers in Hong Kong can be grouped into the following categories:

- Value-added resellers
- Custom software developers/software houses
- System and network integrators
- Electronic data processing departments
- Information system consultants
- Hardware manufacturers who also design operating systems

3.3 Market outlook

The development of the IT industry is key to Hong Kong's position as a world centre for business and has brought innovations to many sectors - Octopus in public transport, the Airport Management System, the Modern Port Management System used in the container ports, the Online and Wireless Banking System in the financial sector, and the Smart ID of the public sector.

In the future, Hong Kong businesses will continue to commercialise and export technologies to the world. Some of these have been exported to other markets, such as the Octopus technology to the Netherlands public transport system, Macau and Dubai. PCCW has been exporting its IPTV to Asia and more recently to the UK and USA.

4.0 TELECOMMUNICATIONS

4.1 Current market situation

Hong Kong's telecommunications industry is totally privately owned with no restriction on foreign investment. Most telecommunication services are open for competition. The government has set up a regulatory framework to ensure the telecommunications market remains pro-competition and pro-consumer regulatory framework crucial for a successfully liberalised market. The Office of the Telecommunications Authority (OFTA) regulates and facilitates the development of the sector.

4.1.1 Local Fixed Telecommunications Network Services (FTNS)

In 2008, there were about 3.8 million exchange lines (of which 1.7 million were business exchange lines). The telephone density was 55 lines per 100 households or 54.5 percent by population, which was among the highest in the world.⁵

4.1.2 Mobile services

In 2008, there were 14 digital networks operating, and the number of mobile service subscribers reached 9.1 million, representing one of the highest penetration rates in the world at about 130 percent. Approximately 2.5 million (22%) are 3G service subscribers.⁵

4.1.3 Broadband services

In 2008, there were 173 Internet Service Providers (ISPs) licensed to provide broadband services. More than 2.4 million customers are using broadband services with speed up to 1,000 Mbps, accounting for over 35 percent of the total population. Internationally, Hong Kong's broadband penetration rate is among the highest in the world.⁵ In the residential market, 77 percent of the households are using broadband services which have facilitated the development of IPTV. As at February 2008, there were over 1 million IPTV subscribers.⁶

4.2 Service providers

As at September 2008, there were 42 fixed line telecoms network service companies (including wireless, satellite and cable). There were also 250 external telecommunications services operators providing a wide range of value-added services such as electronic mail box, store-and-forward facsimile and electronic data interchange.⁵

4.3 Market outlook

Wireless utilisation continues to gain momentum in the consumer market. The mobile industry is shifting towards providing not just voice but also high-speed data and image transmission services. Major 3G-related applications include videoconferencing, media on demand, shoot and send, map services and games.

5.0 INTERNET

5.1 Current market situation

Since the emergence of the first commercial Internet Service Providers (ISPs) in 1993, internet use among businesses and households has dramatically increased. In 2008 it was estimated that 77.3 percent of households connected to the internet are using broadband⁶ and 59 percent of business establishments had an internet connection.⁷

According to the Internet World Statistics, Hong Kong's internet penetration rate ranks number one in Asia and number nine in the world. According to The Office of the Telecommunications Authority (OFTA), Hong Kong's household broadband penetration rate is among the highest in the world (77.7 percent of Hong Kong households in February 2009).⁸

In 2008, 59 percent of Hong Kong companies had received goods, services or information through electronic means.

Table 1 Percentage of establishments having internet connections⁷

By industry		By employment size	
Manufacturing	52%	Large	95%
Construction	47%	Medium	85%
Wholesale, retail, I/E trades, restaurants and hotels	62%	Small	54%
Transport, storage and accommodation	32%	Overall	59%
Financing, insurance, real estate and business services	80%		

5.2 Service providers

5.2.1 Internet Service Providers (ISPs)

According to OFTA, Hong Kong had 167 ISPs and there were 2.9 million internet users in February 2009.⁸ However, not all licensees operate an active business and the ISP market is dominated by a few major players (eg i-Cable, Netvigator, Hong Kong Broadband). In November 1996, Hong Kong Internet Service Providers Association (HKISPA) was formed to promote the development of the industry. Member companies of the HKISPA are estimated to account for over 75 percent of Hong Kong's internet user market.

5.2.2 Internet Content Providers (ICPs) and portal sites

In a broad sense, all internet sites are ICPs. Some ICPs specialise in one single topic and provide one-stop information search services.

5.2.3 Application Services Providers (ASPs)

ASPs deliver and manage applications and computer services from remote data centres to multiple users via the internet or a private network. Besides technical support, ASPs in Hong Kong also provide integrated e-commerce solutions such as supply chain management to clients.

5.3 Market outlook

In November 2008 PCCW began the provision of CDMA2000 service in the Golden Bowl Area1, which includes the Kowloon peninsula and the northern part of Hong Kong Island. Phase two of the project is scheduled to be completed by November 2010. This will include the installation of equipment in locations such as airports, railway stations, road tunnels, and border control points.⁹

Under CEPA V, which became effective on 1 January 2008, Hong Kong service suppliers can set up joint venture enterprises on the mainland to provide mainland IP based Virtual Private Network Services as defined in the “Telecommunications business classification” without geographic restriction.

6.0 DIGITAL ENTERTAINMENT

6.1 Current market situation

According to the IDC Hong Kong Digital Entertainment Study 2006-2007, the digital entertainment industry in Hong Kong currently consists of approximately 260 digital entertainment companies (with the exclusion of in-house and freelance professionals) of which 45 percent are in the entertainment software/gaming business, 30 percent are in computer animation and comics and 25 percent in digital effects. Entertainment software/gaming has contributed US\$20.3 million to the Hong Kong economy, while computer animation and comics has contributed US\$16.9 million and the digital effects US\$21.6 million.

The Hong Kong government has identified digital entertainment as one of the focus areas for technological development in the Digital 21 Strategy published in March 2004 (www.ogcio.gov.hk/eng/digital/edigital.htm). Under the mainland China and Hong Kong Closer Economic Partnership Arrangement (CEPA), the PRC government implemented liberalization measures for Hong Kong companies to enter the digital entertainment markets in mainland China. See the Trade and Industry Department website for details on CEPA: www.tid.gov.hk/english/cepa/

While high internet and broadband penetration facilitates the growth of the local digital entertainment industry, there is also hindrance due to high operating costs, and lack of R&D capability.

6.2 Entertainment software/gaming

According to the IDC study, the online gaming subscription market in Hong Kong in 2006 was worth US\$30.7 million. There is an increase in the importance of console game development in Hong Kong online games. Service providers have developed console games on the next generation videogames and handheld Nintendo Wii, Sony Playstation 3, Microsoft Xbox 360, and Nintendo DS. Online gaming subscription in Hong Kong is forecast to grow to US\$54.64 million in 2010.

The domestic market still remains as the biggest and most important market for game companies in Hong Kong. Primary business foci for gaming companies include online game development, mobile game development, and PC game development. The top three sales channels for companies are distributors, mobile service providers, and web sites. The major competitors for local companies are from Hong Kong itself, mainland China, US, Japan, Korea and Singapore. Local companies rely on their creativity and quick market responses to compete with other industry players.

6.3 Computer animation and comics

According to the IDC study, the online gaming most of the key players are in transition from traditional business structures to the new digital era. Digital editing in comics has been evolving into a mainstream product. The traditional comics industry has begun to collaborate with new animation businesses to generate more synergies and competitive advantages. Major revenue streams for businesses include publication of animation, animation editing projects, advertising, and leveraging the animation characters as spokespersons for other commercial products.

It is expected that there will be more new entries to the market in the coming three to five years due to low entry barriers of the industry. Major competitors for local businesses are from Hong Kong itself, mainland China, Korea, UK, US, Japan, Germany, Canada and Thailand. Local businesses rely on their competitive advantages—creative solutions and competitive pricing—to meet challenges from competitors.

Computer animation and comics companies' major business partners include internet partners, media partners, and games software developers.

6.4 Digital effects

The IDC study showed that most of the digital effects companies are medium-to-large sized businesses. The domestic market is still the major customer for local digital effects companies, followed by South East Asia, mainland China, and Hollywood, United States. The primary business foci for companies are digital effects related to commercials, films, and TV series.

Major competitors for local companies are from Hong Kong itself, mainland China, Thailand and Germany. The competitive edge for local companies are competitive pricing, creative solutions, and excellent management skills. Top three business partners for companies include cross-media channels partners, media partners, and distributors in mainland China.

7.0 REGULATORY OVERVIEW

7.1 Tariffs, duties and taxes

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

7.2 Regulations and licensing

There are different government departments governing the various kinds of products, services and technologies in the ICT sector, depending on the nature of the specific product/service/technology. Different regulations apply as well. Below are the departments and regulations governing the various ICT businesses.

7.2.1 Electronics

The Electrical and Mechanical Services Department acts as the regulatory body and law enforcement department. It administers the safety legislation and issues codes of practice and guidelines on the safe use of home electrical appliances, electricity, gas, lifts and escalators. www.emsd.gov.hk

7.2.2 Information technology and internet

Both the Customs and Excise Department (www.customs.gov.hk) and Intellectual Property Department (www.ipd.gov.hk) uphold the protection of intellectual property.

7.2.3 Telecommunications

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)

7.2.4 Others

Other products, technologies or services that do not fall into the above sub-sectors may be regulated by other government departments or other legislations. Prior to exporting to Hong Kong, New Zealand companies are recommended to have their Hong Kong importers or agents double-check with the relevant authorities to ensure the products/services conform to

the required standards for importing to Hong Kong. New Zealand companies should also be aware of the regulations and licensing requirements (if any) that apply.

8.0 RECOMMENDED STRATEGIES

8.1 Market entry

Points of difference – 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.

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.

8.2 Long term strategic issues for exporters to consider

In-market presence

When a defined level of sales has been reached, and there is ongoing growth potential, consideration should be given to setting up an office in Hong Kong. This would involve appointing one or more employees to work alongside partners and customers and/or to develop new areas of business. Experience suggests that an in-market presence in this way greatly enhances market knowledge and the ability to respond to opportunities.

9.0 MARKET RESOURCES AND CONTACTS

9.1 Major players in the market

Company name	Website	Category
Gold Peak industries (Holdings) Ltd	www.goldpeak.com	Electronics
Ngai Lik Industrial Holdings Ltd	www.ngailik.com	Electronics
Vtech holdings Ltd	www.vtech.com	Electronics
CITIC 1616 Holdings Ltd	www.citic1616.com	Telecoms
City telecom (HK) Ltd	www.ctihk.com	Telecoms
Hong Kong CSL Ltd	www.hkcsl.com	Telecoms
Smartone Telecommunications Holdings Ltd	www.smartone.com.kh	Telecoms
SUNeVision Super e-Technology Services Ltd	www.supertech.com.hk	Telecoms
Hong Kong Broadband Network Ltd	www.hkbn.net	Telecoms/Internet
Hutchison Global Communications Ltd	www.hgc.com.hk	Telecoms/Internet
i-Cable Communications Ltd	www.i-cablecomm.com	Telecoms/Internet
New World Telecommunications Ltd	www.newworldtel.com	Telecoms/Internet
Pacific Internet (Hong Kong) Ltd	www.pacific.net.hk	Telecoms/Internet
PCCW Ltd	www.pccw.com	Telecoms/Internet
Wharf T&T Ltd	www.wharfft.com	Telecoms/Internet

9.2 Government

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

9.3 Industry

Cyberport - www.cyberport.hk
Hong Kong Applied Science and Technology Research Institute - www.astru.org
Hong Kong Electronic Industries Association - www.hkeia.org
Hong Kong Information Technology Federation Limited - www.hkitf.org
Hong Kong Internet Service Providers Association - www.hkispa.org.hk
Hong Kong Productivity Council - www.hkpc.org
Hong Kong Science & Technology Parks - www.hkstp.org

Hong Kong Wireless Technology Industry Association Limited - www.hkwtia.org
Information and Software Industry Association - www.isia.org.hk

9.4 Trade shows

International ICT Expo

13-16 April 2010

<http://ictexpo.tdctrade.com/>

Hong Kong Electronics Fair (Spring edition)

13-16 April 2010

<http://hkelectronicfairse.tdctrade.com/>

Hong Kong Electronics Fair (Autumn edition)

13-16 October 2009

<http://hkelectronicfairae.tdctrade.com>

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¹ World Trade Atlas. *ICT Goods Product Group*

² Datamonitor. *Recessionary Consumers & Product Choice: Implications for 2009 Building effective strategies to meet the challenge of recession*. January 2009.

³ Economist Intelligence Unit (EIU). *Hong Kong financing: Finance outlook, 2 April 2009*.

⁴ 'Digital TV Pick-Up Rate Reaches 32% by end 2008'. *Digital TV News release*, 23 January 2009.

⁵ Economist Intelligence Unit (EIU). *Hong Kong : Telecoms and technology report, October 2008*.

⁶ Office of the Telecommunications Authority. *Telecommunications facts, 2008*.

⁷ Hong Kong. Census and Statistics Department. *Report on 2008 Annual Survey on Information Technology Usage and Penetration in the Business Sector*. December 2008.

⁸ Office of the Telecommunications Authority. *Key Telecommunications Statistics, 2009*.

⁹ Office of Telecommunications Authority. *Frequency Assignment for Provision of CDMA2000 Service Statement, 20 November 2008*.