Asia-Pacific Trade Briefs

Hong Kong, China

Merchandise trade: Trade, particularly with China, is critical to the economy of Hong Kong, China. It has the world's highest trade-to-GDP ratio (merchandise and services) ratio (219.6%). In 2014, merchandise exports contracted by -2.1%, – a worse performance than that of the Asia-Pacific region overall (1.5%). The export contraction was likely due to lower demand from its largest export partners, China and the Russian Federation. China's economy is in transition to a "new normal" of slower growth while the Russian Federation faced a financial crisis in the second half of 2014 triggered by international sanctions and lower commodity prices. Exports from Hong Kong, China are dominated by commodities and luxury items such as diamonds, jewellery, precious stones and gold; thus, the fragility of the global economy and elevated geopolitical risks have lowered global demand for many luxury products. Hong Kong, China's merchandise imports contracted by -3.3% in 2014, again a worse performance than the overall Asia-Pacific region's -1%. More than half of all Hong Kong, China's imports (56.2%) were sourced from China.

Services trade: Hong Kong, China's services exports grew by 1.3% in 2014, which was lower than the 4.8% recorded by the Asia-Pacific region. The slowdown in services exports was led by lower travel exports – the largest sector. Services imports grew by just 0.8%, most likely because they were dragged down by markedly lower manufacturing services imports that resulted from the economic slowdown in China. The other large service import sectors registered modest rates of growth.

Global value chains (GVCs): The share of intermediate goods in trade – a proxy for participation in GVCs – is much lower in Hong Kong, China (16%) than the Asia-Pacific overall (22%) for imports, and much higher in Hong Kong, China (24%) than the region (18%) for exports. Nevertheless, Hong Kong, China, as a global entrepôt, is highly integrated in to GVCs. Hong Kong, China participates in diamond GVCs as an intermediary for India and it has the largest market for diamonds in the world, second only to the United States.

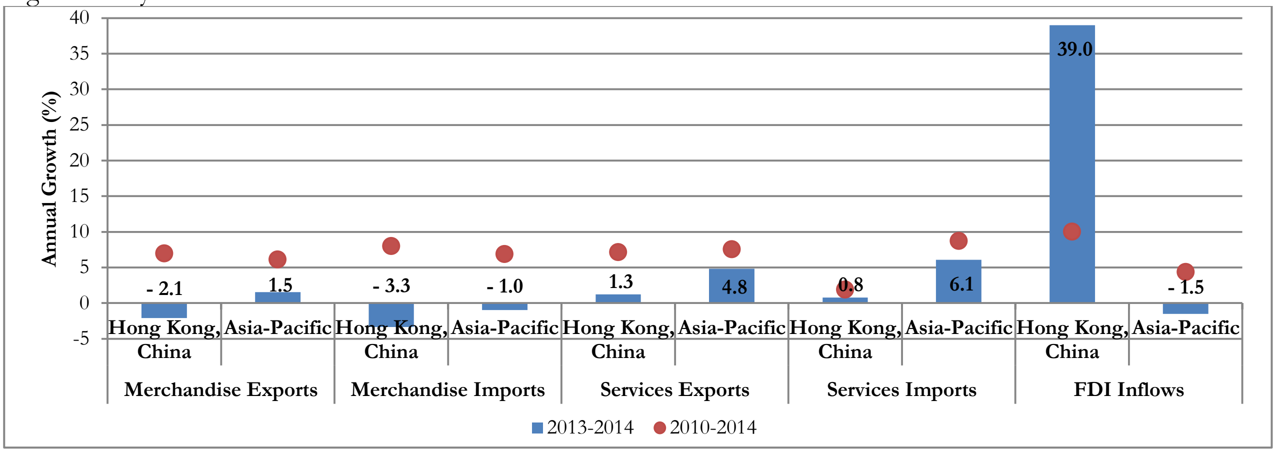
Foreign direct investment (FDI): Hong Kong, China's FDI inflows grew by a phenomenal 39% in 2014, making it the second-largest recipient of FDI in the world. An uncertain global economic outlook, heightened financial market volatility and escalating geopolitical risks may have encouraged investment in safe-haven investment locations such as Hong Kong, China and Singapore. It is an attractive destination for investment despite the economic slowdown of China because it has an open trade regime, simple regulations, low taxes, low corruption, prudent fiscal and monetary administration, and a strategic location that enables access to the mainland Chinese market.

Tariffs: As a centre for free trade, MFN applied and effective tariffs – both of which are at zero per cent – are substantially lower than the respective Asia-Pacific averages of 7.4% and 7.4%. Average WTO bound duty, at zero per cent, is also substantially lower than the Asia-Pacific average of 21.7%.

Trade costs: Intraregional trade costs in Hong Kong, China have fallen sharply since 2009. It is cheaper for Asia-Pacific economies to trade with Hong Kong, China than with East Asia-3 (China, Japan and the Republic of Korea) (the intraregional benchmark), but more costly than with EU-3 (France, Germany and the United Kingdom) (the extraregional benchmark).

Trade agreements: Hong Kong, China has four trade agreements in force, lower than the Asia-Pacific average of seven agreements. Twenty-five per cent of exports are to PTA partners, compared with 35% for the Asia-Pacific region. Fifty-four per cent of imports are from PTA partners, compared with 45% for the Asia-Pacific region.

Figure 1. Key trade and investment indicators



*Country notes summarising results of the UNRC Survey 2015 are available at: http://unnext.unescap.org/UNTFSurvey2015.asp

Figure 2. Top merchandise markets

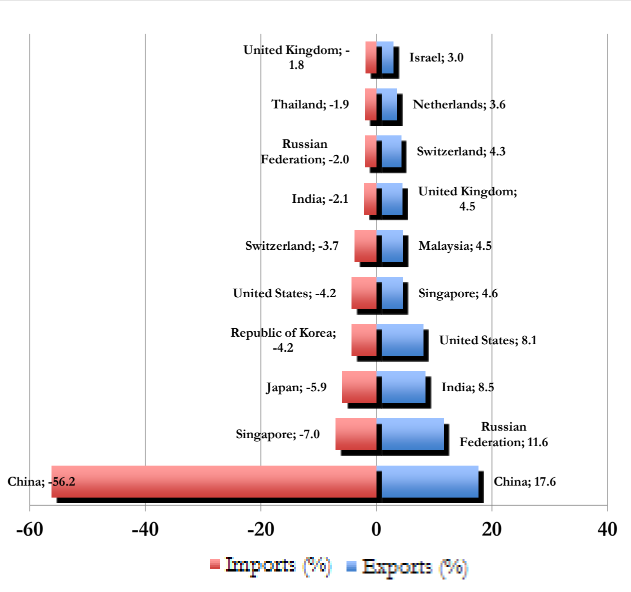


Figure 3. Top merchandise products

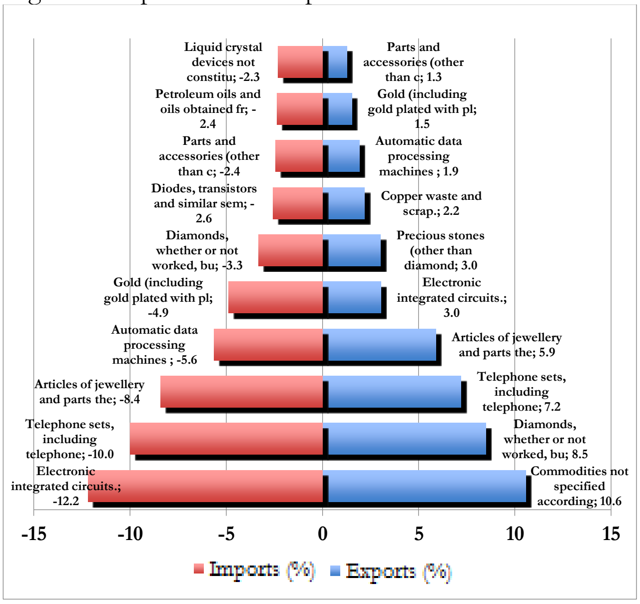


Figure 4. Trade in goods by their use

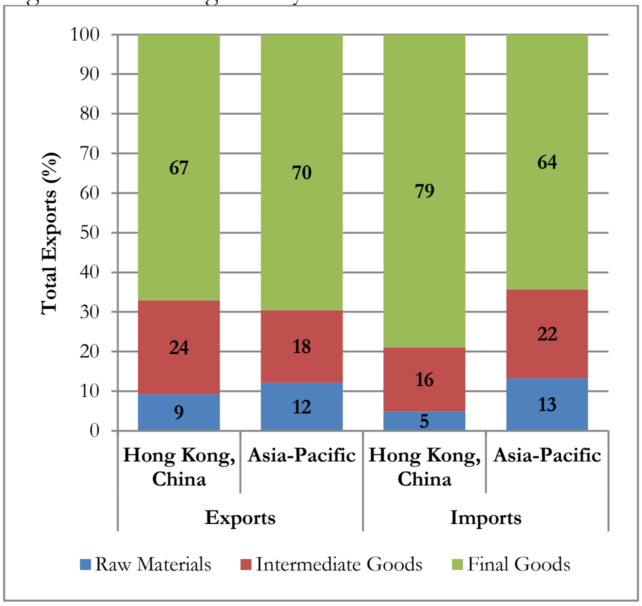


Figure 5. Foreign direct investment

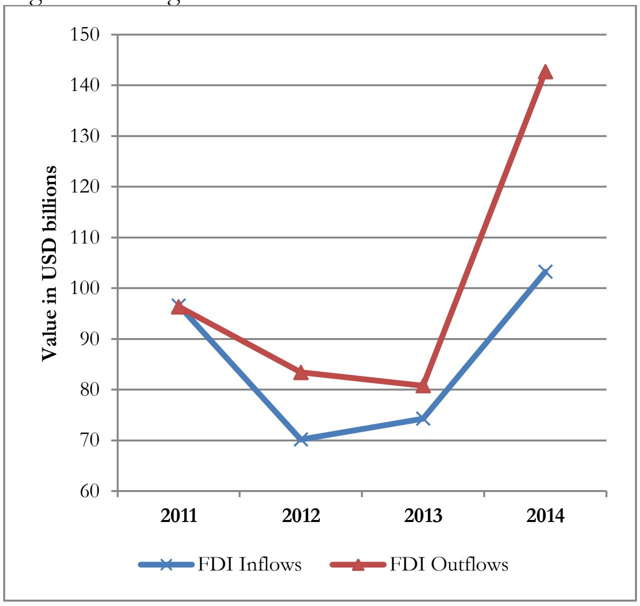


Figure 6. Tariffs

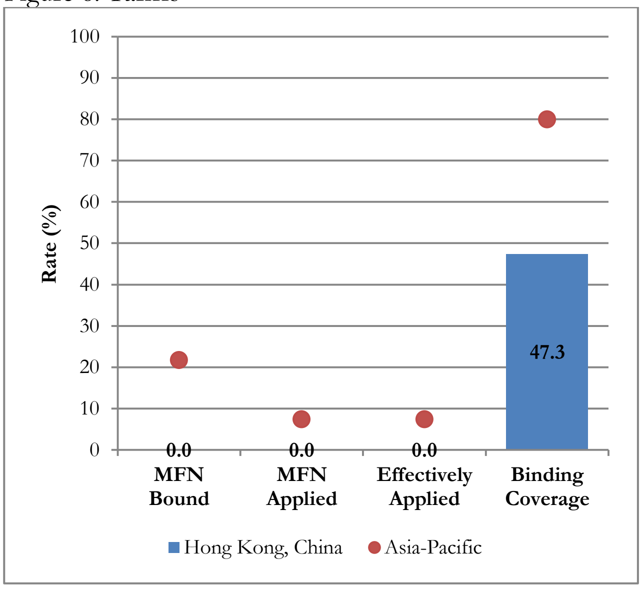
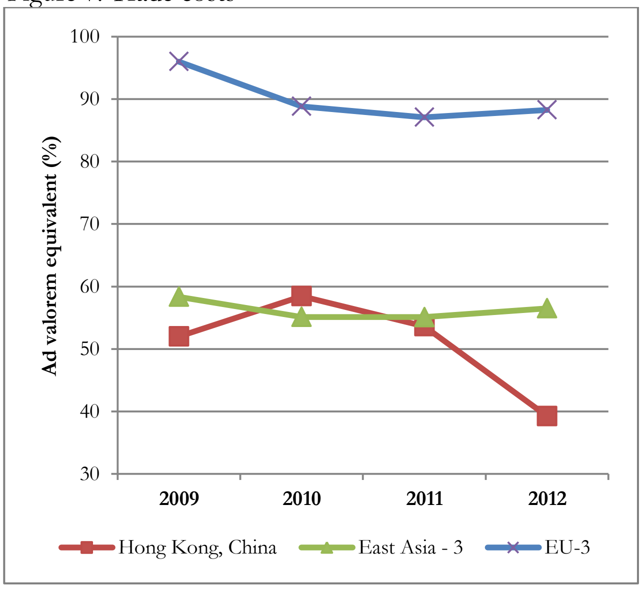


Figure 7. Trade costs



Sources: Trade and tariff data were accessed through WITS. FDI data was accessed through UNCTADstat.
Notes: Trade data follows the HS2007 classification. Mirror data is used. Products are defined at the 6-digit level.
Definitions: Primary, intermediate, consumer, and capital goods are defined using UNCTAD System of Accounts. Final goods are defined as the sum of consumer and capital goods. Bound tariff is the maximum most favoured nation (MFN) tariff permitted under WTO obligations. MFN applied tariff is the tariff applied on imports among WTO members. Effectively applied rate is the lowest tariff available, i.e. preferential rates where available.
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