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 highest trade (merchandise and services) to GDP ratio in the world (219.6%). In 2014, merchandise exports contracted by -2.1% – a worse performance than 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 transitioning to a 'new normal' of slower growth and the Russian Federation faced a financial crisis in the second half of 2014 triggered by international sanctions and lower commodity prices. Hong Kong, China's exports are dominated by commodities and luxury items such as diamonds, jewellery, precious stones and gold, and 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 – also a worse performance than the Asia-Pacific regional total of -1.0%. Over 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 – lower than the Asia-Pacific region overall (4.8%). 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 resulting 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 is participates in diamond GVCs as an intermediary for India. Hong Kong, China has the largest market for diamonds in the world – second only to the United States.

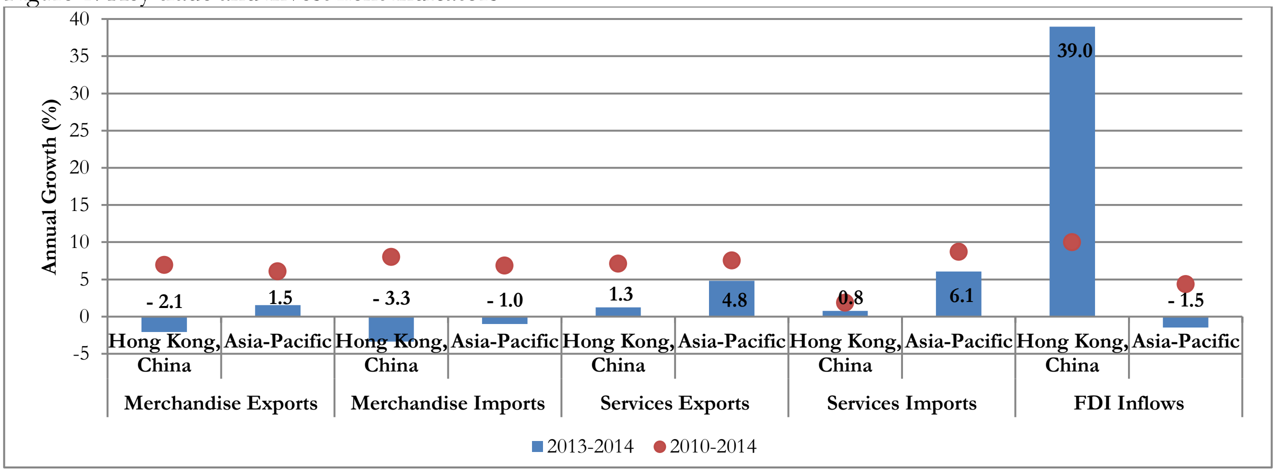
Foreign direct investment (FDI): Hong Kong, China's FDI inflows grew a phenomenal 39% in 2014 – making it the second largest recipient of FDI in the world. An uncertain global economic outlook, heightened financial market volatility, and escalating geopolitical risks may have encouraged investment in safe-haven investment locations such as Singapore and Hong Kong, China. 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 enabling access to the mainland Chinese market.

Tariffs: As a centre for free trade, MFN applied and effective tariffs, both at 0.0% are substantially lower than Asia-Pacific averages of 7.4% and 7.4%. Average WTO bound duty, at 0.0%, 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 Republic of Korea) – the intraregional benchmark – however costlier than with EU-3 (France, Germany and United Kingdom) – the extraregional benchmark.

Trade agreements: Hong Kong, China has 4 trade agreements in force, lower than the Asia-Pacific average of 7 agreements. Twenty five per cent of exports are to PTA partners, compared to 35% for the Asia-Pacific. Fifty four per centof imports are from PTA partners, compared to 45% for the Asia-Pacific.

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

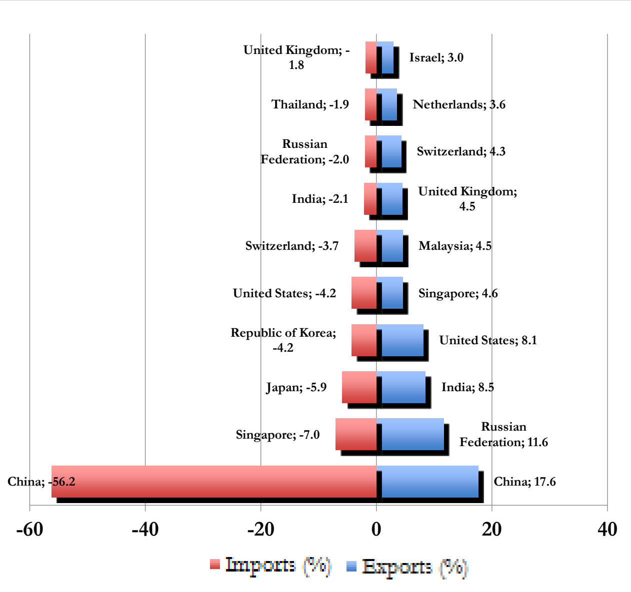


Figure 3. Top merchandise products

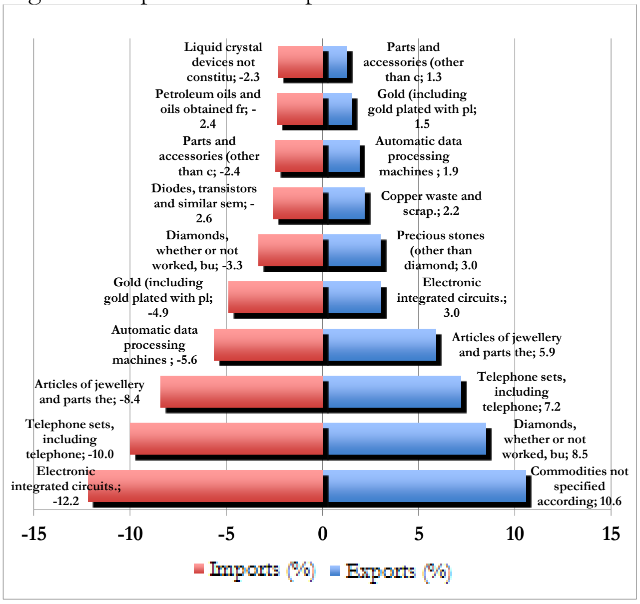


Figure 4. Trade in goods by their use

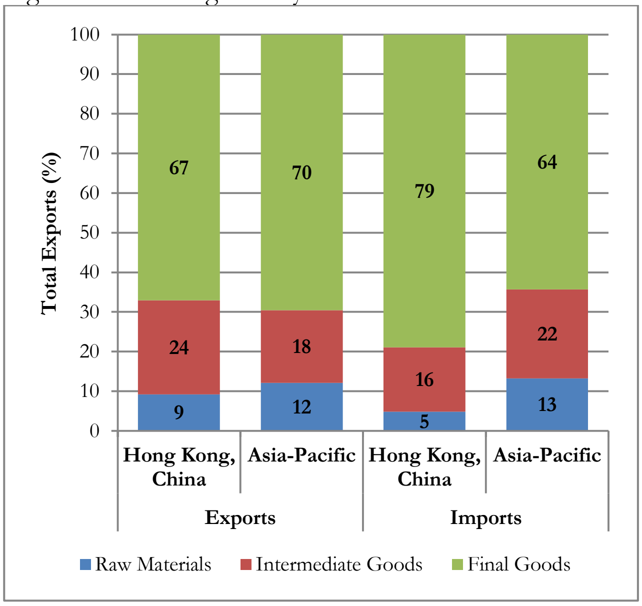


Figure 5. Foreign direct investment

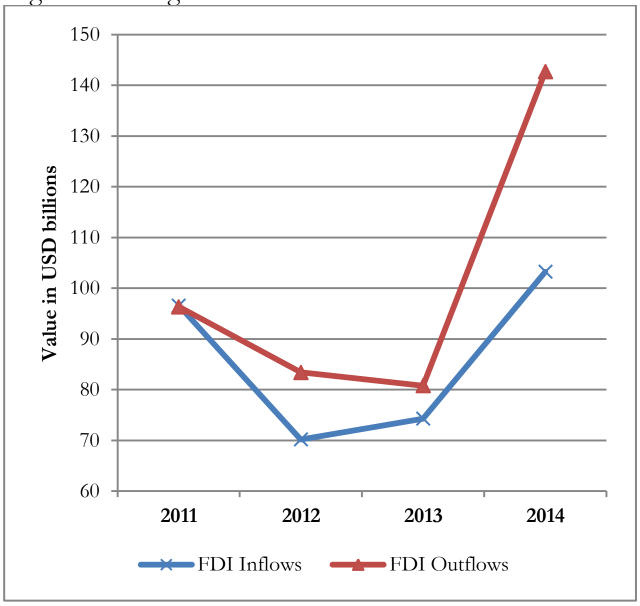


Figure 6. Tariffs

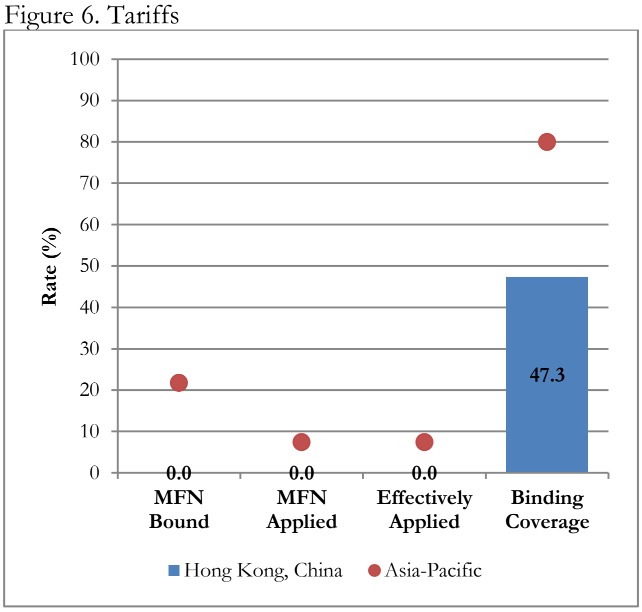
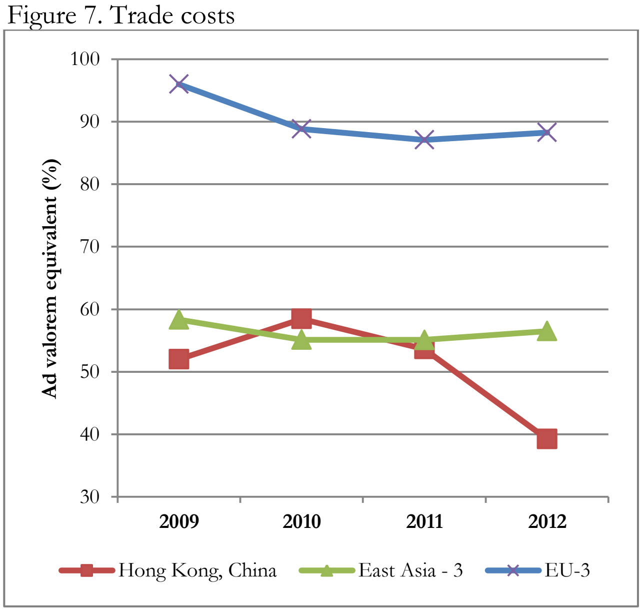


Figure 7. Trade costs



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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