

Asia's world city

Progressive

Free

Stable

Opportunity

High Quality

December 2008

Gateway to China

Overview

Since China adopted its economic reform and open-door policy in 1978, Hong Kong has been its premier gateway. Hong Kong's position – both geographical and geopolitical – makes it the logical first stop for overseas businesses looking to access the Mainland, and for Mainland businesses looking beyond national borders.

The Mainland is now the world's third largest trading economy, with merchandise trade reaching over US\$2 trillion in 2007, and its trade volume is expected to continue rising. The National 11th Five-Year Plan gives Hong Kong unequivocal support in areas such as financial services, logistics, tourism and information services, as well as seeking the continuation of Hong Kong's status as an international centre of financial services, trade and shipping. Hong Kong is leveraging its existing strengths and contacts to capitalise on the enormous opportunities that are emerging, and to help others gain access to these opportunities.



Strong Business Links with the Mainland

- Hong Kong is the Mainland's most important entrepôt, handling almost one-fifth of the Mainland's foreign trade.
- Hong Kong is the largest external investor in the Mainland, accounting for US\$341 billion - or 40 per cent - of total inward direct investment in China as at September 2008.
- Some 60 000 Hong Kong-invested enterprises employ 9.6 million people in Guangdong.
- About 229 000 Hong Kong people work in the Mainland, accounting for 7 per cent of Hong Kong's working population. Almost 80 per cent work as managers, professionals or administrators.
- In December 2008 the Central Government announced new

measures to allow qualified enterprises to settle cross-border trade in yuan in Hong Kong and other designated areas. This makes Hong Kong one of the pilot cities for transforming renminbi (RMB) into an international currency.

- In 2007 Mainland banks sold their first RMB-denominated bonds in Hong Kong and the trade has since expanded, the first step towards Hong Kong becoming an RMB 'offshore' centre.
- CEPA – The Mainland and Hong Kong Closer Economic Partnership Arrangement is a free-trade pact operational since 2004 and has been expanded every year since its inception. The latest round of liberalisation will increase service sectors covered by CEPA from 38 to 40, beginning January 1, 2009.

Local Experience

Hong Kong shares the same language and culture as the Mainland, and draws on more than 150 years of trading and investment experience in the Mainland.

By joining forces with established Hong Kong businesses, overseas companies have been able to bring their products and services to the Mainland market as well as draw on the decades of experience of Hong Kong's entrepreneurs. This 'joint venture' approach has been very successful.

Cross-border Links

Hong Kong is a key Mainland portal for both business and tourism. Every day, an average of 450 000 people and 41 000

vehicles cross the Mainland-Hong Kong border by land, while over 15 000 make the trip by ferry. Tens of thousands more arrive and depart on over 130 daily flights and 570 train connections between Hong Kong and Mainland cities.

Major projects or initiatives to improve links, either recently completed or under way, include:

- The Hong Kong-Shenzhen Western Corridor, which opened in 2007, has doubled the handling capacity of cross boundary traffic between Hong Kong and Guangdong Province.
- A second passenger rail crossing – the Lok Ma Chau Spur Line – was completed

in 2007, with a handling capacity of 150 000 passengers a day.

- The Guangzhou-Shenzhen-Hong Kong Express Rail Link will reduce travel time between Guangzhou and Hong Kong from 100 to about 50 minutes, and will link Hong Kong to the national rail network.
- The Hong Kong-Zhuhai-Macao Bridge will significantly reduce transportation costs and travel time between Hong Kong and the Western PRD, accelerating the economic integration of the PRD and its neighbouring provinces and enhance its regional competitiveness.
- A new eastern corridor between Hong Kong and Shenzhen is under study.
- The Airport Authority has introduced cross-boundary passenger ferry services to connect Hong Kong International Airport with Macao and five Pearl River Delta (PRD) ports, while its cross-boundary coach services link the airport to 90 PRD destinations.

The Pearl River Delta (PRD)

Sometimes referred to as the “Factory of the World”, the PRD region, encompassing 13 Mainland cities and counties in Guangdong Province, is right on Hong Kong’s doorstep. It is a prime manufacturing and sourcing base. Home to thousands of large multinational manufacturing enterprises and tens of thousands of smaller operations, it boasts a combined Gross Domestic Product (GDP) of around US\$269 billion, which would place it among the world’s top 30 economies.

The Government of the PRD region is currently upgrading its industrial sector, and is encouraging the relocation and restructuring of certain types of industry. This strategy encourages enterprises to progress up the high technology and high-value chain, while also relocating labour-intensive industries to less-developed

regions in the north, east and west of the province, or to the central and western regions of the Mainland.

Greater PRD Region (PRD plus Hong Kong and Macao) at a glance:

Population: 51.9 million

Area: 42 831 sq km

GDP: US\$473.2 billion

Per capita GDP: US\$9,118

Annual real GDP growth (2000-06): 15.8 per cent

Exports of goods: US\$608 billion

Inward foreign direct investment: US\$59.8 billion (2006)

Attractive Business Model

Production standards in the PRD are high while costs are relatively low. Supplies and parts for production are also available at low cost, and are made locally. High-tech and high value-added industries are developing rapidly. Combining the PRD’s advantages with Hong Kong’s services – financial, legal, accounting, marketing, logistics and supply-chain management expertise, for example – has created a lucrative business model for foreign companies.

For many international investors, the ideal way to enter the Mainland market is to establish a manufacturing base in the PRD, while maintaining management and finance functions in Hong Kong. Multinationals with corporate operations in the PRD and offices in Hong Kong include Canon, Casio, Dupont, Emerson Electric, Epson, Fuji Xerox, Matsushita (National and Panasonic), Motorola, NEC, Nissin Foods (Cup Noodle), Philips, Ricoh, Samsung, STMicroelectronics.

Pan-PRD

The ‘9+2’ Pan-PRD region, covering the Mainland’s nine southern provinces and the Special Administrative Regions of Hong Kong and Macao, has created a huge, integrated economy. This economic mega-group has a

combined population of 467 million – similar to that of European Union – and a combined GDP of US\$1,271 billion, comparable to that of the 10-member Association of Southeast Asian Nations (ASEAN) grouping. With new highways and railways completing the national transport grid, ‘9+2’ is expanding Hong Kong’s economic catchment area into the Mainland’s heartland, opening vast new manufacturing bases and consumer markets to the world.

CEPA - The Free Trade Pact

The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) is a free-trade pact that provides a platform for businesses based in Hong Kong – local and foreign-owned – to tap the vast opportunities in the Mainland. Operational since 2004, CEPA covers three broad areas: trade in goods, trade in services and investment facilitation.

Greater Market Access

CEPA enhances the attractiveness of Hong Kong to foreign investors wishing to gain greater access to the Mainland of China. For trade in goods, investors can set up manufacturing processes in Hong Kong and immediately export products meeting CEPA origin rules tariff-free to the Mainland. These may include brand-name products or goods with high value-added content. Or, investors may choose to manufacture products with substantial intellectual property (IP) content, thereby taking advantage of Hong Kong’s legal system and intellectual property protection regime. For trade in services, a total of 40 sectors are now covered, including banking, logistics, legal, audiovisual and transport. CEPA does not impose any restriction over the source of capital of investors.

For more information, please visit www.tid.gov.hk/english/cepa/