



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.

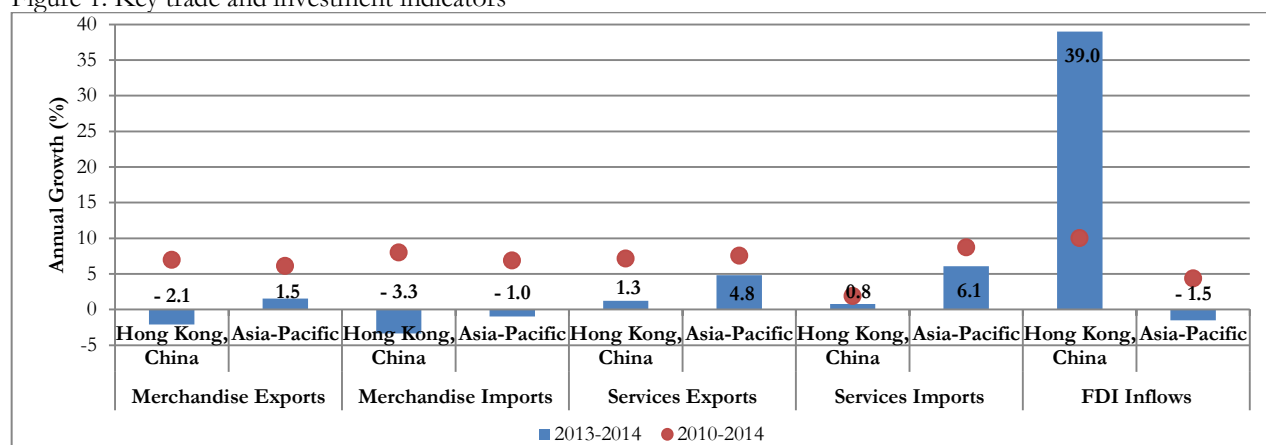
Foreign direct investment (FDI): Hong Kong, China's FDI inflows grew by a phenomenal 39% in 2014, making it the second-largest recipient of FDI in the world. An uncertain global economic outlook, heightened financial market volatility and escalating geopolitical risks may have encouraged investment in 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://unnex.unescap.org/UNTFSurvey2015.asp>

Country	Imports (%)	Exports (%)
China	-56.2	17.6
Russian Federation	-7.0	11.6
India	-5.9	8.5
Republic of Korea	-4.2	8.1
United States	-4.2	4.6
Malaysia	-3.7	4.5
United Kingdom	-2.1	4.5
Switzerland	-2.0	4.3
Netherlands	-1.9	3.6
Israel	-1.8	3.0
Thailand	-1.9	-
United Kingdom	-1.8	-

Commodity	Imports (%)	Exports (%)
Liquid crystal devices not constituting; -2.3	-2.3	1.3
Petroleum oils and oils obtained from gas; -2.4	-2.4	1.5
Parts and accessories (other than circuit boards); -2.4	-2.4	1.9
Diodes, transistors and similar semiconductor devices; -2.6	-2.6	2.2
Diamonds, whether or not worked, but not set; -3.3	-3.3	3.0
Gold (including gold plated with platinum); -4.9	-4.9	3.0
Automatic data processing machines; -5.6	-5.6	5.9
Articles of jewellery and parts thereof; -8.4	-8.4	7.2
Telephone sets, including telephones; -10.0	-10.0	8.5
Electronic integrated circuits; -12.2	-12.2	10.6

The chart displays the percentage composition of exports and imports for Hong Kong, China and the Asia-Pacific region. The y-axis represents 'Total Exports (%)' from 0 to 100. The x-axis is divided into 'Exports' and 'Imports' sections. Each section contains two bars: one for Hong Kong, China and one for Asia-Pacific. The bars are stacked by product type: Raw Materials (blue), Intermediate Goods (red), and Final Goods (green). The values for each segment are labeled within the bars.

Category	Region	Raw Materials (%)	Intermediate Goods (%)	Final Goods (%)
Exports	Hong Kong, China	9	24	67
	Asia-Pacific	12	18	70
Imports	Hong Kong, China	5	16	79
	Asia-Pacific	13	22	64

Year	FDI Inflows (USD billions)	FDI Outflows (USD billions)
2011	97	97
2012	70	83
2013	75	81
2014	103	142

Category	Hong Kong, China (%)	Asia-Pacific (%)
MFN Bound	0.0	22.0
MFN Applied	0.0	8.0
Effectively Applied	0.0	8.0
Binding Coverage	47.3	-

The line graph displays the Ad valorem equivalent (%) for three regions from 2009 to 2012. The Y-axis ranges from 30 to 100 in increments of 10. The X-axis shows the years 2009, 2010, 2011, and 2012. The EU-3 region (blue line with 'x' markers) starts at approximately 96% in 2009, drops to 89% in 2010, 87% in 2011, and rises slightly to 88% in 2012. Hong Kong, China (red line with square markers) starts at 52% in 2009, rises to 58% in 2010, drops to 53% in 2011, and falls to 39% in 2012. East Asia - 3 (green line with triangle markers) starts at 58% in 2009, drops to 55% in 2010, rises to 56% in 2011, and reaches 57% in 2012.

Year	Hong Kong, China	East Asia - 3	EU-3
2009	52	58	96
2010	58	55	89
2011	53	56	87
2012	39	57	88

Notes: Trade data follows the HS2007 classification. Mirror data is used. Products are defined at the 6-digit level.

Authors: Aman Saggi and Luca Parisotto; comments from Mia Mikic, Witada Anukoonwattaka, Rajan Ratna, and Adam Heal; contact: escap-tid@un.org.

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