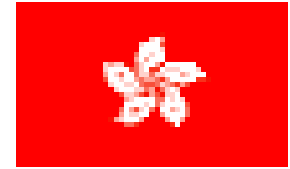




香港



Hong Kong: Your Profitable Access to China

October 2006

Stewart J. Ballard

Chief Commercial Consul

U.S. Commercial Service

American Consulate General

Hong Kong and Macau



A Great City Built on World Trade, Finance & Shipping





Hong Kong – Gateway to Asia



Hong Kong – Gateway to China



Hong Kong – Gateway to the Pearl River Delta



Hong Kong – A Rich Culture

- Population: 6.8 million
- Population Density: 6,250 people per square kilometer
- Ethnic Groups: Chinese (95%), Others (5%)
- Languages: Cantonese, Mandarin, English
- Literacy: 92%
- Education: 90% of children finish upper secondary or equivalent vocational education
- Expatriates: 55,000 American residents
- History: British colonial rule (1842-1997)
Sino-British Joint Declaration (1984)
Reversion to Chinese sovereignty
(July 1, 1997)
One Country, Two Systems
(1997-2047)

Hong Kong – A Stable Polity

- Type: Special Administrative Region of China, with its own constitution (The Basic Law)
- Chief Executive: Donald Tsang
- Branches: Executive: Chief Executive, Executive Council, Administration
Legislative: Legislative Council: 30 of 60 directly elected in September 2004
Judicial: Court of Final Appeal; other lower courts
- Subdivisions: Hong Kong, Kowloon, New Territories
- Suffrage: Permanent residents, aged 18 and over, living in Hong Kong for the past seven years are eligible to vote.

Hong Kong – A Stable Polity

- 1 Country, 2 Systems:
 - Hong Kong is a Special Administrative Region of the People's Republic of China, with a high degree of autonomy in all matters except foreign and defense affairs. Hong Kong will retain its political, economic and judicial systems for 50 years after reversion and will continue to participate in international agreements under the name of “Hong Kong, China.”
- Values:
 - Hong Kong is a free and open society, where human rights are respected; courts are independent of political influence; and there is well-established respect for the rule of law. The government is relatively small, clean (of corruption); transparent (operationally) and does not engage in censorship. Taxes tend to be low in Hong Kong.

Hong Kong – A Dynamic Economy

- GDP: \$158.73 billion (2004)
- GDP Per Capita: \$23,300
- GDP Growth: 8.1% (2004)
- GDP% of Services: 88% (cf. 73% in U.S. and 32% in PRC)
- Work Force: 3.4 million
- Retail Sales: \$24.6 billion (2004)
- PRC Tourists: 12 million (55% of 2004 total)
- HKG Budget: \$36.76 billion (Apr 2004 - Mar 2005)
\$5.1 billion deficit (3.2% of GDP)
(FY 2003-2004)
- HKG Infrastructure: \$3.9 billion (2003)
- HK Industry: Textiles, clothing, electronics, plastics, toys, watches, clocks
- HK Manufacturers: 18,000

Hong Kong – A Dynamic Economy

- FDI Inbound: \$244 billion (2002)
- FDI Inbound PRC: \$76.2 billion (31.2% of 2002 total)
- **FDI Inbound U.S.:** \$23.9 billion (9.8% of 2002 total),
\$35.9 billion (2005)
- PRC Firms in HK: 2,100 (including 31 of top 100 PRC firms)
- **US Firms in HK:** **1,100** (including **740** regional offices,
including 242 regional HQs)
- FDI Outbound: \$217.2 billion (2002)
- FDI Outbound PRC: \$216 billion (1978-2003 in PRC = 45.2%
PRC Inbound)
- Venture Capital: \$30 billion (managed by 150 private equity
funds in HK)
- Investment Funds: 2,100
- Regional HQs: 3,845 (2005)
- HK in PRD: 77,000 factories employing 12 million (70%
FDI in PRD) (cf. 18,000 manufacturers in HK)

Hong Kong – A Dynamic Economy

- Total Exports: \$224.8 billion
- HK Exports: Clothing, electronics, textiles, watches, clocks, office machinery
- Total Imports: \$270.7 billion
- HK Imports: Consumer goods, raw materials, semi-manufactures, capital goods, foodstuffs, fuels
- Exchange Rate: \$US1.00 = \$HK7.77 (12-30-04)
= currency peg
- Strengths:
 - Free port, no exchange controls, free flow of information, strong legal system, sound banking system, efficient capital market, rigorously enforced anti-corruption regime, accumulated public and private wealth, virtually no public debt, low taxation, developed infrastructure, educated workforce

Hong Kong – The Local Market

- Hong Kong's local market of 6.8 million people is augmented by 20 million tourists, including 12 million from mainland China. Total retail sales are \$25 billion/year
- Hong Kong's local business market is augmented by its large conglomerates, which include 11 of the top 50 transnational companies in emerging markets.
- These firms include: Hutchison Whampoa, Jardine Matheson Holdings, Li & Fung, First Pacific Company, Citic Pacific, Orient Overseas International, Swire Pacific, Guangdong Investment, Shangri-La Asia, Hong Kong & Shanghai Hotels, and China Light & Power Holdings. These 11 firms have combined sales of \$24.2 billion

Hong Kong – The Local Market

- Hong Kong has 282,000 SME's, e.g., the Hong Kong General Chamber of Commerce's membership of 4,000 includes 60% or 2,400 SME's.
- A foreign-owned firm that establishes itself in Hong Kong is considered by the Hong Kong Government as a Hong Kong firm.
- U.S. firms have 23% or 30 of Hong Kong's 132 franchises (2004).
- The U.S. Consulate General in Hong Kong issued 5,513 student visas to Hong Kong residents in 2004. The Hong Kong Education Department estimates that 11,000 Hong Kong students study abroad.

American Brands Sell In Hong Kong

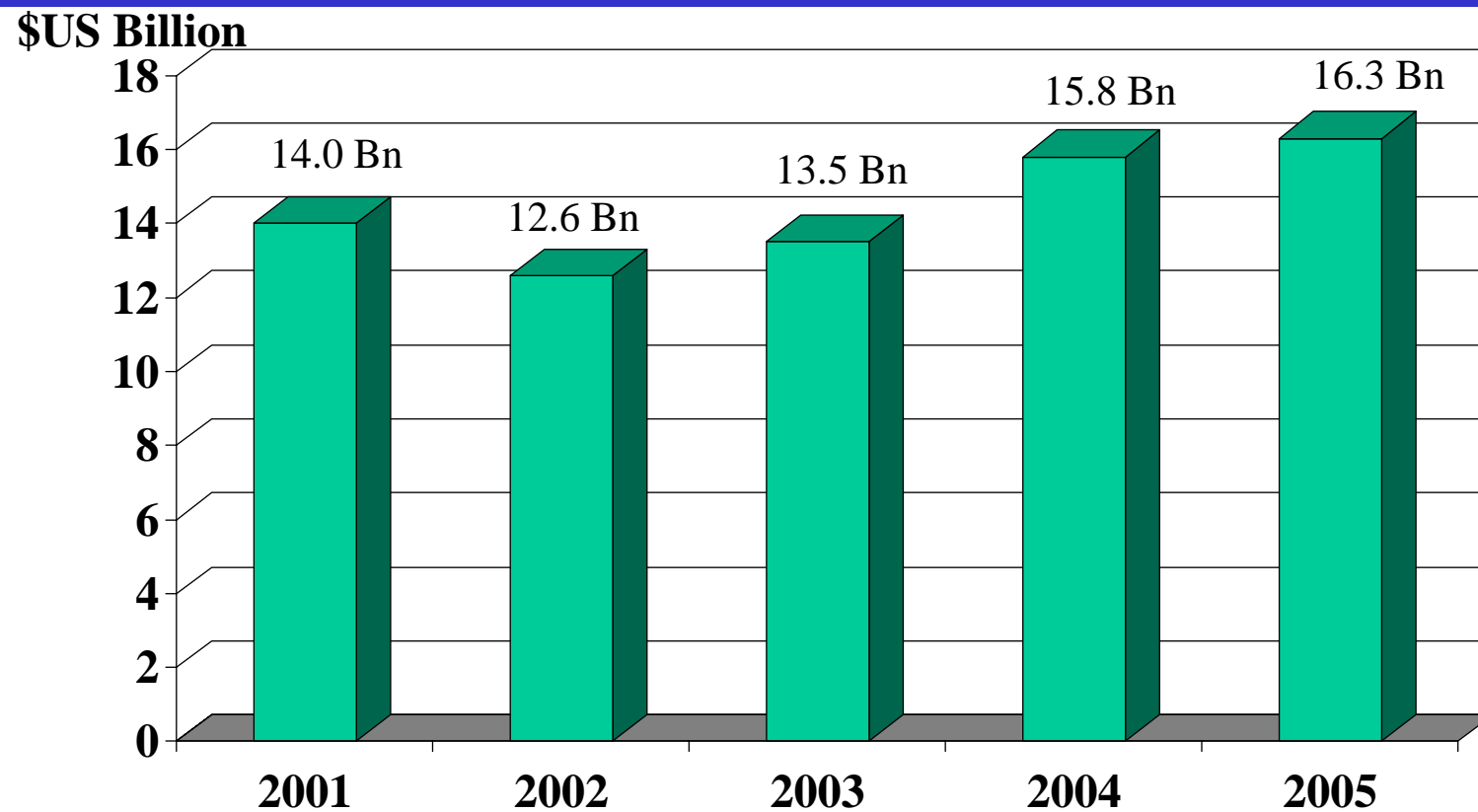


Kenneth Cole, Tommy Hilfiger, See's Candies, Ben & Jerry's, Polo Jeans, Rockport, Estee Lauder, Häagen-Dazs, Anne Klein, McDonald's, California Pizza Kitchen, Theory, Starbucks, KFC, 7-11

Hong Kong and Macau – Major Projects List

Expansion of HK International Airport at Chek Lap Kok: (Sky City: \$2.6 Bn & Asia World-Expo: \$300 Mn)	\$2.9 Bn
Redevelopment of the former HK Int'l Airport at Kai Tak:	\$4.7 Bn
Development of Disneyland Hong Kong (including \$1.8 Bn on public works)	\$3.5 Bn
Construction of Super Prison at Hei Ling Chau:	\$1.6 Bn
Development of Container (Port) Terminal 9 (CT9)	\$3.0 Bn
Ocean Park Revamp Plan	\$700 Mn
Harbor Area (Sewage) Treatment Scheme (HATS):	\$2.5 Bn
Waste Reduction Framework Plan (WRFP)	\$1.4 Bn
Cotai Development (Macau):	\$12-15 Bn
Wynn Resorts (Macau):	\$700 Mn
Galaxy Casinos (Macau)	\$1.0 Bn
The Venetian (Macau)	\$1.5 Bn
MGM Mirage – SJM (Macau)	\$700 Mn
Hong Kong – Macau - Zhuhai Bridge:	\$1.9 Bn

US Exports to Hong Kong



U.S. Exports to Hong Kong

- Electrical machinery and electronics parts
- Machinery and parts for nuclear power plants
- Precious metals and stones
- Medical and photographic equipment
- Plastics
- Leather
- Meat and fruit
- Toys and games
- Paper and wood items
- Aircraft parts

Hong Kong and The Pearl River Delta (PRD)

- 50 million people - 3.3% of China's population
- PRD is the "richest" region of China
 - 9% of China's GDP
 - Per capita GDP in Shenzhen > US\$5,000
 - 25% of foreign direct investment (FDI)
 - 34% of China's exports
- Hong Kong is the source for 70% of PRD's FDI
- US companies' growing presence -- P&G, Walmart
- Substantial and diverse business opportunities

Closer Economic Partnership Agreement (CEPA)

- Enhanced access for Hong Kong products & service providers
- Starting from January 1, 2005, 1,087 types of products made in HK can be exported to China with zero-tariff
- Made in HK = 30% value-added
- Preferential access to HK service suppliers in 26 sectors
- Foreign companies can acquire majority shares of HK companies for 1 year = HK companies

Closer Economic Partnership Agreement (CEPA)

Types of goods covered are:

- aquatic products
- food and beverages
- chemical products
- pharmaceutical products
- cosmetics
- plastic and rubber products
- leather and fur products
- textiles and clothing
- metal products
- jewelry
- mechanical, electrical and electronic products
- clocks and watches

Hong Kong – The Regional Market

- Within six hours' flying time of Hong Kong, you can sell to 2/3 of humanity!
- 94% of Hong Kong's exports are reexports of third-country goods
- Hong Kong has 3,845 foreign firms' Asian regional offices and Asian regional headquarters. In 2004, U.S. had 889 regional and local offices, including 295 regional headquarters and 594 regional and local offices

Hong Kong – The Regional Market

- 31 of the top 100 PRC firms have Hong Kong offices
- 2,100 PRC firms have Hong Kong offices
- Hong Kong firms own 77,000 factories and employ 12 million people in nearby Guangdong province, PRC, the heart of the Pearl River Delta, China's richest region that is responsible for over one-third of China's exports to the world

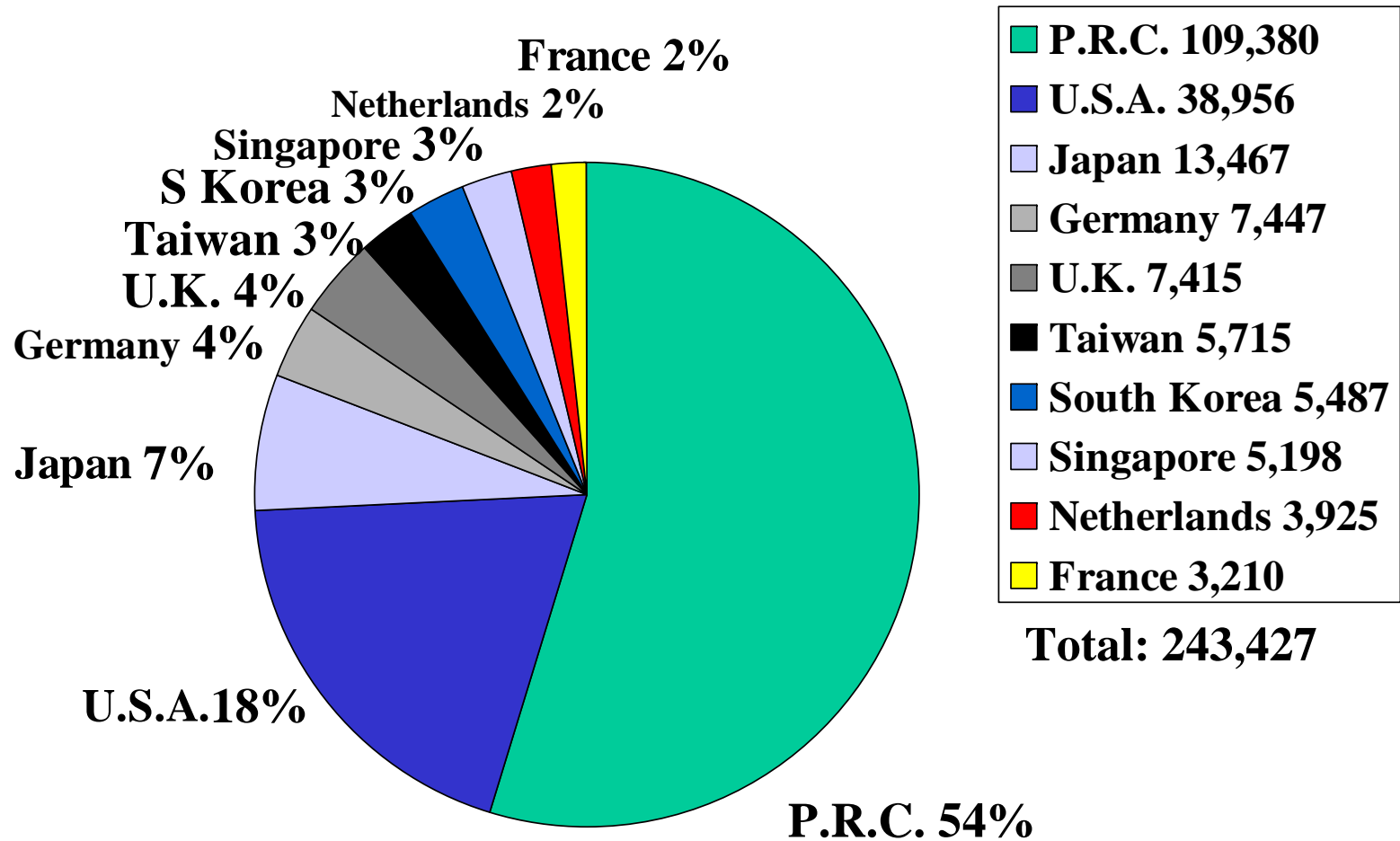
Hong Kong – The Global Financial Market

- Largest stock market in Asia in 2005 in terms of equity raised (\$US 37.7 billion); fourth largest in the world after New York, London and Toronto
- 110 foreign banks; 94 foreign insurers; 1,965 investment funds; 452 venture capital firms
- Asia's second largest source of outbound foreign direct investment. Hong Kong invests mostly in China, but also small amounts in Malaysia, Singapore and Taiwan
- Of Asia's \$100 billion in private equity, 450 Hong Kong firms manage \$30 billion. The U.S. supplies over two-thirds of Hong Kong's private equity capital.

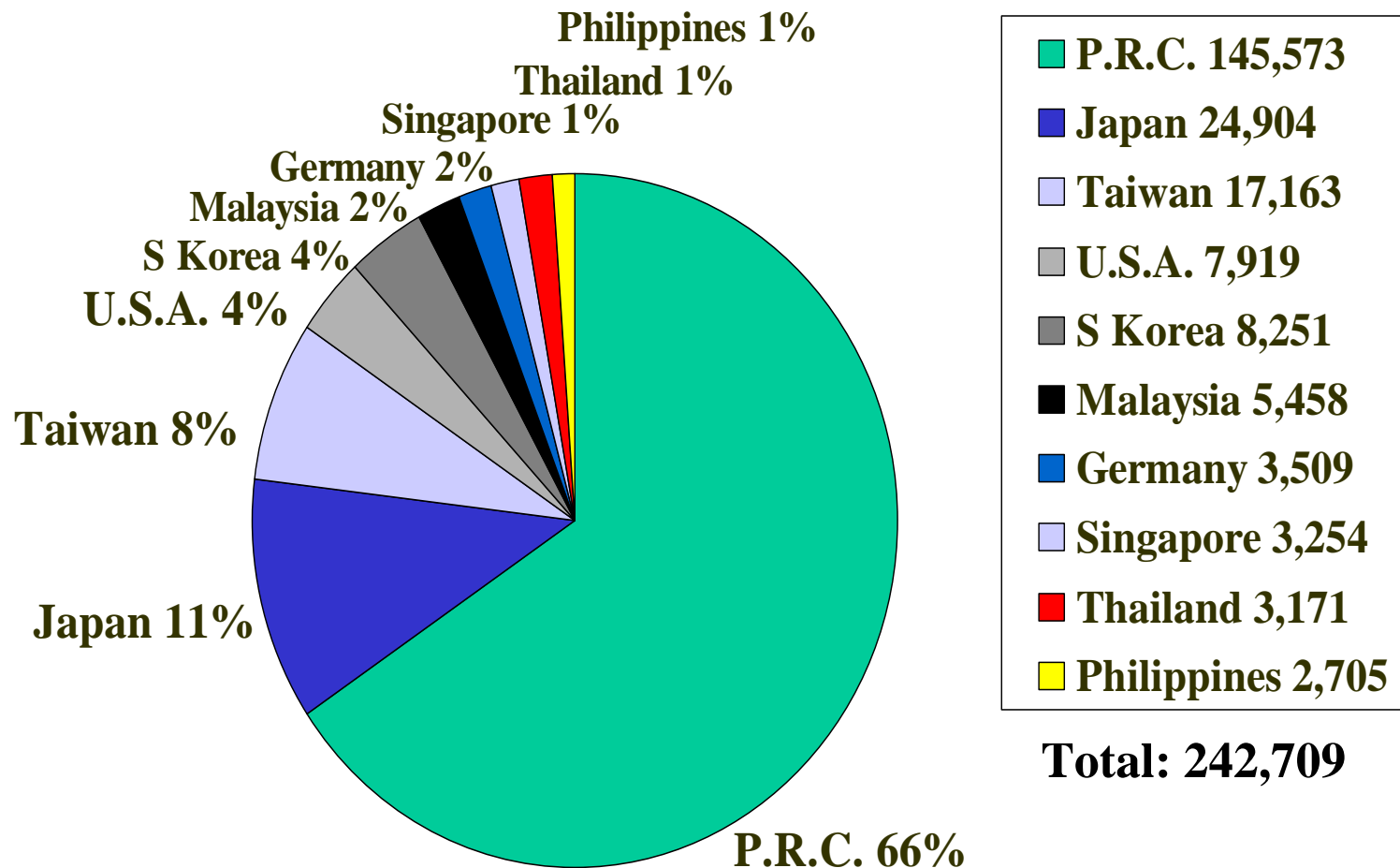
Hong Kong – The Global Financial Market

- 2nd largest stock market in Asia & 9th largest in the world
\$US 943 billion total stock market capitalization (Aug 2005).
Second most important source of new share listings after the NYSE in 2004
- Hong Kong dollar is pegged to the U.S. dollar
- Strengths: Clean and sound financial regulatory framework.
Free flow of information. Many professional, objective sources of financial information. Many international professional business advisory firms
- 3rd largest foreign exchange market in Asia, 6th largest in the world

Hong Kong – 2004 Reexports by Destination: Statistics (\$US Million)



Hong Kong – 2004 Reexports by Origin: Statistics (\$US Million)



Hong Kong – A Global Transportation Hub



Hong Kong – A Global Transportation Hub

- Hong Kong is the second largest ocean shipping manager in the world: 60 million tons of shipping
- Hong Kong's seaport has the highest container throughput in the world: 21.9 million TEUs (Twenty-foot container Equivalent Units) in 2004.
- Hong Kong's seaport is used by eighty international shipping lines, including American President Lines, Maersk Sea-Land, Mitsui OSK, Nedlloyd, P&O, OOCL, etc. (2004)
- Hong Kong's seaport has over 400 container liner services per week to over 500 destinations worldwide (2004).
- Hong Kong has 2,202 international freight forwarders (2004).

Hong Kong – A Global Transportation Hub

In 2003, Hong Kong International Airport handled:

- 70 airlines, including 15 cargo airlines, serving 140 worldwide destinations
- 510 scheduled flights per day
- 51,640 passengers per day
- 7,240 tons of air cargo per day (2.65 million tons/year)

In 2003, Hong Kong had 677 sea cargo forwarders.

Hong Kong - Best Prospect Sectors (Imports from the U.S.)

- Electronic Parts/Components \$4.6 Bn
- Computer Peripherals \$1.5 Bn
- Telecommunications \$510 Mn
- Travel/Tourism Services \$449 Mn
- Laboratory and Scientific Instruments \$420 Mn
- Medical Equipment \$224 Mn
- Building Products and Services \$183 Mn
- Cosmetics and Toiletries \$147 Mn
- Film and Video \$83 Mn
- Safety and Security Equipment \$60 Mn
- Hotel and Restaurant Equipment \$23 Mn
- Scrap Metal \$16 Mn

Hong Kong Best Prospect Sector: Building Products and Services

Imports from the World (2004):

\$2.056 billion

Imports from the U.S.(2004):

\$183 million (9%)

Local market:

\$905 million

Competition: China, Japan, EU
(Germany, Italy, Spain, U.K.)



Hong Kong Best Prospect Sector: Building Products and Services

- Hong Kong reexports over 50% of its imports to China
- Opportunities in HKG major tourism and logistics projects:
 - Lantau Island logistics hub
 - Hong Kong-Macau-Zhuhai bridge
 - Tuen Mun-Chek Lap Kok link
 - Additional theme parks on Lantau Island
 - West Kowloon Cultural Hub
 - Premium hotels (7,000 room shortage projected by 2008)
- Macau casino resort opportunities
- Opportunities for:
 - Environmentally friendly building materials
 - Energy-efficient building materials
 - Construction equipment saving time/labor
 - Hotel and resort architectural services



Hong Kong Best Prospect Sector: Computer Peripherals

Imports from the World (2004):	\$24.1 billion
Imports from the U.S. (2004):	\$1.5 billion (6.2%)
Local market:	\$2.0 billion
Competition:	China, Taiwan, Japan, Korea

- Hong Kong reexports 95% of its imports of computer peripherals
- 59% of Hong Kong IT equipment exports go to China: **\$14 billion** in 2003
- Hong Kong Government spent **\$635 million** in 2004 on IT development and usage in Hong Kong
- E-government: 90% of Hong Kong Government services are on-line



Hong Kong Best Prospect Sector: Computer Peripherals

- Hong Kong has 1.46 million broadband customers, the second highest broadband penetration rate in the world
- Opportunities exist in these areas:
 - Wireless/mobile applications of IT products and solutions
 - Digital entertainment
 - Logistics/supply chain management
 - E-commerce
 - Data storage
 - E-security



Hong Kong Best Prospect Sector: Cosmetics and Toiletries

Imports from the World (2004):

\$1.1 billion

Imports from the U.S. (2004):

\$147 million (13.7%)

Local market:

\$597 million

Competition:

China, Japan, France

- Imports satisfy 95% of Hong Kong's local demand for cosmetics
- Hong Kong is an important cosmetics reexport center, especially to China and Vietnam
- Hong Kong had 12 million PRC tourists in 2004 - cosmetics are still among their top three purchases in Hong Kong



Hong Kong Best Prospect Sector: Cosmetics and Toiletries

- Hong Kong accepts U.S. product labeling. There are no mandatory labeling or registration requirements for cosmetics.
- Opportunities exist for U.S. products:
 - Facial whitening products containing sun screens
 - Facial skincare products containing Vitamin C and AHA
 - Hair coloring products; ion straightening hair rebonding products; colored hair extensions
 - Color cosmetics for eyes, lips and face, including permanent make-up for eyes
 - Nail colors, nail-care products and artificial nails
 - Skin treatments, slimming treatments, and massage products for use in spas, professional skincare salons, or dermatologists' offices



Hong Kong Best Prospect Sector: Electronic Parts/Components

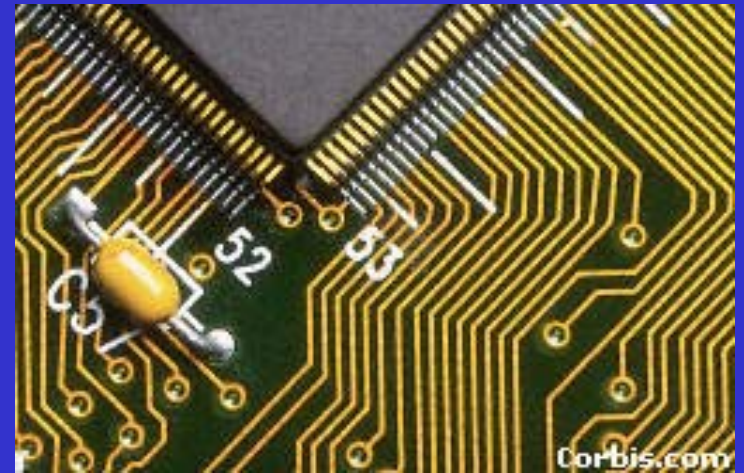
Imports from the World (2004):	\$79.7 billion
Imports from the U.S. (2004):	\$4.6 billion (5.8 %)
Local market:	\$7.4 billion
Competition:	China, Japan, Taiwan, S Korea

- Hong Kong reexports over 90% of its imported electronic parts and components.
- In 2003, 62% of Hong Kong's exports of electronic parts and components went to mainland China, totaling \$35 billion.
- China's Five-Year Plan to develop its electronic information industry and its WTO membership will sustain demand for electronic parts and components.



Hong Kong Best Prospect Sector: Electronic Parts/Components

- Hong Kong imports electronic parts and components for use in a wide variety of products: computers, telecommunications equipment, toys, games, watches, clocks and audiovisual equipment.
- Opportunities exist for U.S. companies to supply the following:
 - Integrated and printed circuits
 - Switches
 - Diodes, capacitors
 - Semiconductors, transistors
 - Parts for computers
 - Parts for telecommunications equipment



Hong Kong Best Prospect Sector: Film and Video

Imports from the World (2004):
\$93 million

Imports from the U.S. (2004):
\$83 million (89%)

Local market:
\$144 million

Competition:
Japan, Korea, France, U.K.



Hong Kong Best Prospect Sector: Film and Video

- Opportunities for:
 - Films with special effects
 - Educational and documentary videos/ VCDs/DVDs
 - Film training
 - Film financing



Hong Kong Best Prospect Sector: Hotel and Restaurant Equipment

Imports from the World (2004):\$100 million

Imports from the U.S. (2004): **\$23 million** (23%)

Local market: \$80 million

Competition: China, Japan, EU (France, Germany, Italy, Netherlands)

- Hong Kong reexports 30% of its imported catering equipment to China
- Demand for U.S. catering equipment will grow as up to 25 new premium hotels are developed to satisfy the 7,000 room shortage projected by 2008 and as the Macau casino resorts are built.



Hong Kong Best Prospect Sector: Hotel and Restaurant Equipment

- Opportunities exist for:
 - Freezing cabinets
 - Ranges, roasters, ovens and food-warmers
 - Fryers and grills
 - Dishwashers
 - Food preparation equipment: toasters, fruit juicers, small-size bakery equipment, coffee/cappuccino machines
 - Mini-brewery equipment for bars



Hong Kong Best Prospect Sector: Laboratory and Scientific Instruments

Imports from the World (2004):	\$1.85 billion
Imports from the U.S. (2004):	\$420 million (22.7%)
Local market:	\$350 million
Competition:	Japan, EU (Germany)

- Hong Kong imports analytical instruments for its industrial testing and inspection industry, which is critical to its biotech, Chinese medicine, environmental technology, textile, industrial machinery, toy and consumer electronics industries.
- Hong Kong is a major center for reexport to China's testing and calibration facilities of laboratory equipment



Hong Kong Best Prospect Sector: Laboratory and Scientific Instruments

- Opportunities exist for:
 - Instruments used in physical or chemical analysis (polarimeters, refractometers, spectrometers, gas/smoke analyzers)
 - Instruments used to measure or check: viscosity, porosity, expansion, surface tension
 - Instruments used to measure or check quantities of heat, sound, or light



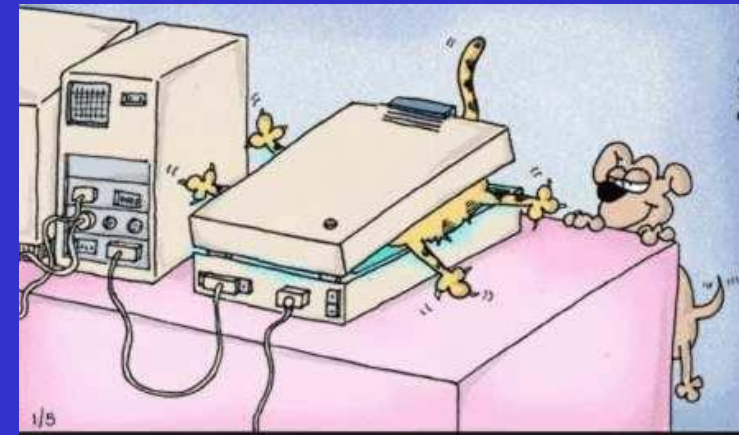
Hong Kong Best Prospect Sector: Medical Equipment

Imports from the World (2004):	\$886 million
Imports from the U.S. (2004):	\$224 million (25.3%)
Local market:	\$164 million
Competition:	Japan, EU (Germany)

- No duties, product registration, or sale regulations, except radiation equipment
- Hong Kong reexports 92% of its imported medical equipment, mainly to China
- Hong Kong has 32,145 beds: 12 private hospitals and the Hospital Authority's 44 public hospitals and 185 clinics
- Aging population has more chronic ailments: stroke, diabetes & heart disease

Hong Kong Best Prospect Sector: Medical Equipment

- Opportunities exist for U.S. medical equipment used in these areas:
 - Diagnosis/treatment of malignant neoplasms, heart disease, cerebrovascular diseases, chronic liver disease, cirrhosis and septicaemia
 - Diagnosis/treatment of diabetes mellitus, respiratory disease and cancer; analysis of blood and virus; and X-ray equipment
 - Rehabilitation of the disabled and elderly: assessment or functional equipment and tools; therapeutic equipment for heart illness; pain reduction or exercise equipment



"Cat Scan"

Hong Kong Best Prospect Sector: Safety and Security Equipment

Imports from the World (2004):	\$850 million
Imports from the U.S. (2004):	\$60 million (25.3%)
Local market:	\$100 million
Competition:	Japan, EU (Germany)

- Hong Kong reexports 25% (\$183 mn) of its security equipment to China
- An affluent society with an increasing crime rate, Hong Kong is spending more on security-related equipment and services
- Growth is expected in all sectors: surveillance system replacement; access control equipment; internet protocol cameras; workplace management security systems; and home safety

Hong Kong Best Prospect Sector: Safety and Security Equipment

- Opportunities exist for U.S. products such as:
 - Surveillance system replacement
 - Access control: smart card systems, biometrics & fingerprint readers
 - Digital surveillance equipment (including digital video recorders)
 - Text-overlay technology (e.g., point of sale systems and ATMs)
 - Home safety: radio frequency wireless technologies



Hong Kong Best Prospect Sector: Scrap Metal

Imports from the World (2004):	\$470 million
Imports from the U.S. (2004):	\$16 million (3.4%)
Local market:	\$985 million

- In 2003 Hong Kong reexported 86% of its imported scrap metal to China
- Dramatic growth in demand in China results from booming auto and shipbuilding sectors; the 2008 Beijing Olympics; and the 2010 Shanghai World Expo.
- Opportunities exist for U.S. suppliers of these scrap metals: copper, cobalt, aluminum, steel and zinc.



Hong Kong Best Prospect Sector: Telecommunications

Imports from the World (2004):

\$19,432 million

Imports from the U.S. (2004):

\$510 million

Local market:

\$19,442 million

Competition:

China, Korea, Japan, Germany,
France



Hong Kong Best Prospect Sector: Telecommunications

- Opportunities for:
 - Wireless LAN deployment
 - Broadband technology
 - System integration services
 - Network management software and services
 - Network hardware (routers, storage devices, application software)



Hong Kong Best Prospect Sector: Travel/Tourism Services

Departures from Hong Kong to the World
(2004): 5,013,000

Departures from Hong Kong to the U.S.
(2004): 186,000

Imports from the U.S.
(2004): **\$449 Million**

Competition for the U.S. as a destination:

Thailand, Japan, Taiwan, Singapore,
Philippines, South Korea, U.K.,
Australia and Malaysia



Hong Kong Best Prospect Sector: Travel/Tourism Services

- There are 79 direct flights from Hong Kong to the U.S. each week
- The average Hong Kong/China tourist in the U.S. spends \$115/day and stays 21 days.
- There are over 1,000 tour operators and travel agents in Hong Kong, handling over 50 million trips worldwide each year.
- Opportunities exist for new U.S. destinations, i.e., other than Los Angeles, San Francisco, Las Vegas, Hawaii, New York, Boston and Washington, D.C. and for tour operators that are sensitive to Hong Kong/China clients' needs.



Macau Business Opportunities

- Fast-growing market: 21.7% GDP growth (3Q 2004) cf. HK's 7.2%
- Fueled by \$2.5 billion in new U.S. investments by 2006 in the gaming and increased PRC tourist arrivals (9 million PRC tourists in 2004)
- U.S. exports grew significantly in 2003-2004: capital goods (+75.2%), consumer goods (+24.6%), fuel and lubricants (+16.6%), raw materials and semi-finished products (+16.2%)



Macau Business Opportunities

- Opportunities in the gaming sector for U.S. exporters include:
 - Air conditioning systems
 - Environmentally friendly building materials
 - Carpeting for heavily trafficked or outdoor areas
 - Computer systems and financial software
 - Fire- and smoke-resistant drapes and window treatments
 - Elevators and escalators
 - Furniture
 - Gaming equipment
 - Hotel and restaurant equipment
 - Landscape architecture services
 - Energy-efficient lighting
 - Recreational and sports equipment
 - Security systems, especially surveillance equipment
 - “Smart building” systems
 - Training in hotel, restaurant and resort operations

Macau's Cotai Strip



U.S. Commercial Service Hong Kong Export Success Story:

“A year ago China was a dream, now we’re there for the long term.”

Paul Fuhrmann, General Manager

- In November 2001, Mr. Fuhrmann contacted CS Hong Kong, looking for aviation trading companies servicing the Hong Kong and China markets.
- CS Hong Kong Commercial Specialist Elanna Tam matched Envirovac with Hong Kong aviation trading company V-Mark
- V-Mark began promoting Envirovac’s system to Shenzhen Airlines, a mainland Chinese air carrier
- As a result, Shenzhen Airlines specified Envirovac’s system for its purchase of ten 777-900 aircraft
- V-Mark also promoted Envirovac’s system to AVIC I Commercial Aircraft Company, one of the leading Chinese aircraft manufacturers
- As a result, AVIC I specified Envirovac’s Evac system for use in all of its ARJ21 aircraft in September 2003



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