

Hong Kong as a Trading and Services Hub

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With the opening of China in 1979, Hong Kong re-emerged as the entrepot of China. Entrepot trade has become an engine of growth for Hong Kong. It has also become the most important pillar of the Hong Kong economy in both GDP and in employment. In 2005, entrepot trade generated (directly and indirectly) 38 percent and 30 percent of Hong Kong’s GDP and employment respectively.

Entrepot trade is defined to include re-exports and offshore trade. One factor in the rapid growth of entrepot trade is the rise of Hong Kong’s outward processing (OP for brevity) activities in the Mainland, which is reflected in the relocation of Hong Kong manufacturing to the mainland. However, pure entrepot trade, which is not OP related, has also grown rapidly as Hong Kong is a very efficient in trading-related services.

In comparison with pure entrepot trade, OP related entrepot trade usually involves more value-adding from Hong Kong firms, which provide for their partners in the mainland services such as order-taking, sourcing, marketing, trade financing, and management. However, with the growth of cross-border production and the rise of third-party logistics, splitting of the supply chain is increasingly common between producers and traders cum service providers such as Li and Fung. The distinction between pure entrepot trade and OP related entrepot trade is increasingly blurred.

This paper examines the contribution of entrepot trade to Hong Kong. While the growth of Hong Kong’s entrepot trade has contributed greatly to both GDP and employment since 1979, and is also the major driver of Hong Kong’s economic recovery since mid 2003, its future growth is subject to stiff competition from service providers in the mainland, e.g., ports in Shenzhen. With substitution of services sourced from the mainland rather than Hong Kong, Hong Kong is left with a thinner slice of the supply chain, which is reflected in a decline in the rate of value-added per dollar of entrepot trade. The rate of growth of entrepot trade has also slowed down due to trade diversion to Shenzhen ports.

This paper studies the above challenges, and concludes with a discussion on the future of Hong Kong as a trading and services hub.