

**THE CHANGING CHARACTERISTICS
OF HONG KONG'S TRADE**

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Executive Summary

1. In the last half over century, Hong Kong has transformed itself into a well-developed economy that is export-oriented and excelling in manufacturing and processed trade. Its economic integration with mainland China after the late of 1970s has led to a structural change in Hong Kong's trade.
2. After Hong Kong's domestic manufacturing industries were in their doldrums, manufacturers have relocated their production lines to low cost alternatives, especially the southern coastal regions of Chinese mainland.
3. Squeezed by rising income and wage levels in Hong Kong and China's further economic opening that lower Hong Kong's status as a gateway to the Mainland, manufacturers moved to the Mainland lured by the preferential policies offered by the local governments.
4. The impact of China's opening to Hong Kong's trade is significant. Hong Kong's trade deficit has widened considerably since the mid-2000s. Its overall trade is now increasingly dominated by re-exports, mainly to the Mainland.
5. Mainland China has become the most important destination and origin of Hong Kong's trade. The re-exports of Hong Kong to the Mainland are highly focused on manufactured-related commodities.
6. Hong Kong's re-export of capital goods to the Mainland has grown faster than that for intermediate goods, implying that bilateral economic ties between the Mainland and Hong Kong is changing and that the importance of outward processing trade from Hong Kong to the Mainland is slowly declining.
7. Hong Kong's outward processing trade to mainland China has been cut to half the level in 1997 even though the absolute figure is still increasing. Particularly, the percentage of China's outward processing trade for re-export to other places in total exports has also declined.

8. Mainland China is not only the major origin of Hong Kong's re-export, but also its main destination. Simply put, Hong Kong imports large amount of commodities from the Mainland for re-exports back for re-manufacturing, assembling, or consumption.
9. With mainland China becoming a world factory, manufacturing's relocation from Hong Kong has changed Hong Kong's trade structure. Its import for processing from and re-exports to Mainland China have dominated the territory's overall trade, particularly for trade in manufactured goods.
10. Although mainland China's enhanced opening policy and new modern ports could weaken Hong Kong's role as an entrepot, the re-exports of Hong Kong to the Mainland remain strong because of its geographical and comparative advantages and intensifying economic ties with Southeast Asia.