GOING GLOBAL
ACCESS ASIA
EXPORTING TO HONG KONG
A guide for clients

#GlobalAmbition
FocusEconomics panelists expect growth of for 2018 2%

GDP Per Capita in 2018 was €48,958

GDP 2018 €362.99b

GDP Growth for 2018 2.2%

Unemployment 2018 2.7%

Enterprise Ireland client exports to Hong Kong (2018) €341m

Currency

Hong Kong dollars

Population 7.45m

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WHY EXPORT TO HONG KONG?

Hong Kong is commonly referred to as Asia’s World City, offering non-stop intensity, fascinating contrasts, compact variety and significant opportunities for Irish exporters.

While Hong Kong is a significant market in its own right, it is also an important part of the Pearl River Delta Market. This is made up of the Special Administrative Regions (SARs) of Hong Kong and Macau, and China’s Guangdong Province.

Hong Kong’s economy is characterised by free trade, low taxation and minimal government intervention and it consistently ranks in the top 10 globally traded economies.

**Sectoral success**

- Hong Kong is one of the most important financial centres in the world.
- Its electronics industry is the largest merchandise export earner of the territory, accounting for 54.4% of Hong Kong’s total exports in 2017.
- Online retailing has grown rapidly in recent years with cross border e-commerce increasing in popularity.
- It is one of the world’s top cities in terms of per capita consumption of goods and resources.
- Education is a lucrative business in Hong Kong, affording significant opportunities for Irish universities. The number of Chinese students involved in Ireland’s third level sector has grown eight-fold over recent years.
- Five Hong Kong universities are placed in the world’s top 100.
- Hong Kong was the number one most visited city in 2017.

MANY IRISH COMPANIES ARE ALREADY EXPORTING TO HONG KONG. WHAT’S STOPPING YOU?

Hong Kong is ranked 5th for starting a business and 4th for ease of doing business in the World Bank’s “Doing Business 2018” Report

Hong Kong was ranked 7th in the world for the presence of high-tech companies in the Bloomberg Innovation Index 2018.

Hong Kong is ranked 6th overall in the Global Competitive Yearbook 2017-2018 as well as 1st for infrastructure and 2nd for good market efficiency.

The city was named the “Best Business City in Asia” in 2017 by Business Traveller Asia - Pacific Travel.

Hong Kong ranked 10th in terms of institutions, 1st in terms of infrastructure and 14th overall in the 2018 Global Innovation Index.

Hong Kong was identified as the World’s Freest Economy by the Fraser Institute in its 2017 Annual Report.

Hong Kong ranked 11th in Travel and Tourism Competitiveness Index 2017.
GET READY TO DO BUSINESS IN HONG KONG

Travelling and geography
Hong Kong International Airport is one of Asia’s global hubs, connecting it to the rest of the world. In June 2018, Hong Kong’s national carrier, Cathay Pacific, launched the first direct flight between Dublin and Hong Kong. This is a game changer for Irish companies interested in business opportunities in Hong Kong and throughout southern China.

Hong Kong’s transport network is highly developed and sophisticated, with railway, tram, bus, taxi and ferry services provided by public and private operators. Around 12.7 million passenger journeys are made on public transport in Hong Kong every day11.

Business culture
Although long-standing personal relationships are not a prerequisite to doing business in Hong Kong, many firms are family-owned and personal relationships can therefore play an important role in developing such opportunities. Hong Kong business people are generally non-confrontational and will never overtly say “no” as to do so would be to “lose face”. It is important to know that, as in many Asian cultures, silence is also a form of communication. So it is important to resist the urge to jump into the conversation if your Hong Kong business partner remains silent for a period.

Business negotiations are conducted at a slower pace than in most western countries, although the pace of decision making in Hong Kong is generally swifter than in other Asian countries, especially mainland China. During negotiations it is important to allow for a period of small talk before getting down to business decisions. Never lose your temper and refrain from high pressure tactics, which are invariably unsuccessful.

Language
Hong Kong’s two official languages are English and Chinese and English is the language most commonly used in the business and service industries. Cantonese is the most commonly spoken dialect in the region.

Routes to market

Direct presence
Having an actual physical presence in Hong Kong can be part of a long-term strategy to enter the market, and can be established with ease within a few months. A representative office has been traditionally used as a first step to gaining a foothold in Hong Kong. Having local staff on the ground can help generate business leads and provide a good understanding of the culture, supply chain and business relationships.

Outsourcing sales
Outsourcing sales involves working with a Hong Kong based import agent or distributor to establish a sales network to sell products directly to the customer. The choice between using an agent or a distributor depends on the level of control a company wishes to maintain, the level of risk it is willing to take on and the profit margin they are seeking. However, whichever route is selected it is crucial that the company performs extensive due diligence on the chosen agent or distributor, and gives careful attention to the proposed contractual agreements, particularly with respect to payments and intellectual property.

Selling online
Buying and selling online in Hong Kong is extremely common. The rapid penetration of smartphones and mobile internet in Hong Kong has helped increase the usage of online shopping. It is projected that by 2022 online retail sales in Hong Kong will reach €3.2 billion12.

Joint ventures and mergers
A joint venture or merger with a Hong Kong partner can provide quick access to resources and assets such as a distribution network, brand reputation, a special manufacturing process or other tangible assets such as land or special licences. In recent years foreign investors have been increasingly using M&A strategies, with established Hong Kong entities. This approach not only allows investors to forego lengthy set-up processes, but also enables them to better understand the market and any problems they may encounter ahead of entry. However, when entering into a M&A in Hong Kong it is important to remember that irrespective of the ownership, the company and its staff are the locals. Trying to bring in new practices and procedures could hinder progress and create problems in the long-term.
THINGS TO CONSIDER

While every situation will be different, there are several key considerations Irish companies should take into account before entering the Hong Kong marketplace.

Business landscape
Hong Kong is a highly trade-dependent economy. The services sector is the largest contributor to the economy, accounting for 92.4% of GDP in 2017. Hong Kong’s open-market policies and free flow of information makes it an ideal place for foreign companies looking to set up a base in Asia. Foreign companies can make the most of its low tax rate, zero customs tariff on imported and exported goods, minimal licensing, sound legal and judicial system, and protective intellectual property legislation.

Market research resources
Being prepared is essential to success in the Hong Kong market. This should start with thorough market research to identify whether possible niches exist and how a company can go about exploiting them. Attending trade shows in Hong Kong is one of the best ways to do this. As a free port with good air connectivity and located in the heart of Asia, Hong Kong is a preferred location for international meetings, conferences and exhibitions.

Foreign SMEs that fail in Hong Kong share common characteristics - lack of market knowledge is one of them.

Such companies base key decisions or transactions by trusting content they have read on websites or people they have met after one or two visits to Hong Kong rather than doing their own local and thorough research.

Enterprise Ireland’s Market Research Centre offers client companies access to market intelligence in the form of company, sector, market, and country information to explore opportunities and compete in international markets.

Customer service
The Hong Kong Association for Customer Service Excellence (HKACE) found that only 24% of Hong Kong customers have experienced bad customer service in 2016. Having previously been a region of poor customer service, Hong Kong customers are very aware of what constitutes good service – and what does not.

Today factors such as basic salary, working hours, opportunities for promotion, work-life balance and working environment are regarded as important by Hong Kong employees and failure to meet their expectations could have a negative effect on standards of customer service.

Market segmentation
Hong Kong should be considered a separate and distinct market to China as they are culturally different, with Hong Kong having a particularly westernized business environment. It is important that companies have a clear understanding of where their niche lies. Regardless of which method you choose, a market segmentation strategy in Hong Kong helps to identify, evaluate and target potential consumers.
Fintech and financial services

Commercial and financial services (FS) are the main drivers of Hong Kong’s vibrant economy. As a major international financial centre, the Hong Kong FS sector’s growth rate has been consistently higher than the overall GDP growth rate and since its return to China in 1997 Hong Kong has become one of the most important bases for multinational financial institutions.15

Financial services overview

- 150+ licensed banks, including 75 of the world’s top 100
- 3rd in Asia in the Global Financial Centres Index16
- Largest asset management hub in Asia (c. €2 trillion assets managed annually)
- 2nd largest stock market in Asia-Pacific
- 1st equity funding and Renminbi services in the world
- 5th largest stock market in the world17
- 73% of China’s high net worth individuals rate Hong Kong as their top offshore investment destination18

Fintech

Hong Kong is one of the most forward-looking cities in Asia when it comes to Fintech. In a bid to steal a march on other Asian cities, the Hong Kong Monetary Authority (HKMA) set up a Fintech Facilitation Office (FFO)19 in March 2016 and the Hong Kong Government also established a Fintech Steering Committee, which published its first report in 2016. In its 2018/2019 budget the Government also committed to further development of Fintech in Hong Kong. So there is certainly plenty of scope for strategic partnerships between Irish and Hong Kong companies in this sector.

For many Fintech companies a presence in Hong Kong is an important step towards penetrating the Asian market. As Asia’s largest financial hub, the territory provides favourable conditions for the deployment of financial technologies, including: a stable regulatory environment, the strength of its financial sectors, a network of connections to China, and protection afforded to intellectual property and data protection.

The Fintech opportunity in Hong Kong is multi-layered, from the development of new products by existing major institutions through to start-ups and major new credit groups from China. In the first half of 2018 investment in Fintech companies in Asia hit €14.72 billion across 162 deals, and was dominated by investment from China20. The top 10 investments in the Asia-Pacific Fintech ventures in Hong Kong and China, accounting for 90% of overall Asia-Pacific investments.

The development of the Fintech ecosystem in Hong Kong over the past three years has been particularly encouraging and there is now an active accelerator and incubator scene with a focus on Fintech start-ups. In 2018, Hong Kong-based Fintech investment jumped to €562 million21. According to InvestHK, Hong Kong consists of more than 2,500 start-ups, with 13022 Fintech start-ups. Fintech is experiencing high growth figures, reaching nearly 55% in 2017, according to InvestHK.

Banking

Hong Kong maintains a three-tier system of deposit-taking institutions: licensed banks, restricted licence banks and deposit-taking companies. In 2018 there were 154 licensed banks in Hong Kong operating through 1309 local branches. There were also 48 representative offices of banks incorporated in 36 countries outside Hong Kong23. Many major Chinese lenders and commercial banking institutions have branch operations, too.

Insurance

In March 2019 there were 162 authorized insurers in Hong Kong, including 94 pure general insurers, 49 pure long-term insurers and 19 composite insurers. There were also many insurance agencies, including 798 authorized insurance brokers. In 2017 total gross premiums of the Hong Kong insurance industry grew by 8.3% to €56.18 billion.
Securities & Futures
The Hong Kong Government is keen to provide a favourable environment for development of the securities industry, with adequate regulation but without any unnecessary bureaucratic or fiscal impediments. The Securities and Futures Commission (SFC) is responsible for administering the Securities and Futures Ordinance (SFO), which governs the securities and futures market in Hong Kong.

Hong Kong as an offshore Renminbi centre
Hong Kong was the first offshore market to launch Renminbi business back in 2004. Since then it has become the global hub for Renminbi trade settlement, financing and asset management. These activities are supported by the Renminbi liquidity pool in Hong Kong, the largest outside China. At the end of 2017, Renminbi customer deposits and outstanding certificates of deposit issued by banks in Hong Kong together amounted to ¥78.73 billion.25

Regulation
In line with the international trend, Hong Kong’s financial services regulatory system has evolved and developed over the years. The principal regulators are the HKMA, the Securities and Futures Commission, the Office of the Commissioner of Insurance (OCI) and the Mandatory Provident Fund Schemes Authority (MPFA). They are responsible respectively for regulation of the banking; securities and futures; insurance and retirement scheme industries. Although, China and South Korea have banned Initial Coin Offerings (ICOs) and cryptocurrency exchange, they are still permitted in Hong Kong. All ICOs issuing tokens as securities fall under the regulation of the SFC.

Electronics
Hong Kong is one of Asia’s main hubs for the electronics industry. It offers a solid research base, rigorous intellectual property protection, excellent communications and transportation networks as well as easy access to Guangdong Province, the manufacturing hub of Mainland China. Shenzhen, based in Guangdong Province, which is one of the world’s most innovative electronic bases, is located just one hour from Hong Kong.

Hong Kong is also an ideal place to test and launch new products, applications and services before entering the Mainland China market. Mainland China’s manufacturing capability and demand for consumer products is growing fast, but preferences differ from other regions. So entering Hong Kong first can help to localise a company’s offering.

Since 2010, China has been the world’s biggest consumer electronic market and it is still achieving double digit growth each year. In 2017 China imported over €365 billion worth of electronic items and exported more than €651 billion. Imports included IoT related devices, automobiles, medical devices, data-centres, cloud computing, aerospace and mobile communication applications.26

Key areas of opportunity for Irish companies include:

Data Centres (equipment supply or project management)
E-commerce and cloud computing sectors have experienced exponential growth in Greater China over the last 10 years. The sectors were valued at €25-27 billion in 2018. More than 100 data centres were built in China between 2016/2017. Internet speed is rapidly improving in China and the development of 5G technology is expected to roll-out in 2020, further stimulating demand for new data centres.

Semiconductor Industry (chip design or fabless)
China recently released its Made in China 2025 strategy, outlining an upgrade of the Chinese manufacturing sector. The strategy emphasised innovation-based production and will lift the country into a higher value-added economy. This transformation of the manufacturing sector will create demand for Irish semiconductor design chip-set companies in the areas of IoT, smart cities, public transportation and indoor location-based applications. Serving this opportunity from Hong Kong is a common approach for many companies.
Automotive
Hong Kong can benefit greatly from China being the largest automobile manufacturing producer in the world. Global automobile parts manufacturers are continuing to move their facilities to China. The Chinese Government has started to encourage more R&D on clean fuel and electric vehicles and to support this development more electronic components and programming printed circuit boards (PCBs) will be embedded into the vehicle system. This trend creates business opportunities for Irish electronic companies with appropriate capabilities.

Internet of Thing (IoT) and Green Buildings
Several internet giants, including Tencent, Alibaba, Baidu, Lenovo and JD, are investing in green building projects to support their businesses. These projects range from healthcare, home automation, smart buildings and smart-city transportation to online-to-offline commerce and data analytics. Opportunities of particular interest to Irish electronic companies can be found in the areas of medical device applications, patient/object tracking, environmental data monitoring, and data collection and analysis.

Education
Hong Kong has contributed to Greater China becoming the world’s largest source of international students. The number of Hong Kong students studying abroad has increased largely due to changes in the country’s education system, including the launch of the Hong Kong Diploma of Secondary Education (HKDSE), the Hong Kong Government’s Scholarship for Excellence and the Overseas Education Allowance for Government officers to assist in educating their children.

Education is currently the largest expenditure of the Hong Kong Government’s budget, amounting to €8.5 billion in 2018-2019, representing nearly 20.4% of total government expenditure and 3.3% of GDP. Of the 70,000 students who graduate from secondary education each year, 27,000 are eligible to go on to third level. But local universities can only take 15,000 new students each year and a fifth of those places are earmarked for international students. The result is that about 6,000 students are interested in going abroad for third level courses each year. The remaining 43,000 students, whose grades do not qualify them immediately for university in Hong Kong may go on to take other courses which may qualify them for international education at a later date. Competition for such students is intense, both within Hong Kong and from highly competitive Chinese and Taiwanese offerings. Degree courses leading to professional qualifications in medicine, healthcare, accountancy and law are of particular interest to Hong Kong parents and students and Irish universities need to emphasise the advantages and credibility of Irish education when promoting in Hong Kong.
LEGAL & TAXATION INFORMATION

Visa requirements
Irish citizens whose passports have at least six months’ validity can enter Hong Kong for a period of up to 90 days without a visa. Those who wish to stay longer must apply for a visa from Embassy of the Embassy of the People’s Republic of China in Ireland.

Visitors are required to have adequate funds to cover their stay without working and to hold onward or return tickets, unless they are in transit to mainland China or the Macau Special Administrative Region (SAR).

For further information see the Hong Kong Immigration Department website: https://www.immd.gov.hk/eng

Import rules & regulations
As Hong Kong is a free port, no tariffs or duties are applied to imports and exports. The exceptions are tobacco, hydrocarbon oil and fuel, methyl alcohol and alcohol (over 30% alcohol by volume).

However, any imported goods must still meet licensing requirements or import controls to be brought into Hong Kong.

Hong Kong does impose a range of non-tariff measures to protect public health, safety, security and the environment. These non-tariff measures typically come in the form of license requirements and are issued by the License Branch of the Trade and Industry Department. Import licences are required for a range of items including mainland cereals and grain flour, powdered formula, textiles, rice and strategic commodities.

Hong Kong labour law
The Employment Ordinance is the main piece of legislation governing the terms and conditions of employment in Hong Kong. It covers a comprehensive range of employment protection and benefits for employees, including wages, holidays with pay, sickness allowance, employment protection and termination of employment contracts.

The majority of employees in Hong Kong are covered under the Employment Ordinance however there are some exceptions, so it is important for an Irish company hiring local staff in Hong Kong to be aware of this. If the Employment Ordinance covers an employee, the employment contract terms must satisfy certain minimum requirements. If it does not apply, the contractual terms will be by mutual agreement between the employer and the employee.

Key taxes
Taxation in Hong Kong is simple, predictable and light, with a straightforward filing system. Hong Kong is one of the few countries in the Asia-Pacific region to successfully establish electronic systems for filing and paying taxes.

The territory imposes only three direct taxes:

- Profit tax, capped at 16.5%.
- Salary tax, capped at 15%.
- Property tax, set at 15%.

Hong Kong does not impose any sales taxes (VAT/GST), withholding taxes, capital gains tax, estate taxes or taxes on dividends.

Data & Intellectual Property Protection
With one of the world’s most stable, effective and certain legal systems, Hong Kong provides strong intellectual property rights. Under the “one-country, two-systems” principle, Hong Kong’s constitution, specifically provides for Hong Kong to develop its own policies for intellectual property rights. However, intellectual property rights registered in Hong Kong will not be automatically protected in mainland China, and vice versa.

Hong Kong’s Customs and Excise Department is responsible for enforcing copyright laws and intellectual property rights.

If you have any legal or taxation questions or issues working with a consultant or law firm who have local market access and knowledge is key to getting answers. Enterprise Ireland in Hong Kong can link you with consultants/law firms who will be able to assist you navigate the Hong Kong legal system.
Enterprise Ireland is committed to assisting and supporting clients to enter new markets and expand in their current markets. Our team of experienced marketing professionals in our overseas offices are ready to help you. Enterprise Ireland offers flexible solutions for client needs, as well as business supports for success in the market. This includes our Market Research Centre and local market supports, our experience in building selling capabilities, and our assistance with trade events and missions.

Here is an overview of the services offered by our Hong Kong office;

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<th>Pre-visit support</th>
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<tr>
<td>Prior to engaging with an overseas market, client companies should engage with their Development Adviser (DA) and the Enterprise Ireland Market Research Centre in Dublin to ensure they leverage the full range of possible supports in preparation for engaging with the EI team in the market.</td>
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<tr>
<td>• General market and country level information</td>
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<td>• Sector overview</td>
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<tr>
<td>• Validation of the opportunity for your product or service</td>
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<td>• Evaluation of your market entry strategy</td>
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<tr>
<td>• Suggested channels to market</td>
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<td>• Competitor analysis</td>
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<tr>
<td>• Relevant contacts/suggested itinerary</td>
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<td>• Summary of relevant market information resources</td>
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<th>In-market support</th>
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<tr>
<td>• Introductions to buyers and decision-makers</td>
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<td>• Identification of potential partners</td>
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<td>• Facilitation of buyer visits to Ireland</td>
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<tr>
<td>• Assistance with product launches/workshops</td>
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<td>• Securing reference sites</td>
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**International trade events programme**

Every year Enterprise Ireland organises an extensive programme of events to support your business abroad. These include:

- Inward buyers’ missions to Ireland
- Group stands at important international trade fairs
- Overseas trade missions
- Study visits to gain knowledge of overseas markets
- Client knowledge events including seminars and workshops
- Networking events to build and enhance relationships with market contacts

Further information is available at: [www.enterprise-ireland.com/events](http://www.enterprise-ireland.com/events)

**International market contacts**

Enterprise Ireland has built up an excellent network of individuals in Hong Kong who are able to work with Irish client companies on developing their businesses. This includes market and sector specialists, business accelerators and members of Irish business associations.

**Additional supports**

- Access to translation and interpreting services
- Introductions to specialist expertise such as legal, recruitment, public relations and taxation
- Access to mentors
References

12. Marketline, “Online Retail in Hong Kong”, February 2018, Census and Statistics Department of Hong Kong
16. Z/Yen Group and the China Development Institute, September 2017
18. www.whub.io - WHUB FinTech Ecosystem Toolbox