

# International Business Guides Hong Kong



Together we thrive

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# Welcome to Hong Kong

The Hong Kong Special Administrative Region (SAR) of the People's Republic of China sits on the eastern side of the Pearl River estuary in East Asia. One of the world's most significant financial centres, with independent executive, legislative and judiciary powers, Hong Kong ranks as the most competitive global market in which to do business<sup>1</sup>.

Topping the list of free economies of the world in the 2018 Index of Economic Freedom, Hong Kong provides a gateway to Asia's fast-growing markets with opportunities across many industries.

The Hongkong and Shanghai Banking Corporation Limited opened its doors for business in Hong Kong in March 1865. By the end of the 19th Century, the bank was one of the most prominent financial institutions in Asia.

Our rich heritage and over 150 years of experience in the Hong Kong market means we have a deep understanding of how to do business here.

Today, HSBC operates from more than 100 branches in Hong Kong. Please get in touch to find out how we can help your business grow.

We'd be delighted to hear from you!

# Essentials



Capital city

**None, as Hong Kong is a Special Administrative Region of China**

Other major cities

**As above**

Population

**7.3 million<sup>1</sup>**

Size

**1,104 sq km**

GDP

**USD45,892 per capita<sup>2</sup>**

Main languages

**Chinese and English**

Currency

**Hong Kong Dollar (HKD)**

Top exports

**Electrical machinery and appliances, textiles, apparel, footwear, watches & clocks, toys, plastics, precious stones and printed material<sup>3</sup>**

Top imports

**Raw materials and semi-manufactures, consumer goods, foodstuffs and fuel<sup>3</sup>**

Time zone

**UTC +8**

Typical office hours

**9.00am – 6.00pm, Monday to Friday**

Unemployment rate

**2.9%<sup>4</sup>**

Profits tax

**16.5% (15% for unincorporated businesses and a preferential rate of 8.25% for SMEs in 2018)<sup>5</sup>**

Dialling code

**+852**

Emergency numbers

**999 (police, fire and ambulance)**

# Hong Kong: China's gateway, Asia's global city

## Access to Asia<sup>4</sup>

Hong Kong provides easy access to Asia, the world's largest continent which is home to half of the world's population.

## A free economy

Hong Kong has topped the Index of Economic Freedom for 23 consecutive years, ranking highest of 186 countries on financial freedom, property rights, rule of law and trade.

## China's global connector<sup>6</sup>

From here you can plug into the fast-growing markets in China. The territory is the most important source of investment for the Chinese mainland and vice versa. It's also at the mouth of the Pearl River Delta, one of China's leading economic regions and a major manufacturing centre.

## Wealthy in its own right

Not only is this Asian tiger one of the world's most densely populated cities, it's also home to a high concentration of wealthy individuals. The nearby cities of Shenzhen, Guangzhou and Dongguan, are now among the richest in China and are sizeable and strong markets for goods and services.

## Global trading and finance hub<sup>6</sup>

Strategically located for business in the Asia-Pacific, Hong Kong is the second largest trading partner with the Chinese mainland after the US. It is also one of the most important financial services centres in the Asia-Pacific.

Sources:

<sup>1</sup>World Bank Group, 2018 <sup>2</sup>Trading Economics, 2018 <sup>3</sup>Central Intelligence Agency (CIA), 2017

<sup>4</sup>Government of the Hong Kong SAR, 2018 <sup>5</sup>PwC, 2017

# Country profile

**Hong Kong is one of the world's most competitive economies. It's a magnet for global business, with its own currency, legal framework and taxation system.**

The autonomous territory is a long-standing bridge to China and a rare blend of East and West, with large volumes of trade and investment flowing both ways.

Hong Kong is modern and international, with the broad protections of the rule of law. According to The World Bank it is also relatively easy and cost-effective to do business here.

With free trade at its core, Hong Kong is situated in a prime location at the centre of Asia and its economy is one of the most open in the world.

Hong Kong has a three-fold appeal: it's economically energetic, it has strong growth prospects, and it's a major gateway to mainland China.

A good regional spot for expansion across the Asia-Pacific region, this multi-faceted city is also cosmopolitan, business-friendly and largely stable.

Read on to discover more about the dos and don'ts of doing business in Hong Kong. Also find out how trading in or with Hong Kong could help boost the future growth of your business.

## 5 reasons to do business in Hong Kong<sup>1</sup>

### 01 Made for business

Hong Kong is a record-holder for being one of the planet's freest economies, according to the Index of Economic Freedom. Largely market-driven with an independent judiciary, robust intellectual property protection and the use of English, the territory is a good place to do business.

### 02 Low-and-simple tax regime

The territory has a simple, predictable and low tax system. It imposes only three direct taxes and has significant allowances and deductions, which can reduce your taxes further, with no sales, capital gains or withholding taxes.

### 03 Home of the small and medium enterprise

Approximately 330,000 small and medium enterprises (SMEs) are currently based in Hong Kong, making up over 98% of all businesses and employing nearly half the private sector workforce.

### 04 Start-up ecosystem buzzing

Hong Kong is increasingly positioning itself as the start-up hub of the Asia-Pacific. In 2016 there were 2,000 start-ups, employing over 5,000 people, accounting for \$3.2 billion according to a survey by InvestHK.

### 05 Support for new companies

Foreign and local companies compete on equal terms, as there's no protection of local businesses or trade barriers in Hong Kong. Overseas talent possessing specific skills, knowledge and experience can work here.

## 5 key challenges

### 01 New controllers register<sup>1</sup>

Effective from 1 March 2018, all Hong Kong incorporated companies are now required to keep a significant controllers register (SCR) to maintain up-to-date beneficial ownership information.

### 02 Registering property<sup>1</sup>

Property registration takes an average of 27 days to complete in Hong Kong, which can be a long-winded process.

### 03 Competition risks<sup>2</sup>

Challenges including Hong Kong's higher education standards, innovation and business sophistication were highlighted as competitiveness risks by the World Economic Forum's World Competitiveness Report 2017.

### 04 Understanding procedures<sup>2</sup>

Navigating tax, legal and regulatory processes in Hong Kong can be difficult for those without a local understanding of these practices.

### 05 A costly city<sup>3</sup>

Hong Kong ranks in the top 10 most expensive cities for expatriates in 2017, according to a report by ECA International. As a result, co-working spaces or virtual offices are increasingly popular.

Sources:

<sup>1</sup>Mondaq, 2017

<sup>2</sup>Government of the Hong Kong SAR, 2017

<sup>3</sup>ECA International, 2017

# Society & culture

## In this section

Language

Food

Religion

Values

Customs & celebrations



**That iconic Hong Kong skyline in front of a curtain of green peaks is fitting for one of the world's largest financial hubs.**

Locals call it xiang gang, which means 'fragrant harbour'. Hong Kong also offers an abundance of protected green space, which is welcome in one of the world's most densely populated areas.

Its unique system of governance allows free speech and lively political discourse. There's a relatively free press and a sophisticated, well informed populace with a 'go get 'em' attitude.

## Language

English and Chinese are Hong Kong's two official languages, and this continues into the world of business. The Cantonese dialect is the most commonly spoken language in the territory, though English is the language of business.

## Food

In Hong Kong food is practically a religion. The equivalent of 'how are you' in Cantonese is 'have you eaten rice yet?' (sikh jó faahn meih a?), denoting how central food is to the culture. The options are endless from Mongolian to Manchu, Shanghainese to Vietnamese. Business deals are often clinched around shared tables. Chopsticks use is a given. Dim sum, or Chinese brunch, is a must, as are Hong Kong's humble tea shops, known as cha chaan teng.

# Religion

There is a great respect for tradition, the authority of elders, and security, as well as conforming to social norms. However, Hong Kong is incredibly pluralistic when it comes to religion, from Buddhism to Taoism and Christianity in all its forms. Hong Kong is also home to Hindu, Sikh and Jewish communities.

# Values

Hong Kong has been voted one of the world's safest cities and ethics play a significant role. Family values are also very important and it is often customary for large families to live together in close-knit communities. Business empires are often family-run and handed down through the generations.

# Customs & celebrations

From rearranging your desk so it brings in good feng shui or the cutting of a roasted suckling pig when you open a new office, the territory is brimming over with traditional Chinese customs and celebrations. There are other colourful festivals too, from the Cheung Chau Bun Festival to the Birthday of Tin Hau. Christmas and Easter are also respected.





## Working practices & values

Hong Kong people are economic at heart. The working culture focuses on free enterprise, where trade and markets open to everyone reign supreme, as you would expect in a key finance and business hub.

The territory has an incredibly long tradition of international trade and overseas connections. Expatriates, Western-educated locals and multi-generational non-Chinese citizens rub shoulders socially and professionally.

Expect face-to-face meetings, email and phone conversations that are direct and to the point. Remember, English is a second language for many. Many transactions can be incredibly efficient in Hong Kong, especially financial ones, as well as purchasing goods or using the transport networks.

What strikes many new entrants into the territory are the working hours, which can be long. According to a survey of 70 cities around the world by UBS in 2017, Hong Kong tops the global ranking of working hours, with employees spending over 50 hours a week at their desks. A good number of employees still work Saturday mornings.

For many people, Hong Kong is a 'work hard, play hard' environment.

# Business etiquette

## In this section

Greetings

Dress code

Negotiations

Business cards

Sealing the deal

Entertaining

Golden rules



Many of the customs and business practices reflect both a blend of British sensitivities and strong Chinese values. Numerous common, company and trust laws were written prior to the British handover in 1997.

Hong Kong is very much aware of its history, but also of where its future lies - right on the edge of the world's second largest economy<sup>1</sup>, China.

## Greetings

Business greetings usually start and end with a handshake.

Mr, Mrs, Miss or appropriate professional titles should be used, unless you are invited by your host or colleague to use their first names.

## Dress code

Business attire tends to be formal and conservative, so choose a dark suit or dress with muted colours.

Despite the sweltering, humid, sticky, sub-tropical summers, suits, or at least a shirt and tie or smart dresses, are still worn. Most office spaces, transport systems and walkways in Hong Kong are air-conditioned, sometimes to such a degree that you can feel chilly in mid-summer.

Even when out entertaining, going for dinner, or in a bar, formal attire is very much the norm.

## Negotiations

Although your Hong Kong counterparts may be hard to gauge and don't give much away, it's important to remain calm, patient, and modest during negotiations.

In Hong Kong business culture, negotiations may take time as everything is discussed in detail and considered very thoroughly.

# Business cards

Cards should be printed in both English and Cantonese if possible, which means complex Chinese characters, not simplified ones as used in mainland China.

Business cards should be presented with a two-handed flourish and with respect. Meetings can often involve large groups of people at a time, so make sure you come prepared. Always make sure you take time to look at the card being presented to you.

# Sealing the deal

Developing strong personal relationships is certainly crucial to doing deals in Hong Kong and also figuring out who is making the decisions. The process tends to be either top-down or consensus-driven. Be aware that the one person you need to convince may not be in the room when you're trying to seal the deal. Anticipating the communication gap is crucial in Hong Kong.

English may be the language of business, but messages can get lost in translation when trying to sign on the dotted line.

# Entertaining

Business entertaining is popular in Hong Kong, so it is likely that you will be invited to dine locally and you should be prepared to share a meal or two with your business colleagues.

A strong relationship of trust, credibility and empathy is best cemented around a large, circular table and a selection of carefully chosen delicacies. Some dinners can be formal, but others can end in a rowdy karaoke bar with plenty of drinks, bravado and camaraderie.

## Golden rules

### 01 **Save face at all times**

The culture of 'face' is a crucial part of many interactions. If you cause someone to lose face this lowers their status in the eyes of their colleagues, while saving or building face can elevate their standing.

### 02 **Hierarchy and reputation**

Hierarchy and reputation count in Hong Kong, whether it be their seating position at the boardroom or the banqueting table, or who speaks first at a business meeting.

### 03 **Attitude and respect**

Turn up on time, shake hands in the appropriate manner and read business cards with interest. You may be judged on whether your attitude is suitably respectful.

### 04 **It's all about a harmonious experience**

This encompasses everything from exchanging gifts to showing an interest in your host's family. It is also vital that you can gauge how to be professional yet personable at the same time.

# Economy

## In this section

Highlights

Regional economies

Exports & imports

Currency



# Highlights

- ◆ The Hong Kong economy attained an annual growth of 3.8% in 2017, notably higher than its average annual growth of 2.9% in the preceding 10 years.
- ◆ This is one of the world's most service-focused economies, accounting for more than 90% of GDP, according to the World Bank.
- ◆ Hong Kong is a productivity powerhouse, second only to Singapore. It's also the world's sixth largest trading economy.

If you want to gauge performance of the global economy, just take a snapshot of Hong Kong. There are few economies worldwide that are as dependent on external trade, business and finance as this territory.

Tourism, logistics and professional services are all directly dependent on it, while the red-hot property market and domestic retail sector reflect the wider picture.

Hong Kong is looking to move beyond its four economic pillars of trade and logistics (22% of GDP), financial services (18%), professional services (12%) and tourism (5%) to broaden its economic appeal including a focus on technology, innovation, medical services and education.

Hong Kong also continues to attract a growing number of overseas companies from both mainland China and from around the world.

GDP (Current USD)  
**\$339.2 billion<sup>1</sup>**

GDP Per Capita  
**\$45,892<sup>1</sup>**

Real GDP Growth  
**3.8%<sup>1</sup>**

Inflation Rate  
**2.1%<sup>2</sup>**

	Exports	Imports
Global Ranking	<b>6<sup>4</sup></b>	<b>7<sup>4</sup></b>
Value	<b>\$493.7 billion<sup>1</sup></b>	<b>\$555.1 billion<sup>1</sup></b>
% of GDP	<b>187%<sup>3</sup></b>	<b>185%<sup>3</sup></b>

## Economic Structure

Services (% of GDP) **92%<sup>3</sup>**  
 Industry (% of GDP) **8%<sup>3</sup>**  
 Agriculture (% of GDP) **0%<sup>3</sup>**

Sources:

<sup>1</sup>Government of the Hong Kong SAR, 2018

<sup>2</sup>Trading Economics, 2018

<sup>3</sup>World Bank Group, 2017

<sup>4</sup>World Trade Organization, 2017

# Regional economies

Hong Kong is dependent on China and external trade. Over the past decade, mainland China has increasingly opened up its economy to the rest of the world. Many investors are going directly to the country. When it comes to trade, the mainland has also boosted its container ports, bypassing Hong Kong.

Hong Kong is keen to maintain its business hub status. Overseas companies are attracted here by its 'super connector' role with mainland China.

The Hong Kong government and mainland China are now promoting the Greater Bay Area concept. This involves a globally competitive cluster of metropolises in the Pearl River Delta including Guangzhou, Hong Kong, Macau and eight other cities. This area alone accounts for \$1.2 trillion in GDP and 12% of China's economy.

Hong Kong is also in healthy, yet persistent, competition with another city in Asia - Singapore. Each tries to outdo each other in various economic and business performance measures on what seems like a daily basis.

# Exports & imports

To say that the territory is a heavyweight in exports is an understatement. Hong Kong is, in fact, the world's sixth largest exporter of merchandise trade. It helps that this harbour city is also a free port with no levy or duty on exports or imports. Exports grew by 5% in 2017.

What is interesting is that Hong Kong's import and export trading firms are typically small, employing fewer than 10 people on average. Even more striking is that Hong Kong imports more than 90% of its food mostly from China. Many other goods are imported, from abalone of New Zealand to Australian milk.

# Currency

It's worth noting that Hong Kong's currency is pegged to the US dollar. The strength or weakness of the greenback directly affects the territory's currency, as do interest rate changes by the US Federal Reserve.

Hong Kong is also home to the second largest foreign exchange market in Asia, the fourth in the world behind London, New York and Singapore. It has also aimed to be at the forefront of the internationalisation of China's currency - the yuan - by introducing an offshore renminbi market, currently the largest in the world.

The good news is that the territory is heavily capitalised when it comes to foreign exchange. The official foreign currency reserve assets of Hong Kong amount to more than USD400 billion. This is more than seven times the currency in circulation.

# Labour & business

## In this section

Highlights

Workforce

Productivity

Bankruptcy

Audit & accounts





# Highlights

- ◆ Hong Kong has a well-paid, highly educated, bi-lingual workforce with a good mix of globalised business savvy and Chinese acumen.
- ◆ Its labour market is among the world's most flexible and efficient, ranked third globally by the World Economic Forum. Its citizens are also hyper-connected with some of the highest mobile phone and internet penetration rates.
- ◆ Global talent can be attracted to Hong Kong. It's not just the international lifestyle, the territory is also home to some of Asia's leading universities, world-class tech-parks, institutes and research & development (R&D) centres.

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Population  
**7.3 million<sup>1</sup>**

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Unemployment Rate  
(as % of Labour Force)  
**2.9%<sup>2</sup>**

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Workforce  
**3.9 million<sup>2</sup>**

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Minimum Wage (Per Hour)  
**HK\$34.5<sup>2</sup>**

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Maternity Leave (Weeks)  
**10<sup>2</sup>**

The labour market has enviable full employment, with some of the lowest unemployment rates in two decades. Globally, it's ranked second by the World Economic Forum in 2017 in terms of flexibility of wages and hiring and firing practices.

Hong Kong has an Employment Ordinance that lays out a comprehensive range of conditions, benefits and protections for employees under a continuous contract of employment. There is a minimum wage (HK\$34.50 per hour), but employers or employees do not have to contribute to any social security system, as this is provided by the Hong Kong government.

The fact that Hong Kong, by 2017, ranked among the world's most business-friendly economies since the World Bank began its Doing Business Report in 2005 is testament to the positive work environment there.

What remains to be seen is how Hong Kong is able to preserve its labour and business flexibility as it deepens its economic integration with mainland China under the 'one country, two systems' formula, as more people, services, money and goods move between the two. Hong Kong's capacity to use mainland China as a base for low-cost manufacturing is also evolving.

Sources:

<sup>1</sup>World Bank Group, 2018

<sup>2</sup>Government of the Hong Kong SAR, 2018

# Workforce

One strength of Hong Kong's workforce is that it has an impressive record for educational attainment, which enables employers to hire from a talent pipeline. One concern is that the workforce is ageing and more talent will have to come from overseas in future.

In 2017, according to the Government of Hong Kong, 3.9 million people were in employment - over 61% of the total adult population.

Talent can be hired relatively easily from outside of Hong Kong. Government policies are friendly towards families and expatriate employees can usually bring their partner and children, although Hong Kong requires that local employees be given priority in filling job vacancies.

A shortage of skills is prevalent in certain areas, notably cyber security, compliance, digital marketing, development and sales.

The strong work ethic observed in Hong Kong means industrial action is a rare occurrence.

# Productivity

Hong Kong is just behind Singapore when it comes to productivity in Asia, but ahead of all the rest. The territory's stable, efficient and trustworthy business environment means it scores highly in this regard. The city's commercial efficiency, smooth-running administration, low unemployment and social stability also feed into this process.

It may be that a skills shortage is the reason why the territory is slipping down the scale slightly. Lower rates of innovation and issues with higher education are also cited as to why Hong Kong's productivity isn't at its peak.

The cost of doing business in Hong Kong is also more expensive compared with other countries, especially when it comes to rent. The territory is now looking to improve productivity, with the city focusing more on developing its technology and innovation sectors.

# Bankruptcy

Hong Kong currently has no bankruptcy protection law, which means a single creditor can wind up a company.

Hong Kong also lacks any formal corporate rescue regime and the current situation is still heavily weighted towards liquidation, instead of rehabilitation.

However, there have been recent changes to the corporate insolvency statute that strengthens creditor protection, as well as streamlining the winding up process. Lawyers are also expecting a change to the legislation that will give Hong Kong a much-needed statutory corporate rescue procedure. Some say that key aspects of the insolvency regime are in need of modernising and that it is long overdue.

Interestingly, there is virtually no public debt in Hong Kong.

# Audit & accounts

The Financial Reporting Council (Amendment) Bill introduced in 2018 will see the Financial Reporting Council's (FRC) powers expand to inspect, investigate and discipline auditors in more than 2,000 listed companies.

The new auditing regime will make it easier for the FRC to work with overseas regulators, which means they will have oversight of international or overseas auditing firms working in Hong Kong.

Currently, the Hong Kong Institute of Certified Public Accountants (HKICPA) - an industry organisation - manages audit firms, their registration, inspection and discipline.

Any company incorporated in Hong Kong is required to have its accounts audited every year by an auditor registered with the HKICPA, while a local branch of an overseas company is not required to have a mandatory audit, although it is required to file a tax return for profits. In the process, the Inland Revenue Department (IRD) may audit a company's accounts.

# Taxes & wages

## In this section

Highlights

Corporate taxes

Individual tax

Withholding taxes

Indirect tax

Foreign-owned enterprise tax

Tax incentives

Mandatory Provident Fund



# Highlights

- ◆ Hong Kong has one of the most tax-friendly economies in the world, with some of the lowest rates in Asia and globally. The system is simple and predictable.
- ◆ To boost SMEs, the law has been changed. Companies will now pay profits tax of 8.25% on the first HK\$2 million of profits, down from 16.5%.
- ◆ Due to the vast size of Hong Kong's fiscal surplus, there are continual cuts in taxes to incentivise SMEs and spending by individuals, and also to nurture innovative start-ups.

Simple and straightforward are the watchwords when it comes to Hong Kong's taxes. This is in line with its free market and dynamic economy ethos. There are only three direct taxes – profits, salaries and property taxes administered by the Inland Revenue department, the main tax authority.

There are also allowances and deductions that help reduce taxable amounts. Commanding the lowest tax rates in Asia, it's no wonder Hong Kong is a major financial hub. Also, unlike many other jurisdictions, taxes on capital gains and sales are non-existent, and value-added tax or VAT is unheard of. There are not even any social security benefit payments or collections in Hong Kong. Virtually all developed economies are unlike Hong Kong when it comes to both the narrow tax base or the rates charged to individuals and businesses.

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Ease of doing business –  
Paying Taxes (Rank)  
**3<sup>1</sup>**

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Salaries Tax (Rate)  
**2% to 17% (15% as  
standard rate)<sup>2</sup>**

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Profits Tax (Rate)  
**16.5% (15% for  
unincorporated  
businesses)<sup>2</sup>**

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Value Added Tax (Rate)  
**None (HK does not levy  
a VAT tax)<sup>3</sup>**

Sources:

<sup>1</sup>World Bank Group, 2017

<sup>2</sup>Government of the Hong Kong SAR, 2018

<sup>3</sup>Deloitte, 2017

# Corporate taxes

The only tax that corporations must pay is a profits tax, which is capped at 16.5% and at 15% for unincorporated businesses. There are no taxes associated with payroll, capital gains or turnover. If you start an incorporated business in Hong Kong you will be tracked by the tax authority and issued with a tax return.

In January 2018, profits tax was slashed to 8.25% from 16.5% for the first HK\$2 million of earnings, after that amount companies are taxed at the current 16.5%.

This is a single-tier, flat-rate system. The IRD of Hong Kong issues the profits tax returns on 1st April of each year. Hong Kong is not an offshore centre per se; its taxation is guided instead by 'territorial principles'. This means only profits arising in or derived from Hong Kong are subject to tax in the territory.

SMEs enjoy a preferential rate of 8.25% (down from the current 16.5%) applied to the first HK\$2 million of profits, effective from 2018.

# Individual taxes

If you take a salary from a company in Hong Kong you are subject to tax that ranges in incremental bands from 2% to 17%. The standard rate is 15%. This is based on income sourced in Hong Kong or a pension. There are also deductible expenses and personal allowances for charitable donations, education expenses and contributions to retirement schemes.

Due to fiscal surpluses, for more than a decade now Hong Kong residents have been receiving tax rebates on salaries. This occurred in the 2016 and 2017 Budgets. The idea is to boost consumer spending and consumption in order to fuel the local economy.

# Withholding taxes

There are no withholding taxes in Hong Kong.

# Indirect taxes

In the territory there is no capital gains tax, no tax on dividends and no estate tax. However, there is a property tax, which is levied at 15%. This is paid on income received from renting out property in Hong Kong. There is also a business registration fee of HK\$2,000 which is paid on a yearly basis by all businesses registered in the territory.

# Foreign-owned enterprise tax

Hong Kong is a free trade zone. There are no taxes aimed at overseas companies. These entities are able to operate in Hong Kong on the same level playing field as local corporations.

# Tax incentives

There are now further tax breaks that apply to those corporations that invest in innovation and R&D. There is a 300% tax deduction for the first HK\$2 million spent on R&D and 200% for the rest - this has been raised from 100% of any outlay.

Hong Kong is keen to boost innovation and competitiveness in the territory. Tax breaks in this area are seen as one instrument to achieving this. Other than that, no tax incentives are needed in Hong Kong since local and foreign companies operate on completely the same footing.

# Mandatory Provident Fund

Most employees in Hong Kong must make a compulsory contribution of their monthly wage, and as an employer you are expected to make a matching contribution to this fund. The cap for individuals is set at HK\$1,250 per month. The total asset has tripled in size within a decade, almost on a par with the city's fiscal reserves.

# Investment & trade

## In this section

Highlights

Ease of doing business

Foreign investment

Competitiveness

Government incentives

Capital markets & banking

Intellectual property rights





# Highlights

- ◆ Hong Kong is hoping to capitalise on China's Belt and Road Initiative, a modern-day Silk Road, in the belief that new trade routes will benefit this trading city.
- ◆ Hong Kong is working hard to develop into one of Asia's most attractive hubs for start-ups. The territory has a strong and perennial entrepreneurial spirit.
- ◆ The Pearl River Delta, including Guangzhou, Macau, Shenzhen, seven other cities and Hong Kong are facing further integration to create a South China economic powerhouse.

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FDI Net Inflows  
(Current USD)  
**\$117.1 billion<sup>1</sup>**

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Ease of doing business -  
Starting a business (Rank)  
**3<sup>1</sup>**

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Ease of doing business  
- Trading across borders  
(Rank)  
**31<sup>1</sup>**

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Enabling Trade Index (Rank)  
**3<sup>2</sup>**

If only everywhere in the world was as easy to do business in or as hot on investment and trade as Hong Kong. This is an economic utopia. Restrictions on business, trade, investment, finance, property rights and labour are low.

Hong Kong never rests on its laurels, and it also has lofty goals – to be a full-service, global financial centre, an international innovation hub and a world-renowned cultural and creative arts centre.

## Ease of doing business

Starting a company in Hong Kong is an extremely straightforward process and requires little time, effort and investment. According to the World Bank's Doing Business Index 2018, it can take a week to incorporate a company in the territory, and if you take up the name of an existing one, it can be just a day. There's no minimum capital needed and entrepreneurs from overseas can have complete control of shares in any private limited company registered here.

The territory features in the top five in the World Bank's Doing Business Index 2018. It sits behind New Zealand, Singapore, Denmark and South Korea. Hong Kong performs well when it comes to starting a business and paying taxes, less well when it comes to trading across borders, registering property and resolving insolvency. However, it is still one of the easiest places to do business globally.

Sources:

<sup>1</sup>World Bank Group, 2018

<sup>2</sup>World Economic Forum, 2018

# Foreign investment

Hong Kong is currently the second largest host and investor of foreign direct investment (FDI) stock in the world according to the World Bank, after the US.

It is the largest foreign investment source of the Chinese mainland, and vice versa. In 2017, 58% of re-exports were of China origin and 54% were directed to the Chinese mainland.

One distinct feature of foreign investment in Hong Kong is the indirect channelling of monies from entities in tax havens including the British Virgin Islands, Cayman Islands, Netherlands and Bermuda.

Foreign investment in Hong Kong is focused on service industries, real estate, professional and business services including banking, as well as import-export, wholesale and retail trades.

# Competitiveness

In a 2017 joint study between the UN and Chinese Academy of Social Sciences (CASS), that surveyed over 1,000 global cities, Hong Kong ranked 12th, below its neighbour Shenzhen in terms of competitiveness. The territory's inflated property prices have dampened its global standing. At the same time, Hong Kong ranks as the most competitive global economy in the World Competitiveness Yearbook 2017 by the IMD.

There is no doubt that this is an extremely competitive city on the world stage. It is keen to use its financial muscle to achieve its goals. Hong Kong keeps a watchful eye on these types of rankings and alters its tax rates, spending on infrastructure and trade-facilitating processes in order to keep its accolades - and reputation.

The biggest issue is that this is one of the planet's most expensive urban centres for owning a home, for commercial real estate and office space. Property costs are undermining the territory's ability to stay at the top of the ladder.

# Government incentives

A major attraction for investors considering this free port is that local and foreign companies compete on equal terms. The government has recently introduced further tax incentives to boost the SMEs that make up a significant slice of the economy. There are also funds that are aimed at promoting certain sections of the economy that the government is keen to foster, namely in innovation, technology and the creative industries. These include:

- ◆ **Innovation and Technology Fund for Better Living** – This scheme is intended to make people's lives more convenient, comfortable and safer, or address the needs of the community. The fund is valued at HK\$500 million and is expected to operate for five years.
- ◆ **Innovation and Technology Fund** – Focused on how tech can improve businesses with innovative ideas. It's administered by the Innovation and Technology Commission, which recently launched a venture fund worth HK\$2 billion to encourage investment in this sector.
- ◆ **CreateSmart Initiative** – The fund is worth HK\$600 million and provides financial support to the creative industries in Hong Kong.

# Capital markets & banking

Hong Kong is primarily a finance hub that is home to many regional headquarters of big global banks. More than 200 banking institutions operated here in 2017.

Its stock exchange has also led the world for five out of the past eight years for initial public offerings or IPOs. Chinese firms have raised tens of billions of US dollars in Hong Kong, much more than on any mainland Chinese exchange. They now make up half the market capitalisation.

The Hong Kong market is open, transparent, mature, stable, and governed by the rule of law. On one side it's fully integrated into the global economy, yet on the other it's controlled ultimately by the government in Beijing.

The financial and banking sector employs 232,000 people and contributes to 16.5% of Hong Kong's GDP, while the fund management business stands at over USD2 trillion.

# Intellectual property rights

The Basic Law, which is Hong Kong's mini-constitution, has intellectual property (IP) rights enshrined in it. When it comes to the law, this is not mainland China. Hong Kong has had British common law for 150 years and after the handover in 1997 it retained much of that law, including English case history.

However, because of this separation, registration of IP rights in Hong Kong is territorial and does not automatically extend to China, and vice versa.

The territory has also developed a new body of IP law. This aims to be of the highest international standard, according to the government's Intellectual Property Department (IPD), and intends to put Hong Kong at the leading edge of IP development and protection.

Trademarks, patents, designs and domain names can be registered here. The IPD does not make any distinction between local and foreign corporations.

# Infrastructure

## In this section

Highlights

Transport infrastructure

Digital infrastructure

Infrastructure investment



# Highlights

- ◆ Hong Kong International Airport is the busiest facility for international cargo globally. The airport, known as Chep Lap Kok, also accounts for 40% of the territory’s external trade in terms of value.
- ◆ This is one of the world’s busiest container ports, and is the bedrock of Hong Kong’s prosperity, yet it’s slipping in the rankings as Chinese rivals become bigger and better.
- ◆ New connectivity is on the horizon via high-speed train to mainland China’s cities, by road to Macau and by air to more destinations via a third runway.

Anyone who has disembarked a plane at the airport and arrived at their hotel room in Central on Hong Kong Island within the hour, without hassle, can only marvel at the efficiency of this territory’s transport infrastructure.

It’s this connectivity and efficiency that keeps things ticking along nicely. Again, this area of southern China is working its way through a new infrastructure-building boom. This will provide new connectivity with the Pearl River Delta, mainland China and further afield.

Hong Kong’s also losing no time in aligning itself with China’s other big infrastructure project – the Belt and Road Initiative. This so-called new Silk Road is currently one of the biggest and most transformative stories in Asian business right now. It’s both a diplomatic and economic programme focusing on transforming regional trade with a network of railways, ports, highways and pipelines.

It spans around 65 countries from Asia to Europe, via the Middle East and Africa. It is an audacious project encompassing more than 60% of the world’s population. Hong Kong hopes to use its expertise, services, know-how and connectivity to be part of the story.

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Motorway Network  
**2,100 km<sup>1</sup>**

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Quality of Port Infrastructure (Rank)  
**3<sup>2</sup>**

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Quality of Overall Infrastructure (Rank)  
**3<sup>2</sup>**

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Quality of Air Transport Infrastructure (Rank)  
**2<sup>2</sup>**

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Quality of Roads (Rank)  
**4<sup>2</sup>**

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ICT Infrastructure – Network Readiness Index (Rank)  
**9<sup>2</sup>**

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Quality of Railroad Infrastructure (Rank)  
**3<sup>2</sup>**

Sources:  
<sup>1</sup>Central Intelligence Agency, 2017  
<sup>2</sup>World Economic Forum, 2018

# Transport infrastructure

Hong Kong is a public transit utopia. It's also a work hub and base for many executives in this part of Asia. You can travel easily to numerous Chinese cities including Guangzhou, Shanghai and Beijing within a working day, while many other Asia-Pacific cities are close.

Buses, mini-buses, ferries, railways, trams, metro system, cable cars, affordable taxis, hydrofoils – Hong Kong's transport network is one of the most sophisticated and efficient in the world. It's also interconnected. Many forms of transport can be used using a stored value card called the Octopus card.

Hong Kong International Airport is the third busiest for international passenger traffic globally, handling 70.5 million travellers a year. It's connected to 220 destinations, including over 50 in mainland China. There are over 1,000 flights a day operated by more than 100 airlines.

Don't forget, Hong Kong is the only modern, fully developed deep-water harbour between Shanghai and Singapore, so it's no wonder it's the focal point of maritime activities in southern China.

# Digital infrastructure

The number of mobile subscribers in Hong Kong has now exceeded 17 million, yet there are only seven million people living here. This is a digitally wired and saturated culture. Household broadband penetration rates are more than 85%, while there are now 44,000 public wifi access points across the territory. Hong Kong's economy relies heavily on high-quality and low-cost telecommunication services.

The Hong Kong government is investing millions of US dollars to build up an information technology ecosystem, expand infrastructure, fund R&D activities and nurture start-up companies in the digital sector. The city has four main mobile operators, each of which are planning for the roll-out of 5G technology in Hong Kong by 2020, since there is a growing demand for mobile data from consumers.

# Infrastructure investment

While work is now starting to progress on a third runway for Hong Kong Airport, close by the 55 km long Hong Kong-Zhuhai-Macau bridge, tunnel and motorway project is nearing completion. This megaproject will reduce the journey time between the territory and these two cities to half an hour instead of more than three hours. It is the longest bridge in the world crossing a sea and will bring even more connectivity in the Pearl River Delta area.

Next year a new rail line will connect Hong Kong to Guangdong and then onto the rest of China's high-speed network. The 142 km Guangzhou-Shenzhen-Hong Kong Express Rail Link will significantly improve the territory's links to mainland cities, since it will form part of the 20,000 km national high-speed rail network that currently exists in China.

# Cost of living

## In this section

Highlights

Relocation

Quality of life

Commercial real estate



# Highlights

- ◆ This is one of Asia's most cosmopolitan cities. It faces East with a foot in the West and has a global outlook few can match in the region.
- ◆ Hong Kong is one of the top 10 safest cities in the world according to the Safe Cities Index 2017 by Economic Intelligence Unit. It sits ahead of Zurich, Frankfurt, Madrid, Barcelona, Seoul and London.
- ◆ High rents and living costs, air pollution, as well as socio-political tensions, can affect the liveability of this city.

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Cost of Living Country Index (Rank)

**13**<sup>1</sup>

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Quality of Living City Index (Rank)

**71**<sup>2</sup>

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International Property Rights Index (Rank)

**19**<sup>3</sup>

Sources:

<sup>1</sup>Numbeo, 2018

<sup>2</sup>Mercer, 2018

<sup>3</sup>Property Rights Alliance, 2017

From feng shui buildings, to dense forests of skyscrapers – the most of any city in the world – it is impossible not be astonished by Hong Kong's vibrancy and dynamism.

It can be expensive for rent on the one hand, yet affordable for street food on the other. Safe, cosmopolitan and globalised, with effortless transport infrastructure makes this city extremely liveable. The territory's first female leader, Carrie Lam, has made promoting liveability a priority, yet overcrowding, air pollution and rising living costs are of concern.

## Relocation

There's no doubt that Hong Kong is a popular venue for hosting Asia-Pacific headquarters or representative offices for multinational companies, and it attracts expatriate employees and investors accordingly.

Finding a place to live can be confusing in Hong Kong since each realty agent covers a small area, for instance just Happy Valley or Sai Ying Pun, parts of Central or Kowloon. It's advisable to seek local help.

International schools are popular and common in Hong Kong for expatriate children, although fees are costly and the availability of places can be an issue.



# Quality of life

Hong Kong can be extremely expensive. In the Mercer Cost of Living Index 2018, it is ranked second only to Luanda, Angola's capital, and above Tokyo in a list of 400 cities across the globe.

One of the issues is that Hong Kong's currency is pegged to the US dollar, which has partially driven up prices, including the cost of accommodation.

Certainly transportation, telecommunications and public healthcare here cost significantly less than many countries in Europe or North America. Yet Hong Kong is a particularly expensive location for employers of expatriates. High costs are offset by high incomes, but it is accommodation that is at an extreme premium here, causing the most issues for those moving to Hong Kong. An extremely high population density and a consistent limited supply of properties certainly creates issues.

Rents for an unfurnished three-bedroom apartment in the most popular expatriate neighbourhoods near the international schools in Hong Kong average USD10,000 per month.

# Commercial real estate

The market for real estate is extremely tight in Hong Kong. Low vacancy rates on Hong Kong Island, high demand from mainland Chinese firms and lack of space mean that rates are very high, despite new supply.

It doesn't help that real estate is a prime investment market in Hong Kong. This is supported by the government, which raises significant revenue from land leases and taxation. All land is owned by the government and is leased out to developers.

Revenues from land enable the government to support public spending with a low tax rate on income and profit. Issues certainly exist around the supply of land, a lack of it and prohibitively high prices. A new task force is looking into the issue.

Increasingly, co-working space is popular as a way to relieve the taking on of an entire office. A discounted co-working space scheme has been unveiled by the government to help 1,000 young entrepreneurs, innovation and technology start-ups, creative industries, and those in arts and culture-related work cope with the eye-watering rates for commercial real estate. They will be able to rent at half the market rate. Ten landlords, including some of the city's biggest developers, are involved. Many of the spaces are in refurbished factories converted for office work.

# HSBC in Hong Kong

## In this section

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# Highlights

The Hongkong and Shanghai Banking Corporation Limited is the founding member of the HSBC Group.

Hong Kong is also home to HSBC's Regional Headquarters in Asia Pacific.

# Profile

HSBC was founded in Hong Kong in 1865 and is one of the leading financial solutions providers in the territory today.

We provide a range of personal, commercial and corporate banking financial services across Asia.

# Next steps

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- ◆ Speak to your HSBC Relationship Manager
- ◆ Visit [www.business.hsbc.com.hk](http://www.business.hsbc.com.hk)

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