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Trade Between Hong Kong and the Mainland

The wealth of data on Hong Kong–Mainland trade enables us to analyse in detail the many economic interactions between Hong Kong and the Mainland. Hong Kong’s role as the Mainland’s foremost entrepot is important not only for Hong Kong and the Mainland, but also for the trading partners of China, as substantial portions of their trade with the Mainland are channelled through Hong Kong.

Hong Kong and the Mainland are often considered each other’s foremost trading partners, which is misleading because such trade includes Mainland’s trade with third countries via Hong Kong (Hong Kong’s entrepot trade). As the Mainland’s trade with third countries via Hong Kong is very large, the Mainland’s trade with its trading partners is highly distorted because both the Mainland and its partners often regard their exports to their final destinations via Hong Kong as exports to Hong Kong. Fortunately, Hong Kong trade statistics distinguish entrepot trade from trade with Hong Kong itself. This book relies on Hong Kong’s re-export statistics to estimate the Mainland’s trade with Hong Kong and Taiwan.

This chapter will analyse in detail the determinants of Hong Kong’s entrepot trade, as such trade constitutes close to 90 per cent of Hong Kong–Mainland trade. The prospect of Hong Kong as the Mainland’s entrepot will be examined, because there has been diversion of the Mainland’s trade from Hong Kong to other ports in Guangdong in recent years. Services trade between the Mainland and Hong Kong will also be analysed, as it is large and growing rapidly. The Mainland’s WTO entry in late 2002 and the implementation of the Mainland–Hong Kong CEPA in early 2004 have had significant impacts on commodity and services trade between the Mainland and Hong Kong, as will be explained below.

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Complications of the Mainland’s trade statistics

Up to 1992, the Mainland included in its imports from Hong Kong a substantial amount of third-country goods re-exported via Hong Kong to the Mainland because the Mainland was unable to ascertain the true origin of the vast amount of third-country products imported through Hong Kong. The Mainland thus exaggerated imports from Hong Kong and regarded Hong Kong as its top supplier (and also its foremost market) in 1992.

Since 1993, the Mainland had been able to improve on its classification of imports by origin, and its imports from Hong Kong have no longer included Hong Kong’s re-exports of third economies to the Mainland. As a result, in 1993, Hong Kong dropped from the first to the fourth supplier of imports to the Mainland (after Japan, Taiwan and the USA).

However, as mentioned in Chapter 1, the Mainland’s trade via Hong Kong with third countries continues to distort the statistics of the Mainland’s bilateral trade. In trade statistics, exports are usually classified by region of consignment, while imports are classified by region of origin, as tariffs and quota often depend on the region of origin. The Mainland thus overstates its exports to Hong Kong and understates its exports to other countries. Other countries similarly overstate their exports to Hong Kong but understate their exports to the Mainland. Imports are not understated, as they are traced to the country of origin. Statistics on bilateral trade deficits or surpluses are thus seriously distorted.

The case of USA–Mainland trade has received great attention due to the sheer size of the trade imbalance. Both China and the USA overstate their bilateral trade deficits or understate their bilateral surpluses. For example, in 1992, US statistics claimed a deficit of US$18bn in US trade with China, whereas China claimed a trade deficit of US$306m. with the USA! However, American statistics are less misleading than those of China, because in the early 1990s, around two-thirds of China’s exports to the USA were re-exported through Hong Kong, whereas the corresponding percentage of the USA was only around 20 per cent.

Because of pressure from the USA, the Mainland tried to trace the final destination of its exports via Hong Kong, and a substantial portion of its exports to Hong Kong were reclassified as exports to final destinations in 1993. As a result of the reclassification, the Mainland’s exports to Hong Kong dropped by 41 per cent, and the Mainland’s exports to the USA, Japan and Germany grew by 97, 35 and 62 per cent respectively in 1993. Despite the reclassification, a substantial portion of the