



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

An Introduction to

# Doing Business in **Hong Kong** 2017



Years  
1992-2017



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# DEZAN SHIRA & ASSOCIATES

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## About Dezan Shira & Associates

At Dezan Shira & Associates, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining and growing their business operations in the region. Since its establishment in 1992, Dezan Shira & Associates has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam, as well as liaison offices in Italy, Germany and the United States, and partner firms across the ASEAN region. With over 25 years of on-the-ground experience and a large team of professional advisers, we are your reliable partner in Asia.

# Preface

The People's Republic of China regained sovereignty over Hong Kong from Britain in 1997, from which point it has been a Special Administrative Region (SAR) of the country. However, the way in which the city is governed is still fundamentally different from the Chinese mainland – a fact that is reflected in its slogan of “One Country, Two Systems”. Hong Kong is largely autonomous from China, and foreign companies will quickly discover that the rules of doing business in the mainland simply do not apply in Hong Kong, and vice versa.

For this reason, Hong Kong has long held a reputation as a popular “gateway” to invest in China. Its geographical proximity to the mainland, double taxation agreement (DTA) network, modern banking system and transparent legal regime have made it an ideal location for foreign businesses to easily operate in. While the Foreign Account Tax Compliance Act (FATCA) has stoked fears that this position may soon change – primarily because the act has caused some Hong Kong banks to turn away American corporations and individuals – Hong Kong remains the biggest source of foreign direct investment (FDI) into China, making up US\$78.26 billion of a total US\$107.25 billion from January to November 2016.

This publication, designed to introduce the fundamentals of doing business in Hong Kong, was created at the beginning of 2017 using the most up-to-date information at the time. It was compiled by Dezan Shira & Associates, a specialist foreign direct investment practice that provides corporate establishment, business advisory, tax advisory and compliance, accounting, payroll, due diligence and financial review services to multinationals investing in emerging Asia.

Since its establishment in 1992, Dezan Shira & Associates has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam, partnership offices in Indonesia, Malaysia, the Philippines and Thailand, as well as liaison offices in Germany, Italy and the United States. Dezan Shira & Associates' experienced business professionals are committed to improving the understanding and transparency of investing in emerging Asia.



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# A Brief Overview of Hong Kong

## Political system

The Hong Kong Special Administrative Region (HKSAR) is currently ruled by China's Basic Law – the constitution adopted by the National People's Congress of the PRC on April 4, 1990. HKSAR was established on July 1, 1997, after Great Britain returned Hong Kong to the People's Republic of China (PRC).

Under the Basic Law, Hong Kong is allowed to retain the social, economic and legal systems present at the time of the handover for a 50 year period under the principle of "One Country, Two Systems." Additionally, the Basic Law designates a system of governance led by the Chief Executive, who is the head of the HKSAR, and the Executive Council, which assists the Chief Executive in policy-making issues.

## Legal system

Due to its previous status as a British colony, Hong Kong's legal system is largely influenced by English common law. The constitutional framework for Hong Kong's legal system is provided by the Basic Law approved by the National People's Congress, which supplements the common law. The independent judiciary under the Basic Law ensures that Hong Kong remains within the common law system. The Court of Final Appeal is the highest court in HKSAR and is headed by the Chief Justice. Furthermore, reflecting its status as a Special Administrative Region, the HKSAR legal system is separate from the one governing the PRC under the principle of "One Country, Two Systems."

## Economic system

Hong Kong's economic system is defined as a free market economy and characterized by minimum intervention from the government. HKSAR is service oriented, and especially strong in the financial services, international trade, and tourism sectors. Additionally, it has strong economic links to mainland China and other major economies in the Asia Pacific region.

The lack of tariff and non-tariff barriers to trade has made Hong Kong an attractive destination for investors. HKSAR has no tariffs on imported goods, no import quotas, and applies excise duties to only four commodities. Furthermore, Hong Kong has no taxes on dividends generated from doing business in the region. Free trade and low taxation has helped Hong Kong to be ranked as the world's freest economy for 22 years in a row.



## Financial system

The Hong Kong financial system is composed of four different financial regulators, each one governing different parts of the financial sector. These include the Securities and Futures Commission (SFC, an independent body set up to regulate the securities and future markets), the Mandatory Provident Fund Schemes Authority (MPFA, a statutory body set up to assist Hong Kong's workforce to accumulate savings for their retirement), the Office of the Commissioner of Insurance (OCI, a body set up to protect the interests of policyholders and promotes the general stability of the insurance industry) and the Hong Kong Monetary Authority (HKMA, the government's agency responsible for maintaining monetary and banking stability).

Despite the HKMA's role as the currency board and de facto central bank, it does not print currency notes itself. Instead, it grants Hong Kong dollar printing privileges to HSBC, Standard Chartered Bank and the Bank of China.

Under the Linked Exchange Rates System (LERS), the Hong Kong dollar has been pegged to the US dollar since 1983, at a rate of HK\$7.80 to US\$1, which has helped maintain monetary stability. Through the exchange rate system, the HKMA authorizes note-issuing banks to issue new banknotes, as long as an equivalent amount of US dollars is deposited with the HKMA.





# Economic Outlook

Hong Kong's economic outlook in 2017 will remain largely dependent on the global economy, in particular the slowdown in China and the US interest rate rise, which are expected to shape its prospects over the coming year. The SAR's economy is forecasted to experience another slow year in 2017, with GDP growth at about 1.9 percent. Stock market volatility remains a key risk in the region but confidence in the local bourse is expected to be buttressed by the Shenzhen-Hong Kong Stock Connect, which was launched on December 5, 2016. This, together with other pioneering policies, will help support the sustainable growth of the banking and finance sector.

Trading volume will continue to fall along with the slowdown in demand from China, although the magnitude of the decline is expected to be smaller than that in 2016. The retail and tourism sectors are also expected to remain lackluster amid strong competition from cheaper destinations such as Japan, South Korea and the Eurozone, whose attractiveness to visitors has increased due to their devalued currencies. Hong Kong's competitiveness could further erode if China further devalues the RMB, as it did in 2015 and 2016.

China Briefing believes that any interest rate hikes in 2017 will be gradual and minimal. However, an increase in lending rates would reduce household spending power, leading to a fall in private consumption. A rise in US interest rates would likely be followed by further currency appreciation, which would cause the HK\$ to follow suit. Any appreciation in the HK\$ would further damage exports and tourist consumption. Domestic spending could also face some headwinds as local shoppers opt to spend more overseas.

The employment sector will remain exposed to downside risks in 2017 as the trading and retail sectors continue to weaken. Oxford Economics forecasts that unemployment will edge up slightly from 3.5 percent in 2016 to 3.6 percent in 2017, although this level is still considered as near-full employment.

Looking beyond 2017, economic growth could pick up as China re-emerges from its period of structural reform and the recovery in the US gains speed. In the longer term, the completion of massive new infrastructure works such as the Hong Kong-Zhuhai-Macau Bridge and the High Speed Rail (HSR) will provide new growth engines for Hong Kong.

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