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Hong Kong's Next Growth Pathway



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Research Team

Prof. Heiwai TANG (Lead Researcher), Mr. Edison LIAN,
Mr. William KONG, Ms. Yuqi HUANG

Project Director

Mr. Ka Mun CHANG

Secretariat

HKUST Li & Fung Supply Chain Institute

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Executive Summary: Hong Kong's Next Growth Pathway

Hong Kong's economy stands at a strategic inflection point. Its historic role as a “super connector” between the Chinese Mainland and the global economy has generated decades of prosperity, facilitating trade, investment, and information flows across vastly different regulatory and cultural systems. However, rapid technological disruption, intensifying geopolitical risks, and fundamental shifts in global supply chains, now require Hong Kong to move beyond pure intermediation. Since the return of Hong Kong to China in 1997, the city's economy has more than doubled in nominal terms, but the structure of its economy has become increasingly more specialized in finance with its other producer and consumer services facing a number of structural challenges.

That said, the global technological and geopolitical changes of the past decade have offered new opportunities for Hong Kong to explore and discover its next growth pathway, which lies in becoming a “super value-adder”—embedding itself more deeply into innovation, high-value services, symbiotic development with other Greater Bay Area (GBA) cities, and connections with new partners in the evolving global economy, while preserving its unique institutional and competitive advantages that have long defined its success.

Based on company visits, focus-group discussions, economic analysis, and historical research, this report aims to explore Hong Kong's next growth pathway and position. The report is composed of four chapters, structured in a way to discuss the opportunities from the most global level first, then the challenges and opportunities at the most granular level.

- Chapter 1, titled “Challenges and Opportunities for Hong Kong in the New Global Economic and Trade Landscape”, summarizes the key events and trends in the past and future of globalization, and analyzes their implications for Hong Kong's further economic development and global competitiveness.
- Chapter 2, titled “The Functions and Roles of Hong Kong in the New Trend of Chinese Enterprises Going Global”, discusses the causes of Chinese companies' overseas expansion via different outward direct investment models, and concludes by analyzing the roles Hong Kong's public and private sectors can play in facilitating and benefiting from this “going global” trend.
- Chapter 3, titled “Redefining Hong Kong Economic Position and Reshaping its Economic Structure”, explores key pathways for Hong Kong's future development by leveraging its institutional advantages and addressing structural challenges in its traditional pillar sectors. It concludes that aligning Hong Kong's strengths with China's 15th Five-Year Plan and the GBA's evolution can drive a resilient economic transformation, advancing the city's role as a “super value-adder”, in addition to its repositioning as a global super connector.
- Chapter 4, titled “Systematic and Institutional Innovation”, aims to extract insights from field studies in several representative new economic zones across the Chinese Mainland about institutional innovation to support new market activities.

The main findings of these four chapters can be crystallized into four key strategies to guide a transformation of Hong Kong's economy. Each strategy addresses a distinct but interconnected dimension of Hong Kong's economic evolution, and together they form a coherent roadmap for the city's inclusive and sustainable development.

1. From “Super Connector” to “Super Value-Adder”

The transition of the city from being a super connector to a super value-adder begins with digitalizing Hong Kong's economy to scale up its existing competitive advantages. Digitalization is not merely about adopting new technologies; it is about fundamentally re-engineering how trade, finance, legal services, and logistics can operate within Hong Kong and across border more seamlessly. By investing in blockchain-based trade documentation, smart contract issuance, and artificial intelligence for compliance monitoring, Hong Kong can enhance efficiency, reduce transaction costs, and increase transparency and accountability for corporations.

Building on this digital foundation, Hong Kong should also create a one-stop professional services platform designed to support Chinese Mainland and global enterprises' overseas expansion. Small and medium-sized enterprises in particular face fragmented and costly processes when trying to access legal, accounting, regulatory, financing, branding, and supply chain management services across multiple jurisdictions. A unified platform that integrates these offerings would reduce friction, lower entry barriers, and reduce business risks in foreign markets. Such a platform could be developed through a public-private partnership, leveraging Hong Kong's competitive advantages in its institutions and professional services.

While maintaining strong ties with traditional markets in Europe and North America, Hong Kong should diversify its partnerships with emerging economies as the world shifts toward a multipolar order. This includes fast-growing markets in the Association of Southeast Asian Nations (ASEAN), the Gulf Cooperation Council, Central Asia, Latin America, and Africa—the so-called Global South. These regions present rising demand for manufactured goods, infrastructure development, digital services, green technologies, and financial services. By negotiating bilateral trade agreements, establishing investment–promotion offices, and developing logistics corridors with Global South partners, Hong Kong can access some of the world's fastest-growing markets and industrial capacity. Such diversification will also reduce the city's vulnerability to supply-chain disruptions and geopolitical tensions originating largely from the West.

Geographically, Hong Kong should strengthen its transport infrastructure to better integrate with the evolving networks of the Chinese Mainland and the wider Asian region, as well as to improve connectivity among its own economic and transport hubs. Priority should be given to enhancing linkages between the city's air, maritime, and land transport systems and the expanding intercity networks across the Chinese Mainland, alongside emerging markets to the south and west of China. Domestically, infrastructure development should focus on improving connectivity between the airport and the Northern Metropolis, as well as adjacent regions in the Chinese Mainland, particularly

Qianhai. Strengthening these connections will reinforce Hong Kong's geographic advantages as a regional transport hub and enhance its competitiveness as an international aviation center.

Finally, Hong Kong should anchor what can be called “sticky” businesses—global corporates that establish regional hubs in the city for high value-added functions that are not easily relocated. These include:

- Global treasury and capital management
- Human resources and talent coordination
- Intellectual property (IP) management, licensing and trading
- Supply chain management
- R&D, design, and innovative activities

Unlike short-term financial flows that can exit quickly, these operational hubs create long-term employment, stable tax revenues, and economic resilience. They also generate positive spillovers to other sectors in the local economy. To attract such businesses and related talents, Hong Kong needs to maintain its low-tax environment, multi-cultural and high-quality living standards, as well as international business environment.

2. Strengthen the Advantages of the Two Ends of Regional Supply Chains

Hong Kong's small geographic and economic size makes large-scale midstream production unfeasible. The city lacks sufficient land, labor, and industrial infrastructure to compete with neighboring GBA cities in mass manufacturing. Its government is aiming to overcome these obvious constraints by developing the Northern Metropolis, which is equivalent to one-third of the land mass of Hong Kong, located in the northern part of the city bordering Shenzhen, as the new economic and residential zone.

Despite the space constraint, Hong Kong can excel at both ends of regional supply chains using its institutional advantages: high-value-added upstream activities and equally high-value-added downstream activities. This two-ended specialization is not a fallback position but a deliberate strategic choice that leverages the city's existing strengths. Hong Kong should reposition itself to contribute to the global industrial evolution—research and development (R&D), design, testing, specialized finance, logistics, legal, IP services, and other producer services. Leveraging its competitive advantages—world-class financial markets, rule-of-law, IP protection, global connectivity, and skilled talent—Hong Kong can coordinate complex supply chains, promote innovation commercialization, and serve as a credible platform for companies to go global. It shall continue to invest in industrial infrastructure and land, especially in its Northern Metropolis, to strengthen its capacity to develop advanced manufacturing sectors and commercialize its basic science research outcomes.

Upstream, Hong Kong should specialize in R&D, product design, prototyping, and advanced materials science. Its world-class universities consistently produce high-quality research in engineering and science, in addition to various professional fields such as medicine. These institutions can serve as the

“front labs” for GBA manufacturers, generating intellectual property and technical solutions that drive regional innovation. To strengthen this upstream role, Hong Kong should increase public and private funding for applied research, create more industry-university collaboration platforms, and streamline technology transfer offices that help commercialize academic discoveries.

Downstream, Hong Kong’s strengths lie in marketing, international trade, brand building, IP trading, and a new frontier—global standard setting for technical specifications, drug safety protocols, and environmental, social, and governance (ESG) metrics. By participating in or leading standard-setting bodies such as the International Organization for Standardization (ISO) or industry-specific consortia, Hong Kong can play an active role in shaping the rules of a changing multilateral system. Hong Kong’s reputable legal system based on common law makes it a reliable venue for standard-setting discussions that involve multiple countries and corporate interests.

However, this two-ended specialization is only possible if barriers against flows across the border between the Chinese Mainland and Hong Kong are systematically managed. Effective symbiotic development with the rest of the GBA requires smoother movement of four critical categories:

- Human capital—researchers, technical professionals, and executives need streamlined visa and work permit processes, as well as mutual recognition of professional qualifications.
- Capital—innovation and trade financing must flow freely across the border, with minimal restrictions on venture capital investments and working capital loans.
- Critical inputs—prototypes, specialized components, and research samples require expedited customs clearance and reduced inspection delays.
- Data—R&D coordination and supply chain visibility depend on compliant yet efficient cross-border data flows, particularly for technical drawings, clinical trial data, and logistics tracking information.

When these barriers are lowered, Hong Kong and its neighboring cities can achieve a true division of labor. Hong Kong provides the high-value end—concept, design, branding, standards, and market access, as compared to other GBA cities that offer midstream scale manufacturing capacity and applications of basic science.

3. Use Finance to Support Real Economic Transformation in the Region

Hong Kong possesses one of the world’s deepest and most sophisticated international financial markets, yet its financial strength has not always translated into broad-based real economic transformation globally. The third strategy calls for intentionally deploying finance to support real economic transformation rather than allowing capital to circulate primarily within the financial sector. The priority sectors for such deployment include innovation, trade, IP commercialization, the green transition, and advanced manufacturing.

Moving beyond traditional lending and equity financing, Hong Kong should develop a suite of specialized financial instruments tailored to each sector. For innovation, this means venture capital funds and angel investor networks focused on tech startups in the GBA. For trade, it means supply chain finance platforms that can provide working capital to small manufacturers based on real-time order and shipment data. For intellectual property, it means IP-backed lending and patent securitization, allowing companies to monetize their intangible assets without selling them outright. For the green transition, it means green bonds, transition bonds, and carbon credit trading mechanisms. For advanced manufacturing, it means specialized credit lines and equipment leasing facilities for automation and robotics.

To achieve this, Hong Kong must more systematically link global core economic activities to the city's financial markets. A technology firm in Shenzhen, for example, could list IP-backed securities in Hong Kong, using future royalty streams as collateral. A mid-sized manufacturer in Hanoi could issue green bonds through the Hong Kong Stock Exchange (HKEX) to fund energy-efficient retooling. A biotech startup in Seoul could access milestone-based financing tied to clinical trial outcomes, with disbursements linked to regulatory approvals. When regional enterprises see Hong Kong's capital markets as a natural extension of their growth strategies, the city's financial sector becomes a direct engine of regional upgrading rather than a detached pool of liquidity seeking the highest short-term returns.

This alignment also requires regulatory adjustments. Hong Kong's financial regulators should consider creating dedicated listing and disclosure frameworks for innovation-linked and green-linked securities, reducing the compliance burden for smaller issuers while maintaining investor protection standards. Cross-border investment channels should be expanded to include these new asset classes. Over time, Hong Kong can position itself as the premier financial hub for the region's real economy transformation.

4. Align Hong Kong's Economic Development with National Development without Losing the City's Uniqueness

The final strategy addresses a central tension: how Hong Kong can align with national development goals while retaining the distinctive features that make it globally competitive. Hong Kong's advantages are rooted in the "One Country, Two Systems" framework and a set of durable institutional assets that cannot be easily replicated elsewhere in China. These include:

- Strong public finances and a favorable, simple tax regime with low corporate and personal rates
- Free capital flows with a fully convertible currency (Hong Kong dollar) linked to the US dollar
- An efficient and transparent government with strong anti-corruption enforcement
- An independent judicial system anchored in common law, with a separate court of final appeal
- A premier education hub that attracts global talent to its universities and international schools

These institutional advantages are the very reasons Hong Kong remains valuable to the nation. No other Chinese city offers this combination of legal predictability, financial openness, and international connectivity. Alignment with national development should therefore be pursued in a way that reinforces these strengths.

China's 15th Five-Year Plan explicitly tasks Hong Kong with enhancing its status as an international financial, shipping, aviation and trade center while also developing into an international innovation and technology hub and talent highland. Rather than pursuing these goals in isolation, Hong Kong can achieve them through a more effective symbiotic development within the GBA. For example, Hong Kong's financial markets can serve the GBA's innovation ecosystem by providing exit liquidity and risk capital. Its shipping and trade infrastructure can integrate with GBA ports and logistics networks to create a seamless multi-modal transport system. Its emerging innovation and technology hub status can complement the GBA's hardware capabilities and software talent, creating a complete technology value chain within a two-hour travel radius.

Alignment does not mean assimilation. Hong Kong can fully support national objectives—such as technological self-reliance, green development, renminbi (RMB) internationalization, and the Belt and Road Initiative—precisely because it offers something different. Open markets, rule of law, international connectivity, and institutional credibility are comparative advantages to be leveraged. The challenge is to pursue alignment strategically, ensuring that every cross-border integration effort also strengthens Hong Kong's unique value proposition. This requires careful policy calibration, active consultation with local stakeholders, and a willingness to adjust proposals that would undermine Hong Kong's unique competitive advantages.

Vision for the Future of Hong Kong

Hong Kong's next growth pathway is to leverage its enduring institutional advantages while building new competitive sectors and enhancing connectivity in a changing global economy. By evolving from a super connector to a super value-adder, mastering the two ends of regional supply chains, mobilizing finance for real economic transformation, and aligning with national development without losing its uniqueness, Hong Kong can remain one of the world's most dynamic and resilient economies.

Execution will require focused policy coordination across government departments, active private sector engagement in designing and implementing new initiatives, and innovative strategies to overcome longstanding development barriers. The strategic direction is clear, and the opportunity is real. With a unified and strategic mindset, Hong Kong in the near future will become a more diversified, resilient and inclusive world city.

Chapter 1: Challenges and Opportunities for Hong Kong in the New Global Economic and Trade Landscape

The global economy is experiencing a fundamental shift, moving from a “Centripetal Era” marked by efficiency-driven cooperation to a “Centrifugal Era” defined by geopolitical fragmentation and economic nationalism. Once underpinned by the World Trade Organization (WTO), the global order has been unsettled by China’s rapid economic rise and major policy changes in Western economies.

To study how a globally connected economy like Hong Kong can strategically position itself within an increasingly multi-polar world, this chapter summarizes the key events and trends in the past and future of globalization, and analyzes how Hong Kong, by leveraging its unique institutional strengths, can continue to serve as a gateway between different economic blocs, while providing professional services that help businesses navigate regulatory fragmentation, geopolitical uncertainty, and diverse market demands.

1.1 Background

1.1.1 The Original Global Trade System under WTO Rules

The global trade landscape has transformed profoundly, driven by China’s economic rise and political shifts that fragmented the post-World War II (WWII) order. Notable disruptions include the UK’s 2020 withdrawal from the EU and the US’s imposition of tariffs under President Donald Trump, which weakened the WTO dispute settlement system and eroded multilateral governance.

To understand the significance of the current disruption, it is essential first to define the “baseline” order that has gradually been dismantled. From 1980 to approximately 2010, the world operated under what economist Danny Quah terms the “Centripetal Era”—a period characterized by a self-reinforcing cycle in which economic efficiency and geopolitical stability reinforced each other, driving the world order toward greater coalescence.¹ At the center of this architecture stood the WTO. Established in 1995 on the foundations of the post-war General Agreement on Tariffs and Trade (GATT), the WTO provided an institutional structure to ensure smooth trade flows in goods, services, and intellectual property (IP).²

During this era of hyper-globalization, global trade-to-GDP ratio rose from 16% to over 60%, fueling a consensus that political convergence would follow economic liberalization. WTO disciplines created a predictable environment where corporations outsourced production based on cost efficiency rather

1 Quah, D. (2025). “Correlated trade and geopolitics driving a fractured world order,” in *The New Global Economic Order*, 54–66. <https://doi.org/10.4324/9781003571384-5>.

2 O’Rourke, K. H. (2025). “The Global Economic Order,” in *The New Global Economic Order*, 13–25. <https://doi.org/10.4324/9781003571384-2>.

than geopolitics. The “Most-Favored-Nation” (MFN) principle ensured non-discrimination, making economic competitiveness, rather than political alignment, the primary constraint on growth. For open economies, this was a golden age of connectivity where capital flowed toward efficiency with minimal political friction.

1.1.2 Structural Asymmetry and the Rise of Fragmentation

China’s rapid economic ascent altered the contours of this global architecture, but not in the way Western policymakers had anticipated. Its integration into global markets significantly transformed global production patterns. Ing and Lin highlight the scale of this transformation: China’s share of global GDP rose from 5.5% in 1970 to 18% by 2022, while the G7’s share declined from 56% to 30% over the same period.³ Although this integration contributed to global growth and kept consumer prices—hence, inflation—low, it also gave rise to profound structural imbalances.

China’s rapid industrialization, driven by its state-led development model, created a new center of gravity in global manufacturing. While this generated immense value, the speed and scale of the shift led to concentrated labor market adjustments in advanced economies, a phenomenon often referred to in academic literature as the “China Shock.”⁴

As the global economy grew more interconnected, tensions rose between state-led and market-led economies. By the mid-2010s, the WTO’s legislative function had stalled, unable to address modern issues like digital trade, subsidies, and state-owned enterprises.⁵ The disruptions caused by the COVID-19 pandemic further exposed the fragility of global supply chains and reinforced concerns over excessive economic interdependence. Western policymakers increasingly viewed deep economic integration not as a source of stability, but as a strategic vulnerability. This realization marked the transition to the “Centrifugal Era,” where geopolitics and economics jointly drove the world order toward greater fragmentation. Economic ties began to be viewed through the lens of national security. Dependence on foreign supply chains was reinterpreted as risky.

1.1.3 First Attack on the Multilateral Order: Trump 1.0 (2016–2020)

The first presidency of Donald Trump marked a decisive rupture with the multilateral order, transforming US dissatisfaction with the global system into active disruption. As the CATO Institute noted, the Trump 1.0 approach was not only a sharp break from freer-market Republican trade policy, but also a significant departure from a decades-long, bipartisan White House approach to trade, which avoided major trade wars and coupled relatively narrow protectionism with reciprocal trade agreements that generally opened markets both at home and abroad.

3 Ing, L. Y., & Lin, J. Y. (2025). “Economic transformation and the New Economic Order,” in *The New Global Economic Order*, 67–88. <https://doi.org/10.4324/9781003571384-6>.

4 Quah, D. (2025). “Correlated trade and geopolitics driving a fractured world order,” in *The New Global Economic Order*, 54–66. <https://doi.org/10.4324/9781003571384-5>.

5 Urata, S. (2025). “Roles of bilateral, regional, and plurilateral cooperation,” in *The New Global Economic Order*, 39–53. <https://doi.org/10.4324/9781003571384-4>.

Departing from the post-war tradition of consensus-based multilateralism and global involvement, the US administration adopted an explicitly unilateral approach. This was first signaled by Trump's decision to withdraw America from the Trans-Pacific Partnership (TPP), the mega free-trade agreement set to safeguard the US's influence and restrain China's in the Asia Pacific, on his first day in office. This was followed by exits from the Paris Agreement and UNESCO, and the systemic paralysis of the WTO. By blocking the appointment of judges to the WTO's Appellate Body, the US crippled the dispute settlement mechanism, rendering it inoperable by late 2019, and effectively returning global trade to a power-based system where disputes are settled by leverage rather than law.⁶

The "Trump 1.0" era was characterized by a transactional, leverage-based approach to trade that prioritized bilateral trade balances over systemic stability. The US administration weaponized domestic statutes, most notably Section 301 of the Trade Act of 1974, to impose unilateral tariffs on hundreds of billions of dollars of Chinese imports. However, the logic of this era remained largely transactional. Tariffs were often framed as leverage to secure specific purchase commitments or "deals," such as the China-US Phase One Trade Agreement, rather than as stratagems to achieve permanent systemic separation.⁷ The policy focus remained heavily on the goods trade deficit, aiming to repatriate manufacturing jobs through pressure campaigns, rather than a wholesale strategic decoupling.

1.1.4 A Global Systematic Disruption: Trump 2.0 and the New Geoeconomics

The trajectory of US trade policy under "Trump 2.0" represents not merely a continuation but a structural deepening of this disruption that mainstreams economic nationalism into a grand strategy. This was evidenced by the "Liberation Day" campaign in April 2025, which imposed worldwide tariffs based on claims of "unfair trade deficits" the US had with individual nations. Moreover, the US administration not only pursues trade balances but also actively utilizes military force projection to support its geopolitical agenda. This is particularly visible in the Western Hemisphere, such as in Canada, Greenland, and Venezuela, as well as in other geopolitical flashpoints like Iran. These policies have evolved from disruptive outliers into central tenets of US geoeconomic strategy, fundamentally altering the operating environment for global business.

Analysis of the current US administration suggests a distinct shift in its approach to the US-China relationship. While "Trump 2.0" maintains a hawkish stance on tariffs and trade balances, it has, in some respects, become less ideologically rigid compared to the broader Washington Consensus.⁸ The administration appears to prioritize specific transactional "deal" elements—such as tariff revenue, fentanyl control, and leader-to-leader diplomacy—over abstract ideological containment. This has led to a complex dynamic in which high tariffs coexist with a pragmatic approach to certain commercial exchanges, creating a volatile but potentially permeable barrier for businesses that can adeptly navigate the political landscape.

6 Urata, S. (2025). "Roles of bilateral, regional, and plurilateral cooperation," in *The New Global Economic Order*, 39–53. <https://doi.org/10.4324/9781003571384-4>.

7 Feith, D. (2026, January 25). *Trump 1.0 vs Trump 2.0 and China*. Hudson Institute. <https://www.hudson.org/foreign-policy/trump-10-vs-trump-20-china-david-feith>.

8 Feith, D. (2026, January 25). *Trump 1.0 vs Trump 2.0 and China*. Hudson Institute. <https://www.hudson.org/foreign-policy/trump-10-vs-trump-20-china-david-feith>; The Washington Consensus is a set of ten policy prescriptions coined by economist John Williamson in 1989, which gained support among Latin American policymakers and Washington-based institutions such as the IMF, World Bank, and US Treasury in response to the debt crisis of the 1980s.

In this fragmented landscape, elements of a modernized “Monroe Doctrine”, also known as the “Donroe Doctrine”, have emerged. While historically a territorial imperative to exclude external powers from the Americas, this “Monroe Doctrine 2.0” aims to consolidate the Western Hemisphere into a secure industrial base, decoupled from Eurasian supply chains.⁹ This strategy entails “reshoring” and “nearshoring” incentives to relocate production from East Asia to the US, Mexico and Latin America, coupled with coercive measures to block external investment in critical hemispheric infrastructure. Effectively, it confronts regional partners with a binary choice: yes or no to exclusive access to the US market in exchange for strict alignment on security and technology standards. This approach seeks to engineer a “gated” Pan-American economic zone, prioritizing regional resilience over global efficiency.

Actions by the Trump administration in 2026, including the detention of Venezuelan President Maduro, assassination of the Supreme Leader of Iran, Ali Khamenei, renewed US territorial interest in Greenland, and pressure campaigns regarding Canada’s political integration with the US, underscore this fusion of economic leverage and geopolitical ambition. These maneuvers not only disrupt the political-economic stability of the Western Hemisphere but also introduce profound uncertainty into the global system, further eroding perceptions of the US as a stable and reliable anchor of the status quo order.

The conceptual framework for this shift is best articulated in the so-called “Mar-a-Lago Accord,” a proposed, unofficial economic strategy report authored by Stephen Miran, former chair of the Council of Economic Advisors and a current member of the Federal Reserve Board of Governors. A significant portion of this manifesto has already been translated into policy reality: tariffs are being utilized to reshape global supply chains, allied nations are increasing defense contributions, and domestic energy production has been ramped up to lower input costs. However, the Accord’s most consequential phase is arguably just beginning: a concerted effort to weaken the US dollar while simultaneously suppressing Treasury bond yields.

Evoking the precedent of the 1985 Plaza Accord, where major powers agreed to intervene in currency markets to devalue the US dollar, the “Mar-a-Lago” concept symbolizes a return to “managed trade”. Proponents argue that tariffs alone are insufficient if the dollar remains persistently strong due to its reserve status. To address this, the Accord outlines specific near-term mechanisms: large-scale coordinated currency intervention, a “Treasury-Fed partnership” to cap long-term yields (potentially compromising central bank independence), and taxes on foreign capital flows to reduce demand for dollar-denominated assets.¹⁰ Regardless of whether a formal agreement is reached, the very fact that such ideas are being discussed indicates a profound shift away from market-determined exchange rates toward a system where currency valuation is becoming a subject of political negotiation and “selective coordination” among strategic partners.

9 CFR Editors. (2025, December 5). *New U.S. National Security Strategy prioritizes Western Hemisphere*. Council on Foreign Relations. <https://www.cfr.org/articles/new-us-national-security-strategy-prioritizes-western-hemisphere>.

10 Patterson, R. (2026, January 27). *The mar-a-lago accord’s economic ripple effect widens*. Council on Foreign Relations. <https://www.cfr.org/articles/the-mar-a-lago-accords-economic-ripple-effect-widens>

1.2 From China+1 to US+1

1.2.1 Production-side Diversification: China+1

In the literature, China+1 is consistently conceptualized as a strategy of diversification rather than decoupling. It refers to a strategy where firms maintain substantial production, sourcing, and supply chain engagement in China, while adding (rather than substituting) at least one other country to their global production networks.¹¹ Recent analyses increasingly interpret the China+1 strategy as a practical de-risking approach designed to mitigate external risks such as geopolitical frictions and policy uncertainty, with firms accepting higher coordination costs and supply-chain complexity in exchange for greater resilience.¹²

The literature increasingly converges on a “triple-shock” driver set behind the expansion of the China+1 strategy. The first driver is the structural escalation of factor costs in China.¹³ The second driver is the intensification of trade frictions, tariffs, and technology controls, with the 2018 onset of the China–US trade war representing a clear structural inflection point. Macro-level trade, growth, and analyses of foreign domestic investment (FDI) document a reallocation of sourcing and investment away from China toward economies such as Vietnam and Mexico, while firm-level evidence shows US listed companies actively reducing supply-chain dependence on China and shifting toward China+N configurations.¹⁴ The third driver is pandemic-induced resilience concerns compounded by a broader turn toward economic security and de-risking. COVID-19 disruptions exposed vulnerabilities through sector-specific supply shocks and bullwhip effects, accelerating diversification dynamics already underway.¹⁵

From changes in the domestic value-added composition embodied in China’s exports, it is evident that since the outbreak of the China–US trade war in 2018, Chinese companies have undergone a substantive reconfiguration of their global supply chain strategies. An increasing share of China’s domestic value added (DVA) in exports is no longer realized through direct exports to final markets, but instead through third economies where further processing, assembly, or re-export takes place (hereinafter collectively referred to as “indirect exports”). Figure 1-1 shows that after 2018, the volume of exports routed through intermediary economies accelerated markedly, with growth rates significantly exceeding the long-term trend observed over 2007–2018. Correspondingly, the share of indirect exports in total exports rebounded sharply after reaching a trough of around 14% in 2017, rising to nearly 22% by 2022 and remaining elevated thereafter. This structural shift indicates that

11 Shih, Y., M. Liu, and C. Lin. 2025. “Supply-chain restructuring using the “China-plus-one” strategy: the push–pull–mooring perspective.” *International Journal of Emerging Markets*. <https://doi.org/10.1108/ijoem-11-2023-1900>; Basu, P., and P. Ray. 2021. “China-plus-one: expanding global value chains.” *Journal of Business Strategy*. <https://doi.org/10.1108/JBS-04-2021-0066>.

12 Day, S. J., J. Godsell, and Y. Shou. 2024. “Caught in the deglobalization crosswind? De-risking by “China+1” or “In-China-For-China”.” *International Journal of Operations Camp; Production Management*.

13 Xing, Y. 2022. “China and global value chain restructuring.” *China Economic Journal* 15: 310 - 329. <https://doi.org/10.1080/17538963.2022.2117198>.

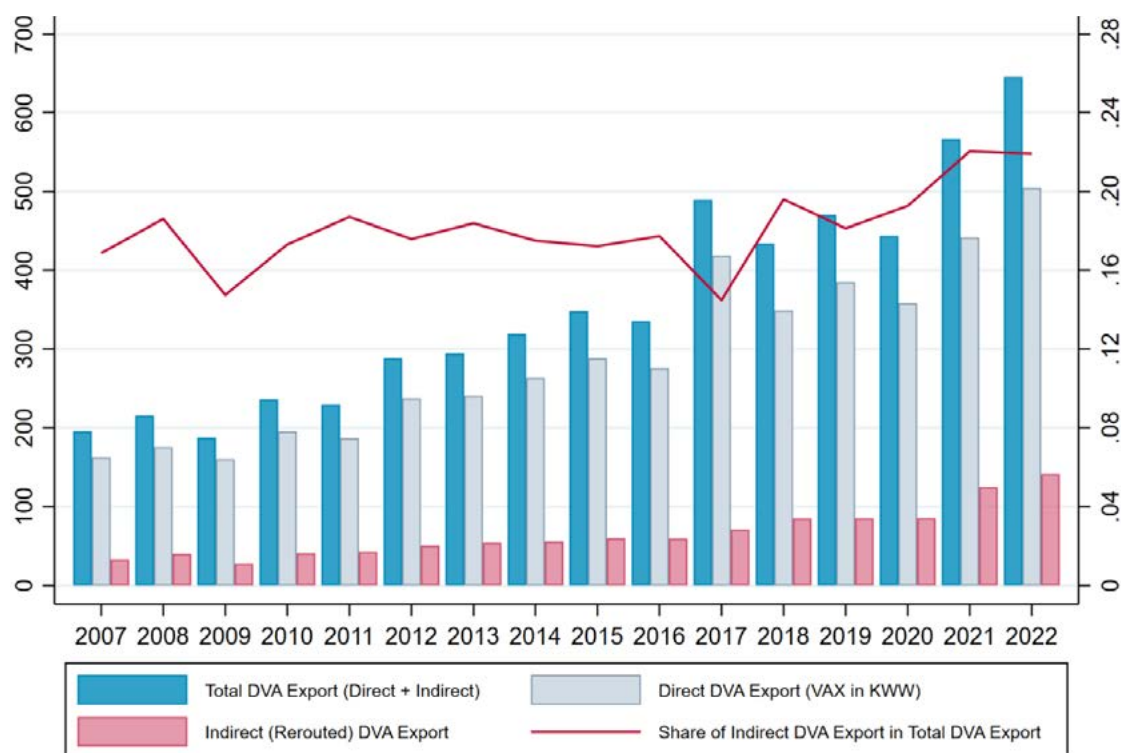
14 Castañeda-Navarrete, J., J. Hauge, and C. López-Gómez. 2020. “COVID-19’s impacts on global value chains, as seen in the apparel industry.” *Development Policy Review*. <https://doi.org/10.1111/dpr.12539>.

15 Alfaro, L., and D. Chor. 2023. “Global Supply Chains: The Looming “Great Reallocation”.” *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.4567667>.

Chinese firms are systematically relocating downstream production and market-facing segments of the value chain abroad, rebuilding supply chains oriented toward final-goods markets through overseas sales subsidiaries or production bases in politically aligned economies.

Changes in the pattern of export destinations further corroborate the China+1 phenomenon. Since 2018, the US's share in China's total direct exports has declined steadily, falling from 19.2% in 2018 to 11.1% in 2025 (see Table 1-1). In contrast, ASEAN's role as an export destination has increased rapidly—its share in China's direct exports has risen from 12.9% in 2018 to 17.6% in 2025, surpassing the US as China's largest export destination. Notably, economies with fundamentals and policies that permit relatively quick manufacturing expansion or transshipment have moved up quickly in the ranking of China's export destinations. This reorientation of trade routes does not merely reflect a substitution of export markets; rather, it underscores Chinese firms' strategic use of third-economy nodes to diversify trade risks, mitigate tariff and institutional frictions, and extend value chains in a more regionalized manner under heightened external policy uncertainty. Overall, the reconfiguration of trade flows represents not only a passive response to short-term trade frictions, but also a broader transition, from a single market-oriented export model toward a multi-node, regionalized, and network-based global production and market structure.

Figure 1-1: China's Domestic Value Added (DVA) Exports to the US (in Billion USD)



Source: Tang et al. (2024)¹⁶

Note: VAX in KWW refers to Value Added Exports calculated following the methodology proposed by KWW (2014).¹⁷

16 Tang, H, Yan Y and Zheng X. 2024. "Trade Rerouting under the US-China Trade War." HKU Business School Working Paper. <https://impact.hkubs.hku.hk/opportunities-and-strategies-for-hong-kong-to-become-a-global-supply-chain-management-center/>.

17 Koopman, Robert, Zhi Wang, and Shang-Jin Wei. 2014. "Tracing Value-Added and Double Counting in Gross Exports." *American Economic Review* 104 (2): 459–94. DOI: 10.1257/aer.104.2.459

Table 1-1: Chinese Mainland's Top Five (Direct) Export Destinations

	2018		2020		2022		2024		2025	
	Economy	Share (%)	Economy	Share (%)	Economy	Share (%)	Economy	Share (%)	Economy	Share (%)
1	US	19.2	US	17.5	US	16.2	ASEAN	16.4	ASEAN	17.6
2	EU	13.7	ASEAN	14.8	ASEAN	15.8	US	14.7	EU	14.4
3	ASEAN	12.9	EU	14.6	EU	15.1	EU	13.9	US	11.1
4	HKSAR	12.1	HKSAR	10.5	HKSAR	8.3	HKSAR	8.1	HKSAR	8.9
5	Japan	5.9	Japan	5.5	Japan	4.8	Japan	4.3	Japan	4.2

Source: International Trade Centre

1.2.2 Demand-side Diversification: US+1

I. Pursuit of the “US+1” Strategy

Since the beginning of 2025, when Donald Trump started his second term as president, the US government's weaponization of trade policy has intensified, raising the institutional, regulatory, and compliance costs facing foreign firms that serve the US market. Against a backdrop of escalating trade frictions, financial volatility, and regulatory uncertainty, overreliance on the US as a primary export destination has become increasingly risky. While the US remains the world's largest consumer and financial market, its credibility as a stable and predictable anchor for global demand has been compromised.

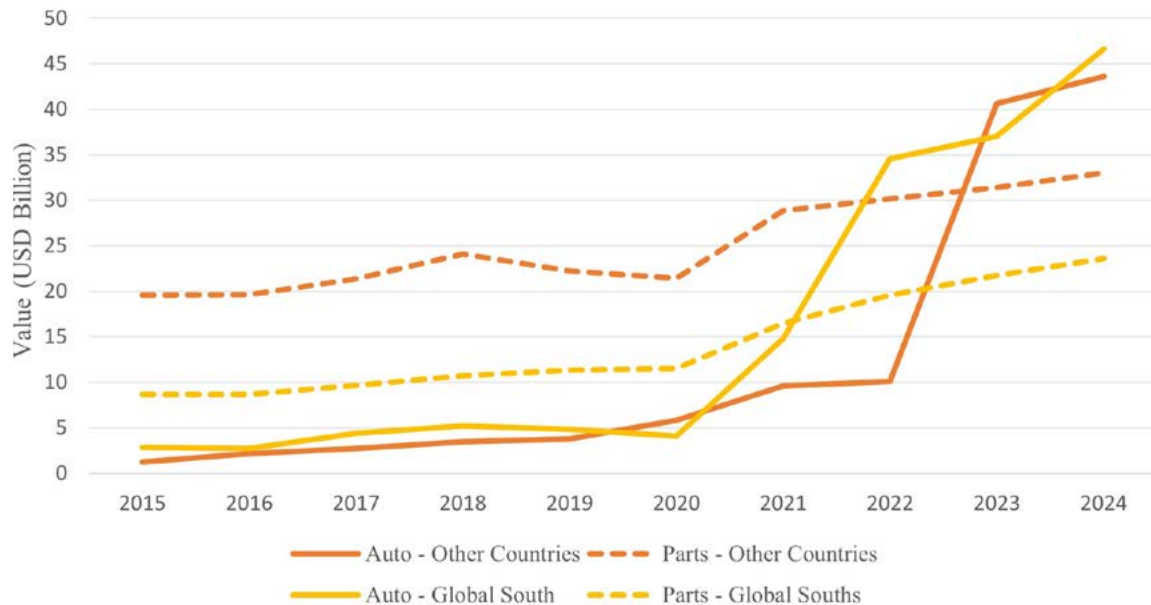
This section starts at the sector level, using the evolving trend of China's auto exports as a representative example. It then examines how the combined dynamics of China+1 and US+1 are driving growing trade fragmentation and the deepening of South-South economic integration at the macroeconomic level.

In response to the rising uncertainty surrounding US trade policy and market access, firms are increasingly extending diversification strategies from the supply side to the demand side. Moving beyond the traditional China+1 approach, originally aimed at mitigating supply-chain concentration, companies are increasingly adopting a US+1 strategy to reduce overdependence on the US as a final sales destination. The case of China's auto exports is illustrative: China's auto export growth patterns across different markets reveal distinct stages of divergence (see Figure 1-2). Between 2015 and 2020, China's exports of autos to the Global South¹⁸ and other regions remained at relatively low levels, as market expansion remained limited and differentiation between the two groups was not yet pronounced. From 2021 onward, exports to the Global South were the first to experience a surge in growth, with export volumes rising sharply.

¹⁸ In this report, the Global South encompasses South and Southeast Asia, Africa, the Middle East, Eastern Europe, Central Asia, and Latin America.

In contrast, exports to other regions did not see a comparable surge until after 2022. Between 2020 and 2024, the growth rate of China’s finished auto exports to the Global South consistently outpaced that to other regions. This divergence suggests that Chinese automakers are actively changing their market orientation by prioritizing faster-growing, less policy-constrained markets, thereby reducing their exposure to US-centric demand shocks and enhancing the overall resilience of their export growth trajectory.

Figure 1-2: China’s Exports of Auto and Auto Parts



Source: UN Comtrade, compiled by author

II. The Rising “Middle Powers”

In January 2026, Canadian Prime Minister Mark Carney warned that, in the face of a “ruptured” global order, middle powers must work together to build a new one that is less dependent on the US. Middle powers are states with significant diplomatic, economic, and regional influence that fall below superpower status but are far from small powers. They often act as bridge-builders and mediators in international affairs, using their relative agility to shape global politics. Common examples include France, Canada, Australia, Brazil, South Korea, Indonesia, and Türkiye.

The idea of the middle power has long been closely tied to multilateralism, which flourished at the turn of the millennium under the high tide of globalization and growing trade connectivity, largely supported by American leadership and its backing of the liberal international order. As discussed in the previous sections of this report, however, China’s rise after its accession to the WTO increasingly generated anxiety in the US over its economic and diplomatic position. This, in part, created the political conditions for Donald Trump’s election. His first administration launched some of the earliest direct challenges to rules-based international trade and diplomacy. The Biden administration then intensified strategic competition and restrictions toward China. With Trump’s return to the White

House in January 2025, American retreat from global governance and its challenge to the existing international order have become more entrenched. Its territorial and economic ambitions are now forcing even long-standing allies to reconsider their ties with the US, as well as their own defense, diplomacy, and role in a changing global environment.

In this new setting, where the traditional rules-based order and multilateral institutions are under sustained pressure and in many cases increasingly paralyzed, middle powers have become more active in building targeted coalitions. This can be seen in groupings such as BRICS and in the creation of institutions such as the Asian Infrastructure Investment Bank and the New Development Bank. The relative withdrawal of the US not only creates space, but also gives middle powers greater incentive to step into a leadership role in international organizations: to defend what remains worth preserving, discard what no longer works, and renegotiate rules so that they better reflect the interests of a wider range of states.

At the time of writing, the Middle East is embroiled in conflict. But, the underlying reasons for its attractiveness as a market in the longer term remain. Many economies there are shifting from resource-dependent growth models toward diversification driven by services and production. The rapid expansion of logistics, and financial services in the United Arab Emirates (UAE), particularly Dubai, is noteworthy. Dubai International Airport achieved a record 95.2 million passengers in 2025, making it the world's busiest international passenger airport.¹⁹ At the same time, the region's rising purchasing power represents an important source of future demand. The economies of the Gulf Cooperation Council (GCC) enjoy relatively high levels of income per capita. Combined with sustained public investment and the presence of large sovereign wealth funds, this has fostered a wealthy consumer base with strong demand for advanced services, infrastructure, digital technologies, tourism, and high-quality consumer goods. As of March 2026, three sovereign wealth funds in GCC economies had assets under management exceeding one trillion US dollars, including the Public Investment Fund of Saudi Arabia, the Abu Dhabi Investment Authority, and the Kuwait Investment Authority.²⁰ For multinational corporations seeking to diversify their market presence, the Middle East therefore serves not only as a strategic geographic hub connecting Asia, Europe, and Africa, but also as a rapidly expanding consumer market with substantial long-term potential.

However, stability and security are fundamental prerequisites for sustained economic development, financial deepening, and long-term investment inflows. Whether the Middle East can successfully emerge as a viable US+1 destination ultimately depends on the restoration of stability across that region. Should the US-Israel war with Iran become protracted, along with related geopolitical and security risks, this would disrupt vital global trade routes and weaken global investor confidence in the Middle East, slowing the region's economic transformation.

19 Dubai Airports, "DXB Sets Global Benchmark as Record Traffic Become the Norm," (February 11, 2026), <https://media.dubaiairports.ae/dxb-sets-global-benchmark-as-record-traffic-become-the-norm/>.

20 Global SWF Data Platform, "Ranking - SWFs and PPFs," globalswf.com, 2026, <https://globalswf.com/ranking>.

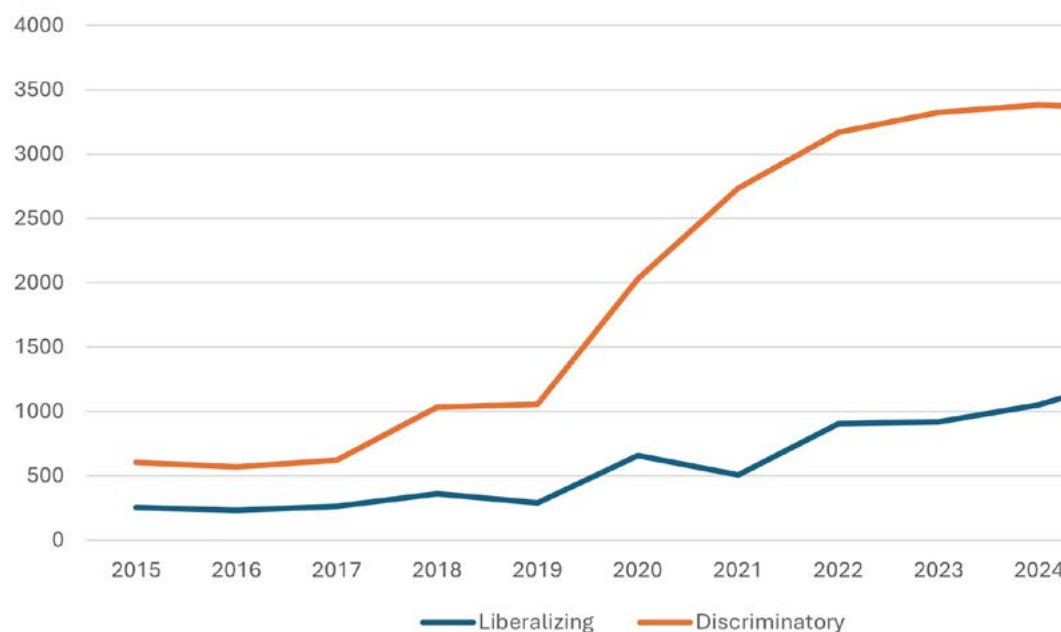
III. Growing Fragmentation of the Global Trade System

In the landscape shaped by both China+1 and US+1 approaches, the global economic and trade environment is undergoing a process of increasing fragmentation. Cross-border capital and trade flows are beginning to diverge into two blocs—a US-led bloc and an Eastern bloc centered on China and Russia.²¹ The traditional WTO-centered multilateral trading system is gradually eroding, with major powers increasingly favoring bilateral agreements and unilateral tariffs. For example, the US-UK Economic Prosperity Deal, implemented in June 2025, provided the UK with preferential tariff treatment on steel, aluminum, and automotive components. In return, the UK was required to align closely with the US on critical minerals supply chains and digital standards.²²

In addition, the US has concluded similar framework agreements with countries such as Switzerland, Japan, and South Korea, with the aim of constructing a “high-standards club” that effectively excludes specific competitors.²³

Overall, the number of trade-restricting and trade-distorting measures has continued to rise over the past decade, with discriminatory measures rising sharply after 2019 (see Figure 1-3). While liberalizing measures have also trended upward, their growth has been much slower.

Figure 1-3: Number of Global Trade Policy Measures, 2015–2025



Source: UN Trade and Development (UNCTAD)

21 Gopinath, G., Gourinchas, P. O., Presbitero, A. F., & Topalova, P. (2025). “Changing global linkages: A new Cold War?” *Journal of International Economics*, 153, 104042. <https://doi.org/10.5089/9798400272745.001>.

22 Samuel DE LEMOS PEIXOTO et al., “US Tariffs: Economic, Financial and Monetary Repercussions,” Europa.eu, July 17, 2025, [https://www.europarl.europa.eu/thinktank/en/document/ECTI_IDA\(2025\)764382](https://www.europarl.europa.eu/thinktank/en/document/ECTI_IDA(2025)764382).

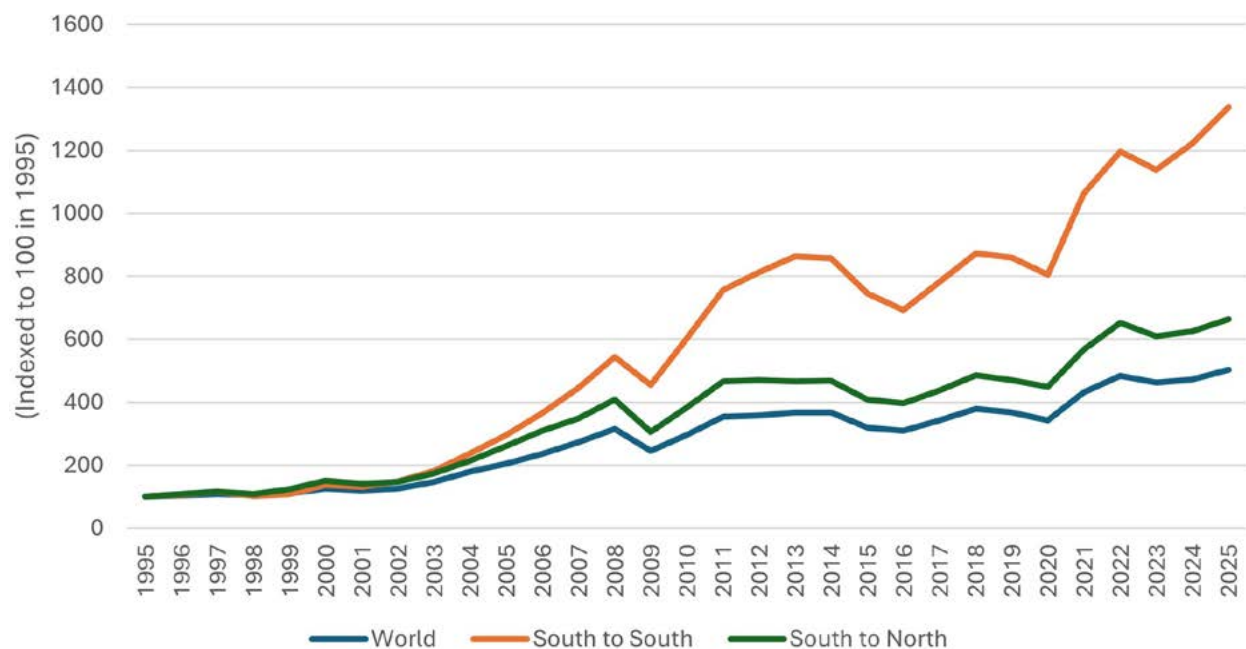
23 Keigh E. Hammond and William F. Burkhardt, “Presidential 2025 Tariff Actions: Timeline and Status,” CRS Report R48549 (Washington, DC: Congressional Research Service, September 16, 2025), <https://www.congress.gov/crs-product/R48549>.

IV. The Rise of South–South Trade

The US+1 demand-side strategy has further reinforced the internal circulation of South–South trade. According to UN Trade and Development (UNCTAD) projections, while global trade growth may slow due to rising protectionism, South–South trade linkages are expected to deepen through 2026, serving as a critical defensive mechanism for emerging markets to reduce their reliance on traditional markets.²⁴

South–South trade has evolved from a cyclical supplement to a structurally important engine of Global South convergence and integration with the Global North. Since the early 2000s, South–South merchandise exports have grown faster than both global trade and South–North trade flows, with especially strong momentum after the 2008 Global Financial Crisis and accelerating further after 2020 (see Figure 1-4). This trend suggests that emerging economies have become more dependent on intra-South demand to stabilize exports amid the rise of protectionism and geopolitical considerations in advanced economies. Asia dominates South–South trade, driving its expansion as both a manufacturing hub and a growing consumer market, while emerging economies in the African and American continents show steady growth, reflecting a gradual diversification of Global South’s linkages (see Figure 1-5). Together, these patterns indicate a deepening internal circulation within the Global South, aligning with the US+1 logic as firms now rely more on final demand from Global South markets, besides using them as production bases. Such reorientation reinforces South–South trade as a new building bloc of the global trading system.

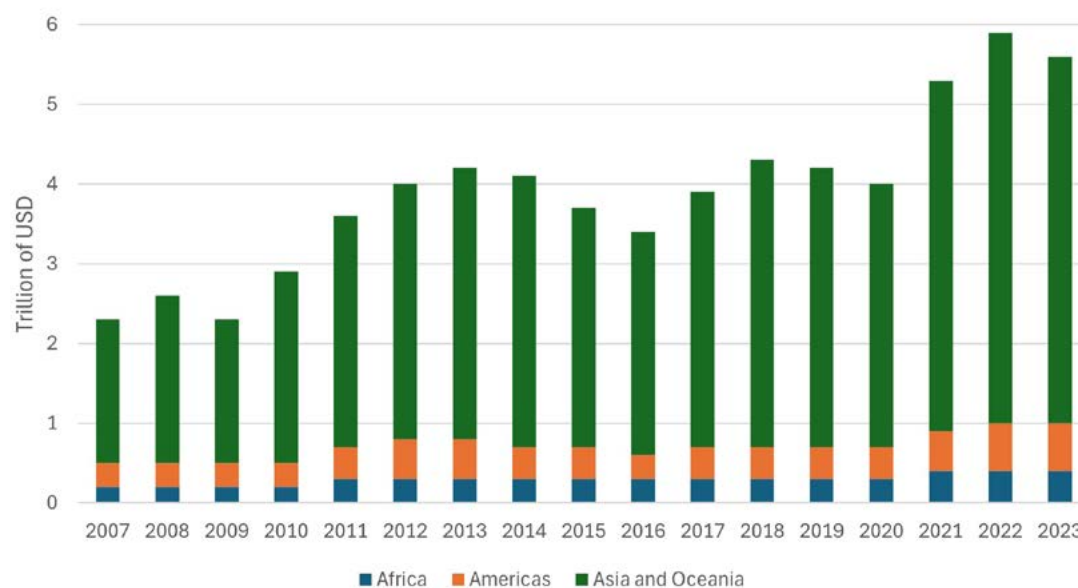
Figure 1-4: Merchandise Export Flows (1995-2025)



Source: UNCTAD

24 UNCTAD. “Global Trade Update: Top Trends Redefining Global Trade in 2026.” UN Trade and Development (UNCTAD), January 2026. <https://unctad.org/publication/global-trade-update-january-2026-top-trends-redefining-global-trade-2026>.

Figure 1-5: Global South Merchandise Trade by Region



Source: UNCTAD

1.3 The Ascendent “Global South”

Existing literature does not define the Global South as a single, fixed set of countries, but rather as a composite concept delineated along multiple dimensions in different research contexts. One major strand of literature defines the Global South from a geohistorical perspective. Many studies trace its origin to the 1980 Brandt Report, which uses the Brandt Line as a dividing benchmark to classify developing countries and regions located predominantly to its south, with wealthier countries in the Global North.²⁵ Within this framework, the Global South is largely understood as a continuation of the earlier “Third World” concept, where the emphasis is placed not merely on geographic location, but also on a shared historical experience—namely, prolonged marginalization under extractive colonial systems or Western-dominated global orders, and a common pursuit of economic transformation, political sovereignty, and development autonomy in the post-colonial era after WWII.²⁶

Beyond geography and history, the Global South is defined by economic and development traits. It is commonly associated with low-to-middle-income and emerging economies at varying stages of industrialization, urbanization, and structural transformation.²⁷ In trade and policy discussions, the term refers functionally to non-Western actors focused on export-led growth, integration into global supply chains, and resource sovereignty—highlighted by industrial policies targeting critical minerals.²⁸ For this report, the Global South refers to South and Southeast Asia, Africa, the Middle East, Eastern Europe, Central Asia, and Latin America.

25 S&P Global, “China Inc. Heads to Global South in the Age of Tariffs”, August 2025, <https://www.spglobal.com/en/research-insights/special-reports/china-inc-heads-to-global-south-in-the-age-of-tariffs>.

26 Masaaki Yatsuzuka et al., NIDS China Security Report 2025. Tokyo: The National Institute for Defense Studies, 2024. https://www.nids.mod.go.jp/english/publication/chinareport/pdf/china_report_EN_web_2025_A01.pdf.

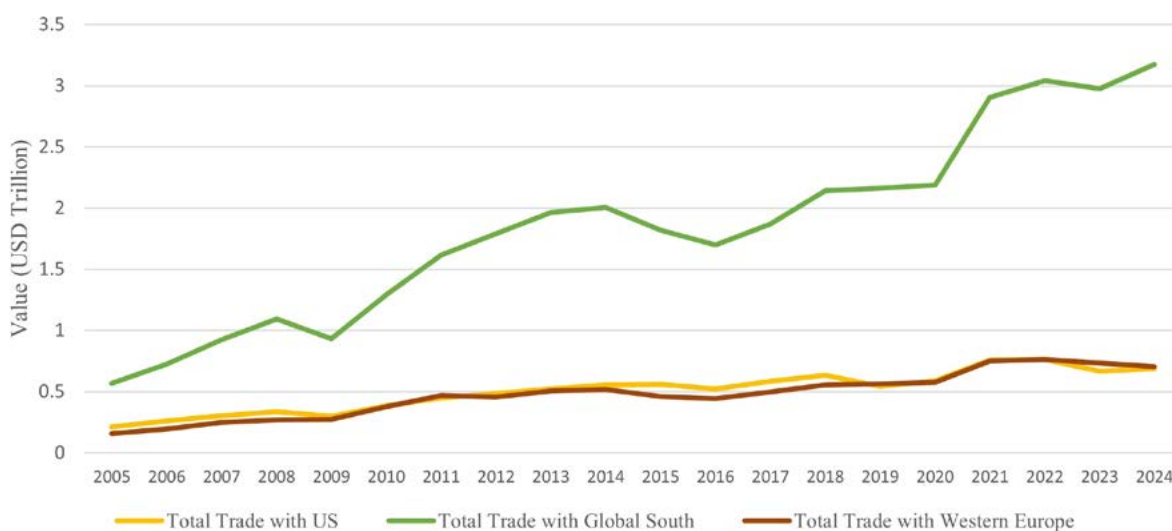
27 Horner, R., & Nadvi, K. “Global value chains and the rise of the Global South: unpacking twenty-first century polycentric trade.” *Global Networks*, 18(2), 207-237, 2018. <https://doi.org/10.1111/glob.12180>.

28 Aparna Bharadwaj et al., “In a Multipolar World, the Global South Finds Its Moment,” BCG Global, April 22, 2025, <https://www.bcg.com/publications/2025/in-a-multipolar-world-global-south-finds-its-moment>.

Since the beginning of the 21st century, countries in the Global South have witnessed a significant and collective strengthening of their economic capacity. This rise is reflected not only in individual countries' performance but also in a broader shift in the global economic balance. In particular, the BRIC-5²⁹ surpassed the G7 in aggregate economic size measured by purchasing power parity (PPP) in 2020.³⁰ Looking ahead, projections by Goldman Sachs suggest that the composition of the world's 10 largest economies will undergo a profound transformation over the course of this century: developed economies are projected to account for less than half of global GDP by 2030, before tilting decisively toward emerging markets, which are projected to account for around 70% of the world's GDP by 2075.³¹

The rise of Global South economies has been driven largely by profound transformations in the global economic and trade landscape. Faced with mounting tariff pressures, many enterprises are seeking to diversify sales exposure away from the North American and European markets by tapping into alternative large consumer bases. From 2005 to 2015, China's trade volume with the US showed moderate growth but has since plateaued (see Figure 1-6). The trend for the China's trade volume with Western Europe was similar, maintaining a slow upward trajectory. In contrast, China's total trade volume with the Global South followed a significantly different path: it not only continued to grow, but its growth rate far exceeded that of trade with the US and Europe—climbing from less than USD 1 trillion in 2005 to over USD 3 trillion in 2024. This robust and continuously accelerating growth indicates that the Global South has become the most dynamic and fastest-growing market for China over the past two decades. Overall, the global economic and trade landscape is undergoing a profound reconfiguration, gradually moving toward a new multipolar structure characterized by the vibrant rise of the Global South.

Figure 1-6: China's Trade with Key Regions



Source: International Trade Centre, compiled by author

29 The term “BRICS-5” refers to a group of five emerging economies including Brazil, Russia, India, China, and South Africa. For a more detailed discussion of the concept, please refer to Section 1.3.1.

30 Masaaki Yatsuzuka et al., NIDS China Security Report 2025. Tokyo: The National Institute for Defense Studies, 2024. https://www.nids.mod.go.jp/english/publication/chinareport/pdf/china_report_EN_web_2025_A01.pdf.

31 Kevin Daly and Tadas Gedminas, “The Path to 2075: Slower Global Growth, But Convergence Remains Intact,” Global Economics Paper, Goldman Sachs, December 6, 2022, p. 5 <https://www.goldmansachs.com/pdfs/insights/pages/gs-research/the-path-to-2075-slower-global-growth-but-convergence-remains-intact/report.pdf>.

The rise of the Global South is also fueled by its abundant endowment of human and natural resources, which together provide the foundations for long-term economic expansion and industrial upgrading. From a demographic perspective, the Global South is home to the world's youngest and fastest-growing labor force, generating a sustained demographic dividend that supports both production capacity and domestic demand. By 2050, one in every three people aged 15–24 globally is projected to live in Africa, highlighting the region's central role in shaping the future global workforce.³² Many multinational enterprises have moved production to Global South countries to take advantage of this young and low-cost labor force, thus catalyzing the industrialization process there. At the same time, many countries in the Global South are asserting greater sovereignty over natural resources that are critical to the global green transition, including key minerals essential for renewable energy technologies and electric vehicles (EVs). This growing resource leverage is enabling a shift away from exporting raw material toward higher value-added activities further up the value chain. Indonesia's ban on raw nickel exports, coupled with its push to develop domestic processing and downstream manufacturing, such as lithium-ion batteries, exemplifies this strategic pivot.³³ By internalizing more stages of production, Global South economies are not only capturing greater value from their resource endowments but also strengthening industrial ecosystems geared toward large and expanding domestic and regional markets.

1.3.1 BRICS and ASEAN

I. BRICS

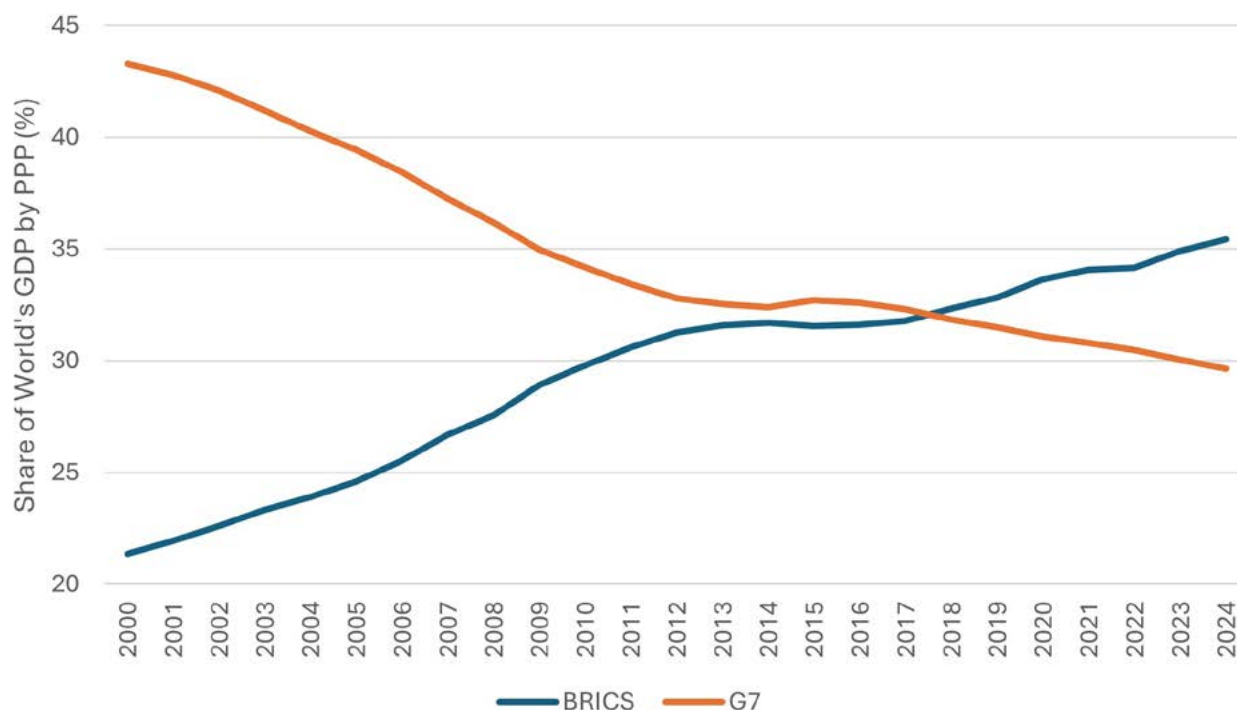
The term “BRICS” originally referred to the four major emerging economies of Brazil, Russia, India, and China. It became “BRICS” (capital “S”) with the incorporation of South Africa in 2011. Effective 2024, the grouping added Egypt, Ethiopia, Indonesia, Iran, Saudi Arabia, and the UAE.

The economic strength of the BRICS economies has risen rapidly, collectively positioning them as one of the central engines of global growth. Based on data from 2000 to 2024, the G7's share of global GDP (measured in purchasing power parity, PPP) fell steadily from around 43% in 2000 to below 30% by 2024 (see Figure 1-7). In contrast, the BRICS economies raised their share from about 21% to over 35% in the same period, overtaking the G7 around 2018. This divergent trajectory underscores a fundamental reconfiguration of global growth dynamics. It also highlights the potential for emerging economies to surpass traditional advanced economies in production capacity and consumption scale. Consequently, the global economic landscape is shifting from a Western-centered, post-Cold War unipolar structure toward a multipolar configuration. This redistribution of economic weight is, in turn, reshaping global governance, with emerging economies, led by the BRICS, playing an increasingly influential role in areas such as international trade rulemaking, financial system reform, and climate governance.

32 Karim El Aynaoui, Paolo Magri, and Samir Saran, “The Rise of Global South: New Consensus Wanted Annual Trends Report,” December 2023, https://www.ispionline.it/wp-content/uploads/2023/12/Annual-Trends-Report-2023-ISPI-ORFb-PCNS_compressed-1.pdf.

33 Aparna Bharadwaj et al., “In a Multipolar World, the Global South Finds Its Moment,” BCG Global, April 22, 2025, <https://www.bcg.com/publications/2025/in-a-multipolar-world-global-south-finds-its-moment>.

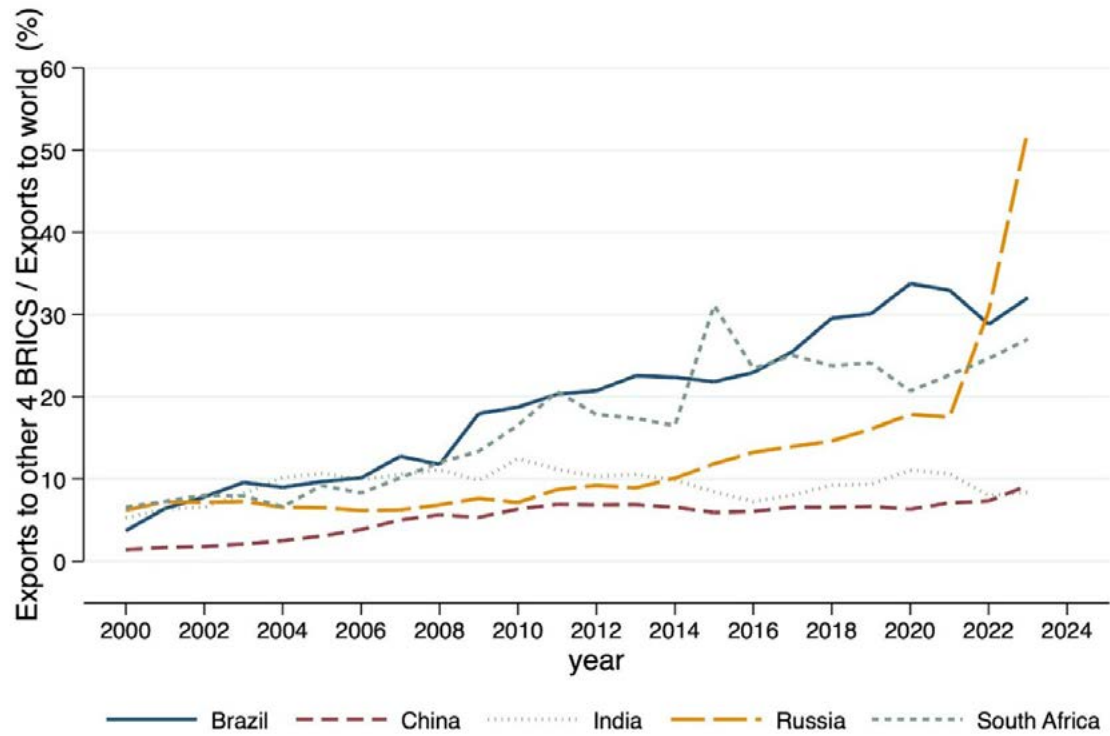
Figure 1-7: G7 and BRICS Countries' Share of the World's GDP in PPP from 2000 to 2024



Source: World Bank

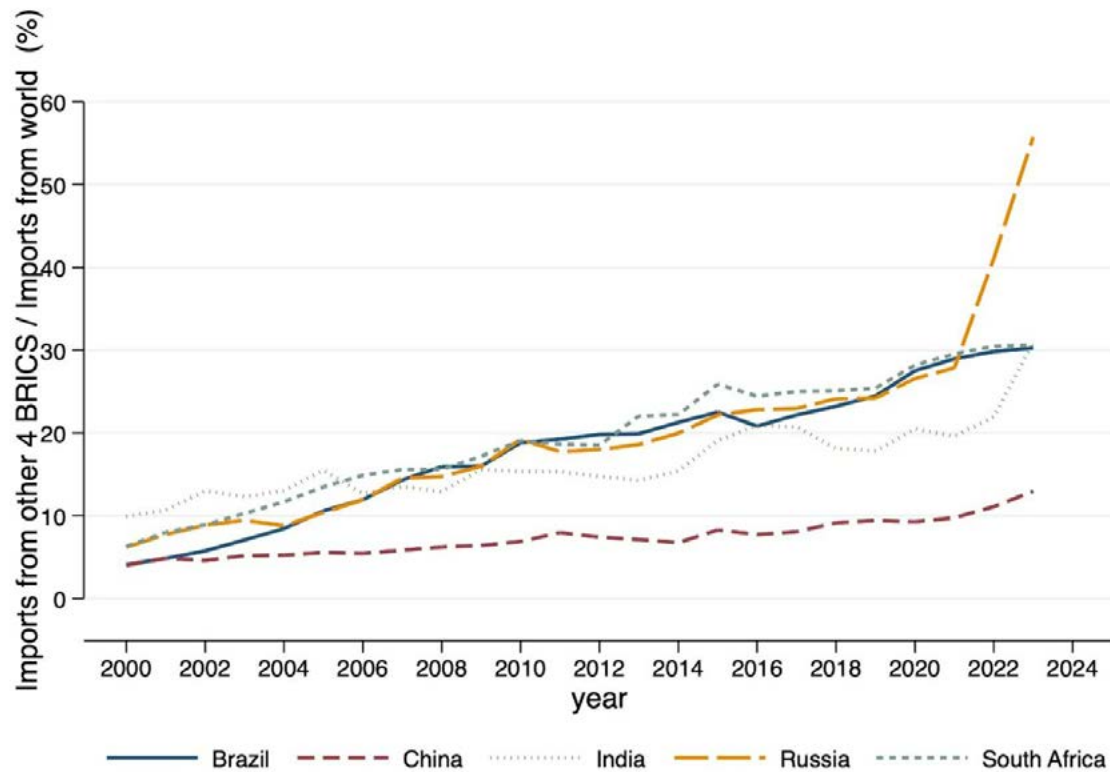
The BRICS economies have evolved from a loosely defined economic concept in the late 1990s into a more deeply connected community of shared interests. Looking solely at the original BRICS-5 countries, intra-BRICS economic linkages have strengthened markedly, as reflected in a sustained rise in internal trade dependence (see Figure 1-8 and Figure 1-9). With the notable exception of China, which maintains exceptionally high global trade integration, Brazil, India, and South Africa have all experienced a significant increase in their reliance on BRICS markets, with intra-group trade shares rising from below 10% in the early 2000s to around 30%. Importantly, these trade relationships are no longer characterized by one-way resource exports, but rather by increasingly synchronized growth in both exports and imports, indicating the accelerating integration of intra-BRICS industrial and supply chains. Whereas BRICS economies were previously viewed largely as a complement to the Western-dominated global economic system, the evidence suggests that they are now forming an internal economic circulation increasingly distinct from the traditional G7-centered framework. This evolution aligns with a broader shift in global trade toward regional and bloc-based configurations increasingly anchored in strategic security considerations and political trust.

Figure 1-8: Intra-BRICS-5 Share of Each Country's Exports



Source: UN Comtrade

Figure 1-9: Intra-BRICS-5 Share of Each Country's Imports

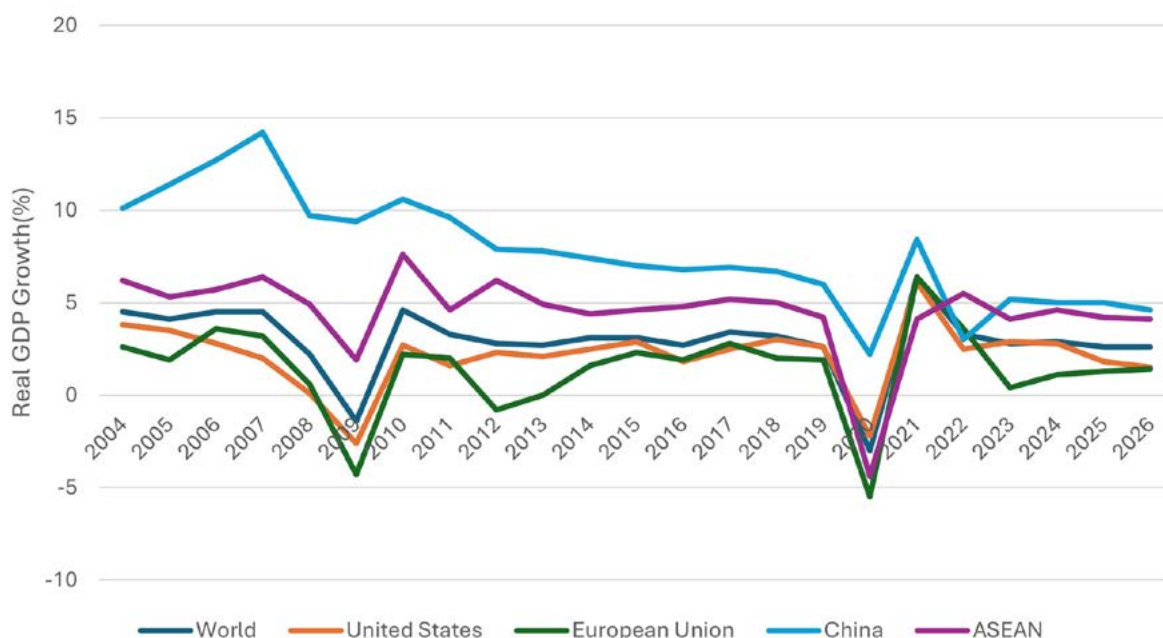


Source: UN Comtrade

II. ASEAN

Over the past two decades, ASEAN has demonstrated sustained economic resilience and growth, solidifying its comparative advantage on the global landscape. Its growth has consistently outpaced the global average, peaking at nearly 8% around 2010 (see Figure 1-10). Compared to major economies, ASEAN's performance stands out: historically, its growth has been nearly twice that of the US and EU, and while growth in Western economies slowed to below 2% after 2023, ASEAN continued to expand at a relatively high rate. In contrast with China—which saw exceptional early growth before gradually moderating—ASEAN's growth is expected to converge with China's during the 2023–2026 period. This trajectory has sparked discussion on whether ASEAN could become the “next China,” as the region attracts multinational investment through open economic policies and benefits from a rapidly expanding middle class, echoing patterns from China's high-growth era.³⁴ Overall, ASEAN is emerging as a key engine of global growth, with its strategic importance in both regional and world economies steadily rising.

Figure 1-10: Real GDP Growth Rates of Major Economies (2004–2026)



Source: IMF

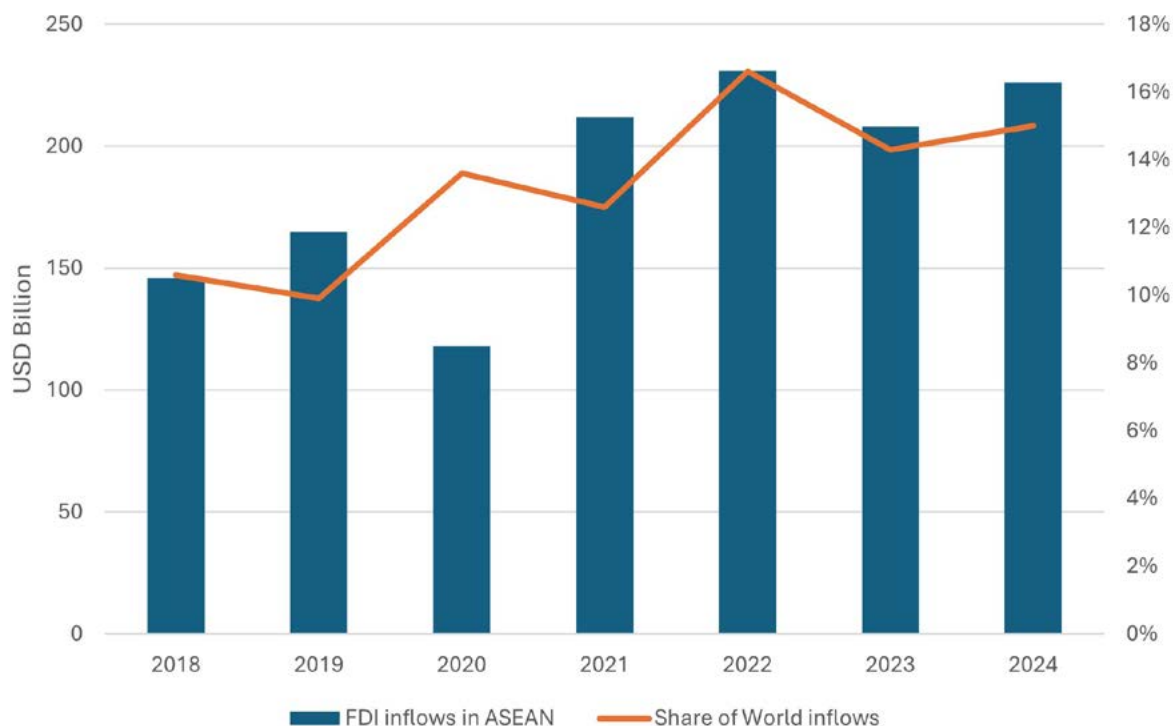
Since 2018, ASEAN has significantly strengthened its position in the global investment landscape, with its share of global FDI rising from around 10% in 2018 to 15% in 2024 (see Figure 1-11). Despite global economic fluctuations, annual FDI inflows have remained robust, consistently exceeding USD 200 billion since 2021. Beyond scale, ASEAN has enhanced its industrial structure, notably boosting FDI in high-end manufacturing: semiconductor FDI now accounts for 12% of the global total, and automotive FDI has nearly doubled its share from 5% to 9% (see Table 1-2).³⁵ Meanwhile, the share

³⁴ Anna Green, “The New Frontier: Can ASEAN Be This Decade’s China? - Disruptive Asia,” Disruptive Asia, Asia Society Australia, November 20, 2020. <https://disruptiveasia.asiasociety.org/the-new-frontier-can-asean-be-this-decades-china>.

³⁵ ASEAN Investment Report 2025: Foreign Direct Investment and Supply Chain Development. Jakarta: ASEAN Secretariat, October 2025. https://asean.org/wp-content/uploads/2025/10/AIR2025_rev17-Okt.pdf

of traditional labor-intensive sectors, such as textiles, has declined. This trend indicates that ASEAN is accelerating its transformation from a low-end manufacturing base to a global hub for advanced, high-precision manufacturing, occupying a critical position in the global semiconductor packaging and testing as well as EV supply chains.

Figure 1-11: FDI Inflows in ASEAN



Source: UNCTAD

Table 1-2: Announced Greenfield FDI in the Semiconductor, Automotive, and Textile and Clothing Industries in ASEAN

Industry Category	2015–2018 (billion USD)	Share in World (%)	2021–2024 (billion USD)	Share in World (%)
Semiconductors	2	10	12	12
Automotive	3	5	6	9
Textiles, clothing and leather	1.7	7	0.9	6

Source: UNCTAD

1.3.2 Economic Reallocation and the Rest of the World

Global supply chains are being reshaped along three key dimensions: diversification, nearshoring and reshoring, and regionalization.³⁶ Firms are expanding beyond China to mitigate concentration risk, relocating production closer to key markets to enhance resilience, and adapting to the emergence of three major regional trade blocs, i.e., Asia (China, ASEAN and India), Europe, the Middle East, and Africa (EMEA) (EU-centered), and the Americas (US-led), marked by stronger intra-regional linkages and relatively weaker inter-regional connections.

Nearshoring and reshoring/onshoring have emerged as defining cross-industry trends in supply-chain reconfiguration. Central to this shift is a strategic pivot away from “just-in-time” production toward a “just-in-case” approach that prioritizes resilience. From a geographical perspective, nearshoring is primarily concentrated across three major regions.

I. The Americas

In the Americas, Mexico has utilized the United States-Mexico-Canada Agreement (USMCA) to position itself as the primary manufacturing hub for the US, while Central America and the Caribbean play a supplementary role in the network. In 2023, Mexico officially surpassed China to become the largest overseas supplier of goods to the US.³⁷

In tandem, the US has significantly cut its direct reliance on China, as China’s import share fell by over 12% from 2017 to 2025 (see Figure 1-12). In contrast, Vietnam and Mexico have each seen their shares rise by more around 4 percentage points during the same period. Between 2018 and 2021, it is estimated that 8.8% of Vietnam’s export growth to the US can be attributed to the re-export of Chinese goods.³⁸ This reduced dependence on the Chinese Mainland is particularly evident in high-tech sectors. Exports of computers from Taiwan, China to the US increased by 231.7% between 2017 and 2024,³⁹ while Mexico’s exports of automatic data processing machines nearly doubled in 2025.⁴⁰ In the mobile phone sector, the Chinese Mainland’s share in US mobile phone imports has dropped significantly to approximately 25% in Q2 2025, with Vietnam’s increasing to 30% and India’s reaching 44%, filling the gap.⁴¹

36 HKUST Li & Fung Supply Chain Institute. Global Supply Chain Report: December 2025 Summary. 2025. https://ustlfsci.hkust.edu.hk/sites/default/files/2025-12/Global_Supply_Chain_Report_DEC2025_Summary_2.pdf.

37 Laura Alfaro and Davin Chor, An Anatomy of the Great Reallocation in US Supply Chain Trade, no. w34490. National Bureau of Economic Research, 2025. <https://doi.org/10.3386/w34490>.

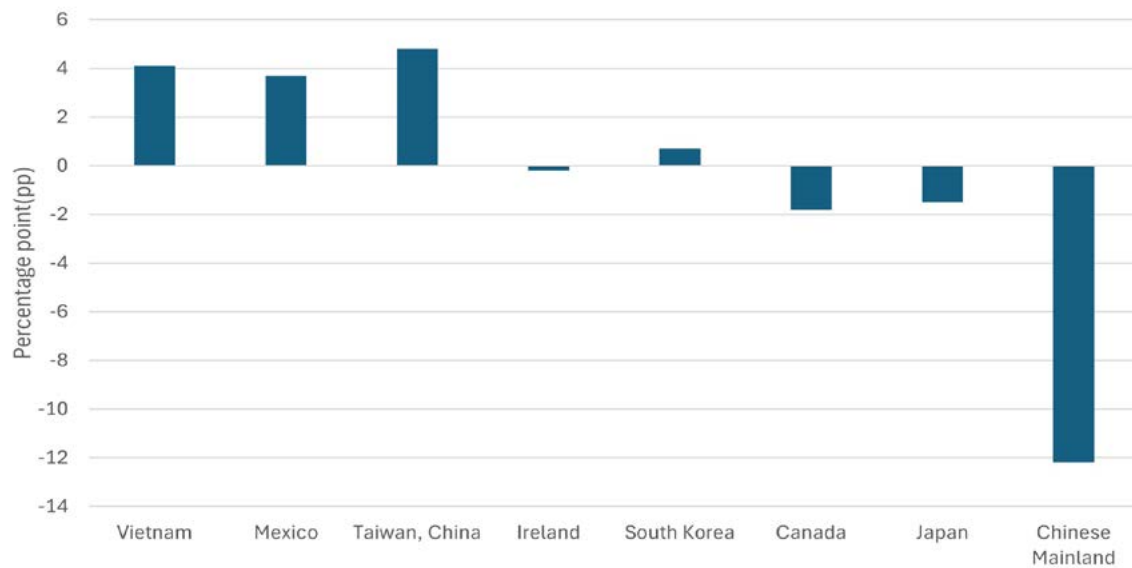
38 Ebehi Iyoha et al., “Exports in Disguise? Trade Rerouting during the US–China Trade War.” 2024. https://www.hbs.edu/ris/Publication%20Files/24-072_d5780e10-7ebe-405a-840d-0d64c13aa2f2.pdf.

39 GTAIC, “USA–Taiwan Trade Report 2017–2025: Processors, Computers and Parts Anchor a High-Tech Corridor,” GTAIC, October 16, 2025, https://gtaic.ai/files/reports/USA_Taiwan_7M2025_300_USD_p.pdf, p. 6

40 Brendan Kelly, Jesus Cañas, and Luis Torres, “USMCA Has Strengthened Economic Integration in North America,” Brookings, March 4, 2024, <https://www.brookings.edu/articles/usmca-has-strengthened-economic-integration-in-north-america/>.

41 Kan, Michael. “Made in China? Not Anymore, as US-Bound Phone Shipments from India Surge.” PCMag, July 29, 2025. <https://au.pcmag.com/mobile-phones/112364/made-in-china-not-anymore-as-us-bound-phone-shipments-from-india-surge#:~:text=If%20you%20buy%20a%20new,phones%20during%20a%20quarterly%20period.&text=%22The%20total%20volume%20of%20Made,shipments%20from%20India%20and%20Vietnam>

Figure 1-12: Change in Direct Import shares by US Trading Partners (2017–2025)



Source: US Census Bureau

This pattern, together with the modest growth in alternative suppliers' shares relative to China's previous dominance, suggests that the US continues to import a significant quantity of intermediate goods. In 2025, 37% of US imports from China consisted of intermediate goods used in American manufacturing, particularly in the automotive, machinery, and technology assembly sectors.⁴²

(a) The Strategic Depth of the Mexico-US Corridor

Mexico's ascendance is not merely a story of trade diversion but of deep industrial integration. The country is now ranked 13th on the Savills Nearshoring Index,⁴³ which assesses countries based on resilience, economic cost, business environment, and environmental, social, and governance (ESG) performance. This ranking is bolstered by recent investments from major original equipment manufacturers (OEMs) like Volvo and BYD.⁴⁴ In 2024, Mexico produced almost four million automobiles, a 5.56% year-on-year increase.⁴⁵ This momentum is further evidenced by greenfield investments. UNCTAD's World Investment Report 2025 highlighted Mexico, alongside Argentina and Brazil, as a bright spot for FDI activity in an otherwise challenging global landscape for productive investment.⁴⁶

42 Torsten Sløk, "How Are Imports from China Used in the US?," Apollo Academy, April 22, 2025, <https://www.apolloacademy.com/how-are-imports-from-china-used-in-the-us/>.

43 Charlotte Rushton, "Nearshoring: Home Truths | Savills Impacts," Savills Impacts, August 2024, <https://impacts.savills.com/market-trends/nearshoring-home-truths.html>.

44 James McLoughlin, "Trends in Mexico's Automotive Supply Chains," Automotivelogistics.media, Automotive Logistics, October 22, 2025, <https://www.automotivelogistics.media/nearshoring/nearshoring-and-negotiations-trends-in-mexicos-automotive-supply-chains/1604471>.

45 Prodensa, "Mexican Automotive Industry Report [Updated for 2026]," Prodensa.com, March 2026, <https://www.prodensa.com/insights/blog/mexican-automotive-industry-report>.

46 UNCTAD, "Lancement Du Rapport Sur l'Investissement Dans Le Monde 2025," ONU commerce et développement (CNUCED), June 2025, <https://unctad.org/fr/meeting/lancement-du-rapport-sur-linvestissement-dans-le-monde-2025>.

The automotive sector drives this transformation, led by EV growth. Hyundai Mobis launched a USD 28.6 million EV battery plant in Nuevo León in 2025,⁴⁷ Mexico's first such state facility, and part of a North American "battery belt" mirroring Europe's development. Yet rapid expansion has laid bare local supply chain gaps; the Automotive Cluster of Nuevo León's Manuel Montoya identified a critical shortage of Tier 2 suppliers for EV-critical aluminum extrusion, casting and forging, with 11 buyers' demand for aluminum forgings overwhelming just four strained suppliers, which creates both bottlenecks and opportunities for new market entrants.⁴⁸

Furthermore, cross-border trade growth has spurred targeted innovation in logistics. AI-enabled consolidation of less-than-a-truckload Mexican freight cuts cross-border shipment costs by up to 40% and boosts supply chain visibility by 48 hours,⁴⁹ while the US Foreign Trade Zones (FTZs) see record membership as importers seek tariff relief,⁵⁰ as exemplified by ConGlobal's expanded Laredo FTZ 94 facility, a key US-Mexico goods staging hub.⁵¹

(b) The Broader Latin American Context

While Mexico dominates the nearshoring narrative, the broader Latin America and Caribbean (LAC) region is navigating a complex reorientation. In 2025, the LAC region saw a 6.4% year-on-year increase in exports to the US,⁵² partly driven by pre-emptive buying ahead of tariff hikes. However, this demand surge has also caused supply chain disruptions and price volatility. The region faces structural challenges, with above 50% of its workforce in informal employment⁵³ and only 2.1% in high- or medium-high-tech jobs⁵⁴, making it vulnerable to commodity price swings and accelerating deindustrialization.

Nevertheless, opportunities are emerging. Countries rich in critical minerals for energy transition are poised to benefit. As global demand for lithium, copper, and silver surges,⁵⁵ the mining sector in LAC reaps the benefits of persistently elevated metal export prices, with copper and lithium mining investment bolstering Chile's 2.2% GDP growth in 2026 and Peru's 2.5% annual growth in 2026–2027,

47 Murillo, María Fernanda. "Hyundai Mobis Inaugurates Battery Plant Expansion in Nuevo León, Strengthening Mexico's Electromobility Ecosystem." ProMéxico Industry, October 15, 2025. <https://www.promexicoindustry.com/en/article/hyundai-mobis-inaugurates-battery-plant-expansion-in-nuevo-len-strengthening-mexico-s-electromobility-ecosystem>

48 Óscar Goytia, "Mexico's Auto Sector Faces Tier 2 Supplier Shortfall," Mexico Business, June 2024, <https://mexicobusiness.news/automotive/news/mexicos-auto-sector-faces-tier-2-supplier-shortfall>.

49 Zacks Investment Research, "C.H. Robinson Launches AI-Driven Cross-Border Freight Service," Zacks Investment Research, September 2025, <https://www.zacks.com/stock/news/2752967/ch-robinson-launches-ai-driven-cross-border-freight-service>.

50 Lori Ann LaRocco, "Trump Tariffs Lead to Surge of Companies Parking Imports in Tax-Free 'Foreign Trade Zones,'" CNBC, April 21, 2025, <https://www.cnbc.com/2025/04/21/trump-tariffs-import-surge-tax-free-foreign-trade-zones.html>.

51 ConGlobal, "ConGlobal Expands to Foreign Trade Zone Facility in Laredo TX," ConGlobal, January 16, 2025, <https://conglobal.com/2025/01/16/conglobal-expands-to-foreign-trade-zone-facility-in-laredo-tx/>.

52 Cavalier Andres, "Exports from Latin America and Caribbean Accelerate Expansion, Rising 6.4% in 2025, according to IDB Estimates," IDB, January 22, 2026, <https://www.iadb.org/en/news/exports-latin-america-and-caribbean-accelerate-expansion-rising-64-2025-according-idb-estimates>.

53 UNDP, "Learning from Innovation in LAC: Listening the Informal Sector," UNDP, December 2021, <https://www.undp.org/latin-america/publications/learning-innovation-lac-listening-informal-sector>.

54 OECD, "Latin America and the Caribbean Can Boost Growth and Development through More Dynamic, Diversified Economies." Press release, November 7, 2025. <https://www.oecd.org/en/about/news/press-releases/2025/11/latin-america-and-the-caribbean-can-boost-growth-and-development-through-more-dynamic-diversified-economies.html>

55 Credendo. "Lithium, Cobalt, Nickel and Copper Market Update: Volatility, Supply Risks and Diverging Trends." Knowledge Hub, 2025. <https://credendo.com/en/knowledge-hub/lithium-cobalt-nickel-and-copper-market-update-volatility-supply-risks-and-diverging>

while the region's overall merchandise exports are projected to rise by 2.7% in 2026 and 3.3% in 2027, driving the LAC's economic expansion to 2.3% in 2026 and 2.6% in 2027.⁵⁶

The Americas, therefore, play a multi-functional role in supply chain reconfiguration. At its core is the deep and rapidly integrating US–Mexico manufacturing corridor, fortified by industrial policy and logistics innovation. Surrounding this core is a broader hemisphere of resource-rich nations navigating the transition, seeking to leverage their assets in an increasingly fragmented and security-conscious global economy.

II. Europe

In Europe, supply chain reallocation is increasingly framed around Open Strategic Autonomy (OSA): a European Union strategy aiming to strengthen its self-sufficiency, competitiveness, and capacity to act independently in critical sectors—such as technology, energy, and defense—while remaining open to global trade and partnerships. Triggered by US–China tensions and the war in Ukraine, European value chains are shifting more clearly toward Central and Eastern Europe (CEE), moving away from a pure cost-efficiency model toward one that emphasizes regional resilience, sustainability, and technology integration.^{57,58}

(a) The Rise of CEE as an Industrial Engine

CEE is one of the main drivers of European growth and industrial expansion. Economies such as Poland, Czechia (the Czech Republic), Slovakia, Hungary, Romania, and the Baltic states now account for nearly 20% of the EU's GDP in purchasing-power terms, up from 13% twenty years ago.⁵⁹ While Eurozone growth is lingering at around 1%, much of CEE is growing in the 3–4% range. This is underpinned by manufacturing relocation and the development of new north–south supply chain corridors.

The region is rapidly positioning itself as a high-tech manufacturing base, especially in autos and green technologies. A new European “battery belt” and advanced semiconductor packaging facilities are being built in Poland, Czechia, Slovakia, and Hungary rather than in Western Europe. These economies—often described as “Germany-affiliated industrialists”—benefit from deep integration into Western European supply chains and high levels of FDI, with exports averaging 86 % of GDP.⁶⁰ Slovakia, for example, is tightly tied to automotive value chains, with autos accounting for about one-third of its total industrial exports. CEE has also become a major agglomeration node for transport equipment, machinery, electronics, and metals, supported by established logistics and connectivity.⁶¹

56 World Bank. *Global Economic Prospects: January 2026 – Latin America and the Caribbean Analysis*. Washington, DC: World Bank, 2026. <https://thedocs.worldbank.org/en/doc/7ce50b5aa95bef66048680bba9926ec8-0050012026/related/GEP-Jan-2026-Analysis-LAC.pdf>.

57 Boguslawski, Jan. *Central and Eastern Europe in the Global Economic Fragmentation*. ReThink.CEE Fellowship Report. Washington, DC: German Marshall Fund of the United States, 2025. <https://www.gmfus.org/sites/default/files/2025-04/Boguslawski%20-%20CEE%20economies%20-%20paper.pdf>.

58 Ruzicka, Jan. “Stronger Together: Why Central and Eastern Europe Needs Deeper Regional Dialogue.” *World Economic Forum*, 2026. <https://www.weforum.org/stories/2026/01/stronger-together-why-central-and-eastern-europe-needs-deeper-regional-dialogue/>.

59 Ibid

60 Boguslawski, Jan. *Central and Eastern Europe in the Global Economic Fragmentation*. ReThink.CEE Fellowship Report. Washington, DC: German Marshall Fund of the United States, 2025. <https://www.gmfus.org/sites/default/files/2025-04/Boguslawski%20-%20CEE%20economies%20-%20paper.pdf>

61 Tang, Hongyu, Yonglei Jiang, Zixuan Peng, Yazhi Liu, and Bin Yu. “Manufacturing Industry Relocation Trends from the Perspective of Field Theory: The Case of the Belt and Road Sino-Europe Economic Corridor.” *Ocean & Coastal Management* 244 (October): 106825, 2023. <https://doi.org/10.1016/j.ocecoaman.2023.106825>.

Beyond manufacturing, CEE has captured large segments of the services supply chain through Global Business Services (GBS) and Shared Services Centers (SSCs). Poland alone hosts close to 2,000 business service centers employing more than 450,000 skilled workers and generating USD 36.8 billion in exports in 2023.⁶² This sector is also driving gender equality: women account for nearly 60% of the workforce and almost half of managerial roles.

(b) De-risking from China; Hungary's "Connector Economy"

European firms are reassessing their footprint in Asia amid rising geopolitical risk and a EUR 305.8 billion trade deficit (2024) with China.⁶³ In one recent survey conducted by the European Union Chamber of Commerce in China, 73% of European companies in China reported a worsening business environment, and 24% said they had redirected investment back to Europe.⁶⁴ The EU is trying to reduce these vulnerabilities – including its 69% dependence on Chinese rare earth mining—through de-risking tools such as the Critical Raw Materials Act and the European Chips Act.⁶⁵

CEE economies, however, are not reacting uniformly to this fragmentation. While the EU as a whole seeks to de-risk, Hungary is positioning itself as a “connector economy” between the US and China.⁶⁶ Under its “Eastern Opening” policy, Hungary absorbed 44% of all Chinese outward direct investment (ODI) into Europe in 2023,⁶⁷ reaching a record EUR 13 billion, largely in the EV battery sector and often structured to sidestep direct trade restrictions.

(c) General Economic Implications

These supply chain shifts have important consequences for Europe's growth model and convergence patterns. Historically, CEE economies grew quickly on the back of EU accession, large FDI inflows, and deep integration into supply chains led by firms in Western Europe.⁶⁸

This integration, however, has also created “dependent market economies” that sit lower in global value chains and rely heavily on the investment decisions of Western European multinationals. The implications differ across regional groups. “Balanced exporters” such as Poland and Romania can combine export-led growth with domestic demand, giving them more room to absorb external shocks.

62 Hirsiger, Marcel, “Nearshoring in Central Eastern Europe: The Evolution of Shared Service Centers and Global Business Services.” in *Innovating Business and Education for Sustainable Development*, edited by Arie Hans Verkuil, Uta Milow, Andreas Hinz, and Mahmoud Al-Kilani. Sustainable Business Development. Springer Nature Switzerland, 2025. https://doi.org/10.1007/978-3-032-10065-8_12.

63 Ofiakowski, Krzysztof. “Global Supply Chains Face Costly Reshoring Shift.” 2025, <https://trans.info/en/reshoring-shift-427602>.

64 Roland Berger, “Business Confidence Survey 2025,” European Union Chamber of Commerce in China, 2025. <https://static.poder360.com.br/2025/05/european-comission-commerce-china-2025.pdf>.

65 European Commission. “European Chips Act.” 2026. <https://digital-strategy.ec.europa.eu/en/policies/european-chips-act>.

66 Boguslawski, Jan. Central and Eastern Europe in the Global Economic Fragmentation. ReThink.CEE Fellowship Report. Washington, DC: German Marshall Fund of the United States, 2025. <https://www.gmfus.org/sites/default/files/2025-04/Boguslawski%20-%20CEE%20economies%20-%20paper.pdf>.

67 Kratz, Agatha, Max Zenglein J., Alexander Brown, Gregor Sebastian, and Armand Meyer. “Dwindling Investments Become More Concentrated - Chinese FDI in Europe: 2023 Update | Merics.” 2024. <https://merics.org/en/report/dwindling-investments-become-more-concentrated-chinese-fdi-europe-2023-update>.

68 Żuk, Piotr, Eva Katalin Polgar, Li Savelin, Juan Luis Diaz del Hoyo, and Paul König. “Real Convergence in Central, Eastern and South-Eastern Europe.” European Central Bank, 2018. <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op212.en.pdf>.

“Germany-affiliated industrialists”—Czechia, Slovakia, and Hungary—have narrow specializations in manufacturing and are highly reliant on FDI linked to Germany’s industrial base. This supports high labor productivity but leaves them exposed to swings in German demand.⁶⁹

The “Northern ICT regionalists”—the Baltic states—rely more on dynamic information and communications technology (ICT) exports and close ties to Nordic economies, investing heavily in skills instead of heavy industry. By contrast, “volatile resource economies” outside the EU (such as Albania and Moldova) struggle to attract high-value FDI because of political and institutional weaknesses and lean more on raw materials or tourism.

(d) Risks, War, and Future Bottlenecks

Despite strong momentum, nearshoring in CEE faces real constraints from geopolitics and structural limits. At the global level, moving away from open globalization is costly. An OECD analysis suggests that large-scale reshoring could cut global trade by 18% and reduce real global GDP by about 5%, without necessarily delivering better resilience.⁷⁰

Russia’s war against Ukraine has been a major destabilizing force, exposing vulnerabilities in Europe’s production-driven growth model. The conflict forced a rapid reduction in Europe’s dependence on Russian gas from more than 50% to under 20% in just two years.⁷¹ The resulting high wholesale energy prices undermine long-term manufacturing competitiveness and threaten energy-intensive industries. Ongoing security risks also divert resources: corridors through Poland, Slovakia, and Romania have become key routes for military and humanitarian support, while Poland is expected to spend more than 4% of GDP on national defense. Proximity to the war can also deter friendshoring and FDI, as seen in Estonia, where security concerns weigh on the outlook despite strong tech capabilities. Past conflicts in the region left long-lasting scars—for example, the Yugoslav Wars (1991–2001) significantly delayed the economic transition and supply chain integration of Western Balkan economies.⁷²

On top of this, many CEE economies risk falling into the “middle-income trap”. Most remain concentrated in lower-margin manufacturing and assembly rather than research or IP-driven activities. Europe as a whole spends only about 2.2% of GDP on R&D, well below the US and South Korea. Without moving into more innovative, technology-intensive production, the region’s traditional cost advantages will undermine.

69 Boguslawski, Central and Eastern Europe in the Global Economic Fragmentation. ReThink.CEE Fellowship Report. Washington, DC: German Marshall Fund of the United States, Jan. 2025. <https://www.gmfus.org/sites/default/files/2025-04/Boguslawski%20-%20CEE%20economies%20-%20paper.pdf>.

70 Oflakowski, Krzysztof. “Global Supply Chains Face Costly Reshoring Shift.” 2025. <https://trans.info/en/reshoring-shift-427602>.

71 Ruzicka, Jan. “Stronger Together: Why Central and Eastern Europe Needs Deeper Regional Dialogue.” World Economic Forum, 2026. <https://www.weforum.org/stories/2026/01/stronger-together-why-central-and-eastern-europe-needs-deeper-regional-dialogue/>

72 Žuk, Piotr, Eva Katalin Polgar, Li Savelin, Juan Luis Diaz del Hoyo, and Paul König. “Real Convergence in Central, Eastern and South-Eastern Europe.” European Central Bank, 2018. <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op212.en.pdf>

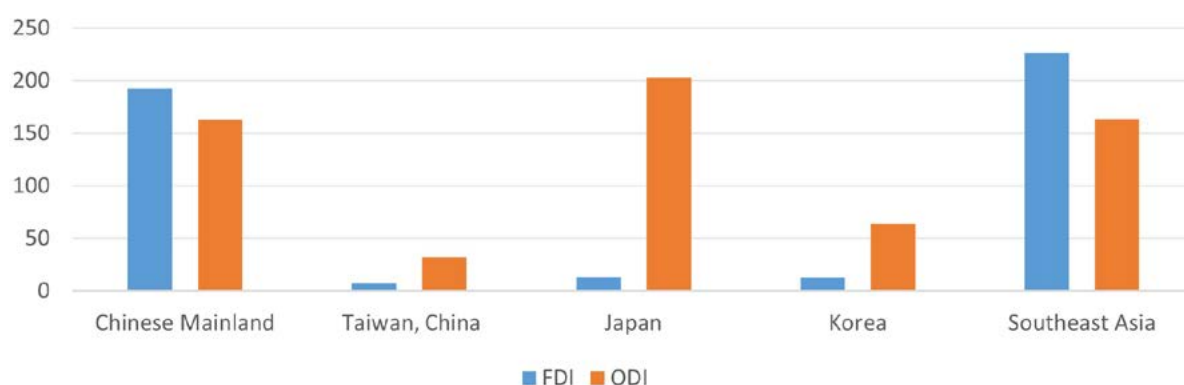
Demographics make this challenge harder. The working-age population in CEE is expected to fall by around 8% by 2030 due to ageing and emigration, causing persistent labor shortages, higher wage pressures, and constraints on new investment. Heavy reliance on the European auto industry adds another layer of risk. Slovakia, for instance, derives 13% of its GDP and a third of its industrial exports from car manufacturing, and faces potential GDP losses and plant closures amid rising competition from Chinese EV producers. Finally, the amount of capital needed to sustain a shift to electrified, low-carbon manufacturing is very large: the European Investment Bank estimates that CEE will require around EUR 400 billion in energy and grid investments by 2035 to support its industrial base.

III. Asia

In Asia, the nearshoring trend is most acutely manifested in the rapid industrial transformation of Southeast Asia, which has emerged as the primary destination for supply chain diversification from China and Northeast Asia. This regional reconfiguration is driven by a confluence of factors: the escalating China-US trade tensions, the competitive advantages of ASEAN economies, and the deepening institutional framework provided by the Regional Comprehensive Economic Partnership (RCEP). The result is a fundamental restructuring of regional production networks, characterized by an increasingly intricate intra-Asian division of labor where China and advanced Northeast Asian economies act as upstream providers of capital, technology, and intermediate goods, while Southeast Asia solidifies its role as a critical manufacturing and assembly hub.

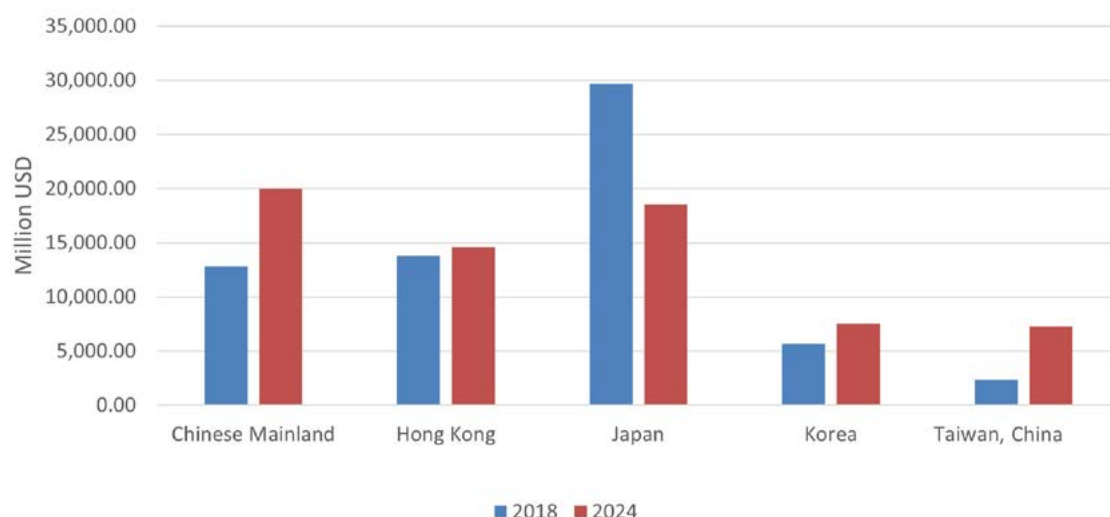
The scale of this shift is underscored by ASEAN's remarkable performance as a destination for FDI. Since 2018, the pattern of FDI in ASEAN has changed markedly (see Figure 1-14). Investment from the Chinese Mainland rose from around USD 13 billion to nearly USD 20 billion by 2024, while investment from Taiwan, China more than doubled. This reflects companies' implementation of the China+1 strategy amid supply chain de-risking. A comparison of ODI and FDI flows shows that Japan, South Korea, and Taiwan, China are predominantly capital-exporting economies, with Japan's ODI far exceeding its FDI, highlighting a strong foundation for shifting mature industrial chains to Southeast Asia (see Figure 1-13). In contrast, Southeast Asia demonstrates strong capital absorption, with FDI inflows significantly exceeding ODI outflows, indicating a systematic reconfiguration of regional production: China and Northeast Asian economies are using capital and technology exports to establish Southeast Asia as a new regional industrial hub.

Figure 1-13: FDI/ODI Flows for Asian Countries and Regions (2024, in Billion USD)



Source: Statistical data from various countries and regions

Figure 1-14: Flows of FDI to ASEAN by Source Country/Region (in million USD)



Source: <https://data.aseanstats.org/fdi-by-sources-and-sectors>

The sectoral distribution of FDI in ASEAN economies reveals a deepening of industrial capabilities beyond simple assembly. While labor-intensive industries like textiles and apparel continue to relocate, particularly to lower-cost economies like Vietnam and Indonesia, there is a pronounced shift towards more complex, higher-value manufacturing. Oxford Economics’ analysis of Revealed Comparative Advantage (RCA) highlights the distinct and complementary strengths emerging across the region. Vietnam’s industrial base now spans low- to mid-value-add segments, with strong RCA in textiles, rubber, plastics, metals, and wood products.⁷³ Most notably, Vietnam has ascended as a major producer of consumer electronics, advancing into components, semiconductors, and printed circuit boards. Its electronics exports to the US reached USD 42.09 billion in 2025, representing a year-on-year increase of 81.4%.⁷⁴

Thailand offers one of Southeast Asia’s most diversified manufacturing landscapes, with long and deep supply chains anchored by its automotive industry. The country is rapidly emerging as a regional production base for Chinese battery electric vehicle (BEV) manufacturers, who are establishing facilities to serve the Thai domestic market and export to other Asian countries.⁷⁵ This is complemented by Thailand’s dominant position in natural rubber, accounting for 36% of global output, which supports highly integrated downstream industries from tires to automotive components.⁷⁶

73 Whittington, Toby. “ASEAN Growth Opportunities Following US-China Tariffs.” Oxford Economics, October 27, 2025. <https://www.oxfordeconomics.com/resource/asean-growth-opportunities-following-us-china-tariffs/>

74 VNA/VNS, “Electronics Exports Surpass \$107 Billion in 2025,” [vietnamnews.vn](https://vietnamnews.vn/economy/1764334/electronics-exports-surpass-107-billion-in-2025.html), January 2026, <https://vietnamnews.vn/economy/1764334/electronics-exports-surpass-107-billion-in-2025.html>.

75 Yigit Ulubel, “Thailand’s EV Boom Has a New Engine: Chinese Trailblazers,” [Chinadaily.com.cn](https://www.chinadaily.com.cn/a/202508/27/WS68aea613a3108622abc9d6b2.html), August 2025, <https://www.chinadaily.com.cn/a/202508/27/WS68aea613a3108622abc9d6b2.html>.

76 Association of Natural Rubber Producing Countries (ANRPC). “Top 10 Rubber Producing Countries (2025).” Accessed April 14, 2026. [https://www.anrpc.org/news/top-10-rubber-producing-countries-\(2025\)](https://www.anrpc.org/news/top-10-rubber-producing-countries-(2025)).

Malaysia's strength lies at the intersection of high-tech manufacturing and resource processing. Anchored by the Penang cluster, often dubbed the "Silicon Valley of the East," Malaysia possesses a mature semiconductor and device supply chain, making it a credible alternative for production at the geographical center of US-China technology tensions.⁷⁷ Meanwhile, its upstream capabilities in oil refining, petrochemicals, and oleochemicals provide a diversified and resilient industrial foundation.⁷⁸

Indonesia, with its abundant natural resources, maintains export competitiveness in resource-processing value chains and labor-intensive sectors like textiles and garments. While structural and regulatory frictions currently constrain its move into higher-value, export-oriented manufacturing, its large domestic market and resource base position it as a key hub for lower-complexity production.⁷⁹ The Philippines, too, is beginning to capture a share of this shift. The Philippine Economic Zone Authority reports growing interest from Chinese firms establishing additional manufacturing bases in the country to serve the US export market. Investments from OEMs like Aoxing Group illustrate this trend.⁸⁰

IV. The Middle East

In the Middle East, especially in the GCC region, supply chain reallocation is showing up most clearly in massive capital investments in logistics and transport infrastructure, as governments try to position the region as the crossroad between Europe, Asia, and Africa.⁸¹ Under national diversification strategies, growth is picking up: the UAE is estimated to have grown by 4.8% in 2025 and Saudi Arabia by 3.8% as both economies move away from simple oil dependence toward a broader role as manufacturing and trade hubs.⁸² At the same time, recent shocks such as the Red Sea crisis and the US-Israel war with Iran have highlighted how vulnerable regional trade routes remain.

Gulf states are backing these ambitions with very large infrastructure programs. Saudi Arabia has committed USD 267 billion to logistics under its Saudi Vision 2030, with USD 53 billion already spent as of late 2024, and aims to raise logistics from 6% to 10% of GDP by 2030.⁸³ Flagship projects include its 1,500-kilometer "Landbridge" rail corridor and plans to lift air-cargo capacity to 6 million tons per year, which have helped Saudi Arabia climb 17 places in the World Bank Logistics

77 Invest Penang, "Penang: The Silicon Valley of the East," Semi.org, 2021, <https://www.semi.org/en/sea-newsletter-penang-the-silicon-valley-of-the-east>.

78 Global Business Reports. "Malaysia: Rich Pickings with Little Risk." November 2025. https://www.gbreports.com/wp-content/uploads/2025/11/Malaysia_Chemicals2006.pdf.

79 Ron Chalamish and Raymond Hua Ge, "Indonesia's Big Bet: Turning Resource Wealth into Industrial Power," *Columbiaemergingmarketsreview.com*, The Columbia Emerging Markets Review, January 2026. <https://www.columbiaemergingmarketsreview.com/p/indonesias-big-bet-turning-resource>.

80 Raffy Ayeng, "PHL to Benefit from 'China+1' Scheme — PEZA," *Daily Tribune*, March 24, 2025, <https://tribune.net.ph/2025/03/24/phl-to-benefit-from-china11-scheme-peza>.

81 Transcorp International. GCC Logistics Hub: Dubai vs. Riyadh vs. Doha; Where Should You Really Invest? – Transcorp International, 2026. Accessed March 10, 2026. <https://transcorp-intl.com/2026/02/25/gcc-logistics-hub-dubai-vs-riyadh-vs-doha-where-should-you-really-invest/>.

82 World Bank. "GCC Economies Demonstrate Resilience, Advance Diversification, and Accelerate Digital Transformation." 2025. <https://www.worldbank.org/en/news/press-release/2025/12/04/gcc-economies-demonstrate-resilience-advance-diversification-and-accelerate-digital-transformation>.

83 Transcorp International. GCC Logistics Hub: Dubai vs. Riyadh vs. Doha; Where Should You Really Invest? – Transcorp International, 2026. Accessed March 10, 2026. <https://transcorp-intl.com/2026/02/25/gcc-logistics-hub-dubai-vs-riyadh-vs-doha-where-should-you-really-invest/>.

Performance Index between 2018 and 2023.⁸⁴ The UAE is building on existing hubs. Its freight market is valued at about USD 20 billion—roughly 14% of GDP—and is projected to reach USD 27.5 billion by 2029. In 2024, Dubai’s Jebel Ali port handled 15.5 million TEUs, up 7.3% year-on-year and ranked ninth globally, while Dubai International Airport processed 2.2 million metric tons of cargo. Qatar is also gaining ground: Hamad Port ranked 11th globally as transshipment volumes rose 23% in 2024, accounting for nearly half of the country’s total container traffic.

A key structural feature of this reconfiguration is the region’s quickening “pivot to Asia.” In 2024, Gulf–Asia trade rose 14.4% to a record USD 516 billion. Trade between the Gulf and China reached USD 257 billion, slightly exceeding the region’s combined trade with Western economies at USD 256 billion, and this gap is projected to widen to USD 75 billion by 2028 as Gulf–China trade climbs to an estimated USD 375 billion. The UAE accounts for a large share of this shift: its trade with Emerging Asia jumped 27% to USD 268 billion in 2024, including USD 119 billion with China alone.⁸⁵ This eastbound shift also gives Gulf economies a way to manage rising global protectionism. While the US imposes higher tariffs on Asian exports, GCC exporters face a lower rate. That tariff gap makes the Gulf an appealing alternative manufacturing and export base for Asian multinationals looking to reduce exposure to Western trade barriers—subject to the restoration of peace and stability in the Middle East.

To reduce vulnerability to external shocks and increase value capture, governments in the Middle East are shifting from importing finished goods to localizing more of the value chain, using FDI and local content rules.⁸⁶ National oil companies are central to this push. Saudi Aramco’s In-Kingdom Total Value Add (IKTIVA) program and the UAE’s ADNOC In-Country Value (ICV) framework both require higher local sourcing to support job creation and technology transfer. A GCC sovereign wealth fund has also set a target of 60% local content for construction materials by 2025 to support domestic projects and increase supply-chain flexibility.⁸⁷ Saudi Arabia’s FDI inflows rose 24% year-on-year to USD 31.72 billion in 2024, with manufacturing attracting 29% of that total.⁸⁸ In autos, reshoring is visible in the Public Investment Fund’s 70% stake in Hyundai’s Middle East division to build a 50,000-unit assembly plant, alongside plans for domestic EV production through the nation’s CEER brand by 2026.⁸⁹ However, the localization drive also exposes constraints: 36% of GCC manufacturers cite access to raw materials as their main challenge, 28% point to high operating costs, and 44% report serious skills shortages in manufacturing.⁹⁰

84 World Road Transport Organization, “The Soft Road to the Top: How PPPs Fuel Transport and Logistics,” Iru.org, December 16, 2025, <https://www.iru.org/news-resources/newsroom/soft-road-top-how-ppps-fuel-transport-and-logistics>.

85 Asia House. The Middle East Pivot to Asia: The Gulf’s Rise as a Global Middle Power. November 13, 2025. <https://www.asiahouse.org/publications/the-middle-east-pivot-to-asia/>.

86 Schneider, Frédéric. “The GCC’s Evolving Trade Networks: Navigating Fragmentation and Diversification.” Middle East Council on Global Affairs, January 28, 2026. <https://mecouncil.org/publication/the-gccs-evolving-trade-networks-navigating-fragmentation-and-diversification/>.

87 PricewaterhouseCoopers. “Localising Supply Chains and Its Impact on Performance.” PwC, December 15, 2024. <https://www.pwc.com/m1/en/publications/localising-supply-chains-and-its-impact-on-performance.html>.

88 Asia House. The Middle East Pivot to Asia: The Gulf’s Rise as a Global Middle Power. November 13, 2025. <https://www.asiahouse.org/publications/the-middle-east-pivot-to-asia/>.

89 Ibid

90 PricewaterhouseCoopers. “Localising Supply Chains and Its Impact on Performance.” PwC, December 15, 2024. <https://www.pwc.com/m1/en/publications/localising-supply-chains-and-its-impact-on-performance.html>.

Capital flows are not one-way. Gulf sovereign wealth funds remain among the most active investors globally. In the first nine months of 2025, they deployed USD 56.3 billion abroad, directing 40% of that to Asia and lifting their overall Asian portfolio share to 17%.⁹¹ To lock in reoriented supply chains, GCC economies are also moving quickly on trade agreements. The UAE's Comprehensive Economic Partnership Agreement (CEPA) program has been particularly important. Gulf–ASEAN trade rebounded 14.8% year-on-year to USD 128 billion in 2024, with the UAE accounting for USD 68 billion of that total.⁹² Regionally, the GCC has set a target to raise GCC–ASEAN trade to USD 180 billion by 2032. These deals are increasingly moving beyond goods into services, an area where the UAE already runs a USD 38 billion surplus in transport, travel, and logistics that helps offset regional deficits in IT and telecommunications.⁹³

1.3.3 “Flying Geese” Paradigm 2.0

Conceived in the 1930s by Japanese economist Kaname Akamatsu, the “Flying Geese” Paradigm outlines the industrial evolution of East Asia. In this model, Japan acted as the “lead goose.” Having transformed itself from labor-intensive manufacturing to R&D and headquarter-service-intensive production, Japan lifted neighboring economies through outward investment and global sourcing. This process created a tiered and collaborative regional hierarchy that resembles the formation seen in a flock of flying geese. In the half century after World War II, the external expansion of Japanese companies seeded the economic rise of Asia's “Four Little Dragons” (Hong Kong, Singapore, South Korea and Taiwan, China), then Southeast Asia and, later, China. With China's economy having grown over several decades and its costs of production having risen, Chinese companies also started to “go out.” We call this phenomenon of Chinese firms going out the “Flying Geese” Paradigm 2.0.

As compared to the previous one led by Japanese companies, the new paradigm led by Chinese companies has progressed from a traditional stepwise pattern of industrial relocation to a more complex form of network-based coordination. The key driver of this transformation lies in the changing role of China. Rather than acting as a latecomer or follower, China has increasingly emerged as a central hub within regional and global supply chains. In response to mounting geopolitical pressures and de-globalization challenges, Chinese firms have actively “gone out” to reconfigure production networks overseas. Downstream stages of production, such as final assembly, are relocated to countries such as Vietnam and Thailand in ASEAN, Mexico in Latin America, or Saudi Arabia in the Middle East, to mitigate the impact of foreign government's trade barriers and restrictions, including US tariffs and sanctions. Chinese firms, meanwhile, continue to move up the value chain by focusing on upstream activities (e.g., R&D and design) and supplying intermediate inputs, technology, and capital goods to their overseas partners and affiliates.

91 Asia House. The Middle East Pivot to Asia: The Gulf's Rise as a Global Middle Power. November 13, 2025. <https://www.asiahouse.org/publications/the-middle-east-pivot-to-asia/>.

92 Ibid

93 Schneider, Frédéric. “The GCC's Evolving Trade Networks: Navigating Fragmentation and Diversification.” Middle East Council on Global Affairs, January 28, 2026. <https://mecouncil.org/publication/the-gccs-evolving-trade-networks-navigating-fragmentation-and-diversification/>.

Unlike China’s earlier industrial transfers, which relied mostly on finding lower labor costs overseas, the “Flying Geese” Paradigm 2.0 is driven by digitalization and green technologies. In establishing foreign manufacturing bases and logistic networks, leading Chinese firms enable neighboring economies to “leapfrog” into digital and green supply chains. This gives rise to a multi-tiered and more synchronized process of industrialization. The original “Flying Geese” pattern has transformed from simple industrial relocation to more sophisticated supply chain management. This shift aligns with the concept of “appropriate entrepreneurship” identified by Lerner et al. (2024), wherein Chinese innovation—often geared toward non-frontier market needs—offers developing economies more suitable and practical business models.⁹⁴

Taken together, the “Flying Geese” Paradigm 2.0 represents a more resilient and networked form of regional cooperation pursued by Asian economies amid the resurgence of trade protectionism. Rather than a simple process of industrial succession, it reflects a deeper regional upgrade driven by the integration of technology, capital, and advanced professional services. Against this backdrop, the “Flying Geese” Paradigm 2.0 assigns new strategic significance to Hong Kong, whose role in international trade has been evolving from that of a traditional entrepot to a global supply chain management hub. It can offer essential support to the outward expansion of Chinese firms, ranging from financial services, legal and arbitration services, professional advisory functions, to risk management solutions.

1.4 New Global Demand

1.4.1 Trade Finance

I. Significance of Trade Finance to Global Trade

Against the backdrop of heightened geopolitical tensions and the restructuring of the global trading system, trade finance is the “financial backbone” and “lubricant” of international trade. Globally, an estimated 80% of merchandise trade relies on some form of financing, credit, insurance, or guarantees.⁹⁵ This heavy reliance implies that any shortfall in the supply of trade finance can have a disproportionately large impact on international trade, potentially even triggering a contraction in global trade volumes.

Trade finance plays a critical role in mitigating risk and building trust in cross-border transactions, where information asymmetries, legal differences, and geopolitical uncertainty are pervasive. Instruments such as letters of credit, bank guarantees, and standby letters of credit protect trading

94 Lerner, Josh, Junxi Liu, Jacob Moscona, and David Yang. Appropriate Entrepreneurship? The Rise of China and the Developing World. No. W32193. National Bureau of Economic Research, 2024. <https://doi.org/10.3386/w32193>.

95 Steven Beck et al., “2023 Trade Finance Gaps, Growth, and Jobs Survey,” ADB Brief, no. 256, September 2023. <https://doi.org/10.22617/brf230334-2>.

parties against non-payment, non-performance, and country risk.⁹⁶ By acting as trusted credit intermediaries, banks provide assurance that exporters will receive payment once contractual conditions are met, while importers are guaranteed that payment is released upon shipment or delivery.⁹⁷ During periods of economic stress or financial volatility, firms often shift away from open-account transactions toward bank-intermediated trade finance, underscoring its role as a stabilizing mechanism in times of uncertainty.⁹⁸

Beyond its risk-mitigation function, trade finance also provides essential liquidity by bridging the time gap between production, shipment, and final payment. This function is vital for small and medium-sized enterprises (SMEs), which typically lack the balance sheet strength to absorb long cash conversion cycles. By monetizing receivables, purchase orders, or confirmed export contracts, trade finance enables firms to convert future trade flows into immediate working capital, supporting day-to-day operations, and enabling them to participate in global markets. Yet access remains uneven: globally, around 45% of SMEs' trade finance applications are rejected, contributing to a persistent financing gap estimated at USD 2.5 trillion in 2022—roughly 10% of global trade.⁹⁹ In Hong Kong, using figures ranging from 2023 to 2025, the trade finance gap was estimated to range from HKD 311.2 billion to HKD 519.1 billion (around 3.6–5.5% of merchandise trade value).¹⁰⁰

At the system level, trade finance is a pillar of supply chain resilience. In an era of tightly integrated and geographically dispersed production networks, insufficient financing, especially for upstream suppliers, can quickly propagate disruptions along the supply chain. Modern trade finance solutions, including digitalized and deep-tier supply chain finance, allow credit to reach smaller and previously underserved firms, including micro-enterprises at the lower tiers of production networks. This capability has proven crucial in mitigating shocks arising from events such as the pandemic, geopolitical conflicts, and sudden trade policy shifts.

Finally, trade finance carries significant macroeconomic and social implications. By enabling trade expansion, it supports economic growth, job creation, and poverty reduction, particularly in emerging and developing economies. Trade finance has also demonstrated its value as a crisis-response tool, allowing liquidity to be rapidly channeled to affected economies and helping to stabilize trade flows during periods of systemic stress.

96 HKMA, “Project Cargo^x Recommendation Report,” January 2026, [https://cdi.hkma.gov.hk/wp-content/uploads/Project_Cargo^x_Recommendation_Report.pdf](https://cdi.hkma.gov.hk/wp-content/uploads/Project_Cargo_x_Recommendation_Report.pdf).

97 Ibid.

98 ICC, “Rethinking Trade Finance 2009: An ICC Global Survey,” ICC - International Chamber of Commerce, March 2009, <https://iccwbo.org/news-publications/policies-reports/icc-global-report-on-trade-finance-2009/>.

99 Steven Beck et al., “2023 Trade Finance Gaps, Growth, and Jobs Survey,” ADB Brief, no. 256, September 2023. <https://doi.org/10.22617/brf230334-2>.

100 HKMA, “Project Cargo^x Recommendation Report,” January 2026, [https://cdi.hkma.gov.hk/wp-content/uploads/Project_Cargo^x_Recommendation_Report.pdf](https://cdi.hkma.gov.hk/wp-content/uploads/Project_Cargo_x_Recommendation_Report.pdf).

II. Rising Demand for Trade Finance

As global supply chains become increasingly fragmented, many businesses are diversifying their supply chains and relocating production to countries with lower geopolitical risks or greater nearshoring opportunities, such as Vietnam, India, Mexico, Turkey, and parts of Africa. This shift creates new trade finance demand to support diverse operations across various nations. Financial institutions are now called upon to provide tailored financing solutions that address the complexities of managing multiple suppliers and logistics partners in diverse geographical contexts. They also need to develop expertise in new markets while addressing the financing gaps that can arise from production relocations, such as bridging working capital needs during transitions and optimizing cash flow to ensure operational continuity.

The global supply chain landscape also reflects a strategic pivot toward regional supply chains and localized production and consumption ecosystems. This trend is particularly evident in Asia-Pacific, where countries are forming trade agreements like the RCEP that encourage intra-regional investment and trade. As a result, there is growing demand for trade finance services, especially as transaction volumes increase and the complexity of managing regional supply chains grows. Importers and exporters will increasingly require financial instruments that facilitate quicker and more efficient transactions to manage the flow of goods while ensuring cash flow sustainability.

Despite rising demand, geopolitical uncertainties and disruptions have reduced the supply of trade finance. The need to boost the availability of trade finance is urgent.

1.4.2 Non-Dollar Settlement

Growing risk awareness is driving structural changes at the macro-financial level. As strategic competition among major economies, notably between China and the US, intensifies, excessive reliance on the US market entails not only exposure to tariffs and technological restrictions but also exposes economies to systemic risks associated with potential financial sanctions. Notably, the sustained depreciation of the US dollar since early 2025 reflects an ongoing global repricing of dollar-denominated assets. This rising risk premium is accelerating the international payment system's shift toward a more diversified, non-dollar-centric settlement framework aimed at enhancing the resilience and strategic autonomy of the global financial network.

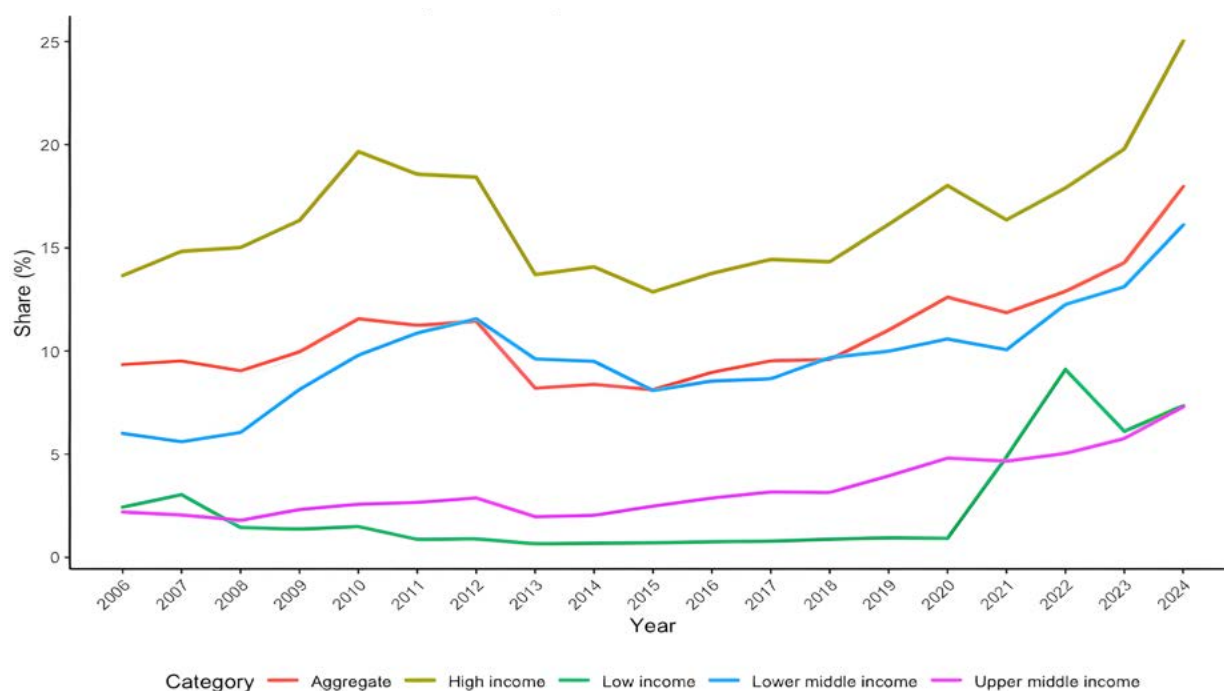
With an accelerating shift toward non-dollar settlement, the composition of global reserve assets is undergoing a profound restructuring, marked by rising demand for gold and reduced holdings of US Treasuries. As shown in Figure 1-15, the share of gold in total reserve assets has trended upward overall, reaching a multi-year high in 2025. This trend underscores the growing perception of gold as a “credit anchor” for non-dollar trade settlement. At the same time, the composition of ownership of US Treasuries has shifted markedly, with a clear pattern of rising domestic holdings and declining foreign participation (see Figure 1-16). The share held by foreign investors has fallen steadily from nearly 50% in 2013

to around 30% in 2024, partly reflecting concerns over US fiscal deficits, rising debt levels, and the weaponization of the US dollar, which have weighed on global demand for US Treasuries.

Many countries are actively promoting non-dollar settlement through a combination of institutional and technological mechanisms. One key approach is the expansion of bilateral currency swap arrangements and trade settlement in local currency. In early 2023, the People's Bank of China and the Central Bank of Brazil signed a Memorandum of Understanding to establish a renminbi (RMB) clearing arrangement in Brazil, aimed at promoting the development of RMB clearing services in the country.¹⁰¹ In 2025, the two parties renewed the Bilateral Currency Swap Agreement for RMB and the Brazilian Real, further strengthening monetary cooperation between the two countries.¹⁰²

A second trend involves the expansion of alternative payment infrastructures, most notably the Cross-Border Interbank Payment System (CIPS), which now covers more than 100 countries worldwide. Beyond message transmission, CIPS provides clearing and settlement functions, offering developing economies a viable backup mechanism to ensure the continuity of financial flows under extreme geopolitical stress. Moreover, Project mBridge, a joint initiative of multiple central banks, highlights the growing role of Central Bank Digital Currency (CBDCs) in reshaping cross-border payments. As a multilateral CBDC platform, mBridge enables direct digital settlement between participating central banks, and demonstrates a potential pathway toward a more autonomous and resilient international monetary architecture.

Figure 1-15: Share of Reserve Gold Holdings in Total Reserve Assets

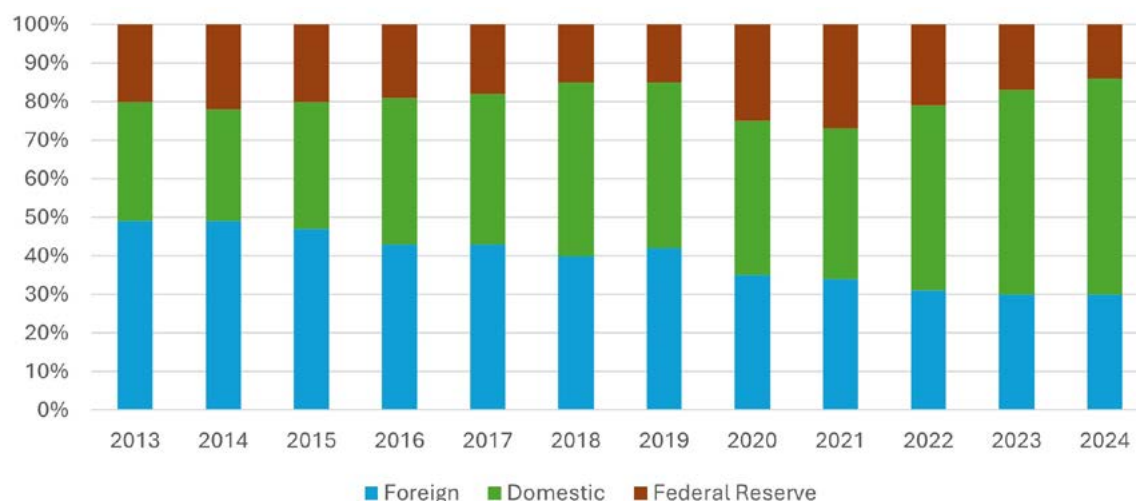


Source: World Gold Council

101 People's Bank of China, "PBOC and BCB Sign MOU on Establishing RMB Clearing Arrangements in Brazil," Pbc.gov.cn, February 2023, <https://www.pbc.gov.cn/en/3688241/3688636/3688657/2025080817522611695/index.html>.

102 Gov.cn, "Chinese, Brazilian Central Banks Sign MOU to Enhance Financial Strategic Cooperation," China Government Network, May 14, 2025. https://english.www.gov.cn/news/202505/14/content_WS6823d9a4c6d0868f4e8f283b.html.

Figure 1-16: Holding of Marketable US Treasuries



Source: U.S. Department of the Treasury

1.4.3 Professional Services

I. Global Market Size

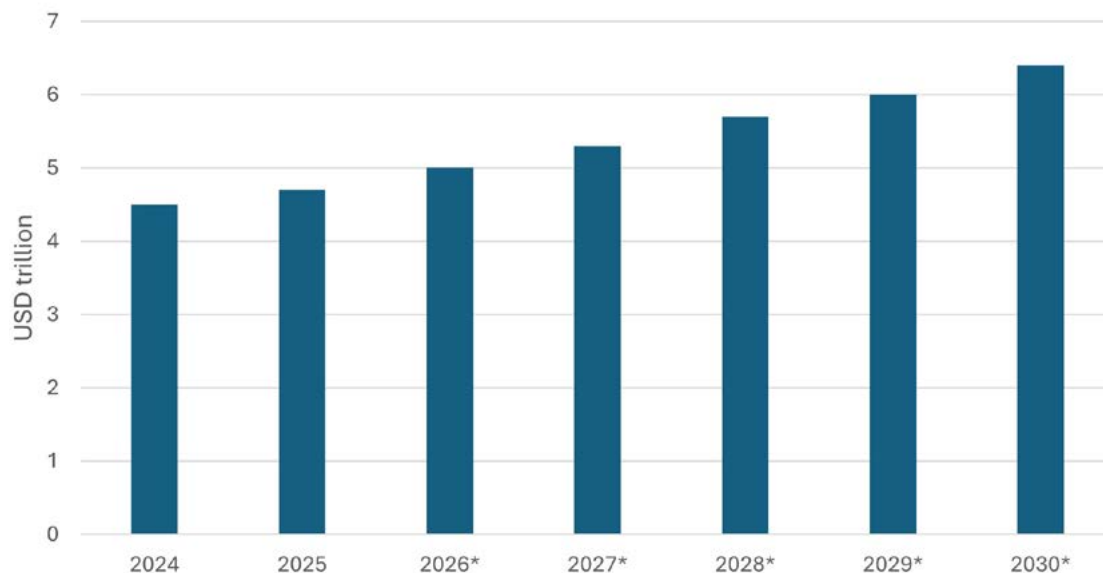
Based on the classification framework established by the Hong Kong Census and Statistics Department, the professional services sector encompasses a diverse and comprehensive range of knowledge-intensive activities that require specialized expertise and advanced academic training. These include legal, accounting, and auditing services, which form the backbone of corporate governance and regulatory compliance. Also included are: architecture and engineering activities, which involve complex technical testing, detailed analysis, and innovative design solutions essential for infrastructure development; scientific R&D, which drives innovation and technological advancement; and management and management consultancy services that provide strategic guidance and operational optimization for businesses across various industries.

In addition to these core components, the sector incorporates other specialized professional services that cater to the evolving demands of a modern, digital economy. These include information-technology-related services, which support digital transformation and cybersecurity; advertising services, which are critical for brand development and market communication; and specialized design activities, which contribute to aesthetic and functional creativity in products and environments. On a global scale, the professional services market in 2024 was predominantly driven by the combined segments of design, research, promotional activities, and consulting services. This grouping represented the largest share of the overall market, accounting for a substantial 74.25% of the total market value. In monetary terms, this translates to an impressive figure of approximately USD 4.5 trillion¹⁰³, underscoring its pivotal role in the global economy (as illustrated in Figure 1-17). Looking

¹⁰³ The Business Research Company, "Professional Services Global Market Opportunities and Strategies to 2034," Researchandmarkets.com, September 2025, <https://www.researchandmarkets.com/reports/5749402/professional-services-global-market>.

ahead, this same segment is anticipated to be the fastest expanding within the professional services market. Projections indicate that it will grow at a robust compound annual growth rate (CAGR) of 5.61% over the forecast period from 2024 to 2029, highlighting sustained demand and ongoing investment in these critical areas.¹⁰⁴

Figure 1-17: Design, Research, Promotional and Consulting Services Global Market Size



Source: The Business Research Company

II. AI's impact on Professional Services

The rapid adoption of generative artificial intelligence (AI) is fundamentally transforming the professional services landscape, shifting it from a traditional model that is heavily reliant on human capital and people-intensive processes into an AI-augmented business that leverages advanced algorithms and machine learning capabilities. This paradigm shift represents a comprehensive overhaul of how professional tasks are approached and executed. The professional services sector has witnessed a remarkable surge in the integration of generative AI technologies, with implementation rates experiencing a dramatic increase from 33% in 2023 to 71% in 2024 (as detailed in Figure 1-18).¹⁰⁵ This exponential growth underscores the sector's recognition of AI's potential to drive efficiency, enhance accuracy, and unlock new value propositions for clients.

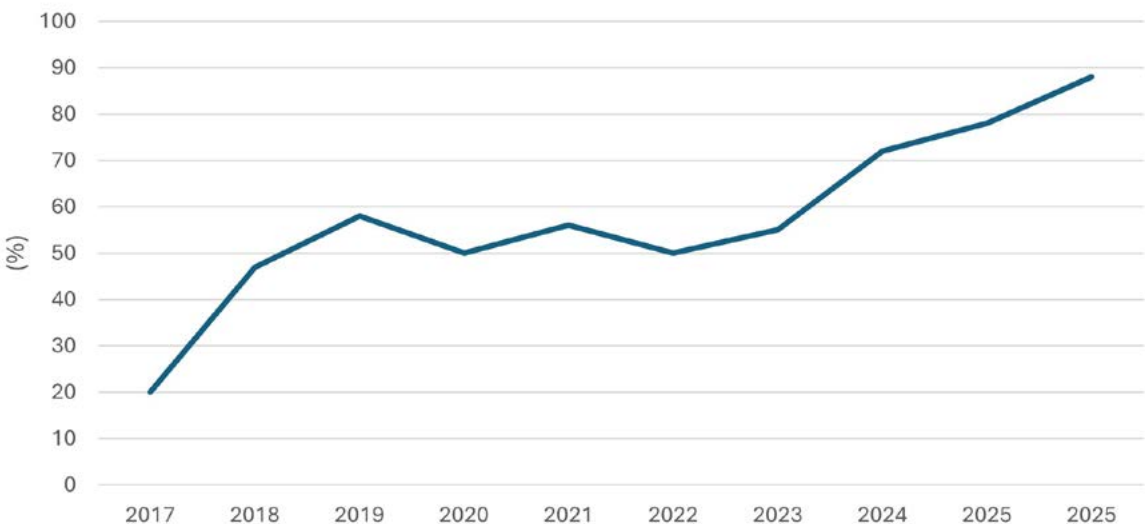
This swift technological integration is directly and profoundly reshaping the revenue structures of firms operating within the professional services domain. Consulting services specifically related to AI are anticipated to constitute approximately 40% of the total revenue generated by the professional services industry in 2026, up from just 20% in 2024, i.e. a near doubling of its share within a relatively

¹⁰⁴ Ibid.

¹⁰⁵ QuantumBlack AI, McKinsey, "The State of AI: How Organizations Are Rewiring to Capture Value," [www.mckinsey.com](https://www.mckinsey.com/capabilities/quantumblack/our-insights/the-state-of-ai/#/), November 2025, <https://www.mckinsey.com/capabilities/quantumblack/our-insights/the-state-of-ai/#/>.

short timeframe.¹⁰⁶ Such a shift highlights the increasing client demand for AI expertise and the strategic pivot of service providers toward high-value, technology-driven offerings that address contemporary business challenges and opportunities.

Figure 1-18: Share of Enterprises Using AI in at Least One Business Function



Source: McKinsey Global Surveys on the state of AI

Furthermore, the ongoing digital transformation of professional services is progressing to what can be described as a “coordination phase”. In this advanced stage, the three critical pillars of technology, talent, and governance no longer function in isolation but operate as a seamlessly integrated and synergistic system. Technology provides tools and platforms, talent offers nuanced understanding and creative direction, and governance ensures ethical compliance and risk management, all working in concert to deliver superior outcomes. This evolutionary progression in technology imposes new and elevated demands on professional roles and competencies (as outlined in Table 1-3). As AI increasingly be delegated for handling not only repetitive, routine, and process-intensive tasks, but also higher level analytical and professional work, the nature of human work evolves correspondingly. Functions that inherently require deep contextual understanding, the complex exercise of ethical judgment, and the assumption of ultimate accountability for decisions and outcomes continue to rely fundamentally on irreplaceable human expertise and professional discernment.

106 BPM. “Professional Services Industry Outlook 2026.” November 25, 2025. <https://www.bpm.com/insights/professional-services-industry-outlook-2026/>.

Table 1-3: Examples of Emerging AI-Driven Roles in Professional Services

Emerging Role	Primary Responsibility	Organizational Impact
AI Governance & Compliance Lead	Establish and enforce regulatory safeguards aligned with the EU's General Data Protection Regulation and emerging AI regulations	A significant majority of firms now prioritize AI governance, strengthening legal resilience and ethical risk controls
Generative AI Solutions Specialist	Adapt and embed large language models (LLMs) into sector-specific operational processes	The rapid diffusion of generative AI has substantially improved workflow efficiency across organizations
AI Data Quality & Ethics Manager	Oversee data selection and refinement to mitigate bias in model training	Improves model reliability and ensures alignment with ethical and regulatory standards, lowering exposure to biased outcomes
Virtual AI Training Systems Designer	Design AI-enabled, immersive platforms for workforce upskilling and remote learning	AI-supported training systems have sharply accelerated employee onboarding and certification timelines
AI-Business Integration Strategist	Translate technical AI capabilities into strategic initiatives aligned with executive priorities	Plays a pivotal role in aligning AI deployment with corporate strategy; increasingly recognized as a core strategic function

Source: *VisonX*

III. Geopolitical Risk and Opportunities for Professional Services

The escalation of geopolitical tensions has emerged as a significant driver of rapid growth in the professional services market, a trend that is clearly illustrated in Table 1-4 and Table 1-5. This market expansion is fundamentally supported by three core forces that are reshaping the global business environment.

First, governments across the world are increasingly securitizing a wide range of policy domains, including trade, technology, and investment. This approach leads to a progressively more fragmented and complex global regulatory landscape, which in turn generates heightened demand for legal and compliance expertise. Second, multinational enterprises, now confronted with unprecedented levels of uncertainty, are increasingly compelled to fundamentally redesign their global operational footprints and overhaul their risk management strategies. This strategic realignment requires sophisticated advisory services to navigate supply chain vulnerabilities and shifting market dynamics. Third, the simultaneous deepening of regional cooperation mechanisms, even amidst global fragmentation, is generating new and specialized demand for professional services. As regional blocs forge new agreements and standards, businesses require expert guidance on cross-border compliance and market

integration strategies. Together, these three forces are propelling the sustained expansion of the professional services sector in an increasingly complex geopolitical environment.

Table 1-4: Professional Service Demands in Supply Chain Restructuring

Supply Chain Restructuring	Implementation Characteristics	Demand for Professional Services
Nearshoring	Shifting production to low-cost countries close to the end market	Geopolitical risk mapping, logistics node design
Reshoring	Returning high-value or sensitive industries to the home country (e.g., semiconductors, pharmaceuticals)	Automated factory design, local regulatory compliance
Regionalization	Establishing self-sufficient supply centers within major consumer markets	Cross-border tax planning, regional supplier diversification

Table 1-5: Geopolitically Driven Growth in Professional Services

Service Segment	Growth Metrics	Key Growth Drivers (Geopolitics)
Risk Analytics and Management	The global market is projected to expand from USD 39.64 billion in 2023 to USD 91.33 billion by 2030, implying a CAGR of 12.7%. ¹⁰⁷	Heightened geopolitical uncertainty has significantly increased demand for risk assessment and scenario analysis.
Management Consulting	The global market size reached USD 510.65 billion in 2025 and is expected to grow to USD 897.44 billion by 2034, corresponding to a CAGR of 6.56%. ¹⁰⁸	Firms increasingly seek strategic advisory services to navigate geopolitical fragmentation and regulatory uncertainty.
Sustainability and ESG Consulting	The global ESG consulting market was valued at USD 12.32 billion in 2024 and is projected to reach USD 30.07 billion by 2030, with a CAGR of 16%. ¹⁰⁹	Energy transition and climate-related geopolitical agendas have accelerated demand for ESG compliance and advisory services.

¹⁰⁷ Grand View Research. "Risk Analytics Market Size, Share & Trends Analysis Report, 2030." Accessed April 14, 2026. <https://www.grandviewresearch.com/industry-analysis/risk-analytics-market-report>.

¹⁰⁸ Custom Market Insights, "Global Management Consulting Market 2025–2034," Custom Market Insights, March 2025, <https://www.custommarketinsights.com/report/management-consulting-market/>.

¹⁰⁹ Kim Knicle and Priyanka Bawa, "Market Size and Forecast: Sustainability Consulting 2024-2030 (Global)," Verdantix Venture, October 2025, <https://www.verdantix.com/venture/report/market-size-and-forecast--sustainability-consulting-2024-2030-global>.

Trade and Supply Chain Advisory	The Customs and trade compliance services market was estimated at USD 10.5 billion in 2024, with tariff and trade consulting services growing at a CAGR of 4.92%. ¹¹⁰	Escalating trade frictions and tariff adjustments have intensified corporate demand for supply chain reconfiguration and trade compliance advice.
Legal and Compliance Services	The global legal services market is expected to grow at a CAGR of approximately 4.6%. ¹¹¹	Export controls, sanctions regimes, and data localization requirements driven by geopolitical tensions have expanded demand for comprehensive legal and compliance services.

1.5 Implications for Hong Kong

Geoeconomic shifts, national policy changes, and the revival of great power competition over the past decade have together put structural pressure on the post-war global economic and trade system, pushing it toward a more fragmented, politicized, and regionally differentiated order. The era of a single, unified global market is moving toward a world of distinct economic blocs, where the “price of fragmentation” is high and the traditional logic of comparative advantage is increasingly constrained by strategic alignment.

For Hong Kong—a city whose prosperity has long rested on global openness, rules-based trade, and cross-system connectivity—this evolving landscape reshapes both its constraints and its options. Yet, against this backdrop, Hong Kong’s resilience stems from a combination of structural advantages that continue to differentiate the city in the global economy. Hong Kong is a world metropolitan, whose competitiveness today rests on enduring strengths: under “One Country, Two Systems,” it benefits from a unique institutional framework and a simple, low-tax regime, while its deeply integrated international financial markets and globally connected talent together foster innovation. These interconnected advantages not only reinforce Hong Kong’s adaptability in a shifting global order, but also sustain its enduring role as a bridge between China and the world.

To navigate this new era, Hong Kong will need to move from its traditional role to an active “super value-adder”, which requires identifying and capturing the dividends of this fragmentation by deepening ties with the Global South while continuing to build links with the developed world, and supporting the

¹¹⁰ Rahul Gotadki, “Customs and Trade Compliance Services Market,” Marketresearchfuture.com, Market Research Future, 2026. <http://marketresearchfuture.com/reports/customs-and-trade-compliance-services-market-66428>.

¹¹¹ Polaris Market Research & Consulting LLP, “Global Legal Services Market Is Expected to Hit USD 1,470.35 Billion by 2032,” GlobeNewswire News Room, GlobeNewswire, May 21, 2024. <https://www.globenewswire.com/news-release/2024/05/21/2885671/0/en/Global-Legal-Services-Market-is-Expected-to-Hit-USD-1-470-35-Billion-by-2032-With-a-CAGR-of-4-6-From-2024-to-2032-Report-by-Polaris-Market-Research-PMR.html>.

strategic overseas expansion of Chinese Mainland enterprises. Hong Kong will also need to integrate into and actively assist China's national agenda by deepening financial connectivity, developing high-value maritime and logistics services, empowering trade and the headquarters economy to serve as a supply chain hub, and deeply embedding itself into the Greater Bay Area's innovation landscape to support the nation's modernized industrial system and technological self-reliance.

1.5.1 Hong Kong During Globalization: The “Centripetal” Era and Traditional Intermediation

To fully grasp the magnitude of Hong Kong's required transformation, it is essential first to analyze the city's role during the “Centripetal Era” of hyper-globalization (1980–2010). During this golden age, the global order was shaped by a reinforcing cycle between economic efficiency and geopolitical stability. Under the WTO's rules-based multilateral trading system and guided by the MFN principle, capital and production flowed unimpeded toward the most efficient locations globally, with little political friction.

Within this architecture, China's rapid economic ascent transformed global production; its share of global GDP rose from 5.5% in 1970 to 18.4% by 2022. Throughout this integration process, Hong Kong thrived as a highly efficient intermediary. Under the “One Country, Two Systems” principle, Hong Kong maintained its role and high ranking in global trade after returning to China in 1997.¹¹² Functioning as a secure and trusted member of the Global North's economic architecture, including membership in its own right in the WTO, Hong Kong provided a highly predictable, rules-based environment premised upon its unique institutional advantages: a free market, small government, an independent common law system, a low tax regime, and the automatic, unrestricted flow of trade and capital.

Its primary macroeconomic function was simple but highly lucrative global intermediation: funneling FDI from developed Western nations into the rapidly industrializing Chinese Mainland, and subsequently channeling Chinese manufactured exports back to Western consumer markets, directly or indirectly. This model was successful when the primary constraint on growth was pure economic competitiveness. However, the global economy has since entered the “Centrifugal Era” (2010 onwards), where deep global economic co-dependence is increasingly viewed by Western policymakers not as a source of stability, but as a strategic vulnerability. The traditional model of passive, frictionless East-West intermediation is less tenable and no longer sufficient.

¹¹² Under “One Country, Two Systems”, Hong Kong is part of China but retains its own systems and way of life. The Basic Law—Hong Kong's constitutional document—gives legal effect to the “One Country, Two Systems” policy. The Basic Law came into effect on 1 July 1997 with the establishment of the Hong Kong Special Administrative Region of the People's Republic of China (HKSAR).

1.5.2 Finding the Dividends of Reglobalization: Pivoting Toward the Global South Market

Rather than treating deglobalization as an existential threat, Hong Kong should try to capture the opportunities in fragmentation by reorienting its strategic focus toward the rising Global South. The global trading system has undergone a one-sided break, first under “Trump 1.0” (2017–2021) and then entrenched under “Trump 2.0” administration. The US has made a sharp break with nearly 80 years of free-trade economic policy, raising its average effective tariff rate from 2.5 % to an estimated 27 % as of April 2025—the highest level in more than a century, before lowering it to around 10% as of March 2026 after US Supreme Court struck down Trump’s tariffs imposed under the International Emergency Economic Powers Act (IEEPA).¹¹³

Faced with these ongoing and unpredictable barriers, global enterprises are rapidly shifting from the long-standing export model of making in China and shipping direct to the US to **China+1** (supply-side diversification to countries like Vietnam and Mexico) and **US+1** (demand-side diversification to reduce reliance on US consumers) strategies. This has triggered a massive reallocation of global trade. Since 2018, the US’s share in China’s total direct exports declined from 19.2% to 14.7% in 2024, while ASEAN’s share rose from 12.8% to 16.4%, surpassing the US as China’s largest export destination.

Consequently, the **Global South**—encompassing South and Southeast Asia, Africa, the Middle East, Eastern Europe, Central Asia, and Latin America—has emerged as the new frontier for global growth. The shift shows up clearly in the data:

- **Trade Volume:** Between 2005 and 2024, China’s total exports to the Global South reached over USD 1.6 trillion, at a growth rate far exceeding its plateauing trade with the US and Western Europe.
- **Economic Scale:** The BRICS economies have seen their share of global GDP (in purchasing power parity) rise from 21 % in 2000 to over 35 % by 2024, overtaking the G7 around 2018.
- **FDI Inflows:** ASEAN has significantly strengthened its position in the global investment landscape, with its share of global FDI rising from 10% in 2018 to 15% in 2024, consistently exceeding USD 200 billion annually since 2021.
- **Internal Circulation:** South-South merchandise exports have grown faster than both global trade and South-North trade flows, increasing its systematic significance.

For Hong Kong, the implication is clear: the city must deepen its relationships with this diverse set of nations. By expanding its network of Free Trade Agreements (FTAs) and Investment Promotion and Protection Agreements—including its application to join the RCEP, the world’s largest free trade agreement—with regions like the Middle East (e.g., ongoing negotiations with Qatar, Saudi Arabia, and Egypt) and ASEAN, Hong Kong can firmly anchor itself as the premier hub for this new axis of global commerce, moving beyond its historical alignment with and reliance on the Global North.

¹¹³ Wharton Budget Model (PWBm). “Effective Tariff Rates and Revenues (Updated March 16, 2026).” March 16, 2026. <https://budgetmodel.wharton.upenn.edu/p/2026-03-16-effective-tariff-rates-and-revenues-updated-march-16-2026/>.

1.5.3 Macroeconomic Challenges: Utilizing Hong Kong's Professional Services to Help China “Go Global,” and Integration into the National Agenda

At the macroeconomic level, China is navigating severe internal and external structural challenges. Internally, persistent deflationary pressures, declining Producer Price Indices (PPI), and increased manufacturing capacity have created a vicious cycle of “involution”—depressed prices and squeezed corporate profits. In sectors targeted by industrial policies, such as EVs and photovoltaics (PV), production capacity has outpaced domestic demand. Externally, the traditional export-led clearing mechanism is failing. Chinese exports face a surge in anti-dumping duties, countervailing measures, and stringent export controls that make relying on pure cross-border shipment politically and economically risky.

In response, Chinese enterprises are executing a fundamental strategic shift: transitioning from pure trade exports to a model of **global production sharing**. This involves relocating downstream production, assembly, and supply chains to overseas markets to bypass tariffs, mitigate geopolitical risks, and create local value-added in host countries. This shift requires Hong Kong to accelerate its evolution from the “super connector” it has been for the past decade or so into its expanding role as a “super value-adder.”

I. Hong Kong as the “Super Value-Adder” in Professional Services

As Mainland enterprises establish multi-node global production networks, the complexity of cross-border operations generates immense demand for sophisticated professional services. The global professional services market, currently valued at USD 4.5 trillion, is continuing to expand due to geopolitical risk and supply chain restructuring. Hong Kong remains perfectly positioned to serve as the central enabler for this outward expansion across four critical dimensions.

1. Trade Finance and Digital Supply Chain Orchestration: Trade finance is the “financial backbone” connecting the Flow of Goods, Funds, Information, and Human Resources. However, Hong Kong faces an annual trade finance gap estimated between HKD 311.2 billion and HKD 519.1 billion, highlighting massive unmet demand among enterprises expanding overseas. To address this, Hong Kong is pioneering the development of digital trade infrastructure. The Hong Kong Monetary Authority (HKMA) launched its Commercial Data Interchange (CDI) initiative in 2022 and is advancing Project Cargo^x, which leverages cargo data to reduce credit costs and processing time for banks and SMEs, enhancing trade finance in Hong Kong.¹¹⁴ Furthermore, through the HKMA’s Project Ensemble, Hong Kong is exploring the use of electronic Bills of Lading (eBL) to enable seamless, paperless cross-border settlement, providing the crucial multi-layered financial solutions firms need when navigating various markets.

¹¹⁴ HKMA, “HKMA Announces the Official Launch of Commercial Data Interchange,” Hong Kong Monetary Authority, October 24, 2022, <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2022/10/20221024-3/>.

2. International Certification, Testing, and IP Protection: To overcome technical barriers and localization mandates, Mainland firms utilize Hong Kong as a validation and compliance hub. Hong Kong's testing and certification bodies (like Hong Kong Council for Testing and Certification and Office of the Communications Authority) provide test reports widely recognized by the EU, ASEAN, and Middle Eastern markets as direct entry credentials. For example, tech companies like Anker and Yunji Technology have successfully leveraged Hong Kong to adapt their products to Western standards (e.g., EU CE and US FCC certifications) before global rollout. Concurrently, the Hong Kong Intellectual Property Department offers robust patent protection to safeguard the brand rights of internationalizing firms.

3. Legal, Compliance, and Risk Management: The securitization of global trade has fragmented the regulatory environment, driving a 12.7% CAGR in global risk analytics demand and a 4.6% CAGR in legal services. Hong Kong provides critical institutional safeguards. Its common law system and world-class arbitration services (e.g., the Hong Kong International Arbitration Centre, HKIAC) offer high predictability for international contracts and dispute resolution. Additionally, Hong Kong is innovating specialized risk mitigation tools, such as the Hong Kong Maritime War Risk Insurance Pool, to shield supply chains from geopolitical conflicts and related premium surges.

4. The “Dual-Headquarters” Center: For Mainland enterprises, establishing a regional headquarters in Hong Kong alongside a domestic base is the optimal strategy for mitigating risk while maintaining agility. Between 2014 and 2024, the proportion of Mainland firms in the total number of regional headquarters set up in Hong Kong surged from 8.6% to 22.3%. Under this model, companies keep core R&D and production in the Mainland, while utilizing Hong Kong for three primary functions:

- **Corporate Treasury Center:** Leveraging free capital flows and foreign exchange markets for global cash management and risk hedging.
- **Human Resources Service Center:** Attracting top-tier international talent to drive global business development.
- **Going Global Service Center:** Providing one-stop services for expansion into the Global South. This is institutionally supported by the Hong Kong Special Administrative Region (HKSAR) Government's Task Force on Supporting Mainland Enterprises in Going Global (GoGlobal Task Force), launched in October 2025, which coordinates resources across InvestHK, Hong Kong Trade Development Council (HKTDC) and Office for Attracting Strategic Enterprises (OASES) to facilitate partner matching, compliance advice, and market entry.

II. Hong Kong's Participation in the National Agenda

Beyond providing immediate professional services to Chinese Mainland enterprises, Hong Kong's macroeconomic transition is naturally conducive to alignment with the broader strategic objectives outlined in the nation's 15th Five-Year Plan, for the period 2026-2030. The Central Government positions Hong Kong as a critical bridge that is “backed by the motherland while connecting the world”, tasked with supporting national industrial modernization and high-level opening-up across several distinct pillars.

1. Advancing RMB Internationalization. As the Global South increasingly seeks non-dollar settlement alternatives to mitigate systemic geopolitical risks, advancing the internationalization of the RMB has become a core national priority. To support the wider use of the RMB in the real economy, the HKMA doubled its RMB Business Facility to RMB 200 billion in early 2026. This provides banks with lower-cost funding of up to one year to support their offering of RMB financing to corporate clients, including those of their overseas intragroup banking entities. Furthermore, Hong Kong is expanding its Dim Sum bond market, which exceeded 1.1 trillion yuan in issuance in 2025. It is also strengthening its role in the Cross-Border Interbank Payment System (CIPS). To complement this alternative financial architecture, Hong Kong is also building a premier international gold trading center; following a 2026 agreement with the Shanghai Gold Exchange, the city aims to launch a Central Gold Clearing System and reach a 2,000-tonne gold storage capacity within three years.

2. Advancing High-Value Maritime Services and Green Transformation. Aligning with the national “Dual Carbon” strategy and the 15th Five-Year Plan (2021-2025) for a Modern Comprehensive Transportation System, Hong Kong is transforming its maritime sector from a traditional cargo transshipment model into a high-value, green shipping hub. The HKSAR government aims to supply over 200,000 tonnes of green marine fuels (such as LNG and green methanol) annually by 2030. Through strategic collaboration with Mainland ports—such as the January 2026 memorandum signed with Dalian—Hong Kong will utilize its international trade and financial platforms to facilitate the global export and settlement of Mainland-produced green fuels. Additionally, the city is constructing a comprehensive commodities trading ecosystem, bolstered by the recent approval by the London Metal Exchange (LME) of applications to designate three more warehouses in Yuen Long as approved warehouses, cementing Hong Kong’s role as a key Asian delivery and pricing hub for strategic materials.¹¹⁵

3. Embedding into the GBA Innovation Landscape for Technological Self-Reliance. A critical mandate for Hong Kong under the “One Country, Two Systems” framework to drive the high-quality development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA)¹¹⁶ and the 15th Five-Year Plan is to integrate deeply into the GBA¹¹⁷ International Innovation and Technology Hub, supporting the nation in achieving breakthroughs in core technologies. Hong Kong is tasked with driving a highly effective “Finance–Industry–Technology” cycle, utilizing its deep capital markets to fund applied research in strategic fields like AI, life and health sciences, and new materials. Recent structural investments reflect this integration: the HKSAR government allocated HKD 3 billion for an Artificial Intelligence Subsidy Scheme to leverage Cyberport’s Artificial Intelligence Supercomputing Centre and established the Hong Kong Microelectronics Research and Development Institute to focus specifically on third-generation semiconductor research in synergy with the GBA’s industrial chain.

¹¹⁵ Hong Kong’s Information Services Department, “LME Approves 3 Warehouses,” news.gov.hk, September 22, 2025, https://www.news.gov.hk/eng/2025/09/20250922/20250922_174119_628.html?type=ticker.

¹¹⁶ 2022 Foundation, Building New Competitiveness for Hong Kong’s New Era of Prosperity - Greater Bay Area Study Phase III Report, August 2023, https://www.2022foundation.com/images/GBA3_Report_ENG.pdf; the Guangdong-Hong Kong-Macao Greater Bay Area is an economic region comprising nine cities in China’s Pearl River Delta (PRD) (Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen, Zhaoqing) plus the two Special Administrative Regions (SARs) of Hong Kong and Macao. In 2019, the Central Government officially launched the development of the Guangdong–Hong Kong–Macao Greater Bay Area by releasing the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area.

¹¹⁷ A critical point is for Hong Kong to play a leading role in China’s institutional opening-up while strengthening its distinctive assets under the “One Country, Two Systems” framework to drive the GBA’s high-quality development. (2022 Foundation, Building New Competitiveness for Hong Kong’s New Era of Prosperity - Greater Bay Area Study Phase III Report, August 2023, https://www.2022foundation.com/images/GBA3_Report_ENG.pdf.)

4. Building a Global Talent Hub. Competition for global technology and industry dominance is fundamentally a competition for human capital. To help sustain the nation’s modernized industrial system, Hong Kong is executing systematic talent attraction strategies that serve the broader national interest. By leveraging its highly internationalized business environment, common law system, and world-class academic institutions (featuring five universities in the global top 100), Hong Kong acts as the nation’s premier magnet for top-tier international professionals. Initiatives like the Top Talent Pass Scheme (TTPS) had brought over 90,000 high-caliber professionals to the city by mid-2025, with talent heavily concentrated in the high-value finance, innovation, and technology sectors necessary to propel the next wave of the country’s economic expansion.

1.5.4 Geographic Reallocation: “Flying Geese” 2.0 and Hong Kong’s “Two Ends” Advantages

In the past, the era of borderless hyper-globalization led to a major spatial reallocation of production geographically. Amid recent geopolitical shifts, global supply chains have become regionalized into three distinct, macro-level trade blocs: the Americas (US-led and anchored by nearshoring in Mexico), EMEA (EU-centered, utilizing Eastern Europe and Turkey as manufacturing corridors), and Asia (increasingly centered on China, India, and ASEAN). As physical manufacturing capacity redistributes across these blocs, Hong Kong must strategically reposition itself structurally, transitioning from a traditional entrepot to a core global supply chain management center.

I. The Spatial Shift and the “Flying Geese 2.0” Paradigm. Within the Asian bloc and the broader Global South, the spatial realignment of production has given rise to the “Flying Geese Paradigm 2.0.” As earlier described, the original 20th-century model featured Japan as the “lead goose,” driving a stepwise, hierarchical relocation of labor-intensive manufacturing to developing Asian nations. In contrast, the 2.0 paradigm is characterized by complex, network-based coordination where China acts as the central hub.

Rather than a simple industrial exodus, Chinese firms are exporting advanced capital, intermediate inputs, green technology, and digital supply chains to construct regional ecosystems in ASEAN, the Middle East, and Latin America. Recipient countries are not merely absorbing low-end assembly jobs but are being integrated directly into sophisticated digital and high-tech supply chains. The data reflects this regional shift: Chinese outward direct investment (ODI) into ASEAN has surged, averaging approximately USD 10 billion annually over the past three years, with high-tech manufacturing dominating the investment profile. Consequently, ASEAN’s share of global FDI has risen to 15%, establishing the region as a key node for global semiconductor packaging and EV supply chains.

II. Hong Kong’s Spatial Repositioning: The “Two Ends” Advantage. As the physical nodes of the global supply chain disperse to emerging economies like Vietnam, Thailand, and Mexico, the traditional “Front Shop, Back Factory” model that defined Hong Kong’s post-80s industrialization in relation to the manufacturing powerhouse of southern China, is obsolete. To maintain its indispensability in the Flying Geese 2.0 paradigm, Hong Kong must firmly anchor itself at the high-value “Two Ends”

of these newly regionalized global supply chains. These are the upstream and downstream extremities where intangible assets and specialized knowledge generate the highest margins:

- **The Upstream End (Innovation, Design and Incubation):** Hong Kong must serve as the brain of the supply chain network. This involves leveraging its world-class universities and deep capital markets to focus on basic science innovation, applied R&D, product design, and new financial services. Despite the contraction of Hong Kong’s traditional manufacturing sector (now accounting for just 1% of GDP), the value-added of its new industries—driven by tech incubators like the Hong Kong Science and Technology Park and Cyberport—has grown nearly fourfold from 2020 to 2023, reaching HKD 40.2 billion.
- **The Downstream End (Commercialization and Branding):** On the market-facing side, Hong Kong must elevate its competitive advantages in international marketing, corporate brand building, and IP protection and trading. As Mainland enterprises establish production bases in the Global South, they require a trusted, internationalized platform to manage their global brand identity and safeguard their patents. Hong Kong, which consistently ranks among the top globally for its IP regulatory environment, is ideally positioned to act as this downstream commercialization hub.¹¹⁸

III. Structuring the Global Supply Chain Management Hub. By controlling these “Two Ends,” Hong Kong avoids direct competition with the large-scale, land- and labor-intensive manufacturing sectors of the Global South or the Mainland. Instead, it functions as a “central command tower” for orchestrating production supply chains in these diverse geographies.¹¹⁹

This, in turn, requires Hong Kong to keep evolving its new industrialization strategy. The city is cultivating a unique ecosystem capable of supporting “Hidden Champions”—highly specialized, innovative enterprises—by providing an environment where technological blueprints from the GBA are transformed into globally recognized products. Through initiatives like the Hong Kong-Shenzhen Innovation and Technology Park (HSITP) and specialized Advanced Manufacturing Centres (InnoParks), Hong Kong is building a bridge that connects the Mainland’s robust industrial capacity with the diverse, fragmented consumer markets of the Global South’s emerging economies.

In summary, as the global economic map is redrawn into regionalized blocs, Hong Kong’s strategy must rely on more than the physical shipment and transshipment of goods. By dominating the “Two Ends” of the supply chain—intellectual generation upstream and commercialization downstream—Hong Kong will seamlessly embed itself into “Flying Geese 2.0” networks, securing its role as the premier global supply chain management center for a multipolar world.

Chapter 3 will provide more detail on the repositioning strategies for Hong Kong outlined in this subsection.

118 In 2025, Hong Kong ranked 2nd in market sophistication, 8th in institutions, 23rd in business sophistication, and 30th in knowledge and technology output in IP-related rankings. (World Intellectual Property Organization, “Hong Kong, China Ranking in the Global Innovation Index 2025,” Wipo.int, 2025, <https://www.wipo.int/gii-ranking/en/hong-kong-china>.)

119 2022 Foundation, Building New Competitiveness for Hong Kong’s New Era of Prosperity - Greater Bay Area Study Phase III Report, August 2023, https://www.2022foundation.com/images/GBA3_Report_ENG.pdf.

Chapter 2: The Functions and Roles of Hong Kong in the New Trend of Chinese Enterprises Going Global

The international expansion of Chinese enterprises has evolved from a strategic choice into a structural imperative, driven by both domestic economic pressures and shifting global dynamics. Globally, rising protectionism and geopolitical tensions—most notably from the US—have reshaped the environment for Chinese exporters. High tariffs on strategic sectors and non-tariff measures have reduced the viability of direct exports.

This chapter discusses the causes and implications of Chinese companies going global by expanding overseas into new production networks or consumer markets through various outward direct investment (ODI) models. It will end by analyzing the specific roles Hong Kong, both its public and private sectors, can play in facilitating this Chinese enterprises’ “going global” macro trend.

2.1 Why Chinese Firms are Going Global

Chinese firms’ global expansion has followed a phased trajectory with deepening scope over time.¹²⁰ From 2001 to 2008, following China’s accession to the World Trade Organization (WTO), firms began to integrate into global markets under the Chinese government’s “Going Global” strategy. Between 2009 and 2018, as corporate capabilities strengthened, companies accelerated their internationalization through cross-border mergers and acquisitions (M&As). From 2019 to 2021, the rapid rise of e-commerce enabled firms to expand overseas by building global warehousing and logistics networks. In 2022–2023, small and medium-sized enterprises (SMEs) emerged as key drivers of outbound expansion, leveraging technological improvements and cost competitiveness to tap into new markets while exporting China’s industrial models abroad.

Since 2024, going global has evolved from a firm-level strategy into a broader structural trend: traditional manufacturing has shifted toward Southeast Asia, infrastructure and technology have expanded into the Middle East, and new energy and advanced manufacturing have entered Europe, collectively reflecting a more diversified and systematized global footprint.

Chinese firms began their attempts at going global in the 2000s. The driver of going abroad was relatively simple and clear: rising costs of production, particularly related to labor and land, and policy-incurred expenses such as environmental compliance costs, had prompted Chinese firms to relocate their production base. According to Gordon Hanson, the primary drivers of these rising costs are a slowdown and reversal in the growth of China’s labor force, combined with a rapid increase in college attainment among the population since 2001.¹²¹ These demographic and educational shifts have

¹²⁰ The following content is summarized based on McKinsey Greater China’s report “Going Global: Strategic Choices for Chinese Enterprises Amid Global Uncertainty.”

¹²¹ Hanson, Gordon. Who Will Fill China’s Shoes? The Global Evolution of Labor-Intensive Manufacturing. No. W28313. National Bureau of Economic Research, 2020. <https://doi.org/10.3386/w28313>.

placed significant upward pressure on the relative wages of less-educated workers, which has eroded China's long-standing comparative advantage in labor-intensive goods such as apparel, textiles, and footwear. Furthermore, wages and land prices in China's coastal provinces, where these industries have historically clustered, have exceeded those in the country's interior. In response to these soaring production costs, Chinese enterprises were "going out" by directing their investments into other emerging economies with lower labor costs, such as ASEAN countries like Vietnam and Indonesia, and Eastern European nations like Poland and Hungary.

Over time, intense competition enabled Chinese firms to accumulate substantial technological capabilities, managerial expertise, and the financial resources needed for international mergers and acquisitions. These acquisitions allowed Chinese enterprises to gain access to intellectual property (IP) and foreign markets that had previously been difficult to enter. Lenovo's acquisition of IBM's personal computing division and later Motorola Mobility are prominent examples from this period. These deals not only expanded Lenovo's presence in the US and global markets, but also gave it access to intellectual property, local networks, and managerial expertise.¹²²

A similar strategy was pursued by the Chinese automaker Geely, which acquired Volvo Cars from Ford after the 2008 financial crisis. Volvo's engineers, experience, and technical talent became important assets for Geely, especially through the establishment of China Euro Vehicle Technology AB (now Zeekr Technology Europe). Geely and Volvo jointly developed new vehicle platforms that bypassed earlier IP constraints under Ford, and the technologies and standards developed through this collaboration contributed significantly to Geely Group's EV transition.¹²³ As China's economy reached a more advanced stage, firms entered a new phase of large-scale international expansion. The current wave of outward investment is better understood as a natural extension of firm-level productivity growth, increasingly involving not only the export of products, but also the transfer of technology, management practices, and business models.

The COVID-19 pandemic caused severe disruptions to physical services and in-person commercial transactions around the world, as lockdowns, travel restrictions, and social-distancing measures sharply constrained face-to-face economic activities. At the same time, these disruptions accelerated the shift toward digital commerce by pushing both firms and consumers to rely more heavily on online platforms for cross-border transactions. As traditional channels of trade became more difficult to maintain, cross-border e-commerce emerged as an important alternative for the exchange of goods and certain services, enabling businesses to reach foreign consumers despite restrictions on movement and physical contact.

Compared with earlier stages of global expansion, which were led by self-sufficient giant corporations, the wave of "going out" since the 2018 China-US trade war began has been characterized by the increased participation of Chinese micro, small and medium enterprises (MSMEs) with no prior

122 Bjarin, Tim. "The 20th Anniversary of Lenovo-IBM Deal That Reshaped the PC Industry." *Forbes*, May 6, 2025. <https://www.forbes.com/sites/timbjarin/2025/05/06/the-20th-anniversary-of-lenovo-ibm-deal-that-reshaped-the-pc-industry/>.

123 Soderpalm, Helena. "Volvo Rolls Out Cars of Future Built on Common Geely Platform." *Reuters*, May 18, 2016. <https://finance.yahoo.com/news/volvo-rolls-cars-future-built-163117444.html>.

international exposure. These firms have adapted to the digital transformation and adopted new business strategies by establishing a direct presence on platforms such as Amazon, Temu, TikTok, and Alibaba, which have enabled their products to reach a much broader global consumer base at lower cost and with fewer traditional barriers to market entry. This wave of digital expansion also encouraged greater attention to branding and direct-to-consumer strategies among Chinese firms. Companies such as Shein, for example, have demonstrated that Chinese enterprises are no longer relying solely on low-cost manufacturing or contract manufacturing, but are increasingly seeking to build recognizable brands, cultivate consumer loyalty, and compete more directly in overseas retail markets.

This wave of outward expansion is not unique to China. Earlier rounds of overseas expansion were also visible in other East Asian economies, especially Japan and South Korea, whose firms built regional production and distribution networks across Asia through manufacturing investment and cross-border supply-chain integration.¹²⁴ What distinguishes the Chinese case is less the existence of overseas expansion itself than its scale and speed. China's ODI stock reached about USD 3.12 trillion in 2024, compared with roughly USD 2.15 trillion for Japan and USD 0.76 trillion for South Korea, indicating that Chinese firms now operate abroad on a substantially larger aggregate scale than their Japanese and Korean counterparts.¹²⁵

At the same time, Chinese firms have developed strong capabilities in digital commerce, supply-chain coordination, and trade logistics. The World Bank's 2023 Logistics Performance Index placed China 19th out of 139 economies, suggesting that its logistics system is internationally competitive.¹²⁶ Recent research on China's cross-border e-commerce also finds that the expansion of cross-border e-commerce pilot zones has promoted firm-level digital innovation, digital transformation, and supply-chain upgrading.¹²⁷ In this context, and against the backdrop of weaker domestic demand and intensifying competition at home, overseas expansion has become an increasingly important channel through which Chinese firms seek new markets and monetize their efficiency gains globally.

2.1.1 The “Involution” Imperative

One reason for Chinese firms to go global is that their profit margin has shrunk, exacerbated by China's persistent deflationary pressure. Its official Producer Price Index (PPI) has been declining for almost three years (see Figure 2-1). The consumer inflation measured by the Consumer Price Index (CPI) has stayed below 1% for almost the same period (see Figure 2-2), accompanied by low-capacity utilization in the manufacturing sector. These indicators point to a sustained imbalance in which

124 Buckley, Peter J., Nigel Driffield, and Jae-Yeon Kim. “The Role of Outward FDI in Creating Korean Global Factories.” *Management International Review* 62, no. 1: 27–52, 2022. <https://doi.org/10.1007/s11575-022-00462-5>.

Ando, Mitsuyo, and Fukunari Kimura. “The Formation of International Production and Distribution Networks in East Asia.” In *International Trade in East Asia*, edited by Takatoshi Itō and Andrew Rose. NBER-East Asia Seminar on Economics, v. 14. NBER-East Asia Seminar on Economics. University of Chicago Press, 2005.

125 UNCTAD. *World Investment Report 2025: International Investment in the Digital Economy - Annex Tables* (p. 257-258). Geneva: United Nations Conference on Trade and Development, 2025. https://unctad.org/system/files/official-document/wir2025_en.pdf.

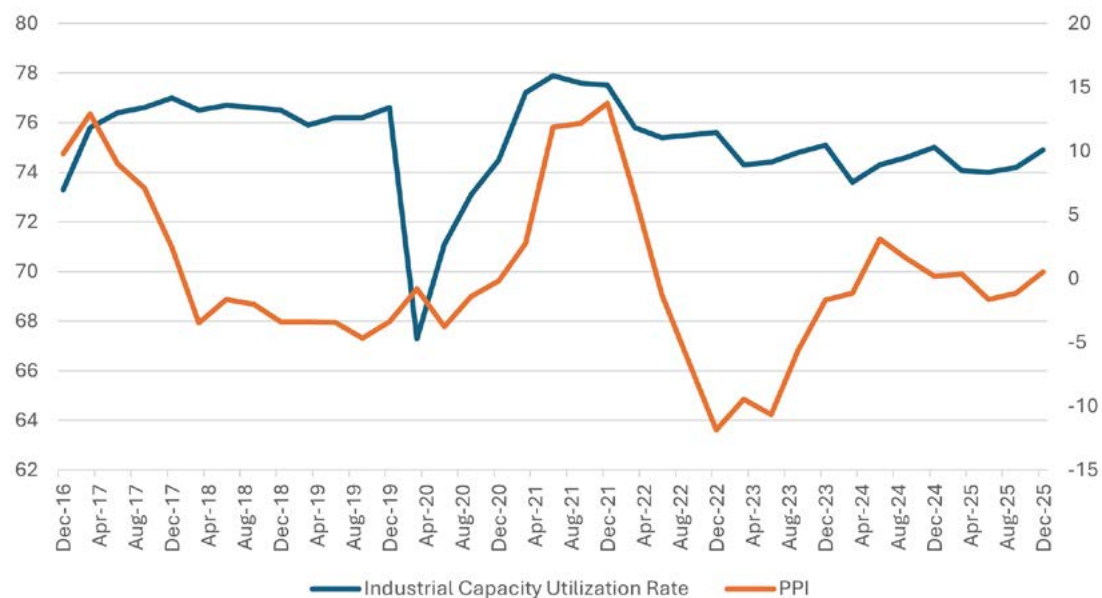
126 World Bank. *Logistics Performance Index 2023*. Washington, DC: World Bank, 2023. <https://lpi.worldbank.org/en/home>.

127 Chen, Kejie, Shiwen Luo, and David Yoon Kin Tong. “Cross Border E-Commerce Development and Enterprise Digital Technology Innovation—Empirical Evidence from Listed Companies in China.” *Heliyon* 10, no. 15: e34744, 2024. <https://doi.org/10.1016/j.heliyon.2024.e34744>.

aggregate supply exceeds aggregate demand. The weak market demand is due partly to a downward adjustment in China's property sector, and partly to its macroeconomic adjustments after years of COVID-19 pandemic restrictions and targeted industrial policies. Firms began to compete through aggressive price cutting. This combination of depressed prices and increased capacity is sometimes referred to as "involution."

Involution operates through a vicious self-reinforcing cycle: "profit compression → declining employment and income → further supply-demand imbalance." As intensified price competition erodes corporate profits, companies are reluctant to increase investment or employment. To reduce costs, they have no choice but to curb wage growth and performance-based compensation, weakening household income growth. Pressure on employment and income, in turn, undermines consumer confidence, constraining demand. Unless supply capacity contracts in tandem, the involution cycle continues.

Figure 2-1: China's Industrial Capacity Utilization Rate (%) and PPI (% , year-on-year change)



Source: National Bureau of Statistics of China

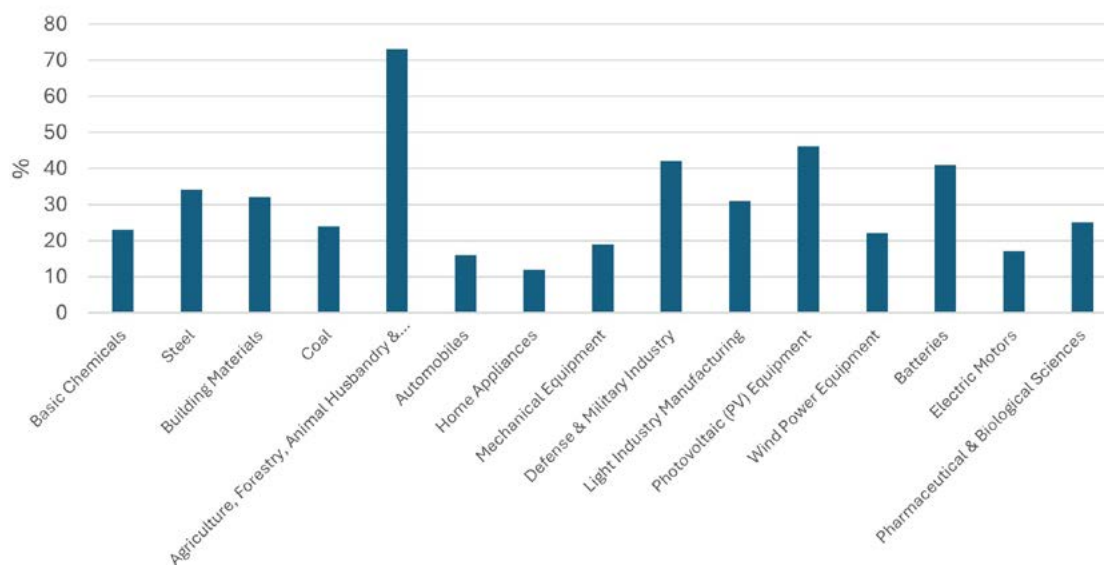
Figure 2-2: China's CPI (% , year-on-year change)



Source: National Bureau of Statistics of China

In China's emerging sectors, policy-induced firm entry has led to rapid expansion in targeted industries, compressing profit margins at a rate faster than expected, despite significant progress in technology, supported by increasing research and development (R&D). In traditional sectors, companies are struggling to maintain market share amid intensifying competition in increasingly homogeneous product segments that face slowing demand. Notably, as Figure 2-3 shows, the share of loss-making firms is over 10% in each industry listed, with the average share of loss-making firms at around 30%. Not counting agriculture and the defense industry, the new energy (photovoltaic equipment, wind power equipment, electric motors, and batteries) sector displays the highest proportion of loss-making companies.

Figure 2-3: Share of Loss-making Enterprises by Industry (2024)



Source: Wind

2.1.2 Tariffs and Trade Barriers

Another reason for Chinese firms to go global is external geopolitical pressure—most notably tariffs, sanctions, and export bans imposed by the US government on Chinese enterprises. These have significantly increased the cost for Chinese companies seeking to serve the US market, whether through direct exports or ODI. In addition, there has been growing uncertainty surrounding US trade and economic policies, especially since Donald Trump's return to the presidency in 2025.

In response, Chinese firms have accelerated their overseas expansion after the COVID-19. As a result, China's ODI grew rapidly between 2020 and 2025, and in 2023 surpassed its inward foreign direct investment (FDI) for the first time since the early 1990s. The following section examines emerging trends in China's ODI and provides further details regarding beneficiary economies, with reference to Chapter 1's "Flying Geese" Paradigm 2.0.

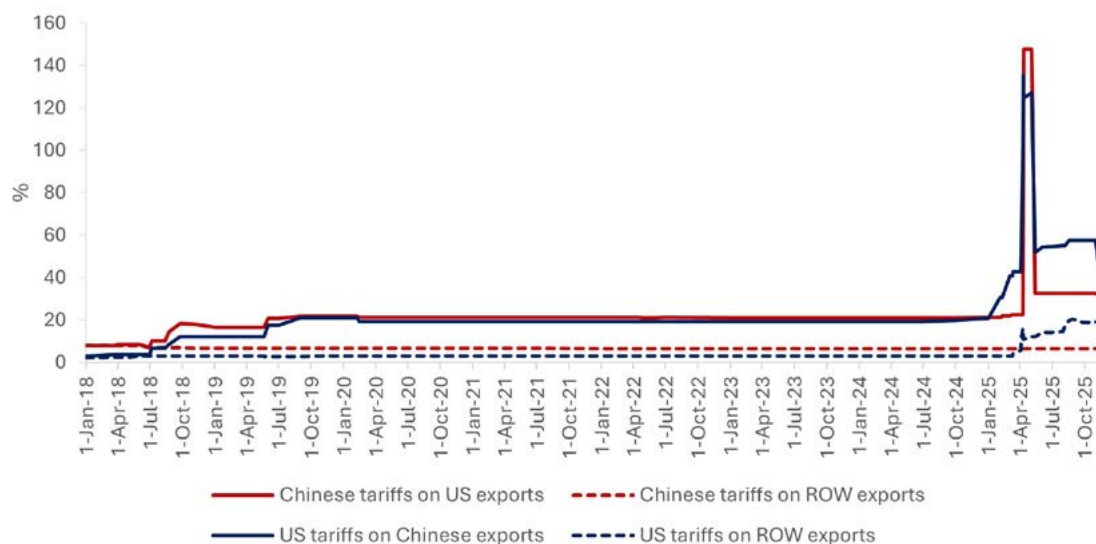
I. Tariff Barriers

In the most recent history of tariffs and their impact on global trade, the US stands out for making dramatic policy shifts. Having been the primary architect of the post-World War II (WWII) liberal trading order, it is now its most prominent disruptor. At the same time, the US remains the most important trading partner for many economies, making its tariff policy shift highly consequential for global trade.

As outlined in Chapter 1, the US championed the General Agreement on Tariffs and Trade (GATT) after 1947 and its successor the WTO after 1995, helping to drive global average tariffs to historic lows of roughly 1.3 % by the 2010s.¹²⁸ However, with the first Trump administration’s resort to trade wars—beginning in 2018 with tariffs mainly targeting China—the US broke with some 80 years of free-trade policies.¹²⁹ This has seen the average effective US tariff rate rise from 2.5 % to an estimated 27 %—the highest level in over a century, before lowering it to around 10% as of March 2026 after U.S. Supreme Court struck down Trump’s Liberation Day tariffs.

The US shift toward protectionism was institutionalized under the Biden administration, which maintained the first Trump administration’s barriers and introduced targeted increases in 2024 on strategic high-tech sectors—such as electric vehicles (EV), semiconductors, and lithium-ion batteries—citing the necessity of reducing supply chain vulnerabilities and shielding domestic manufacturing investments from foreign competition. This policy escalation reached new heights during the second Trump administration with the implementation in 2025 of “Liberation Day” and “fentanyl” tariffs, as depicted below in a chart by the Peterson Institute for International Economics.¹³⁰

Figure 2-4: Trump 1.0 and 2.0 Tariffs on China



Source: Peterson Institute for International Economics

128 Bowen, T. Renee, J. Lawrence Broz, and Bryan Peter Rosendorff. “Trade Policy Transitions: Three Eras of U.S. Trade Policy.” SSRN Electronic Journal, ahead of print, 2022. <https://doi.org/10.2139/ssrn.4087120>.

129 Specifically, the protectionist tariffs initiated in 2018, first on solar panels and washing machines, then on steels and aluminums worldwide, and finally an exclusive package of tariffs on Chinese imported goods – initiated primarily through Section 301 investigations into allegations of unfair trade practices, including IP theft and forced technology transfer.

130 Bown, Chad P. “US-China Trade War Tariffs: An Up-to-Date Chart.” August 29, 2019. <https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart>.

The imposition of US tariffs precipitated a statistically significant and structural decline in the export value of targeted nations. Alfaro and Chor (2025) estimate that tariffs led to more than proportional decreases in trade flow.¹³¹ Cumulatively, this resulted in a 13.1% decline in the nominal value of US direct imports from China between 2017 and 2024, despite the broader growth of US imports from the rest of the world by 7.7% annually over the same period.

The reduction in bilateral trade was overwhelmingly driven by decreases of trade with existing trading partners—accounting for over 90% of the decline—as US firms scaled down trade volume within existing commercial relationships rather than severing ties entirely. Conversely, the tariff shock spurred significant trade diversion; for the typical product subject to China-specific tariffs, Mexico’s export share to the US increased by approximately 0.8 percentage points, validating the hypothesis of a “Great Reallocation” toward partners benefiting from preferential trade access.¹³²

Regarding pricing dynamics, contrary to the US administration’s assertion that foreign exporters bear the cost, the data suggests a high but incomplete tariff pass-through rate of 0.71, implying that while exporters absorbed some costs, the majority of the tariff burden was transferred to US importers, which directly brings up the end-consumer prices.

II. Non-tariff Barriers

Trade restrictions can also take the form of non-tariff barriers. These include legislative restrictions, such as congressional acts, and institutional blocks via administrative bans or committee reviews at the federal or local level.

A notable example of legislative restrictions is the Inflation Reduction Act (IRA) of 2022, which provides tax credits to US customers purchasing EVs. To qualify, the vehicle must meet the following requirements:¹³³

- 1) Be manufactured by a qualified manufacturer; must have final assembly in North America;
- 2) The vehicle’s battery needs to be extracted, processed, or recycled in the US or by a Free Trade Agreement (FTA) partner; and
- 3) Critical mineral percentage must reach 60% by 2025 and be 80% US or partner sourced by 2026.

Without imposing a direct import ban on any country, the US adds a de facto tariff on EVs made with limited components from the US and its FTA partners, implicitly targeting Chinese EV exports. The IRA, combined with a 100% tariff imposed by the US on Chinese EV imports, has effectively eliminated expansion of Chinese EV sales in the American market.

131 Alfaro, Laura, and Davin Chor. An Anatomy of the Great Reallocation in US Supply Chain Trade. W34490. National Bureau of Economic Research, 2025. <https://doi.org/10.3386/w34490>.

132 Ibid.

133 Congress.gov. “H.R.5376 - 117th Congress (2021-2022): An act to provide for reconciliation pursuant to title II of S. Con. Res. 14.” August 16, 2022. <https://www.congress.gov/bill/117th-congress/house-bill/5376>.

Beyond those examples, two US federal institutions can also curtail the expansion and operation of Chinese and other foreign companies in the US market. They are the Committee of Foreign Investments in the United States (CFIUS) and the U.S. Department of Commerce's Bureau of Industry and Security (USBIS).

CFIUS reviews foreign investment for national security risks. In 2025, Donald Trump signed a Presidential Memo specifically directing CFIUS to restrict Chinese investments in strategic areas.¹³⁴ An example is a presidential order in January 2026 forcing HieFo Corporation, a Chinese-controlled California entity, to divest semiconductor assets acquired from US-based EMCORE Corporation. Although the acquisition, valued at a relatively small USD 2.8 million, had closed in April 2024, CFIUS utilized its retroactive authority to investigate this “non-notified” transaction, ultimately mandating a complete unwind due to “national security concerns” regarding indium phosphide (InP) optical chip technology and potential IP diversion. This enforcement action illustrates that regulatory blockades are no longer reserved for high-profile mega-mergers; rather, CFIUS is increasingly targeting small-cap deals in critical sectors, thereby functioning as a comprehensive institutional gatekeeper that restricts Chinese capital and market access regardless of an investment's financial scale.

In addition to CFIUS, USBIS imposes restrictions on exports alleged to threaten American national security or international human rights, and exports said to support foreign national interests. For example, its January 2025 Final Rule on electronically connected vehicles enacts a regulatory blockade against Chinese integration into the US automotive sector.¹³⁵ Citing national security risks related to data exfiltration and remote manipulation, the USBIS prohibits the import and sale of Vehicle Connectivity Systems (VCS) hardware and Automated Driving Systems (ADS) software if they are designed, developed, manufactured, or supplied by persons owned by, controlled by, or subject to the jurisdiction of China or Russia. This sophisticated set of restrictions functions as a trade barrier not through duties, but through a rigorous compliance regime; it mandates that VCS hardware importers and connected vehicle manufacturers submit annual “Declarations of Conformity,” certifying that they have conducted deep-tier due diligence to ensure their supply chains are free of prohibited “foreign interests.” By defining “foreign adversary” influence broadly to include indirect ownership or entities subject to Chinese jurisdiction regardless of location, the USBIS effectively compels a structural decoupling of the US automotive supply chain from Chinese technology, placing national security compliance above market efficiency.

Other than federal-level administrative and legislative restrictions, Chinese investments can also be blocked by opposition at state and local level.¹³⁶ For example, the Gotion Inc.'s EV battery project in Michigan ultimately failed after three years of disputes. Although initially approved for USD 715

134 Holland, Steve. “Trump Orders Use of CFIUS to Restrict Chinese Investments in Strategic Areas.” Reuters, February 22, 2025. <https://finance.yahoo.com/news/trump-cfius-restrict-chinese-investments-204433122.html>.

135 Salladin, Anne, Brian Curran, Patrick Miller, Zachary Alvarez, and Stephen Finan. “U.S. Forces Divestment by Chinese-Owned Chip Manufacturer of Assets of U.S. Chip Company Following CFIUS Review of Non-Notified Transaction.” Hogan Lovells, January 14, 2026. <https://www.hoganlovells.com/en/publications/us-forces-divestment-by-chineseowned-chip-manufacturer-of-assets-of-us-chip-company>.

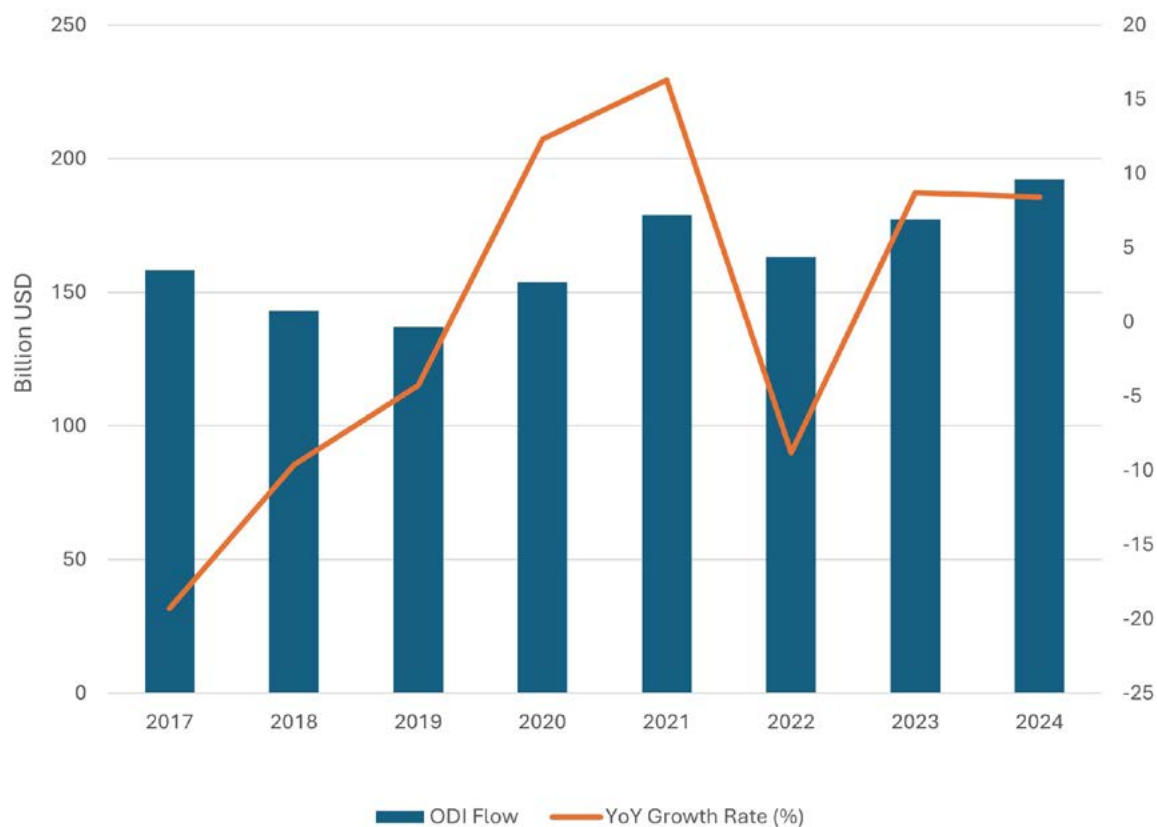
136 Lobo, Arpan. “Michigan Pulls Support for Controversial EV Battery Plant, Asks for Money Back.” Detroit Free Press, October 24, 2025. <https://www.freep.com/story/money/business/michigan/2025/10/24/michigan-economic-development-corporation-gotion-electric-vehicle/86874815007/>.

million in state incentives to build a USD 2.4 billion EV battery plant, the project faced intense local community resistance over its Chinese ownership, with voters ousting local officials who supported the deal. The incoming township board subsequently blocked essential infrastructure access, such as water supply, causing delays that triggered a default on the state agreement. As a result, in October 2025, Michigan regulators withdrew a USD 125 million grant and demanded repayment of site readiness funds. In other words, the project’s collapse was due to local political pressure rather than federal intervention.

2.2 Evolving Trends in China’s Outward Direct Investment

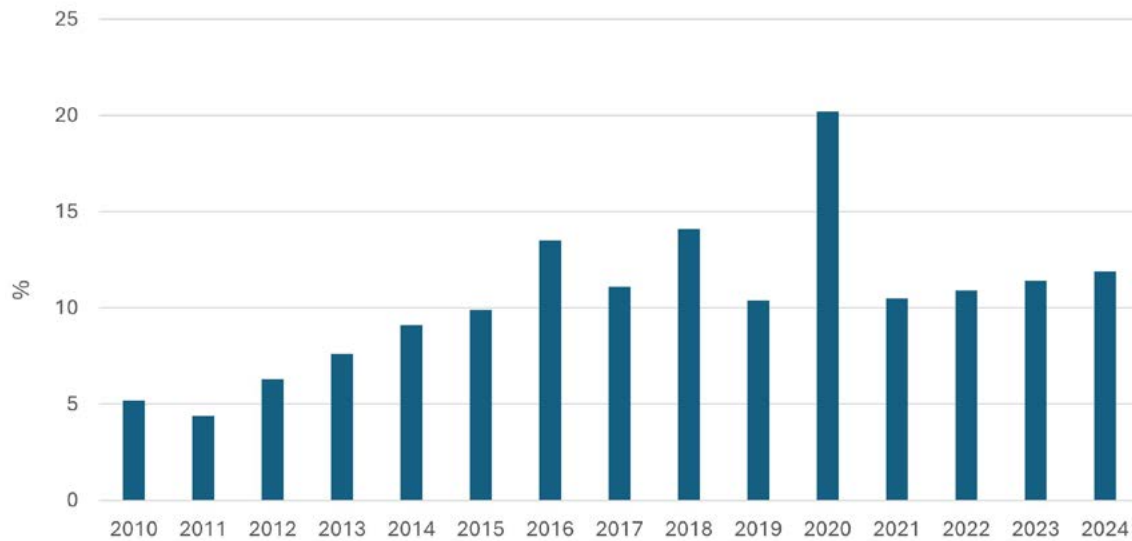
According to data from its Ministry of Commerce and the State Administration of Foreign Exchange, as shown in Figure 2-5, China’s ODI sustained strong growth in 2025, despite rising global geopolitical uncertainty. Total ODI across all sectors reached USD 174.4 billion, marking a steady year-on-year increase of 7.1%. Within this total, non-financial direct investment by domestic investors amounted to USD 145.7 billion, a 1.3% year-on-year increase, directed toward 110,865 overseas enterprises across 153 countries and regions. As of 2025, China had ranked third or above globally in ODI stock for nine consecutive years.

Figure 2-5: China’s ODI Flow (2017-2024)



Source: 2024 Statistical Bulletin of China’s Outward Foreign Direct Investment

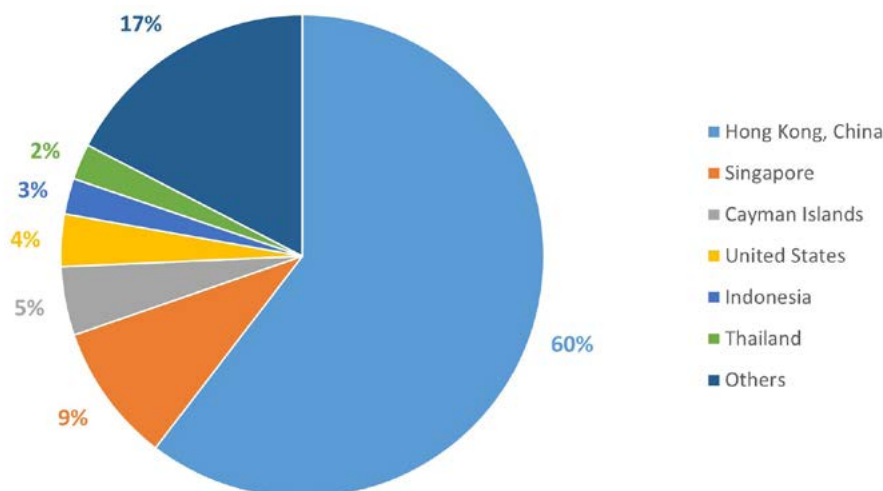
Figure 2-6: China's ODI Flow as a Share of the Global Total, 2010–2024 (%)



Source: 2024 Statistical Bulletin of China's Outward Foreign Direct Investment

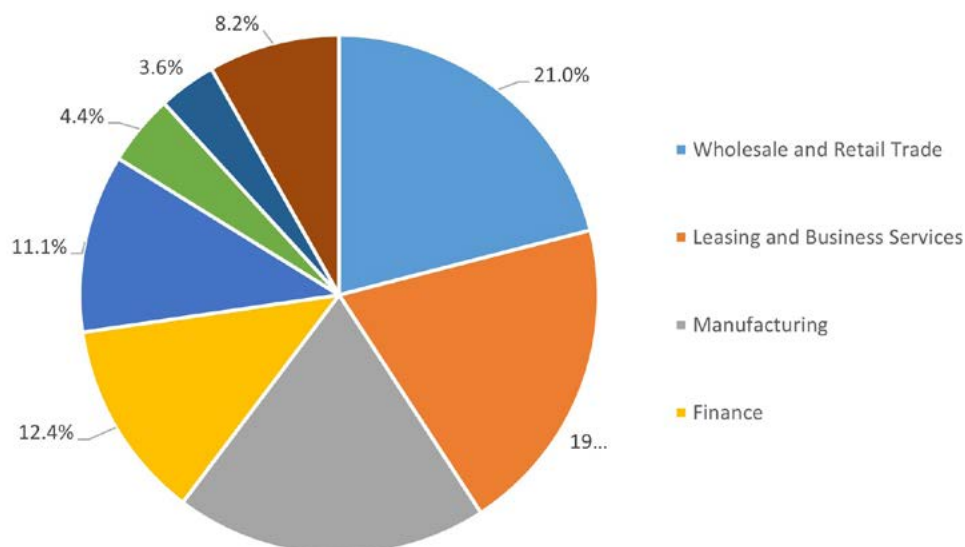
In terms of geographic distribution, Chinese Mainland's ODI in 2024 remained heavily concentrated in Hong Kong, which accounted for 60% of total investment—far exceeding that for other major destinations such as Singapore (9%), the Cayman Islands (5%), the US (4%), Indonesia (3%), and Thailand (2%) (see Figure 2-7). This investment pattern underscores Hong Kong's continued role as the premier investment hub and capital gateway for Chinese Mainland enterprises expanding overseas. In the early stages of internationalization, Chinese Mainland firms often establish a presence in Hong Kong as a strategic base, leveraging its sophisticated financial infrastructure, internationally oriented business environment, and unique institutional advantages to carry out their initial global positioning. As such, Hong Kong serves as a critical launchpad from which companies gradually scale up investments into Europe, North America, and the Global South.

Figure 2-7: Top Six Countries/Regions for China's ODI Flows in 2024 (%)



Source: 2024 Statistical Bulletin of China's Outward Foreign Direct Investment

Figure 2-8: Share of China's ODI Flows in Top Seven Industries (2024)



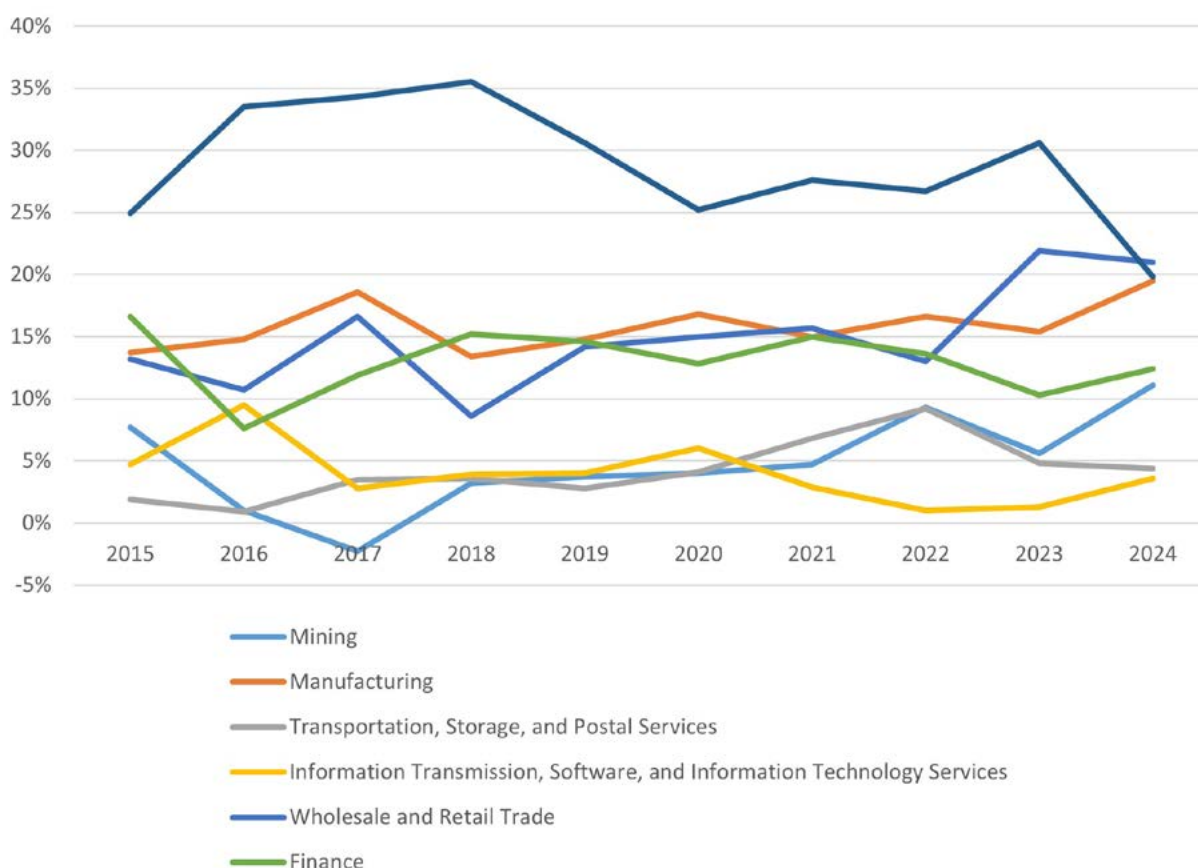
Source: 2024 Statistical Bulletin of China's Outward Foreign Direct Investment

Between 2015 and 2024, the sectoral composition of China's ODI underwent a significant transformation, broadly aligned with objectives in the "Made in China 2025" initiative to upgrade manufacturing and reconfigure global value chains. As Figure 2-9 shows, although leasing and business services continued to account for a substantial share of ODI throughout this period, their proportion followed a downward trajectory, declining to around 20% by 2024. This shift indicates that China's ODI is gradually moving away from investment structures dominated by capital platforms, holding arrangements, and service-oriented channels, toward a greater focus on industrial and related sectors. As Figure 2-9 shows, the share of manufacturing investment has risen markedly in recent years, approaching 20% of China's total ODI in 2024, and showing a clear upward trend. With escalating trade frictions, Chinese firms have increasingly used ODI to establish overseas production facilities, localize manufacturing, and reorganize supply chains. This strategy enhances market proximity while mitigating geopolitical risks.

Wholesale and retail trade maintained a relatively high share over the period, growing gradually until peaking in 2023 (see Figure 2-9). This pattern indicates that the development of overseas sales networks remains important. The financial sector's share fluctuated within a mid-range band, providing cross-border financial and risk management services. The mining sector, the information transmission, software, and information technology (IT) services sector, as well as the transportation, storage, and postal services sector consistently accounted for relatively small shares of China's ODI.¹³⁷ The low share of mining suggests that resource seeking is no longer a key driver of China's ODI, while the modest proportion of IT services may reflect the asset-light, platform-based, service-oriented internationalization strategies among Chinese technology companies.

¹³⁷ Mining recorded a negative value in 2017, reflecting adjustments in resource-based investment amid tighter regulation and global commodity market volatility.

Figure 2-9: The Shares of China's ODI flows in Top Seven Industries (2015-2024)



Source: 2024 Statistical Bulletin of China's Outward Foreign Direct Investment

2.3 Shifts in China's Going-Global Strategies: From Trade Exports to Production Sharing

2.3.1 The “Strong Supply and Weak Demand” Concerns

China's rising productivity over the past four decades largely stems from economic reforms launched in the early 1980s. These achieved internal liberalization (e.g., privatization of loss-making state-owned enterprises (SOEs), gradual relaxation of the household registration system, and integration of internal markets) and external liberalization (e.g., tariff reductions, removal of FDI restrictions, and 2001 WTO accession). Five-year plans have guided continuous industrial upgrading, sometimes beyond market-determined growth paths. The 14th Five-Year Plan (2021–2025) emphasized technological upgrading, innovation, R&D, firm entry, and investment in advanced manufacturing. By 2024, China's manufacturing value added reached USD 4.66 trillion (28% of the world total), while R&D spending grew at 10.3% annually, with 2.7% of GDP exceeding the plan's 2.5% benchmark.¹³⁸

¹³⁸ World Bank, “Manufacturing, Value Added (Current US\$) - China,” World Bank Open Data, 2024, https://data.worldbank.org/indicator/NV.IND.MANF.CD?locations=CN&most_recent_value_desc=true.

For most of the past four decades, China relied on export-led growth, effectively driving industrialization, investment, upgrading, and long-term economic growth. Exports still accounted for around 20% of GDP in 2025. Chinese export growth also lowered global production and consumption costs, contributing to low and stable inflation.¹³⁹ Research summarized by the Bank of Canada shows that imports from China lowered US import price inflation by about 0.8 percentage points annually.¹⁴⁰ However, recent geopolitical frictions and tensions in global trade have made direct exports challenging. China+1 and trade re-routing have raised the cost of production, which eventually fuels consumer inflation in end markets.¹⁴¹ Going global is both a cause and outcome of China's supply chain reconfiguration. While it brings capital, talent, know-how, and business-culture benefits to recipient countries, especially in the Global South, offshoring has also caused domestic job losses and, potentially, manufacturing hollowing-out in China, as seen in many developed economies.¹⁴²

Trade tensions have intensified ongoing involution in China, as discussed in Section 2.1, especially in frontier sectors originally supported by industrial policy, most noticeably EVs, solar panels, and some AI-related applications.

The 10 strategic sectors emphasized in the “Made in China 2025” document, with subsequent additions described as “high-quality new productive force” industries, received strong local and central government support. This included low-interest loans and subsidies to producers or consumers. When exports no longer absorb China's increased supply effectively, cross-border production sharing becomes the preferred approach. Direct exporting provokes opposition from foreign competitors and governments, raising trade barriers. The key question is no longer whether China can produce at scale, but whether its firms can systematically share capacity and productivity with other nations, particularly in the Global South.

I. Illustrations: EV and PV Industries

Since 2020, China's EV industry has experienced explosive growth. With innovative features, affordable prices, and rapid expansion of charging infrastructure, EVs have attracted many Chinese consumers.¹⁴³ In five years, EV production and sales increased 10-fold (see Figure 2-10). By 2025, EV sales in the Chinese market had surpassed those of internal combustion engine (ICE) vehicles (see Figure 2-11). Despite this rapid expansion, the industry's profitability has declined significantly. Between 2017 and 2024, although automobile sales grew by 21%, total industry profits fell by 33%. The net profit margin of the automotive industry dropped from 8% in 2017 to 4.3% in 2024. Not only have traditional ICE automakers seen their profits shrink sharply, but many newly established EV manufacturers are also facing widespread losses.

139 Eickmeier S, Kühnlenz M. CHINA'S ROLE IN GLOBAL INFLATION DYNAMICS. *Macroeconomic Dynamics*, 22(2):225-254, 2018. doi:10.1017/S1365100516000158

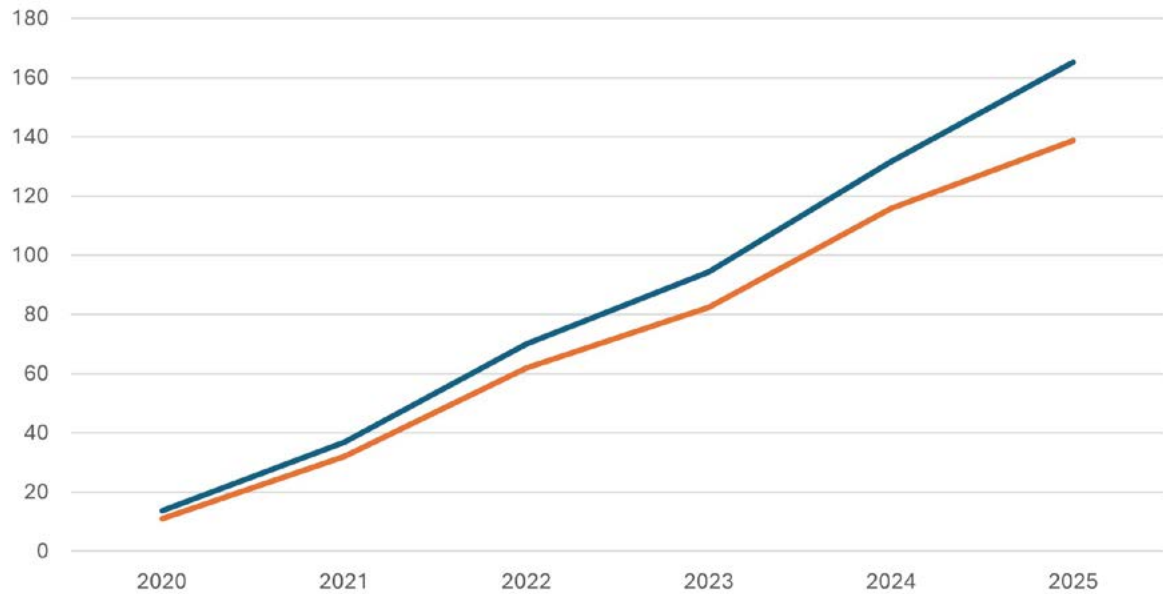
140 Amity, M., Itskhoki, O., & Weinstein, D. E. What drives US import price inflation? *AEA Papers and Proceedings*, 114, 106–111, 2024. <https://doi.org/10.1257/pandp.20241098>.

141 Fajgelbaum, Pablo D., Pínelopi K. Goldberg, Patrick J. Kennedy, and Amit K. Khandelwal “The return to protectionism”. *The Quarterly Journal of Economics* 135, no. 1: 1-55, 2020. <https://academic.oup.com/qje/article-abstract/135/1/1/5626442>.

142 Autor, David H., David Dorn, and Gordon H. Hanson “The China syndrome: Local labor market effects of import competition in the United States”. *American Economic Review* 103, no. 6: 2121-2168, 2013. <https://www.aeaweb.org/articles?id=10.1257/aer.103.6.2121>.

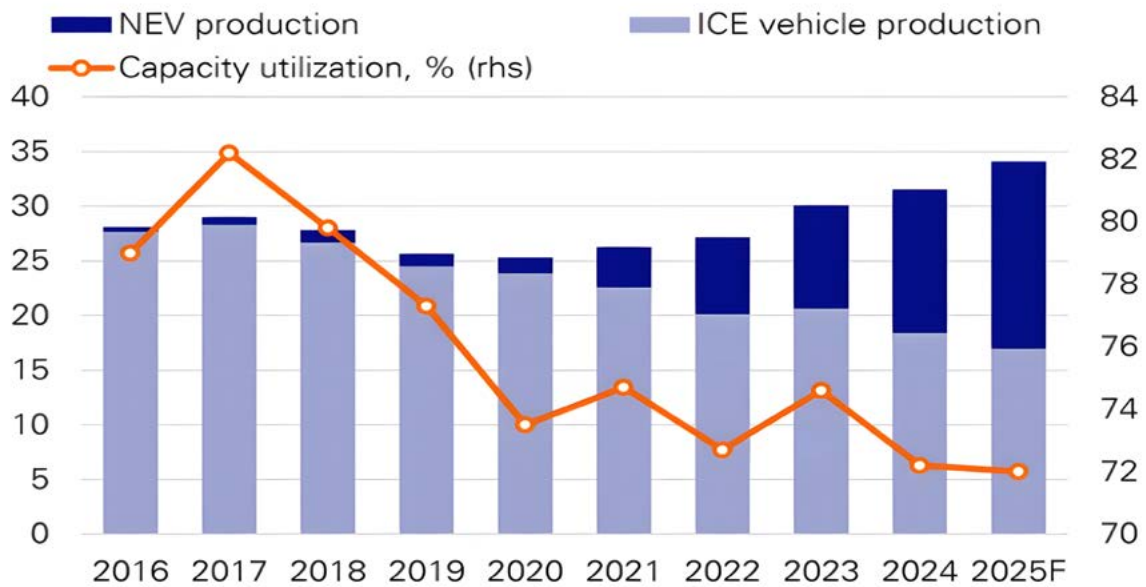
143 An EV is defined as a vehicle that can be powered by an electric motor that draws electricity from a battery and is capable of being charged from an external source. An EV includes both a vehicle that can only be powered by an electric motor that draws electricity from a battery (battery electric vehicle, BEV) and a vehicle that can be powered by an electric motor that draws electricity from a battery and by an internal combustion engine (plug-in hybrid electric vehicle, PHEV). Definition taken from: <https://afdc.energy.gov/laws/12660>.

Figure 2-10: Production and Domestic Sales of China's Electric Vehicles (in 100,000s)



Source: China Association of Automobile Manufactures, China Custom Data

Figure 2-11: Production in China's Automobile Sector¹⁴⁴(production in Millions)



Source: Deutsche Bank Research, Haver Analytics

¹⁴⁴ New energy vehicles (NEV) refer to vehicles that differ from traditional internal combustion engine vehicles and primarily include battery electric vehicles (BEVs), plug-in hybrid electric vehicles (PHEVs), and fuel cell electric vehicles (FCEVs). Definition taken from: <https://doi.org/10.1016/j.tust.2023.105013>.

From 2020 to 2025, EV manufacturers continued expanding production capacity, driving further increases in output. A widening gap between domestic supply and demand is evident in recent China Association of Automobile Manufacturers (CAAM) statistics, becoming more pronounced after 2022 (see Figure 2-10). In 2025, China's new energy vehicle (NEV) production reached 16.6 million units, while domestic NEV sales, excluding exports, were 13.9 million, representing a surplus of 2.7 million vehicles (one-sixth of total output).¹⁴⁵ If foreign markets can no longer absorb the increased NEV supply, this may lead to inventory buildup or calls for voluntary or government-imposed production restrictions.

Because of the widening domestic production–consumption gap in the EV sector, foreign markets have become increasingly important, but competitive pressure, especially in countries with strong domestic auto industries, has intensified. In this context, production sharing along EV supply chains, such as final assembly, component manufacturing, or battery processing, with destination or neighboring countries may be an essential way to address the increased supply and related deflationary pressures, while easing concerns over an influx of Chinese EVs.

Similarly, photovoltaic (PV) products, another key component of China's "new trio" of export-oriented industries, face weakening growth in the domestic market.¹⁴⁶ China's annual installed PV capacity has risen rapidly since 2013, reaching 315 GW by 2025 (see Figure 2-12); however, its year-on-year growth has been declining since 2023, falling to 13.5% in 2025. This suggests that domestic PV deployment is transitioning from a phase of high-speed expansion to one characterized by large-scale absorption and marginal slowdown. In 2024, China's PV panel output reached 627 GW¹⁴⁷, while new domestic PV installations were 278 GW, implying that more than 300 GW of PV panel output needed to be absorbed.¹⁴⁸

China is not only the world's largest producer of PV panels but also dominates global output across key segments of the PV supply chain. As illustrated in Figure 2-13, production has expanded exponentially: panel output rose from about 10 GW in 2010 to 627 GW in 2024, while production of wafers, polysilicon, and cells each reached 690–900 GW, with rapid year-on-year growth across all segments. As a result, global PV manufacturing is highly concentrated in China, with shares exceeding 95% in wafers, around 90% in cells and polysilicon, and over 85% in panels. China's production capacity across all segments now exceeds global demand for new PV installations, raising "overcapacity" concerns.

As noted in Chapter 1, a traditional trade model relying on exports of finished products is becoming harder to sustain economically and geopolitically. Slower domestic installations are widening the gap between capacity expansion and local demand. Meanwhile, although overseas PV demand is rising

145 Lei Kang, "China NEV Sales Total 1.71 Million Units in Dec, Bringing Full-Year 2025 Sales to 16.49 Million," CnEVPost, January 14, 2026, <https://cnevpost.com/2026/01/14/china-nev-sales-1-71-million-dec-2025-caam/>.

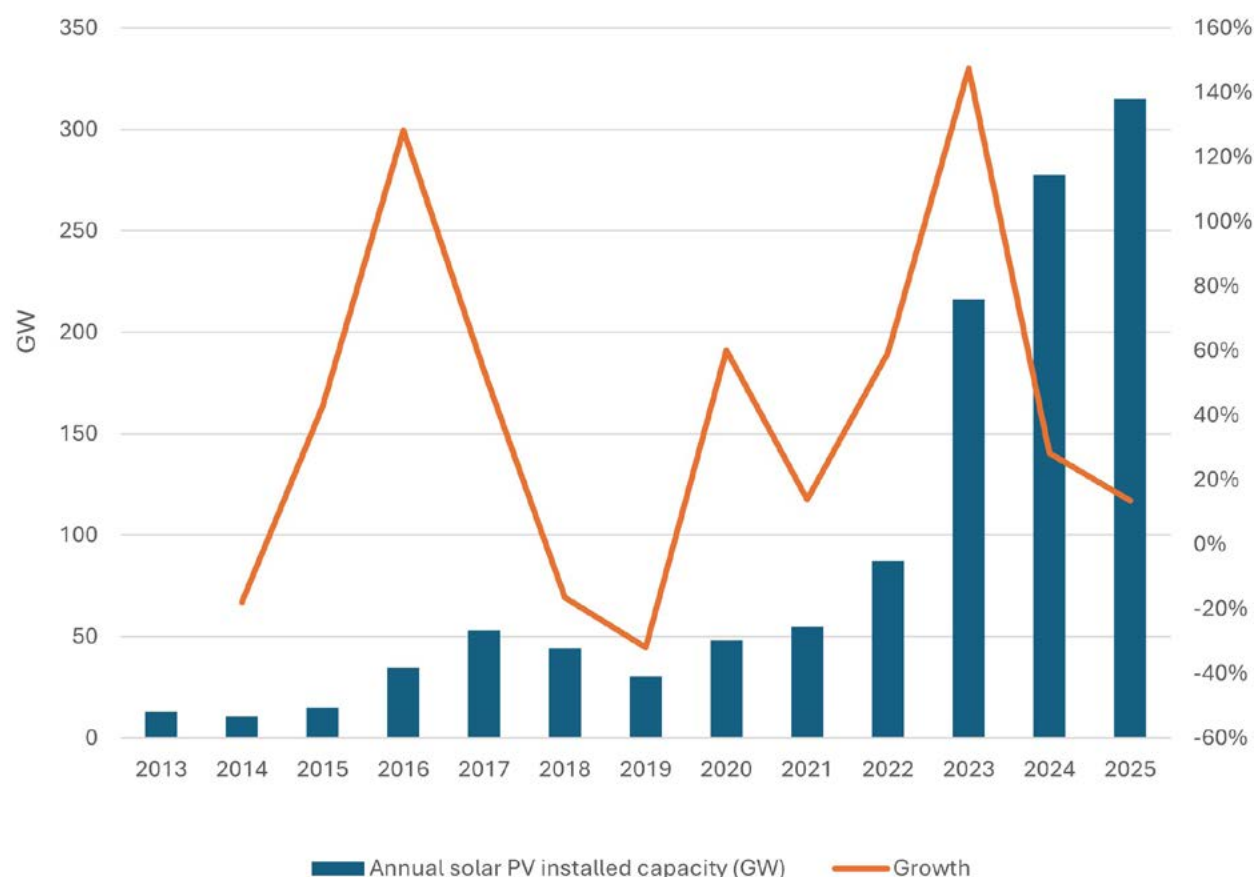
146 China's "new trio" of export-oriented industries refer to three categories of emerging products in China's foreign trade exports that are characterized by high technology, high value-added, and green, low-carbon attributes: NEVs, lithium batteries, and photovoltaic products.

147 Helen Chin et al., "Global Supply Chain Report February 2025," HKUST Li & Fung Supply Chain Institute, 2025. https://ustfsci.hkust.edu.hk/sites/default/files/Global_Supply_Chain_Report_Solar_PV.pdf.

148 National Energy Administration, "2024年可再生能源并网运行情况," Nea.gov.cn, January 27, 2025, <https://www.nea.gov.cn/20250221/e10f363cabe3458aaf78ba4558970054/c.html>.

rapidly, geopolitical tensions have made exports of made-in-China PV products increasingly subject to trade barriers, security reviews, and localization requirements. Production sharing has thus become a necessary mechanism to ease these structural tensions.

Figure 2-12: China's Annual Solar PV Installed Capacity (2013-2025)



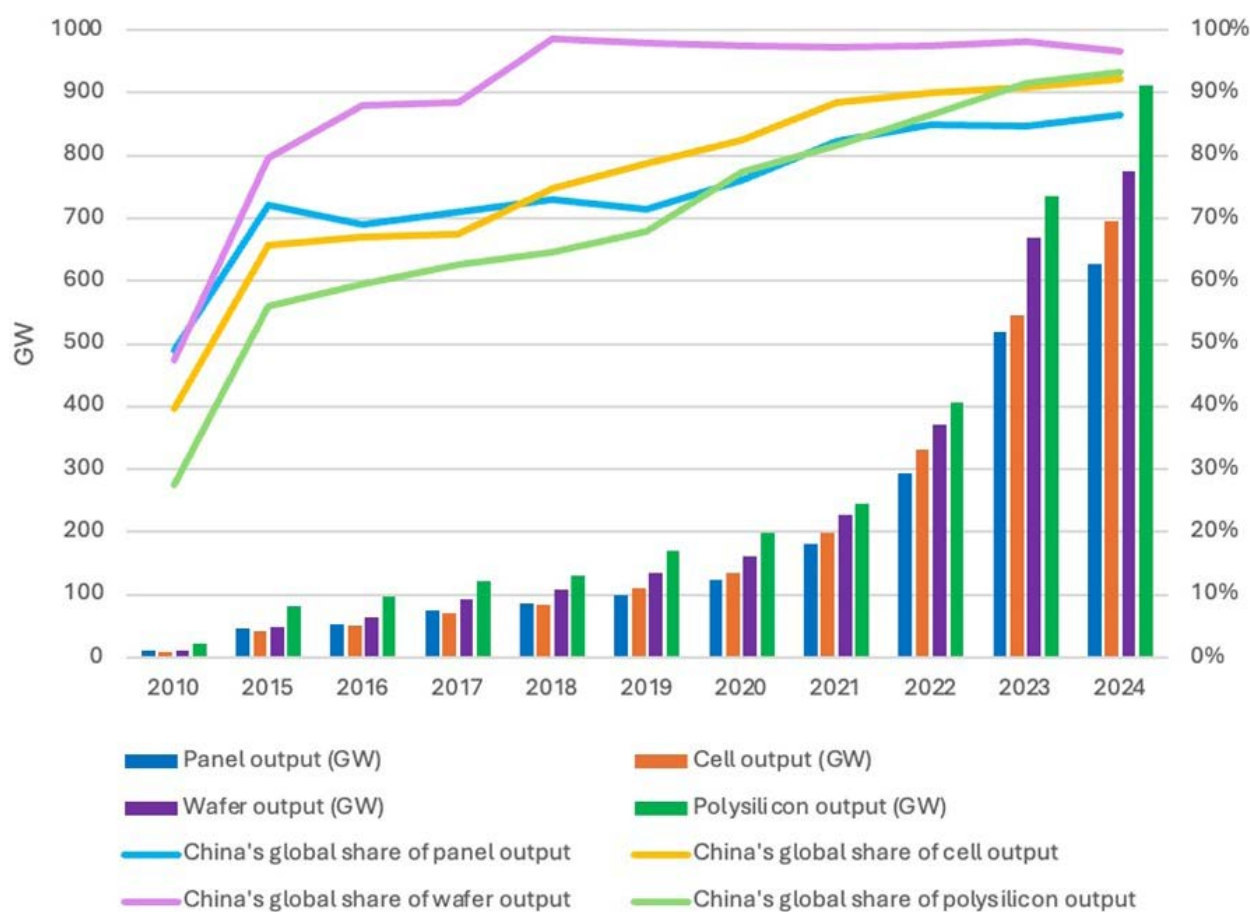
Source: National Energy Administration

II. From Exports to Production and Capacity Sharing

When exports no longer provide an easy solution to increasing industrial supply, relocating and reorganizing various segments of global supply chains with partner economies—especially those in the industrializing Global South, is a strategy to pursue. It also delivers on three Chinese objectives:

- (1) To create in host countries local value-added, employment, foreign exchange earnings, and technology transfer;
- (2) To align output more closely with regional demand changes, rather than relying on cross-border shipment alone; and
- (3) To increase economic resilience by removing bottlenecks caused by geopolitical frictions and localization rules in destination markets.

Figure 2-13: China's Production/Global Share in Manufacturing Stages of the Solar PV Supply Chain, 2010, 2015-2024



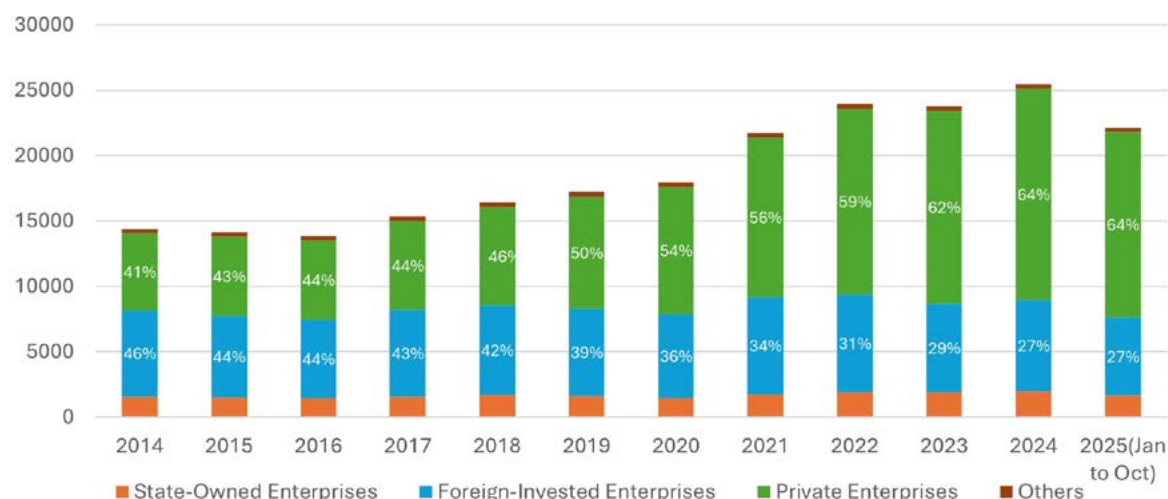
Source: China Photovoltaic Industry Association, as cited in *Global Supply Chain Report December 2025: Solar PV*, HKUST Li & Fung Supply Chain Institute

III. From OEM to Global Investor

The evolution of China's exporting firms over the past decade—from foreign-driven to domestically and privately led—reflects a profound realignment of global supply chains (see Figure 2-14). Around 2014, foreign-invested enterprises accounted for 46% of China's exports, exceeding private firms, as China functioned mainly as a global processing and assembly hub. Over time, private enterprises steadily expanded and have dominated since around 2019, accounting for 64% of exports by 2024. The declining share of foreign-invested firms partly reflects the China+1 strategy of their parent companies, while the rise of private firms signals a fundamental shift—from a passive contract original equipment manufacturer (OEM) to a proactive exporter of industrial capacity and technology.

This structural shift has become a key driver of global economic transformation. As exports are increasingly led by Chinese private firms expanding overseas, the co-creation of regional industrial ecosystems—through production sharing involving Chinese technology and infrastructure investment—is reshaping global macroeconomic dynamics.

Figure 2-14: China Exports by Entity (in Billion RMB)



Source: Ministry of Commerce

Over the long term, China's economic development will likely focus on R&D, design, advanced manufacturing, and high value-added headquarter services for global industrial supply chains. Progressing from China's current stage will require policies addressing both short- and long-term challenges. Currently, local government finance relies heavily on taxes, especially value added tax (VAT) from local production and investment. If industries relocate abroad too quickly, local governments risk losing tax revenue and jobs. Balancing domestic economic stability with an optimized global supply chain strategy will be key to a successful transformation.

2.3.2 Direct Exports Less Viable Due to Rising Protectionism

Export-led upgrading initially relied on exports to absorb surplus production. Today, China's industrial scale has shifted global supply conditions, fuelling protectionist sentiment among trading partners. Beyond the political and regulatory responses discussed earlier, WTO anti-dumping mechanisms are increasingly used, offering a standardized legal path for governments to impose duties when domestic industries claim injury from dumping. As shown in Table 2-1, 358 trade-remedy measures targeting Chinese exports came into force between 2020 and 2024.

Table 2-1: Anti-Dumping Actions Taken by WTO Members Against China

Year	Case Initiated	New Measures that Came in Force
2020	75	55
2021	70	100
2022	39	41
2023	65	47
2024	34	64

Source: Authors' calculations based on WTO anti-dumping dataset

The EU’s anti-subsidy case against China-made battery electric vehicles (BEVs) is a notable example. In 2024 the European Commission imposed definitive duties on Chinese BEVs, adding firm-specific rates on top of the EU’s standard 10% car import duty.¹⁴⁹ The US also raised Section 301 tariffs on China across several strategic clean-tech categories, increasing the burden for exporters. The 2024 changes included a 100% tariff on EVs and higher tariffs on PV cells, as well as increases affecting EV batteries and related inputs.¹⁵⁰ Since 2020, India, the UK, the US, and the EU have accounted for roughly 44% of WTO actions concerning “industrial dumping” by China. Export constraints are therefore uneven across markets and tighter in major, policy-active destinations (see Table 2-2).

Table 2-2: Top Reporting WTO Members

Reporting Member	Imposed Cases from 2020 to 2024
India	57
UK	24
US	23
EU	21
Argentina	9
Saudi Arabia	8
Mexico	7
South Korea	7
Colombia	7
Vietnam	6

Source: Authors’ calculations based on WTO anti-dumping dataset

Actions are concentrated in product categories where China’s export scale advantages are greatest. As Table 2-3 shows, the Harmonized System (HS) Section XV (base metals) accounts for 34% of anti-dumping cases, followed by chemicals at 18% and machinery & electrical at 14%. This sectoral concentration reflects China’s domestic capacity expansion: when production grows fastest in tradable industrial inputs and equipment, policy frictions arise where import-competing pressures are strongest.

149 European Commission, “Commission Implementing Regulation (EU) 2024/2754 of 29 October 2024 Imposing a Definitive Countervailing Duty on Imports of New Battery Electric Vehicles Designed for the Transport of Persons Originating in the People’s Republic of China,” Official Journal of the European Union 2024, no. 2754 (October 29, 2024), http://data.europa.eu/eli/reg_impl/2024/2754/oj.

150 Office of the United States Trade Representative, “Notice of Modification: China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation,” 89 Fed. Reg. 76581 (September 18, 2024), <https://www.federalregister.gov/documents/2024/09/18/2024-21217/notice-of-modification-chinas-acts-policies-and-practices-related-to-technology-transfer>.

Table 2-3: Top HS Sections Initiated

HS Section Code	HS Section Label	Cases from 2020 to 2024
XV	Base metals and articles of base metal	96
VI	Products of the chemical or allied industries	52
XVI	Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	39
VII	Plastics, rubber, articles thereof	34
XIII	Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	25
XI	Textiles and textile articles	12
XX	Miscellaneous manufactured articles	7
XVII	Vehicles, aircraft, vessels and associated transport equipment	6
X	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof	4
XVIII	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	3
IV	Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco	2
IX	Wood, articles of wood; wood charcoal; cork, articles of cork; manufactures of straw, of esparto or of other plaiting materials; basket ware and wickerwork	1
VIII	Raw hides and skins, leather, fur skins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut	1
XII	Footwear, headgear, umbrellas, walking sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	1

Source: Authors' calculations based on WTO anti-dumping dataset

Beyond anti-dumping, anti-subsidy (countervailing) measures are becoming increasingly important in strategic sectors. For example, the EU imposed definitive countervailing duties on BEVs from China (Implementing Regulation (EU) 2024/2754), showing how scale-driven export surges in frontier sectors can prompt additional policy responses beyond standard tariffs. Product-level evidence also links China's subsidies to stronger export performance and reduced imports, with supply-chain connections amplifying downstream export effects—conditions that increase the likelihood of trade-policy pushback in affected sectors.¹⁵¹

¹⁵¹ Lorenzo Rotunno and Michele Ruta, "Trade Implications of China's Subsidies," IMF Working Paper 2024, no. 180, August 2024. <https://doi.org/10.5089/9798400282478.001>.

Complementing formal measures is a broader “market-against” environment in importing countries: domestic producers, labor groups, and policymakers increasingly view large inflows from competitive exporters as threats to industrial capacity, jobs, and supply-chain security. This pressure raises the likelihood of duties and fosters local-content expectations, security reviews, and de-risking narratives, making import-heavy strategies less sustainable even when tariffs are not prohibitive. Many governments thus favor “investment and jobs” over “imports,” with localization commitments often forming part of implicit market-access arrangements.

A second constraint comes from export controls and regulatory restrictions, especially on upstream technologies that determine the competitiveness of high-tech supply chains (advanced semiconductors, semiconductor manufacturing equipment, and certain types of software). In December 2024, the USBIS announced a major package tightening controls to limit China’s ability to produce advanced semiconductors for military end-uses and expanding compliance expectations and entity-based restrictions.¹⁵²

2.3.3 Key Mechanisms for Production Sharing

With so many potential barriers to Chinese exports, going global through production sharing is a pragmatic solution for many Chinese firms. By spreading their manufacturing and capabilities across partner economies, they relieve domestic capacity pressures whilst also securing market access.¹⁵³

First, firms relocate manufacturing to overseas plants serving regional demand, typically progressing from Semi-Knocked Down (SKD)/Completely-Knocked Down (CKD) or final assembly toward deeper localization as scale and policy clarity increase. This allows firms to supply markets locally, reducing exposure to tariffs and trade remedies, while converting export surplus into jobs and tax revenue, improving political acceptability in host markets.

The second mechanism is transferring scalable production capability to overseas sites and local partners. This usually involves replicating industrial routines—standardized production lines, quality-control systems, testing protocols, supplier qualification, and manufacturing execution systems—rather than moving “frontier” IP. Replicating these routines abroad is essential to meet cost-quality thresholds under local conditions and transforms mere “presence” into actual “production.”

The third mechanism is organizational deployment: production sharing can be fragile without talent rotation and on-site capability building. Firms send engineers, supervisors, quality managers, and supply-chain teams abroad to stabilize operations, maintain quality, and train local workforces. Over time, these rotations transmit managerial practices, compliance routines, and supplier development know-how, especially during the first 12–36 months of a plant’s lifecycle, when execution risk is highest.¹⁵⁴

152 Bureau of Industry and Security, “Commerce Strengthens Export Controls to Restrict China’s Capability to Produce Advanced Semiconductors for Military Applications,” news release, December 2024, <https://www.bis.gov/press-release/commerce-strengthens-export-controls-restrict-chinas-capability-produce-advanced-semiconductors-military>.

153 World Trade Organization et al., *Global Value Chain Development Report 2017: Measuring and Analyzing the Impact of GVCs on Economic Development*. Geneva: World Trade Organization, 2017. https://www.wto.org/english/res_e/booksp_e/gvcs_report_2017.pdf.

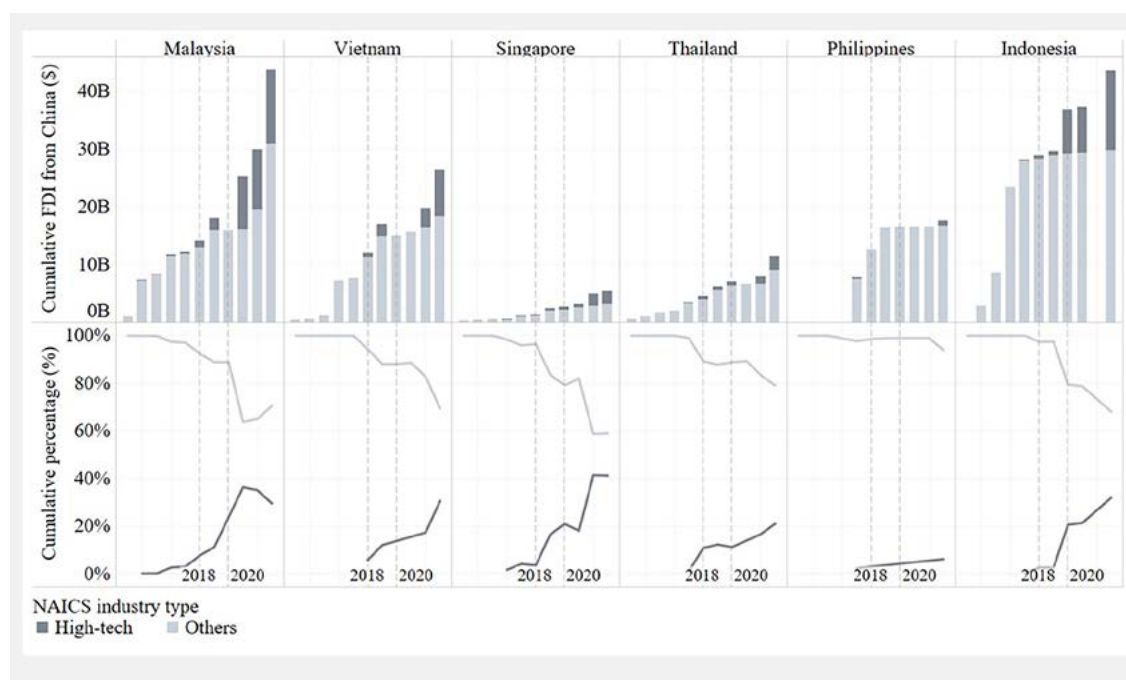
154 Ibid

To scale these mechanisms, firms and governments use structured talent-embedding arrangements. One approach is “technical missions” or talent-exchange programs that place engineering and quality teams in overseas plants for multi-month rotations, supported by joint training centers with local vocational institutions. These arrangements reduce the cost of capability transfer and accelerate development of maintenance, quality assurance, and supplier-upgrading capacity—often binding constraints in Global South hosts even when labor is abundant.

Partnership structures further reduce political and commercial risks. Joint ventures and strategic alliances enhance legitimacy by aligning with host industrial policies, help meet local-content expectations, and share demand uncertainty with partners familiar with local regulation, procurement, and distribution. In policy-shaped sectors like EVs, batteries, and renewables, partnerships convert “market access” into “investment and jobs,” reducing political backlash and stabilizing the operating environment.

Take ASEAN as an example. Chinese ODI in ASEAN has shifted toward advanced manufacturing. Over the past three years, it averaged about USD 10 billion annually versus USD 2.7 billion in the previous five years, with manufacturing accounting for over half of Chinese ODI in the region in 2024 (see Figure 2-15). The rising share of high-tech manufacturing suggests more Chinese firms are transferring technology and know-how, rather than relying mainly on low labor costs as before.

Figure 2-15: China’s ODI Stock Trend (USD)



Source: ACI analysis using Orbis FDI data

To make the production-sharing mechanism concrete, Box 2-1 offers a case study of BYD in Indonesia to show how firms move from ship-to-market exports toward build-in-market production networks under localization-linked incentives.

Box 2-1 BYD in Indonesia: Production Sharing as Market Access under Policy-shaped Demand

The case of BYD's expansion in Indonesia illustrates production sharing as a market-access strategy driven by industrial policy. After BYD entered the Indonesian market in January 2024, EV penetration in Indonesia rose to 15.2% of passenger-car sales in Q2 2025 (up from 10.1% in Q1), supported by fiscal incentives such as a VAT cut from 11% to 1% for EVs meeting a 40% domestic-content threshold. These policies explicitly tie market expansion to localization, but uptake remains ecosystem- and policy-dependent, with EV charging reliability and after-sales support shaping consumer adoption. BYD's USD 1 billion, 150,000-unit/year Subang plant (West Java), completed in 2025, exemplifies the shift from ship-to-market to build-in-market, stabilizing market access and signaling long-term commitment.¹⁵⁵ The remaining challenge is depth. Assembly localization can create jobs, but deeper supplier upgrading and full battery-chain integration are often central to host-country goals. LG Energy Solution's withdrawal from a USD 8.5 billion "Grand Package" battery project in Indonesia in 2025 shows that partner and timeline uncertainty can slow progress from assembly to deeper localization, even when policy intent is strong.¹⁵⁶

Production sharing provides a practical way to ease domestic "overcapacity" concerns. By shifting part of BYD's capacity to overseas facilities and regional hubs, output is absorbed through in-market production and regional supply rather than politically fragile export channels. This deepens integration into international supply chains, improves responsiveness to local demand, shortens delivery times, and increases resilience. Over time, it supports functional upgrading, keeping higher-value activities (such as R&D, design, and systems integration) at home while scaling standardized manufacturing abroad.¹⁵⁷

By locating downstream stages nearer end markets and aligning with host-country industrial goals, BYD reduces exposure to tariffs, investigations, and localization mandates. Thus, production sharing functions not only as an expansion strategy but also as risk management, since market access increasingly depends on local value creation rather than pure imports.¹⁵⁸

155 Bisnis Otomotif, "BYD Aims to Start Subang Plant Operations in Q1 2026," Segmenty.com, Segment Y Automotive Intelligence, January 2026. https://www.segmenty.com/GenerateNewsStaticJsps/BYD_aims_to_start_Subang_plant_operations_in_Q1_2026.html.

156 Reuters Staff, "South Korea's LG Energy Solution Pulls out from Indonesia EV Battery Investment," Reuters, April 21, 2025, <https://www.reuters.com/business/energy/south-koreas-lg-energy-solution-pulls-out-indonesia-ev-battery-investment-2025-04-21/>.

157 UNCTAD, ed. Investing in Sustainable Energy for All. World Investment Report 2023. United Nations, 2023, https://unctad.org/system/files/official-document/wir2023_en.pdf.

158 Bureau of Industry and Security, "Commerce Strengthens Export Controls to Restrict China's Capability to Produce Advanced Semiconductors for Military Applications," news release, December 2024, <https://www.bis.gov/press-release/commerce-strengthens-export-controls-restrict-chinas-capability-produce-advanced-semiconductors-military>.

2.4 Hong Kong's Role for Chinese Enterprises Going Global

Amid the accelerating trend of Chinese Mainland companies “going global,” professional services—financial, legal, accounting, consulting, tax, trading, marketing, and licensing—play a pivotal role in helping them expand overseas legally and effectively whilst, as noted in Chapter 1, reinforcing Hong Kong's position as an international business hub and “super connector”.

While we will separately analyze financial and trade services, as well as the current situation of Hong Kong as an international financial and trade center in the next chapter, this subsection focuses in more depth on Hong Kong's role as an international training, certification, trade finance, and headquarters hub for Chinese companies that are going global.

This role is supported by Hong Kong's long-established international networks and institutional resources. The Hong Kong Trade Development Council (HKTDC), for example, with 60 years of history and 51 offices worldwide, provides professional training, compliance advice, and market intelligence, forming a strong foundation for international engagement. Institutionally, the Task Force on Supporting Mainland Enterprises in Going Global (GoGlobal Task Force), launched in October 2025 and jointly operated by Invest Hong Kong (InvestHK), the HKTDC, and HKSAR Government offices in the Chinese Mainland, offers a one-stop platform coordinating training, certification, and market-entry support for Mainland enterprises. Table 2-4 lists the institutions and organizations in Hong Kong that offer professional services to Chinese Mainland firms going global.

Table 2-4: Hong Kong Institutions Supporting Enterprises Going Global

Institution	Core Functional Positioning	Key Initiatives and Services	Strategic Value Added
HKSAR Government's Economic and Trade Offices (HKETO)	Engage Mainland enterprises with one-stop support for global expansion	Organize promotional conferences and thematic networking sessions and providing a one-stop support platform for Mainland enterprises going global.	Proactively engage Mainland enterprises; mitigate geopolitical and operational risks via Hong Kong's professional services and common law system.
Invest Hong Kong (InvestHK)	One-stop investment support services hub	Coordinates the GoGlobal Task Force; provides partner matching and business establishment support.	Integrates government resources; facilitates expansion into the Global South.
Hong Kong Trade Development Council (HKTDC)	Global trade connector	Organizes international exhibitions and global industry summits; provides market research reports.	Connects with global buyers; enhances brand visibility; explores emerging markets.
Hong Kong Monetary Authority (HKMA)	Financial infrastructure and liquidity safeguard	Establishes Cargo ^x ; develops cross-border connectivity mechanisms.	Facilitates digitalization of trade finance; enables low-cost cross-border settlement; mitigates exchange rate risks.
Hong Kong Exchanges and Clearing (HKEX)	Capital operation and financing platform	Implements Chapter 18C listing regime; provides M&A financing tools.	Secures long-term capital for global expansion; facilitates cross-border M&As.

Hong Kong Productivity Council (HKPC)	Technology upgrading and industrial consultancy	Promotes smart production lines; supports commercialization of R&D outcomes and patent transactions.	Enhances technological sophistication of production; builds an international image of high-end manufacturing.
Hong Kong Council for Testing and Certification (HKCTC)	Quality standards and credibility enabler	Promotes accreditation schemes; provides testing services recognized by over 110 economies worldwide.	Enhances product credibility; helps overcome international technical barriers.
The Hong Kong Institution of Engineers (HKIE)	Bridge for international professional qualification recognition	Signs Mutual Recognition Agreements (MRAs) for engineering qualifications; promotes cross-border technical exchange.	Supports Mainland engineering professionals and enterprises in obtaining international practice qualifications.
Institution	Core Functional Positioning	Key Initiatives and Services	Strategic Value Added
Office of the Communications Authority (OFCA)	Digital infrastructure and technology regulator	Regulates telecommunications technical standards; supports submarine cable landing and international representation.	Safeguards digital supply chain security; strengthens cross-border telecommunications connectivity.
Export Credit Insurance Corporation (ECIC)	Credit protection and risk management	Provides export credit insurance; assists in obtaining unsecured trade financing.	Mitigates payment collection risks; supports business expansion into emerging markets.

2.4.1 Training and Certification

Hong Kong plays a strategic role in supporting Chinese Mainland enterprises to go global. As a leading international education hub, it offers strong training capacity. Its globally recognized standards and certification services further enhance its importance. Backed by a highly credible institutional framework, Hong Kong enjoys strong international trust. It is also emerging as an “endorser” of Chinese national standards. Together, these strengths provide both technical assurance and capability building. They enable firms to navigate global markets and support more sustainable international expansion.

I. Training

Hong Kong stands out as a vibrant international education hub, characterized by a diverse and extensive training capacity. According to recent statistics, student enrolments at the School of Professional and Continuing Education of the University of Hong Kong (HKU SPACE) alone surpassed 95,000 in the academic year 2023/24, highlighting the region’s strong demand for as well as its provision of professional and continuing education. Its numerous research-oriented universities—five of which have consistently ranked among the top 100 worldwide—also offer executive education and short-term practical courses for practitioners who need to stay current with evolving technological and global economic landscapes.

Moreover, Hong Kong’s dynamic economy benefits from its robust network of enterprises that possess significant expertise in Environmental, Social, and Governance (ESG) practices. Many of these businesses have substantial experience with overseas production and management, allowing them to navigate the complexities of global markets effectively. This expertise positions Hong Kong as a critical resource for Chinese Mainland enterprises seeking to expand internationally. Hong Kong’s universities and related training institutions can leverage this wealth of knowledge by collaborating with local enterprises to offer specialized training programs. These programs could cover crucial topics such as compliance with international regulations, labor protection standards, environmental sustainability practices, and effective management of overseas operations. Such initiatives not only enhance the capabilities of Chinese Mainland enterprises but also facilitate their transition into the global marketplace, thereby supporting their compliant manufacturing and operational practices and projecting a responsible international corporate image.

Table 2-5 illustrates how Hong Kong acts as a strategic enabler for companies expanding abroad. By providing access to specialized training and internationally aligned expertise, Hong Kong helps firms upgrade their operational standards, management systems, and workforce skills. This alignment facilitates smoother integration into global markets by internalizing recognized norms in compliance and corporate governance. Ultimately, these enhancements reduce the international learning curve, strengthen credibility with overseas partners, and build the human capital necessary for long-term global competitiveness.

Table 2-5: Examples of Companies Leveraging Hong Kong for Professional Training & Capability Alignment

Enterprise	Training & Service Focus	Partner/ Network	Output Value
Edge Medical	Overseas marketing, professional training, and after-sales support for surgical robots.	Hong Kong localized service network	Bridged “capability gaps” for Southeast Asian export.
Hillstone	Established a Hong Kong-based team with resident after-sales engineers for technical validation.	Hong Kong-based professional team	Leveraged Hong Kong experience to export products to Southeast Asia.
SZCDSC	Algorithm optimization and technical adaptation training for international regulation.	HKPC, HKU, and PolyU	Ensured that Smart City solutions meet global regulatory and scenario needs.
Lalamove	Driver qualification auditing and training systems; outputting “Smart Dispatch Tech + Localized Ops.”	Hong Kong operations headquarter	Provided core support for localization in global markets.

II. Certification

Hong Kong has long served as a premier gateway for international standards, particularly in financial services, construction, and testing and certification. Its unique institutional framework, combining a common law legal system, free capital movement, and extensive international connectivity, makes it a trusted intermediary between global markets and the Chinese Mainland. The city hosts an exceptionally dense concentration of internationally accredited testing and certification bodies. For example, SGS, a global leader in testing, inspection and certification, operates from Hong Kong with a team of over 1,000 professionals, leveraging a worldwide network spanning 115 countries and more than 2,500 laboratories.¹⁵⁹ This presence gives Hong Kong a decisive advantage in offering one-stop international compliance solutions to enterprises across Asia. In the financial sector, Hong Kong's adoption of Basel III standards and the International Financial Reporting Standards (IFRS) has made it the undisputed regional hub, often preferred over other Asian financial centers.¹⁶⁰ In construction, Hong Kong's building codes and safety standards are frequently adopted as alternatives to Western European or North American benchmarks for infrastructure projects across Southeast Asia, where contractors value the balance between rigorous safety protocols and cost-effectiveness that Hong Kong-derived frameworks offer.¹⁶¹

Building on these advantages, Hong Kong has developed a robust institutional ecosystem that translates its international standards leadership into practical support for enterprises seeking global market access. Hong Kong's testing and certification bodies—such as Hong Kong Council for Testing and Certification (HKCTC), Hong Kong Institution of Engineers (HKIE), and the Office of the Communications Authority (OFCA)—facilitate international market access and standards alignment, with their test reports widely recognized by the EU, ASEAN, and Middle Eastern markets as direct entry credentials. The HKSAR government's Intellectual Property Department complements this by offering patent protection and funding to support commercialization and safeguard brand rights.

Table 2-6 underscores that Hong Kong's certification ecosystem serves as a crucial bridge to global markets, going beyond mere technical compliance. By aligning with international standards, firms signal quality and reliability to overseas stakeholders, effectively lowering entry barriers in regulated economies. This globally trusted framework reduces information asymmetries and eliminates the need for repetitive testing, saving both time and costs. Moreover, the certification process acts as a catalyst for organizational upgrading—encouraging firms to adopt standardized procedures and quality control mechanisms aligned with international best practices. Together, these advantages help companies minimize regulatory uncertainty, enhance operational efficiency, and establish a stable foothold in the competitive global arena.

159 SGS - Hong Kong, "SGS in Hong Kong," SGSCorp, n.d., <https://www.sgs.com/en-hk/our-company/about-sgs/sgs-in-hong-kong>.

160 HKSAR Government. "Banking (Capital) (Amendment) Rules 2023 (Commencement) Notice 2024 gazetted" Government of the Hong Kong Special Administrative Region, October 10, 2024. <https://www.info.gov.hk/gia/general/202410/10/P2024101000354.htm>.

161 New Civil Engineer, "Breaking the Saigon Code," New Civil Engineer, April 2005, <https://www.newcivilengineer.com/archive/breaking-the-saigon-code-01-04-2005/>.

Table 2-6: Examples of Companies Leveraging Hong Kong for International Certification

Enterprise	Strategy / Resource Utilization	Certifications	Target Markets
Anker	Integrated R&D between Shenzhen and Hong Kong; leveraged Hong Kong's status as an innovation hub.	CE (EU), FCC (US) Certifications	Global Markets
InnoCare	Utilized Hong Kong's regulatory mechanisms for a full-chain "Cross-border supply-Approval-Global export."	International PIC/S GMP Certification	Global (first domestic cell therapy product to achieve this)
Yunji Technology	Collaborated with PolyU for technical adaptation and scenario validation.	EU CE Certification (1st Mainland service robot to receive this)	Germany, Japan
PCI Tech	Utilized Hong Kong's compliance services for data security alignment in Smart City projects.	Local Data Security Certification (Avoided >30% in rectification costs)	Middle East
Baidu Apollo	Leveraged road test data from Hong Kong's complex traffic conditions for international validation.	International Autonomous Driving Certification	Singapore, UAE
EC (HK Company)	Passed the HKSAR government's stringent security assessment standards.	SRA A Security Review (Benchmark in Hong Kong information security)	Infrastructure & data protection

Chinese national standards have made significant progress in expanding their global footprint, yet their internationalization continues to face challenges that constrain broader acceptance. Chinese standards have been applied in overseas railway projects, with China having developed all 13 system-level international standards for high-speed rail under the International Union of Railways (UIC) and led or participated in over 300 international standard-setting projects, alongside a domestic railway network exceeding 160,000 km (including 46,000 km of high-speed rail).¹⁶² In the automotive sector, 35 Chinese vehicle standards have been adopted globally, covering safety, battery systems and charging devices.¹⁶³ Under the framework of the Regional Comprehensive Economic Partnership (RCEP), China has completed over 200 China-foreign standard comparisons, published 155 foreign-language versions of Chinese standards, and developed 12 international standards.¹⁶⁴ However, key challenges remain: overseas markets lack habitual trust in Chinese standards, foreign-language versions are insufficient, and local adaptation capacity is weak.

162 Xinhua, "China Spearheads All UIC Standards for High-Speed Rail Systems," [www.gov.cn](https://english.www.gov.cn/news/202411/16/content_WS6737ef9ac6d0868f4e8ed0a8.html) (State Council, PRC, November 2024), https://english.www.gov.cn/news/202411/16/content_WS6737ef9ac6d0868f4e8ed0a8.html.

163 Li Jiaying, "China Rises in NEV Rulemaking," [chinadailyhk.com](https://www.chinadailyhk.com/hk/article/627485#China-rises-in-NEV-rulemaking--2026-01-21), January 21, 2026, <https://www.chinadailyhk.com/hk/article/627485#China-rises-in-NEV-rulemaking--2026-01-21>.

164 China Economic Net (CE.cn). "RCEP标准协调与推广体系建成 赋能贸易便利化与中国标准出海" December 18, 2025. http://www.ce.cn/cysc/zljgd/202512/t20251218_2651031.shtml.

In this context, Hong Kong is increasingly positioned to play a pivotal “endorser” role in advancing the international recognition and credibility of Chinese national standards. In December 2024, the State Administration for Market Regulation (SAMR) and Hong Kong’s Electrical and Mechanical Services Department (EMSD) signed the “Quality and Safety Management Cooperation Arrangement”. This institutionalized cooperation mechanism not only formalizes regulatory alignment between the Mainland and Hong Kong, but also provides a credible pathway for Chinese national standards to gain international trust through Hong Kong’s globally recognized certification and quality assurance system. The practice of conducting testing and certification in Hong Kong has become a powerful brand that strongly supports Chinese Mainland enterprises in their global expansion. The mutual recognition arrangements (MRAs) established by the Hong Kong Accreditation Service (HKAS) cover 118 economies worldwide, meaning that test reports issued in Hong Kong are widely accepted by major international trading partners.¹⁶⁵ In effect, this mechanism serves as an “international passport” for China’s standards.

2.4.2 Trade Finance

Hong Kong’s trade sector ranks as its second most important industry, after finance, and accounts for 15% of GDP. At the same time, Hong Kong holds a prominent position as a global financial hub, distinguished by its capacity to integrate financial services with international supply chain management.

Hong Kong is currently home to approximately 360,000 SMEs, accounting for over 98% of all businesses and contributing around 50% of GDP.¹⁶⁶ Many of these are engaged in overseas markets and are heavily reliant on cross-border or offshore trade activities. There were around 70,000 companies, employing over 350,000 people, engaged in import and export trade in 2024. Yet these trading companies remain constrained by limited internal capital and financing capacity, making them dependent on Hong Kong’s trade finance services. As outlined in Chapter 1, trade finance helps bridge the time gap between shipment and payment settlement, which is essential for SMEs with limited cash reserves and longer cash conversion cycles. Using figures ranging from 2023 to 2025, Hong Kong’s trade finance gap was estimated to range between HKD 311.2 billion and HKD 519.1 billion, reflecting a substantial and still under-met demand for Hong Kong’s trade finance.¹⁶⁷

I. Hong Kong as a Trade Finance Hub

In recent decades, Hong Kong companies have increasingly shifted their international trade operations offshore, which has transformed the city into the world’s largest offshore trading center. While many of these trade activities no longer physically take place in Hong Kong, this development underscores

¹⁶⁵ HKSAR Innovation and Technology Commission, “Testing and Certification,” www.gov.hk, August 2025, <https://www.gov.hk/en/about/abouthk/factsheets/docs/testing.pdf>.

¹⁶⁶ HKSAR Trade and Industry Department, “Trade and Industry,” [Www.gov.hk](http://www.gov.hk), August 2025, https://www.gov.hk/en/about/abouthk/factsheets/docs/trade_industry.pdf.

¹⁶⁷ HKMA, “Project CargoX Recommendation Report,” January 2026, https://cdi.hkma.gov.hk/wp-content/uploads/Project_CargoX_Recommendation_Report.pdf.

its crucial role as a regional supply chain hub and orchestrator. It highlights Hong Kong's function in establishing real economic linkages between manufacturing industries in the Greater Bay Area (GBA), ASEAN, Belt and Road (B&R) countries, and overseas markets.¹⁶⁸ As a result, a substantial portion of trade financing in Hong Kong in recent years has been dedicated to financing merchandise trade that does not actually pass through Hong Kong. As of December 2025, 38% of trade financing in Hong Kong had been used to finance merchandising trade not touching Hong Kong.¹⁶⁹

In the current era of Chinese Mainland enterprises going global, Hong Kong serves as a key player providing a unique value-add in financing. Hong Kong's core advantage lies in its capacity to achieve deep integration between financial services and supply chain management. Trade finance is the bridge between these two domains. As Chinese Mainland companies continue their global expansion, Hong Kong's established expertise in trade and finance, coupled with its extensive experience in trade finance, makes it an ideal location for these companies to secure necessary financing for their operations and overseas ventures.

Successful global supply chain operations rely on the efficient management and synergy of four critical flows: of goods, funds, information and human resources.¹⁷⁰ One of the value-added benefits Hong Kong offers is utilizing trade finance to effectively link and integrate these four flows, ultimately allowing the construction of an integrated, one-stop service platform for Chinese Mainland enterprises seeking global reach. This entails distinctive value creation. Furthermore, if Hong Kong utilizes trade finance as a strategic penetration point for corporates expanding internationally, its service scope is not limited to meeting the enterprise's short-term liquidity needs. Through structural design, it extends upward to provide multi-layered financial solutions, such as leasing, equity financing and other sophisticated instruments.



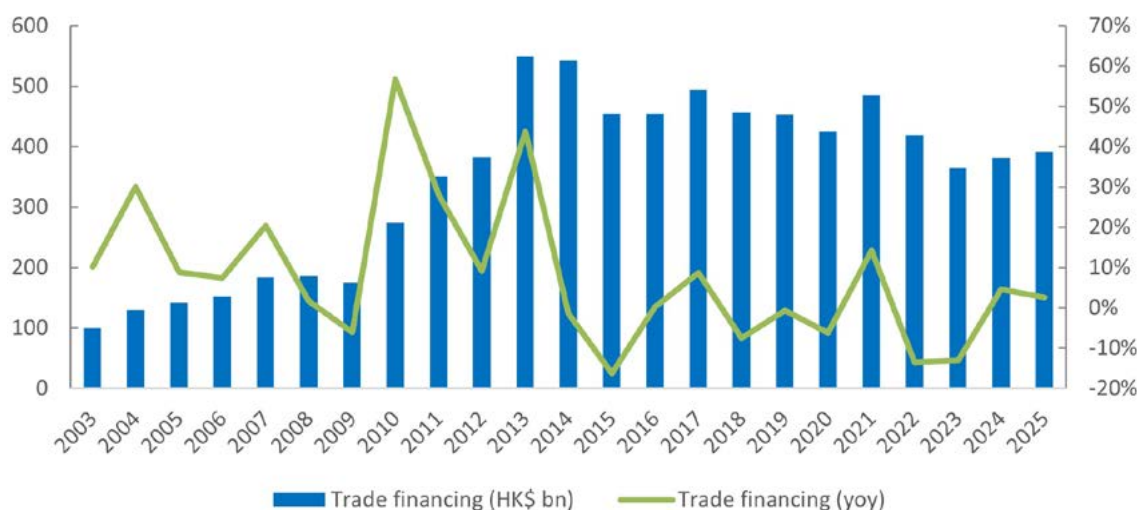
¹⁶⁸ 2022 Foundation, Building New Competitiveness for Hong Kong's New Era of Prosperity - Greater Bay Area Study Phase III Report, August 2023, https://www.2022foundation.com/images/GBA3_Report_ENG.pdf.

¹⁶⁹ HKMA, "Monetary Statistics for December 2025," Hong Kong Monetary Authority, January 30, 2026, <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2026/01/20260130-9/>.

¹⁷⁰ 2022 Foundation, Building New Competitiveness for Hong Kong's New Era of Prosperity - Greater Bay Area Study Phase III Report, August 2023, https://www.2022foundation.com/images/GBA3_Report_ENG.pdf.

In recent years, Hong Kong’s trade finance volume has declined, for reasons discussed below, prompting a need for structural upgrading to adapt to shifting global trade dynamics and a widening trade finance gap. Domestic trade finance loans peaked at HKD 550.2 billion as of end-2013—up from HKD 100.1 billion as of end-2003—but have fallen since, totaling HKD 381.2 billion as of end-2024, before picking up slightly to HKD 390.8 billion as of end-2025.

Figure 2-16: Domestic Loans for Trade Finance in Hong Kong



Source: Hong Kong Monetary Authority; Hong Kong Economic Policy Green Paper 2026

II. Pain Points in Trade Finance

From a global perspective, the persistent expansion of the trade finance gap highlights an urgent market demand for more efficient financial services. According to the most recent report on this subject from the Asian Development Bank (ADB), the global trade finance gap soared to USD2.5 trillion in 2022 and continues to exhibit a clear upward trajectory.¹⁷¹ Despite this immense global demand, Hong Kong’s trade finance volume has contracted. In the first phase of this study, our research team conducted in-depth analysis of the factors contributing to this decline in Hong Kong. They can be summarized as follows:¹⁷²

- Impact of shifting trade patterns and cross-border ecommerce.** The move toward small-batch, high-frequency consumer-goods trade with short delivery cycles challenges traditional trade finance models. Markets increasingly demand fast, flexible financing, requiring financial institutions to develop more adaptable products and streamline approval processes. For example, Shenzhen-based China Brilliant Global Limited offers supply chain financial services through a digital platform that can quickly evaluate customer credit using data from its supply chain partners and provide financing in just 1-2 days. Moreover, crossborder ecommerce—by linking Mainland manufacturers directly to overseas buyers—is eroding Hong Kong’s traditional role as a trade hub and weakening its traderelated industries.

171 Steven Beck et al., “2023 Trade Finance Gaps, Growth, and Jobs Survey,” ADB Brief, no. 256, September 2023. <https://doi.org/10.22617/brf230334-2>.

172 In addition to conducting extensive corporate research and interviews in Hong Kong, over July and August 2025, the research team has visited multiple cities, including Shenzhen, Guangzhou, Foshan, Dongguan, Zhuhai, Huizhou, Zhongshan, and Jiangmen, where we interviewed dozens of mainland enterprises, and held themed seminars in Guangzhou and Foshan on mainland enterprises’ use of Hong Kong trade finance.

- **Impact of interest rate cycles and changes in the Mainland financing environment.** In recent years till 2024, Hong Kong followed the US in raising interest rates, while the Chinese Mainland has entered a cycle of rate cuts, making Mainland financing costs lower than Hong Kong's. Strong state support is driving Mainland financial institutions to serve the real economy. For example, in September 2023 the State Council issued the "Implementation Opinions of the State Council on Promoting the High Quality Development of Inclusive Finance." On November 1, 2023, the National Financial Regulatory Administration issued the "Administrative Measures for the Capital of Commercial Banks" (the "New Capital Rules"). These reforms have facilitated inclusive and syndicated trade finance by introducing preferential risk weights for exposure to SMEs.
- **Issues with fragmented digital platforms.** Hong Kong has a number of trade-related digital platforms, both operational and in development. However, currently, these platforms are siloed across various departments and industry sectors. The absence of a strong governmental agency to drive platform integration leaves these platforms disconnected. Furthermore, the voluntary nature of many of these initiatives results in low industry participation and adoption.
- **Issues with lagging trade digitalization.** The progress of trade digitalization in Hong Kong remains slow. Trade finance, which fundamentally is short-term, transaction-based financing, hinges on reliable transaction data and seamless information exchange among all stakeholders—including buyers, sellers, banks, insurers, and shipping companies. Yet, Hong Kong's trade and finance sectors predominantly cling to traditional, paper-based methods like manual signatures, mailed or couriered documents, and in-person counter services. The city also lags in critical areas such as supply chain digitalization, automated logistics tracking, and smart contracts. Consequently, most trade finance processes in Hong Kong are still analogue, manual, and paper-intensive, and thus error-prone and time-consuming.
- **Issues of cross-border data flow and mutual recognition.** Currently, the Digital Policy Office of the HKSAR government has been actively promoting closer collaboration with the Chinese Mainland on digital infrastructure and data connectivity. However, Guangdong, Hong Kong, and Macao—the latter two being Special Administrative Regions under China's "One Country, Two Systems" arrangement—each maintain independent legal and regulatory systems and have different corporate registration systems and credit frameworks. As a result, relevant information and data have not yet achieved seamless cross-border flow. This poses challenges for cross-border businesses, which often face redundant documentation requirements and limited mutual recognition of credit information. These barriers hinder cross-border financing and lending for enterprises in both regions.
- **Issues with Hong Kong's export credit insurance.** More SMEs are exporting to emerging markets like ASEAN, but many struggle to obtain insurance due to limited scale. Improved access to export credit insurance would make it easier for Hong Kong SMEs to secure trade finance and strengthen their financing capacity. However, export credit insurers face several challenges. First, insufficient data: the operational data provided by some companies is not sufficient for comprehensive risk and credit assessment. Second, it is hard to develop reliable models linking buyers' import quotas to appropriate credit lines because relevant data and mature evaluation frameworks are lacking. Finally, industry data remains opaque—insurers do not share information, which hampers the creation of a comprehensive, accurate risk-assessment system.

- **Issues with international tax cooperation.** With the increasing number of investment projects in countries along the B&R, Hong Kong's banking industry is actively participating in related investment and financing business. However, Hong Kong enterprises face obstacles when expanding into emerging markets such as Kazakhstan and Brazil. The city has not signed comprehensive double taxation agreements with these trading partners, so enterprises face additional taxes on interest payments and dividends. This underscores the urgent need for stronger international tax cooperation to improve the business environment.

III. Hong Kong's Progress in Trade Finance

Such hindrances notwithstanding, Hong Kong has made significant progress toward modernizing and digitalizing its trade finance ecosystem:

Core Data Infrastructure: In 2022, the Hong Kong Monetary Authority (HKMA) officially launched the Commercial Data Interchange (CDI)¹⁷³, a consent-based business data sharing platform. By the end of 2025, the platform had connected 26 banks and 17 data providers.¹⁷⁴ The HKMA also initiated Project Cargo^X, a multi-year public-private strategic initiative to enhance trade finance.

Cross-Border Data Connectivity and Verification: The CDI platform has been directly linked with the Shenzhen-Hong Kong cross-boundary data validation platform, launched in May 2024¹⁷⁵, allowing Hong Kong banks to verify personal and corporate data through trusted Mainland data providers. The Trade Single Window has completed its first and second phases, covering 42 types of trade documents¹⁷⁶, allowing businesses to submit business-to-government (B2G) trade documents in one place. In May 2025, Hong Kong's Commerce and Economic Development Bureau signed a cooperation arrangement with the General Administration of Customs of China on single window integration, further strengthening system connectivity between the Mainland and Hong Kong.¹⁷⁷

Regional Cooperation: Hong Kong and ASEAN are piloting the exchange of electronic Certificates of Origin between the ASEAN Single Window and Hong Kong's Trade Single Window.¹⁷⁸

Digitalization Initiatives: Through HKMA's Project Ensemble, Hong Kong is exploring the use of electronic bills of lading (eBL) and leveraging central bank digital currency (CBDC) and tokenized deposits to enhance settlement efficiency. Industry consultations concluded in March 2026 on legislative amendments referencing the Model Law on Electronic Transferable Records (MLETR) to

173 HKMA, "Commercial Data Interchange (CDI)," Hong Kong Monetary Authority, November 2025, <https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/fintech/research-and-applications/commercial-data-interchange/>.

174 HKMA, "Project Cargo X Recommendation Report," January 2026, https://cdi.hkma.gov.hk/wp-content/uploads/Project_CargoX_Recommendation_Report.pdf.

175 HKMA, "香港金融管理局 - 跨境徵信及數據驗證研討會歡迎辭," Hong Kong Monetary Authority, October 10, 2025, <https://www.hkma.gov.hk/chi/news-and-media/speeches/2025/10/20251010-1/>.

176 CEDB, "CEDB and GACC Sign Cooperation Arrangement on Single Window between Mainland and Hong Kong (with Photos)," Commerce and Economic Development Bureau, May 2025, https://www.cedb.gov.hk/en/news/press_release/2025/pr19052025a.html.

177 Ibid

178 CEDB, "Pilot Project on E-Trade Document between Hong Kong and ASEAN (with Photos)," Commerce and Economic Development Bureau, September 2025, https://www.cedb.gov.hk/en/news/press_release/2025/pr26092025c.html.

provide a legal basis for digitizing business-to-business (B2B) trade documents such as bills of exchange, promissory notes, and bills of lading. Legislative proposals are expected in 2026.¹⁷⁹ The HKSAR government's digital corporate identity system (CorpID) is also scheduled for launch in 2026. It will be fully integrated into these digitalization efforts to simplify banks' Know Your Customer (KYC) and corporate identity verification processes, providing a seamless legal and operational foundation for digital trade transactions.¹⁸⁰

Box 2-2 Government Initiatives for Trade Finance

In the first phase of this report, the 2022 Foundation's research team submitted a trade finance report to the HKSAR government in July 2025. It put forward a series of policy recommendations aimed at strengthening Hong Kong's trade finance ecosystem. Key proposals included improving digital trade platforms, accelerating the digitalization of trade documents, and promoting cross-border collaboration in digital trade systems. We are pleased to note that several of these recommendations aligned with subsequent policy developments, reflecting growing policy attention to the role of digital infrastructure in facilitating trade finance.

The Chief Executive's 2025 Policy Address, delivered in September 2025, proposed promoting digital trade to support trade finance, outlining several key measures¹⁸¹ :

1. The HKMA will develop a roadmap for Project Cargo^X (The "Cargo^X Recommendation Report"¹⁸² was released on 19 January 2026). Through CDI and working with the Airport Authority Hong Kong (AAHK) and the Port Community System, the trial project will leverage cargo data to reduce credit costs and processing time for banks and SMEs (see Table 2-7).
2. The HKMA will explore cross-boundary financial collaboration with the Shanghai Data Bureau and other parties under Project Ensemble, such as the application of eBL as well as advancing connections with CDI and Cargo^X to facilitate trade finance with the use of cargo data.
3. A logistics provider will be recruited as an additional pilot participant of the Cross-boundary Express Cargo Clearance Facilitation Arrangement to enhance the efficiency of e-commerce shipment.
4. The Trade Single Window will be expanded progressively to cover more trade documents. In parallel, the government, together with the Mainland's General Administration of Customs, will work to connect the single windows of Hong Kong and the Mainland, and explore the feasibility of extending the existing "Single Submission for Dual Declaration" Scheme to include other trade documents and transport modes. In addition, the government will discuss the possibility of connecting Hong Kong's single window with that of ASEAN.
5. The government will introduce a legislative proposal in 2026 for the digitalization of B2B trade documents.

179 HKSAR Government, "Government Launches Industry Consultation on Proposed Legislative Amendments to Facilitate Digitalisation of Business-To-Business Trade Documents," Info.gov.hk, December 29, 2025, <https://www.info.gov.hk/gia/general/202512/29/P2025122900233.htm>.

180 Innovation, Technology and Industry Bureau, "Innovation, Technology and Industry" (www.gov.hk, January 2026), <https://www.gov.hk/en/about/abouthk/factsheets/docs/technology.pdf>.

181 Government of the HKSAR, The Chief Executive's 2025 Policy Address, "Promote Digital Trade," para. 110, accessed April 14, 2026, <https://www.policyaddress.gov.hk/2025/tc/p110.html>.

182 HKMA, "Project Cargo^X Recommendation Report," January 2026, https://cdi.hkma.gov.hk/wp-content/uploads/Project_CargoX_Recommendation_Report.pdf.

Table 2-7: Project Cargo^x Strategic Framework

Level	Category	Description / Key Objectives
The Pillars	Data	Accelerate data-enabled trade finance automation and availability. Provide banks with digital data to enable automation and enhanced credit decision-making.
	Infrastructure	Improve digital trade infrastructure. Facilitate the development of infrastructure necessary to enable end-to-end paperless trade both in Hong Kong and overseas.
	Connectivity	Increase connectivity and maintain Hong Kong's competitiveness. Preserve Hong Kong's status as a premier global trade hub through effective domestic and international policies.
The Foundations	Processes	Automation of banks' trade processes; Increased availability of trade finance.
	Digitalization	Digital documents; Digital identity and payments.
	Ecosystem	Connectivity with key trade corridors; Overall ecosystem enhancements.
The Initiatives	Data & Analytics	1. Integrate gov cargo/trade data; 2. Source commercial data; 3. Facilitate counterparty due diligence; 4. Access historical data; 5. Use e-commerce data for underwriting; 6. multi-dimensional credit assessment; 7. SME credit scoring; 8. Develop new products.
	Legal & Tech	9. Study full digitization/paperless trade; 10. Align legislation with MLETR; 11. Evaluate trade finance document registry; 12. Promote digital identity; 13. Explore innovative payment mechanisms.
	Global Reach	14. Strengthen Mainland connectivity; 15. Explore ASEAN Single Window; 16. Connect overseas corridors; 17. Adopt interoperable standards; 18. Enhance supply chain ecosystem; 19. Enhance receivables financing; 20. Increase trade credit insurance.
The Enablers	Collaboration	Private-public partnership; Rapid testing of initiatives using pilots; Cross-sector and cross-border collaboration.

Source: Project Cargo^x Recommendation Report¹⁸³

2.4.3 “Dual-Headquarters” Center

For Mainland enterprises pursuing overseas expansion, establishing a regional headquarters in Hong Kong as part of a Hong Kong-Mainland “dualheadquarters” structure is an optimal strategy in the

183 HKMA, “HKMA Publishes Project Cargo^x Recommendation Report,” Hong Kong Monetary Authority, January 19, 2026, <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2026/01/20260119-3/>.

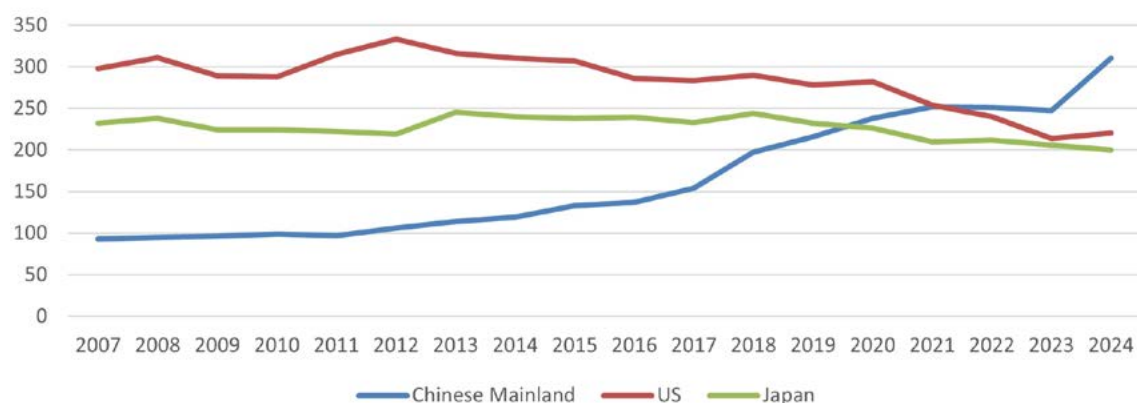
current wave of globalization. Hong Kong offers seamless connectivity to the Chinese Mainland, worldclass financial, legal and professional services, favorable tax and capitalflow regimes, and access to international talent and markets. A Hong Kong regional headquarters enhances credibility with global partners and investors, facilitates crossborder treasury, financing and compliance functions, and supports market entry and supplychain coordination across Asia and beyond—while the Mainland headquarters retains control of core R&D, production, and domestic operations, given the Mainland’s lower rental and labor costs, and comparative advantage in applied science research and manufacturing. This dual-headquarters model enables both risk diversification and operational agility.

In this model, the Hong Kong headquarters concentrates on three core functions:

- **Corporate Treasury Center:** Leverage Hong Kong’s free capital flows, low tax burden, and sophisticated foreign exchange market to establish a global cash-management system, conduct risk hedging, and expand offshore financing channels.
- **Human Resources Service Center:** Attract and manage international, highend talent to support the enterprise’s global business development.
- **“Going Global” Service Center:** Centralize resources and expertise, using Hong Kong’s international hub status and established financial and trade networks to offer Mainland enterprises onestop “going out” services, especially for investment and expansion in Global South countries and regions.

In 2014, Chinese Mainland enterprises accounted for about 8.6% of regional headquarters established in Hong Kong; by 2024 this share had risen to approximately 22.3%. The growing number and proportion of Mainland firms locating regional headquarters in Hong Kong demonstrates a clear upward trend, solidifying their role as a key growth engine for the city’s headquarters economy. In response, the GoGlobal Task Force, first mentioned in the Chief Executive’s 2025 Policy Address, was officially launched on October 6, 2025. Recently, several prominent Mainland firms have established a strategic presence in Hong Kong. Most notably Alibaba Group and Ant Group announced on October 17, 2025 that they would invest about HKD 7.2 billion to acquire an office building in Causeway Bay for their Hong Kong headquarters. Companies such as BrainCo (one of the “Six Little Dragons of Hangzhou”) and Li Auto have already set up operations in the city.

Figure 2-17: Number of Regional Headquarters by Select Origins of Parent Companies (%)



Source: Census and Statistics Department (Table 325-43011A)

While Hong Kong’s “dual-headquarters” model is emerging as an effective strategy for Mainland enterprises seeking global expansion, similar headquarters-based development paths can also be observed in other successful small open economies. Ireland, in particular, has successfully positioned itself as a strategic base for multinational corporations by combining a competitive tax framework, strong institutional support, and a coordinated industrial policy system. Its experience demonstrates how a small open economy can leverage policy design and institutional capacity to attract global firms, embed them into local industrial ecosystems, and transform foreign investment into long-term drivers of economic growth. The following box presents Ireland as a case study, highlighting key policy instruments and institutional mechanisms that enabled it to become a major hub for multinational corporations and global value creation.

Box 2-3: Ireland as a Case Study

A small open economy, Ireland has, over the past few decades, successfully attracted and embedded many multinational corporations through continuously evolving tax arrangements, clear industrial guidance, and a highly centralized implementation mechanism. The industrial policy system centered on the Industrial Development Authority (IDA Ireland) has enabled multinational investment to be transformed into endogenous drivers for local industrial upgrading, human capital accumulation, and regional coordinated development.

I. Tax Policies

Ireland promotes the entire innovation cycle through two interlinked incentives: the R&D Tax Credit (RDTC)¹⁸⁴ and the Knowledge Development Box (KDB)¹⁸⁵. The RDTC delivers upfront, refundable support to reduce risks at the early R&D stage, while the KDB offers a lower corporate tax rate on income generated from qualifying intellectual property. Importantly, R&D expenditure eligible for the RDTC also underpins calculation of KDB-qualified income, in line with the OECD Nexus Principle.¹⁸⁶ Such a tax design creates strong incentives for multinational firms to locate their core R&D activities, ownership of intangible assets, and real economic substance in Ireland, instead of treating it solely as a jurisdiction for profit allocation.

184 The R&D Tax Credit is calculated as a percentage of qualifying R&D expenditure. While the rate was previously set at 25%, it increased to 30% for accounting periods beginning on or after 1 January 2024. (Irish Tax & Customs, “Research and Development (R&D) Tax Credit,” Revenue.ie, June 2025, <https://www.revenue.ie/en/companies-and-charities/reliefs-and-exemptions/research-and-development-rd-tax-credit/index.aspx>.)

185 From 1 October 2023, companies qualifying for the KDB regime may claim a deduction of 20% of qualifying profits, resulting in an effective tax rate of 10%. For periods up to 30 September 2023, the regime allowed a 50% deduction, corresponding to an effective tax rate of 6.25%. (Irish Tax & Customs, “Knowledge Development Box (KDB),” [www.revenue.ie](https://www.revenue.ie/en/companies-and-charities/reliefs-and-exemptions/knowledge-development-box-kdb/index.aspx), November 2025, <https://www.revenue.ie/en/companies-and-charities/reliefs-and-exemptions/knowledge-development-box-kdb/index.aspx>.)

186 The Nexus Principle requires that for a significant proportion of IP income to qualify for tax benefits, a significant proportion of the actual R&D activities must be undertaken by the qualifying taxpayer itself. (OECD, “OECD/G20 Base Erosion and Profit Shifting Project Action 5: Agreement on Modified Nexus Approach for IP Regimes,” 2015, <https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/harmful-tax-practices/beps-action-5-agreement-on-modified-nexus-approach-for-ip-regimes.pdf>.)

Table 4-1: An Overview of the Evolution of Tax Policies for Attracting FDI in Ireland

Period	Policy Tool	Main Purpose	Core Impact
1956	Export Profit Tax Relief ¹⁸⁷	Attract export-oriented manufacturing	Establish preliminary framework for FDI attraction
1989	Allow the International Financial Services Centre economic zone established in Dublin city center to implement a 10% “special rate” for manufacturing ¹⁸⁸	Develop financial services	Promote Dublin as a European financial hub
Period	Policy Tool	Main Purpose	Core Impact
2003	12.5% unified corporate tax rate ¹⁸⁹	Comply with EU standards and maintain competitiveness	Establish long-term investment stability
2015	Phased out the “Double Irish” arrangement, completely eliminated by 2020 ¹⁹⁰	Respond to international anti-tax avoidance pressure	After abolishing the Double Irish structure, Ireland implemented new tax incentives to retain foreign investment and encourage multinational firms to locate their intellectual property in the country.
2021	Implementation of the 15% OECD Pillar Two minimum tax rate ¹⁹¹	Align with global tax reform and increase fiscal resilience	Ensure tax compliance for large multinational corporations

II. Institutional Strength of IDA Ireland

The success of Ireland’s industrial policy lies not only in the policy content itself but also in the unique institutional setup of its implementing agency—IDA Ireland. As a semi-state agency, IDA Ireland is managed by an independent board and possesses strong administrative powers in designing financial incentive packages and managing industrial land. This “strong institution” status enables it to lead cross-departmental policy coordination, ensuring seamless alignment of infrastructure such as education, transportation, and energy with the needs of foreign investment. Subsequently, IDA Ireland is not only responsible for investment promotion but also emphasizes overall regional development and it can directly influence the construction of physical infrastructure to support these goals. For example, IDA Ireland constructed advanced technology buildings in regional centers such as Athlone and Mullingar. This reduced the time cost and risk for companies to set up operations. By placing regional development at its core, this strategy has not only alleviated infrastructure pressure

187 Frank Barry and Adele Bergin, “Offshoring, Inward Investment and Export Performance in Ireland,” ESRI, Trinity College Dublin, 2012. <https://www.esri.ie/system/files/media/file-uploads/2015-07/WP430.pdf>.

188 Center for City Development Policy, “Ireland’s FDI Success Story: A Policy Framework Analysis,” Cdp.center, February 2025, <https://www.cdp.center/post/irelands-fdi-success-story-a-policy-framework-analysis>.

189 Lysle Boller, Wanling Luo, and Xiaoyue Sun, “The End of the Double Irish: Implications for US Multinationals and Global Tax Competition,” Penn Wharton Budget Model, October 14, 2024, <https://budgetmodel.wharton.upenn.edu/p/2024-10-14-the-end-of-the-double-irish/>.

190 Ibid. The “Double Irish” was a tax avoidance strategy used by US multinationals to shift profits to low-tax jurisdictions and reduce US tax liabilities. It involved two Irish subsidiaries: one held intellectual property and the other routed profits through royalty payments. Irish tax loopholes allowed profits to be assigned to low-substance entities, avoiding taxation. The profits were then transferred onward to jurisdictions such as Bermuda.

191 The 15% tax rate is expected to apply to roughly 1,500 firms in Ireland, mainly foreign-owned multinational companies. Firms with global revenues under €750 million will be excluded and will continue to face the 12.5% corporate tax rate. (Forvis Mazars, “OECD Minimum Tax Rate: What to Expect Following Ireland’s Agreement,” Forvismazars.com, 2021, <https://www.forvismazars.com/ie/en/insights/news-opinions/oecd-minimum-tax-rate>.)

on Dublin but has also created differentiated industry clusters nationwide: the medical device cluster in the West (Galway), the biopharmaceutical cluster in the South and Mid-West (Cork, Limerick), and a nationwide international financial services network. Data from 2024 shows that foreign enterprises supported by IDA Ireland directly employed over 250,000 people, equivalent to 20% of private sector employment.¹⁹² According to IDA Ireland, every ten jobs created by these foreign enterprises can induce the creation of eight related jobs in the local economy.¹⁹³

III. Enterprises Globalization Hub

For non-EU SMEs (especially from the US or Asia) wanting to enter the European market, Ireland is usually used as a testbed for regulated markets. According to data from the U.S. Department of Commerce's International Trade Administration, there are more than 970 US companies employing 211,000 people across Ireland,¹⁹⁴ leveraging it as a gateway to the EU market of 450 million consumers. This gateway advantage is particularly pronounced in the most highly regulated and technically stringent field of life sciences. In 2024, Ireland had become Europe's leading life sciences and medical technology hub, with the highest per capita investment in Europe. Currently, Ireland clusters over 700 life science enterprises, including all members of the global top ten pharmaceutical companies and nine of the top ten medical device companies. 46.1% of venture capital investment in Ireland's life sciences and medtech sector flowed into late-stage and growth-stage projects, indicating that a significant number of enterprises are using Ireland as a strategic pivot to complete clinical testing, achieve scale, and subsequently move into the global market.¹⁹⁵

As a bridgehead for simultaneously accessing both the EU and UK markets in the post-Brexit era, Ireland, with its unique legal advantages, has become an indispensable legal and operational transit point for SMEs laying out their global value chains. By utilizing the special arrangements of the Windsor Framework¹⁹⁶, enterprises use Ireland as a logistics and regulatory compliance hub, enabling them to efficiently handle business for both the EU Single Market and the UK market. Furthermore, Ireland's natural English-speaking environment coupled with its EU membership provides significant convenience and certainty for enterprises in global operations.

192 Department of Enterprise, Trade and Employment, "Foreign Direct Investment (FDI)," Department of Enterprise, Trade and Employment, n.d., <https://enterprise.gov.ie/en/What-We-Do/Trade-Investment/Foreign-Direct-Investment-FDI/>.

193 Siedschlag, I., Duran Vanegas, J., McLoughlin, R., and De Hora, D. The impact of the global tax reforms on Ireland's attractiveness to foreign direct investment and the wider economy, ESRI Working Paper 761, Dublin: ESRI, 2023. <https://www.esri.ie/publications/the-impact-of-the-global-tax-reforms-on-irelands-attractiveness-to-foreign-direct>.

194 U.S. Department of State, "2025 Investment Climate Statements: Ireland," United States Department of State, 2025, <https://www.state.gov/reports/2025-investment-climate-statements/ireland>.

195 Enterprise Ireland, "Ireland's Lifesciences & Health Tech Landscape," Enterprise-ireland.com, 2025, <https://www.enterprise-ireland.com/en/ireland-lifesciences-and-health-tech-landscape>.

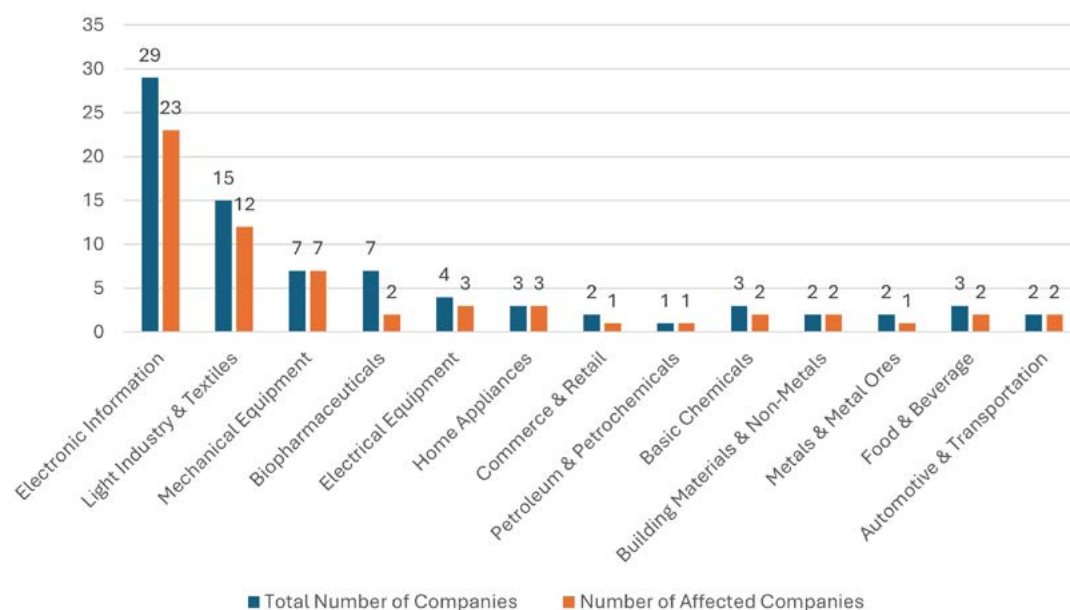
196 The Windsor Framework is an agreement between the UK and the EU to address problems arising from the Northern Ireland Protocol and ensuring a balance between Northern Ireland's access to the UK internal market and the EU market. By reducing unnecessary bureaucracy and checks, the framework restores the smooth flow of trade within the UK internal market and safeguards Northern Ireland's position within the UK. (HM Government, "The Windsor Framework: A New Way Forward," February 2023, https://assets.publishing.service.gov.uk/media/63fccf07e90e0740d3cd6ed6/The_Windsor_Framework_a_new_way_forward.pdf.)

2.5 Field Research in the GBA: Outward Investment by Manufacturing Industries amid China-US Trade Frictions

2.5.1 Research Background

Researchers for this study conducted on-site investigations from July to September last year in eight Mainland cities within the GBA. The purpose was to gain an in-depth understanding of the impact of China-US trade frictions on manufacturing industries in the GBA; Hong Kong's expanding role and significance as an overseas development platform for Mainland enterprises, and cross-border layout trends of Mainland enterprises in the GBA. Through symposiums, enterprise interviews, factory visits and other methods, the team met with about 80 enterprises in Shenzhen, Guangzhou, Dongguan, Jiangmen, Huizhou, Zhongshan, Foshan and Zhuhai, covering more than 10 industries (among them, electronic information, light industries and textiles, mechanical equipment, biomedicine, power equipment, household appliances, commerce and retail, petroleum and petrochemicals, basic chemicals, building materials and non-metallic products, metals and metal ores, food and beverages, and automobiles). Of the 80 enterprises interviewed, 61 (76%) said they had been affected by China-US trade frictions.

Figure 2-18: Proportion of Interviewed Enterprises Affected by China-US Trade Frictions (%)



Note: The above data is based on the enterprises visited by the research team from July to August 2025.

In addition, the research team held 10 enterprise symposiums in Guangdong Province, inviting representatives of local government agencies, chambers of commerce and associations, foreign trade enterprises, financial institutions and others to conduct in-depth exchanges. Based on the distribution of interviewed enterprises across different industries, the research focuses on four key sectors: electronic information, light industries and textiles, machinery manufacturing, and biomedicine for in-depth analysis.

2.5.2 Electronic Information

I. Impact of China–US Trade Frictions

The electronic information industry still relies heavily on imports for a large number of high-end precision equipment and core components. For example, many types of testing and production equipment, as well as high-end machine tools, need to be imported from developed countries such as the US, Japan and Germany. The US has the world's most cutting-edge technologies, but it imposes numerous export controls on Chinese enterprises. As a result, Chinese enterprises face systemic exclusion in the field of high-end core technologies. Furthermore, international customers such as NVIDIA, Amazon and Google adopt a penetrating certification approach, conducting full-chain audits of raw material traceability and supplier qualifications. This puts Chinese-funded enterprises—many of which struggle to access advanced technologies legally—at a disadvantage in procurement.

Second, more than one-third of the interviewed enterprises reported that US tariffs on China have eroded their profit margins. Some have been forced to transfer production capacity to countries such as Vietnam and export indirectly from there to evade tariffs. Taking optical lenses as an example, Chinese optical lenses faced US tariffs as high as 54%, while the tariff on similar products from Vietnam is only 20%. Consequently, some manufacturers transport semi-finished products from Foshan to Vietnam for assembly, and label them as “Made in Vietnam” for export to the US to avoid the higher tariffs. Some enterprises indicated they will expand production in Vietnam, reduce production in China, and even produce the latest generation of products in Vietnam. Faced with the potential pressure of supply chain relocation from US customers, some enterprises have taken the initiative to reduce the proportion of their business with the US (e.g., one instrument and meter manufacturing enterprise cut its US business proportion from 80% to 50%).

Third, some enterprises shared that although it is currently possible to export to the US market indirectly by producing in Southeast Asian countries and obtaining local certificates of origin, the US can still trace the origin of core raw materials and components and impose additional tariffs on such imports based on the “substantial transformation” criterion in the determination of the origin of the goods. Therefore, in the short term, some enterprises still plan to keep most of their production capacity in China, while the medium and long-term strategies will depend on the further development of China–US trade policies.

II. Trends in Enterprises' Global Expansion

Among electronic information enterprises sampled, about 58% have already gone global or plan to do so, and about 42% have no such plan, showing no overall trend of large-scale blind relocation overseas. Approximately 77% said their main reason for going out is to meet the requirements of overseas customers. About 53% indicated that evading US tariffs is an important factor.

Figure 2-19: Global Footprint of Interviewed Enterprises

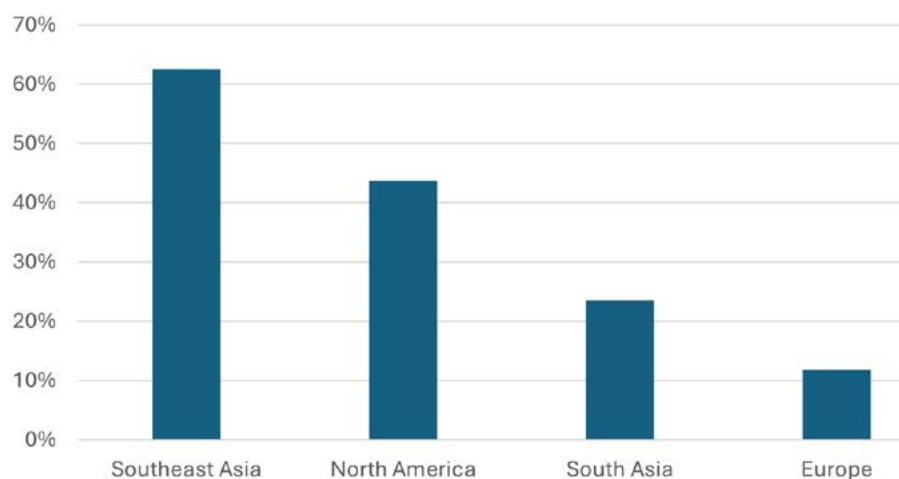
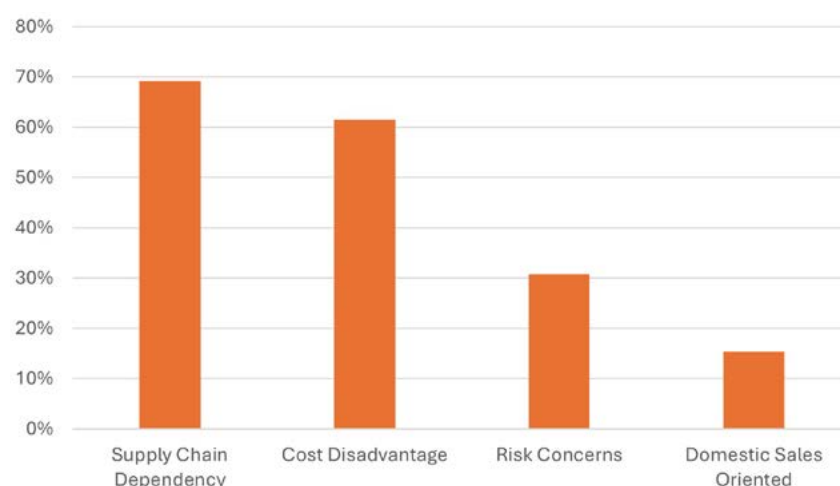


Figure 2-20: Core Reasons for Interviewed Enterprises *not* to Go Global



In terms of overseas relocation and operations, Southeast Asia is the preferred destination, with most enterprises choosing Vietnam, Thailand, the Philippines and Indonesia. The primary reasons include proximity to the Mainland cities in the GBA, low logistics costs, labor cost advantages, mature local electronic assembly industry foundation that can quickly undertake low and medium-end manufacturing stages, as well as tax incentives introduced by Vietnam and Thailand to attract foreign investors. For example, after setting up a factory in Vietnam, one instrument and meter manufacturing enterprise not only evaded tariffs but also reduced production costs by leveraging the lower local labor costs (about one-third of that in the Pearl River Delta (PRD)), saving more than 20 million yuan in costs per factory annually. An optoelectronic device manufacturing enterprise built a production base in the Philippines to radiate out to Southeast Asian and North American markets, mainly to shorten the logistics cycle and respond quickly to customer orders. Some enterprises have also established production bases in North America (mainly Mexico), primarily to access the US market with lower tariffs and provide more efficient services to local US customers. For example, an electronic circuit manufacturing enterprise plans to build a factory in Mexico to meet the “local content” requirements of North American automotive electronics customers. It expects that its US market orders will increase by 15%-20% after the plant is put into production.

The research found that many enterprises in the GBA adopt an asset-light model for production, such as “cooperative OEM manufacturing” and “assembly base” models. For instance, one optoelectronic device manufacturing enterprise adopted the “factory leasing + local OEM” model in the Philippines, with an initial investment only one-fifth of that of building a factory from scratch by itself and achieving production within six months. Generally, however, leading Mainland enterprises in the GBA choose to build their own factories because they need to maintain control over production capacity and quality, and drive supporting upstream and downstream industrial chains.

Some enterprises also shared that several countries in Southeast Asia face problems such as poor infrastructure, unstable power supply, shortage of highly skilled talent, and incomplete industrial chains. In addition, many core components still need to come from Mainland suppliers in the PRD, resulting in a higher comprehensive cost than manufacturing in China. Therefore, most enterprises keep higher-value processes in the GBA and transfer only low-tech, labor-intensive processes to Southeast Asian countries.

III. Representative Cases

Case 1: An optical company

Founded in the 1990s, the company independently engages in R&D, design and production of single-lens reflex camera lenses, vehicle-mounted lenses, high-resolution mobile phone lenses and various optical components. In addition to the production of its own brand, the enterprise has long undertaken OEM processing orders for well-known domestic and foreign optical and vehicle-mounted brands, occupying an important position in the global optical industry chain.

1. Impact of China-US trade frictions: Last year, the US once imposed a 54% tariff on Chinese-made optical lenses, while the tariff on similar products from Vietnam was only 20%. As a result, many manufacturers transport semi-finished products from China to Vietnam for assembly and label them as “Made in Vietnam” for export to the US to avoid high tariffs. Local factories mainly focus on low-end assembly tasks, while high-value-added design and precision processing remain concentrated in China.
2. Industrial chain relocation driven by leading enterprises: The relocation of leading enterprises has driven many upstream and downstream enterprises to move to Vietnam and Thailand. Due to fierce domestic competition and long collection periods, export sales remain mainstream at present.
3. Plans in the future: In terms of production capacity distribution, the factory in Japan currently accounts for 10%, the factory in Foshan for 60%, and the factory in Vietnam for 20%. The company planned to raise production capacity share in Vietnam to 45% and reduce the Foshan capacity share to 45% in the future, transferring some orders and production capacity to Vietnam specifically for the US market. In the past, semi-finished products were mainly produced in Foshan and assembled into finished products in Vietnam for export to the US; the company now plans to expand production in Vietnam in the future, even for the latest generation of products.

4. Difficulties in going global: Recruiting workers in Vietnam is currently difficult, skilled workers are easily “poached,” and Chinese translators are in short supply, which reflects the significant presence of Chinese enterprises there. The company plans to transfer some orders from the Foshan factory to Vietnam for production, while retaining high-complexity products in China.

5. Hong Kong’s role: The company primarily uses Hong Kong as a treasury and logistics center. Because Hong Kong has free capital flows and no foreign exchange controls, all major capital transactions are conducted in Hong Kong. In addition, Hong Kong has a large number of international air routes, so the company chooses to air freight goods to the US, Germany, France, Italy and other places through its Hong Kong sales office.

6. New growth drivers: Live streaming and online marketing are driving rapid domestic growth, and intelligent vehicle-mounted products are emerging as a new growth point. Short videos and live streaming have driven the growth of camera lens sales, mainly purchased by the post-2000 generation. In addition, the domestic growth point for the company is predicted to be its intelligent vehicle-mounted business due to the high demand for lenses and cameras, featuring low prices and high sales volume. Domestic competitors are mainly distributed in Yuyao (Zhejiang), Shangrao (Jiangxi), Nanyang (Henan), Dongguan (Guangdong) and Zhongshan (Guangdong).

Case 2: A new materials group

The company’s core products cover negative electrode materials such as natural graphite, artificial graphite and silicon-based materials, as well as high-nickel ternary positive electrode materials. Its customer network covers major global lithium battery manufacturers.

1. Impact of relevant US laws and investigations: The US Inflation Reduction Act (IRA) and the Infrastructure Investment and Jobs Act (IIJA) stipulate that US automakers using Chinese inputs will be barred from receiving subsidies, thereby affecting product sales. In addition, the US launched an anti-dumping and countervailing investigation into Chinese negative electrode materials, and finally ruled to impose a 160% tariff, making it basically impossible for Chinese negative electrode materials to be exported to the US. In response to the investigation, the company hired a team of experts including lawyers recommended by leading US clients to conduct continuous negotiations with the U.S. Department of Commerce, incurring additional high legal costs. At present, the company can only adopt a transit model of supplying Japanese and Korean enterprises from China, which then manufacture batteries for export to the US. However, this model needs to be fully switched by December 2026, or else the company will face the risk of losing US market share, bringing urgent time pressure for supply chain adjustment.

2. Reasons for going global: In addition to tariffs, severe involution in the domestic market is an important factor. In 2024, the global production capacity of negative electrode materials increased by 35% yoy, but the demand growth rate was only 20% yoy, the average operating rate in the industry was less than 60%, and prices dropped by 30% yoy. The enterprise observed that competition has become so cut-throat at the lower end of the domestic market that it must seek new value growth.

3. Overseas expansion strategy: Faced with current challenges, the enterprise chose Indonesia as its first stop for going global because Indonesia has a quarter of the world's laterite nickel ore reserves, and production factor prices are relatively low, along with obvious tax advantages. In addition, the company also selected Morocco in North Africa as a bridgehead to enter the European market, mainly serving local automakers in Europe. Up to now, it has formed a global strategic framework supported by overseas presence in Indonesia and Morocco, plus branch companies in Japan, South Korea and Europe. However, European countries have higher environmental requirements, leading to slow project progress.

4. Hong Kong's role and functions: The company has established an overseas investment company in Hong Kong, which not only invests in overseas projects but also serves as the vehicle for a future initial public offering (IPO) in Hong Kong. The enterprise believes that the vitality of Hong Kong as an international financial center is of great importance, and that continuous financial innovation is needed to attract more domestic and foreign investors.

2.5.3 Light Industries and Textiles

I. Impact of China-US Trade Frictions

Our sample enterprise research shows that China-US trade frictions have had a severe impact on light industries and textiles in the PRD, with more than 85% of enterprises stating they had been negatively impacted to varying degrees, and only 6.7% achieving counter-trend growth.

A well-known toy manufacturing enterprise experienced severe frustration when more than 300 containers were stranded at a US port due to the tariff deadlock. At the same time, the high cost of overseas warehouse leasing and heightened uncertainty over future orders pushed the enterprise's operations into crisis mode.

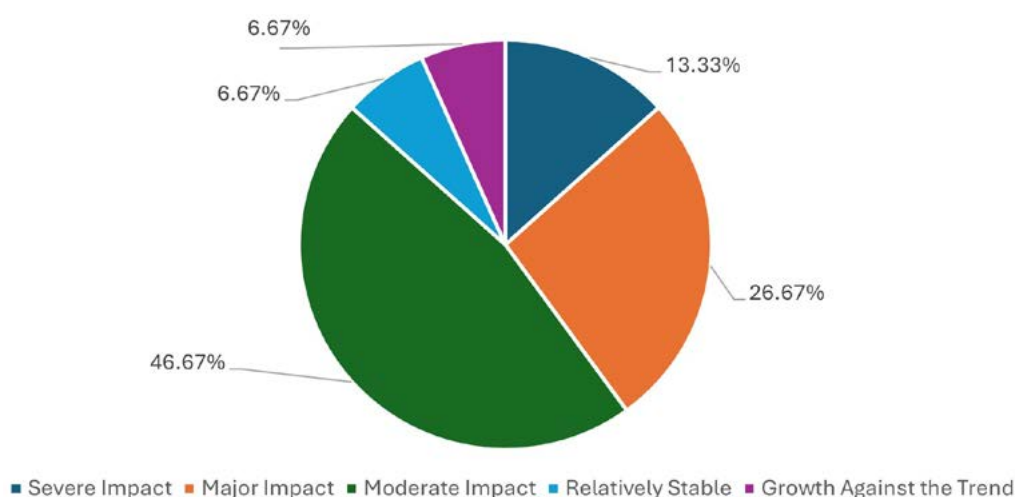
An optical glass manufacturing enterprise had to transfer its export production capacity to Vietnam, resulting in increased costs because of production network adjustment and a sharp surge in customs compliance costs. This led to an extension of order delivery cycles and challenges to supply chain stability.

A paper product manufacturing enterprise suffered a significant loss of export orders due to relocations of supply chain and reduced US orders. It now needs to rely on new domestic orders to support business growth.

US orders for a well-known textile and garment enterprise dropped sharply. Although its domestic sales business has already started, the profit margin is thin, making it difficult to fully make up for the loss of export sales. After the US tariffs took effect, a woven garment manufacturing enterprise saw its US customers suspend orders, and the group's order outsourcing left its Zhongshan factory in "semi-stagnation," with the risk of worker turnover. A shoemaking enterprise's revenue dropped sharply, necessitating a readjustment of its business structure to adapt to market changes.

A small number of enterprises in the PRD have managed to counter the downward trend and achieve growth. For example, the big-box customer in the US of a daily hardware producer in Foshan relies on the enterprise's large supply capacity. As a result, the US customer has borne all tariff costs. Stability in demand for basic products and a high level of dependence by customers have been key to this enterprise's ability to tolerate risk.

Figure 2-21: Trade Friction Impact on Sampled Light Industry and Textile Enterprises (%)



In terms of types of impacts, the rise in tariff costs is the most common factor affecting labor-intensive light industries and textile enterprises. Production capacity transfer has become a passive but necessary response by many. Most are transferring to Southeast Asian countries to evade tariff barriers. For example, an optical glass manufacturing enterprise had to transfer its export production capacity to Vietnam; a knitted or crocheted fabric weaving enterprise shifted more US orders to its Vietnamese factory; and an electronic musical instrument manufacturing enterprise plans to reduce its domestic production capacity and number of workers after setting up production in Vietnam. The biggest decline in business orders is in traditional European and American markets, and the higher the enterprise's dependence on those markets, the more significant the impact of trade frictions. For example, a clock and timing instrument manufacturing enterprise's proportion of traditional European and American business has dropped to below 30%. Such enterprises have shifted to China's domestic market to cope with the impact of China-US trade frictions.

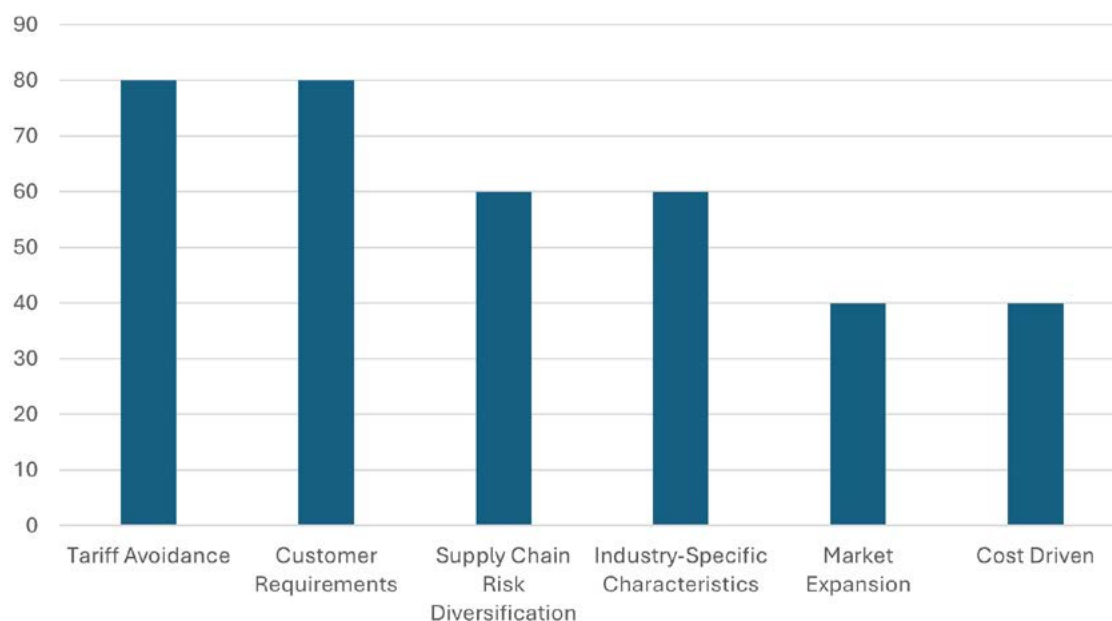
II. Trends in Enterprises' Global Expansion

Our research shows that although enterprises in the light industries and textiles industry in the PRD have been greatly affected by trade frictions, most maintain a cautious attitude towards overseas expansion. Enterprises choosing *not* to shift production overseas account for 53%. Enterprises that have already shifted their production overseas account for 33%; and those planning do so account for 14%.

Most enterprises choosing not to go global have the following main characteristics: they rely on the strong domestic supply chain and consumer market; they have core competitiveness in products, and their dependence on the US market is low.

At present, many enterprises setting up production bases overseas do so “passively,” i.e., in response to requirements stipulated by overseas clients. For example, one optical glass manufacturing enterprise had to move to Vietnam because of the mandatory requirements of its major client. A certain clock and timing instrument manufacturing enterprise laid out production in Thailand to meet the needs of Taiwanese customers. A paper product manufacturing enterprise plans to purchase land in Indonesia to build a factory, mainly to follow the relocation of customers. Many other enterprises have set up operations in Hungary and Poland to be close to the European consumer market.

Figure 2-22: Motivations Given for Overseas Expansion of Light Industry and Textile Enterprises (%)



Note: The above data is based on author's filed research.

Many enterprises emphasized that, in addition to the impact of China–US trade frictions, the severe involution and intense competitive pressure in the domestic market have also become major drivers for them to “go global” by exploring emerging markets. By subsector, labor-intensive industries show a strong willingness to relocate overseas, which keep domestic operations as high-end R&D centers while moving low-end production capacity to lower-cost regions to optimize their value chains.

III. Representative Cases

Case 3: A specialized manufacturing enterprise

This company is a world-leading provider of smart device appearance structure and module solutions. Its core products cover mobile phone glass cover plates, touch screens, camera optical glass, sapphire watch surfaces and ceramic accessories. It is one of the largest glass suppliers for smart phone brands.

1. At present, the impact of import tariffs is small, and domestic and foreign orders are stable. The domestic production capacity will remain stable in the short term but part of it will be moved to Vietnam. The enterprise believes that Vietnam and India presently cannot substitute for China for the time being, but that the transfer of export order production capacity overseas due to trade protectionism is an inevitable trend. Some 90% of the enterprise's raw materials are imported from South Korea and Taiwan, China, with little tariff impact, but the enterprise is worried about potential future impacts. Downstream customers require the enterprise to build factories in Vietnam and put them into production.
2. At present, industrial parks built by Singapore in Vietnam are relatively good, but Vietnam's main problems are a shortage of technical talent (technical workers are mainly from China) and insufficient power supply (frequent power outages), while India is difficult for visa applications.
3. Although the enterprise plans to keep new product development in China, severe involution in the domestic economy forces it to focus on export sales, which also feature faster payment collection. Tariffs have indirectly driven up production costs, while the dominant position of key downstream players in the supply chain has left the enterprise with extremely limited bargaining power to pass on these costs.
4. Major challenges: In addition to high customs compliance risks, the company also faces cost pressures related to wages and electricity. Wages in the PRD have risen significantly, with strong pressure from social security and housing provident fund contributions and difficulty in recruiting workers. In addition, electricity costs in Guangdong are higher than those in surrounding provinces, affecting the enterprise's competitiveness.

Case 4: A garment factory

Founded in the 1990s, the company is a high-end manufacturer in the PRD's textile and garment industry. Its main products are international high-end men's and women's fashion, serving the European, American and Asian markets, with core customers including internationally renowned fashion brands. In addition to its presence in the Chinese Mainland, the group has factories in Bangkok (Thailand), Ho Chi Minh City (Vietnam), Yangon (Myanmar), a business department in Taipei (Taiwan, China), and its headquarters in Hong Kong. The enterprise adopts the traditional foreign trade model of "receiving orders in Hong Kong and undertaking processing in local factories", with more than 95% of raw materials being customer-specified imports and domestic procurement accounting for less than 5%.

1. US tariffs have directly led customers to shift orders and raw material sourcing to Vietnam and other Southeast Asian countries. The enterprise stated that many customers have begun to split orders, for example, sending US orders to Southeast Asian factories for production and keeping only Europe-bound orders in Mainland factories.
2. The enterprise is facing pressure from upstream supply chain relocation and profit compression, with an average profit margin of only 5-10%. In recent years, upstream supply chain enterprises have begun to relocate from China to South Korea and Southeast Asia, leading to a continuous increase in the proportion of imported materials (accounting for about 65%), further compressing profit margins.
3. Changes in the domestic customs clearance environment have increased operational pressure; manual customs review has prolonged clearance times, and customs oversight of bonded warehouses has tightened. To hedge against the decline in external demand, the enterprise is negotiating cooperation with domestic high-end garment enterprises, but domestic demand is limited, making it difficult to maintain business operations relying solely on domestic sales.
4. Hong Kong's functions: Mainly order management, receiving orders and the convenience of being in the same city as customer branches; logistics and transshipment, mainly exporting by air through Hong Kong and utilizing Hong Kong's efficient customs clearance system to ensure on-time delivery; and government policy dividends—the enterprise has applied for transformation and upgrading subsidies from Hong Kong's Trade and Industry Department.
5. Comparative advantages of Guangdong's production: Despite huge pressures from loss of orders, the enterprise pointed out that Guangdong's production capacity has irreplaceable comparative advantages over those in Southeast Asia, especially in respect of production management and execution, product quality, rapid response, production efficiency, delivery guarantees, sample development, and production technique R&D. Exploring the domestic sales market is the enterprise's future development direction.

2.5.4 Machinery Manufacturing

I. Impact of China–US Trade Frictions

Enterprises interviewed have seen their US market share shrink sharply and export orders decline significantly because of trade frictions between China and the US. For example, the US sales volume of an enterprise involved in complete vehicle manufacturing dropped by more than 70%. The North American market of a special equipment manufacturing enterprise almost stagnated in the early days of policy and trade frictions, and orders continued decreasing even after the tariff rate was lowered later. Many enterprises stated that the proportion of their overseas business had dropped by more than 30%, and corporate profits had fallen sharply.

Even enterprises that do not directly feel the effect of US tariffs experience negative impacts. A precision die-casting enterprise in Dongguan observed that although some enterprises are not directly impacted, they are affected indirectly because tariffs have hit downstream automobile enterprises. Some enterprises said that with the continuous escalation of China–US trade frictions, many orders have been rescinded due to excessively high tariff costs, leading to a sharp decline in business income. Another enterprise engaged in manufacturing dyeing and finishing machinery noted that although tariffs have no direct impact on its business, the impact on end-market customers translates into lower demand for upstream equipment.

US tariffs—along with the transfer of orders out of China—have also affected investment confidence among enterprises. They are more cautious about making investment decisions.

A third effect of high US tariffs is that enterprises will focus more on exploring emerging markets as well as the domestic market. Affected by China-US trade frictions, overseas customers have become more cautious in placing orders, forcing enterprises to explore non-US markets. However, various risks and challenges exist in some emerging markets, and the domestic market is highly competitive with increased supply in the industry, so enterprises must consider improving product competitiveness.

II. Trends in Enterprises' Global Expansion

Overall, China remains the core base for production, R&D and innovation, and technological research for manufacturing high-complexity, high-value-added products. Production bases overseas mainly serve the need for market proximity and localized services so as to realize optimal allocation of global production networks. There is an obvious regional differentiation: North American production bases (the US and Mexico) mainly serve US customers to evade trade barriers; European production bases mainly meet the needs of high-end customers and comply with local service standards; Southeast Asia makes it possible to evade tariffs and attracts some processing and assembly through policy incentives; domestic production bases mainly serve the domestic market.

Data from interviewed enterprises shows that nearly half are in the stage of planning or constructing overseas production facilities. Although tariffs for Southeast Asian countries exporting to the US market are currently lower than those for China, local procurement requirements of these countries are also constantly increasing. In Vietnam, policies require that local procurement reaches more than 35%.

Enterprises generally believe that China's production efficiency is significantly higher than that of overseas, with stronger comprehensive cost control capabilities. In particular, the PRD has a complete industrial chain support system, concentrated technological R&D and innovation capabilities, and a stable pool of professional and technical talent. Overseas factories mainly undertake supplementary functions rather than replacing domestic production capacity, adopting the model of R&D in China with assembly overseas. The main reasons given for the overseas expansion of enterprises include being closer to their customers' markets to shorten delivery cycles, meeting localized compliance requirements in overseas markets, mitigating international trade friction risks, and utilizing overseas tax incentives.

III. Representative Cases

Case 5: A precision molds manufacturer

The company is a high-tech enterprise engaged in precision die-casting with integrated design, development and manufacturing, focusing on the production of high-quality aluminum alloy molds. Its products cover auto parts, electronic communication equipment, measuring instruments, mechanical equipment, lighting equipment and other fields, and are exported to developed countries such as the US, Japan and Canada, with core customers including well-known international enterprises.

1. Indirect impact of US tariffs: Tariffs have affected downstream customers which, in turn, has an indirect impact on the enterprise. Meanwhile, the unpredictability of US trade policies has directly affected major decisions. For example, the enterprise was forced to shelve its plan to build a factory in Mexico because of changes in US auto tariffs on Mexico.

2. Advantages and disadvantages of domestic manufacturing: China offers a sufficient pool of domestic technical workers along with improved industrial support systems. However, intense domestic industry competition has led to increased revenue without corresponding increased profits, and the profit margin for domestic sales is significantly lower than that for export sales. In addition, as a capital-intensive industry, the enterprise faces difficulties in equipment investment. Profits in recent years have been insufficient to support large-scale equipment renewal: imported equipment has higher precision but brings great investment pressure while less expensive equipment produced domestically does not have the degree of precision and flexibility necessary for new product development.

3. Overseas presence in Thailand: The Thai government provides a corporate income tax reduction and exemption policy of up to 13 years to reduce investment costs. At the same time, the company's main suppliers have also gone global, forming an industrial cluster that reduces supply chain adaptation risks. The Thai factory undertakes only processing, which accounts for 30-40% of the added value of finished products. Core components and R&D still remain in China to ensure technical safety and quality control.

4. Hong Kong's role: The enterprise's Hong Kong subsidiary serves as its overseas investment platform and fund settlement center, providing financing and exchange rate risk management for its overseas operations.

Case 6: A heavy industry manufacturer

The company is a manufacturer of special vehicle chassis parts. Its products cover trailer axles, truck axles, engineering axles, mechanical suspensions, air suspensions, brake pads and other commercial vehicle special parts, with core customers including world-renowned automakers.

1. Challenges faced: The US has placed the company on the list of entities under investigation, which caused a drop of more than 70% in the value of its US export contracts. Some US customers are in wait-and-see mode due to policy uncertainty. The impact of tariffs on this enterprise has spread to its operations in other regions through the industrial chain. In response, the enterprise is promoting the spin-off of its US business and plans to sell its subsidiary to a US entity to reduce tariff risks and maintain export channels.

2. Industry "overcapacity": The enterprise also pointed out that the container manufacturing industry is facing some idle capacity. The main challenge facing the enterprise is how to maintain profit margins during the industry's adjustment period.

3. Overseas expansion: The enterprise has built a global strategy of global brand operation + in-depth cultivation of regional markets. It operates three major brands simultaneously, focusing on the Chinese and Asian markets, while cultivating the high-end European and Australian markets. This multi-brand strategy not only avoids the complications of trying to position a single brand in different markets but also fits the consumption preferences of each region through differentiated brand images. For the European market, the enterprise has acquired local companies and transports parts from China to Europe for assembly; in the North American market, an assembly plant previously set up has been transferred to a US legal entity to cope with tariff risks and ensure continued export access to the US.

4. Hong Kong's platform functions: The Hong Kong company handles trade financing and settlement, entrepot trade and financial planning, and optimizes the supply chain operations through entrepot trade, serving as a hub connecting manufacturing in the Mainland side of the GBA and overseas markets.

2.5.5 Biomedicine

I. Impact of China–US Trade Frictions

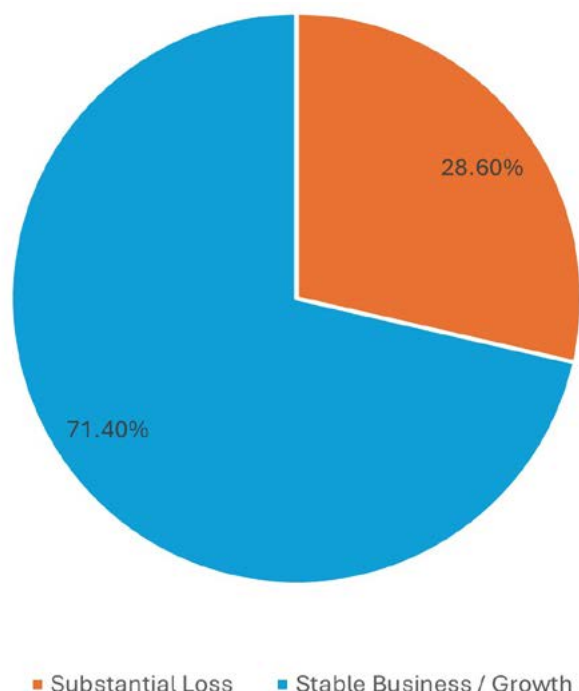
First, the industry is greatly affected by US policies. The intensifying trade protectionist policies (including technical control policies related to life and health, tariff policies on sequencing-related products, and political suppression of Chinese-made high-tech products) have a significant impact, but overseas competitors are difficult to pose a major threat to the enterprise's orders in the short term. Southeast Asian countries are difficult to replace China both in the short and long term due to the high technical and cluster requirements of the industry. At present, the domestic industrial clusters supporting the gene sequencing supply chain, such as precision optics (East China, North China, South China), microfluidics (South China), computing and storage IT modules (South China), precision machining (South China), and biochemical raw material substitution (East China), have formed a stable and reliable system with continuous substantial resource investment in product R&D and industrial upgrading, and Southeast Asia is difficult to develop a complete supporting capacity.

Second, the industry has strong resilience. Among the sample enterprises, 71.4% stated that they have not suffered obvious negative impacts and their business has remained stable or grown. The rigid demand for medical products is an important support for the industry's stability, with outstanding performance in emerging markets. A sanitary materials and medical supplies manufacturing enterprise clearly stated that it has growth expectations, and the industry development trend is positive. Overall, although trade frictions have caused direct impacts on some enterprises, the biomedicine industry has shown strong risk resistance and adaptability through technological innovation, market diversification and global expansion.

Third, about 28% of the interviewed enterprises have suffered substantial losses, mainly concentrated in the medical equipment and accessories field. For example, the tariff rate on anti-epidemic products exported to the US was 25% in 2019 and rose to 55% after the additional tariff was imposed last year. The revenue of the industry reached its peak during the pandemic mainly due to the production of anti-epidemic materials; another major factor for the revenue decline after the pandemic is the direct impact of the US Biosecure Act, the Chinese Military Companies (CMC) list, and the U.S. Department of Commerce Entity List.

A plastic parts and plastic products manufacturing enterprise was severely affected by the rare earth export control, and its business has been completely suspended since April last year, affecting more than 100 million yuan in revenue. A medical equipment and device manufacturing enterprise is facing dual pressure from tariffs and policies, and the increase in tariffs has led to reduced exports of some products. A medical technology enterprise set up a production base in Malaysia at the request of Australian customers; at present, domestic production capacity accounts for 80% and Malaysian capacity 20%, and it is expected that domestic production capacity share will be reduced to 40% and Malaysian capacity share increased to 60% in the next 3-5 years.

Figure 2-23: Business Changes (%) of Sample Biomedicine Enterprises since China-US Trade Frictions



II. Trends in Enterprises' Global Expansion

Enterprises interviewed in Mainland cities of the GBA noted that overseas medical certification is extremely difficult and time-consuming, with high regulatory barriers in the overseas pharmaceutical industry. Moving the manufacturing of pharmaceutical products to other markets requires 5-8 years and tens of millions yuan in obtaining required certifications. Thus, it is not easy for those pharmaceutical enterprises to go global. When relocating overseas, enterprises will consider overall economic benefits, including whether there is any advantage in labor and land costs. The enterprise interviewed had previously considered going to Southeast Asia but abandoned the plan because supply shortages of treated water and electricity would lead to a decline in drug quality.

A couple of enterprises interviewed retain the Chinese Mainland, Hong Kong, Macao and Taiwan, China markets, and license their pharmaceutical technology to foreign companies for licensing fees. These enterprises observed that carrying out technological cooperation with foreign countries through independent innovation is a standard way for domestic pharmaceutical companies to explore international markets. In the field of generic drugs, India has technological advantages, so technological cooperation should be chosen instead of direct competition. One medical equipment and device manufacturing enterprise secured USD 120 million for licensing out its CoolMPS sequencing technology in 2025, becoming the first such license-out for life science instruments from China. The company has also carried out technological cooperation with the University of Lisbon in Portugal to apply sequencing technology to agriculture overseas.

Leading enterprises interviewed rely on technological advantages to build global business networks and achieve full coverage of cross-border service for high-end devices. One medical equipment and device manufacturing enterprise has a business presence in more than 110 countries and regions across six continents, engaging in product sales and technical services of high-throughput gene sequencers globally, while also carrying out localized cooperation with overseas universities and medical institutions to realize scenario-based implementation of technologies in those markets. A sanitary materials and medical supplies manufacturing enterprise has laid out in modern production parks in Wisconsin, Iowa, Oklahoma and other places in the US, built production bases in line with international Good Manufacturing Practices (GMP) standards, and realized the global standardized supply of heparin (blood thinner) products.

Enterprises interviewed are building production capacity in accordance with international standards to realize the cross-border standardized supply of products. Heparin and enoxaparin (anticoagulant) bulk drug production lines at the Shenzhen production base of a sanitary materials and medical supplies manufacturing enterprise have seven times passed U.S. Food and Drug Administration (FDA) on-site audits with “zero defects.” The company’s US production base also fully complies with GMP standards of various countries, achieving a standardized and compliant supply of products in the Chinese, US and global markets.

Finally, enterprises in this sector are expanding to Southeast Asia to evade US trade barriers. A plastic parts and products manufacturing enterprise has shifted its domestic production capacity to medical device micro-assembly, and at the same time laid out production capacity in Malaysia to serve core customer orders and evade US trade barriers. A medical equipment and device manufacturing enterprise built a factory in the US to evade tariff impacts and better serve customers in the US market.

III. Representative Cases

Case 7: A medical technology company in Shenzhen

This is a world-leading provider of gene sequencing equipment and supporting solutions, with subsidiaries in many cities in China and other countries—including the US and Japan—and multiple R&D centers globally.

1. Severe impact of US policies: Intensifying trade protectionist policies (including technical control policies related to life and health and tariff policies on sequencing-related products) have had a significant impact on Chinese-made high-tech products including those of the company. But overseas competitors are unlikely to pose a major threat to the enterprise’s orders in the short term.

2. Insufficient substitutability of Southeast Asia: Southeast Asian countries would have difficulty replacing China both in the short and long term due to the high technical and cluster requirements of the industry. At present, domestic industrial clusters supporting China's gene sequencing supply chain, such as precision optics (East China, North China, South China), microfluidics (South China), computing and storage IT modules (South China), precision machining (South China), and biochemical raw material substitution (East China), have formed a stable and reliable system with continuous substantial resource investment in product R&D and industrial upgrading. Southeast Asian countries would have difficulty in building such a mature supply system as China in the short term.

3. Reasons for revenue decline: The tariff on this enterprise's exports to the US was 25% in 2019 and rose to 55% in 2025. Revenues peaked during the COVID-19 pandemic mainly due to company's production of anti-epidemic materials. Another factor for declining revenues since includes the CMC list and Entity List. Post-pandemic growth is mainly driven by the increase in the sequencing business overseas. China is currently the core supplier of the sequencing industry globally.

4. Hong Kong's advantages: These include the absence of foreign exchange controls, the entrepot trade policies, international shipping (air and sea), and the flexibility of import and export supervision. Hong Kong remains one of the company's centers for overseas sales order management, entrepot trade and financial planning, as well as overseas logistics and transshipment. Hong Kong's aviation safety control is standardized and flexible, so all of the group's domestic production bases export goods through the Shenzhen sales company, then via the Hong Kong company, and then to various regional companies and finally to global customers.

Case 8: A medical technology enterprise

The company focuses on R&D, precision manufacturing and the application of automation technology of medical devices, covering fields such as GMP manufacturing and international project management. It is a high-tech and innovation driven enterprise, with core customers including international medical giants. The enterprise occupies an important position in the field of high-end medical device OEM manufacturing.

1. Mandatory customer requirements as the main external pressure: Like most enterprises, mandatory customer requirements are the main external pressure the company faces. Its core customers are mainly in Australia. They have required the enterprise to relocate its production capacity to Malaysia, making the enterprise's production capacity planning no longer an independent market-based choice. At present, the Malaysian factory handles 20% of production capacity.

2. Limitations due to dependence on key raw materials in the supply chain: The medical device industry has extremely high requirements for the quality of raw materials and an extremely complex supplier replacement process. Moreover, core customers often designate upstream raw material suppliers. At present, the company relies on imports for more than 60% of its main materials, making domestic substitution of raw materials difficult to realize in the short term.

3. The company is dealing with rising costs because of changes in the global commodity market and supply chain challenges stemming from shifts in trade policies. Additionally, the company believes that its cochlear implant magnet accessories are deep-processed products and therefore should fall outside the scope of rare earth controls. However, the process of proving that they are “not subject to controls” is extremely complex. The difficulty of providing such proof at the policy implementation level creates substantial practical barriers that the company will struggle to overcome in the short term.

4. Hong Kong’s multiple functions as an external platform for the enterprise: First, Hong Kong is used for order management, undertaking overseas sales orders and for facilitating international trade settlement; second, for logistics and distribution, serving as a transit node for product export and utilizing Hong Kong’s shipping to directly reach the Australian market; and third, for round-trip investment¹⁹⁷ through Hong Kong to provide financial support for development of the company’s domestic business.

197 For China, round-trip investment occurs when domestic capital leaves the Chinese Mainland (often to Hong Kong) and returns as FDI to take advantage of preferential policies.

Chapter 3: Redefining Hong Kong Economic Position and Reshaping its Economic Structure

The preceding two chapters discuss the changing global geoeconomics landscapes and the resulting new demand, as well as their implications for Hong Kong. This chapter aims to explore the key aspects and pathways for Hong Kong's future economic development, seeking to overcome the city's persistent economic and social challenges, while bolstering its competitiveness as a global super connector and value-adder.

The chapter begins by highlighting Hong Kong's enduring institutional advantages and exploring how these advantages can be further leveraged to strengthen the city's economy in a rapidly changing global context. It then examines Hong Kong's current economic situation, highlighting its existing structural economic challenges, particularly in its traditional four pillar sectors. The discussion then turns to new opportunities arising from aligning Hong Kong's strengths with the strategic priorities of China's 15th Five-Year Plan (from 2026 to 2030) and beyond. The chapter concludes by summarizing emerging economic activities driven by the city's post-pandemic relaunch as an international financial and commercial hub. It also addresses the strategic necessity of contributing more effectively to the nation's macroeconomic development, particularly to the ongoing evolution of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), while leveraging on the nation's big market and production capacity to facilitate its own development.

Overall, this chapter aims to explore how the global and China's geoeconomic trajectories—as discussed in previous chapters—can be utilized to facilitate Hong Kong's next resilient, inclusive economic transformation.

3.1 Hong Kong's Enduring Institutional Advantages

3.1.1 Economic History: Three Waves and Two Transformations

With its unique combination of historical circumstances, geography, and institutions, Hong Kong has long served as a bridge between the Chinese Mainland and the West. Its most recent economic history is closely intertwined with global geoeconomic shifts and China's rapid socio-economic evolution.

Hong Kong's *first wave of economic development* (1841-1950) was intermediary trade. Leveraging its strategic location, foreign administration and free-port status, the city became the West's chief entrepot for trade with China. British firms established large trading houses (such as John Swire & Sons) and banks (such as the Hongkong and Shanghai Banking Corporation), and built wharves and warehouses, while Chinese merchants formed themselves into the Nam Pak Hong (South-North Trading Association), a traditional business organization for trade. Related sectors like shipping and shipbuilding flourished. Intermediary trade and professional services became pillar industries, embedding the DNA for the city to become the “super connector” and “super value-adder” it is today.

Shortly after the founding of the People's Republic of China in 1949, the outbreak of the Korean War prompted a UN embargo on trade with China, delivering a severe blow to Hong Kong's role as an intermediary. To survive economically, the city embraced a *second wave of economic development* (1950s to 1970s): industrialization. It turned an influx of Mainland talent, capital and labor into productivity, taking advantage of rising demand for consumer products in Western markets. Hong Kong quickly evolved into a leading offshore production and export base, upgrading its industrial structure from textiles, garments, and plastics to higher value-added products, such as toys, watches, and electronics. Its export-oriented industrialization processes, which featured efficient clusters of machinery-makers and parts suppliers close to production lines, provided important references for China's subsequent Reform and Opening-up.

In the 1970s, with Western demand shrinking because of oil shocks and stagflation; with surging local costs, and competition from other industrializing Asian economies, Hong Kong's advantages as an export-production economy began to wane. A turning point was China's announcement in 1978 of a Reform and Opening Up policy. Hong Kong factories started moving in large numbers into the neighboring Pearl River Delta (PRD) and other Chinese coastal regions. From this came Hong Kong's *third wave of economic development*: into a headquarters economy focused on managing production, supply chains and foreign investment in the Chinese Mainland. This shift, along with China's wider opening and global trade liberalization under the World Trade Organization (WTO), which China joined in 2001, cemented the city's status as one of the world's leading international financial and trade centers.

With Hong Kong's return to China in 1997, the third wave crested. Driven by China's "One Country, Two Systems" arrangement for the city's future—and by the nation's robust growth—Hong Kong's inherent roles as a connector and value-adder for the Chinese Mainland were strengthened.¹⁹⁸

Mainland enterprises took advantage of Hong Kong's new standing as the nation's most open, international business center to raise capital, cementing the city's status as an international financial center. Data from the Hong Kong Stock Exchange (HKEX) shows that from 1996 to the beginning of 2026, the market capitalization of Mainland enterprises listed in Hong Kong surged from less than HKD 300 billion to over HKD 40 trillion, with their share of total market capitalization rising from 8.5% to nearly 80%. Accumulated funds raised reached approximately HKD 5.6 trillion, fully demonstrating the value-adding function of Hong Kong's financial sector. During this period, many Mainland firms evolved into industry giants using international funds raised in Hong Kong. Through Hong Kong, international capital could share in the dividends of China's high-speed development.

Since its beginnings as a free port for the West's trade with China, Hong Kong's economic strength has been its connectivity. It has not merely served as a conduit for capital and goods but as an intermediary for talent, information, institutions, and trust—enabling its rise from a fishing village to a

198 Since the founding of the Hong Kong Special Administrative Region (HKSAR) on July 1, 1997, the "One Country, Two Systems" framework has served as the fundamental pillar of the city's resilience and growth. Rooted in Article 31 of China's Constitution, the Basic Law functions as both a national law and a constitutional guide, providing the legal basis for the HKSAR's unique status. This arrangement allows Hong Kong to maintain its distinct social, economic, and common law systems while exercising a high degree of autonomy. Under this governance model, Hong Kong has flourished for over two decades, cementing its reputation as a global hub for finance and trade and a leading international metropolis in Asia. (Brand Hong Kong, "'One Country, Two Systems,'" [www.brandhk.gov.hk](https://www.brandhk.gov.hk/uploads/brandhk/files/factsheets/Hong_Kong_Themes/One-country-two-systems-E.pdf), August 2021. https://www.brandhk.gov.hk/uploads/brandhk/files/factsheets/Hong_Kong_Themes/One-country-two-systems-E.pdf.)

global metropolis. Since 1978, Hong Kong's GDP has grown from HKD 85.8 billion to roughly HKD 3.3 trillion in 2025 (about a 38-fold increase), while the Chinese Mainland's GDP rose from RMB 368.5 billion to roughly RMB 140.2 trillion in 2025 (about a 380-fold increase). The two economies' evolution has been highly complementary.

Concurrently, total merchandise trade between Hong Kong and the Chinese Mainland skyrocketed from HKD 10.8 billion to HKD 5.6 trillion, a nearly 520-fold increase. Since the Closer Economic Partnership Arrangement (CEPA) took effect, total trade in services between the Chinese Mainland and Hong Kong grew from HKD 330 billion in 2005 to HKD 500 billion in 2024, with Hong Kong's service exports rising from less than HKD 90 billion to more than HKD 220 billion.¹⁹⁹ By the end of 2024, the Chinese Mainland was Hong Kong's largest destination for service exports (28.6%) and source of service imports (40.8%).

Hong Kong continues to serve as a two-way platform, contributing significantly to the national Bringing In and Going Global strategies. It is both the largest source of foreign direct investment (FDI) for the Chinese Mainland and the primary destination for the Chinese Mainland's outward direct investment (ODI). By the end of 2024, approximately 57% of the Chinese Mainland's cumulative FDI originated from Hong Kong (USD 1.76 trillion), while 61% of its ODI stock was in Hong Kong (USD 1.92 trillion). These figures reflect Hong Kong's function as a hub for both international and Chinese capital: vast amounts of overseas capital enter the Chinese Mainland via Hong Kong-registered entities, while Mainland capital "goes global" through the same channel.

3.1.2 Core Institutional Advantages

From time to time, commentators in leading international media have written Hong Kong off. A 1995 cover story in *Fortune* magazine, for example, famously proclaimed "The Death of Hong Kong," forecasting a bleak future for the city as a global financial center after its return to China in 1997. A more recent round of negative commentary followed months of anti-government protests in Hong Kong in 2019-20, the imposition of National Security legislation and the city's lengthy physical isolation during the COVID-19 pandemic (2020-22).

In 2024, *The Financial Times* published a controversial opinion piece by former Morgan Stanley Asia chairman Stephen Roach who argued that "Hong Kong is over."²⁰⁰ This was, in part, because he believed US-China geopolitical rivalry would undermine the city's intermediary role in global finance.

199 Since its signing on June 29, 2003, the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) has served as the landmark free trade agreement between the two regions. Operating on a "building block" approach, the agreement is continuously updated with new liberalization measures to deepen economic integration. (Trade and Industry Department, "Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)," [tid.gov.hk](https://www.tid.gov.hk/en/our_work/cepa.html), n.d., https://www.tid.gov.hk/en/our_work/cepa.html.)

200 Stephen Roach, "It Pains Me to Say Hong Kong Is Over," *Financial Times*, February 12, 2024, sec. Markets Insight, <https://www.ft.com/content/27a2c28e-d28b-444c-97fd-4616ed32c675>.

Observable developments on the ground, however, pointed to a more nuanced reality—to the extent that, last year, Stephen Roach revised his position, concluding that geopolitical fragmentation and financial decoupling had, in fact, solidified Hong Kong’s strategic position as a vital conduit between China and global markets. The city maintained its role as the principal offshore platform for Chinese companies seeking capital and investment, with both market performance and capital flows exhibiting renewed resilience.²⁰¹

Hong Kong’s resilience, rooted in its unique institutional advantages, continues to set the city apart in China and globally. Its competitiveness is anchored in several ongoing strengths:

- i a unique institutional framework under “One Country, Two Systems”;
- ii sound and resilient public finances;
- iii a simple and competitive low-tax regime;
- iv a deep and internationally connected financial market;
- v a highly globalized pool of professional talent; and
- vi world-class universities that support innovation and knowledge creation.

Together, these interconnected advantages form the institutional and economic foundation that sustains Hong Kong’s role as an international city providing a vital bridge between China and the world, as detailed below.

I. The “One Country, Two Systems” Framework

The One Country, Two Systems framework provides Hong Kong with a unique institutional foundation, which sets it apart from all other Chinese Mainland cities. Under “One Country”, Hong Kong enjoys strong political, economic and institutional support from the Chinese Mainland, while maintains its capitalist economic system. It also benefits from the Mainland’s vast economic scale, complete industrial ecosystems, and evolving national development strategies. This allows Hong Kong to participate deeply in and contributes to the Mainland’s high-level opening-up, while enabling the city to share growth opportunities through regional and international cooperation. It also expands Hong Kong’s development space and helps the city respond to external uncertainties, while remaining stable, secure and safe for visitors and residents alike.

The “Two Systems” arrangement preserves Hong Kong’s high degree of international alignment. The city’s constitutional document, the Basic Law, guarantees fundamental rights and freedoms incorporating international covenants. Hong Kong maintains a common law legal system and an independent, efficient judiciary. With the free flow of capital, information, and talent, the business environment remains highly market-oriented and international. The Hong Kong dollar’s peg to the US dollar ensures currency and financial stability. These institutional strengths sustain global investor confidence and ensure compatibility.

201 Katia Dmitrieva, “Stephen Roach Now Says It’s Too Early to Declare Hong Kong Over,” Bloomberg.com, Bloomberg, June 2, 2025. <https://www.bloomberg.com/news/articles/2025-06-02/stephen-roach-now-says-it-s-too-early-to-declare-hong-kong-over>.

By leveraging the synergy between “One Country” and “Two Systems”, Hong Kong has cultivated a unique institutional edge. It enjoys national backing and access to vast market opportunities while simultaneously maintaining a globally compatible legal and business environment. This dual advantage empowers Hong Kong to serve as a springboard for Mainland firms expanding globally and a gateway for foreign firms entering China. The city plays a key intermediary role in global capital allocation, risk management, cross-border financing, and professional services.

II. Stable Public Finance

Hong Kong has long followed the principle of prudent fiscal management. This has created a public finance system that is stable and resilient. Low public debt, large fiscal reserves, and strict fiscal discipline give the government strong policy capacity during economic fluctuations. By the end of January 2026, Hong Kong’s fiscal reserves reached HKD 742.2 billion.²⁰² This fiscal strength bolsters market confidence and provides reliable support for long-term infrastructure investment and industrial development policies. For instance, the 2026/27 Budget allocated HKD 10 billion to accelerate development of the San Tin Technopole, in the northwest New Territories, with an additional HKD 10 billion earmarked for the initial operations of the Hung Shui Kiu industrial park.

Amid rising global economic uncertainty, fiscal prudence remains vital. By maintaining a disciplined budget, the government can avoid excessive debt while retaining flexibility to implement counter-cyclical policies during downturns. Citigroup projects Hong Kong’s public debt to stay within a manageable 14.4% to 19.9% of GDP, well below levels seen in other developed economies.²⁰³ In 2025-26, a robust performance by the stock market and accelerated economic growth boosted stamp duty and profits tax revenues, exceeding original estimates by nearly HKD 50 billion.²⁰⁴ This windfall returned the operating account to a surplus ahead of schedule, with the consolidated account remaining broadly balanced after accounting for bond proceeds.

Thanks to deep fiscal reserves and prudent debt management, the city retains policy flexibility to deploy timely measures—such as increased public spending and tax relief for small and medium-sized enterprises (SMEs)—to cushion economic shocks. With operating accounts projected to stay in surplus through 2030-31 and reserves exceeding HKD 700 billion, this financial strength bolsters policy credibility and offers investors long-term institutional stability.²⁰⁵

202 HKSAR Government, “The 2026-27 Budget - Budget Speech,” Budget.gov.hk, February 25, 2026, <https://www.budget.gov.hk/2026/eng/speech.html>.

203 Citigroup, “The ‘Budget’ confirms the expansion of the scope of Hong Kong’s economic recovery, and it is expected that fiscal reserves will remain stable,” Longbridge.com, February 2026, <https://longbridge.com/en/news/277141248>.

204 HKSAR Government, “The 2026-27 Budget - Budget Speech,” Budget.gov.hk, February 25, 2026, <https://www.budget.gov.hk/2026/eng/speech.html>.

205 Ibid.

III. Favorable Tax System

Hong Kong operates a simple, low-tax, and highly transparent tax system. This is one of the key institutional advantages that has long attracted international businesses and professional talent. The overall tax structure is clear and stable. Both firms and individuals can plan and make long-term decisions under a predictable policy environment. This institutional arrangement reduces uncertainty in business operations and investment decisions. It also strengthens Hong Kong's appeal as an international business and financial center. At a time when global companies place increasing importance on tax stability and transparency, Hong Kong's efficient and straightforward tax regime remains an important source of international competitiveness.

Hong Kong's competitive and straightforward tax system provides significant business advantages. Corporate profits are subject to a two-tier system: the initial HKD 2 million is taxed at a concessionary rate of 8.25%, with profits above this amount at 16.5%.²⁰⁶ This structure provides meaningful support for SMEs and startups. Additionally, qualifying research and development (R&D) expenditure benefits from a super-deduction, with the first HKD 2 million eligible for a 300% deduction, and any remaining balance at 200%.²⁰⁷ This aggressively supports tech-focused and R&D-heavy companies, allowing them to reinvest in growth and talent. Coupled with a simple design featuring relatively few tax categories, businesses also benefit from lower administrative and compliance costs.

Hong Kong's simple salaries tax regime, with a maximum rate of 15%, is significantly lower than in most advanced economies, effectively attracting global professionals, senior managers, and highly skilled workers in finance and technology.²⁰⁸ Furthermore, the absence of sales or value-added tax results in a low tax burden on goods and services. This improves business cash flow, increases capital turnover efficiency, and reduces compliance costs. This combination of low tax rates and a streamlined structure ensure's Hong Kong's strong international competitiveness, continually drawing global capital and talent.

IV. Cross-Border Finance Hub

Hong Kong is one of the world's leading international financial centers. It possesses a mature and well-developed capital market system, a credible Linked Exchange Rate System, and a highly open financial regime.²⁰⁹ Over decades, the city has built a comprehensive financial ecosystem that includes banking, securities trading, asset management, insurance, and professional services. These institutions operate under a transparent regulatory framework and common law system, which together provide

206 GovHK, "GovHK: Tax Rates of Profits Tax," [www.gov.hk](https://www.gov.hk/en/residents/taxes/taxfiling/taxrates/profitsrates.htm), February 2026, <https://www.gov.hk/en/residents/taxes/taxfiling/taxrates/profitsrates.htm>.

207 Hong Kong Legal Hub, "Our Tax System - Hong Kong Legal Hub," [legalhub.gov.hk](https://www.legalhub.gov.hk/details.php?a=5&hd=1&l=en&v=our-tax-system#), 2020, <https://www.legalhub.gov.hk/details.php?a=5&hd=1&l=en&v=our-tax-system#>.

208 GovHK, "GovHK: Tax Rates of Profits Tax," [www.gov.hk](https://www.gov.hk/en/residents/taxes/taxfiling/taxrates/profitsrates.htm), February 2026, <https://www.gov.hk/en/residents/taxes/taxfiling/taxrates/profitsrates.htm>.

209 Established on October 17, 1983, the Linked Exchange Rate System (LERS) serves as the foundation of Hong Kong's financial and monetary resilience. By utilizing a transparent and disciplined Currency Board mechanism, the system effectively maintains the local currency's value within the target range of HKD 7.75 to HKD 7.85 against the US dollar. (HKMA, "Linked Exchange Rate System," Hong Kong Monetary Authority, 2024, <https://www.hkma.gov.hk/eng/key-functions/money/linked-exchange-rate-system/>.)

a stable and predictable environment for global investors. Such institutional strengths have enabled Hong Kong to maintain a high level of confidence among international market participants and to remain a key node in the global financial network.

Hong Kong's equity market, bond market, and asset management industry exert significant influence not only in Asia but also globally. The city hosts one of the largest stock markets in the world by market capitalization and has long served as a preferred listing platform for Chinese Mainland enterprises seeking international capital. As of February 2026, the total market capitalization of the Hong Kong stock market had risen to nearly HKD 50 trillion, representing a significant year-on-year increase of 24%.²¹⁰ By the end of the first quarter of 2026, over 500 companies were in the pipeline awaiting initial public offering (IPO) approval.²¹¹ At the same time, Hong Kong's rapidly expanding bond market and deep pool of international financial institutions provide diversified financing channels for corporations, governments, and infrastructure projects. By reaching USD 2.7 trillion in cross-border wealth in 2024 and tying with Switzerland as the world's leading cross-border wealth management center, Hong Kong has solidified its status as a vital regional hub for investment services.²¹²

Equally important is Hong Kong's unique role in connecting the Chinese Mainland with global capital markets. Through a range of financial connectivity initiatives, the city facilitates the efficient flow of capital, investment products, and financial services across borders. Mechanisms such as stock, bond, and wealth management connect schemes have significantly expanded market access for both Mainland and international investors. By acting as an institutional bridge between two financial systems, Hong Kong strengthens its role as a "super connector" and, increasingly, as a "super value-adder" that enhances the efficiency and depth of regional financial integration.

Amid global capital reallocation and shifting regional financial landscapes, Hong Kong remains an essential gateway for international investment into China and the broader Asian market. Its strategic location, robust regulation, and deep integration with global and Mainland financial systems efficiently intermediate capital flows. As Asia's economic significance grows, Hong Kong's financial infrastructure and international orientation will ensure its continued role as a vital platform for cross-border financing, investment, and financial innovation.

V. International Talent Pool and Work Environment

Hong Kong has cultivated a highly internationalized talent pool spanning finance, law, shipping, trade, research, and innovation and technology, attracting professionals from around the globe. This concentration of expertise has fostered a robust ecosystem of globally connected individuals, multinational firms, and renowned service providers. It empowers the city to facilitate complex cross-

210 HKSAR Government, "The 2026-27 Budget - Budget Speech," Budget.gov.hk, February 25, 2026 <https://www.budget.gov.hk/2026/eng/speech.html>.

211 Data source from HKEX

212 Boston Consulting Group, Global Wealth Report 2025: Rethinking the Rules for Growth, June 2025, <https://web-assets.bcg.com/89/d4/676a2c534cf2aa485011edbc0200/2025-global-wealth-report-june-2025.pdf>.

border business activities and sophisticated financial and legal services, strengthening its pivotal role in connecting the Chinese Mainland with global markets. The presence of international talent continually enhances the depth and diversity of professional services, driving the development of high-value economic activities.

Hong Kong's bilingual environment, where English and Chinese are both widely used in business, law, and public administration, provides a unique advantage. It allows companies and institutions to communicate effectively with both global partners and Chinese Mainland markets. At the same time, Hong Kong maintains a professional qualification system that is closely aligned with international standards in fields such as accounting, finance, and legal services. Many professional credentials in Hong Kong are recognized internationally, enabling talent trained in the city to operate easily in global markets. This institutional compatibility helps Hong Kong function as an important intermediary between different regulatory systems, business cultures, and economic networks.

Moreover, Hong Kong maintains an open and flexible talent mobility regime. Policies that facilitate the entry of professionals, entrepreneurs, and researchers help ensure a steady inflow of global expertise. The Top Talent Pass Scheme, introduced in late 2022 to counter pandemic-era brain drain, has become a primary driver of Hong Kong's talent acquisition. By July 2025, over 140,000 applications had been received, with approximately 110,000 having been approved and over 90,000 having arrived in Hong Kong.²¹³ Applicants were primarily concentrated in high value-added sectors such as finance (19%), innovation and technology (17%), and commerce and trade (23%).²¹⁴ Combined with a highly internationalized living environment, world-class infrastructure, a vibrant urban culture and natural terrain of great beauty for recreation on land and sea, the city continues to attract high-caliber talent from across the world.

As Hong Kong continues to integrate with the Chinese Mainland, a parallel effort to diversify its global expat population will ensure a well-rounded professional ecosystem. A diverse talent base brings the multifaceted skill sets required for companies to effectively scale their operations and compete on a global stage. Ultimately, the gathering of global talent not only supports Hong Kong's traditional strengths in finance and trade but also reinforces its competitiveness in knowledge-intensive industries and the emerging innovation-driven economy.

213 Willla Wu, "Hong Kong Top Talent Scheme's 54% Visa Extension Rate 'Ideal', Labour Chief Says," South China Morning Post, August 15, 2025, <https://www.scmp.com/news/hong-kong/hong-kong-economy/article/3322055/hong-kong-top-talent-schemes-54-visa-extension-rate-ideal-labour-chief-says>.

214 Legislative Council, "Overview of Extension of Stay for Talents under the Top Talent Pass Scheme", LC Paper No. CB(1)1328/2025(01), August 2025, <https://www.legco.gov.hk/yr2025/english/panels/mp/papers/mpcb1-1328-1-e.pdf>.

VI. Global University Hub

Hong Kong is home to several world-leading universities that rank among the top institutions globally. Five of its universities were ranked among the world's top 100 in the QS World University Rankings 2026. Leading institutions such as The University of Hong Kong, The Chinese University of Hong Kong, and The Hong Kong University of Science and Technology have multiple disciplines that consistently rank among the best globally. Hong Kong's universities excel in research, internationalization, and academic influence, having earned strong reputations across fields such as engineering, business, medicine, and the sciences. Their academic distinction attracts leading scholars, researchers, and students globally. This concentration of academic talent not only reinforces the city's position as a premier center for advanced research and higher education in Asia but also enhances its contribution to global knowledge production and intellectual exchange.

These universities have cultivated robust capabilities in basic, applied, and interdisciplinary research, with activities spanning emerging technologies, biomedical sciences, data science, and sustainable development. Their strong research infrastructure and advanced laboratories provide a solid foundation for scientific discovery and technological experimentation. Crucially, many initiatives are closely aligned with industry needs, facilitating the translation of academic findings into practical solutions. This integration of fundamental research and applied innovation fosters an ideal environment for knowledge creation and technology transfer.

The university system is also an important pillar of Hong Kong's innovation ecosystem. Through collaboration between universities, industry, and the public sector, research outcomes can be commercialized more effectively. Technology transfer offices, research parks, and incubation programs support start-ups and, increasingly, facilitate the transformation of basic research into new products, services, and business models. Universities also play a critical role in cultivating highly skilled talent. Graduates trained in science, technology, finance, and management provide a steady supply of professionals for Hong Kong's knowledge-intensive industries.

Hong Kong's universities also foster strong global ties with leading research institutions, with faculty actively collaborating on projects and academic networks globally. Many universities have also opened their campuses and centers in different Chinese Mainland cities to tap into the increasingly internationalized and vibrant academic environments, as supported by various Mainland local governments. This deep integration within and beyond China keeps local research aligned with global and national developments of scientific and innovation ecosystems. Such robust engagement not only boosts academic influence but also reinforces Hong Kong's role as a global hub for education, research, and innovation.

3.2 Hong Kong's Current Economic Structure and Challenges

3.2.1 Recent Economic Performance

I. Steady Economic Recovery and Growth

According to the latest advance estimates released by the Hong Kong Special Administrative Region (HKSAR) Government, Hong Kong's GDP grew by 3.5% year-on-year in 2025, mainly driven by rising exports and a gradual improvement in domestic demand. The year-on-year growth rates from the first to the fourth quarters of 2025 were +3.1%, +3.2%, +3.7%, and +3.8%, respectively, indicating a sustained upward growth momentum throughout the year (see Table 3-1).

Table 3-1: Year-on-year Change in GDP by Expenditure Component for Hong Kong (2024-2025)

GDP expenditure component	2024				2025			
	Q1 r	Q2 r	Q3 r	Q4 r	Q1 r	Q2 r	Q3 r	Q4 a
	Year-on-year % change							
GDP	+2.9	+3.0	+2.1	+2.5	+3.1	+3.2	+3.7	+3.8
Private consumption expenditure	+1.4	-1.5	-0.7	+0.2	-0.9	+2.3	+2.4	+2.5
Government consumption expenditure	-1.5	+1.3	+1.3	+1.8	+0.6	+2.6	+2.0	+1.4
Gross domestic capital formation	-0.7	+2.8	+6.4	-1.0	+1.4	+1.8	+3.4	+10.9
Exports of goods (f.o.b.)	+7.3	+8.0	+4.6	+1.9	+8.5	+11.6	+12.0	+15.5
Exports of services	+9.3	+0.2	+1.6	+5.2	+5.9	+8.2	+6.6	+4.9
Less: Imports of goods (f.o.b.)	+3.8	+3.9	+3.4	+0.9	+7.2	+12.7	+11.7	+18.4
Less: Imports of services	+17.7	+11.6	+9.0	+7.5	+4.8	+6.6	+2.3	+3.1

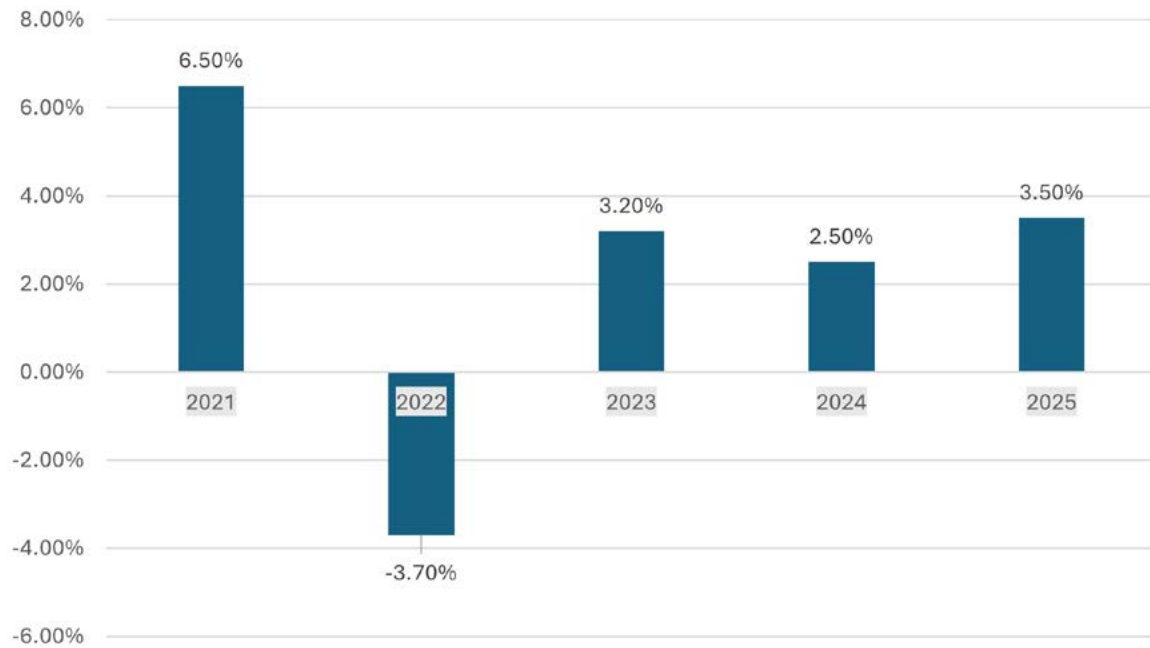
Note: "r" denotes revised figures released by the government; "a" denotes advance estimates released by the government.

Source: Census and Statistics Department

From 2021 to 2025, despite a series of challenges, including the pandemic, global interest rate hikes, wars in Ukraine and the Middle East, and fluctuations in external demand, the Hong Kong economy has demonstrated strong resilience. The average annualized growth rate of the Hong Kong economy stood at about 2.3% over the 2021-2025 period (see Figure 3-1).

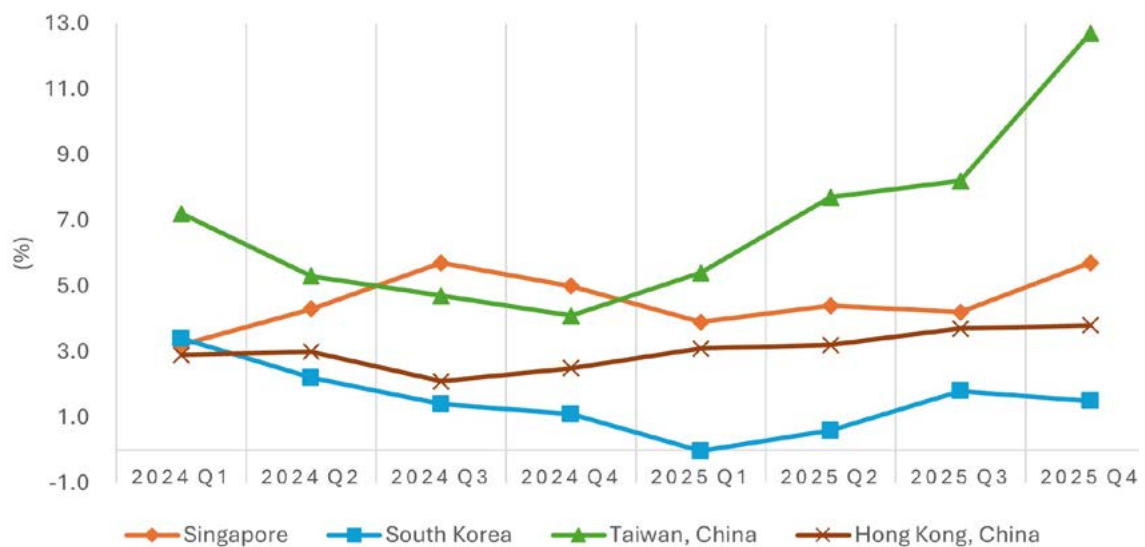
That being said, Hong Kong's economic performance was not stellar compared to that of some neighbors in the region. As Figure 3-2 shows, among the Four Asian Tigers, Hong Kong's economic growth outpaced South Korea's +1.0% by 2.5 percentage points, but was behind Taiwan, China's 8.6% GDP growth, and Singapore's 4.8% growth. Based on a comparison of the eight quarters from 2024 to 2025, Hong Kong's quarterly economic growth rates lagged those of Singapore and Taiwan, China in every quarter.

Figure 3-1: Hong Kong Annual Real GDP Growth Rate (% , 2021-2025)



Source: World Bank

Figure 3-2: Economic Growth of the Four Asian Tigers (2024-25)



The differences between the economies of Hong Kong and other Asian Tigers are most evident in the manufacturing sector (see Table 3-2). Manufacturing value added accounts for only about 1% of Hong Kong's GDP, significantly lower than for Taiwan, China (approximately 31%), Singapore (around 17%), and South Korea (about 26%). Another notable difference lies in R&D expenditure as a share of GDP. In 2025, Hong Kong's R&D spending accounted for only 1.1% of GDP, compared with 5.1% in South Korea, 3.5% in Taiwan, China, and 3.5% in Singapore, placing Hong Kong below the other three economies.

Table 3-2: Manufacturing Sector and R&D Expenditures of the Four Asian Tigers (2025)

	Manufacturing as % of GDP	R&D Expenditure as % of GDP	Manufacturing Value-Added Growth	Main Drivers
South Korea	26%	5.1%	2.0%	AI chips / Server boom
Taiwan, China	31%	3.5%	16.4%	Dual engines: AI storage / Servers + Biomedicine
Singapore	17%	3.5%	8.7%	Transport engineering +Biomedical+AI-related electronics
Hong Kong, China	1%	1.1%	Around 2.7%	Electronics assembly / Food processing

Sources: Bank of Korea (BOK), Korea Institute for Industrial Economics & Trade (KIET), Ministry of Economic Affairs (Taiwan, China), Industrial Technology Research Institute (ITRI, Taiwan, China), Census and Statistics Department of Hong Kong, China, Ministry of Trade and Industry (MTI, Singapore), and Economic Development Board (EDB, Singapore).

In 2025, Taiwan, China's economic growth reached a 15-year high, predominantly fueled by a surge in semiconductor exports—spearheaded by Taiwan Semiconductor Manufacturing Company (TSMC)—amid the global artificial intelligence (AI) boom and proactive orders responding to the US tariffs, driving related product exports to repeated record highs. Meanwhile, Singapore's GDP growth hit 4.8%, underpinned by the combined strength of high-end manufacturing and modern services. Biomedical industries and AI-related electronics formed key pillars for export expansion. Beyond these, Singapore actively cultivated new growth drivers through digital transformation and green finance, optimizing its business environment and balancing market openness with effective government coordination. The construction sector and merchandise trade also provided crucial countercyclical support, contributing to the economy's structural upgrading.

II. Hong Kong's Four Pillar Industries

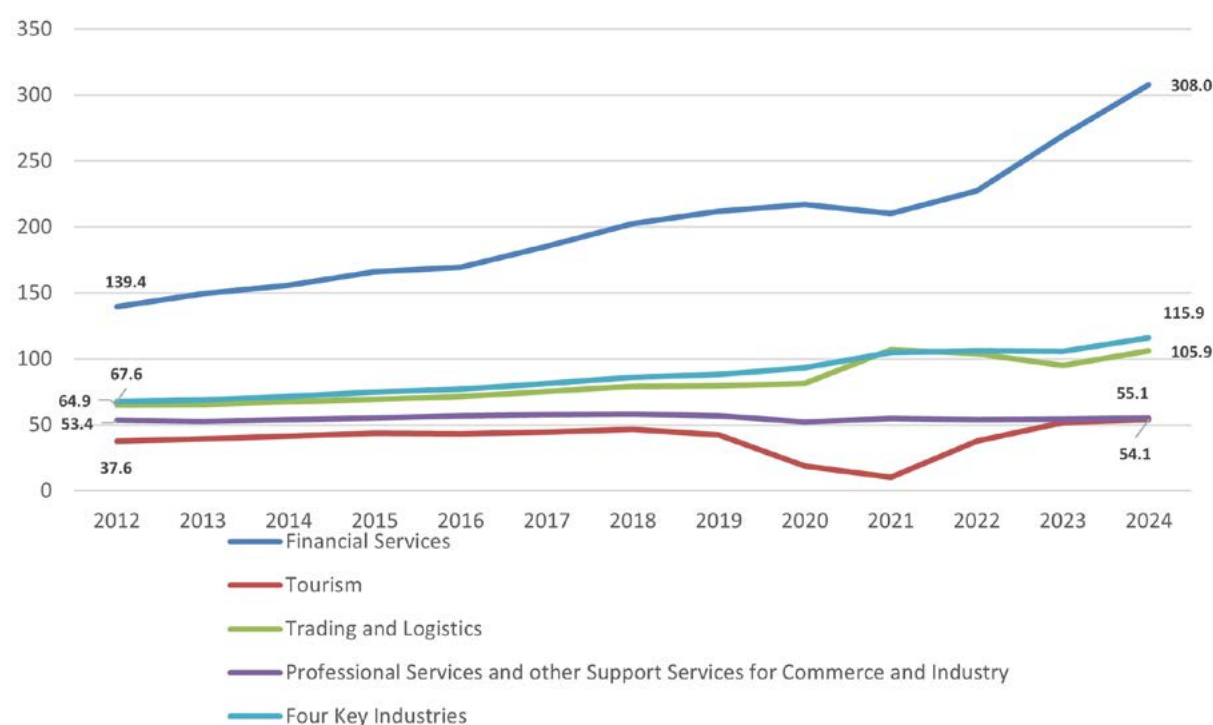
Hong Kong is a service economy. Services have accounted for more than 90% of GDP since 2004, which increased to close to 94% in 2024. Within services, there is a pronounced dual structure, characterized by the coexistence of high-value-added services that offer limited employment opportunities and low-value-added services that provide extensive employment opportunities. As Table 3-3 shows, in 2024, the finance and insurance industry contributed a 26.2% share of GDP, while accounting for only 7.2% of total employment. Its value added per capita, at HKD 3.1 million, was exceptionally high, approximately three times that of trade and logistics, and around 5.6 times that for the remaining two key industries. In contrast, the GDP shares of tourism, as well as professional and other support services for commerce and industry, were lower than their respective employment shares.

Table 3-3: Value Added per Capita, GDP Shares, and Employment Shares of the Four Key Industries in Hong Kong (2024)

2024	Value Added per Capita (HKD)	GDP Share (%)	Employment Share (%)
Finance and insurance	3.1 million	26.2	7.2
Trade and logistics	1.1 million	18.9	15.0
Professional and other support services for commerce and industry	551 thousand	10.3	15.8
Tourism	541 thousand	2.8	4.3

Source: Census and Statistics Department

Figure 3-3: The per Capita Value added for the Four Major Industries in Hong Kong (in HKD 10,000 at current prices)



Source: Census and Statistics Department

Over the years, the contributions of the trade and logistics sector to both Hong Kong's GDP and total employment have trended steadily downward. As illustrated in Figure 3-4, the sector's share of the economy peaked at approximately 29% in the mid-2000s before declining to roughly 19% by 2024, indicating that its growth has lagged behind the broader economy.

This decline can be attributed to two primary factors. First, the rise of e-commerce has significantly undermined the traditional role of trade intermediaries. Second, a combination of domestic manufacturing shifts and escalating geopolitical tensions has prompted Mainland companies to relocate production facilities abroad. Consequently, many Mainland exporters now bypass Hong Kong entirely, shipping goods directly from overseas production hubs such as Vietnam and Malaysia.

Despite these challenges, the sector remains substantial in absolute terms; it is the second-largest contributor to the economy after financial services and continues to employ the largest workforce among the city's four pillar industries. However, this high employment share coupled with a shrinking GDP contribution suggests that a significant portion of Hong Kong's labor force remains concentrated in low-value-added activities.

The share of professional services and other support services for commerce and industry in GDP has followed a rise-then-decline pattern. It increased steadily from around 10.5% in 2000 to a peak of approximately 12.7% in 2008, before entering a sustained downward trend from 2016, reaching 10.3% by 2024. In contrast, its share of total employment has continued to grow, rising from 11.5% in 2000 to 15.8% in 2024. This divergence suggests growth pressure on the sector and fiercer competition in its labor market.

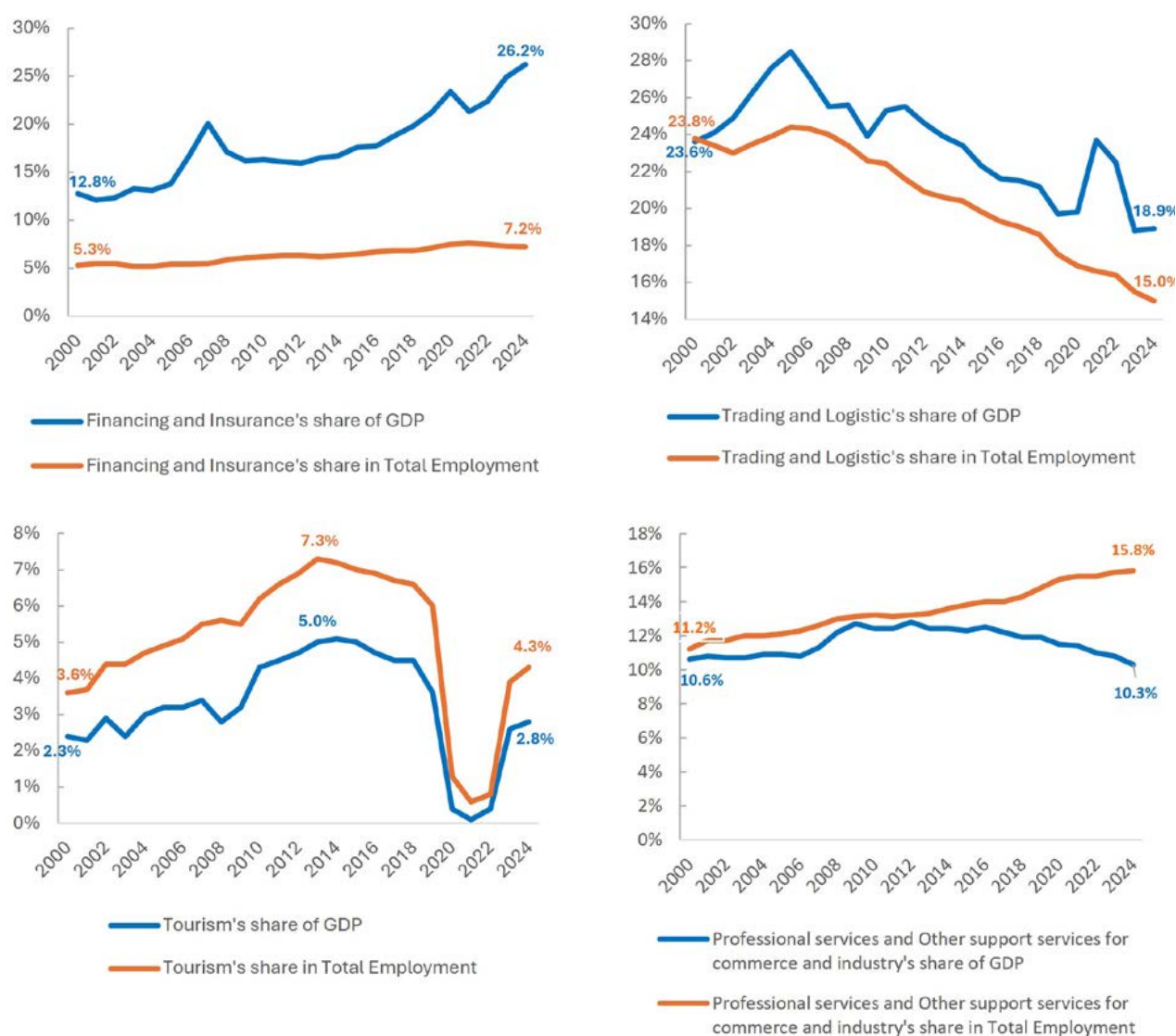
While the finance and insurance sectors have achieved impressive growth—doubling their share of GDP from 12.8% in 2000 to 26.2% in 2024—their contribution to total employment has grown much more modestly, rising from 5.3% to only 7.2% over the same period. This discrepancy suggests that while the sector generates significant wealth, it supports a relatively small, high-income workforce.

Furthermore, the sector demonstrated markedly stronger resilience than other industries, rebounding significantly faster in the wake of the global health crisis. This partially reflects the more prolonged economic aftermath of the COVID-19 pandemic on other sectors. Value added per worker in finance and insurance has maintained an overall upward trajectory, experiencing only a slight dip in 2021 before surging between 2022 and 2024 to reach a historical peak.

A primary driver of this performance has been the surge of Chinese Mainland enterprises listing in Hong Kong; as of December 2025, the total market capitalization of Hong Kong-listed companies reached HKD 47.4 trillion, with Chinese Mainland companies accounting for 80% of this figure. Additionally, unlike more physical industries, the finance and insurance sectors remained relatively insulated from the cross-border mobility restrictions imposed during the pandemic.

By contrast, consumer-oriented service industries, represented by tourism, were severely impacted by mobility restrictions during the pandemic, experiencing deep contraction and a protracted recovery since 2023. Value added per worker in the tourism sector bottomed out in 2021 and subsequently recovered only gradually, returning to approximately its 2019 level by 2024. As shown in Figure 3-4, in 2024, the share of tourism in Hong Kong's GDP and employment was 4.3% and 2.8%, significantly below 7.3% and 5% during its peak period in 2013.

Figure 3-4: The Evolving Economic and Employment Share of Four Major Industries in Hong Kong (2000–2024)



Source: Census and Statistics Department

3.2.2 Finance

Over the past two decades, Hong Kong's financial sector has expanded overall, while notable differences have emerged across subsectors in terms of value-added growth and employment absorption. Banking, insurance and other financial services have followed distinct development paths, reflecting variations in capital intensity, productivity and labor absorption. An examination of value-added and employment trends across these subsectors helps to clarify the evolution of the financial sector's structure and its role in the broader economy.

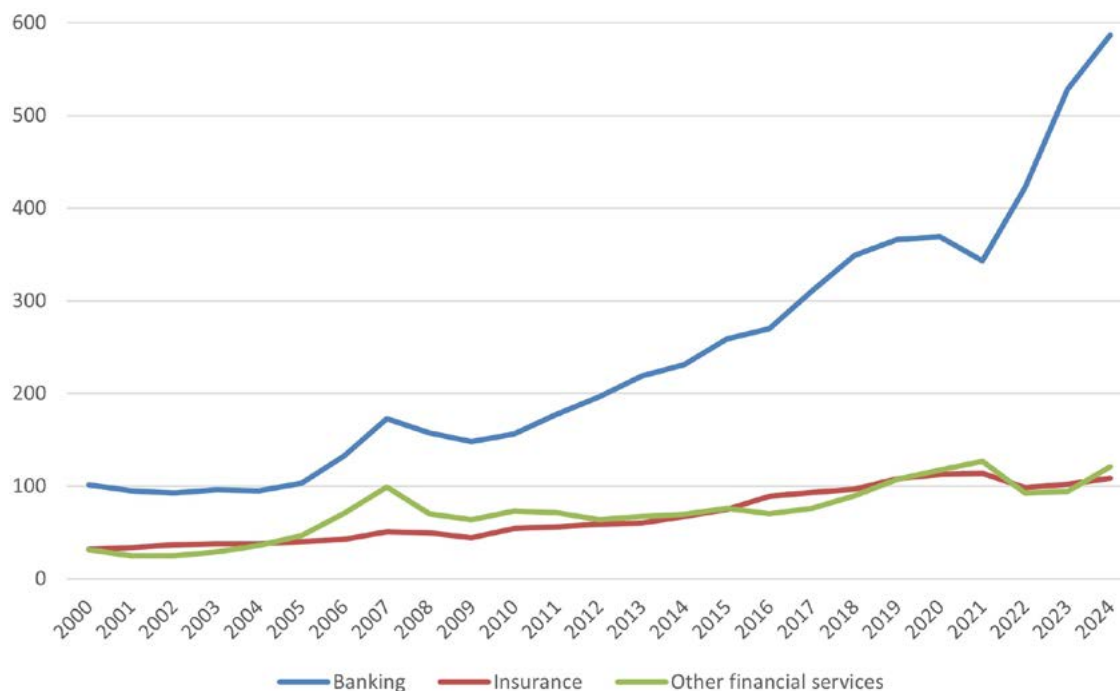
In terms of value added, the banking sector has remained the dominant driver of financial sector growth, as illustrated in Figures 3-5 and 3-6. Its contribution increased markedly over the past two decades, particularly after 2010, and by 2024 had reached close to HKD 600 billion, far exceeding that of insurance and other financial services. However, this strong output expansion has not been

accompanied by a commensurate increase in employment share. Banking employment has remained largely stable at around 2.6–2.7% of total employment after the 2008 financial crisis, indicating that growth in this segment has been predominantly capital- and efficiency-driven, relying on cross-border intermediation and productivity gains, partially driven by the use of AI, rather than labor expansion.

By contrast, “other financial services” have emerged as the fastest-growing source of employment within the financial sector, despite their more modest contribution to value added. The employment share of this segment rose from about 1.6% in 2000 to nearly 3% at its peak in 2021, overtaking banking around 2019 and remaining at a similarly high level through 2024. This pattern suggests that activities such as securities services, asset management, financial technology and related professional support functions have played an increasingly important role in job creation, even though their overall economic contribution remains significantly smaller than that of the banking sector.

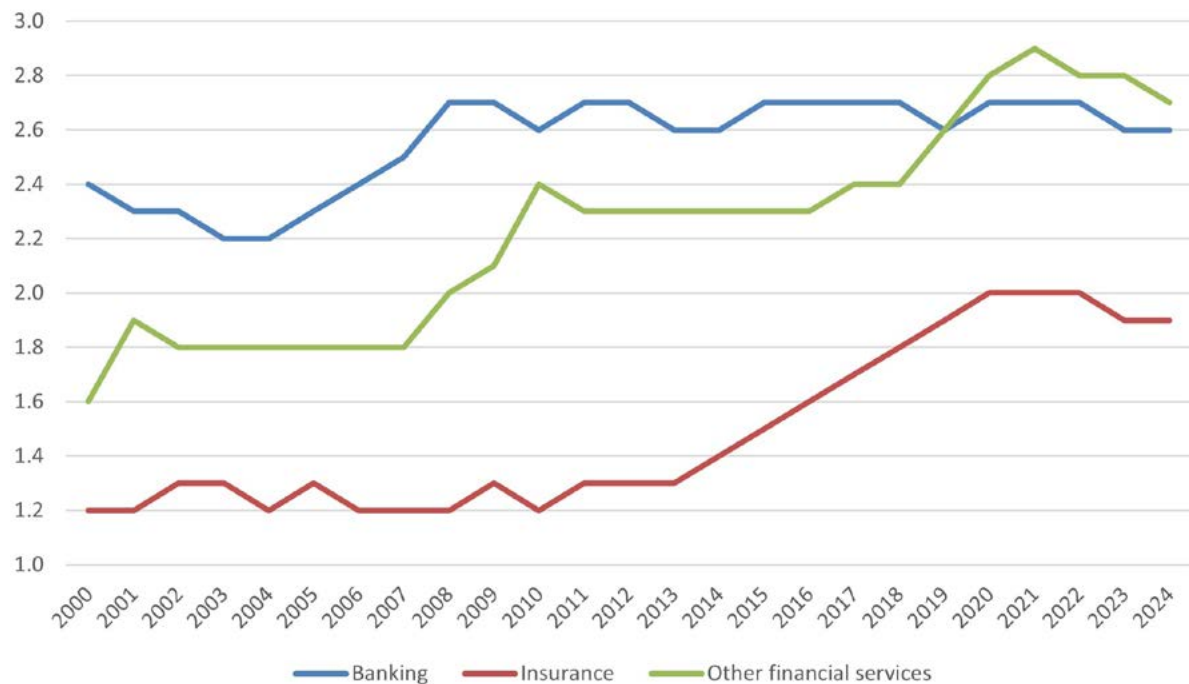
The insurance sector exhibits a more balanced but gradual development trajectory. Starting from a low base, both its value added and employment shares have increased steadily over time, with employment rising from around 1.2% in 2000 to approximately 1.9% by 2024. Insurance shows a more labor-absorbing expansion path compared with banking, as reflected in its relatively synchronized growth in output and employment.

Figure 3-5: Value added of Financial Services in Hong Kong (in HKD billion)



Source: Census and Statistics Department

Figure 3-6: Share in Total Employment of Financial Services in Hong Kong (%)



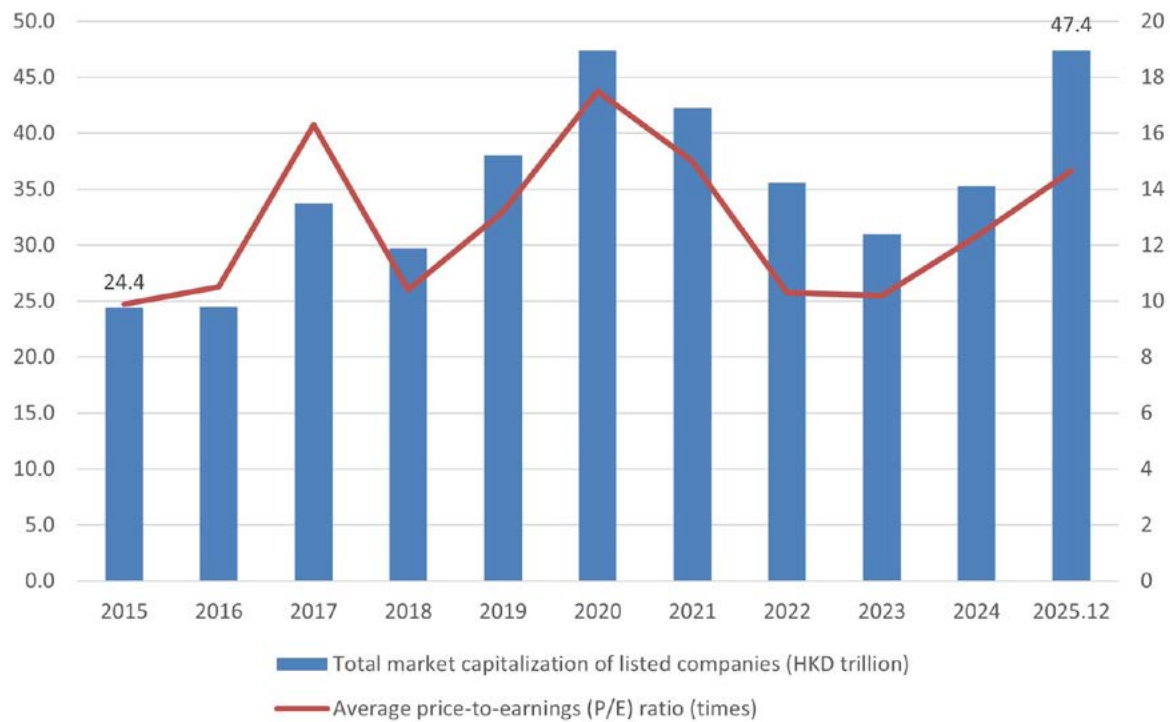
Source: Census and Statistics Department

Boosted by institutional improvements, the return of US-listed Chinese firms, and global capital shifts, Hong Kong’s financial market is bouncing back from recent cyclical dips. This recovery highlights its enduring strength as a global financial hub. As Figure 3-7 illustrates, total market capitalization surged from HKD 24.4 trillion in 2015 to roughly HKD 47.4 trillion by 2025. Following a 2022–23 downturn, a steady upward trend has been visible since 2024.

The average Price-to-Earnings (P/E) ratio, which peaked at 16x in 2017 and 18x in 2020, retreated to 10x during the 2022–23 slump. However, as the global economy stabilized and policy shifts took hold in 2025, the ratio recovered to approximately 15x. This momentum now faces fresh challenges: the 2026 US-Iran conflict has disrupted key trade routes in the Strait of Hormuz, sparking fluctuations in oil and commodity markets. As a result, global markets are currently navigating sharp risk repricing and increased volatility.

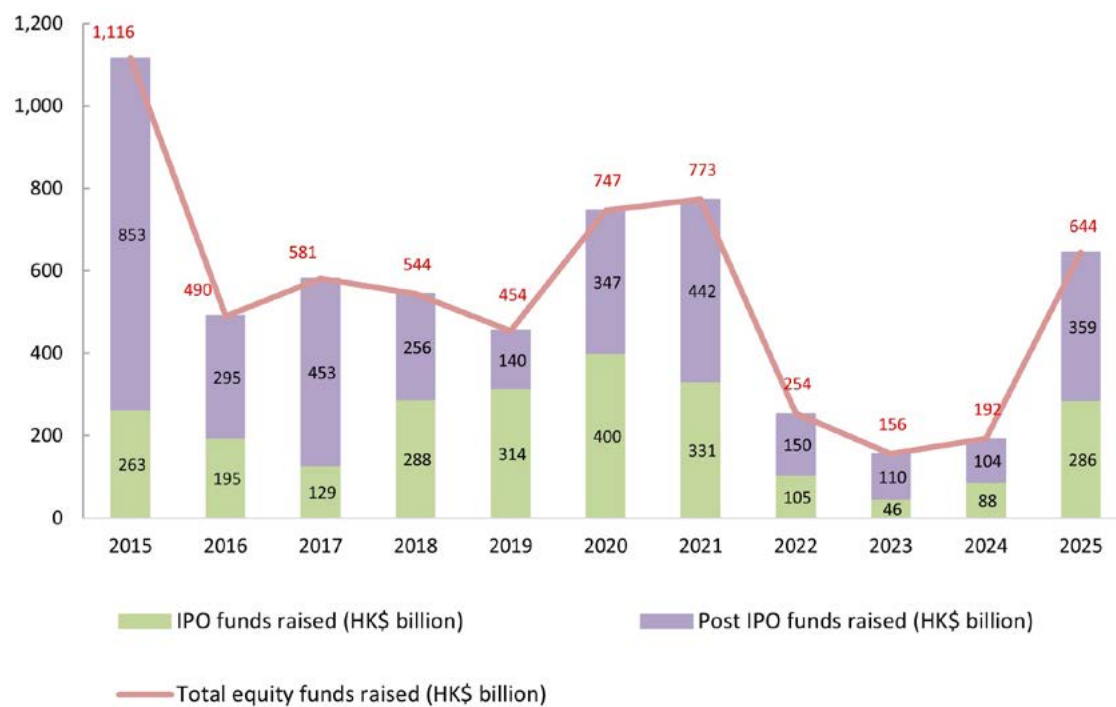
In terms of equity financing, as shown in Figure 3-8, volumes declined to only HKD 254 billion in 2022, after hitting a peak of HKD 1.1 trillion in 2015. However, in 2025, it surged back to HKD 644 billion, with IPO proceeds projected at HKD 286 billion—accounting for nearly 45% of the total.

Figure 3-7: Market Capitalization and Average P/E Ratio of Listed Companies in Hong Kong



Source: HKEX

Figure 3-8: Total Equity Funds Raised in Hong Kong



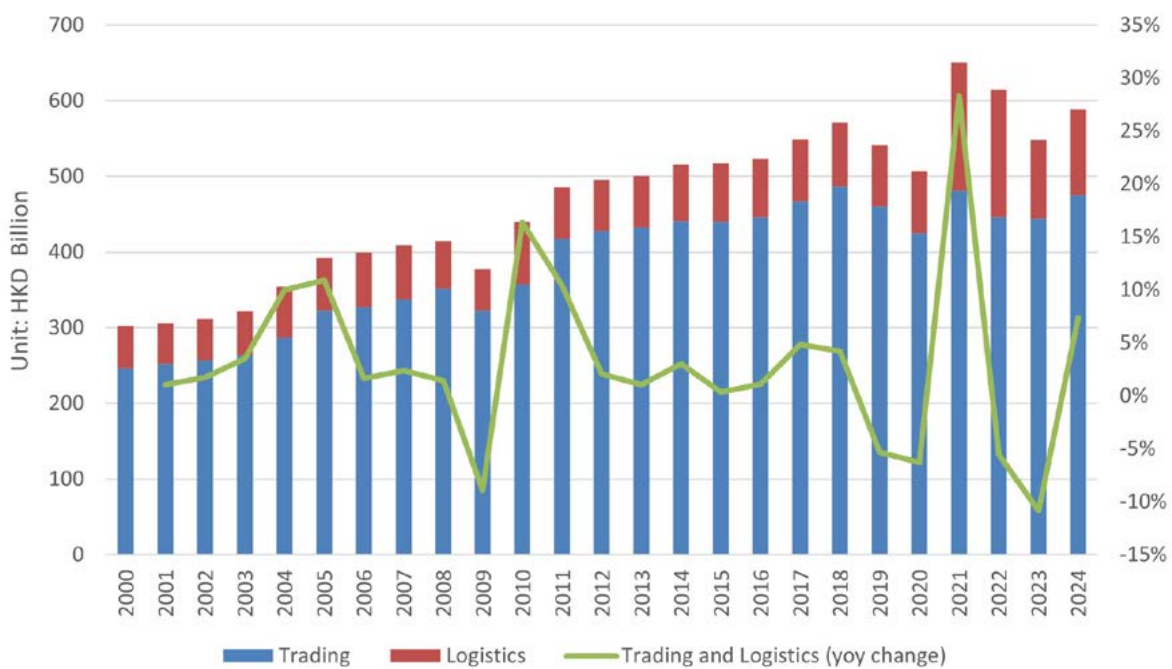
Source: HKEX

3.2.3 Trade and Logistics

Since the turn of this century, Hong Kong's trade and logistics sector has been undergoing significant structural adjustment. As shown in Figures 3-9 and 3-10, since 2000, the sector's total output has followed a fluctuating upward trend, rising from approximately HKD 300 billion in the early 2000s to nearly HKD 600 billion in 2024—effectively doubling in scale. Regarding growth dynamics, the sector's value-added year-on-year growth remained below 5% for most years. The sector's share of total employment in Hong Kong also shows a clear declining trend. Employment in the trade sector steadily declined from approximately 18% in 2000 to around 10.5% in 2024, with logistics employment experiencing a similar gradual contraction.

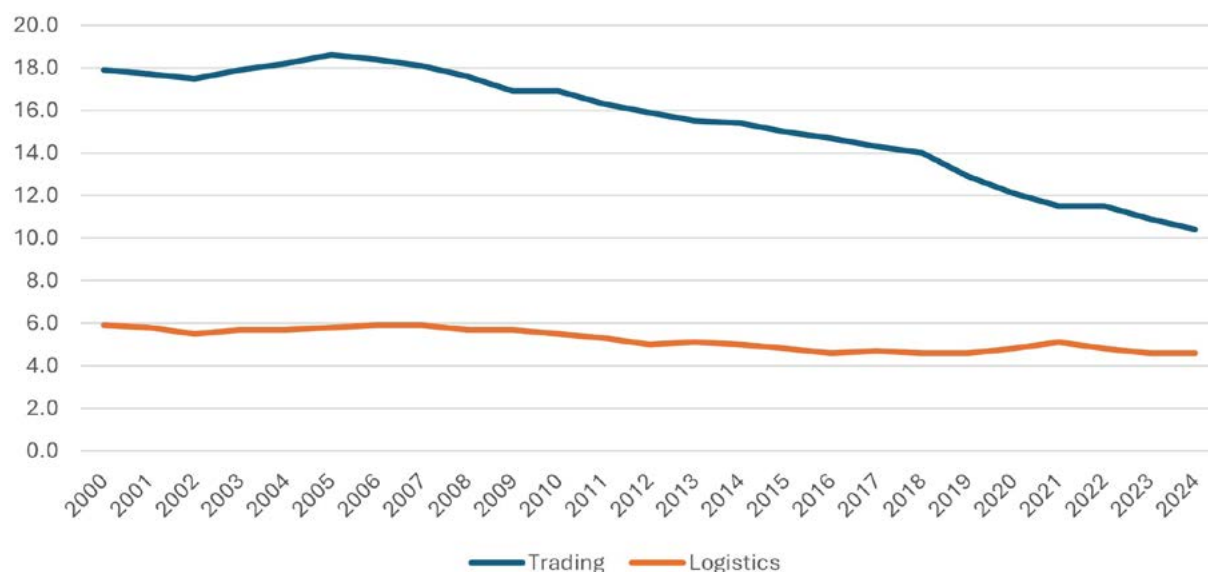
This divergence between output and employment reflects the sector's ongoing transformation, shifting from a labor-intensive model to a capital- and technology-intensive one. The widespread adoption of digital trade platforms, intelligent warehousing systems, and high-value supply chain management has significantly boosted labor productivity, making the transition of Hong Kong's trade and logistics industry toward a high-value-added model an inevitable trend.

Figure 3-9: Value added of Trade and Logistics in Hong Kong (in HKD billion)



Source: Census and Statistics Department

Figure 3-10: Share in Total Employment of Trade and Logistics Services in Hong Kong (%)



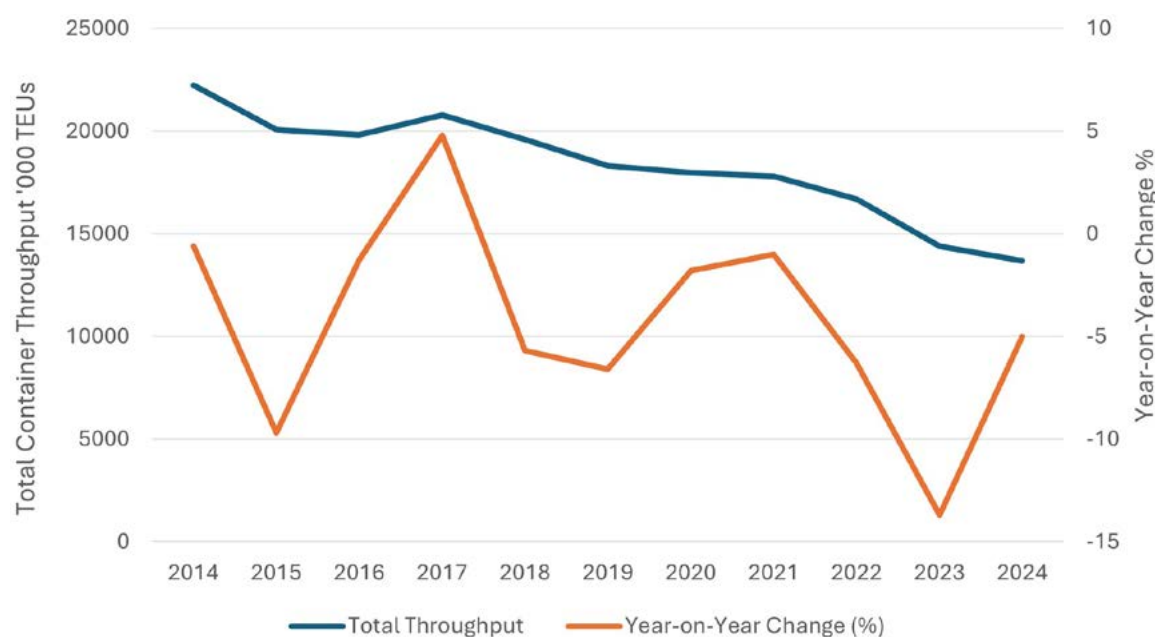
Source: Census and Statistics Department

Hong Kong's traditional advantages as a shipping hub are gradually weakening, with port operations showing a persistent contraction trend. As shown in Figure 3-11, in 2014, the container throughput of Hong Kong Port could still maintain a high level of 22 million Twenty-foot Equivalent Units (TEUs). However, under the combined effects of external competition and changes in the trade environment, this figure had declined by roughly one-third by 2024. For most of the past decade, the year-on-year change in Hong Kong's container throughput has been negative, with several instances of sharp declines.

According to data from the World Shipping Council, in 2024, Shenzhen Port handled 33.4 million TEUs, ranking fourth among container ports, while Guangzhou Port handled 26.07 million TEUs, ranking sixth, and Hong Kong Port handled 13.69 million TEUs, ranking 12th. Figure 3-12 illustrates the dynamics of GBA container throughput. Between 2019 and 2024, both Shenzhen and Guangzhou ports showed a steady upward trend, with Shenzhen in particular experiencing significant growth; by 2024, its throughput had clearly surpassed that of other ports, while Guangzhou Port also maintained stable expansion. In contrast, Hong Kong's port throughput continued to decline steadily over the same period.

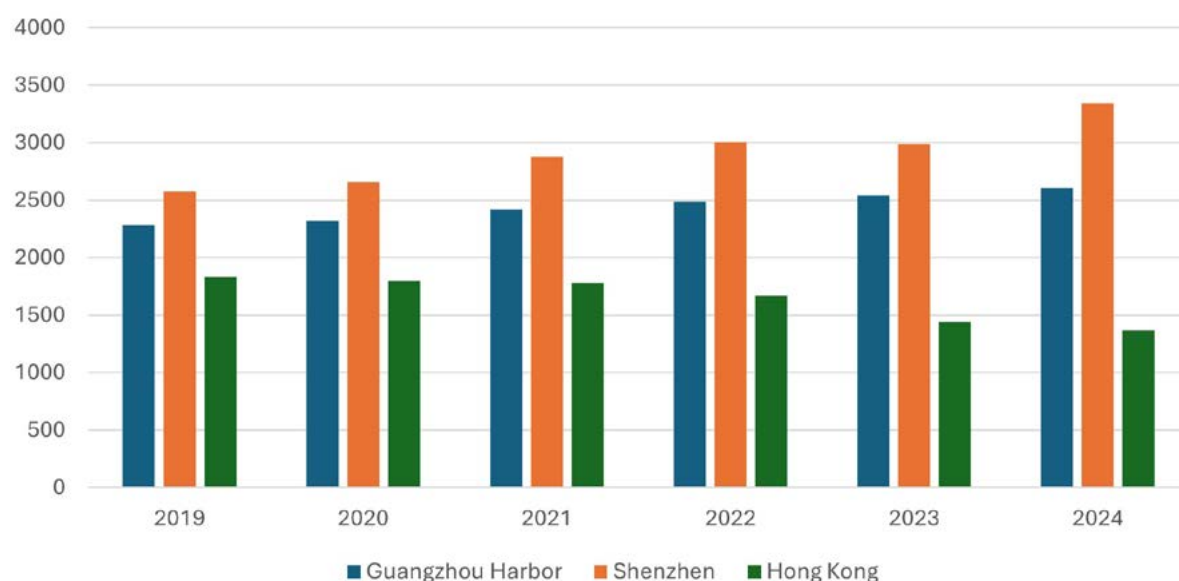
This indicates that Hong Kong's shipping industry is currently facing not merely short-term market fluctuations, but a structural adjustment driven by multiple factors. As the competitive landscape of the regional port system evolves, Hong Kong's comparative advantage as a traditional transshipment hub is gradually being undermined. Continuous improvements in infrastructure, customs efficiency, logistics costs, and digital capabilities at Shenzhen and Guangzhou ports have steadily reduced the reliance of cargo flows on Hong Kong. As the efficiency and service capacity of Mainland ports increasingly approach or even surpass those of Hong Kong, the "efficiency premium" that Hong Kong enjoys within the regional port system is gradually being compressed.

Figure 3-11: Container Throughput of Hong Kong Port (2014-2024)



Source: Hong Kong Maritime and Port Development Board, compiled by the author

Figure 3-12: Container Throughput in GBA Cities (in million TEUs)



Source: Official container port website of each city, compiled by the author

Figure 3-13 illustrates that air transport consistently constituted the largest share of Hong Kong's total trade value between 2019 and 2024. Remaining above 40% overall, it peaked at nearly 50% around 2022 before a slight retreat. This dominance underscores Hong Kong's increasing specialization in trade of high value-added, technology-intensive, and time-sensitive products such as electronic components, semiconductors, high-end consumer electronics, and biopharmaceuticals.

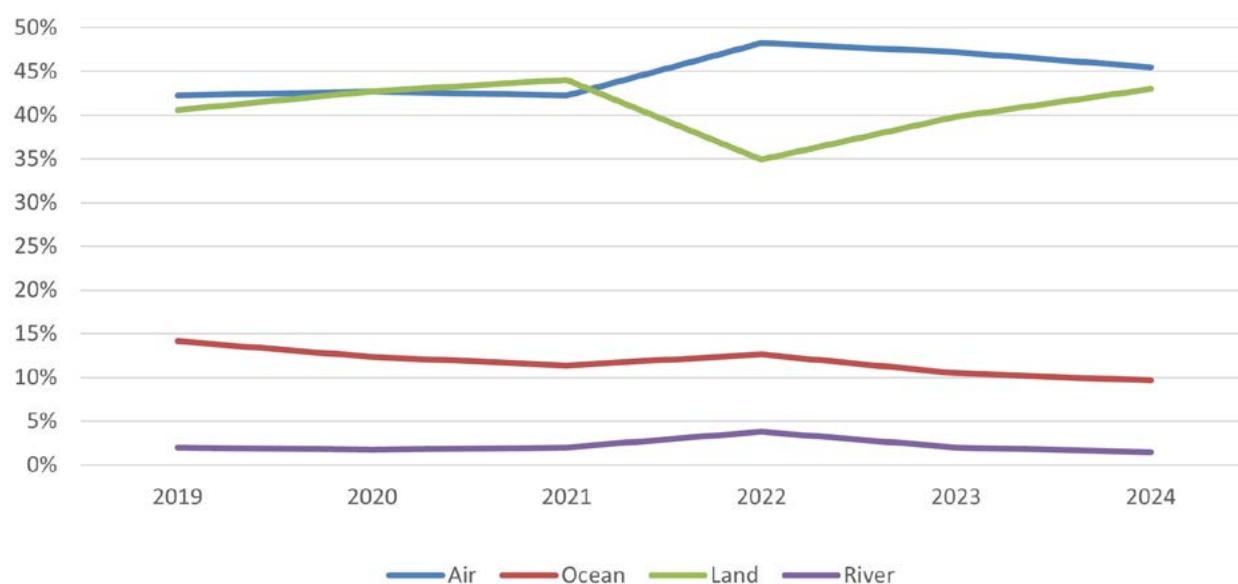
Conversely, the share of maritime transport experienced a continuous decline, falling from approximately 14% of the city's total trade value in 2019 to less than 10% in 2024. This signals a weakening of Hong Kong's traditional role as a sea-based transshipment hub, driven by competitive pressure from Mainland ports and shifts in the global trade landscape. Specifically, the regionalization and nearshoring of supply chains have reduced the cross-border flow through Hong Kong of bulk commodities and low value-added manufacturing goods.

Meanwhile, land transport's share, stable at around 40% from 2019 to 2021, saw a significant fall in 2022, during the pandemic, but gradually recovered. This trend indicates the continued resilience of industrial linkages and logistical dependencies between Hong Kong and the Chinese Mainland.

The decline in the share of maritime transport does not necessarily imply an irreversible decline in Hong Kong's shipping status but rather reflects a functional adjustment within the global supply chain system. Against the backdrop of changes in global trade structures, intensifying regional port competition, and supply chain restructuring, Hong Kong's shipping functions are evolving from a traditional cargo transshipment hub toward a high-end industrial node, extending into areas such as premium shipping services, international shipping management, maritime finance, and supply chain management.

Concurrently, the robust expansion of air transport is bolstering Hong Kong's integration into advanced industrial and innovation-driven value chains. Leveraging its efficient air logistics system, comprehensive international route network, and mature financial and professional service infrastructure, Hong Kong is strategically positioning itself as a critical distribution hub for high-value goods, vital intermediate products, and core technology items.

Figure 3-13: Composition of Hong Kong's Trade Value by Transport Mode



Source: Census and Statistics Department

3.2.4 Professional Services

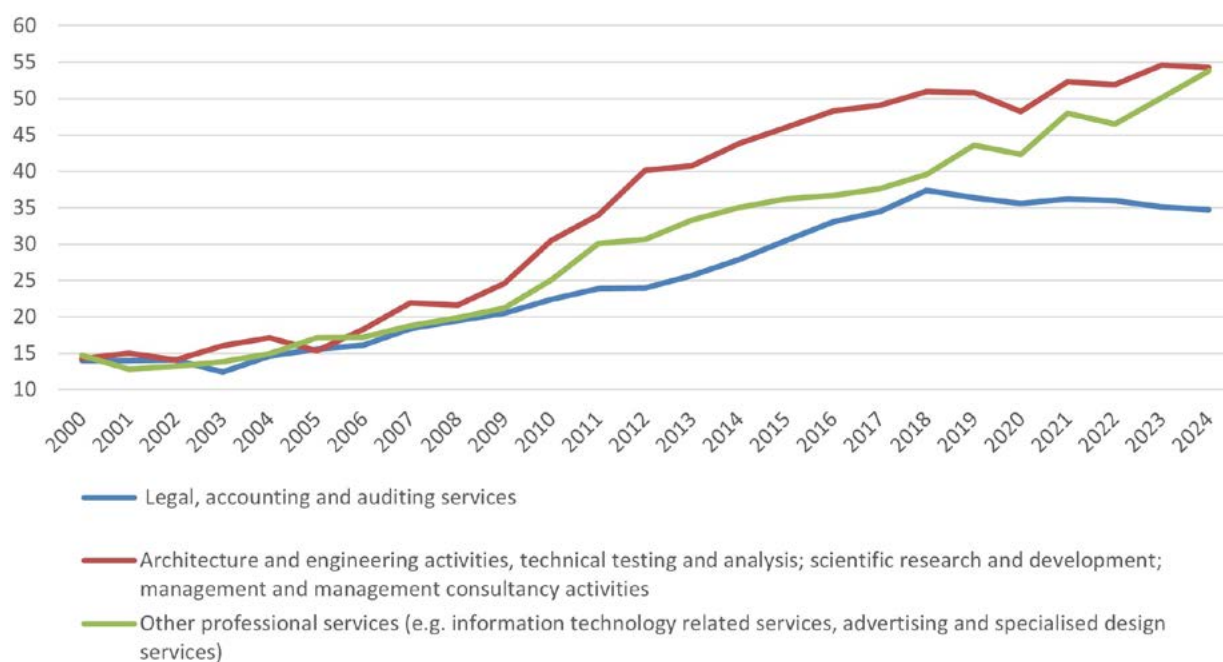
For the past 20 years, Hong Kong’s professional services industry has experienced overall expansion, marked by an accelerated transition into digital, innovation-driven, and high-value-added segments. As shown in Figure 3-14, from 2000 to 2024, the professional services sector expanded along both dimensions of value added and employment share, although the trajectories across sub-sectors diverged markedly.

Among them, services related to engineering, R&D, and strategic consultancy consistently led in terms of economic contribution. Value added in this category increased from approximately HKD 14 billion to almost HKD 55 billion, underscoring the solid foundation of Hong Kong’s professional services in supporting the real economy. This trend highlights Hong Kong’s pivotal role as a hub for mid- to high-end engineering management, technical standard-setting, and strategic decision-making within regional and global supply chains. “Other professional services”—including information technology related services, advertising and specialized design services—exhibited particularly rapid growth.

Following an acceleration after 2020, value added in professional services approached HKD 55 billion by 2024, effectively converging with the leading category. This pattern reflects Hong Kong’s ongoing transition toward a new professional services ecosystem characterized by knowledge intensity, innovation-driven growth, and digital enablement. More fundamentally, it signals an adaptive response of the local industrial structure to global technological change and evolving business models, suggesting that future growth will increasingly rely on emerging professional domains that are high value-added, highly scalable, and capable of cross-border service delivery. By contrast, legal, accounting, and auditing services maintained steady but relatively modest growth, with a slight downturn since 2020, indicating that Hong Kong’s strength in these traditional professional service areas is encountering growth constraints.

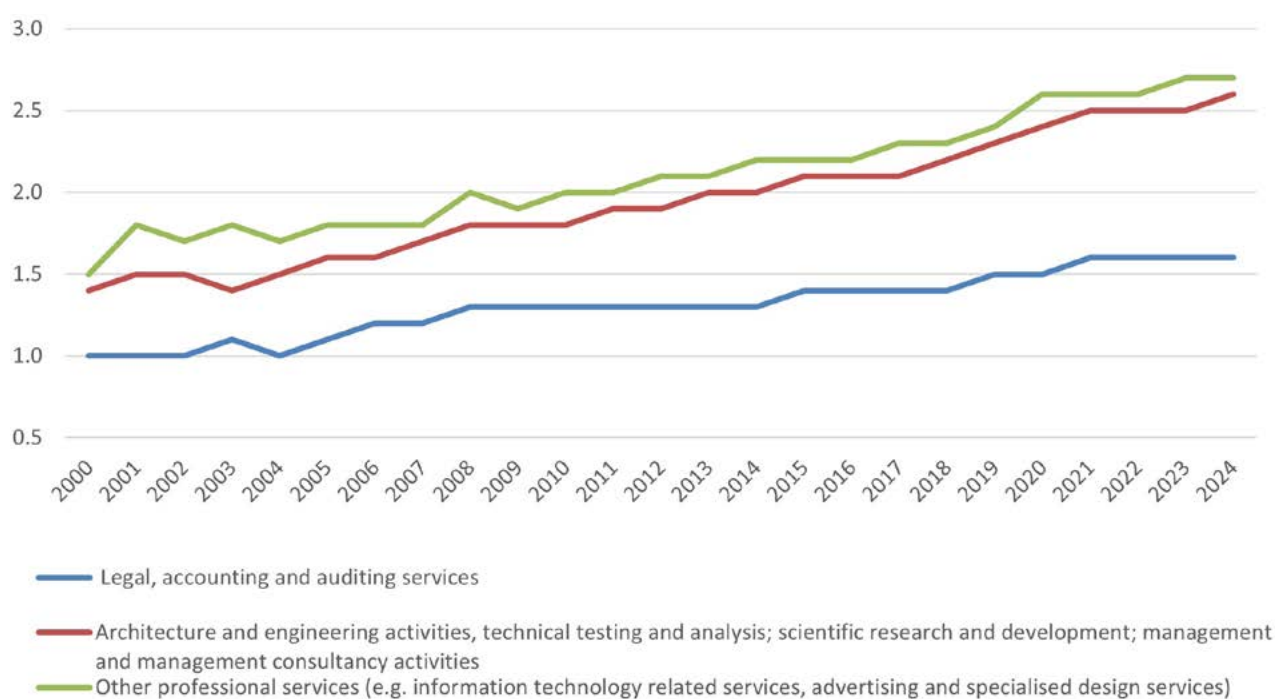
The employment structure mirrors this transformation. As Figure 3-15 shows, the employment share of “other professional services” rose steadily from around 1.5% in 2000 to 2.7% in 2024, making it the largest contributor to job creation within the professional services sector and reinforcing the structural basis of its rapid expansion. Employment in engineering, R&D, and strategic consultancy also expanded steadily, with its share increasing from 1.4% to over 2.5% over the same period. Employment in legal and accounting services grew relatively more slowly, from 1.0% to 1.6%, reflecting the sector’s high degree of maturity, limited incremental demand, and mounting pressures from outsourcing, regional competition, and technological substitution in standardized tasks. In conclusion, these trends indicate that Hong Kong’s professional services sector is gradually evolving from a traditional, finance-supporting model toward a more diversified, technology-driven, and innovation-oriented ecosystem.

Figure 3-14: Value added of Professional Services in Hong Kong (in billion HKD)



Source: Census and Statistics Department

Figure 3-15: Share in Total Employment of Professional Services in Hong Kong (%)



Source: Census and Statistics Department

3.2.5 Tourism

Tourism has long been an important component of the local services economy. As shown in Figure 3-16, between 2004 and 2018, total visitor arrivals increased steadily from 22 million to a historic peak of 65 million. This expansion was primarily driven by the rapid growth of visitors from the Chinese Mainland, which accounted for the majority of incremental arrivals over the period. By contrast, arrivals from Southeast Asia, Europe, the Americas and other regions grew at a more moderate pace, remaining relatively stable in scale and contributing mainly to source-market diversification rather than headline growth.

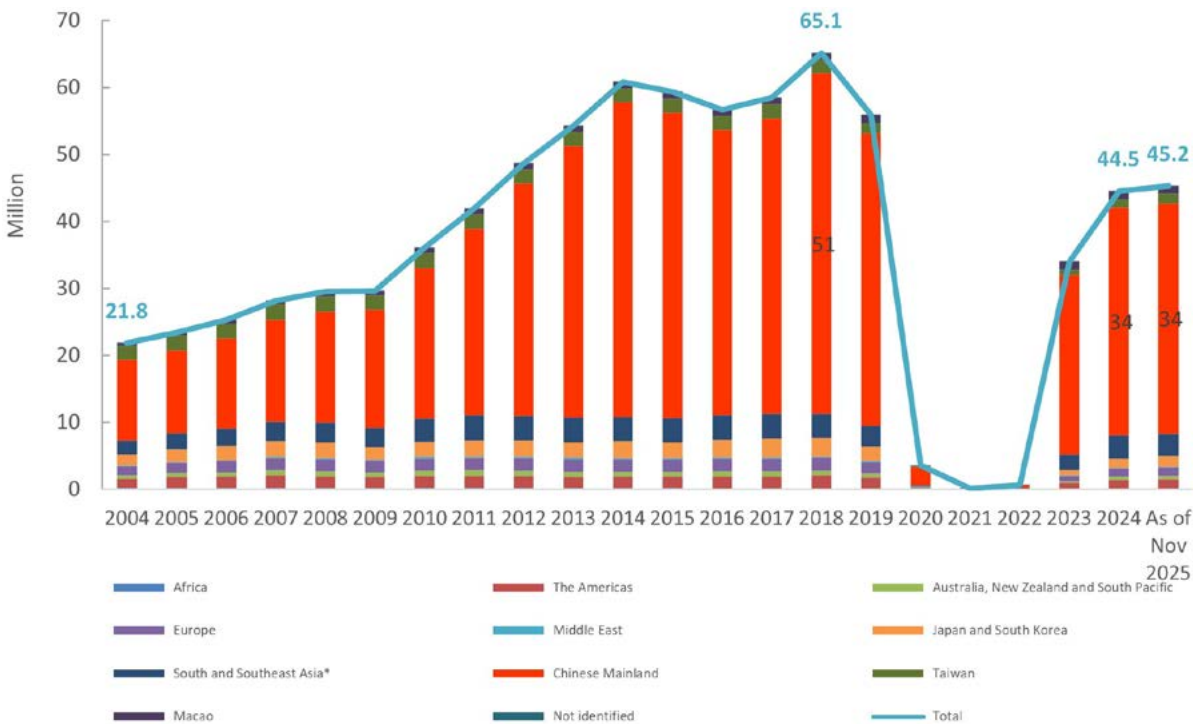
During this expansion phase, tourism activity was also accompanied by rising visitor spending. As shown in Figures 3-17 and 3-18, the total destination consumption expenditure increased steadily from the mid-2000s and reached a peak of around HKD 221 billion in 2014, remaining at a relatively elevated level in the years immediately preceding the pandemic. At the same time, overnight visitors consistently constituted a substantial share of total arrivals, reflecting the prevalence of longer stays and supporting tourism-related consumption beyond short-duration visits.

This long-term growth trajectory was abruptly interrupted between 2019 and 2022, when total visitor arrivals collapsed to historic low levels amid street protests in Hong Kong then severe cross-border travel restrictions because of the pandemic. Both overnight and same-day visitors declined sharply, while destination consumption expenditure fell correspondingly, underscoring the sector's high sensitivity to external shocks and the extent to which prior growth had relied on sustained cross-border mobility.

Since 2023, the tourism sector has entered a recovery phase. Total visitor arrivals rebounded to around 44.5 million in 2023 and further to approximately 45.2 million in 2024, equivalent to about 70% of the 2018 peak level. The recovery, however, has been uneven across visitor segments. Same-day visitors recovered more rapidly, reaching around 22.6 million in 2024, while overnight visitors increased to 21.9 million, still well below their pre-pandemic peak. This divergence suggests that the post-pandemic rebound has been driven primarily by short-duration and lower-commitment travel, rather than a full restoration of longer-stay tourism.

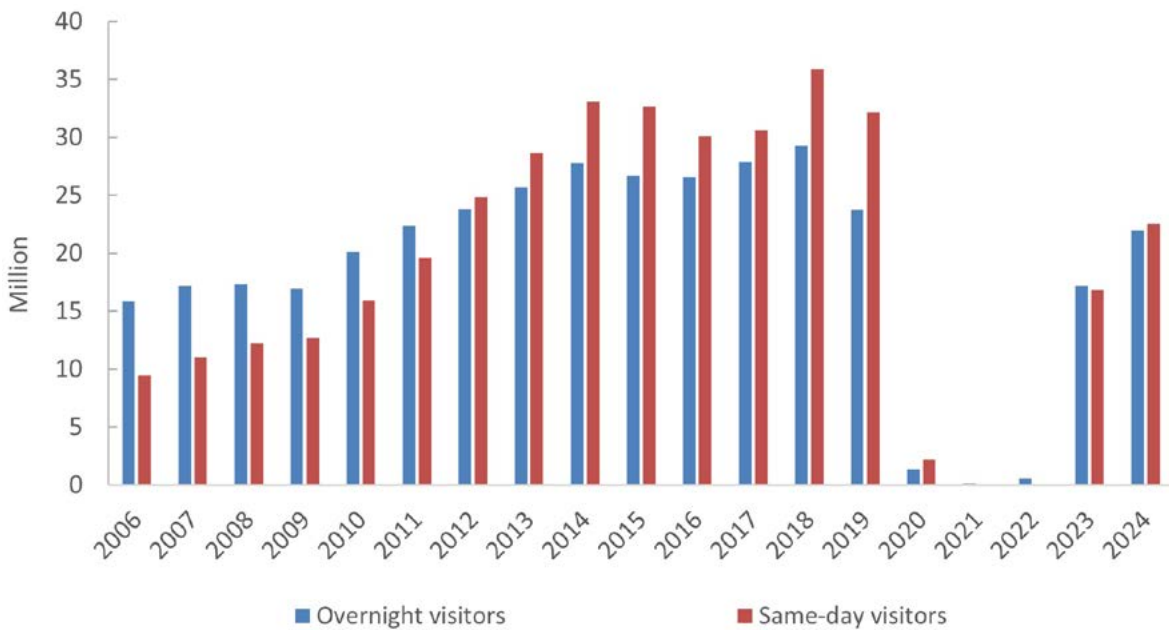
From a market structure perspective, the recovery has continued to rely heavily on visitors from the Chinese Mainland, while the return of long-haul and diversified source markets has been more gradual. As a result, although headline visitor numbers have improved markedly, both the composition of visitors and the level of destination consumption expenditure indicate that tourism activity has yet to fully regain its pre-pandemic depth and spending intensity.

Figure 3-16: Visitor Arrivals by Nationality/Region



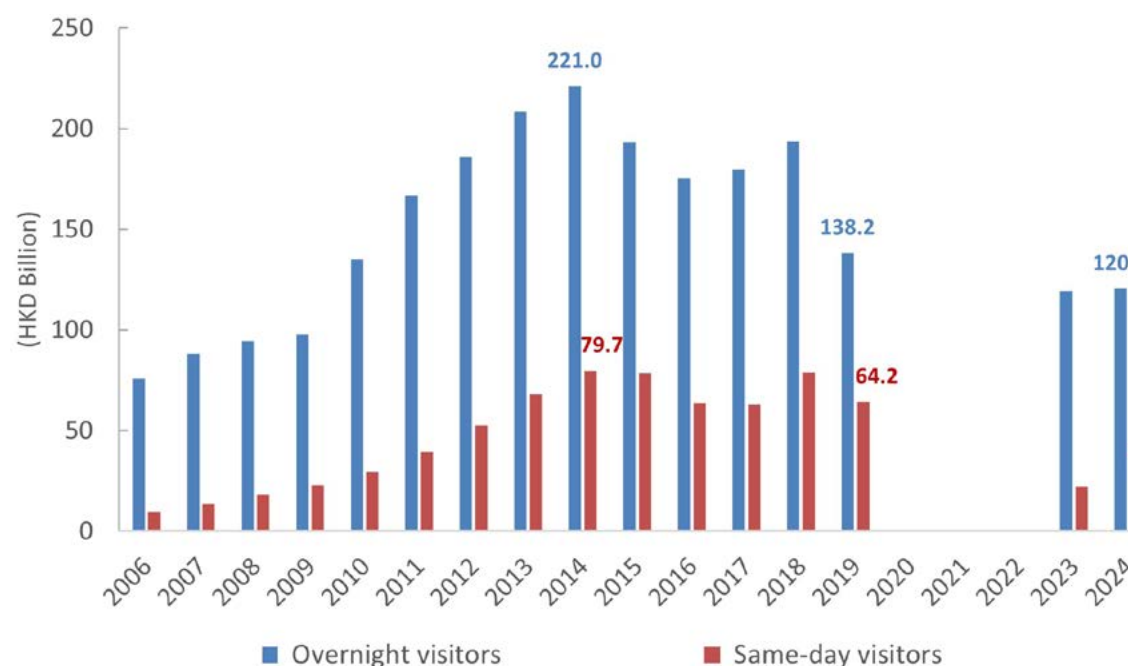
Source: Census and Statistics Department

Figure 3-17: Overnight Visitors and Same-day Visitors



Source: Census and Statistics Department

Figure 3-18: Total Destination Consumption Expenditure (in Billion HKD)



Source: Census and Statistics Department

3.3 Aligning Hong Kong's Strengths with China's 15th Five-Year Plan and Beyond

3.3.1 The Plan's Positioning

The 19th and 20th National Congresses of the Communist Party of China (CPC) outlined a two-step strategic arrangement for building a great modern socialist country. Building on the foundation of a moderately prosperous society, the goal is to basically realize socialist modernization by 2035 through the implementation of three Five-Year Plans (from the 14th to the 16th).

Accordingly, the 15th Five-Year Plan period occupies a pivotal position in this process, serving as a crucial stage that links past achievements with future objectives, and lays a solid foundation for basically realizing socialist modernization. At this critical juncture, it is of landmark significance for Hong Kong to proactively align with the national 15th Five-Year Plan and to formulate its first-ever five-year development plan. This will allow the city to map its medium-to-long-term development from a higher strategic dimension.

3.3.2 Hong Kong's Strategic Position in China's 15th Five-Year Plan

According to the HKSAR government's press release, titled "HKSAR Government actively aligns with National 15th Five-Year Plan and presses ahead with high-quality development", it is stated that "The 15th Five-Year Plan supports Hong Kong in consolidating and enhancing its status as

an international financial, shipping and trade center and an international aviation hub. It aims to strengthen Hong Kong's functions as a global offshore Renminbi business hub, an international asset management center, and an international risk management center. The plan also supports Hong Kong in developing into an international innovation and technology hub, while deepening its development as an international legal and dispute resolution services center, a regional intellectual property trading center, and the East-meets-West center for international cultural exchange."

The Central Government fully supports Hong Kong to maintain its unique advantages under the "One Country, Two Systems" framework, leveraging its distinctive role as a bridge that is "backed by the Motherland while connecting the world." This will be achieved through five key pillars:

1. **Deepening financial connectivity and wealth management:** Further integrate Hong Kong with the Mainland's markets, expand offshore renminbi (RMB) business, and reinforce its position as an international hub for asset and private wealth management. This includes optimizing the securities market, attracting new capital from overseas, and establishing Hong Kong as an international gold trading center.
2. **Advancing high-value maritime and logistics services:** Build a comprehensive ecosystem for commodities trading and promote high-value-added maritime services. Efforts will focus on accelerating the development of a green shipping center, completing the smart port system, and driving the transformation and upgrading of the maritime industry chain.
3. **Empowering the trade and headquarters economy:** Accelerate the creation of a high-value-added supply chain service hub and foster a headquarters economy. This involves strengthening export credit services, expanding into European and American markets, and aligning more closely with the trade mechanisms of partner countries under China's Belt and Road (B&R) Initiative.²¹⁵
4. **Integrating into the global tech innovation landscape:** Deeply integrate into the development of the GBA International Innovation and Technology Hub. By focusing on global strategic demands in fields such as AI and life and health sciences, Hong Kong will support the nation in achieving breakthroughs in key core technologies.
5. **Developing Hong Kong as a highland for global talent:** The city should be a hub for global professionals and students. Hong Kong's universities, renowned for their research excellence and international outlook, serve as critical platforms for academic collaboration, advanced training, and innovation-driven talent development. This strategy extends beyond the city's world-class universities and research institutions to encompass its premier professional services ecosystem. By strengthening university–industry partnerships and expanding international recruitment of students and scholars, Hong Kong will better develop the skilled workforce needed for China's growth and global engagement.

215 The Belt and Road Initiative refer to the Silk Road Economic Belt and the 21st Century Maritime Silk Road proposed by Chinese President Xi Jinping in 2013. The initiative aims at promoting policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bond in the international community. (State Council Information Office, PRC, "Belt and Road | English. scio.gov.cn," english.scio.gov.cn, n.d., <http://english.scio.gov.cn/beltandroad/index.htm>.)

3.3.3 Hong Kong's Roles in China's Industrial and Innovation Ecosystems

Hong Kong plays a pivotal role in contributing to the nation's modern industrial system and accelerating high-level self-reliance in science and technology. With its formidable basic research capabilities, Hong Kong stands at the forefront in Asia, with a cluster of world-class universities and a highly internationalized environment for collaborative research and innovation. It serves as a key source of original innovation for the GBA and the entire country, particularly in fields such as AI, life and health sciences, fintech, and new materials and energy.

Simultaneously, as an international financial center, Hong Kong leverages five core capabilities—(1) its status as a global capital hub, (2) its cross-border financial infrastructure, (3) a robust fintech ecosystem, (4) an offshore RMB system, and (5) internationalized rules and talent. These strengths provide the necessary funding, channels, risk hedging, institutional safeguards, and global resources for national industrial modernization and independent innovation. Ultimately, Hong Kong plays a decisive role in fostering a virtuous “Finance–Industry–Technology” cycle.

I. Innovation Ecosystem

Hong Kong's innovation and technology (I&T) ecosystem can be conceptualized as a coordinated framework that brings together key stakeholders and essential enabling conditions. At its core lies a dynamic innovation environment where research, capital, enterprise activity, and market demand converge to generate and scale new technologies. In this framework, universities, research institutions, investors, and enterprises constitute the core stakeholders that drive knowledge creation, capital formation, and the commercialization of innovation. Supportive elements, including policy, infrastructure, and talent, provide the structural foundations that sustain innovation. The strength of Hong Kong's I&T ecosystem, therefore, lies not in any single component but in the continuous interaction and mutual reinforcement between these actors and enabling factors, forming a resilient and self-sustaining innovation system.

In the World Intellectual Property Organization's Global Innovation Index 2025, Hong Kong rose to 15th place out of 139 economies worldwide and ranked fifth in Asia.²¹⁶ Hong Kong's current innovation system is distinctly service-driven and trade-oriented. Its core strengths are rooted in a highly free economic environment and strong financial capacity. Its multiple indicators rank at the global forefront—such as tariff levels (1st), private sector credit (1st), and FDI (1st)—providing a world-class platform for funding and incubating innovative activities.²¹⁷ Leveraging its free-port status, Hong Kong excels in both the export of creative products (1st) and the import of high-tech goods (1st), demonstrating exceptional global resource allocation capabilities.²¹⁸ At the same time, the city benefits from high-quality research output and an internationalized collaborative environment, particularly in university–industry partnerships and mobile application development, where its efficiency in technology transfer is notable.

²¹⁶ World Intellectual Property Organization, “Hong Kong, China Ranking in the Global Innovation Index 2025,” Wipo.int, 2025, <https://www.wipo.int/gii-ranking/en/hong-kong-china>.

²¹⁷ Ibid.

²¹⁸ Ibid.

However, there are also clear constraints that limit the depth of Hong Kong's innovation. First, the shortage of advanced manufacturing (ranked 86th globally) and capital formation (ranked 123rd globally) limit applied science research.²¹⁹ Second, despite Hong Kong's leadership in trade, significant gaps remain compared with the world's leading innovative economies in areas such as low-carbon energy utilization, information and communication technology (ICT) services exports, and intangible asset investment. Finally, limited land supply and high rental costs have rendered long-term, high-risk investments in science and technology less profitable in Hong Kong than in regional competitors like Shenzhen and Singapore.

(a) Key Stakeholders

Hong Kong's universities serve not only as the cornerstone of fundamental research but also as a catalyst for innovation and technology commercialization. In the 2023–24 academic year, the city's University Grants Committee (UGC) and Research Grants Council provided up to HKD 7.31 billion in research funding to UGC-funded universities, to support their leading position in basic research.²²⁰ By the end of 2024, the Technology Start-up Support Scheme for Universities (TSSSU) had approved HKD 471 million in funding, supporting 539 start-ups and generating over 2,300 IP assets.²²¹ Notable examples of industry–academia collaboration include the three-year core program of the HKUST–Intel Joint Laboratory, which focuses on high-energy-efficiency near-memory computing to address AI power-consumption bottlenecks.

Capital is crucial for scaling up innovation. As an international financial center, Hong Kong provides comprehensive financing options for tech enterprises at different stages of development. Early-stage funding and government-guided funds include the Innovation and Technology Venture Fund (ITVF), which co-invests with private venture capital funds at a 1:2 ratio.²²² By the end of 2024, the fund had invested HKD 339 million in 41 local start-ups since its establishment in 2017, attracting over HKD 3.1 billion in private investment, achieving a leverage ratio close to 1:9.²²³

Supporting infrastructure and park-based funding are also strong: the Corporate Venture Fund (CVF) operated by Hong Kong Science and Technology Parks demonstrates that each HKD 1 of government investment can attract approximately HKD 17 of private capital, with enterprises in the park raising a total of HKD 17.8 billion in 2024–25.²²⁴ Secondary market reforms have further expanded exit channels for tech firms, with the HKEX introducing the 18A (biotechnology) and 18C (pre-revenue tech) listing rules. In 2025, Hong Kong reclaimed its position as the world's top fundraising hub

²¹⁹ Ibid.

²²⁰ “Innovation, Technology and Industry” in Hong Kong Yearbook 2024 (Hong Kong: Information Services Department, 2025), chap. 16, <https://www.yearbook.gov.hk/2024/en/>.

²²¹ Ibid.

²²² HKSAR Government, “Innovation and Technology Venture Fund Continues to Invest in Local Start-Ups to Enrich Innovation and Technology Ecosystem,” Info.gov.hk, January 2025, <https://www.info.gov.hk/gia/general/202501/24/P2025012400466.htm>.

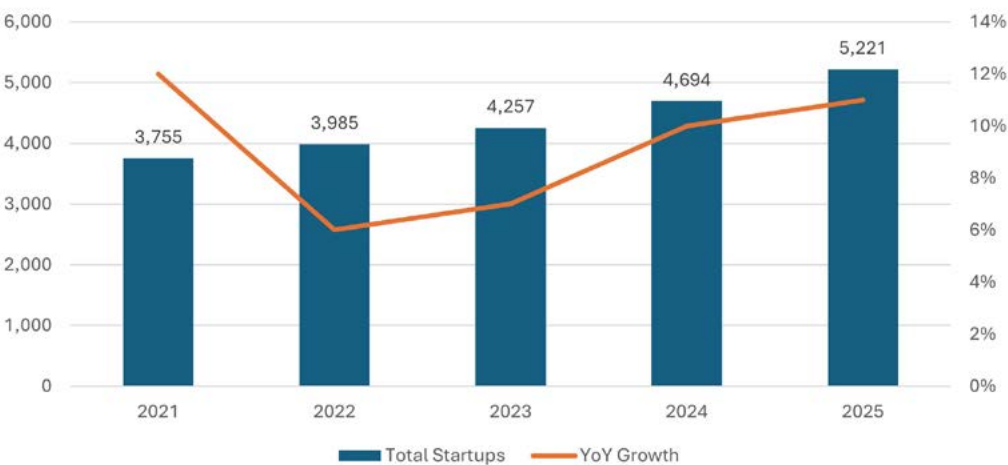
²²³ “Innovation, Technology and Industry” in Hong Kong Yearbook 2024 (Hong Kong: Information Services Department, 2025), chap. 16, <https://www.yearbook.gov.hk/2024/en/>.

²²⁴ Hong Kong Science and Technology Parks Corporation, Annual Report 2024–2025. Hong Kong: HKSTP, 2025. https://www.hkstp.org/-/media/corpsite/assets/publication/annual-report/hkstp-annual-report_202425_english.pdf?rev=d15145b1c21d491c880c1980f45b0a96&hash=06473A282019EE1E2A177B68AA8AF16E.

with USD 37.4 billion raised through IPOs, driven primarily by the healthcare, life sciences, and technology, media, and telecom (TMT) sectors.²²⁵

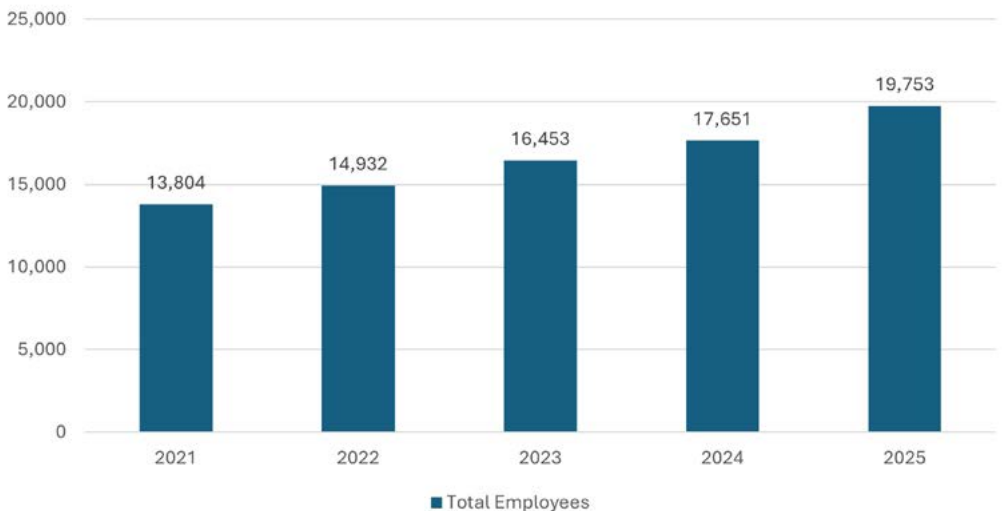
Enterprises, as the core stakeholders of Hong Kong’s innovation ecosystem, are demonstrating strong growth momentum and resilience. The overall trend shows a continuously expanding ecosystem. Data indicates that Hong Kong’s start-up ecosystem has been steadily rising. As Figures 3-19 and 3-20 show, from 2021 to 2025, the total number and total employment of start-ups grew from 3,755 to 5,221 and from 13,804 to 19,753, respectively. This reflects that, despite global economic fluctuations, Hong Kong remains increasingly attractive to entrepreneurs. This growth in start-up and employment numbers also creates a magnet effect, drawing in venture capital firms and skilled technology talent, which further strengthens the stability and vibrancy of the ecosystem.

Figure 3-19: Number and Growth Rate of Start-up Companies in Hong Kong



Source: InvestHK

Figure 3-20: Total Employment of Start-up Companies



Source: InvestHK

225 HKEX, “Hong Kong ECM 2025 Recap: Liquidity, Listings and Record-Scale Equity Issuance,” Hkexgroup.com, February 2026, https://www.hkexgroup.com/media-centre/insight/insight/2026/hkex-insight/ecm-performance-in-2025?sc_lang=en.

(b) Supporting Elements

Hong Kong has established a clear strategic policy direction for innovation and technology development. The “Hong Kong Innovation and Technology Development Blueprint”, promulgated in 2022, set out the development pathway for the next five to 10 years. In the 2025 Budget, the government further reinforced its commitment to innovation and technology. In the area of AI, HKD 3 billion has been allocated to launch the Artificial Intelligence Subsidy Scheme, supporting local universities, research institutions, and enterprises in leveraging the computing power of Cyberport’s Artificial Intelligence Supercomputing Centre to achieve research breakthroughs.²²⁶ To advance new industrialization, the New Industrialization Funding Scheme encourages the establishment of smart production lines in Hong Kong; as of October 2025, the related training subsidy program had approved approximately 19,700 applications, involving a total of HKD 690 million.²²⁷ In microelectronics, the Hong Kong Microelectronics Research and Development Institute, established in September 2024, focuses on third-generation semiconductor research and aims to connect research and production by leveraging the well-established industrial chain of the GBA.²²⁸

Hong Kong has established a comprehensive and world-class technology infrastructure platform that spans basic research, digital innovation, advanced manufacturing, and cross-border collaboration. Table 3-4 summarizes the key platforms and their core functions and outcomes.

Table 3-4: Key I&T Infrastructure Platforms: Core Functions & Scale (2024-25)

Infrastructure Platform	Core Functions & Facilities	Scale & Key Data (2024-25)
Hong Kong Science and Technology Park (HKSTP)	Flagship incubator, shared laboratories, and Good Manufacturing Practice (GMP) production facilities.	2,200+ companies; 23,000+ total workforce; 15,000+ R&D personnel. ²²⁹
Cyberport	Digital technology hub and AI Supercomputing Centre (AISC).	2,100+ digital tech enterprises; AISC computing power reaching 3,000 people. ²³⁰
InnoPark	Driving Made in Hong Kong initiatives and advanced manufacturing transformation.	Located in Tai Po, Yuen Long, and Tseung Kwan O; provides specialized GMP production sites.
Hong Kong-Shenzhen Innovation and Technology Park (HSITP)	A testing ground for cross-border R&D collaboration and institutional innovation.	Already attracted more than 60 enterprises and institutions to establish a presence. ²³¹

226 HKSAR Government, “Innovation and Technology,” in The 2026–27 Budget: Budget Speech (Hong Kong: Government of the Hong Kong Special Administrative Region, February 25, 2026), 36–60 https://www.budget.gov.hk/2026/eng/pdf/e_budget_speech_2026-27.pdf.

227 Government of the HKSAR: The Facts – Innovation, Technology, accessed April 14, 2026, <https://www.gov.hk/en/about/aboutthk/factsheets/docs/technology.pdf>

228 HKSAR Government, “Innovation and Technology,” in The 2026–27 Budget: Budget Speech (Hong Kong: Government of the Hong Kong Special Administrative Region, February 25, 2026), 36–60 https://www.budget.gov.hk/2026/eng/pdf/e_budget_speech_2026-27.pdf.

229 Hong Kong Science and Technology Parks Corporation, Annual Report 2024–2025. Hong Kong: HKSTP, 2025. https://www.hkstp.org/-/media/corpsite/assets/publication/annual-report/hkstp-annual-report_202425_english.pdf?rev=d15145b1c21d491c880c1980f45b0a96&hash=06473A282019EE1E2A177B68AA8AF16E.

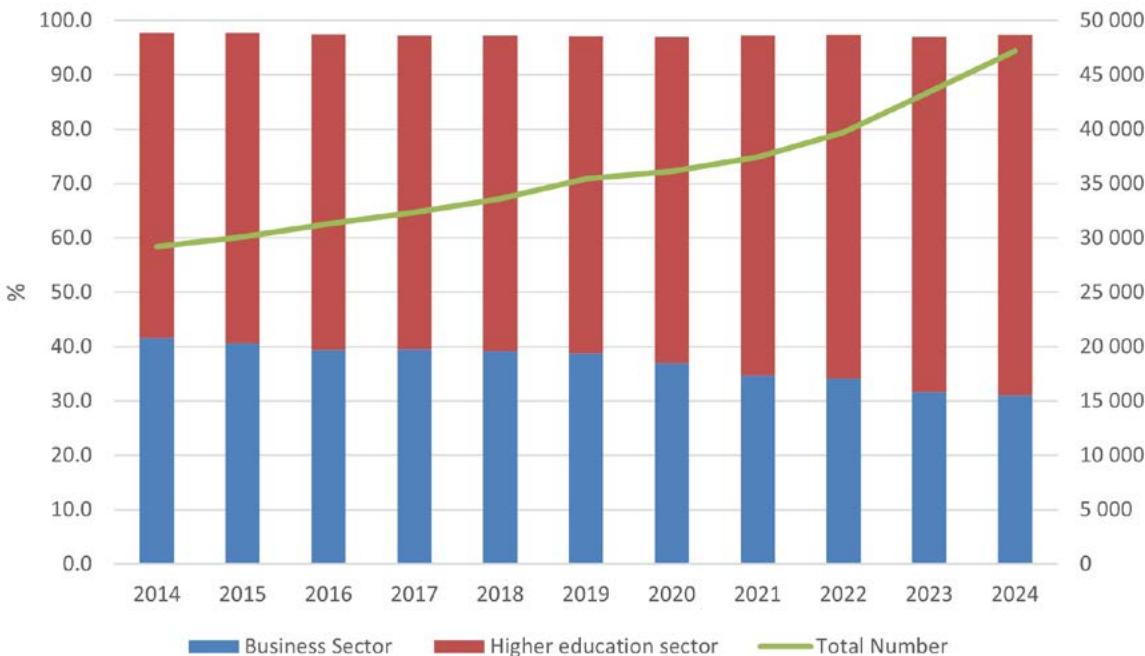
230 Innovation, Technology and Industry Bureau, “Innovation, Technology and Industry” (www.gov.hk, January 2026), <https://www.gov.hk/en/about/aboutthk/factsheets/docs/technology.pdf>.

231 Government of the HKSAR, “Remarks by SIT1 at media session,” 22 December 2025, <https://www.info.gov.hk/gia/general/202512/22/P2025122200696.htm>.

This integrated ecosystem supports the full innovation cycle from knowledge creation to commercialization and fosters the clustering of high-value firms, talent, and R&D resources. By strengthening digital capabilities alongside advanced manufacturing and leveraging cross-border synergies within the GBA, Hong Kong is building a resilient, future-oriented innovation system that enhances its competitiveness as a global hub for technology and industrial development.

From 2014 to 2024, Hong Kong’s R&D workforce expanded significantly, growing from around 30,000 to nearly 50,000 researchers (see Figure 3-21). The share of R&D personnel in the higher education sector also increased from about 60% to nearly 70%. This substantial increase underscores the pivotal role played by educational institutions in driving this expansion. By concentrating a growing share of research talent, higher education institutions not only generate new knowledge but also supply high-skilled human capital and facilitate collaboration with industry, thereby strengthening the city’s overall innovation capacity.

Figure 3-21: Total Number and Share of R&D Personnel by Performing Sector



Source: Census and Statistics Department

While Hong Kong has developed a strong innovation ecosystem anchored in world-class research, finance, and international connectivity, the city continues to face structural constraints in translating research excellence into large-scale industrial activity and advanced manufacturing capacity. In this context, Singapore’s experience illustrates how a small, open economy can systematically bridge innovation and industrialization by leveraging long-term strategy, targeted industrial clustering, and purpose-built infrastructure to transform R&D capabilities into tangible manufacturing outcomes (see Box 3-1).

Box 3-1: Singapore's Advanced Manufacturing

Singapore has maintained a robust and advanced manufacturing sector, which contributed 17.4% to its GDP in 2025.²³² This thriving sector, encompassing clusters in semiconductors, precision engineering, and biomedicine, is heavily supported by a clear national vision and comprehensive government policy. The “Singapore Economy 2030 – Manufacturing” vision aims to increase manufacturing value-added by 50% by 2030, supported by the Economic Development Board (EDB) through various incentives, including tax breaks and R&D grants.²³³ Central to this effort are the continuously updated Industry Transformation Maps for key sectors, which focus on innovation, sustainable development, and talent development.

Singapore has also been actively promoting the development of the biomedical industry ecosystem by establishing highly specialized and purpose-driven innovation hubs, combined with its systematic industrial agglomeration approach. This progress is supported by long-term national strategies, with the Singaporean government providing the biomedical sector with sustained funding across economic cycles and clear strategic guidance through its five-year Research, Innovation and Enterprise (RIE) plans. Under the RIE2025 plan, the government has allocated SGD 28 billion, and a robust pipeline of translational and AI-driven biomedical science initiatives is anticipated under RIE2030.²³⁴ Through the RIE plans, the government provides sustained and substantial funding for the biomedical sector, effectively translating policy stability into a competitive advantage for attracting long-term FDI.

Biopolis and Tuas Biomedical Park (TBP) are two prominent biomedical industrial hubs in Singapore. Biopolis, located in the island's One-North innovation district, serves as an R&D cluster fostering knowledge creation, talent concentration, and cross-sector collaboration. By leveraging co-location effects, it promotes interaction among academia, government research institutions, and industry laboratories, accelerating translational medicine and new drug development. Launched in 1997, TBP is Singapore's cluster dedicated to large-scale, capital-intensive pharmaceutical and medical technology manufacturing. The park hosts 14 global biomedical companies and employs around 7,000 people.²³⁵

Singapore prioritizes the development of specialized clusters with pre-built infrastructure, with both parks spearheaded by its JTC government agency. Within the dual-core R&D and manufacturing park framework, specialized government agencies like JTC proactively build tailored facilities and utilities to meet the highest international standards, anticipating industry needs before they arise. The success of Singapore's biomedical policy lies in its design of a comprehensive closed loop, spanning macro-level strategy to micro-level implementation, and spatial infrastructure to technological upgrades.

232 Singapore Department of Statistics, "Gross Domestic Product at Current Prices, by Industry (SSIC 2020)," Table M015731, last updated 10 Feb 2026, <https://tablebuilder.singstat.gov.sg/table/TS/M015731>.

233 International Trade Administration (USA), "Singapore Advanced Manufacturing," www.trade.gov, August 28, 2022, <https://www.trade.gov/market-intelligence/singapore-advanced-manufacturing>.

234 Singapore Economic Development Board (EDB), "Why the World's Most Innovative Biotechs Are Choosing to Expand in Asia-Pacific," [Edb.gov.sg](http://edb.gov.sg), October 2025, <https://www.edb.gov.sg/en/business-insights/insights/why-the-worlds-most-innovative-biotechs-are-choosing-to-expand-in-asia-pacific.html>.

235 JTC Singapore, "Tuas Biomedical Park," [Jtc.gov.sg](http://jtc.gov.sg), February 2026, <https://www.jtc.gov.sg/find-land/land-for-long-term-development/tuas-biomedical-park>.

While Singapore demonstrates how strong state coordination and strategic industrial policy can successfully integrate innovation with advanced manufacturing, an equally instructive perspective emerges from economies following a markedly different development path. Switzerland offers a complementary model, illustrating how a highly innovation-driven economy can achieve advanced manufacturing excellence through sustained investment in basic research, decentralized innovation dynamics, and close university–industry collaboration rather than extensive direct industrial intervention. The case study of Switzerland provides additional insights for Hong Kong as the city explores diverse pathways to strengthen the industrial anchoring of its innovation ecosystem (see Box 3-2).

Box 3-2: Switzerland’s Advanced Manufacturing

The Swiss Industrial Policy, sometimes referred to as a Non-Industrial Industrial Policy, is characterized by a laissez-faire approach focused on education and collaboration with industry.²³⁶ The Swiss model resists the global trend of adopting more interventionist industrial policies—as seen from China, the EU and the US—by offering relatively few direct subsidies and relying more on tax incentives. The main pillar of this system is a focus on basic research.

Basic research refers to systematic investigation aimed at advancing fundamental knowledge, conducted without immediate commercial objectives. This impartial research serves as a foundation for future applied innovation and is disseminated through embodied knowledge transfer, where scientists apply their research to commercial or industrial use. Knowledge and technology transfer enables firms of all sizes to tap into the scientific and technological capabilities of universities, reducing transaction costs and resource constraints, thereby fostering competitiveness throughout the economy.²³⁷

Switzerland hosts highly developed innovation clusters in sectors like AI, biotech, fintech as well as green development. In Switzerland, innovation is a grassroots movement, not a top-down mandate. Switzerland hosts innovation parks focused on life sciences, advanced manufacturing, biotechnology and much more. The country has six Innovation Parks with varying functions, linked with key research universities to facilitate knowledge transfer, collectively hosting over 6,500 employees and more than 720 companies.²³⁸

236 Andrea Dugo, Fredrik Erixon, and Oscar Guinea, *Models of Industrial Policy: Driving Innovation and Economic Growth*, ECIPE Policy Brief. Brussels: European Centre for International Political Economy, 2025. <https://ecipe.org/publications/models-of-industrial-policy/>.

237 Arvanitis, Spyros, Ursina Kubli, and Martin Woerter. “Knowledge and Technology Transfer Activities between Firms and Universities in Switzerland: An Analysis Based on Firm Data.” *Industry and Innovation* (Sydney) 18, no. 4: 369–92, May 2011. <https://doi.org/10.1080/13662716.2011.573956>.

238 Switzerland Innovation, “Switzerland Innovation Parks,” Switzerland Innovation, 2025, <https://www.switzerland-innovation.com/>.

The leading biotech hub of Basel anchors the pharmaceutical and biotech industry, leveraging key giants like Roche and Novartis and strong academic institutions. This region boasts a talent pool of 33,000 workers and 650 life-science companies, supported by top-tier institutions such as the University of Basel and ETH Zurich (or, the Swiss Federal Institute of Technology Zurich), along with 13 research centers and 13 science and technology parks.²³⁹ The Basel ecosystem also hosts 60 investor entities, and between 2015 and 2023, cumulative funding reached CHF 8.2 billion across 192 rounds. Per-worker productivity in Basel is significantly higher than in key biotech hubs like Boston and London, and 56% of biotech founders in Switzerland hold foreign passports.²⁴⁰ The Switzerland Innovation Park in the Basel area, located on the campus of EPFL (or, the Swiss Federal Institute of Technology Lausanne), is the country's top biotech park, hosting accelerators like DayOne, a three-month health-tech program that has supported over 120 ventures in seven years.²⁴¹

Meanwhile, the technology sector, anchored in Zurich and Zug, benefits from the prolific spin-offs and R&D fostered by ETH Zurich and EPFL and has attracted major multinational tech companies. By 2024, ETH Zurich had spun off over 600 startups, with one-third in the ICT sector. One such example is ANYbotics, an AI-driven inspection robotics company that has gained major clients such as PETRONAS, Shell and Siemens Energy.²⁴²

Switzerland's proven track record has led to significant investment from tech giants. In June 2025, Microsoft invested USD 400 million into AI and cloud infrastructure in the country. A specialized cluster, Drone Valley, situated between Zurich and Lausanne, has emerged as a global leader in drone innovation. This success builds on Switzerland's precision manufacturing legacy from watchmaking, transferred to micro-electronics and robotics, and is supported by institutions like the Swiss Center for Electronics and Microtechnology²⁴³ and the Autonomous System Labs at ETH Zurich.²⁴⁴

II. Serving the National Strategy of Building Financial Power

Hong Kong's status as an international financial center is consistently affirmed by multiple authoritative global indices. In the 39th edition of the Global Financial Centers Index report, released in March 2026, Hong Kong was ranked third globally, behind New York and London, while maintaining its number one status in Asia. This index fully recognizes Hong Kong's comprehensive competitiveness in areas such as business environment, human capital, infrastructure, and industry reputation.²⁴⁵

239 Swissmedic, "Access Consortium," Swissmedic.ch, 2019, <https://www.swissmedic.ch/swissmedic/en/home/about-us/international-collaboration/multilateral-co-operation-with-international-organisations---ini/multilateral-co-operation-with-international-organisations---ini.html>.

240 Daniel Chancellor, "Switzerland Is Incubating the next Global Innovations," Swiss Biotech, Citeline, April 2024, <https://www.swissbiotech.org/listing/biotech-report-2024-switzerland-is-incubating-the-next-global-innovations/>.

241 Basel Area Business & Innovation, "DayOne," Basel Area Business & Innovation, 2026, <https://baselarea.swiss/program/dayone/>.

242 Tom Nugent, "ETH Spinout ANYbotics Raises \$50M for AI-Led Robo Workforce," Sifted, May 16, 2023, <https://sifted.eu/articles/anybotics-raise-50m-ai-led-robo-workforce-news>.

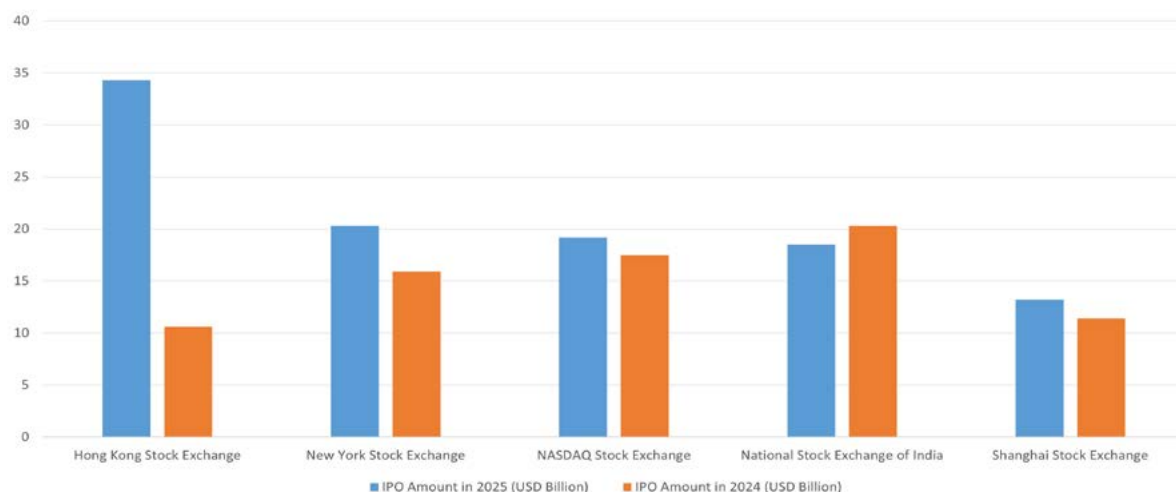
243 CSEM, "Centre Suisse d'Électronique et de Microtechnique (CSEM)," accessed April 14, 2026, <https://www.csem.ch/en/>.

244 Luca Beti, "Welcome to the Drone Valley," SWI swissinfo.ch, September 9, 2018, https://www.swissinfo.ch/eng/sci-tech/swiss-innovation_welcome-to-the-drone-valley/44375836.

245 Long Finance, accessed April 14, 2026, <https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/>.

As already noted, Hong Kong’s financial markets have significant scale and depth, with its stock market and bond market being particularly prominent. The HKEX stands as a leading global financing platform. Historical data shows Hong Kong has repeatedly topped global rankings for IPO fundraising. For instance, as shown in Figure 3-22, it ranked first globally in IPO fundraising in 2025, despite the US reciprocal tariff policies and various global geopolitical shocks.²⁴⁶

Figure 3-22: Global IPO Ranking (Top Five, in USD billion)



In the bond market, Hong Kong has established itself as Asia’s leading international bond issuance hub. According to the latest data from the International Capital Market Association, in 2025, Hong Kong ranked as the region’s largest arranging centre for international bond issuances for the ninth time over the past decade. During the year, international bond issuances arranged in Hong Kong reached USD133 billion, representing about 25% of the regional total. It also accounted for approximately 55% of debut issuances and 40% of green and sustainable bond issuances.²⁴⁷

Furthermore, Hong Kong stands as Asia’s leading asset and wealth management hub. Its total assets under management (AUM) reached approximately HKD 35 trillion (USD 4.5 trillion) by the end of 2024, whereby over 60% of AUM sourced from non-Hong Kong investors. Drivers include the Cross-boundary Wealth Management Connect (WMC) scheme in the GBA, a 15% year-on-year increase in private banking/wealth management AUM, and Hong Kong’s role as the largest offshore renminbi (RMB) center, handling around 75% of global RMB payments.²⁴⁸²⁴⁹

246 Deloitte China Capital Markets Services Group, China Mainland and Hong Kong IPO Markets: 2025 Review and 2026 Outlook, accessed April 14, 2026, <https://www.deloitte.com/content/dam/assets-zone1/cn/zh/docs/services/audit-assurance/2025/deloitte-cn-ipo-markets-2025-review-2026-outlook-zh-251219-v2.pdf>.

247 International Capital Market Association, “The Asian International Bond Markets: Issuance Trends and Dynamics (Sixth Edition),” March 2026, <https://www.icmagroup.org/assets/documents/About-ICMA/APAC/ICMA-Report-The-Asian-International-Bond-Markets-Issuance-Trends-and-Dynamics-Sixth-Edition-March-2026-300326.pdf>.

248 SFC, “Press Release,” accessed April 14, 2026, <https://apps.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=25PR112>.

249 The Cross-boundary Wealth Management Connect Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area (“Cross-boundary WMC”) is one of the key initiatives under the mutual market access schemes between the capital markets of Hong Kong, Macao and the Mainland. The scheme was launched in September 2021, allowing eligible Mainland, Hong Kong and Macao residents in the GBA to invest in wealth management products distributed by banks in each other’s market through a closed-loop funds flow channel established between their respective banking systems. (HKMA, “Cross-Boundary Wealth Management Connect Scheme in the Guangdong-Hong Kong-Macao Greater Bay Area,” Hong Kong Monetary Authority, 2026, <https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/wealth-management-connect/>.)

Hong Kong's function as an international financial center is underpinned by its highly open market environment. The free flow of capital serves as its cornerstone, with Hong Kong maintaining no foreign exchange controls, allowing unrestricted capital movement, which is a policy long recognized by the international community. Concurrently, Hong Kong hosts a vast concentration of international financial institutions, ranking among the world's cities with the highest density of banking establishments. Seventy of the world's top 100 banks operated here, alongside 2,358 SFC-licensed firms authorized to provide Type 9 asset management services in the city as of end-2025, a year-on-year rise of 7%.²⁵⁰

Hong Kong has significant international standing, too, in foreign exchange trading. According to the 2025 survey of the Bank for International Settlements (BIS), Hong Kong ranks as the fourth largest global foreign exchange center and the top global offshore RMB business hub, with a significantly growth rate (27.2%) of the average daily turnover of foreign exchange transactions from USD 694.4 billion in April 2022 to USD 883.1 billion in April 2025.²⁵¹ It also serves as a major center for over-the-counter interest rate derivatives trading.

A mature and stable legal and regulatory framework is key to Hong Kong's international credibility. Adhering to the common law system with judicial independence and strict enforcement of contractual integrity, Hong Kong consistently ranks among the top in the World Bank's global governance indicators for "rule of law." Financial regulators, such as the Hong Kong Monetary Authority (HKMA), the Securities & Futures Commission (SFC), and the Insurance Authority, strictly comply with international standards such as the Basel Accords and the International Organization of Securities Commissions (IOSCO), and are committed to maintaining a fair, transparent, and efficient market environment. Hong Kong also has one of the highest international standards in financial compliance and anti-money laundering, serving as Asia's hub for related professional services.

Hong Kong's most distinctive advantage lies in its strategic and unique role as a bridge between the Chinese Mainland and global markets. Through mechanisms like Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, and Bond Connect, Hong Kong has become the core window for China's capital market opening. The average daily buy and sell trades of Shanghai Connect (Northbound) increased from HKD 74.2 billion in 2024 to HKD 101.1 billion in 2025, while Shenzhen Connect (Northbound) jumped from HKD 75.8 billion to HKD 111.4 billion in the same period.²⁵² Meanwhile, the average daily buy and sell trades of Shanghai Connect (Southbound) surged from HKD 28.1 billion in 2024 to HKD 75.2 billion in 2025, indicating a 168% increase, whereas Shenzhen Connect (Southbound) rose from HKD 20.1 billion to HKD 45.9 billion in one year.²⁵³ This explosive growth underscores Hong Kong's pivotal role as the primary gateway for international investors accessing Chinese Mainland's capital markets and vice versa.

250 Securities and Futures Commission, "Number of Regulated Activities of Licensed Corporations," accessed April 24, 2026, <https://www.sfc.hk/-/media/EN/files/SOM/MarketStatistics/c02.pdf>.

251 Hong Kong Monetary Authority, "Results of 2025 BIS Triennial Survey of Foreign Exchange and OTC Derivatives Markets Turnover," Press Release, September 30, 2025, <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2025/09/20250930-9/>.

252 Census and Statistics Department, Hong Kong SAR, Statistics on Money and Financial Markets: Table 340-95005 – Trading Value of Shanghai–Hong Kong / Shenzhen–Hong Kong Stock Connect, accessed April 14, 2026, https://www.censtatd.gov.hk/en/web_table.html?id=340-95005.

253 Ibid.

Furthermore, as the world's largest offshore RMB business hub, Hong Kong handles RMB 2-3 trillion daily in Real Time Gross Settlement (RTGS). Turnover in trade settlement reached RMB 13.9 trillion in 2025. Dim Sum bond issuance has also increased rapidly, with outstanding bond issued amounted to RMB1.61 trillion by the end of 2025.²⁵⁴²⁵⁵ This unique aspect of Hong Kong places it as a vital center for China's project financing, professional services, and risk management, including those related to the B&R Initiative.

The strategic reorganization of global supply chains, driven mainly by the US+1 strategy, where enterprises maintain their core focus on the US market while diversifying into emerging markets like ASEAN to mitigate tariff risks, is continuing to unfold. Amid diversification away from the US dollar and the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system and China's sustained trade surplus and RMB internalization effort, there is a growing global use of the RMB, despite China's central bank's capital control. These factors present a pivotal opportunity for Hong Kong to reinforce its status as a premier offshore RMB hub.

3.3.4 Hong Kong's Roles in Facilitating China's Next Stage of Opening-Up

Under "One Country, Two Systems", Hong Kong is a pivotal hub for China's high-level opening-up, combining deep Mainland integration and global connectivity with an open financial system, strong trade and investment ties, and world-class aviation, shipping, and logistics. With the combination of advantages detailed above, Hong Kong acts as a benchmark for the Chinese Mainland cities in building a market-oriented, law-based, and internationalized business environment.

Hong Kong has excelled in its roles as a "super connector" and a "super value-adder" to facilitate global trade and investment. To further this mission, the HKSAR Government established the Task Force on Supporting Mainland Enterprises in Going Global (GoGlobal Task Force) last year to provide one-stop services for Mainland enterprises using Hong Kong as a strategic platform to expand their global operations.

254 Dim Sum bonds are debt securities issued outside the Chinese Mainland—mainly in Hong Kong—and denominated in RMB. They give international investors access to RMB assets and support the currency's international use while circumventing Chinese Mainland capital restrictions. (Eddie Yue, "With Challenges Come Opportunities – Hong Kong as the Global Offshore RMB Business Hub," Bank of International Settlements, September 29, 2025, <https://www.bis.org/review/r250929b.htm>.)

255HKMA, "The Hong Kong Bond Market in 2025," HKMA Bulletin (Issue 01/2026), March 31, 2026, <https://www.hkma.gov.hk/media/eng/publication-and-research/quarterly-bulletin/b202603/ra1.pdf>.

I. Developing Modern Shipping and Aviation Services

(a) International Shipping Center

i. High Value-Added Maritime Services

Hong Kong is the world's fourth-largest ship registry, the second-largest global center for marine protection and indemnity insurance, and one of the world's four leading international maritime arbitration hubs.²⁵⁶ It therefore holds significant opportunities to consolidate and enhance its position as an international shipping center and to develop further into a premier global maritime services hub.

Hong Kong traditionally has strong risk management capabilities. Leveraging its position as a global financial center, the city is now building risk mitigation frameworks that address geopolitical uncertainties. A pioneering example is the establishment of the Hong Kong Maritime War Risk Insurance Pool at the end of 2025, Asia's first specialized mechanism providing comprehensive war-risk coverage for the shipping industry.²⁵⁷ This initiative directly responds to premium surges and coverage gaps triggered by geopolitical conflicts, such as the Red Sea crisis, wars in the Middle East and ongoing friction in US–China trade.

In parallel, the HKSAR government and the Insurance Authority are promoting the development of a Shipping-Specific Risk Pool, aimed at enhancing underwriting capacity for both the local and Mainland markets and strengthening resilience to unexpected events.²⁵⁸ Moreover, Hong Kong's deep integration of finance and insurance, supported by its large bond and equity markets, provides ample liquidity and sophisticated risk management tools for maritime insurance, vessel financing, and shipping derivatives.

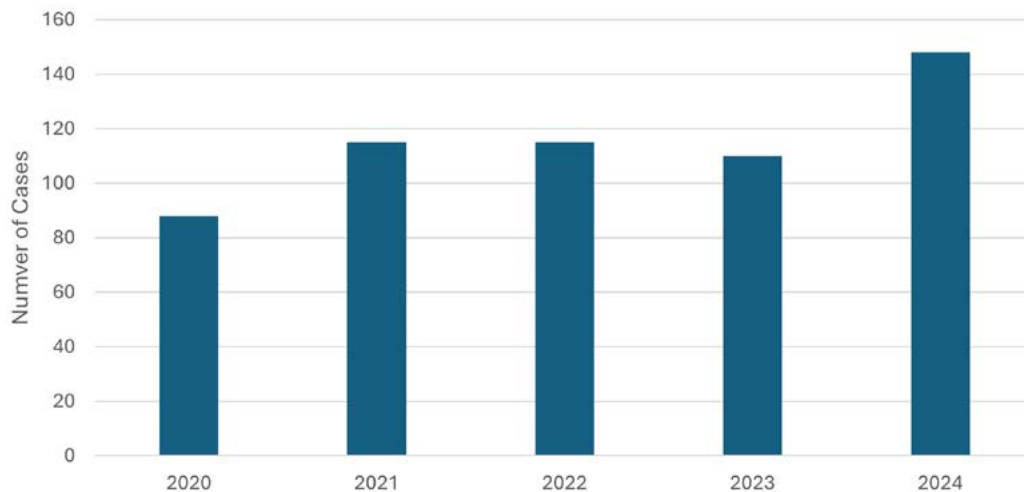
As Figure 3-24 shows, the Hong Kong International Arbitration Centre (HKIAC) ranks among the world's leading arbitration institutions both in case volume and the proportion of international cases. In 2024, the total value of appointments made by the HKIAC under the Hong Kong Maritime Arbitration Group (HKMAG) rose sharply, reflecting strong international recognition of Hong Kong's arbitration framework (see Figure 3-23). A mature and well-established arbitration system provides high predictability for the enforcement of shipping contracts, substantially reducing cross-border legal risks and transaction costs for businesses. Given that the shipping industry involves numerous chartering, shipbuilding, financing, and insurance contracts where disputes are relatively frequent, Hong Kong's substantial arbitration capacity ensures that its maritime services ecosystem is highly capable of efficiently handling complex international maritime disputes.

²⁵⁶ Government of the HKSAR, The 2025 Policy Address, “Paragraph 113: International Shipping Centre,” accessed April 14, 2026, <https://www.policyaddress.gov.hk/2025/tc/p113.html>.

²⁵⁷ Chief Executive's Policy Unit, Government of the HKSAR, “與國際航運保險聯盟及香港保險業聯會會面 打造高增值航運服務生態圈,” accessed April 14, 2026, <https://www.cepu.gov.hk/en/events/20251222.html>

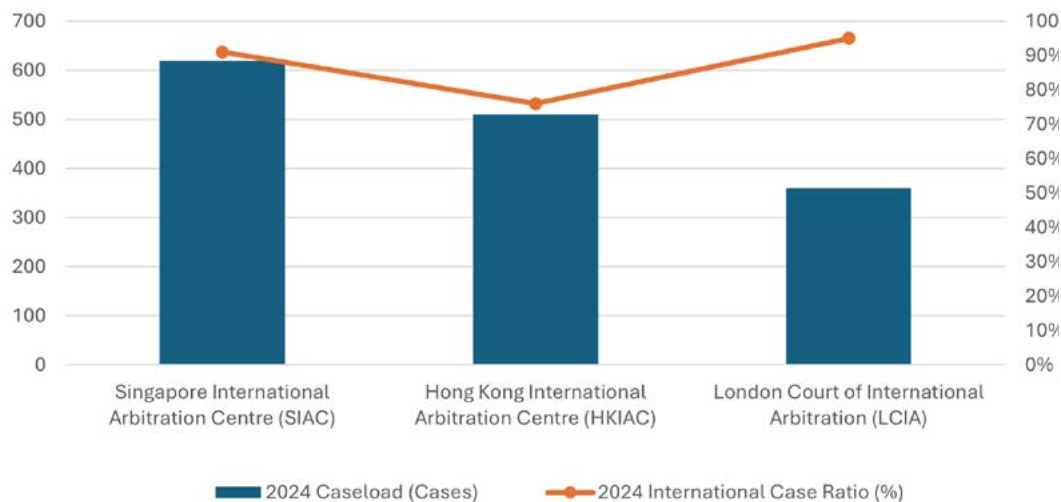
²⁵⁸ Government of the HKSAR, “Press Releases: General,” 17 September 2025, <https://www.info.gov.hk/gia/general/202509/17/P2025091700257p.htm>.

Figure 3-23: Appointment Volume of the HKMAG



Source: HKMAG

Figure 3-24: Case Filings at Major International Arbitration Institutions in 2024



Source: SIAC, HKIAC, LCIA

ii. Green Transformation and Digitalization

Hong Kong is well positioned to integrate into the country’s Dual Carbon strategy. The “14th Five-Year Plan for a Modern Comprehensive Transportation System” explicitly emphasizes the development of green and low-carbon ports. The HKSAR government released its “Action Plan on Green Maritime Fuel Bunkering” in November 2024, setting out a clear objective to develop Hong Kong into a high-quality green maritime fuel bunkering hub.²⁵⁹ It is proposed that by 2030, Hong Kong will provide more than 60 annual bunkering operations for ocean-going vessels using liquefied natural gas (LNG) and low-carbon green methanol, with an annual supply of over 200,000 tonnes of green marine fuels.

²⁵⁹ Government of the HKSAR, “Press Releases: General,” 15 November 2024, <https://www.info.gov.hk/gia/general/202411/15/P2024111500572.htm>.

Realizing this vision also requires collaboration with the Chinese Mainland. In January 2026, Hong Kong and Dalian signed a memorandum of cooperation on green marine fuels, with Dalian's Changxing Island positioned as a key maritime gateway for green marine fuels from Inner Mongolia and Northeast China.²⁶⁰ Through this collaboration, relevant green fuels are expected to leverage Hong Kong's international trade platform and financial system for trading and settlement, and be exported overseas via Hong Kong, facilitating a "north-to-south" distribution model.

Collectively, Hong Kong's institutional uniqueness and strategic connectivity enable it to serve simultaneously as a regulatory bridge and an operational anchor in advancing global green shipping corridors. As a separate customs territory under the WTO and a member of the International Maritime Organization (IMO), Hong Kong enjoys a distinctive institutional position in global maritime governance, enabling it to act as a conduit between the Chinese Mainland and the international regulatory system while facilitating the alignment of domestic standards with established global norms.

This institutional advantage is reinforced by its strategic geographic location under the framework of China's B&R Initiative. Situated at the crossroads of major East Asian maritime routes and the South China Sea, Hong Kong is directly connected to the principal shipping arteries linking Southeast Asia and the Middle East. Together, these regulatory, geographic, and commercial strengths position Hong Kong to play a pivotal intermediary role in shaping a global network of shipping corridors—serving not only as a strategic connector of routes and markets, but also as a facilitator of standards convergence and sustainable maritime governance.

Within the framework of green shipping, digitalization is no longer merely an efficiency-enhancing tool, but a systemic enabler of substantive emissions reduction. Through enhanced data connectivity and interoperability, Hong Kong and Mainland ports are reducing vessel waiting time and empty sailing rates, thereby lowering overall energy consumption. In January 2026, Hong Kong officially launched its Port Community System—the city's first cross-enterprise, multi-modal cargo status data-sharing platform (see Figure 3-25). As of mid-January, more than 2,300 enterprises had registered to use the system.²⁶¹ At the same time, a Memorandum of Understanding signed in May 2025 between the HKSAR government's Bureau of Transport and Logistics and the Guangdong Electronic Port has enabled the implementation of a single submission, multiple use mechanism.²⁶² When vessels enter the GBA port cluster, navigational data and declaration documents can now be pre-filled and pre-submitted across the systems of Hong Kong, Shenzhen, and Guangzhou, significantly shortening customs clearance times.

Through collaboration with the Global Shipping Business Network, Hong Kong is also advancing the paperless adoption of electronic bills of lading (eBL). Mainland shipping entities with a combined

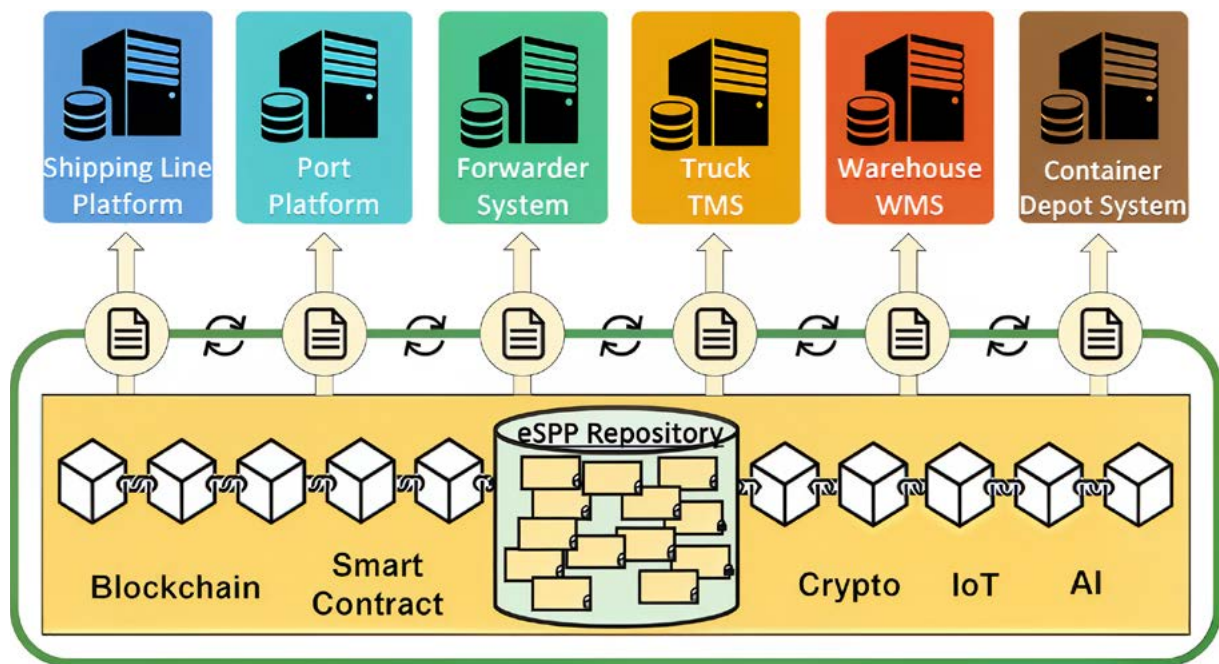
260 Xinde Marine News, "China Shipping News / Article," accessed April 14, 2026, <https://www.xindemarinenews.com/china/62541.html>.

261 Government of the HKSAR, "Press Releases: General," 16 January 2026, <https://www.info.gov.hk/gia/general/202601/16/P2026011600514.htm>.

262 Government of the Hong Kong Special Administrative Region, "Press Releases: General," 19 November 2025, <https://www.info.gov.hk/gia/general/202511/19/P2025111900552.htm>.

capacity exceeding 10 million TEUs have joined this initiative.²⁶³ Such end-to-end digitalization effectively optimizes the coordination of rail-sea and river-sea intermodal transport, reducing additional carbon emissions caused by inefficient scheduling and misaligned logistics planning.

Figure 3-25: Port Community System



Source: Hong Kong Logistics and Supply Chain MultiTech R&D Center

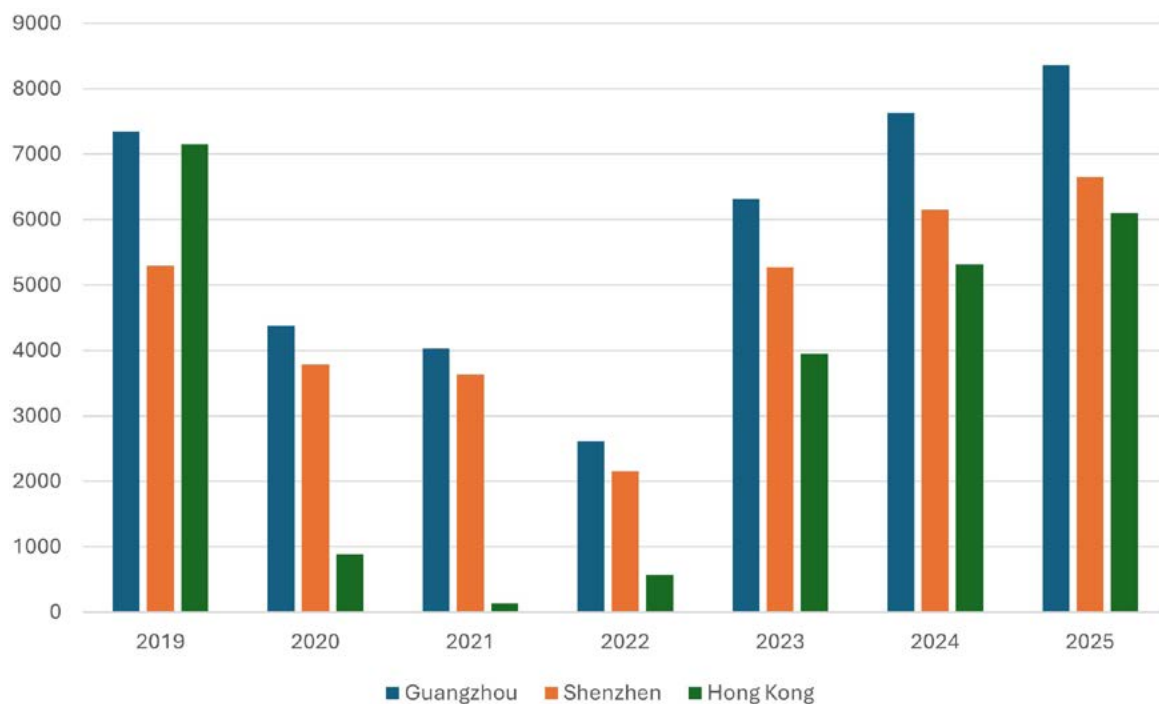
(b) International Aviation Center

In terms of passenger throughput, Hong Kong International Airport is facing unprecedented regional competitive pressures (see Figure 3-26). Examining the trajectory from 2019 to 2025, although Hong Kong entered a period of rapid recovery after 2023, its relative lead within the region has clearly weakened. Forecasts for full-year 2025 indicated that while Hong Kong airport's passenger volume remains slightly higher than Shenzhen's, it has not returned to the peak level of 2019 and continues to lag that of Guangzhou Baiyun International Airport. The core reason for this trend lies in the large-scale expansion of international route networks at Guangzhou and Shenzhen airports, which has diverted passengers who previously relied on Hong Kong for travel to overseas destinations. In addition, improvements at Mainland aviation hubs in terms of customs convenience, ground connectivity, and fare competitiveness have challenged Hong Kong's role as the sole international gateway, giving passengers more diverse and flexible options for outbound travel, and further constraining Hong Kong's strategic space.

263 Shanghai Municipal People's Government, "市政府新闻发布会问答实录," Shanghai.gov.cn, October 17, 2025, <https://www.shanghai.gov.cn/nw9820/20251017/84ea83cbe6a54430952ae615dcd71bd6.html>.

When it comes to air cargo throughput, however, Hong Kong continues to maintain a significant lead. Between 2019 and 2025, cargo volumes at Hong Kong Airport remained high, averaging around 5 million tonnes per year, far exceeding those of Guangzhou and Shenzhen (see Figure 3-27). This sustained advantage partly stems from Hong Kong’s established capabilities in handling high-value goods. In the transport of pharmaceuticals and other temperature-sensitive goods, for example, Hong Kong has built a leading position on strict quality control and globally recognized standards. It is one of the first aviation hubs where the entire airport community, including airlines, cargo terminal operators, and ground handlers, holds Center of Excellence for Independent Validators (CEIV) certifications issued by the International Air Transport Association, covering CEIV Pharma, CEIV Fresh, and CEIV Live Animals.²⁶⁴ Operationally, Hong Kong Air Cargo Terminals Limited has invested in dedicated fresh-handling channels and specialized storage areas, applying risk management based on Hazard Analysis and Critical Control Points practices and with temperature-controlled equipment to ensure stable conditions during ramp handling.²⁶⁵ Together, these institutional and infrastructural strengths reinforce Hong Kong’s edge in high-value, time-sensitive logistics.

Figure 3-26: Passenger Volume at GBA Airports (in 10,000s)

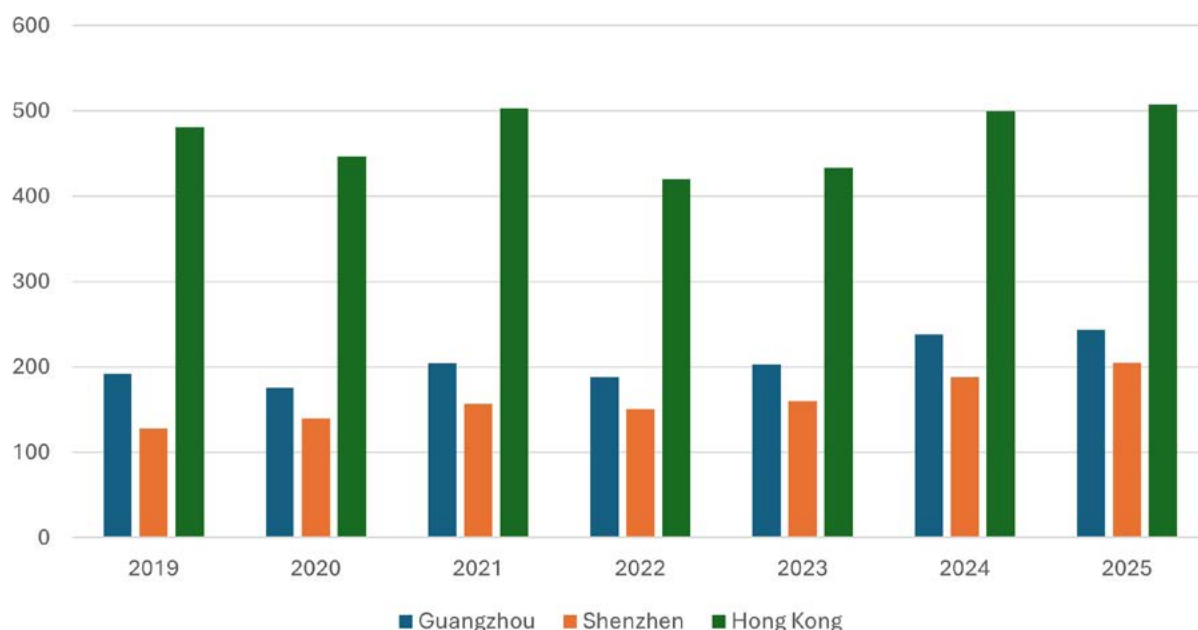


Source: Websites of various airports

264 Civil Aviation Administration of China, “香港国际机场成为IATA CEIV Fresh认可合作伙伴-中国民航网,” Caacnews.com.cn, March 12, 2019, http://caacnews.com.cn/1/5/201903/t20190312_1268964.html.

265 Hong Kong Air Cargo Terminals Limited, “CEIV Fresh: Another World First for Hactl,” accessed April 14, 2026, <https://www.hactl.com/zh-hk/media/news-press/press-release/ceiv-fresh-another-world-first-for-hactl/>.

Figure 3-27: Cargo Handled by GBA Ports (10,000 tones)



Source: Websites of various airports

The core competitive strength of Hong Kong’s aviation hub lies in its ability to extend airport functions upstream into key manufacturing bases and logistics nodes across the GBA through multimodal transport. A leading example of such collaboration is the Hong Kong International Airport (HKIA) Dongguan Logistics Park, a joint venture between Airport Authority Hong Kong (AAHK) and the Dongguan Port Group.²⁶⁶ The logistics park allows cargo to complete security screening, palletization, and acceptance procedures in Dongguan before being transported by sea to the restricted area of HKIA for direct airside loading. This integrated sea–air transshipment model has reduced logistics costs by around 30% while significantly enhancing operational efficiency.²⁶⁷ Upon completion of its permanent facilities by 2027, the center is expected to handle up to 1 million tonnes of cargo annually, further consolidating its role as a vital cargo source underpinning Hong Kong’s airport.²⁶⁸

Building on this integrated air–land–sea logistics network, Hong Kong is advancing a broader spatial-economic framework that connects regional production capacity with global connectivity. Hong Kong’s future development can be powered by a dual-engine strategy integrating the Northern Metropolis and the aviation metropolis centered on HKIA.²⁶⁹ By leveraging its proximity to Shenzhen,

266 The HKIA Dongguan Logistics Park adopts a sea-air intermodal transshipment model that allows export goods from the GBA to undergo security checks, palletization, and airline acceptance processes upstream in Dongguan, all while adhering to Hong Kong’s air cargo standards. These goods are then transported via secure vessels to (HKIA, where they are loaded directly onto flights as transshipments. Similarly, international cargo can enter the GBA through HKIA and the associated logistics hub. (Airport Authority Hong Kong, “香港國際機場東莞空港中心,” 主頁 | Logistic Park, accessed April 2026, <https://hkialp.hkiacargo.com/zh-hk/>.)

267 The Bay Area Bay Area Development Portal, “Focus News,” accessed April 14, 2026, https://www.cnbayarea.org.cn/news/focus/content/post_1289108.html.

268 Airport Authority Hong Kong, “Airport Authority Welcomes Support from Policy Address on Actively Expanding Aviation Network,” Press Release, September 17, 2025, https://www.hongkongairport.com/sc/media-centre/press-release/2025/pr_1818

269 An aviation metropolis refers to a development model that goes beyond logistics and transport to integrate high-speed air connectivity with related economic activities. It attracts industries such as pharmaceuticals, precision manufacturing, aviation maintenance, and aviation-related financial and professional services, thereby forming a broader aviation-led urban economy. Rather than being confined to Hong Kong alone, it should be built on strong integration with the Greater Bay Area through multimodal transport networks and cross-border cooperation, creating a regional aviation ecosystem centered on Hong Kong International Airport and its surrounding “proximity zones.” (2022 Foundation, Creating Hong Kong’s New Advantages in the Greater Bay Area (Hong Kong: 2022 Foundation, 2021), https://www.2022foundation.com/images/GBA_Phase%202_full_report_eng.pdf.)

the Northern Metropolis expands land and innovation capacity for advanced manufacturing and cross-border R&D, while the aviation metropolis utilizes its world-leading air cargo capacity to attract high-value industries such as pharmaceuticals and precision instruments. This complementary structure functions as an integrated system: the Northern Metropolis serves as an inland production and innovation base linked to the Chinese Mainland, while the aviation metropolis acts as a global logistics gateway. Supported by multimodal connectivity like the Hong Kong–Zhuhai–Macao Bridge, this synergy reinforces Hong Kong’s role as a “super value-adder,” driving regional industrial upgrading and economic diversification.

Digitalization is also a key driver for international aviation hubs. Launched in 2021, the Hong Kong International Airport Cargo Data Platform (HKIA Cargo Data Platform) enables real-time data exchange and transparency by connecting airlines, freight forwarders, cargo terminal operators, and regulatory authorities.²⁷⁰ Its core modules include an import–export module that supports single-window pre-declaration and paperless cargo release, and a sea–air intermodal module that provides real-time vessel tracking. The platform also facilitates trade finance for small and medium-sized freight forwarders by leveraging actual operational data, in collaboration with financial services and the HKMA’s Commercial Data Interchange (CDI).

HKIA Cargo Data Platform

Value Generator on global digital trade



Source: Airport Authority Hong Kong

270 Airport Authority Hong Kong, “HKIA Cargo Data Platform – Digital Solutions,” HKIA Cargo Intelligent Portal, accessed April 14, 2026, <https://www.hkiacargo.com/sc/digital-solutions/hkia-cargo-data-platform#stfs>

II. International Trade Center

(a) Trade and economic network

Hong Kong has established an extensive network of international economic agreements, having signed 24 Investment Promotion and Protection Agreements with 33 economies, 9 Free Trade Agreements (FTAs) with 21 economies, and 55 Comprehensive Double Taxation Agreements.²⁷¹ Its Customs and Excise Department has concluded Mutual Recognition Arrangements for Authorized Economic Operators with 16 economies, ranking fourth globally, after the Chinese Mainland, South Korea, and the US.²⁷² Shortly after the Regional Comprehensive Economic Partnership (RCEP), the world's largest FTA connecting 15 Asia-Pacific countries, including ASEAN member states, China, Japan, South Korea, Australia, and New Zealand through enhanced supply chain integration, took effect on January 1, 2022, the HKSAR Government promptly submitted Hong Kong's formal application for accession. Since 2024, the HKSAR Government has focused on expanding its economic and trade networks in emerging markets, particularly in the Middle East (see Table 3-5).

Table 3-5: Initiatives on Expanding HK's Economic and Trade Network

Policy Direction	Specific Measures / Agreements Signed	Countries / Regions	Timeline / Status
I. Expanding Investment Agreement Network	Investment Promotion and Protection Agreement formally take effect	Turkey	Effective February 4, 2026
	Investment agreement negotiations	Qatar	Negotiations substantially completed
	Exploring/negotiating a new investment agreement	Peru	Negotiations progressing well
	Exploring new investment agreements	Saudi Arabia, Bangladesh, Egypt	Exploration stage
II. Upgrading Regional FTAs	Signing of the First Protocol to Amend the Hong Kong-ASEAN FTA	10 ASEAN member states	Signed in 2024 (Pending implementation)
III. Establishing Additional Economic and Trade Offices (ETOs)	Economic and Trade Office	Malaysia (ASEAN)	Operational as of December 2025
		Latin America, Central Asia	Long-term blueprint / Under planning

²⁷¹ Government of the HKSAR, Trade and Industry Department, Investment Promotion and Protection Agreements (IPPA), accessed April 14, 2026, https://www.tid.gov.hk/en/our_work/trade_and_investment_agreements/ippa.html

²⁷² Government of the Hong Kong Special Administrative Region, "Press Releases: General," 11 June 2025, <https://www.info.gov.hk/gia/general/202506/11/P2025061100309.htm>

Hong Kong is strategically expanding its global networks into emerging markets. This reinforces its role as a premier trade hub through institutional safeguards and physical presence. By upgrading free trade frameworks and establishing new overseas offices, the city is building a comprehensive, future-ready economic network to enhance its global influence.

Again, the experience of Switzerland is useful for Hong Kong's planning. Like Hong Kong, Switzerland is a small, highly open economy that relies on external markets and a stable rules-based trading system. However, it has gone beyond expanding FTAs to actively participate in plurilateral coalitions, digital economy agreements, and innovation frameworks, thereby better integrating trade policy with digital and innovation strategies while strengthening resilience amid geopolitical uncertainty. Switzerland also engages proactively in rule-setting initiatives.

Box 3-3: Switzerland's Trade and Economic Network

Switzerland is strongly integrated in agreements with various countries, unions and economies. It is a party to the European Free Trade Association (EFTA), with Europe being its primary trading partner (70% of Switzerland's trade). It has 35 FTAs including with key economies such as China, Japan, the UK, and India.²⁷³ As such, Switzerland plays an active role in promoting tariff-free trade and rules-based trading orders. It is a supporter of the WTO-based global trading system and joined the "friends of the system" alongside 46 other members. It is part of the Small Advanced Economies Initiative, functioning as an informal platform with countries like Singapore, Israel, Iceland and New Zealand.²⁷⁴ Following the imposition of US tariffs on Switzerland and the US assault on the rules-based globalized trading system, Switzerland and 13 other small-medium sized economies launched the Future of Investment and Trade Partnership, to continue the rules-based trading regime and create trade certainty among members of that alliance.²⁷⁵

Furthermore, Switzerland is proactive with regards to multilateral agreements. For example, it signed a Digital Economy Agreement (DEA) with Singapore in 2025, focusing on secure cross-border data flows and enhancing digital trade. DEAs have emerged as a way for medium-sized countries to influence digital trade rules as well as boost digital trade. Switzerland is also part of the EU's Horizon Europe program, which gives Swiss firms and researchers access to EUR 95 billion in funding for R&D.²⁷⁶ It is an active participant and donor in the UN Nations Trade and Development (UNCTAD) E-Commerce and Digital Economy program, helping developing countries and least developed countries (LDCs) harness digital technologies for inclusive growth.

273 International Trade Administration, U.S. Department of Commerce, Switzerland – Country Commercial Guide: Trade Agreements, accessed April 14, 2026, <http://www.trade.gov/country-commercial-guides/switzerland-trade-agreements>

274 Small Advanced Economies Initiative, accessed April 14, 2026, <https://www.smalladvancedeconomies.org/>

275 swissinfo.ch, "Switzerland Launches Trade Alliance with 13 Small and Medium-Sized Economies," SWI swissinfo.ch (www.swissinfo.ch, September 16, 2025), <https://www.swissinfo.ch/eng/global-trade/switzerland-launches-new-trade-alliance-with-13-countries/90013074>.

276 European Commission, "Switzerland Joins Horizon Europe and Other Key EU Research and Innovation Programmes," European Commission, November 10, 2025, https://ec.europa.eu/commission/presscorner/detail/en/ip_25_2651.

(b) Commodities Trade Ecosystem

Building a robust commodities ecosystem is key to buttressing Hong Kong's status as a premier international trade center. By leveraging its world-class financial infrastructure, proximity to the Chinese Mainland, and efficient logistics network, Hong Kong is uniquely positioned to bridge global supply and regional demand. Developing this ecosystem goes beyond simple trade. It integrates physical trading, risk management, and clearing services, creating a hub that attracts industrial players and boosts high-value maritime services. This strategic evolution not only diversifies Hong Kong's economic portfolio but also secures its role as a critical node in the global supply chain, ensuring the city remains a powerhouse in an increasingly complex trade landscape. Table 3-6 below lists the city's initiatives to develop its commodities trading hub:

Table 3-6: Initiatives to Develop Hong Kong as a Global Commodity Trading Hub

Date	Core Event	Specific Details & Strategic Significance
Sept 17, 2025	Policy Framework Established via 2025 Policy Address ²⁷⁷	(i) Facilitate more “approved warehouses” in Hong Kong following the approval by the London Metal Exchange (LME) of eight delivery facilities; (ii) Offer a half-rate tax concession to attract commodity traders, boosting demand for shipping and maritime services; (iii) Advance financial innovation by piloting e-bills of lading and tokenized deposits with the HKMA and Banco Central do Brazil; (iv) Deepen ties with the Guangzhou Futures Exchange and other Mainland markets to support commodity market internationalization.
Sept 22, 2025	Expansion of LME Warehouse Network ²⁷⁸	The LME designated three new warehouses in Yuen Long as “approved warehouses.” This brought the total number of LME-accredited warehouses in HK to 11, strengthening its role as a key Asian delivery hub.
Dec 22, 2025	Inaugural Meeting of the Commodity Strategy Committee ²⁷⁹	Identified priority focus areas: precious metals, non-ferrous metals, and traditional/new energy materials.
Late Dec 2025	Gold Industry Chain Layout Formed	- Storage Expansion: the Airport Authority Hong Kong's precious metals vault expanded to 200 tonnes (targeting 1,000 tonnes soon, and 2,000+ within three years). - Shenzhen Synergy: Signed a memo with Shenzhen to build a joint refinery base (HK Import - SZ Smelting - Re-export model).

277 HKSAR Government, “The Chief Executive’s 2025 Policy Address,” Policyaddress.gov.hk, September 2025, <https://www.policyaddress.gov.hk/2025/en/policy.html>.

278 Government of the HKSAR, “Press Releases: General,” 22 September 2025, <https://www.info.gov.hk/gia/general/202509/22/P2025092200496.htm>

279 Government of the HKSAR, “Press Releases: General,” 22 December 2025, <https://www.info.gov.hk/gia/general/202512/22/P2025122200403.htm>

		At the Asian Financial Forum, Hong Kong's Chief Executive John Lee announced:
Jan 26, 2026	Cross-border Clearing Agreement & 2026 Roadmap	• System Agreement: Signed a deal with the Shanghai Gold Exchange to launch a cross-border clearing system for precious metals. • 2026 Core Task: Confirmed the trial operation of a government-owned Central Gold Clearing System within the year. • Strategic Goal: Solidified the target of reaching 2,000 tonnes of gold storage capacity within three years.

(c) Trade Finance and Digital Trade

To solidify its status as a premier international trading center, Hong Kong must transcend its traditional focus on the movement of physical goods and embrace a holistic model that integrates finance, high-value services, and digital flows. As Section 2.4.2 discusses, modern global trade is no longer a siloed logistics activity; rather, its success depends on the seamless synergy of the “Four Flows”: Goods, Funds, Information, and Human Resources. By positioning itself as a “super connector” and “super value-adder” that links these domains, Hong Kong offers a unique value-add for Mainland enterprises Going Global. This evolution requires shifting from being a mere transshipment hub to becoming an integrated, one-stop service platform where the exchange of intangible assets and digital services is as robust as the physical cargo passing through its ports.

Trade finance serves as the essential linkage between financial services and supply chain management, offering a strategic entry point for Hong Kong to address the financing pain points of expanding corporations. Despite a substantial global trade finance gap, Hong Kong's domestic trade finance volume has seen a structural contraction, falling to HKD 390.8 billion as of end-2025. To reverse this trend, Hong Kong must leverage its financial depth to provide multi-layered solutions that go beyond short-term liquidity. By transforming trade finance into a high-value service, Hong Kong can better support the “small-batch, high-frequency” nature of modern consumer-goods trading and cross-border e-commerce and help enterprises capture the distinctive value creation required in today's competitive global landscape.²⁸⁰

The future of Hong Kong's leadership in global trade hinges on its ability to enhance its digital trade infrastructure and resolve cross-border data barriers. While significant progress has been made, challenges remain in the seamless cross-border flow of corporate credit and registration data. Enhancing the Digital Policy framework and expanding the Trade Single Window (TSW) are critical steps toward reducing redundant documentation and improving credit mutual recognition.²⁸¹ Furthermore, by addressing gaps in export credit insurance and expanding international tax cooperation with emerging markets in ASEAN and the Middle East, Hong Kong can build a paperless, data-driven, and mutually recognized ecosystem that effectively bridges the financing gap and defines the next generation of digital trade.

²⁸⁰ This draws on material previously discussed in Ch 1 pp.38-40 and Ch 2 pp.83-85.

²⁸¹ This draws on material previously discussed in Ch 2 pp.87-89.

Singapore is also one of the world's most digitally ready economies, ranking third globally in the 2025 World Digital Competitiveness Ranking, ahead of Hong Kong, which placed fourth (see Box 3-4). This strong position is partly due to Singapore's pioneering role in shaping digital-trade friendly policy, and building an ecosystem where regulation, interoperability and cross-border rules promote economic growth. Through its DEAs with partners such as the UK, Australia and New Zealand, Singapore has positioned itself as one of the world's most forward-looking trade regimes and environments, producing predictable environments for data flows, e-commerce and more. Local enabling policies such as paperless trade, e-invoicing and e-signatures all accelerate trade and reduce transaction costs. Hong Kong's priority should be clear, modern and pro-innovation digital trade frameworks, signaling its readiness to lead and innovate in this sector.

Box 3-4: Singapore's Experience in Building a Logistics and Supply Chain Management Center

In the World Bank's 2023 Logistics Performance Index, Singapore ranked first, reinforcing its position as one of the world's premier logistics hubs.²⁸² Singapore has been at the forefront of developing digital infrastructure for trade and logistics (see Case Figure 3-1).

On June 1, 2022, the Singapore Trade Data Exchange (SGTraDex) was launched as a public-private collaboration aimed at minimizing reliance on manual and paper-based processes through a shared data infrastructure, enhancing supply chain transparency, efficiency, traceability, and sustainability. The TradeTrust framework in Singapore standardizes digital trade by guaranteeing the legal validity and interoperability of electronic documents, including bills of lading.²⁸³ Leveraging globally recognized standards, it links governments and businesses through a public blockchain, facilitating secure and reliable exchange of electronic trade documents across digital platforms, and is provided as a digital utility. The TradeTrust framework follows the United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Transferable Records (MLETR) and the requirements of the UNCITRAL Model Law on Electronic Commerce of 1996 (MLEC) and was incorporated into Singapore's Electronic Transactions Act in 2021.²⁸⁴ The Networked Trade Platform, managed by Singapore Customs, enables digital transactions with both local and international trade regulators, connecting the global trade value chain.²⁸⁵ Its streamlined, automated processes help businesses save time, effort, and costs while boosting Singapore's trade competitiveness.

In terms of the document digitalization, Singapore's InvoiceNow is a country-wide e-invoicing platform that helps businesses of all sizes streamline invoice processing, cut costs, and accelerate payment cycles.²⁸⁶ Leveraging the Peppol framework—an international open standard—it allows e-invoices to be exchanged in a uniform digital format across diverse financial systems.

282 World Bank, "Global Rankings 2023 | Logistics Performance Index," World Bank, 2023, <https://lpi.worldbank.org/en/home>

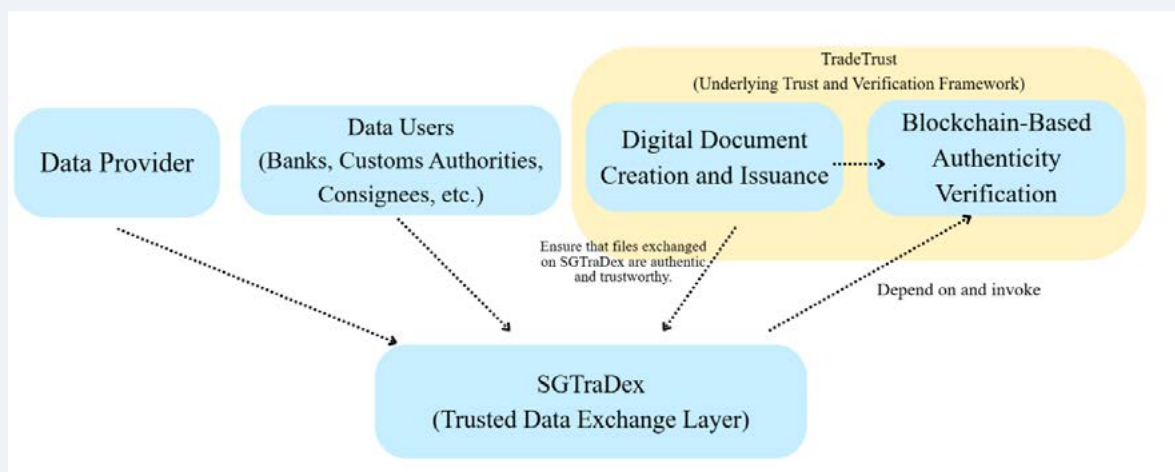
283 Infocomm Media Development Authority, "TradeTrust," Infocomm Media Development Authority, October 2024, <https://www.imda.gov.sg/how-we-can-help/digital-utilities/tradetrust>.

284 Ibid.

285 Singapore Customs, Networked Trade Platform (NTP), accessed April 14, 2026, <https://www.customs.gov.sg/businesses/national-single-window/networked-trade-platform/>

286 Infocomm Media Development Authority, InvoiceNow (Nationwide E-Invoicing Framework), accessed April 14, 2026, <https://www.imda.gov.sg/how-we-can-help/nationwide-e-invoicing-framework/invoicenow>

Case Figure 3-1: Singapore's Digital Trade Infrastructure Framework



Source: Compiled by author

In terms of maritime infrastructure, Singapore's under-construction Tuas Port, in the island's southwestern region, is expected to be fully operational in the 2040s and will become the world's largest fully automated container terminal.²⁸⁷ By leveraging automation and digital technologies, the port seeks to greatly improve its capacity and operational efficiency, with an expected annual throughput of 65 million TEUs upon completion.²⁸⁸

Meanwhile, both Tuas Port and Jurong Port aim to achieve net-zero emissions by 2050, advancing sustainable port operations.²⁸⁹ This case study illustrates Singapore's strategy of integrating physical infrastructure development with digitalization, particularly in the maritime sector, to reinforce its key role in global supply chains.

3.3.5 Bringing High-Caliber Talent from Across the Globe

Global competition in technology and industry is ultimately a competition for talent. As a longstanding East-West cultural hub, Hong Kong leverages its institutional strengths, international environment, and market-driven mechanisms. With a high quality of life and world-class universities, the city attracts top professionals and leading researchers in key strategic fields.

In parallel with attracting external expertise, Hong Kong continuously invests resources into nurturing local talent. This dual approach aligns with the national strategy to promote the integrated development of education, technology, and human resources. By fostering this synergy, Hong Kong strengthens its role as a premier global talent hub that supports the nation's long-term growth.

²⁸⁷ MPA, "Sea Transport Industry Transformation Map 2025 to Achieve Singapore's Vision as a Global Maritime Hub for Connectivity, Innovation and Talent," Maritime & Port Authority of Singapore (MPA), April 2022, <https://www.mpa.gov.sg/media-centre/details/sea-transport-industry-transformation-map-2025-to-achieve-singapore-s-vision-as-a-global-maritime-hub-for-connectivity-innovation-and-talent>.

²⁸⁸ Ibid.

²⁸⁹ Ibid.

Hong Kong, as an international hub, has long leveraged its open economic system, superior rule-of-law environment, high degree of internationalization, and unique position bridging the Chinese Mainland and the global market to consistently attract and pool top-tier talent from across China and around the world, forming a distinctive talent highland effect.

Hong Kong's robust higher education and scientific research capabilities, with five universities consistently ranked within the global top 100, form the core engine for talent incubation and innovation.²⁹⁰ These institutions are not only cradles for local elites but also attract global scholars through their strong research output. According to the 2025 Nature Index, several Hong Kong universities rank highly among Asia-Pacific research institutions, demonstrating formidable basic research strength.²⁹¹

The city's eight UGC-funded universities enrolled 26,600 non-local students in the 2024-25 academic year, successfully utilizing the relaxed enrolment ceiling to increase non-local undergraduate enrolment to approximately 17,200 students, equivalent to 23.2% of local student places,²⁹² with about 72% originating from the Chinese Mainland,²⁹³ fully reflecting its strong appeal and competitive edge in attracting Chinese Mainland students seeking quality higher education.

Beyond its strength in higher education as a key hub for global talent, Hong Kong's well-developed international school sector also plays a crucial role in attracting and retaining talent, which is especially important for non-local families moving to the city for work or investment. The HKSAR government has long supported a vibrant international school sector to meet the needs of these non-local families.²⁹⁴ As many incoming professionals bring young children with them, that has stimulated significant demand for international school places for non-local students. 75% of incoming talent wanted their children educated in Hong Kong, with more than 20% specifically targeting international schools.²⁹⁵ According to the HKSAR Government's 2025 Policy Address, the Education Bureau has allocated two vacant school premises through the school allocation exercise to provide approximately 1,000 additional school places, in order to meet the long-term demand for international education.²⁹⁶ By meeting the educational demands of non-local families, Hong Kong reinforces its competitive edge as a world-class hub where global talent can truly thrive and put down roots.

290 Quacquarelli Symonds, QS World University Rankings: Asia, accessed April 14, 2026, <https://www.topuniversities.com/world-university-rankings?region=Asia&countries=hk>

291 Nature Index, 2025 Research Leaders: Leading Institutions in Asia-Pacific, accessed April 14, 2026, <https://www.nature.com/nature-index/research-leaders/2025/institution/all/all/regions-Asia%20Pacific>

292 Legislative Council Panel, Education Bureau, "Subcommittee on Promoting the Development of Hong Kong into an International Education Hub under the Panel on Education of the Legislative Council", LC Paper No. CB(3)315/2025(01) (March 2025), <https://www.legco.gov.hk/yr2025/english/panels/ci/papers/ci20250414cb3-315-1-e.pdf>.

293 William Yiu, "Hong Kong universities' non-local student quota can go beyond 40 per cent: minister," South China Morning Post, September 2, 2025, <https://www.scmp.com/news/hong-kong/education/article/3324087/hong-kong-universities-non-local-student-quota-can-go-beyond-40-cent-minister>

294 HKSAR Government, "LCQ2: Developing Hong Kong into international education hub," June 11, 2025, <https://www.info.gov.hk/gia/general/202506/11/P2025061100670.htm?fontSize=1>

295 "Hong Kong's International Schools Need Time on Quotas," South China Morning Post, May 7, 2024, <https://www.scmp.com/opinion/article/3261651/hong-kongs-international-schools-need-time-quotas>

296 Hong Kong Legislative Council, "The Chief Executive's 2025 Policy Address: Education Bureau's Policy Initiatives," Panel on Education, October 3, 2025, <https://www.legco.gov.hk/yr2025/chinese/panels/ed/papers/ed20251003cb3-1369-1-c.pdf>

Hong Kong's highly internationalized business environment and urban competitiveness are key soft powers underpinning its status as a talent highland. According to the IMD World Talent Ranking 2025, Hong Kong ranks first in Asia and fourth globally, which measures the ability to attract and retain talent. Among indicators, Hong Kong maintained its top position for the percentage of science graduates, climbed to third in finance skills availability, and ranked fifth in both management remuneration and the effectiveness of management education.²⁹⁷ Its strengths lie in international experience and strong language skills, benefits derived from the prevalent bilingual environment and its diverse population. Around 281,000 of these foreign residents work as non-domestic helpers and contribute to Hong Kong's society.²⁹⁸ Concurrently, Hong Kong remains a preferred location for multinational corporations to establish their regional headquarters in Asia-Pacific. As of 2025, a total of 1,510 companies had established regional headquarters in Hong Kong.²⁹⁹ Financial market maturity and overall city competitiveness are key considerations for multinational firms when choosing to locate their regional headquarters in Hong Kong, where both are strongly demonstrated. According to the IMD World Competitiveness Yearbook 2025, Hong Kong ranked third, rising from fifth place in 2024 and returning to the global top three for the first time since 2019.³⁰⁰ In the March 2026 Global Financial Centres Index, Hong Kong remained third globally and first in the Asia-Pacific.³⁰¹

In innovation and technology, Hong Kong is accelerating its catch-up through significant resource commitment. Hong Kong Science Park has gathered over 23,000 technology workers, including more than 15,000 R&D professionals.³⁰² It contains over 2,200 technology companies from 25 countries and regions.³⁰³ The government has further plans to invest over HKD 224 billion on developing the Northern Metropolis, in the northwest New Territories, as a new living and working region focused strongly on frontier fields like life and health technology and AI. The scale of research, innovation and other high-value jobs to be created will inject new growth momentum into the talent highland.

A high quality of life and urban amenities further solidify Hong Kong's appeal to international talent. In the Economist Intelligence Unit's 2025 Global Livability Index, Hong Kong ranked 44th globally and among the top five in Asia, owing to its world-class healthcare system, efficient public transport, and developed infrastructure.³⁰⁴ Additionally, the visa-free or visa-on-arrival access to 175 countries and territories provides immense convenience for talent requiring frequent international travel.³⁰⁵ Cultural

297 Government of the HKSAR, "Press Releases: General," 9 September 2025, <https://www.info.gov.hk/gia/general/202509/09/P2025090800827.htm?fontSize=1>

298 Legislative Council Secretariat, Government of the Hong Kong Special Administrative Region, Information Note ISSH02/2025: Vocational Education and Training in Switzerland, February 24, 2025, https://app7.legco.gov.hk/rpdb/en/uploads/2025/ISSH/ISSH02_2025_20250224_en.pdf

299 Census and Statistics Department, Hong Kong SAR, External Merchandise Trade Statistics (Annual 2025): Table B11100042025AN25, accessed April 14, 2026, <https://www.censtatd.gov.hk/en/wbr.html?ecode=B11100042025AN25>

300 Government of the HKSAR, "Hong Kong ranks among world's top three most competitive economies in World Competitiveness Yearbook 2025", 17 June 2025, <https://www.info.gov.hk/gia/general/202506/17/P2025061700597.htm>

301 Government of the HKSAR, "Press Releases: General," 26 March 2026, <https://www.info.gov.hk/gia/general/202603/26/P2026032600501.htm>

302 Hong Kong Science and Technology Parks Corporation, Annual Report 2024–25, accessed April 14, 2026, https://www.hkstp.org/-/media/corpsite/assets/publication/annual-report/hkstp-annual-report_202425_english.pdf

303 Ibid

304 Human Resources Online, "Hong Kong jumps to become the 44th most liveable city in the world," Human Resources Online, June 24, 2025, <https://www.humanresourcesonline.net/hong-kong-jumps-to-become-the-44th-most-liveable-city-in-the-world>

305 Hong Kong Immigration Department, Government of the HKSAR, Visa-free Access or Visa-on-Arrival for HKSAR Passport, accessed April 14, 2026, https://www.immd.gov.hk/eng/service/travel_document/visa_free_access.html

compatibility is another significant asset. While 88.7% of Hong Kong residents aged 6-65 possess sufficient written Chinese proficiency, 45.8% demonstrate comparable written English competence, indicating a significant bilingual capability within the workforce.³⁰⁶ Furthermore, its East-meets-West cultural atmosphere significantly lowers the barrier for international talent and their families to settle and adapt.

Furthermore, Hong Kong's competitive low and simple tax regime (e.g., a corporate profits tax ceiling of 16.5%³⁰⁷) effectively attracts businesses and talent from around the world.

Relying on these core advantages, the HKSAR government has implemented proactive and systematic talent attraction strategies, providing institutional safeguards for building the talent highland. The Talent List, covering 60 professions under nine industry segments, offers a fast-track immigration channel for qualified professionals.³⁰⁸ As discussed in Section 3.1.2, the Top Talent Pass Scheme, launched in December 2022, has been particularly impactful.^{309 310}

While Hong Kong has established strong advantages in attracting global talent, the next challenge lies in effectively transforming talent concentration into sustained innovation capacity. Switzerland offers a useful reference, demonstrating how a coordinated system linking education, skills development, and research institutions can convert human capital into innovation outcomes. The following box (Box 3-5) examines Switzerland's talent-driven innovation model to draw lessons for strengthening Hong Kong's talent highland.

Box 3-5: Switzerland's Talent Driven Innovation

A key tenet of the Switzerland's innovation system is the focus on maintaining and bringing talent, a fact reflected in its top ranking in the IMD World Talent Ranking 2025.³¹¹ A world-leading program is the Swiss vocational education system (VET). At the end of lower secondary school, students choose between two distinct pathways: an academic baccalaureate or an applied vocational track that combines workplace training with classroom instruction. Around two-thirds of young second-school graduates choose the VET pathway, producing a highly specialized and well-trained workforce.³¹²

306 Census and Statistics Department, Hong Kong SAR, Hong Kong External Merchandise Trade Statistics 2024 – Annual Report (FA100270), accessed April 14, 2026, https://www.censtatd.gov.hk/en/data/stat_report/product/FA100270/att/B72402FA2024XXXXB0100.pdf

307 Government of the HKSAR, Tax Rates of Profits Tax (with notes on 2024/25 Budget tax reduction), accessed April 14, 2026, <https://www.gov.hk/en/residents/taxes/taxfiling/taxrates/profitsrates.htm>

308 Government of the HKSAR, Talent List Hong Kong, accessed April 14, 2026, <https://www.talentlist.gov.hk/en/talentlist.html>

309 William Yiu, "Hong Kong's top talent schemes see 54% visa extension rate, 'ideal', says labour chief," South China Morning Post, August 15, 2025, <https://www.scmp.com/news/hong-kong/hong-kong-economy/article/3322055/hong-kong-top-talent-schemes-54-visa-extension-rate-ideal-labour-chief-says>

310 Legislative Council Secretariat, Government of the HKSAR, Information Note ISSH02/2025: Overview of Extension of Stay for Talents under the Top Talent Pass Scheme, February 24, 2025, <https://www.legco.gov.hk/yr2025/english/panels/mp/papers/mpcb1-1328-1-e.pdf>

311 Institute for Management Development (IMD), World Talent Ranking, World Competitiveness Center, accessed April 14, 2026, <https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-talent-ranking/>

312 Legislative Council Secretariat, Government of the HKSAR, Vocational Education and Training in Switzerland, Information Note No. IN12/14-15, May 26, 2015, <https://www.legco.gov.hk/research-publications/english/1415in12-vocational-education-and-training-in-switzerland-20150526-e.pdf>

This system is complemented by world-class universities like ETH Zurich and EPFL, which consistently rank among the top globally, particularly in science and technology, with 31.4% of their students coming from abroad.³¹³ Foreign talent is crucial for Swiss innovation—although foreigners represent only 26% of the population, they make up half of all startup founders and 78% of the founders or co-founders of unicorns.³¹⁴ The country hosts over 83,000 researchers, with 52% coming from abroad,³¹⁵ and benefits from its central European location, with 400,000 cross-border workers commuting daily from France, Germany, and Italy.³¹⁶ Participation in the EU/EFTA agreement allows for relatively easy relocation of EU citizens, and reforms have eased labor market testing for key sectors like ICT and R&D.³¹⁷

3.3.6 RMB Internationalization

China's 15th Five-Year Plan emphasizes the need to advance RMB internationalization, enhance capital account convertibility, and develop an autonomous and controllable cross-border RMB payment system. The strategy for RMB internationalization is simultaneously progressing towards a more proactive stage. The relevant articulation in the 14th Five-Year Plan (for the period 2021-25) reflected a principle of prudent advancement, emphasizing “steadily and prudently promoting RMB internationalization, adhering to market-driven mechanisms and enterprises’ voluntary choices.” However, the change in the policy tone from the 14th to the 15th Five Year Plan as “promoting RMB internationalization, elevating the level of capital account opening, and establishing an autonomous and controllable RMB cross-border payment system” implies a more important and strategic role for Hong Kong to play as the world's largest RMB offshore center.

China's promotion of the B&R Initiative and growing ties with Global South countries in trade, investment, and infrastructure development have directly driven usage of the RMB as a currency for settlement, financing, investment, and denomination. Furthermore, RMB internationalization serves as a complementary element in the China's trade diversification strategy, offering an additional option alongside the US dollar for global markets and supporting countries in diversifying their trade, financing, and foreign exchange reserves. As such, RMB internationalization is not only an important objective for China but also resonates with the interests of certain emerging markets and developing economies that are looking to enhance their economic resilience and financial stability.

Since 2020, the People's Bank of China has attached great importance to cross-border payment cooperation with Hong Kong by exploring various fintech innovations and actively promoting the

313 Isobel Leybold-Johnson, “How easy is it for foreign students to study in Swiss universities?,” SWI swissinfo.ch, February 4, 2022, <https://www.swissinfo.ch/eng/education/how-easy-is-it-for-foreign-students-to-study-in-swiss-universities/45809912>

314 Avenir Suisse, *Innovation without Borders: The Importance of Labor Migration for Innovation in Switzerland*, accessed April 14, 2026, <http://www.avenir-suisse.ch/en/publication/innovation-without-borders/>

315 Ibid.

316 Isabelle Allen, “Swiss-EU economic relations in eight charts,” SWI swissinfo.ch, March 27, 2025, <https://www.swissinfo.ch/eng/swiss-position/swiss-eu-economic-relations-in-eight-charts/89060688#h-1-focus>

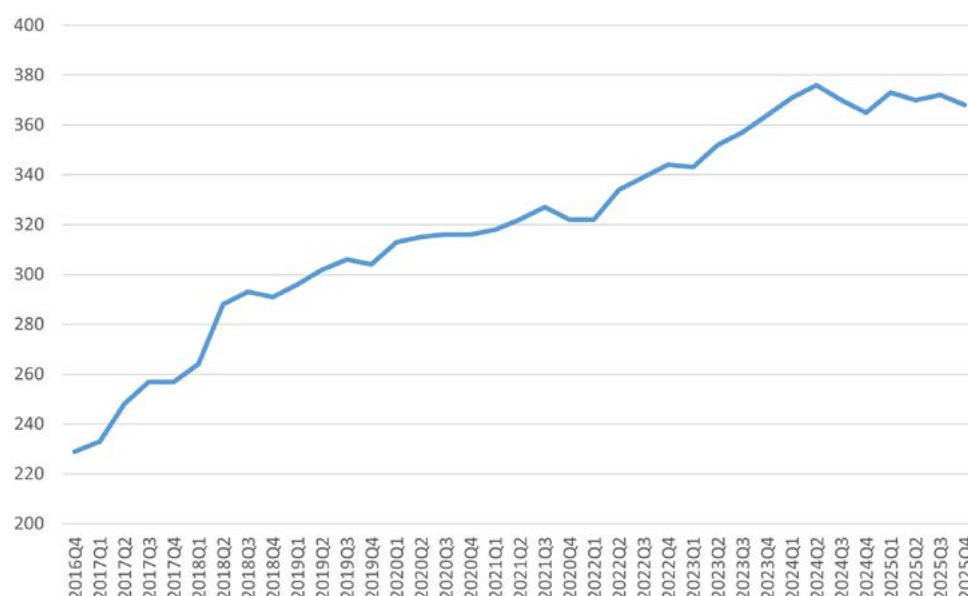
317 Baker McKenzie, “Switzerland: War for talent – Latest developments on the immigration process facilitate recruitment of third-country nationals,” InsightPlus, February 14, 2023, <https://insightplus.bakermckenzie.com/bm/employment-compensation/switzerland-war-for-talent-latest-developments-on-the-immigration-process-facilitate-recruitment-of-third-country-nationals>

interconnectivity of payment systems to foster integrated economic development. These efforts primarily include expanding the operations of the Cross-border Interbank Payment System (CIPS) in Hong Kong, advancing the collaborative connectivity of faster payment systems between the Chinese Mainland and Hong Kong, and deepening the interconnectivity of cross-border QR code payments. Consequently, Hong Kong has accumulated vital experience for the development of the nation’s digital finance and payment systems.

The HKMA doubled the total quota of its RMB Business Facility from RMB 100 billion to RMB 200 billion, showing its commitment to support China’s RMB internationalization effort. This expansion provides banks with lower-cost RMB funding of up to one year to support their provision of trade finance, capital expenditure, and working capital term loans to corporate clients in Hong Kong, and by adopting a “hub-and-spoke” model with Hong Kong as the hub, across global markets such as ASEAN, the Middle East, and Europe. These efforts enrich the ecosystem of offshore RMB products and promote the use of RMB in the real economy.

At present, RMB internationalization is advancing steadily. Both the Standard Chartered Renminbi Globalization Index and the Bank of China Cross-border RMB Index have shown a long-term and robust upward trend (see Figure 3-28 and Figure 3-29). Specifically, the Bank of China Cross-border RMB Index started at 233 points in March 2017 and reached 372 points by September 2025. Furthermore, according to HKMA data, the scale of RMB Deposits in Hong Kong reached RMB 960.1 billion by the end of 2025, showing a general trend of steady increase since 2016 (see Figure 3-30). These indicators collectively demonstrate the further expansion of cross-border RMB usage, the improvement of the offshore RMB market ecosystem, and the international market’s increased confidence in RMB assets and recognition of the prospects for RMB internationalization, especially among the Global South nations.

Figure 3-28: Bank of China Cross-border RMB Index



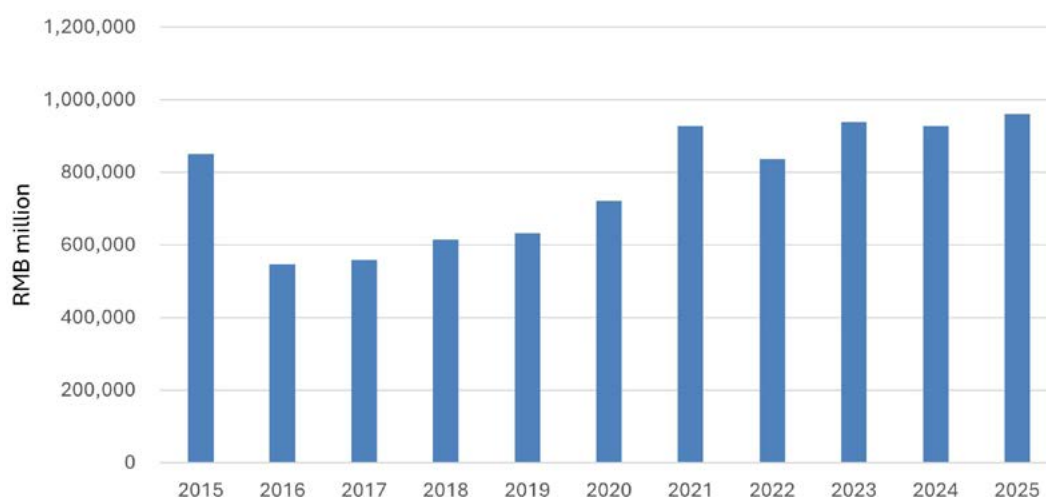
Source: Bank of China

Figure 3-29: Standard Chartered Renminbi Globalization Index



Source: Bloomberg and Standard Chartered

Figure 3-30: RMB Deposits in Hong Kong (in RMB million)

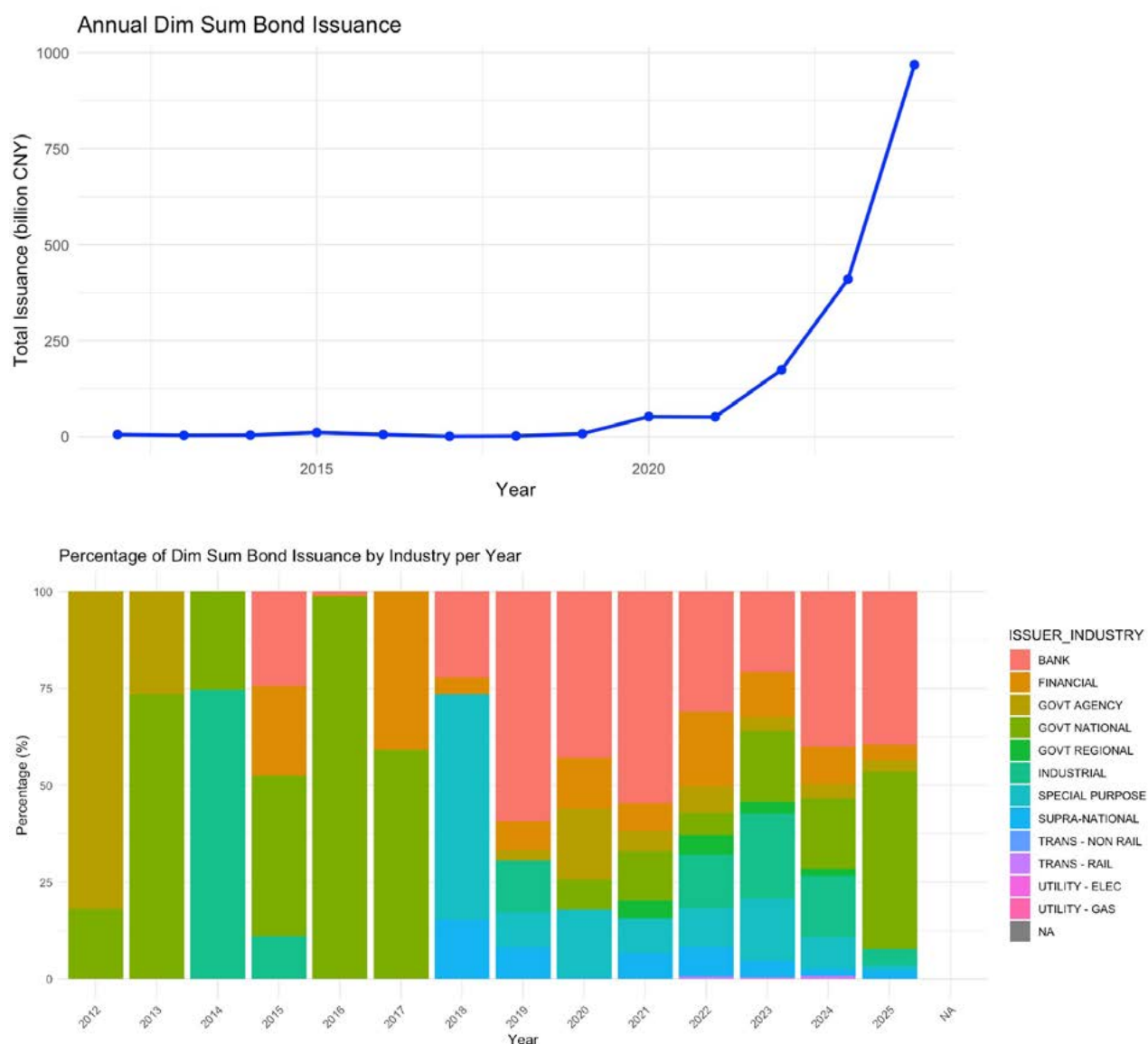


Source: HKMA, compiled by author

As the premier offshore RMB bond issuance center, Hong Kong serves as the critical financial gateway connecting the national real economy with international capital markets. In 2025, total Dim Sum bond issuance in Hong Kong reached RMB 1.1 trillion. Over the past decade, the issuer base for Dim Sum bonds has expanded from traditional financial institutions to include corporate participation, better covering a broader spectrum of the real economy. Last November, the Bank of China acted as the global coordinator for the issuance of Dim Sum bonds in Hong Kong by several leading technology enterprises, including Alibaba, Baidu, Tencent, and Meituan.³¹⁸ All this is evidence that Hong Kong's function as a super connector has been upgraded and deepened.

³¹⁸ Bank of China, BOC Information Disclosure / Corporate News, “中国银行相关信息披露公告（2025年11月14日）,” accessed April 14, 2026, https://www.boc.cn/aboutboc/bil/202511/t20251114_25569764.html

Figure 3-31: Dim Sum Bond Issuance in Hong Kong



Source: Bloomberg Terminal

Beyond the cross-border settlement function emphasized in China’s 15th Five-Year Plan, Hong Kong is increasingly instrumental in the digital evolution of the RMB. As of January 2026, approximately 80,000 e-CNY wallets had been registered cumulatively, and over 5,200 local retail merchants now accept the digital yuan, up from around 300 at the outset of the pilot program.³¹⁹ The 2024 interconnection between the e-CNY cross-border digital payment platform and Hong Kong’s Faster Payment System (FPS) constituted the world’s first bilateral linkage between a legal digital currency system and a conventional payment system, supporting real-time wallet top-ups and retail consumption across the border.³²⁰

319 HKSAR. (March 25, 2026) “LCQ18: Development of Digital Renminbi and Stablecoins,”<https://www.info.gov.hk/gia/general/202603/25/P2026032500231.htm>

320 HKMA. (2024, May 17). Expanding the cross-boundary e-CNY pilot in Hong Kong. <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2024/05/20240517-3/>

In parallel, Hong Kong’s stablecoin regime took effect in August 2025, and in April 2026, the HKMA granted its inaugural stablecoin issuer licenses to HSBC and Anchorpoint Financial Technology, a joint venture led by Standard Chartered.³²¹ The framework sets stringent standards, requiring full collateralization with high-quality, segregated reserves alongside bank-level governance, underscoring a clear commitment to a well-regulated, institution-grade digital currency system. At the same time, although China has moved to curb unauthorized offshore RMB-linked stablecoins, the regulated issuance of Hong Kong dollar-pegged stablecoins in Hong Kong could, over the longer term, indirectly support wider RMB usage in digital asset markets by acting as a compliant conduit between traditional finance and tokenized ecosystems.

Green finance has also emerged as a new growth vector for RMB internationalization, and Hong Kong stands at the forefront of this development. The HKMA’s 2024 Sustainable Finance Action Agenda outlines a comprehensive framework positioning the city as Asia’s premier sustainable finance hub, with specific emphasis on green bond issuance, transition finance, and net-zero banking commitments.³²² In 2025, Hong Kong arranged USD37.7 billion in international green and sustainable bonds, capturing 40% of the Asian market and marking the eighth consecutive year the city has ranked first in the region for such issuance.³²³ Critically, the HKSAR government is actively issuing RMB green bonds, thereby creating high-quality offshore RMB green assets and expanding the pool of sustainable RMB-denominated investment products (see Table 3-7). This strategy aligns seamlessly with the broader objectives of the 15th Five-Year Plan, as the growing appetite among global investors for ESG-compliant assets intersects with rising demand for RMB-denominated instruments.

Table 3-7: HKSAR Government’s Offshore RMB Institutional Green Bond Issuances

Issue Date	Amount (RMB)	Number of Tranches
Nov 2021	5 billion	2 RMB Tranches
Jan 2023	10 billion	2 RMB Tranches
Jun 2023	15 billion	3 RMB Tranches
Jul 2024	10 billion	5 RMB Tranches
Jun 2025	4 billion	1 RMB Tranche

Source: HKSAR Green Bond Report 2025

Moreover, Hong Kong’s annual issuance of HKD 160-220 billion equivalent in sustainable and infrastructure bonds is expected to further deepen the market for RMB green finance and attract a more diversified international issuer and investor base.³²⁴ By anchoring itself as the leading center for green and sustainable bond arrangement in Asia, Hong Kong not only advances its own climate goals but also provides a crucial platform through which the RMB can be positioned as the currency of choice for financing the global low-carbon transition.

321 HKMA. (2026, April 10). Granting of stablecoin issuer licences. <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2026/04/20260410-4/>

322 HKMA. (2024, October 21). Sustainable finance action agenda. <https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2024/20241021e4a1.pdf>

323 HKMA. (2026, March). Developments in the banking sector. <https://www.hkma.gov.hk/media/eng/publication-and-research/quarterly-bulletin/b202603/ra1.pdf>

324 Ernst & Young Tax Services Limited. (2026, February 25). Hong Kong 2026–27 budget insights. <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-cn/campaigns/hong-kong-budget/documents/ey-hong-kong-2026-27-budget-insights-en.pdf>

Despite the surging market interest, Hong Kong's RMB deposits stood at only RMB 960.1 billion (out of HKD 19.4 trillion of total deposits) at the end of December 2025. This persistent “one-trillion ceiling” in RMB deposits highlights a critical structural challenge, namely a severe scarcity of diverse RMB-denominated financial products and an underdeveloped offshore re-circulation loop. Without a broader array of sophisticated investment instruments, RMB funds entering Hong Kong often lack productive outlets and quickly flow back to the Chinese Mainland. To break this bottleneck, Hong Kong must move beyond being a simple deposit center by resolving cross-border data recognition gaps and fostering a more liquid offshore ecosystem for RMB-denominated lending, hedging, trading, and high-value asset management. In this respect the US+1 shift is a catalyst for the next phase of RMB internationalization.

According to the 2026-27 Budget, to further expand Hong Kong's RMB deposits and deepen transaction volumes, it is important to move beyond liquidity provision and product development towards stronger end-user demand and a more complete offshore RMB ecosystem.³²⁵ This requires broadening real-economy use cases of RMB in trade, investment, and financing; strengthening incentives for corporates and financial institutions to hold and recycle offshore RMB liquidity in Hong Kong; and accelerating the development of a full offshore RMB yield curve to improve pricing efficiency and risk management. At the same time, enhancing cross-border policy coordination and reducing frictions in RMB settlement and hedging will be critical to sustaining usage momentum and reinforcing Hong Kong's role as the leading global offshore RMB hub.

3.4 Promising Economic Activities

The previous sections of this chapter have highlighted Hong Kong's enduring strengths and the new opportunities emerging from China's medium-term development goals. This subsection discusses a selection of emerging economic activities that the authors, along with stakeholders interviewed for this report, believe show strong promise. These sectors are expected to play a key role in driving Hong Kong's revitalization and reshaping its economic structure over the medium term.

3.4.1 New Industrial Sectors and Related Producer Services

For over two decades since Hong Kong's handover to China in 1997, public debates and government initiatives have sought to diversify its economic structure. In 1997, manufacturing accounted for 6.5% of Hong Kong's GDP, but its share steadily declined, stabilizing at around 1% from 2015 onward. As discussed above, the financial sector's share has grown steadily and has become the dominant force in the city's economy, despite employing only about 7% of its workforce. Calls have been made to introduce new high-value-added sectors to enhance the inclusiveness of Hong Kong's economy.

In 1997, a group of distinguished professors of the Massachusetts Institute of Technology (MIT) were commissioned to published an edited volume of chapters about the future economic development of

325 HKSAR Government. (2026). The 2026–27 budget. <https://www.budget.gov.hk/2026/eng/budget14.html>

Hong Kong.³²⁶ The book, edited by Richard Lester and Suzanne Berger, analyzed how Hong Kong's manufacturing industry was not disappearing, but rather transforming by moving its production base into the Pearl River Delta (PRD) while retaining high-value services, design, and management in Hong Kong. The book discussed Hong Kong's comparative advantages in high-tech sectors, including semi-conductors, in the late 1990s.

Various chief executives of the HKSAR governments have launched different policies to diversify the city's economic structure to include new industries. In 2015, for instance, the HKSAR government under the leadership of then-Chief Executive CY Leung established the Innovation and Technology Bureau, aiming at promoting commercialization of basic science research and reindustrialization of Hong Kong through coordinating the work of universities and various innovation and research-focused organizations, including the Hong Kong Science Park, industrial estates, Cyberport, the Hong Kong Productivity Council, the Applied Science and Technology Research Institute.³²⁷ Supported and guided by China's 14th five year plan (since 2021), the HKSAR government has exerted even more policy effort to transform Hong Kong as an international innovation and technology hub, positioning it as a key player in the GBA.

For reasons discussed earlier, Hong Kong serves as a key hub connecting domestic and international markets under the nation's dual circulation strategy. Hong Kong and the Mainland have formed a strong industrial synergy. According to Hong Kong Federation of Industries (FHKI) sample statistics, there were 68,000 Hong Kong-funded manufacturing enterprises in the Mainland in 2024, with 45% concentrated in Guangdong Province. Key clusters are located in the GBA cities, such as Shenzhen, Dongguan, and Huizhou. In the Yangtze River Delta region, Jiangsu Province and Zhejiang Province hosted 9,557 and 5,300 Hong Kong-funded manufacturing enterprises, respectively. These enterprises are particularly prominent in sectors such as electronic equipment, textiles and apparel, and metal products, and accounted for over 7% of total manufacturing revenue and employment in the Chinese Mainland during 2019–20; the share was even higher in Guangdong and other regions, reaching 14–19%.

From 2000 to 2023, Hong Kong's industrial structure showed a clear shift from traditional manufacturing toward new industries, a continuation of a long-term process of deindustrialization since the 1980s. As Figure 3-32 illustrates, between 2000 and 2023, the value-added of industry in Hong Kong decreased, with the manufacturing sector experiencing a particularly sharp decline. This pattern was closely related to Hong Kong's "front shop, back factory" model: after China's reform and opening-up, Hong Kong businesses moved production lines to the PRD (the "back factory"), while retaining research, design, finance, marketing, and other high-value-added functions in Hong Kong (the "front shop").³²⁸ This arrangement allowed Hong Kong to maintain high-value added services domestically while outsourcing manufacturing abroad, thus accelerating the city's shift toward a service-led economy. This structural shift exemplifies the broader process of deindustrialization.

326 Berger, Suzanne, and Richard K. Lester, *Made by Hong Kong*, MIT Press, 1997.

327 Government of the HKSAR, "Press Releases: General," 13 January 2016, <https://www.info.gov.hk/gia/general/201601/13/P201601130502.htm>

328 Federation of Hong Kong Industries, *Made by Hong Kong: Strategies for New Industrialisation*, 2025, accessed April 14, 2026, <https://industryhk.org/en/info/research-reports/made-by-hong-kong-strategies-for-new-industrialisation/>

In 2023, Hong Kong's industry contributed 4.4% to its GDP, which includes manufacturing (1.0%), subcontract processing arrangement (1.8%), publishing and packaging (0.2%), and new industries (1.4%).³²⁹ New industries include computer programming, data-related services, industrial Internet, R&D, design, testing, environmental engineering services, sewerage, waste management, and remediation activities.³³⁰

From 2000 to 2023, while the value added of manufacturing contracted from HKD 61.4 billion to HKD 28.2 billion, the value added of new industries increased from HKD 8.3 billion to HKD 40.2 billion.³³¹ The value-added growth of new industries offset most of the decline in the manufacturing sector, making them an important component of Hong Kong's industrial sector. This also suggests the gradual development of innovation- and technology-oriented sectors in Hong Kong.

Moreover, Hong Kong is progressing towards a high value-added supply chain service center in the region. Industry-related producer services contributed 16.2% to Hong Kong's GDP, and the share would be even higher if financial services supporting industries beyond the GBA are taken into account.³³² From 2000 to 2023, its value-added experienced significant growth from HKD 230 billion to HKD 473.5 billion. The statistics indicate that Hong Kong's industrial producer services remain a cornerstone of the local economy and continue to contribute significant value to global industrial chains.

The substantial contribution of these producer services underscores a critical evolution: Hong Kong has successfully transitioned from a physical production site into an industrial service hub. The city's strength lies in a diverse array of industrial-support functions. Beyond the obvious dominance of import-export trades and freight transport, a significant portion of Hong Kong's professional business services, and even financial and insurance sectors, are relevant to industrial activities.

This specialized service matrix allows Hong Kong to reposition itself as a strategic center for global supply chain management. By leveraging its deep expertise in managing manufacturing networks across the Chinese Mainland, Southeast Asia, and the rest of the world, the city now provides the high-level "brain functions" required for modern industrialization. As global production becomes more complex and data-driven, Hong Kong's ability to orchestrate these knowledge-intensive producer services ensures its continued relevance. This transition from "front shop" to "strategic hub" guarantees that

329 According to the FHKI's Made by Hong Kong: Strategies for New Industrialisation.

330 Ibid.

331 Ibid.

332 According to the definition from the FHKI's Made by Hong Kong: Strategies for New Industrialisation, Industry-related producer services include:

100% of Import/export and wholesale trades (excluding agricultural products and trading firms engaging in sub-contract processing arrangement)

100% of Freight transport (excluding air freight)

100% of Warehousing and storage

100% of Freight-related supporting activities

12.8% of Air transport

11.6% of Postal and courier services

5.1% of Real estate

2.9% of Professional and business services

2.7% of Financial and insurance

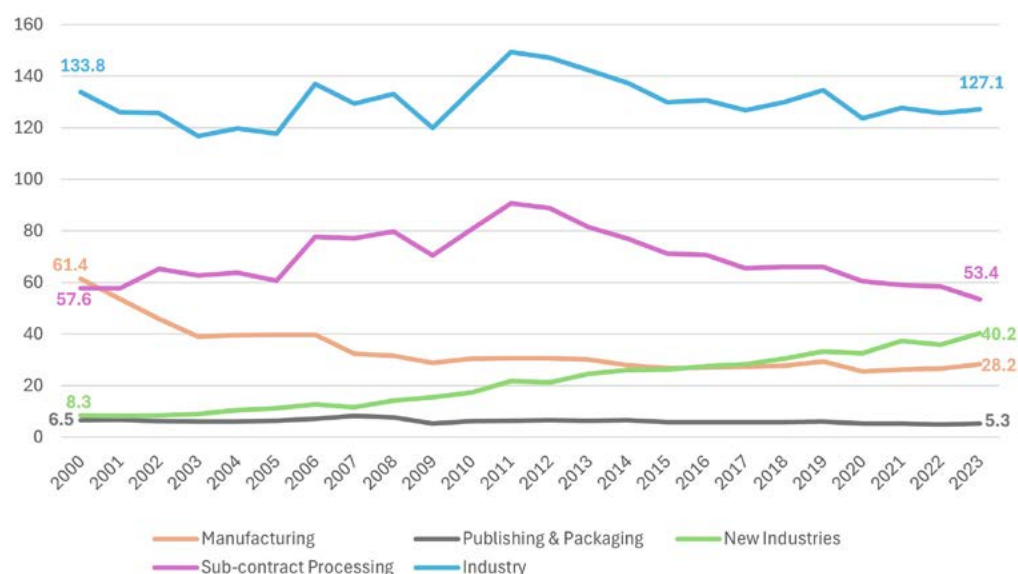
0.9% of Public administration, social and personal services

while physical manufacturing remains regional, the high-value-added management and coordination of the global industrial chain remain firmly anchored in Hong Kong's service-led economy.

The solid growth of new industries reflects Hong Kong's efforts to promote new industrialization through advanced manufacturing and integration with regional innovation systems, particularly within the GBA. After years of industrial development supported by local and central government policies aimed at industrial upgrading and innovation, GBA cities no longer serve merely as the "back factory" for Hong Kong's manufacturers. The GBA has evolved into a leading innovation cluster and advanced manufacturing hub, which stands to benefit from Hong Kong's strengths in basic science research and design in the upstream of regional supply chains, as well as IP protection and trade (discussed in the next subsection) and global marketing in the downstream. Some have even proposed that Hong Kong's traditional "front shops" need to be upgraded into "front research labs" for the city to remain relevant and adaptive to the evolving GBA innovation and manufacturing cluster.

Looking forward, Hong Kong is poised to define a new industrial model characterized by its dual roles as a high-value adder of GBA supply chains and a strategic platform for Chinese Mainland enterprises "going global." As GBA supply chains scale up, Hong Kong's future lies in integrating its world-class producer services, particularly in R&D, design, testing, import and export trade, logistics, specialized finance, legal, and IP management, with the region's advanced manufacturing prowess. This synergy is further amplified by the accelerating wave of Chinese Mainland firms utilizing Hong Kong as a regulated, transparent, and globally connected platform to manage their international operations and mitigate cross-border risks. By acting as a proactive "empowerment center" for global supply chain management, Hong Kong will not only reinforce its economic significance but also become the indispensable node connecting China's new industrial quality with the global market. This represents a key element of the second economic transformation of Hong Kong.

Figure 3-32: Value-Added of Hong Kong Industry (in HKD Billion)



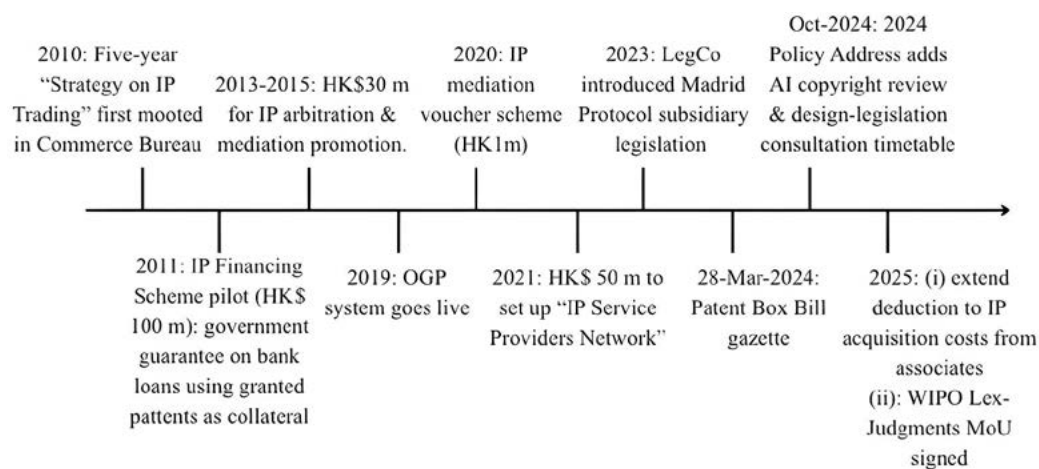
Source: Census & Statistic Department; MBHK Report

3.4.2 Intellectual Property Finance and Trade Hub

In advancing its new industrialization, Hong Kong’s institutional advantages, historical development, and competitive advantages in higher education and professional services as discussed above make it a unique international intellectual property (IP) trade hub in the region. It possesses key strategic advantages in connecting regional industrial chains with its strong producer services system. Data from a December 2023 Intellectual Property Department report indicates that between 2019 and 2021, IP-intensive sectors contributed an annual average of 32.7% to Hong Kong’s GDP and supported 29.1% of the city’s total workforce.³³³

In 2024, Hong Kong was ranked 8th worldwide for intellectual property rights by the IMD and 9th for innovation inputs according to the Global Innovation Index, thanks to its stable and sophisticated regulatory environment. That said, Hong Kong has a larger role to play—to value, finance, protect, and trade IP of creators and owners globally. Towards that ultimate goal, the HKSAR government has been actively implementing measures to support the development of the IP industry (see Figure 3-33). From 2010, when a five-year blueprint on the “Strategy on IP Trading” was issued, to 2024-2025, when a “Patent Box” bill was passed to legislate the significant reduction in tax on income generated from IP, the HKSAR government has been making progress to turn Hong Kong into a regional IP trading hub.

Figure 3-33: Timeline of the HKSAR Government’s IP Industry Development Policies



Source: Hong Kong Economic Policy Green Paper 2026

Hong Kong’s R&D intensity has traditionally been significantly lower than that of major economies (see Figure 3-34), partly reflecting the reality that advanced manufacturing is a small part of its economy. Between 1996 and 2023, R&D expenditure as a share of GDP in Hong Kong consistently stayed below 1% for an extended period, despite a mild upward trend for 25 years since the late 1990s. By contrast, the US and Japan have maintained R&D intensities in the 2.5%–3.5% range, while South Korea’s R&D intensity has grown significantly faster than many developed nations over the past two

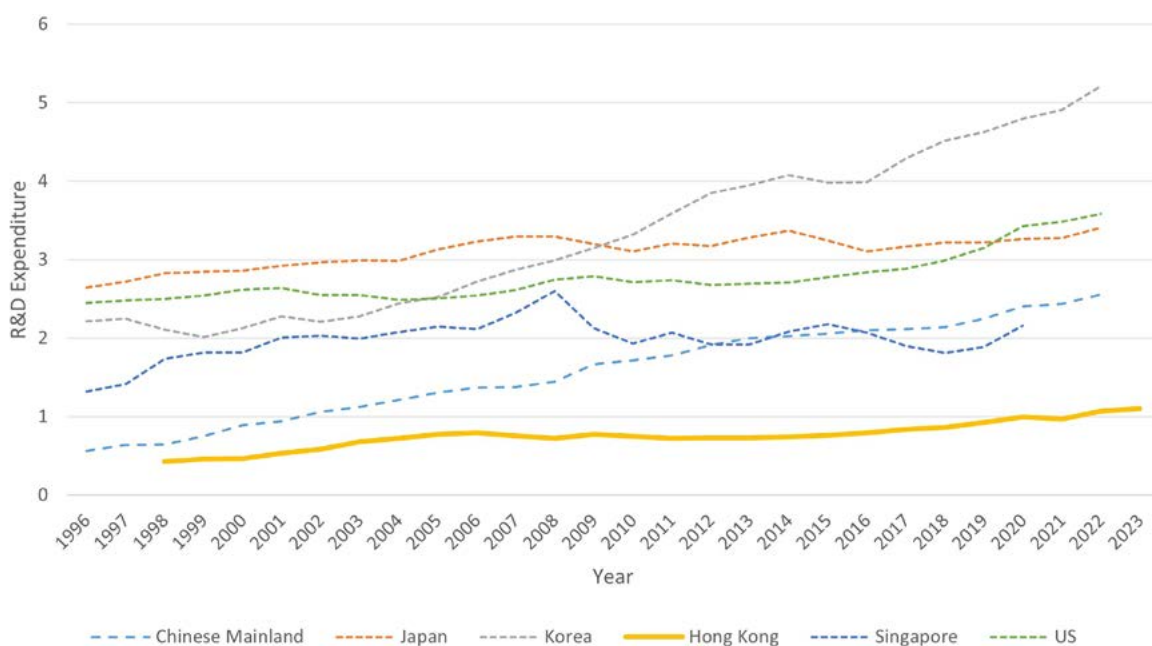
333 IP Department, “2023 Study on Contribution of Intellectual Property-Intensive Industries to Hong Kong Economy Contents,” 2023, https://www.ip.gov.hk/filemanager/ip/en/content_150/Study-on-IP-Intensive-Industries-to-HK-Economy-e.pdf.

decades, surpassing 5% in 2023; the Chinese Mainland has also rapidly increased its R&D investment, rising from below 1% to over 2% over the same period. Singapore has maintained a relatively stable share of around 2%.

Hong Kong's low level of R&D intensity is not a result of short-term fluctuations but reflects the long-term evolution of its economic structure. Hong Kong's economy has historically been dominated by high-end service sectors such as finance, trade, logistics, and professional services, with growth driven more by institutional advantages, international networks, and financial intermediation. Within this structure, incentives for R&D investment have been relatively limited. Structural constraints—including a hollowed-out manufacturing base, limited integration with regional industrial chains, and capital allocation skewed toward highly liquid sectors—have contributed to a persistently low R&D intensity.

Compared with economies centered on manufacturing and technology-intensive industries, Hong Kong's development path exhibits marked differences. In the US, Japan, South Korea, and the Chinese Mainland, R&D investment is primarily driven by manufacturing and high-tech industries, where technological innovation directly determines industrial competitiveness and economic security, creating a pattern of sustained high-intensity R&D investment. In contrast, Hong Kong's role in the global value chain is oriented toward high-end services and cross-border resource allocation, rather than large-scale technology development and industrialization. Hong Kong's competitive advantage is therefore concentrated in high value-added segments of the value chain. For the future, its most viable strategic pathway lies in strengthening functions at both ends of the value chains: *upstream*, focusing on R&D support, design, and technology transfer; *downstream*, enhancing marketing, international trade, brand building, and IP transactions; and using a supply chain management hub to integrate upstream and downstream resources. This approach enables the upgrading of Hong Kong's industrial structure toward higher value-added activities, rather than simply attempting to match the R&D intensity of manufacturing-based economies.

Figure 3-34: R&D Expenditure as % of GDP (1996-2023)



Source: World Bank

The global market for IP is vast, and even capturing a small share could generate substantial benefits for Hong Kong. In 2024, global corporate intangible value reached an all-time high of USD 80 trillion, with intangible assets accounting for as much as 90% of the total enterprise value among the top 15 intangible asset-intensive firms in the US.³³⁴ Meanwhile, according to World Bank data, global IP royalty receipts have surged dramatically from USD 82.2 billion in 2000 to USD 539.3 billion in 2024.³³⁵ Complementing this trend, the global licensing market continues to expand: Licensing International’s Global Market Report 2025 shows that worldwide sales of licensed goods and services reached a record USD 369.6 billion in 2024, marking a 3.7% year-on-year increase. Growth remains broad-based across multiple segments, including corporate brands, sports, entertainment, celebrities, and fashion, highlighting the sustained dynamism and commercial potential of the global IP ecosystem.³³⁶

Hong Kong’s development into an international IP hub is a clear example of strengthening and scaling up its “downstream” advantages. The city can leverage its robust legal protections, institutional credibility, and deep financial markets to commercialize and finance the creation and trading of intellectual properties—ranging from technology patents to trademarks and cultural assets. One of the examples is licensing fees. From 2000 to 2023, the IP licensing fees (received) in Hong Kong have increased significantly from USD 110 million to USD 710 million; the IP licensing fees (paid) have soared from USD 460 million to USD 1.84 billion in 2023.

In recent years, the number of IP approvals in Hong Kong has remained at a relatively prosperous level. From 2021 to 2024, the Intellectual Property Office granted an average of over 10,000 transcribed standard patents per year, while the number of trademarks granted each year ranged from 25,000 to 35,000. As of September 30, 2025, the number of valid transcribed standard patents and trademarks registered/approved in Hong Kong was approximately 70,000 and 490,000, respectively.

To build a regional IP trading center, the HKSAR government has been concurrently advancing related work from multiple aspects. These include but not limited to:

- Promoting the implementation of the “Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks” in Hong Kong
- Striving to conduct patent examination independently by 2030
- Optimizing the registration system for industrial designs and copyright regulations
- Implementing patent box tax incentives, reducing the applicable tax rate for assessable profits derived from qualified IP income from 16.5% to 5%
- Establishing a World Intellectual Property Organization Technology and Innovation Support Center
- Hosting the Asia Intellectual Property Business Forum
- Launching an IP financing sandbox
- Providing patent valuation services and subsidies to SMEs
- Collaborating with Qianhai to create an IP innovation hub

334 WIPO. The Value of Intangible Assets Corporations Worldwide Rebounds to All-Time High of USD 80 Trillion in 2024. February 28, 2025. Available at: <https://www.wipo.int/en/web/global-innovation-index/w/blogs/2025/the-value-of-intangible-assets-of-corporations>

335 Heiwai Tang and Cyrus Cheung, “Establishing Hong Kong as a Regional IP Trading Centre: Taking China’s IP to the World,” Impact Factors - HKU Business School, October 22, 2025, <https://impact.hkubs.hku.hk/establishing-hong-kong-as-a-regional-ip-trading-centre-taking-chinas-ip-to-the-world/>.

336 Ibid.

Ultimately, the development of a robust system for IP valuation, trading, and financing is about turning “ideas” into “assets.” By providing clear ways to value and trade IP, Hong Kong allows companies to use their patents and designs as collateral to secure loans and investment. This directly boosts a company’s market value and provides the necessary cash flow to grow. More importantly, when companies see a clear path to profit from their inventions through a dedicated IP market, they are far more incentivized to innovate. This creates a healthy environment for R&D in the city, as research is no longer just a high cost, but a valuable investment with a guaranteed financial return. By making innovation financially rewarding, Hong Kong can attract more tech-driven firms to set up their research bases here, ensuring the city remains a vital hub in the global technology supply chain.

Singapore’s experience provides a relevant policy reference in this regard. As a similar service-oriented economy, it has successfully pivoted from mere IP protection to advanced valuation, disclosure, and financing mechanisms (see Box 3-6). Examining Singapore’s IP Hub development strategy therefore illustrates how institutional strengths can be leveraged to convert intangible assets into productive capital.

Box 3-6: Singapore’s IP Hub Development Strategy

Since 2013, Singapore has successfully created an ecosystem conducive to the international flow of IP trade through the Intellectual Property Hub Master Plan.³³⁷ In 2021, Singapore further strengthened its position through the Singapore IP Strategy (SIPS 2030),³³⁸ formulated in 2021, helping it secure the 5th place globally in the 2025 Global Innovation Index.³³⁹ Singapore’s success lies not only in establishing legal frameworks, but also in ensuring that its IP policies are substantive and effective.

The Singapore Intellectual Property Strategy 2030 outlines a 10-year framework to boost the country’s capability in converting knowledge capital into economic value. Its formulation is driven by the growing dominance of intangible assets worldwide, which now exceed tangible assets in value and are expected to rise further. Rather than emphasizing IP protection alone, where Singapore still ranks among the world’s strongest and second in Asia, the strategy prioritizes enhancing the conversion of intangible assets and IP assets into deployable capital to generate quality employment for its population.³⁴⁰ Accordingly, the Intellectual Property Office of Singapore is partnering with agencies including the Accounting and Corporate Regulatory Authority to develop an IP disclosure framework.³⁴¹ This framework seeks to enable companies to articulate the value of their intangible assets more transparently to stakeholders, especially capital providers, with the goal of fostering broader IP-based financing and mitigating issues related to the obscurity and illiquidity of intangible assets on financial statements.

337 IP Steering Committee, “Intellectual Property (IP) Hub Master Plan Developing Singapore as a Global IP Hub in Asia,” April 2012, <https://www.mlaw.gov.sg/files/news/press-releases/2013/04/IPHubMasterPlanReport.pdf>.

338 Intellectual Property Office of Singapore, “Singapore IP Strategy (SIPS) 2030,” Intellectual Property Office of Singapore, June 2025, <https://www.ipos.gov.sg/global-ip-hub/singapore-ip-strategy-2030/>.

339 WIPO, “Global Innovation Index 2025 - Singapore,” www.wipo.int, 2025, <https://www.wipo.int/gii-ranking/en/singapore>.

340 Ibid

341 Andre Toh, “Unlocking IP-Backed Financing in Singapore,” [Wipo.int](http://www.wipo.int), December 2021, <https://www.wipo.int/en/web/wipo-magazine/articles/unlocking-ip-backed-financing-in-singapore-42263>.

While Singapore highlights IP as a driver for service-based financialization, Switzerland demonstrates how IP secures industrial competitiveness. By integrating origin certification and innovation incentives, Switzerland sustains high-value added manufacturing and commands global price premiums (see Box 3-7). Adding the Swiss perspective shifts the focus from IP as a mere transaction tool to a foundation for brand-based value creation pointing the way to long-term value capture within global supply chains.

Box 3-7: Switzerland's IP Hub Strategy

With one of the most well-established IP regimes in the world, Switzerland has been ranked the most innovative economy globally in the World Intellectual Property Organization's Global Innovation Index since 2011.³⁴² In addition, Switzerland records the highest number of international patent applications per million inhabitants under the Patent Cooperation Treaty.³⁴³

Switzerland has consistently sought to safeguard the reputation of its national label to sustain a strong price advantage in global markets. The added value associated with "Swiss Made" is particularly visible in industries such as watchmaking, medical equipment, and high-precision machinery. In the luxury watch segment, products carrying the Swiss origin label may sell at prices up to 50% higher due to brand recognition.³⁴⁴ In 2024 alone, the value of exports from Switzerland's watch sector reached CHF 26 billion.³⁴⁵

Beginning in 2017, Swiss federal authorities introduced tighter origin requirements for goods and services claiming Swiss provenance, alongside stronger measures to combat misleading branding practices.³⁴⁶ To qualify as Swiss-made, industrial products must generate no less than 60% of their total production costs—including research and development—within Switzerland. The watch industry is subject to even stricter provisions, requiring that the technical design and development of the movement be completed domestically.³⁴⁷ This has helped safeguard the value of its national brand, preserving a competitive advantage in export-oriented industries.

Switzerland's innovation capacity is further amplified by its world-class IP framework. The patent approval process is one of the most straightforward and robust globally, protecting IP for 20 years from filing, and offering a 12-month priority period for applicants to extend protection to other countries.³⁴⁸ To incentivize R&D, tax reforms since 2020 allow cantons (constituent states) to adopt

342 WIPO, "Global Innovation Index 2025: Innovation at a Crossroads," Wipo.int, 2025, <https://doi.org/10.34667/tind.58864>.

343 Data Source: World Intellectual Property Organization (WIPO) IP Statistics Data Center.

344 The Fashion Law. "'Swiss Made' Label Can Lead to 50% Rise in Luxury Goods Value." October, 2023. <https://www.thefashionlaw.com/the-swiss-made-label-can-lead-to-a-50-percent-increase-in-value-for-luxury-goods/>.

345 Federation of the Swiss Watch Industry FH. Swiss Watch Exports in 2024. January 2025. https://www.fhs.swiss/pdf/communiqu_240112_a.pdf.

346 The Federal Council, "Swissness": Regulated symbols and labels, 2025, <https://www.kmu.admin.ch/kmu/en/home/concrete-know-how/sme-management/labeling/swissness.html>

347 The Swiss Federal Institute of Intellectual Property Revision of the Ordinance on the Use of "Swiss" for Watches, (2017), <https://www.ige.ch/en/law-and-policy/national-ip-law/indications-of-source/swiss-indications-of-source/industry-ordinances/revision-of-the-ordinance-on-the-use-of-swiss-for-watches>

348 Swiss Federal Institute of Intellectual Property, "Priority Period - Swiss Federal Institute of Intellectual Property," Wwww.ige.ch, accessed April 2026, <https://www.ige.ch/en/protecting-your-ip/patents/before-you-apply/priority-period>.

measures like the Patent Box, offering up to a 90% tax reduction on qualifying patent-related income, and an R&D Super Deduction providing an additional 50% deduction for eligible expenses.³⁴⁹ This strong regulatory and legal framework, combined with a decentralized governmental system and early regulatory advantages, makes Switzerland highly attractive to global industrial giants like Novartis, Roche, and ABB, as well as innovative startups. Switzerland spends more than 3% of its GDP on R&D, with the private sector contributing two-thirds.³⁵⁰

3.4.3 Nurturing Hidden Champions

Given Hong Kong's small economic and geographic size, it is impractical to develop sectors that are either capital-intensive or labor-intensive. However, the city could consider developing small-scale, advanced, and profitable businesses that serve regional supply chains, with large-scale mid-stream production taking place outside of Hong Kong. Notably, the renowned German business scholar Hermann Simon, in his influential book *Hidden Champions of the Twenty-First Century: The Success Strategies of Unknown World Market Leaders*, defines “hidden champions” as relatively small yet highly successful companies that excel in their niche markets but remain largely unknown to the general public. These hidden champions play a critical role in advanced manufacturing supply chains and are difficult to replace due to their patent-protected technologies. While they have the potential to scale up, they can also remain small and still contribute to the local economy through knowledge spillovers and high profitability.

This subsection provides examples of hidden champions in the GBA and discusses why they are relevant for Hong Kong's new pathway of development.

I. Hidden Champions in the GBA

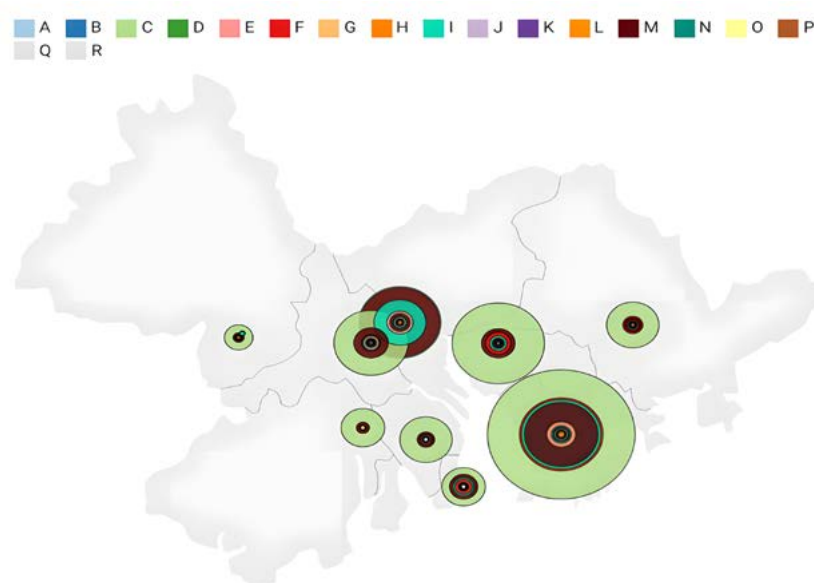
By leveraging its deep integration within the GBA, Hong Kong has become a new engine driving the region's shift from the model of traditional manufacturing to the synergy of advanced manufacturing and technology services, capitalizing on its strengths in finance, professional services, and global resources. In the new industrialization process of the GBA, Specialized, Refined, Unique, and Innovative (SRUI) enterprises, focus deeply on niche segments and key parts of industrial chains. They serve as important vehicles for integrating manufacturing with producer services and form a crucial foundation for nurturing globally competitive champions. As Figure 3-35 shows, the SRUI enterprises across the GBA are primarily concentrated in manufacturing (Category C) and scientific research and technical services (Category M).

349 BDO Global, “SWITZERLAND World Wide Tax News Issue 54 - March 2020 the Swiss Tax Reform (TRAF) Entered into Force on 1 January 2020,” [www.bdo.global](https://www.bdo.global/en-gb/microsites/tax-newsletters/corporate-tax-news/issue-54-march-2020/switzerland-the-swiss-tax-reform-(traf)-entered-into-force-on-1-january-2020), March 2020, [https://www.bdo.global/en-gb/microsites/tax-newsletters/corporate-tax-news/issue-54-march-2020/switzerland-the-swiss-tax-reform-\(traf\)-entered-into-force-on-1-january-2020](https://www.bdo.global/en-gb/microsites/tax-newsletters/corporate-tax-news/issue-54-march-2020/switzerland-the-swiss-tax-reform-(traf)-entered-into-force-on-1-january-2020).

350 Presence Switzerland, “Research and Development,” [Admin.ch](https://www.aboutswitzerland.eda.admin.ch/en/research-and-development), January 2025, <https://www.aboutswitzerland.eda.admin.ch/en/research-and-development>.

However, many such enterprises overlap across multiple GBA cities (e.g., Shenzhen, Guangzhou), reflecting their high degree of agglomeration and signaling the potential for greater synergy between traditional manufacturing and high-tech industries. Among the GBA's core Mainland cities, Guangzhou maintains a stable foundation in manufacturing and scientific research and technical services, while Shenzhen stands out as a pioneer in technological innovation, with strengths in IT (Category I), scientific research (Category M), and business services (Category L). Dongguan and Foshan, centered on manufacturing, are progressively advancing toward intelligent upgrades in technology R&D and production. Although Zhuhai and Huizhou have relatively fewer SRUI enterprises, manufacturing still accounts for a significant proportion of their core business activities. The HKSAR's economy is dominated by the financial industry (Category J) and leasing and business services, serving as a bridge connecting international capital with the Mainland market.

Figure 3-35: The Clustering of Different Types of SRUI Enterprises in the Greater Bay Area³⁵¹



Source: Ministry of Industry and Information Technology (MIIT) *Specialized, Refined, Unique, and Innovative Enterprises (2022-2024)*

- 351 A: Agriculture, Forestry, Animal Husbandry, and Fishery;
 B: Mining;
 C: Manufacturing;
 C26: Manufacture of Raw Chemical Materials and Chemical Products;
 C34: Manufacture of General Purpose Equipment;
 C35: Manufacture of Special Purpose Equipment;
 C38: Manufacture of Electrical Machinery and Apparatus;
 C39: Manufacture of Computers, Communication, and Other Electronic Equipment;
 C40: Manufacture of Measuring Instruments and Machinery;
 C43: Repair of Metal Products, Machinery, and Equipment;
 D: Production and Supply of Electricity, Heat, Gas, and Water;
 E: Construction;
 F: Wholesale and Retail Trade;
 G: Transport, Storage, and Postal Services;
 H: Accommodation and Catering Services;
 I: Information Transmission, Software, and Information Technology Services;
 I64: Internet and Related Services;
 I65: Software and Information Technology Services;
 J: Financial Intermediation;
 K: Real Estate Activities;
 L: Leasing and Business Services;
 M: Scientific Research and Technical Services;
 N: Management of Water Conservancy, Environment, and Public Facilities;
 O: Services to Households, Repair, and Other Services;
 O81: Repair of Motor Vehicles, Electronic Products, and Household Goods;
 P: Education;
 Q: Health and Social Work;
 R: Culture, Sports, and Entertainment;
 S: Public Administration, Social Security, and Social Organization;
 T: International Organizations

II. Facilitate the Development of Future Hidden Champions

With many Chinese Mainland technology firms going global, Hong Kong can focus on embedding itself in high-value segments of global value chains. Instead of competing in large-scale manufacturing, the city can leverage its dense urban testing environment, internationally recognized regulatory system, and global financial platform to serve as a validation hub, compliance gateway, and capital orchestration center. By utilizing an institutional common law framework, Hong Kong can help translate Chinese Mainland technological capabilities into globally certified, financeable, and brand-enhanced products and solutions. In this sense, new industrialization in Hong Kong means prioritizing applied R&D, standards-setting, certification services, supply-chain coordination, and technology commercialization, transforming the city's super value-adder role into a structurally embedded industrial advantage—a vital part of the city's second economic transformation. Table 3-8 shows examples of how Chinese technology enterprises leverage Hong Kong's strategic advantages for their global expansion, covering sectors ranging from AI, biotech, to fintech:

Table 3-8: Implications of Mainland Tech Firms Globalization for Hong Kong's New Industrialization

Sector	The Hong Kong Advantage	Case
Artificial Intelligence (AI)	Hong Kong Validation + Global Scaling: Using Hong Kong's high-density urban scenarios for R&D tuning and premium branding before international rollout.	Westwell: Optimized Q-Truck (autonomous lorries) in Hong Kong Science Park; secured major contracts with Abu Dhabi Ports. Hotelmize: Used Hong Kong as a data hub to scale AI travel-tech globally.
Biomedical & Medical Devices	Comprehensive High-value Service Hub: Raising funds and utilizing various supply chain services for global expansion.	Edge Medical: Raised HKD 1.12 billion through IPO in HKEX; Reduced market entry costs in Southeast Asia by 40% and logistics times by 30% through a partnership with idsMED, an integrated medical supply chain solutions company.
FinTech	"Sandbox Testing + Standard Setting": Adapting Mainland digital banking systems to international standard via the HKMA's regulatory sandboxes.	WeBank: Set up Hong Kong headquarters to deploy "next-gen core banking system"; cut IT costs by 53% over three years while expanding to B&R markets.
Cybersecurity	"International Compliance Hub": Acting as a "translation hub" to adapt Mainland security products to Western (CE/FCC) legal and technical standards.	Hillstone Networks: Used Hong Kong as a tech hub to penetrate the local banking sector before pivoting to the Southeast Asian market.

Smart City & Green Tech	“Scenario-Driven Methodology”: Exporting operational “blueprints” (algorithms) refined in Hong Kong’s complex, high-pressure environment.	Lalamove: Hong Kong-developed smart dispatch algorithms cut wait times by 50%; now exported to 14+ global markets. Nanoshield: Scaled AI-recycling tech from Cyberport to regional markets.
Advanced Manufacturing	“Global Resource Orchestrator”: Utilizing Hong Kong’s 0% VAT, low tax, and no foreign exchange controls to manage agile, global “Research-to-Production” chains.	Lenovo: Pilots “Green AI” data centers in Hong Kong; manages resources across 30+ global manufacturing bases via Hong Kong’s financial hub.

As Table 3-8 illustrates, Hong Kong can evolve its super value-adder role into a structurally embedded industrial advantage. By leveraging international compliance frameworks, dense urban testing environments, and global resource orchestration, the city will empower Mainland technology firms across applied R&D, standard-setting, and global commercialization. Ultimately, Hong Kong will serve as a critical validation hub and institutional gateway for Chinese technologies ascending the global value chain.

3.5 Effective Integration with GBA

As the GBA transitions from a regional manufacturing base into a global technology hub, Hong Kong’s role within the region must also evolve. Its traditional functions as a financial gateway and tourist destination need to be upgraded and deepened into a strategic center for financing, intellectual property, and institutional gateway services. Successful integration—or what might be called symbiotic development—requires a delicate balance among three core dimensions: innovation density, industrial synergy, and institutional alignment.

3.5.1 The GBA as a Global Frontier for Innovation and Commercialization

The integration of Hong Kong within the GBA has forged a world-class technology cluster defined by high innovation density and exceptional capital efficiency. According to the Global Innovation Index 2025 released by the World Intellectual Property Organization, the Shenzhen–Hong Kong–Guangzhou cluster has achieved a milestone by ranking first globally, surpassing the Tokyo–Yokohama cluster. This leadership is evidenced by the region’s contribution of 9.0% of the world’s Patent Cooperation Treaty (PCT) patent applications and a 2.9% share of global venture capital activity, reflecting a superior capacity for transforming foundational research into market-ready industrial solutions.

Supporting this R&D prowess is Guangdong’s extensive industrial transformation, where over 46,000 industrial enterprises have undergone digital upgrades since 2021 to foster a smart and

green manufacturing backbone. This commitment to sustainable growth is further evidenced by Guangdong's top-tier national rankings in green manufacturing, boasting nearly 500 national green factories, 13 green industrial parks, and 104 supply chain management enterprises.³⁵²

By 2025, the province had secured dominant positions in key emerging sectors, producing over 90% of China's consumer drones and 80% of its service robots, while maintaining a chip design industry that remains the national leader by revenue. With a significant surge in new energy vehicle (NEV) production and its robotics sector, Guangdong continues to serve as a powerful engine for China's high-quality economic development and global technological competitiveness.³⁵³

As Table 3-9 illustrates, leveraging the GBA's high innovation capacity, Guangdong is transitioning from traditional manufacturing to a digital, intelligent, and green economy. By prioritizing AI, frontier technologies, and eight new economic pillars, Guangdong aims to seize global competitive advantages. This strategy fosters cross-sector integration and demand-driven growth to build a world-class, high-efficiency industrial cluster.

Table 3-9: New Industry Layout of Guangdong Province during the 15th Five-Year Plan Period³⁵⁴

Industry Category	Sectoral Focus and Strategic Directives	Strategic Objectives and Key Performance Indicators
New Industries	Next-Gen NEVs, industrial robotics, low-altitude economy, Advanced manufacturing.	Scale Expansion: Driving national leadership in output (Guangdong's NEV production accounts for 25% of China's total, industrial robot production accounts for 43.5% of China's total).
Future-Oriented Industries	Quantum computing, biomanufacturing, hydrogen & fusion energy, Brain-Computer Interface (BCI), embodied AI, 6G.	Pioneer Advantage: Securing early-mover advantages in global tech competition and cultivating nascent growth engines.
AI-Driven Ecosystems	Foundation models (LLMs), vertical industry models, intelligent robotics, edge computing, data asset markets.	Synergistic Growth: Developing AI+Robotics clusters and accelerating AI-enabled transformation across key sectors.
The Eight Pillars of New Economy	Low-altitude, Intelligent, First-store (Debut), Bay Area, Green, Humanistic, Sports, and Silver (Ageing-tech) economies.	Cross-Sector Integration: Fostering human-machine collaboration and high-value service models to stimulate domestic demand.

352 Guangdong Provincial Development and Reform Commission, 广东省制造业与服务业协同发展白皮书, (Guangzhou: Guangdong Provincial Government, Feb 2026)https://v30.chacewang.net/Home/OssDownload/upload/GovDUploadFiles/crawler_download/3066682/f.29391778.1.1772265604.pdf

353 Ibid.

354 CPC Guangdong Provincial Committee. Recommendations of the Guangdong Provincial Committee of the Communist Party of China on Formulating the 15th Five-Year Plan for National Economic and Social Development. Guangzhou, 2025

Against this backdrop of strong regional innovation and industrial capacity, the process of product innovation has also undergone a fundamental transformation across industries. The process of product innovation has evolved from a narrow focus on the “0-to-1” stage—covering ideas, R&D, and initial prototyping—into a more iterative, multi-stage framework. Beyond the initial breakthrough, the “1-to-10” stage involves small-scale trial production to gather user feedback and refine product design through rapid iteration. This is followed by the “10-to-10,000” stage, where larger batches are produced for market testing to assess consumer response and market positioning before moving to full-scale mass production.

Within this evolving innovation paradigm, the complementary roles of Hong Kong and the PRD become increasingly evident. Leveraging its world-class universities and vibrant startup ecosystem, Hong Kong excels in “0-to-1” original innovation and basic research. Beyond this early stage, the city is also uniquely positioned to bridge the “1-to-10” gap by utilizing its new, digitally driven small-scale production facilities. Meanwhile, mass production could be carried out in the nearby PRD, one of the most dynamic manufacturing powerhouses in the world. This integrated framework enables innovators to efficiently refine products and scale production in an era of mass customization.

Developing this intermediate “1-10” stage would also support Hong Kong’s re-industrialization, promoting advanced manufacturing based on digital technologies and smart production. Small-scale, high-value production can be accommodated within compact industrial spaces such as those in the Hong Kong Science Park or industrial estates, allowing the city to capture more value from innovation.

Moreover, the broader GBA market provides the necessary conditions for scaling and commercialization. While Hong Kong lacks a large domestic market for testing and commercialization, the PRD provides a strong complement. As both a global manufacturing hub and a sizable consumer market, it enables efficient scale-up and offers an ideal environment for market testing. Together, Hong Kong and the PRD form a highly integrated innovation ecosystem within the GBA.

In addition, Hong Kong could serve as a regional hub for showcasing and retailing innovative products developed in the GBA. This would further strengthen its role in the innovation value chain while generating positive spillovers for the broader economy.

3.5.2 Hong Kong's Role as a Strategic Hub for Finance and Institutional Alignment

Leveraging its position as an international financial center, Hong Kong supports financing for technology enterprises in the GBA. In 2018, HKEX introduced Chapter 18A of the Listing Rules, allowing pre-revenue biotechnology companies that meet specified requirements to list on the Main Board.³⁵⁵ Designed to address the high investment, long development cycles, and early-stage non-profitability characteristics of the biopharmaceutical sector, the regime requires applicants to possess at least one core product that has passed the proof-of-concept stage, alongside enhanced investor protection mechanisms. As global competition increasingly shifts toward hard-technology sectors such as AI, quantum computing, and biomanufacturing, HKEX further introduced Chapter 18C of the Listing Rules in 2023, creating a dedicated listing pathway for Specialist Technology Companies, including firms in AI, semiconductors, and green energy.³⁵⁶ This initiative has attracted Mainland unicorns such as Borayton (zero-carbon mining robotics) and Geek+ (warehouse autonomous mobile robots) to pursue Hong Kong listings, while also reinforcing Hong Kong's position as the world's second-largest biotechnology fundraising hub after the US.³⁵⁷

Hong Kong is actively aligning with the technological advancements of the GBA through institutional innovation. In May 2025, the HKSAR government gazetted the Small Unmanned Aircraft (Amendment) Order 2025, expanding the regulatory framework to include Class C unmanned aircraft (25kg to 150kg).³⁵⁸ This covers Electric Vertical Takeoff and Landing (eVTOL) aircraft and heavy-lift logistics platforms while strengthening licensing, insurance, and cross-boundary requirements. By institutionalizing the low-altitude economy, this regulation enhances clarity and facilitates alignment with the Chinese Mainland on airworthiness, airspace management, and logistics, providing a solid legal foundation for large-scale development across the GBA.

In Hong Kong's integration into the GBA, Hetao and Qianhai stand out as key examples of institutional innovation and rule alignment. The Hetao Shenzhen–Hong Kong Science and Technology Innovation Cooperation Zone operate under a “one river, two banks; one zone, two parks” framework, serving as a pilot for the seamless cross-border flow of production factors.³⁵⁹ Shenzhen and Hong Kong are advancing institutional breakthroughs in the flows of people, goods, capital, and data. Measures include seamless clearance arrangements and green channels with whitelist management

355 HKEX, “Chapter 18A: Biotech Companies” in Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong accessed April 2026, https://www.hkex.com.hk/-/media/hkex-market/listing/rules-and-guidance/listing-rules-contingency/main-board-listing-rules/equity-securities/chapter_18a.pdf?la=en

356 HKEX, “Chapter 18C: Specialist Technology Companies,” in Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong accessed April 2026, <https://en-rules.hkex.com.hk/rulebook/chapter-18c-specialist-technology-companies>.

357 InvestHK, “Life & Health Sciences,” InvestHK, October 2025, <https://www.investhk.gov.hk/en/key-industries/life-health-sciences/>.

358 Civil Aviation Department, “Small Unmanned Aircraft Order,” www.cad.gov.hk, April 2026, <https://www.cad.gov.hk/english/sua.html>.

359 ITIB, “河套深港科技創新合作區 香港園區發展綱要,” November 2024, [https://www.itib.gov.hk/assets/files/%E6%B2%B3%E5%A5%97%E6%B7%B1%E6%B8%AF%E7%A7%91%E6%8A%80%E5%89%B5%E6%96%B0%E5%90%88%E4%BD%9C%E5%8D%80%E9%A6%99%E6%B8%AF%E5%9C%92%E5%8D%80%E7%99%BC%E5%B1%95%E7%B6%B1%E8%A6%81%20\(TC\).pdf](https://www.itib.gov.hk/assets/files/%E6%B2%B3%E5%A5%97%E6%B7%B1%E6%B8%AF%E7%A7%91%E6%8A%80%E5%89%B5%E6%96%B0%E5%90%88%E4%BD%9C%E5%8D%80%E9%A6%99%E6%B8%AF%E5%9C%92%E5%8D%80%E7%99%BC%E5%B1%95%E7%B6%B1%E8%A6%81%20(TC).pdf).

for research materials.³⁶⁰ Since the opening of the Hong Kong Park in December 2025, more than 60 enterprises and institutions have established operations there. About 15% are from overseas and 60% from the Chinese Mainland.³⁶¹ This strengthens Hetao's role as a hub linking global research resources with the GBA's industrial chains. Meanwhile, the Qianhai Shenzhen–Hong Kong Modern Service Industry Cooperation Zone focuses on regulatory alignment in modern services. It pioneered the arrangement for Hong Kong-invested enterprises to apply Hong Kong law with Hong Kong arbitration, allowing Hong Kong legal and professional services to operate directly within the zone. This removes cross-border practice barriers and expands opportunities for Hong Kong's high-end professional services sector. In terms of talent mobility, Qianhai promotes mutual recognition of professional qualifications through a dedicated regime for overseas professionals. The scheme covers sectors such as finance, taxation, construction, and cultural tourism, further enlarging the market space for Hong Kong's professional services.

A successful regional integration often relies on clearly differentiated yet complementary functional positioning across neighboring economies. The Singapore+1 initiative provides a useful reference case (see Box 3-8). By combining Singapore's strengths as a global headquarters, financial, and innovation hub with the manufacturing scale of nearby regions, the model illustrates how cross-border economic systems can enhance resilience, efficiency, and global competitiveness. Examining this experience helps illuminate how Hong Kong can further leverage its international financial and professional services advantages within the GBA while deepening functional coordination with surrounding Mainland cities.

3.5.3 Strategic Functional Differentiation

A useful reference in the policy debate about effective regional economic integration is the Singapore+1 initiative (see Box 3-8), which illustrates how a global financial and innovation hub can enhance regional resilience by coordinating with nearby manufacturing bases. By adopting a similar logic of functional coordination, Hong Kong can further leverage its international professional services, robust legal framework (exemplified by Qianhai's Hong Kong law arrangements), and sophisticated IP trading infrastructure to orchestrate the GBA's vast industrial output. This approach ensures the region remains a globally competitive powerhouse, capable of navigating complex supply chain dynamics while fostering high-value, technology-driven growth.

360 Ibid. The whitelist management is an innovation-oriented regulatory arrangement applied to research institutions, enterprises, and individuals. It designates compliant entities and persons into an approved list, granting privileges such as facilitated cross-border mobility, easier transfer of research funding, and enhanced data connectivity, thereby enabling the efficient flow of innovation factors.

361 ITIB, "Innovation, Technology and Industry Bureau : Questions (2026-01-28)," Itib.gov.hk, January 2026, https://www.itib.gov.hk/en/legislative_council_business/questions/2026/pr_20260128b.html.

Box 3-8: The Singapore+1 Initiative: A Strategy for Southeast Asian Manufacturing and Digital Growth³⁶²

The Singapore+1 strategy helps companies capture Southeast Asia's strong growth by pairing Singapore's strengths as a global hub for business, innovation, and talent with the manufacturing scale and resources of nearby regions such as Johor (Malaysia) and Indonesia's Riau Archipelago. Together, this creates a resilient, diversified expansion model with synergies beyond what each location can deliver alone.

I. The Singapore+1 Model: A Two-Pronged Approach to Regional Expansion

Singapore+1 combines Singapore's high-value hub functions with the manufacturing capabilities of neighboring regions—especially Johor and Indonesia's Batam-Bintan-Karimun (BBK) islands—into a complementary business ecosystem. Companies base strategic functions in Singapore, leveraging its connectivity along the Strait of Malacca, Changi Airport's 100+ routes, and the upcoming Tuas Port connecting to 600+ ports. Singapore also ranks first globally for customs clearance efficiency, enabling seamless trade.

Singapore's broader value proposition includes a pro-business environment, competitive tax and talent policies, leading Asian universities, and the world's second-strongest IP protection. Firms also benefit from 27 FTAs covering about 80% of global GDP, 100+ Avoidance of Double Taxation Agreements, and Digital Economy Agreements with key partners.

Johor and the BBK islands—45 to 90 minutes by ferry from Singapore—provide larger land availability and a broader labor force, supporting high-volume manufacturing. This division of labor links innovation and coordination in Singapore with scale and cost efficiency next door, strengthening diversification and supply-chain resilience.

II. The Johor-Singapore Special Economic Zone

The Johor-Singapore Special Economic Zone (JS-SEZ) framework agreement, signed January 6, 2025, is a legally binding effort to improve connectivity and competitiveness in Johor and Singapore to attract more international investment. It aims to ease cross-border flows of goods and people and strengthen the joint value proposition of both locations.

Covering over 3,000 square kilometers—more than four times Singapore's size—the JS-SEZ includes nine flagship zones in the Iskandar Development Region and Pengerang. The zone supports an integrated “twin-city” model: firms can use Singapore's hub, finance, and innovation advantages while drawing on Johor's land and labor. As commitments are implemented, companies should see smoother movement of personnel and goods, a more streamlined business environment, and access to a deeper Johor talent pool.

³⁶² Singapore Economic Development Board, “新加坡+1：以新加坡为起点，探索无限可能,” Edb.gov.sg, 2026, <https://www.edb.gov.sg/cn/insights/sg-plus-1.html>

III. Case Studies: The Singapore+1 Advantage in Practice

Many firms use Singapore+1. A Japanese machinery company established a Singapore subsidiary in 1971 that now serves as regional headquarters overseeing production in Singapore and Johor. In 2018 it opened its largest manufacturing facility outside Japan in Johor, producing precision components for electronics and automotive sensors, with Singapore coordinating the chain and exporting through its ports.

A global electrical equipment manufacturer follows a Singapore–Batam model. Its Singapore presence (since 1973) hosts its Southeast Asia and Japan regional headquarters and an IoT-focused innovation center. In Bintan’s Batamindo Industrial Park, it operates a smart factory producing complex electronic components; the World Economic Forum recognized it as a “Lighthouse Factory” in 2019. Singapore-based specialists support Batam operations, and Batam-made components ship globally via Singapore’s logistics network.

A major Chinese manufacturer set up its Southeast Asia headquarters in Singapore in 2010 to coordinate a multi-phase alumina project in Bintan Industrial Estate, using Singapore’s finance, trading, and shipping strengths to manage Indonesian manufacturing and global distribution. A leading Chinese developer of high-performance data center infrastructure chose Singapore as its overseas headquarters and then developed hyperscale data center campuses in Johor and Batam, creating an interconnected regional platform to serve clients across Southeast Asia.

A prominent US medical device company illustrates the “twin-city” approach in medtech: Singapore serves as its Asia-Pacific headquarters and a key R&D center, alongside high-volume manufacturing, while two Johor sites provide cost-competitive production. Johor-made components return to Singapore for final assembly and export.

In logistics, a global shipping and logistics company located its Asia-Pacific headquarters at Changi Airport (22 weekly flights). Its expanded parcel processing center and bonded warehouse in Johor enable routing through Singapore to cut delivery times, and it has opened its first Global Innovation Centre in Singapore to develop next-generation logistics technologies with local higher-education partners.

3.5.4 Insights from Singapore+1

Similar to Singapore and its hinterland, Hong Kong has specialized in high-value functions (finance, IP, management, global client access), while nearby cities provide land, engineers, factories, and fast scale-up. Therefore, the integration experiences of the two economies may offer insights to each other,

A first takeaway is that integration needs easy cross-boundary movement, not just proximity. Singapore+1 works because firms can coordinate across borders with predictable processes. For Hong Kong and the rest of the GBA, the goal should be simple and reliable channels for people, goods, and research materials to move quickly. This is especially important for technology sectors where teams need frequent site visits and where prototypes and testing equipment must cross the boundary without long delays. In fact, the institutional experiments practiced by Hetao and Qianhai have been conducted based on these principles.

A second takeaway is to connect Hong Kong to Guangdong's priority industries with practical pipelines. Guangdong is pushing emerging areas such as next-generation NEVs, industrial robotics, the low-altitude economy, advanced manufacturing, and AI-driven ecosystems. Hong Kong can support these sectors by providing financing, IP services, and international partnerships. Mainland cities can provide engineering talent, testing environments, and production lines. The result should be faster commercialization: from lab to prototype to factory to market.

A third takeaway is that new industries need rules that match the technology. Hong Kong's Small Unmanned Aircraft (Amendment) Order 2025 expands regulation to Class C drones (25–150kg) and strengthens licensing, insurance, and cross-boundary requirements. This matters for the low-altitude economy, including logistics platforms and eVTOL development. When rules are clear and aligned, firms can invest with confidence and scale across the region.

Chapter 4: Systematic and Institutional Innovation

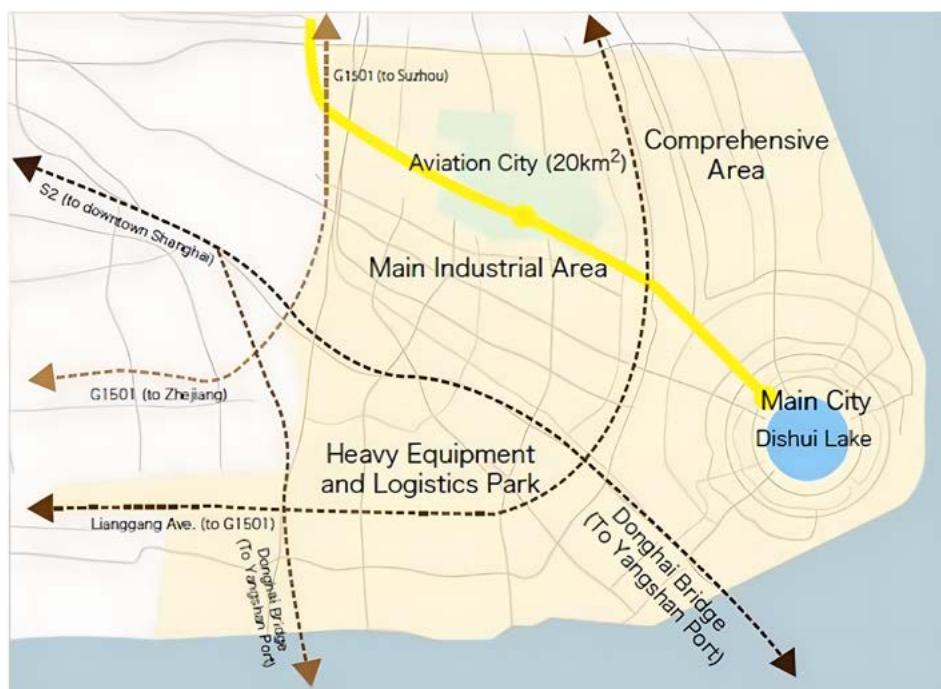
In pursuit of global competitiveness in changing times, several regions in the Chinese Mainland have been experimenting institutional reforms through policy innovation. A key feature is removing institutional barriers and relaxing constraints while maintaining effective risk controls. Unnecessary regulatory hurdles are reduced, administrative procedures are streamlined, and more flexible regulatory arrangements are introduced in selected sectors. Such institutional adjustments create space for the development of new industries, technologies, and business models, and have gradually become an important driver of regional economic development.

In this context, our research team conducted field studies in several representative locations across the Chinese Mainland: the Shanghai Lingang Special Area, Yangshan Port, the Hainan Free Trade Port, as well as the Hangzhou Transfar InnoCity and China (Hangzhou) Artificial Intelligence Town. Each case demonstrates distinctive approaches to institutional reform, industrial development, and openness. In particular, they provide valuable examples of how policy barrier removal and regulatory flexibility can stimulate innovation and economic growth.

Through this comparative analysis, we aim to translate these Chinese Mainland experiences into insights for Hong Kong's strategic development. By identifying the mechanisms that drive policy effectiveness and institutional vitality, this research seeks to offer insights for Hong Kong to optimize its own governance models.

4.1 Insights from the Lingang New Area of the China (Shanghai) Pilot Free Trade Zone

Figure 4-1: Map of the Lingang New Area of the China (Shanghai) Pilot Free Trade Zone



Source: Shanghai Pudong Government

The Lingang New Area of the China (Shanghai) Pilot Free Trade Zone was inaugurated in 2019. With a total area of 873 sq km, it borders Pudong International Airport to the north and connects to Yangshan Port, the world's largest container port by TEU throughput, to the south.³⁶³ The Lingang New Area also houses the nation's only special comprehensive bonded zone: the Yangshan Special Comprehensive Bonded Zone.³⁶⁴ Lingang accounts for approximately 2% of Shanghai's population but contributes one-third of the city's industrial output growth, hosts 40% of Shanghai's advanced manufacturing projects, and handles one-third of the city's container throughput. It has become a driving force and new engine for Shanghai's economic growth.

Insight 1: Anchor-Led Specialized Industrial Parks

Lingang prioritizes core industries and emerging sectors, developing specialized industrial parks such as the “Oriental Chip Port,” “Life Blue Bay,” and “Large Aircraft Park.”

- In the integrated circuit sector, it has advanced projects like Changjiang Electronics' automotive-grade packaging and testing and Sunny Optical's waveguide manufacturing in specialized fields such as equipment materials and wide-bandgap semiconductors, attracting leading enterprises including Semiconductor Manufacturing International Corporation (SMIC) and Lead Technology.
- In civil aviation, the satellite manufacturing chain is anchored by the Shanghai Engineering Center for Microsatellites, which has driven the accelerated clustering of multiple companies involved in satellite manufacturing, component production, and application services within the Lingang New Area.
- In aircraft manufacturing, capitalizing on the accelerated mass production of the C919, the “Large Aircraft Industrial Park” was established, attracting over 60 supporting enterprises. In the first half of 2025, the output value of the aerospace sector grew by 53% year-on-year.
- In the biopharmaceutical sector, the Lingang Life Blue Bay Park was established. Through the Lingang Life Blue Bay Fund's investment-tender linkage mechanism, it attracted leading enterprises like Medtronic, Junshi Biosciences, and WuXi AppTec.
- In artificial intelligence (AI), it has gathered top domestic companies such as Enflame, Cambricon, Kunlun Chip, and Horizon Robotics. In the new energy vehicle (NEV) sector, SAIC and Tesla serve as leaders, driving the development of the upstream and downstream NEV industry chain. In 2024, the output value of intelligent NEVs in Lingang reached RMB 281.6 billion, with over 200 automotive-related enterprises clustered.
- In the high-end equipment manufacturing sector, renowned enterprises such as Sany Heavy Industry and CSSC-MES serve as key leaders.
- In the hydrogen energy sector, 20 core domestic hydrogen enterprises including Cummins, Zhizhen, and Tangfeng have been attracted.

³⁶³World Shipping Council, “The Top 50 Container Ports,” World Shipping Council, 2024, <https://www.worldshipping.org/top-50-container-ports>.

³⁶⁴ A Special Comprehensive Bonded Zone is a high-level, customs-supervised, and specialized economic zone in China offering maximum preferential tax and trade policies. (China Daily, “China to Set up More Comprehensive Bonded Zones This Year,” Customs.gov.cn, August 2020, <http://english.customs.gov.cn/statics/92125eb4-f862-41a3-8f01-f30dbe7607e5.html>.)

Insight 2: Specialized State-Owned Developers

The Lingang Free Trade Zone's new area primarily relies on three major state-owned development entities: Lingang Group (directly under Shanghai Municipality, with the largest development scale), Port City Group (under Pudong New Area government), and Lingang Investment Holding Group (a state-owned enterprise under the Lingang Management Committee).

Each group headquarters establishes an investment promotion department to oversee comprehensive planning and coordination, implementing specialized and targeted investment promotion. Based on the characteristics and division of labor among major industrial parks, different subsidiaries are established to handle development and operations. For instance:

- Lingang New Area Economic Development Co., Ltd. focuses on modern services, including finance, trade, shipping, legal services, and intellectual property (IP), providing specialized consulting for enterprises;
- Large Aircraft Industrial Park Co. Ltd. concentrates on bonded maintenance, aircraft engines, components, and related upstream/downstream industries, handling development, construction, and operational services;
- Shanghai Lingang Industrial Zone Economic Development Co., Ltd. targets high-end equipment, NEVs, integrated circuits, hydrogen energy, and other manufacturing sectors, primarily addressing enterprises' factory site needs.

Insight 3: Full-Lifecycle “Going Global” Platforms

In June 2024, the Lingang New Area “Going Global” Comprehensive Service Platform was officially launched. Currently, over 500 renowned domestic and international professional service institutions have joined the platform, covering cross-border finance, foreign-related insurance, taxation, filing consultation, human resources management, and other fields. They provide specialized country- and industry-specific services, collaborating with local governments to jointly connect and support local enterprises in their international expansion.

The platform can select suitable markets based on industry characteristics and recommend appropriate professional service providers to assist enterprises in establishing overseas subsidiaries, designing tax planning solutions, securing local third-party services, and planning subsequent capital repatriation pathways. Currently, the Lingang Free Trade Zone holds the authority to handle direct investment filings of less than USD 300 million. It has successfully supported multiple enterprises in their international expansion, such as:

- Conant Optical: The company completed overseas land acquisition in under seven months from initial planning.
- Cedar Composites Technology: During its expansion to Vietnam, the platform screened seven specialized agencies capable of providing localized services in Vietnam.

Insight 4: Digital Verification for Cross-Border Trade to Enhance Operational Efficiency

In areas such as offshore trade, cross-border finance, cross-border healthcare, and high-end shipping, the Lingang Free Trade Zone has pioneered some 166 exemplary cases, including 79 that are nationwide firsts. Among these, the “New Area Cross-Border Pass” platform, operational for over two years, has served over 300 cross-border trade enterprises and 28 financial institutions, completing more than 3,000 authentic offshore trade verification transactions.

Leveraging Shanghai E-Port’s big data infrastructure, the platform aggregates relevant data from over 5,700 major global ports and terminals. It integrates information such as bills of lading, logistics trajectories, customs declarations, and other data. Utilizing big data, AI, and other next-generation information technologies, it enables full-chain tracking of trader access, cross-border settlement verification, and cargo trajectories. This facilitates a comprehensive, penetrative review of offshore trade fund flows by regulatory authorities and banking institutions, addressing the challenge of trade authenticity verification. The platform fully supports Free Trade Accounts (FTs), Non-Resident Accounts (NRAs), and Offshore Accounts (OSAs), providing robust support for cross-border financial services. As of late 2025, it had served over 300 cross-border trading enterprises and 28 financial institutions.

In the first half of 2025, the offshore trade volume in the Lingang New Area exceeded USD 15 billion, marking a 23.6% year-on-year increase. From January to July 2025, the international reinsurance business platform recorded cumulative registered premiums exceeding RMB 84.3 billion and transacted premiums surpassing RMB 3.9 billion. Regarding cross-border data flow, the Lingang New Area is conducting stress tests for higher-level opening-up. By June 2025, Lingang had helped over 200 enterprises achieve a 70% improvement in cross-border data flow efficiency. Furthermore, Lingang serves as a resource matching platform, assisting professional institutions in connecting with market channels. It cultivates services such as financing and overseas expansion as distinct business models, building a ten-minute ecosystem that further attracts professional service providers to establish operations.

Insight 5: Physical & Policy-Based Bonded Innovation

It has established China’s first Special Comprehensive Bonded Zone for targeted industries. The Yangshan Special Comprehensive Bonded Zone is a physically fenced area within the Lingang New Area of the China (Shanghai) Pilot Free Trade Zone. It encompasses three regions: the Luchao Port area, Xiaoyangshan Island area, and the southern Pudong Airport area. Leveraging the world’s largest container port, it has attracted a large number of internationally renowned enterprises like Tesla.



Based on business characteristics, the General Administration of Customs permits enterprises located outside the Yangshan Special Comprehensive Bonded Zone within the Lingang New Area planning zone to apply for customs special supervision policies. These policies primarily target key enterprises engaged in core production and R&D within critical sectors such as integrated circuits, AI, biomedicine, and civil aviation. Key innovations include:

1. The Special Comprehensive Bonded Zone introduces a more relaxed and facilitative regulatory regime for cross-border trade and business operations. It streamlines customs declarations, inspections, and documentation requirements, while allowing greater flexibility in goods storage with no strict time limits. At the same time, it enhances data integration and collection through digital platforms, improving the efficiency and transparency of customs and trade administration.³⁶⁵
2. Building a digital comprehensive bonded zone. This platform achieves the “three-document integration” centered on “electronic bills of lading, electronic delivery orders, and electronic warehouse receipts.” This not only significantly enhances the efficiency and security of cargo document processing in shipping and trade but also enables enterprises to apply for pledge financing from banks using electronic documents to obtain capital support.
3. Continuously deepening and extending the hybrid model of bonded storage and diverse value-added services. In 2024, the Yangshan Special Comprehensive Bonded Zone recorded a total import and export value of 272.76 billion yuan, a year-on-year increase of 4.1%. The zone hosts major projects including the JSR photoresist production base, Maersk Logistics Center, Yangshan International Bonded Trading Center, CNBM Leonardo Aerospace Composites Production Base, GE Aviation Engine Bonded Maintenance Facility, China Eastern Airlines Maintenance and Modification Base, Shanghai Boeing Maintenance and Modification Base, and Lisi (Shanghai) Materials Technology Co., Ltd.

³⁶⁵ The Special Comprehensive Bonded Zone implements and optimizes the “Six Specials” customs supervision system characterized by “direct release at the first line (i.e. between the bonded zone and overseas), one-sided declaration at the second line (i.e. between bonded zone and the Mainland), and no ledger management within the zone. This includes: First, for the “second line” declaration, the previous dual-side declaration system for both zone-based and non-zone-based enterprises is changed to a single-side declaration system for non-zone-based enterprises. Second, a special trade control model. Except for goods subject to international conventions, treaties, agreements, or safety access management that require verification of regulatory documents at the “first line,” all others are verified at the “second line.” For goods subject to entry inspection, verification is generally conducted at the “second line.” Goods requiring documentation or inspection undergo verification only once at either the “first line” or “second line,” with no duplicate checks. Third, a special intra-zone management model is implemented. Customs has eliminated ledger management, exempting enterprises from routine customs supervision such as manual verification and consumption management. Goods stored within the Yangshan Special Comprehensive Bonded Zone have no storage time limit. Enterprises within the zone operate under self-discipline management, with customs refraining from interfering in their normal business activities.

4.2 Impact of Hainan Free Trade Port and Future Cooperation Prospects

The Hainan Free Trade Port officially commenced island-wide special customs operations on December 18, 2025. The establishment of the Hainan Free Trade Port represents a major decision made by the Chinese government to comprehensively deepen reform and opening up. Its strategic goal is to develop the Hainan Free Trade Port into a key gateway leading China’s new era of opening up to the world.

The core policies of the Hainan Free Trade Port can be summarized into the following four major categories, comprising a total of twenty-nine policies.

Table 4-1: Policy Category Free Trade Port Core Policies

Policy Category	Free Trade Port Core Policies
Customs Closure Operation Policies	1. Hainan Free Trade Port Imported Taxable Commodity Catalog and Goods Circulation Tax Policies
	2. Interim Measures of the Customs of the People’s Republic of China for the Tax Collection and Administration of Processing Value-added Duty-free Goods in the Hainan Free Trade Port
	3. Hainan Free Trade Port List of Prohibited and Restricted Import and Export Goods and Items
	4. Measures of the Customs of the People’s Republic of China for the Supervision of the Hainan Free Trade Port
Tax Policies	5. Hainan Free Trade Port Individual Income Tax Policies for High-end and Talents in Short Supply
	6. Hainan Free Trade Port Corporate Income Tax Preferential Policies for Encouraged Industries
	7. Exemption from Enterprise Income Tax on Newly Added Overseas Direct Investment Income from Tourism, Modern Services, and High-tech Industries
	8. Preferential Policies for One-time Deduction or Accelerated Depreciation and Amortization of Newly Purchased Assets
	9. “Zero Tariff” Policy for Imported Medical Devices in the Boao Lecheng International Medical Tourism Pilot Zone
	10. Temporary Inbound and Outbound Repair Policies
	11. Adjustment of Duty-Free Shopping Quota for Off-Island Tourists to RMB 100,000 per Person per Year and Increase in Product Variety

Financial Policies	12. Pilot for Qualified Foreign Limited Partners (QFLP)
	13. Pilot for Qualified Domestic Limited Partners (QDLP)
	14. Development of New Offshore International Trade
	15. Construction of a Multi-functional Free Trade Account System
	16. Pilot Cross-border Asset Management Businesses
	17. Non-residents Can Participate in Trading and Fund Settlement on Trading Platforms
	18. Optimization of Pilot Programs for Integrated Multinational Company Cross-border Currency Pooling
	19. Expansion of Pilot Programs for High-level Opening of Cross-border Trade and Investment
Trade and Investment Liberalization and Facilitation	20. Hainan Free Trade Port Negative List for Cross-border Service Trade
	21. Policies for Special Medical Food, Health Food, Pharmaceuticals, and Medical Devices in the Boao Lecheng International Medical Tourism Pilot Zone
	22. Special Measures for Relaxing Market Access in the Hainan Free Trade Port
	23. Hainan Free Trade Port Negative List for Foreign Investment Access
	24. Allowing Foreign-invested Enterprises to Invest in the Application of Processing Technologies (like steaming, frying, roasting, calcining) for Chinese Herbal Medicine Slices and the Production of Proprietary Chinese Medicines with Confidential Formulas
	25. Allowing Foreign-invested Enterprises to Engage in the Technology Development and Application of Human Stem Cells, Gene Diagnosis and Therapy, for Product Registration, Marketing, and Production
	26. Pilot for Establishing Wholly Foreign-owned Hospitals
	27. No Restrictions on Foreign Equity Ratio for International Ship Registration Entities
	28. Removal of Local Presence Requirements for Certification Services
	29. Implementation of the Hainan Free Trade Port Commitment-based Entry System for Relaxed Market Access

Source: Hainan Provincial Government Documents

Table 4-2: Implementation Results and Cases of Some Policies

EF Account	Settled cross-border fund flows exceeding RMB 170 billion within just over a year, with the fund network covering 61 countries and regions globally.
Negative List	Hainan Free Trade Port implements the “shortest” foreign investment access negative list nationwide. For areas outside the list, management follows the principle of equal treatment for domestic and foreign investment.
Ports and Terminals	The terminal operating shoreline is 1970 meters, with an annual throughput capacity of 5 million TEUs, capable of meeting the navigation needs of the world’s largest container ships. From January-September 2025, port cargo throughput was 61.8392 million tons, a year-on-year increase of 30.31%. As of November 6, 2025, Yangpu Port had cumulatively opened 33 foreign trade routes and 30 domestic trade routes, connecting Southeast Asia, South Asia, the Middle East, South America, etc., forming a new shipping network pattern integrating domestic and foreign trade and connecting near and far seas. The number of international ships registered at the China Yangpu Port had increased to 66 as of October 2025, with a total tonnage of 3.6142 million tons and a total deadweight tonnage of 6.4161 million tons. The number of registrations and scale of shipping capacity rank first among all free trade ports (zones) in China.
Foreign Investment Inflow	In the past five years leading up to July 2025, Hainan had added 8,089 foreign-invested enterprises, with an average annual growth of 43.7%. Actual utilized foreign capital reached RMB 102.5 billion, with an average annual growth of 14.6%. The source countries/regions of market entities investing in Hainan have increased to 176.
Yacht Industry	Sanya took the lead in implementing three national firsts: “Entry without Guarantee,” “Zero-tariff Yachts,” and “Import Duty Exemption for Yachts under Five Years Old.” The 2025 Provincial Government Work Report proposed supporting Sanya in building an “Asia-Pacific Yacht Capital.” Effective October 1, 2025, the “Hainan Free Trade Port Special Rules on Yacht Technology and Inspection (Interim)” were formally implemented. The new rules raised the maximum capacity of the yacht passenger limit to 26 people, comprehensively promote the upgrade of the entire yacht chain—design, manufacturing, and services—towards modernization and high-end; and aim to attracting more domestic and international renowned yacht brands and consumer resources to cluster in Sanya. As of September 2025, the Sanya Central Business District had gathered 123 yacht industry chain enterprises, covering all segments including design, manufacturing, sales, leasing, maintenance, and tourism consumption.

Aircraft Maintenance	The One-Stop Aircraft Maintenance Base in Haikou began operations in 2022. HNA Aviation Technology Co., Ltd., one of the first enterprises to settle in the maintenance base, obtained maintenance permits from the U.S. FAA, European EASA, and multiple other countries and regions. Services like airframe overhaul, component repair, and aircraft painting can be completed at one stop at the base. Since its commissioning in 2022, the maintenance base has completed over 2,400 aircraft maintenance visits, over 280 full aircraft paint jobs, and the repair of 61,000 aviation components, including over 100 inbound aircraft maintenance and painting services, covering nearly 50 domestic and foreign airlines and aircraft leasing companies. Currently, the base's business volume is still growing; the number of inbound aircraft repaired in the first half of 2025 alone nearly reached the total number for the entire year of 2024. Airlines from South Korea, Thailand, the Philippines, Jordan, Vietnam, Qatar, and other countries have also become regular customers of the maintenance base.
International Innovative Drugs and Devices	By the end of 2024, the zero tariff policy for imported drugs and devices tailored for the Lecheng Pilot Zone was implemented. As of November 2025, the Lecheng Pilot Zone had completed the “First Use in China” for 523 types of international innovative drugs and devices, cumulatively benefiting over 180,000 patients, basically achieving “three synchronizations” of medical technology, equipment, and pharmaceuticals with international advanced levels. In the past, overseas drugs and devices took years to be approved for entry into China. Now, the average approval time for the latest international drugs and devices to land in Lecheng is only 1.6 days.
Commercial Aerospace	Since its establishment in June 2022, Hainan International Commercial Aerospace Launch Co., Ltd. took only 878 days to achieve the first successful launch from the start of construction of China's first commercial aerospace launch site, setting a “Commercial Launch Speed.” Now, the second-phase project is advancing at full speed, with over 1100 acres of land for the construction of Launch Pads No. 3 and 4, supporting technical areas, the Gusong Tracking Station, and a reusable rocket maritime recovery system. On October 16, 2025, the Long March-8A carrier rocket successfully launched 12 groups of satellites. So far, the Hainan Commercial Aerospace Launch Site has achieved “Six Launches, Six Successes.”
Secure and Orderly Data Flow	International Internet data special channel: Hainan enterprises can apply to access the international Internet via this dedicated channel. If servers of Chinese game companies are located in Hainan, they can be directly accessed from overseas; the pilot approval authority for domestic online games has been delegated to Hainan; Hainan is exploring cross-border data flow for e-commerce, etc.

After the launch of Hainan's island-wide special customs operations, 6,600 zero-tariff items now cover 74% of tariff lines, allowing for direct settlement in RMB. This, coupled with lower operating costs, makes the same duty-free products typically 15%-30% cheaper than in Hong Kong. In addition, Hainan's off-island tourists have an annual shopping quota of RMB 100,000, while Hong Kong's single purchase limit is lower. As a result, Hainan has certain advantages in terms of pricing and shopping quotas, which may attract some price-sensitive consumers and, to some extent, weaken Hong Kong's status as a shopping paradise.

Apart from duty-free shopping, the construction of the Hainan Free Trade Port poses limited competition to Hong Kong, mainly for the following reasons:

- First, the legal systems of the two places are different. Hong Kong operates under the common law system. When handling international commercial matters, it follows international conventions and practices, closely aligned with international rules in cross-border trade, finance, and other fields. Hainan follows the legal application principles of the Chinese Mainland, even though it also focuses on aligning with high-standard international economic and trade rules in developing the Hainan Free Trade Port.
- Second, the industrial structures of the two places are different. Hong Kong's main pillar industries are finance, trade, logistics and shipping, professional services, and innovation and technology. Hainan's current industries are still mainly agriculture and tourism.
- Third, the development conditions of the two places are different. Hong Kong locally has five of the world's top 100 universities, strong basic R&D capabilities, gathers international talent, and is backed by the world-class city cluster of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA). Hainan's current development still lags relatively behind, backed by the Beibu Gulf city cluster, generally characterized by a weak industrial base, insufficient industrial supporting facilities, and relatively under-developed transportation infrastructure. Hainan's advantage lies in using Free Trade Port policies to create a new supply chain model of "overseas raw materials–Hainan processing–Mainland market," becoming a value-adding platform and policy interface facing Southeast Asia and linking the Chinese Mainland market.

As the development of the Hainan Free Trade Port continues, Hong Kong and Hainan have broad cooperation space in many areas. For example, Hong Kong can fully leverage its advantages in finance, trade, law, shipping services, operational management, consulting, etc., to provide professional service support for the construction of the Hainan Free Trade Port, areas where Hainan lacks relevant professional talent and experience.

Particularly in fields such as ports and terminals, aerospace, aircraft maintenance, international innovative drugs and devices, education, healthcare, and conventions and exhibitions, there are significant future cooperation opportunities between Hong Kong and Hainan.

4.3 Insights from Hangzhou Transfar Innocity's Development Model for the Construction of Hong Kong's Northern Metropolis

Transfar Innocity is an innovation zone led by a prominent private enterprise, one of the few of its kind in China. It fully leverages the dual role of government and market. The government leverages its advantages in overall planning and resource concentration, while enterprises leverage their advantages in specialization, marketization, and internationalization. This cooperation model is worthy of reference for the development and evolution of Hong Kong's Northern Metropolis.

Transfar Innocity has a planned area of 3.78 sq km. Focusing on the full lifecycle development needs of biotechnology enterprises, Innocity provides industrial spaces like Qianwan Bio-harbor, Qianwan Acceleration Center, Qianwan Intelligent Valley, and self-built shared laboratories and medical device conversion services as two public platforms, offering full-process professional operation solutions from incubation, acceleration, to industrialization.

Currently, the town has 9 quasi-unicorn enterprises, 36 national high-tech enterprises, 5 postdoctoral workstations, and 46 national sci-tech SMEs. The working and living population exceed 30,000, of which 51% are young people aged 25-35; there are over 8,000 sci-tech innovation talent, mainly from more than 20 countries, including the US, the UK, New Zealand, Sweden, and Spain; 78% of company founders hold doctoral degrees or higher, and 72% have overseas study backgrounds.

Insight 1: The Private Sector Ecosystem Leader

Relying on the leading enterprise Transfar Group to build a sci-tech innovation industry ecosystem. Ranking 57th among China's Top 500 Private Enterprises, Transfar Group is a large diversified industrial group with multiple businesses, numerous brands, and a global presence. Its business portfolio covers Transfar Chemical, Xin'an Chemical, Transfar Logistics, Transfar Innocity, and Transfar Agriculture, demonstrating strong industrial integration and synergistic development capabilities.

Leveraging its experience in chemicals and logistics, Transfar Group has built an industrial collaborative innovation platform within Transfar Innocity. Here, upstream and downstream enterprises in the industrial chain not only share resources but also share industrial application scenarios, policy resources, and global marketing networks within the industrial chain ecosystem. This model has significantly enhanced the efficiency of innovation.

Insight 2: The "Reform Special Zone" Governance

Advocating "Government Leading, Enterprise as the Main Body," fully utilizing the role of "Effective Market + Proactive Government." The government is not merely a land provider or regulator but a deeply collaborative partner. Throughout the development of Transfar Innocity, it has consistently adhered to the "government-enterprise synergy." Through close collaboration with the government, it secured support, including a series of innovative mechanisms, becoming an "Reform Special Zone" in

Xiaoshan, allowing Innocity to reinvest the incremental tax revenue generated within the zone into the long-term development of Innocity.

Insight 3: Hyper-Specialized Vertical Integration

Focusing on specific industry sub-sectors, linking upstream and downstream industrial resources. The Innocity focuses on the biotechnology industry, and the development of synthetic biology, gene and cell therapy, medical devices, and other future industry sub-fields, building an integrated operation service system of “Research–Investment–Promotion–Operation–Service.”

For example, Transfar Innocity has formed a biomedicine cluster. In the cell therapy sub-field, this includes the most basic cell enzymes, intermediate cell regeneration, and further up, cell therapy for tumor diseases, etc. After analyzing the industry’s needs and the necessary resources, the park development company will provide enterprises with upstream and downstream resources as well as relevant policy support.

Insight 4: Targeted Industrial Funds

Transfar Innocity has established four industrial funds: Transfar Science and Technology Innovation Fund, CICC Transfar Fund, Innocity Industrial Development Fund, and Innocity Biotech Venture Fund, linking with over RMB 30 billion in market-based funds and investing in four areas: synthetic biology, clinically valuable new drugs, innovative medical devices, and consumer healthcare.

It has currently invested in nine biotechnology projects, with a cumulative investment of RMB 127 million, including invested enterprises like SineuGene, MindRank, and Santo Therapeutics.

Insight 5: Public Technology Platforms

For special projects like public technology testing platforms with long payback cycles, there are mainly two approaches:

One is co-construction between a government-owned or state-owned enterprise and the park development company, with the government bearing the bulk of investment cost and the park development company being primarily responsible for operation.

Another is for platforms with a smaller investment scale, where the park development company invests directly, and the government conducts acceptance inspection. Upon achieving the corresponding functions, the government provides, for example, a 40% fixed asset investment subsidy. Subsequently, while providing technical services, the park development company charges enterprises a certain proportion of service fees annually, supplemented by government subsidies for operational expenses.

Insight 6: Urban Amenities to Create a First-class Environment

The park planning adopts a distribution of one-third office space, one-third supporting facilities like education and commercial area, and one-third residential space. It has attracted Wellington College (its largest campus in China), Hangzhou The Ring (the first high-end commercial complex developed by the renowned Hongkong Land in Hangzhou), the Hilton Hotel, and a branch of Sir Run Run Shaw Hospital.

Regarding park supporting services, it adopts a one-stop service approach to help talent achieve the transition from scientist to entrepreneur, including assisting in formulating company strategic plans, forming talent teams, facilitating various rounds of financing, obtaining various service resources, assisting in securing policies, helping find markets, and other full services.

4.4 Insights from China (Hangzhou) Artificial Intelligence Town

Established in 2017, this AI Town was jointly created by the Hangzhou Future Sci-Tech City Administrative Committee and its subsidiary Hangzhou Artificial Intelligence Town Technology Development Co., Ltd., serving as a typical example of win-win cooperation between government and enterprise.

The town covers a total area of approximately 3.43 sq km and is one of China's first "Artificial Intelligence Demonstration Parks." Focusing on the application of AI technology, it strategically focused on fields like intelligent manufacturing, smart healthcare, big data, cloud computing, robotics, and 5G communication technology, attracting key enterprises in industrial sub-sectors and renowned public technology platforms to build a high-precision and advanced AI industry chain.

Insight 1: Building a Sci-Tech Innovation Matrix of Large Scientific Facilities + Major Scientific Programs + Key Laboratories + New-Type R&D Institutions.

Hangzhou's Yuhang District gathers four provincial laboratories: Zhejiang Lab, Liangzhu Lab, Hupan Lab, and Tianmushan Lab. Among them, Zhejiang Lab is located within the AI Town and has successfully been selected as one of the first batch of National New Generation AI Public Computing Power Open Innovation Platforms. Furthermore, within the Future Sci-Tech City area adjacent to the AI Town, there is Zhejiang's first national major scientific facility, the Hangzhou Supergravity Center, as well as a number of new-type R&D institutions like the Nanhu Brain-Computer Interface Research Institute, Zhuoxi Institute of Brain and Intelligence, and Haichuang Humanoid Robot Industry Innovation Center.

Insight 2: Building Diversified Application Scenarios

Hangzhou's Yuhang District released a dual list of urban opportunity scenarios, including 20 government demand-side list items and 20 enterprise capability supply-side list items. Focusing on areas like AI, low-altitude economy, industrial upgrading, urban governance, and people's livelihood services, it aims to normalize innovation scenarios.

The Yuhang District specifically established a Scenario Office to coordinate and promote the construction of urban opportunity scenarios, responsible for regularly conducting scenario collection, screening and planning, list release, supply-demand matching, and application promotion.³⁶⁶

Insight 3: University–Enterprise Integration to Attract High-End Talent

Relying on the Future Sci-Tech City and surrounding universities like Zhejiang University and Beihang International Innovation Institute, combined with AI giants like Alibaba, CETHIK, ByteDance, and vivo, it attracts global talent.

Currently, the town has gathered over 13,000 innovation and entrepreneurship personnel and has cumulatively attracted and cultivated 18 academicians (including CAS/CAE academicians and overseas academicians) and 40 national-level leading talent.

Insight 4: Finance Provides Crucial Support for Technology Enterprises

The Future Sci-Tech City, where the town is located, has gathered over 1,600 financial institutions like CICC Capital and IDG Capital, which together manage capital of nearly RMB 400 billion. It actively promotes IP financial innovation, having issued 11 IP securitization products, benefiting 121 sci-tech innovation enterprises, with cumulative financing exceeding RMB 1.129 billion.

Additionally, the Artificial Intelligence Industry Fund with over RMB 30 billion has invested in projects with valuations exceeding RMB 100 billion. Hangzhou Bank established the nation's first AI technology sub-branch providing financial products like R&D loans and patent pledge loans.

4.5 Brief Summary

The diverse case studies examined in this chapter generate several critical insights into Hong Kong's future development. Collectively, they suggest that Hong Kong's next phase of growth must move beyond traditional laissez-faire models toward a more proactive, systemic innovation framework. This transition also implies a shift toward Proactive Governance, redefining the government's role as an

³⁶⁶ In practice, it introduces professional consulting institutions and holds regular seminars with leading enterprises and research institutions to update scenario lists that combining Yuhang's characteristic industrial advantages and industrial development directions. The updated lists are dynamically released externally.

active enabler of structural transformation, while ensuring that market dynamism and international openness remain intact. In doing so, Hong Kong can better respond to intensifying global competition and rapid technological change.

1. The cases underscore the transformative power of institutional innovation. The Shanghai Lingang Special Area demonstrates that regulatory flexibility and “policy experimentation” are not merely administrative adjustments but are essential for removing market barriers. For Hong Kong, this suggests that maintaining competitiveness requires a shift toward “smart regulation” that fosters emerging business models while maintaining robust risk controls. Such an approach would also require continuous regulatory feedback loops, where policies are dynamically adjusted based on market responses, thereby ensuring that innovation is not stifled by outdated rules. Moreover, it highlights the importance of regulatory coordination across sectors to avoid fragmentation and policy inconsistency.
2. The evidence highlights the necessity of ecosystem-based industrial development. Rather than relying on fragmented growth, cases like Lingang’s “Anchor-Led” specialized parks and Transfar Innocity’s vertical integration show the value of clustering. By centering development around “anchor enterprises” (such as Tesla in EVs or SMIC in semiconductors), these regions have created synergistic environments where upstream and downstream firms share resources and market scenarios. This model is particularly relevant for the development of Hong Kong’s Northern Metropolis, advocating for a transition from simple land supply to the curated creation of industrial ecosystems. In addition, such ecosystems enhance resilience by internalizing supply chains and fostering knowledge spillovers, which can accelerate innovation cycles. This also suggests the need for deliberate sector selection to maximize comparative advantages.
3. There is a growing imperative for integrated, full-lifecycle service platforms. The success of Lingang’s “Going Global” platform, which supports firms through cross-border finance, taxation, and international expansion, highlights a strategic opportunity for Hong Kong. As Chinese Mainland enterprises increasingly seek international markets, Hong Kong can reposition itself as the premier high-value service interface—leveraging its strengths in common law, global finance, and professional services to provide the “end-to-end” support that Chinese Mainland firms require for global compliance and operation. Beyond this, Hong Kong could further enhance its role by developing digitalized service platforms and standardized service packages, improving efficiency and scalability in supporting go-global enterprises. This would reinforce its position as an indispensable intermediary in global value chains.

4. The cases demonstrate the effectiveness of the government–market coordination model. The “Reform Special Zone” governance in Hangzhou’s Transfar Innocity, where the public sector provides planning and tax-reinvestment incentives while the private sector leads execution, offers a blueprint for “Effective Market + Proactive Government.” This is further supported by tailored financial instruments, such as the IP securitization products and specialized AI technology sub-branches of bank seen in Hangzhou, which bridge the funding gap for high-risk, high-growth technology startups. Importantly, this model also reflects a shift toward more targeted and performance-based policy support, where resources are allocated based on strategic priorities and measurable outcomes, thereby enhancing overall policy efficiency and impact.
5. The research reveals that innovation-driven growth is increasingly dependent on scenario creation and talent aggregation. The Hangzhou AI Town’s “Scenario Office” serves as a pioneer in turning urban challenges into market opportunities for AI firms. By combining high-end research infrastructure (such as the Zhejiang Lab) with diversified industrial application scenarios, these regions have successfully attracted world-class talent, including dozens of academicians and thousands of doctoral researchers. For Hong Kong, sustaining growth in biotechnology and AI will require similar efforts to normalize innovation scenarios and integrate academic research with industrial applications. Furthermore, cultivating a vibrant innovation ecosystem will depend on creating an attractive living and working environment, where talent retention is supported by career opportunities, quality of life, and access to global networks.

In conclusion, these insights suggest that Hong Kong’s future competitiveness hinges on its ability to adapt its institutional framework and deepen its integration with regional innovation systems. By evolving from a traditional gateway into a dynamic, high-value platform that combines regulatory agility with a robust industrial ecosystem, Hong Kong can secure its position within an increasingly complex global economic landscape.

Conclusion

Hong Kong stands at a defining moment in its economic history. The forces that once propelled its rise—globalization, efficiency-driven supply chains, and its intermediary role between the Chinese Mainland and the rest of the world—are being fundamentally reshaped by geopolitical fragmentation, technological disruption, and the emergence of new centers of growth. In this evolving landscape, the city can no longer rely solely on its traditional identity as a “super connector.” Instead, it must proactively redefine its role and capabilities to remain competitive, resilient, and relevant. This report has argued that Hong Kong’s next growth pathway lies in its transformation into a “super value-adder,” a shift that is both necessary and achievable given its unique institutional strengths and strategic positioning.

At the core of this transformation is the recognition that value creation in the modern global economy increasingly resides in knowledge-intensive, innovation-driven, and service-oriented activities. Hong Kong is well-positioned to capture these opportunities. Its deep financial markets, robust common-law legal system, free flow of capital, and international connectivity provide a strong foundation for higher value-added functions such as research and development, intellectual property management, advanced professional services, and global coordination of supply chains. By embedding itself more deeply into these areas, Hong Kong can move beyond facilitating transactions to actively shaping and enhancing them.

The transition from connector to value-adder also requires a comprehensive digital transformation. Digital technologies are not merely tools for efficiency; they are enablers of entirely new business models and cross-border interactions. By investing in digital infrastructure—ranging from blockchain-enabled trade platforms to artificial intelligence-driven compliance systems—Hong Kong can reduce friction in international business, strengthen transparency, and reinforce its attractiveness as a global business hub. Importantly, such digitalization should be integrated across sectors, allowing finance, logistics, legal services, and trade to operate in a seamless and coordinated manner.

Equally critical is Hong Kong’s strategic positioning within regional and global supply chains. Given its constraints in land and labor, the city should focus on strengthening its comparative advantages at both ends of the value chain. Upstream, this involves enhancing its capabilities in research, design, and innovation, leveraging its world-class universities and research institutions. Downstream, it entails deepening its role in branding, marketing, standard setting, and international trade. This two-ended specialization is not a compromise but a deliberate and forward-looking strategy that aligns with global trends in industrial organization.

However, the success of this strategy depends on deeper and more efficient integration with the broader Greater Bay Area (GBA). Hong Kong’s strengths complement those of neighboring cities, particularly in manufacturing, technology development, and market scale. To fully realize this synergy, barriers to the flow of people, capital, goods, and data must be strategically reduced. Achieving this will require not only policy innovation but also institutional coordination. A more integrated GBA would allow Hong Kong to serve as the high-value hub within a larger, highly competitive regional ecosystem.

Finance, as one of Hong Kong's most prominent sectors, must also evolve to play a more active role in supporting real economic transformation. Historically, a significant portion of financial activity has been oriented toward capital markets and asset trading, sometimes disconnected from the needs of the real economy. Going forward, Hong Kong should prioritize the development of financial instruments and platforms that directly support innovation, trade, green transition, and advanced manufacturing. This includes venture capital for technology startups, supply chain finance for small and medium-sized enterprises, and green bonds for sustainable development projects. By aligning financial flows with real economic activities, Hong Kong can enhance both its economic impact and long-term stability.

At the same time, Hong Kong must carefully navigate its relationship with national development strategies. Alignment with China's broader economic goals—such as technological self-reliance, green development, and high-level opening-up—is both inevitable and beneficial. Yet, this alignment must not come at the expense of the city's defining characteristics. The “One Country, Two Systems” framework remains Hong Kong's most valuable asset, underpinning its legal system, financial openness, and international credibility. Preserving these features is essential not only for Hong Kong's own prosperity but also for its continued contribution to the nation's development.

Looking ahead, the vision for Hong Kong is one of a diversified, resilient and inclusive economy. Diversification will reduce vulnerability to external shocks and overreliance on a narrow set of industries. Resilience will come from deeper integration into high-value segments of global and regional value chains, as well as from a stronger linkage between finance and the real economy. Inclusiveness will require that the benefits of economic transformation are broadly shared, creating quality employment opportunities and addressing structural challenges such as income inequality and limited social mobility.

Realizing this vision will not be without challenges. It will require coordinated efforts across government, business, and society. Policymakers must adopt a forward-looking and adaptive approach, ensuring that regulations keep pace with technological and economic changes. The private sector must play an active role in innovation and investment, while also embracing new forms of collaboration across industries and borders. Educational and research institutions must continue to nurture talent and generate knowledge that can be translated into economic value. Above all, there must be a shared commitment to long-term development, transcending short-term uncertainties and cyclical fluctuations.

In conclusion, Hong Kong's future is not predetermined by external forces but shaped by the choices it makes today. The city's history has demonstrated its remarkable ability to adapt and thrive in changing circumstances. By embracing its transformation into a super value-adder, strengthening its role in global supply chains, mobilizing finance for real economic growth, and aligning strategically with national development while preserving its uniqueness, Hong Kong can chart a new path forward. This path will enable it not only to sustain its relevance in a rapidly changing world but also to redefine its role as a dynamic and indispensable node in the global economy.

Appendix

Provincial and Municipal Go-Global Service Platforms in the Chinese Mainland

Province / City	Platform Information
Beijing	Beijing Go-Global Comprehensive Service Platform https://beijing.investgo.cn/
Shanghai	Shanghai Enterprises Going Global https://segg.sh.gov.cn
Jiangsu	Jiangsu Go-Global Comprehensive Service Platform http://doc.jiangsu.gov.cn/zcq/index.html
Zhejiang	Zhejiang Overseas Comprehensive Service Platform http://deepworld.zcom.gov.cn/#/
Shandong	Shandong Go-Global Public Service Platform http://commerce.shandong.gov.cn/col/col16041/index.html
Hunan	“Xiangqi Go Global+” Comprehensive Service Platform https://www.investgo.hn.com
Guangdong	Guangdong Go-Global Public Service Platform https://com.gd.gov.cn/zcqqgfwpt/
Shenzhen	Shenzhen International Business e-Station https://www.qhqie.com/
Ningbo	Ningbo Go-Global Public Service Platform http://swj.ningbo.gov.cn/col/col1229834934/index.html
Hubei	“Chuhaitong” Comprehensive Service Platform https://hubei.investgo.cn/
Fujian	“Minqi Go Global” Comprehensive Service Platform https://swt.fujian.gov.cn/mqchzhfwpt/
Chengdu	Comprehensive Service Centre for Chengdu Products and Enterprises Going Beyond Sichuan and Overseas https://www.cdgoglobal.com/

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Steering Committee for the study, in alphabetical order according to Members' surnames:

Chairman	Staff Officers
Dr. FUNG Kwok-king, Victor	Mr. Ka Mun CHANG
Members	Staff Officers
Mr. Guy BRADLEY	Mr. James TONG
Mr. Benjamin HUNG	Dr. Rocky TUNG Mr. Anthony LIN
Mr. Raymond KWOK	Mr. Xavier WONG
Mr. Fred LAM	Ms. Julia YAN
Prof. Harry SHUM	Mr. Arthur WANG
Mr. Yu SUN	Mr. Jianguang ZHANG
Mr. Andy TUNG	Ms. Philea CHIM
Dr. Peter WONG	

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