The Australia–Hong Kong Free Trade Agreement (A-HKFTA) and associated Investment Agreement (IA) came into effect in January 2020. This marks a new chapter in economic relations between Australia and Hong Kong, providing traders and investors with legal certainty and more favourable access to one another’s markets, while creating more mutually beneficial business opportunities and enhancing trade and investment flows.

According to the Hong Kong government, in 2019 real GDP growth and real GDP per capita were negative 1.2 per cent and 2.0 per cent respectively, primarily due to social unrest and the outbreak of COVID-19. Businesses in Hong Kong have expressed mixed views on the impact of the new National Security Law on the operating environment.

Based on nominal GDP, exports of goods and services fell by 3.6 per cent and 10.6 per cent respectively in 2019. In contrast, the composite Consumer Price Index increased by 2.9 per cent in 2019.

The combination of social unrest and closed borders has had a significant detrimental impact on employment and the tourism and service industries in particular. The seasonally adjusted unemployment rate stood at 6.4 per cent from August to October 2020, and the transportation sector saw the highest unemployment rate in 17 years at 6.2 per cent. While the labour market remains under pressure, it has shown signs of stabilisation as restrictions have eased and domestic consumption has increased.

The Chief Executive’s 2020 policy address prioritised pandemic control, national security, cross-border collaboration with the mainland economy (see below), liveability issues such as housing, and innovation and technology, including biotechnology.

**Key facts and figures: Hong Kong**
- Population: 7.5 million (mid-2020)
- Real GDP growth: -1.2% (2019)
- GDP per capita: US$49,238
- Australian investment in HK: A$63.4 billion (2019)
- HK investment in Australia: A$140.7 billion
- Total merchandise trade with HK: A$8,528 million (2018–2019)
- Total services trade with HK: A$6.7 billion (2018–2019)

**Key facts and figures: Macau**
- Population: 0.68 million (Sep 2020)
- Real GDP growth: -4.7% (2019)
- GDP per capita: US$79,777
- Macau investment in Australia: A$5,655 million (2018)
- Total merchandise trade with Macau: A$71.4 million (2018–2019)
In recent years, the government has placed a strong emphasis on Greater Bay Area (GBA) development, aiming to strengthen economic ties between mainland China, Hong Kong and Macau. The GBA has the potential to provide growth opportunities if new initiatives can lead to simpler and quicker economic interaction within the GBA.

The economy of Macau continued to decline in the second quarter of 2020, plummeting by 67.8 per cent year-on-year in real terms, an even larger decrease than the 48.7 per cent drop the previous quarter. The economic contraction is mainly due to the drastic reduction in service exports, which have been devastated by continued COVID-19 control measures. Services exports slid by 92.3 per cent year-on-year, with exports of gaming services and other tourism services crashing by 97.1 per cent and 93.9 per cent respectively.

The high proportion of GDP dependence on tourist arrivals has led to a staggering fall in exports. The Macau Government has publicly stated that it will aim to more actively diversify the economy.

According to the 13th National Five-Year Plan, Macau will play an integral part in establishing a trade and economic cooperation services platform between China and Portuguese-speaking countries. In addition, the operation of Hong Kong–Zhuhai–Macau Bridge (HZMB) and high-speed rail are expected to fuel the recovery of Macau’s economy and tourist inflow, matching the vision of Macau becoming a world-class tourism and leisure centre.

Trade and Investment Opportunities

- Hong Kong has one of the largest Australian communities abroad with around 100,000 Australians living in Hong Kong and more than 600 Australian businesses having a presence in Hong Kong.
  - The city is a regional hub for Australian businesses in north-east Asia, particularly in sectors such as banking and finance, construction and engineering, food and beverage, education, consumer and retail, logistics and transport, and professional services.

- There is a strong demand for traditional Australian exports to Hong Kong, particularly premium food and beverages, and consumer products including cosmetics, vitamins and nutraceuticals.
  - Food and beverage remains a sector of high potential growth.
  - Financial services and education services are also expected to remain growth sectors.
  - Hong Kong is a key source market for tourism and short stays (including family visits associated with international students).
  - Hong Kong will continue to be a key source of investment into Australia across sectors including infrastructure, tourism, resources, energy and health.
- It has been a source of considerable investment in tourism infrastructure in Australia.

- New economic opportunities are arising from the innovation and technology/smart city agenda.
  - Smart solutions in mobility, living, environment, people, government and economy are all opportunities for Australian companies.

- As the world’s infrastructure financial hub, Hong Kong provides opportunities for Australia to promote its infrastructure capabilities across Asia and to attract infrastructure investment.

- Mainland enterprises and funds continue to establish in Hong Kong with approximately 66.6 per cent of outbound direct investment passing through the city.
  - The rollout of the Limited Partnership Fund Bill adds to initiatives by the Hong Kong government intended to develop Hong Kong as the Asia’s leading Private Equity hub.
  - The proposed regime of the Limited Partnership Fund will provide a comparable regulatory framework to other jurisdictions commonly used by Asian focused funds.
  - Mainland investment offices—as well as decision makers from international enterprises with regional headquarters in Hong Kong—ensure the city will remain a priority market for Australia’s efforts to attract foreign direct investment.
  - In 2019 Hong Kong was the fifth largest source of investment into Australia by total investment stock (A$140.7 billion).

- Australia has strong business interests in Macau, including areas such as design, construction, project management, and casinos fit-outs, marinas and entertainment projects.

- Trade statistics may understate the true level of exports from Australia to Macau because there are few direct shipping services.
  - Many products, especially food and beverages which are repackaged and re-routed via Hong Kong, are not recorded as being of Australian origin.
  - Macau attracts about 120,000 Australian tourists a year.

**Trade Policy and Negotiations**

- Australia and Hong Kong signed the Australia-Hong Kong Free Trade Agreement (A-HKFTA) and associated Investment Agreement on 26 March 2019, with both agreements entering into force on 17 January 2020.

- These agreements launch a new chapter in economic relations between Australia and Hong Kong.
They provide Australian businesses with greater certainty over trade and investment activities, and strengthen Australia’s relations with one of its most significant trade and investment partners.

They also lock in continued access to the Hong Kong market for Australian exporters of education, financial and professional services, and guarantee that Hong Kong will not apply tariffs to Australian goods in the future.

- Hong Kong continues to prioritise negotiations and agreements for FTAs and double taxation agreements.
- In addition to A-HKFTA and the Investment Agreement, Hong Kong has FTAs with mainland China, New Zealand, EFTA, Chile, Macau, ASEAN, and Georgia.
- It has also concluded negotiations with the Maldives and is currently undertaking FTA negotiations with Thailand.
- Hong Kong is a member of the World Trade Organization, Asia-Pacific Economic Cooperation (APEC), the Organisation for Economic Cooperation and Development (OECD) Trade Committee, and the Pacific Economic Cooperation Council.
- Hong Kong has also progressed a number of Investment Promotion and Protection Agreements with other economies to facilitate two-way investment flows and boost its economy. These give additional assurance to overseas investors that their investments in Hong Kong are protected, and enable Hong Kong investors to enjoy similar protection in respect of their investments overseas.
- Hong Kong currently has 21 IPPAs in force (including the IA with Australia which recently entered into force), three awaiting signature, and three currently under negotiation.

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This Insights is current as at December 2020.