



## “Made by Hong Kong: Strategies for New Industrialisation” Executive Summary

### Research Background

Today, the operating model of industry in Hong Kong has undergone a profound transformation. However, the public perception is often still anchored in the last century, associating industry with labour-intensive manufacturing, such as “making plastic flowers” (繭膠花), which leads to the misconception that Hong Kong's industry is in decline. In reality, beyond traditional manufacturing, new sectors such as research and development (R&D), design, and data services have become vital components of the industrial landscape. Furthermore, while many Hong Kong-invested industrial enterprises (HKIEs) have outsourced manufacturing processes to Mainland China and other regions, they continue to drive significant economic activity locally, including supply chain management, technical support, and import-export trade. Consequently, there is a clear need to improve statistical methods for reflecting the full contribution of Hong Kong's industry to the local economy more accurately.

Driven by innovation and technology, the development of new industries is advancing at a remarkable pace. Governments worldwide have introduced industrial policies to seize this major economic opportunity. In addition, producer services are also crucial to economic growth. These encompass a wide range of activities, including R&D, design, supply chain management, technical testing, logistics, warehousing, import and export trade, wholesale, and related professional services. However, producer services and manufacturing are mutually reinforcing. If the manufacturing sector is subject to prolonged “hollowing-out”, the development of producer services is also inevitably affected. Faced with intense regional competition, Hong Kong must therefore actively promote new industries, support the upgrading and transformation of traditional manufacturing, and bolster the competitive advantage of its producer services.

### Research Purposes and Methodology

In the post-pandemic era, the complex and ever-changing international economic and trade landscape continues to reshape global supply chains. HKIEs are undoubtedly facing numerous challenges and opportunities, making the roles of the HKSAR Government and business chambers increasingly important. In light of this, with funding support from the Trade and Industrial Organisation Support Fund (TSF) of the Trade and Industry Department, Federation of Hong Kong Industries (FHKI) commissioned the Hong Kong Institute of Economics and Business Strategy (HIEBS) at the HKU Business School to conduct the research project “Made by Hong Kong: Strategies for New Industrialisation”.

The study aims to examine the economic contribution of Hong Kong's industry, assess the business operations of HKIEs, and provide policy recommendations for the future development of Hong Kong's industrial sector. The primary research methods employed include database analysis, questionnaire surveys, focus group interviews, and desktop research.

## **Economic Contribution of Industry and Producer Services to Hong Kong**

### **Economic Contribution of Industry to Hong Kong**

- In 2023, the industry contributed 4.4% to Hong Kong's Gross Domestic Product (GDP). For this study, industry is divided into four components: "Manufacturing", "Publishing and Packaging", "Sub-contract Processing<sup>1</sup>", and "New Industries", which contributed 1.0%, 0.2%, 1.8%, and 1.4% of Hong Kong's GDP in 2023, respectively.
- In 2023, the value added by Hong Kong's industry amounted to HK\$127.1 billion. Among these, new industries have become an important component, with a value-added of HK\$40.2 billion, second only to sub-contract processing (HK\$53.4 billion), and surpassing manufacturing (HK\$28.2 billion).
- In 2023, new industries contributed 1.4% to Hong Kong's GDP. Notably, "Computer programming, Data-related services & Industrial internet" and "R&D & Design & Testing & Environmental engineering services" have shown significant growth between 2000 and 2023. It is also worth mentioning that "Sewerage, waste management and remediation activities" generated HK\$1.4 billion in value-added in 2023; with the growing demand for green development in Hong Kong, the future prospects of these related industries warrant close attention.

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<sup>1</sup> According to the explanation provided by the Census and Statistics Department (C&SD), this category refers to import and export firms engaged in sub-contract processing arrangement (SPA) and providing manufacturing-related technical support services, regardless of whether SPA is their major economic activities. SPA is defined as a contractual agreement between a party in Hong Kong and a party in Mainland China and other regions, whereby the Hong Kong party places an order with the party in Mainland China and these regions to carry out production processing.

## Economic Contribution of Industry-Related Producer Services to Hong Kong

- In 2023, industry-related producer services contributed 16.2% to Hong Kong's GDP<sup>2</sup>.
- Between 2000 and 2023, the value-added by “industry-related producer services” to Hong Kong increased from HK\$230 billion to HK\$473.5 billion. These figures reflect that “industry-related producer services” have remained a key pillar of Hong Kong's economy, continuously providing significant value-added services to global industry.

## Business Overview of Hong Kong-invested Manufacturing Enterprises in Mainland China

### Geographical and Industrial Distribution

- According to database analysis, there were 68,314 research samples of Hong Kong-invested manufacturing enterprises (HKMEs) in Mainland China that were operational or in normal business status in 2024. Nearly half of them were located in Guangdong Province (30,971 enterprises), followed by Jiangsu Province (9,557), Fujian Province (6,913), and Zhejiang Province (5,300).
- In 2024, HKMEs were mainly concentrated in the Pearl River Delta and Yangtze River Delta regions. The largest number was in Shenzhen (6,862), followed by Dongguan (5,906), Huizhou (4,628), Suzhou (3,567), Quanzhou (3,002), and Shanghai (2,638).
- In 2024, the sector with the most HKMEs in Mainland China was “Computers, Communication Equipment, and Other Electronic Equipment”, with 9,177 enterprises (about 13.4% of the research sample). This was followed by “Textiles Costumes and Wearing Apparel” (5,630), “Rubber and Plastic Products” (4,879), and “Metalwork” (4,710).

### Business Overview of Hong Kong-Invested Industrial Enterprise

- In the fourth quarter of 2024, this study conducted a questionnaire survey of HKIEs. The surveyed enterprises covered a wide range of industries, including both traditional and new industries, as well as raw material processing and end-product sectors. Nearly 90% of the surveyed HKIEs have their headquarters in Hong Kong.
- The surveyed enterprises mainly engage in manufacturing, with some extending their core business into higher value-added economic activities such as R&D, design, branding, and sales.

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<sup>2</sup> It excludes producer services that have already been categorised as “industry” (accounting for approximately 3% of GDP), including “import and export trades associated with sub-contract processing activities” (1.83% of GDP), “R&D, testing, design, and environmental engineering services” (0.46% of GDP), 14.2% of “information and communications” (0.49% of GDP), and “publishing and packaging activities” (0.18% of GDP).



- The economic contribution of HKIEs to Hong Kong is not confined to manufacturing; it also extends to the services sector. In 2023, 31.6% of the surveyed enterprises stated that their primary business in Hong Kong was in non-manufacturing sectors.

### Revenue and Profit

- HKIEs with revenue of HK\$1 billion or more generally demonstrated stronger profitability and hold a more optimistic outlook for the future. On the other hand, small and medium-sized enterprises (SMEs) with revenue below HK\$100 million expressed a cautiously optimistic attitude towards their business prospects.

### Sales Markets

- In 2023, approximately 60% of the surveyed HKIEs had established a presence in both Hong Kong and the Mainland sales markets, witnessing a slight increase compared to 2019. Over 40% of the surveyed enterprises had entered the US and European sales markets, though this shows a slight decrease compared to 2019. About 30% of the surveyed enterprises had entered the Southeast Asian sales market, representing a slight increase compared to 2019.
- These figures also reflect a highly diversified sales market among the surveyed HKIEs, with Hong Kong, Mainland China, Europe and the US as the main markets, and Southeast Asia as an emerging sales market.

### R&D Investment

- A majority of the surveyed HKIEs place a high priority on investment in R&D. For 2024, 46.4% of these enterprises anticipate that their R&D investment will account for 5% or more of their total revenue, with 67.5% expecting it to be 3% or more. When compared with 2019, 45.3% of the surveyed enterprises project an increase in their R&D investment for 2024, whereas only 25.8% foresee a reduction.

### Business Strategies and Investment Trends

- Most surveyed HKIEs have tended to adopt a business strategy of maintaining stability after the pandemic. 41% of the surveyed enterprises chose to maintain their business scale post-pandemic, while 27% chose to expand their business. The three main challenges faced by surveyed enterprises are "intense market competition", "rising human resource costs", and "expanding into overseas markets".
- Regarding investment trends of HKMEs in Mainland China and Southeast Asia from 2025 to 2027, over 40% and over 80% of the surveyed enterprises, respectively, expect to see growth in these regions.

## Supply Chain Layout

- Many surveyed HKIEs conduct R&D activities in both Mainland China and Hong Kong, while mainly sourcing raw materials and components from Mainland China.
- The surveyed HKIEs' businesses outside Hong Kong tend to focus on the upstream and midstream of the industrial chain, including R&D, design, smart manufacturing services and technical support, pilot plant, mass production, quality control, testing and certification, as well as environmental engineering and related consulting services. In contrast, their Hong Kong operations are more focused on downstream segments, including marketing, import and export trade, wholesale, e-commerce, retail, professional services such as finance and legal services, and administrative management.

## Motivations and Challenges in Expanding Business in Southeast Asia

- Regarding the main reasons for expanding business in Southeast Asia, 67.3% of the surveyed HKIEs expressed the need to diversify geopolitical risks, 63.6% aimed to explore overseas markets, and 36.4% sought to reduce production costs.
- In terms of challenges faced when expanding into Southeast Asia, 61.1% of surveyed enterprises reported a shortage of skilled workers, 57.4% response low worker motivation, 35.2% mentioned inadequate infrastructure, 33.3% pointed to a lack of reliable partners and insufficient regulatory protection, and 27.8% indicated policy instability and ineffective communication with the government.

## Views on Hong Kong's New Industrialisation

- 15% of the surveyed HKIEs indicated that they have already set up production lines in Hong Kong, and nearly half of them are planning further expansion. Additionally, more than 20% of surveyed enterprises stated they plan or are considering establishing production lines in Hong Kong.
- The surveyed HKIEs generally agreed that upgrading and transforming industries in Hong Kong faces various difficulties, including talent shortages, a lack of clear industrial development planning, uncompetitive incentive policies, lengthy government administrative and approval procedures, industrial building designs that do not meet technological requirements, a lack of mature industrial parks, difficulties in synergising with Mainland operations, and a lack of competitive third-party services locally.
- When it comes to developing high value-added industries in Hong Kong, surveyed HKIEs generally recognise the importance of various third-party services, including R&D, smart manufacturing and technical support, design, legal and intellectual property services, quality control, testing and certification, human resources and



skills training, pilot plant, financial and insurance, import-export trade and wholesale, e-commerce, environmental engineering and consulting, as well as logistics and warehousing.

- For “quality control, testing and certification”, “e-commerce”, “smart manufacturing services and technical support”, and “pilot plant”, surveyed HKIEs tend to believe that these Hong Kong-based businesses are “likely to be replaced”. This reflects that these local businesses are facing fierce competition and deserve policymakers’ attention.
- Although the overseas operations of HKIEs do not directly contribute to Hong Kong’s local GDP, many such enterprises remit part of their overseas profits back to Hong Kong.

## **Business Environment and Development Needs of Hong Kong-Invested Industrial Enterprises**

### **“China+N” Strategy: Cross-boundary Extension of Hong Kong’s Industrial Supply Chains**

Under the combined influence of market forces and geopolitical factors, Hong Kong’s industrial sector has developed a “China+N” supply chain configuration. Most HKIEs regard Hong Kong as the headquarters for supply chain management and import-export trade, while Mainland China and Southeast Asia serve as the main manufacturing bases. Mainland China offers the most abundant production factors, meeting the one-stop needs of manufacturing enterprises. On the other hand, Southeast Asia—with its lower labour and land costs—is more suitable for labour-intensive industries and helps diversify geopolitical risks.

### **Exploring Emerging Sales Markets Becomes Paramount**

With limited market space in Hong Kong, intense competition in the Mainland market, and the susceptibility of European and US markets to geopolitical factors, the rapidly growing Southeast Asian region has become a key emerging market for HKIEs. Surveyed enterprises mentioned that the demand from Southeast Asia’s middle-class consumers continues to rise. Although they are price-sensitive, businesses can still achieve sustainable development through a high-volume, low-margin approach.

### **Enhancing Supply Chain Management Capabilities Becomes Essential**

In recent years, the market environment has changed rapidly, requiring HKIEs to strengthen their supply chain resilience to balance risk and return. During periods of weak market demand, it is necessary to control capacity and inventory; when demand rebounds sharply, the ability to ramp up production is essential. Furthermore, the “China+N” strategy also tests HKIEs’ capabilities in establishing and managing overseas supply chains.





## **Hong Kong's Producer Services: The “Super connector” and “Super Value-adder” in Global Industry Chain**

Hong Kong has long served as a vital gateway for foreign investment entering the Mainland market. In recent years, Hong Kong has also become a “super-connector” and “super value-adder” for Chinese enterprises going global. According to surveyed producer services enterprises, an increasing number of overseas counterparts have come to Hong Kong to seek cooperation opportunities and capture the vast business potential of serving Chinese enterprises expanding abroad. At the same time, whether in R&D, design, testing, brand development, wholesale, import and export trade, logistics, or business and professional services, numerous Hong Kong producer services enterprises have been deeply involved in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) market and have leveraged the overall advantages of the GBA to strengthen their own capabilities.

### **International Experiences in Promoting Industrial Development**

#### **China**

On the supply side, China has implemented policies such as "Made in China 2025" to vigorously develop new industries and promote industrial upgrading and transformation. On the demand side, policies such as "trade-in programmes" have been adopted to boost the domestic market and hedge geopolitical risks faced by export markets. In addition, Mainland China leverages big data and artificial intelligence (AI) technologies to enhance administrative efficiency.

#### **United States**

The United States has pursued reindustrialisation policies for many years, not only using tariffs to force manufacturing to return to the US, but also supporting R&D and manufacturing of high-end industries like semiconductors through tax incentives and even substantial subsidies. Furthermore, the US utilises export controls to create technological barriers for domestic advanced industries. To support local industrial development, the US also stipulates that government departments and government-funded projects prioritise the procurement of domestically manufactured products.

#### **Singapore**

The robust development of Singapore's high-end manufacturing, such as semiconductors, precision engineering, and biomedical industries, relies heavily on policy support. The Government views manufacturing as a key component of its “Singapore 2030 Economy” vision and strongly promotes the development of "Industry 4.0" through top-level policies. Common policy tools to foster local high-end industries include tax reductions, funding schemes, and infrastructure investments.

## Switzerland

Despite high land and labour costs, Switzerland's manufacturing sector still contributed about 18% of its GDP in 2023, thanks to the brand premium of "Swiss Made". The Swiss government primarily focuses on creating a favourable business environment for enterprises, including protecting the "Swiss Made" brand through intellectual property rights and strict origin standards; encouraging private sector's R&D with tax incentives; supporting a world-class innovation ecosystem with public funding; cultivating technical talent through a dual education system; and promoting the signing of free trade agreements to eliminate tariffs on industrial goods.

## Policy Recommendations

- **Developing High-end Manufacturing**
- **Building a Talent Pool for Industry and Producer Services**
- **Providing Development Incentives for New Industrial Enterprises**
- **Applying AI Technologies to Enhance Administrative Efficiency**
- **Building "Brand•Hong Kong" to Support Market Expansion**
- **Promoting Regional Industrial Integration**
- **Improving Statistical Methods to Reflect the Up-to-date Developments in Hong Kong's Industry**

### **Developing High-end Manufacturing**

Strategic industries, including advanced materials and electronics, big health industry, food technology and processing, and green technology, are highly compatible with Hong Kong's foundation in innovation and technology and its strong international reputation. Emerging technologies such as big data, AI, the Internet of Things (IoT), and robotics can significantly reduce the reliance on extensive labour and space in manufacturing, making them particularly suitable for a high-cost environment like Hong Kong. The widespread adoption of smart manufacturing offers a crucial opportunity for Hong Kong to forge a new industrial model: "small in scale but high in quality".

### **Building a Talent Pool for Industry and Producer Services**

The HKSAR Government must formulate a comprehensive strategy for industrial talent development. This requires a multi-pronged approach to foster an innovation-driven industrial culture, and to attract and nurture talent possessing technical expertise, creativity, and adaptability. Closer collaboration among Government, industry, academia, research institutes, and investors is critical to cultivating top-tier technology and business talent for new industries. Furthermore, enhancing vocational and professional education and training is essential for training local technical professionals, while attracting overseas industrial talent is necessary to fill local skill gaps.





## Providing Development Incentives for New Industrial Enterprises

New industrial enterprises are the core driver of future economic growth. Attracting them to Hong Kong, therefore, holds significant strategic value for promoting industrial upgrading and enhancing the city's international competitiveness. On one hand, Hong Kong should leverage its status as an international financial centre to encourage more promising new industrial enterprises to establish R&D and advanced manufacturing operations locally. On the other hand, the HKSAR Government can enhance its funding schemes by improving their approval processes, execution, and scope to better support businesses. Examples include establishing fast-track application channels for innovation project funding; introducing an appropriate “tolerance mechanism” that allows enterprises to adapt and adjust during trial and market-launch phases; and broadening the scope of funding to encourage industrial enterprises to adopt automation equipment and establish digital management systems.

## Applying AI Technologies to Enhance Administrative Efficiency

The HKSAR Government should make full use of AI technologies to streamline approval processes and improve regulatory efficiency, thereby creating a more innovation-friendly business environment. For example, AI could be used to conduct the preliminary screening of applications and to assist enterprises in shortening the time required to complete application forms.

## Building "Brand•Hong Kong" to Support Market Expansion

“Brand•Hong Kong” is not merely about products; it is a broader concept. It embodies the Hong Kong industrial ecosystem’s outstanding R&D capabilities, innovative industrial design, sophisticated manufacturing processes, rigorous quality management, efficient supply chain operations, world-class producer services, and trustworthy business reputation. These elements collectively shape the unique strengths and core values of Hong Kong's industry and represent the core competitiveness of 'Brand•Hong Kong' in the international market.

The HKSAR Government can formulate development strategies and employ a multi-pronged approach—spanning funding policies, digital transformation, online and offline promotion, and international cooperation—to develop “Brand•Hong Kong” and create premium value for its associated products and services. For instance, the Hong Kong Trade Development Council (HKTDC) could establish “Brand•Hong Kong” themed exhibitions and pop-up stores in high-traffic areas across Hong Kong, Mainland China, Southeast Asia, Europe, the US, and the Middle East to promote high-quality local products, such as electronics, jewellery, food, and healthcare items. Additionally, the HKTDC could collaborate with the Hong Kong Tourism Board to set up dedicated counters at major events, public institutions, airports, high-speed rail stations, MTR stations, public transport interchanges, and border checkpoints to promote quality Hong Kong products to both residents and visitors.



## Promoting Regional Industrial Integration

When expanding into new markets, HKIEs face challenges related to legal, cultural, operational, and financial matters. The HKSAR Government could consider further strengthening the functions of its Economic and Trade Offices (ETOs) to provide comprehensive support for these enterprises as they expand abroad. This could include assisting them in finding suitable factory locations and overcoming administrative barriers, such as investment approvals and tax registration, thereby accelerating the implementation of their investment projects in various markets. The HKSAR Government could also actively promote Hong Kong's development as a cross-border supply chain management centre. This would involve bringing together local and overseas producer services professionals to jointly build an integrated platform—offering services in finance, insurance, policy consulting, law, accounting, brand promotion, intellectual property, and logistics—to support enterprises in their overseas expansion.

## Improving Statistical Methods to Reflect the Up-to-date Developments in Hong Kong's Industry

The industry understands and respects the HKSAR Government's adherence to international standards in its statistical work. We suggest that the HKSAR Government further refines its statistical methods to ensure that official data can more accurately reflect the economic contributions of the industrial sector to Hong Kong. Furthermore, the HKSAR Government could present comprehensive data on key industries or sectors through thematic reports. This would facilitate the monitoring of the latest developments in local industry and provide a scientific basis for policy formulation and effectiveness assessment.

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