



# Analysis of Causation and Future Trends of Service Industry in Hong Kong

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**Abstract.** As one of the global financial centers, Hong Kong, China is one of the regions with the highest degree of freedom and service industry dominance in the world. By analyzing the development form of Hong Kong's service industry in recent years, this paper predicts its changes and future trends. This paper will start with the structure and development trend of Hong Kong's service industry, and compare it with the Trade Competitive Power Index of mainland China and other countries, and analyze the current international situation and the determinants of the dominant position of Hong Kong's service industry, so as to predict its future development trend and put forward corresponding suggestions.

**Keywords:** Hong Kong · Hong Kong's service industry · industry composition

## 1 Introduction

There are four major traditional industries in Hong Kong, China: financial services, tourism, trade and logistics, and industrial and commercial support services. These four industries alone have created about 1.78 million jobs in Hong Kong, while driving the development of other industries, which are the core of Hong Kong's economic dynamics. The data shows that in 2019, the added value of the financial services industry, the tourism industry and the trade and logistics industry accounted for 21.2%, 3.6% and 19.8% of the GDP, respectively, which of professional services and other industrial and commercial support services industries accounted for 11.9% of the GDP. (Source in HongKong Census and Statistics Department)

It can be seen from the percentage of the added value of various industries in the GDP that Hong Kong has formed an economic structure dominated by the service industry. So, what enlightenment does the dominant position of Hong Kong's service industry have for Chinese Mainland and other countries? How can we make use of this to continue promoting the progress and development of Hong Kong's economy?

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Y. Jiang et al. (Eds.): ICFIED 2023, AEBMR 237, pp. 48–58, 2023.

[https://doi.org/10.2991/978-94-6463-142-5\\_6](https://doi.org/10.2991/978-94-6463-142-5_6)

This paper adopts the methods of literature retrieval and comparative analysis, grasps the latest research progress of this topic by collecting a large number of documents, and compares the Trade Competitive Power Index (TC index) of Hong Kong and Chinese Mainland, Hong Kong and other RCEP member economies to discuss the advantages that Hong Kong can bring to the international situation if Hong Kong joins RCEP, and predict the development trend of future service industry in Hong Kong, China.

## **2 Development Trend of Service Industry in Hong Kong**

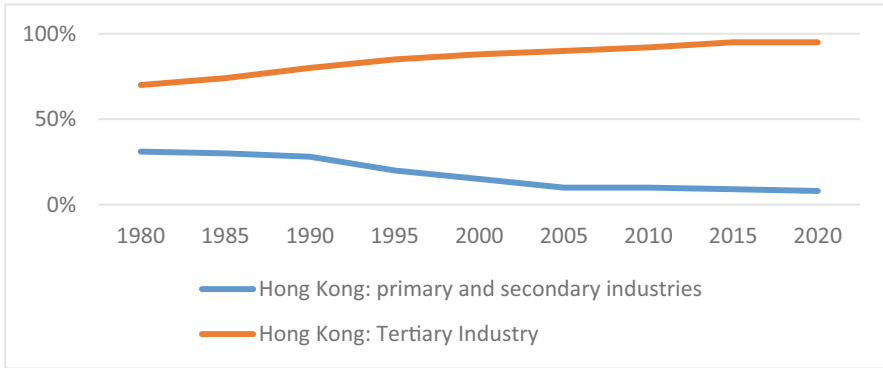
Since Hong Kong's return in 1997, the principle and theory of "one country, two systems" has enabled some remarkable scientific achievements in the past 25 years, and has opened a new chapter in Hong Kong's development. The 25th anniversary of Hong Kong's return to China in 2022, the Asian financial crisis in 1998, or trade frictions and anti-globalization changes in 2018 have all caused profound changes in Hong Kong. Since 1949, Hong Kong has progressed from a transit trade port to a light industrial base, and then to post-industrialization. In the course of the mainland's reform and opening up, Hong Kong has introduced capital, technology, and enterprises into the vast hinterland of the mainland, as well as fully utilized its function as a bridge between the mainland and overseas countries, in order to promote the mainland's rapid economic development.

After returning to the socialist mainland, relying on the vast commodity market scale of the Chinese mainland, and adding to the benefits of the accelerated development of trade with the Chinese mainland, the level of economic strength continued to improve significantly. Hong Kong completed industrialization in the mid-twentieth century AD, and the world officially entered the post-world industrialization era.

Figure 1 also shows that the proportion of primary and secondary industries in Hong Kong fell rapidly from above 30% to below 30% in 1990 from the 1970s to the 1980s, while the proportion of service industries increased. After 2004, Hong Kong's service sector accounted for more than 90% of its GDP, giving the city-state an absolute economic advantage. Prior to the pandemic, the proportion was as high as 93.4% in 2019.

## **3 The Competitiveness Analysis of Service Industry in Hong Kong, China**

Hong Kong's trade in services can have such a rapid and tremendous development in a short period of time, but also with the active support of the RCEP policy and inseparable, RCEP member economies are still the most important and reliable international services trade settlement partners of Hong Kong, China, Hong Kong should actively continue to deepen and RCEP member economies to carry out multilateral services and trade cooperation, solid services to support Hong Kong This will strengthen the role of the service sector in supporting Hong Kong and promote long-term balanced economic development.



**Fig. 1.** Proportion of GDP of various industries in Hong Kong. Data SOURCE: Census and Statistics Department of Hong Kong SAR Government website, Yue Kai Securities Research Institute

### 3.1 Services Trade Competitiveness Index Analysis

The competitive advantage index of total trade in services exports refers to the competitive difference between a country's total export and import trade and its relative share of the competitiveness of total export and import trade, with a larger coefficient indicating a stronger competitive advantage. It is also a useful tool for analysing changes in the international competitiveness of the structure of the trade sector, and directly reflects whether and to what extent exporters are still competitively advantaged in the same product produced by their own manufacturers in relation to each of the major product markets that are generally supplied by producers from one other major country in the world market today.

The Trade in Services Competitiveness Index (TC Index) refers to the level of competitiveness of a country's overall import and export trade in services to another country or region, expressed by subtracting the actual domestic imports of goods from the domestic exports of services for which a country or region jointly provides trade in goods, and then separately dividing the domestic services and imports of goods for which China provides such services [1]. This is then compared to the total imports of the country's import and export trade in goods, etc. [2].

The TC index is usually used to measure the relative international competitiveness and scale advantage of exports and services of a specific country and industry (region) for comprehensive analysis and judgement, with a range of values around  $(-1, 1)$ . If the absolute value of the TC index of export commodities is greater than or greater than zero, it shows that the relative and international competitiveness of the commodities exported for this type of trade should be significant and strong domestic competitiveness, the farther and closer to 1, it shows that the international trade export services and products only through direct trade exports and no possibility of re-importation, the stronger the relative competitiveness, and vice versa, the more in its absolute competition. If the TC Index is less than or equal to zero, it only indicates that the foreign trade goods themselves are basically not internationally competitive; if the index is equal to or greater than zero, it indicates that the domestic direct trade of such international trade goods

is basically conducted, and the degree of competitiveness should be comparable to its current international level.

From Table 1 gives the data on trade in services by sector in 2021 for Hong Kong and RCEP member countries. The overall trade in services in the table shows that Hong Kong is ahead of RCEP member economies in the TC Index. This is mainly attributed to the fact that CEPA has opened up a vast market in the Mainland for Hong Kong enterprises and professional service providers, providing lower entry barriers, wider scope of business and first-mover advantages, enabling a large number of Hong Kong professionals to enter the Mainland, breaking through the constraints of insufficient local market demand and providing long-term support for industry development.

In terms of trade in services sub-sectors, transport and financial services account for a large proportion of Hong Kong's trade in services with RCEP member economies. The 2021 Trade in Services TC Index shows that Hong Kong's trade competitiveness in financial services is relatively the strongest among many service industries. The TC Index for financial services is 0.53, ranking first in all service trade segments, significantly higher than most RCEP member economies, but lower than Singapore's 0.56; however, whether it is the stock market or bond market in the financial sector, the service targets are what determines its long-term status. Hong Kong serves the Mainland, so nearly half of Hong Kong banks' loans come from Mainland enterprises, and it can be said that the Hong Kong stock market is the barometer of Mainland enterprises. Singapore, on the other hand, is mainly oriented towards the ASEAN market, which is mainly characterized by an economy of small and medium-sized enterprises, with fewer quality companies, and the occasional quality company listed in other markets. This makes for a small stock market, little capital and a lack of liquidity in the stock market, so it is only a matter of time before Hong Kong overtakes Singapore.

The TC Index for Hong Kong's transport services is 0.22, significantly ahead of all RCEP member economies. This is closely related to Hong Kong's comprehensive international network, superior logistics infrastructure, rich experience in freight transport and advanced information technology, etc. In terms of tourism services, Hong Kong's TC Index is -0.3, lower than most RCEP member economies. The reason for this is directly related to the successive outbreaks of the epidemic in Hong Kong. Hong Kong has been affected by the epidemic and tourists have been declining, and the two iconic theme parks in Hong Kong have also suspended their operations three times due to the epidemic. If Hong Kong joins the RCEP, it will effectively boost the recovery of the post-Newcastle pneumonia economy and continue to capitalize on the advantages of "one country, two systems" to actively explore opportunities arising from the dual domestic and international cycle. "If we join the RCEP, Hong Kong will further widen our network of trade and commerce relations and bring a steady stream of business opportunities to the RCEP member economies." Deputy Secretary General of the Hong Kong Re-launch Alliance and Legislative Council Member for Import and Export of the HKSAR, Mr Wong Ying-ho, said. (Source in China News)

During the two sessions, Zhang Huafeng, a member of the National Committee of the Chinese People's Political Consultative Conference and Chairman of Everest Securities Limited, submitted a proposal on "Supporting Hong Kong's accession to the Regional Comprehensive Economic Partnership Agreement (RCEP) and consolidating

**Table 1.** A comparative trade in services between Hong Kong and the RCEP countries in 2021

Country (region)	Services	Goods-related services	Transportation services	Tourism	Construction	Insurance services	Financial services	Intellectual property services	Government services
Hong Kong, China	0.1	-0.96	0.22	-0.3	0	-0.24	0.53	0	-0.41
China	-0.04	-0.72	0.02	0.81	-0.5	0.5	0.02	0.6	0.34
Australia	0.06	-0.78	-0.66	0.92	1	-0.23	0.29	-0.51	-0.35
Japan	0.04	-0.62	-0.12	0.25	0.2	-0.68	0.16	0.24	0.3
Korea	0.12	-0.46	0.2	0.23	0.54	-0.16	0.23	-0.16	-0.3
New Zealand	-0.16	-0.53	-0.52	0.49	-0.32	-0.99	0.1	-0.72	-0.12
Singapore	0.01	0.07	-0.04	-0.03	0.26	-0.02	0.56	-0.21	0.17

Data source: Calculated from UNCTAD database (UNCTAD Stat)

Hong Kong's role as an external trade platform". In his proposal, Mr Cheung pointed out that Hong Kong is an economy with a strong focus on modern services trade and has had close economic and trade relations with ASEAN and other countries for many years, and that Hong Kong's status as an international financial centre can help expand modern services among RCEP member economies and give it a window and "springboard" advantage [3].

The RCEP covers the 10 ASEAN countries, China, Japan, Korea and other important economies, including countries and regions with high-end industries as well as low-end industries and resource-based countries and regions, and there are strong industrial complementarities among member economies. Hong Kong is at the crossroads of East Asian cooperation and is an important international financial, trade and shipping centre. Its open international free port policy and favourable business environment place Hong Kong at a key point in the cooperation among Guangdong, Hong Kong and Macao, regional cooperation in East Asia and regional cooperation in Southeast Asia. prosperity of the region as a whole, and is also conducive to the further opening up and development of Hong Kong.

## **4 Analysis on the Current Situation and Future Forecast of Service Industry in Hong Kong, China**

The transformation of industrial structure and the future economic development of Hong Kong are closely related to international competitiveness. We should clarify the direction and timing of industrial structure transformation according to the international situation, regional economic structure and the comparative advantages and constraints of economic development so that ensure the sustainable development of the economy. The government should support, adjust and plan some industries, so as to promote the stable, coordinated and healthy development of the entire national economy [4].

### **4.1 Current Situation of Service Industry in Hong Kong**

Hong Kong is an international business, trade and financial hub, with a very high degree of service industry dominance, accounting for more than 90% of GDP.

The provisional figures of the business receipts index released by the Hong Kong Census and Statistics Department show that comparing the fourth quarter of 2021 with the fourth quarter of 2020, the business receipts in value terms of most major service industries have increased to varying degrees. Comparing the fourth quarter of 2021 with the fourth quarter of 2020, the transportation industry (+66.3%), the accommodation service industry (+35.5%), the catering service industry (+29.1%), the import and export trade industry (+19.8%), the goods Warehouses and warehouses (+18.7%), express delivery (+14.6%) and wholesale (+13.1%) all recorded double-digit increases in business receipts. On the other hand, the business income of the real estate industry recorded a drop of 17.4% over the same period. (Source in HongKong Census and Statistics Department)

For the full year of 2021, most major service industries recorded year-on-year growth in business revenue. Among them, transportation industry (+54.0%), accommodation

service industry (+38.3%), warehouse and warehouse industry (+27.4%), import and export trade industry (+24.0%), express delivery industry (+19.0%), finance (+27.4%) Business receipts excluding banks) (+17.5%), food service (+16.8%) and wholesale (+13.1%) all recorded double-digit increases. On the other hand, business receipts in the banking sector fell by 4.3% compared to the full year of 2020.

A spokesman for the Hong Kong government said that, benefiting from the continued recovery of the global economy, the stabilization of the local epidemic, and the additional support for local consumption activities from the consumer voucher scheme, the business income of most major service industries continued to rise year-on-year in the fourth quarter of 2021. Specifically, the business income of import and export trade, wholesale, water and air transport, freight house and warehouse, and express delivery continued to increase significantly.

## **4.2 Influencing Factors for the Dominance of the Service Industry in Hong Kong [5]**

### **Excellent Location**

There is a unique historical location and layout to improve the convenience of communication in Hong Kong. As an entrepot, its convenient transportation connections and natural advantages make Hong Kong an important service center in Asia. In addition, level of internationalization of Hong Kong is much higher than that of the mainland, so there are more resources and information available. The small size of Hong Kong may be a disadvantage, but it can also be an advantage. Geographical concentration can bring convenience to exchanges between different industries. Economic geography emphasizes a concept called industrial agglomeration. Taking a city's central business district as an example, "face-to-face" communication between high-end service industries can not only reduce unnecessary waste of resources, but also improve efficiency and bring convenience to communication. From this perspective, the layout of Hong Kong is suitable for various industries to gather and exchange.

### **Perfect Service Facilities [6]**

Hong Kong is an international market where global capital is readily available. The long-standing development of foreign trade and the internationalization of the city has enabled Hong Kong to learn from the development methods of foreign metropolises in various aspects. Adequate resources, capital, and established foundations can bring more convenience to investors. Coupled with the low cost of starting a company in Hong Kong, it naturally attracts many companies to enter the Hong Kong market for sustainable development.

From the above analysis, it can be found that every transformation in Hong Kong is in line with the international context and trends. The choice of industries in Hong Kong does not rely solely on the imagination of the government or entrepreneurs, but in the mainstream of world development, it is found that the region is more suitable for introducing or innovating industries, starting from the reality, and using existing resources and capabilities to win industries progress, and expand it to become a leading industry.

## **5 Suggestions on the Future Development of the Service Industry**

In the 1950s and 1960s, Hong Kong's economy was dominated by manufacturing industry. After development and growth, the service industry has gradually formed its own industrial cluster and become the pillar industry of Hong Kong's national economy, which is famous all over the world. After decades of development, these industries have become the foundation and important support for the economic development of Hong Kong, and they are also the key to the prosperity of Hong Kong's economy. Furthermore, the Hong Kong region relies on its urban economic system and unique geographical environment, free system, solid foundation for long-term development, and stable service industry is a wise and inevitable choice for future development. Therefore, in the development of the service sector, Hong Kong needs to continue to explore, continue to innovate, exchange with the mainland, integrate with the world, and keep pace with The Times.

### **5.1 To Give Full Play to Hong Kong's Distinctive Advantages and Enhance the Competitiveness of Key Industries in the Service Industry**

The leapfrog development of the service industry can be realized as soon as possible by giving full play to the characteristic advantages and enhancing the competitiveness of key industries in the service industry. Hong Kong's economic and cultural integration with China and the West, the development of the service industry should give full play to its biggest advantages of relying on the mainland and connecting with the world. In addition, as the main window for the mainland to integrate with the global economy, Hong Kong has huge international flow of people, logistics, information flow and capital. Therefore, Hong Kong should firmly seize the huge development opportunity of this regional resource advantage. To promote the rapid rise and vigorous development of key service industries such as financial services, international trade, modern logistics, cultural tourism and so on.

### **5.2 To Deepen Cooperation with the Mainland and Share the Benefits of Service Industry Development**

Since the reform and opening up, the Mainland has been Hong Kong's largest trading partner. Moreover, as the economic hinterland of Hong Kong, the Mainland has provided broad space for the development of Hong Kong's manufacturing and service industries and promoted the economic transformation of Hong Kong. CEPA signed a new agreement to further improve the level of open trade in services on the mainland to Hong Kong, greatly reducing the threshold of the Hong Kong enterprises and companies to enter the mainland market, allowing more professional qualification in the mainland, Hong Kong provides more high quality service in Hong Kong with the mainland market, Hong Kong and the mainland basically realized the liberalization of trade in services. Under the new background, should continue to deepen economic and trade cooperation with the mainland, Hong Kong and more actively involved in the mainland market development, continue to open many important services such as finance, law, construction and related engineering, testing certification, television, movies, travel, etc., to continuously expand



the market share, and while play its comparative advantage. Further achieve win-win cooperation with the mainland market. Many professionals in Hong Kong should also seize the opportunity to expand their career scope, and service providers in Hong Kong should also seize the opportunity to set up and develop businesses in the mainland.

### **5.3 To Seize the Opportunities of the Times and Maintain a Good Environment for the Service Industry**

At present, the social high speed development, inevitably brings the economic order, business ethics is blurred, the problem such as self-interest prevails, caused damage to the good economic development environment, therefore, the Hong Kong SAR government should always committed to build open and transparent business environment, Without directly intervening in the development of the service market through economic or administrative means, it still insists on legal and standardized management and numerous industry associations and trade organizations to guide and supervise service enterprises to conduct self-restraint and self-management. We will build a soft environment for the development of the service sector featuring a clean and efficient government, a honest and fair market, civilized and self-disciplined citizens, a sound and just legal system, and a stable and orderly society. At the same time, the 21st century, the rapid development of science and technology, and the connection of Internet is more and more closely, Internet+ service is the future trend of the development of service trade, the platform of the Hong Kong should make full use of the Internet, and a new growth point of trade in services in the new period of mining, realize the leap-forward development of trade in services, while attaches great importance to the traditional service trade, foster the emerging service industries, The structural optimization of service trade will be realized under the promotion of Internet+.

### **5.4 To Consolidate the Talent Advantage, Strengthen the Service Industry Talent Support**

The scale and quality of professional talents in modern service industry are the core factors for the sustainable development of modern service industry. In the past 20 years, Hong Kong has introduced various talents from all over the world, including accountants, lawyers, architects, planners, appraisers and other professionals from the ten major professional organizations, forming a group effect and fostering a good education, recruitment, employment and retention environment. Should continue in the future, Hong Kong solid talent advantage, and constantly strengthen the support, always put the talent cultivation, introduction and use of the modern service industry on the important position, various types of talents, get multiple types of talent, also want to care about modern logistics, international business, intermediary consulting and information service professionals into knowledge-intensive service industries, modern services personnel overall quality of ascension.

## **6 Conclusion**

In Hong Kong's economy, the service sector ranks first. Today, Hong Kong is not only one of the world's leading trade centres in goods, but also in services. GDP accounted

for from Hong Kong, we can see in Hong Kong service industry proportion is too high, reflect services mature at the same time, also reflects the Hong Kong economic development exists obvious problem: industrial structure which is formed by the Hong Kong for many years to service the economic structure, to a certain extent, restrict the development of Hong Kong. For example, unemployment is rising, external dependence is increasing, and fiscal revenues are falling. It can be seen that Hong Kong needs the return of manufacturing industry, but it is unrealistic to take the old road of labor-intensive light textile which has been eliminated by the market. Therefore, with the rapid development of the global new technological revolution and the increasingly fierce international competition focusing on high and new technology, the transfer of Hong Kong's manufacturing industry to high technology is an important way to continue economic prosperity.

Therefore, in the future, Hong Kong should cooperate closely with the Mainland in the development of high-tech manufacturing, so as to form complementary advantages of the two sides. For example, Hong Kong's strong research base and international financial market complement the Mainland's ability to commercialize technology and its advanced manufacturing industry. Only by making full use of China's "world factory" status, giving full play to the advantages of the Pearl River Delta, and integrating its own strengths in information, market and research and development, can Hong Kong occupy an important position in the field of high-tech manufacturing in the fastest way.

At present, Hong Kong needs to speed up the establishment of information network with the mainland, the accumulation of high-tech talents and the consolidation of scientific and technological foundation. In addition, based on the reality of Hong Kong's social and economic environment, it should take the industries with greater advantages as the key development objects to promote the improvement of Hong Kong's economy [6].

In short, Hong Kong future need to stand in the strategic height of the economic globalization, with the background of the global trading system in reconstruction, on the basis of the traditional advantage of stable, go the way of the value-added services, is also necessary for manufacturing to knowledge intensive and research direction of the innovation of the technology, and strengthen the interactive cooperation with the mainland, draw experiences and enlightenment of western developed countries development services, To provide a certain degree of support for the service industry, to achieve sustainable development of the service industry.

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