



Reinventing Hong Kong

Although the manufacturing industry started in Hong Kong in the 19th century, Hong Kong was mainly a centre of entrepot trade until the city entered into a phase of rapid industrialization in the early 1960s through to the late 1970s. In 1970 over 40 per cent of the city's workforce was employed in the manufacturing industry and the value of the city's domestic exports year on year exceeded USD 5 billion during the 1970s.

Come the 1980s, rising land and labour costs and the economic reforms taking place in Mainland China heralded the demise of industrialization in Hong Kong and by the 1990s over 80 per cent of Hong Kong factories had relocated to Mainland China.

Ever quick to reinvent itself, innovative Hong Kong turned itself into a hub for financial and service industries attracting highly paid financial and service professionals to Hong Kong and creating a platform for local professionals such as accountants, lawyers and IT specialists to succeed. This reinvention also inspired a generation of local youngsters to aspire to greater achievements through education. By 2008 over 85% of the Hong Kong workforce were employed in the service industry.

Fast forward to 2011 and beyond, what is on the horizon for Hong Kong? The global financial industry is apparently in crisis; there appears to be an over- supply of professionals in Hong Kong; new graduates are struggling to find employment; and, the gap between the "haves" and the "have not's" is growing wider as evidenced by the increasing social demand in Hong Kong.

Hong Kong has always prided itself on its simple, low tax regime but in the past it had very little to offer to international business in terms of a double tax treaty network which is essential to such businesses to avoid double taxation and to provide remedy in the case of disputes over taxing rights.

However, with the Agreement between the Hong Kong Special Administrative Region of the People's Republic of China and the Kingdom of the Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income coming into effect on 24 October 2011, Hong Kong has now concluded over 20 comprehensive tax treaties with major jurisdictions, including Mainland China, UK, Japan and Spain.

JFU believes that now the simple taxation system coupled with the ever expanding double tax treaty network offers Hong Kong the next opportunity to reinvent itself as a centre for managing and conducting global business. We will be exploring these opportunities in our Notes in the coming weeks.