Hong Kong Uses Duty-Free Wine to Expand Trade with California

Despite the recent global recession, Hong Kong has turned doldrums into opportunities by making duty-free wine a key catalyst for economic prosperity, according to Hong Kong Commissioner Donald Tong.

Tong spoke at the February 22 International Luncheon Forum in Sacramento hosted by the California Chamber of Commerce and the Hong Kong Economic and Trade Office in San Francisco.

He discussed how Hong Kong, a special administrative region of the People's Republic of China, has managed to preserve its commitment to free market principles and competitive spirit while dealing with the slow economy.

In 2008, Hong Kong removed duty off wine, making it the first duty-free wine port amongst major economies.

"Removal of wine duties certainly helps encourage more locals and tourists to drink in Hong Kong, but this measure was introduced with a much bigger objective in mind: The development of Hong Kong into a hub for wine-related business," Tong said.

The move has done just that.

Wine Industry

In 2008, after wine became duty-free, the value of wine imports jumped 80 percent. In 2009, imports of wine increased 41 percent to $517 million, doubling the total of 2007, Tong said.

In addition, 14 fine wine auctions were held in 2009, with sales amounting to $64 million and making Hong Kong the second largest center for wine auctions after New York, Tong said.

U.S. wine exports to Hong Kong went from $9 million in 2007 to $42 million in 2009.

"Sometimes a small idea turns out to be a big success," Tong said.

Hong Kong hopes the recent economic success of duty-free wine will help increase trade relations with California winemakers.

"We believe that U.S. wine has not fully realized its potential in Hong Kong," Tong said. "We are now working very closely with the U.S government and individual wine-producing states, including California, and we look forward to establishing more formal cooperation arrangements so as to promote U.S. wine in Hong Kong."

Hong Kong Commissioner Donald Tong (right) is the featured speaker at a CalChamber International Luncheon Forum. At left is CalChamber Board member Roger J. Baccigaluppi, RB International.

Economic Strategy

Hong Kong's successful economic strategy, which most economists in the region have said could lead to a small surplus instead of a deficit for 2009, has been to let the market lead while the government takes a facilitating role, Tong said.

The global economic downturn did have negative effects on Hong Kong. Gross domestic product (GDP) grew 2.5 percent in 2008 compared to 6.4 percent in 2007.

To address the liquidity crunch problems, $12.8 billion was deployed to guarantee up to 80 percent of commercial loans to businesses.

"This loan scheme is particularly important for small and medium-sized enterprises, as they account for 98 percent of businesses and employ nearly half of the private sector's workforce," Tong said.

Hong Kong also gets less than half of its revenue from taxation and because of previous governmental actions, has built up huge fiscal and foreign exchange reserves.Tong said the government can currently survive for 18 months without receiving $1 in tax revenue.

As a result of these and other measures, including facilitating growth within the country's economic pillars — financial services, tourism, trading, logistics and professional services — Hong Kong's economy grew by 3.3 percent in the second quarter of last year and the labor market is stabilizing with the unemployment rate at 4.9 percent.

"Our total exports suffered a drop of around 12 percent, year-on-year in 2009," Tong said. "The good news is the situation has improved significantly in the last quarter."

As a whole, Tong said he expects GDP as a whole to decline by 3.3 percent for 2009, an improvement over the previous forecast of -3.5 percent.

"Hong Kong's success is due to the ingenuity and entrepreneurial spirit of its educated people," Tong said. "Despite the downturn, our fundamentals have served us well in bettering the crisis. Our banks remain solid and healthy and there is no need for our government to inject capital into any banks to save them."

Tong closed the luncheon by recommending Californians visit Hong Kong and enjoy its culture, food and duty-free wine, "although it is not free."

Staff Contact: Susanne Stirling