



Interview with [Anthony Tam](#) from [Mazars Hong Kong](#)

Hong Kong is a critical hub for global trade and finance. It was the world's seventh-largest exporter of merchandise in 2017 (WTO). It is also the third leading global financial centre, after New York and London. Yet, the well-documented mass demonstrations are starting to have an economic impact.

Anthony Tam from Mazars Hong Kong shares some valuable insight into how the unrest is impacting HK's image as a stable business environment

Are you starting to see multinationals with HQ's in Hong Kong reassessing their options?

There has not yet been a great outflow of multinationals from Hong Kong. Nevertheless, there have been multinationals with a HQ in Hong Kong reassessing their options. Currently, they are taking a wait and see approach.

Having said that, some multinationals have been moving to other cities such as Singapore and Shanghai not because of the mass demonstrations or deepening trade war, but because of business needs and incentives given by, say, Singapore.

Nevertheless, Hong Kong continues to be a main trading center supporting the US and European markets. Sourcing of products from China has been gradually shifted to other countries in South East Asia, such as Vietnam and Cambodia because of the rising costs from suppliers based in China and the deepening trade war between China and US. The procurement teams of Hong Kong companies are now travelling to Vietnam and Cambodia as well.

Hong Kong companies are also changing their operation mode, to attend to the technological changes such as e-commerce and automation. For example, a Hong Kong-based company, which used to be a textile manufacturer in China, has sold off its factories in China. It has now become an automated designer of apparels using automation production, the so-called whole production process. The design team is based in Hong Kong. The transformation of said company has been so successful it was recently listed on the Hong Kong Stock Exchange.

What sort of support are businesses seeking from accountancy firms?

Taxation Services continues to be the main support that MNCs need when considering moving to other locations. They need to assess the tax impact on any such move and the tax incentives that other jurisdictions outside of Hong Kong can provide.

Entities moving into e-commerce often need support from accountancy firms with expertise in system design and internal controls, as well as tax planning with respect to e-commerce.

What area is having the biggest impact on business in the region?

Long term, automation looks likely to have a major impact. In the short term, entities move to countries that provide reduced labor costs, such as Vietnam. Nevertheless, longer term, automation will, in all likelihood, drive costs down even further. For example, the US and China are two markets where automated retailing is rapidly growing - Amazon retail stores and Alibaba retail stores respectively. Companies in Hong Kong and Singapore will need to head up this drive towards automated retailing.

Additionally, the market in China is growing drastically, in e-commerce. The online sales event on November 11 - known as "Single Day" in China - has seen sales increase significantly through the Alibaba platform and demonstrates this point perfectly. This event alone now generates trillions of dollars, with many brand-name retailers in the US benefiting. Out of the more than 140,000 participating merchants, more than 60,000 are international brands such as GAP, Nike, Samsung, etc. Almost 10 of these international brands achieved sales of over USD150 million in one day!

Many Hong Kong traders are entering e-commerce in order to circumvent the impact of increased US tariffs.

Which businesses have been most affected?

In terms of the demonstration in Hong Kong, the businesses that have been impacted the most are the hospitality, retail and the restaurant trade. This is because of the drop in the number of people travelling to Hong Kong. We anticipate this impact though to be short term. Once the demonstrations lessen and when things return to normal, these businesses should revive. From what I have observed, the impact on M&A activities has not been as significant as some might consider. Hong Kong is still a viable business hub for MNCs.

Are there advantages of sitting this out?

Yes, my advice to any MNC re-assessing the options is to sit this out. Hong Kong continues to have the advantage of the availability of talents and the close proximities to China. It also has a good legal system.

Are there tax incentives and support to encourage business investment in the region?

Hong Kong has special tax regimes for certain industries, e.g. funds, corporate treasury centers, reinsurance business, captive insurance business, etc. Hong Kong has mainly relied upon its simple and low tax rate regime and geographic location, i.e. proximity to Mainland China, to attract MNCs to set up regional headquarters.

Those with regional headquarters in Singapore, Japan, Malaysia, Thailand, etc., also have access to concessionary tax rates. Meanwhile, special tax incentives, e.g. concessionary tax rate for individual employees, are also available in some tax jurisdictions in the region.

How complex is it for a multinational to switch its manufacturing hub to a new location in Asia, e.g. Singapore/Vietnam?

Singapore and Hong Kong are no longer the manufacturing bases they once were. For Singapore entities, manufacturing has largely shifted to Malaysia, whereas Hong Kong entities have, until recently been moving their manufacturing base to China. Now the shift is more towards Vietnam, Cambodia and Bangladesh.

Having said that, moving a manufacturer base needs the supporting suppliers to be willing to move with you. That is the reason why movement of a manufacturing hub is a slow process. For example, while much manufacturing of running shoes has been moved to Vietnam, China continues to capture 60% of the market share of running shoe manufacturing.

What are the key cross border tax implications of conducting business in HK?

Transfer pricing laws were passed in Hong Kong in July 2018. Transactions with associated persons must be carried out at arm's length amount unless the transactions are exempted from compliance with the transfer pricing laws. Moreover, the three-tiered approach to transfer pricing documentation is also adopted in the transfer pricing laws.

Why is it beneficial to connect with other Praxity Alliance member firms?

The benefit of such a connection would allow the Praxity firms in the region to provide clients with a seamless service, in particular drawing upon strong knowledge and expertise in due diligence and serving clients in the manufacturing sector.

For more guidance, please connect with Anthony Tam, emailing anthony.tam@mazars.hk

Anthony Tam trained and worked in Canada before transferring to Hong Kong in the late 1990s. Anthony has more than 20 years of professional experience in international taxation as well as Hong Kong and China tax, specialising in M&A and transfer pricing.