Hong Kong trade with China

Q: Why is there such a large trade between Hong Kong and China (for example, Cotton exports from HK to China in 2005 was ~US$3.8b)? Would this number include trades through Hong Kong from other countries (i.e. USA to Hong Kong to China)? If so, then should we adjust the overall cotton trade volumes to account for the double count (i.e. subtract $3.8b from total trade volume)?

A: The question regarding Hong Kong trade is slightly more complicated than the way you tried to analyze it. You will have to consider three main facts for proper evaluation of the problem, namely

1. China is both the main importer and exporter of the Cotton trade; when looking at the data, you will see that Hong Kong is not importing a large volume of Cotton from the USA; it is mainly coming from China;

2. It is misleading just mention the label Cotton, which colloquially refers to the raw material; I assume that you have been looking at HS code 52, which covers probably a hundred different commodity codes; looking at the data, the most important trade concerned "Cotton yarn, not for retail"; this indicates that the products are intra-industry; it is conceivable that China sent some semi-treated cotton yarn to some plants in Hong Kong for some slight further processing;

3. Most exports of Hong Kong in this basket of products is re-exports; this implies that only very slight processing handling is done at the plants in Hong Kong (like re-packaging, which in the case of yarn could be like re-distribution of large volume yarn to machine-ready sizes of yarn).

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