

TRANS-PACIFIC PARTNERS:

The commercial, capital and cultural exchange between Hong Kong and California



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**LOS ANGELES COUNTY
ECONOMIC DEVELOPMENT CORPORATION**

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ECONOMIC DEVELOPMENT CORPORATION**

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1 Introduction

Situated at the mouth of the Pearl River, the Hong Kong Special Administrative Region (Hong Kong SAR) of the People's Republic of China (China) – sometimes called the Pearl of the Orient – forms a unique and invaluable intersection between East and West. A Crown colony and then Dependent Territory of the United Kingdom between 1843 and 1997, Hong Kong now exists as a devolved political entity under the “one country, two systems” framework that guarantees Hong Kong’s economic and political freedoms for at least 50 years after handover. One of the four original Asian Tigers, the fifth busiest global port by throughput¹ and the world’s busiest airport for nine consecutive years,² Hong Kong sits astride the global goods and services network as an essential linchpin in global prosperity.

In setting the stage for this exegesis, this introduction will first describe the demographic and economic profile of Hong Kong. This section will then offer comparisons – with appropriate considerations for scale – between Hong Kong and California as highly developed economies and cornerstones to global trade and finance.

A region with roughly 7.5 million residents, Hong Kong ranked 35th in the world by nominal GDP in 2018.³ Since 1996, Hong

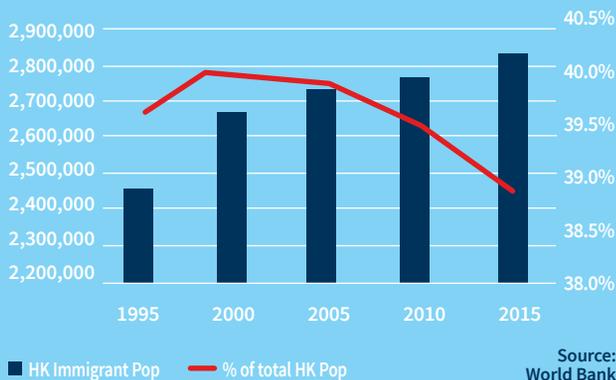


Kong’s population has grown gradually at between 0.6 and 1.1 percent annually. Hong Kong ranks number nine globally by Gini coefficient,⁴ but this is likely due to the concentration of high net-worth individuals living in the region; in fact, Hong Kong is home to the largest single concentration of billionaires in any city.⁵ A global leader in most indices of human development, residents of Hong Kong consistently rank as some of the longest-lived people in the world.

As an international gateway, many immigrants naturally call Hong Kong home. Indeed, the immigrant population of Hong Kong peaked in 2000 at 40 percent of the region’s total population. As of 2015, this percentage has diminished slightly to 38.9 percent.

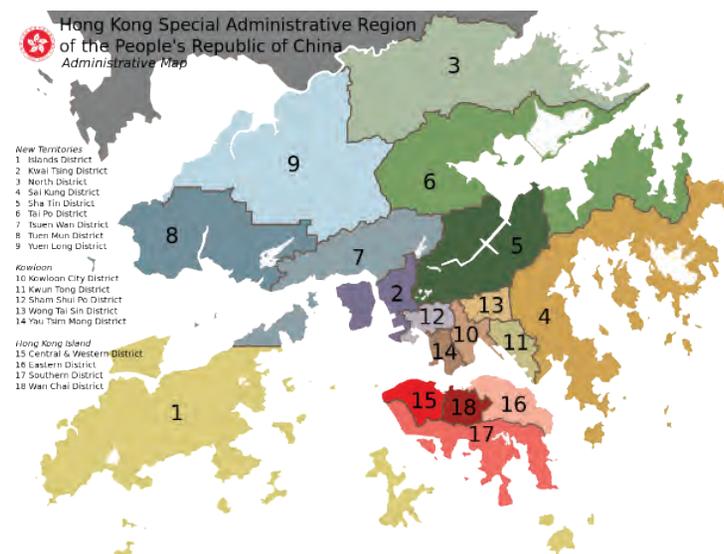
As is the case with many other global populations, California is a focal point of the Hongkonger diaspora in the United States. Indeed, at least 98,000 identified Hongkongers call the Golden State home, with the San Francisco and Los Angeles metropolitan areas ranking as the second and third in the country in terms of concentration of former Hong Kong residents.⁶ Hong Kong has also featured prominently in the California story for many decades, especially since the passage of the New Immigration Act in 1965 lifted many restrictions on non-European immigration to the United

EXHIBIT 1-2
Hong Kong Immigrant Population





States. Still a territory of the United Kingdom in that year, residents of Hong Kong were not subject to the same restrictions as citizens of mainland China. By 2016, there were roughly 212,000 Hong Kong-born immigrants living in the United States, equivalent to 9 percent of all Chinese immigrants (though the population of Hong Kong comprises only 0.5 percent of China’s total populace).⁷



Source: Government of the Hong Kong SAR

- 1 “One Hundred Ports 2018.” *Lloyd’s List, Maritime Intelligence*. <<https://lloydslist.maritimeintelligence.informa.com/one-hundred-container-ports-2018>>.
- 2 “Overview, Air Cargo Hong Kong International Airport” *Hong Kong Airport* <<https://www.hongkongairport.com/en/the-airport/air-cargo/>>
- 3 “GDP, current prices”. *International Monetary Fund*. <<http://www.econstats.com/weo/V004.htm>>
- 4 “The World Factbook.” *U.S. Central Intelligence Agency*. <<https://www.cia.gov/library/publications/the-world-factbook/>>
- 5 Warren, Katie. “What it's like living in Hong Kong as a billionaire, where the ultra-rich live in high-security mansions and spend \$16 billion a year betting on horse racing.” *Business Insider*. <<https://www.businessinsider.com/how-hong-kong-billionaires-live-money-mansions-restaurants-lifestyle-2018-12>>
- 6 “U.S. Immigrant Population by Metropolitan Statistical Area (MSA), 2013-2017.” *Migration Policy Institute*. <<https://www.migrationpolicy.org/programs/data-hub/charts/us-immigrant-population-metropolitan-area>>
- 7 Zong, Jie and Batalova, Jeanne. “Chinese Immigrants in the United States.” *Spotlight, Migration Policy Institute*. <<https://www.migrationpolicy.org/article/chinese-immigrants-united-states/>>

1 Introduction

The Hong Kong SAR is broadly separated into three subregions: Hong Kong Island, Kowloon and New Territories. The largest subregion geographically, the New Territories, is perhaps unsurprisingly home to over 50 percent of Hongkongers.

In addition to its fundamental economic strength, Hong Kong is also home to an active labor force, with 2.8 percent unemployment and an almost 61 percent labor participation rate. The largest subsection of employment in Hong Kong is engaged in imports, exports and trade (wholesale and retail), which composes 20.5 percent of the region's employment base. 13.7 percent of Hong Kong residents are employed in social and personal services, followed by 6.1 percent in finance and 4.7 percent in transportation and warehousing. Hong Kong residents are also highly educated with 82.1 percent holding a secondary school-level credential or higher.⁸

A legacy of its history as a cornerstone of global trade and its unique institutions, Hong Kong is consistently ranked as one of the most economically free in the world. This ranking is based on Hong Kong's strong performance in areas such as rule of law, fiscal health, relatively low tax burdens, high regulatory efficiency and open markets.⁹ Famed for its low individual and corporate taxation, the region's ceiling for personal income tax and corporate income tax are 17 and 16.5 percent, respectively.¹⁰ Though large portions of the Hong Kong government revenue come from profits and payroll taxes, the third-largest source of revenue is land premia, most of which is derived from sales of public land leases at auction.¹¹ Since the government of Hong Kong owns almost all the land within its territorial area, it leases out sites at public auction to the highest bidder with minimum bids set based on surveyor assessment. Surveyors make land value assessments considering market conditions, land use restriction and lease conditions.¹²

Despite this extraordinary control over real estate, Hong Kong suffers from an issue familiar to Californians: a lack of affordable housing. As measured by the median multiple (median house price divided by median gross pre-tax household income), Hong Kong's affordability stands at 20.9, making it the most expensive of the major English-speaking housing markets (the others being Australia, Canada, Ireland, New Zealand, Singapore, the United Kingdom and the United States).¹³ For comparison, California's affordability ratio is 7.54.¹⁴ Like California, Hong Kong is perhaps a victim of its own economic success, cultivating a dynamic economy attractive to investment. This includes real estate developers, who, despite public ownership of the region's land stock, still seek to profit from the high demand for housing, especially from the Chinese mainland. As has been at least implicitly the case in California, the government of Hong Kong encourages home ownership even among beneficiaries of public housing through subsidies, thus decreasing elasticity of supply even in public housing.¹⁵

As in the United States, young Hongkongers are seeking opportunities to live and work outside of traditional destinations. Canada and Australia have replaced the United States among Pacific English-speaking destinations for Hong Kong's emigrants as of 2017. Taiwan has also featured as a prominent destination for Hong Kong's young professionals in the past five years.¹⁶ Though perhaps unintentional, Hong Kong's cultural influence will likely increase as its talent seeks new opportunities all over the world, bringing their preferences and traditions with them to share in their new homes.

As an international capital of trade, finance and services, Hong Kong's GDP – \$363 billion in 2018 – is increasingly reliant on four major industries: finance, including insurance and brokerage;



EXHIBIT 1-3
Hong Kong Private Employment Composition, 2001-2019

Source: Hong Kong Census and Statistics Dept.

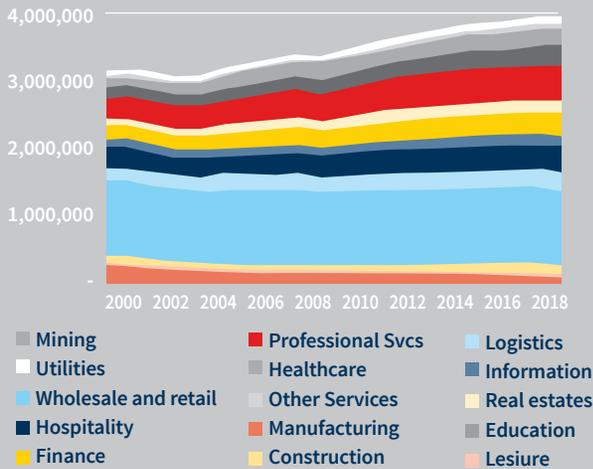
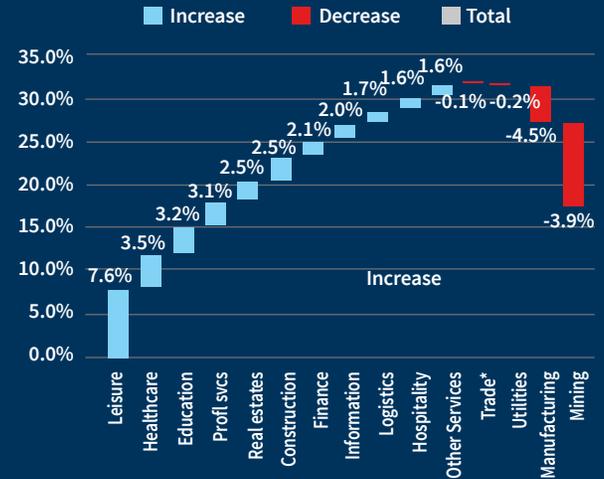


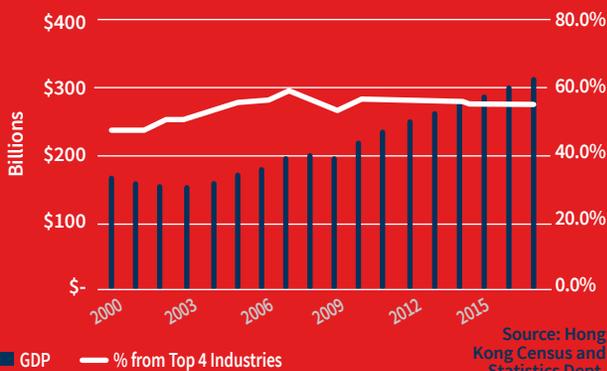
EXHIBIT 1-5
Hong Kong Employment Changes, 2001-2019



Source: Hong Kong Census and Statistics Dept.; *Wholesale and retail

tourism, including hospitality and retail; trade and logistics; and professional services. In 2000, these four key sectors produced just over 49 percent of value added to the Hong Kong economy. In 2017, the latest year for which data is available, this contribution was 57 percent, though it peaked at 60 percent in 2007. This trend is given in Exhibit 1-4.

EXHIBIT 1-4
Hong Kong GDP from Top 4 Industries*

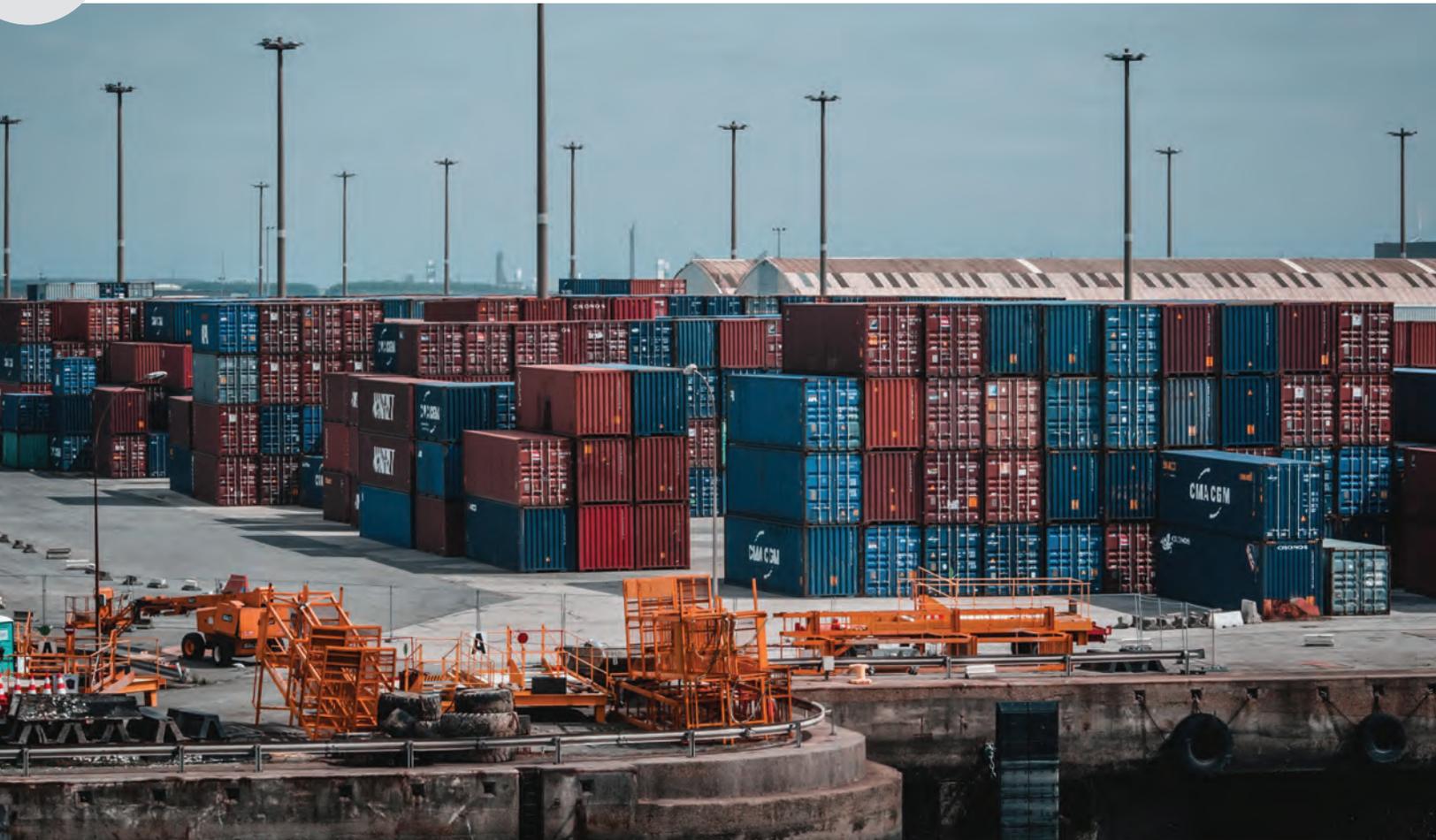


Source: Hong Kong Census and Statistics Dept.

As mentioned previously, Hong Kong’s top industries in terms of employment are wholesale and retail trade, finance and professional services. Between 2001 and 2019, Hong Kong’s employment make-up has experienced shifts much like in California, that is, a diminution of manufacturing while services

- 8 Census and Statistics Department, the Government of the Hong Kong Special Administrative Region.
- 9 “2019 Index of Economic Freedom” *The Heritage Foundation*. <<https://www.heritage.org/index/about>>
- 10 Davis, Hana. “Hong Kong’s tax system explained: why levies are so low, how it competes with Singapore, and why it’s ‘both out of date and ahead of its time?’” *South China Morning Post*. <<https://www.scmp.com/news/hong-kong/hong-kong-economy/article/2188256/hong-kongs-tax-system-explained-why-levies-are-so>>
- 11 “Major sources of government revenue.” *Research Office of the Hong Kong Legislative Council Secretariat*. <<https://www.legco.gov.hk/research-publications/english/1617issf02-major-sources-of-government-revenue-20170606-e.pdf>>
- 12 Zhao, Shirley. “Does Hong Kong’s land sale system need a new lease of life?” *South China Morning Post*. <<https://www.scmp.com/news/hong-kong/economy/article/2088556/does-hong-kongs-land-sale-system-need-new-lease-life>>
- 13 Cox, Wendell and Hugh Pavletich. “15th Annual Demographia International Housing Affordability Survey: 2019.” *Performance Urban Planning* <<http://www.demographia.com/dhi2019.pdf>>
- 14 “Home Price Fundamentals.” *California Association of Realtors*. <<https://www.car.org/en/marketdata/interactive/pricefundamentals>>
- 15 Zhao, Shirley. “Does Hong Kong have a housing crisis? The answer depends on whether you own a flat.” *South China Morning Post*. <<https://www.scmp.com/news/hong-kong/economy/article/2125641/does-hong-kong-have-housing-crisis-answer-depends-whether-you>>
- 16 Leung, Rachel and David Vetter. “Young professionals are leaving Hong Kong in droves in search of better lives where family, friends, and fun comes first.” *South China Morning Post*. <<https://www.scmp.com/news/hong-kong/politics/article/3019457/beset-fears-hong-kongs-future-extradition-bill-protests>>

1 Introduction



such as leisure, healthcare, education and professional services have grown. Indeed, Hong Kong's manufacturing employment declined an average of 4.5 percent annually over the two-decade period while leisure employment, which includes arts and entertainment-related employment, increased 7.6 percent.

Like other developed economies, Hong Kong is experiencing a long-term sectoral transition as outsourcing and, more poignantly, technology replaces domestic labor in routine tasks. Exhibit 1-5 illustrates these trends in Hong Kong's labor makeup. Even trade-related industries, a linchpin of this outward facing region, declined an average of 0.1 percent annually over the period.

Commensurate with this sectoral transition to an increasingly service-dominated economy, Hong Kong's population has

attained increasingly high levels of education. Indeed, the proportion of Hong Kong residents with some sort of post-secondary education or credential has risen from 24.5 percent in 2013 to 33.1 percent in 2018. Should this trend continue, Hong Kong's labor force will be increasingly prepared to compete domestically and globally.

Not merely another developed economy being acted upon by broader trends in advanced economies, the government and businesses of Hong Kong have endeavored to increase research and development expenditures years on year. In 2000, the Hong Kong government and businesses spent a combined \$808.4 million in research and development; in 2017 this amount totaled over \$2.7 billion. However, the composition of this spending has evolved over time. Indeed, in 2000, 76.7 percent of research and development spending

EXHIBIT 1-6
R&D Spending on Hong Kong by Type

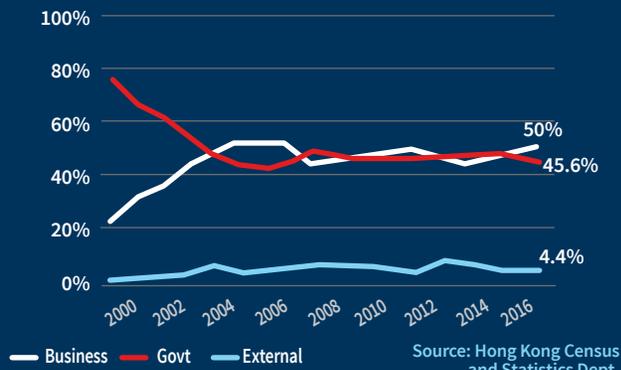
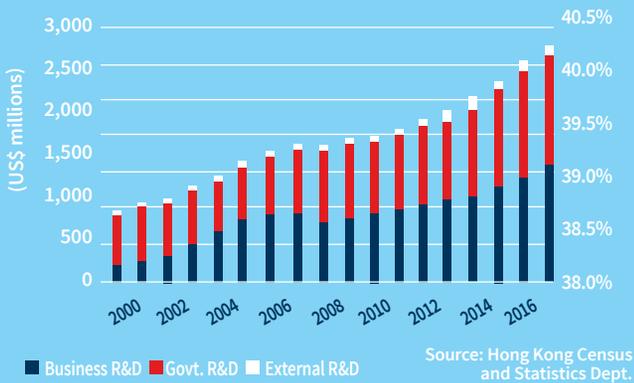


EXHIBIT 1-7
Hong Kong Research and Development by Year



in Hong Kong came from government sources. In 2017, this number had dwindled to 45.6 percent. By contrast, business-related research and development spending grew from only 22.8 percent of the total in 2000 to 50.0 in 2017. Over this period, spending by both grew, though government spending in research and development increased an annual average of 4.3 percent while business spending in this area expanded 13.6 percent annually.

As a global gateway for international trade and finance, Hong Kong naturally appears among the foremost ports in terms of freight traffic. In 2017, Hong Kong ranked fifth globally in throughput measured by TEUs (20-foot equivalent

units). By 2018, Hong Kong had slipped to seventh place globally, with some of this decline attributed to Hong Kong’s shipping industry lacking the same policy support as Singaporean or South Korean ports; expansion and investment in neighboring mainland Chinese ports like Shenzhen and Guangzhou; and the consequences of the ongoing trade conflict between Beijing and Washington.¹⁷ This may be a temporary setback, however, as Hong Kong’s largest terminal operators have combined to form the Hong Kong Seaport Alliance, with the aim of improving efficiency and competitiveness, especially vis-à-vis rival ports in Ningbo, Shenzhen and Guangzhou. Since this alliance would control 95 percent of all container volume and 23 of 24 berths, it is undergoing a review of monopoly concerns by the Hong Kong Competition Commission.¹⁸

A history of goods throughput passing through the Port of Hong Kong by tonnage is given in Exhibit 1-8. A comparison of trade volumes by TEU of the top ten global ports is given in Exhibit 1-9.

¹⁷ Tsang, Denise. “Hong Kong’s port business drops out of top five in world for first time as Asian rivals Shanghai, Singapore, Ningbo, Shenzhen, Guangzhou and Busan leave city in their wake.” *South China Morning Post*. <<https://www.scmp.com/news/hong-kong/hong-kong-economy/article/2186202/hong-kongs-port-business-drops-out-top-five-world>>

¹⁸ Paris, Costas and Chiu, Joanne. “Hong Kong Port Alliance Challenged by Cargo Owners.” *The Wall Street Journal*. <<https://www.wsj.com/articles/hong-kong-port-alliance-challenged-by-cargo-owners-11547388000>>

1 Introduction



EXHIBIT 1-8
Hong Kong Total Throughput (thousand tonnes)



It is evident that Hong Kong possesses an economic modernity, dynamism and internationalism that parallels and, in some cases, exceeds that of California. Both economies also face many of the same challenges, including but not limited to competitive rivals in global trade; a restrictive housing market displacing human capital, especially younger workers; and a decline in manufacturing in favor of service-related industries. Amid these challenges, both regions are poised for future

success through their global connectivity, talented workforces and deep relationship with one another. The following sections of this report present not only the contours of this relationship between the Hong Kong SAR and the State of California, but also a picture of future opportunities for growth between these regions known as Asia's World City and the Golden State.

EXHIBIT 1-9
Top 10 Global Container Ports by Throughput

Source: Hong Kong Census and Statistics Department



2

Direct Trade in Goods and Services

California and Hong Kong hold an unrivaled trade relationship, which shows year over year growth in volume and variety. The robust trading ports of California contribute to its status as the largest state exporter to Hong Kong within the United States. The Golden State continually imports more of Hong Kong's goods year over year, demonstrating the increasing importance of Hong Kong's role as a regional import source. Finally, strong projections for total trade between the two regions underscore expectations for Asia's World City and the Golden State to become ever more interconnected.

This section analyzes the trade relationship between Hong Kong and California with a minor examination of Hong Kong trade with the United States as a whole. While this section covers the import and export of goods and services, it should be noted that service trade data is much harder to examine as its value is harder to measure and quantify. Thus, service exports to and from Hong Kong only exist, and can be analyzed, at a national level. Nevertheless, the data presented in this section paints the picture of the dynamic and deeply intertwined California-Hong Kong trade relationship. Our analysis includes trade data from the most recent year provided by government sources. All figures are in United States dollars.



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2

Direct Trade in Goods and Services

GOODS TRADE BETWEEN HONG KONG AND CALIFORNIA

California is the closest state geographically to Hong Kong within the continental United States. As such, it should not be surprising that California is the largest U.S. exporter and importer of merchandise goods to and from Hong Kong.

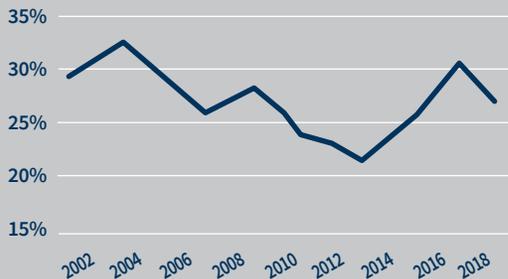
EXHIBIT 2-1
Exports to Hong Kong by State



As seen in Exhibit 2-1, California exported nearly \$10 billion worth of goods to Hong Kong. Despite a decline from 2017, California remains the largest United States exporter to Hong Kong, outpacing New York by more than \$700 million in 2018. Both states dominate exports to Hong Kong when compared to the third and fourth largest contributors, Texas and Illinois.

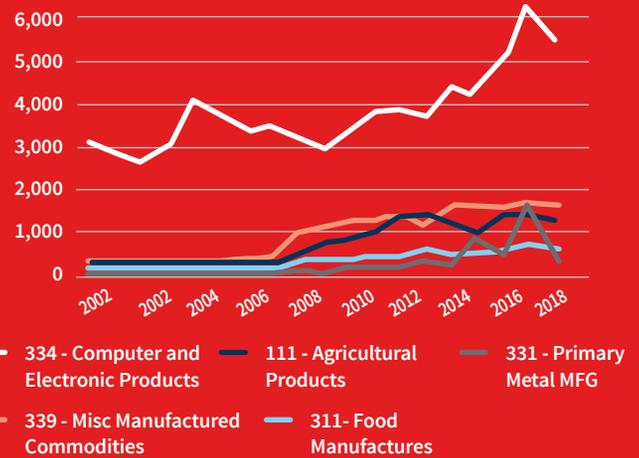
EXHIBIT 2-2
CA Share of US Exports to HK

Source: U.S. Department of Commerce International Trade Administration



Historically, California has represented between 25 and 30 percent of all United States exports to Hong Kong, as seen in Exhibit 2-2. While California's share of total United States merchandise exports to Hong Kong peaked at one third in 2004, the consistency and stability of trade between these two regions continues to persist, with California continuing as a major Hong Kong trade partner.

EXHIBIT 2-3
Top 5 California Goods Exports to Hong Kong (\$ Mil)



Source: U.S. Department of Commerce International Trade Administration

As seen in Exhibit 2-3, computer and electronic products make up over 51 percent, or nearly \$5 billion, of California's exports to Hong Kong. As the largest exporter of computer and electronic products in the United States, California's electronic export industry includes computer manufacturing and peripherals, communications equipment such as phones and radios, as well as other electronic products.¹⁹ Many of these products are exported by industry leaders such as Apple Inc, Hewlett-Packard, Intel, and Seagate Technology. Products from these companies are fundamental to Hong Kong's four key industries, "financial services, tourism, trading and logistics, and professional and producer services", as defined by the Census and Statistics Department of the Government of the Hong Kong Special Administrative Region.²⁰

While the primary trade industry has been electronics, agricultural and food products have also been important in sustaining the strong trade relationship. As might be expected for a mostly coastal region, Hong Kong imports 90 percent of its total food supply. Much of its fresh fruits and chicken eggs come from California, specifically the central valley.²¹ Together food and agricultural products make up nearly 20 percent of Hong Kong's



merchandise trade with California. Sprinkled in with agriculture and technology as a major export category is primary metal manufacturing, which includes the refining of raw ores used in molds or other metal products. These metals are used for automotive, electronic and construction-related goods.

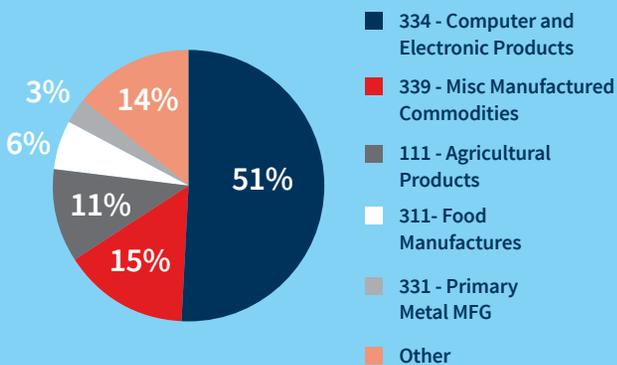
Hong Kong may not be the largest importer of Californian goods, but it does rank as the most efficient importer per

citizen. Hong Kong more than doubles the next region in its imports of California goods per capita.

Despite being across the Pacific, Hong Kong surpasses other major importers, per capita, of California goods, such as Canada and Mexico, which border the United States. Per capita Hong Kong imports nearly \$1,400 worth of California goods per citizen, of which half are computer and electronic products.

As Exhibit 2-6 and 2-7 show, the California-Hong Kong trade relationship is fully expected to continue its current growth trajectory. Using historical data and custom

EXHIBIT 2-4
California Good Exports to Hong Kong as a Percentage of Total 2018 Good Exports



Source: U.S. Department of Commerce International Trade Administration

¹⁹ “California Trade Facts.” *Trade Statistics, California Chamber of Commerce*. <<https://advocacy.calchamber.com/international/trade/trade-statistics/>>.

²⁰ “The Four Key Industries and Other Selected Industries.” *Census and Statistics Department, the Government of the Hong Kong Special Administrative Region*. <<https://www.censtatd.gov.hk/hkstat/sub/sc80.jsp>>.

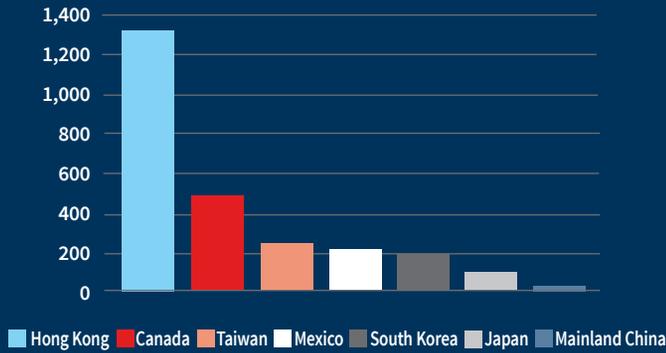
²¹ “Frequently Asked Questions on Food Supply of Hong Kong.” *Food and Health Bureau, Government of the Hong Kong Special Administrative Region*. <https://www.fhb.gov.hk/download/press_and_publications/otherinfo/110318_food_supply_faq/e_food_supply_faq.pdf>

2

Direct Trade in Goods and Services

EXHIBIT 2-5
Importation of California Exports,
Per Capita, In USD

Source: U.S. Department of Commerce International Trade Administration



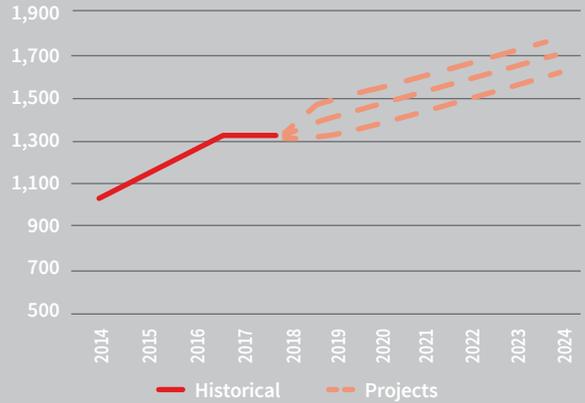
economic modeling techniques, the California and Hong Kong trade relationship can be forecasted accurately until 2024. Included in this forecast are confidence intervals at the 95th percentile. California’s exports to Hong Kong face a steady, nearly linear increase, growing by nearly \$2 billion in the next 6 years. Most of this growth is expected to be in existing popular trade sectors, barring erratic market events. With Hong Kong fully adopting 5G for commercial use in 2020, it would be expected that the electronic imports from California would increase.²²

While the confidence bands lining Exhibit 2-6 are narrower than those of 2-7, it should be noted that California exports nearly 10 times the dollar amount of goods exports to Hong Kong, as Hong Kong exports to California.

This is in part due to Hong Kong being a service based economy rather than a good based one and Hong Kong having a fraction of the population of California. This disparity in volume of goods along with the dissimilar mix of goods exported increases the likelihood, albeit small, of a statistically significant trading decline. While the low case projects a slow and long recovery to the trading peak of 2017, the average case projects a speedier recovery in just a handful of years.

As shown in Exhibit 2-6, Hong Kong’s goods exports to California have generally increased since 2014, resulting in 1.3

EXHIBIT 2-6
Hong Kong Goods Exports to California
Projected Through 2024 (\$ Mil)



Source: U.S. Department of Commerce International Trade Administration, World Bank Estimates by LAEDC

EXHIBIT 2-7
California Goods Exports to Hong Kong
Projected Through 2024 (\$ Mil)



Source: U.S. Department of Commerce International Trade Administration, World Bank

billion dollars worth in 2018. This feat is even more impressive considering Hong Kong is a largely service based economy, with over 92 percent of its GDP coming from the services industry.²³

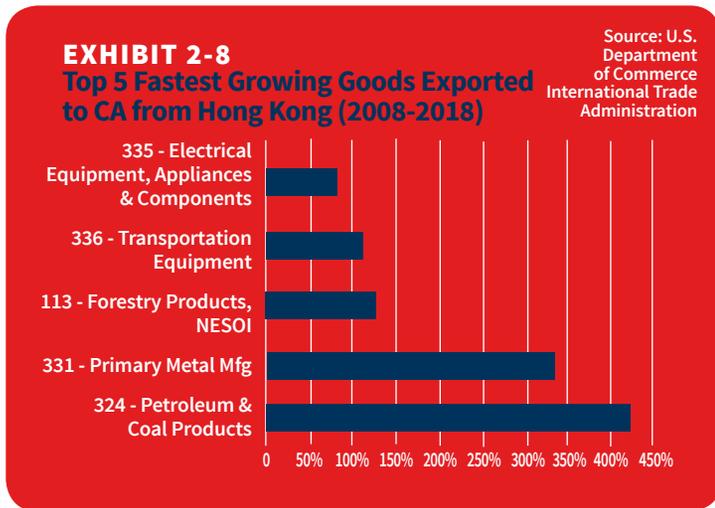
Likewise, California’s exports to Hong Kong are likely to increase relatively linearly as well. In 2024, Hong Kong is likely to purchase around \$12 billion worth of California goods.

However, a significant portion of these goods are reexports, that is, goods that enter the Hong Kong customs district that

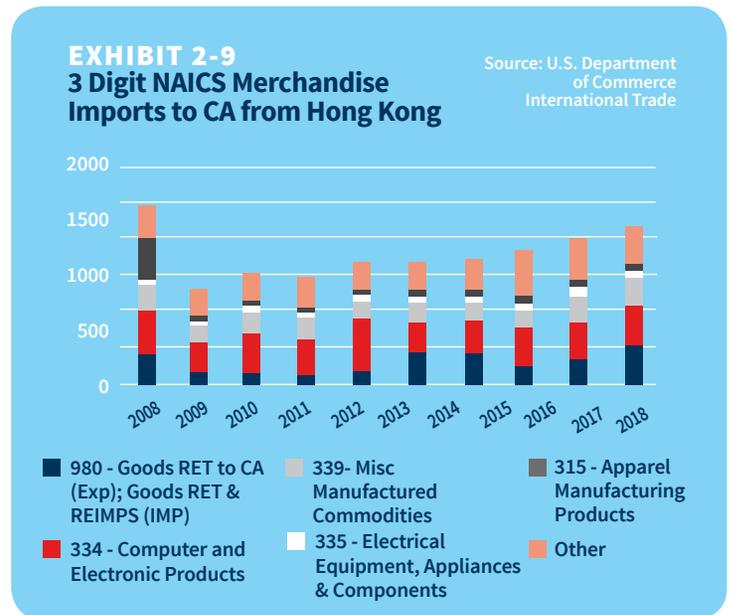
are then reexported without significant alternation. Indeed, though California imports a large quantity of Hong Kong goods, 35 percent of them are re-imports of goods initially from California. Computer and electronic products follow California reimports at 20 percent of total goods exports from Hong Kong to California. Miscellaneous manufactured exporters distribute anything from sports equipment to jewelry or office supplies. Nonetheless, a nearly \$14 billion goods trading volume between the two territories is likely just a few years away.

GOODS TRADE BETWEEN HONG KONG AND METROPOLITAN AREAS

The Los Angeles metropolitan statistical area (MSA) contributes the most out of all of California’s MSAs to the state’s total exports to Hong Kong. Across the entire U.S., the Los Angeles MSA is the second largest metro exporter to Hong Kong, behind the New York-Newark-New Jersey area. As shown in Exhibit 2-11, of the three metro areas in California with the most Hong Kong bound exports, the Los Angeles-Long Beach-Anaheim area has long outpaced the rest of the state, contributing \$3.36 billion in 2018, compared to \$968 million by San Jose-Sunnyvale-Santa Clara and \$610 million by San Francisco-Oakland-Hayward.



Despite the importance of electronics and other goods currently traded between the two economies, the fastest growing imported category from Hong Kong to California is petroleum and coal products. Over the decade-long period given in Exhibit 2-9, the United States has reasserted itself as an energy producer. Though not the largest producer among the states, California refines approximately two million barrels per day.²⁴ As a country hungry for energy and commodity-related inputs, China is a natural destination for petroleum and petroleum products. Since Hong Kong serves as an essential throughput, many of these Californian petroleum products arrive in Hong Kong before distribution to Mainland China. Exhibit 2-9 shows other fast growing goods including primary metal manufacturing which grew from approximately \$2 million to \$12 million per year in the past century and transportation equipment which doubled to \$20 million in trade annually in the same timeframe.



Exhibits 2-12, 2-13 and 2-14 detail the total exports of each MSA by NAICS code. Among the goods provided by each metro area, there is some variation. Despite accounting for 51 percent of the state’s total exports to Hong Kong, computer and electronic product manufacturing goods only make up 19 percent of Los

²² Singh, Harminder. “Hong Kong to be one of world’s earliest adopters of 5G technology.” *South China Morning Post*. <<https://www.scmp.com/news/hong-kong/economy/article/2122511/hong-kong-be-one-worlds-earliest-adopters-5g-technology>>.

²³ “Hong Kong as a Service Economy.” *Hong Kong: The Facts*. <https://www.gov.hk/en/about/abouthk/factsheets/docs/service_economy.pdf>.

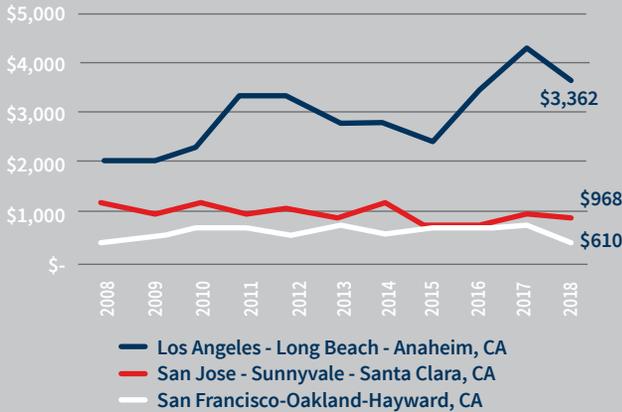
²⁴ “California’s Oil Refineries.” *California Energy Commission*. <https://ww2.energy.ca.gov/almanac/petroleum_data/refineries.html>

TRANS-PACIFIC PARTNERS:

The commercial, capital and cultural exchange
Between Hong Kong and California

2 Direct Trade in Goods and Services

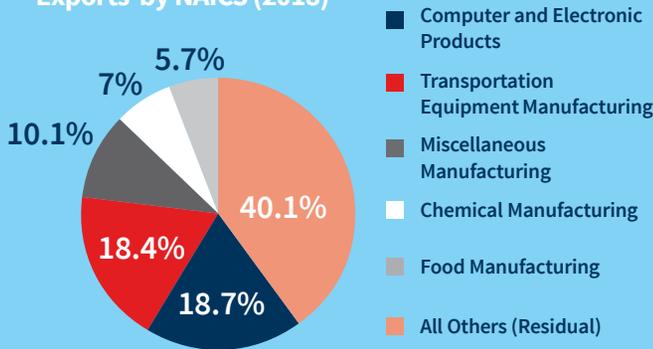
EXHIBIT 2-10
Exports to Hong Kong by CA Metro Area
(\$ Million)



Source: U.S. Department of Commerce International Trade Administration

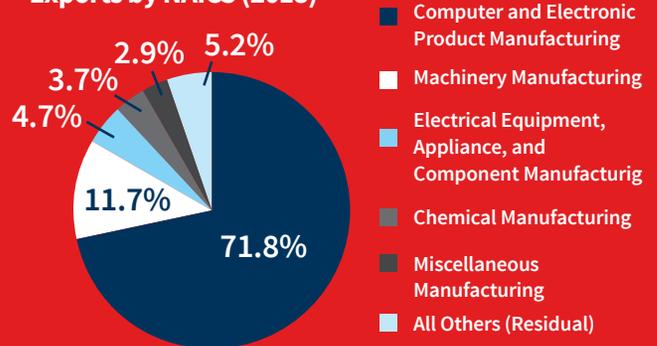
Angeles’s total exports in 2018. In comparison, these goods contributed to nearly 72 percent of San Jose-Sunnyvale-Santa Clara’s total exports in 2018. Nevertheless, the Los Angeles metropolitan statistical area leads the way in its exports of transportation equipment manufacturing, chemical manufacturing and food manufacturing.

EXHIBIT 2-11
Total LA-LB-AN
Exports by NAICS (2018)



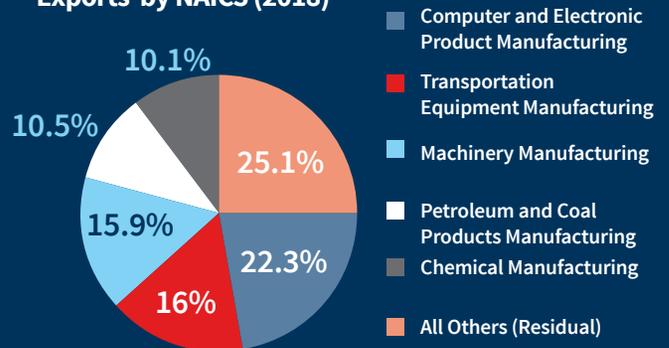
Source: U.S. Department of Commerce International Trade Administration

EXHIBIT 2-12
Total SJ-SV-SC
Exports by NAICS (2018)



Source: U.S. Department of Commerce International Trade Administration

EXHIBIT 2-13
Total SF-Oak-Ha
Exports by NAICS (2018)



Source: U.S. Department of Commerce International Trade Administration

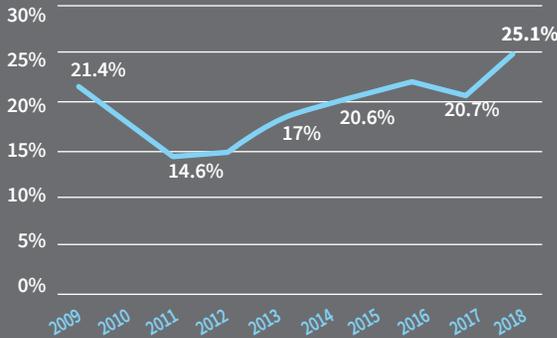
SERVICES TRADE BETWEEN HONG KONG AND CALIFORNIA

As previously mentioned, it should be noted that trade data of services is limited to a national level. Unfortunately, as Hong Kong is a service-based economy, this heavily limits our analysis. Nonetheless, it is still possible to understand and interpret the services trade between these two regions in a meaningful way.

Historically, services have made up around 20 percent of all United States export trade to Hong Kong. As Exhibit 2-15 shows, this percentage is rising, with 25.1 percent of all United States exports to Hong Kong being services trade.

EXHIBIT 2-14
Services as Share of Total Exports (US to HK)

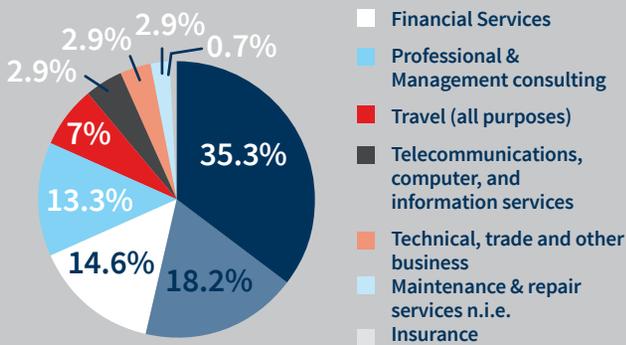
Source: Bureau of Economic Analysis



The most glaring difference between the services exports of the two regions is the prevalence of intellectual property charges from the U.S. As an economy heavily reliant on creativity and innovation, many industries in the U.S. depend on the use of patents, copyrights and trademarks to protect their inventions when exported. California plays a significant role as a hotbed for intellectual property exports largely because of the extensive ingenuity taking place in Hollywood and Silicon Valley.

Some of the most IP-intensive service-providing industries are as follows: software publishers; portfolio management; computer design and related services; and motion picture and video production.²⁵

EXHIBIT 2-15
Service Exports from US to HK

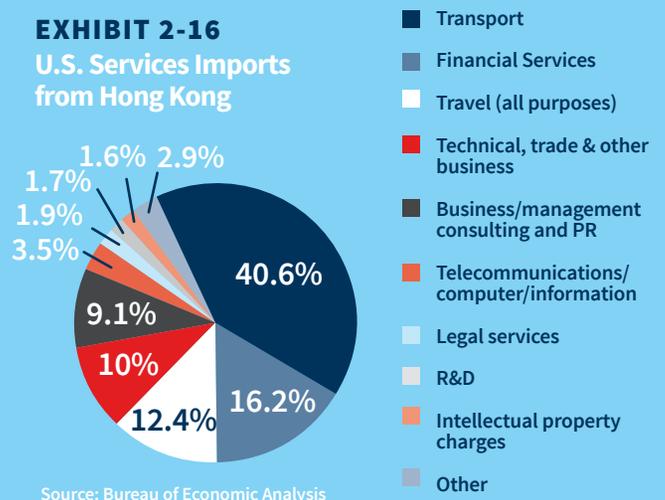


Source: Bureau of Economic Analysis

Brimming with major studios such as NBC Universal, Viacom, Warner Media, Walt Disney Studios and Sony Pictures, Hollywood is the largest contributor to the entertainment industry in the United States. Additionally, both Warner Music Group and Universal Music Group, who collectively have a 50 percent market share of the American music industry, are headquartered in Los Angeles.

Hong Kong is a significant consumer of American media. The regions total imports of such intellectual property totals over \$4 billion worth each year. Section 7 of this report will further explore the major contributions that film and media have in the region. Aside from intellectual property, other noticeable services sent from the United States to Hong Kong are transportation services. Like Hong Kong's services exports to the United States, the transportation category is founded on the significance of the sea and air-based goods transport between the two regions. Following transportation are financial services and professional and management consulting services.

EXHIBIT 2-16
U.S. Services Imports from Hong Kong



Source: Bureau of Economic Analysis

²⁵ Antonipillai, Justin, et al. "Intellectual Property and the U.S. Economy: 2016 Update." U.S. Patent and Trademark Office. <<https://www.uspto.gov/sites/default/files/documents/IPandtheUSEconomySept2016.pdf>>.

TRANS-PACIFIC PARTNERS:

*The commercial, capital and cultural exchange
Between Hong Kong and California*

2

Direct Trade in Goods and Services



As Exhibit 2-16 shows, over 40 percent of service imports from Hong Kong to the United States are in the transportation sector. The overwhelming majority of this category involves the cost of overseas shipping via maritime and air transportation between the U.S. and Hong Kong. This is to be expected given the nearly \$12 billion worth of goods trade between the two places.

Second and third to transportation services imported from Hong Kong are financial and travel services. Financial services are those provided by banks and include both personal and corporate banking revenues. Travel services include educational tourism as well as generic tourism. Smaller categories such as research and development are still essential elements of the Hong Kong economy regardless of the dollar amount. These figures paint the picture of how truly diverse the services trade is between the United States and Hong Kong.

3

Hong Kong Investments in California

Foreign direct investment (FDI) is a vital component of long-term success for any global economy. The foreign direct investment from Hong Kong to California is a critical element of the state's economy, allowing Hong Kong-based or Hong Kong-listed investors an opportunity to avail themselves of the human capital and broad consumer base of the world's fifth largest economy.²⁶

FOREIGN DIRECT INVESTMENT

Hong Kong's impact on California comes not only through trade, but through direct investment as well. With over 60 percent of the state's population and producing over 56 percent of its annual product, Southern California necessarily

captures the majority of Hong Kong FDI, which supported just under 3,400 jobs in the Southern California region in 2019. This is a 41.6 percent increase since 2017, when Hong Kong FDI supported nearly 2,400 jobs in Southern California. Most of these jobs are in the leisure and hospitality sector from companies such as Langham Hotels International, which operates the Langham Huntington in Pasadena, California. Hong Kong and Shanghai Hotels are also major employers in the industry, particularly for running the five-star Peninsula Beverly Hills hotel. Both luxury hotels boast world class accommodations to escape the traffic and tempestuousness of urban Los Angeles.

Manufacturing is second on the list of Hong Kong created foreign owned enterprise (FOE) Jobs in Southern California. These jobs come from Techtronic Industries, owners of



²⁶ "2019 LAEDC Economic Forecast & Industry Outlook" LAEDC
<https://laedc.org/2018/02/21/economic-forecast>

TRANS-PACIFIC PARTNERS:

The commercial, capital and cultural exchange
Between Hong Kong and California

3

Hong Kong Investments in California



EXHIBIT 3-1
Hong Kong FOE Jobs by Sector in SoCal

Source: Dun & Bradstreet
Estimates by
LAEDC



TTI Floor Care North America, Inc, the largest floor care business in North America. TTI Floor Care North America owns household name brands such as Hoover, Dirt Devil, and Oreck. Also included in manufacturing FDI jobs are innovative companies such as Braiform Enterprises Incorporated, based out of Fullerton, California. Braiform Enterprises are a global garment hanger reuse organization that has recycled over 1 billion garment hangers since 2017.

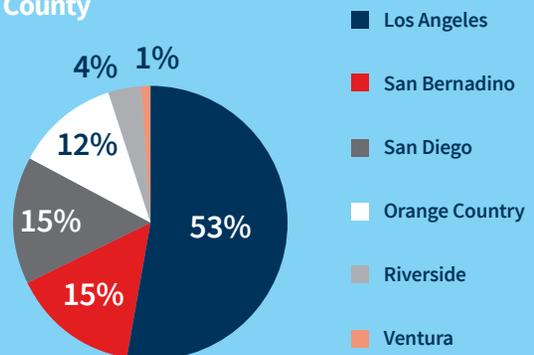
The wholesale trade industry is also a major source of FOE jobs. Renowned companies such as Lenovo Group Limited and TP-Link Technologies are large creators of wholesale trade jobs. In 2018, Lenovo was the number one vendor of personal computers by the number of units shipped worldwide, owning 22.5 percent of the global market. For comparison Dell Technologies owns about 16.2 percent while Apple Inc. owns 6.9 percent of the global market. TP-Link Technologies is another Chinese company whose Hong Kong division invests directly in Southern California, serving as the top provider of Wi-Fi networking devices in the region. The services offered by TP-Link has created over 100 direct jobs in the region, contributing to further indirect opportunities for a multitude of Californian businesses.

Like many technology companies with large international footprints, Lenovo and TP-Link operate between multiple head offices, registered offices, manufacturing hubs and

product development centers. For example, Lenovo principally operates between headquarters in Beijing, North Carolina and Singapore but hosts its registered offices and investor relationship in Hong Kong. Likewise, TP-Link does business in California under the auspices of its parent company registered in Hong Kong.²⁷ Lenovo operates in California partly as Motorola Mobility LLC, which merged with Lenovo’s smartphone division in 2015.

Exhibit 3-2 shows the distribution of Hong Kong’s FDI Jobs by county in Southern California. These jobs are heavily concentrated in Los Angeles County, which accounts for 53 percent. In Orange County, the largest Hong Kong-related FOE is Commercial Carriers Insurance Agency, a largely trucking-related transportation insurer that covers a variety of capital, freight and labor-related insurance products. Originally a member of the Meadowbrook Insurance Group, Hong Kong-registered Fosun International acquired Meadowbrook, and therefore Commercial Carriers, in 2014. Its diverse portfolio of

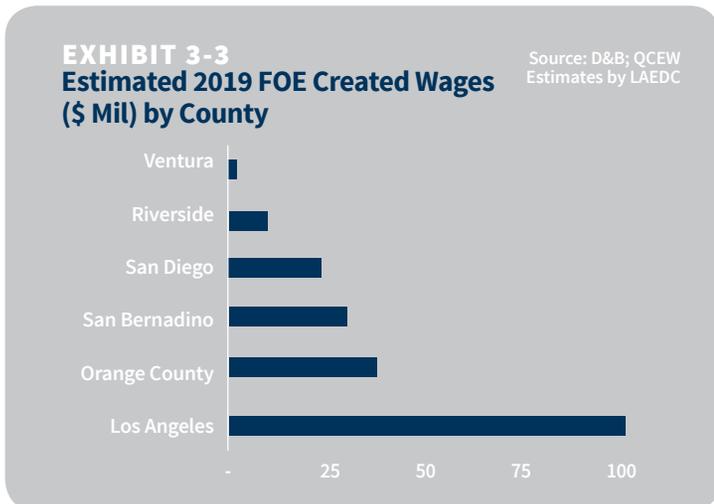
EXHIBIT 3-2
Hong Kong FDI Jobs
by County



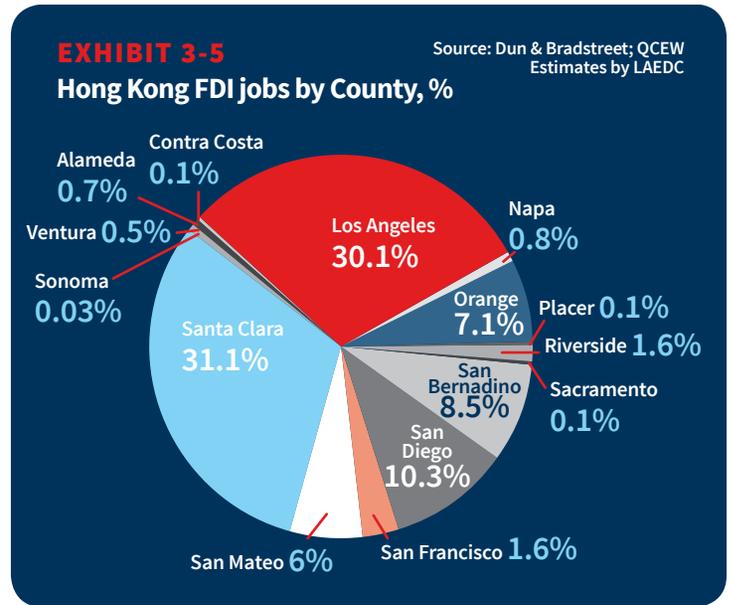
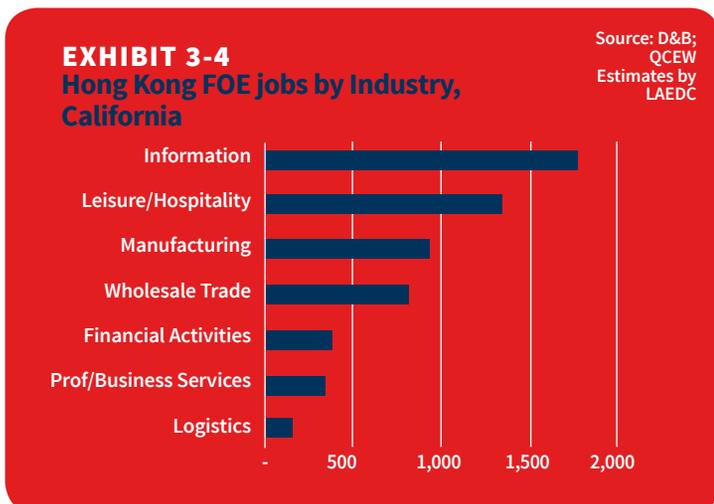
Source: Dun & Bradstreet
Estimates by LAEDC

investments also includes Canadian entertainment brand Cirque du Soleil and American luxury fashion brand St. John.

Los Angeles County’s diverse economy hosts jobs across all industry sectors, and this is no exception for those created through Hong Kong’s investments. Exhibit 3-3 shows the distribution of wages contributed by these jobs by county. Over \$100 million in wages will be paid to Angelinos in 2019, accounting for roughly 50 percent of total wages earned across all Southern California counties.



Across the entire state of California, Hong Kong-based or Hong Kong-listed companies do business in 15 counties, with over 60 percent of Hong Kong-related FDI jobs existing in Los Angeles and Santa Clara counties. Throughout the state, Hong Kong FDI supports over 5,800 jobs paying an average annual wage of \$143,200 across all industries. This is due, in part, to a large concentration in information sector jobs in Santa Clara with AsiaInfo Technologies, one of the largest telecommunications companies in China.



As seen in Exhibit 3-5, on the state level, the information industry takes the lead in creating the most FOE jobs, followed next by leisure and hospitality, the most employed industry in Southern California. The great difference between information jobs can be pinned to the prominence of this industry in the Bay Area.

Other major Hong Kong employers with operations in California include Gate Gourmet (one of the brands operated by Gategroup), a global airline provisioner that services over 200 airports and 700 million passengers across 6 continents. Some of its primary customers include British Airways, Virgin Atlantic, Air Canada, American Airlines, United Airlines and Delta Air Lines. Though a Swiss-based company, Richard Ong, who sits as chair of the company’s board, is CEO of Hong Kong and Singapore-based RRJ Group. Moreover, Gategroup’s share capital is held by HNA Aviation Air Catering Holding Co., Ltd., a company limited by shares organized under Hong Kong law.²⁸

While these Hong Kong-based employers can be celebrated for the high paying employment opportunities they bring to the region, their true significance lies in the barriers that they break down in bringing both regions closer together. Hopefully, the increasing connectivity of businesses between California and Hong Kong facilitates the creation of friendlier trade policies and minimizing cultural or legal barriers between the two regions.

²⁷ Dun & Bradstreet.

²⁸ “Gategroup 2018 Annual Report” Gategroup <<https://www.gategroup.com/en-gb/investors/financial-reports-presentations/>>

4

Looking Back and Thinking Ahead

US-HONG KONG RELATIONS

Current relations between the United States and Hong Kong can trace their origin to the 1992 US-Hong Kong Policy Act. The principles of this policy were guided by the anticipated handover of Hong Kong from the United Kingdom to the Peoples' Republic of China in 1997. Upon reunion with the Mainland, Hong Kong was granted a high degree of autonomy by the Chinese government, giving the city status as a separate customs territory and thereby granting its special treatment in trade agreements with the United States and supporting its participation in multilateral agreements.²⁹ This autonomy subsists under the principle of "one country, two systems."

In the decades since the ratification of the 1992 Policy, Hong Kong and the U.S. have maintained favorable economic and social conditions. There are close to 1,400 U.S. firms and 85,000 American residents in Hong Kong. The two cooperate within several international organizations such as the World Trade Organization, Asia-Pacific Economic Cooperation forum and Financial Action Task Force.³⁰ Hong Kong assists the United States in security and law enforcement issues, as shown through the implementation of the U.S. Container Security Initiative in 2002. The initiative creates greater

“As a leading logistics hub, Hong Kong fully recognizes the importance of enhancing the security of the world's maritime trading system through strengthened customs co-operation at seaports.”

- **Raymond Wong Hung-chiu, Hong Kong Commissioner of Customs and Excise**

Hong Kong works to implement US container security initiative".
Government of the Hong Kong Special Administrative Region.
<<https://www.info.gov.hk/gia/general/brandhk/0923001.htm>>.

cooperation between the two in facilitating maritime trade by identifying and screening high risk containers, furthering competition and consulting with mutual stakeholders.

More recently, the Pacific Bridge Initiative was launched in 2013 between the U.S. Commercial Service and the Hong Kong Trade Development Council (HKTDC) to create resources for U.S. exporters looking to trade with or through Hong Kong.³¹ Since its creation, the program has continued holding regular conventions on educating American companies about Hong Kong's advantages for expanding into Asia, stating its importance of being "the region's trade fair capital and convention hub."

Despite upholding Hong Kong's special status since the 1992 Policy Act, the U.S. Congress is currently reviewing a new version of the previously submitted Hong Kong Human Rights and Democracy Act of 2017. If passed, this bill would amend the 1992 policy to allow the Department of State to conduct an annual review determining the state of Hong Kong's special treatment.

IMPACTS OF TRADE WAR

The lingering trade war between the United States and China is not contained within their own national boundaries and instead produces massive ripple effects across the global economy. The uncertainty in trade relations between the world's two largest economies has given investors ample cause for concern and has driven markets into relentless volatility.

Consumers, investors and governments everywhere are feeling the repercussions of this back and forth game of tariffs just as much as the players themselves.

As stated in the 1992 Hong Kong Policy Act, the U.S. recognizes Hong Kong as an independent customs territory and economic entity from mainland China. Therefore, the tariffs enacted towards China during the Trump presidency have not applied directly to Hong Kong. However, as the U.S.



and China represent its two largest trading partners, Hong Kong's market frequently acts as a mediator between the two, re-exporting goods from one country to the other and is susceptible to any tension between the two. As such, the US-China trade war has proven damaging to trade in and out of Hong Kong, as seen by the 11 percent decrease in exports to the U.S. and zero growth in imports from the U.S., year-on-year in January-July 2019.³²

Through its history, Hong Kong has been a vital middle-man for capital flow in and out of China, with roughly 58 percent of China's outbound investment going through Hong Kong.³³ This means that hits to China will naturally reverberate through Hong Kong's financial sector, an industry that accounts for 18.9 percent of the territory's GDP in 2017, over 230 thousand jobs as of 2019, and has been cited as one of the largest financial centers in Asia.³⁴ Hits to this market in Hong Kong would have quite a drastic effect on the economy of the region.

Despite the tit-for-tat escalation of the tariffs, there is still hope that signs of this trade war could be shifting course. A recent announcement by the U.S. Trade Representative has

²⁹ "S.1731 – United States-Hong Kong Policy Act of 1992." *United States Senate*. <<https://www.congress.gov/bill/102nd-congress/senate-bill/1731>>.

³⁰ "U.S. Relations with Hong Kong." *Bureau of East Asian and Pacific Affairs, U.S. Department of State*. <<https://www.state.gov/u-s-relations-with-hong-kong/>>.

³¹ "Pacific Bridge Initiative." *Trade Connect, Port of Los Angeles*. <<http://www.ltradeconnect.org/pacific-bridge-initiative/>>.

³² "Interactive Data Dissemination Service for Trade Statistics" *Census and Statistics Department, HKSARG* <<https://tradeids.censtatd.gov.hk/Index/b20a3862430e40af935f9a565c739acd>>

³³ Curran, Enda. "Hong Kong Risks an Economic Fate Worse Than Recession." *Bloomberg*. 13 August 2019. <<https://www.bloomberg.com/news/articles/2019-08-13/trade-war-latest-trump-hong-kong-china-economy-singapore>>.

³⁴ "Financial Services Industry in Hong Kong." *Hong Kong Trade Development Council Research*. <<http://hong-kong-economy-research.hktdc.com/business-news/article/Hong-Kong-Industry-Profiles/Financial-Services-Industry-in-Hong-Kong/hkip/en/1/1X000000/1X003UUU.htm>>.

4

Looking Back and Thinking Ahead



stated that tariffs would be delayed from September to mid-December on certain products such as various consumer electronics, clothing, and toys, among other items.³⁵ This is likely designed to alleviate any negative impacts on companies moving towards their peak season of holiday sales. Potentially, if such delays are proven beneficial to both economies and contribute to greater push back against the trade war, there is hope that tensions may be further alleviated.

³⁵ “USTR Announces Next Steps on Proposed 10 Percent Tariff on Imports from China.” *Office of the United States Trade Representative*. <<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/august/ustr-announces-next-steps-proposed>>.

5

Tourists & Students – Crossing Shores

TOURISM BETWEEN HONG KONG AND CALIFORNIA

California has acted as Hong Kong's most popular tourist destination in the United States dating back to the 1950s. Ever since, Hong Kong residents have flocked in the thousands to California for pleasure in addition to business. In 2017, the latest available data, over 62,000 Hongkongers visited California, representing 42 percent of all Hong Kong tourism to the United States.

On average, the length of stay per Hongkonger is just over 12 nights and daily spending per Hongkonger visiting California averages at \$143. This equates to an average of \$1800 being spent per visitor, per trip to California.

The most popular activity Hongkongers participate in while in California is shopping, with more than 93 percent of responders visiting California's many retail locations on their getaway. Therefore, it is not surprising that tourism from Hongkongers injects more than \$113 million dollars into the California economy annually, most of which is in Los Angeles and San Francisco, the two most popular cities in the United States for Hong Kong visitors. Close behind in rank are San Diego and the Anaheim-Santa Ana area. The Los Angeles Metro area is a more popular vacation destination for Hongkongers than the average overseas visitor in California.

Popular reasons for travel include visiting friends and relatives as well as conducting business. When traveling, 72 percent of Hongkongers travel alone, 11 percent higher than the average California visitor. While in the minority, 26 percent of Hongkongers travel with their spouse, partner, and/or

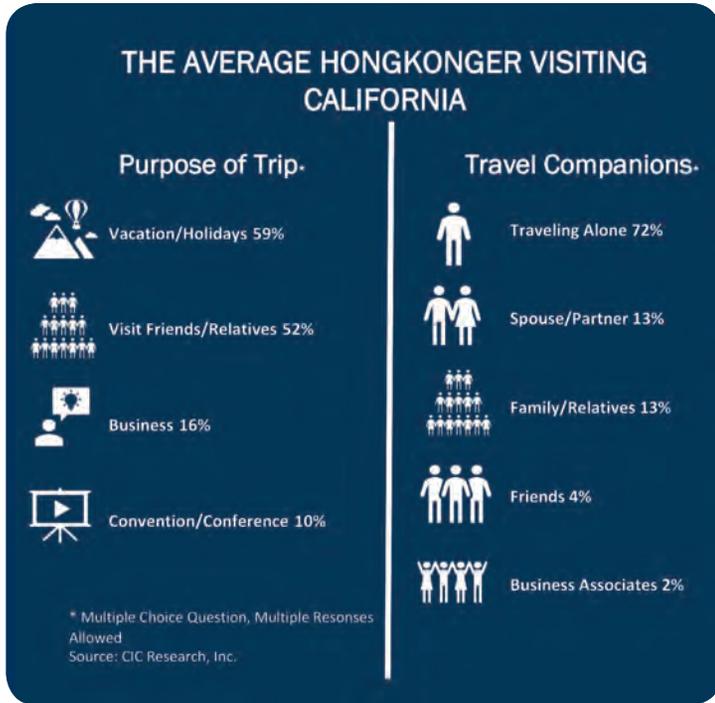


TRANS-PACIFIC PARTNERS:

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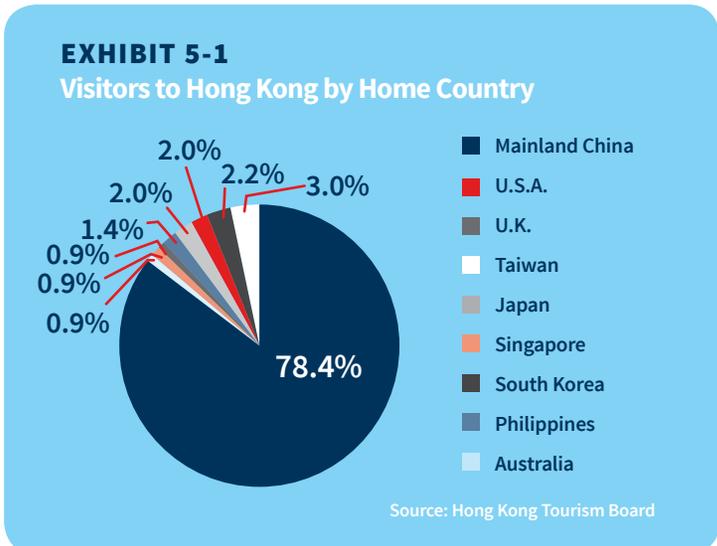
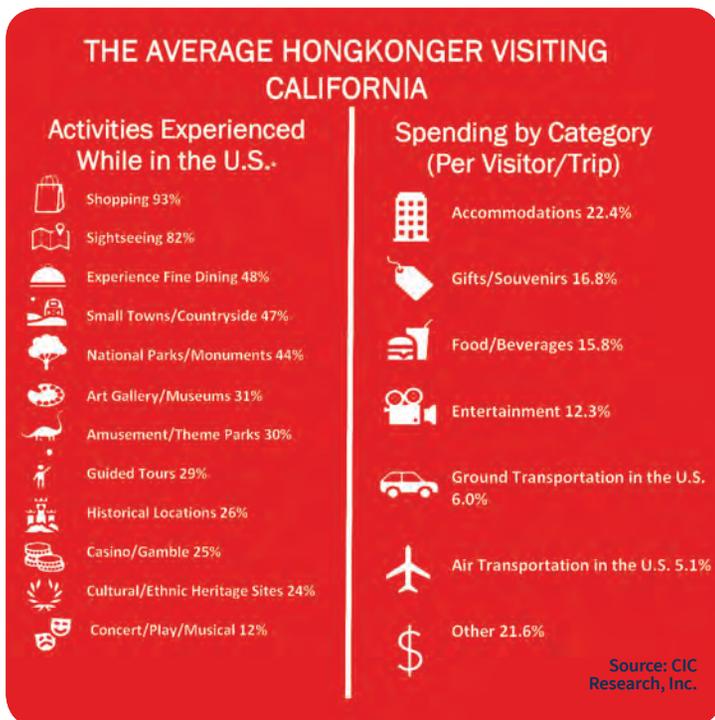
5

Tourists & Students – Crossing Shores



family. The most popular tourist activities for Hongkongers are shopping and sightseeing. Additionally, Hongkongers are 12 percent more likely to partake in fine dining than the average Californian tourist. Despite this, Hongkongers spend about 3 percent less on food and beverages than their fellow tourists. They also spend less on accommodation, opting to stay with friends or family rather than at a hotel. The largest difference in spending between the average tourist and travelers from Hong Kong is the ‘other’ category, where Hongkongers spend about 15 percent more than the mean. This category includes business expenses and durable consumer goods, such as art.

National parks and monuments such as Yosemite, Death Valley, Sequoia, and Alcatraz were also popular with Hongkongers. Alongside these natural wonders are small towns and the California countryside. Included in this designation are smaller townships along the California coast or agricultural regions such as the Central Valley. Despite being less likely to spend money on lodging, increased Hongkonger spending on luxury goods and experiences ultimately contributes to the economy slightly more per capita than their other overseas tourist counterparts.



Although data concerning Californians visiting the Pearl of the Orient is lacking, the Hong Kong Tourism Board announced rising numbers of tourists from the United States as a whole. In 2018, nearly 1.2 million³⁶ Americans visited Hong Kong, making the U.S. the 4th largest source of Hong Kong’s tourists globally and signaling a 7.3 percent increase in American tourists from the year prior. Exhibit 5-1 shows the breakdown on tourists from January to November 2018 in Hong Kong.

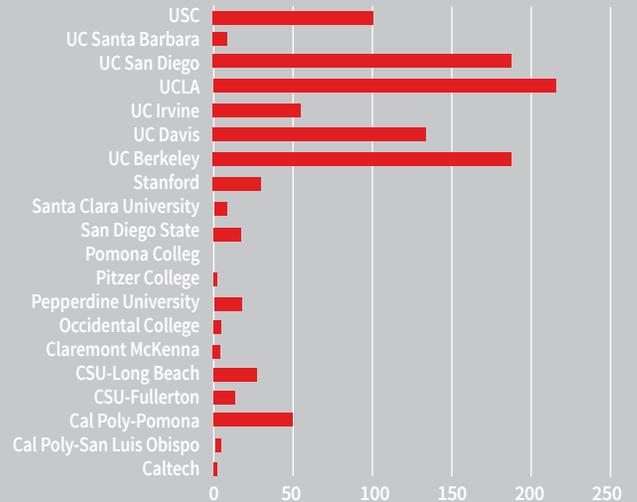
The U.S. far outpaces all other Hong Kong-bound tourists from the Western Hemisphere. In 2018, the U.K. supplied the second highest number of tourists, with roughly 526 thousand visitors, or 44 percent of the U.S. total. Mainland China remains the largest home-destination for Hong Kong’s tourists, representing 78 percent of total visitors to the territory in 2018, followed by Taiwan and Korea. Russia also represents an emerging source of tourists, with over 147,000 Russians visiting Hong Kong in 2018, up 11 percent from the year prior.³⁷

HONG KONG STUDENTS IN CALIFORNIA

While Hong Kong’s impact on California’s tourism is felt throughout the state, their educational achievements should not go unnoticed. Since 2010 there have been over 1,000 Hong Kong students in California universities each year, many of which attend top-ranked Californian institutions of higher learning. The US Census Bureau estimates there are about 100,000 Hongkongers in California, with 2,000 being between the ages of 18 and 24. Therefore, over 50 percent of California based Hongkongers aged 18 to 24 attend higher-education institutions. In comparison, the total number of Hong Kong

students throughout the school year in 2017-2018 reached just over 7,160. California’s economic institutions host around fourteen percent of all Hong Kong students studying in the U.S.

EXHIBIT 5-3
Hong Kong Student Enrollment by University, 2017

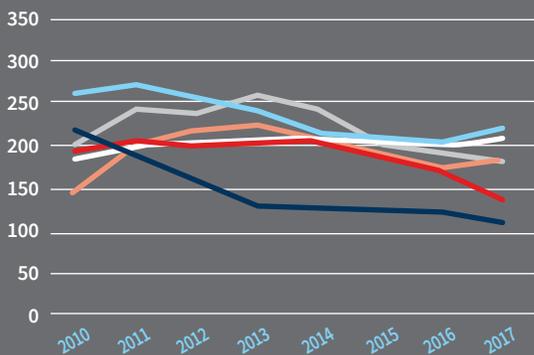


Source: California State University data, University of California data

Exhibit 5-3 shows the distribution of Hong Kong students amongst twenty top universities in California. The University of California Los Angeles (UCLA), the University of California Berkeley, and the University of Southern California (USC), some of the state’s and nation’s highest ranked schools, have the highest enrollment rates of Hong Kong students. University of California, Irvine; California State Polytechnic University, Pomona; and Stanford University account for two thirds of enrollment of Hongkongers within the “all other schools” category given in Exhibit 5-2.

Whether these students remain to seek employment opportunities in California or return home to Hong Kong, they are an integral force in shrinking the cross-cultural barriers between the two regions. The experiences that these students have and the relationships they form will transition into lifelong networks between Hongkongers and Californians maintained by the professional and personal connections formed during university.

EXHIBIT 5-2
California Schools with Most Students from HK



- University of California, Los Angeles
- University of California, Berkeley
- University of California, San Diego
- University of California, Davis
- University of Southern California
- All Other Schools

Source: California State University data, University of California data

³⁶ “Monthly Report - Visitor Arrival Statistics: Nov 2018.” *Government of the Hong Kong Special Administrative Region*. <https://partnernet.hktb.com/filemanager/intranet/pm/VisitorArrivalStatistics/Vis_Stat_E/VisE_2018/Tourism%20Statistics%2011%202018.pdf>.

³⁷ “Tourism Performance.” Tourism Commission, Commerce and Economic Development Bureau. *Government of the Hong Kong Special Administrative Region*. <https://www.tourism.gov.hk/english/statistics/statistics_perform.html>.

6

Wine & Transcontinental Underwater Fiber Optic Submarine Cables

WINE

T

The 1976 Judgement of Paris put California on the map of global sommeliers for the first time. Now, after over 40 years of aging, the state now boasts 138 American Viticultural Areas, 4,500 wineries³⁸ and can take much of the credit for the United States' ranking as the fourth largest wine producing country in the world.

Exhibit 6-1 details the top destinations of U.S. wine exports. Total exports in 2018 reached just over \$1.5 billion, decreasing from its peak of \$1.7 billion in 2016. Hong Kong accounted for only 2.2 percent of total U.S. exports in 2018, ranking 10th on the list of largest export destinations. However, in looking at wine exports for the same year, their share swells to 8.7 percent, making Hongkongers the third largest purchaser of U.S. wines behind Canada and the United Kingdom and surpassing wine exports to Japan, France and China.

EXHIBIT 6-1
Wine Exports

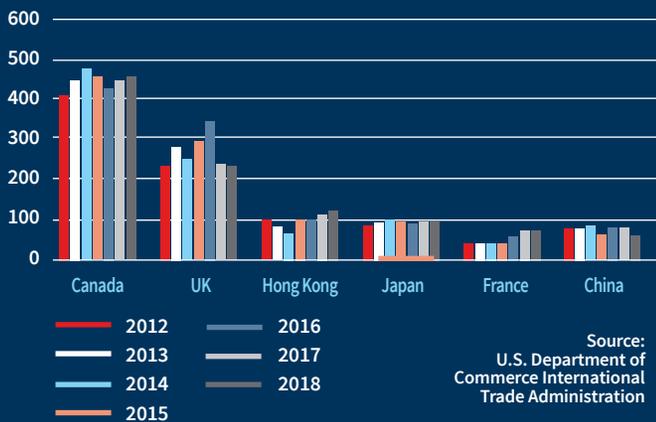


EXHIBIT 6-2
Top Asian Importers of U.S. Wine (\$ million)

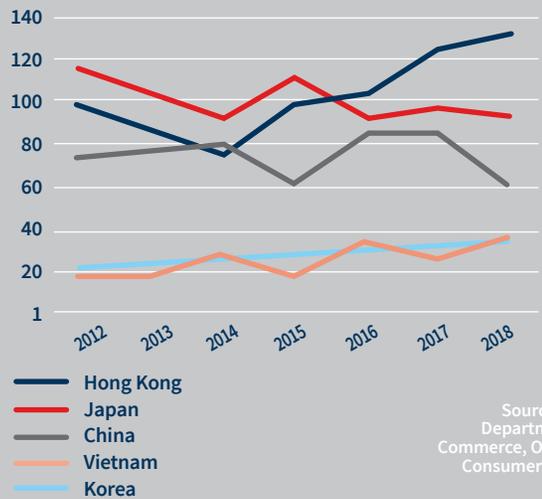


Exhibit 6-2 shows the changing role of Asian wine importers. Japan once dominated as a destination of outward-bound U.S. wine. However, since 2012, Hong Kong's share of U.S. wine has surpassed all other Asian countries and has taken Japan's spot as the wine capital of Asia. These increases in wine imports are largely due to Hong Kong's shift away from regulating the wine trade.

In recognizing its position as the central intermediary between the global wine community and Mainland China, Hong Kong announced in November 2017 that all wine re-exported from Hong Kong to the Mainland would qualify for instant customs clearance and enjoy no Value Added Tax (VAT) or Goods and Services Tax (GST), making Hong Kong a free wine port.³⁹

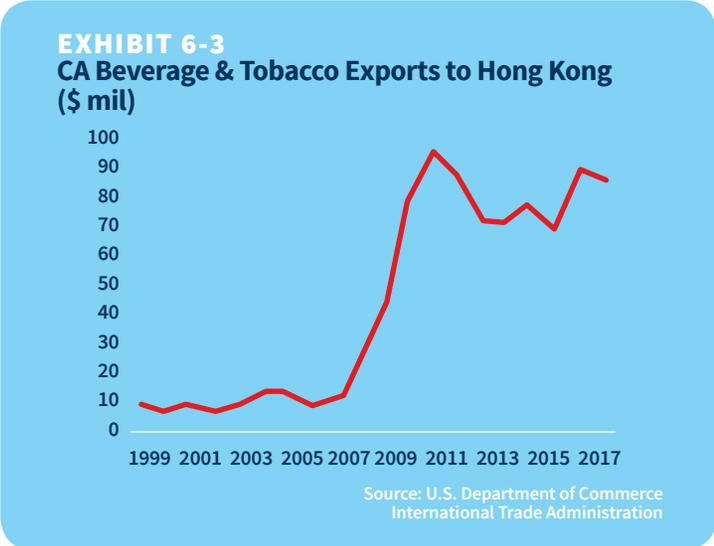
Hong Kong's re-exports are a tremendous contributor to its economy and wine is no exception. In 2018, 28.7 percent of



total wine imports were then re-exported. In 2018, 84.4 percent of Hong Kong’s wine re-exports went to Mainland China, followed by 8.3 percent to Macao and 1.3 percent to Singapore.⁴⁰ Despite the growth in the California and Hong Kong wine trade, the U.S. falls significantly far behind France, Australia and the United Kingdom as Hong Kong’s top import origins.⁴¹

California’s role in these exports is profound. Accounting for nearly half of the wineries in the United States and over 80 percent of its wine production, California ranks among one of the world’s leaders in wine production and dominates the U.S. market for the fruit of the vine.⁴²

From 2002 to 2018, total exports from California to Hong Kong have increased nearly 170 percent. In looking at the same years for the export of beverage and tobacco products, of which wine is a major contributor, growth has exceeded 700 percent, as shown in Exhibit 6-3.



³⁸ Number of wineries in the United States in 2019, by state. *Statista*. <<https://www.statista.com/statistics/259365/number-of-wineries-in-the-us-by-state/>>.

³⁹ “Wine re-exported from Hong Kong to enjoy instant customs clearance in all customs districts of the Mainland.” *Government of the Hong Kong Special Administrative Region*. <<https://www.info.gov.hk/gia/general/201711/09/P2017110900371.htm>>.

⁴⁰ “Top 10 Re-export Destinations (2018), Ranked by Value of Wine.” *Commerce and Economic Development Bureau, Government of the Hong Kong Special Administrative Region*. <https://www.wine.gov.hk/en/statistics3_2018_reexport.html>.

⁴¹ *Ibid*.
⁴² Main, Douglas. “Undersea Cables Transport 99 Percent of International Data.” *Newsweek* <<https://www.newsweek.com/undersea-cables-transport-99-percent-international-communications-319072>>.

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6

Wine & Transcontinental Underwater Fiber Optic Submarine Cables



SUBMARINE CABLES

Sending messages across the world is by no means a novelty, nor is sending them with the aid of underwater cables. Communication was revolutionized in the 1830s when the advent of the time-saving telegraph transmitted the first electrical signals via wires for communication.⁴³ The first transatlantic message in 1858 between President Buchanan and Queen Victoria was received in a record-breaking sixteen hours.⁴⁴ Over time, telephone lines and the Internet took the principles laid before them by the telegraph and transformed the speed with which communication cables operate.

In today's use of global communication, its common ground to rely on a deeply connected system of fiber optic cables on the ocean floor. Due to Hong Kong's central location along the Pacific Rim, 99 percent of its trans-oceanic communications data, such as international call, texts and internet data, is transmitted via these communication cables,⁴⁷ turning the region into a major hub for these transcontinental communication cables. By 2021, Hong

Kong will possess 18 operable submarine communications cables, making up about 65 percent of China's total cable infrastructure.⁴⁵ Hong Kong's status as a special administrative region attracts significant foreign investment in the communications sector, recently materializing in the form of regional projects spearheaded by major tech companies such as Google, Microsoft, and Facebook.⁴⁶ Figure 6-4 maps the current network of cables to and from Hong Kong.

Facebook has teamed up with China Telecommunications Corporation for the construction of Hong Kong Americas (HKA) to lay another major submarine cable expected to be ready for use in 2020. The cable begins in Chung Hom Kok Cable Landing Station and branches into both Manchester, California and Hermosa Beach, California.

Google has also partnered with Facebook for their investment in the Pacific Light Cable Network (PLCN), connecting L.A. directly to Hong Kong with an expected completion date in 2019. The PLCN is nearly 12,971 kilometers long and can transport up to 144 terabytes per second, which would correspond to sending

roughly 40 million copies of this document per second across the Pacific.⁴⁷ Submarine cables such as the PLCN are fundamental to business between California and Hong Kong, as the alternative of satellite internet is around one hundred times slower.⁴⁸ The third major partner in this venture, Pacific Light Data Communication, is a communication provider founded in Hong Kong in 2015.⁴⁹

Currently, just one cable connects Los Angeles directly with Hong Kong. Beginning its operations in November 2009, Asia-America Gateway (AAG) is a \$500 million submarine cable funded by nineteen partners including AT&T, BT (formerly British Telecom) Group and CAT Telecom. The cable has a maximum capability of 2.9 terabytes per second, a fraction of what newer cables such as the PCLN or HKA will be able to provide. Once both the newer cables are completed, Hong Kong will update AAG’s maximum communications volume by nearly fifty times its current capacity.

Many opportunities lie ahead for the promising future of the California-Hong Kong cable communication network. However, some hurdles still exist, such as the more stringent guidelines being placed on non-U.S. cable providers due to national security concerns. Nevertheless, with significant projected growth in data and technology sectors in the coming years, these much-needed infrastructure upgrades – political obstacles overcome – will continue the deepening of business and technological ties between Hong Kong and California.

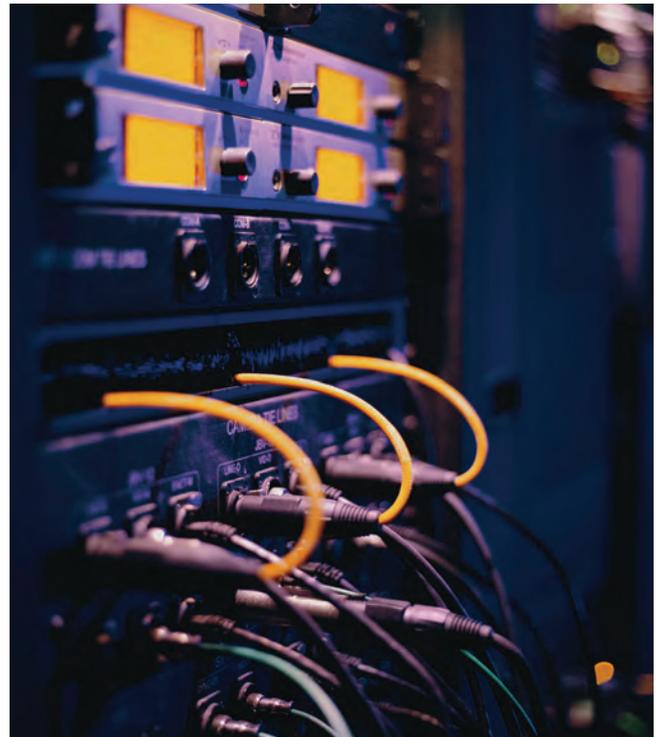
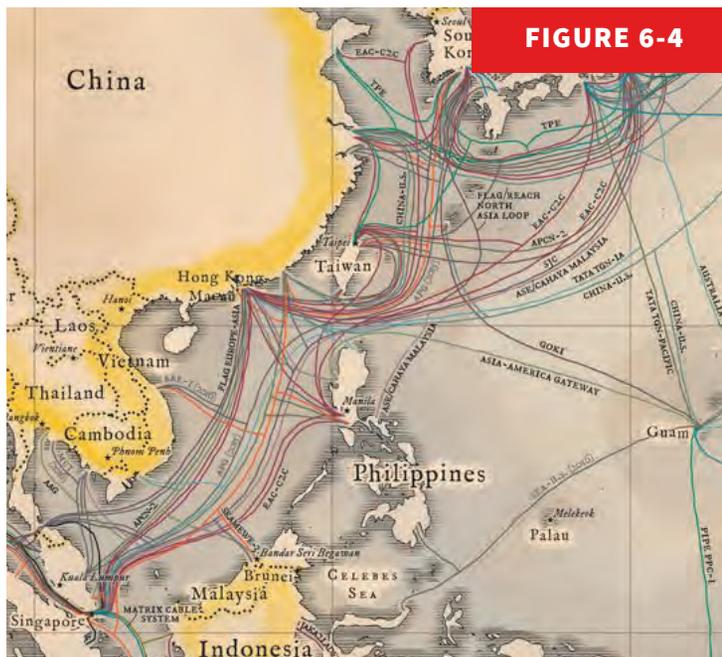


FIGURE 6-4



- ⁴³ “Morse Code & the Telegraph.” *History*. <<https://www.history.com/topics/inventions/telegraph>>
- ⁴⁴ Cookson, Gillian. “The Transatlantic Telegraph Cable: Eighth Wonder of the World.” *History Today*. <<https://www.historytoday.com/archive/transatlantic-telegraph-cable-eighth-wonder-world>>.
- ⁴⁵ Ibid, “Morse Code & the Telegraph.”
- ⁴⁶ “Submarine Cable Map.” *TeleGeography*. <<https://www.submarinecablemap.com/>>.
- ⁴⁷ Hecht, Jeff. “Submarine Cable Goes for Record: 144,000 Gigabits from Hong Kong to L.A. in 1 Second.” *IEEE Spectrum*. <<https://spectrum.ieee.org/telecom/internet/submarine-cable-goes-for-record-144000-gigabits-from-hong-kong-to-la-in-1-second>>.
- ⁴⁸ “Pacific Light Cable Network” *Pacific Light Data Communication Co., Ltd.* <<https://pldcglobal.com/>>.
- ⁴⁹ “ViaSat, Boeing Enter Next Phase of ViaSat-3 Satellite.” *ViaSat*. <<https://www.viasat.com/news/viasat-boeing-enter-next-phase-viasat-3-satellite-integration>>
- ⁵⁰ “Pacific Light Cable Network” *Pacific Light Data Communication Co., Ltd.* <<https://pldcglobal.com/#about>>.
- ⁵¹ “AAG.” *Submarine Cable Networks*. <<https://www.submarinenetworks.com/systems/trans-pacific/aag>>.

7

Hollywood of the East

Film in Hong Kong has long been a beloved and successful industry, combining extraordinary talent with insurmountable creativity. Such success has endearingly earned it the nickname “Hollywood of the East.” In full embrace of this role, Hongkongers created their very own version of the legendary Californian “Walk of Fame” with a 450-meter “Avenue of Stars” featuring over 70 beloved celebrities. Construction began in the 1980s along Victoria Harbor and opened to the Hong Kong public in 2004.⁵²

In another embrace of their Hollywood status in the international film industry, the Hong Kong Film Awards (HKFA) have been hosted each April since 1982 to honor the industry’s most talented actors, directors, producers, screenwriters, cinematographers, costume designers and musicians. Akin to the beloved Oscar statue, which features a knight atop a roll of film clutching a crusader’s sword, HKFA awards their winners the statuette of a goddess dressed in golden film, inspired by the image of the 1979 Miss Hong Kong winner Olivia Cheng.⁵³

Like many industries, entertainment is one more in which Hong Kong bridges the gap between mainland China and Western audiences. Films from Hong Kong have seen themselves transformed in Hollywood adaptations, including Oscar-winner *The Departed*, a 2008 Martin Scorsese film based on Hong Kong’s 2002 hit *Infernal Affairs*. However, recent trends suggest that collaboration, rather than re-creation, is what the future portends for the Southern California-Hong Kong film ecosystem. One key indicator of this trend manifested in 2015, when Warner Bros. Entertainment and China Media Capital formed a joint venture, Flagship Entertainment Group Limited, to establish a base in Hong Kong as their base for joint film creation.⁵⁴

“Creative collaboration between U.S. and China filmmaking partners allows for the exchange of technical expertise and the development of young Chinese talent for years to come...”

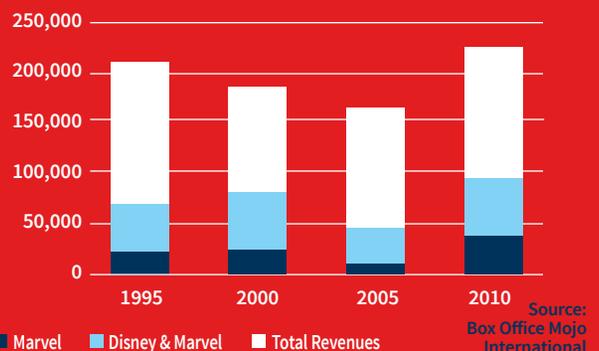
- joint statement by China Media Capital and Warner Bros.

Additionally, more films in Hollywood are turning to Hong Kong as a filming destination. Rupert Sanders’ interpretation of the popular Japanese manga series, *Ghost in the Shell*; Dean Devlin’s *Geostorm*; and *Transformers: Age of Extinction* all included significant amounts of filming in Hong Kong.⁵⁵

DISNEY

Not unlike its prominence in California’s economy, the Walt Disney Company also serves as a key economic stimulator in Hong Kong. Disney partnered with the government of Hong Kong to form the Hong Kong International Theme Parks Limited entity, which debuted Hong Kong Disneyland in 2005. Consisting of three hotels and seven themed lands, the park hosted 6.7 million visitors in 2018 with revenues of \$765 million.⁵⁶

EXHIBIT 7-1
Top 20 Hong Kong Box Office Film Revenues
(\$ thousands)



Along with a bustling theme park, Disney also proves popular in Hong Kong’s box offices. Of the top 20 Box Office performers in Hong Kong through August 2019, 55.7 percent or \$64.9 million of total gross revenue went to ticket sales for Disney, over 65 percent of which are thanks to Disney’s



Marvel films.⁵⁷ Due to the popularity of the films in the region, Disney announced a major expansion to the Hong Kong Disneyland Park, beginning in 2017 and estimated to end in 2023.⁵⁸ Disney's Marvel movies have accounted for at least one third of their gross revenue in Hong Kong's top 20 Box Office movies since 2015, while Marvel movies produced by Fox and Sony, such as *Deadpool* and *Spider-Man: Far From Home*, have also done well. Due to this immense popularity, a major inclusion of the Disney Park expansion will feature Disney's Marvel movies. Exhibit 7-1 shows the success of Disney and Disney's Marvel box office performances in Hong Kong since 2015.

The increases that Disney had for its attendance figures at Hong Kong Disneyland in 2018 as well as the increase in box office hits demonstrates the strength that the company has in their Hong Kong market. With plans of a \$1.4 billion expansion to Hong Kong Disneyland⁵⁹ and more major films to come, Disney is by no means taking lightly the tremendous support they receive from Hong Kong fans and continues to strengthen their investments with and commitment to the region.

⁵² "Avenue of Stars." *Chinatravel.com*. <<https://www.chinatravel.com/hong-kong-attraction/avenue-of-stars/>>.

⁵³ "The 37th Hong Kong Film Award Ceremony 2019." *Hong Kong Traveler*. <<https://www.hong-kong-traveller.com/hong-kong-film-award.html>>.

⁵⁴ Brzeski, Patrick. "Warner Bros., China Media Capital Unveil Joint Venture to Produce Chinese-Language Tentpoles." *The Hollywood Reporter*. <<https://www.hollywoodreporter.com/news/warner-bros-china-media-capital-825025>>.

⁵⁵ "Film Entertainment Industry in Hong Kong." *Hong Kong Trade Development Council Research*. <<http://hong-kong-economy-research.hktdc.com/business-news/article/Hong-Kong-Industry-Profiles/Film-Entertainment-Industry-in-Hong-Kong/hkip/en/1/1X000000/1X0018PN.htm>>.

⁵⁶ Niles, Robert. "Attendance, revenue are up again at Hong Kong Disneyland." *Theme Park Insider*. <<https://www.themeparkinsider.com/flume/201902/6616/>>.

⁵⁷ "International, Hong Kong." *Box Office Mojo*. <<https://www.boxofficemojo.com/intl/hongkong/yearly/>>.

⁵⁸ Shen, Alice. "Land reserved for Hong Kong Disneyland expansion can be used for other short-term events, government says." *South China Morning Post*. <<https://www.scmp.com/news/hong-kong/hong-kong-economy/article/2150651/land-reserved-hong-kong-disneyland-expansion-can-be>>.

⁵⁹ Cripps, Karla. "What do Hong Kong Disneyland's expansion plans mean for traveler?" *Best of Hong Kong, CNN Travel*. <<https://www.cnn.com/travel/article/expansion-hong-kong-disneyland/index.html>>.

8

Hong Kong Companies in California

A

s referenced in Section 3, investments and company activity between Hong Kong and California contribute to the strength of the two regions' economic and business ties. In conducting this study, the LAEDC contacted many Hong Kong-based or Hong Kong-listed companies to gain insight on their operations and economic

footprint in California.

Since Hong Kong operates as a separate customs territory while existing as a special administrative region of the People's Republic of China, companies operating in Hong Kong have the potential for unique synergies. This empowers Hong Kong to negotiate free trade agreements of its own. Hong Kong has standing free trade pacts with Mainland China (the Closer Economic Partnership Arrangement); New Zealand; the member states of the European Free Trade Area (EFTA); Chile; Macau; the Association of Southeast Asian Nations (ASEAN); and Georgia.⁶⁰ Ultimately, Hong Kong is still a region of China. As a part of China, Hong Kong-based companies have unique access to Chinese markets and to China's connections to the rest of the world, including but not limited to countries participating in the Belt and Road Initiative.

Companies avail themselves of the economic and trade synergies available in Hong Kong in several ways, especially vis-à-vis California. First, Californian companies operate subsidiary offices or regional headquarters in Hong Kong. Second, Hong Kong-based companies operate other principal offices in California. Thirdly, Chinese or Californian companies might operate through Hong Kong via holding companies, registered offices, or other corporate structures. Fourthly, companies principally based in China or California might still list on the Hong Kong Stock Exchange to gain access to a deep pool of international liquidity made possible by the city's world-leading financial sector. In any business scenario, the connections between Hong Kong and California are never just bilateral. Rather, Hong Kong offers Californian companies a gateway to China and indeed all East Asia, whereas California offers Hong Kong-based and Hong Kong-listed companies a gateway to the United States and the rest of the Americas.

The following section offers a series of brief profiles of a variety of companies across several industries that embody the extensive business and financial ties between the Golden State and Asia's Global City.

CATHAY PACIFIC



Cathay Pacific is an airline whose name was born from its founder's once ambitious dream to cross the Pacific from China. The visionaries of this dream, two ex-Air Force pilots, formed the company in 1946 as a product of their commitment to providing post-war China with goods from Australia. Today, Cathay Pacific connects more than 90 destinations in some 35 countries, serving as Hong Kong's flagship airline. Ranked number 4 in World's Top 10 Airlines of 2019, Cathay Pacific has proven its success in connecting businesses and people all over the world.⁶¹

Cathay Pacific's first non-stop flight to North America flew its maiden voyage in 1982 from Hong Kong to Vancouver, British Columbia. Continuing service from Vancouver to San Francisco was introduced in 1986, and in 1990 Cathay Pacific launched its first direct flight from Hong Kong to Los Angeles. Moving to San Francisco in 2005, Cathay Pacific had previously hosted its Americas headquarters in Los Angeles but maintains its regional cargo offices in Southern California. The airline currently operates three daily direct flights from Hong Kong to San Francisco and Los Angeles. Its air freight arm, Cathay Pacific Cargo, send six to nine cargo flights per week to Los Angeles."

SHADOW FACTORY



Shadow Factory operates from Sai Ying Pun, Hong Kong and offers services in branding, web & application development, video, visual effects (VFX), and Virtual reality (VR) & Artificial



Reality (AR). Shadow Factory is a globally recognized leader in immersive content and digital strategy, partnering with and serving companies such as: Facebook, The Economist, Cartier, Audi, J.P. Morgan and more. Shadow Factory also operates as the official digital media sponsor of Canada’s professional rugby team, the Toronto Wolfpack.

This summer, the company accompanied the Hong Kong Game Industry Association to the Game Developer’s Conference in San Francisco to present their VR game Stupid Cupid to those at the forefront of game development.

ALPHALITE COMPANY LIMITED



As part of Ka Shui International Group, a publicly-traded company on the Hong Kong Stock Exchange, Alphalite provides quality LED technology and lighting. Founded in 1988, Ka Shui was the first in Hong Kong to create the technology for developing magnesium alloy die-cast and now operates automated plants throughout China. Alphalite, headquartered in Southern California, operates five manufacturing facilities with over 5,400 employees and continues to serve as an expert in lighting solutions, with extensive investment in R&D and innovative engineering. Alphalite continually seeks to improve functionality and design while reducing energy demand, apparent in its introduction of Advanced Plasma Lighting (APL). APL exceeds brightness levels and energy efficiency of other light sources and can be used in outdoor, indoor or commercial settings.

PRODUCERS GUILD OF AMERICA CHINA TASK FORCE



In 2014, the Producer’s Guild of America (PGA) set up a specific Task Force for China in response to soaring demand for access to the world’s second largest film market. The PGA is a non-profit trade organization dedicated to representing its members involved in the production of film, television and media. The major focus for the PGA is to provide jobs and health benefits as well as to encourage studios and producers to use fair, legal credits and adhere to working conditions. The 30th Annual Producers Guild Awards were held at The Beverly Hilton hotel in Los Angeles. January 19, 2019.

PGA is a frequent participant of the Hong Kong International Film & TV Market (FILMART), Asia’s largest entertainment market. In 2019, FILMART featured over 880 exhibitors, 8,800 visitors and over 60 special events.

60 “Macau-Hong Kong-Trade Agreements.” *International Trade Administration, United States Department of Commerce.* <<https://www.export.gov/article?id=Hong-Kong-Macau-trade-agreements>>

61 “The world’s Top 10 Airlines of 2019 voted for by travellers around the world.” *Skytrax* <<https://www.worldairlineawards.com/worlds-top-10-airlines-2019>>

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“Chinese investors and more than a billion potential moviegoers have made China indispensable to the film business. The country’s box office total (in 2016), at \$6.6 billion was the world’s second-largest compared to the first place U.S., \$11.4 billion. In a few years, analysts predict China will be No 1.”⁶²

HSBC (HONGKONG AND SHANGHAI BANKING CORPORATION)

Founded in 1865, HSBC formed as the result of Scotsman Thomas Sutherland’s means to provide better banking opportunities for Hong Kong’s expanding commerce. HSBC went on to issue bank notes in Hong Kong and China as a stable currency for the expansive merchant trading of the time. HSBC also served a major role in the industrialization of Hong Kong, granting many loans for the construction of mills and factories. After 150 years of helping businesses and communities thrive, HSBC continues to operate as the biggest bank incorporated in Hong Kong and the region’s principal note issuer.



HSBC offers services in over 65 countries in their four businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

The bank’s long-term goals include reaching USD 100 billion in sustainable investments and financing by 2025. As of 2017, HSBC has reached \$36.7 billion in these investments, earning recognition in Euromoney’s Awards of Excellence 2019 as “World’s Best Bank for SMEs” and “World’s Best Bank for Public Sector Clients.”⁶³ They also focus on assisting clients improve the sustainability of their supply chains.

Listed on the London, Hong Kong, New York Paris and Bermuda stock exchanges, HSBC includes subsidiary branches such as Bank USA, to serve its international clientele. Just this year, the bank announced plans to open 50 new retail branches beginning in Cupertino, California. The expansion will add upwards of 300 new employees to its current staff of around 11,000 U.S. workers. Currently, HSBC has over 35 branches in California and over 200 across the U.S.

“Sustainable finance is key to our long-term strategy. We are at the start of a journey and are committed to being the leading bank in financing the transition to a sustainable, low-carbon economy. We will continue to support our customers’ investments and growth in this area.”

- Daniel Klier, Global Head of Sustainable Finance, HSBC⁶⁴

EAST WEST BANK

East West Bank’s unique origin commenced in 1973 as the first federally-chartered savings institution in the U.S. At the time, the bank primarily served Chinese-Americans in Los Angeles. Today, East West Bank operates in over 130 locations focusing exclusively on the markets of the U.S. and Greater China.



As a subsidiary of East West Bancorp, a publicly owned company traded on the Nasdaq with total assets over \$41 billion, East West Bank continues to flourish as one of the largest independent banks headquartered in California.

The bank also works closely with a large network of associations and non-profits to provide an array of community services, including education and economic opportunities, health care and affordable housing. Among these many efforts is East West Bank’s partnership of over 20 years with United Way to reduce poverty in Los Angeles. United Way has recognized these efforts by awarding the bank with the Outstanding Leadership Award, Spirit of Los Angeles and Model Campaign of the Year.

BANK OF CHINA

From its founding in 1912 to 1949, Bank of China has served as the country's central bank, specializing in international exchange and specialized trade. After 1949, the importance of the Bank's role in China further expanded as it became responsible for the country's foreign exchange operations and supported the growing economic development and infrastructure. In 2006, the bank was listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange and served as the official banking partner for the 2008 Winter Olympic Games and will do so again for the 2022 Winter Olympics. Today, Bank of China operates in 57 countries and regions, including a branch in Los Angeles.



In 1917, the Bank of China (Hong Kong) Limited (BOCHK) was established under its parent company, Bank of China, in Hong Kong. BOCHK incorporated in 2001 and was listed in the Stock Exchange of Hong Kong the following year. Today, BOCHK operates 200 branches in Hong Kong offering financial, investment and wealth management and is the sole clearing bank for Renminbi (China's official currency) business in Hong Kong.

The BOC tower in Hong Kong, the largest building standing in the region at the time of construction, has been recognized for its excellence in architecture and engineering and still stands as a symbol of Hong Kong's presence in global finance.

LEE KUM KEE

Founded in 1888 when Mr. Lee Kum Sheung created the world's first oyster sauce, Lee Kum Kee is now a household name. In 1932, the company moved its headquarters to Hong Kong. Today, it has production facilities in China, Malaysia and Los Angeles, allowing their distribution of over 200 sauces to over 100 countries and regions worldwide. The vastness of sauces can be pinned to their commitment of "considering others' interests (Si Li Ji Ren)" in their production, offering specific taste profiles for over 20 different countries. This commitment to global sales aligns with the company's core vision of exchanging Chinese culture between East and West. This commitment is engrained in the brand's logo, with the red bridge symbolizing the spread of China's culture.

Lee Kum Kee's sustainability efforts are in line with the United Nations Sustainability Development Goals, promoting flexible



packaging and local suppliers to decrease environmental pollution and fossil fuel consumption, solar panels at production bases and an emphasis on a healthy career, family and health balance amongst employees. Additionally, Lee Kum Kee's donations in 2017 exceeded HKD 11.5 million (1.5 million USD) and benefited over 175 programs.⁶⁵ All of these efforts showcased Lee Kum Kee's dedication to corporate sustainable development and led to the "Business for Social Good Award" presented by Our Hong Kong Foundation.⁶⁶ Additionally, the company received the "Hong Kong Family Legacy Award" in 2016 for its sustainable family business, quality management and overall contributions to society.⁶⁷

HNA AVIATION AIR CATERING



HNA Aviation Air Catering was founded in 1993 as a branch of HNA Group, a Fortune 500 company and one of the largest diversified conglomerates in the world.⁶⁸ HNA Group's mission is to connect East and West by improving movement of people, goods and capital. In pursuit of this mission, HNA Group operated over 1250 aircrafts, 1000 domestic and international routes and served about 100 million passengers in 2016. HNA's main business services are in logistics, capital, tech and aviation & tourism.

HNA Aviation and Tourism seeks to provide world class service to consumers by integrating the travel industry

⁶² Schwartzel, Erich. "Hollywood's New Script: You Can't Make Movies Without China" The Wall Street Journal. <<https://www.wsj.com/articles/hollywoods-new-script-you-cant-make-movies-without-china-1492525636>>

⁶³ "Awards for Excellence". Euromoney <<https://www.euromoney.com/research-and-awards/surveys-and-awards/awards-for-excellence/2019>>

⁶⁴ "HSBC named best for sustainable finance". HSBC <<https://www.hsbc.com/news-and-insight/2019/hsbc-named-best-for-sustainable-finance>>

⁶⁵ "Lee Kum Kee is committed to offering continued support for community interests." Lee Kum Kee. <<http://www.lkk.com/sustainability2017/en/cfc.html>>

⁶⁶ "Lee Kum Kee Wins the First Business for Social Good Award by Our Hong Kong Foundation" *Business Insider* <<https://markets.businessinsider.com/news/stocks/lee-kum-kee-wins-the-first-business-for-social-good-award-by-our-hong-kong-foundation-1007506610>>

⁶⁷ "Lee Kum Kee Family Wins "Hong Kong Family Legacy Award"" LKKHPG. <<https://www.lkkhpg.com/en-us/media-centre/corporate-news/detail/20170106133745>>

⁶⁸ "HNA Catering Investment Group" *HNA Catering Investment Group* <<https://www.linkedin.com/company/海航食品控股有限公司/>>

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supply chain. HNA Aviation & Tourism won World Travel Awards (WTA) 'World's Leading Integrated Tourism Group' and the World Tourism Forum award for the 'World's Best Tourism Investment Group' in 2016.⁶⁹

HNA's Capital business operates in over 100 cities with total assets of RMB 440 billion. Meanwhile, its Logistics business is focused on the integration in the supply chains of the transportation and logistics ecosystem. HNA's Technology business began in 2016 to create a collaborative technology ecosystem connecting personnel, trade, capital and information through its use of cloud technologies, big data and IT supply chains and services.

In its company vision, HNA seeks to pursue a "commitment to contribute towards the harmony, wellbeing and advancement of mankind in every way - economically, financially, socially and morally." In achieving this mission, HNA Group has donated over RMB 10 billion to charity, contributing to its recognition from the Forum of China Committee of Corporate Citizenship and Ceremony as "2017 Annual General Award of China's Best Corporate Citizenship".⁷⁰

As the company continues to grow, HNA remains committed to its core values and to integrating all areas of its business in order to further improve the quality of its services.

HNA Aviation supplies just shy of 400 FDI jobs to the Golden State. These jobs dispersed between all four major international airports in the state of California (San Diego International Airport, Los Angeles International Airport, Metropolitan Oakland International Airport, San Francisco International Airport). These jobs are primarily in airport food service, providing food for the flights of major airlines.

HNA's Catering division, Gategroup, is the world's largest airline catering company, serving over 600 million passengers each year and employing over 40,000 workers globally. Just this year, RRJ Capital, an Asian investment firm based out of Hong Kong and Singapore, became the sole shareholder of Gategroup.⁷¹ Gategroup also offers logistic and passenger services, technology solutions and packaged food options to meet customer demands.

CLOVER HEALTH

Clover

Founded in 2014, San Francisco-based healthcare firm Clover Health is a data-centered provider of Medicare Advantage plans, a subset of the national insurance schemes for citizens over 65 in the United States. Unlike the fee-for-service model of so-called "original" Medicare, Medicare Advantage plans pay for managed health care – health care provisions through provider networks and cost sharing – based on monthly fees paid for by beneficiaries. Clover Health provides Medicare Advantage plans but with a twist: Clover uses data analytics to actively monitor the health care of its members to reduce costs and provide savings to beneficiaries and health providers. By operating in the Medicare Advantage market, Clover competes with American insurance giants such as United Healthcare that have long dominated the health care market for seniors.⁷²

Helping to bridge the ocean between California and Hong Kong, Clover Health is developing an engineering and data science team to expand its machine learning models. Established in 2018, Clover's Hong Kong office serves as its first international site and is intended to serve a growing client base across the Asia-Pacific region.⁷³



EFINIX

Based in Santa Clara, California, Efinix is a six-year old startup whose signature field programmable gate array (FPGA) applies artificial intelligence computing to small form, low power and high-volume production.⁷⁴ Backed by Chinese internet retail giant Alibaba, this Californian company has expanded from Silicon Valley to Hong Kong to leverage access to Chinese markets but also customers in South Korea, Japan and Taiwan. Its Hong Kong office is currently limited to research and development, but Efinix plans to expand its Asia-based footprint in the next several years.⁷⁵



PHASE SCIENTIFIC

Phase Scientific was born out of the innovative atmosphere of the University of California, Los Angeles and nurtured by the government of Hong Kong's commitment to fostering its

biosciences sector. A concrete example of the deep business and intellectual capital connections between California, Phase Scientific is globally headquartered in Hong Kong but operates research, development and manufacturing facilities in Garden Grove, California. An innovator in point-of-care tests for diseases like tooth decay, hepatitis and malaria, the company also focuses in the area of liquid biopsies and a proprietary health data platform. Phase Scientific's tool for assessing tooth decay, Indicaid™, first launched in Hong Kong in late 2018.⁷⁶

ZENSOFT



Like many other companies expanding to Hong Kong, Zensoft is a scalable software development service headquartered in Silicon Valley. Zensoft's services span across several areas, including advisory and consulting; visual and technical design; front end development; deployment; maintenance; and back end development. Among its specializations are artificial intelligence, machine learning, neural-linguistic programming, blockchain, user experience, user interfaces, cloud computing and application development.

Zensoft operates four offices other than San Francisco in Minsk, Tel Aviv, Hong Kong and Bishkek (Kyrgyz Republic). Hong Kong is the company's focal point in the Asia-Pacific region.⁷⁷

⁶⁹ "What we do" *HNA Aviation & Tourism* <<http://www.hnagroup.com/en-us/what-we-do/aviation-tourism/>>

⁷⁰ "A Doer than Speaker: HNA Group Crowned Social Responsibility Laurels" *HNA Aviation & Tourism* <<http://www.hnagroup.com/en-us/news/a-doe-r-than-speaker-hna-group-crowned-social-responsibility-laurels/>>

⁷¹ "HNA Group agrees to sell airline caterer gategroup" *Verdict Foodservice* <<https://www.verdictfoodservice.com/news/hna-group-sell-airline-caterer-gategroup/>>

⁷² Rao, Leena. "How this startup is trying to upend health insurance." *Fortune*. <<https://fortune.com/2015/09/18/clover-health-medicare-insurance/>>.

⁷³ "Client Profiles, July 2019. Invest HK." *The Government of the Hong Kong Special Administrative Region*. <https://www.investhk.gov.hk/sites/default/files/2019.07-client%20profiles-en_0.pdf>.

⁷⁴ "Company overview." *Efinix*. <<https://www.efinixinc.com/company-overview.html>>.

⁷⁵ Deng, Iris. "Alibaba-backed start-up Efinix sees big opportunities in China for its programmable AI chips." *South China Morning Post*. <<https://www.scmp.com/tech/start-ups/article/2186938/conversation-efinix-start-sees-big-opportunities-china-its>>.

⁷⁶ "Client Profiles, October 2018. Invest HK." *The Government of the Hong Kong Special Administrative Region*. <<https://www.investhk.gov.hk/sites/default/files/2018.10-client%20profiles-en.pdf>>

⁷⁷ Ibid. "Client Profiles, April 2019. Invest HK."



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Final Thoughts

California and Hong Kong have developed a deeply interconnected relationship, with Hongkongers representing over 98,000 residents, 60,000 tourists, and 1,000 university students in California. With so many Hongkongers calling the Golden State home, it's no surprise that the two economies are just as tightly linked as their cultural environments.

Californians have taken full advantage of Hong Kong's ranking as the most economically free in the world by seeking out a multitude of business opportunities and creating various partnerships in the region. These connections are evident in California's historical role as the U.S.'s main exporter to Hong Kong, representing between 25 and 30 percent of all United States exports to the region. In 2018, these exports totaled over \$10 billion in goods, which exceeded the second biggest export state, New York, by \$700 million. In return, California purchased \$1.3 billion in imports from Hong Kong.

Breakthroughs in collaboration and networking are major contributing factors to the projection of a trading volume of \$14 billion in goods between the two territories in the next few years. Additionally, both regions are heavily invested in each other's services trade, particularly in the transportation, intellectual property and financial sectors. Lastly, Hong Kong imports more Californian goods per capita than any other major trading partner.

Meanwhile, Hong Kong's direct investments in the Golden State has created 5,800 jobs across multiple key industries, and California's key tech giants such as Google are key contributors to the expansion in Hong Kong's communication infrastructure. These advancements further Hong Kong's role as Asia's World City and as a major connector for California and the rest of the United States to China and other Asian countries.

With trade ranging from viticulture and theme parks to communication technologies and entertainment opportunities, the business connections between Hong Kong and California are as varied as they are lucrative.

As this relationship evolves, many factors will remain a top priority in navigating the nature of the relationship. Tariffs between China and the United States will continue to threaten the stability of regional trade between all U.S. states and Hong Kong. Both regions will also have to contend with the increasing prominence of their service markets over manufacturing, the challenges of housing displaced workers, and increased competition in global markets.

Despite it being just over twenty-five years since the United States Congress formalized relations with Hong Kong as a unique customs region, California and Hong Kong outpaced many of the state's other trading partners in terms of the breadth and importance of their relationship. Looking back at the progress between the two and appreciating the richness of their current relationship, Hongkongers and Californians alike should feel optimistic about greater prosperity to come. This rich relationship between California and Hong Kong looks certain to create even greater opportunities for this significant trans-Pacific partnership.

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Appendix

Study Authors

TYLER LAFERRIERE

Mr. Laferriere is an Associate Economist at the Institute for Applied Economics at LAEDC. His work portfolio at IAE includes data management and analysis; model building and forecasting; and economic consulting. His research focuses include data management, economic forecasting, economic policy studies, foreign direct investment and trade, and labor and occupational research. He joined LAEDC in December of 2017.

Before joining LAEDC, Mr. Laferriere was a graduate student at Washington State University pursuing joint degrees in applied economics and statistics. His graduate education also included internships with the Federal Reserve Board and USDA Economic Research Service in Washington, D.C., focusing in the former on consumer spending patterns and the latter on technological adoption models. His applied economics master's thesis involved a cross-sectional study on work-life policies aimed at improving gender balances in economics and applied economics. He also worked extensively in student affairs and as a copy editor and columnist for the WSU newspaper, the Daily Evergreen.

As mentioned above, Mr. Laferriere received his Master of Science degrees in Applied Economics and Statistics from Washington State University. He also holds a Bachelor of Science degree in Economics and Bachelor of Arts degree in Political Science from Gonzaga University. In addition to his role at the LAEDC, Mr. Laferriere is also the vice president of the Los Angeles Chapter of the National Association for Business Economics (NABE).

JOHN RAMSEY

Mr. Ramsey is a research associate at the Institute for Applied Economics at LAEDC. He is typically involved in data collection, organization and analysis as well as economic forecasting. Mr. Ramsey graduated from the University of Southern California (USC) with a Bachelor of Arts in Economics and a Minor in Business Finance. Since then he has gone on to pursue a Master of Arts in Economics also at USC. Mr. Ramsey partakes in many student organizations on campus including the Transfer Student Community where he presides as Treasurer. He looks forward to working in the field of economic consulting in the future, continuing to help both the public and private sectors understand the economic impact of their actions.

WENDY DISCH

Ms. Disch is a research associate at the Institute for Applied Economics at LAEDC. Her work includes data collection, organization and analysis as well as economic policy studies. Ms. Disch graduated from California State Polytechnic University, Pomona (CPP) with a Bachelor of Science in Finance, Real Estate and Law. She looks forward to continuing her postgraduate studies next fall in applied economics at University College Dublin. During her time at CPP, Ms. Disch was active in many on campus leadership roles, including community service clubs, peer tutoring and the decorated National Model United Nations team. She anticipates continuing a career in development economics and international policy.

CHARLIE CARROL

Mr. Carroll is an Applied Economics Intern at the Institute for Applied Economics at LAEDC. At the LAEDC, Mr. Carroll is involved in data acquisition and analysis, research and economic reporting, focusing primarily on foreign direct investment and international trade. Mr. Carroll is currently attending the University of Minnesota-Twin Cities, pursuing a Bachelor of Science in economics with minor in statistics. On campus, Mr. Carroll is heavily involved in his fraternity, Phi Kappa Psi, and works for the University of Minnesota Talented Youth Mathematics Program. After graduation, Mr. Carroll looks to pursue a career in economics and data analytics.





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