

# Implications of Hong Kong's Special Status Revocation for Agricultural Trade between the United States, Hong Kong, and Mainland China

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**I**N 1992, the United States-Hong Kong Policy Act granted Hong Kong status as a separate customs territory. On June 29, 2020, however, the US Department of Commerce withdrew that status due to recent tensions between China and the United States and concerns about Hong Kong's degree of autonomy from mainland China (Stevenson 2020).

Hong Kong is an international trading hub with zero tariffs on most products except for hard alcohol (distilled spirits), tobacco, hydrocarbon oil, and methyl alcohol. Due to its free trade policies, Hong Kong is the world's largest re-exporting port—in 2018, re-exports totaled \$556 billion (97.8% of total exports) (WTO 2019).<sup>1</sup>

With the United States revoking Hong Kong's status as a separate customs territory, China may potentially retaliate with a mix of economic and political policies, thereby further deteriorating US-China trade prospects. Considering that Hong Kong is an important intermediary in US-China trade, it is important to examine both US-Hong Kong and US-China trade to fully assess the special status revocation's potential impacts.

We examine US agricultural trade with Hong Kong and mainland China and Hong Kong's role in intermediating US-China agricultural trade. We also discuss meat products. In particular, we examine beef smuggling via Hong Kong that is hidden behind the unusual beef imports there since 2004.

**Table 1. US Agricultural Trade with Hong Kong and Mainland China**

|                              | US Agricultural Exports to Hong Kong/Mainland China (\$Billion) |       |       |                |
|------------------------------|---|-------|-------|----------------|
|                              | 2017  | 2018  | 2019  | 2020 (Jan–Apr) |
| Mainland China               | 24.00   | 13.16 | 16.26 | 4.65           |
| Hong Kong                    | 4.43  | 4.18  | 3.16  | 0.68           |
| Share of Hong Kong's Imports | 15.6%   | 24.1% | 16.3% | 12.8%          |

|                              | US Agricultural Imports from Hong Kong/Mainland China (\$Billion) |       |      |                |
|------------------------------|---|-------|------|----------------|
|                              | 2017  | 2018  | 2019 | 2020 (Jan–Apr) |
| Mainland China               | 10.74   | 11.49 | 8.09 | 2.26           |
| Hong Kong                    | 0.16  | 0.15  | 0.13 | 0.04           |
| Share of Hong Kong's Exports | 1.5%  | 1.2%  | 1.6% | 1.9%           |

Notes: Based on GATS data (USDA 2020a).

Table 1 shows US agricultural trade with Hong Kong and mainland China in 2017–2019 and January–April 2020. In 2017, US agricultural exports to Hong Kong and mainland China totaled \$28.43 billion; however, by 2019 the total reduced to \$19.42 billion. In 2017 and 2019, respectively, Hong Kong was the destination for 15.6% and 16.3% of those US agricultural exports. In January–April 2020, US agricultural exports to Hong Kong and mainland China were \$5.33 billion, of which Hong Kong accounted for 12.8%.

US agricultural imports from Hong Kong and mainland China are always smaller than exports. In 2017, US imports were \$10.9 billion, \$17.53

billion less than exports. In 2019, US agricultural exports to Hong Kong totaled \$3.16 billion while imports were only \$133 million (USDA 2020a). While the special status revocation could affect the \$133 million in agricultural imports from Hong Kong, it does not affect the \$3.16 billion in US exports to Hong Kong unless Hong Kong retaliates with tariffs on US products.

Table 2 presents Hong Kong's re-exports of key agricultural commodities destined to China. Please note that due to data limitations, we cannot provide data on Hong Kong's re-exports of US agricultural products destined to China—we can only provide data on Hong Kong's total re-exports to China.

In 2016, Hong Kong re-exported \$4.36 billion in agricultural and related

*continued on page 9*

<sup>1</sup> Re-exportation, also called entrepot trade, is when goods enter a customs territory from one country/customs territory and are shipped to another country/customs territory without significant transformation.

**Hong Kong's Special Trade Status**  
continued from page 3

products to China. The top three commodities are hides and skins, forest products, and fresh fruit. The average annual growth rate of Hong Kong's re-exports of agricultural and related products to China was 7.6% from 1993 to 2004, and 5.9% from 2004 to 2016; however, beef and pork products grew at a much faster pace. From 1993 to 2004, the average annual growth rate of Hong Kong's re-exports of pork and beef to China was 110.1% and 23%, respectively. From 2004 to 2016, the average annual growth rate of Hong Kong's re-exports of pork and beef to China was 90.3% and 297.7%, respectively. Hong Kong's surging beef re-exports since 2004 might be caused by smuggling and mainland China imposing a 14-year ban on US beef imports from 2003 to 2017 (Cao 2017).

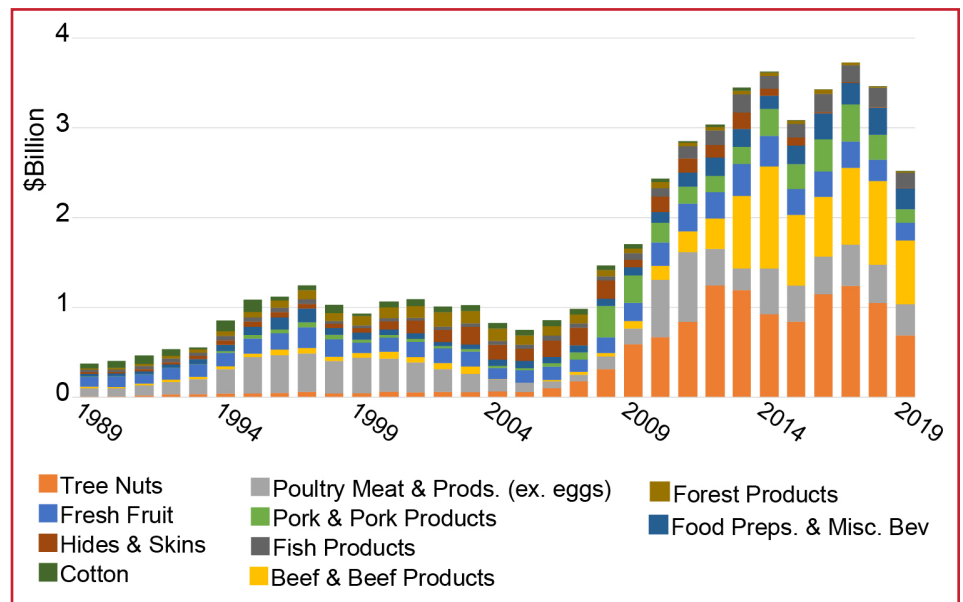
Figure 1 presents the top-10 US agricultural commodity exports to Hong Kong from 1989 to 2019. The top five commodities are tree nuts, poultry meat and products, beef and beef products, fresh fruits, and pork products. US exports of tree nuts, beef, and pork to Hong Kong have increased quickly since 2004.

One phenomenon worth attention is that Hong Kong's top re-exported agricultural commodities are very similar to its top agricultural imports from the United States. Specifically, since 2004, Hong Kong's beef and pork re-exports to China have grown quickly and Hong Kong's imports of US beef and pork also grew at an unusual pace. Mainland China's ban of US beef imports in 2003 due to the discovery of mad cow disease in US livestock may account for Hong Kong's surging US beef imports from 2004 to 2018. While Hong Kong also banned imports of US beef after the mad cow disease outbreak in 2003, it resumed purchases in 2005. Smugglers could have taken the increased beef

**Table 2. Hong Kong's Re-exports of Key Commodities to China (\$Million)**

| Agricultural Commodity              | 1993  | 2004  | 2016  | Total 1993–2016 | Average Annual Growth Rate 1993–2004 | Average Annual Growth Rate 2004–2016 |
|-------------------------------------|-------|-------|-------|-----------------|--------------------------------------|--------------------------------------|
| Hides & Skins                       | 82    | 839   | 34    | 13,067          | 24.8%                                | -8.7%                                |
| Forest Products                     | 368   | 426   | 78    | 10,860          | 3.6%                                 | -7.9%                                |
| Fresh Fruit                         | 27    | 190   | 1,470 | 10,190          | 26.7%                                | 19.9%                                |
| Poultry Meat & Prods. (ex. eggs)    | 136   | 94    | 24    | 6,531           | 6.8%                                 | 16.0%                                |
| Pork & Pork Products                | 1     | 181   | 727   | 5,634           | 110.1%                               | 90.3%                                |
| Distilled Spirits                   | 215   | 58    | 162   | 3,788           | -9.1%                                | 10.8%                                |
| Wine & Beer                         | 27    | 11    | 582   | 2,506           | 6.4%                                 | 51.1%                                |
| Dairy Products                      | 60    | 51    | 265   | 1,886           | 3.0%                                 | 32.5%                                |
| Tree Nuts                           | 30    | 31    | 163   | 1,810           | 4.1%                                 | 24.3%                                |
| Food Preps. & Misc. Bev             | 35    | 26    | 287   | 1,677           | 1.8%                                 | 27.2%                                |
| Beef & Beef Products                | 10    | 53    | 34    | 819             | 23.0%                                | 297.7%                               |
| Cotton                              | 10    | 15    | 0     | 632             | 50.4%                                | 4.4%                                 |
| All Agricultural & Related Products | 1,643 | 2,539 | 4,363 | 76,524          | 7.6%                                 | 5.9%                                 |

Notes: Based on GATS data (USDA 2020).



**Figure 1. US exports of key agricultural commodities to Hong Kong, 1989–2019.**

imports through Hong Kong to mainland China (Fung and Woodhouse 2015).

To illustrate potential smuggling of Hong Kong's meat products to mainland China, we calculate Hong Kong's per capita beef consumption using (imports + production - exports) / population (see table 3). Data show that, in 2016, Hong Kong consumed 114.3 pounds of beef per capita (Cook 2020), slightly lower than our estimates of 134.6 pounds. For comparison, in 2016, Uruguay consumed 124.2 pounds and

Argentina 120.2 pounds per capita, while the United States averaged 79.3 pounds per capita (Cook 2020).

We estimate the potential amounts of beef smuggled from Hong Kong via grey markets by calculating the gap between Hong Kong's beef imports and production and demand based on the per-capita beef consumption of 51.2 pounds in 2010. The last column in table 3 presents the beef smuggling

continued on page 11

per sector per year. This suggests that over 20 years, rural markets would have one additional firm in each industry, which means that the broadband effect is too small to reverse the 70-year long rural to urban shift in population and economic activity.

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### Hong Kong's Special Trade Status

*continued from page 9*

estimates from 2011 to 2019. The estimated smuggled amount reached a peak of 495,000 metric tons in 2014. We estimate that amount was 188,000 metric tons in 2019.

In summary, the United States' revocation of Hong Kong's special status will affect Hong Kong's exports to the United States, but not Hong Kong's imports from the United States or Hong Kong's re-exports to the United States, so long as there are no further retaliatory economic and political actions. As Lardy (2020) points out, as only goods produced in Hong Kong are eligible for MFN tariff treatment by the United States, and given that more than 95% of Hong Kong's exports are goods produced elsewhere and re-exported to global markets, the revocation is not likely to directly affect US-China agricultural trade prospects too much if neither party responds with further retaliatory economic and political actions. However, given Hong Kong's status as a trading and financial hub, the revocation's indirect impact via

**Table 3. Estimated Smuggling of Beef from Hong Kong**

| Year | Imports (1000 MT) | Exports (1000 MT) | Production (1000 MT) | Population (Million) | Per-capita Cons. (Pounds) | Estimated Smuggling (1000 MT) |
|------|-------------------|-------------------|----------------------|----------------------|---------------------------|-------------------------------|
| 2010 | 154               | 0                 | 9                    | 7.02                 | 51.16                     | 0.00                          |
| 2011 | 160               | 0                 | 9                    | 7.07                 | 52.69                     | 4.90                          |
| 2012 | 250               | 0                 | 8                    | 7.15                 | 79.55                     | 92.08                         |
| 2013 | 481               | 0                 | 8                    | 7.18                 | 150.17                    | 322.41                        |
| 2014 | 655               | 0                 | 8                    | 7.23                 | 202.18                    | 495.24                        |
| 2015 | 344               | 0                 | 6                    | 7.29                 | 105.83                    | 180.80                        |
| 2016 | 442               | 0                 | 6                    | 7.34                 | 134.62                    | 277.75                        |
| 2017 | 524               | 0                 | 6                    | 7.39                 | 158.08                    | 358.47                        |
| 2018 | 521               | 0                 | 6                    | 7.45                 | 155.93                    | 354.10                        |
| 2019 | 356               | 0                 | 5                    | 7.44                 | 107.03                    | 188.44                        |

*Notes:* Trade data is from GATS (USDA 2020a). Data on Hong Kong's beef and pork production come from USDA's Production, Supply, and Distribution query system (USDA 2020b). Population data come from the World Development Indicators (World Bank 2020).

financial markets could be much larger than its direct impact on trade—several hedge funds are reportedly considering leaving Hong Kong after Beijing's moves to tighten control of the territory (Lockett and Shane 2020).

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*continued on page 16*

## Hong Kong's Special Trade Status

*continued from page 11*

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