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## Hong Kong still key for SMEs



Joshua Huen owns the B.C.-based Dr. Battery, which has IT and logistics offices in Hong Kong.

Dr. Battery Handout

**Eric Lam, Financial Post** · May 16, 2011 | Last Updated: May 16, 2011 10:03 AM ET

Joshua Huen's battery-making business, Dr. Battery International Group, headquartered in Richmond, B.C., may have operations all over the world, but its nerve centre is most definitely in Hong Kong.

"Everyone knows China is a giant country. Everybody's looking to do business in China, but Hong Kong is the springboard into China," Mr. Huen said in an interview just before he departed for a five-week jaunt through Asia. "We're a global company, but Hong Kong lets us launch into many neighbouring regions and countries."

With China now one of the fastest growing economies in the world, including a rapidly growing middle-class consumer base looking for places to spend its money, many companies are doing business directly with China. But for small and medium-sized enterprises (SMEs), especially, Hong Kong continues to play a crucial role in their expansion strategies.

"Are there more opportunities for SMEs in China? Of course. It's an entire country," Maureen Siu, director of the Hong Kong Economic and Trade office in Toronto, said in an interview. "But an SME is left scratching their heads wondering where to start. Come down to reality. An SME has limited capital. I'd hesitate going into such a large market if I didn't know what I was doing."

Now a Special Administrative Region under the People's Republic of China after it was returned from the British in 1997, Hong Kong is home to more than seven million people in an area roughly a third the size of Ottawa. The city is split between the northern tip of Hong Kong island and the older Kowloon peninsula on the opposite side of Victoria Harbour, creating a longstanding shortage of land. With real estate prices now among the highest in the world, the cost of setting up substantial operations can seem excessive compared with the wide open spaces on the mainland.

Mr. Huen, for one, has taken a tactical approach to the placement of his offices.

Dr. Battery's business model is centred on streamlining, cutting out the distributor role between manufacturers and retailers. The company does this by selling its batteries, adapters and chargers for laptops, cameras and other mobile devices online to both retailers and consumers, Mr. Huen said.

To source its batteries, it has joint-venture production and R&D agreements with three major suppliers and 12 factories in China, while maintaining its IT and logistics offices in Hong Kong which service the company's global network. The company also has an office in California along with its B.C. headquarters for its North American market, and warehouses in all three locations to ensure speedy product deliveries.

Mr. Huen said the company posted North American revenues of \$50-million in 2010. His target for Asia region is \$10-million in revenues in 2011, but he knows there is still a lot of work to do. Key to his strategy is e-commerce, which is commonplace in North America but still in its infancy in China and even Hong Kong.

"We want to bring our e-commerce experience to Asian countries. When we first went to Hong Kong, they knew nothing about e-commerce," he said. "Hong Kong and China will eventually be the same as North America and Europe, but they're just not there yet."

Another advantage to Hong Kong for Canadian entrepreneurs is the fact there are more than 382,000 ex-pats living in the city, a substantial pool of expertise to tap while getting a foothold in the region.

"Canadians living here know Hong Kong very well and the Asian markets very well," Ms. Siu said. Hong Kong is not really that small a market anyway: along with seven million citizens, the city receives 36 million visitors each year, she said.

Another plus is Hong Kong's free-trade agreement with China, established to encourage cross-border business in 2003. The agreement is split into two categories: products and services. While there are specific rules depending on the product to be imported or exported, service individuals and companies need to either be a permanent resident or an established legal entity with "substantive" business operations in the city for at least three to five years.

Based on local government data, between 2007 and 2009, the agreement generated HK\$52-billion (\$6.6-billion) for Hong Kong companies doing business in Mainland China. Hong Kong service suppliers that set up operations on the mainland pulled in HK\$198.5billion (\$25.4-billion) in the same period.

Despite its advantages, some experts wonder whether entrepreneurs shouldn't skip Hong Kong entirely for the many opportunities in China.

"If we were having this conversation 10 years ago, I'd say yes, definitely Hong Kong was the premier destination for foreign businesses," said Mark Bolger, regional manager for Asia with Export Development Canada. "But Asian markets have evolved and China has evolved substantially. To some degree, the importance of Hong Kong as a safe harbour has eroded.

"There's just less growth opportunities in Hong Kong as it's a very small territory," Mr. Bolger said. "If you're doing business in Hong Kong for servicing Hong Kong, your actual market is small compared with other countries, such as Mainland China. It's also economically developed and flush with competition. If you're planning on servicing the domestic market in China, it doesn't make a lot of sense to go into Hong Kong anymore. Remember, China isn't one market, it's 60, each with its own regional tastes and demands."

Indeed, the Chinese government has taken steps in recent years to open up its borders to direct foreign trade and investment.

Beginning in 2009, China launched a pilot project allowing Shanghai and more than a dozen other cities the ability to conduct cross-border transactions in the yuan, instead of having to convert to U.S. dollars first. By February 2011, Chinese banks had settled almost 725billion yuan (\$107-billion) in foreign trade.

As well, the People's Bank of China, the country's central bank, began loosening its grip on the yuan last year, allowing for some currency appreciation after the U.S. threatened a trade war claiming the Chinese were artificially holding down the yuan to maintain an unfair advantage.

Canadian entrepreneurs looking for insight deciding how to make the leap into Asia can find plenty of help both here and abroad.

Alan Kwong, president of the Association of Chinese Canadian Entrepreneurs, runs one of many business groups in Canada focused on connecting entrepreneurs with capital and contacts in Asia.

"We work with businesses and entrepreneurs from all walks of life," he said. The group organizes three or four networking sessions a year, bringing together interested parties with Asian trade organizations and entrepreneurs that have taken the plunge.

**ICS Trust Ltd., founded by Canadian ex-pat Elizabeth Thomson in Hong Kong, has been helping entrepreneurs set up their business, manage their accounts and seek out capital in Hong Kong and other Asian markets for 30 years.**

**"One of the things we saw after 1997 was some companies ignored HK and jumped straight into China, but very often they didn't look at how their capital went into China and how to get it out again," she said. "They really mistook what they thought was simplicity in tax and legal systems when it's really the opposite."**

For her, the bureaucracy in Hong Kong remains much simpler than in China.

"Administration is horrendous. In Hong Kong, we file two pieces of paperwork a year. In China, we file 27 a month," she said.

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