Hong Kong

- Hong Kong's economy has displayed great resilience through the financial crisis. For 2009 as a whole, GDP fell only by 2.8% in real terms. In the first half of 2010, economic recovery became increasingly entrenched, with GDP increased remarkably by 7.2%, year-on-year in real terms.
- Consumer prices increased by 0.5% in 2009 and 2.1% year-on-year in the first seven months of 2010.
- The unemployment rate was 4.3% for May-July 2010, compared to 5.4% for 2009.
- Retail sales have picked up notably in recent months. In the first half of 2010, the value of total retail sales increased by 17.9% over a year earlier, compared to a 0.6% rise in 2009.
- Total exports dropped by 12.6% in 2009, but rebounded strongly in the first seven months of 2010, growing by 24.8% year-on-year.
- A total of 29.6 million visitors, or more than four times the size of local population, came to Hong Kong in 2009, representing a 0.6% increase. In the first seven months of 2010, the number of visitors increased by 24.4% year-on-year.
- The Supplement VII to CEPA were signed on 27 May 2010, providing 35 market liberalisation and trade and investment facilitation measures in 19 sectors, bringing the total number of liberalised service sectors under CEPA to 44. All these liberalisation measures will take effect from January 2011.

Major Economic Indicators

	2007	2008	2009	Forecast/Latest
Population, Mid-year (million)	6.93	6.98	7.00	7.06[a]
Gross Domestic Product (US$billion)	207.1	214.8	209.3	219.7-221.8[b]
Real GDP Growth (%)	+6.4	+2.2	-2.8	+5-6[b]
GDP Per Capita (US$)	29,900	30,800	29,900	31,100-31,400[b]
Inflation (% Change in Composite CPI)	+2.0	+4.3	+0.5	+2.1[c]
Unemployment Rate (%)	4.0	3.6	5.4	4.3[d]

[a] 2010; [b] government forecast for 2010; [c] year-on-year change in January-July 2010; [d] May-July 2010

Merchandise Trade Performance

	2008		2009		January-July 2010	
	US$billion	Growth %	US$billion	Growth %	US$billion	Growth %
Total Exports	362.1	+5.1	316.5	-12.6	213.0	+24.8
Domestic Exports	11.6	-16.8	7.4	-36.4	5.0	+22.1
Re-exports	350.4	+6.0	309.1	-11.8	208.0	+24.9
Imports	387.9	+5.5	345.2	-11.0	239.8	+30.8
Total Trade	749.9	+5.3	661.7	-11.8	452.8	+27.9
Trade Balance	-25.8	N/A	-28.6	N/A	-26.8	N/A

Service Trade Performance

	2008		2009		January-June 2010	
	US$billion	Growth %	US$billion	Growth %	US$billion	Growth %
Exports	92.0	+8.6	85.8	-6.7	48.6	+28.0
Imports	47.0	+10.3	44.1	-6.1	23.9	+18.4
Total Trade	138.9	+9.1	129.9	-6.5	72.6	+24.7
Trade Balance	45.0	N/A	41.7	N/A	24.7	N/A

Current Economic Situation

- The world's freest economy
- The world's most services-oriented economy (services sectors accounting for more than 90% of GDP)
- The world's second highest per capita holding of foreign exchange reserves
- The world's eighth largest foreign exchange reserves holding
- The second largest source of foreign direct investment (FDI) in Asia
- The second largest recipient of FDI in Asia

1. Latest Developments

The Hong Kong economy has displayed great resilience through the financial crisis. For 2009 as a whole, GDP fell only by 2.8% in real terms. In the first half of 2010, economic recovery became increasingly entrenched, with GDP increased remarkably by 7.2%, year-on-year in real terms. The improvement in the first half of 2010 was broadly based. Private consumption increased by 5.8% year-on-year in real terms, following a 0.4% decline in 2009. Fixed investment surged 11.7% after a slight increase of 1.8% in 2009. As for the external sector, exports of goods and services also surged by 20.8% and 17.4% respectively in real terms in the first half of 2010, after declining by 12.7% and growing by 0.3% respectively in 2009. The government forecast Hong Kong's economy to grow by 5-6% in real terms in the latest round of forecast exercise in August 2010.

Retail sales have seen a significant rebound in recent months, reflecting a return of consumer confidence and strong inflows of tourists. In the first six months of 2010, the value of retail sales increased by 17.9% year-on-year, compared to a 0.6% rise in 2009. The labour market conditions have also gradually improved. The unemployment rate has steadily come down in recent months, registering 4.3% for the three-month period ending July 2010, compared to 5.4% for 2009. Meanwhile, consumer prices rose by 2.1% year-on-year in the first seven months of 2010, after 0.5% in 2009. While inflation is still mild, price pressure is building. The government maintained its forecast for consumer inflation of 2.3% this year in the latest round of forecast exercise in August 2010.

In 2009, visitor arrivals rose slightly by 0.3% (arrivals from the Chinese mainland rose by 6.5% while non-mainland arrivals dropped by 8%). Arrivals from the Chinese mainland reached 18 million (61% of the total), of which 10.6 million travelled under the individual visitor scheme. In January-July 2010, the number of visitors increased by 24.4% year-on-year. As for the flow of goods, please refer to the section on Latest Trade Performance and Issues below.

The four pillar economic sectors of Hong Kong are: trading and logistics (25.9% of GDP in terms of value-added in 2008), tourism (2.8%), financial services (16.1%), and professional services and other producer services (11.9%).

2. Budget and Government Initiatives

In the 2009-10 Budget released on 24 February 2010, the Financial Secretary proposed measures to build on Hong Kong's economic recovery from the global financial crisis. For example, the government would provide land resources, human capital and incentives to promote the four traditional pillar industries and the six industries with clear advantages; establish a $300 million Pilot Green Transport Fund to encourage the transport sector to introduce more innovative green technologies and help nurture the budding of green technology in Hong Kong; extend the stamp duty concession in the trading of exchange traded funds to promote asset management business in Hong Kong; complement the National 12th Five-Year Plan and enhance exchanges and co-operation with Taiwan. The Financial Secretary also unveiled initiatives to stabilise the property market and foster a caring society.

In his Policy Address delivered on 14 October 2009, the Chief Executive set out strategies for Hong Kong to break new ground in economic development and sustainable growth. The Chief Executive highlighted the need for closer regional co-operation, better use of land resources, strengthening of the four existing economic pillar industries and the development of six industries where Hong Kong has an edge, namely educational services, medical services, testing and certification, environmental industry, innovation and technology, and cultural and creative industries. Hong Kong would strengthen co-operation with Guangdong Province under the Outline of the Plan for the Reform and Development of the Pearl River Delta announced in January 2009. To promote Hong Kong-Taiwan co-operation, greater emphasis would be placed on developing relations through the establishment of a Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council and the setting up of a multi-functional office in Taiwan.

On strengthening of the four existing economic pillar industries, the Chief Executive set out a series of objectives for Hong Kong's financial services sector, which include reinforcing Hong Kong's role as a testing ground for renminbi products and the internationalisation of the mainland currency, and as a preferred capital raising centre for mainland enterprises. To strengthen the tourism industry, the government was discussing with central authorities measures to facilitate more mainland travellers visiting Hong Kong as well as simplifying entry arrangements and developing emerging markets. On logistics, the government aims at maintaining Hong Kong's leading position in the global supply chain. To give added stimulus to professional services, the government will continue to explore further liberalisation measures under the CEPA framework to open up new markets and expand existing ones on the mainland.

The Chief Executive said that more than 1,000 old industrial buildings could be converted or redeveloped to facilitate the development of the six industries. He proposed lowering the compulsory sale threshold for redevelopment; considering tailor-made lease conditions; and allowing payment of additional premiums exceeding $20 million by installments over five years at a fixed interest rate. Other industry-specific measures, include, for instance, allowing renowned Chinese medicine practitioners from the mainland to join clinical teaching and research programmes in Hong Kong so as to make Hong Kong a stage for promoting Chinese medicine to the world. On education, the government will consider further relaxing the relevant requirements by, for example, allowing mainland students to pursue studies in non-local programmes at degree level or above in Hong Kong. To encourage enterprises to invest in high technology and scientific research, the government will allow eligible enterprises to enjoy a cash rebate equivalent to 10% of their research and development investments.

On top of the provisions granted in earlier phases of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA), the Supplement VII to CEPA were signed on 27 May 2010, providing 35 market liberalisation and trade and investment facilitation measures in 19 sectors, bringing the total number of liberalised service sectors under CEPA to 44. These measures, effective from January 2011, will expedite and facilitate Hong Kong service industries to enter and expand in the mainland market, and foster service industries' integration and professional exchanges of the two sides. Moreover, most of the market liberalisation and facilitation measures cover the four pillar industries and the six economic industries in which Hong Kong has a competitive edge, and as such will help consolidate Hong Kong's status as an international financial, trade, shipping, logistics and high value-added service centre, and lay the foundation for the two sides to jointly develop education, medical services, testing and certification, environmental, innovative technology and cultural industries. CEPA was firstly concluded in June 2003, and supplemented with further liberalisation measures in subsequent years. At present, all products of Hong Kong origin, except for a few prohibited articles, can be imported into the mainland tariff free under CEPA. Details and new developments about CEPA, including our analysis of its impacts on Hong Kong, can be found in http://cepa.hktdc.com/.

3. Investment Flows

Hong Kong is a highly attractive market for foreign direct investment. According to the UNCTAD World Investment Report 2010, Hong Kong was the world's fourth largest FDI recipient, attracting US$48 billion in 2009. This marks the first time that Hong Kong has gained fourth place in the global rankings and represents a jump from its ninth position in 2008. For the 12th consecutive year, Hong Kong continues to be the second largest FDI recipient in Asia, after the Chinese mainland. On the other hand, Hong Kong was the second largest source of FDI in Asia, trailing Japan, with FDI outflows amounting to US$52 billion in 2009.

According to a recent government survey, Hong Kong's total stock of inward direct investment was estimated at US$811 billion at the end of 2008, corresponding to 3.8 times of its GDP in that year. One distinct feature of such direct investment was the indirect channelling of capitals from non-operating companies in tax haven economies. Against this background, British Virgin Islands, Bermuda and Cayman Islands accounted for 32.3%, 5.7% and 1.7% of the total stock of inward direct investment in 2008. Excluding tax haven economies, the Chinese mainland was the most important source of direct investment in Hong Kong (accounting for 36.5% of the total), followed by the Netherlands (6.5%), the US (3.9%) and Japan (2.6%). The majority of the stock of investment was related to service industries including investment holding, real estate and business services; wholesale, retail and trading; banking, finance and insurance; and transport and communications.

For more information and assistance in establishing an operation in Hong Kong, contact InvestHK (http://www.InvestHK.gov.hk).

Latest Trade Performance

- The world's 11th largest trading economy
- The world's 11th largest exporter of commercial services

Total exports contracted by 12.6% in 2009 amid the global economic downturn. Stepping into 2010, merchandise exports recovered notably, with total exports expanding strongly by 24.8% year-on-year in the first seven months of 2010. Hong Kong's major export markets are the Chinese mainland, the EU, the US, ASEAN and Japan, which respectively made up 53%, 11%, 11%, 6% and 4% of Hong Kong's total exports. In the first half of 2010, increases in exports to the above markets were 32%, 6%, 13%, 32% and 19%, respectively. Imports dropped by 11% in 2009, but rebounded remarkably 30.8% year-on-year in the first seven months of 2010. A visible trade deficit of almost US$26.8 billion, equivalent to 11.2% of the value of imports of goods, was recorded in the first seven months of 2010, compared to 8.3% in 2009. Hong Kong's trade performance is in part affected by outward processing activities in Guangdong where the majority of Hong Kong companies have extended their manufacturing base. In 2009, 33.7% of Hong Kong's total exports to the Chinese mainland were related to outward processing activities; the figure was 27.3% for domestic exports and 33.8% for re-exports.

In line with the gradual recovery of the world economy, Hong Kong’s merchandise exports have recently rebounded. However, there is no lack of risks and challenges in the post-tsunami era. First, demand of the developed economies is not expected to return to the pre-crisis level in the short term. Consumers are trading down and saving more in the course of deleveraging. Plus, overseas protectionism is persistent. On the supply side, Hong Kong exporters have to live with a challenging production environment, especially in the PRD. While facing rising labour shortages and surging labour costs, their profit margins will be further sliced if the renminbi appreciates. Also, the difficulties and costs of producing may increase when the Chinese government resumes its efforts to promote industry upgrade and hence tighten processing trade policies. To make matters worse, competition from other Asian suppliers is expected to grow.

Economic Relations with the Chinese Mainland

- The most important entrepôt for the Chinese mainland
- The largest foreign investment source of the Chinese mainland
- The key offshore capital-raising centre for Chinese enterprises
- The Chinese mainland as Hong Kong's second largest source of external investment

Hong Kong is so far the most important entrepot of the Chinese mainland. If re-exports to and from the Chinese mainland are included, about 18% of the mainland's foreign trade was handled via Hong Kong in 2009. The figure will be higher if transhipment of goods to and from the mainland via Hong Kong is also included. According to the HKSAR government statistics, in 2009, 62% of re-exports were of China origin and 51% were destined for the Chinese mainland. According to China's Customs statistics, Hong Kong is the third largest trading partner of the Chinese mainland after the US and Japan, accounting for 8% of its total trade in 2009.

Hong Kong is the largest source of overseas direct investment in the Chinese Mainland. By the end of 2009, among all the overseas-funded projects approved in the Chinese Mainland, 45.3% were tied to Hong Kong interests. Utilized capital inflow from Hong Kong amounted to US$395.7 billion, accounting for 40.7% of the national total.

The Chinese mainland, on the other hand, is one of the leading investors in Hong Kong. According to the HKSAR Census and Statistics Department, the mainland's cumulative direct investment in Hong Kong was US$296 billion or 36.5% of Hong Kong's total stock of inward direct investment at the end of 2008.

As of July 2010, there were seven licensed banks and six representative offices, incorporated in Chinese mainland, operating in Hong Kong. Big lenders including the Bank of China, Industrial and Commercial Bank of China, Agricultural Bank of China and China Construction Bank have opened their branch operations in Hong Kong. Some other mainland commercial banks such as the Shenzhen Development Bank, China Everbright Bank and Shanghai Pudong Development Bank have representative offices in Hong Kong.

Hong Kong is also a key offshore capital-raising centre for Chinese enterprises. As of December 2009, 524 mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies with total market capitalization of US$10.4 trillion, 58% of the market total. For the past 10 years, mainland companies have raised more than $1.7 trillion (US$226 billion) via stock offerings in Hong Kong.

Hong Kong as a Regional Centre

- A popular venue for hosting regional headquarters or representative offices
- A leading telecommunications hub for the Asia-Pacific region
- The world's busiest airport for international cargoes
- The world's third busiest container port
- The largest venture capital centre in Asia
- The third largest stock market in Asia, the seventh largest in the world
- The third largest foreign exchange market in Asia, the sixth in the world

Hong Kong is a popular venue for hosting regional headquarters or representative offices for multinational companies to manage their businesses in the Asia Pacific, particularly the Chinese mainland. Based on a government survey, as of June 2009, there were 3,580 regional headquarters (RHQs) and regional offices (ROs) in Hong Kong representing their parent companies located outside Hong Kong, a 44% increase from a decade ago. Of these companies, 83% were responsible for business in the Chinese mainland, confirming Hong Kong's role as a gateway to the mainland. These companies came from diverse countries and sectors. The US had the largest number of RHQs/ROs in Hong Kong (23%), followed by Japan (19%), the UK (9%) and the mainland (6%). Most of the RHQs/ROs in Hong Kong were in I/E trade, wholesale and retail (51%). Others are in professional and business services (17%), finance and banking (11%), and transportation, storage and courier services (9%).

Hong Kong is an important banking and financial centre in the Asia Pacific. As of March 2010, there were 198 authorised institutions and 70 representative offices in Hong Kong, and the total loans provided by the authorised banks to finance international trade, and other loans for use outside Hong Kong totalled US$25 billion and US$81 billion respectively. According to the Bank for International Settlements, Hong Kong is the third largest foreign exchange market in Asia and the sixth largest in the world, with the net daily turnover of forex transactions reaching US$175 billion in 2007.

As at end-2009, Hong Kong's stock market ranked the third largest in Asia and the seventh largest in the world in terms of market capitalisation. There were 1,319 companies listed on the stock exchange, including 174 companies on the Growth Enterprise Market (GEM). The total market capitalisation of Hong Kong's stock market reached US$2.3 trillion. Hong Kong is also the largest venture capital centre in Asia, managing about 27% of the total capital pool in the region as at mid-2007.

Hong Kong is a leading telecommunications hub for the Asia-Pacific region. As at end-2009, there were 3.69 million telephone lines and 286,000 fax lines in Hong Kong. There were 12 million mobile phone subscribers, even outnumbering Hong Kong's total population. The penetration rate of broadband internet exceeded 80% among household. International Direct Dialling services are available to most countries and regions in the world, with the total international telephone traffic growing at an annualised rate of 7.5% to 10 billion minutes between 2004 and 2009.

Hong Kong is a favourite place in the world to do business and host major conferences. Over 300 international conventions and exhibitions are held in Hong Kong each year. To name a few, in December 2005, Hong Kong hosted the sixth session of the WTO ministerial conference where a Hong Kong declaration was concluded. In December 2008, Hong Kong played host to the first Clinton Global Initiative international meeting outside the US.

Infrastructure Developments

Construction for the Hong Kong-Zhuhai-Macao Bridge (HZMB) started in December 2009 and the whole project is expected to complete in 2016. The bridge consists of three parts, including the main bridge, boundary crossing facilities of Hong Kong, Zhuhai and Macao, and link roads of the three places. The HZMB is of special strategic value in further enhancing the economic development of Hong Kong, Macao and the Western Pearl River Delta region (Western PRD). It will significantly reduce the cost and time for travellers and for the flow of goods between Hong Kong and the Western PRD, accelerate the economic integration of the PRD and its neighbouring provinces, and increase its competitiveness.

Meanwhile, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) will be 26-km long, running from the terminus in West Kowloon to Shenzhen, Dongguan and Guangzhou with significantly reduced journey time. More importantly, it will become part of the 16,000km national high-speed rail network now being developed in full steam, fostering closer economic ties between Hong Kong and the mainland. Upon completion of the railway, the travelling time from Hong Kong to Beijing and Shanghai will be shortened to about 10 and eight hours respectively. The Finance Committee of the Legislative Council has recently approved the funding arrangement of the construction of the XRL. The construction work has commenced in January 2010 for completion in 2015.

Besides the cross-boundary endeavours, the government has undertaken other large-scale infrastructure projects for the next five years to improve the local transportation system, promote long-term development of arts and culture, and provide quality living space to citizens. The MTR Corporation Limited has commenced the detailed design of the South Island Line East (SILE) and is proceeding with the environmental impact assessment. The construction for the SILE is expected to commence in 2011 for commissioning in 2015 while the construction work of the West Island Line has commenced for completion in 2014. Further study on the alignment and preliminary design of the Shatin to Central Link (SCL), a strategic railway line that runs through multiple districts in Hong Kong, has been carried out. The construction work is expected to commence in 2010 for completion in 2015 (Tai Wai to Hung Hom Section) and 2019 (Hung Hom to Admiralty Section). The Kai Tak Development, with its funding approval recently, has entered the construction stage.

To enhance the competitiveness of the Hong Kong International Airport (HKIA), the Airport Authority (AA) keeps upgrading the airport's infrastructure to increase its passenger and cargo handling capacities and strengthen transport links between the airport and the Pearl River Delta. In 2008, HKIA and Shenzhen International Airport (SZIA) jointly launched the Hong Kong-Shenzhen Airports Link, a service that enables passengers at HKIA or SZIA to check in and obtain boarding passes for connecting flights at either airport. Besides, AA has invested $300 million to build 10 new cargo stands, bringing the total number to 34. AA and the government are working closely to maximise the two existing runways' capacity. Hourly air traffic movements will see an increase from 55 to 68 in 2015. AA has also launched a study on the construction of a third runway in 2008.

Turning to the port, it is projected that the total container throughput will have modest and steady growth over the next few years, and Hong Kong will need the first new container berth by 2015. The HKSAR government has expedited the study on the feasibility of developing Container Terminal 10 at Southwest Tsing Yi. The relevant preliminary feasibility study and environmental impact assessment commenced in March 2009, and are scheduled for completion in early 2011.

Research Department