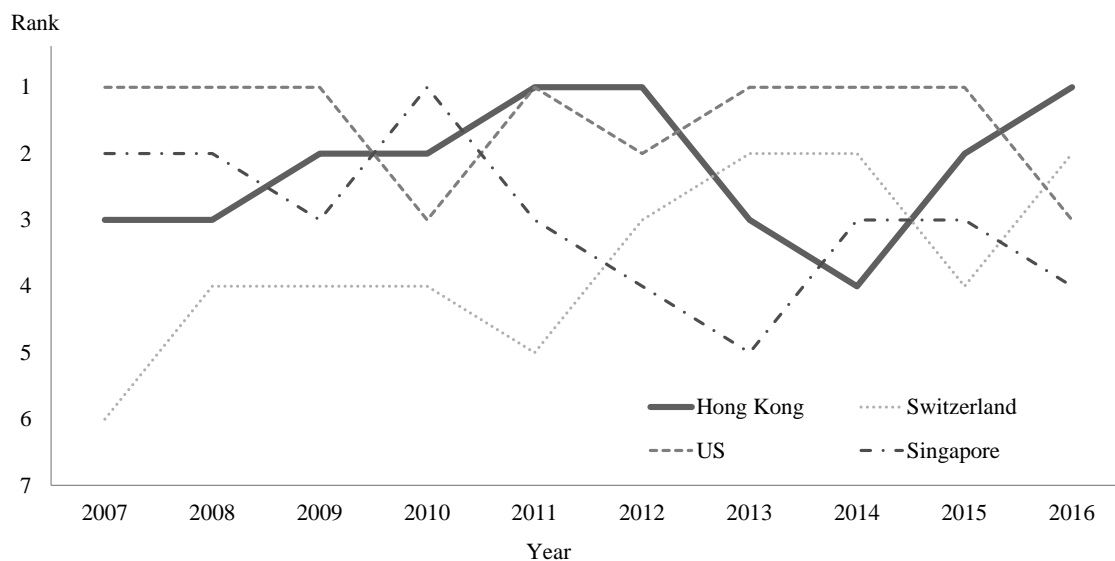


Box 1.1**Competitiveness of the Hong Kong economy**

On 30 May, the International Institute for Management Development (IMD) published the World Competitiveness Yearbook (WCY) 2016, assessing the competitiveness of 61 economies worldwide. In the report, Hong Kong is again ranked as the world's most competitive economy⁽¹⁾, improving from the fourth place two years ago. Taking advantage of the release of IMD WCY, this article attempts to briefly analyse Hong Kong's competitiveness in the context of the global economy.

Competitiveness can cover many aspects with studies having different foci, but in the broadest sense it is generally considered as the economy's ability to generate prosperity in a sustainable manner. The competitiveness of an economy depends on the interplay of a wide spectrum of factors, including such structural factors as the economy's natural endowment, physical infrastructure, and regulatory regime. Data on actual economic performance such as trade flows and inflation also reflect the competitiveness situation, though the data for individual years could be affected by many cyclical factors. It is hence a natural consequence that, barring some extreme shocks, the competitiveness of an economy should show a steady trend over time, but with some fluctuations in the short term. The performance of the top four economies in IMD WCY 2016 over the past decade is a useful showcase (*Chart 1*). Although the ups and downs in business cycles may have affected these economies' rankings year-to-year, all of them have managed to stay in the top tier over an extended period of time.

Chart 1 : Rankings of selected economies in the past decade in IMD WCY



Source: IMD World Competitiveness Yearbook (2007-2016).

Studying the underlying components of IMD WCY reveals that each of these highly competitive economies has its own receipt to prosperity (*Table 1*). IMD WCY measures four competitiveness factors and each of them in turn consists of five sub-factors, measuring competitiveness in a total of 20 specific areas. Among the four competitiveness factors, Hong Kong fares exceptionally well in “Government efficiency” and “Business efficiency”, thanks mainly to our steadfast adherence to fiscal discipline and persistent effort in building a favourable business environment with robust financial system. Switzerland and Singapore, being small open economies like Hong Kong, likewise feature “Government efficiency” and

(1) Hong Kong was ranked top for the first time in 2011 and 2012, see *Chart 1*.

Box 1.1 (Cont'd)

“Business efficiency” as their comparative advantages, but also show some strengths in innovation and technology. On the other hand, the US counts more on the sheer size of its economy as well as its unparalleled edge in scientific infrastructure. Indeed, given the different backgrounds and natural constraints, each of these economies pursues its unique route of economic development, and hence has developed its own distinctive strengths.

Table 1 : Detailed rankings of selected economies in IMD WCY 2016

	<u>Hong Kong</u>	<u>Switzerland</u>	<u>US</u>	<u>Singapore</u>
Overall	1	2	3	4
Economic Performance	5	10	1	4
● <i>Domestic Economy</i>	19	9	1	13
● <i>International Trade</i>	2	17	12	1
● <i>International Investment</i>	2	4	1	5
● <i>Employment</i>	13	17	10	4
● <i>Prices</i>	60	51	35	52
Government Efficiency	1	2	25	3
● <i>Public Finance</i>	1	5	49	4
● <i>Fiscal Policy</i>	2	7	29	8
● <i>Institutional Framework</i>	6	1	22	2
● <i>Business Legislation</i>	1	14	13	3
● <i>Societal Framework</i>	25	5	27	19
Business Efficiency	1	3	7	5
● <i>Productivity & Efficiency</i>	7	5	4	10
● <i>Labour Market</i>	1	16	25	8
● <i>Finance</i>	1	3	2	6
● <i>Management Practices</i>	2	3	14	17
● <i>Attitudes and Values</i>	1	8	21	4
Infrastructure	21	3	1	8
● <i>Basic Infrastructure</i>	14	8	5	9
● <i>Technological Infrastructure</i>	14	9	3	1
● <i>Scientific Infrastructure</i>	26	4	1	13
● <i>Health and Environment</i>	17	4	16	25
● <i>Education</i>	13	9	24	4

Note: Each of the sub-factors carries the same weight (i.e. 5%) in the overall results.

Source: IMD World Competitiveness Yearbook 2016.

Box 1.1 (Cont'd)

With the various routes to prosperity, the exact ranking results of different competitiveness league tables could vary due to the differences in emphasis and methodology. For instance, the latest Global Competitiveness Report (GCR) published by the World Economic Forum (WEF) gives a similar assessment that Hong Kong's strengths are the flexible goods and labour markets as well as robust financial system. However, as WEF GCR puts greater emphasis on innovation when measuring competitiveness of the developed economies, Hong Kong only ranked 7th in its overall ranking, while Switzerland, Singapore and the US took the first three spots. As a separate matter, the Chinese Academy of Social Sciences has been conducting an annual study that compares the various aspects of competitiveness across Chinese cities for years. In its latest issue, Hong Kong is ranked first in terms of sustainability and second in terms of general economic competitiveness, as the latter focuses on the size and growth pace of economic activities in the cities.

While each of these competitiveness rankings has its own assessment framework and hence different ranking results, reading across these rankings could serve as a first step to understand the strengths and weaknesses of the Hong Kong economy relative to other advanced economies, and in turn provide insights for policy formulation. To this end, the Government would strive to uphold Hong Kong's prevailing competitive edges that have been earned through conscientious efforts over the years, including simple tax regime with low tax rates, free and open markets, rule of law and clean society, as well as a business-friendly environment. Also, in recent years, the Government has already rolled out a series of measures to cultivate a favourable ecosystem for innovative activities and startups to flourish, including the provision of the necessary financial and land resources. In fact, according to figures released by InvestHK, there were 1 558 local startups as of August 2015, representing an increase of 46% over a year ago.

Enhancing competitiveness is always an ongoing task, a part and parcel of the Government's effort in promoting economic development. In the midst of keen competition in an era of globalisation, we must step up our effort to broaden economic base and move our industries up the value chain, so as to maintain Hong Kong's competitiveness in the global arena and our leading position as a key metropolitan city in the world.