

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *While the global economy has bottomed out and is expanding again, the recovery process has yet to translate into a revival in import demand in the advanced economies. Exports of Asian economies remained under immense pressure. Hong Kong's merchandise exports in the third quarter were still visibly lower than a year earlier. Nevertheless, exports of services improved more visibly, thanks to the bounce-back in financial services and inbound tourism.*
- *Merchandise exports fell notably by 13.6% in real terms in the third quarter. With global trade flows still languishing at a relatively low level, many other Asian economies continued to record double-digit declines in exports in the quarter. Yet the pace of decline in Hong Kong's merchandise exports slowed distinctly towards the end of the quarter.*
- *In contrast, exports of services turned up distinctly with a much smaller year-on-year decline in the third quarter, and a further large rise on a seasonally adjusted quarter-to-quarter comparison. Exports of financial services continued to improve alongside the further revival in financial market activities. Exports of travel services likewise reverted to an increase, in tandem with a rebound in visitor arrivals. Yet exports of transportation services and trade-related services remained under the drag of the much slackened trade flows in goods.*
- *A number of international trade disputes emerged as elevated unemployment in many major economies triggered rising protectionist sentiments. Leaders of the G20 reiterated to fight against protectionism and support and promote free trade and investment at their meeting in September.*
- *The Government will continue to increase co-operation with the Guangdong authority in developing the Pearl River Delta market, where tremendous opportunities for the development of the six industries lie, and also as a huge market for Hong Kong's services sector as a whole. The Government will also promote multi-faceted, multi-level exchanges with Taiwan in response to the latest development in cross-Strait relations.*

Visible trade

Total exports of goods

2.1 *Total exports of goods* (comprising re-exports and domestic exports) again declined notably in the third quarter of 2009, by 13.6% in real terms⁽¹⁾ over a year earlier, as compared to the decline of 10.8% in the preceding quarter. Yet the pace of decline slowed towards the end of the quarter. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods dipped by 4.7% in the third quarter after the strong rebound of 13.0% in the second quarter.

2.2 The global economy has by now returned to the growth path, on the back of the strong policy actions taken by governments and central banks to support aggregate demand and stabilise the financial markets. In October, the International Monetary Fund⁽²⁾ estimated that the world economy was finally expanding again after a deep global recession in the earlier quarters, and would expand by 3.1% in 2010. The outlook improved more noticeably for the emerging Asian economies, with the Mainland economy leading the recovery. Yet import demand in advanced economies was still sluggish, dragging exports of Asian economies, many of which continued to see double-digit decline in the third quarter. Meanwhile, worsening unemployment situation in many major economies had triggered a general rise in protectionist sentiments. In face of the challenge, leaders of the G20 reiterated at their meeting in September their commitment to fight against protectionism in order to revive world trade and investment.

2.3 *Re-exports*⁽³⁾ were the backbone of Hong Kong's merchandise exports, accounting for 97.7% by total value in the third quarter of 2009. In the face of the still weak import demand in the advanced economies, re-exports posted a larger decline of 12.9% in real terms in the third quarter over a year earlier, following a decrease of 9.9% in the second quarter. *Domestic exports*, which only constitute a small share of total exports, continued to plunge, by 35.1% in the third quarter, after contracting by 37.0% in the second quarter.

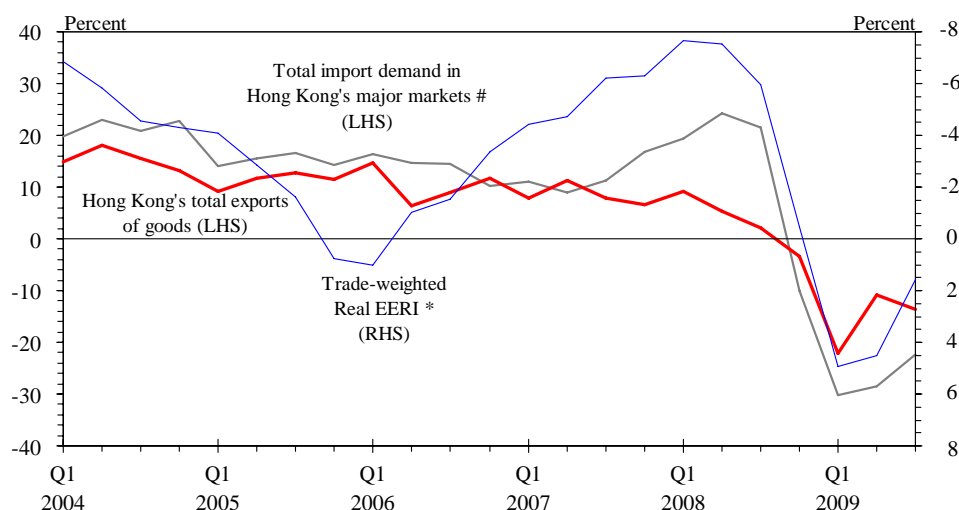
**Table 2.1 : Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))**

	Total exports of goods			Re-exports			Domestic exports					
	In value terms	In real terms	Change in prices	In value terms	In real terms	Change in prices	In value terms	In real terms	Change in prices			
2008 Annual	5.1	2.9	3.8	6.0	4.0	3.8	-16.8	-22.0	5.1			
H1	9.1	7.1	3.3	9.8	8.0	3.3	-7.8	-13.3	4.2			
H2	1.7	-0.7	4.4	2.8	0.5	4.3	-24.4	-29.4	6.3			
Q1	10.5	9.1	(1.2)	2.6	10.9	9.6	(1.6)	2.6	0.3	-5.0	(-7.3)	3.3
Q2	7.8	5.4	(0.2)	3.9	8.8	6.6	(0.5)	3.9	-14.3	-20.0	(-9.5)	5.0
Q3	5.5	2.1	(-1.5)	4.8	6.5	3.3	(-1.1)	4.7	-17.8	-26.1	(-12.9)	6.4
Q4	-2.1	-3.5	(-3.7)	4.1	-0.9	-2.3	(-3.5)	4.0	-31.1	-32.8	(-8.2)	6.2
2009 H1	-17.2	-16.3	1.6	-16.3	-15.5	1.6	-41.9	-40.1	1.2			
Q1	-21.9	-22.2	(-17.1)	2.5	-21.1	-21.4	(-17.1)	2.5	-44.3	-43.3	(-19.4)	2.5
Q2	-12.9	-10.8	(13.0)	0.8	-12.0	-9.9	(13.4)	0.8	-39.6	-37.0	(-1.9)	*
Q3	-14.3	-13.6	(-4.7)	0.2	-13.5	-12.9	(-4.6)	0.3	-38.7	-35.1	(-9.5)	-2.2

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

(*) Change of less than 0.05%.

**Diagram 2.1 : Merchandise exports remained on a notable decline
in the third quarter of 2009
(year-on-year rate of change)**



Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European Union taken together.

(*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the third quarter of 2009 is based on statistics for July and August 2009.

Diagram 2.2 : Both re-exports and domestic exports dipped after a strong rebound

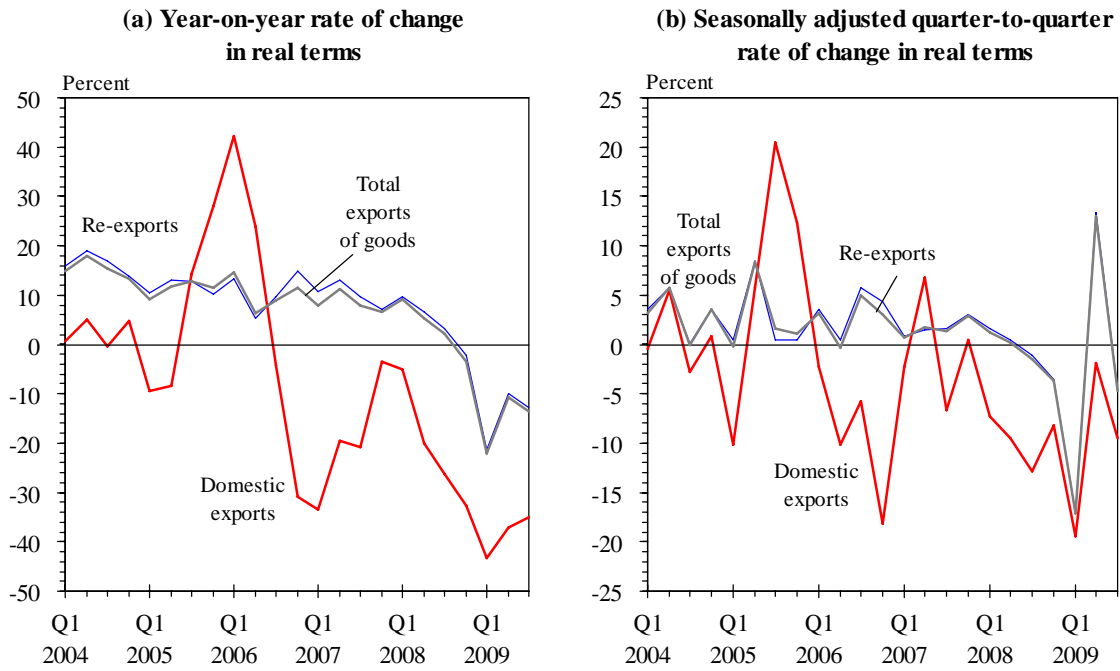
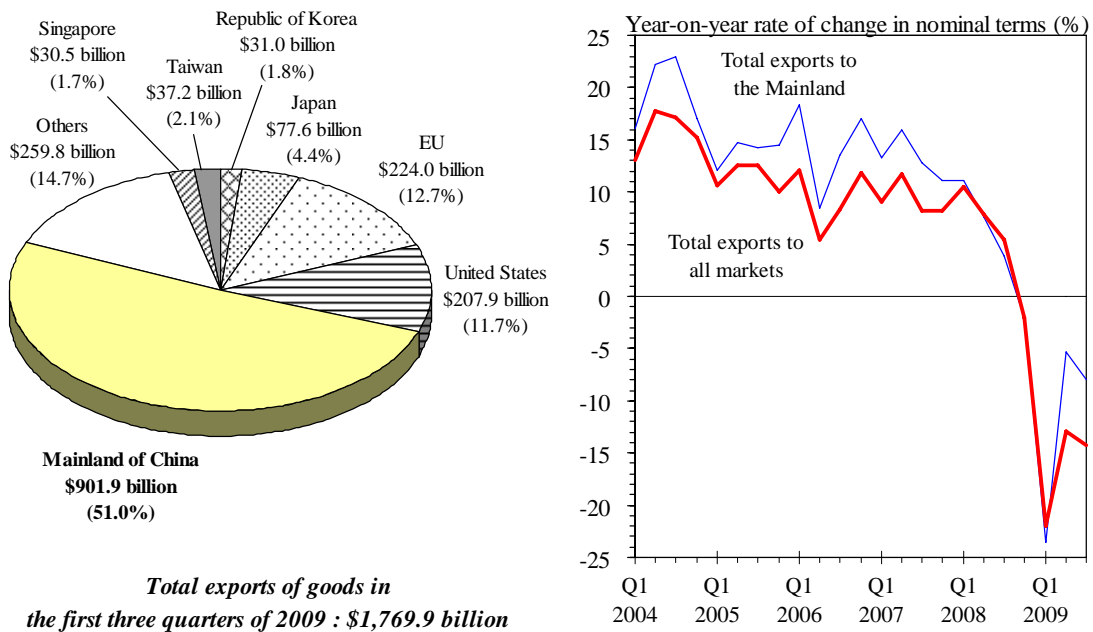


Diagram 2.3 : The decline in exports to the Mainland, Hong Kong's largest market, widened again in the third quarter of 2009



**Table 2.2 : Total exports of goods by major market
(year-on-year rate of change in real terms (%))**

		<u>Mainland of China</u>	<u>United States</u>	<u>European Union</u>	<u>Japan</u>	<u>Republic of Korea</u>	<u>Taiwan</u>	<u>Singapore</u>
2008	Annual	5.9	-8.5	0.2	-2.4	-8.2	-1.6	6.2
	H1	10.3	-6.6	3.0	-3.7	-1.6	1.2	17.7
	H2	2.1	-10.0	-2.2	-1.1	-14.5	-4.2	-3.9
	Q1	12.2	-5.8	4.6	-3.2	2.8	-0.2	21.6
	Q2	8.6	-7.4	1.6	-4.1	-5.7	2.6	13.8
	Q3	3.9	-7.1	2.0	-1.2	-5.7	-2.5	-0.5
	Q4	0.4	-13.0	-6.3	-1.0	-23.2	-5.9	-7.2
2009	H1	-10.3	-23.0	-22.3	-18.7	-26.3	-18.1	-32.6
	Q1	-20.2	-24.6	-22.1	-17.8	-31.9	-27.4	-37.0
	Q2	-1.3	-21.6	-22.6	-19.6	-20.8	-9.6	-27.9
	Q3	-7.9	-22.5	-25.6	-8.2	-11.5	-0.8	-20.2

2.4 Hong Kong's merchandise exports to many markets remained under the heavy drag of the much slackened global trade flows. Reflecting this, exports to the European Union and the United States continued to fall sharply in the third quarter over a year earlier. Asian regional trade also suffered as the decline in exports to the Mainland widened again in the third quarter following the visible improvement in the previous quarter. The declines in exports to South Korea and Singapore were still sizable, despite some relative improvement in the quarter. Exports to Japan and Taiwan nevertheless had much tapered year-on-year declines in the third quarter.

Diagram 2.4 : Exports to the Mainland fell more again as Asian regional trade suffered

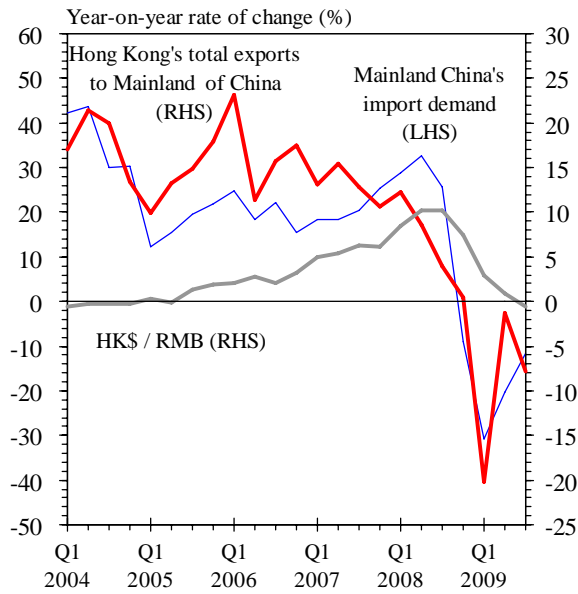


Diagram 2.5 : Exports to EU remained on a distinct decline amid the weak import demand there

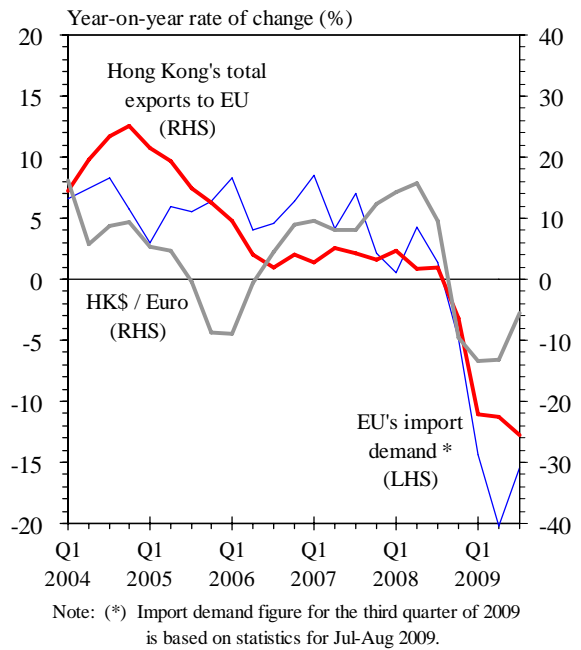


Diagram 2.6 : Exports to US continued to fall sharply during the third quarter

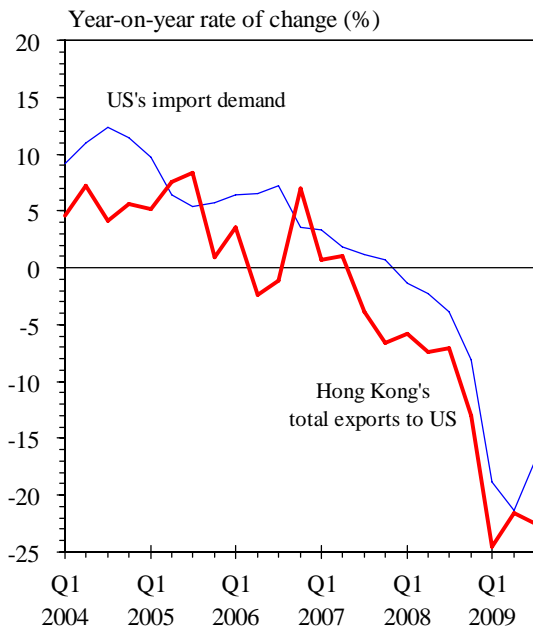


Diagram 2.7 : Exports to Japan showed relative improvement

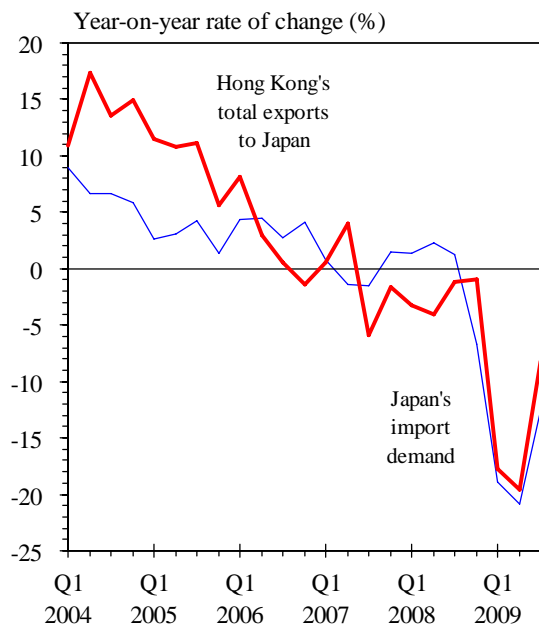


Diagram 2.8 : Exports to Singapore were still sharply down despite some relative improvement...

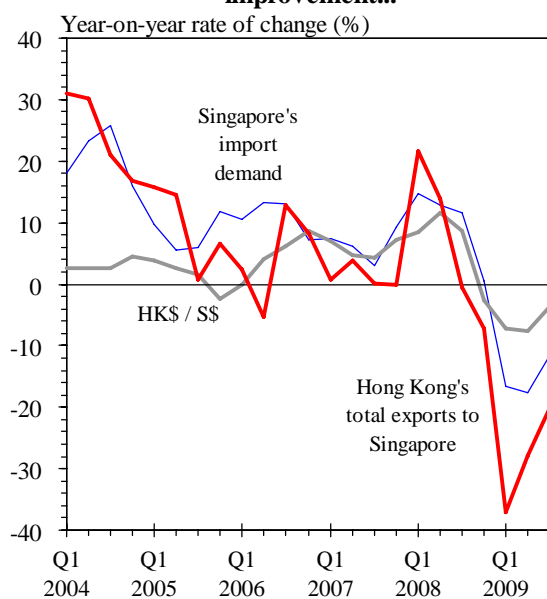
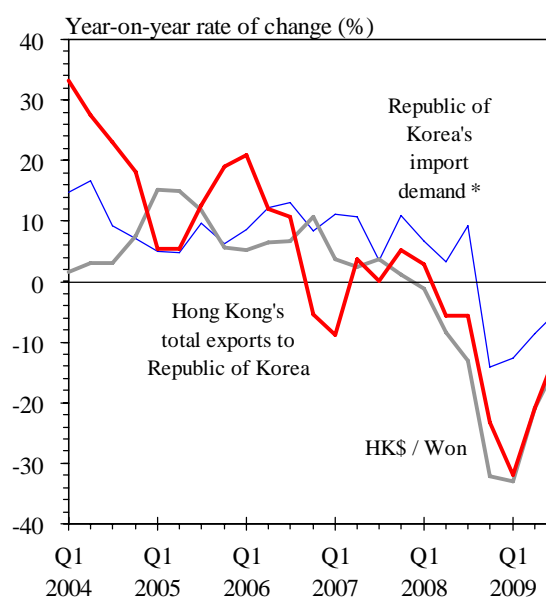


Diagram 2.9 : ...and so did exports to Republic of Korea



Note: (*) Import demand figure for the third quarter of 2009 is based on statistics for Jul-Aug 2009.

Imports of goods

2.5 *Imports of goods* fell at a smaller rate of 7.9% in real terms in the third quarter of 2009, as compared to the 12.3% decrease in the second quarter. *Retained imports*, referring to the imports for domestic uses, rose back by 7.3% in real terms in the third quarter, representing a notable reversal from a fall of 18.6% in the previous quarter. Analysed by end-use, retained imports of raw materials and semi-manufactures reverted to a sharp increase and consumer goods a marginal increase, while those of foodstuffs and fuels picked up further. Although retained imports of capital goods were still weak, the rate of decline tapered visibly as compared to the preceding quarters.

**Table 2.3 : Imports of goods and retained imports
(year-on-year rate of change (%))**

		<u>Imports of goods</u>				<u>Retained imports</u> ^(a)		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	
2008	Annual	5.5	2.6	4.4	5.3	-1.4	7.6	
	H1	10.3	7.5	4.3	13.1	6.0	8.4	
	H2	1.3	-1.7	4.6	-1.8	-8.0	6.9	
	Q1	11.6	9.6	(-1.9)	15.1	9.6	(-10.9)	
	Q2	9.1	5.6	(1.6)	11.4	3.0	(4.9)	
	Q3	7.0	2.7	(-0.6)	10.0	0.8	(0.9)	
	Q4	-4.2	-6.0	(-5.4)	-12.5	-16.0	(-10.5)	
2009	H1	-18.6	-17.0	*	-24.9	-21.3	-4.3	
	Q1	-22.8	-22.2	(-17.2)	-27.4	-24.2	(-17.7)	
	Q2	-14.9	-12.3	(12.3)	-22.7	-18.6	(9.0)	
	Q3	-10.4	-7.9	(4.2)	-1.3	7.3	(31.7)	

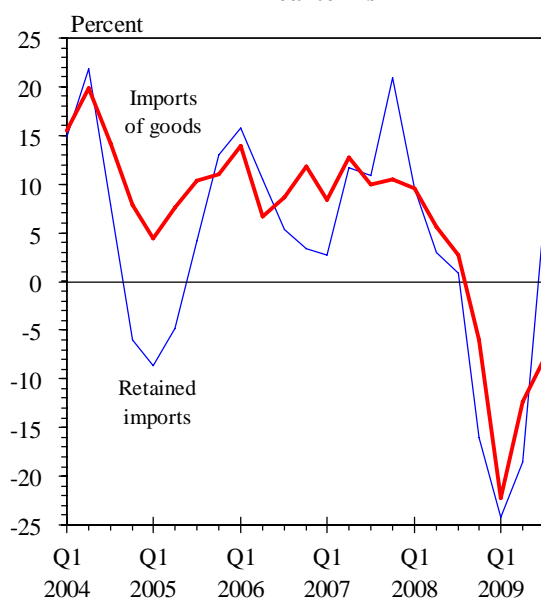
Notes : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

() Seasonally adjusted quarter-to-quarter rate of change.

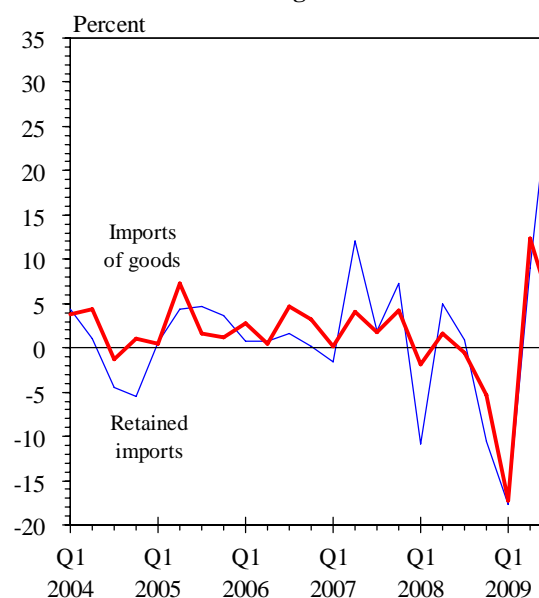
(*) Change of less than 0.05%.

Diagram 2.10 : Total imports turned up further in the third quarter

(a) Year-on-year rate of change in real terms



(b) Seasonally adjusted quarter-to-quarter rate of change in real terms



**Table 2.4 : Retained imports by end-use category
(year-on-year rate of change in real terms (%))**

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2008	Annual	12.4	13.3	7.5	-29.9	-3.9
	H1	22.6	15.8	12.7	-16.9	-9.2
	H2	3.2	10.8	3.1	-41.9	1.4
	Q1	30.3	12.7	14.5	-11.7	-11.3
	Q2	16.2	19.0	11.2	-20.8	-7.0
	Q3	9.8	9.0	20.0	-35.4	0.9
	Q4	-3.3	12.6	-11.1	-47.9	1.9
2009	H1	-26.4	1.5	-10.9	-57.4	24.0
	Q1	-30.7	-3.4	-8.1	-69.5	30.8
	Q2	-22.4	6.3	-13.4	-47.4	17.4
	Q3	0.1	11.1	-3.7	41.1	24.1

Invisible trade

Exports of services

2.6 Compared to merchandise exports, *exports of services* showed visible improvement in the third quarter of 2009, with the year-on-year rate of decline tapering distinctly to just 0.9% from that of 5.2% in the second quarter. On a seasonally adjusted quarter-to-quarter basis, it expanded further by 4.6% in the third quarter. As fund-raising and other financial market activities revived further during the quarter, exports of finance, business and other services went up more significantly in the third quarter, although partly affected by the low base of comparison caused by the outbreak of the global financial crisis a year earlier. Thanks to the rebound in the number of visitor arrivals, exports of travel services reverted to an increase in the third quarter. However, exports of transportation services and trade-related services (mainly offshore trade) were still down owing to the sluggish global trade flows.

Diagram 2.11 : Travel and finance, business and other services accounting for over 40% of service exports

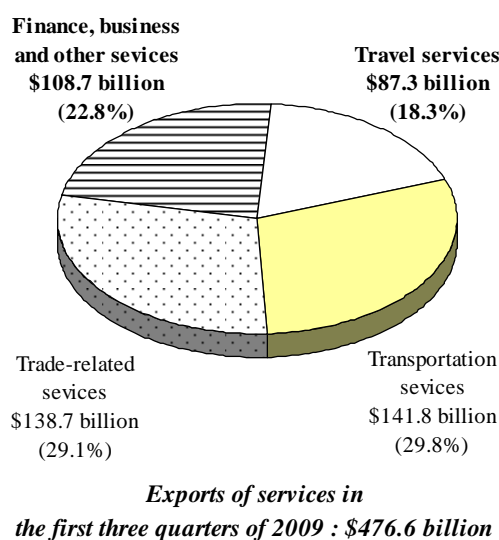


Diagram 2.12 : Exports of services displayed more resilience amid the further resumption in financial activities and rebound in inbound tourism

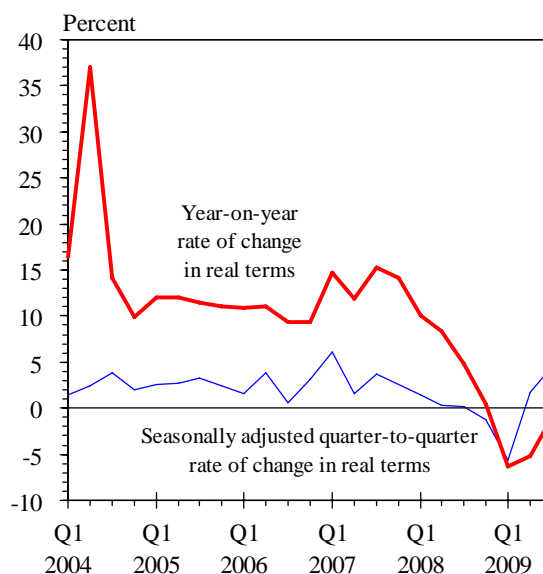


Table 2.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

		Exports of services	Trade-related services ^(a)	Transportation services	Travel services ^(b)	Finance, business and other services	
2008	Annual	5.7	5.8	2.2	6.2	9.6	
	H1	9.3	9.7	4.6	7.5	15.9	
	H2	2.6	3.0	0.0	5.0	3.5	
	Q1	10.1	(1.5)	9.6	5.2	7.3	17.7
	Q2	8.4	(0.3)	9.9	4.1	7.7	13.7
	Q3	4.8	(0.1)	6.0	1.2	7.3	6.2
	Q4	0.4	(-1.3)	0.3	-1.4	3.0	0.7
	2009	H1	-5.8	-13.2	-6.0	4.6	-4.3
Q1		-6.3	(-5.6)	-14.6	-8.1	10.0	-6.4
Q2		-5.2	(1.7)	-11.7	-4.1	-1.4	-1.6
Q3		-0.9	(4.6)	-8.5	-2.7	2.8	9.6

Notes : (a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

() Seasonally adjusted quarter-to-quarter rate of change.

Imports of services

2.7 *Imports of services* contracted by 3.8% in real terms in the third quarter of 2009 over a year earlier, narrowed from the 5.6% decline in the second quarter. Imports of finance, business and other services held up rather well, as the financial and commercial activities actually picked up in the third quarter. Imports of travel services only registered a marginal increase despite the further improvement in local consumer sentiment during the quarter. Meanwhile, imports of trade-related services and transportation services remained on a decline, dragged by the continued setback in external trade.

Diagram 2.13 : Travel services, transportation services, and services involving finance and business were the main components in imports of services

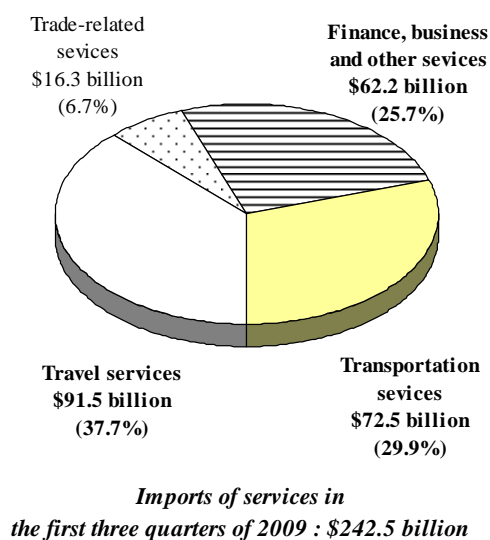
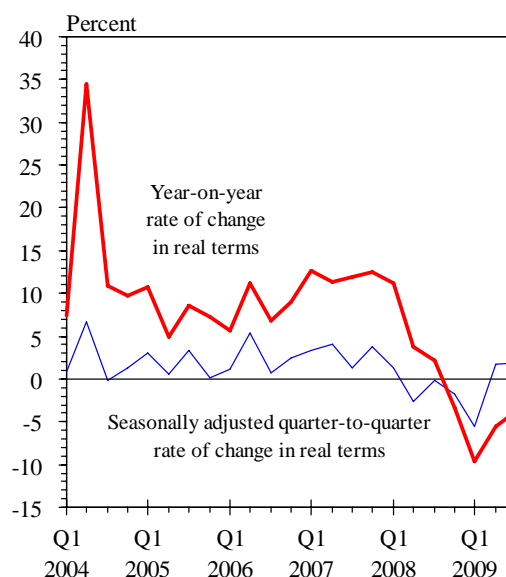


Diagram 2.14 : Imports of services saw a smaller decrease



**Table 2.6 : Imports of services by major service group
(year-on-year rate of change in real terms (%))**

		<i>Of which :</i>				Finance, business and other services
		<u>Imports of services</u>	<u>Travel services⁽⁺⁾</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>services</u>
2008	Annual	3.3	2.2	1.8	6.3	5.9
	H1	7.5	5.7	7.7	10.3	8.9
	H2	-0.5	-1.1	-3.5	3.5	3.0
	Q1	11.2	(1.3)	13.1	10.2	10.1
	Q2	3.8	(-2.6)	-1.3	10.4	7.5
	Q3	2.2	(-0.1)	1.4	6.6	4.2
	Q4	-3.4	(-1.8)	-3.7	0.8	1.9
2009	H1	-7.6	0.2	-14.7	-13.6	-7.9
	Q1	-9.6	(-5.5)	-4.2	-15.1	-7.9
	Q2	-5.6	(1.8)	4.9	-12.1	-7.9
	Q3	-3.8	(1.9)	0.2	-8.9	1.4

Notes : (+) Comprising mainly outbound travel spending.

() Seasonally adjusted quarter-to-quarter rate of change.

Visible and invisible trade balance

2.8 As the surplus in the invisible trade account more than offset the deficit in the merchandise trade account, a sizable surplus of \$24.8 billion was recorded in the combined visible and invisible trade balance in the third quarter of 2009, equivalent to 3.1% of the total value of imports of goods and services. This compared with the corresponding figures of \$56.8 billion and 6.3% in the same quarter last year. The sizable surplus continued to highlight Hong Kong's strengths and resilience in meeting challenges during the global financial crisis.

**Table 2.7 : Visible and invisible trade balance
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2008	Annual	2,844	719	3,024	357	-180	362	182	5.4
	H1	1,359	341	1,467	177	-108	164	56	3.4
	H2	1,485	378	1,557	180	-72	198	126	7.2
	Q1	651	174	697	90	-46	84	38	4.9
	Q2	709	167	771	87	-62	80	18	2.1
	Q3	764	194	806	95	-41	98	57	6.3
	Q4	720	184	751	85	-31	99	69	8.2
2009	H1	1,131	297	1,205	153	-74	143	69	5.1
	Q1	512	151	547	76	-35	75	40	6.5
	Q2	619	146	658	77	-39	68	29	3.9
	Q3	657	180	723	89	-66	91	25	3.1

Note : Figures may not add up exactly to the total due to rounding.

Other developments

2.9 The 2009-10 Policy Address announced by the Chief Executive on 14 October 2009 outlined a blueprint to promote Hong Kong's economic development and sustainable growth. On the front of regional co-operation, the Government will continue to increase co-operation with the Guangdong authority on developing the Pearl River Delta market, where tremendous opportunities for the six economic industries lies, as well as those for the services sector as a whole. A framework agreement for Hong Kong-Guangdong co-operation is being formulated between the governments of Hong Kong and Guangdong, to translate macro policies in The Outline of the Plan for the Reform and Development of the Pearl River Delta promulgated in January 2009 into concrete measures conducive to the development of both places. The Government will continue to promote the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), ensure its effective implementation, and seek further liberalization and facilitation measures under it.

2.10 Also, by participating in the development of Qianhai in Shenzhen, Hong Kong will be able to promote and enhance its own service industries and thereby fostering its long term economic growth.

2.11 In response to the latest development in cross-Strait relations, the Government will establish a co-operation framework and foster bilateral economic co-operation with Taiwan, and also play an active role in financial, economic and trade, tourism and other exchanges between the Mainland, Taiwan and Hong Kong.

Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the constant price measures adopted for compiling the external trade quantum index numbers. They are not strictly comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the chain volume measures using the preceding-year prices as weights for aggregating the components.
- (2) In October 2009, the International Monetary Fund (IMF) revised upwards its global growth forecast for 2009 and 2010 from -1.4% and 2.5% to -1.1% and 3.1% respectively, amidst the strong policy actions taken by governments and the re-stocking phase in an inventory cycle. Separately, the IMF estimated that actual and potential global write-downs on US-originated assets held by banks and other financial institutions until 2010 would reach US\$3.4 trillion, down from US\$4.1 trillion estimated in April 2009.
- (3) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.