CHAPTER 3 : THE EXTERNAL SECTOR

Summary

- *Hong Kong's external sector was hard hit in the first quarter of 2009 by the worst global economic recession in more than sixty years, as the freefall in economic activity in the advanced economies led to a plunge in world trade. Nevertheless, with the Mainland economy regaining strength since the second quarter, followed by the rebound in the advanced economies from the third quarter, Hong Kong's external sector, particularly trade in services, recovered progressively in the latter part of the year.*

- *Merchandise exports, having declined drastically in the first quarter, improved gradually over the course of 2009, and reverted to positive year-on-year growth towards the year-end. For the year as a whole, merchandise exports still recorded the largest annual decline on record. While the EU and US markets remained weak throughout the year, Asian markets fared relatively better, with a more distinct recovery towards the end of the year. The double-digit decline in merchandise exports that Hong Kong experienced in 2009 was part of a regional phenomenon. Many other Asian economies reported even larger declines.*

- *Exports of services displayed greater resilience, with all the major components reverting to year-on-year growth in the fourth quarter of 2009. Exports of financial services turned up distinctly in the second half of the year alongside the rebounds in global stock markets and the return of IPO activity. Exports of travel services were supported by the strong rebound in visitor arrivals in the second half of 2009. Exports of transportation services and trade-related services plummeted during most of 2009 under the drag of the much slackened trade flows, yet also resumed growth in the final quarter.*

- *The Government continued to strengthen economic cooperation with the Mainland, enabling Hong Kong service providers to get greater access to the Mainland markets. The supplement VI to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) signed in May 2009 extended the coverage of service areas to 42. The pilot program for the usage of the renminbi for cross-border trade settlement in Hong Kong and five other Mainland cities, implemented in July, also allowed Hong Kong traders greater flexibility. Meanwhile, the construction work of the Hong Kong-Zhuhai-Macau Bridge commenced in December.*

Visible trade

Total exports of goods

3.1 Merchandise exports suffered a severe blow from the slump in global demand and world trade in the aftermath of the financial tsunami, especially in late 2008 and early 2009. In 2009, *total exports of goods* (comprising re-exports and domestic exports) plunged by 12.0% in real terms[(1)], as compared to the increase of 2.9% in 2008. The decline in exports in the first quarter of 2009 was particularly notable, by 22.2% in real terms over a year earlier, which was the largest decline since 1954. This was nevertheless followed by smaller year-on-year declines of 10.8% and 13.6% respectively in the second and third quarters. The rate of decline tapered to 2.3% in the fourth quarter (growth actually resumed in November and December), thanks to the further pick-up in Mainland demand and also the revival in intra-regional trade in Asia.

3.2 The global financial crisis evolved into the most severe global economic recession since World War II. Nevertheless, thanks to the massive fiscal stimulus and monetary easing policies implemented by governments and central banks, the global financial markets stabilised and the global economy also bottomed out in around mid-2009. The global recovery was however uneven across regions, with the emerging Asian economies, particularly the Mainland, taking the lead in the process. Although the US and EU economies resumed growth[(2)] since the third quarter of 2009, their recovery was not yet solidly in place. Against this background, exports of Asian economies generally fell markedly during most of 2009, only improving more visibly in the latter part of the year. As unemployment in the US and EU remained severe, the rise of protectionist sentiments in these markets remained a threat to the global trading environment.

3.3 *Re-exports*[(3)] were the backbone of Hong Kong's merchandise exports in 2009, accounting for 97.7% of the latter's total value. For the year as a whole, re-exports fell significantly by 11.3% in real terms, after an increase of 4.0% in 2008. *Domestic exports*, which only constitute a small share of total exports, plunged by 34.6% in 2009, having contracted by 22.0% in the previous year.

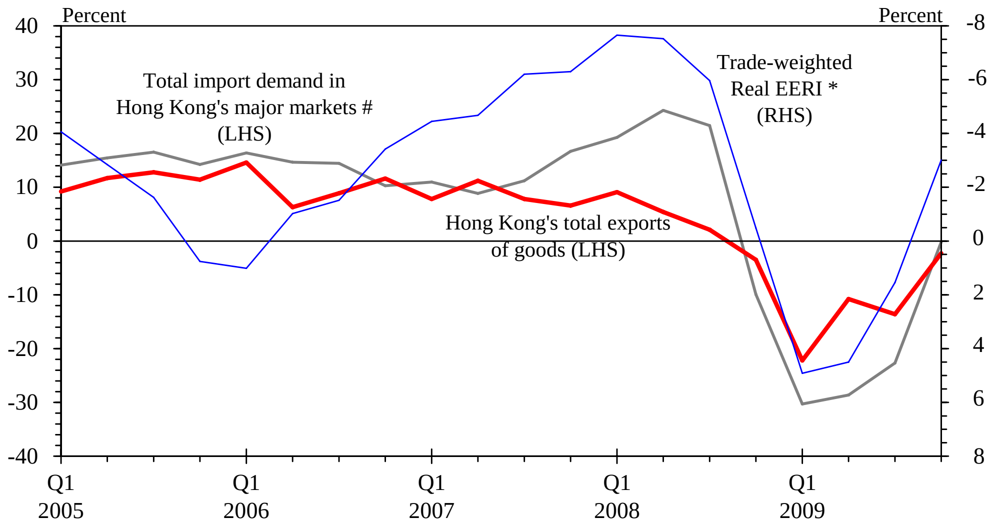
Table 3.1 : Total exports of goods, re-exports and domestic exports (year-on-year rate of change (%))

	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
Q1	10.5	9.1 (4.6)	2.6	10.9	9.6 (5.0)	2.6	0.3	-5.0 (-4.4)	3.3
Q2	7.8	5.4 (-3.6)	3.9	8.8	6.6 (-3.4)	3.9	-14.3	-20.0 (-10.9)	5.0
Q3	5.5	2.1 (-0.5)	4.8	6.5	3.3 (-0.1)	4.7	-17.8	-26.1 (-11.6)	6.4
Q4	-2.1	-3.5 (-4.7)	4.1	-0.9	-2.3 (-4.4)	4.0	-31.1	-32.8 (-12.1)	6.2
2009 Annual	-12.6	-12.0	1.1	-11.8	-11.3	1.2	-36.4	-34.6	-0.2
Q1	-21.9	-22.2 (-13.1)	2.5	-21.1	-21.4 (-13.0)	2.5	-44.3	-43.3 (-15.8)	2.5
Q2	-12.9	-10.8 (7.7)	0.8	-12.0	-9.9 (8.0)	0.8	-39.6	-37.0 (-4.0)	*
Q3	-14.3	-13.6 (-3.6)	0.2	-13.5	-12.9 (-3.5)	0.3	-38.7	-35.1 (-8.2)	-2.2
Q4	-2.0	-2.3 (9.1)	0.8	-1.4	-1.8 (9.1)	0.9	-21.2	-21.6 (7.1)	-1.2

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

(*) Change of less than 0.05%.

Diagram 3.1 : Merchandise exports declined sharply in 2009 amid the slump in global demand and world trade (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 fourth quarter of 2009 is based on statistics for October and November 2009.

Diagram 3.2 : Both re-exports and domestic exports fell markedly in 2009

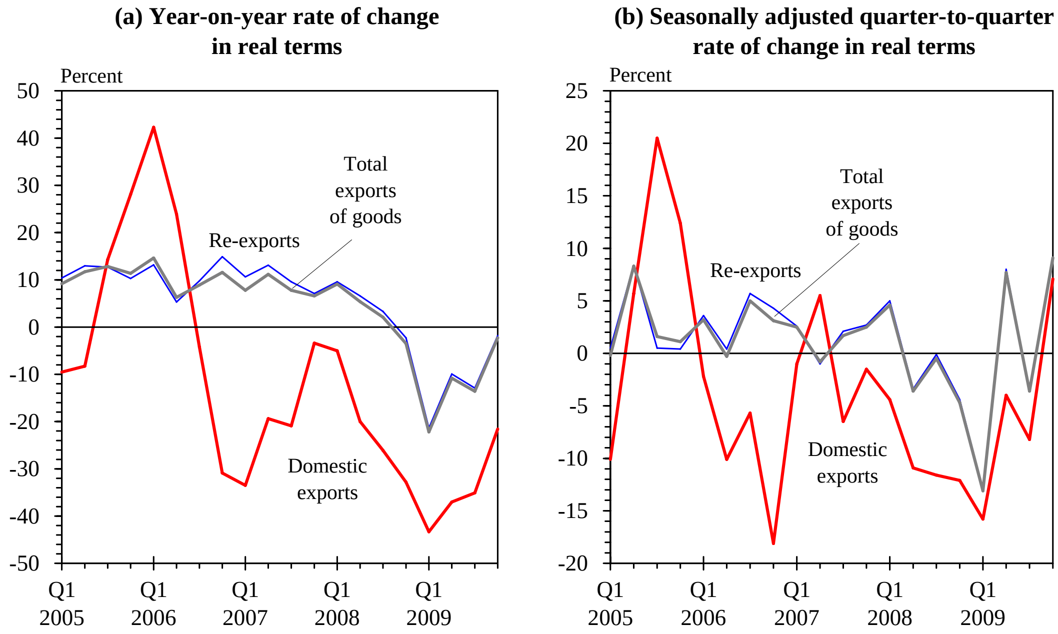
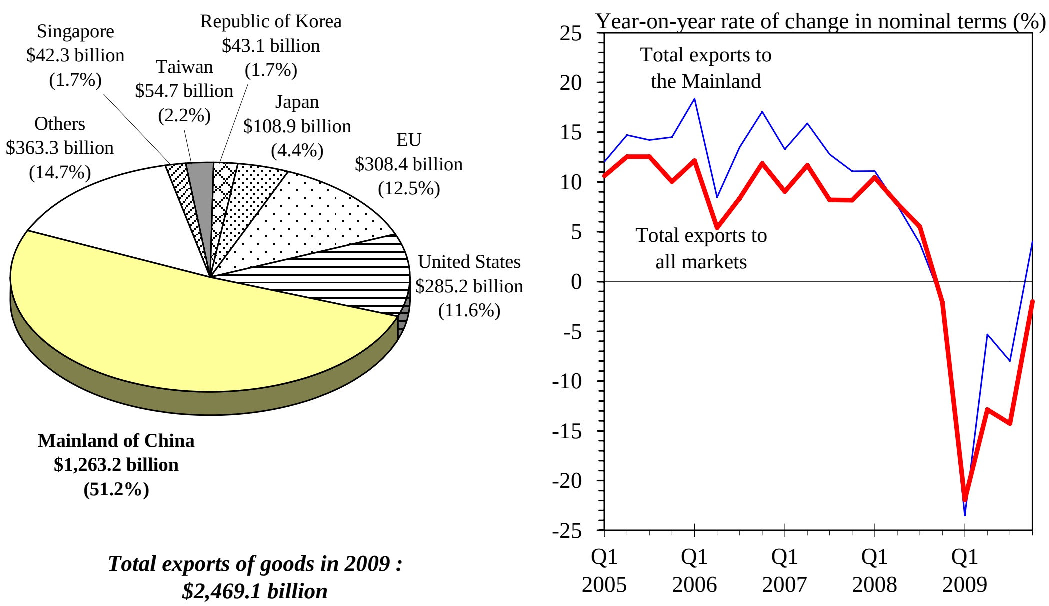


Diagram 3.3 : Exports to the Mainland, Hong Kong's largest market, revived in the latter part of 2009



Total exports of goods in 2009 :
$2,469.1 billion

Table 3.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))

		Mainland of China	United States	European Union	Japan	Republic of Korea	Taiwan	Singapore
2008	Annual	5.9	-8.5	0.2	-2.4	-8.2	-1.6	6.2
	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	Annual	-6.6	-20.5	-21.2	-11.8	-14.3	-3.8	-25.0
	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
	Q4	1.5	-13.4	-14.4	-2.2	11.2	21.6	-13.1

3.4 Analysed by markets, Hong Kong's merchandise exports to the EU and US markets, where recovery had been very weak by past standards, posted double-digit declines in all four quarters of 2009, reflecting the sluggishness in their domestic demand. The return of the Mainland to faster economic growth since the second quarter of 2009 provided an important stabilising force in Asia and helped to revive the intra-regional trade. As a result, Hong Kong's exports to many Asian economies improved visibly in the latter part of the year. While exports to the Mainland, South Korea, Taiwan, in particular, rebounded to show year-on-year increases in the fourth quarter, those to Japan saw a much tapered year-on-year decline in the same quarter. However, exports to Singapore still fell at double-digit rates.

Diagram 3.4 : Exports to the Mainland resumed growth towards the end of 2009

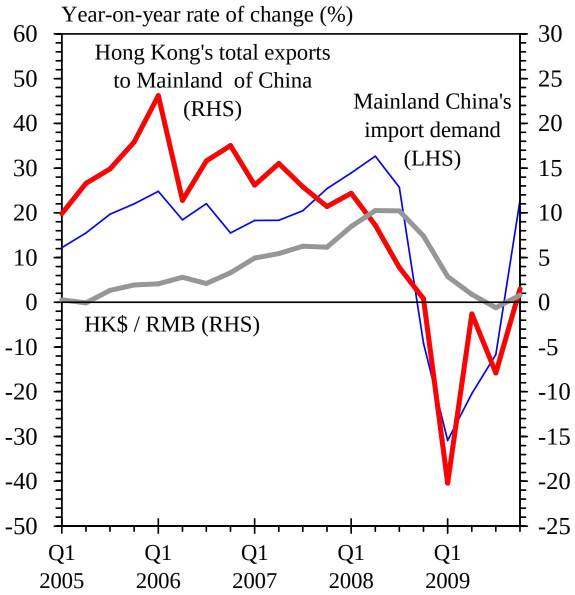
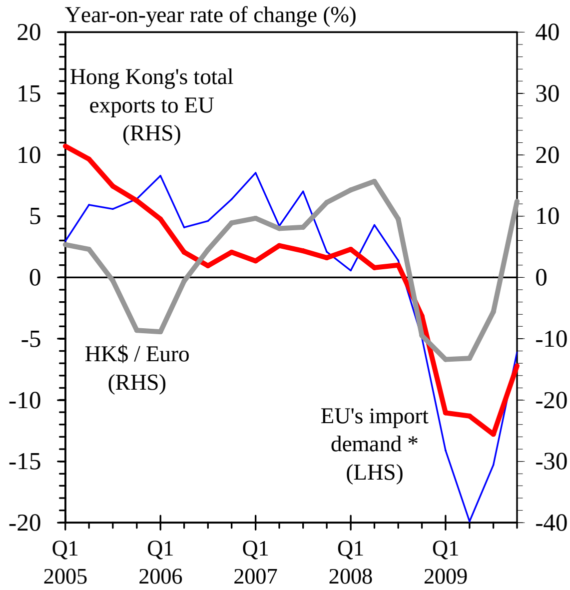


Diagram 3.5 : Exports to EU fell distinctly throughout 2009



Note: (*) Import demand figure for the fourth quarter of 2009 is based on statistics for Oct-Nov 2009.

Diagram 3.6 : Exports to US likewise fell markedly all through 2009

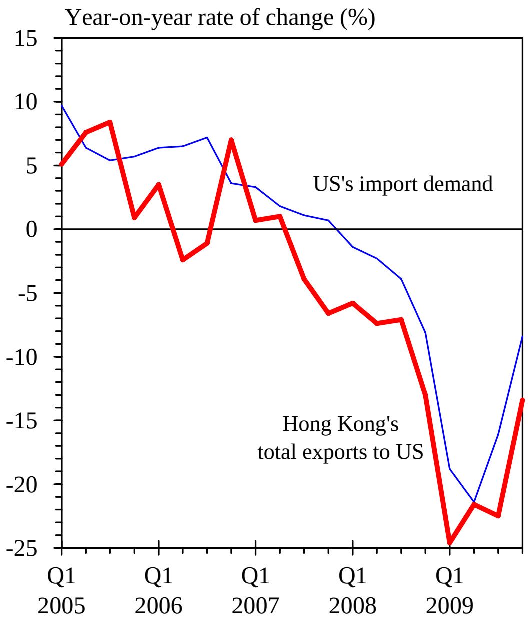


Diagram 3.7 : Exports to Japan showed relative improvement in the second half of 2009

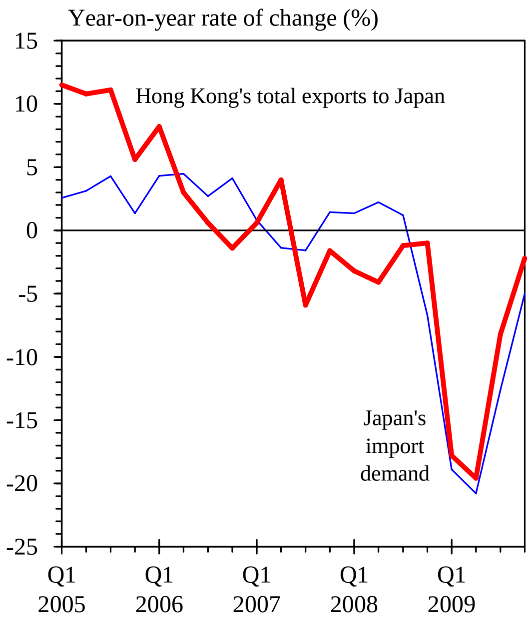


Diagram 3.8 : Exports to Singapore were sharply down in 2009

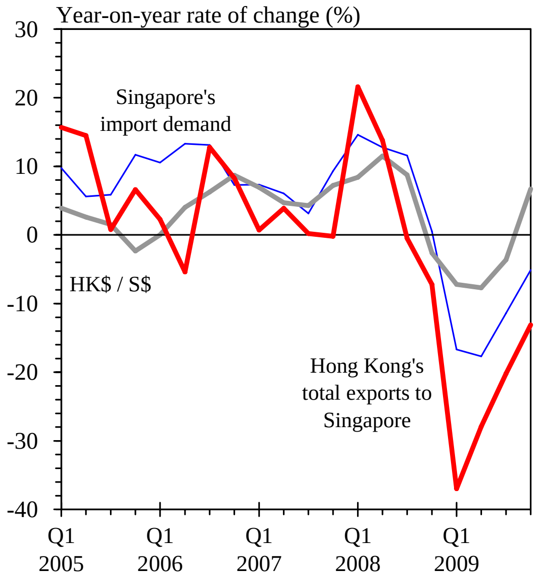
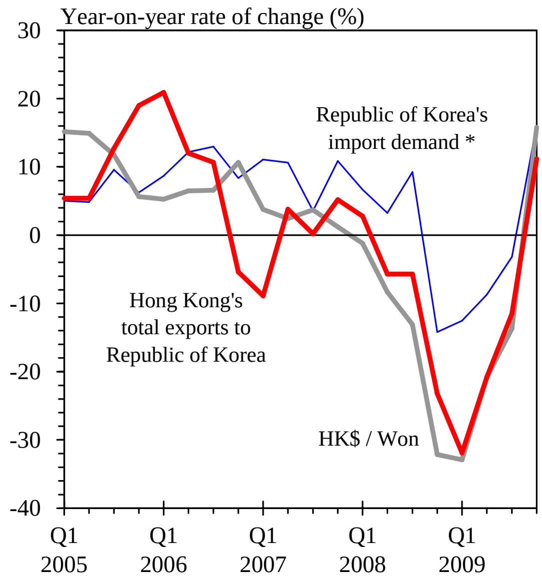


Diagram 3.9 : Exports to Republic of Korea resumed growth in the final quarter of 2009



Note: (*) Import demand figure for the fourth quarter of 2009 is based on statistics for Oct-Nov 2009.

Imports of goods

3.5 *Imports of goods* recorded a decline of 9.4% in real terms in 2009, after an increase of 2.6% in 2008. *Retained imports*, referring to the imports for domestic uses, were also down, by 3.8% in real terms in 2009, having fallen by 1.4% in 2008. The fall-off was concentrated in the first half of 2009, as the severe global recession led to a global wide plunge in production and import demand, which in turn prompted local producers to also pull back in placing orders in view of the highly uncertain environment. But as the recessionary forces progressively receded later in the year, the inventory cycle began to turn along with some normalisation of global trade and the strengthening of domestic demand, leading to the distinct increases in retained imports in the latter part of the year. Analysed by end-use, retained imports of raw materials and semi-manufactures reverted to a marked increase in the second half of 2009, having plunged in the first half. Retained imports of consumer goods and capital goods both fell in 2009 as a whole, yet reverted to year-on-year increases in the latter part of 2009. The growth in intake of consumer goods towards the year-end was particularly sharp, consistent with the upturn in local consumer spending. Retained imports of foodstuffs likewise showed faster growth in the second half of 2009, while those of fuels increased notably throughout the year.

Table 3.3 : Imports of goods and retained imports (year-on-year rate of change (%))

		Imports of goods: In value terms	Imports of goods: In real terms		Imports of goods: Change in prices	Retained imports[(a)]: In value terms	Retained imports[(a)]: In real terms		Retained imports[(a)]: Change in prices
2008	Annual	5.5	2.6		4.4	5.3	-1.4		7.6
	Q1	11.6	9.6	(2.1)	3.6	15.1	9.6	(-5.5)	7.9
	Q2	9.1	5.6	(-2.1)	4.9	11.4	3.0	(1.6)	8.9
	Q3	7.0	2.7	(-1.2)	5.6	10.0	0.8	(-4.1)	9.9
	Q4	-4.2	-6.0	(-5.7)	3.6	-12.5	-16.0	(-9.3)	3.7
2009	Annual	-11.0	-9.4		-0.1	-8.7	-3.8		-3.6
	Q1	-22.8	-22.2	(-12.4)	1.0	-27.4	-24.2	(-10.3)	-3.5
	Q2	-14.9	-12.3	(7.3)	-0.8	-22.7	-18.6	(5.1)	-5.1
	Q3	-10.4	-7.9	(3.2)	-1.5	-1.3	7.3	(23.4)	-6.3
	Q4	3.4	4.0	(7.6)	0.6	18.9	21.8	(4.1)	*

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 3.10 : Retained imports showed a smaller decline than total imports in 2009

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

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

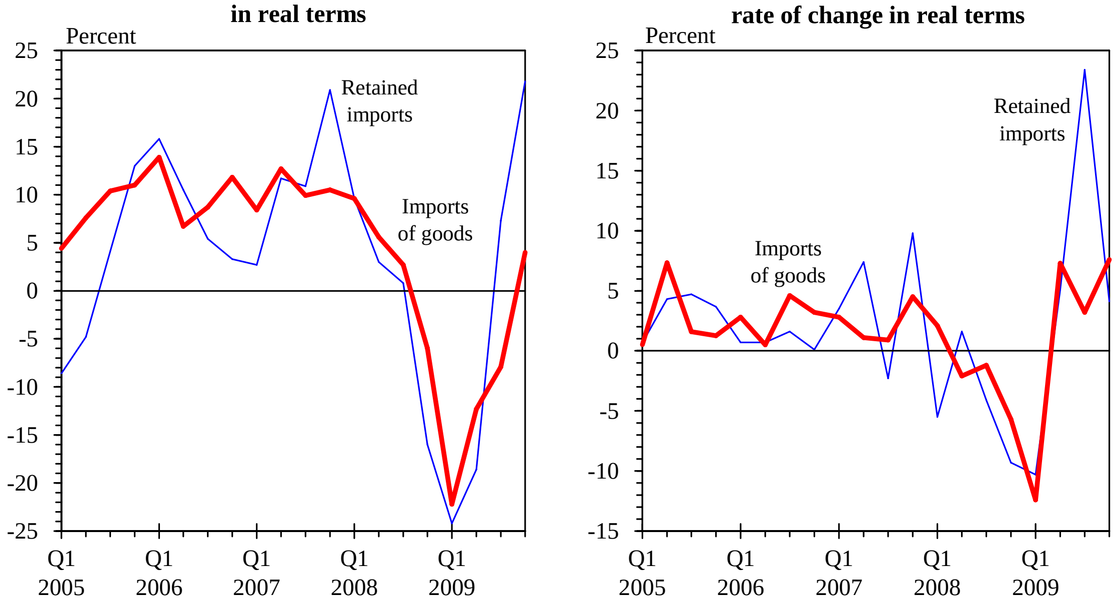


Table 3.4 : Retained imports by end-use category (year-on-year rate of change in real terms (%))

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2008	Annual	12.4	13.3	7.5	-29.9	-3.9
	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	Annual	-8.8	7.0	-4.4	-9.7	23.2
	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
	Q4	20.8	13.4	7.6	68.2	21.1

Invisible trade

Exports of services

3.6 Compared to merchandise exports, *exports of services* fared persistently better over the course of 2009, particularly during the second half of the year where there was a notable rebound. For the year as a whole, exports of services fell by only 0.7% in real terms, following an increase of 5.0% in 2008. As IPO and other financial market activities started to bottom out in the second quarter after the dismal first quarter, followed by a distinct upturn in the second half, exports of finance, business and other services registered a moderate increase in 2009 as a whole. Thanks to the rebound in the number of visitor arrivals in the second half of the year, exports of travel services held up rather well. However, exports of transportation services and trade-related services (mainly offshore trade) were still down in 2009 due to the large shrinkage in global trade flows in most parts of the year. Yet, both reverted to year-on-year increases by the fourth quarter of the year, in tandem with the global recovery.

Diagram 3.11 : Travel and finance, business and other services accounting for over 40% of service exports

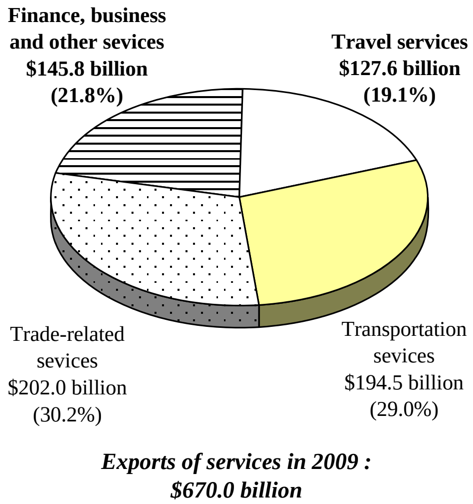


Diagram 3.12 : Exports of services displayed more resilience than merchandise exports

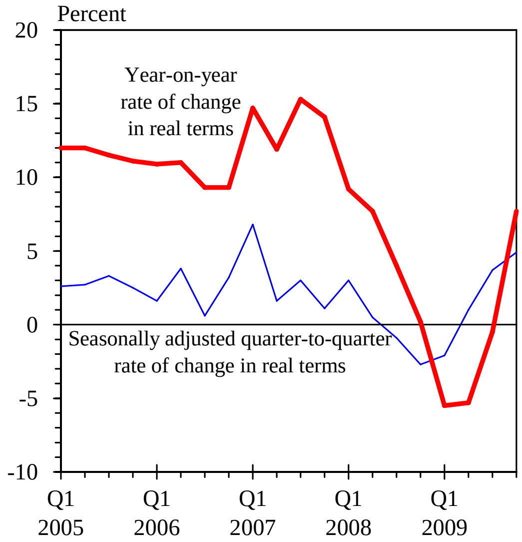


Table 3.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))

		Exports of services		*Of which :* Trade-related services[a]	Transportation services	Travel services[b]	Finance, business and other services
2008	Annual	5.0		4.4	3.1	6.4	7.4
	Q1	9.2	(3.0)	8.2	5.6	7.5	15.1
	Q2	7.7	(0.5)	8.4	4.5	7.9	11.7
	Q3	4.0	(-0.9)	4.7	1.8	7.5	3.8
	Q4	0.2	(-2.7)	-1.0	0.4	3.3	-0.7
2009	Annual	-0.7		-7.4	-2.1	8.0	3.4
	Q1	-5.5	(-2.1)	-15.0	-7.3	14.4	-6.7
	Q2	-5.3	(1.0)	-12.2	-3.4	-1.5	-2.2
	Q3	-0.5	(3.7)	-9.0	-0.4	3.2	9.1
	Q4	7.7	(4.9)	3.4	2.7	14.3	15.3

Notes : (a) Comprising mainly offshore trade.

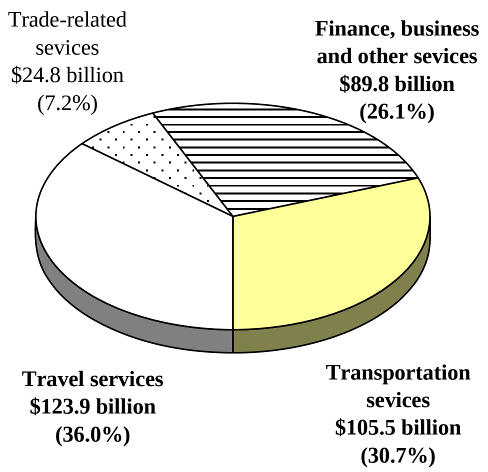
(b) Comprising mainly inbound tourism receipts.

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

Imports of services

3.7 *Imports of services* contracted by 4.0% in real terms in 2009, in contrast to the 6.3% growth in 2008. Imports of finance, business and other services decreased in 2009, but held up rather well in the second half of 2009 as financial and commercial activities revived. Imports of travel services, after contracting in the first quarter, resumed growth in the remaining three quarters, along with a strengthening of local consumer sentiment, resulting in a modest increase in 2009 as a whole. Meanwhile, imports of trade-related services recovered to positive growth in the fourth quarter amid a revival in intra-regional trade, while imports of transportation services fell throughout the year.

Diagram 3.13 : Travel services, transportation services, and services involving finance and business were the main components in imports of services



Imports of services in 2009 : $344.1 billion

Diagram 3.14 : Imports of services recovered in the latter part of 2009

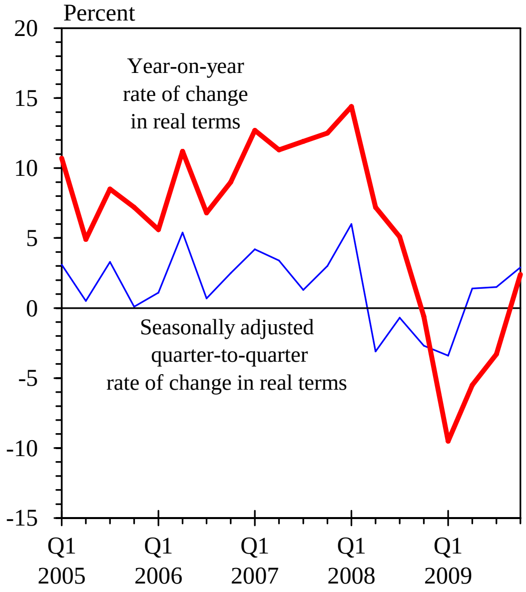


Table 3.6 : Imports of services by major service group (year-on-year rate of change in real terms (%))

				Of which :			
		Imports of services		Travel services(+)	Transportation services	Trade-related services	Finance, business and other services
2008	Annual	6.3		2.4	9.2	8.2	7.4
	Q1	14.4	(6.0)	13.8	18.0	12.2	11.8
	Q2	7.2	(-3.1)	-0.9	13.3	12.4	9.2
	Q3	5.1	(-0.7)	1.0	8.2	8.5	5.6
	Q4	-0.6	(-2.7)	-3.3	-1.5	2.6	3.2
2009	Annual	-4.0		1.9	-11.3	-7.7	-1.2
	Q1	-9.5	(-3.4)	-4.1	-15.7	-15.4	-8.0
	Q2	-5.5	(1.4)	5.4	-12.5	-12.6	-8.2
	Q3	-3.3	(1.5)	2.0	-10.9	-9.4	2.3
	Q4	2.4	(2.9)	4.9	-5.8	2.9	9.0

Notes : (+) Comprising mainly outbound travel spending.

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

Visible and invisible trade balance

3.8 With the surplus in the invisible trade account more than offsetting the deficit in the merchandise trade account, a sizable surplus of $117.7 billion was recorded in the combined visible and invisible trade balance in 2009, equivalent to 3.9% of the total value of imports of goods and services. This compared with the corresponding figures of $170.7 billion and 5.0% in 2008. The still sizable trade surplus was one of the strong economic fundamentals that Hong Kong possessed in meeting the challenges posed by the global financial crisis.

Table 3.7 : Visible and invisible trade balance
($ billion at current market prices)

		Total exports		Imports		Trade balance			
		Goods	Services	Goods	Services	Goods	Services	Combined	As % of imports
2008	Annual	2,844	717	3,024	366	-180	351	171	5.0
	Q1	651	174	697	92	-46	82	36	4.5
	Q2	709	167	771	90	-62	77	15	1.8
	Q3	764	192	806	97	-41	95	54	5.9
	Q4	720	184	751	88	-31	97	66	7.9
2009	Annual	2,495	670	2,703	344	-208	326	118	3.9
	Q1	512	152	547	78	-35	73	39	6.2
	Q2	619	145	658	80	-39	65	26	3.5
	Q3	657	178	723	91	-66	87	21	2.6
	Q4	706	196	775	95	-68	101	33	3.8

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

Other developments

3.9 The Supplement VI to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)[(4)] was signed on 9 May 2009. The new supplement contains further liberalization measures for Hong Kong's service providers to enter the Mainland market. Both sides also agreed to enhance financial cooperation and take forward the work on mutual recognition of professional qualifications, signifying a closer economic integration between Hong Kong and the Mainland.

3.10 The Government continued to strengthen infrastructure links with the Mainland. Specifically, the construction of the Hong Kong-Zhuhai-Macau Bridge has commenced on 15 December 2009. Upon completion of the Bridge, it will further the economic development of Hong Kong, Macao and the Western Pearl River Delta region by facilitating greater flows of goods and people among the three places.

3.11 In July 2009, the pilot program for the usage of the renminbi for cross-border trade settlements in Hong Kong and five other Mainland cities came into operation. The program will allow Hong Kong trading enterprises to enjoy greater flexibility in their operation and managing their exchange rate risks. The scheme will also expand the scope of renminbi business for Hong Kong banks, enhance the diversity of renminbi assets in the banking system, and increase the local capital liquidity of renminbi. This will bolster Hong Kong's role as the renminbi clearing platform, and facilitate the trade and economic developments in the region.

3.12 Hong Kong, Guangdong and Macau are working together to expedite the implementation of the “Outline of the Plan for the Reform and Development of the Pearl River Delta” released by the National Development and Reform Commission in early January 2009. Cooperation efforts have been targeted at such key areas as finance, service industry, tourism, infrastructure, transport and town planning, innovation and technology, environmental protection, restructure and upgrading of enterprises, as well as education and training.

3.13 The Government will also continue to strengthen Hong Kong-Taiwan exchanges proactively, and support the full implementation of the “Three Direct Links” across the Taiwan Strait. In response to the latest development in cross-Strait relations, the Government will establish a cooperation framework and foster bilateral economic cooperation with Taiwan, and also play an active role in financial, economic and trade, tourism and other exchanges between the Mainland, Taiwan and Hong Kong.

3.14 In November, the Chief Executive and New Zealand Prime Minister jointly announced in Singapore the conclusion of negotiations on a Closer Economic Partnership Agreement between Hong Kong and New Zealand, which would be Hong Kong’s first free trade agreement with a foreign economy. The Agreement would provide Hong Kong exporters with enhanced market access to the New Zealand market, promote bi-lateral investment flows, and bring about multiple benefits to both economies.

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 the third quarter of 2009, many advanced economies finally resumed growth. Specifically, the US economy grew at an annualised quarter-to-quarter rate of 2.2%, and the corresponding annualised growth rates in the euro area and Japan were 1.6% and 1.3% respectively. In January 2010, the International Monetary Fund (IMF) revised upwards its global growth forecast for 2010 from 3.1% to 3.9%. Nevertheless, labour market conditions in the advanced economies are still severe (unemployment rates in both the US and euro area were 10.0% in December 2009), and they are also confronted by impaired financial systems and an on-going adjustment process to deleverage and rebuild savings.

(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.

(4) The Supplement VI contains 29 liberalisation measures covering 20 service sectors came into effect from 1 October 2009. This also brings the total number of service sectors covered to 42, and signifies a closer economic integration between Hong Kong and the Mainland.