

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *Global economic environment remained challenging in the first quarter of 2013, posing a drag on Hong Kong's external sector. The eurozone economy stayed in recession, and other major advanced economies, constrained by their own structural problems, were also lacklustre. Consequently, many Asian economies saw subdued trading and production activities during the quarter. Nevertheless, the Mainland economy expanded at a solid pace and rendered some support to the region.*
- *Merchandise exports continued to show wild fluctuations during the first quarter, reflecting a rather unsteady external trading environment. For the quarter as a whole, exports registered a moderate growth in real terms, which when viewed against the low base of comparison in the same period of 2012, represented only a meagre performance. The Mainland and some other Asian markets together provided the main impetus to Hong Kong's exports, cushioning to some extent the continued sluggishness of the US, EU and Japan markets.*
- *Exports of services strengthened further in the first quarter of 2013. Thanks to thriving inbound tourism, exports of travel services held up well and remained the outperformer among service exports. Exports of financial and other business services also saw moderate growth as financial and commercial activities picked up amid some stabilisation in global financial conditions. Yet held back by the still rather slack external environment, exports of trade-related services grew only modestly, which in turn also dampened those of transportation services.*
- *The Financial Secretary in the 2013-14 Budget announced a full range of measures to support the SMEs to tide over the envisaged weakness in the export markets and challenging external environment, through helping them raise capital and explore new markets. The concessionary loan scheme for SMEs was extended for one year and insurance discounts targeted at smaller Hong Kong exporters were introduced. The limit on grant for subsidising SMEs' marketing activities was raised and additional measures on enhancing our enterprises' access to the Mainland market were initiated. Separately, Hong Kong signed a cooperation agreement with Thailand in late February to promote collaborations on various economic fronts.*

Visible trade

Total exports of goods

2.1 Hong Kong's external sector continued to face an unsteady external environment at the start of 2013. *Merchandise exports* (comprising re-exports and domestic exports) expanded moderately by 4.0% in real terms⁽¹⁾ in the first quarter of 2013 over a year earlier, slowing from a solid 6.0% expansion in the fourth quarter of 2012. There were also considerable fluctuations in export performance during the quarter, marked by a sharp rise in January, a plunge in February, and then a notable rebound in March. On a seasonally adjusted quarter-to-quarter comparison, merchandise exports shrank mildly by 1.5% in the first quarter, following a strong growth of 4.9% in the preceding quarter.

2.2 Global economic situation remained lacklustre and fluid in the first quarter of 2013, being hampered by the subdued and fragile conditions in major advanced economies. Although the US economy attained a modest expansion in the first quarter of 2013, the unsteady pace of job creation, tax hikes and sequestration undermined its domestic demand. The EU, mired in recession alongside uncomfortably high unemployment, was the weakest spot in the global economy, and the risks from the euro debt problems lingered on as manifested by the bailout for Cyprus and inconclusive results of the Italian elections in the quarter. The sharp depreciation of the yen triggered by Bank of Japan's aggressive monetary easing also emerged as a new source of uncertainty for other export-dependent Asian economies. As a result, some East Asian economies and emerging markets, while showing relatively resilient domestic demand, grew only modestly amid these strong external headwinds. Against this background, the solid growth of the Mainland economy was a relatively bright spot, lending some support to its Asian peers. In April the International Monetary Fund (IMF) trimmed its global economic growth forecast for 2013 to 3.3%, representing only a marginal improvement from a 3.2% growth last year.

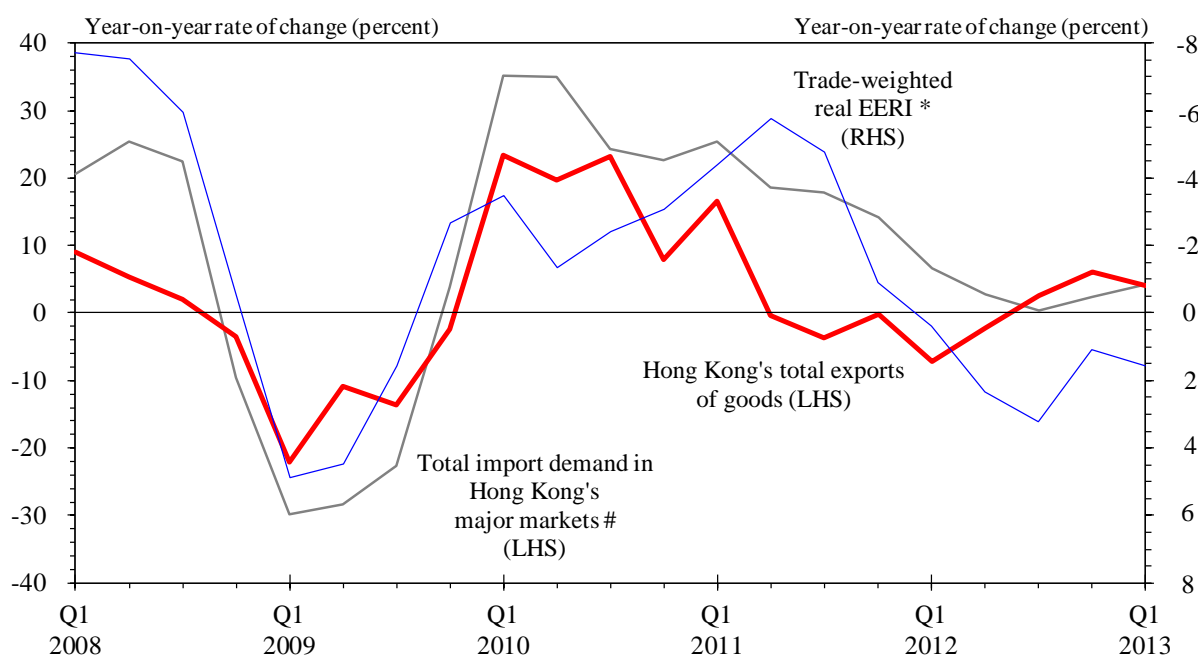
2.3 *Re-exports*⁽²⁾, the mainstay of overall merchandise exports and accounting for 98.4% of total exports by value, grew by 4.2% year-on-year in real terms in the first quarter of 2013, decelerating from the 6.2% growth in the fourth quarter of 2012. *Domestic exports*, which constitute the remaining 1.6% of total exports, fell by 4.5% in real terms in the first quarter of 2013, after a 3.8% decline in the preceding quarter.

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

	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>					
	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			
2012 Annual	2.9	-0.1	3.4	3.2	0.1	3.4	-10.4	-13.0	2.5			
Q1	-1.5	-7.1	(1.9)	6.2	-1.0	-6.7	(1.9)	6.2	-24.1	-26.9	(-0.4)	3.0
Q2	1.9	-2.2	(-2.3)	4.4	2.3	-1.9	(-2.4)	4.4	-14.8	-17.6	(1.2)	2.6
Q3	3.8	2.5	(2.6)	1.8	3.9	2.6	(2.6)	1.8	0.5	-1.2	(2.9)	1.4
Q4	7.0	6.0	(4.9)	1.4	7.1	6.2	(5.1)	1.3	-1.2	-3.8	(-6.0)	2.7
2013 Q1	4.0	4.0	(-1.5)	0.6	4.0	4.2	(-1.5)	0.5	-0.9	-4.5	(-3.0)	4.2

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

Diagram 2.1 : Export performance was modest in the first quarter of 2013



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 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 first quarter of 2013 is based on statistics for January and February 2013.

Diagram 2.2 : The fall-back in seasonally adjusted figures pointed to a rather weak export performance

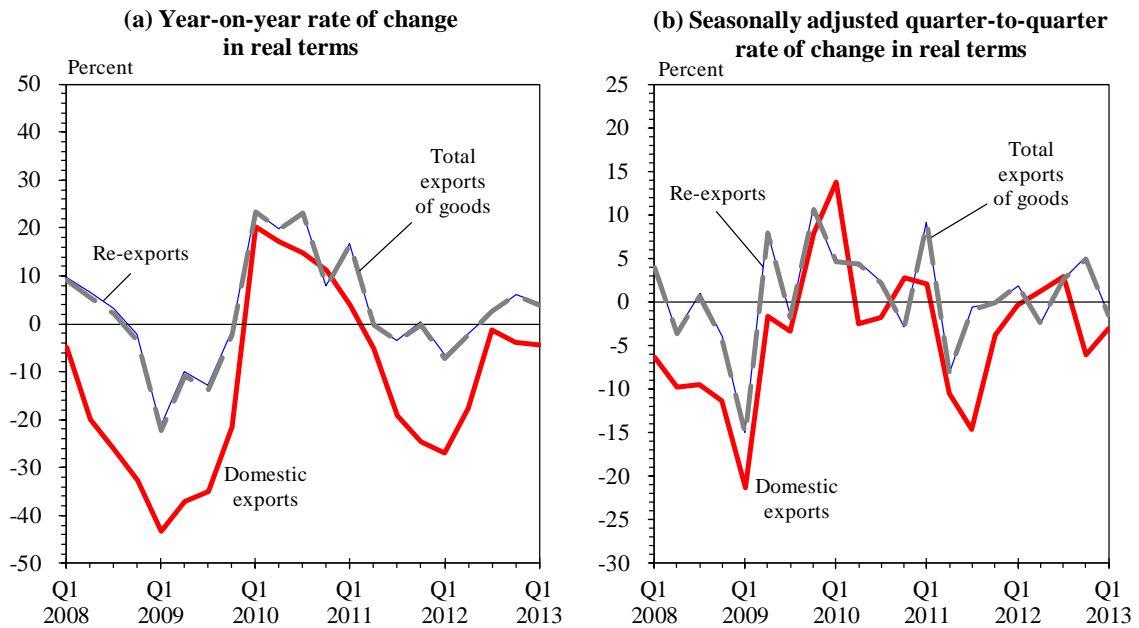
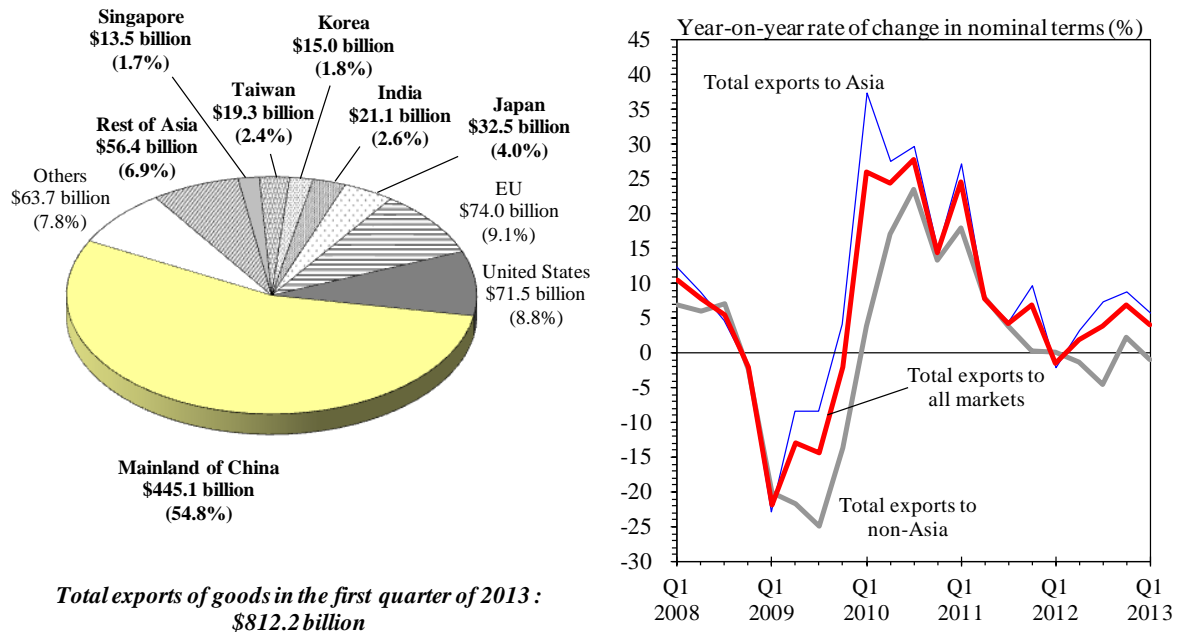


Diagram 2.3 : Asian markets continued to feature prominently in Hong Kong's exports



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

	<u>Annual</u>	<u>2012</u>				<u>2013</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Mainland of China	3.4	-7.8	-0.6	9.7	12.1	8.5
United States	-1.3	-7.1	0.1	-0.1	1.4	-5.0
European Union	-10.4	-9.7	-12.5	-14.1	-4.8	-5.4
Japan	0.9	-1.5	1.5	3.3	0.4	-4.9
India*	-22.5	-23.8	-23.7	-22.3	-20.0	0.3
Taiwan	-7.9	-21.4	-2.1	-10.7	2.4	14.2
Korea	-4.0	-5.2	-5.7	-2.2	-2.8	0.5
Singapore	-3.3	-14.1	2.1	-0.3	-0.8	5.2

Note : (*) A unit value index specifically compiled for exports to India is available since January 2012. The volume figures for growth in exports to India prior to 2013 are crude estimates.

2.4 Analysed by major market, merchandise exports to the major Asian economies saw mixed performance in the first quarter of 2013. Exports to the Mainland held up well, expanding visibly by 8.5% year-on-year in real terms on the back of sustained intake of capital goods there. Exports to Japan reverted to a decline with those of consumer goods, raw materials and capital goods all falling, partly reflecting Japan's torpid economic activities but conceivably also the discouraged import demand because of the much weakened yen. Exports to other newly industrialised Asian markets registered growth of different extents, with those to Taiwan leaping by 14.2% while those to Singapore and Korea growing by 5.2% and 0.5% respectively. Exports to India started to bottom out in the first quarter after plummeting for four consecutive quarters.

2.5 Exports to the US and the EU showed renewed weaknesses in the first quarter of 2013. Notwithstanding the continued revival in the US housing market, the recovery of its labour market remained shaky and the latest restrictive fiscal measures further weighed on import demand and sentiment there. As such, total exports to the US relapsed to a rather visible decline over a year earlier in the first quarter. On the other hand, exports to the EU stayed on a distinct downtrend despite a low base of comparison, as the economic recession there lingered on amid fragile consumer and business sentiments and on-going austerity measures.

Diagram 2.4 : Exports to the Mainland maintained solid growth

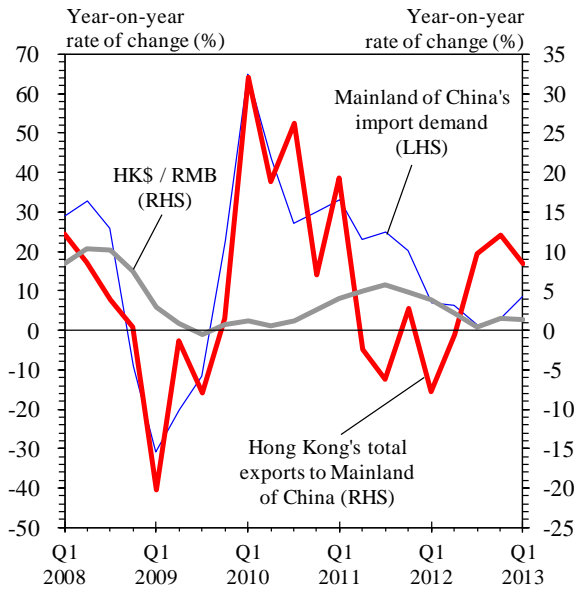


Diagram 2.5 : Exports to the EU remained on a distinct downtrend

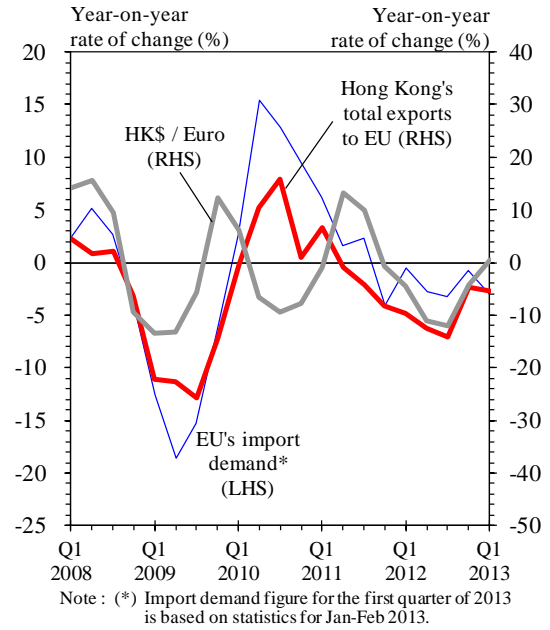


Diagram 2.6 : Exports to the US fell back

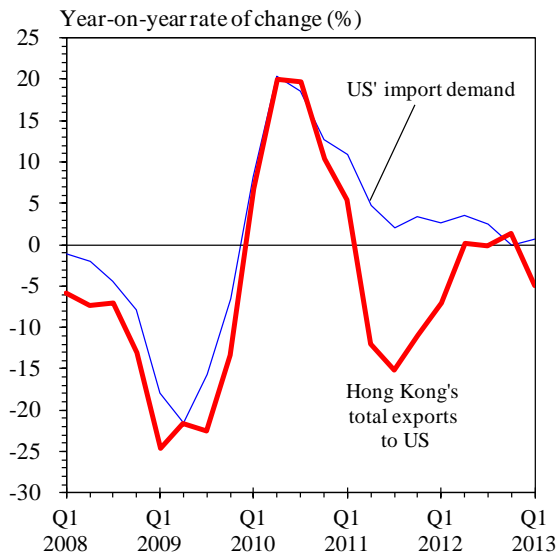


Diagram 2.7 : Exports to Japan also weakened, exacerbated further by yen weakness

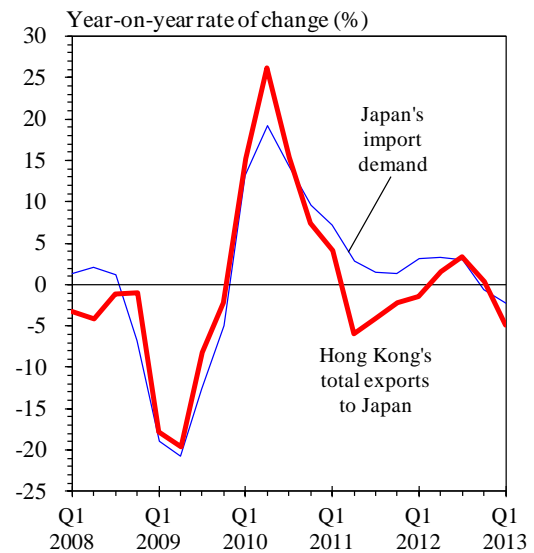


Diagram 2.8 : Exports to India showed some relative improvement

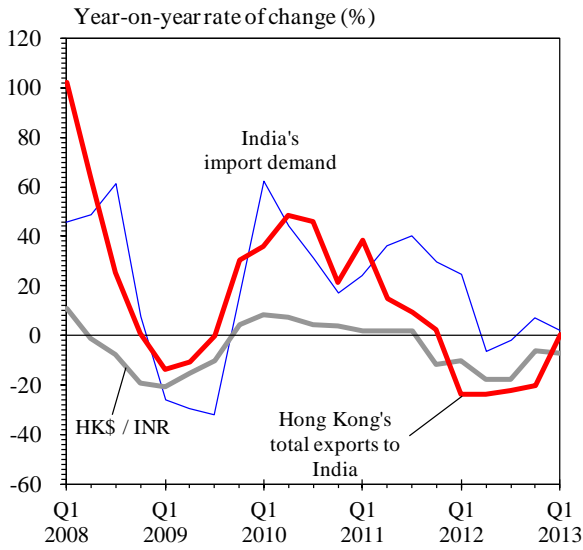


Diagram 2.9 : Exports to Taiwan rose back strongly, though partly due to a lower base of comparison

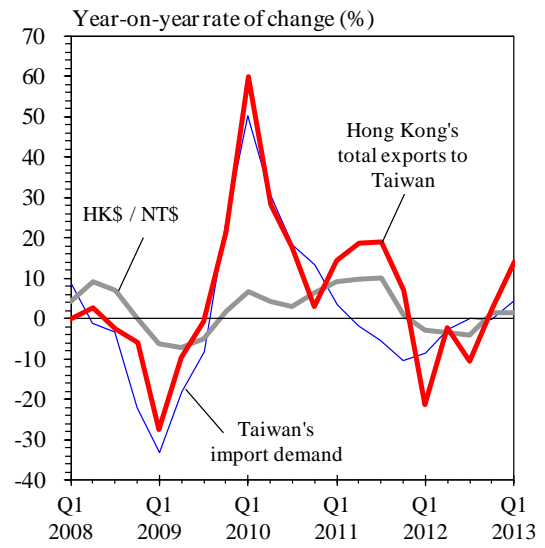


Diagram 2.10 : Exports to Korea only registered marginal growth, alongside the dented trading and production activities there

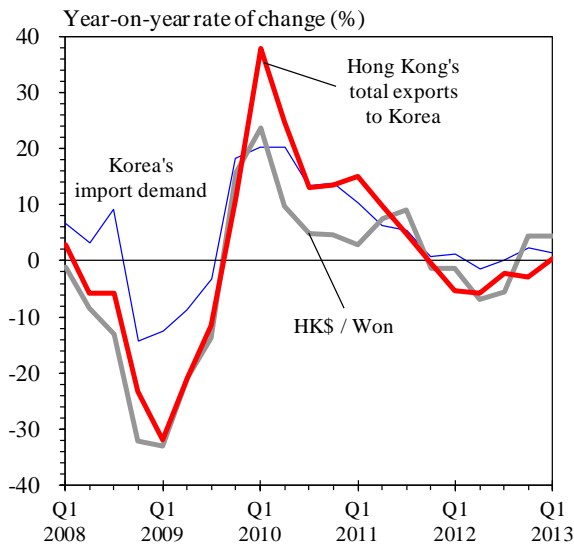
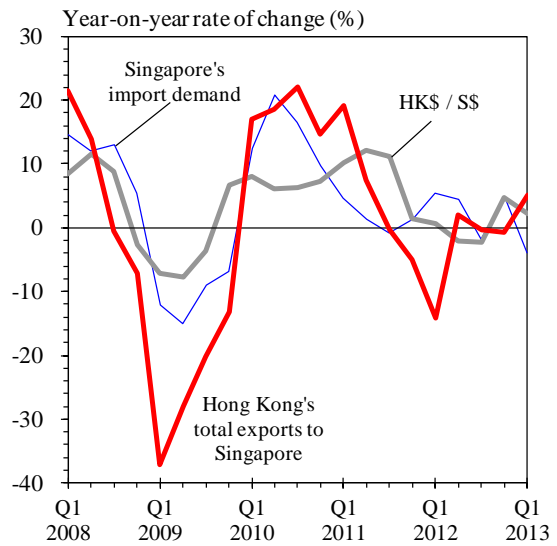


Diagram 2.11 : Exports to Singapore expanded moderately, mainly on the back of solid intake of consumer goods



Imports of goods

2.6 *Imports of goods* grew by 5.0% in real terms in the first quarter of 2013 over a year earlier, down slightly from a 6.6% growth in the fourth quarter of 2012, alongside the moderation in re-export trade and hence reduced import intake for subsequent re-exporting. *Retained imports*, which accounted for over one-quarter of total imports, grew by 7.1% in real terms in the first quarter of 2013 over a year earlier, further to a 7.7% growth in the preceding quarter. Analysed by end-use category, retained imports of consumer goods expanded moderately despite a higher base of comparison, and those of foodstuffs grew appreciably further in the first quarter of 2013, thanks to buoyant local consumption demand and thriving inbound tourism. Retained imports of capital goods however slackened, conceivably reflecting the still relatively cautious business sentiment, but also affected by the high base a year ago. Those of fuels resumed growth after posting declines in the preceding seven quarters, while those of raw materials rebounded against a low base of comparison.

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

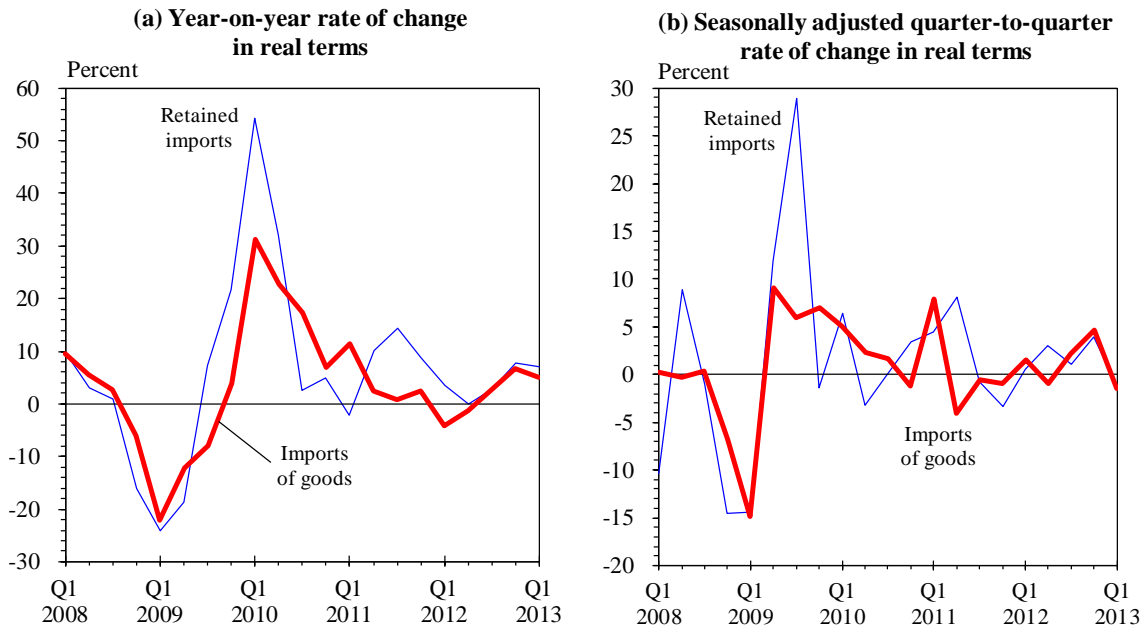
		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2012	Annual	3.9	1.0	3.3	5.9	3.5	3.0		
	Q1	0.7	-4.1	(1.6)	5.0	5.4	3.5	(0.6)	1.7
	Q2	2.1	-1.3	(-0.9)	3.9	1.5	*	(3.0)	2.5
	Q3	4.5	2.7	(2.2)	2.3	6.0	2.9	(1.1)	3.5
	Q4	8.1	6.6	(4.7)	2.1	10.6	7.7	(4.0)	4.1
2013	Q1	4.9	5.0	(-1.4)	1.1	7.1	7.1	(-1.3)	2.8

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 within $\pm 0.05\%$.

Diagram 2.12 : Imports slowed slightly, but retained imports held up well



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

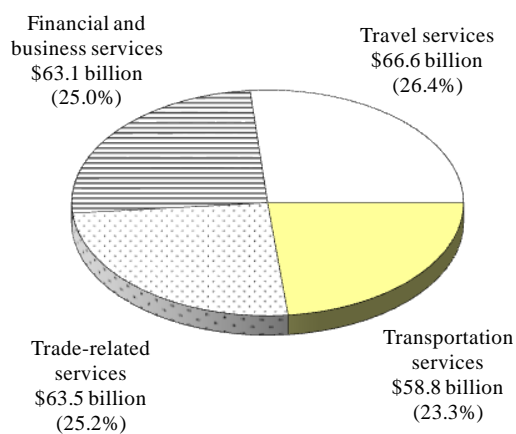
		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2012	Annual	6.4	1.6	21.7	-6.4	-6.6
	Q1	16.1	4.8	50.7	-19.8	-6.9
	Q2	0.5	2.5	6.6	-5.1	-4.0
	Q3	-5.4	-5.6	20.0	1.6	-4.3
	Q4	17.1	4.8	19.9	-2.3	-11.2
2013	Q1	4.7	12.0	-3.1	12.3	7.6

Invisible trade

Exports of services

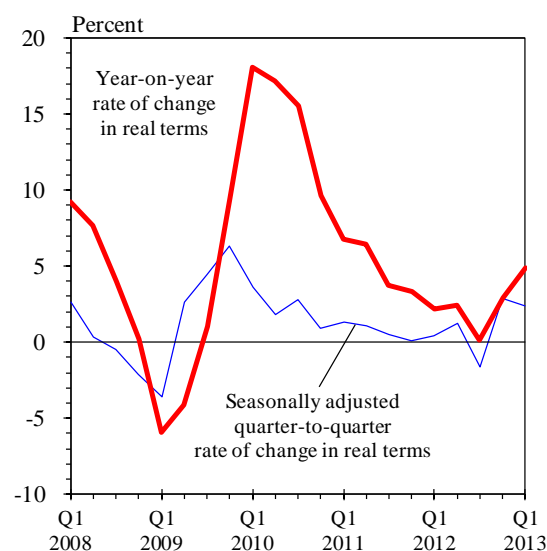
2.7 *Exports of services* picked up to a 4.9% year-on-year growth in real terms in the first quarter of 2013, from 2.9% in the preceding quarter. Exports of travel services grew notably further on the back of sustained vibrancy in inbound tourism, providing the key impetus to overall service exports. Those of financial and other business services showed moderate growth, thanks to improved financial market and commercial activities amid some stabilisation in global financial conditions. However, exports of trade-related services, comprising mainly offshore trade activities, grew only modestly amid the still rather soft trade flows, while those of transportation services recorded a small decline alongside the dented freight transport services.

Diagram 2.13 : Each major service group accounted for a similar share of Hong Kong's service exports, reflecting our diversified and competitive services sector



Exports of services in the first quarter of 2013 : \$252.1 billion

Diagram 2.14 : Exports of services strengthened in the first quarter



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

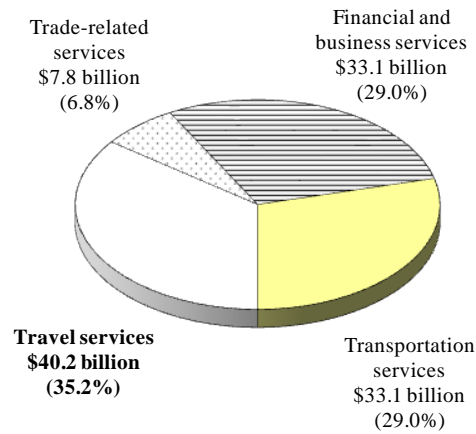
		<i>Of which :</i>					
		<u>Exports of services</u>	<u>Trade-related services^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Financial and business services</u>	
2012	Annual	1.9	0.6	-3.0	10.8	-0.2	
	Q1	2.2 (0.4)	-1.6	3.0	8.6	*	
	Q2	2.4 (1.2)	0.7	-3.9	13.1	2.6	
	Q3	0.1 (-1.6)	1.2	-5.8	8.6	-3.3	
	Q4	2.9 (2.9)	1.8	-4.3	12.9	0.4	
2013	Q1	4.9 (2.4)	2.7	-1.3	15.3	3.2	

- Notes :
- (a) Comprising mainly offshore trade.
 - (b) Comprising mainly inbound tourism receipts.
 - () Seasonally adjusted quarter-to-quarter rate of change.
 - (*) Change within $\pm 0.05\%$.

Imports of services

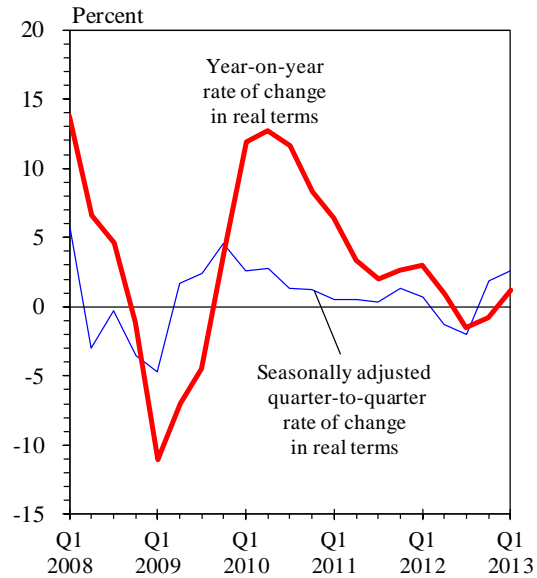
2.8 *Imports of services* resumed a mild 1.2% growth in real terms in the first quarter of 2013 over a year earlier from a marginal decline of 0.8% in the preceding quarter. Thanks to the solid growth in outbound travel of local residents amid sanguine local consumer sentiment and improved income conditions, imports of travel services expanded firmly further and imports of transportation services also saw a narrower decline. Yet the latter, together with imports of trade-related services, remained dented by the modest regional trade flows. Imports of financial and other business services grew only marginally for another quarter.

Diagram 2.15 : Travel services had the largest share in imports of services



*Imports of services in the first quarter of 2013 :
\$114.2 billion*

Diagram 2.16 : Imports of services grew mildly



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

Of which :

		<i>Of which :</i>				
		<u>Imports of services</u>	<u>Travel services⁽⁺⁾</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial and business services</u>
2012	Annual	0.4	3.8	-2.4	-0.1	-0.6
	Q1	3.0 (0.7)	5.8	4.0	*	-0.3
	Q2	0.9 (-1.3)	4.8	-2.8	-1.3	1.3
	Q3	-1.5 (-2.0)	3.0	-4.6	-0.8	-3.7
	Q4	-0.8 (1.9)	1.8	-5.7	1.3	0.6
2013	Q1	1.2 (2.6)	6.0	-3.5	2.2	0.3

Notes : (+) Comprising mainly outbound travel spending.

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

(*) Change within $\pm 0.05\%$.

Visible and invisible trade balance

2.9 Despite the somewhat improved service exports, the invisible trade account surplus failed to offset the visible trade deficit in the first quarter of 2013 because of the difficult external trading environment, resulting in a deficit of \$17 billion in the combined visible and invisible trade balance (equivalent to 1.5% of the total value of imports of goods and services). This compared to the overall trade deficit of \$3 billion in the same quarter of 2012 (or 0.3% of the total value of imports of goods and services).

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			As % of <u>imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2012	Annual	3,581	990	4,116	449	-536	541	5	0.1
	Q1	803	238	933	111	-130	127	-3	-0.3
	Q2	876	229	1,028	106	-152	123	-28	-2.5
	Q3	943	254	1,059	114	-116	140	24	2.1
	Q4	958	268	1,096	119	-138	150	12	1.0
2013	Q1	869	252	1,024	114	-155	138	-17	-1.5

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

Other developments

2.10 In anticipation of the still weak export markets and a challenging external environment, the Financial Secretary in the 2013-14 Budget introduced a number of measures to support the small and medium-sized enterprises (SMEs), which formed the majority of enterprises in Hong Kong. The application period for the special concessionary measures under the SME Financing Guarantee Scheme was extended for one year to support the liquidity needs of the SMEs. With a particular focus on aiding the smaller firms, a “Small Business Policy” scheme was introduced by the Hong Kong Export Credit Insurance Corporation to waive the annual policy fee and offer premium discount for Hong Kong exporters with annual business turnover of less than \$50 million. Moreover, business registration fees for 2013-14 were waived while profits tax for 2012-13 was reduced by 75%, subject to a ceiling of \$10,000, to relieve the burden on the enterprises.

2.11 Apart from helping the SMEs raise capital and lower expenses, the 2013-14 Budget also included measures to assist SMEs in tapping new markets. The cumulative amount of the grant for SMEs under the SME Export Marketing Fund was increased to subsidise their export promotion activities. Furthermore, the HKTDC will set up more Design Galleries in the Mainland outside Beijing and Guangzhou to broaden our enterprises' access to the Mainland market. On top of these, the \$1 billion BUD Fund set up last June remained in place to assist Hong Kong enterprises on branding, upgrading and promoting domestic sales to enhance their competitiveness in the Mainland.

2.12 Meanwhile, Hong Kong and Thailand signed a cooperation agreement in late February to promote collaborations on various fronts, including trade in goods and services, investment, logistics and transport, and tourism. Thailand is an important member of the Association of Southeast Asian Nations (ASEAN). Taking its ten member states together, ASEAN is the second largest trading partner of Hong Kong (even larger than the EU and only after the Mainland), accounting for about 10% of Hong Kong's merchandise trade value in 2012.

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. In addition, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.
- (2) 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.