

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *The global economy, after a slow start this year, improved somewhat in the second quarter. In particular, the US economy rebounded following the notable contraction in the first quarter. The recovery of the eurozone economy continued at a modest pace, while activity indicators in Japan weakened after the sales tax hike in April. Overall, import demand in the advanced economies, despite some relative improvement of late, had yet to pick up in a significant way, thereby restraining the expansion of Asia's production and trading activities. Moreover, the uncertainties arising from US monetary policy normalisation as well as geopolitical tensions in some parts of the world added headwinds to the already-unsteady external environment.*
- *Against this backdrop, Hong Kong's merchandise exports rebounded moderately in real terms⁽¹⁾ in the second quarter over a year earlier, after a slight decline in the first quarter. Exports to the advanced markets as a whole improved somewhat, while those to most major Asian markets also picked up in growth.*
- *Exports of services, on the other hand, slackened visibly to a year-on-year decline in the second quarter, weighed mainly by the significant fall-off in exports of travel services. While an exceptionally high base of comparison was to blame, the decline in exports of travel services reflected the plunge in visitor spending on big-ticket items. As to other service exports, exports of trade-related services and transportation services generally improved, in tandem with the modest recovery of regional trade flows, while exports of financial and other business services maintained modest growth alongside further expansion in cross-border financial activities.*
- *Hong Kong constantly strives to foster closer economic ties with major trading partners. In July, the Government began negotiating a Free Trade Agreement (FTA) with the Association of Southeast Asian Nations (ASEAN). The FTA, if materialised, should facilitate and enhance trade and investment flows between the two places. Separately, the implementation of the Mutual Recognition Arrangement (MRA) between the Hong Kong and the Mainland customs in May, and the conclusion of an MRA between Hong Kong and Singapore customs in June, should help facilitate trade flows and create new business opportunities.*

Visible trade

Total exports of goods

2.1 Global trade flows improved somewhat in the second quarter of 2014 from the weak start early this year. Along with this, Hong Kong's *merchandise exports* (comprising re-exports and domestic exports) rebounded to a 4.3% growth in real terms in the second quarter over a year earlier, reversing the 0.3% fall in the first quarter. On a seasonally adjusted quarter-to-quarter basis, merchandise exports rose back by 3.7% in real terms in the second quarter, in contrast to the 4.9% contraction in the preceding quarter.

2.2 The external trading environment was still unsteady despite some relative improvement. The US economy resumed growth in the second quarter, following a rather severe setback in the first quarter amid extreme weather conditions. In the eurozone, the economy stayed on a modest growth path, held back by the still-elevated unemployment rate and weak credit dynamics in the region. In Japan, economic indicators such as retail sales and business sentiment weakened in the second quarter after the sales tax hike in April. The slow growth of the advanced economies posed a drag on the recuperation of their import demand. While the Mainland economy sustained its growth momentum, the performance of other major emerging market economies was constrained by tight domestic capacity and fragile external positions. In addition, the uncertainties arising from the US monetary policy normalisation and geopolitical tensions in different parts of the world lingered on. All these limited the strength of Asia's trade growth in the second quarter. In light of the softer-than-expected growth outturns in many major economies thus far this year, the International Monetary Fund (IMF) cut its global economic growth forecast for 2014 further in July to 3.4% from that of 3.6% in April, which is only a touch higher than the 3.2% growth in 2013, representing limited improvement from previous year's performance.

2.3 *Re-exports*⁽²⁾, the mainstay of overall merchandise exports and accounting for 98.3% of total exports by value, rose by 4.1% in real terms in the second quarter of 2014, in contrast to the 0.4% decline in the preceding quarter. *Domestic exports*, constituting the remaining 1.7% of total exports, posted a 11.8% year-on-year growth in real terms in the second quarter, further to the 3.7% increase in the preceding quarter.

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

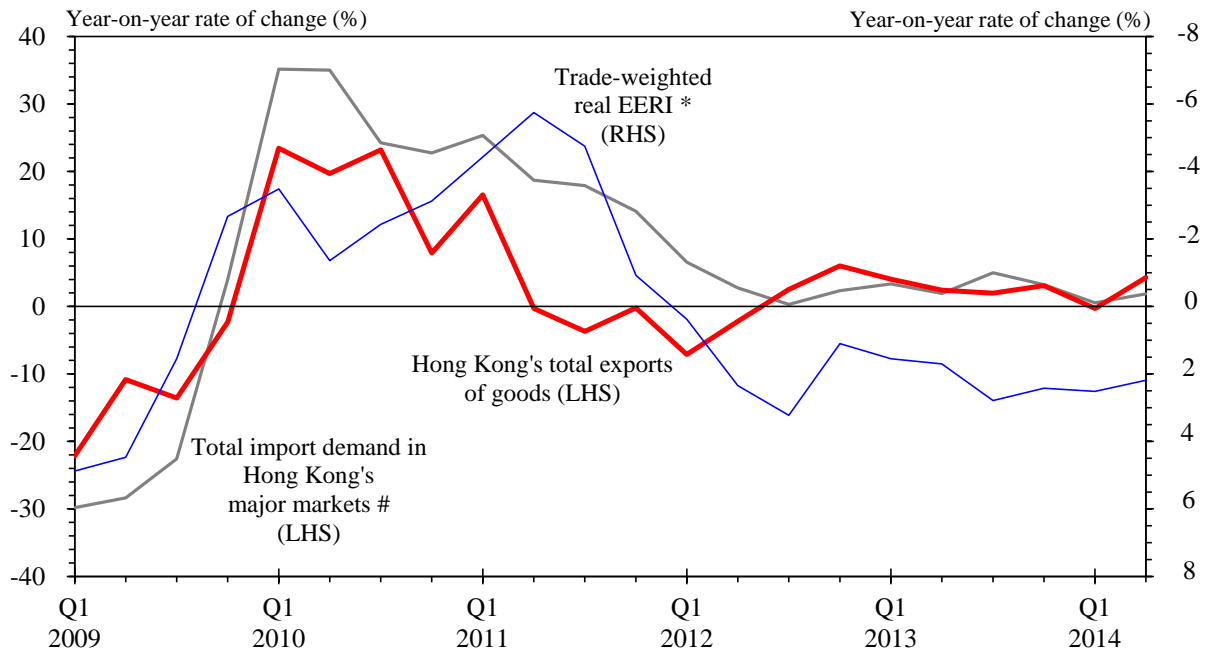
	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
	<u>In value terms</u>	<u>In real terms^(a)</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms^(a)</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms^(a)</u>	<u>Change in prices</u>
2013 Annual	3.6	2.8	1.3	3.8	3.0	1.3	-7.6	-9.4	2.2
H1	3.2	3.2	0.5	3.3	3.4	0.4	-4.6	-7.5	3.2
H2	4.1	2.5	2.0	4.3	2.8	2.0	-10.3	-11.2	1.2
Q1	4.0	4.0 (-1.9)	0.6	4.0	4.2 (-1.9)	0.5	-0.9	-4.5 (-1.2)	4.2
Q2	2.4	2.4 (-1.2)	0.4	2.6	2.6 (-1.1)	0.4	-7.9	-10.1 (-5.2)	2.3
Q3	3.3	2.0 (2.2)	1.7	3.6	2.2 (2.3)	1.7	-11.9	-12.9 (-1.0)	1.8
Q4	4.8	3.1 (3.6)	2.4	5.0	3.3 (3.7)	2.4	-8.5	-9.4 (-1.7)	0.6
2014 H1	2.8	2.0	1.8	2.8	1.9	1.8	3.7	7.9	-0.5
Q1	0.7	-0.3 (-4.9)	1.7	0.7	-0.4 (-5.2)	1.7	-1.1	3.7 (12.4)	-1.2
Q2	4.8	4.3 (3.7)	1.8	4.8	4.1 (3.7)	1.9	8.3	11.8 (2.4)	*

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

(*) Change of less than 0.05%.

(a) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1, due to differences in coverage and methodology.

Diagram 2.1 : Merchandise exports rebounded in the second quarter of 2014



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 second quarter of 2014 is based on statistics for April and May 2014.

Diagram 2.2 : Re-exports rose back while domestic exports accelerated

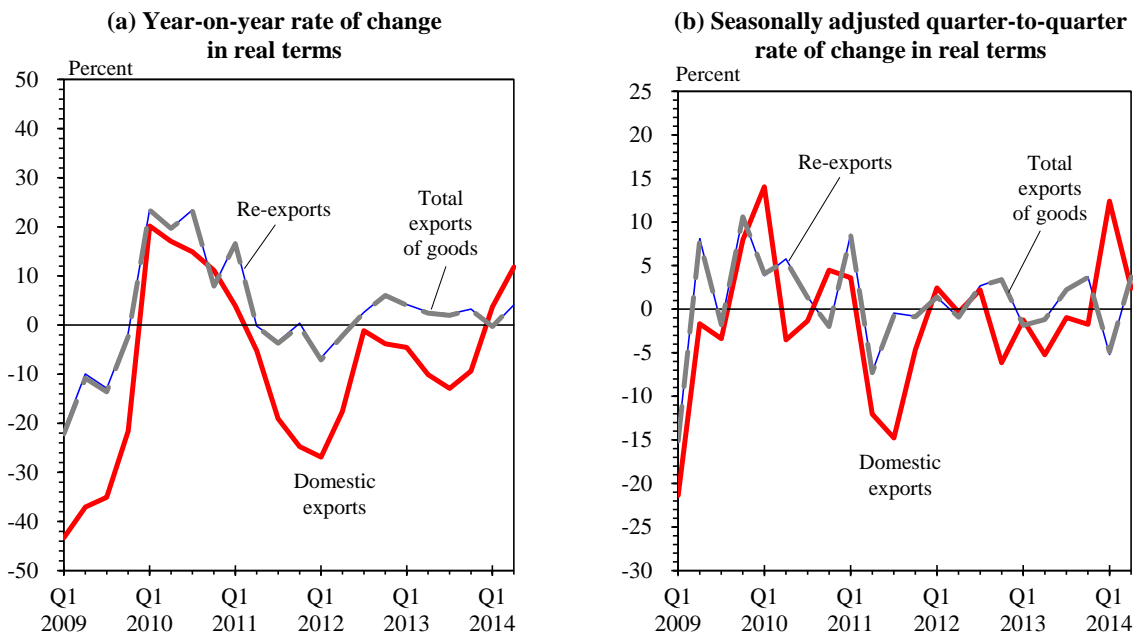


Diagram 2.3 : Asian markets continued to feature prominently in Hong Kong's exports

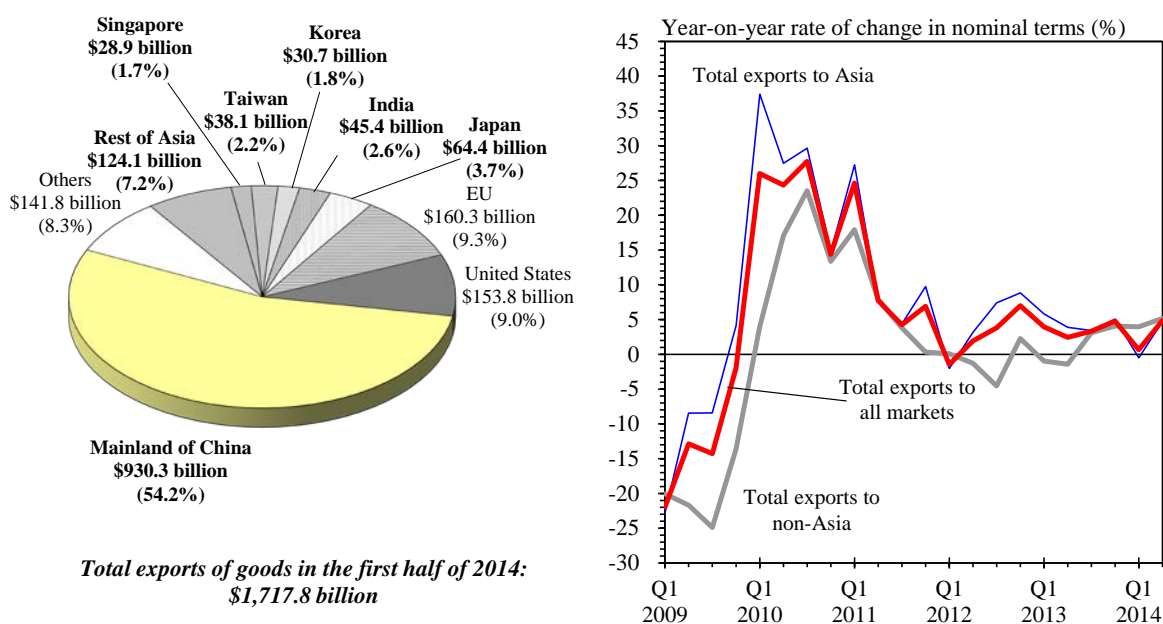


Table 2.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))

	<u>Annual</u>	<u>2013</u>				<u>2014</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Mainland of China	4.9	8.5	6.3	2.8	2.8	-2.9	4.5
United States	-4.3	-5.0	-8.0	-1.0	-3.6	3.9	3.1
European Union	-0.6	-5.4	-2.5	2.7	2.4	1.2	4.3
Japan	-6.3	-4.9	-5.5	-8.3	-6.2	-2.1	-1.5
India	7.7	0.3	8.0	6.7	16.8	7.6	17.4
Taiwan	-6.1	14.2	-12.1	-7.6	-13.9	-5.9	0.2
Korea	6.3	0.5	2.0	4.5	18.6	1.8	4.5
Singapore	2.5	5.2	0.2	-0.9	6.2	6.8	-0.6

2.4 Analysed by major markets, merchandise exports to Asian economies showed different extents of improvement for the second quarter as a whole, although the pick-up was mainly concentrated in June. Exports to the Mainland bounced back to a 4.5% year-on-year growth in real terms in the second quarter after a contraction in the preceding quarter. Exports to many other Asian markets also turned somewhat better in the second quarter, with exports to India and Korea strengthening most visibly. The year-on-year decline in exports to Japan also narrowed slightly, possibly helped in part by the more stable yen exchange rate in the recent past, while those to Taiwan also stabilised. The key exception was exports to Singapore, which eased to register a mild year-on-year contraction, broadly consistent with the moderation in manufacturing activity there during the period.

2.5 Exports to major advanced economies saw modest to moderate growth in the second quarter of 2014. Exports to the US registered only modest growth in the second quarter despite a low base of comparison, as the positive consumer sentiment there had not yet translated into stronger import demand growth. Comparatively, exports to the EU fared better and posted moderate year-on-year growth in the second quarter, although the base effects also partly helped.

Diagram 2.4 : Exports to the Mainland rebounded

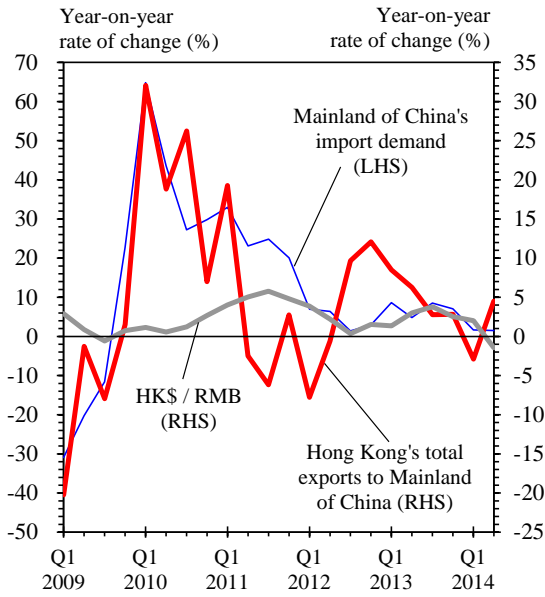


Diagram 2.5 : Exports to the EU accelerated

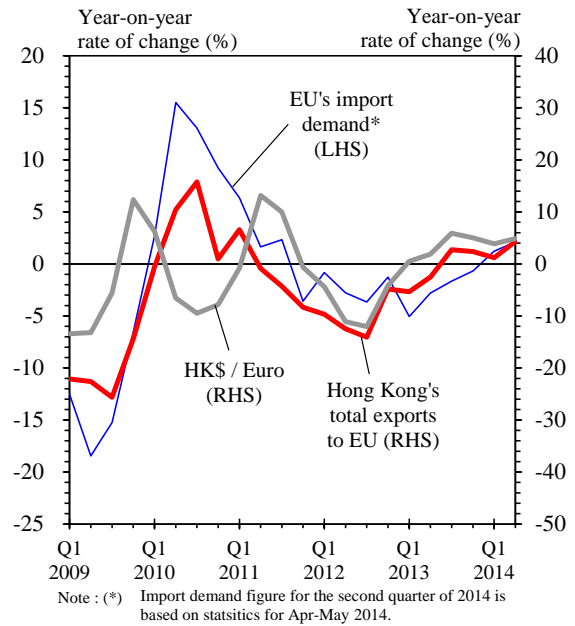


Diagram 2.6 : Exports to the US only grew modestly

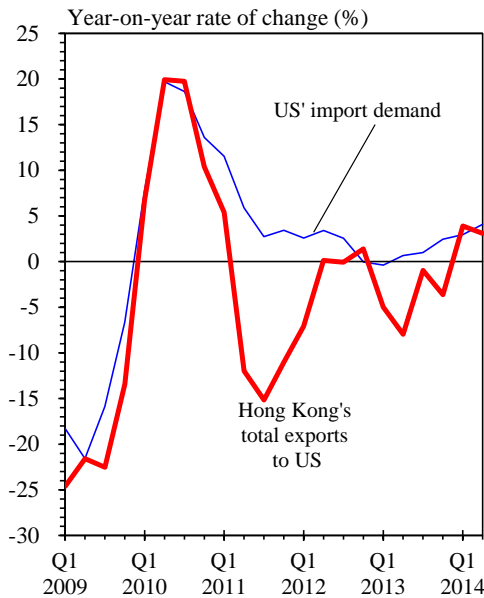


Diagram 2.7 : Exports to Japan contracted at a slower pace

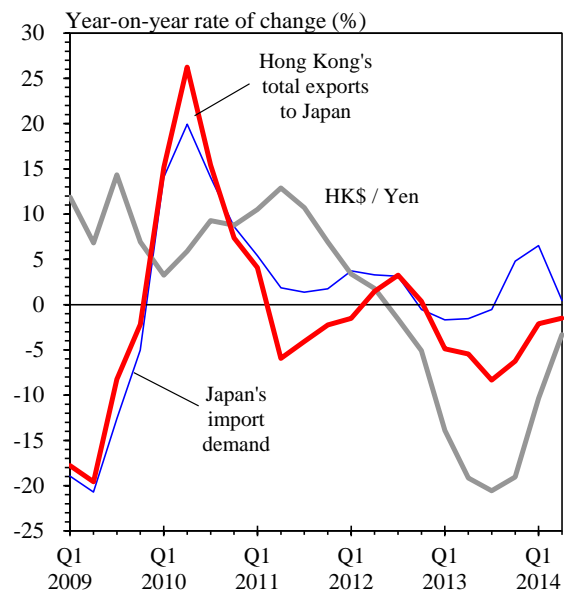


Diagram 2.8 : Exports to India showed appreciable growth

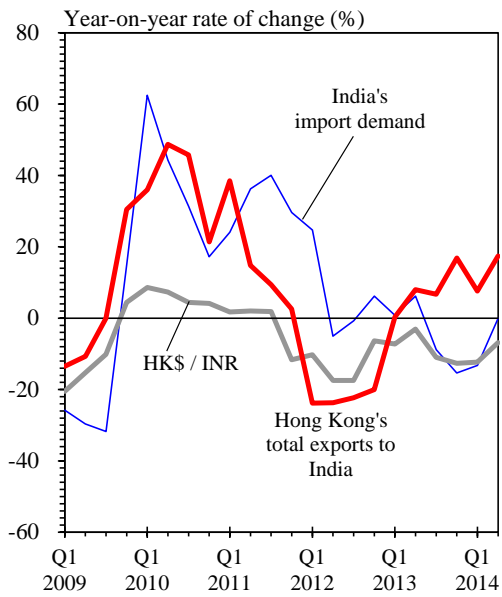


Diagram 2.9 : Exports to Taiwan stabilised

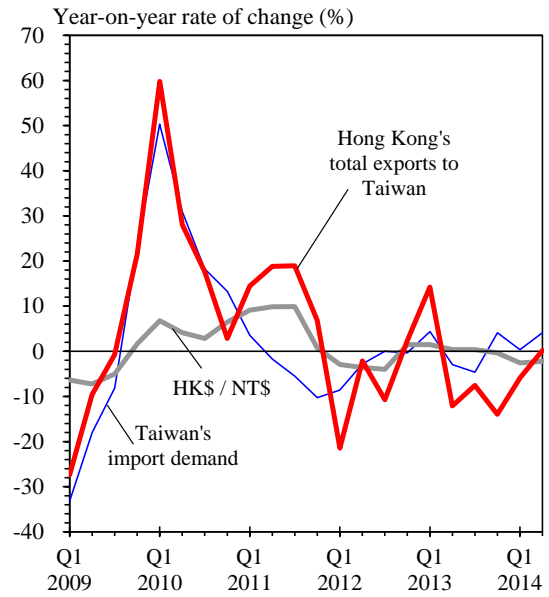


Diagram 2.10 : Exports to Korea picked up

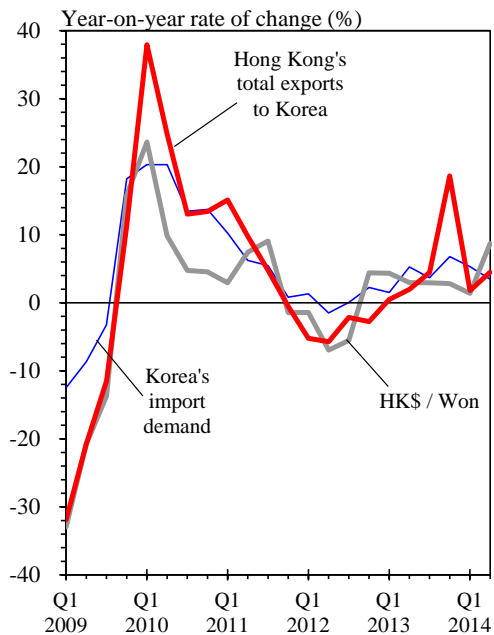
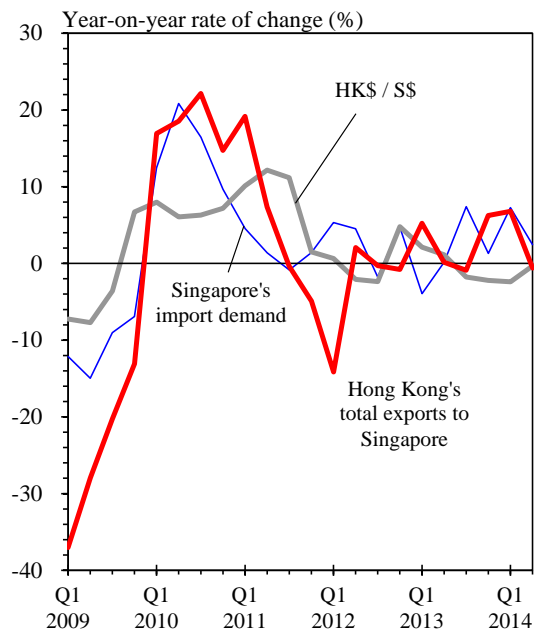


Diagram 2.11 : Exports to Singapore dipped



Box 2.1

ASEAN's Economic Linkages with Hong Kong and Market Potentials

The Association of Southeast Asian Nations (ASEAN) is composed of ten economies in Southeast Asia, including Indonesia, Thailand, Malaysia, Philippines, Singapore, Brunei, Vietnam, Laos, Cambodia and Myanmar. The former six are older member states (ASEAN-6), representing around 90% of aggregate ASEAN GDP at current prices in 2012 (*see Chart 1a*), while the rest are newer ones. This box article sketches the economic linkages between ASEAN and Hong Kong, and examines its longer-term market potentials.

ASEAN is an important trading and investment partner of Hong Kong. In terms of trade in goods, ASEAN was Hong Kong's second largest trading partner, accounting for about 10% of our total merchandise trade in 2013. As regards services trade, ASEAN was Hong Kong's fourth largest trading partner in 2012, representing 8% of Hong Kong's total trade in services. Besides, there are also extensive investment linkages between Hong Kong and ASEAN. As at the end of 2012, ASEAN was the fifth largest destination of foreign direct investment (FDI) from Hong Kong, cumulating \$207 billion. Reciprocally, the cumulated stock of FDI from ASEAN totalled \$234 billion, which ranked sixth as a source of FDI into Hong Kong. A total of 54 regional headquarters in Hong Kong, 127 regional offices and 319 local offices had been set up by companies from ASEAN as of June 2013.

Buttressed by ASEAN's economic vitality, mutually complementary relations with other Asian economies, and growing trade flows with the Mainland, there should be ample room to further advance Hong Kong-ASEAN economic collaboration. Firstly, the ASEAN economies attained solid growth after recuperating from the Asian financial crisis of 1997, with aggregate GDP at current prices rising to nearly US\$2.4 trillion in 2013, representing 3.3% of world GDP, up from 1.9% ten years ago. Total population in the region exceeded 600 million in 2013, around 9% of the world total. While most members are still developing economies, the share of middle-income class is ever rising amid expanding urbanisation and sustained income growth, implying growing consumer sophistication and rising demand for high-end goods and services.

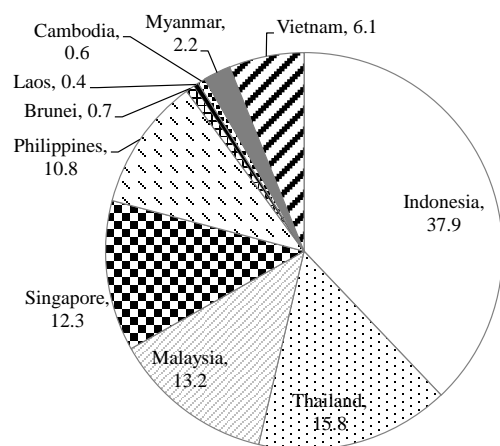
Secondly, the vast differences in endowments and wages provide a strong foundation for geographical division of labour between ASEAN and the rest of Asia and intra-regional trade to grow. In particular, many ASEAN economies are major suppliers of agricultural and mineral resources. Rice exported by Thailand and Vietnam, natural gas by Myanmar, petroleum and palm oil by Malaysia, thermal coal, nickel, copper and many other minerals by Indonesia are some primary examples. Their food and material supplies dovetail well with the economic developments in Hong Kong, the Mainland and the rest of Asia. ASEAN is also an integral part of Asia's supply chain. Indeed, around 70% of Hong Kong's exports to ASEAN in 2013 belonged to capital goods and raw materials, and the final demand for these outputs from these intermediate inputs should come mostly from the advanced markets.

Thirdly, the externally-oriented policies pursued by ASEAN leaders that reduce trade-related costs and liberalise markets also bring support to intra-regional trade growth and create investment opportunities. In particular, ASEAN envisioned the creation of ASEAN Economic Community by 2015 and has signed bilateral Free Trade Agreements (FTAs) with many major economies in Asia, with the ASEAN-China FTA (ACFTA) already in force.

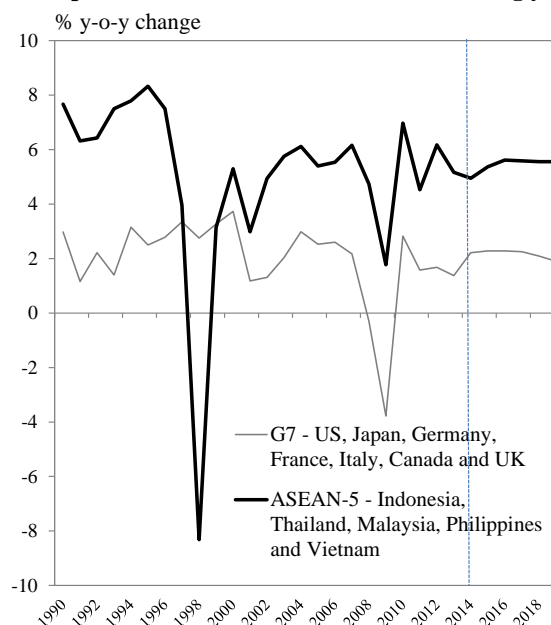
Box 2.1 (Cont'd)

Chart 1 : ASEAN's composition and medium-term growth projection

(a) ASEAN-6 accounted for around 90% of aggregate ASEAN GDP at current price in 2012



(b) IMF forecast major ASEAN economies continue to outpace that of advanced economies in coming years



In terms of economic size, the ACFTA is the world's third largest free trade zone, after North America Free Trade Area and the European Union. The tariff reduction under the FTA launched in 2005 and came fully in force for ASEAN-6 in 2010, bringing the tariffs for a substantial number of products traded between ASEAN-6 and the Mainland to zero. The remaining four newer ASEAN members will achieve similar goals by 2015. Reflecting the complementarity between the two places, and the support of the ACFTA in the more recent years, merchandise trade between the Mainland and ASEAN have grown rapidly, increasing more than fivefold in a decade to reach US\$443 billion in 2013. ASEAN taken as a group was Mainland's fourth largest export destination and the second largest import supplier in 2013, while the Mainland was ASEAN's largest export destination. The deepening economic ties between the two places should bring tremendous business opportunities to Hong Kong as an international trading hub and a gateway to the Mainland.

In the near term, the outlook for ASEAN economies is clouded by the sluggish recovery of the advanced markets and uncertainties surrounding the future path of US monetary policy normalisation. But looking beyond the short-term challenges, the longer-term growth potential remains promising. In fact, the International Monetary Fund (IMF) in April forecast the major ASEAN member economies on average to grow by 5.5% per year between 2015 and 2019, higher than those of the major advanced economies (*see Chart 1b*). Our exports to ASEAN have also grown visibly by 8.4% per year in the past decade, much faster than the growth rates of the US and European markets. To further strengthen the economic links between the two places, Hong Kong and ASEAN launched the formal negotiation for a FTA in July 2014. An FTA would facilitate trade and investment flows between ASEAN and Hong Kong to seize the business opportunities in the expanding ASEAN markets and diversify Hong Kong's market base.

Imports of goods

2.6 *Imports of goods* grew by 3.7% year-on-year in real terms in the second quarter of 2014, picking up from the 1.1% growth in the preceding quarter in tandem with a rebound in re-exports. Within this, *retained imports*, which accounted for over one-quarter of total imports, grew by 2.6% in real terms in the second quarter over a year earlier, following a 4.8% growth in the preceding quarter. Analysed by end-use category, retained imports of foodstuffs accelerated notably while those of consumer goods also grew solidly further, reflecting continued expansion of local consumption. Retained imports of raw materials and semi-manufactures also registered moderate growth. Yet, against an exceptionally high base of comparison a year ago, retained imports of capital goods posted a visible year-on-year decline, while those of fuels also fell further.

**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>	
2013	Annual	3.8	3.9	0.9		4.5	6.3	0.6	
	H1	4.1	4.5	0.6		7.3	7.6	1.9	
	H2	3.5	3.4	1.1		2.1	5.2	-0.6	
	Q1	4.9	5.0	(-1.1)	1.1	8.1	7.1	(1.0)	3.7
	Q2	3.5	4.2	(-0.6)	0.2	6.6	8.1	(0.6)	0.4
	Q3	2.6	2.8	(1.9)	0.6	0.8	4.4	(1.0)	-1.2
	Q4	4.3	4.0	(3.6)	1.5	3.4	5.9	(3.3)	*
2014	H1	3.3	2.4	2.1		4.7	3.6	2.7	
	Q1	2.1	1.1	(-3.2)	2.1	5.8	4.8	(1.8)	3.1
	Q2	4.5	3.7	(1.6)	2.0	3.7	2.6	(-3.5)	2.4

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 2.12 : Imports grew moderately but retained imports decelerated

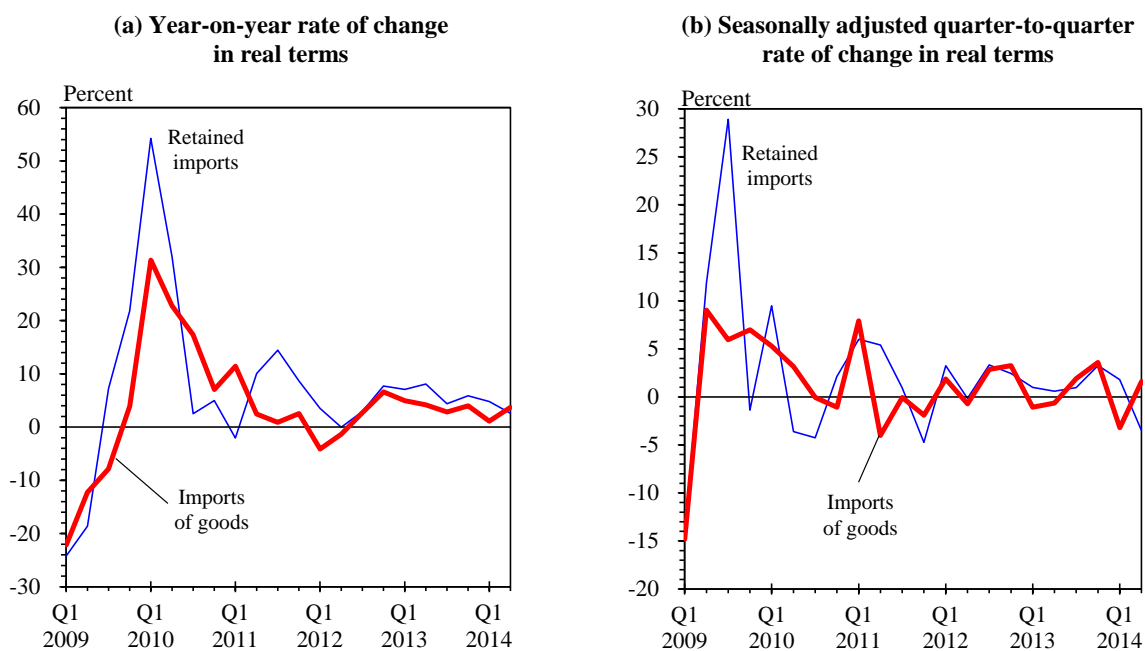


Table 2.4 : Retained imports by end-use category (year-on-year rate of change in real terms (%))

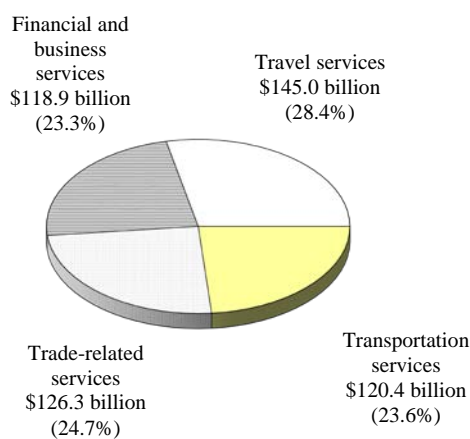
		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2013	Annual	2.9	9.3	22.3	-3.3	0.2
	H1	2.9	6.6	18.7	5.0	0.9
	H2	2.8	11.8	25.1	-11.1	-0.4
	Q1	4.7	12.0	-3.1	12.3	7.6
	Q2	1.3	1.3	38.7	-0.8	-5.4
	Q3	9.5	12.1	16.8	-9.1	-5.9
	Q4	-3.0	11.6	32.7	-13.1	5.2
2014	H1	6.0	7.1	-4.6	8.0	-5.5
	Q1	4.0	1.9	6.1	9.7	-8.5
	Q2	7.9	12.8	-11.5	6.5	-2.3

Invisible trade

Exports of services

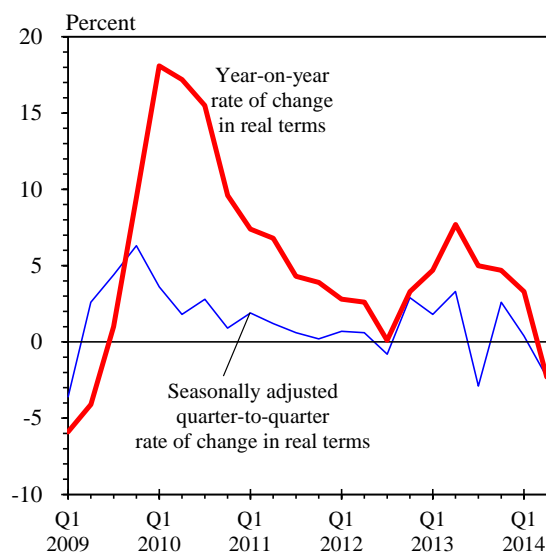
2.7 *Exports of services* slackened notably to a 2.3% year-on-year decline in real terms in the second quarter of 2014, compared with a 3.3% growth in the preceding quarter. Exports of travel services were the main drag, posting an 11.5% year-on-year contraction. Apart from a very high base of comparison in the same period a year earlier after brisk growth in tourist spending in the past year, the decline in exports of travel services also indicated the moderation in per capita spending by visitors as the number of visitor arrivals still grew at a nearly double-digit pace over the period. As to other service exports, exports of trade-related services and transportation services improved, in tandem with a gradual recovery in regional trade flows. Exports of financial and other business services also posted modest growth in the second quarter, amid further expansion in cross-border financial activities.

Diagram 2.13 : Major service groups accounted for similar shares of Hong Kong's service exports, reflecting a diversified base



Exports of services in the first half of 2014:
\$510.6 billion

Diagram 2.14 : Exports of services declined in the second quarter



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

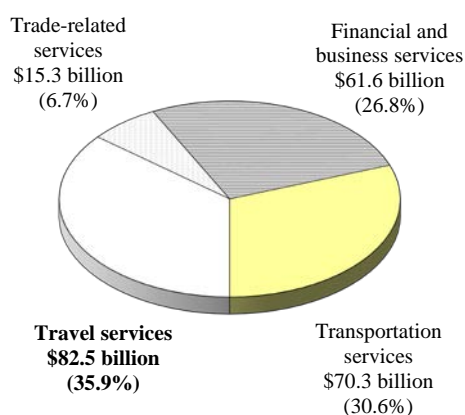
		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Trade-related services^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Financial and business services</u>
2013	Annual	5.5	1.2	-1.1	18.2	3.5
	H1	6.2	2.3	-3.6	23.8	2.4
	H2	4.8	0.4	1.4	13.5	4.7
	Q1	4.7 (1.8)	2.8	-3.9	19.0	0.6
	Q2	7.7 (3.3)	1.8	-3.4	28.8	4.6
	Q3	5.0 (-2.9)	0.3	0.5	15.9	4.3
	Q4	4.7 (2.6)	0.5	2.4	11.3	5.0
2014	H1	0.5	0.6	1.8	-1.0	0.9
	Q1	3.3 (0.4)	-0.2	1.1	10.2	0.7
	Q2	-2.3 (-2.3)	1.5	2.4	-11.5	1.0

Notes : (a) Comprising mainly offshore trade.
 (b) Comprising mainly inbound tourism receipts.
 () Seasonally adjusted quarter-to-quarter rate of change.

Imports of services

2.8 *Imports of services* rose moderately by 5.0% year-on-year in real terms in the second quarter of 2014, reversing the 0.8% decrease in the preceding quarter. Within this, imports of travel services rebounded visibly, due partly to a lower base of comparison as a result of the timing of Easter holidays, which fell in late March 2013 but in mid-April 2014. Meanwhile, imports of transportation services and trade-related services picked up modestly amid some improvement in international and regional trade flows, and imports of financial and other business services kept rising gradually.

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



Imports of services in the first half of 2014:
\$229.8 billion

Diagram 2.16 : Imports of services rose moderately

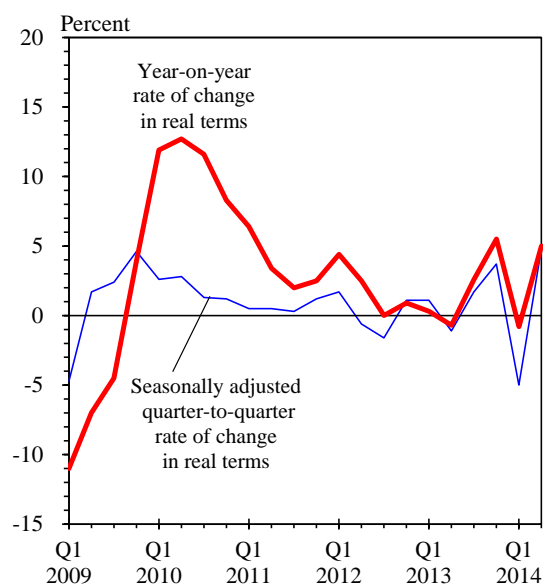


Table 2.6 : Imports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

		Imports of services	Travel services ⁽⁺⁾	Transportation services	Trade-related services	Financial and business services
2013	Annual	2.0	6.3	-1.7	-1.1	1.6
	H1	-0.2	3.5	-5.2	0.6	1.1
	H2	4.0	9.0	1.9	-2.3	2.0
	Q1	0.3 (1.1)	5.8	-6.0	2.3	0.2
	Q2	-0.7 (-1.1)	1.1	-4.4	-1.2	2.2
	Q3	2.6 (1.7)	5.5	0.4	-2.4	3.2
	Q4	5.5 (3.7)	12.6	3.6	-2.2	1.1
2014	H1	2.0	4.1	0.4	1.6	1.3
	Q1	-0.8 (-5.0)	-2.8	-0.7	0.8	1.2
	Q2	5.0 (4.8)	11.2	1.4	2.5	1.3

Notes : (+) Comprising mainly outbound travel spending.

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

Visible and invisible trade balance

2.9 While the visible trade account deficit in the second quarter of 2014 was smaller than that in the same quarter last year, the invisible trade account surplus fell on weaker exports of travel services. As such, the combined visible and invisible trade account in the second quarter of 2014 posted a deficit of \$32 billion, equivalent to 2.6% of the total value of imports of goods and services. This was slightly larger than the corresponding deficit of \$29 billion or 2.4% in the same quarter of 2013.

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>	
2013	Annual	3,816	1,063	4,395	467	-579	597	18	0.4
	H1	1,801	506	2,124	221	-323	285	-39	-1.7
	H2	2,015	558	2,271	246	-255	312	57	2.3
	Q1	872	256	1,024	114	-152	143	-10	-0.9
	Q2	929	249	1,100	107	-171	142	-29	-2.4
	Q3	1,000	271	1,117	118	-117	153	36	2.9
	Q4	1,015	286	1,153	127	-138	159	21	1.6
2014	H1	1,820	511	2,140	230	-320	281	-39	-1.6
	Q1	871	265	1,029	114	-158	151	-7	-0.6
	Q2	950	245	1,111	116	-162	130	-32	-2.6

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

Other developments

2.10 Hong Kong always strives to foster closer economic relations with its major trading partners. In July, the Government commenced negotiations with the Association of Southeast Asian Nations (ASEAN) for a Free Trade Agreement (FTA). Given the significance of ASEAN to Hong Kong as a trading and investment partner (see *Box 2.1*), an FTA with ASEAN would facilitate trade between the two places and create new investment opportunities, solidifying Hong Kong's international trading and financial centre status. Hong Kong also entered into negotiations with some other World Trade Organisation members in July on the Environmental Goods Agreement, which would promote our export trade in eco-friendly goods. Separately, Hong Kong and Korea signed in July an agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, which should

promote economic and trade connections between the two places.

2.11 Hong Kong also actively seeks ways to collaborate with other economies to provide trade facilitation measures for companies. In May, the Mutual Recognition Arrangement (MRA) between the Mainland and Hong Kong customs became operational for road cargoes. Under the MRA, local companies accredited by the Customs and Excise Department as Authorised Economic Operators (AEOs) can enjoy clearance facilitation for goods exported to the Mainland upon arrival, while Mainland companies similarly accredited by the Mainland customs will also have their exports of goods cleared expeditiously upon arrival in Hong Kong. In late June, another MRA was signed by the Hong Kong and Singapore customs, bringing the total number of MRAs concluded by Hong Kong with other customs to four.

2.12 Hong Kong continues to be a popular gateway for overseas enterprises to enter the Mainland market and a desirable springboard for the Mainland enterprises to go global. According to the United Nations Conference on Trade and Development's World Investment Report 2014, Hong Kong's foreign direct investment (FDI) inflows ranked the fourth among the world economies in 2013, and was the second biggest FDI recipient in Asia after the Mainland, signifying its significant role as an international commercial hub given its institutional strengths and favourable business environment.

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.