# CHAPTER 3 : THE EXTERNAL SECTOR


***Summary***

- *The external trading environment worsened in 2015, as the global economy shifted to a lower gear and registered the slowest growth since the Global Financial Crisis. Moreover, the uncertainties associated with US interest rate normalisation and diverging monetary policies among major central banks provoked global financial volatility, which further deterred international trade flows. The slack in global demand dealt a serious blow to exports in Asia.*
- *Hong Kong's merchandise exports slackened, as with other Asian economies, and declined year-on-year since the second quarter of 2015, falling by 1.7% in real terms*(1) *for the year as a whole. Except for India and Vietnam, which registered further notable growth, the performance across major markets was subdued.*
- *Exports of services also worsened to a decline in 2015. Exports of travel services were particularly weak, seeing a widened fall in the second half of the year. While the distinct slackening of visitor arrivals was the key factor, enduring weakness in tourist spending on big-ticket items added to the woes. Exports of trade-related services and transportation services both slackened upon the plunge in regional trade and cargo flows. In contrast, exports of financial and other business services grew solidly and rendered some cushion, thanks to hectic fund-raising and cross-border financial activities.*
- *Hong Kong continued to strengthen economic ties with its trading and investment partners. In November 2015, the Agreement on Trade in Services was signed as a stand-alone, subsidiary agreement on trade in services under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), whose implementation enables basic liberalisation of trade in services between the Mainland and Hong Kong. In light of the "Belt and Road" Initiative of the nation, the Government will strengthen economic relations with entities in the involved areas so as to tap the vast opportunities.*
- *Separately, Hong Kong's foreign direct investment inflows and outflows both ranked the second among the world economies in 2014, signifying our significant role as an international business hub.*

## Goods trade

### *Total exports of goods*

3.1 External demand deteriorated visibly in 2015, with the slowdown of the global economy putting a serious dent on regional trade flows and manufacturing activity. Amid the general downdraft of Asia's exports, Hong Kong's *merchandise exports* (comprising re-exports and domestic exports) weakened to register a decline of 1.7% in real terms in 2015 as a whole, marking the worst performance since 2009. This followed a 1.5% growth in the preceding year. Except for a modest year-on-year growth of 0.7% in the first quarter, merchandise exports declined in the rest of the year, by 3.0%, 3.8% and 0.5% respectively in the second, third and fourth quarters. On a seasonally adjusted quarter-to-quarter basis, merchandise exports fell by 0.3%, 1.2% and 0.1% respectively in the first three quarters, before resuming a 1.1% growth in the fourth quarter.

3.2 Global economic growth was uneven and slow in 2015, estimated by the International Monetary Fund in January 2016 at 3.1%, the slowest since the "Great Recession" of 2008-2009. The US economy fared slightly better among the advanced economies and grew moderately, with the slack in the labour market diminishing visibly, prompting the Federal Reserve (Fed) to start the rate hikes in mid-December. Growth in other major advanced economies, held back by deep-seated structural issues, was modest and faltered at times. To reinvigorate their economies and achieve inflation targets, the central banks in the eurozone and Japan stepped up their easing measures during the year, which further complicated the global monetary environment. Meanwhile, downward pressures on emerging market economies persisted. Russia and Brazil were mired in recession, while many developing Asian economies, including the Mainland, also grew at slower paces. Amid concerns over US interest rate hikes and conflicting monetary policies among major central banks and the once-escalated Greek debt crisis in the middle of the year, global financial and foreign exchange volatility intensified and some emerging market currencies tested multi-year lows during the third quarter, dealing a further blow to international trade flows.

3.3 Under the severe common shock from the lacklustre global demand, Asian exports generally plunged in 2015, with many witnessing the worst falls in US dollar terms since 2009. The weaker exports and manufacturing activities in Asia translated into visibly slower economic growth in many economies in the region, which in turn exerted an additional downward pressure on intra-regional trade. In particular, in US dollar terms, exports of Taiwan, Singapore, Malaysia and Indonesia all recorded double-digit declines of 11-15% in 2015. Exports of Thailand and Korea also fell notably by 6% and 8% respectively. By comparison, the decline in Mainland's exports, at 3% for the whole year, was somewhat smaller. In general, while the strength of the US dollar was not conducive to the price competitiveness of Hong Kong's exports, our export performance still fared better than many other Asian economies.

**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[a] | | Change in prices | In value terms | In real terms[a] | | Change in prices | In value terms | In real terms[a] | | Change in prices |
| 2014 | Annual | 3.2 | 1.5 | | 2.0 | 3.2 | 1.5 | | 2.0 | 1.7 | 2.9 | | 0.2 |
| | Q1 | 0.7 | -0.7 | (-3.8) | 1.7 | 0.7 | -0.7 | (-4.0) | 1.7 | -1.1 | 0.6 | (3.3) | -0.5 |
| | Q2 | 4.8 | 3.4 | (3.8) | 1.9 | 4.8 | 3.3 | (3.7) | 1.9 | 8.3 | 9.6 | (4.5) | 0.5 |
| | Q3 | 5.8 | 4.1 | (1.9) | 2.2 | 5.9 | 4.1 | (2.1) | 2.2 | 3.1 | 3.4 | (-4.2) | 1.3 |
| | Q4 | 1.2 | -0.8 | (-3.4) | 2.2 | 1.3 | -0.8 | (-3.4) | 2.3 | -3.7 | -2.4 | (-5.9) | -0.7 |
| 2015 | Annual | -1.8 | -1.7 | | 0.1 | -1.6 | -1.6 | | 0.1 | -15.2 | -12.8 | | -3.0 |
| | Q1 | 2.3 | 0.7 | (-0.3) | 2.0 | 2.5 | 0.8 | (-0.3) | 2.1 | -10.1 | -8.7 | (-2.3) | -1.5 |
| | Q2 | -1.9 | -3.0 | (-1.2) | 1.3 | -1.7 | -2.8 | (-1.2) | 1.4 | -15.6 | -13.8 | (-2.8) | -2.7 |
| | Q3 | -4.1 | -3.8 | (-0.1) | -0.4 | -3.9 | -3.6 | (*) | -0.4 | -18.3 | -15.7 | (-6.9) | -4.3 |
| | Q4 | -2.9 | -0.5 | (1.1) | -2.1 | -2.7 | -0.3 | (1.1) | -2.1 | -16.4 | -12.6 | (-0.4) | -3.3 |

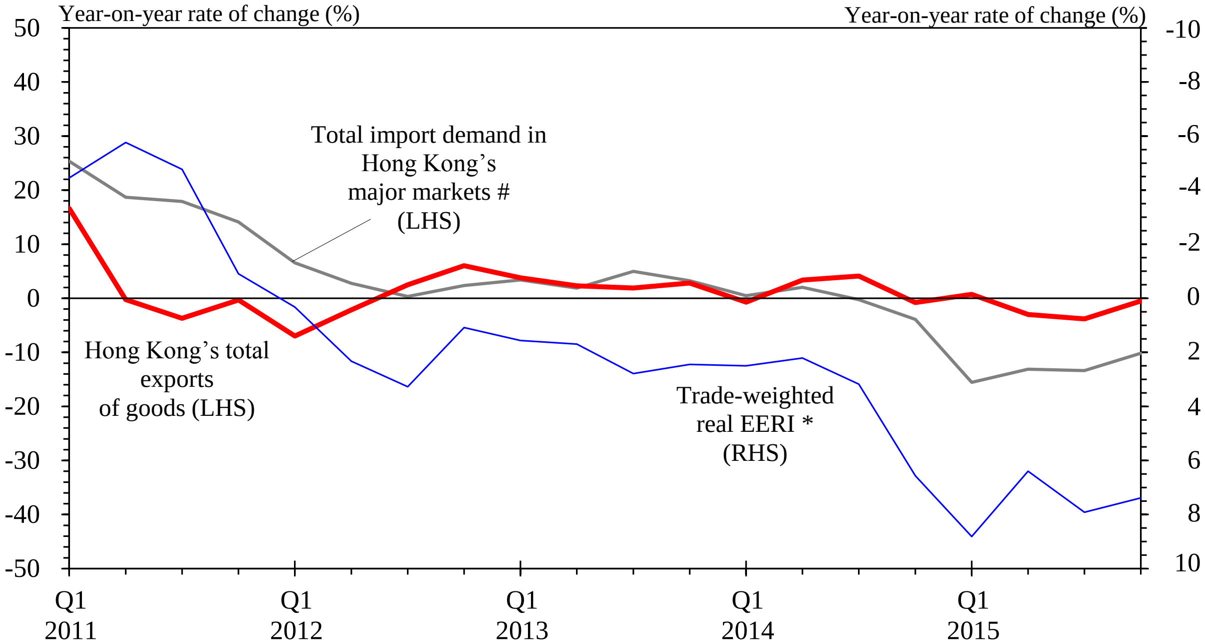
Notes : ( ) Seasonally adjusted quarter-to-quarter rate of change.

(*) Change within ±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.

3.4 *Re-exports*[2], the mainstay of overall merchandise exports and accounting for 98.7% of total exports by value, fell by 1.6% in real terms in 2015, reverting from the 1.5% growth in 2014. *Domestic exports*, constituting the remaining 1.3% of total exports, declined visibly by 12.8% in real terms in 2015, following the 2.9% increase in 2014.

**Diagram 3.1 : Merchandise exports slackened to show an annual decline in 2015, the first time since 2009**




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 fourth quarter of 2015 is based on statistics for October and November 2015.

**Diagram 3.2 : Asian NIEs suffered the worst setback in exports since 2009**

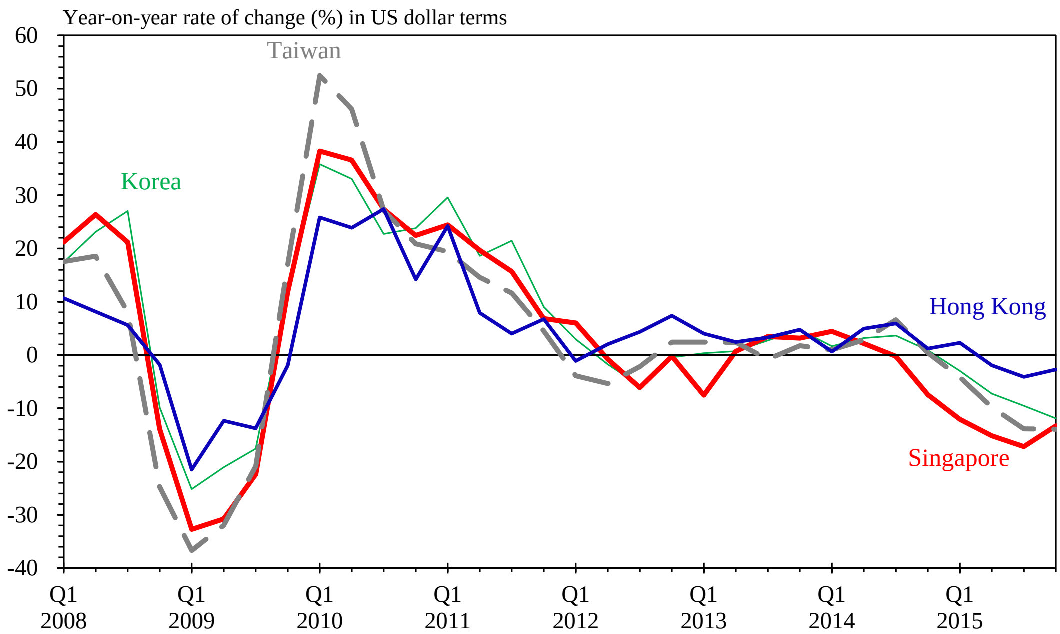
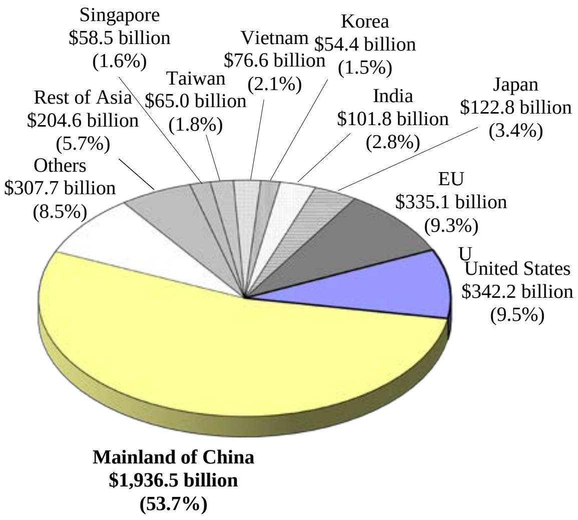
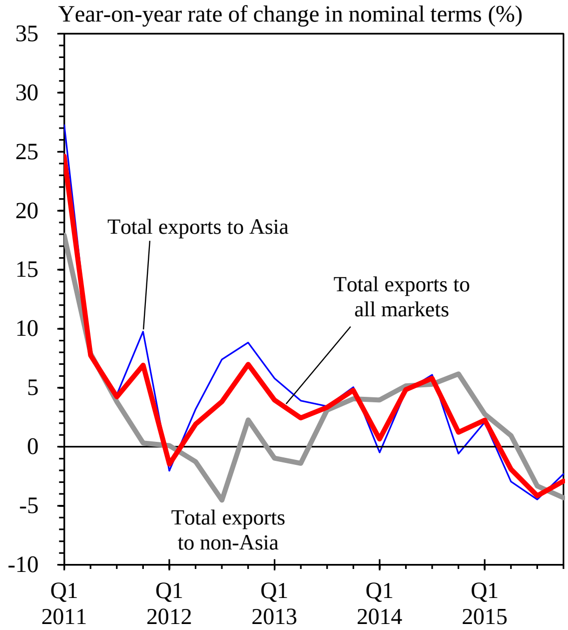


**Diagram 3.3 : Exports to the Asian markets slackened amid sluggish global demand**




*Total exports of goods in 2015:*
*$3,605.3 billion*




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

| | 2014 | | | | | 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Annual | Q1 | Q2 | Q3 | Q4 | Annual | Q1 | Q2 | Q3 | Q4 |
| Mainland of China | -0.7 | -3.7 | 2.8 | 2.4 | -4.3 | -2.0 | -0.2 | -4.4 | -3.5 | 0.6 |
| United States | 2.7 | 4.2 | 2.9 | 0.2 | 3.8 | 1.0 | 3.3 | 3.6 | -1.4 | -0.6 |
| European Union | 0.6 | 1.2 | 4.4 | -0.3 | -2.3 | -4.1 | -3.5 | -6.7 | -6.0 | -0.2 |
| Japan | -4.5 | -2.0 | -1.8 | -5.2 | -8.4 | -3.6 | -5.8 | -4.0 | -1.7 | -2.8 |
| India | 16.0 | 6.8 | 15.3 | 35.6 | 6.1 | 7.9 | 12.4 | -3.1 | 2.3 | 22.8 |
| Vietnam | 11.6 | 7.8 | 9.5 | 14.1 | 14.3 | 12.1 | 14.0 | 18.0 | 12.9 | 5.2 |
| Taiwan | 2.1 | -7.9 | 1.2 | 13.6 | 1.7 | -15.0 | -12.8 | -20.3 | -23.5 | -2.1 |
| Korea | -1.8 | 0.1 | 1.3 | 4.0 | -11.5 | -13.4 | -5.7 | -13.8 | -19.1 | -14.2 |
| Singapore | 2.1 | 7.9 | 0.3 | 0.3 | 0.6 | -4.3 | 0.4 | -3.7 | -8.7 | -4.9 |
| Overall* | 1.5 | -0.7 | 3.4 | 4.1 | -0.8 | -1.7 | 0.7 | -3.0 | -3.8 | -0.5 |

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

3.5 Analysed by major market, merchandise exports to the advanced economies in overall terms were still in the doldrums in 2015. Exports to the EU relapsed to a decrease in real terms in the year as a whole, despite the much narrowed decline in the fourth quarter, being constrained by the slow economic growth there, while the much-weaker euro discouraged its import demand. Exports to Japan stayed lacklustre and declined for the third consecutive year, due mainly to the fragile economic recovery and weak consumer spending in Japan, while the negative effects of earlier yen depreciation might not have completely faded. Exports to the US, though holding up relatively better among the advanced economies, registered only a slight overall growth, as the performance faltered in the second half of the year amid the slower economic growth and the weakening in industrial production there.

3.6 Amid the sluggish global demand, merchandise exports to most Asian markets worsened in 2015, showing varying degrees of declines. Apart from the plunge in capital goods intake caused by faltering production activities in Asia, the concurrent economic slowdown and currency depreciations in the region also severely curtailed their import appetite. The declines in exports to higher-income Asian markets, including Korea and Taiwan, were particularly pronounced. Exports to the Mainland went down in tandem, and those to some ASEAN emerging markets also lost steam. Exports to India and Vietnam, nevertheless, posted notable growth for 2015 as a whole, despite large fluctuations for the former during the year.

**Diagram 3.4 : Exports to the Mainland fell in 2015**

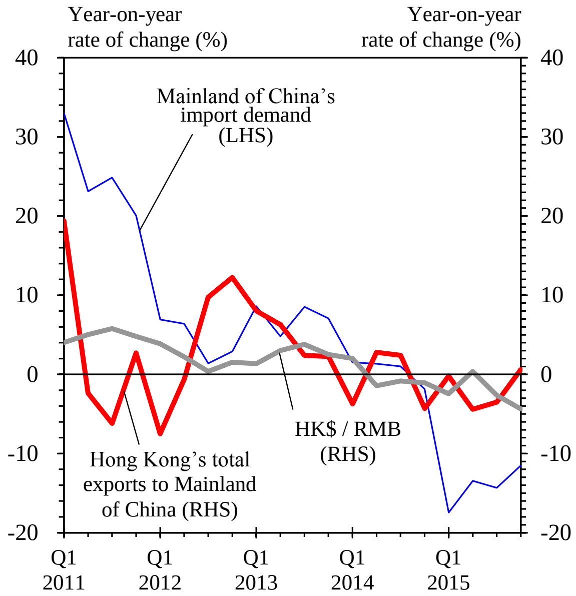



**Diagram 3.5 : Exports to the EU worsened and registered a decline**

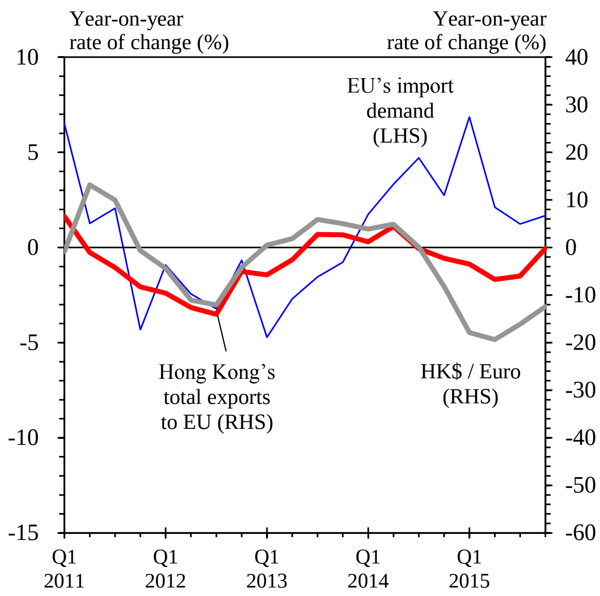



**Diagram 3.6 : Exports to the US relapsed to a decline in the second half of 2015**

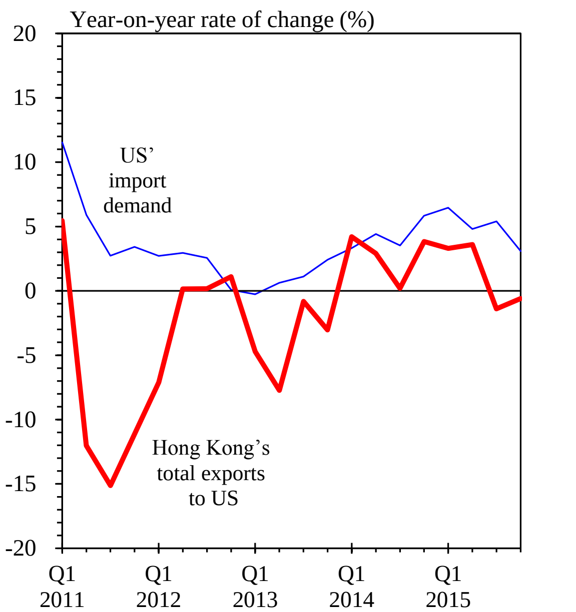



**Diagram 3.7 : Exports to Japan contracted for three years in a row**

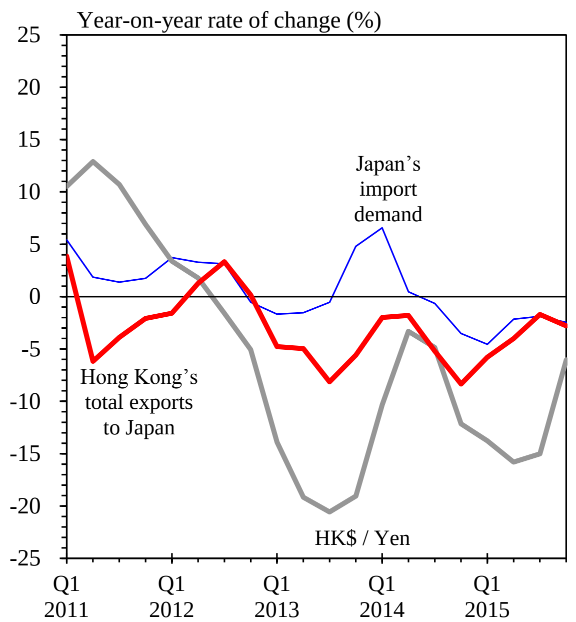


**Diagram 3.8 : Exports to India grew notably in full year despite fluctuations**

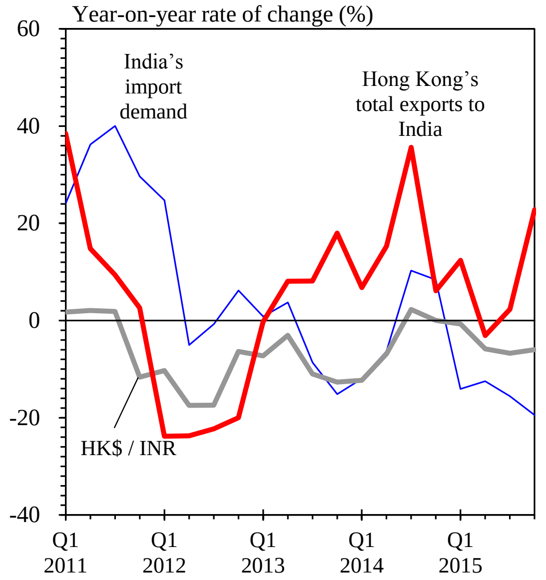



**Diagram 3.9 : Exports to Taiwan slackened considerably**

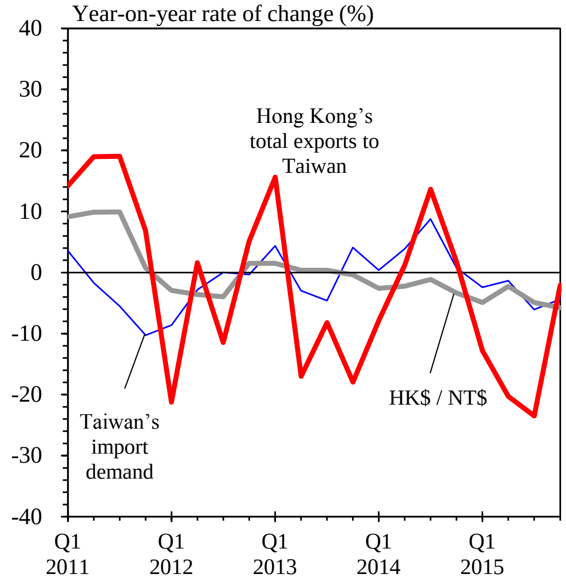



**Diagram 3.10 : Exports to Korea fell off**

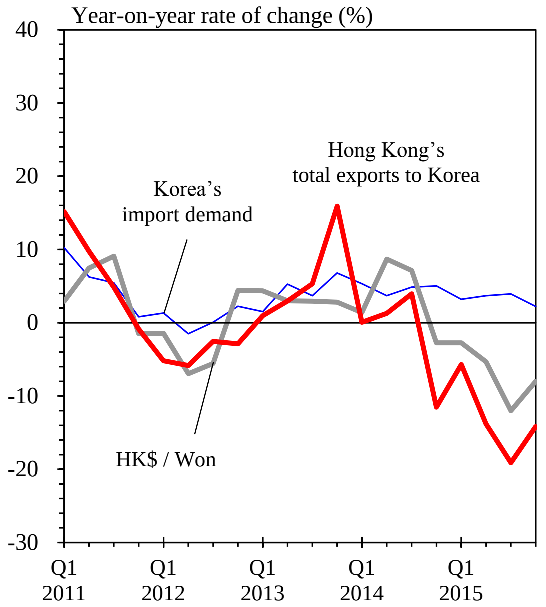
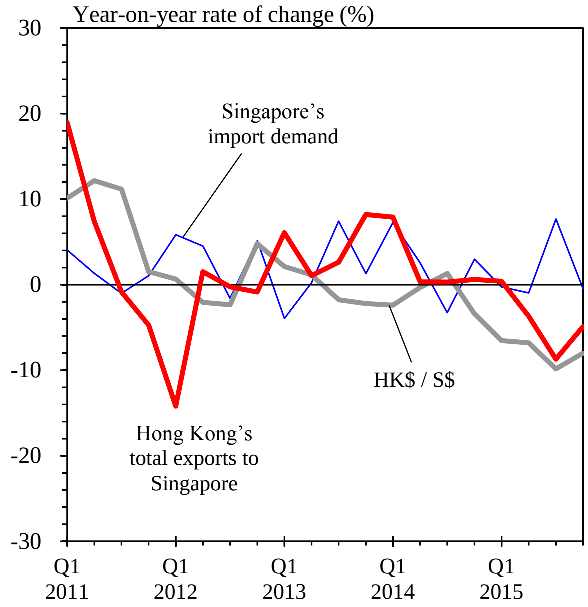



**Diagram 3.11 : Exports to Singapore faltered over the course of 2015**



**Box 3.1**

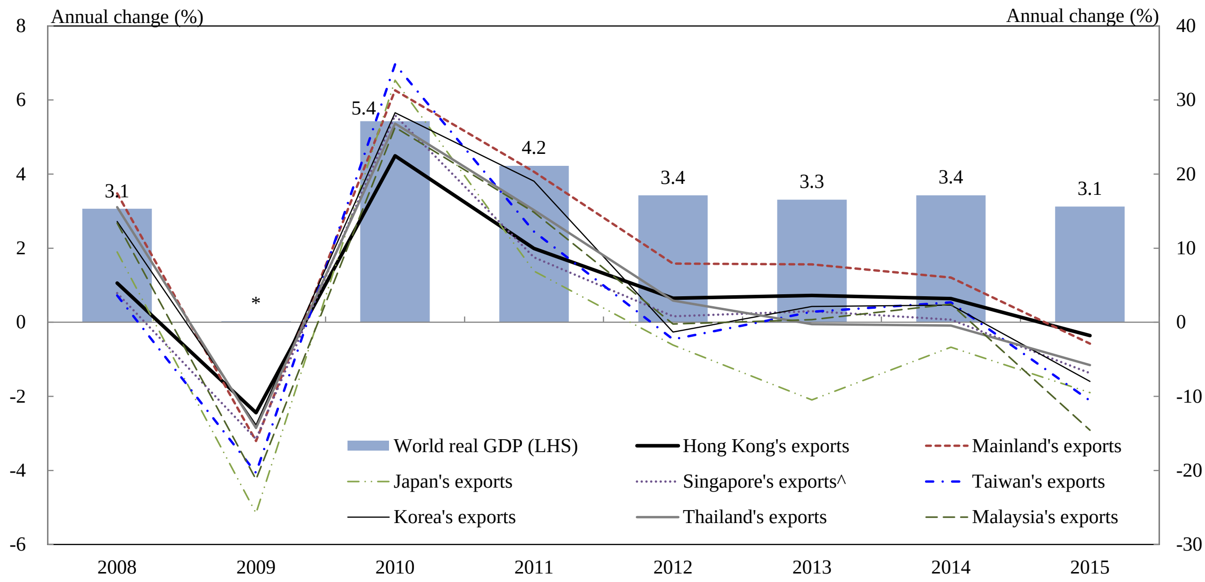
## The cyclical and secular forces behind Hong Kong's merchandise export performance

The performance of Hong Kong's merchandise exports was lacklustre in the recent past, in tandem with those of many other export-dependent economies in Asia. While cyclical factors such as flagging global demand and heightened financial volatility could be the key determinants, the persistently subdued global trade performance in the recent years in contrast with the buoyancy in the period before the 2008 Global Financial Crisis may suggest the influence of secular or structural factors. This box article reviews the major cyclical and structural developments in the external trading environment.

For 2015 as a whole, Hong Kong's merchandise exports relapsed to shrink by 1.8% in value terms, following the 3.2% growth in 2014, representing the first annual decline since 2009. In volume terms, merchandise exports fell by 1.7% in 2015, after the 1.5% growth in 2014. The key drag stemmed from cyclical factors including the sluggish external demand amid slower global economic growth and more volatile financial conditions, and to a lesser extent the strength of the US dollar. Yet, some secular structural forces seemed also to have been at play.

Latest estimates from the IMF suggest that global economic growth slowed to 3.1% in 2015 from 3.4% in 2014, marking the slowest growth since the Global Financial Crisis. The resultant blow to Asia's exports from the weak global demand, in particular from the advanced economies, was rather severe. As illustrated in ***Chart 1***, exports of many major Asian economies took a turn and worsened in 2015, registering declines ranging from 3% to 15% in US dollar terms. Indeed, many of them suffered the worst setback in export performance since 2009. By such comparison, Hong Kong's export performance, with merchandise exports falling by 1.8% in US dollar terms, still fared relatively better than many major Asian economies in 2015.

**Chart 1 : Merchandise export growth in US dollar terms and world economic growth**




Notes: (*) Less than 0.05%.
(^) Singapore exports denote non-oil domestic exports.

Sources: National statistics offices; IMF World Economic Outlook, October 2015; and Census and Statistics Department.

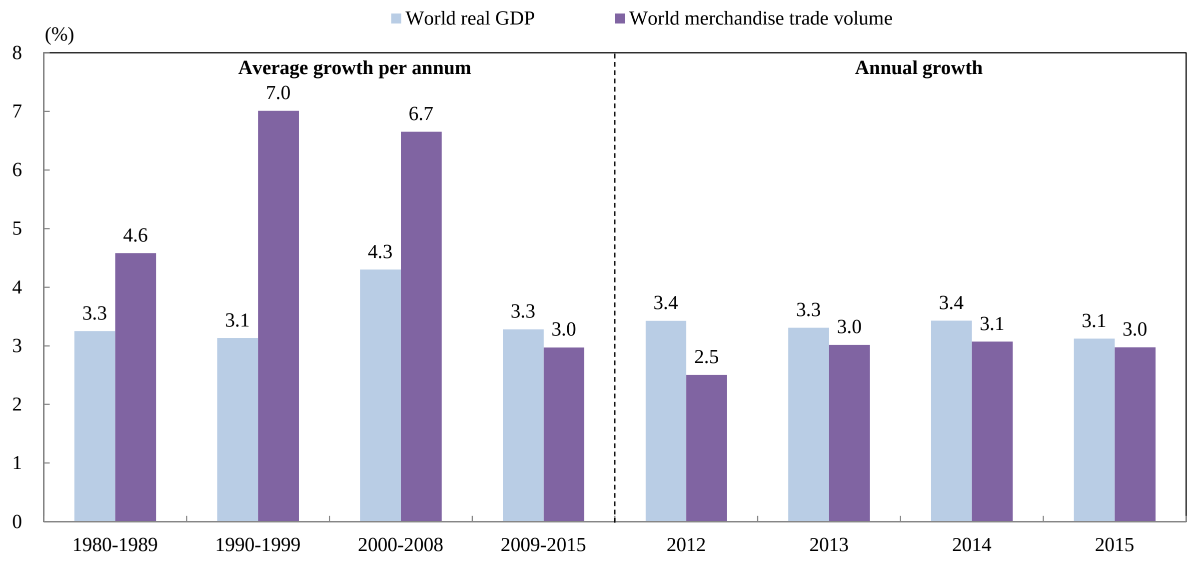
**Box 3.1 (Cont'd)**

Taking a longer-term perspective at the macro-level, the expansion pace of global merchandise trade volume slowed notably in the period after the Global Financial Crisis, as compared to the past decades. Specifically, world trade volume growth averaged about 3% per annum during 2009-15. This was visibly slower than the average growth of around 7% per annum in both the period before the crisis, i.e. 2000-08, and the 1990s, and also that of about 5% per annum during the 1980s (***Chart 2***). A comparison between the world trade growth and economic growth reveals that structural factors could be at play.

Firstly, the slowdown in global economic growth, with average growth rates moderating from 4.3% per annum during 2000-08 to 3.3% per annum during 2009-15, could partly be under structural influences, and would in turn weigh on global trade growth. While recent growth rates of the global economy were similar to the averages recorded for the 1980s and 1990s, recent research by international institutions such as the IMF suggested that global potential growth had declined, reflecting the legacies of Global Financial Crisis as well as demographic and idiosyncratic structural issues pertaining to various major economies. For example, the US Federal Reserve forecast the US economy to grow by 2% per annum in the long run, which would be slower than the average of 2.8% per annum in the 20-year period before the crisis, i.e. 1989-2008. Besides, major emerging market economies are also expected to expand at a slower pace.

Secondly, the global trade elasticity with respect to output, which measures the responsiveness of trade volume growth with respect to real GDP growth, declined successively in the past decades. Broadly speaking, based on the world economic data of the IMF, global trade growth was around 1.4 times of the world economic growth on average in the 1980s, and such ratio increased drastically to about 2.2 times in the 1990s. On entering the millennium, it fell to 1.5 during 2000-08, and declined further to only around one in the post-crisis period, i.e. 2009-15. This suggests that some other structural factors may be in force aside from the Global Financial Crisis, including shifts in trade pattern over time.

**Chart 2 : World economic growth and world merchandise trade volume growth**




Sources: IMF World Economic Outlook Update, January 2016, and World Economic Outlook, October 2015.

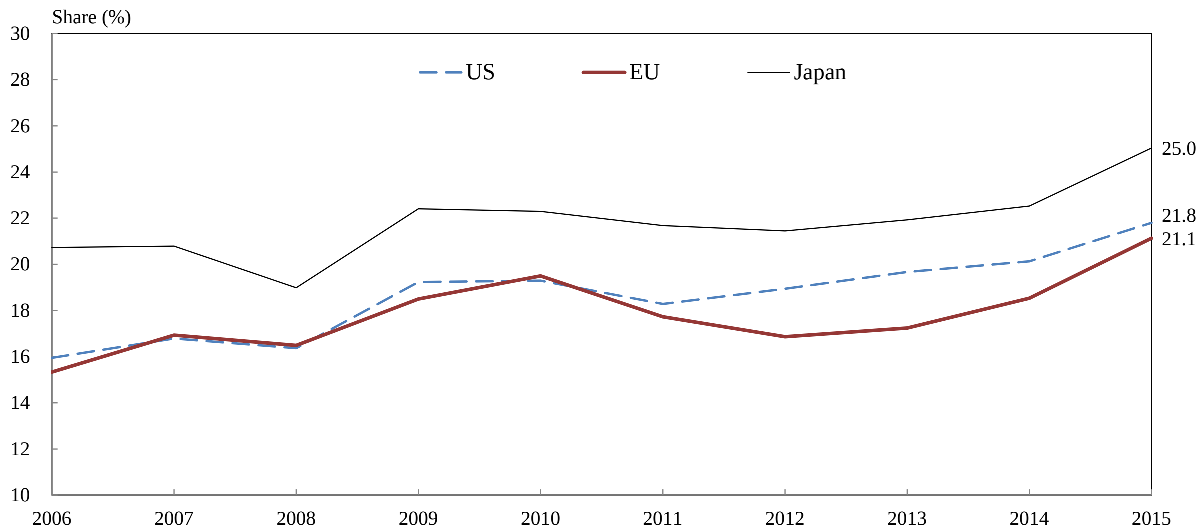
**Box 3.1 (Cont'd)**

Such a "stylised fact" has stimulated a growing body of discussions and debates in the trade literature. One widely-quoted reason to the higher global trade elasticity in the past is related to the proliferation of the global value chains (GVC) in the 1990s, when production lines were fragmented internationally and, in particular, trading in parts and components surged in the Asian region. The accession of the Mainland to the World Trade Organisation in 2001 gave a further boost. These developments increased the global trade elasticity, which subsequently fell off as the GVC process matured and other one-off boosts diminished.

Another factor may be related to the structural changes within some emerging market economies, especially those in Asia. Many Asian economies, as they turned more mature, would gradually climb up the value chains of trade, focusing more on trade in services and higher-end products. Moreover, the rebalancing of growth towards consumption and services in some of these economies would imply slower trade growth due to slowdown in investment, a component of GDP that some economists considered as more trade-intensive.

Fortunately, the shares of the Mainland and Hong Kong in merchandise imports of the US, EU and Japan continued to climb up, reaching record highs in 2015 (***Chart 3***). In 2015, more than one-fifth of the imports of the US, EU and Japan were sourced from the Mainland and Hong Kong combined (at 21.8%, 21.1% and 25.0% respectively). This indicated that despite the challenging external trading environment, exports of the Mainland and Hong Kong still somewhat outperformed, in relative terms, the other exporting economies.

**Chart 3 : Share of imports from the Mainland and Hong Kong in overall import values**




Sources: National statistics offices.

In sum, the recent slackening in Hong Kong's export performance was a region-wide phenomenon, mainly dragged by cyclical forces of the sluggish global economic growth and the ensuing setback in external demand. However, some secular developments which may become more influential over the longer term also warrant attention. Slower global trade growth, underpinned by weaker long-term world potential GDP growth and changing trade patterns, could shape a "new normal" in the global trading environment. Yet, Hong Kong's overall economic performance in future will critically depend on our ability to tap new markets, leverage on the opening up and rebalancing of the Mainland economy, explore innovations, and climb up the value chains. The Government will continue to step up efforts to enhance the competitiveness and productivity of our economy.

**Box 3.2**

## Hong Kong's trade with selected regions along the Belt and Road

Profound changes have taken place in the global economy since the Global Financial Crisis. World economic growth has become slow and uneven, with attendant shifts in international trade and investment landscape. Against this backdrop, the Central Government spearheaded the initiative of building the Silk Road Economic Belt and 21st-Century Maritime Silk Road ("Belt and Road"), which could become a key driving force of the global economy in the coming decades. This short note outlines some characteristics of the selected regions along the "Belt and Road" and gives an overview of Hong Kong's latest trade positions with these regions in both goods and services.

The "Belt and Road" Initiative aims to promote the connectivity of Asian, European and African continents and their adjacent seas. Many economies along the "Belt and Road" Initiative are emerging and developing ones, with vast appetite for infrastructure and with different endowments ready for mutually beneficial collaborations. There are five proposed areas of connectivity(1) – policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bond, altogether promoting all-dimension co-operation among entailed economies.

The "Belt and Road" Initiative encompasses, but is not limited to, the area of the ancient Silk Road. It is open to all countries, and international and regional organisations for engagement, so that the results of the concerted efforts will benefit wider areas. In this note, the selected regions, which are not meant to be exhaustive, cover the emerging and developing Asia, Commonwealth of Independent States (CIS), emerging and developing Europe, Middle East, North Africa, and Afghanistan and Pakistan, as defined in the World Economic Outlook Database of the International Monetary Fund (IMF), alongside with a few additions which are deemed to be relevant(2).

***Table 1*** summarises some characteristics of the selected regions. Several features stand out. *Firstly*, the selected regions generally demonstrate strong market potentials, given that many regions, particularly Asia, showed sustained economic growth above world average in the past decade. Also, South Asia has population size larger than the Mainland, and ASEAN together has an economic size of around one quarter of the Mainland's. *Secondly*, most regions showed visible growth in goods trade during 2005-2014, surpassing those of major advanced economies, notwithstanding the setback in 2008 and 2009. The degree of openness in these regions, measured by the ratio of goods trade to GDP at current market value in 2014, is generally above those in major advanced economies, suggesting that they are receptive to new trade and investment opportunities. Given the large economic size, vast population, sustained economic growth and strong trade growth, there exists ample scope for Hong Kong to leverage on the market potentials in these regions to develop our economy.

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(1) "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", issued jointly by the National Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce of the People's Republic of China, with State Council authorisation, March 2015.

(2) Singapore and Israel from the advanced economies as well as Estonia, Latvia, Lithuania, Slovakia and Slovenia from the eurozone are added.

**Box 3.2 (Cont'd)**

## Table 1 : Characteristics of the selected regions

| Countries / regions | Population in 2014 | | Real GDP growth 2005-2014 | Nominal GDP in 2014^ | | Total goods trade | | |
|---|---|---|---|---|---|---|---|---|
| | Number (Mn) | Share of world total (%) | (% p.a.) | (US$ Bn) | Share of world total (%) | Value in 2014 (US$ Bn) | Ratio to GDP in 2014^ (%) | Cumulative growth 2005-14 (%) |
| Mainland China | 1,368 | 19.2 | 10.0 | 10,357 | 13.4 | 4,302 | 42 | 273 |
| ASEAN | 621 | 8.7 | 5.4 | 2,518 | 3.3 | 2,530 | 100 | 134 |
| South Asia[(a)] | 1,484 | 20.8 | 7.5 | 2,335 | 3.0 | 900 | 39 | 319 |
| Other emerging and developing Asia[(b)] | 14 | 0.2 | 6.8 | 42 | 0.1 | 29 | 69 | 201 |
| Middle East[(c)] | 646 | 9.1 | 4.5 | 3,763 | 4.9 | 2,537 | 67 | 190 |
| CIS | 286 | 4.0 | 3.9 | 2,521 | 3.3 | 1,242 | 49 | 183 |
| Central and Eastern Europe[(d)] | 186 | 2.6 | 3.4 | 2,150 | 2.8 | 1,748 | 82 | 144 |
| World | 7,122 | 100.0 | 3.9 | 77,269 | 100.0 | | | |

Sources : The IMF, The World Trade Organisation and The United Nations.

Notes : (a) South Asia includes India, Sri Lanka, Bangladesh, Bhutan, Maldives and Nepal.

(b) Other emerging and developing Asia is the emerging and developing Asia as defined by the IMF after excluding Mainland China, members of ASEAN within it and South Asia.

(c) Middle East is the "Middle East, North Africa, Afghanistan, Pakistan" as defined by the IMF with the addition of Israel.

(d) Central and Eastern Europe includes "Emerging and developing Europe" in the country grouping by the IMF, together with Estonia, Latvia, Lithuania, Slovak Republic, Slovenia, which are categorised as part of the euro area by the IMF.

(^) Nominal GDP for Syria is not available in 2014 as per data from IMF's World Economic Outlook Database. Syria is therefore also excluded in the calculations of share of world total nominal GDP and ratio of goods trade to GDP in 2014 of Middle East.

In terms of goods trade in 2015 ***(Table 2)***, the Mainland was Hong Kong's most important goods trading partner, accounting for 54% of our total goods exports and 49% of total goods imports in 2015. ASEAN, as a whole, was Hong Kong's second largest goods trading partner, even surpassing the European Union. Vietnam and Singapore were the largest markets for Hong Kong's goods exports within ASEAN. In South Asia, if ranked by individual economies, India was our fourth largest goods export market in 2015. Indeed, our goods exports to India registered phenomenal growth in the recent past. As to the other selected regions, the values of Hong Kong's goods trade with them were not as significant, but the cumulative growth for goods trade with these regions during 2006-2015 were generally visible and higher than that of our trade with the major advanced economies over the same period.

**Box 3.2 (Cont'd)**

### Table 2 : Value of goods trade between Hong Kong and the selected regions

| | Goods trade in 2015 (HK$ Bn) | Cumulative growth in the 10 years to 2015 (%) | Share of Hong Kong's total goods trade (%) |
|---|---|---|---|
| Mainland China | 3,921 | 90 | 51.2 |
| ASEAN | 823 | 92 | 10.8 |
| South Asia | 204 | 206 | 2.7 |
| Other emerging and developing Asia | 1 | 131 | * |
| Middle East | 158 | 131 | 2.1 |
| CIS | 22 | 163 | 0.3 |
| Central and Eastern Europe | 48 | 134 | 0.6 |
| World | 7,652 | 67 | 100.0 |

Source : Hong Kong Merchandise Trade Statistics, Census and Statistics Department.

Note : (*) Share of less than 0.05%.

***Table 3*** shows Hong Kong's trade in services with these selected regions in 2014. The patterns broadly resembled that of goods trade. The Mainland again topped the list and was our largest services trading partner in 2014. ASEAN was also a prominent services trade partner, accounting for 9% of our total services trade. South Asia accounted for around 1% of our total services trade, but the growth pace was rapid during 2005-2014. Our services trade with the other selected regions was again not as significant, but the cumulative growth for some of them in the ten years to 2014 was spectacular, indicative of the low base as well as their potential.

### Table 3 : Value of services trade between Hong Kong and the selected regions(+)

| | Services trade value in 2014 (HK$ Bn) | Cumulative growth in the 10 years to 2014 (%) | Share (%) |
|---|---|---|---|
| Mainland China | 538 | 84 | 39.3 |
| ASEAN | 123 | 145 | 9.0 |
| South Asia | 19 | 219 | 1.4 |
| Other emerging and developing Asia | 1 | 321 | 0.1 |
| Middle East | 14 | 95 | 1.1 |
| CIS | 4 | 451 | 0.3 |
| Central and Eastern Europe | 3 | 65 | 0.2 |
| All regions | 1,368 | 94 | 100.0 |

Source : Hong Kong Trade in Services Statistics, Census and Statistics Department.

Note : (+) Financial intermediation services indirectly measured (FISIM) have no geographical breakdowns. Hence, figures by country/region breakdown do not include FISIM, and the percentage shares of individual countries/regions are calculated based on figures with the exclusion of FISIM.

**Box 3.2 (Cont'd)**

Hong Kong is a world-class business and financial hub along the "Belt and Road", enjoying distinctive advantages under "One Country, Two Systems". The city will no doubt benefit significantly from the opportunities arising from the "Belt and Road" Initiative in the years to come. As outlined in the 2016 Policy Address by the Chief Executive, Hong Kong could serve as an important platform to complement the "Belt and Road" Initiative in a wide range of areas, including capital formation and financing, trade and logistics and professional and infrastructure services.

The Government will play a proactive role to facilitate the implementation of the "Belt and Road" Initiative and seize the opportunities. A steering committee for the "Belt and Road" chaired by the Chief Executive will be set up for formulating strategies and policies for Hong Kong's participation in the "Belt and Road" Initiative. A "Belt and Road" Office will be established to coordinate work between government departments and with other organisations, and will take forward related studies. The Government will also strive to strengthen trading and investment ties and people-to-people bond with the economies along the "Belt and Road".

### *Imports of goods*

3.7 *Imports of goods* likewise fell by 3.2% in real terms in 2015, following the 2.3% growth in the preceding year. Apart from the slide in those imports for subsequent re-exporting, retained imports also weakened considerably. *Retained imports*, referring to the imports for domestic use, which accounted for around one-quarter of total imports, relapsed to a 7.4% decline in real terms in 2015, after a moderate increase of 4.5% in 2014. The decline partly reflected the fall-off in retained imports of raw materials and semi-manufactures amid sluggish region-wide trading and production activities, and also partly reflected reduced intake of the relevant retained imports upon the setback in the retail market as well as the fall-off in machinery and equipment acquisition during the year.

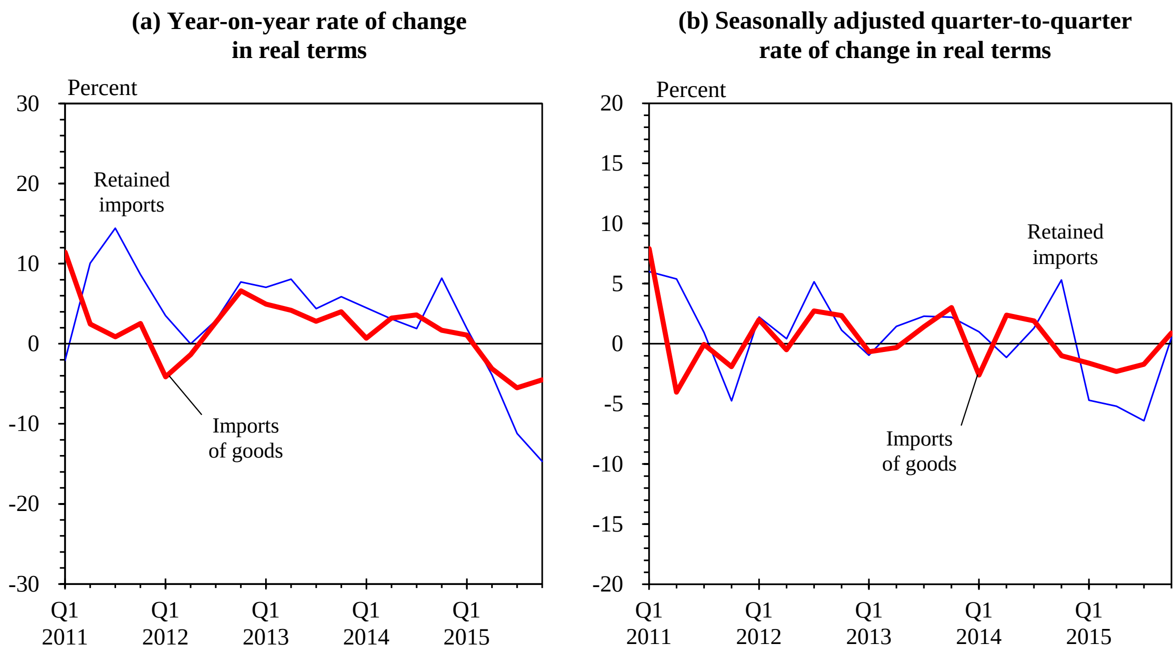
**Table 3.3 : Imports of goods and retained imports (year-on-year rate of change (%))**

| | | Imports of goods | | | | Retained imports[a] | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | In value terms | In real terms | | Change in prices | In value terms | In real terms | | Change in prices |
| 2014 | Annual | 3.9 | 2.3 | | 1.9 | 5.1 | 4.5 | | 1.0 |
| | Q1 | 2.1 | 0.7 | (-2.6) | 2.1 | 5.1 | 4.5 | (1.0) | 2.5 |
| | Q2 | 4.5 | 3.2 | (2.4) | 2.0 | 3.0 | 3.1 | (-1.1) | 1.7 |
| | Q3 | 5.7 | 3.6 | (1.9) | 2.4 | 4.3 | 1.9 | (1.3) | 2.0 |
| | Q4 | 3.2 | 1.7 | (-1.0) | 1.3 | 7.7 | 8.2 | (5.3) | -1.6 |
| 2015 | Annual | -4.1 | -3.2 | | -0.4 | -10.6 | -7.4 | | -2.0 |
| | Q1 | 1.4 | 1.1 | (-1.6) | 0.9 | -1.4 | 1.9 | (-4.7) | -2.1 |
| | Q2 | -3.2 | -3.1 | (-2.3) | 0.6 | -6.9 | -3.9 | (-5.2) | -1.5 |
| | Q3 | -6.7 | -5.5 | (-1.7) | -0.7 | -14.5 | -11.2 | (-6.4) | -1.8 |
| | Q4 | -7.0 | -4.5 | (0.9) | -2.1 | -17.8 | -14.7 | (0.5) | -2.6 |

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.

**Diagram 3.12 : Imports and retained imports both fell in 2015**

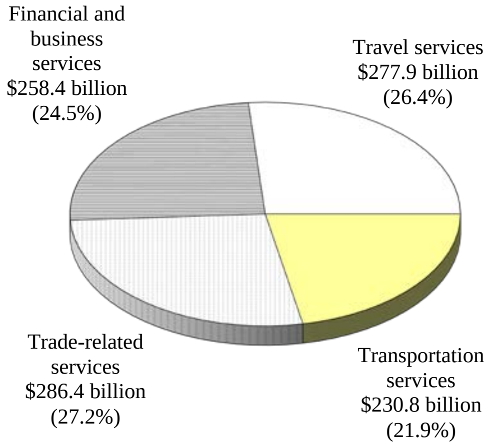


## Services trade

### *Exports of services*

3.8 *Exports of services* slackened to a slight decline of 0.6% in real terms in 2015 as a whole, compared with the 1.1% growth in 2014. The fall in exports of travel services widened and remained the main drag, as visitor arrivals decelerated further to record the first annual decline since 2003, while tourist spending on big-ticket items continued to retreat. The implementation of the "one trip per week" Individual Visit Endorsement for permanent residents of Shenzhen in April 2015 also led to some declines in same-day visitor arrivals. Moreover, the slow global economic recovery and depreciations of many currencies against the US dollar have conceivably induced some visitors to shift to other popular travelling destinations and dampened visitors' consumption sentiment. Exports of trade-related services (comprising mainly offshore trade activities) and transportation services registered year-on-year declines during most of the year amid sluggish trade and cargo flows. On the contrary, thanks to hectic fund-raising and cross-border financing activities, exports of financial and other business services grew by 5.5%, thereby rendering some cushion to overall services exports.

**Diagram 3.13 : Major service groups accounted for similar shares of Hong Kong's services exports, reflecting a diversified base**




***Exports of services in 2015: $1,053.6 billion***

**Diagram 3.14 : Exports of services also fell slightly in 2015**

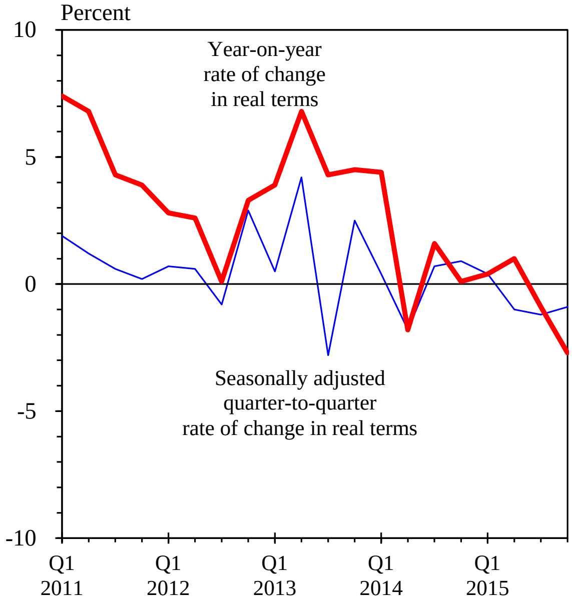


**Table 3.4 : Exports of services by major service group (year-on-year rate of change in real terms (%))**

| | | Exports of services | | *Of which :* Trade-related services[a] | Transportation services | Travel services[b] | Financial and business services |
|---|---|---|---|---|---|---|---|
| 2014 | Annual | 1.1 | | -0.1 | 3.4 | -1.7 | 3.7 |
| | Q1 | 4.4 | (0.4) | -1.5 | 1.7 | 10.7 | 5.2 |
| | Q2 | -1.8 | (-1.8) | 0.1 | 4.7 | -9.5 | -0.1 |
| | Q3 | 1.6 | (0.7) | 1.4 | 3.6 | -4.2 | 7.2 |
| | Q4 | 0.1 | (0.9) | -0.6 | 3.4 | -2.9 | 2.0 |
| 2015 | Annual | -0.6 | | -1.8 | 0.1 | -5.0 | 5.5 |
| | Q1 | 0.4 | (0.4) | -1.4 | 1.8 | -3.7 | 5.6 |
| | Q2 | 1.0 | (-1.0) | -2.3 | -0.8 | -1.5 | 10.8 |
| | Q3 | -0.9 | (-1.2) | -3.0 | -0.2 | -5.1 | 6.1 |
| | Q4 | -2.7 | (-0.9) | -0.5 | -0.2 | -9.2 | 0.3 |

Notes : (a) Comprising mainly offshore trade.

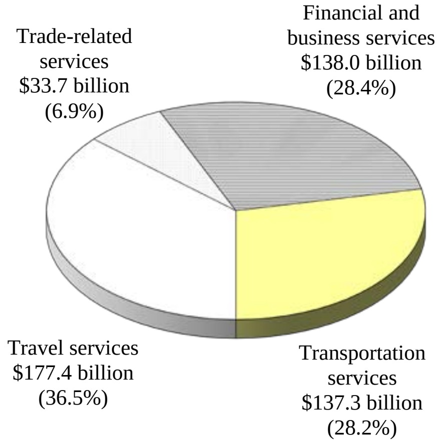
(b) Comprising mainly inbound tourism receipts.

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

### *Imports of services*

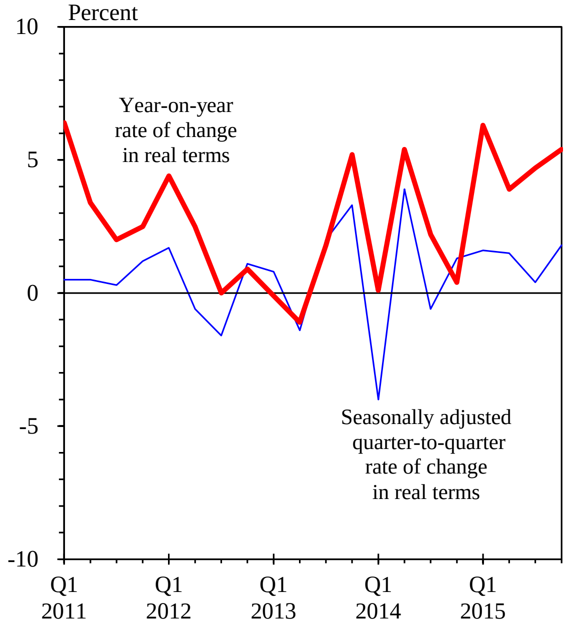
3.9 *Imports of services* grew moderately by 5.1% in real terms in 2015, after a 2.0% growth in 2014. The pick-up in growth was mainly buttressed by the notable growth in imports of travel services throughout the year, reflecting strong interest among local residents to travel abroad. Apart from stable local job and income conditions, the higher purchasing power of local residents following depreciations of many currencies against the US dollar conceivably also fostered overseas travel interest of local residents. Meanwhile, imports of financial and other business services also grew moderately. On the other hand, imports of trade-related services weakened to show only a meagre increase in the midst of an austere external trading environment, while imports of transportation services likewise relapsed and showed a decline.

**Diagram 3.15 : Travel services had the largest share in imports of services**




***Imports of services in 2015: $486.4 billion***

**Diagram 3.16 : Imports of services grew moderately in 2015**




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

| | | Imports of services | | *Of which :* Travel services(+) | Transportation services | Trade-related services | Financial and business services |
|---|---|---|---|---|---|---|---|
| 2014 | Annual | 2.0 | | 3.6 | 0.4 | 0.8 | 1.9 |
| | Q1 | 0.1 | (-4.0) | -2.2 | -0.5 | 0.5 | 3.1 |
| | Q2 | 5.4 | (3.9) | 11.7 | 2.1 | 2.3 | 1.8 |
| | Q3 | 2.2 | (-0.6) | 3.9 | 1.0 | 1.5 | 1.6 |
| | Q4 | 0.4 | (1.3) | 1.3 | -1.2 | -0.5 | 1.2 |
| 2015 | Annual | 5.1 | | 10.9 | -0.7 | 0.3 | 4.9 |
| | Q1 | 6.3 | (1.6) | 12.6 | 0.7 | 1.3 | 5.8 |
| | Q2 | 3.9 | (1.5) | 8.6 | -2.8 | 1.4 | 5.8 |
| | Q3 | 4.7 | (0.4) | 11.5 | -2.3 | -0.7 | 5.1 |
| | Q4 | 5.4 | (1.8) | 11.2 | 1.9 | -0.4 | 3.2 |

Notes : (+) Comprising mainly outbound travel spending.

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

## Goods and services balance

3.10 The goods deficit narrowed in 2015, thanks to an improvement in terms of trade and reduced intake of retained imports as the economy slowed. With the services surplus more than offsetting the goods deficit, the combined goods and services account registered a surplus of $57 billion in 2015, equivalent to 1.2% of total import value, considerably larger than the surplus of only $3 billion in 2014.

**Table 3.6 : Goods and services balance**
**($ billion at current market prices)**

| | | Total exports | | Imports | | Trade balance | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Goods | Services | Goods | Services | Goods | Services | Combined | As % of imports |
| 2014 | Annual | 3,877 | 1,078 | 4,472 | 481 | -594 | 597 | 3 | 0.1 |
| | Q1 | 870 | 267 | 1,029 | 115 | -158 | 152 | -6 | -0.5 |
| | Q2 | 949 | 244 | 1,111 | 116 | -162 | 128 | -34 | -2.7 |
| | Q3 | 1,027 | 279 | 1,148 | 124 | -122 | 156 | 34 | 2.7 |
| | Q4 | 1,031 | 287 | 1,183 | 126 | -152 | 161 | 9 | 0.7 |
| 2015 | Annual | 3,779 | 1,054 | 4,290 | 486 | -510 | 567 | 57 | 1.2 |
| | Q1 | 879 | 268 | 1,028 | 118 | -149 | 149 | * | # |
| | Q2 | 916 | 244 | 1,067 | 117 | -150 | 126 | -24 | -2.0 |
| | Q3 | 982 | 270 | 1,078 | 124 | -95 | 146 | 51 | 4.2 |
| | Q4 | 1,001 | 273 | 1,117 | 127 | -116 | 146 | 30 | 2.4 |

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

(*) Within ±$0.5 billion.

(#) Within ±0.05%.

**Other developments**

3.11 Strengthening economic relations with our trading partners is a principal strategy to develop our economy, particularly in light of the situation of slow and unsteady economic growth of major advanced economies after the Global Financial Crisis. In this regard, the "Belt and Road" Initiative put forward by the Central Government has promising potentials. The Silk Road Economic Belt ("the Belt") connects the Mainland with Europe via Central and Western Asia, while the Maritime Silk Road ("the Road") links the Mainland with Southeast Asia, Middle East, Africa and Europe. Since many economies included are developing ones, with keen interest on expanding trade and upgrading their infrastructure, the "Belt and Road" Initiative offers a distinct co-operation network that could help open up new markets with great potential and increase international trade and investment flows in the entailed regions.

3.12 Hong Kong is well positioned to seize the opportunities arising from the "Belt and Road" Initiative and to contribute in a wide range of high-end services. Indeed, according to the United Nations Conference on Trade and Development's World Investment Report 2015, Hong Kong's foreign direct investment (FDI) inflows and outflows both ranked the second among the world economies in 2014, signifying our important role as an international business hub. The Government will take the lead in enhancing economic collaboration with Mainland provinces and economies along the "Belt and Road", with a view to creating more favourable conditions for our companies to gain access to these markets. In light of the establishment of the Asian Infrastructure Investment Bank (AIIB), the Government will proactively discuss with the Central Government the form to participate in the AIIB to leverage on our strength in finance for the regional development.

3.13 Hong Kong made further progress in enhancing economic ties with the Mainland. In November 2015, the Agreement on Trade in Services (The Agreement) was signed under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). The Agreement extends the implementation of the majority of Guangdong pilot liberalisation measures to the whole Mainland, reduces restrictive measures and adds more liberalisation measures. Its implementation enables basic liberalisation of trade in services between the Mainland and Hong Kong and represents a new milestone after the continuous liberalisation of trade in services through CEPA over the years.

3.14 Economic collaborations with the Mainland's provinces and cities were also stepped up further. In October 2015, the Government announced that Hong Kong and Macao will soon commence negotiations on a Hong Kong and Macao Closer Economic Partnership Arrangement.

3.15 Separately, twelve economies in the Asia-Pacific region concluded their negotiation over the Trans-Pacific Partnership (TPP) in October 2015, which covers a wide range of areas including goods and services trade, cross-border investment, electronic commerce, intellectual property, labour market protection and environmental protection. However, as the TPP is subject to the legislative ratification by each of the signatory members, which will take time, the timing and details of its implementation are still uncertain. As a staunch supporter of free trade, Hong Kong welcomes any agreement that would promote international trade facilitation, and will continue to seek ways enhancing the co-operation with our major trading partners.

**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 external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. Under the new approach, the series are comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the same measures. However, 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 3, 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.