CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *The recovery of the global economy seen in the latter part of 2016 extended well into the first quarter of 2017. The US economy sustained expansion, whereas economic activities in the euro area and Japan grew modestly further. Meanwhile, the Mainland economy accelerated slightly and stayed firmly on track to attain medium-to-high growth. The ensuing expansion in global and regional trade flows provided further impetus for Hong Kong's export growth in the first quarter.*
- *Similar to other Asian economies, Hong Kong's merchandise exports grew briskly in real terms(1) in the first quarter. Under the auspices of strengthening global demand and improving economic performance of the region, exports of raw materials, semi-manufactures and capital goods to Asian economies were the key growth propeller, with exports to the Mainland, Taiwan, Korea, India and some emerging Asian markets all growing appreciably. Exports to the major advanced markets also showed various extents of improvement.*
- *Exports of services likewise benefitted from an improving external economic environment and picked up further in growth in the first quarter. Exports of transport services sustained brisk growth, thanks to the stronger trade and cargo flows in the region. Exports of financial services reverted to a modest growth and exports of business and other services grew slightly, thanks to a more sanguine global economic environment. Exports of travel services also showed further relative improvement, as visitor arrivals gradually resumed growth.*
- *As the global outlook is still fraught with uncertainties, a host of support measures for the SMEs were announced in the 2017-18 Budget to ease their burden and assist them to develop their businesses. The Government also made progress in enhancing our economic co-operation with our trading partners.*

Goods trade

Total exports of goods

2.1 The recovery of the global economy seen in the latter part of 2016 extended well into the first quarter of 2017. The ensuing strengthening of global demand boosted the growth impetus to global and regional manufacturing activity, powering the growth of Asia's exports in early 2017. In tandem, Hong Kong's *merchandise exports* (comprising re-exports and domestic exports) grew briskly by 8.8% year-on-year in real terms in the first quarter of 2017, up from the 5.9% growth in the preceding quarter. The relatively low base of comparison due to the austere external environment in early 2016 also contributed.

2.2 In the first quarter of 2017, the global economic landscape recovered further. The economic activity in the US attained moderate year-on-year expansion, with manufacturing and export activities picking up further and the labour market sustaining improvement. Meanwhile, the euro area economy grew modestly further, though the momentum was still being circumscribed by the lingering structural issues and the highly heterogeneous situations among member states (see ***Box 2.1*** for details). Japan's economic indicators also registered some improvement. Against this background, import demand in major advanced economies continued to recover in the first quarter. Separately, the Mainland economy stayed on the notable growth track, expanding by 6.9% in the first quarter over a year earlier, beating market expectations. As to other major emerging market economies, India sustained strong growth while Russia also improved. The International Monetary Fund in April forecast global trade growth to pick up somewhat to 3.8% in volume terms in 2017, up from the 2.2% growth in 2016.

2.3 The strengthening global demand as well as improving economic performance of the Asia region encouraged manufacturing activity expansion in Asia, boosting intake in raw materials, semi-manufactures and capital goods. It also provided growth impetus to trade flows in the region. Goods exports in many Asian economies improved in the first quarter of 2017 and attained double-digit year-on-year growth against the low base a year ago when trade flows plunged back then. In tandem with the region's intensified trade flows, Hong Kong's merchandise exports also benefitted and registered notable growth.

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

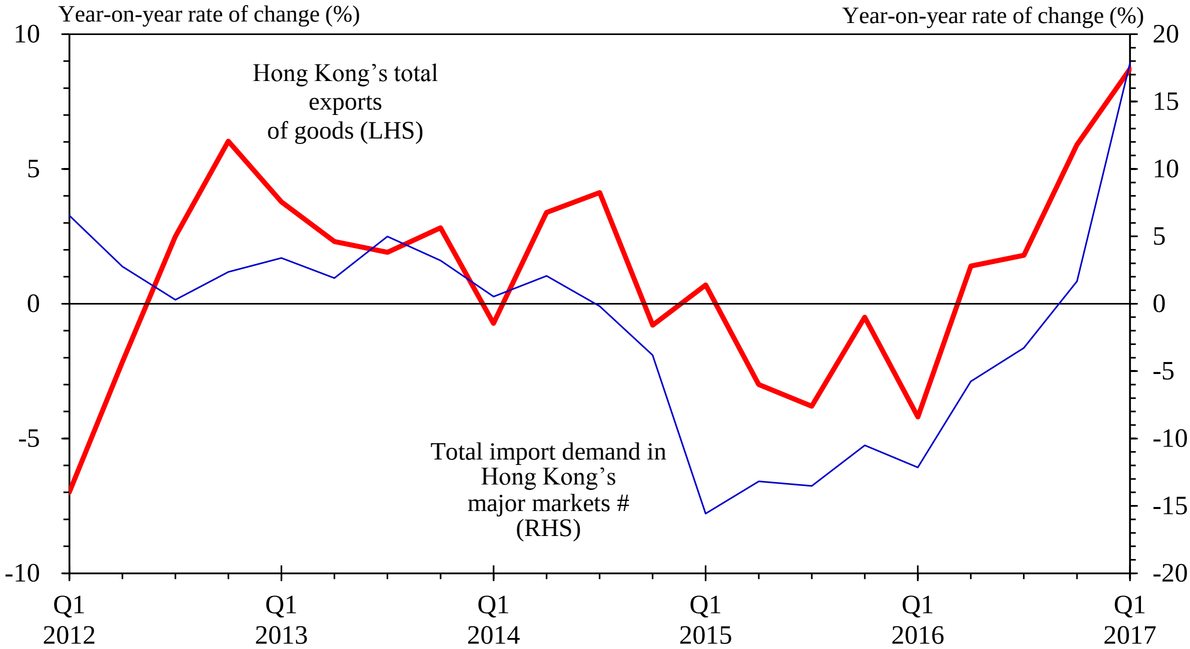
		Total exports of goods				Re-exports				Domestic exports			
		In value terms	In real terms[a]		Change in prices	In value terms	In real terms[a]		Change in prices	In value terms	In real terms[a]		Change in prices
2016	Annual	-0.5	1.4		-1.7	-0.4	1.5		-1.7	-8.5	-7.0		-1.4
	Q1	-6.8	-4.2	(-4.7)	-2.6	-6.7	-4.0	(-4.7)	-2.6	-15.2	-12.1	(-2.4)	-3.2
	Q2	-1.2	1.4	(6.1)	-2.2	-0.9	1.6	(6.3)	-2.2	-16.8	-14.7	(-2.7)	-2.1
	Q3	-0.2	1.8	(1.0)	-1.6	-0.2	1.8	(0.9)	-1.6	-2.0	-0.1	(8.2)	-1.1
	Q4	5.5	5.9	(3.8)	-0.5	5.6	6.0	(3.9)	-0.5	0.9	-0.7	(-3.8)	0.9
2017	Q1	10.3	8.8	(-0.4)	1.6	10.4	8.8	(-0.4)	1.6	4.9	1.8	(1.9)	3.0

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

(a) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

2.4 *Re-exports*[2], the mainstay of overall merchandise exports and accounting for 98.8% of total exports by value, grew remarkably by 8.8% year-on-year in real terms in the first quarter, up from the 6.0% growth in the preceding quarter. *Domestic exports*, constituting the remaining 1.2% of total exports, rebounded by 1.8% in real terms over a year earlier in the first quarter, after nine consecutive quarters of declines.

Diagram 2.1 : Merchandise exports grew briskly in the first quarter of 2017



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.

(#) Import demand figure for the first quarter of 2017 is based on statistics for January and February 2017.

Diagram 2.2 : Merchandise exports of higher-income Asian economies improved further in the first quarter

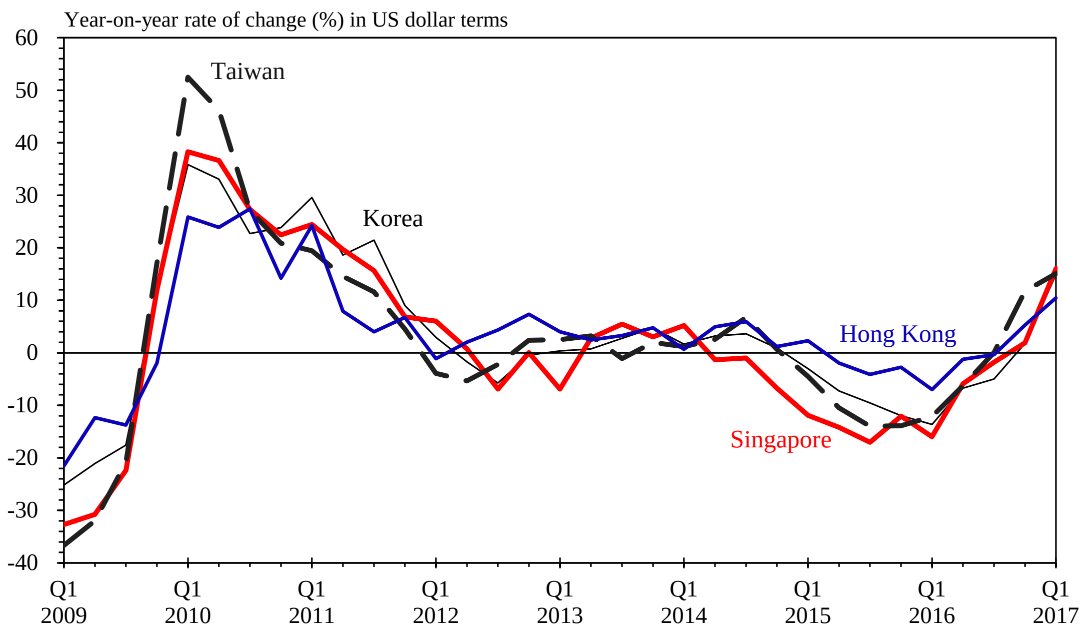
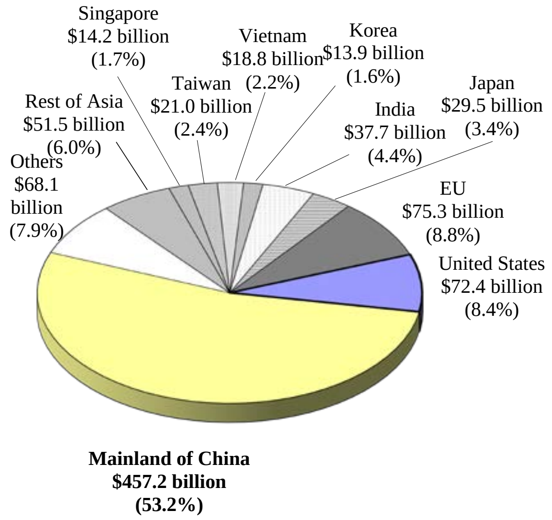


Diagram 2.3 : Exports to Asia were the key growth propeller of overall merchandise exports, and exports to other markets also showed various extents of improvement



Total exports of goods in the first quarter of 2017: $859.6 billion

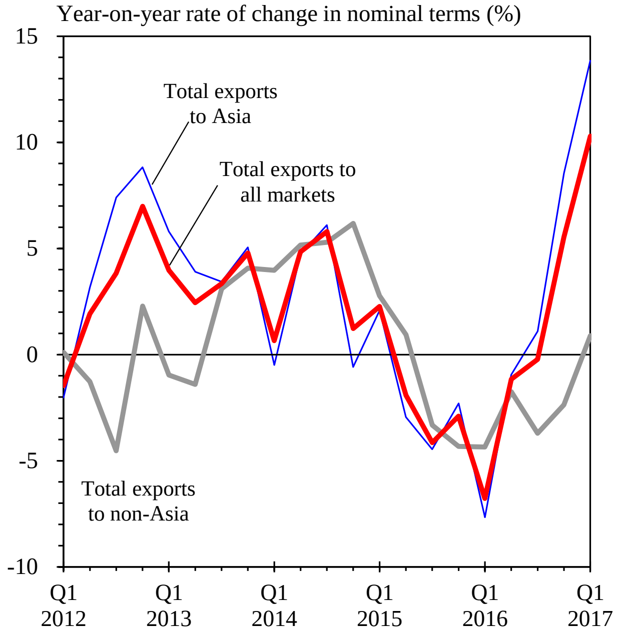


Table 2.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))

			2016			2017
	Annual	Q1	Q2	Q3	Q4	Q1
Mainland of China	2.2	-5.6	2.0	2.7	8.5	9.3
United States	-1.9	-4.8	-1.4	0.2	-1.9	3.4
European Union	-0.7	-2.6	3.8	-0.4	-3.2	3.0
Japan	-2.3	-3.3	-6.6	-1.1	1.7	7.5
India	17.6	15.8	28.0	15.8	12.1	40.1
Vietnam	-4.8	-2.1	-8.0	-9.8	0.7	10.8
Taiwan	19.0	-2.9	17.1	27.5	31.5	44.3
Singapore	5.9	-0.4	-1.6	7.7	18.3	-1.2
Korea	1.5	-14.0	3.2	6.7	11.2	15.3
Overall*	1.4	-4.2	1.4	1.8	5.9	8.8

Note : (*) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

2.5 Against the background of strengthening global demand, as well as improving economic performance of Asia, trading and manufacturing activities in Asia intensified, leading to notable growth in intake for raw materials, semi-manufactures and capital goods in the region. When analysed by market, exports to many major Asian economies registered strong growth in the first quarter, and were the key growth propeller of Hong Kong's overall merchandise exports. In particular, exports to the Mainland registered another quarter of robust performance, achieving near double-digit growth in real terms. As to the higher-income Asian markets, exports to Taiwan surged on the back of the continued expansion in industrial production there, and those to Korea picked up to show further notable growth. However, exports to Singapore were relatively weak. Meanwhile, exports to many Asian emerging markets showed appreciable growth, with those to Vietnam accelerating to attain double-digit growth, and those to India expanding remarkably further on the back of the solid economic performance there.

2.6 Exports to the major advanced markets also showed improvement of various extents in the first quarter. Exports to the US reverted to a moderate growth, as the import demand there rose further alongside revival in fixed investments, sustained job gains and fall in unemployment rate. The EU market likewise bounced back to show moderate growth, amid continued modest economic expansion. Meanwhile, exports to Japan picked up, on the back of the intensified regional trade flows in Asia as well as some improvement in industrial activities there. The lower base of comparison a year ago in exports to Japan after a prolonged period of setback also contributed.

Diagram 2.4 : Exports to the Mainland registered another quarter of robust performance

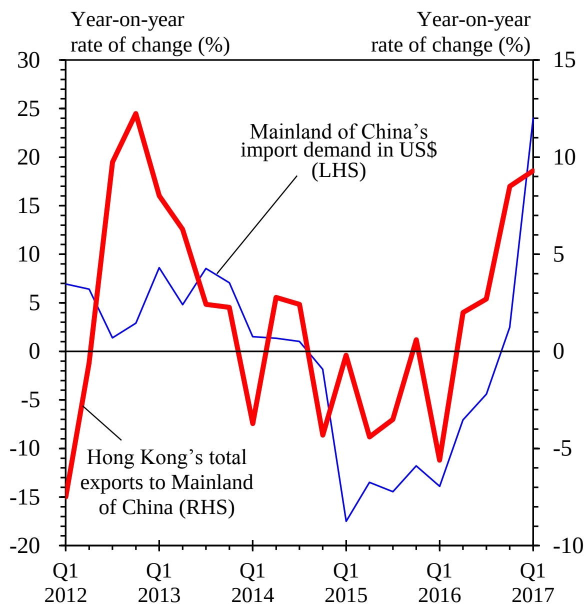


Diagram 2.5 : Exports to the EU bounced back to show moderate growth

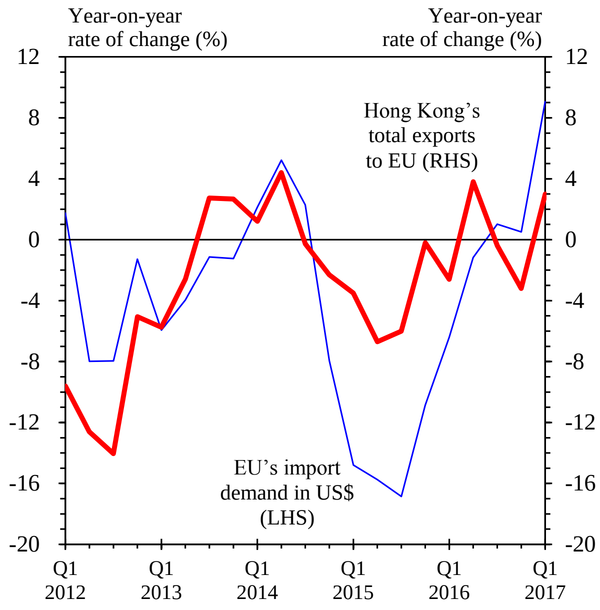


Diagram 2.6 : Exports to the US reverted to a moderate growth

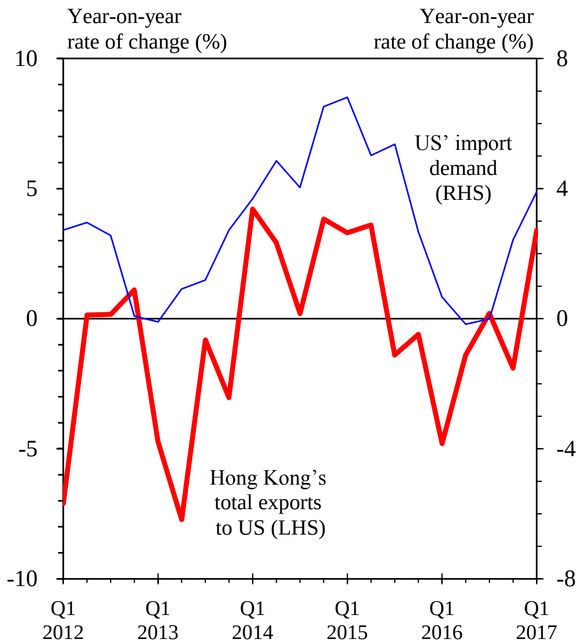


Diagram 2.7 : Exports to Japan likewise picked up

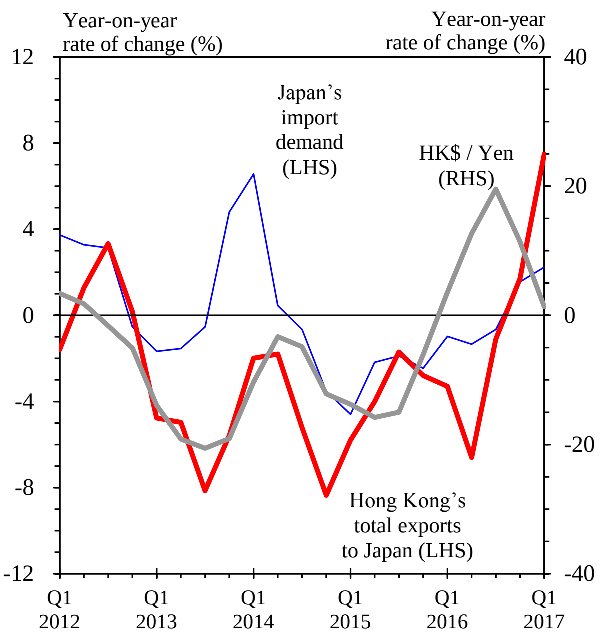


Diagram 2.8 : Exports to India expanded remarkably further

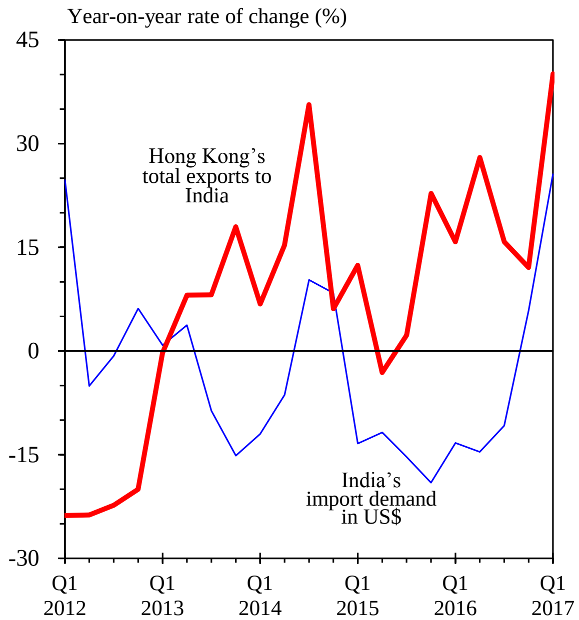


Diagram 2.9 : Exports to Taiwan surged

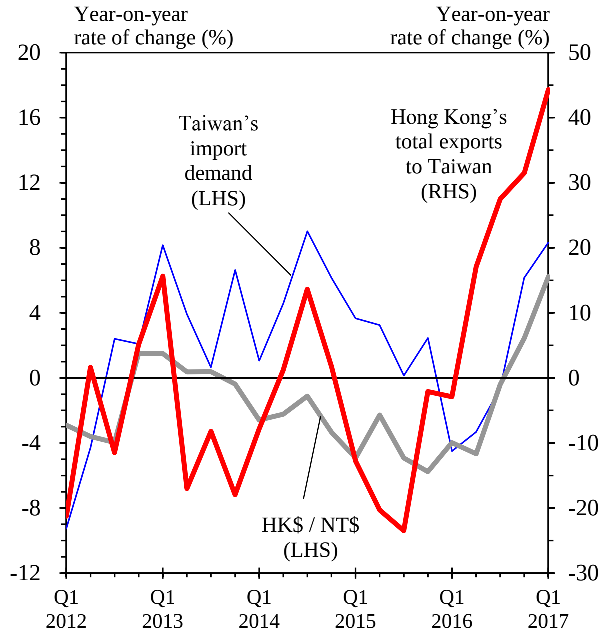


Diagram 2.10 : Exports to Korea picked up to show further notable growth

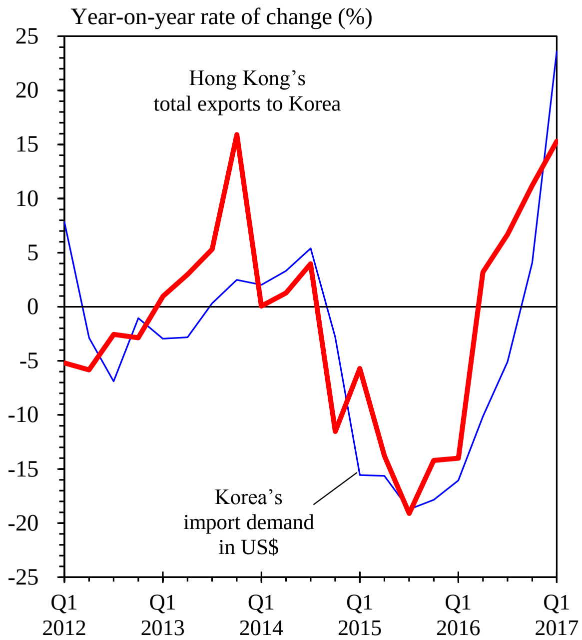
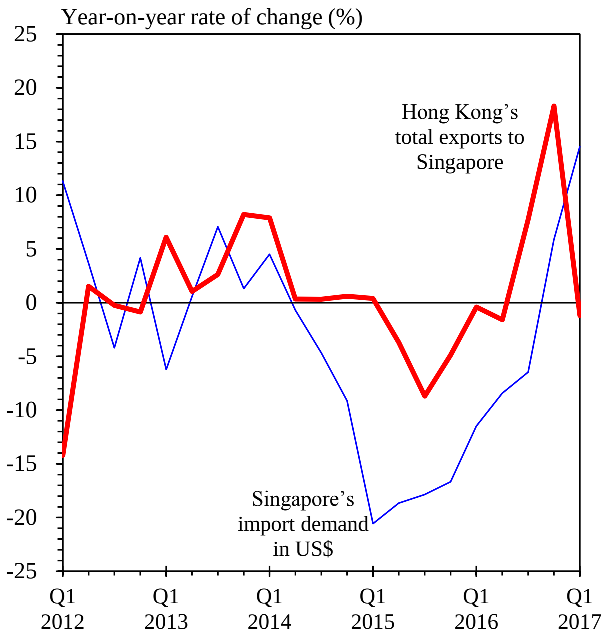


Diagram 2.11 : Exports to Singapore relapsed to a slight decline



Box 2.1

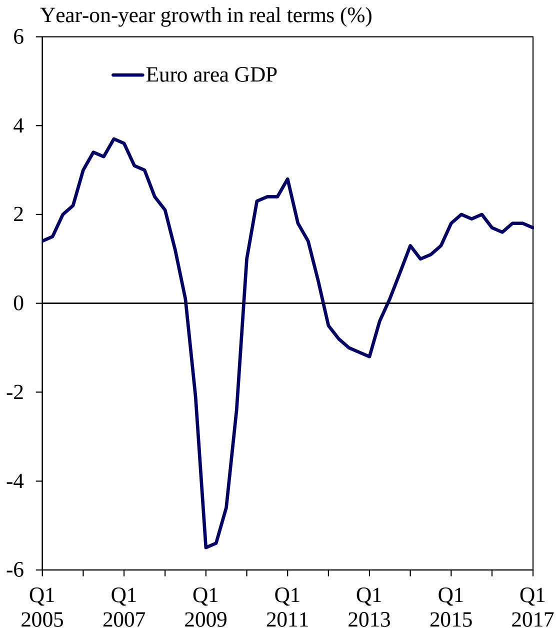
Recent economic performance of the euro area

In March 2017, the European Central Bank (ECB) raised the projections for economic growth in the euro area slightly by 0.1 percentage point in both 2017 and 2018, to 1.8% and 1.7% respectively. The euro area economy sustained modest growth in recent quarters, with domestic demand acting as the main driver on the back of the highly accommodative monetary policy by the ECB. Although the negative impacts from Brexit developments have so far been limited, the recovery pace of the region has varied visibly between member states and on the whole stayed only modest. This note briefly reviews the latest developments, as well as some obstacles to a more robust recovery, in the euro area economy.

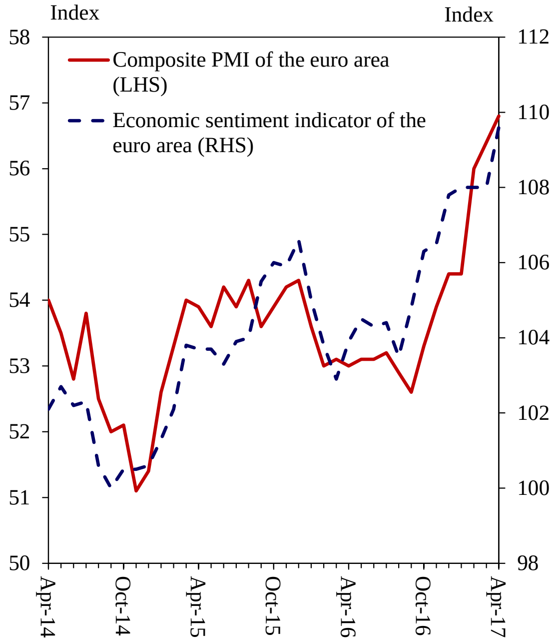
The euro area economy grew by 1.7% in the first quarter of 2017 over a year earlier, broadly on par with the quarterly year-on-year growth which ranged between 1.6-2.0% in the preceding two years ***(Chart 1a)***. Along with the economic expansion, deflation risks have been dissipating. More recently, economic sentiment continued to hold up in April, with the Composite Purchasing Managers' Index (PMI) rising further in the expansionary zone ***(Chart 1b)***.

Chart 1 : Euro area economy has sustained modest growth

(a) Economic growth in the first quarter was broadly on par with the growth in recent quarters



(b) Economic sentiment in the euro area continued to hold up in early 2017



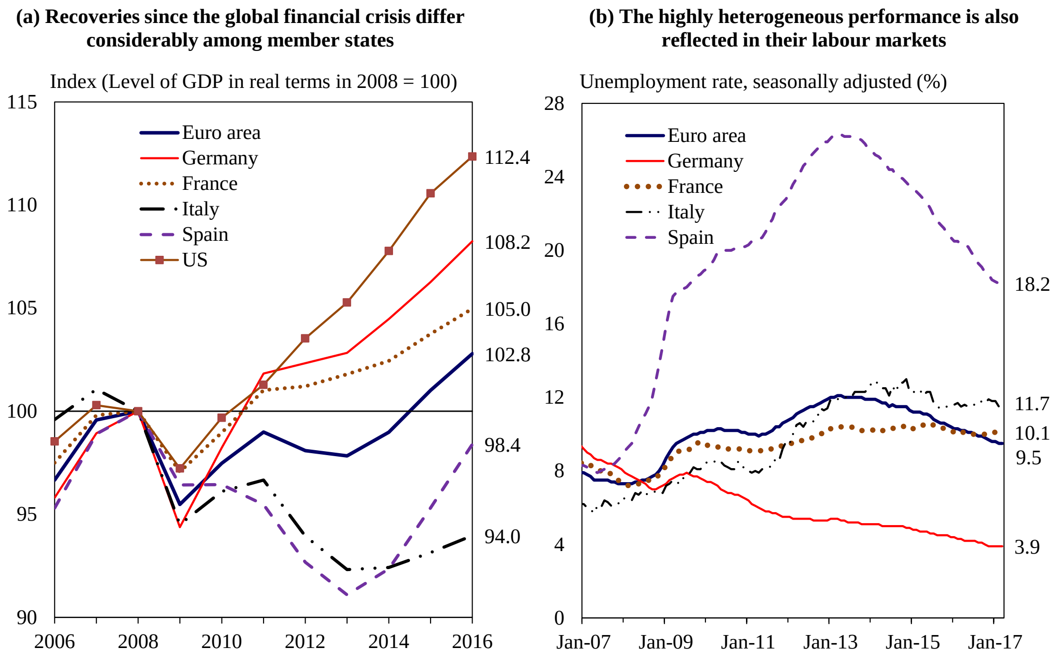
Sources: Eurostat and Markit.

Nevertheless, the situations of major member states varied considerably. The real GDP of Spain and Italy have yet to return to their levels before the global financial crisis of 2008 ***(Chart 2a)***. Mostly dragged by their weak economic fundamentals, their recovery paths have been particularly bumpy, being derailed by the European sovereign debt crisis during 2011-2013, notwithstanding some recent improvements.

Box 2.1 (Cont'd)

By comparison, Germany and France fared much better, with their real GDP in 2016 being 8% and 5% respectively higher than in 2008, as these two economies were not at the epicentre of the European sovereign debt crisis. Nonetheless, all the four major member states of the euro area underperformed the US economy, which had expanded by 12% since 2008.

Chart 2: The economic situations of major member states varied considerably



Sources: Eurostat and the US Bureau of Economic Analysis.

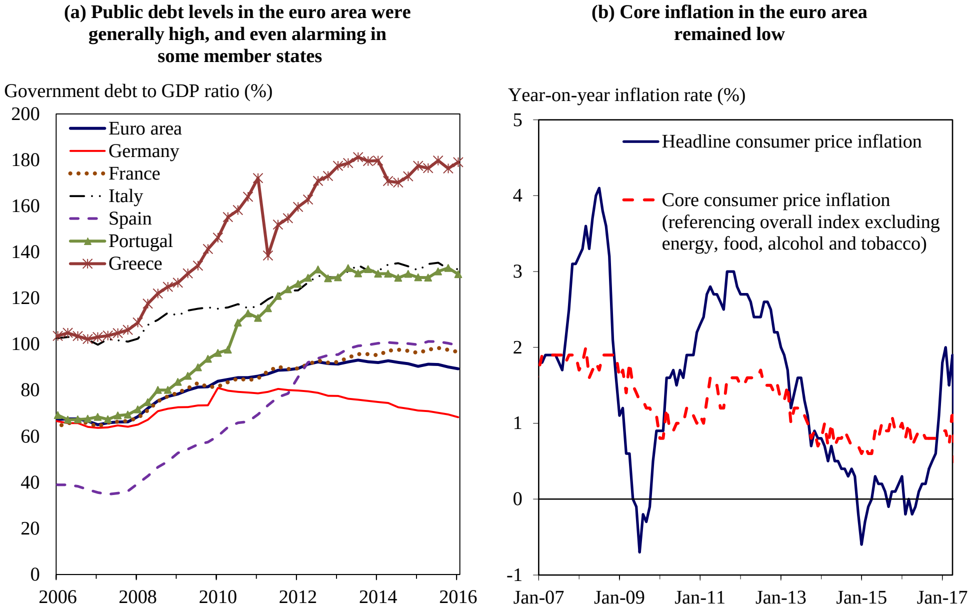
The highly heterogeneous performance is also reflected in their labour markets. The overall seasonally adjusted unemployment rate for the euro area climbed down steadily from a peak of 12.1% in April 2013 to 9.5% in March 2017, and some five million jobs had been regained since 2013. However, while the unemployment rate in Germany fell notably to a low level of 3.9% in March, the improvements in France and Italy were less discernible. The unemployment rate in Spain, while falling, was still at an alarmingly high level of 18.2% ***(Chart 2b)***. Persistently high unemployment rates could dampen consumer sentiment and drag domestic demand in the short run, and would pose impediment to economic growth potential in the long run.

Another issue of concern is the fiscal health within the currency bloc. The overall government debt to GDP ratio in the euro area was at 89% as at end-2016 ***(Chart 3a)***, visibly higher than the 60% required in the Stability and Growth Pact (SGP) of the EU. The government debt to GDP ratios in some member states of weaker economic fundamentals such as Greece, Italy and Portugal were alarmingly elevated, at 179%, 133% and 130% respectively, whereas those in Spain and France were also high, with both of them close to 100%.

Admittedly, there has been some relative stabilisation in the overall euro area government debt to GDP ratio of late, but it has been partly thanks to the improvement in Germany. Other debt-ridden states such as Greece, Portugal and Italy in fact saw little improvements. Market concerns about their debt sustainability could still cause jitters in the international financial markets going forward.

Box 2.1 (Cont'd)

Chart 3: Fiscal health remains a concern in the currency bloc



Source: Eurostat.

Moreover, there are notable policy challenges facing those member states with weak fundamentals. For the debt-ridden, slow-growing states, they need strong fiscal stimuli but their own elevated levels of government debt, which are already well above the requirements of SGP, give them no policy space to do so. As the monetary union members, the use of a single currency also deprives them of enjoying greater currency depreciation to revive their economies. From the longer-term perspective, further fiscal and economic reforms in debt-ridden member states are necessary in order to improve their fiscal sustainability and regain competitiveness. However, the challenges in implementing reforms should not be underestimated, considering the social resistance involved and the implications for the possible rise of anti-establishment sentiment in these member states. Broadly speaking, the prolonged weakness of these member states could limit the euro area's overall economic performance going forward.

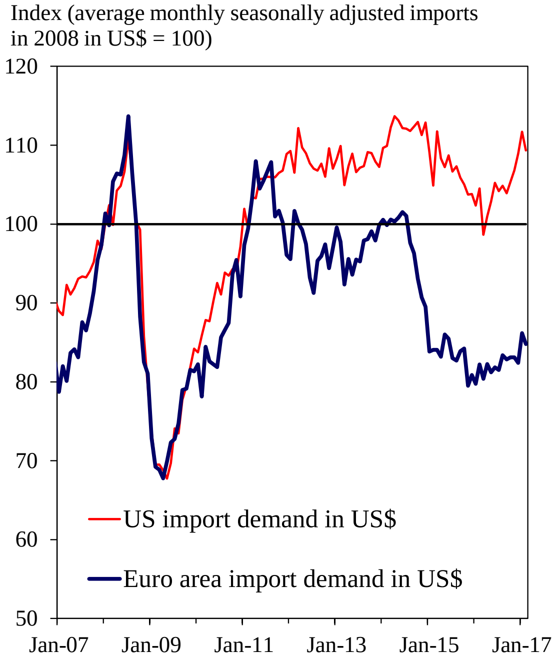
With the overall economic growth in the euro area staying modest and the underlying consumer price inflation pressures remaining subdued (core inflation was at only 0.8% on average in the first quarter of 2017) ***(Chart 3b)***, accommodative monetary policy is expected to remain the mainstay of the euro area economic policy tools. Although the ECB has reduced the size of its monthly asset purchase to €60 billion starting from April 2017, it continued to indicate that a very substantial degree of monetary accommodation is still needed and that key ECB interest rates would remain at the present or lower levels in the period ahead. Against this background, monetary divergence between major central banks will likely continue, especially in light of the continued monetary policy normalisation in the US (see ***Box 1.1*** for details).

There are also other developments that are worth attention. The future relationship between the UK and the EU remains highly uncertain at this stage, as the Brexit negotiation would be a highly complicated process, with possible repercussions for the EU economy. The early general election in the UK in June adds further uncertainty to the issue. Separately, general elections to be held in France in June as well as Germany in September are also a cause for concern. Heightened geopolitical tensions in Eastern Europe and the Middle East, the influx of migrants and the threats of terrorist attacks, could also possibly dampen the region's economic sentiment.

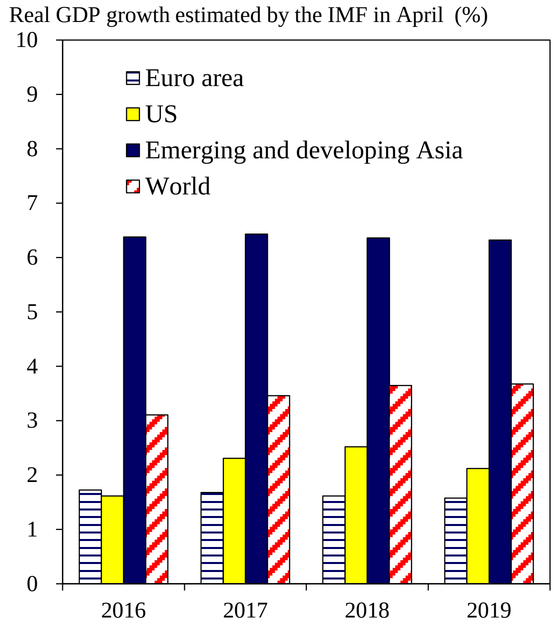
Box 2.1 (Cont'd)

Chart 4: Euro area's growth outlook is still modest

(a) Euro area's import demand has remained relatively soft



(b) Euro area growth is expected to stay modest in the coming few years



Sources: Eurostat, CEIC and International Monetary Fund (IMF).

In the context of global trade, the euro area is a major export market for Asian economies. However, with the rather slow recovery in Europe and the weak euro (the euro depreciated by 16%[(1)] between April 2008 and April 2017), the currency bloc's import demand remained relatively soft. Despite some recent improvement, euro area's monthly import demand in US dollar terms in the first two months of 2017 was still some 15% lower than the average monthly imports in 2008 after seasonal adjustments ***(Chart 4a)***. In contrast, being another major market for Asian exports, US' average import demand in the first two months of this year was some 11% above the average monthly level in 2008.

In sum, while there was progress in the economic recovery in the euro area in recent years, the structural issues as well as the highly heterogeneous situations among member states could still constrain the growth of the euro area beyond the near term. In April, the IMF forecast the euro area's annual economic growth to stay modest in 2017 to 2019, at 1.6-1.7%, assuming the Brexit negotiations proceed without raising excessive uncertainty and the arrangements could eventually avoid a very large increase in economic barriers. Such a forecast growth pace, if realised, would be still slower than that for the US and way below that for the emerging and developing Asia ***(Chart 4b)***. With the euro area being a major economic bloc that has close economic ties with Hong Kong, the Government will stay alert to the developments and monitor the situation closely.

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(1) This is based on the nominal effective exchange rate index calculated by the ECB, using weighted averages of bilateral euro exchange rates against 19 trading partners of the euro area.

Imports of goods

2.7 *Imports of goods* grew markedly further by 9.0% year-on-year in real terms in the first quarter, up from the 6.2% growth in the preceding quarter, on the back of the faster growth in imports for subsequent re-exports as well as retained imports. *Retained imports*, referring to the imports for domestic use, which accounted for around one-quarter of total imports, accelerated to grow by 9.6% year-on-year in real terms in the first quarter, up from the 6.6% in the preceding quarter. The continued notable growth in retained imports mirrored the solid expansion in domestic demand, amid the favourable employment conditions and stronger economic sentiment.

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

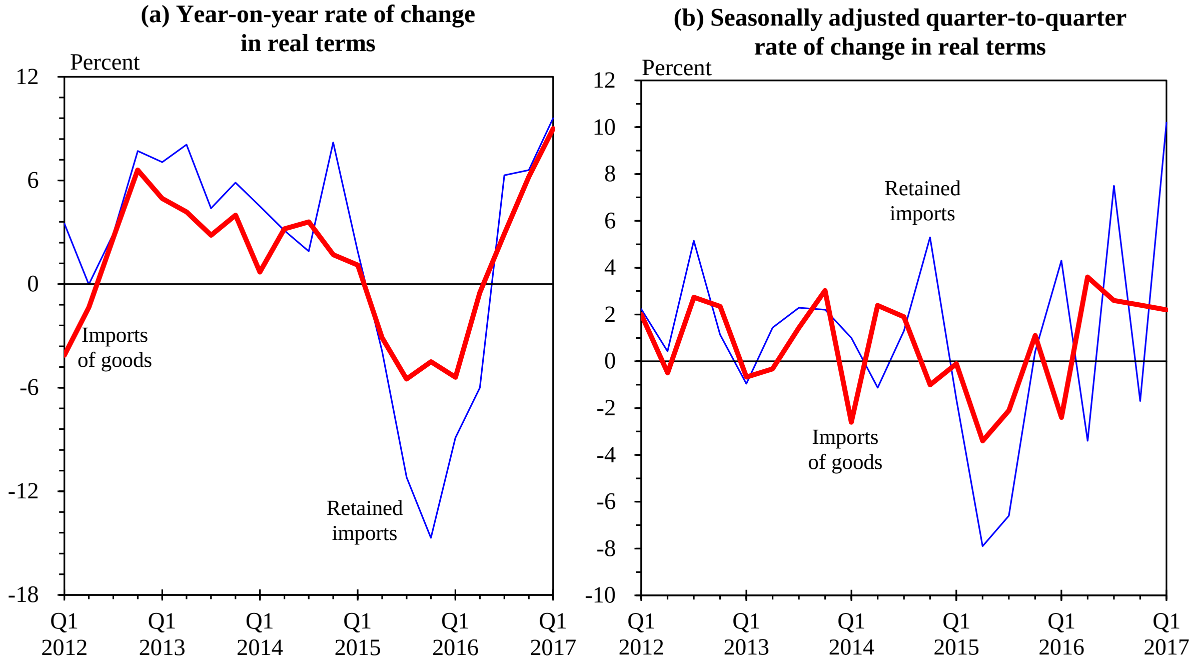
		Imports of goods				Retained imports(a)			
		In value terms	In real terms(+)		Change in prices	In value terms	In real terms		Change in prices
2016	Annual	-0.9	1.0		-1.7	-2.6	-0.6		-1.6
	Q1	-8.2	-5.4	(-2.4)	-2.8	-12.2	-8.9	(4.6)	-3.6
	Q2	-3.2	-0.5	(3.6)	-2.6	-9.2	-6.0	(-3.7)	-3.7
	Q3	1.2	2.9	(2.6)	-1.4	5.8	6.3	(7.6)	-0.5
	Q4	5.6	6.2	(2.4)	-0.1	5.7	6.6	(-1.8)	1.0
2017	Q1	10.7	9.0	(2.2)	1.6	11.6	9.6	(10.2)	1.5

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.

(+) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008.*

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

Diagram 2.12 : Imports and retained imports grew markedly further

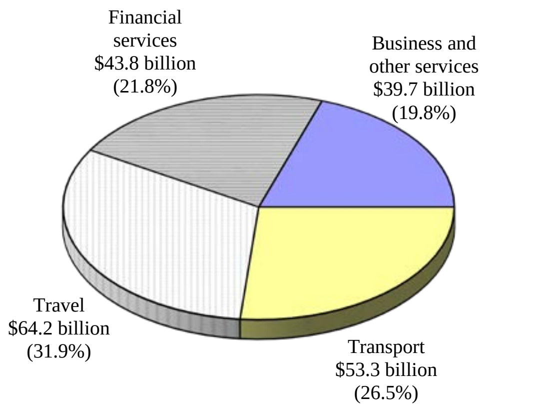


Services trade

Exports of services

2.8 *Exports of services* likewise benefited from the improving global economic conditions, growing by 2.6% year-on-year in real terms in the first quarter, faster than the 1.2% growth in the preceding quarter. Exports of transport services sustained brisk growth, amid stronger trade and cargo flows in the region. Exports of financial services reverted to a modest growth, and exports of business and other services grew slightly, thanks to a more sanguine global economic environment. Meanwhile, exports of travel services also showed further relative improvement, with a continued tapering in the year-on-year rate of decline, thanks to the recovery in visitor arrivals. However, tourist spending had yet to resume growth, probably being constrained by the currency movements and changing tourist spending patterns.

Diagram 2.13 : Travel, transport and financial services are the major service components within exports of services



Exports of services in the first quarter of 2017: $201.0 billion

Diagram 2.14 : Exports of services picked up further in growth in the first quarter of 2017

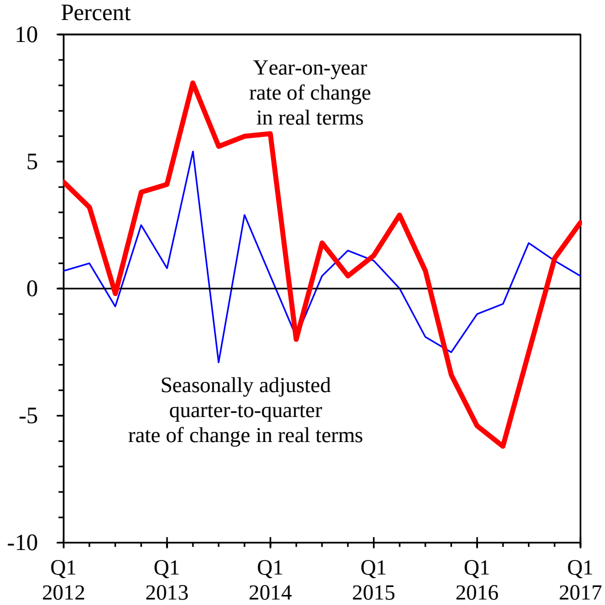


Table 2.4 : Exports of services by major service group (year-on-year rate of change in real terms (%))

		Exports of services		*Of which :* Transport	Travel[(a)]	Financial services	Business and other services
2016	Annual	-3.2		2.2	-8.6	-3.7	-1.0
	Q1	-5.4	(-1.0)	-2.0	-13.1	0.1	-2.6
	Q2	-6.2	(-0.6)	-1.1	-8.9	-15.1	-0.7
	Q3	-2.5	(1.8)	2.5	-8.1	-1.7	-1.1
	Q4	1.2	(1.1)	9.6	-4.0	-0.2	0.2
2017	Q1	2.6	(0.5)	9.4	-1.2	1.9	0.7

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008.*

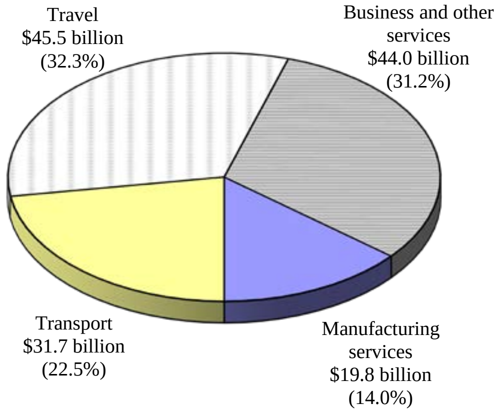
(a) Comprising mainly inbound tourism receipts.

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

Imports of services

2.9 *Imports of services* grew mildly by 0.9% in real terms in the first quarter over a year earlier, moderated from the 2.0% growth in the preceding quarter. Major service components continued to show mixed performance. Imports of travel services grew at a visibly decelerated pace in the first quarter, largely attributable to the difference in timing of the Easter holidays, which fell in late March in 2016 but in mid-April in 2017. Imports of transport services grew moderately further, in tandem with the intensified trading activities in the region. Imports of business and other services also attained moderate growth, as improved global economic outlook supported the cross-border financial and commercial activities. However, imports of manufacturing services remained on a decline, mirroring the sluggish demand for outward processing activities.

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



Imports of services in the first quarter of 2017: $141.0 billion

Diagram 2.16 : Imports of services grew mildly in the first quarter

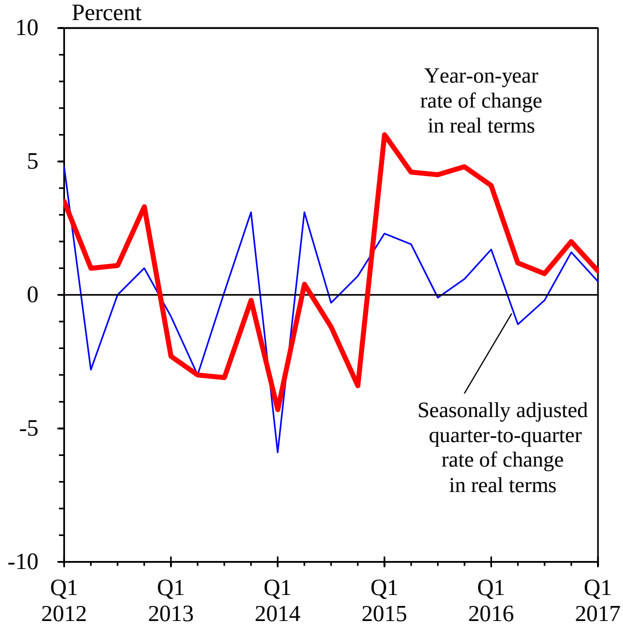


Table 2.5 : Imports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

		Imports of services		Travel(+)	Transport	Manufacturing services(^)	Business and other services
2016	Annual	2.0		5.9	-0.3	-1.9	1.8
	Q1	4.1	(1.7)	13.0	-0.5	0.9	0.2
	Q2	1.2	(-1.1)	2.9	-1.2	-0.5	2.5
	Q3	0.8	(-0.2)	3.7	-1.0	-2.8	1.6
	Q4	2.0	(1.6)	4.7	1.5	-4.1	2.8
2017	Q1	0.9	(0.5)	0.4	2.1	-3.2	2.1

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(+) Comprising mainly outbound travel spending.

(^) This includes the value of processing fees paid by Hong Kong to the processing units outside Hong Kong and raw materials / semi-manufactures directly procured by these processing units.

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

Goods and services balance

2.10 Compiled based on the change of ownership principle, the goods deficit in the first quarter widened somewhat from the same quarter a year earlier, as retained imports grew notably amid solid expansion in domestic demand, and the growth in imports of goods outpaced that of exports of goods. With the services surplus offsetting the goods deficit, the combined goods and services account registered a slight surplus of $2 billion in the first quarter of 2017, equivalent to 0.2% of total import value, smaller than that of $12 billion, equivalent to 1.1% of total import value, in the first quarter of 2016.

Table 2.6 : Goods and services balance
($ billion at current market prices)

		Total exports		Imports		Trade balance			
		Goods	Services	Goods	Services	Goods	Services	Combined	As % of imports
2016	Annual	3,900	767	4,037	578	-136	189	53	1.1
	Q1	849	194	892	138	-44	55	12	1.1
	Q2	929	177	987	138	-57	39	-18	-1.6
	Q3	1,025	196	1,037	148	-12	48	36	3.1
	Q4	1,098	200	1,121	153	-24	47	23	1.8
2017	Q1	941	201	999	141	-58	60	2	0.2

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

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

Other developments

2.11 The small and medium enterprises (SMEs) are important to Hong Kong's economy and employment market, and the Government has always accorded high priority to the developments of SMEs, including those engaging in trading activity. As the global outlook is still fraught with uncertainties, the 2017-18 Budget continued to implement support measures for local SMEs. Apart from the tax relief measures to ease their burden, the application periods for different supporting programs were extended. The Budget also proposed to strengthen the underwriting capacity of the Hong Kong Export Credit Insurance Corporation, as a measure to support the business developments of the SMEs.

2.12 The Trade Facilitation Agreement (TFA) of the World Trade Organization (WTO) entered into force in February 2017, representing the first multilateral agreement concluded since the establishment of the WTO. Hong Kong has always been a staunch supporter of free trade, and was the first WTO Member to accept the TFA in December 2014. The TFA sets out binding obligations for participating WTO Members to improve and harmonise their import/export and customs procedures, and is expected to reduce costs and improve efficiency in doing business by ensuring a more transparent and predictable trading environment. Hong Kong, being an externally oriented economy and an international trading hub, will benefit from the TFA.

2.13 The Government continued to strengthen the economic co-operation with the Mainland. The 22nd Working Meeting of the Hong Kong/Guangdong Co-operation Joint Conference was held in February, covering the co-operations in such areas as Belt and Road Initiative, the development of the Guangdong-Hong Kong-Macao Big Bay Area, innovation and technology, financial and professional services and tourism. Both sides formulated the 2017 Work Plan, covering 77 key co-operation items. Many of these co-operation items are mapped out in accordance with the directions set out in the National 13th Five-Year Plan.

2.14 The Government also stepped up efforts to enhance the co-operations with other economic partners across the globe with a view to further strengthening the role of Hong Kong as an international hub for business, trade and finance. In the first quarter, the Government signed Comprehensive Avoidance of Double Taxation Agreements (CDTAs) with Belarus and Pakistan, which are both economies along the Belt and Road. Apart from CDTAs, the Government also expanded the network of "automatic exchange of financial account information in tax matters" (AEOI) notably, with nine AEOI agreements signed in the first few months of 2017, including the agreements with Korea, Belgium, Canada, Guernsey, Italy, Mexico, the Netherlands, Portugal and South Africa.

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. The series are not comparable with the real trade aggregates under GDP (reported in Chapter 1) which are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. Apart from this, 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.