

Medium-term outlook for the Hong Kong economy

2.21 The medium-term prospect for the Hong Kong economy is bright. With the economy now on a much sounder footing than before, and with the domestic economy shrugging off its earlier sluggishness, Hong Kong would continue to benefit from the increasing integration with a rapidly growing Mainland economy. Unless major external shocks occur, the Hong Kong economy can be expected to forge ahead after the impacts of successive interest rate hikes and earlier oil price surge fade out. Through the CEPA framework and the widening and deepening of co-operation within the Pan-PRD, it is envisaged that the Hong Kong economy will continue to shift towards higher value-added services and more knowledge-based in the coming years.

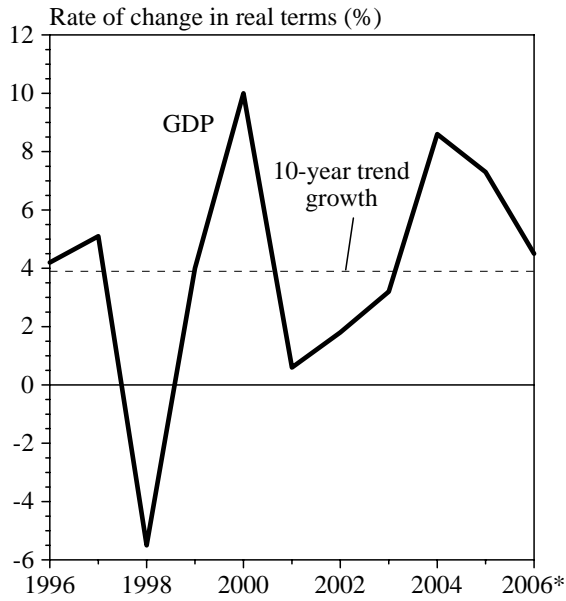
2.22 There are still lingering uncertainties hanging over the medium term development. The US housing market boom, which has so far provided the key impetus to US consumer demand growth, is already cooling off and may suffer a bigger-than-expected correction should US long-term interest rates shoot up. Also, global trade imbalances are alarmingly large, and it is hard to tell when the process of unwinding will start. If the adjustment process occurs abruptly, it could potentially be destabilising to global economic growth and the stability of international financial markets. Lingering protectionist sentiment from US and EU against Mainland products, as well as mounting pressure on the renminbi, remain an on-going threat to Hong Kong's trade. Domestically, the issue of unemployment, though alleviated to some extent during the current economic upturn, remains a concern, as some lower skilled workers may still have difficulty in finding jobs when Hong Kong continues to move to knowledge-based and high value-added services. Also, attention has to be paid to the increasingly ageing population, given its profound implications on our health and social welfare systems, as well as on the public finance. Moreover, as Hong Kong has moved into a new phase of economic expansion, inflation has already come back and is gradually picking up. So, we will have to stay alert to the possible threat from a resurgence in inflation.

2.23 It is pivotal for Hong Kong to enhance further its attractiveness as a business hub and financial centre in Asia, amidst the keen competition prevailing in the global business environment. To this end, the Government will continue to enhance the quality of the financial markets to strengthen the position of Hong Kong as a leading international financial centre in the region. To maintain the Hong Kong's vitality as Asia's world city, the Government will continue to invest in infrastructure to strengthen its connectivity with the Mainland and the rest of the world. It is also a priority to upgrade the quality of the workforce to effectively cope with competition brought about by globalisation. A proactive stance will also be adopted to attract talent from the Mainland and the overseas to come and settle in Hong Kong. It is also important to nourish the creativity of Hong Kong entrepreneurs and workers alike to add to the flexibility of the Hong Kong economy. In recognition of the sound and efficient market institutions as a key to economic success, the Government will continue to uphold its guiding principle of "Market leads, Government facilitates".

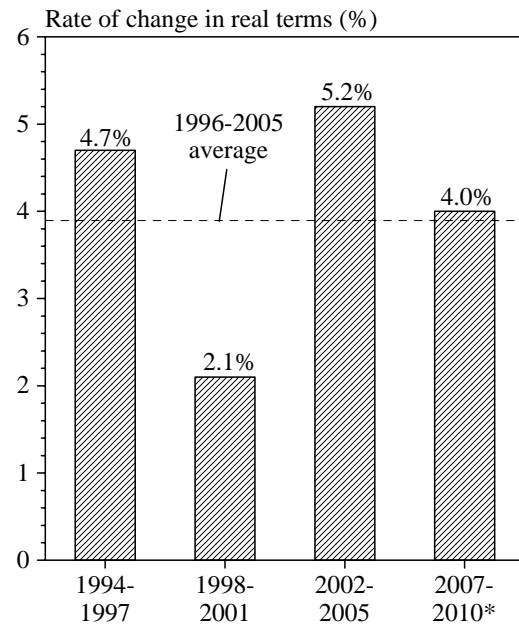
2.24 Co-operation among Hong Kong and other Mainland provinces and cities in the Pan-Pearl River Delta will enhance Hong Kong's role as a gateway and platform for Mainland enterprises to go global and for foreign enterprises to tap the ample resources and opportunities in the Mainland. The Government will also step up efforts to ensure the smooth and effective implementation of the three phases of CEPA to the benefit of Hong Kong enterprises and professionals. The continuous extension of the Individual Visit Scheme will also render further support to Hong Kong's economic growth over the medium term. Overall, Hong Kong will continue to shift towards higher value-added services and knowledge-based economy, riding on increasing economic integration with a rapidly growing Mainland economy. The productivity growth achieved in the process will help the economy attain a 4% trend GDP growth over the next four years 2007-2010.

Diagram 2.13 : Medium-term economic outlook remains bright

(a) Economy to settle back to a more steady growth path



(b) Medium-term outlook underpinned by CEPA and transformation to high value-added services



Note : (*) Forecast.