

Medium-term outlook for the Hong Kong economy

2.22 The medium-term outlook for the Hong Kong economy is bright, although there is a need to stay alert to risks and challenges posed by the constant changes in the global economic environment, particularly as the global economy has just emerged from the “Great Recession” of 2008-2009 and the risk of a relapse in the advanced economies into recession cannot be ruled out for sure. The financial crisis has radically changed the landscape of the global economy. The Mainland and, to some extent, all the other emerging Asian economies taken together, have emerged as a prominent economic powerhouse. The balance of the global economic landscape has tilted gradually towards the East. This, in turn, will present new opportunities for Hong Kong in the years to come.

2.23 Amid the keen competition in the global and regional arenas, it is important for Hong Kong to continue to enhance its competitiveness to uphold its status as an international financial centre and a regional business hub. Being a relatively mature economy, Hong Kong will not compete in terms of low labour and land costs, but in terms of quality, during its on-going transformation into a high value-added, knowledge-based economy.

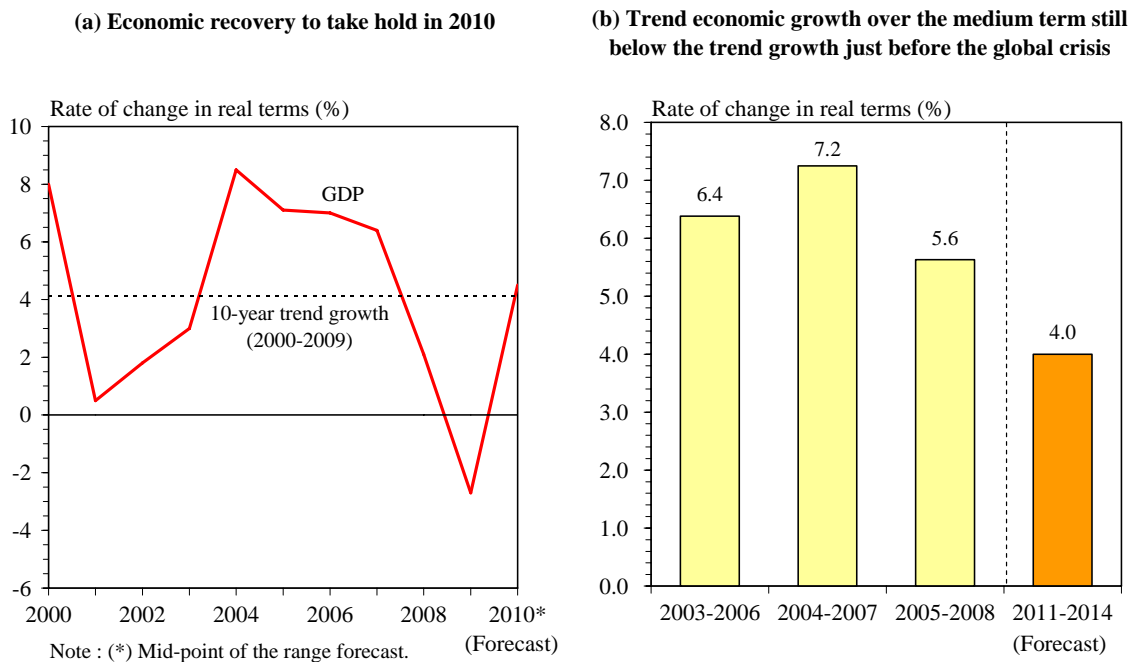
2.24 The strategy of integrating with the Mainland economy has served the Hong Kong economy well. Hong Kong will continue to make full use of the opportunities generated by its increasing integration with the Pearl River Delta, a national strategy endorsed by the Central Government. Hong Kong and Guangdong as well as other parts of the Mainland will also push ahead with co-operation on many fronts. In terms of hardware, the construction of major cross-boundary infrastructure projects, including the Hong Kong-Zhuhai-Macao Bridge and the Hong Kong-Guangzhou Express Rail Link, will enhance the efficient flow of people and goods and further deepen economic ties between Hong Kong and the Mainland. As to other major infrastructure projects, the construction will also add momentum to economic growth over the medium term. When completed, they will raise the quality of life as well as productivity in Hong Kong in a significant way.

2.25 The global financial crisis has also revealed the need for economic diversification. The Government has identified six promising industries where Hong Kong enjoys competitive advantages, including education services, medical services, testing and certification, environmental industries, innovation and technology, and cultural and creative industries. It will take time for these

industries to mature and flourish, and the Government will offer facilitating measures to create the conditions for them to get off the ground and gather momentum. These six industries, while diversifying the economic structure of Hong Kong, will also supplement and enhance the strength of the traditional pillar industries.

2.26 Against this background, the trend GDP growth rate in real terms is forecast at 4% per annum from 2011 to 2014. This would still be slightly below the 10-year average annual growth rate of 4.7% that Hong Kong has attained just before the global crisis. With the economy going back to faster growth over the medium term, some inflationary pressures should likewise return. Granting that major central banks will pursue their exit strategies in an orderly manner, thereby anchoring global inflation expectations, the trend rate of change in the underlying Composite CPI in Hong Kong over the medium term is forecast at 3% per annum.

Diagram 2.16 : Economic prospects are bright over the medium term



2.27 Beyond the short-term, there are various challenges facing the global and local economy over the medium term. The financial tsunami should lead to reforms in the global financial framework if the world is to avoid the recurrence of major financial crises in future, and Hong Kong will have to adjust and adapt quickly to these reforms. The exceptionally large fiscal and monetary stimulus measures implemented by the major advanced economies have weakened their longer term fiscal positions, which could eventually lead to higher volatility in the financial and exchange rate markets. Also, the political implications of higher unemployment in the advanced economies, coupled with the lingering

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global trade imbalances, could result in stronger protectionist sentiment from the US and EU against Mainland products, increasing the risk to Hong Kong's trade. Domestically, the structural shift of the Hong Kong economy to high value-added and knowledge-based activities would lead to greater variability in income and wealth distribution. The training and re-training needs of Hong Kong's workforce are bound to increase over time if it is to reduce the extent of mismatch between jobs and skills. Also, the ageing population will have profound implications on our health care and social welfare systems, as well as on public finance, over the medium and longer run. In view of these possible challenges, it is important to stick to a prudent fiscal policy.