

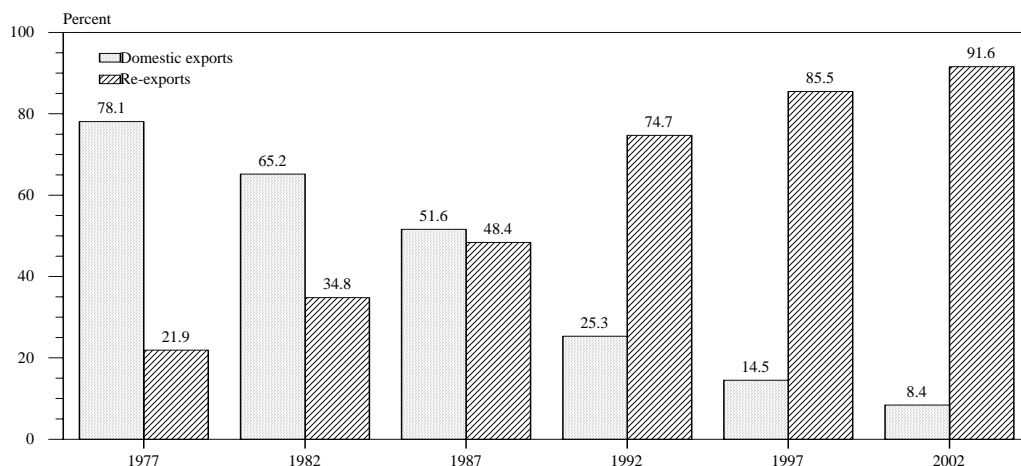
**Box 2.2****Structural shift in Hong Kong's external trade**

Hong Kong's merchandise trade has been undergoing substantial structural shift over the past two decades. In the 1970s, domestic exports took up a predominant share in Hong Kong's total exports of goods, at around 74-81% of the total value, while re-exports accounted for the remaining 19-26%. Following the Mainland's opening up in 1978, its exports have been expanding at a phenomenal pace. Hong Kong naturally re-emerged as the Mainland's key entrepôt, by virtue of its proximity to the Mainland, its extensive trading system, and its efficient physical infrastructure and support services. As a result, Hong Kong's merchandise trade underwent its first phase of structural shift from domestic exports to re-exports, with the share of re-exports in the value of total exports of goods rising distinctly, from slightly above 20% in the mid-1970s to around 35% in the early 1980s.

The structural shift towards re-exports accelerated further after the early part of the 1980s, this time prompted by the progressive relocation of production processes across the boundary to take advantage of the cheaper land and labour resources there. Throughout the period 1983-1995, re-exports attained uninterrupted double-digit growth, at an average annual rate of 24% in real terms. As a result, the share of re-exports in the value of total exports of goods leaped from 35% in 1983 to 83% in 1995 and further to 92% in 2002.

## Box 2.2 (cont'd)

Composition of Hong Kong's total exports of goods



With the rapid development of port and other related infrastructural facilities and the streamlining of customs procedures in the Mainland, by around the mid-1990s a new trend of structural shift, whereby the finished products could be shipped out directly from the Mainland without passing through Hong Kong, had emerged. The yet further shift away from re-exports towards this newer shipping mode, known as offshore trade, represented the second phase of structural shift in Hong Kong's external trade.

Under the momentum of this second phase of structural shift, exports of trade-related services (comprising mainly offshore trade) persistently rose faster than re-exports in the more recent years, recording double-digit growth averaging at 15% in real terms in 1996-2002. This was also distinctly faster than the respective trend growth rate at only 5% in 1991-1995. In particular, even in the difficult years of 1998 and 2001, exports of trade-related services still registered notable growth, at 6% and 14% respectively. By contrast, re-exports had considerably slower growth, at an average annual rate of only 6% in real terms in 1996-2002. It was also markedly down from the respective trend growth rate at 20% in 1991-1995.

Exports of trade-related services vs re-exports  
(growth rate in real terms)



Note : (\*) Comprising mainly offshore trade.

Hence, as more and more of the shipments handled by Hong Kong companies go through the Mainland ports, rather than passing through the Hong Kong port as before, the growth momentum in Hong Kong's external trade has more recently been, and will continue to be, geared increasingly towards offshore trade.