

Box 2.1**Impact of Guangdong's industrial restructuring on
Hong Kong's external trade**

Hong Kong's external trade is an important segment of our economy. In 2006, our import/export trade sector accounted for 21.4% of our Gross Domestic Product (GDP) at current factor cost. As a neighbouring province that maintains the strongest economic ties with Hong Kong, Guangdong's economic restructuring has significant effects on our external trade. In recent years, amidst the aggravating problems such as tight land and energy supplies, labour shortage and environmental pollution issues in the Pearl River Delta (PRD) region, the Guangdong Provincial Government has committed to develop its services sector on the one hand, and to adjust its industrial policy on the other. The share of the services sector in the Guangdong economy has remained rather stable in recent years, at slightly above 40%. Yet the adjustments of its industrial policy have produced considerable effects, leading to the gradual shrinking of light industries which are mostly low-skilled, low value-added and labour intensive. The ratio of light industries to heavy industries in Guangdong changed from 48 : 52 in 2000 to 39 : 61 in 2007. Thus the Guangdong Province has undergone an industrial transformation from light industries to heavy industries.

In a broad sense, heavy industries refer to industries concerning mining and processing of raw materials, including electricity, oil and coal, as well as metal processing, and manufacturing of machinery and equipments. The major characteristic of such industries is that they are along the upstream of a production chain, providing the basis for the development of downstream industries. Heavy industries are capital and technology-intensive industries. According to the statistics of Guangdong Province, in 2006 its heavy industries' per capita industrial value-added (total industrial value-added/total number of persons engaged) was more than double the corresponding figure for light industries, and its heavy industries' ratio of profits before taxation to total industrial output value was also higher than that for light industries by 17%.

As Guangdong undergoes industrial restructuring, its export structure also undergoes adjustment. While its exports of capital goods as well as imports of raw materials and energy have been growing fast, there has been a slowdown in the growth of its exports of consumer goods. Such changes are also partly reflected in the external trade statistics of Hong Kong, the most important entrepot of Guangdong.

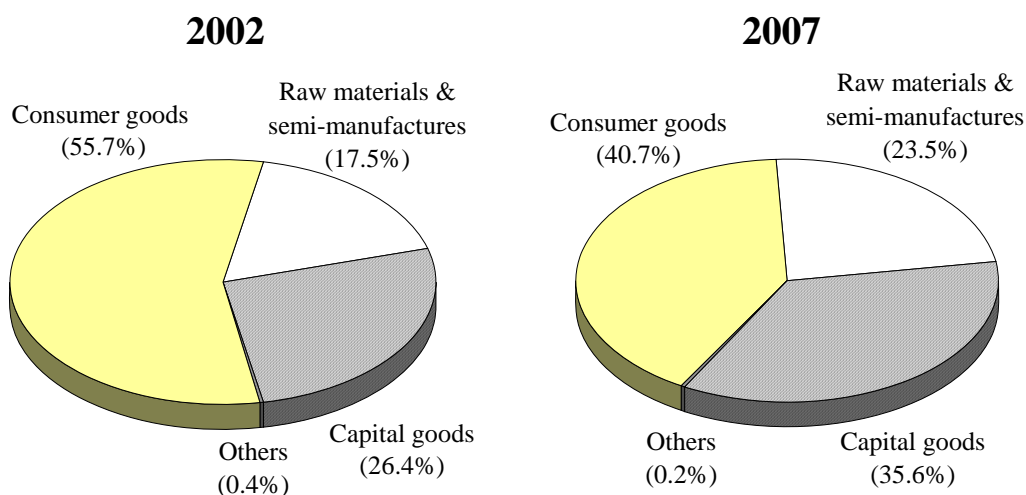
In 2007, exports from Guangdong to Hong Kong accounted for about 76% of Hong Kong's imports from the Mainland, or 35% of Hong Kong's total import value. Analysed by end-use category, the share of capital goods in Hong Kong's re-exports originating from the Mainland increased annually from 26.4% in 2002 to 35.6% in 2007, while the share of consumer goods dropped from 55.7% to 40.7%. The trend reflects in a large part the industrial restructuring in Guangdong over the period.

From the perspective of economic benefits, the rates of re-export margins of consumer goods, capital goods, and raw materials and semi-manufactures from the Mainland were about 27.8% · 22.6% and 15.5% respectively. The margin of consumer goods is the highest, partly because the majority of these goods handled in Hong Kong are manufactured by Hong Kong-owned enterprises in the Mainland. However, owing to the economic restructuring in Guangdong, the growth of consumer goods re-exported through Hong Kong

Box 2.1 (Cont'd)

has recently slowed down and its share has also diminished. This is likely to cause a decline in profits gained from our re-export services for goods coming from Guangdong, meaning that the value added of the re-export trade for the same value of goods has become smaller.

Chart 1 Share of the Mainland products re-exported through Hong Kong by end-use category



Among Hong Kong's exports to the Mainland, 97% of them are re-exports. Statistics by modes of transport on Hong Kong - Mainland trade data show that, roughly, about 70% of Hong Kong's total re-exports to the Mainland are shipped to Guangdong. Against the background of strengthening domestic demand in the Mainland, Hong Kong's re-exports to the Mainland has performed rather well in recent years. However, comparatively speaking, the profits derived from re-exports originating from overseas are much lower than those originated from the Mainland. As an indication, for re-exports of overseas origin, the rates of re-export margins of consumer goods, capital goods as well as raw materials and semi-manufactures are about 11.8%, 9.9% and 5.5% respectively.

Guangdong's economic restructuring has varying impacts on different sectors of Hong Kong. Our external trade and Guangdong's industrial restructuring are closely related. The adjustment in Guangdong's export structure, namely a decrease in the proportion of consumer goods in exports, may lower the value added of our re-exports. Yet at the same time, the industrial restructuring of Guangdong should increase the demand of the PRD region for higher-end services. In particular, the growth of Guangdong's exports of high value-added products would induce Hong Kong's logistics industry to move towards high value-added activities. Reflecting this trend, air cargo as a percentage of Hong Kong's re-export value has surged from 24.4% in 2002 to 31.4% in 2007. Our financial services, professional services and other commercial services should also benefit from the recent economic restructuring of Guangdong.