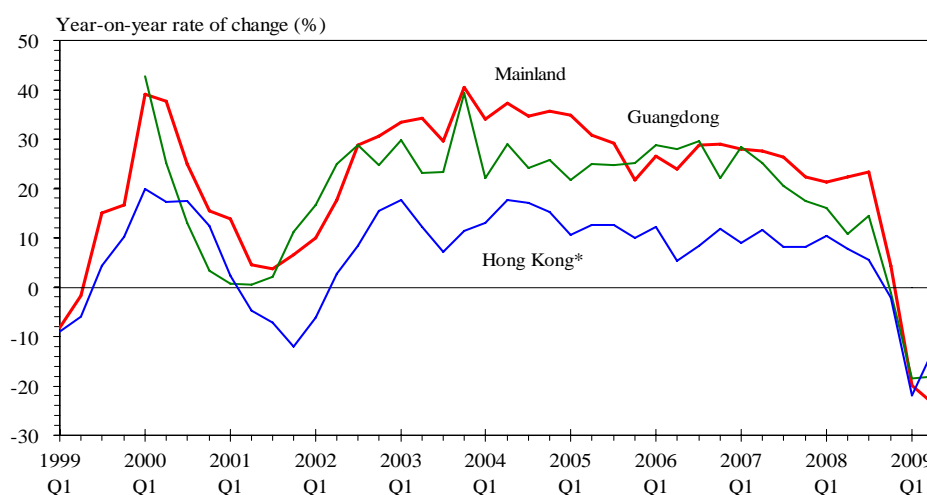


Box 2.1

Merchandise trade performance in Hong Kong, the Guangdong province and the Mainland as a whole

External trade in the Guangdong province or the Mainland as a whole had been vibrant during the past 10 years, with the values of merchandise exports growing by 18.2% and 22.8% per annum respectively, as compared to Hong Kong's per annum increase of 7.7% over the same period. Nevertheless, the performances of such exports all reverted to decline towards the latter end of 2008 and plunged in the beginning months of this year, despite some narrower decline in Hong Kong's exports of goods, particularly so in June, as compared to those in the Guangdong province or the Mainland as a whole in the months of the second quarter (*Chart 1*). This article intends to illustrate the dynamics between the export performances of Hong Kong, Guangdong and the Mainland as a whole.

Chart 1: Merchandise exports performance of Hong Kong, Guangdong and the Mainland as a whole



Note: (*) Hong Kong's merchandise exports refer to total exports of goods.

Hong Kong's total exports of goods saw some relative improvement in the second quarter of 2009, posting a narrower year-on-year rate of decline of 12.9% in value terms as compared to the 21.9% decline in the first quarter (*Table 1*). Exports to some of the major trading partners improved more discernibly, particularly those to the Mainland, with a notably smaller rate of decline of 5.3% in the second quarter as compared to the 23.5% drop in the first quarter (*Table 3*). Thanks to the Mainland's massive fiscal stimulus packages and its accommodative monetary policy, the Mainland's domestic sector held up relatively solid, with the industrial and investment activities picking up in the more recent months. These have provided some support to Hong Kong's total exports. Meanwhile, Hong Kong's exports to some other Asian economies also showed slower rates of decline by varying extents as some short and quick orders returned.

The analysis by the end-use category of Hong Kong's total exports to the Mainland also sheds some light on the relative improvement in the export performance of Hong Kong in recent months. Exports of raw materials and capital goods, which constituted more than 88% of Hong Kong's total exports of goods to the Mainland in 2008, improved notably in the second quarter and even posted a year-on-year increase of 7.3% and 19.6% respectively in June (*Table 4*). This is in line with the Mainland's economic developments mentioned in the previous paragraph.

Box 2.1 (Cont'd)

As for the export activities in the Mainland, they remained sluggish well into the second quarter. In fact, merchandise exports to the major trading partners from Guangdong or the Mainland as a whole plummeted further in the second quarter (*Table 3*). Also, the latest round of hike in export tax rebate to be effective from 1 June 2009 could possibly motivate exporters to put on hold their exports originally scheduled in April and May, and to dispatch only after June so as to capture the new tax benefits. Considering this and the recent pick-up in industrial activities in the Mainland, it is likely to see some improvement in the Mainland and Guangdong's exports in the coming few months, as was observed in the narrower rate of decline in June 2009.

On the flow of merchandise goods by water in particular, Shenzhen's container throughput (as measured by the number of TEUs) expanded visibly in the last decade, with a 10-year average growth rate of 27.1% per annum, as compared to Hong Kong's 5.3% trend growth during the same period. Yet, similar to the development in export performances, Hong Kong's container throughput showed some relative improvement in the second quarter, and fell by a slightly lesser degree than the ports in Shenzhen in the aftermath of the financial tsunami (*Table 2*). This underlines the competitiveness of Hong Kong's port sector in the region amid the global recession, and Hong Kong's resilience of being a regional hub of logistics.

In conclusion, a sustainable recovery in Hong Kong's external trade will hinge much on whether there will be a fundamental improvement in the external environment, which will need several more months of data to confirm. Nevertheless, in the months ahead, the external trade of Guangdong and the Mainland as a whole should see some pick-up in momentum given the improvement in the Mainland's industrial production lately, the return to the expansionary zone of the Purchasing Managers' Index on export orders and the implementation of export tax rebate.

Table 1: Hong Kong, Mainland and Guangdong's export performance
(year-on-year rate of change in value terms (%))

	Hong Kong	Mainland	Guangdong
2009 Q1	-21.9	-19.8	-18.4
Q2	-12.9	-23.5	-18.6
Apr	-18.2	-22.8	-16.1
May	-14.5	-26.5	-21.2
Jun	-5.4	-21.4	-18.0

Table 2: Hong Kong and Shenzhen's container throughput
(year-on-year rate of change (%))

	Hong Kong	Shenzhen
1998-2008 (10 years)	5.3	27.1
2008	2.1	1.5
2008 Q3	7.4	3.5
Q4	-7.6	-10.0
2009 Q1	-19.6	-20.9
Q2	-15.2#	-20.4

Note: (#) Provisional figures.

Box 2.1 (Cont'd)

Table 3: Hong Kong, Mainland and Guangdong's exports by major market
(year-on-year rate of change in value terms(%))

	Hong Kong				Mainland				Guangdong			
	Mainland	US	EU	Japan	HK	US	EU	Japan	HK	US	EU	Japan
2008	4.7	-2.4	6.2	1.2	3.4	8.4	19.5	13.8	3.0	4.5	18.1	11.3
2008 Q1	11.1	-1.0	8.4	-1.9	10.0	5.4	24.2	12.2	8.3	4.8	32.6	11.5
Q2	7.7	-1.5	8.0	-0.6	6.4	12.1	29.6	17.7	7.3	6.3	23.9	10.8
Q3	3.8	0.5	9.9	3.5	10.8	15.3	23.4	17.9	10.4	11.8	21.8	12.2
Q4	-2.0	-7.5	-0.6	3.7	-10.9	0.7	3.9	7.8	-11.1	-4.6	1.2	10.5
2009 Q1	-23.5	-20.9	-18.1	-13.3	-24.6	-14.9	-22.1	-16.2	-24.4	-15.5	-21.5	-16.9
Q2	-5.3	-21.5	-21.4	-17.7	-21.7	-18.6	-26.6	-23.8	-23.2*	-14.9*	-22.3*	N.A.
Apr	-12.5	-24.7	-24.6	-19.0	-21.4	-17.7	-27.6	-23.5	-20.7	-12.3	-22.9	-19.2
May	-10.8	-15.7	-21.0	-20.9	-25.6	-21.2	-29.2	-26.0	-28.0	-16.9	-24.8	-18.8
Jun	9.3	-23.7	-19.1	-13.0	-17.9	-16.6	-23.0	-21.7	-21.1*	-15.9*	-22.4*	N.A.

Notes: (*) Provisional figures

N.A. Not available

Table 4: Hong Kong's exports to the Mainland by end-use category
(year-on-year rate of change in value terms (%))

	Raw Materials	Capital goods	Consumer goods	Foodstuffs	Fuels
2008	0.8	9.5	5.4	47.4	21.5
2009 Q1	-21.1	-26.9	-23.1	-16.9	-40.1
Q2	-5.4	-1.3	-15.9	-15.9	-38.8
Apr	-11.6	-10.9	-21.0	-18.7	-35.3
May	-10.2	-8.7	-17.3	-20.3	-54.4
Jun	7.3	19.6	-8.6	-8.1	-18.1

Note: Raw material accounted for 52.3% of Hong Kong's exports to the Mainland in 2008, followed by capital goods (36.4%); consumer goods (9.7%); foodstuffs (1.1%) and fuels (0.4%).