

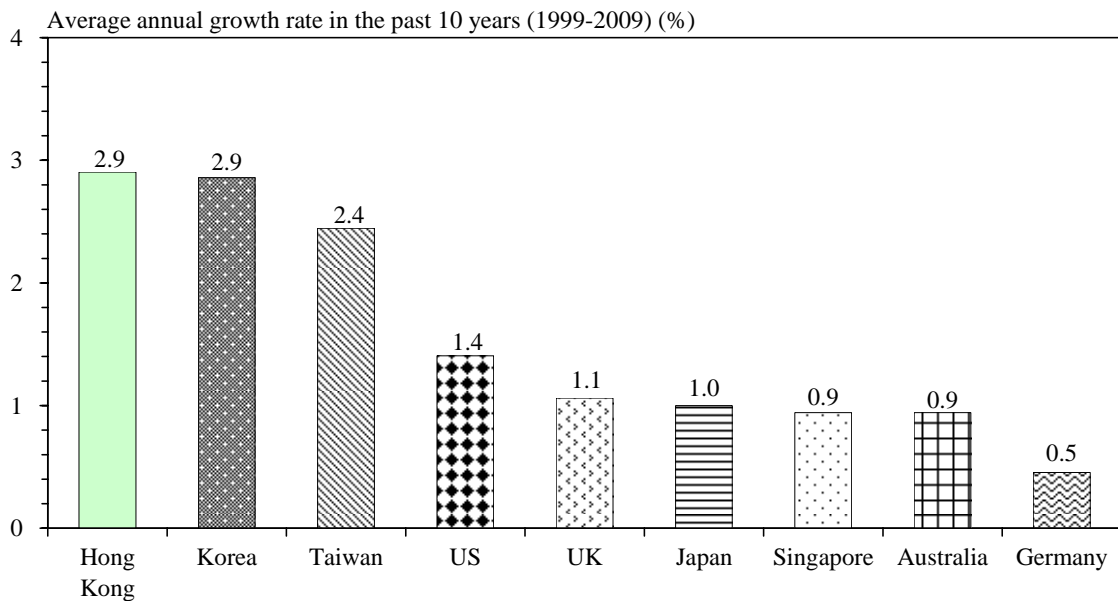
Box 1.1

Overall productivity growth in Hong Kong and selected economies

Economic growth can be broadly decomposed into two components, namely the increase in the employed population and the productivity growth of the employed persons. In the longer run, the former component is dependent on demographic and migration trends. As for the latter, the underlying growth depends on a string of factors, including technological progress, capital deepening and widening, better institutional arrangements, as well as improved quality of workers. Productivity growth is an important driving force for raising the living standards of an economy over the longer run. It is also a key indicator of the overall competitiveness of an economy, reflecting the efficiency of its economic system and the effectiveness of its economic policies.

This article provides an update of the analysis of Hong Kong’s productivity in *Box 1.1* of the *2006 Economic Background and 2007 Prospect*. *Chart 1* gives a comparison of the average annual growth rates of overall productivity over the past ten years (1999-2009) in Hong Kong (as measured by an economy’s real GDP per employed person) with those in selected advanced economies as well as other Asian economies at a stage of development similar to Hong Kong. Under the period of comparison, Hong Kong’s productivity growth compared favourably with these economies, and actually outperformed the more advanced economies by a considerable margin. Over the past ten years, the Hong Kong economy endured a series of shocks, including the bursting of the global IT bubble in 2000, the eruption of SARS in 2003, and the Great Recession of 2008-2009 triggered by the global financial tsunami. Despite these adverse developments, Hong Kong still attained an admirable trend growth in overall productivity, at 2.9% per annum over the past ten years.

Chart 1: Hong Kong’s overall productivity growth outpaced many other advanced economies



Box 1.1 (Cont'd)

The underlying growth momentum of Hong Kong's overall productivity was well maintained over the past ten years. The trend growth attained over this period was even higher than that of 2.2% per annum in the preceding ten years (1989-1999). An important contributory factor to this sustained fast pace of growth is the significant economic restructuring that Hong Kong has been undergoing. By capitalizing on the ample opportunities arising from the opening up and economic reform in the Mainland, the Hong Kong economy has been constantly moving towards higher-value-added, knowledge-based activities. Over the past decade or so, the integration with the Mainland has been brought to new heights. The signing and implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) since 2003 and its subsequent Supplements have accelerated the pace of such integration. This has enabled Hong Kong to make better use of its comparative advantages, go further up the value chain, and engage in such high value-added activities as financial and professional services.

To support the productivity growth in Hong Kong, the Government has all along assumed a pro-active role in investing in infrastructure to enlarge the production capacity of the economy, as well as in education, training and retraining to raise the quality of Hong Kong's labour force (See *Box 1.2* of the *2007 Economic Background and 2008 Prospect* on the importance of human capital to productivity growth). This, together with the Government's continuous efforts to further integration with the Mainland (*paragraph 1.18*) and enhance links with other emerging markets, should augur well for the productivity growth in Hong Kong over the medium to longer term. Faster productivity growth will not only enable a more rapid pace of economic expansion, but also help to contain the pressures on costs and prices. The latter effect is also of importance in forestalling the risk of higher inflation in the coming years.