

Box 2.3

Structural transformation of the Mainland economy

With the Mainland economy entering a state of “new normal”, all eyes are on the direction and pace of its restructuring, which is considered as the key driving force for the Mainland’s sustainable and steady growth. This note outlines the structural transformation of the Mainland economy since 2004 and its implications for the development of Hong Kong economy.

The composition of aggregate demand in the Mainland economy has been evolving over the past decade or so. During 2004-08, the Mainland economy was growing apace at an average rate of 11.6% per annum, with the external sector developing rapidly to support the overall economy. During the Global Financial Crisis, the demand for the Mainland’s exports, however, shrank remarkably as the global economy slackened distinctly. In response, the Central Government launched a massive investment programme to boost domestic demand. As a result, the contribution to economic growth from investment expenditure increased notably in 2009-10, and the overall economy also maintained an average growth of 10.0% per annum over the same period. In the subsequent period from 2011 to 2015, the contribution to growth from investment expenditure declined. Meanwhile, with domestic consumption continuing to fare well, final consumption expenditure remained a solid anchor to the overall economy. Its contribution to economic growth rose progressively from 46% during 2004-08 to 55% during 2011-15. In the first half of 2016, the contribution even surged to 73%, becoming the key driver and stabiliser of economic growth under the “new normal” (*Chart 1*).

Chart 1: Mainland’s economic growth gradually led by consumption expenditure

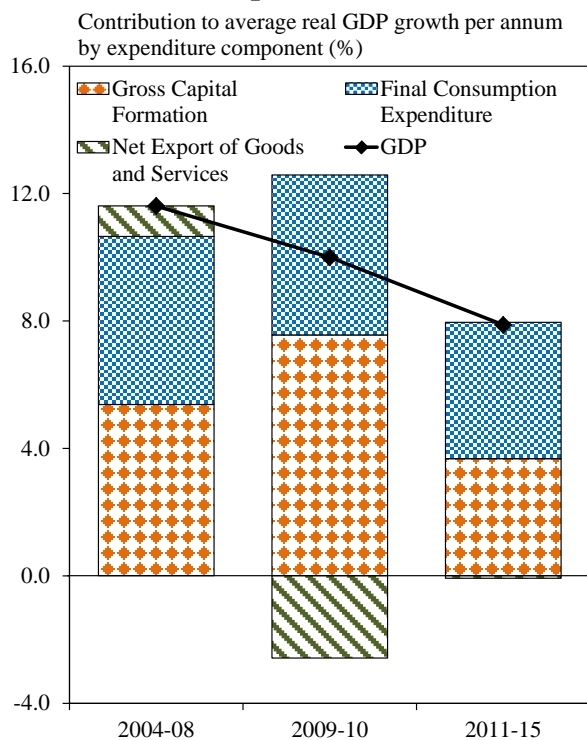
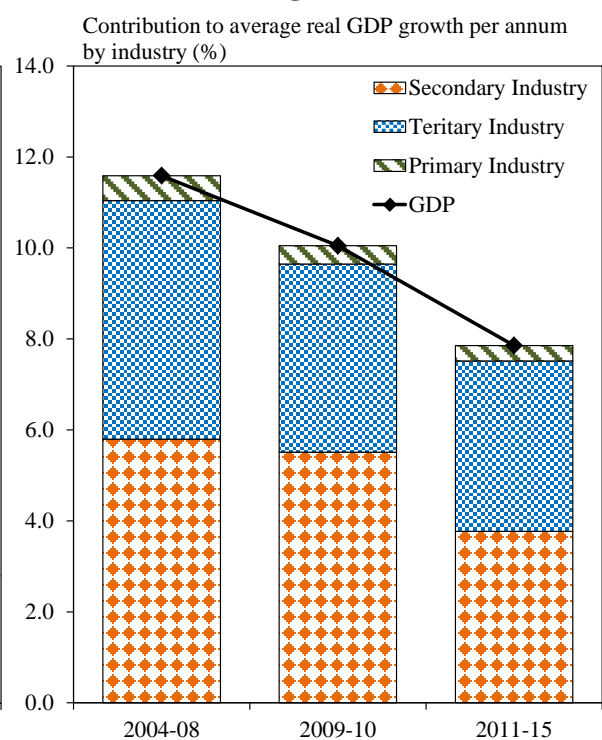


Chart 2: Growing significance of services sector in the contribution to economic growth

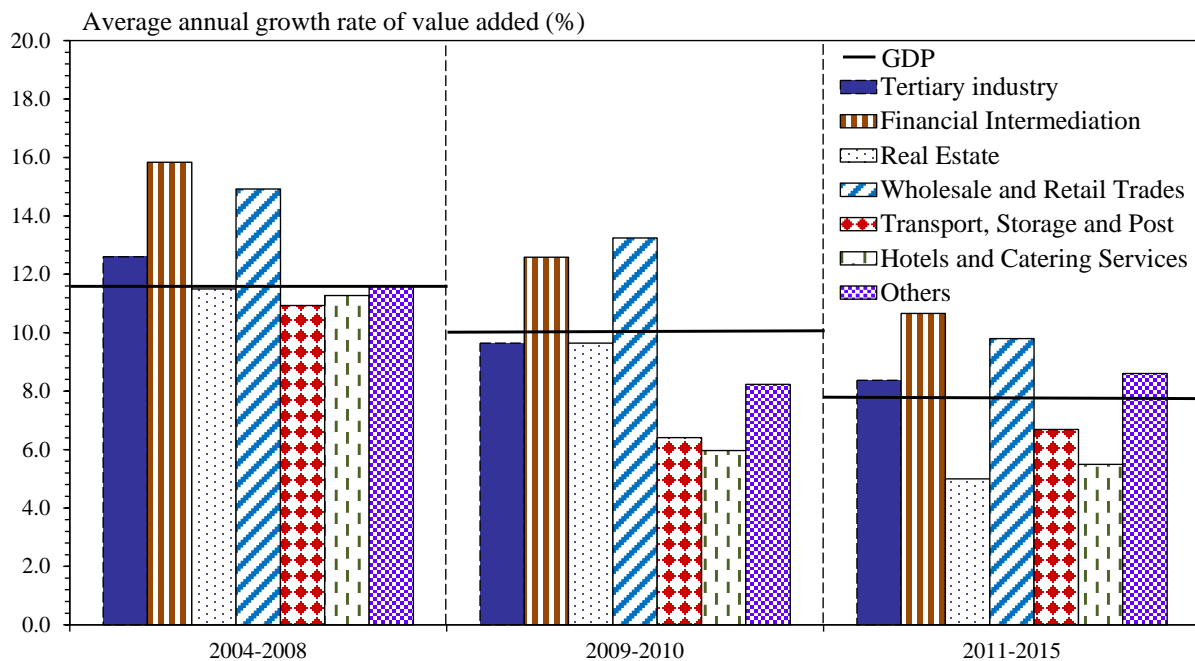


Box 2.3 (Cont'd)

The Mainland's sectoral structure also shows notable changes. Despite the prominence of the secondary industry in the Mainland economy all along, the Mainland's industrial sector slackened in the more recent years, dragged by overcapacity in certain sectors, weak export demand and rising labour costs, etc. Hence, the contribution to economic growth from secondary industry moderated from 55% in 2009-10 to 48% during 2011-15. On the other hand, the general increase in income of Mainland residents pushed up the demand for consumption services, whereas the industrial upgrading and restructuring drove the development of high-end services sector. Therefore, the tertiary industry remained relatively resilient, with its contribution to economic growth rising from 41% in 2009-10 to 48% during 2011-15 (*Chart 2*). As the Mainland's sectoral restructuring continued, the share of tertiary industry's value added in GDP had exceeded that of the secondary industry since 2013, and went beyond half of the overall GDP at 50.2% last year. This development trend was even more notable in the first half of 2016, with the contribution of tertiary industry to economic growth soaring further to 60% and the share of its value added in GDP reaching 54%.

As illustrated in *Chart 3*, the tertiary industry posted appreciable growth. Except for certain brief periods, the services sector expanded steadily over the past decade or so, at a rate faster than the overall economic growth. Financial intermediation and wholesale and retail trades industries were the key drivers of growth. The rapid growth of financial intermediation industry was conceivably related to the Mainland's ongoing financial reform as well as its opening up, while the wholesale and retail trades industry was mainly underpinned by the solid growth in domestic consumption.

Chart 3: Solid growth was seen in the tertiary industry, particularly in financial intermediation and the wholesale and retail trades industries



Box 2.3 (Cont'd)

The compositional changes in the Mainland's economic growth since 2004 have shed light on the rebalancing of the Mainland economy towards a more consumption-driven and service-oriented growth model. This helps achieve a more balanced and sustainable development of the Mainland economy and cushion the impacts from the volatile external sector, boding well for the long-term economic development of Hong Kong as well as the world. Meanwhile, the structural transformation of the Mainland economy has also offered numerous development opportunities to Hong Kong. Indeed, after years of strengthening in economic and trade co-operation between the Mainland and Hong Kong under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), the basic liberalisation of trade in services was in effect starting from June this year, allowing Hong Kong services providers to leverage their own experience and strengths to expand their presence in the Mainland market while assisting sectoral upgrading in the Mainland. This will create more development and employment opportunities, bringing about mutual benefits to both places.

Looking ahead, the Mainland is bound to continue with the structural transformation on its way to become a high-income economy. Given the continuous income growth of Mainland residents, coupled with various policies to encourage consumption, domestic consumption looks set to sustain its growth momentum. On the production front, services sector has become the mainstay of the Mainland economy, and its development will be further aided by various initiatives under the National 13th Five-year Plan, such as the promotion of industrial upgrading as well as innovation and entrepreneurship. The sustained expansion of the Mainland's services sector and its domestic consumption market will surely create more development opportunities for various sectors of Hong Kong.