

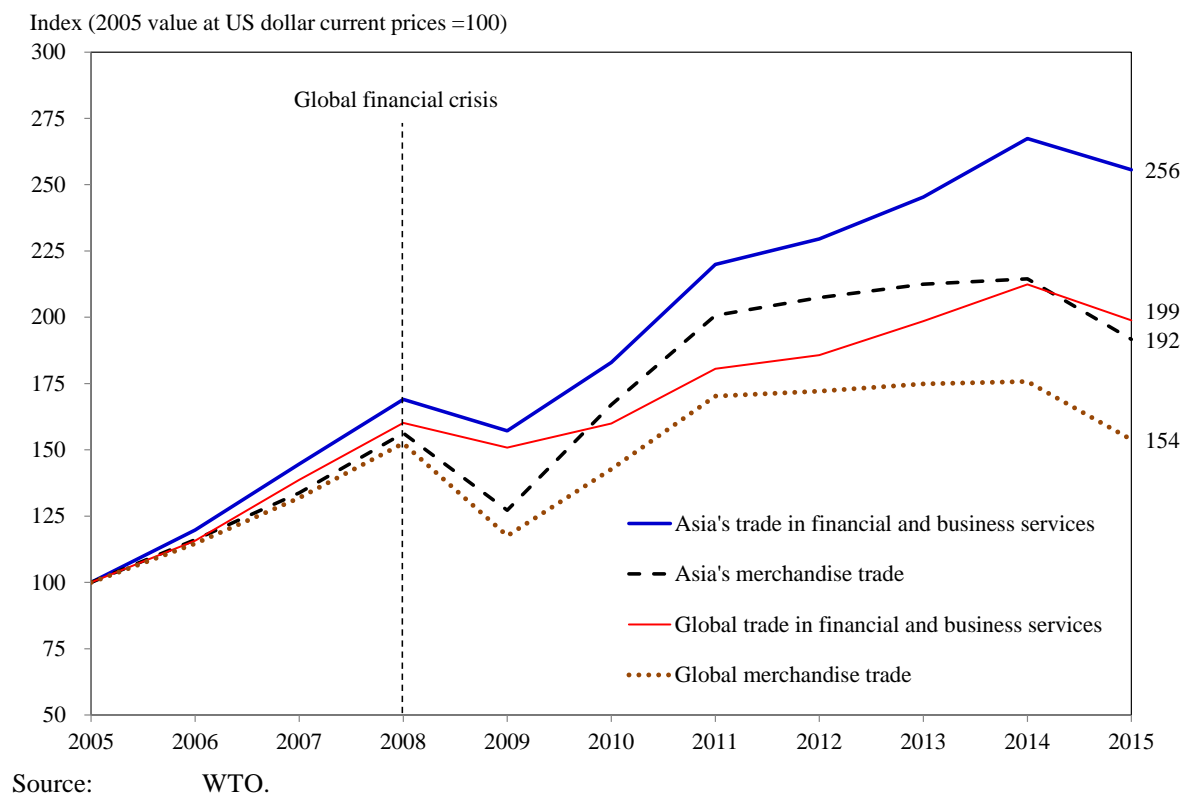
### Box 3.1

#### The performance of financial and business services trade in Asia in recent years

As part of the global trend, Asia's trade in financial and business services grew solidly in the past decade, outpacing Asia's merchandise trade. As an international financial and business hub in the region, Hong Kong's economic development should benefit from the growth in Asia's services trade. This box article briefly reviews the robust performance of financial and business services trade in Asia in recent years and analyses briefly its possible implications for Hong Kong.

Trade in financial and business services<sup>(1)</sup> encompasses services trade in a wide range of areas such as finance, telecommunications, computer and information, insurance and pension, law, accounting, advertising, architecture, engineering and management consulting. The value of Asia's financial and business services exports and imports together amounted to around US\$1.1 trillion<sup>(2)</sup> in 2015, accounting for about 41% of Asia's total services trade flows. The cumulative growth of such services trade in Asia was remarkable, reaching 156% during 2006-2015 in value terms, which outperformed notably the corresponding growth of 99% for its global counterpart and that of 92% for Asia's merchandise trade (*Chart 1*).

**Chart 1: Trade in financial and business services outperformed merchandise trade**



- (1) The figures on services trade in this note are compiled based on the World Trade Organisation (WTO) dataset of "Trade in commercial services, 2005-onwards (BPM6)" as well as the data from Census and Statistics Department. The "financial and business services" as defined in this note refers to the category "other commercial services" in the WTO dataset, which is the residual category after excluding "transport", "travel" and "goods-related services" from the total commercial services trade. This category includes financial services, telecommunications, computer and information services, insurance and pension services, charges for the use of intellectual property, construction, personal, cultural and recreational services, government goods and services as well as a component named "other business services".
- (2) The aggregate data for "Asia" in this box article follow the definition under the WTO database.

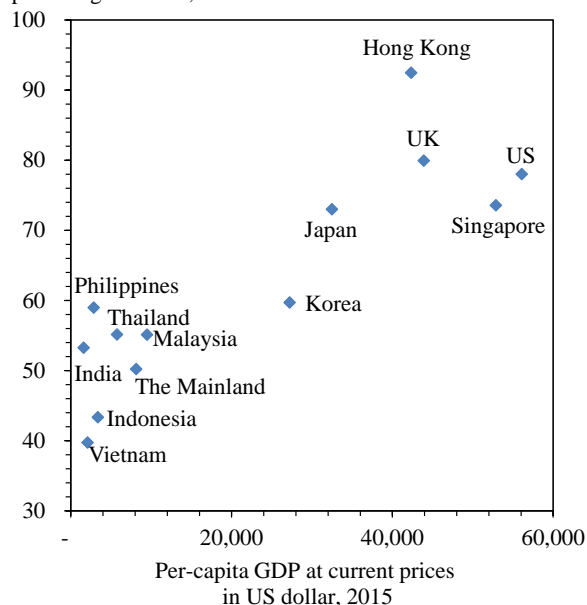
**Box 3.1 (Cont'd)**

From the broader macro perspective, Asian economies as a whole gained importance in the past decade as a main source of imports of financial and business services, accounting for 24% of the global total in 2015, up from 20% in 2005. The scale of imports of these services varies across Asian economies, depending on such factors as economic size and stage of developments. Japan and the Mainland are the biggest importers, accounting for 20% and 18% respectively of Asia's total in 2015. Other emerging markets economies are also important. ASEAN's and India's imports together accounted for roughly 37% of the total and experienced notable growth in the recent past.

**Chart 2: Increasing service orientation and improved connectivity in Asia were favourable for growth in trade in financial and business services**

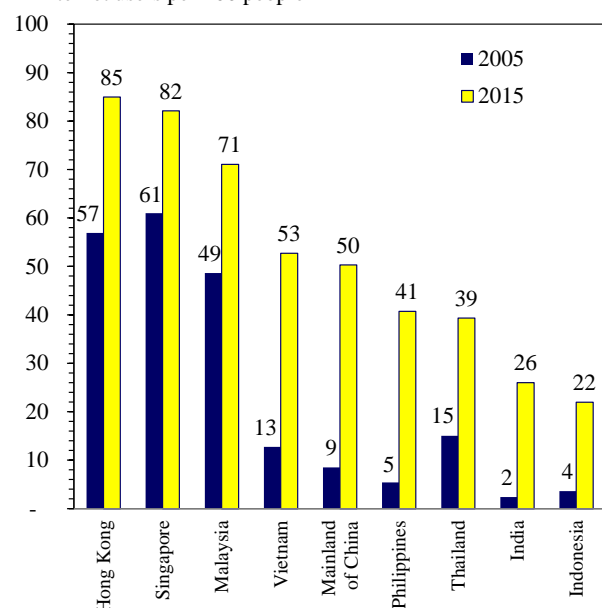
**Chart 2a: The share of services in GDP generally showed positive correlation with per-capita income**

Value added of services as a percentage of GDP, 2015<sup>^</sup>



**Chart 2b: Internet accessibility has increased visibly among Asian economies in the past decade**

Internet users per 100 people



Note: (^) For Japan and the US, the latest data for “value added of services as a percentage of GDP” from the World Bank are as of 2014.

Sources: World Bank, the International Monetary Fund and Census and Statistics Department.

The growing demand for financial and business services in Asia was driven by a variety of factors, in part an embodiment of the increasing service orientation in the region as their economies become more mature. As shown in **Chart 2a**, the share of GDP contributed by the services sector generally showed positive correlation with the stage of developments. Along with solidly rising income levels, the share of services sector in GDP rose in many Asian economies between 2000 and 2015. Specifically, according to World Bank's figures, the value added of services accounted for around 50% of GDP in 2015 in the Mainland, visibly higher than that of 40% in 2000. Even for the more developed economies such as Singapore, the share of services also grew from 65% in 2000 to 74% in 2015. Rising income and continued economic rebalancing towards the services sector in Asia present growing opportunities for services trade and division of labour in the region.

Other favourable factors have also been at play. For instance, massive investments in infrastructure in transports and communication in Asia enhanced connectivity in the region, making provision of business services over a long distance at reasonable costs and speed plausible. As an illustration, internet accessibility in emerging markets in Asia rose notably in the recent past, a fundamental trend propelling the prosperity of e-commerce (**Chart 2b**).

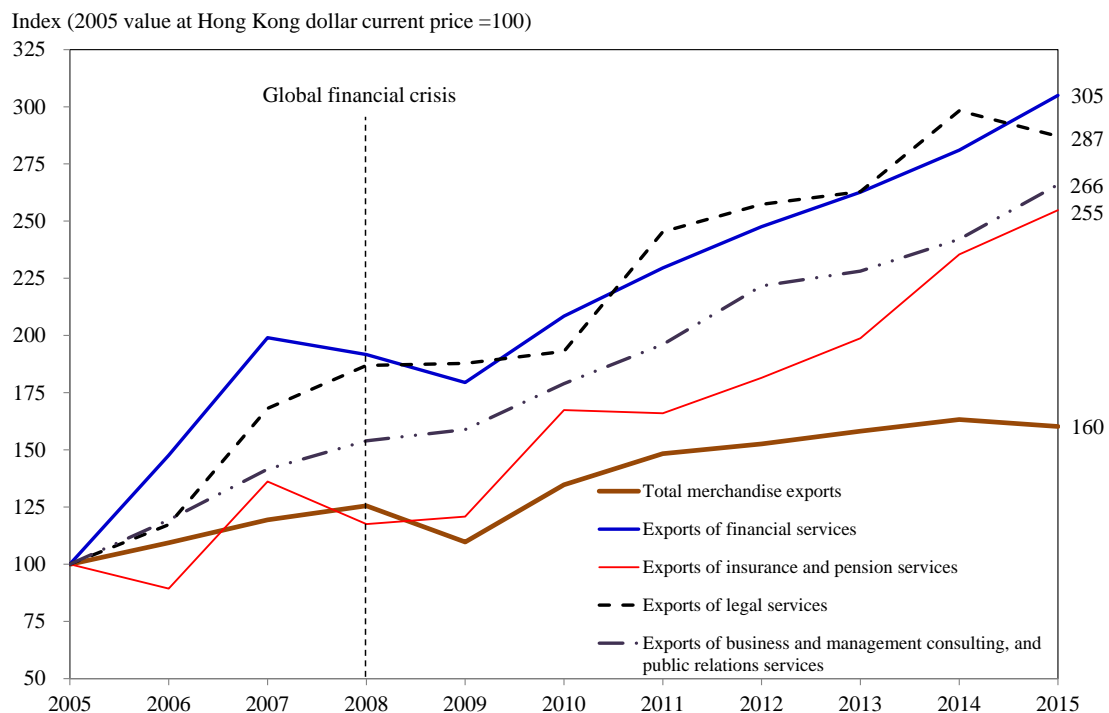
**Box 3.1 (Cont'd)**

For the developments in financial services trade in particular, the increasing affluence and the ageing population in many Asian economies have prompted a rise in savings. Consequently, the demand for financial services, such as asset management, also rose in tandem. Besides, the capital markets of major economies in the region have become more open, fueling the appetite of savers to diversify their portfolio to different markets as well as the demand of companies for cross-border fund-raising services. For instance, with the continued opening up of the Mainland's economy, its imports of financial services in 2015 were more than 16 times of those in 2005, when measured in US dollar terms. Notable growth was also observed in other emerging markets such as India, whose imports of financial services in 2015 were 3.6 times of those in 2005.

With strong competitive edges in services trade, Hong Kong has benefited from these favourable developments. During 2006-2015, the cumulative growth of Hong Kong's exports of financial, business and other services (i.e. exports of services after excluding transport and travel services) was 99% in real terms or 131% in value terms, outperforming the corresponding growth of 26% and 60% in merchandise exports by wide margins, and the extent of outperformance was even more notable after the global financial crisis. More recently, amid a difficult global economic environment during most of 2016, the export performance of these services was relatively sluggish. Exports of these services reached HK\$292.1 billion in 2016, accounting for 38% of Hong Kong's total services exports.

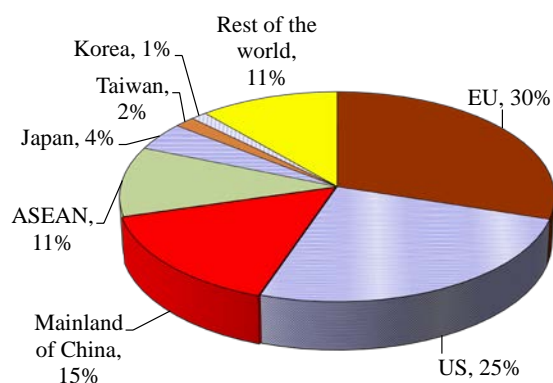
The data on the more detailed breakdown of financial, business and other services exports in Hong Kong are available only up to 2015. Among the major components, exports of financial services are the largest, accounting for almost half of the total, and grew strikingly by 205% in value terms during 2006-2015 (*Chart 3*). Typical examples in this trade include financial assets dealing and broking services; underwriting new securities; asset management, investment advisory and related services. Exports of insurance and pension services also stood out in performance, having grown by 155%. As an international business hub, with a strong competitive edge in professional services, exports of business and management consulting and public relations services, as well as legal services, likewise showed remarkable cumulative growth of 166% and 187% respectively over the period.

**Chart 3 : Hong Kong's exports of financial and selected professional services outperformed merchandise exports in the past decade**

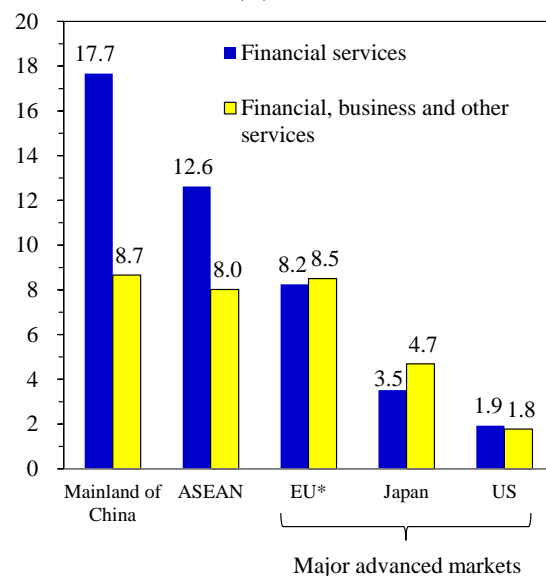


**Box 3.1 (Cont'd)**

Analysing Hong Kong's exports of financial, business and other services by market, the US and the EU are still the most important, accounting for more than half of these exports (*Chart 4a*). However, given the slow recovery of major advanced markets after the global financial crisis, Hong Kong's exports of financial services to Japan and the US grew moderately by 3.5% and 1.9% per annum respectively in value terms during 2009-2015. The EU market fared better with 8.2% per annum growth during the same period. In stark contrast, our exports of financial services to the Mainland and ASEAN markets grew much faster by 17.7% and 12.6% per annum respectively during 2009-2015 (*Chart 4b*), reflecting the notable progress in financial developments in the region as well as the shift in the global economic gravity to the East. In consequence, developing Asian markets featured more prominently in our exports of financial, business and other services, with the Mainland accounting for 15% of the total in 2015 and ASEAN accounting for another 11%.

**Chart 4 : Hong Kong's exports of financial, business and other services by destination****Chart 4a: Share of exports of financial, business and other services by destination in 2015****Chart 4b: Developing Asian markets outperformed major advanced markets after the global financial crisis**

Average annual growth rate of exports in value terms, 2009-2015 (%)



Note: (\*) Geographical coverage of the EU was changed in 2013, with Croatia joining the EU.

In summary, trade in financial, business and other services has become increasingly important in international trade flows. The developments in Asia have been particularly buoyant, boosted by solid Asian economic growth, their increasing service orientation and other factors such as improving connectivity over time and financial market liberalisation. The vitality of Asia's services trade should continue to bring opportunities to Hong Kong's services sector, given our competitive edges in financial and other high-end business services. A more proactive role has also been assumed by the Government. Economic and financial integration between Hong Kong and the Mainland, including the recent launch of the Shenzhen-Hong Kong Stock Connect, would bring mutual benefits to the two places. The HK\$200 million Professional Services Advancement Support Scheme, announced in last year's Policy Address and launched in November 2016, is another policy measure to facilitate exchanges and co-operation of the professional services sector with their counterparts in overseas markets. The Government will continue to strengthen economic collaboration with our major trading partners in Asia to increase market access for our service suppliers.