

**Box 1.2****Hong Kong's competitiveness in selected aspects**

Hong Kong's competitiveness is frequently discussed in the media. What is competitiveness of an economy? Is the Hong Kong economy competitive? This box article first outlines the views of academics and government agencies on the concept of competitiveness, as well as how international research institutes measure competitiveness. This is then followed by a discussion on Hong Kong's relative strengths and weaknesses as highlighted by competitiveness reports benchmarking economies worldwide.

**The concept of competitiveness**

The discussion on competitiveness of economies became more prevalent towards the end of the 20<sup>th</sup> century. Yet there were debates among academics about whether competitiveness of an economy can be defined and if there are precise ways to gauge it. Paul Krugman, a Nobel Prize winner, was cautious about considering the concept of competitiveness at the economy level. He found it problematic to draw an analogy between economies and firms, given that economies were not competing in a zero-sum game as firms did since an economy can create positive spill-overs for other economies. Meanwhile, Michael Porter, a professor at Harvard University and pioneer in studying competitive advantages, stipulated that an economy with a business-friendly environment supporting firms to compete efficiently and fairly in local and global markets make up an economy's competitiveness. Nonetheless, both concurred that productivity was the driving force behind economic growth.

From time to time, government agencies also published studies on competitiveness. While many of these studies narrowed their scopes down to particular aspects of their respective economy, they generally linked productivity with competitiveness. For instance, the US' "The competitiveness and innovative capacity of the United States" report remarked that "the concepts of productivity and competitiveness often go hand in hand". The above US' report together with other reports by the European Commission<sup>(1)</sup>, the UK<sup>(2)</sup> and Ireland<sup>(3)</sup> attempted to assess competitiveness through a range of productivity drivers in a broad manner and identify ways to increase the competitiveness of their economy. Their objectives, in general, were to attain economic and wage growth, which would lead to better well-being of people and sustainable development.

**Benchmarking competitiveness**

Some international research institutes have developed frameworks to systematically assess and rank the competitiveness of economies worldwide, using a wide portfolio of quantitative and qualitative indicators. The International Institute for Management Development's World Competitiveness Yearbook (WCY) and the World Economic Forum's Global Competitiveness Report (GCR) are widely quoted. Both of them have over 20 years of publication and cover a wide spectrum of aspects with transparent methodology.

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(1) European Commission. "Competitiveness proofing". Retrieved from the European Commission website.

(2) UK Department for Business Innovation and Skills. (2012). "Benchmarking UK Competitiveness in the Global Economy". *BIS Economics Paper No. 19*.

(3) Irish National Competitiveness Council. (2016). "Review of Competitiveness Frameworks".

**Box 1.2 (Cont'd)**

There are differences in WCY's and GCR's frameworks, but the aspects covered are largely comparable. The WCY defines competitiveness as "the extent to which an economy fosters an environment where enterprises can achieve sustainable growth, generate jobs and, ultimately, increase welfare". It includes 20 sub-factors under four competitiveness factors. The GCR presents competitiveness as "the set of institutions, policies and factors that determine the level of productivity of an economy". It covers 12 pillars grouped under four components. Despite the differences, many aspects are common in both frameworks, namely institutions, fiscal health, basic infrastructure, trade and investment regime, market size, business environment, financial system, healthcare, human capital, labour market, ICT infrastructure, and innovation capacity (*Table 1*). Aspects not considered by GCR or with lower weighting include societal framework, productivity and efficiency, and attitudes and values of the economy.

**Table 1: Common aspects in WCY 2019 and GCR 2019**

<u>Aspects</u>	<u>WCY 2019 sub-factors</u>	<u>GCR 2019 pillars</u>
Institutions	- Institutional framework	- Institutions
Fiscal health	- Public finance - Tax policy	- Macroeconomic stability
Basic infrastructure	- Basic infrastructure	- Infrastructure
Trade and investment regime	- Business legislation - International trade - International investment	- Product market
Market size	- Domestic economy	- Market size
Business environment	- Business legislation - Management practices - Tax policy	- Business dynamism
Financial system	- Finance	- Financial system
Healthcare	- Health and environment	- Health
Human capital	- Education	- Skills
Labour market	- Labour market - Employment	- Labour market
ICT infrastructure	- Technological infrastructure	- ICT adoption
Innovation capacity	- Scientific infrastructure	- Innovation capability

Note: Some sub-factors include indicators related to more than one aspect and thus may appear more than once.

**Hong Kong's competitiveness among global economies**

Hong Kong was ranked 2<sup>nd</sup> globally in the WCY 2019 and 3<sup>rd</sup> in the GCR 2019, vividly reflecting the recognition of Hong Kong's competitiveness on the international stage in overall terms. As for different aspects, Hong Kong was generally ranked high in institutions, fiscal health, basic infrastructure, trade and investment regime and financial system (*Table 2*).

**Table 2: Hong Kong's strengths in WCY 2019 and GCR 2019**

<u>Aspects</u>	<u>WCY 2019 sub-factors</u>		<u>GCR 2019 pillars</u>	
Institutions	- Institutional framework	8 <sup>th</sup>	- Institutions	5 <sup>th</sup>
Fiscal health	- Public finance - Tax policy	1 <sup>st</sup> 2 <sup>nd</sup>	- Macroeconomic stability	1 <sup>st</sup>
Basic infrastructure	- Basic infrastructure	3 <sup>rd</sup>	- Infrastructure	3 <sup>rd</sup>
Trade and investment regime	- Business legislation - International trade - International investment	1 <sup>st</sup> 4 <sup>th</sup> 4 <sup>th</sup>	- Product market	1 <sup>st</sup>
Financial system	- Finance	1 <sup>st</sup>	- Financial system	1 <sup>st</sup>

**Box 1.2 (Cont'd)**

At the same time, the two reports shed light on areas where Hong Kong needs to catch up. These include our market size, human capital, and innovation capacity. That being said, some of these assessments may not be adequately reflecting the uniqueness of Hong Kong's situation. As a small economy, our domestic market size is inherently small. However, our free trade regime and preferential treatments for accessing the Mainland market under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), coupled with opportunities arising from the Greater Bay Area development and the Belt and Road initiative should help but were not taken into account. Besides, our Government expenditure on education is deemed low in terms of percentage of GDP given our low tax rate, but it is arguable if the quality of education should be measured by expenditure (*Table 3*).

**Table 3: Hong Kong's weaknesses in WCY 2019 and GCR 2019**

<u>Aspects</u>	<u>WCY 2019 sub-factors</u>		<u>GCR 2019 pillars</u>	
Market size	- Domestic economy	18 <sup>th</sup>	- Market size	28 <sup>th</sup>
Human capital	- Education	16 <sup>th</sup>	- Skills	20 <sup>th</sup>
Innovation capacity	- Scientific infrastructure	23 <sup>rd</sup>	- Innovation capability	26 <sup>th</sup>

Apart from the above, our rankings in business environment, healthcare, labour market, and ICT infrastructure appear to be rather different in the two reports. The divergences stemmed largely from the different choice and/or source of indicators. For instance, GCR solely assesses life expectancy under its "health" pillar, while WCY also looks into environmental issues. These may also reflect the somewhat different focus of the two reports (*Table 4*).

**Table 4: Hong Kong's aspects with different results in WCY 2019 and GCR 2019**

<u>Aspects</u>	<u>WCY 2019 sub-factors</u>		<u>GCR 2019 pillars</u>	
Business environment	- Business legislation	1 <sup>st</sup>	- Business dynamism	15 <sup>th</sup>
	- Management practices	3 <sup>rd</sup>		
	- Tax policy	2 <sup>nd</sup>		
Healthcare	- Health and environment	20 <sup>th</sup>	- Health	1 <sup>st</sup>
Labour market	- Labour market	6 <sup>th</sup>	- Labour market	7 <sup>th</sup>
	- Employment	17 <sup>th</sup>		
ICT infrastructure	- Technological infrastructure	18 <sup>th</sup>	- ICT adoption	3 <sup>rd</sup>

As a result, different indicators and weightings assigned may produce different assessments on Hong Kong's competitiveness. This reflects the complexity in assessing competitiveness as competitiveness itself is not well-defined. Nonetheless, the two highly regarded competitiveness reports have both rated Hong Kong as one of the most competitive economies in the world. Our core strengths rest with our fine tradition of the rule of law; a simple tax regime and low tax rates; an efficient public sector; high-quality infrastructure; open and flexible markets; a business-friendly environment with a level playing field and a vibrant financial services sector. Meanwhile, the Government is also working hard to nurture talent and promote innovation and technology, in order to provide a more favourable environment for Hong Kong's long-term economic development.