

# Economic and Trade Information on Hong Kong

2018/05/15

Source: HKTDC

- Hong Kong's economy expanded by 4.7% year-on-year in real terms in the first quarter of 2018, after growing by 3.8% in 2017. The Government maintained its forecast for Hong Kong's real GDP growth at 3-4% in 2018.
- The value of retail sales, in nominal terms, increased by 14.3% year-on-year in January-March 2018, after the growth of 2.2% for 2017.
- The labour market conditions remain tight. The seasonally adjusted unemployment rate was 2.9% for the three-month period ending March 2018, compared with 3.1% for 2017.
- Consumer prices grew 2.4% year-on-year in January-March 2018, after increasing by 1.5% for 2017. The Government forecasts Hong Kong's consumer price to increase by 2.2% in 2018.
- Hong Kong's merchandise exports increased by 9.7% year-on-year in January-March 2018, after a notable growth of 8% in 2017.

## Major Economic Indicators

	2015	2016	2017	Latest
Population, Mid-year (million)	7.29	7.34	7.39	
Gross Domestic Product (US\$billion)	307.5	319.3	341.4	87.9 <sup>a</sup>
GDP Per Capita (US\$)	42,200	43,500	46,200	
Real GDP Growth (%)	+2.4	+2.1	+3.8	+4.7 <sup>b</sup>
Inflation (% Change In Composite CPI)	+3.0	+2.4	+1.5	+2.4 <sup>b</sup>
Unemployment Rate (%)	3.3	3.4	3.1	2.9 <sup>c</sup>
Retail Sales Growth (%)	-3.7	-8.1	+2.2	+14.3 <sup>b</sup>
Visitor Arrival Growth (%)	-2.5	-4.5	+3.2	+9.6 <sup>b</sup>

<sup>a</sup> January-March 2018; <sup>b</sup> year-on-year change in January-March 2018; <sup>c</sup> seasonally adjusted, January-March 2018.

## Merchandise Trade Performance

(in nominal terms)	2016		2017		January-March 2018	
	US\$billion	Growth %	US\$billion	Growth %	US\$billion	Growth %
Total Exports	460.0	-0.5	496.9	+8.0	120.9	+9.7
Domestic Exports	5.5	-8.5	5.6	+1.4	1.3	-2.6
Re-exports	454.5	-0.4	491.3	+8.1	119.6	+9.9
Imports	513.9	-0.9	558.6	+8.7	137.6	+10.6
Total Trade	973.9	-0.7	1,055.5	+8.4	258.5	+10.2
Trade Balance	-53.9	N/A	-61.7	N/A	-16.7	N/A

## Service Trade Performance

(in nominal terms)	2016		2017		January-March 2018	
	US\$billion	Growth %	US\$billion	Growth %	US\$billion	Growth %
Exports	98.5	-5.5	104.1	+6.1	29.5	+13.1
Imports	74.5	+0.7	77.0	+3.9	19.8	+9.9
Total Trade	173.0	-2.9	181.1	+5.1	49.3	+11.8
Trade Balance	24.0	N/A	27.1	N/A	9.7	N/A

## Current Economic Situation

- The world's freest economy
- The world's most services-oriented economy, with services sectors accounting for more than 90% of GDP
- The world's second largest host and investor of foreign direct investment (FDI) stock, after the United States

### 1. Latest Developments

In the first quarter of 2018, Hong Kong's economy grew by 4.7% year-on-year in real terms, up from 3.8% growth in 2017. Domestically, the growth of private consumption expenditure quickened to 8.6% in real terms in the first quarter over a year earlier, from 5.5% in 2017. Investment expenditure grew moderately by 3.8% year-on-year in real terms in the first quarter, after increasing by 3.5% in 2017. As to the external sector, Hong Kong's total exports of goods grew notably by 5.2% year-on-year in real terms in the first quarter, after increasing by 5.9% in 2017, while exports of services grew solidly by 7.5% in real terms in the first quarter, up from 3.2% growth for 2017. Supporting by the continued momentum in global economic expansion and strength in domestic demand, the Government maintained its forecast for Hong Kong's real GDP growth at 3-4% in 2018.

In January-March 2018, the value of retail sales, in nominal terms, increased by 14.3% year-on-year, after the growth of 2.2% for 2017. Yet the labour market conditions remain tight. The seasonally adjusted unemployment rate was 2.9% for the three-month period ending March 2018, compared with 3.1% for 2017. Meanwhile, Hong Kong's consumer prices rose 2.4% year-on-year in January-March 2018, after increasing by 1.5% in 2017. Looking ahead, consumer price pressures are expected to increase somewhat. The Government forecasts Hong Kong's consumer price to increase by 2.2% in 2018.

In 2017, a total of 58.5 million visitors, equivalent to 7.9 times of the size of Hong Kong's local population, were recorded, with those from the Chinese mainland accounting for 76% of the total. In January-March 2018, visitor arrivals to Hong Kong increased by 9.6% year-on-year, after growing by 3.2% in 2017; those from the Chinese mainland rose 12.6% year-on-year, after increasing by 3.9% in 2017. In 2017, total tourism expenditure associated to inbound tourism amounted to HK\$296.7 billion, increasing by 1% over the last year.

The four pillar economic sectors of Hong Kong are: trading and logistics (21.7% of GDP in terms of value-added in 2016), financial services (17.7%), and professional services and other producer services (12.5%) and tourism (4.7%). On the other hand, the six industries which Hong Kong has clear advantages for further development are cultural and creative, medical services, education services, innovation and technology, testing and certification services and environmental industries, which together accounted for 8.9% of GDP in terms of value-added in 2016.

### 2. Budget and Government Initiatives

Chief Executive Carrie Lam unveiled her 2017 Policy Address on 11 October 2017. Ms Lam emphasised the Government's role as a "facilitator" and a "promoter" and the opportunities brought by the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area (Bay Area). The Government will proactively promote Hong Kong as an international legal and dispute resolution services centre and encourage the co-operation between the legal sectors of Hong Kong and the Bay Area. To develop Hong Kong as an international innovation and technology hub, Ms Lam also sets out an array of measures to spur development for innovation and technology and the creative industries. The Government has set a goal to double the R&D expenditure as a percentage of GDP from 0.73% to 1.5%. To reinforce Hong Kong's status as a global financial centre, the Government seeks to promote diversified development of the financial market. The Government will take the lead in arranging the issuance of a green bond in the next financial year. Expansion of the channels for two-way flow of cross-border RMB funds will also be explored. The full text of the 2017 Policy Address can be found [here](#).

On 28 February 2018, the Financial Secretary, Mr Paul Chan, unveiled in the 2018-19 Budget a number of measures to promote Hong Kong's economic development. The Government will reserve an additional \$50 billion for supporting innovation and technology development, in which \$20 billion will be used on the first phase of the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop. The Government will actively seek to sign Free Trade Agreements (FTAs), Investment Promotion and Protection Agreements (IPPAs) and Comprehensive Avoidance of Double Taxation Agreements (CDTAs) with other economies, including those along the Belt and Road, to fortify Hong Kong's position as an international trade and investment hub. In addition, the Government will provide a total of \$250 million additional funding to HKTDC for assisting local enterprises in seizing opportunities arising from the Belt and Road Initiative and the Bay Area development, promoting the development of e-commerce, and enhancing Hong Kong's role as a premier international convention, exhibition and sourcing centre. The full text of the 2018-19 Budget can be found [here](#).

The *Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA)* was firstly concluded in 2003. Thereafter, the two sides broadened and enriched the content of *CEPA*, and signed ten Supplements between 2004 and 2013, expanding market liberalisation and further facilitating trade and investment for the economic co-operation of the two places. At present, all products of Hong Kong origin, except for a few prohibited articles, can be imported into the mainland tariff free under *CEPA*. Hong Kong service suppliers enjoy preferential treatment in entering into the mainland market in various service areas. There are also agreements or arrangements on mutual recognition of professional qualification.

In December 2014, the *Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong (Guangdong Agreement)* was signed under the framework of *CEPA*, enabling early realisation of basic liberalisation of trade in services with Hong Kong in Guangdong. On the basis of the *Guangdong Agreement*, the *Agreement on Trade in Services* signed in November 2015 further enhances the liberalisation in both breadth and depth, including extending the implementation of the majority of Guangdong pilot liberalisation measures to the whole Mainland; reducing the restrictive measures in the negative list; and adding 28 liberalisation measures in the positive lists for cross-border services as well as cultural and telecommunications services.

In June 2017, the *Investment Agreement* and the *Agreement on Economic and Technical Cooperation (Ecotech Agreement)* were signed under the framework of *CEPA*. The *Investment Agreement* expands the market access commitments to non-services sectors outside the scope of the *Agreement on Trade in Services* and introduces obligations on investment protection to both services and non-services sectors. The *Ecotech Agreement* consolidates and updates the economic and technical cooperation activities between Hong Kong and the Chinese mainland. It includes the cooperation in the economic and trade areas of the Belt and Road Initiative and Sub-regional Cooperation under the systemic framework of *CEPA*. Details and new developments about *CEPA*, including our analysis of its impacts on Hong Kong, can be found [here](#).

### 3. Investment Flows

Hong Kong is a highly attractive market for foreign direct investment (FDI). According to the *UNCTAD World Investment Report 2017*, global FDI inflows to Hong Kong amounted to US\$108 billion in 2016, ranked fourth globally, behind only the Chinese mainland (US\$134 billion) in Asia. In terms of outflows, Hong Kong ranked third with US\$62 billion in Asia, after the Chinese mainland (US\$183 billion) and Japan (US\$145 billion).

According to a government survey, Hong Kong's total stock of inward direct investment was estimated at US\$1,626 billion at the end of 2016. One distinct feature of such direct investment was the indirect channelling of capitals from non-operating companies in tax haven economies. Against this background, British Virgin Islands, Cayman Islands, Netherlands and Bermuda accounted for 34.2%, 7.7%, 6.3% and 4.7%, respectively, of the total stock of inward direct investment in 2016. Excluding tax haven economies, the Chinese mainland was the most important source of direct investment in Hong Kong (accounting for 25.7% of the total). Other major sources include the US (2.5%), Singapore (2.3%) and the UK (2.2%). The majority of the stock of investment was related to service industries including investment and holding, real estate, professional and business services; banking; and import/export, wholesale and retail trades.

For more information and assistance in establishing an operation in Hong Kong, contact [InvestHK](#).

### 4. Trade Relations and Tax Treaties

Hong Kong is a founding member of the *World Trade Organization (WTO)* and has been participating actively in its activities. Also, Hong Kong is a member of the *Asia-Pacific Economic Cooperation (APEC)* and the *Pacific Economic Cooperation Council (PECC)*. Hong Kong belongs, in its own right, to the *Asian Development Bank (ADB)* and the *World Customs Organization (WCO)*. It is an associate member of the *United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)* and relates, in varying degrees, to the *United Nations Conference on Trade and Development (UNCTAD)*. Since April 1994, Hong Kong has been an observer of the Trade Committee of the *Organization for Economic Cooperation and Development (OECD)*. On the other hand, Hong Kong has become a member of the *Asian Infrastructure Investment Bank (AIIB)* since June 2017.

In addition to *CEPA*, Hong Kong has signed *FTAs* with New Zealand, the member states of the *European Free Trade Association* (comprising Iceland, Liechtenstein, Norway and Switzerland), Chile, Macao and the *Association of Southeast Asian Nations (ASEAN)* respectively; and is negotiating a *FTA* with Georgia, Maldives and Australia, respectively. Besides, Hong Kong has signed *IPPAs* with [19 economies](#), and concluded the negotiations with Bahrain, Mexico, Myanmar and the UAE, respectively; the *IPPAs* with Iran and Russia, respectively, are under negotiation. On the other hand, Hong Kong has entered into double taxation agreements (*DTAs*) with [some 30 jurisdictions](#) while those with [another 13 countries/territories](#) are still under negotiation.

Hong Kong's merchandise exports increased 9.7% year-on-year in January-March 2018, after a notable growth of 8% in 2017. In January-March 2018, Hong Kong's major export markets were the Chinese mainland, the EU, the US, ASEAN, India and Japan, which respectively made up 54.6%, 8.8%, 8.2%, 7.3%, 3.7% and 3.3% of Hong Kong's total exports; changes in exports to the above markets were +12.6%, +10.7%, +7.4%, +1.1%, -6.3% and +7%, respectively. Imports jumped 10.6% year-on-year in January-March 2018, after increasing by 8.7% in 2017. A visible trade deficit of US\$16.7 billion, equivalent to 12.1% of the value of imports of goods, was recorded in the first three months of 2018. Hong Kong's trade performance is in part affected by outward processing activities in Guangdong where the majority of Hong Kong companies have extended their manufacturing base. In 2017, 27.3% of Hong Kong's total exports to the Chinese mainland were related to outward processing activities.

In response to an improving global trade environment, Hong Kong's export performance has shown the fastest growth in six years in 2017. Growth of Hong Kong exports is expected to moderate in 2018 amid a higher comparison base. Undercurrent of China-US trade friction, political uncertainties in the EU, renewed faltering of emerging markets and heightened geopolitical tensions are the major downside risks.

### **Economic Relations with the Chinese Mainland**

- The most important entrepôt for the Chinese mainland
- The largest foreign investment source of the Chinese mainland
- The key offshore capital-raising centre for Chinese enterprises
- The Chinese mainland as Hong Kong's largest source of external investment

Hong Kong is so far the most important entrepôt of the Chinese mainland. According to the HKSAR government statistics, in 2017, 58% of re-exports were of China origin and 54% were destined for the Chinese mainland. According to China's Customs statistics, Hong Kong is the third largest trading partner of the Chinese mainland after the US and Japan, accounting for 7% of its total trade in 2017.

Hong Kong is the largest source of overseas direct investment in the Chinese mainland. By the end of 2016, among all the overseas-funded projects approved in the Chinese Mainland, 44.7% were tied to Hong Kong interests. Cumulative utilised capital inflow from Hong Kong amounted to US\$913.7 billion, accounting for 51.8% of the national total.

The Chinese mainland, on the other hand, is a leading investor in Hong Kong. According to the HKSAR Census and Statistics Department, the stock of Hong Kong's inward investment from the Chinese mainland amounted to US\$418 billion at market value or 25.7% of the total at the end of 2016.

As of January 2018, there were 12 licensed banks and 7 representative offices, incorporated in the Chinese mainland, operating in Hong Kong. Big lenders including the *Bank of China*, *Industrial and Commercial Bank of China*, *Agricultural Bank of China* and *China Construction Bank* have opened their branch operations in Hong Kong. Mainland commercial banks including *Bank of Beijing*, *Bank of Dongguan*, *China Bohai Bank*, *China Guangfa Bank*, *Hua Xia Bank* and *Ping An Bank* have representative offices in Hong Kong.

Hong Kong is also a key offshore capital-raising centre for Chinese enterprises. As of December 2017, 1,051 mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies, with total market capitalisation of around US\$2.9 trillion, or 66% of the market total. Since 1993, mainland companies have raised more than US\$700 billion via stock offerings in Hong Kong.

In November 2014, Shanghai-Hong Kong Stock Connect was launched to establish mutual stock market access between Hong Kong and Chinese mainland, a significant breakthrough in the opening of China's capital markets. In December 2016, Shenzhen-Hong Kong Stock Connect, with similar programme principles and design, was launched to further facilitate two-way investment flows and consolidate Hong Kong's development as the global offshore RMB business hub.

In July 2017, the mutual bond market access between Hong Kong and the Chinese mainland (Bond Connect) was launched to promote the development of the bond markets in the two places.

### **Hong Kong as a Regional Centre**

- A popular venue for hosting regional headquarters or representative offices
- A leading telecommunications hub for the Asia-Pacific region
- A premier offshore RMB centre

- The world's busiest airport for international cargoes
- One of the world's busiest container ports
- The third largest stock market in Asia, the seventh largest in the world
- The second largest foreign exchange market in Asia, the fourth in the world

Hong Kong is a popular venue for hosting regional headquarters or representative offices for multinational companies to manage their businesses in the Asia Pacific, particularly the Chinese mainland. Based on a government survey, as of June 2017, there were 3,752 regional headquarters (RHQs) and regional offices (ROs) in Hong Kong representing their parent companies located outside Hong Kong, increased 1% from the previous years. Of these companies, 76% were responsible for business in the Chinese mainland, confirming Hong Kong's role as a conduit for doing business with the mainland. These companies came from diverse countries and sectors. The US had the largest number of RHQs/ROs in Hong Kong (19%), followed by Japan (18%), the Chinese mainland (9%) and the UK (9%). Most of the RHQs/ROs in Hong Kong were in import/export trade, wholesale and retail (52%). Others are in professional, business and education services (16%), finance and banking (14%), and transportation, storage and courier services (7%).

Hong Kong is an important banking and financial centre in the Asia Pacific. As at end-2017, there were 191 authorised institutions and 49 representative offices in Hong Kong. Total loans provided by the authorised institutions to finance international trade and other loans for use outside Hong Kong totalled US\$63.3 billion and US\$358.7 billion respectively. According to the *Bank for International Settlements*, Hong Kong is the second largest foreign exchange market in Asia and the fourth largest in the world in 2016, with the net daily average turnover of forex transactions reaching US\$437 billion.

Since the introduction of the *Pilot RMB Trade Settlement Scheme* by the Central Government in July 2009, Hong Kong has succeeded in expanding its RMB business by offering a number of RMB-denominated financial products and services, including trade finance, stocks, bonds and funds. Since the debut of the scheme, banks in Hong Kong had handled RMB trade settlement totalling RMB21 trillion as of October 2015, which represented some 70% of the world's total. RMB deposits in Hong Kong, excluding RMB certificates of deposits, totalled RMB628 billion as of November 2016, more than tenfold the level seen in July 2009.

As at the end of December 2017, Hong Kong's stock market ranked the third largest in Asia and the seventh largest in the world in terms of market capitalisation. There were 2,118 companies listed on *HKEx*, including 324 companies on the Growth Enterprise Market and the total market capitalisation of Hong Kong's stock market reached US\$4.35 trillion.

Hong Kong is a leading telecommunications hub for the Asia-Pacific region. Residential fixed line and household broadband penetration rates have exceeded 90% and 85% respectively. Mobile subscribers in Hong Kong have exceeded 17 million, of which over 90% were 2.5G and 3G/4G mobile subscribers, more than doubled the total population in Hong Kong. There are now 44,000 public Wi-Fi access points.

Hong Kong is a favourite place in the world to do business and host major conferences. Over 300 international conventions and exhibitions are held in Hong Kong each year. To name a few, in December 2005, Hong Kong hosted the sixth session of the *WTO* ministerial conference where a Hong Kong declaration was concluded. In December 2008, Hong Kong played host to the first Clinton Global Initiative international meeting outside the US.

### **Infrastructure Developments**

The Hong Kong-Zhuhai-Macao Bridge (HZMB) consists of three parts, including the main bridge, boundary crossing facilities of Hong Kong, Zhuhai and Macao, and link roads of the three places. The HZMB is of special strategic value in further enhancing the economic development of Hong Kong, Macao and the Western Pearl River Delta region (Western PRD). It will significantly reduce the cost and time for travellers and for the flow of goods between Hong Kong and the Western PRD, accelerating the economic integration of the PRD and its neighbouring provinces, and increasing its competitiveness. Construction of the project has started in December 2009 for commissioning in 2018.

Meanwhile, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) will be 26-km long, running from the terminus in West Kowloon to Shenzhen, Dongguan and Guangzhou with significantly reduced journey time. More importantly, it will become part of the 16,000 km national high-speed rail network now being developed in full steam, fostering closer economic ties between Hong Kong and the mainland. Upon completion of the railway, the travelling time from Hong Kong to Beijing and Shanghai will be shortened to about 10 and 8 hours respectively. Construction of the project has commenced for commissioning in 2018.

Besides the cross-boundary endeavours, the government has undertaken other large-scale infrastructure projects to improve the local transportation system, promote long-term development for arts and culture, and provide quality living space to citizens. As to the extension of the mass transit railway system, the West Island Line, the Kwun Tong Line Extension and the South Island Line (East) have been opened; while the Shatin to Central Link is expected to complete in 2021. The government has also announced the Railway Development Strategy 2014, providing a framework for planning the further expansion of Hong Kong's railway network up to 2031 to cover areas inhabited by about 75% of the total population and about 85% of job opportunities. Besides, a cruise terminal has been developed at the former Kai Tak Runway, with two alongside berths, well equipped with supporting facilities to accommodate the concurrent berthing of two mega cruise vessels (with gross tonnage of up to 220,000).

As the busiest cargo gateway and one of the 10 passenger airports in the world, the Hong Kong International Airport needs an expansion since the existing two-runway system will reach its full capacity soon, according to the Hong Kong Airport Authority. The construction of the Three-runway System has started in 2016 for completion in 2024, with the commissioning of the new runway expected in 2022.

Turning to the port, the government has released findings of the Study on the Strategic Development Plan for Hong Kong Port 2030 and the Preliminary Feasibility Study for Container Terminal 10 at Southwest Tsing Yi. The findings reveal that container throughput in Hong Kong will continue to see growth in the coming years. In order to cope with a projected future increase in throughput up to 2030, it is necessary to enhance the handling capacity of the existing container terminals and related infrastructural facilities, which include upgrading Stonecutters Island Public Cargo Working Area to a modern container handling facility for ocean-going or river trade vessels, enabling the River Trade Terminal to become a terminal for both ocean-going and river trade vessels, providing additional barge berths at the Kwai Tsing Container Terminals to relieve congestion caused by the increase of river cargo throughput, and making better use of land and other facilities around the terminals to enhance operational efficiency and accommodate future growth in transshipment.