



# Impact of economic restructuring

Presentation to LegCo C&I Panel

KC Kwok

Government Economist

19 April, 2005

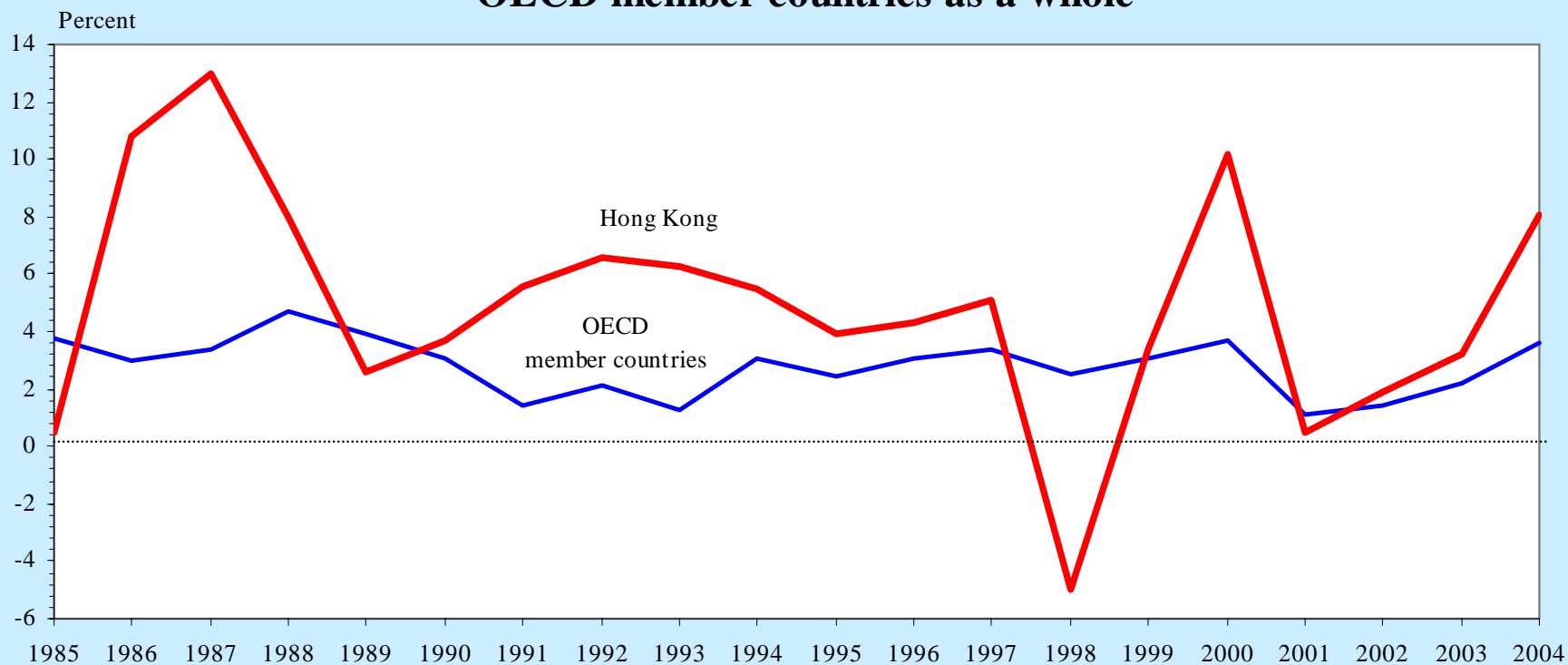


## The HK economy has always been restructuring

- Small open economy: little natural resources, small local market, geographic advantage, human resources
- Need to integrate ourselves into the global economy
  - meet the needs of the world around us
  - play up our strengths
- Mainland's development & globalization
  - HK is a main player

# HK's continuous restructuring has brought about significant economic and social progress

### GDP growth of Hong Kong vs OECD member countries as a whole





## Increasing significance of services sector as a driver of Hong Kong's economic growth

	Share in GDP (%)		Average annual value added growth (%)
	<u>1993</u>	<u>2003</u>	<u>1993-2003 (10 years)</u>
Wholesale, retail and import/export trades, restaurants and hotels	<b>27.1</b>	<b>27.3</b>	<b>3.5</b>
Financing, insurance, real estate and business services	26.1	23.1	2.2
<i>Excluding real estate</i>	<b>15.1</b>	<b>17.8</b>	<b>5.1</b>
Community, social and personal services	<b>15.5</b>	<b>22.4</b>	<b>7.3</b>
Transport, storage and communications	<b>9.5</b>	<b>10.5</b>	<b>4.4</b>
Manufacturing	11.1	4.1	-6.5
Construction	5.1	3.9	0.7
GDP at factor cost	100.0	100.0	3.4



## Increasing share of the better-educated and professionals in total employment

	Share in total employment (%)		Average annual growth 1994-2004 (10 years)
	<u>1994</u>	<u>2004</u>	
Managers and administrators	9.1	8.4	0.5
Professionals	<b>4.5</b>	<b>6.3</b>	<b>5.0</b>
Associate professionals	<b>11.6</b>	<b>18.4</b>	<b>6.2</b>
Clerks	19.4	16.5	-0.3
Service workers and shop sales workers	13.8	15.8	2.7
Craft and related workers	12.2	8.2	-2.6
Plant and machine operators and assemblers	12.0	7.3	-3.6
Elementary occupations	16.9	18.8	2.5
Others	0.5	0.3	-5.9
Total	100.0	100.0	1.4

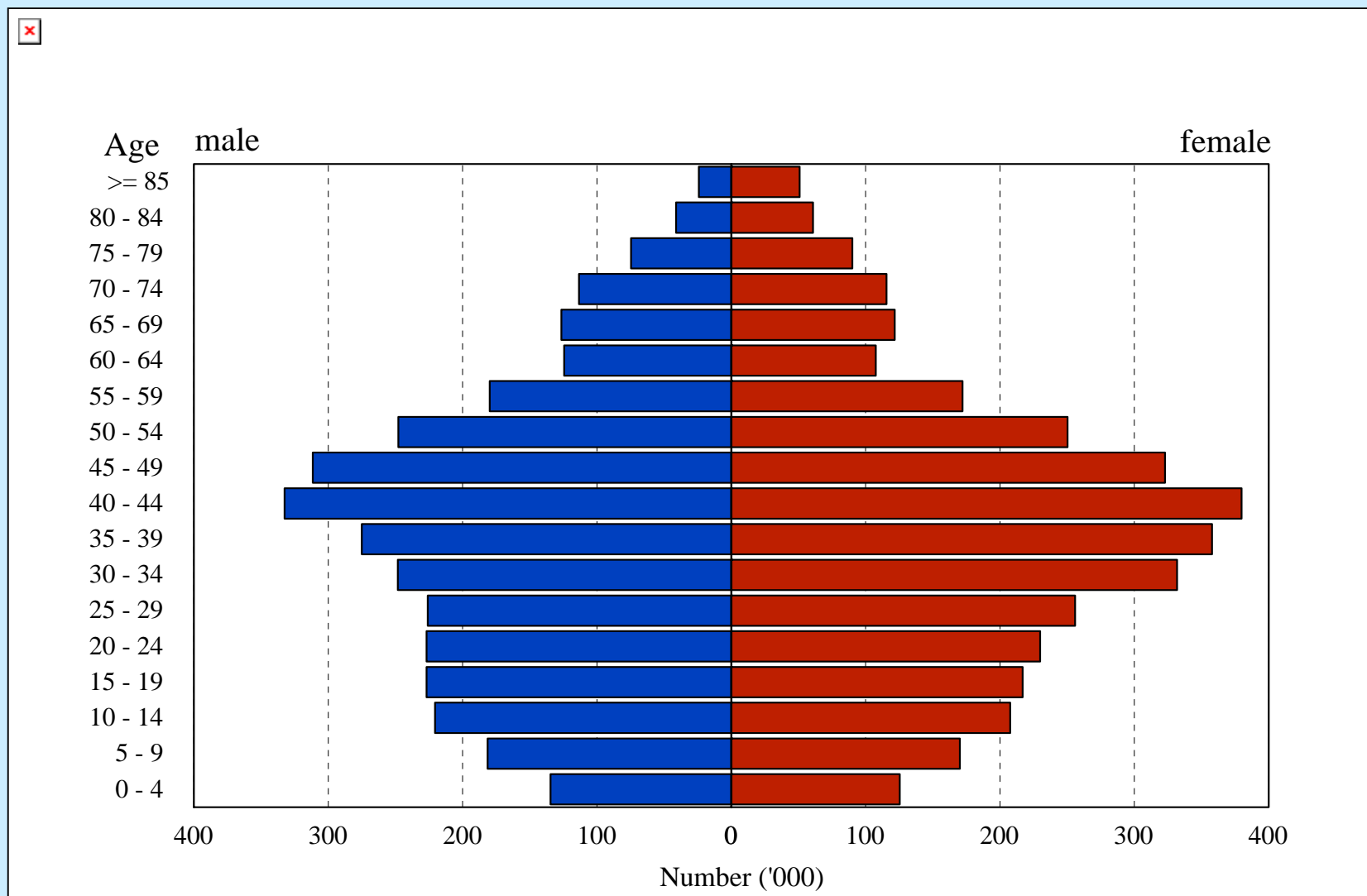


## New challenges to restructuring (1)

- Technological advances and liberalization of controls speed up change in the world
- Global business opportunities increasing but so is competition
- Rapid development in the Mainland
  - new opportunities and threats
  - restructuring in the Mainland itself
- Ageing of HK's population and workforce



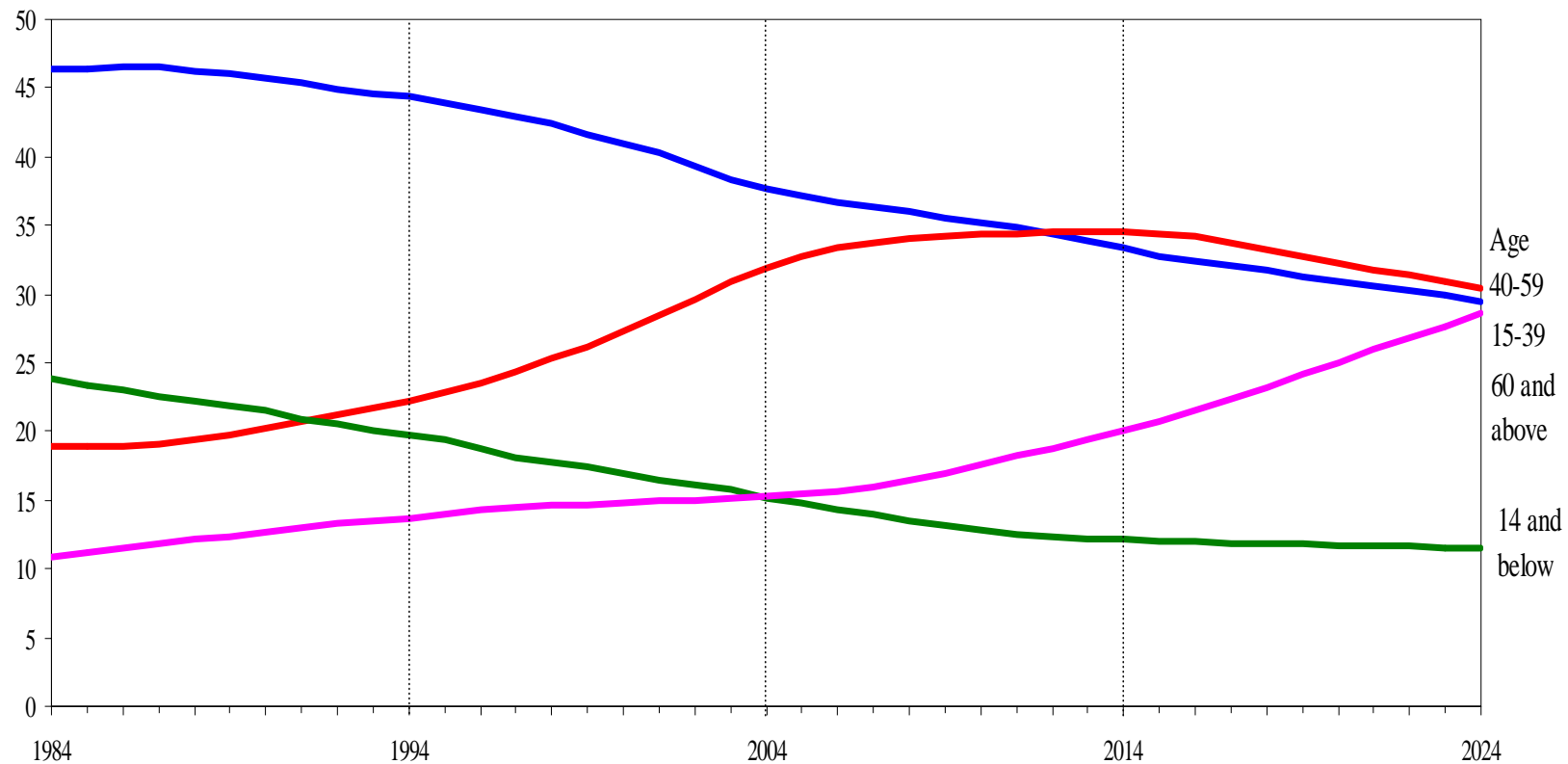
# 2004 population “pyramid”





# Hong Kong : population ageing

As a % of total population







## New challenges to restructuring (2)

- Maturing economy
  - more emphasis on equity and preservation in addition to growth
  - labour market rigidities
- Manufacturing —> services —> technology & innovation ?
  - quality over quantity, inspiration over perspiration
- Winners and losers



## Government's strategy

- “Market leads, government facilitates”
- Reinforce HK's institutional strengths
- Invest in infrastructure, increase connectivity & improve environment
- Enhance business opportunities
- Upgrade workforce and attract talent
- Nurture creativity and promote R&D
- Support growth in high value-added sectors



## Reinforce HK's institutional strengths

- Rule of law
- Level playing field, open competition
- Clean and efficient government
- Free flow of information & capital
- Simple & low tax regime
- Effective regulation and good governance
  - regular review of regulatory framework



## Enhance business opportunities

- Reduce entry barriers, both in HK and in outside markets
- Build up economic ties with the Mainland
  - CEPA, Greater PRD, Pan-PRD & other initiatives
  - both inward and outward flows
- Promote HK in overseas markets



## Nurture creativity and promote R&D

- Attract and nurture creative people
  - education & training initiatives
  - competition for talents
- IPR protection
- Initiatives under Innovation & Technology Commission
- Develop cultural and creative sectors
- Facilitate business



## Support growth in high value-added sectors

### Examples:

- Financial services
- Tourism (indirect benefits)
- Logistics
- ITC initiatives
- Cultural and creative sectors



## Tackling unemployment & poverty

- Promote economic development
- Education & training
- Temporary job opportunities
- Commission on Poverty deliberations such as
  - prevent inter-generational poverty
  - district-based efforts



## Conclusion

- HK needs to integrate itself further into the global economy
  - many companies in HK are already global or regional companies; so are a lot of individuals
  - closer economic collaboration with Mainland
  - enhance infrastructure and connectivity
- Go up the value chain
  - reinforce institutional strengths
  - upgrade quality of workforce, attract talents
  - nurture a creativity-friendly environment