

Four Pillars and Six Industries in Hong Kong: review and outlook

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The four pillar industries have been a driving force of Hong Kong's economic growth for years. The Government has also identified and promoted Six Industries to help diversify the local industry structure.

The trading and logistics services industry is the largest among the four pillars in terms of both GDP contribution and employment. But its growth rate and job creation potentials lagged behind other pillars during 2002-2012. The tourism industry, being the smallest pillar, outperformed other pillars in the above two areas over the same period. Many jobs created in the tourism industry are low-paid jobs requiring less skills and this is important in view of limited job opportunities for lower-skilled workers.

The cultural and creative industries have been the key growth driver of the Six Industries in recent years. However, their development is relatively narrow-based. The other five industries also have their own challenges that must be addressed in the years ahead.

The subject of industry policy falls within the policy areas of the Panel on Economic Development and the Panel on Commerce and Industry.

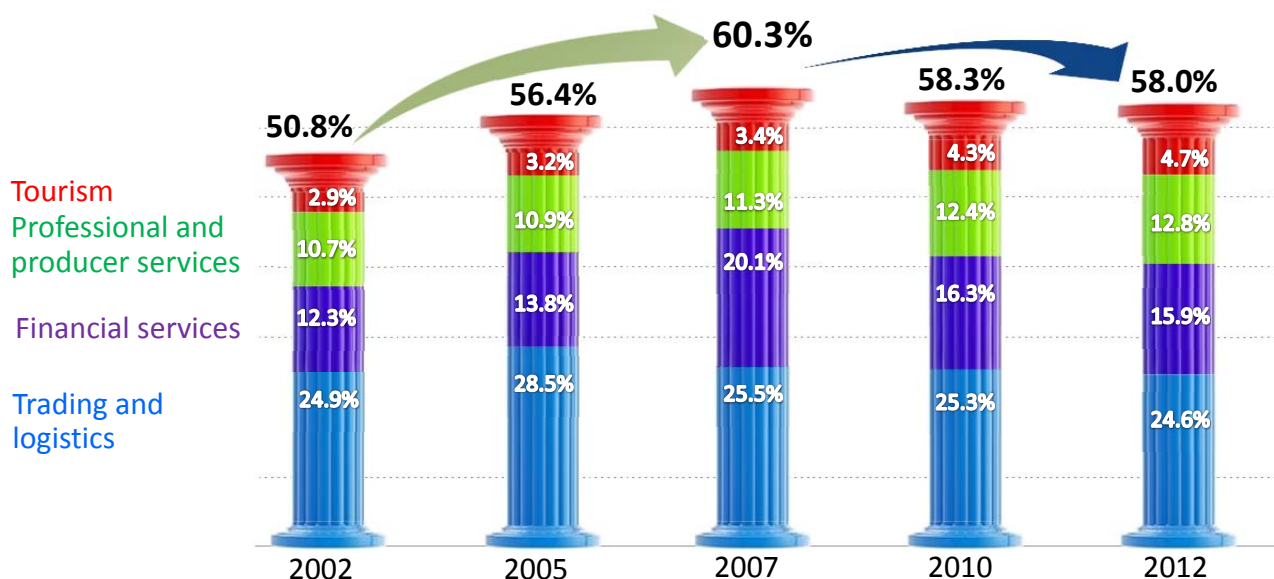


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1. Introduction

1.1 The four pillar industries, comprising trading and logistics, financial services, professional and producer services, and tourism, have been a driving force of the Hong Kong economy for years. They had grown much faster than the overall economy during 2002-2007, resulting in an increase of their combined GDP contribution from 50.8% in 2002 to a peak of 60.3% in 2007 (Figure 1). The figure has since then eased to 58.0% in 2012¹, reflecting the weakened growth momentum of some pillar industries in recent years.

Figure 1 – GDP contribution of the four pillar industries, 2002-2012



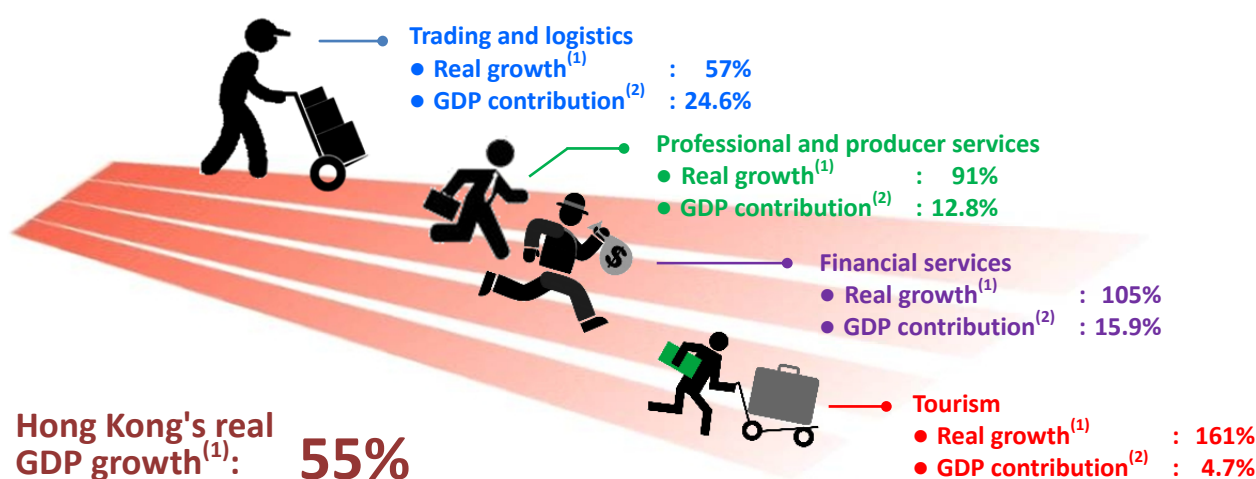
Source: Census and Statistics Department.

¹ The 2012 figures are the latest figures available from the Census and Statistics Department ("C&SD").

2. Four pillar industries

2.1 The four pillar industries were first identified by the then Financial Secretary in his 2002-2003 Budget Speech as the key economic sectors of particular importance since they could "foster the development of other sectors, give impetus to [the overall] economy, and create employment".² After a decade of development, the trading and logistics services industry remained the largest pillar in 2012, but its growth rate³ was the lowest during 2002-2012 (**Figure 2**). The tourism industry, being the smallest pillar, outperformed the others to grow most rapidly over the period.

Figure 2 – GDP contribution and growth of the four pillar industries



Notes: (1) Growth rate for 2002-2012.

(2) 2012 figure.

Source: Census and Statistics Department.

Trading and logistics

Review

2.2 Among the four pillar industries, the trading and logistics services industry⁴ is the largest in terms of both GDP contribution and employment. Yet the industry recorded the lowest growth, at 57%, between 2002 and 2012. It also lagged

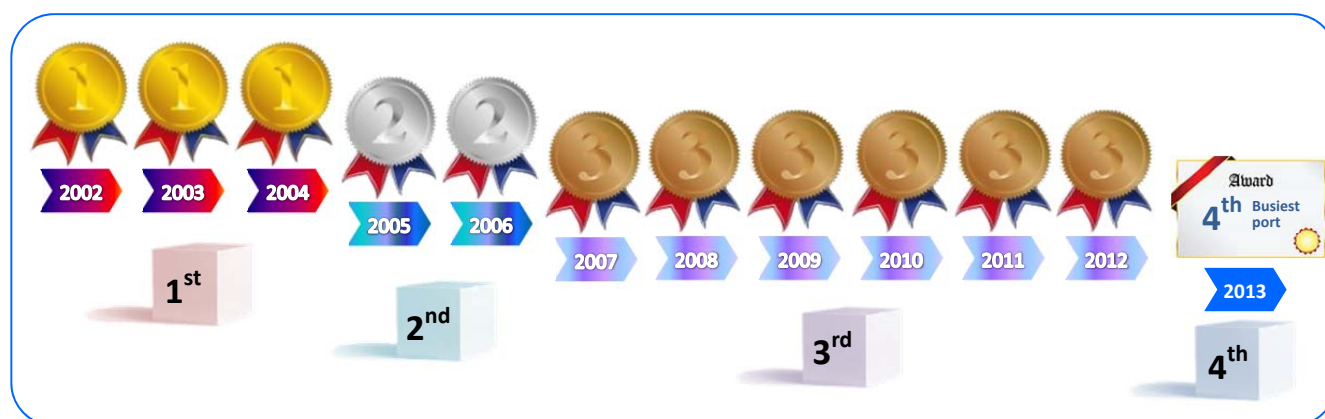
² See The 2002-03 Budget.

³ In this Research Brief, the growth rate of an industry is measured in terms of the rate of change in its GDP contribution in real terms.

⁴ Trading and logistics broadly comprise wholesale, import/export trade, freight transport and storage services, postal and courier services.

behind other pillar industries in job creation with the number of people employed remaining virtually unchanged at around 764 900 over the period. The above development was partly due to slackening export performance in recent years, amidst the waning trade intermediation role of Hong Kong upon the continuing integration of Mainland with the global economy. Another factor was the intense competition from the neighbouring ports in the Pearl River Delta.⁵ In 2013, Hong Kong could not hold on to its place as the world's third busiest container port and lost it to Shenzhen (**Figure 3**).

Figure 3 – Hong Kong's ranking among the world's busiest container ports



Source: Census and Statistics Department.

Outlook

2.3 Looking ahead, competition from other South China ports will continue to weigh on the future growth of Hong Kong's port cargo throughput. According to a consultancy study commissioned by the Government⁶, total container throughput handled by Hong Kong is forecast to grow by a mere 1.5% per year between 2015 and 2030.⁷ Air cargo, which has higher value-added content than port cargo, should help provide added growth impetus to the trading and logistics services industry. However, air cargo handled by Hong Kong International Airport is forecast to grow by an average annual of 4.2% during 2008-2030⁸, lower than the corresponding figure of 8.6% during 2002-2007.

⁵ Hong Kong acts as a gateway port for South China cargo. According to BMT Asia Pacific (2014), the Hong Kong port is not as competitive as other South China ports in terms of terminal handling charges and inland transport cost by road for South China cargo. In addition, there is diminishing distinction between the Hong Kong port and its competitors in terms of quality or capacity.

⁶ See BMT Asia Pacific (2014).

⁷ The low forecast figure reflects, among others, the setback in South China cargo handled by the Hong Kong port which is forecast to decline by an average annual of 0.2% during 2015-2030. See BMT Asia Pacific (2014).

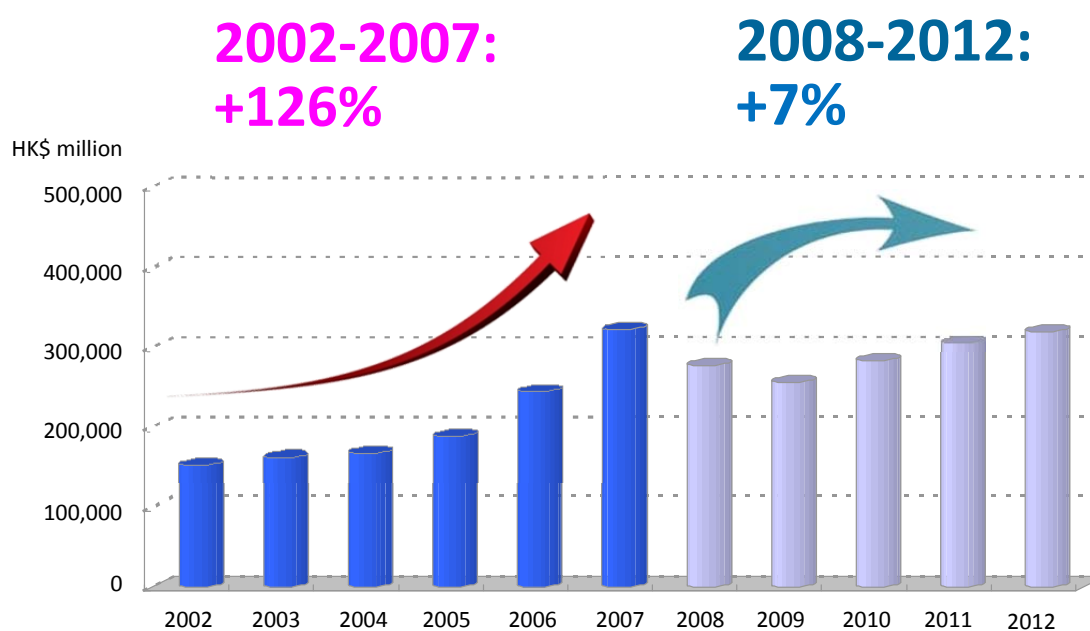
⁸ See Airport Authority Hong Kong (2011).

Financial services

Review

2.4 The higher-paid financial services industry⁹ is the second largest pillar industry and grew by 105% between 2002 and 2012. Yet much of the increase was fuelled by the rapid growth in the earlier years with the industry's GDP contribution up by 126% in 2002-2007 (**Figure 4**). The industry slowed down in the ensuing years to grow by 7% in 2008-2012. The distinct downtrend reflected the subdued global investment environment over the period, which had turned cautious after the outbreak of the global financial crisis in 2008 and the escalation of the euro debt crisis during 2010-2012. As a result, Hong Kong's stock market entered into a prolonged correction during 2008-2012, with the Hang Seng Index losing about 30% and the stock market turnover down by some 40% from their peaks in 2007.

Figure 4 – Growth of the financial services industry in real terms, 2002-2012



**Hong Kong's real GDP growth:
37% in 2002-2007 and 11% in 2008-2012**

Source: Census and Statistics Department.

Outlook

2.5 There have been calls for Hong Kong to develop a broad array of asset classes and build more resilience for its financial services industry.¹⁰ While Hong Kong possesses "first-mover" advantages in offshore renminbi business, it is

⁹ Financial services comprise (a) banking services, (b) insurance services, and (c) other financial services including stock brokerage, asset management, financial leasing, and investment and holding companies, etc.

¹⁰ See Financial Services Development Council (2013).

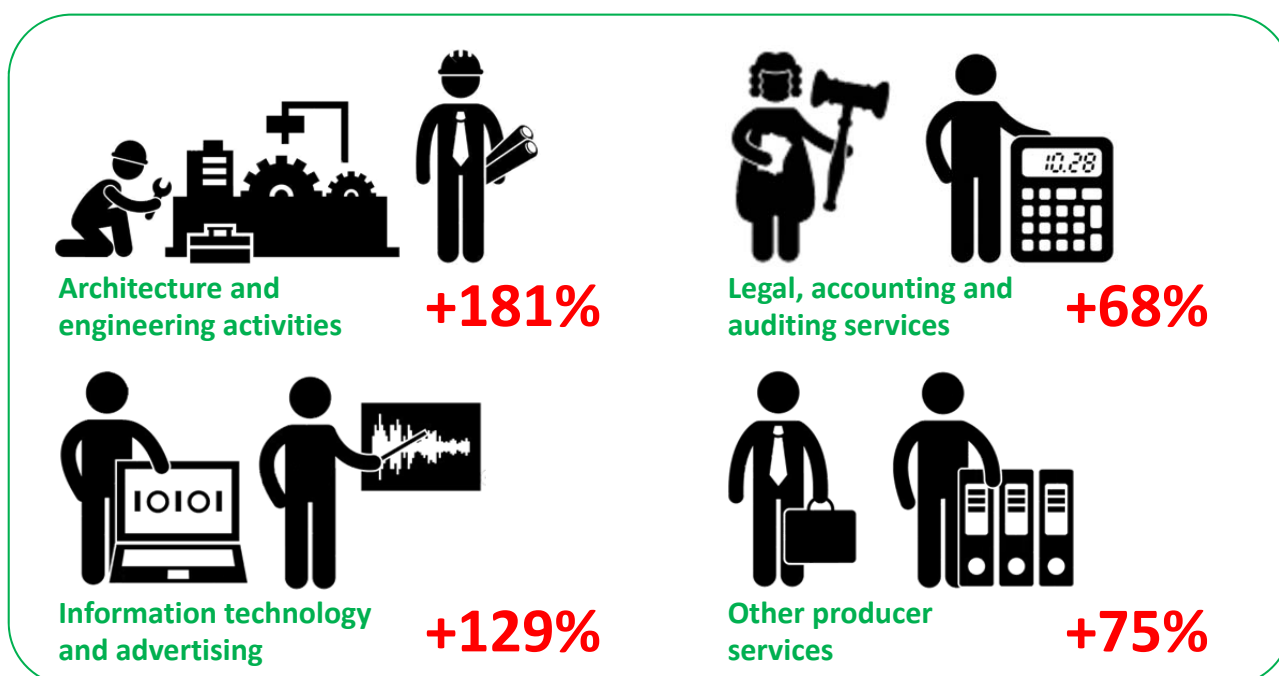
lagging behind Singapore in foreign exchange transactions. In 2013, Singapore was ranked as the world's third largest foreign exchange market which was two places above Hong Kong. In addition, Hong Kong's debt market is relatively small compared to its banking and equity markets. In 2013, the outstanding amount of debt securities accounted for some 67% of GDP in Hong Kong, compared with 139% in the United Kingdom, 126% in the United States, 95% in South Korea and 68% in Singapore.¹¹

Professional and producer services

Review

2.6 The GDP contribution of the professional and producer services industry¹² was on a generally uptrend between 2002 and 2012 and grew by 91% over the period. A large proportion of the professional and producer services supplied in Hong Kong has been closely linked to its role as a business hub in the region, particularly the Mainland. Domestically, the strong revival in local construction activity after 2008 has fuelled the demand for architecture and engineering services, which have grown faster than the other segments of the industry in recent years (Figure 5).

Figure 5 – Growth of the professional and producer services industry in real terms by segment, 2002-2012



Source: Census and Statistics Department.

¹¹ See Trade Development Council (2014) and International Organization of Securities Commissions (2014).

¹² Professional services cover legal, accounting, auditing, architecture and engineering activities, management and management consultancy activities, information technology related services, advertising, specialized design and related services, etc. Producer services refer to services for use by other companies in the local economy, as well as exports of services to companies and individuals.

Outlook

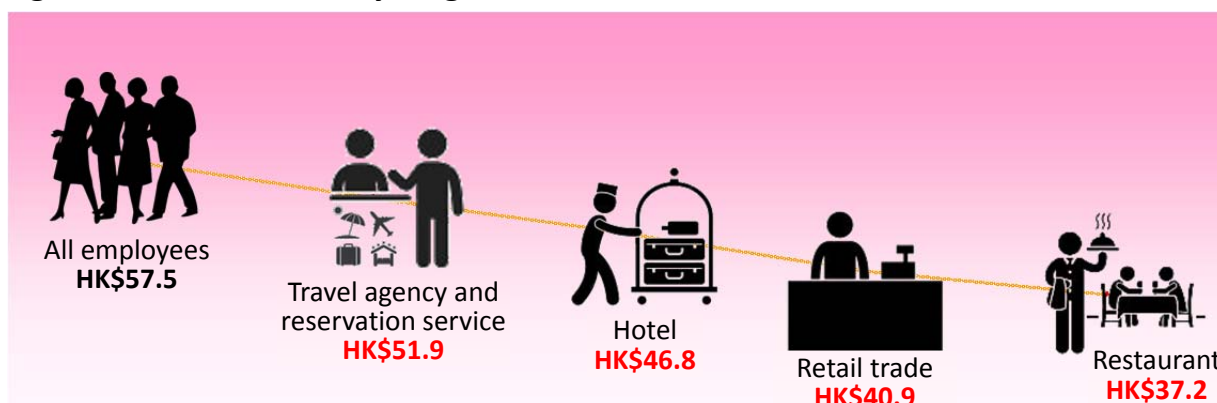
2.7 According to the Government¹³, the Mainland will continue to feature prominently in the Hong Kong economy, both as a source and as a destination of external direct investment. This will in turn accentuate Hong Kong as an ideal platform for both Mainland companies to go global and large multinationals to expand their business in the Mainland. Domestically, construction works should remain hectic in the coming years. According to the latest forecast by the Construction Industry Council, overall construction expenditure in Hong Kong will stay at a high level of HK\$180-HK\$210 billion in 2017-2018, compared with HK\$175 billion in 2012- 2013.¹⁴

Tourism

Review

2.8 The tourism industry, including both inbound and outbound tourism¹⁵, is the smallest pillar industry. It grew by 161% between 2002 and 2012, the fastest among the four pillar industries. This was attributable largely to the buoyancy in inbound tourism following the launch and progressive extension of the Individual Visit Scheme ("IVS"). As a result, the number of people employed by the tourism industry increased by a total of 108 700 or 76% between 2002 and 2012. Many jobs in the tourism industry require relatively lower skills, and are thus paid less as reflected in the median hourly wages (**Figure 6**). This is important for lower-skilled workers amidst Hong Kong's transformation into a more knowledge-based economy.

Figure 6 – Median hourly wages of tourism-related services workers, 2013



Source: Census and Statistics Department.

¹³ See GovHK (2014).

¹⁴ See Construction Industry Council (2014).

¹⁵ Inbound tourism comprises retail trade, accommodation services like hotels, food and beverage services and cross-boundary passenger transport services. In 2012, inbound tourism accounted for 84% of the GDP contribution of the tourism industry and outbound tourism the remaining 16%.

Outlook

2.9 Looking ahead, the tourism industry in Hong Kong is likely to face a number of challenges in the short to medium term. First, as the number of Mainland visitors increased by about 38 million or 5.5 times since the implementation of IVS in 2003, there are heightened concerns about Hong Kong's tourism handling capacity in the local community. Secondly, while Mainland visitors accounted for about one third of Hong Kong's total retail sales in 2013, per capita spending from Mainland visitors has exhibited decelerated growth in recent months, along with reduced spending on luxury items and shorter period of stay in Hong Kong. Thirdly, tourism is a rather small sector in Hong Kong, accounting for less than 5% of GDP. Its incremental growth impact as well as spill-over effect on the entire economy are rather limited. It remains to be seen whether the tourism industry can continue to grow as fast as it did over the past decade.¹⁶

3. Six Industries

3.1 While the four pillar industries have been a driving force of Hong Kong's economic growth for years, the Government has promoted six industries where Hong Kong enjoys clear advantages for diversifying the local industry structure ("Six Industries") (**Figure 7**). The Six Industries were first identified by the then Chief Executive in his 2009-2010 Policy Address in response to the recommendations made earlier by the Task Force on Economic Challenges.¹⁷ According to C&SD, the overall GDP contribution of the Six Industries increased modestly from 7.4% in 2008 to 8.7% in 2012. Likewise, their contribution to total employment only edged up from 11.0% to 11.9% over the same period.

¹⁶ See Bauhinia Foundation (2014).

¹⁷ In October 2008, the Government set up the Task Force to be entrusted with, among other things, assessing the impact of the 2008 global financial crisis and examining new economic areas for further development of Hong Kong.

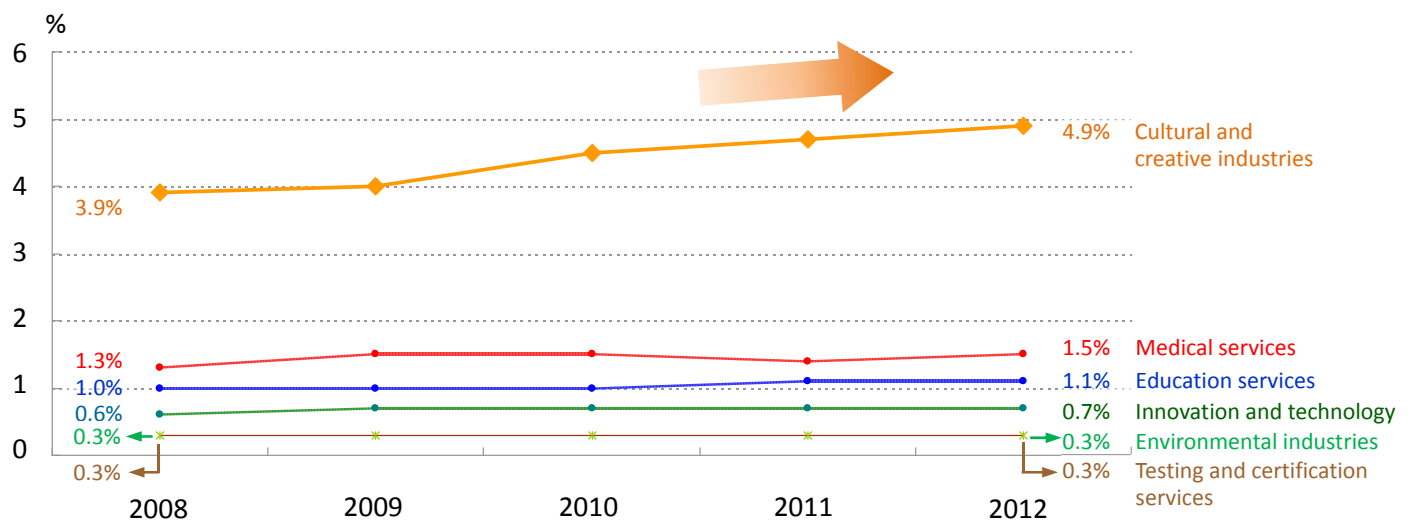
Figure 7 – Coverage of the Six Industries



Source: Census and Statistics Department.

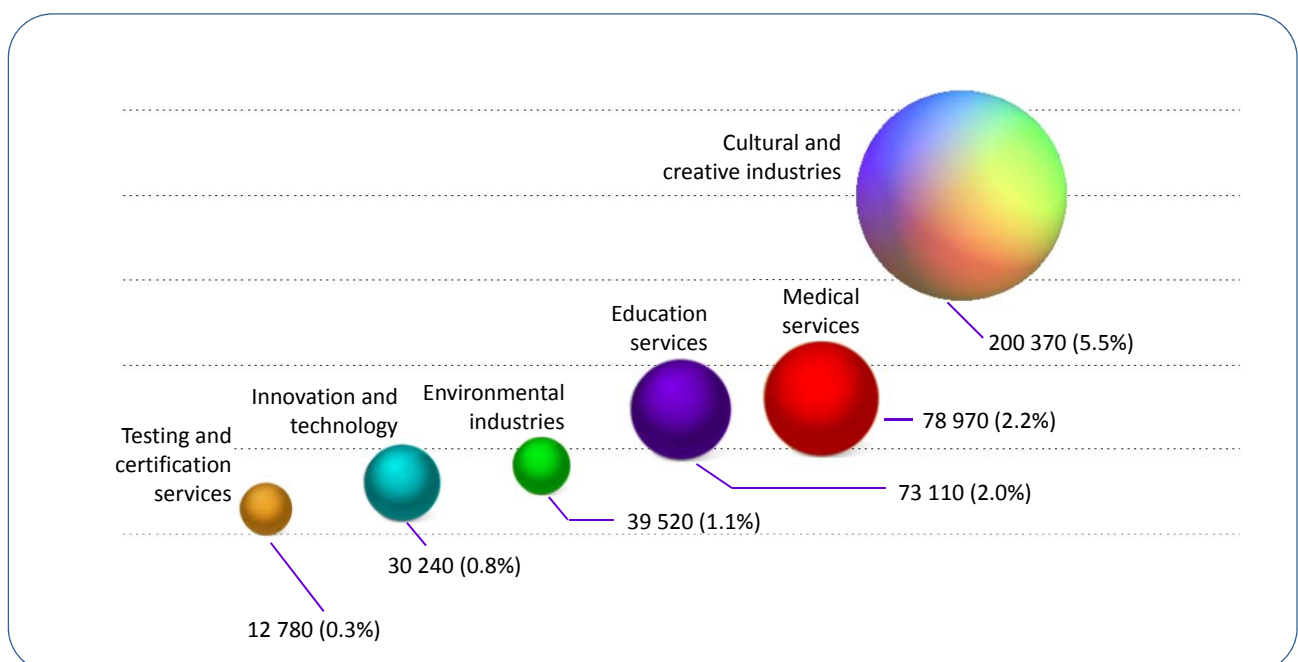
3.2 The cultural and creative industries have been the key growth driver of the Six Industries. Their GDP contribution increased from 3.9% in 2008 to 4.9% in 2012, the largest among the Six Industries. For the other five industries, their GDP contribution increased marginally or even stagnated during the period and reached a low of 0.3%-1.5% in 2012 (Figure 8). As for employment, the cultural and creative industries provided 200 370 jobs or 5.5% of total employment in 2012, much higher than the corresponding figures of the other five industries (Figure 9).

Figure 8 – GDP contribution of the Six Industries, 2008-2012



Source: Census and Statistics Department.

Figure 9 – Employment in the Six Industries in 2012 (no. of people employed and % share in total employment)














Source: Census and Statistics Department.

Challenges facing Six Industries

3.3 All the Six Industries have challenges of their own. For example, the cultural and creative industries are dominated by the software, computer games and interactive media segment which contributed 1.9% of GDP in 2012. For the other segments, their GDP contributions were less than 0.8%. In terms of employment by segment, the software, computer games and interactive media employed most people, at 49 700, in 2012, followed by publishing (44 200), advertising (18 320), art, antiques and crafts (17 730), and film, video and music (14 700).

3.4 Apart from the predominant software, computer games and interactive media segment, the cultural and creative industries also encompass another 10 segments of diverse market sizes and growth potentials (**Figure 10**). An area of note is the need to give priorities to those segments with greater potentials as suggested by the Task Force on Economic Challenges in 2009.¹⁸ The Task Force also highlighted the need for the Government to provide more funding to the companies operating in the cultural and creative activities, as most of them lacked capital and had greater start-up difficulties. Most recently, the Chief Executive stated in his 2015 Policy Address to promote the development of Hong Kong's film industry through a four-pronged strategy and inject funding into the Film Development Fund to support the strategy. According to C&SD, the GDP contribution of film, video and music remained stagnated at 0.2% during 2008-2012 while the number of jobs was reduced by 480 over the period.

Figure 10 – GDP contribution and employment of cultural and creative industries by segment

Segments	GDP contribution (2012)	Number of people employed (2012)	No. of jobs created/cut (2008-2012)
 Software, computer games and interactive media	1.9%	49 700	+5 850
 Publishing	0.7%	44 220	-2 730
 Advertising	0.4%	18 320	-130
 Art, antiques and crafts	0.6%	17 730	+110
 Architecture	0.5%	14 670	+1 780
 Film, video and music	0.2%	14 700	-480
 Design	0.2%	14 140	+3 040
 Cultural education and library, archive and museum services	0.1%	9 100	+1 790
 Amusement services	0.1%	8 230	+190
 Television and radio	0.3%	5 730	-1 230
 Performing arts	<0.1%	3 810	+900

Source: Census and Statistics Department.

¹⁸ See Financial Secretary's Office (2009).

3.5 The medical and education services, as mentioned above, have been identified by the then Chief Executive in his 2009-2010 Policy Address as two of the Six Industries for future development of Hong Kong. Yet, the incumbent Chief Executive stated in his 2013 Policy Address that "medical sector is facing manpower shortage, and the public is divided as to whether education services should be regarded as an industry. The need to meet local demand also clashes with the need to promote the growth of these two industries." It remains to be seen whether the medical and education services would be taken out of the Six Industries.

3.6 For the environmental industries and the testing and certification services, they are both facing the problems of a small-sized local market and limited research and development ("R&D") investment amid the dominance of small- and medium-sized enterprises. The testing and certification services also face keen competition from international brands which already have a presence in Hong Kong and many parts of the Mainland. Meanwhile, the development of the innovation and technology industry is constrained by the relatively modest private and public investment in R&D activities. Hong Kong's gross expenditure on R&D accounted for only 0.73% GDP in 2012, lagging behind many other developed Asian economies such as Singapore (2.04%), Taiwan (3.06%), Japan (3.35%) and South Korea (4.36%).

4. Concluding remarks

4.1 Trading and logistics is the largest among the four pillar industries, generating about 25% of GDP and 21% of total employment in 2012. Yet between 2002 and 2012, the industry recorded the lowest growth in GDP contribution and a virtually zero growth in the number of people employed. The weak performance is likely to continue in view of the forecast for the slow growth in both container throughput and air cargo in the years ahead. This inevitably calls for the need to improve the industry's prospects through measures such as expanding the cargo base and enhancing the efficiency and competitiveness of the industry.

4.2 The financial services industry, being the second largest pillar, enjoys "first-mover" advantage in offshore renminbi business. Looking ahead, possible further liberalization of the capital account and opening of domestic capital markets in the Mainland are likely to bring both opportunities and challenges to Hong Kong. The challenges might come from the gradual catching up of Shanghai and other Mainland financial centres as they expand their international outreach upon the opening up of the Mainland's financial sector.

4.3 As the smallest among the four pillars, the tourism industry has grown most rapidly and generated the largest number of new jobs. Many jobs created in the tourism industry are lower-paid jobs, and they are important for lower-skilled workers amidst Hong Kong's transformation into a more knowledge-based economy. After years of rapid growth, the tourism industry faces the issues of capacity constraints and the heavy reliance on Mainland visitors. The latter issue is of particular concern in the face of the recent trend of reduced spending by Mainland visitors on luxury items. Earlier on, there have been calls to promote non-Mainland markets, particularly high-yield long-haul markets, to achieve a diverse visitor portfolio.¹⁹

4.4 Compared with the other pillars, the outlook for the professional and producer services industry is likely to remain positive in view of the business opportunities provided by the still nascent services sector in the Mainland, which accounted for only 46.9% of Mainland GDP in 2013. Also lending support are the business opportunities for Hong Kong to serve the needs of Mainland enterprises going abroad and overseas enterprises entering the Mainland.

4.5 The Six Industries were first identified by the then Chief Executive in his 2009-2010 Policy Address to help diversify Hong Kong's industry structure. They collectively contributed 8.7% of GDP and 11.9% of total employment in 2012. Among the Six Industries, only the cultural and creative industries have achieved a significant growth in GDP contribution and employed most people. In 2012, the cultural and creative industries contributed about 4.9% to GDP and employed 200 370 people. The corresponding figures for the other five industries were much lower at 0.3%-1.5% and 12 780-78 970 respectively.

4.6 According to the paper submitted by the Task Force on Economic Challenges in 2009²⁰, all the Six Industries had their own challenges. For example, the environmental industries and the testing and certification services faced the problems of a limited local market and low R&D investment. For the medical and education services industries, the need to promote these two industries often clashed with the need to meet local demand. The Task Force's paper made a detailed assessment of the challenges facing the Six Industries and recommended a number of measures to address these challenges. In this connection, the Task Force had called for the Government to enhance its support for the emerging industries in order to help diversify the Hong Kong's industry structure.

¹⁹ See Hong Kong Tourism Board (2015).

²⁰ See Financial Secretary's Office (2009).