

# ECONOMIC FOCUS

Treasury Division



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## The Six New Industries: A Roadmap for Hong Kong's Future?

In the 2009/10 Policy Address, the Chief Executive unveiled new incentives, including accommodative regulations, land policy, financial incentives and human resources, to nurture six new industries namely, testing and certification, medical services, innovation and technology, culture and creative industries, environmental industry and education services.

The aim is to broaden Hong Kong's economic structure which is dominated by four pillar industries, including financial services, trading and logistics, tourism, and producer and professional services, which together account for about 60% of GDP and nearly half of the total workforce.

The move signifies a shift from the government's laissez faire economic policy, as the rapid rise of mainland China as an economic power presents both opportunities and challenges, the latter in the form of intense competition from cities such as Shanghai and Shenzhen, to Hong Kong's traditional growth drivers.

The change in economic dynamics would also have important implications for the labour market. From available statistics, job creation in the past decade was mainly concentrated in the trade, as well as the community, social and personal services sectors, while the less labour intensive financial service sector did not generate many jobs.

Companies' growing business in the Mainland was also a major force in job creation opportunities. Over the last decade, about one-third of the 400,000 new jobs created were driven by serving businesses in the Mainland as many companies now use Hong Kong as a base to serve their Mainland operations. However, it is uncertain whether this mode of operation can be sustained in the longer-run.

For instance, Hong Kong's trading and logistic sectors are facing intensified competition from the Mainland. These jobs may one day "move" to the Mainland, like factory jobs. It may be the reason why the Task Force on Economic Challenges has to look to the six new industries to boost employment and growth going forward.



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## Six New Industries to Drive Long-term Growth

The Chief Executive unveiled new incentives in the 2009/10 Policy Address, including accommodative regulations, land policy, financial incentives and human resources, in an attempt to nurture six new industries indentified by the Task Force on Economic Challenges to drive longer-term growth and broaden Hong Kong's economic structure.

### Exhibit 1

	Government Incentives
Education	<ul style="list-style-type: none"> <li>Reserve two sites in urban area for private tertiary education purposes, one in Ho Man Tin and one in Wong Chuk Hang, expecting to provide some 4 000 places.</li> <li>Increase the total commitment of the Start-up Loan Scheme by HKD2 billion to help institutions meet the costs of purpose-built accommodation and facilities</li> </ul>
Medical services	<ul style="list-style-type: none"> <li>Reserve four sites for private hospital development, which may provide traditional Chinese medicine services, at Wong Chuk Hang, Tseung Kwan O, Tai Po and Lantau.</li> <li>Step up the training of medical personnel, including doctors and nurse</li> </ul>
Testing & certification	<ul style="list-style-type: none"> <li>Hong Kong Council of Testing and Certification was established in September.</li> <li>The Council would draw up a 3-year development plan for the industry, in particular in promoting the development of Hong Kong as a testing and certification centre in Chinese medicine</li> </ul>
Environmental industry	<ul style="list-style-type: none"> <li>Government to expand the scope of green purchase</li> </ul>
Cultural & creative industries	<ul style="list-style-type: none"> <li>Expedite the retrofitting or redevelopment of under-utilised industrial building for use by the sector</li> <li>(1) Lower the threshold for compulsory sale for redevelopment for industrial buildings in non-industrial areas to facilitate the consolidation of ownership by owners;</li> <li>(2) Enable owners to pay additional premiums according to the actual development density after redevelopment based on a "pay for what you build" approach;</li> <li>(3) Allow owners who modify the lease for redevelopment to opt to pay additional premiums by instalments over a period of five years at a fixed interest rate if the premiums payable exceed \$20 million; and</li> <li>(4) Exempt owners who opt for the wholesale conversion of a building instead of redevelopment from paying the waiver fee for change of land use, provided that the requirement on age of property is met and planning permission is obtained.</li> <li>The second, third and fourth measures proposed will be effective only for three years starting from 1 April 2010. The approved projects for redevelopment have to be completed within five years, and those for wholesale conversion within three years.</li> </ul>
Innovation & technology	<ul style="list-style-type: none"> <li>New financial incentives (10% cash rebates) on R&amp;D investment</li> <li>Allocate about HKD200 million to launch an "R&amp;D Cash Rebate Scheme", under which enterprises conducting applied R&amp;D projects with the support of the Innovation and Technology Fund or in partnership with local designated research institutions would enjoy a cash rebate equivalent to 10% of the investments.</li> </ul>

Sources: 2009/10 Policy Address

The four pillar industries, namely, financial services, trading and logistics, tourism, and producer and professional services, have long been a major driving force for Hong Kong's economic growth. Together they account for about 60% of GDP and nearly half of the total employment. In comparison, the size of the six new industries is much smaller. They contribute only about 7% to 8% of GDP, and employs around 350,000 workers, or about 10% of the total workforce.



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## Exhibit 2

<b>% share of GDP</b>	<b>1998</b>	<b>2002</b>	<b>2007</b>
Trade & logistics	22.4	25.2	25.8
Financial services	9.8	11.6	19.5
Professional services & other producers services	12.3	10.4	11.0
Tourism	2.1	2.8	3.4
<b>Subtotal</b>	<b>46.6</b>	<b>50.0</b>	<b>59.7</b>
<b>% share of Total Employment</b>	<b>1998</b>	<b>2002</b>	<b>2007</b>
Trade & logistics	24.5	23.4	24.2
Financial services	5.4	5.5	5.5
Professional services & other producers services	9.8	10.7	11.7
Tourism	3.4	4.3	5.6
<b>Subtotal</b>	<b>43.1</b>	<b>43.9</b>	<b>47.0</b>

Sources: Census & Statistics Department, Hang Seng Bank

The incentives that will be offered to the six new industries signify a change in the government's approach to economic policy, from laissez-faire to more interventionist. Hong Kong has been able to benefit greatly from mainland China's expansion over the last three decades. Going forward, however, the rapid rise of mainland China now presents both opportunities and intense competition from cities such as Shanghai and Shenzhen, posing significant challenges to Hong Kong's traditional four growth drivers.

The government's traditional non-interventionist approach has now come under pressure. The latest Nobel Prize winning economists also challenged the standard theory that economic decisions would always be more efficient if they were left to the marketplace.

## The Economic Dynamics and Job Opportunities

The latest policy measures may also be one of the government's responses to a shifting economic structure from manufacturing to trade and financial services over the last three decades. The government aims to identify new growth areas as the local economy was plunged into a deep recession as a result of the global financial and economic crisis.

The contribution of manufacturing activities to GDP plunged to 2.9% in 2008, from 22.8% in 1980; whereas the share of trading and financial services climbed to 23.4% and 18.8% in 2008, from 9.9% and 6.9% in 1980, respectively. As a consequence, the employment structure also underwent significant changes during this period.

From available employment statistics, job creation was mainly concentrated in the trade, as well the community, social and personal services sectors driven largely by education and medical services. The less labour intensive financial service sector did not create many jobs over the past 12 years.



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Between 1996 and 2008, an overall of 717,000 new jobs were created, but 307,000 jobs were cut from the manufacturing, construction and whole and retail sectors.

Among the 717,000 newly created jobs, 37% were from the community, social and personal services sector, and another 30% came from the trade sector. The less labour intensive financial service sector only added 35,000 jobs, or less than 5% of the total.

**Exhibit 3**

	1996	2008	Job Creation		Job Loss	Net New Jobs
	('000)	('000)	('000)	(%)	('000)	('000)
<b>Total</b>	<b>3,144</b>	<b>3,544</b>	<b>717</b>	<b>100.0</b>	<b>-307</b>	<b>400</b>
Trade	331	548	217	30.3	---	217
Financial services	164	199	35	4.9	---	35
Community, social & personal services	680	942	262	36.5	---	262
<i>Medical and health services</i>	262	357	95	13.2	---	95
Real estate & business services	228	378	150	20.9	---	150
Transport & storage	289	328	39	5.4	---	39
Wholesale & retail	370	350	---	---	-20	-20
Restaurant & hotels	247	261	14	2.0	---	14
Manufacturing	467	195	---	--	-272	-272
Construction	289	274	---	--	-15	-15

Sources: CEIC, Hang Seng Bank

## The Mainland China Factor and Business Model

Hong Kong companies' growing business in the Mainland was also a major force in creating job opportunities. Over the last decade, about one-third of the 400,000 new jobs created were driven by serving business in the Mainland, in particular trading and manufacturing activities.

Many companies now use Hong Kong as a base to serve their mainland business. It is uncertain whether this mode of operation can still be sustained in the longer-run. For instance, Hong Kong's trading and logistic sectors are facing intensified competition from the Mainland. These jobs may one day "move" to the Mainland, like factory jobs.

It may be the reason why the Task Force on Economic Challenges has to look to the six new drivers to boost employment and growth going forward.

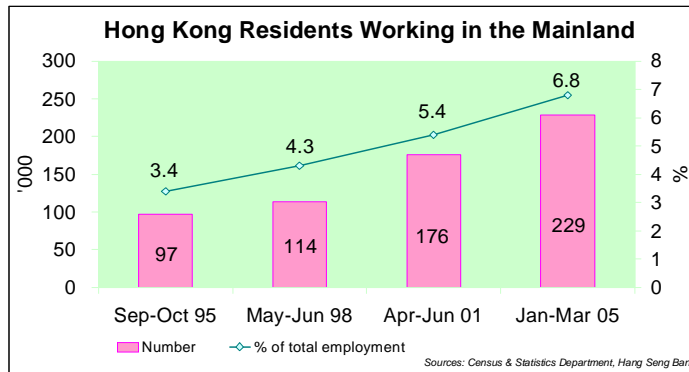


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**Exhibit 4**



**Exhibit 5**

	1995	2005
Manufacturing	55.9%	20.1%
Construction	4.8%	2.9%
Wholesale, retail, trade, restaurant & hotels	29.1%	59.3%
Transport, storage & communications	2.4%	4.9%
Financial, real estate & business services	6.4%	11.0%
Others	1.3%	1.8%
<b>Total (Hong Kong Residents Working in the Mainland)</b>	<b>100%</b>	<b>100%</b>

Sources: CEIC, Hang Seng Bank



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