

New TDC Study Finds Hong Kong's Manufacturing and Trading Sector Provides More Than US\$70 billion to Economy

First-of-its-kind study estimates that the sector provides indirect contributions worth US\$31 billion, boosts GDP

Hong Kong November 23, 2006 - Hong Kong's manufacturing and trading sector contributes more than US\$70 billion annually to the local economy when taking into account the business it generates for local service providers, according to a new study commissioned by the Hong Kong Trade Development Council (TDC).

Approximately US\$31 billion from the manufacturing and trading sector goes into Hong Kong's economy annually by way of indirect contributions created by the sector's demand for other non-trading activities such as finance and insurance, transport and logistics, real estate and business services, the study found.

By this calculation, the total value added by the manufacturing and trading sector represented approximately US\$71.7 billion in 2004. The most recent Government estimation of the direct contribution of manufacturing and trade to the local economy is slightly more than US\$40 billion in 2004.

Jobs created by sector up significantly as well

The study dramatically increased the employment number generated by the manufacturing and trade sector to 1.35 million in 2005, also by taking into account the relevant connected service industries.

That means the sector is responsible for 576,400 more jobs (up 75 per cent) than direct estimates. The official Government estimate for jobs created by the manufacturing and trading sector is 773,400 for 2005.

"This is the first study to demonstrate the importance of external trade by measuring both the direct and indirect contributions of Hong Kong's manufacturing and trading sector", said Professor Sung Yun Wing, one of two economists from the Chinese University of Hong Kong's Economics Department who produced the study.

"We used an input-output table to estimate the linkage effect of one industry with the others since

industries rely on each other - e.g. the manufacturing and trading sector would need the services provided by the financial industry. Our findings show that the contribution of the manufacturing and trading industry is much larger than commonly perceived".

Trading also boosts domestic demand

"The impacts of these direct and indirect contributions are not one-off - the income generated by the sector induces consumption spending and creates further domestic demand in the local economy", said Professor Chou Win Lin, who also conducted the study with an econometric model, designed to measure the aggregate impact of economic activity by constructing the statistical relationship among different economic variables.

"We estimate that for every 5 per cent increase of exports of goods, Hong Kong's real GDP would be boosted by 2.4 percentage points (of which re-exports contribute more than 80 per cent of that growth) and the unemployment rate would be reduced by 0.6 percentage points, on average", said Professor Chou.

Positive outlook for trading business and job creation

TDC Chief Economist Edward Leung pointed out that trade will continue to be a major growth engine for Hong Kong. He noted that the sector is always among the first to recover from downturns, withstanding cyclical rises and falls, while demonstrating continued growth, which ultimately leads to job creation.

Based on a TDC survey done along with the study of 682 exporters in Hong Kong with local and mainland trading activities earlier this year, it was found that 45 per cent of respondents said they would expand their activities in Hong Kong. Concerning job creation, 46 per cent of respondents said they would increase their staff numbers in the next three years. If applied across the Hong Kong economy, that response indicates that up to 90,000 new jobs could be created in Hong Kong by the end of 2008.

"While local manufacturing activities continue to migrate abroad, usually to the Chinese mainland, they are supported by high value-added activities and other sophisticated services that manage, coordinate and finance these offshore activities from Hong Kong", said Mr. Leung.

"Our findings show that the relocation of local industry is actually an expansion of Hong Kong's industrial enclave and helpful to upgrading its services content".

