

# Hong Kong The Servicing Economy

## Hong Kong : The International Financial Centre

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## Offshore Prospects Brighten for Hong Kong Banks

**Adrian Li**

Chairman, Financial Services Committee  
Hong Kong Coalition of Service Industries

It is interesting that we are now trying to gain useful insights from the experience of Hong Kong banks "going" international.

Interesting, because the Hong Kong banking industry was international, even before it was local. The impetus that led to the founding of a banking industry in Hong Kong was the need to provide a trusted regional banking network for local trading firms.

The Bank of East Asia, for example, opened its first branch in Hong Kong in 1919. Its second branch was in Shanghai in 1920, followed by Saigon in 1921, and Guangzhou in 1922. Only then was the Hong Kong base expanded, with a Kowloon branch in 1924.

Rapid growth in purely local banking business only took place after the Second World War. Growth was especially rapid from the mid-1960s, as an emerging middle class offered a bright new market for banking services.

While banks grew at home, the regional environment discouraged expansion. A post-colonial Asia saw the need to protect indigenous firms against foreign competition; business in China wound down following the 1949 revolution.

The protectionist environment lasted through the last half of the 20th century. In fact, it is only since the Asian Financial Crisis of 1997-98 that many long-standing restrictions began to be lifted, and Hong Kong banks could again explore opportunities to play a regional role.

The banking industry, however, does not break paths into new markets. Banks follow their customers.

The migration of Hong Kong companies across the border into the Pearl River Delta during the 1980s and 1990s, and a relaxation of banking

regulations on the Mainland, inspired many local banks to push across the border into Shenzhen and beyond. For the first time in decades, local banks were free to play a significant regional role in support of Hong Kong's expanding manufacturing and trading influence.

That expansion quickly came to a halt in 1994, however, when China limited future expansion to those institutions with assets of US\$20 billion or above. That administrative measure effectively froze the China expansion plans of most Hong Kong-headquartered banks, at a time when Hong Kong companies were ratcheting up their investments in the Mainland.

Hong Kong banks would wait a further 10 years before these restrictions were lifted, with the signing of the Closer Economic Partnership Arrangement (CEPA). By reducing the minimum asset limit to US\$6 billion, CEPA effectively reopened the China market to all of the major Hong Kong banks.

Hence, the importance of CEPA should not be underestimated, for CEPA was the instrument that allowed Hong Kong banks to once again play their natural regional trading role. The first banks to take advantage of the market-opening measures under CEPA were Dah Sing Bank and Wing Lung Bank, both of which opened new branches in Shenzhen in June 2004.

Significant restrictions still remain on Hong Kong banks doing business on the Mainland, however.

Their ability to deal in Renminbi is severely limited, as there are controls on their access to the deposits from Mainland residents for funding. The Personal Renminbi Scheme in Hong Kong did nothing to ease these restrictions, as all Renminbi collected is subsequently transferred to the Bank of China (Hong Kong) Limited, and cannot be used within a bank's own operations.

All foreign banks in China must also inject up to RMB\$500 million for each new city where they open a branch on the Mainland if they wish to conduct all types of local-currency and foreign-currency businesses with all customers, a significant amount of capital for all Hong Kong-based banks. Under China's definition, a branch is effectively the headquarters for operations in that city. The requirements for opening subsequent branches in the same city are less onerous. Still, the requirement makes it very difficult for Hong Kong banks to extend their reach to new areas.

All of the above are important subjects for discussion under any CEPA II negotiations between Hong Kong and the Mainland.

I mentioned earlier that banks do not open new markets. Rather, they follow their customers.

The unprecedented wave of emigration from Hong Kong to North America, Australia, Britain and other areas during the 1980s and 1990s created a golden opportunity for overseas expansion for Hong Kong banks.

The emigrants often retained both personal and business ties to Hong Kong and China once they left Hong Kong. And the overseas jurisdictions in which they settled had fewer restrictions on market entry for foreign banks than most jurisdictions in the Asian region.

Hong Kong banks enjoyed a significant advantage over their counterparts overseas in serving this emigrant community, and the community's business and personal needs in Hong Kong and China. This advantage remains as strong if not stronger today, as the Mainland's rapid economic expansion generates ever greater business opportunities. ●

# Hong Kong - the Leading Centre for Syndicated Loans in Asia

Philip Cracknell

Global Head of Syndications, Standard Chartered Bank  
Chairman, Asia-Pacific Loan Market Association

Hong Kong is the leading centre in the Asia-Pacific region for the syndicated loan market. Its leading position is reflected by the fact that the majority of banks involved in syndicated loans have their regional heads for capital markets and syndications based in Hong Kong, rather than alternate centres like Tokyo, Singapore or Sydney.

Syndicated loans are a flexible and fast way for borrowers, be they corporations, banks or governments, to raise large amounts of financing. Normally, either one or a small number of banks bid to arrange a syndicated loan, either on an underwritten basis or a best efforts basis. These banks are called the Mandated Lead Arrangers and will conduct a syndication in which other banks from the region and often from other regions, are invited to join the consortium of lenders. An Agent bank facilitates communication between the Borrower and the Lenders. The loan can be in almost any major currency. In Hong Kong most loans are denominated in Hong Kong Dollars or US Dollars. The maturity can range from one year to as long as 15 or 20 years in the case of Project Financings, although a majority of syndicated loans range in maturity from three to seven years. The size of syndicated loans varies from as much as USD10 billion to as little as USD20 million. The largest syndicated loan arranged in Hong Kong to date was the USD12 billion facility to finance the acquisition of HK Telecom by PCCW from Cable & Wireless in 2000. Loans to blue chip corporations are typically in the range of HKD3 to 10 billion, and loans to small and mid-cap corporates are usually in the range of HKD100 million to HKD1 billion.

The volume of syndicated loans raised in the market is typically highly correlated to economic growth rates and prevailing economic sentiment. The market in Hong Kong typically sees volumes in the range of USD20 billion in syndicated loan finance raised annually, through around 70 to 100 separate deals. Volume has been as high as USD50 billion in 1997, and as low as USD10 billion a year later in 1998 as the full impact of the Asian financial crisis stalled the capital markets across the region. Volume in 2003 was USD16 billion and 2004 is expected to show similar levels.

The syndicated loan industry in Asia is represented by the Asia-Pacific Loan Market Association



("APLMA"), whose members include the Hong Kong Monetary Authority and Monetary Authority of Singapore. The APLMA is headquartered in Hong Kong and has branches based in Sydney and Singapore. The membership consists of banks, law firms, media, rating agencies and other institutions involved in the USD200 billion syndicated loan market in Asia.

An illustration of the pivotal role played by Hong Kong in this market is the fact that in the last 5 years, over 200 loan transactions have been arranged and syndicated in Hong Kong for borrowers outside Hong Kong. Around 100 of these have been related to Mainland China, but many other deals have been arranged in Hong Kong for borrowers from countries including Australia, India, Indonesia, Malaysia, Thailand, the

Philippines, South Korea, Taiwan and the US. Borrowers from around the world have regularly come to Hong Kong to raise funds, due to the depth of liquidity in the market, and international outlook of participant banks.

A further reason that the Asian syndicated loan market is centred in Hong Kong, is the availability of a wide range of expert advisory services. Many of the largest professional services firms base the majority of their Asian-based advisory staff in Hong Kong, providing arranger banks and borrowers in the syndicated loan market with easy access to world-class transactional advisory services in areas such as law, accountancy and tax.

In more specialised areas of financing, Hong Kong has also led the region in providing loan financing and advisory services. An illustration was the first ever leveraged buyout transaction in the South-East Asia region, namely the 2003 purchase in Singapore of the Yellow Pages publishing businesses from Singapore Telecom, by financial sponsors CVC Asia-Pacific and JP Morgan Partners. The deal was arranged and syndicated in Hong Kong due to the range of expertise available from the arranger banks, and the presence of the key financial sponsors in Hong Kong.

As economic recovery and increased capital expenditure drive growth in activity in the syndicated loan markets, and particularly as China continues to attract both foreign and domestic investment, Hong Kong looks set to continue to dominate the regional landscape for loan capital raising. ●

## Volume of Syndicated Loans in Asia (US\$ millions)

	2001	2002	2003	2004 1 <sup>st</sup> Half
Japan	79,180	71,395	103,311	48,684
NE Asia <sup>1</sup>	47,843	45,535	46,542	23,798
Australasia	20,386	24,933	30,475	17,022
SE Asia <sup>2</sup>	14,757	15,779	17,268	9,249
India Region	1,738	1,880	3,837	2,388
TOTAL	163,904	159,522	201,433	101,141

(Data sourced from Dealogic Loanware)

<sup>1</sup> Hong Kong, China, Taiwan, South Korea

<sup>2</sup> Singapore, Malaysia, Indonesia, Thailand, Philippines, Vietnam, Brunei,

# HKEx Builds on its Strength as China's International Capital Formation Centre

## Lawrence Fok

Executive Vice-President  
Business Development and Investor Services Division  
Hong Kong Exchanges and Clearing Limited

Hong Kong Exchanges and Clearing Limited (HKEx) has long recognised the importance of Mainland China to the development of the Hong Kong securities market. Over the years, HKEx has organised many different activities to promote its listing infrastructure to Mainland companies that are interested in listing on the Hong Kong securities market. Based on the trends over the past decade, the Mainland market will continue to be one of the major sources of growth for the Hong Kong securities market. Set out below are some statistics that illustrate how Mainland companies have transformed the Hong Kong securities market since 1993.

Prior to 1993, when the first Mainland company was listed on the Hong Kong securities market, market capitalisation was around \$1,330 billion. As at 30 June 2004, the market capitalisation of Mainland listed companies alone was over \$1,668 billion. During the period from 1993 to 2004, the top 10 initial public offerings (IPO) were all from the Mainland. They included mobile phone companies, insurance companies and petrochemical companies. The total funds raised on the Hong Kong securities market during this period amounted to \$1,784 billion. Mainland companies alone accounted for \$876 billion; approximately half of the total funds raised.

During 2003, 38 of the 73 newly listed companies on the Hong Kong securities market were from the Mainland. Mainland companies accounted for about 88 per cent of the total amount raised through IPO in 2003 and Mainland companies' shares had total turnover of around \$1,060 billion which amounted to around 46 per cent of the total market turnover. During the first half of 2004, Mainland companies' shares accounted for 43 per cent of the total turnover or about \$890 billion.

HKEx has organised many activities in Hong Kong and on the Mainland in recent years to provide information about the role of Hong Kong in capital formation to both potential issuers and listed companies from the Mainland. The activities have included senior HKEx executives' meetings with Mainland government officials, representatives of Mainland companies and reporters from the Mainland media. HKEx has also organised and co-organised listing conferences in various cities on the Mainland, hosted Mainland business delegations visiting Hong Kong; assisted Mainland organisations in organising listing conferences in Hong Kong, and co-organised training programmes in Hong Kong for both listed companies and potential issuers from the Mainland. These activities have provided an opportunity for Mainland companies to hear directly from HKEx why they should consider listing on the Hong Kong securities market.

With the support and cooperation from professionals in the Hong Kong financial services sector, HKEx continues to organise listing conferences in various cities on the Mainland, including Beijing, Shanghai, Shenzhen, Hangzhou, Nanjing, Jinan, Chengdu and Chongqing. To help Mainland companies keep abreast of the latest developments in the Hong Kong securities market, each conference provides up-to-date information on the market. Some listing conferences are aimed at increasing the profile of Hong Kong's H-share market, others focus on topics such as new listing rules and corporate governance issues. The next conference by HKEx will be held in Shanghai and the main focus will be on promoting Hong Kong's listing services to the Mainland's state-owned enterprises.

HKEx has co-organised numerous educational seminars and training programmes both in Hong Kong and on the Mainland. In 2002, over 40 educational seminars were co-organised by HKEx with the local governments of a number of Mainland provinces and cities. Estimates showed that over

7,000 people attended these seminars. HKEx also co-organised training programs with the State Council's Office of Hong Kong and Macau Affairs, the National Science and Technology Venture Capital Development Centre, the Hong Kong Institute of Company Secretaries and the Hong Kong Securities Institutes. Such training programs, which take place in Hong Kong on an annual basis, allow Hong Kong-listed Mainland companies and potential listing applicants from the Mainland

to gain a better understanding of ongoing corporate governance developments and the responsibilities of companies listed in Hong Kong.

Under the Closer Economic Partnership Arrangement between Hong Kong and Mainland China (CEPA), HKEx officially established a representative office in Beijing on 17 November 2003. Approval from the China Securities Regulatory Commission was recently obtained for establishing two new contact points on the Mainland, one in Shanghai and the other in Guangzhou. These are all part of the initiatives HKEx has taken to better serve the Mainland market.

The long-term economic growth of China and the successful penetration by Mainland enterprises into the global marketplace will undoubtedly mean that even more Mainland enterprises will be interested in expanding through listing. Hence the Mainland market will continue to be of vital importance to the growth of the Hong Kong securities market. HKEx will continue to seek ways to better serve this fast-growing market. ●



# How International is Hong Kong's Financial Services Industry?



Dr K S Maurice Tse

Associate Professor, School of Economics and Finance  
The University of Hong Kong

only at the wholesale level, but also at the retail level. There is a wide spectrum of equity funds available for local and foreign investors to invest in any major equities market in the world. Hong Kong is a regional centre for fund management, with 172 companies providing fund management and advisory services and managing more than 2,000 authorized funds. Most of them are managed by international financial managers. About 70 percent of the assets in the authorized funds belong to foreign investors.

Hong Kong has also become the most important centre for raising capital servicing China Inc. Its stock market has channeled more than 80 percent of the equity capital that companies in China raised from outside of China. However, while new international company listings in Hong Kong have been few in recent years, bank loans have remained the mainstay of debt financing for the corporate sector, and is a major originator of structured loans and syndicated debt with built in risk management devices. Although the debt market is small by international standards and relative to the local equities market, banks in Hong Kong also offer various services that allow investors to invest in fixed income securities outside Hong Kong through swap arrangements, bond funds with returns linked to the U.S. Treasury or corporate yield spreads, or structured products offered by individual banks that mimic fixed income securities in the United States and Europe. Further, risk management tools in Hong Kong include traded stock options, futures, and warrants while interest-rate linked instruments and forex derivatives are actively traded in Hong Kong's wholesale money, forex, and other over-the-counter derivatives markets. Although the size and scope of the overall derivatives market is smaller than that of SIMEX in Singapore, it is growing as the general public becomes better educated about the nature and the use of these derivatives products. Hong Kong has also become a major centre for non-life reinsurance in the region.

## Unique Position of Hong Kong

As a financial center in China, Hong Kong has its own set of unique features. Hong Kong has always

practiced a *laissez faire* market economy; it has its own independent but imported English common law system which is transparent; it has a simple tax system with low tax rate; culturally, it is a melting pot of Chinese and Western traditions; there is no foreign exchange control for both residents and non-residents; it has a liberal regime toward foreign bank and equity ownership and a free port policy to foreign professionals; and, it is an integral part of China's economy. All these factors have culminated in making Hong Kong the window to the international capital markets for China Inc.

## Looking Forward

For the financial services industry of Hong Kong to remain international, Hong Kong must attract more foreign corporations to open their headquarters in Hong Kong.

To enhance Hong Kong's financial stability with better protection against external shocks, Hong Kong needs to further develop its young and small debt market.

Increased economic integration with the Mainland is a challenge, but it will definitely create cross-border opportunities. For example, the lack of risk management tools and derivative products in China has left room for Hong Kong to develop into a convenient centre for risk management for multinational corporations operating in China.

Frequent scandals at mainland companies recently have tarnished the image of China Inc. and will make it harder for many state-owned enterprises to raise capital through planned IPOs abroad. Even if they succeed, foreign investors will definitely price in that risk when valuing Chinese stocks. To restore investors' confidence in such stocks, Hong Kong needs to tighten its liberal listing rules and strengthen scrutiny of listing applicants.

As a founding member of the WTO, Hong Kong has to harmonize its domestic laws and principles with international standards, with special emphasis on corporate governance and ethics. ●

How international is Hong Kong's financial services industry? No one would say it is not, at the very least. When Hong Kong sneezes, markets around the world certainly notice. A recent study by Shaun A. Bond of Cambridge University shares this view. During the Asian financial crisis between October 1997 and March 1998, contagion from the real estate market in Hong Kong contributed around 53 percent of the volatility to the Australian real estate securities market, 40 percent to the Japanese market, and 45 percent to the U.S. market. The equity market contagion from Hong Kong had comparable impacts on those markets. The financial markets around the world are so deeply integrated that it takes very little time for the butterfly-effect to travel across continents.

## Financial Services in Hong Kong

The international-ness of Hong Kong's financial services is evident across all key areas of financial services, namely, products for investing and savings, raising capital and extending credit, transferring funds, managing risk, and offering financial advice.

First of all, Hong Kong is definitely the financial centre that allows the freest flows of capital in the region.

In terms of choices of financial products and services, Hong Kong is definitely international not

# Development of the Debt Market in Hong Kong

Financial Services and the Treasury Bureau, HKSAR Government

The development of deep and liquid debt markets has been a longstanding goal of many Asian economies. Big, robust and diversified capital markets in Asia would help to keep Asian savings within the region and reduce the chance of financial volatility and instability for the region arising from capital flows seeking better investment opportunities outside Asia. Like many Asian economies, Hong Kong needs to develop deeper, bigger and more robust capital markets. Promoting the local debt market has therefore been high on the agenda of the Hong Kong Government.

To strengthen our position as an international financial centre, the Government has done a lot in promoting debt issuance in Hong Kong, including providing the necessary financial infrastructure, simplifying the issuance process and offering tax incentives. These help create a favourable environment for debt market development in Hong Kong.

## **Financial Infrastructure**

The Central Moneymarkets Unit (CMU), operated by the Hong Kong Monetary Authority (HKMA), offers a safe, convenient and efficient clearing, settlement and custodian system for debt instruments in Hong Kong. The current aggregate value of debt securities lodged with the CMU is HK\$352 billion equivalent, about 60% of the total outstanding amount of Hong Kong dollar debt securities. The CMU is also a multi-currency system with linkages with regional and international central securities depositories including Euroclear, Clearstream, AustraClear and Korea Securities Depository. This greatly facilitates cross-border settlement for debt securities in the Asia Pacific region. The aggregate value of debt securities held by domestic and foreign investors through the mentioned depository links amounts to HK\$25 billion equivalent.

To foster cross-border debt securities settlement between the Mainland and Hong Kong, the HKMA signed an agreement on 28 April 2004 with the China Government Securities Depository Trust & Clearing Co. Ltd. (CDC) to establish a direct link between the HKMA's CMU and the CDC's Government Securities Book-Entry System (GSBS). This is a one-way link from the GSBS to the CMU so that CDC Members (including banks, trust companies and other financial institutions in the Mainland) that are authorised to invest in foreign debt securities may settle and hold Hong Kong and foreign debt securities through the CDC's account with the CMU. This new GSBS-CMU link significantly improves the access of Mainland investors to debt securities issued and traded outside the Mainland in a safe and cost-effective manner.

## **Issuance Process**

The Government plans to overhaul the existing regulatory regime for the offer of shares and debentures to the public in three phases. The Securities and Futures Commission (SFC) implemented the *first phase* in February 2003, comprising the issue of guidelines on awareness advertisements, "dual prospectus" and relaxation of procedural requirements for registration of prospectuses. In the *second phase*, legislative amendments were passed in July 2004 to simplify the procedures for the registration and issue of prospectuses, thereby fostering the development of retail debt securities and other financial products. For the *third phase*, the SFC is conducting a comprehensive review of all local laws and procedures governing public offers of securities with reference to regulatory reforms introduced in other

leading international financial centres, with a view to putting in place a framework that provides the most efficient, competitive and fair environment for issuers and investors alike.

## **Tax Incentives**

The Government proposed in the 2003/04 Budget Speech to increase the tax concessions on trading profit and interest income derived from qualified debt instruments (QDIs). The new measure reduces the eligible maturity period of QDIs for 50% tax concession from not less than 5 years to not less than 3 years; and increases the tax concession for QDIs of not less than 7-year maturity period from 50% to 100%. This proposal was passed into law in November 2003. The increased tax concessions for QDIs should be conducive to the enhancement of supply and trading of medium and long term debt instruments.

## **Hong Kong Debt Market**

In Hong Kong, starting from 1990, the Government has been issuing Exchange Fund Bills and Notes through the HKMA, and a pilot scheme for promoting Exchange Fund Notes in the retail market was launched in August 2003. The Hong Kong Mortgage Corporation has been issuing mortgage-backed securities since 1999. Many other public corporations have also taken the lead in launching debt issuance programmes, including local currency bonds with longer maturity periods, particularly at the retail level. For instance, the Hong Kong Mortgage Corporation has recently launched a HK\$20 billion Retail Bond Issuance Programme and its first issuance under such programme. Its revolutionary reforms to the prospectuses to make them more user-friendly and also a convenient marketing tool to investors, taking advantage of the new guidelines issued by the SFC, is a significant development in the local retail debt market. Other examples include the 7 to 15 year bonds issued by the Airport Authority and the two railway corporations.

In May 2004, the Government successfully launched a bond programme that securitises the revenues of Government-owned tolled tunnels and bridges which raised about HK\$6 billion. In July 2004, the Government also successfully launched its first global bond issue of HK\$20 billion. The issues were met with overwhelming response from both retail and institutional investors. These bond programmes not only help channel long-term funds to meet the funding needs for the Government infrastructure projects, but also reflect investors' confidence in the future of Hong Kong as well as demonstrate Hong Kong's capabilities as a premier capital formation centre in Asia. They certainly help enhance the depth of the capital market and maintain a reliable benchmark yield curve.

The size of the Hong Kong dollar debt market has continued to grow. As at end-July 2004, the total outstanding amount of Hong Kong dollar debt securities has grown to HK\$591 billion, representing an increase of 5.9% over the amount outstanding as at end-2003.

Looking ahead, the Government will continue to work with the industry to facilitate the development of the debt market in Hong Kong through continued efforts to remove impediments, provide the best infrastructure and regulatory environment, as well as encourage public and private corporations to issue debt securities in Hong Kong. ●

# Statistics on the Financial Services Sector in Hong Kong



## Introduction

Hong Kong is one of the leading international financial centres in the Asia Pacific region. In terms of market capitalisation, Hong Kong's securities market ranked tenth in the world in June 2004. Hong Kong is also one of the most popular banking and insurance centres. Many prominent international banks and insurance companies have a presence here.

## Coverage

The financial services sector of Hong Kong comprises:

**Banking services:** which cover licensed banks, restricted licence banks, deposit-taking companies (collectively known as authorised institutions) and representative offices of foreign banks.

**Insurance services:** which cover life insurers, general insurers and insurance agents and brokers.

**Other financial services:** which cover a wide range of other financial services, including investment and holding companies; personal loan companies; security, commodities and bullion brokers and exchanges; and fund management companies, etc.

## General Situation

There were 134 licensed banks, 42 restricted licence banks and 39 deposit-taking companies in Hong Kong as at end 2003, operating over 1 300 local office branches. Of these 215 authorised institutions, 88 were incorporated in Hong Kong and 127 were incorporated overseas. Besides, there were 188 authorised insurers (of which 23 were reinsurers) and about 32 100 appointed insurance agents and brokers in 2003.

In 2002, there were 15 600 establishments actively engaged in the financial services sector, providing jobs for 179 000 people. These represented increases of 41% and 96% respectively over 1992. The growth of the insurance industry was particularly remarkable, which recorded increases of 66% in number of establishments and 168% in number of persons engaged from 1992 to 2002.

## Economic Contribution

The value added (VA), which measures the net output of economic activities generated by establishments in the financial services sector, increased by 87% from HK\$78.5 billion in 1992 to HK\$146.7 billion in 2002. The insurance industry again saw the fastest growth, with VA increased by 134% from HK\$6.8 billion to HK\$16.0 billion over the same period.

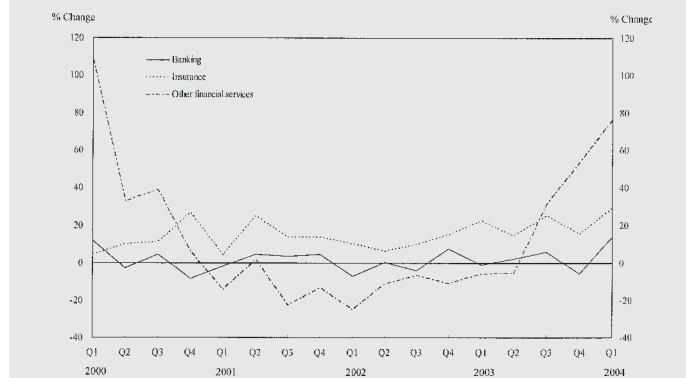
### Percentage Contribution of the Financial Services Sector to GDP at Factor Cost

	1992	1995	1998	2001	2002
Banking	7.6	8.0	7.6	8.4	8.4
Insurance	0.9	1.2	0.9	1.3	1.3
Other financial services	2.1	1.4	1.9	2.5	2.5
Total	10.6	10.6	10.5	12.1	12.2

Note: Figures may not add up to the corresponding total due to rounding.

The contribution of the financial services sector to Hong Kong's Gross Domestic Product (GDP) at factor cost increased from 10.6% in 1992 to 12.2% in 2002. Banking services all along had the largest shares (about 70%) of VA contribution in this sector.

### Year-on-Year % Changes of the Business Receipts Indices for the Financial Services Sector



## Recent Business Performance

Along with the increases in business activities of almost all service industries, business receipts of the banking industry increased by 13.8% in the first quarter (Q1) of 2004 as compared with the same quarter last year. This was brought about by the growth in non-interest income.

The insurance industry recorded a robust growth in business receipts in Q1 2004, by 29.1% as compared with the same quarter last year, attributable mainly to the expansion in both general and life insurance businesses.

Business receipts of the other financial services industry recorded remarkable year-on-year increases (ranging from 31% to 76%) in Q3 2003 to Q1 2004. This is due to the brisk trading in the local securities market since Q3 2003, fuelled by the prosperous economic outlook brought about by the signing of the CEPA and the introduction of the Individual Visit Scheme.



# Major Statistics of Hong Kong

	2001	2002	2003	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04
<b>1. Labour Force</b>								
Total employed persons (a)	3 256 400	3 235 200	3 226 500	3 247 000	3 222 700	3 198 000	3 238 400	3 260 000
Unemployment rate (%)	5.1	7.3	7.9	7.5	8.6	8.3	7.3	7.2
<b>2. Sectoral Employment (%) (a)</b>								
Manufacturing	6.5	6.0	5.4	5.5	5.4	5.4	5.2	5.2
Services (b)	83.5	84.1	85.3	84.8	85.4	85.3	85.5	85.7
Others	10.0	9.9	9.3	9.7	9.2	9.3	9.3	9.1
<b>3. Gross Domestic Product (GDP)</b>								
GDP at current market prices (HK\$ million)	1,269,896	1,247,381	1,220,023	295,393	283,911	313,859	326,860	302,898
Per capita GDP at current market prices (HK\$)	188,835	183,790	179,333	N.A.	N.A.	N.A.	N.A.	N.A.
Year-on-year growth rate of GDP in real terms (%)	0.5	1.9	3.2	4.4	-0.6	4.0	4.9	7.0
Trade balance - goods (HK\$ million)	-64,970	-39,406	-44,970	-15,985	-9,811	-1,386	-17,788	-32,814
Trade balance - services (HK\$ million) (c)	115,204	135,736	155,810	35,207	28,022	42,386	50,195	42,055
<b>4. Value of Trade in Goods</b>								
Year-on-year growth rate of total exports (%)	-5.8	5.4	11.7	17.6	12.2	7.1	11.4	13.0
Year-on-year growth rate of imports (%)	-5.4	3.3	11.5	17.8	9.6	6.1	13.8	15.7
<b>5. Tourism</b>								
Visitor arrivals	13 725 332	16 566 382	15 536 839	4 301 503	1 646 156	4 415 405	5 173 775	4 935 200
Tourism expenditure associated to inbound tourism (HK\$ million) (d)	61,797	77,542	74,930	N.A.	N.A.	N.A.	N.A.	N.A.
<b>6. Finance</b>								
Best lending rate (%)	7.00	5.11	5.00	5.00	5.00	5.00	5.00	5.00
Effective exchange rate index for HK\$ (e)	104.7	104.0	100.7	101.7	101.1	100.8	99.5	98.4
<b>7. Consumer Prices (f)</b>								
Year-on-year rate of change in the Composite CPI (%)	-1.6	-3.0	-2.6	-2.0	-2.5	-3.6	-2.3	-1.8
Year-on-year rate of change in the CPI(A) (%)	-1.7	-3.2	-2.1	-1.8	-1.8	-3.3	-1.7	-1.2
<b>8. Commercial Performance</b>								
Business receipts indices (2000=100) (g)								
Wholesale/Retail	96.0	90.6	87.9	89.3	81.4	88.2	92.9	96.3
- Wholesale	88.0	78.6	74.7	73.2	68.5	76.0	81.0	77.4
- Retail	98.8	94.7	92.6	95.0	85.9	92.4	97.1	103.0
Import/Export trade	85.9	83.5	89.0	75.2	85.1	98.2	97.4	85.9
Restaurants	97.5	92.2	83.2	86.7	72.9	85.9	87.4	90.0
Hotels	92.4	90.2	72.5	82.5	32.0	72.7	102.8	93.3
Transport	97.6	99.9	100.3	92.8	86.0	105.9	116.6	105.2
- Air transport	88.5	98.9	96.0	90.1	74.4	99.6	120.0	101.8
- Land transport	102.4	99.5	94.6	94.8	86.3	97.7	99.5	98.2
- Maritime transport	110.4	107.2	120.5	101.9	116.2	129.6	134.2	124.3
Storage	85.1	68.4	65.3	62.9	60.8	66.6	70.9	74.0
Communications	86.8	84.6	82.5	83.7	80.8	81.5	84.1	80.6
- Telecommunications	85.4	81.1	78.0	80.9	76.1	76.9	78.1	75.0
Banking	102.7	101.8	101.8	92.9	104.0	102.7	107.6	105.8
Financing (except banking)	87.4	74.9	87.8	69.9	77.6	93.7	110.1	123.0
- Financial markets and fund management services	80.1	68.7	85.8	63.9	73.9	95.8	109.7	128.9
Insurance	114.2	126.0	150.1	133.3	143.6	152.6	170.7	172.0
Real estate	83.1	81.0	86.0	76.8	77.6	90.7	98.8	96.0
Business services	90.4	85.2	85.6	83.2	83.8	84.7	90.8	89.6
- Professional services	98.8	92.9	96.3	93.7	95.4	96.0	100.2	99.3
Film entertainment	115.2	104.8	107.2	104.8	96.3	114.2	113.5	109.2
Tourism, convention and exhibition services (c)	96.2	107.3	104.0	109.0	49.1	117.6	140.5	127.0
Computer and information services	88.4	93.4	98.7	87.3	96.6	101.5	109.4	107.4

Notes: 'N.A.' denotes not available.

(a) Figures are based on a set of composite employment estimates derived by reconciling under a designated statistical framework the employment estimates obtained from the General Household Survey and the Quarterly Survey of Employment and Vacancies.

(b) Services sector covers the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; financing, insurance, real estate and business services; and community, social and personal services.

(c) Figures have been revised to incorporate the new data released by the Hong Kong Tourism Board (HKTB) in November 2003 on destination consumption expenditure of incoming visitors and travellers.

(d) Figures refer to the new data on tourism expenditure released by the HKTB in November 2003.

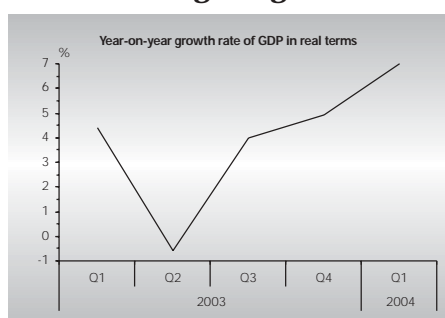
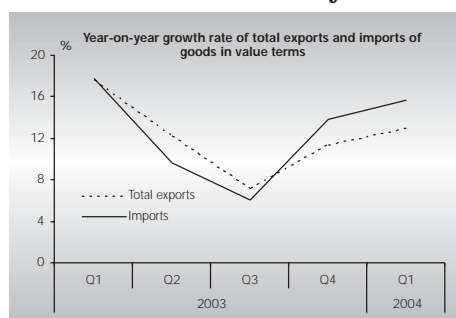
(e) The Effective Exchange Rate Index for the Hong Kong Dollars have been revised since 2000 with new currency weights.

(f) As from the first quarter of 2004, the base year of the whole series of business receipts indices has been changed from 1996 to 2000.

Source: Census and Statistics Department, Hong Kong

Enquiries: Logistics and Producer Prices Statistics Section, Census and Statistics Department  
23/F., Chuang's Hung Hom Plaza, 83 Wuhu Street, Hung Hom, Kowloon, Hong Kong, China.  
Tel.: (852) 2802 1273 Fax: (852) 2123 1048

## Charts: Key Economic Statistics of Hong Kong



# Summary of Key Statistics of Hong Kong and Other Economies

Economies	Q3 03	Q4 03	Q1 04	Q3 03	Q4 03	Q1 04
<b>1. Labour Force</b>	<u>Total employed persons ('000)</u>			<u>Unemployment rate (%)</u>		
Japan	63 627	63 223	62 363	5.1	4.9	5.0
Republic of Korea	22 294	22 324	22 104	3.5	3.6	3.3
Singapore	N.A.	N.A.	N.A.	5.5	4.5	4.5
USA	137 647	138 369	138 388	6.1	5.9	5.6
<b>Hong Kong</b>	3 198	3 238	3 260	8.3	7.3	7.2
<b>2. Sectoral Employment (%)</b>	<u>Manufacturing</u>			<u>Services</u>		
Japan	18.7	18.6	18.4	65.4	66.0	66.4
Republic of Korea	18.7	19.0	19.4	63.7	64.2	65.3
USA	10.5	10.4	10.4	78.5	78.3	78.5
<b>Hong Kong</b>	5.4	5.2	5.2	85.3	85.5	85.7
<b>3. Gross Domestic Product (GDP)</b>	<u>Year-on-year rate of change in real terms (%)</u>					
Japan	+1.9	+3.1	+5.6			
Republic of Korea	+2.3	+3.7	+5.2			
Singapore	+1.7	+4.9	+7.5			
USA	+3.4	+4.1	+5.0			
<b>Hong Kong</b>	+4.0	+4.9	+7.0			
<b>4. External Trade</b>	<u>Trade balance - goods</u>			<u>Trade balance - services</u>		
China, mainland of (US\$100 Mn)	46.5	163.9	-84.4	N.A.	N.A.	N.A.
Japan (Bn Yen)	3,206.5	3,724.5	3,533.2	-935.5	-1,233.5	-809.4
Republic of Korea (US\$ Mn)	6,818.0	8,345.0	8,606.4	-2,648.7	-992.2	-1,882.0
Singapore (S\$ Mn)	13,912.9	13,405.6	11,913.8	821.6	263.1	732.0
USA (US\$ Bn)	-134.6	-139.4	-150.8	12.4	13.9	13.8
<b>Hong Kong (HK\$ Bn)</b>	-1.4	-17.8	-32.8	42.4	50.2	42.1
<b>5. Finance and Consumer Prices</b>	<u>Lending rate (%)</u>			<u>Year-on-year rate of change (%) in Consumer Price Index</u>		
China, mainland of	5.31	5.31	5.31	+0.8	+2.7	+2.8
Japan	1.38	1.38	1.38	-0.2	-0.3	-0.1
Republic of Korea	N.A.	N.A.	N.A.	+3.2	+3.5	+3.2
Singapore	5.30	5.30	5.30	+0.5	+0.7	+1.4
USA	4.00	4.00	4.00	+2.2	+1.9	+1.8
<b>Hong Kong</b>	5.00	5.00	5.00	-3.6	-2.3	-1.8

Notes : 1. 'N.A.' denotes not available.

2. Statistics on labour force, employment and gross domestic product for the mainland of China are available on a yearly basis.

3. Statistics on employment for Singapore are available on a yearly basis.

4. For Hong Kong, the rates of change in consumer prices shown above are based on the Composite Consumer Price Index. It has been rebased with new expenditure weights.

5. Some figures for periods before Q1 04 are revised based on updated data available.

Sources : Customs General Administration, People's Republic of China

National Bureau of Statistics, People's Republic of China

Statistics Bureau, Japan

National Statistical Office, Republic of Korea

The Bank of Korea

Department of Statistics, Singapore

Ministry of Manpower, Singapore

Ministry of Trade and Industry, Singapore

The Joint Economic Committee by the Council of Economic Advisers, USA

Census and Statistics Department, Hong Kong

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