Chapter 3

The Economy

The outbreak of the global financial crisis in September derailed the upturn of the Hong Kong economy that had started in 2003. Both external and domestic demand slowed during the latter part of the year. Unemployment surged towards the end of the year, after falling to a 10-year low in mid-2008. Inflationary pressures increased in the first half of 2008, but receded in the latter part of the year.

The Hong Kong economy showed a rapid moderation in growth over the course of 2008, having expanded strongly in the preceding four years. For 2008 as a whole, the Gross Domestic Product (GDP) grew by 2.5 per cent in real terms, a rapid deceleration from the strong 6.4 per cent growth in 2007. Indicative of the rapid slowdown of economic activity, the year-on-year rate of real GDP growth decelerated from a strong 7.3 per cent in the first quarter to 4.3 per cent in the second quarter and further to 1.7 per cent in the third quarter. As the global downturn deepened further, the Hong Kong economy registered a contraction of 2.5 per cent in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded strongly by 1.1 per cent in the first quarter, before declining by 0.9 per cent, 0.7 per cent and 2 per cent in the ensuing three quarters.

The external trading environment worsened over the course of 2008. The advanced economies, especially the US and the euro area, being the epicentre of the global financial crisis, were the first to enter recession. This quickly translated into weaker demand for exports from the emerging and developing economies. By the end of 2008, most advanced economies were already mired in recession, and the condition of Asian economies also deteriorated rapidly, evolving into a synchronised global economic downturn which took its toll on world trade. Hong Kong's exports to the advanced economies slackened during 2008, and those to the Asian markets, including the Mainland, also deteriorated in the latter part of the year. The return to strength of the US dollar since the middle of the year was not conducive to the price competitiveness of Hong Kong's exports either. Exports of services likewise slowed, albeit to a lesser extent, over the course of 2008. As the fund-raising activities and the trading volume in the local stock market shrank in 2008, particularly after the abrupt escalation of the financial turmoil towards the end of the third quarter, exports of financial services slowed distinctly in 2008 after the surge in 2007. The vibrant growth in inbound tourism also halted in the final quarter of 2008 as the global economic slowdown weighed on the demand for travel, with a negative spill-over effect on exports of transportation services. While merchanting and other trade-related services (mainly offshore trade) still held up rather well during most of 2008, there was a conspicuous deterioration in the fourth quarter as the flows of goods trade in the Asian region shrank in the final months of the year.

Domestic demand held up relatively well in the first quarter of 2008, but slowed distinctly in the rest of the year. The deceleration in private consumption was particularly evident in the second half, due to the negative wealth effect arising from the correction in the local asset markets, as well as the deterioration in job prospects. For 2008 as a whole, private consumption expenditure (PCE) only registered a modest growth in real terms, in contrast to the robust growth in 2007. Overall investment contracted marginally in 2008. Investment in machinery, equipment and software recorded some notable growth during most of the year, before showing a distinct decline in the fourth quarter. Expenditure on building and construction decreased in the following three quarters after recording positive growth in the first quarter. The costs of ownership transfer also trended downward as the local property market cooled down in the second half of the year.

The local labour market held broadly stable and firm in the first half of the year while the economy still expanded at an above-trend pace. Yet the rapid deterioration in the business situation following the abrupt escalation of the financial crisis after September 2008 led to weakened demand for labour towards the year-end, with declines in vacancies in such sectors as real estate and construction, tourism and consumption-related sectors, trading and logistics as well as financial services. For 2008 as a whole, total employment grew by an average of 1.6 per cent, slower than the 2.4 per cent increase in 2007. Reflecting the changing economic conditions over the course of the year, the seasonally adjusted unemployment rate, after falling to 3.2 per cent in June-August, the lowest in more than a decade, climbed towards the end of the year as labour demand slackened. Nevertheless, labour wages and earnings, on average, continued to rise in 2008.

The residential property market faltered in the second half of 2008, after a period of much vibrancy in the preceding one and a half years. The much more treacherous environment in the major financial markets overseas, causing jitters in the local stock market, less optimistic job prospects, and less accommodative provision of mortgages, contributed to the consolidation in the local property market. For 2008 as a whole, the number of transactions in residential properties fell by 22 per cent from their 2007 level. In December 2008, flat prices were around 17 per cent off the peak in June and 11 per cent lower than a year earlier. Rentals were on average 19 per cent off the peak in July and 11 per cent lower than in December 2007. Flat prices in December turned more stable after falling sharply in the preceding two months. It is worth noting that in terms of home purchase affordability and the extent of speculative activities, the situation in 2008 still compared favourably with that in the run-up to 1997.

In the financial market, the local stock market continued the decline that began in the latter part of 2007 as the turbulence triggered by the sub-prime mortgage crisis in the US in 2007 spread to a wider spectrum of the global financial markets. The pace of downward adjustment was particularly acute in the two months or so after the global crisis turned into a fully-fledged financial tsunami in September. The Hang Seng Index nose-dived during this period, marking an annual low of 11 016 on October 27, 2008, closed the year at 14 387, 48 per cent lower than the level at end-2007. The average daily turnover shrank to $72.1 billion in 2008, and stock market capitalisation to $10.3 trillion at the end of the year. Fund-raising activities also receded in 2008 as the sentiments in the local stock market turned less optimistic.

Underlying consumer price inflation continued to rise until July 2008, reflecting the earlier surges in global food and energy prices and in local private residential rentals. Nevertheless, the collapse of commodity prices in the international markets from the middle of 2008, together with the property market correction due to the financial tsunami, reduced the inflationary pressures, thereby leading to some easing of the underlying inflation in the latter part of 2008. The abrupt waning of consumer sentiments towards the end of the third quarter due to the negative wealth effect and the worsened employment condition, resulting in a weaker consumption market, also contributed. For 2008 as a whole, the underlying Composite Consumer Price Index rose by an average of 5.6 per cent, up from 2.8 per cent in 2007. Headline inflation was at a lower level, thanks to the various one-off relief measures introduced by the Government (i.e. rates concession, electricity subsidy, payment of public housing rentals on behalf of low-income households, and the waiving of the re-training levy). The headline Composite Consumer Price Index rose by 4.3 per cent in 2008, compared with an increase of 2 per cent in 2007.

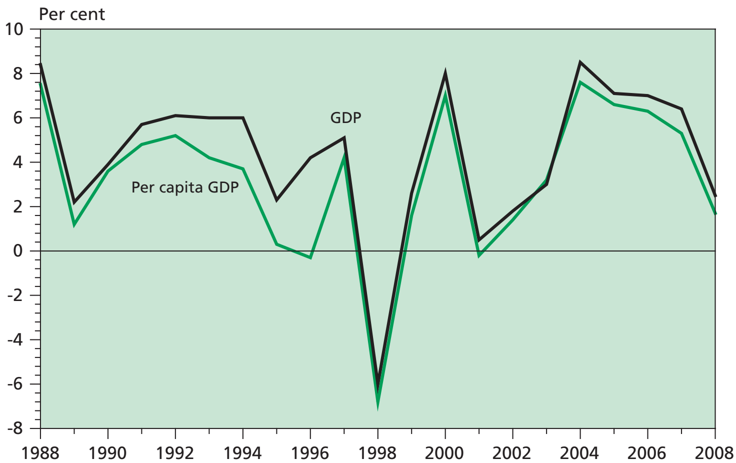
Structure and Development of the Economy

Hong Kong is a global centre for world trade, finance, business and telecommunications with a strategic location on the doorstep of the Mainland, a vast booming economy. Hong Kong is currently the world's 13th largest trading entity. It operates one of the world's busiest container ports in terms of container throughput, as well as one of the world's busiest airports in terms of number of international passengers and volume of air cargo handled. Hong Kong is also the world's 15th largest banking centre in terms of gross external positions of banks, and the sixth largest foreign exchange trading centre. Its stock market is the third largest in Asia in terms of market capitalisation.

As an international business hub, Hong Kong has a business-friendly environment with the rule of law, free trade and free flow of information, open and fair competition, a well-established and comprehensive financial network, a superb transport and communications infrastructure, sophisticated support services, and efficient and innovative entrepreneurs complemented by a well-educated workforce. Moreover, it has substantial foreign exchange reserves, a fully convertible and stable currency, prudent fiscal management and a simple tax system with low tax rates. In view of these virtues, the US Heritage Foundation named Hong Kong the freest economy in the world for the 14th year in a row. Likewise, the Fraser Institute of Canada has also consistently ranked Hong Kong as the world's freest economy.

The Hong Kong economy more than doubled in the past two decades, with its GDP expanding at an average annual rate of 4.1 per cent in real terms, surpassing the world economy's growth of 3.4 per cent. Over the same period, Hong Kong's per capita GDP nearly doubled, posting an average annual growth rate of 3 per cent in real terms. At US$30,900, Hong Kong's per capita GDP was one of the highest in Asia in 2008 *(Chart 1)*.

Chart 1 **Gross Domestic Product (year-on-year rate of change in real terms)**



Over the past two decades, the Hong Kong economy grew by an average of 4.1 per cent in real terms, outpacing the 3.4 per cent growth for the world economy. The local economy remained vibrant in 2008, with real GDP growing by 2.5 per cent.

In line with the Hong Kong economy's increased openness in the midst of the growing influence of globalisation, Hong Kong's trade in goods expanded almost six times and in services, four times in real terms over the past two decades. In 2008, the total value of visible trade (comprising re-exports, domestic exports and imports of goods) reached $5,868 billion, equivalent to 350 per cent of GDP. This was considerably larger than the ratios of 211 per cent in 1988 and 213 per cent in 1998. If the value of exports and imports of services is also taken into account, the ratio would be even greater, at 414 per cent in 2008, compared to 251 per cent in 1988 and 248 per cent in 1998.

The stock of inward direct investment in Hong Kong was significant, at $9,187 billion in market value at the end of 2007, equivalent to 569 per cent of GDP. It served as another strong indicator of Hong Kong's increasingly international focus. Hong Kong is the second most preferred destination for inward direct investment in Asia, next only to the Mainland.

The corresponding figures for Hong Kong's stock of outward direct investment were likewise substantial, at $7,889 billion and 488 per cent of GDP, much larger than those of many other economies in Asia. As a major financial centre in the region with huge cross-territory fund flows, Hong Kong's external financial assets and liabilities were also substantial, at $21,194 billion and $17,421 billion respectively at the end of 2007. The corresponding ratios to GDP in that year were 1 312 per cent and 1 079 per cent. Reflecting Hong Kong's sound international investment position, its net external assets rose to $3,774 billion at the end of 2007, equivalent to 234 per cent of GDP.

The Gross National Product (GNP), comprising GDP and net external factor income flows, stood at $1,760 billion in 2008. This was higher than the corresponding GDP by 4.9 per cent. The difference represented a net inflow of external factor income. In gross terms, inflows and outflows of external factor income remained substantial in 2008, at $941 billion and $859 billion respectively, equivalent to 56 per cent and 51 per cent of GDP respectively. This was related to the huge volume of both inward and outward investment in Hong Kong.

Contributions of the Various Economic Sectors

Primary production (including agriculture, fisheries, mining and quarrying) has been insignificant in Hong Kong, in terms of both value-added contribution to GDP and share in total employment. This reflects Hong Kong's position as a predominantly urban economy.

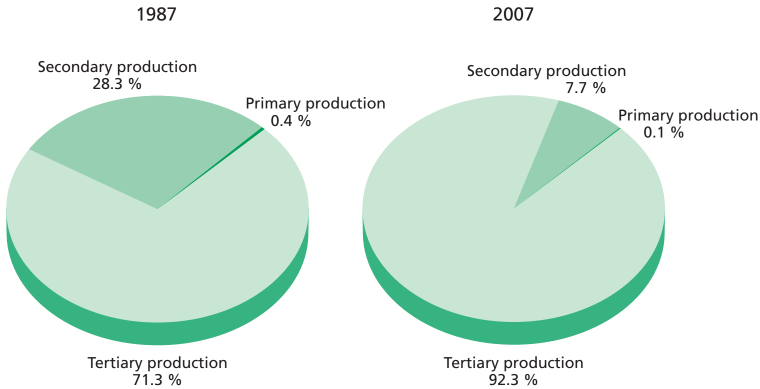
Secondary production (comprising manufacturing, construction, and supply of electricity, gas and water), which contributed greatly to the value-added component of the total economy in the early 1980s, has since diminished in importance. Within this broad sector, the value-added contribution from manufacturing shrank from 21 per cent in 1987 to 6 per cent in 1997 and to only 3 per cent in 2007 as a result of the relocation of the more labour-intensive production processes to the Mainland. The construction sector's contribution to GDP stayed at around 5 per cent between 1987 and 2000, before edging down in the following years to 3 per cent in 2007. The supply of electricity, gas and water held relatively stable, with a share of around 2-3 per cent of GDP over the past two decades.

Hong Kong's economy has become increasingly service-oriented since the 1980s. The Mainland's open-door policy and economic reform have not only provided an enormous production hinterland and market outlet for Hong Kong's manufacturers, but also created abundant business opportunities for a wide range of service providers. Hong Kong has continued to re-orient itself towards service activities, prompted by the changing regional and global economic environment and also by closer integration with the Mainland. In particular, while the thriving Mainland economy has provided ample business opportunities for Hong Kong's services sector, the availability of cheaper land and labour on the Mainland side giving rise to improved competitiveness and productivity there has also propelled Hong Kong's move up the value chain.

As a result, the share of the tertiary sector (comprising the wholesale, retail and import/export trades; restaurants and hotels; transport, storage and communications;

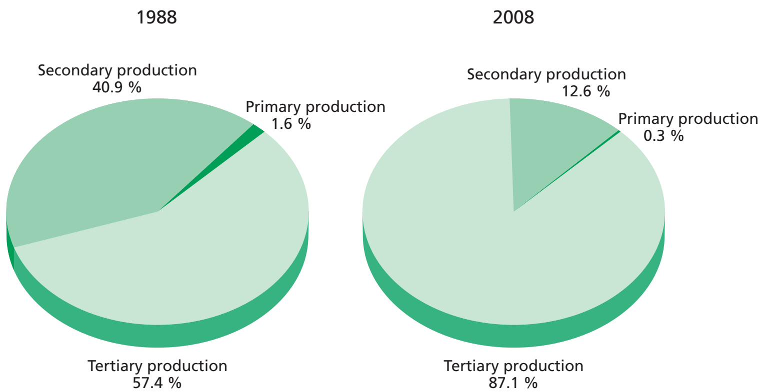
finance, insurance, real estate and business services; community, social and personal services and ownership of premises) in GDP rose visibly, from 71 per cent in 1987 to 86 per cent in 1997 and 92 per cent in 2007 *(Chart 2)*. The development on the employment front was similar. Over the past two decades, the tertiary sector employed significantly more workers while the share of employment for the secondary production continued to shrink *(Chart 3)*.

Chart 2 Gross Domestic Product by Broad Economic Sector



Over the past two decades, the economy has become increasingly service-oriented, as the share of GDP contributed by the tertiary sector has followed a steady uptrend.

Chart 3 Employment by Broad Economic Sector



Over the past two decades, the share of the services sector in total employment greatly increased, whereas the share of the manufacturing sector kept on shrinking.

Note: The compilation methodology of composite employment estimates was reviewed in June 2005. Employment figures from 1996 onwards have been revised accordingly. They are thus not strictly comparable with those of earlier years.

The Services Sector

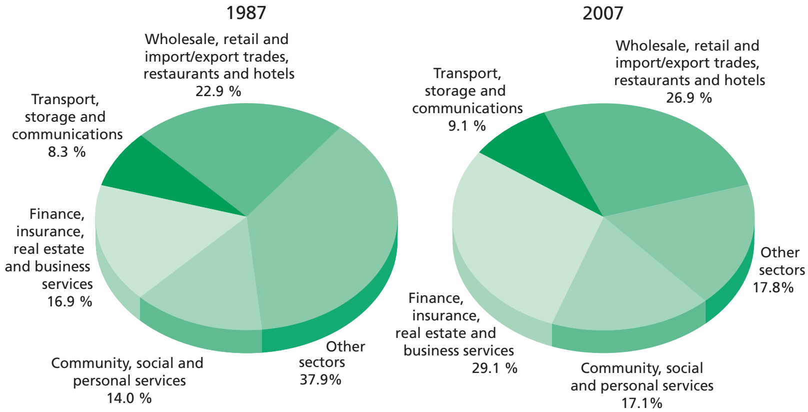
The services sector has fared strongly on a broad front, along with the economy's structural transformation in the past two decades. Services related to trading and tourism; community, social and personal services; and finance and business services such as banking, insurance, real estate and a host of professional services, have all grown significantly.

Being a highly service-oriented economy, Hong Kong's services sector has been the dominant driving force behind the overall economic growth. Over the past five years, the value-added part of the services sector grew by a cumulative 39 per cent in real terms, outpacing the corresponding 35 per cent growth of the economy. Among the constituent service sectors, financing and insurance showed the fastest cumulative growth of 94 per cent, a testament to Hong Kong's drive as an international financial centre. Import and export trade also performed impressively, with a 62 per cent increase in the value-added component of its trading activities over the period. This, together with a notable growth of 39 per cent in transport and storage services, reflected the generally favourable trading environment during most of the period and underlined the competitiveness of Hong Kong's trading and logistics sector. The increase of 36 per cent in wholesale and retail trades, as well as the steeper growth of 63 per cent in restaurants and hotels, was underpinned by the strengthening domestic demand and vibrant inbound tourism. For 2008 alone, the value-added part of the services sector grew by 3 per cent in real terms, a deceleration from 2007, as the financial tsunami emerged in the latter part of the year with a widespread impact across the real economy. Financing and insurance and real estate registered negative growth in the second half of the year; the wholesale and retail trades, restaurants and hotels likewise moderated as the negative wealth effect in the latter part of 2008 weighed heavily on consumer sentiment. Import and export trade and other service sectors also saw degrees of moderation during the year.

In 2007, the services sector contributed 92 per cent to GDP. The finance, insurance, real estate and business services became the largest service sector, accounting for 29 per cent of the GDP. This was followed by wholesale, retail and import/export trades, restaurants and hotels (27 per cent), community, social and personal services (17 per cent), and transport, storage and communications (9 per cent) *(Chart 4)*. More specifically on the four key industries, trading and logistics accounted for 26 per cent of value-added contribution to GDP in 2007, financial services 19 per cent and tourism 3 per cent. The corresponding contribution of professional and other producer services was 11 per cent.

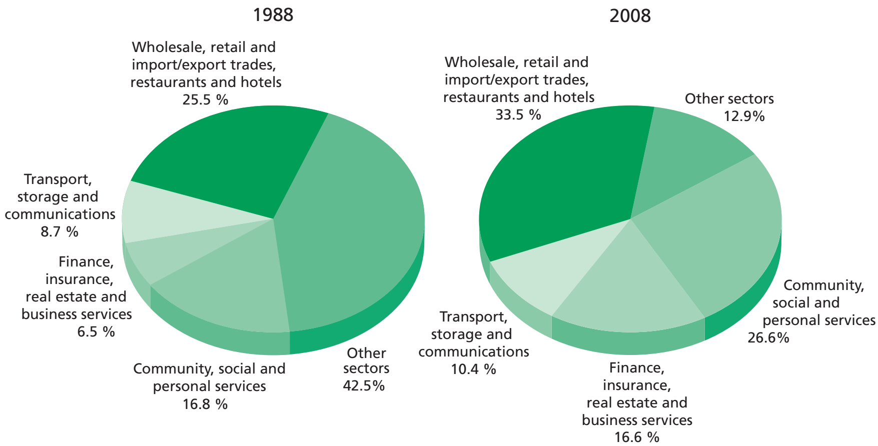
The profound structural change in the economy towards the services sector was also borne out by a shift in the sectoral composition of employment. Over the past two decades, the share of the services sector in total employment went up from 57 per cent in 1988 to 81 per cent in 1998 and 87 per cent in 2008. As for individual services, wholesale, retail and import/export trades, restaurants and hotels accounted for 34 per cent of the total in 2008. This was followed by community, social and personal services with a share of 27 per cent; finance, insurance, real estate and business services, 17 per cent; and transport, storage and communications, 10 per cent *(Chart 5)*.

Chart 4 Gross Domestic Product by Major Service Sector



The finance, insurance, real estate and business services sector, and the wholesale, retail and import/export trades, restaurants and hotels sector remained the two largest service sectors in terms of net output in 2007.

Chart 5 Employment by Major Service Sector



Wholesale, retail and import/export trades, restaurants and hotels employed the most people in 2008.

Note: The compilation methodology of composite employment estimates was reviewed in June 2005. Employment figures from 1996 onwards have been revised accordingly. They are thus not strictly comparable with those of earlier years.

The Manufacturing Sector

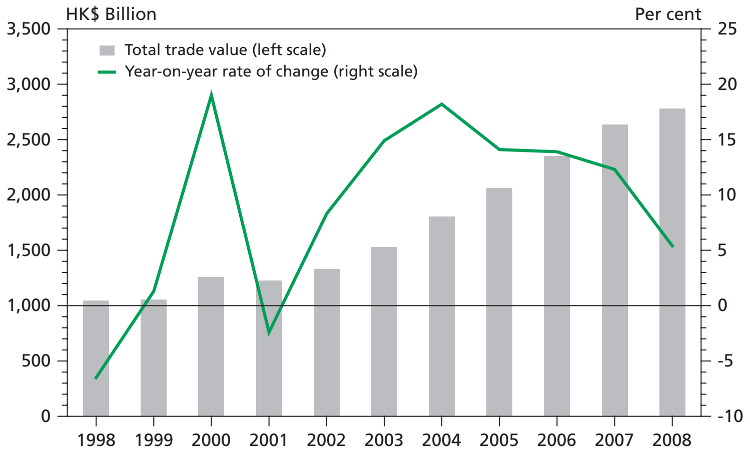
Hong Kong's manufacturing sector is expected to continue to be versatile and resilient in coping with the changing environment. Thanks to the increased manufacturing arrangements in the Mainland, not only has Hong Kong's productive capacity been effectively expanded, its overall productive efficiency and product quality have also been upgraded by advances in technology and a shift towards production with a more knowledge-based and higher value-added content. It is also worth noting that although the direct value-added contribution of the manufacturing sector to the economy is not large relative to the services sector, its well-established linkages with the Mainland economy have provided ample business opportunities for supporting the growth of Hong Kong's services sector.

Economic Links between Hong Kong and the Mainland

Since the introduction of the Mainland's open door policy in 1978, the ongoing economic integration between the Mainland and Hong Kong has brought enormous mutual benefits to both places. The huge flows of goods, services, people and capital between Hong Kong and the Mainland, as well as between the Mainland and the world through Hong Kong, have created remarkable growth in incomes and employment in both Hong Kong and the Mainland.

Visible trade between Hong Kong and the Mainland has soared by 256 times since 1978, at an average annual rate of 20 per cent in value terms. Despite the impact of the global economic downturn, visible trade with the Mainland still recorded a 5 per cent growth in 2008 *(Chart 6)*. In 2008, Hong Kong and the Mainland were ranked the 13th and third largest trading entities in the world.

Chart 6 Visible Trade between Hong Kong and the Mainland



Since the Mainland adopted economic reform and an open door policy in 1978, there has been a rapid expansion in merchandise trade, especially re-export trade, between Hong Kong and the Mainland.

The Mainland has long been Hong Kong's largest trading partner, accounting for 48 per cent of Hong Kong's total trade value in 2008. Ninety per cent of Hong Kong's re-export trade was related to the Mainland, making it the largest market for, and the largest source of, Hong Kong's re-exports. Reciprocally, Hong Kong was the Mainland's fourth largest trading partner (after the European Union, United States and Japan), accounting for nearly 8 per cent of the Mainland's total trade value in 2008.

Hong Kong is also a principal gateway to and from the Mainland for business and tourism. The number of trips made by foreign visitors to the Mainland through Hong Kong rose by a cumulative 88 per cent in the past 10 years, or at an average annual growth rate of 6.5 per cent, reaching 4.1 million trips in 2008. Correspondingly, the number of trips made by Mainland residents to, or through, Hong Kong rose by more than five times over the decade, at an average annual growth rate of 20 per cent, amounting to 16.9 million trips in 2008.

Hong Kong continues to be the largest external investor in the Mainland. According to the Mainland's statistics, the cumulative value of Hong Kong's realised direct investment in the Mainland reached US$348 billion at the end of 2008, accounting for 41 per cent of the total inward direct investment there. Over the years, the composition of Hong Kong's direct investment in the Mainland shifted gradually from industrial processing to a wider spectrum of business ventures, such as hotels and other tourism-related facilities, real estate and infrastructure development. Hong Kong has closer economic links with Guangdong than other places on the Mainland. By the end of 2007, the cumulative value of Hong Kong's realised direct investment in Guangdong was US$121 billion, accounting for 62 per cent of its total inward direct investment.

Hong Kong's huge direct investment in the Mainland has contributed to the latter's industrialisation and, at the same time, facilitated the rapid structural change in the Hong Kong economy.

The Mainland is likewise Hong Kong's largest source of foreign direct investment. By the end of 2007, the Mainland had invested a total of US$479 billion in Hong Kong, accounting for 41 per cent of the total external direct investment. Mainland companies also maintain a strong presence in Hong Kong. In mid-2008, 223 and 499 Mainland companies had established regional headquarters or offices, and local offices in Hong Kong respectively. All these reflected Hong Kong's position as the regional services hub.

In tandem with the surge in cross-boundary business activities, financial links between Hong Kong and the Mainland have strengthened substantially over the years. Comparing end-December 2008 with a year earlier, external claims of Hong Kong's authorised institutions to entities on the Mainland grew by 8 per cent to $463 billion.

Hong Kong is also a major funding centre for Mainland enterprises. A total of 465 Mainland enterprises were listed on Hong Kong's stock market by the end of 2008, among which 28 were listed in 2008. Reflecting the deepening crisis in the global financial market, equity capital raised through initial public offerings dropped significantly in 2008. Nevertheless, a total of 294.1 billion of equity funds was still raised by Mainland enterprises during the year. The listing and fund-raising activities further consolidated Hong Kong's position as a major fund-raising centre in the region.

In addition, renminbi (RMB) business in Hong Kong continued to develop steadily in 2008. At the end of 2008, a total of 39 licensed banks were engaged in renminbi services business and outstanding renminbi deposits reached RMB56.1 billion, accounting for around 2.1 per cent of total foreign currency deposits in Hong Kong. Further to the three successful issues of renminbi bonds in 2007, there were four more issues in 2008, bringing the total amount of outstanding renminbi bonds in Hong Kong to RMB22 billion. Hong Kong is the first venue outside the Mainland to engage in the issuance of RMB bonds, reflecting the recognition of Hong Kong as China's international financial centre.

The economic co-operation and integration with the Mainland has been fostered through the Closer Economic Partnership Arrangement (CEPA). In July 2008, the Hong Kong Government and the Central People's Government (CPG) reached an agreement on liberalisation measures under the fifth phase of CEPA, introducing 29 new liberalisation measures in 17 services areas, including 15 existing CEPA services areas and two new ones. As a result, the total number of services areas covered by CEPA expanded from 38 to 40. After the outbreak of the global financial crisis in the second half of 2008, the Central Government announced 14 measures to help Hong Kong weather the global economic downturn. These include, among other things, allowing qualified enterprises to settle trade in renminbi in Hong Kong, and signing of a currency swap agreement between the People's Bank of China and the Hong Kong Monetary Authority to strengthen further co-operation between the Mainland and Hong Kong and underpin Hong Kong's status as an international financial centre.

There was also notable development in fostering even closer ties between Hong Kong and the Mainland. In September 2008, the Hong Kong and Shenzhen governments jointly announced the building of a new boundary control point at Liantang/Heung Yuen Wai. In addition, the 2008-09 Policy Address announced that the Governments of Guangdong, Hong Kong and Macao reached a consensus on funding the Hong Kong-Zhuhai-Macao Bridge. The improvement in cross-boundary infrastructure will enhance the flow of people and goods throughout the Greater Pearl River Delta and help expedite the integration of Hong Kong with its hinterland.

Hong Kong has the unique advantage of having the Mainland as its hinterland while maintaining an international outlook. With the increasing integration of the Mainland with the global economy and the urbanisation and industrialisation in the Mainland, Hong Kong's role as an international financial, trade and shipping centre will continue to strengthen. This will also help Hong Kong's development on such fronts as financial services, logistics, tourism and information services.

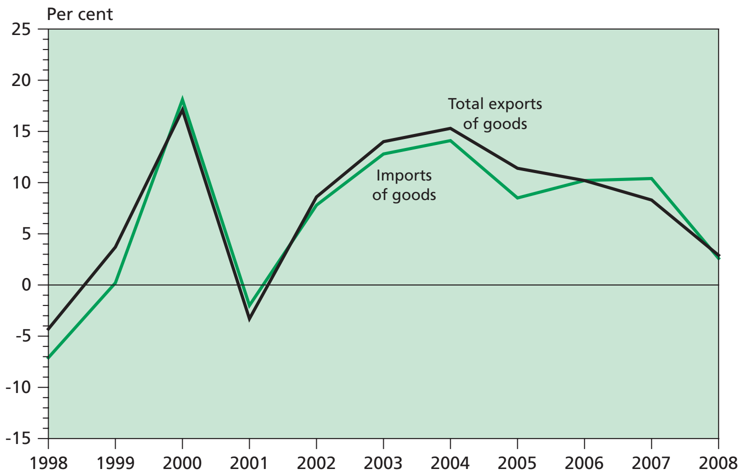
The Economy in 2008

External Trade

Merchandise exports displayed a trend of moderation over the course of 2008 as the external environment deteriorated. For the year as a whole, total exports of goods (comprising re-exports and domestic exports) grew by 2.9 per cent in real terms, after an increase of 8.3 per cent in 2007. The advanced economies, which had already slowed down in early 2008, plunged into recession in the latter half of the year when the financial crisis initiated by the sub-prime mortgage problem in the United States escalated abruptly into the most dangerous financial tsunami since the late 1920s. In response to the crisis, many unprecedented measures were implemented by the governments of the major economies. By the end of 2008, while the risk of a systemic meltdown in the financial market receded, the financial markets in these economies remained strained, and the impact on the real economy emerged, leading to significant contraction in economic activities, severe job losses and a sharp cut-back in import demand. In sum, the advanced economies were mired in recession. With rapidly falling demand from the advanced economies, the pressure on the goods flows among the export-dependent Asian economies was also increasingly significant, particularly towards the final two months of 2008 when most of the Asian economies recorded double-digit declines in exports.

The performance of Hong Kong's total exports of goods weakened notably over the course of 2008, with the year-on-year growth rate slowing from 9.1 per cent in real terms in the first quarter to 5.4 per cent and 2.1 per cent respectively in the second and third quarters. As the synchronised global downturn took its toll on world trade, exports slipped into a decline of 3.5 per cent in the fourth quarter. Within the total exports of goods, re-exports still accounted for an overwhelming proportion and showed a moderate increase in 2008 as a whole, while domestic exports, constituting a small share, continued to shrink *(Chart 7)*.

Chart 7 **Hong Kong's Visible Trade (year-on-year rate of change in real terms)**



Merchandise exports slackened distinctly over the course of 2008 as the synchronised global downturn severely hit world trade.

Hong Kong's total exports to the advanced economies generally slackened during 2008. The main drag initially came from the US market, but the slackening trend increasingly spread to other major markets in the aftershock of the global financial tsunami. While total exports to the European Union (EU) turned in a moderate increase in 2008 overall, there was a marked deterioration in the final quarter of the year as many of the constituent EU economies slipped into recession and the euro weakened from the middle of 2008.

Many emerging economies in Asia held up well in the first half of 2008, so did Hong Kong's total exports to the Asian markets generally. However, economic conditions in Asia worsened rapidly in the latter part of the year. The renewed strength of the US dollar from the middle of 2008 did not bode well for the competitiveness of Hong Kong's exports either. Total exports to the Mainland, the largest market for Hong Kong's total exports of goods, registered a much slower growth in the second half of 2008 as compared to the double-digit growth in the first half, as the contraction in demand from the advanced economies began to weigh on the intra-regional trade in Asia. Exports to other Asian markets such as South Korea, Singapore and Taiwan showed a similar pattern. Exports to other emerging economies in the region also recorded notable slackening after their earlier surges.

Imports of goods recorded a much tamed growth of 2.6 per cent in real terms in 2008, after the strong increase of 10.4 per cent in 2007. Among total imports, those classified as retained imports (i.e. imports for domestic uses) showed little change in real terms in 2008, which however represented a distinct deceleration from the 11.7 per cent increase in 2007. Analysed by end-use, retained imports of raw materials and semi-manufactures posted a substantial decrease in 2008, particularly in the second half of the year when the global trade flows were severely dampened by the synchronised economic downturn. While retained imports of foodstuffs, consumer goods and capital goods all grew further in 2008 as a whole, there were declines in retained imports of consumer goods and capital goods in the fourth quarter amid worsening consumer and business sentiments. Retained imports of fuels posted a small decline in 2008 as a whole.

Exports of services fared relatively better than exports of goods, though likewise they slowed over the course of 2008. For 2008 as a whole, exports of services grew by 5.6 per cent in real terms, following a surge of 14.1 per cent in 2007. The rate of expansion in the first half of the year remained notable, yet the deceleration was steep in the second half along with the abrupt escalation of the global financial crisis and the much subdued intra-regional trade flows towards the end of the year. As fund-raising activities and trading volume in the local stock market shrank in 2008, particularly after the intensification of the financial crisis in September, exports of financial services slowed distinctly during the year. Inbound tourism also turned in a much slower growth in the fourth quarter of 2008 as the global economic slowdown weighed on the demand for travel. The slowdown in inbound tourism also had a spill-over effect on exports of transportation services. While merchanting and other trade-related services (mainly offshore trade) still held up rather well during most of 2008, there was a conspicuous deterioration in the fourth quarter as the flows of goods trade in the Asian region shrank in the final months of the year.

Imports of services posted a modest growth of 3.2 per cent in real terms in 2008, down from 12.1 per cent in 2007. The moderation was across all sectors. Imports of travel services dropped after the rapid increase in the first quarter of 2008, along with weaker consumer sentiment. Imports of transportation services similarly decelerated over the course of 2008. With financial market activities much battered after the global financial crisis, imports of financial, business and other services had a much slower growth in 2008 in contrast to the surge in 2007. Imports of trade-related services also underwent a marked deterioration in the fourth quarter of 2008, again due to receding trade flows in the Asian region in the final months of the year *(Chart 8)*.

Chart 8 **Hong Kong's Visible Trade (year-on-year rate of change in real terms)**

Exports of services decelerated markedly in the second half of 2008 amid the growing global financial crisis.

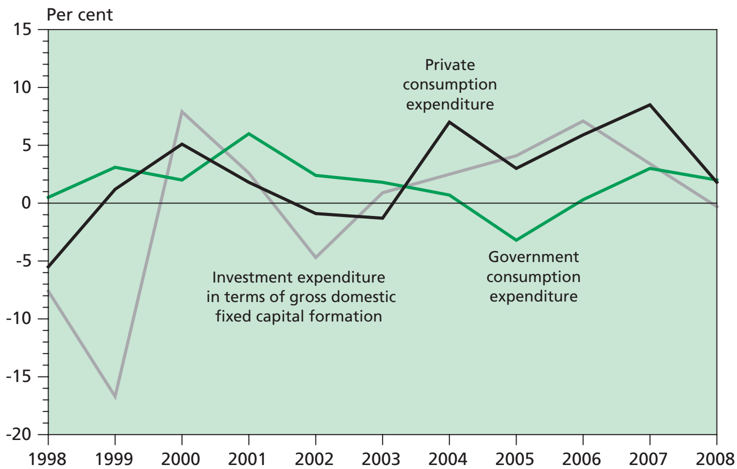
With the surplus in the invisible trade account more than offsetting the deficit in the merchandise trade account, a sizeable surplus of $182.5 billion was recorded in the combined visible and invisible trade balance in 2008, equivalent to 5.4 per cent of the total value of imports of goods and services. This compared with the corresponding figures of $174.8 billion and 5.5 per cent in 2007. The continued sizeable surplus is a reflection of Hong Kong's resilience in meeting the challenges posed by the external shocks.

Domestic Demand

Domestic demand held up relatively well in the first quarter, but slowed distinctly in the following three quarters of 2008. The deceleration in private consumption was particularly evident in the second half of the year, due to the negative wealth effect arising from the correction in the local asset markets, as well as the deterioration in job prospects. For 2008 as a whole, private consumption expenditure (PCE) grew by 1.8 per cent in real terms, in contrast to the robust 8.5 per cent growth in 2007.

Overall investment posted a contraction of 0.3 per cent in 2008, as compared to the 3.4 per cent growth in 2007. Investment in machinery, equipment and software registered some notable growth during most of 2008, before showing a distinct decline in the fourth quarter. Meanwhile, construction activities remained sluggish. After recording positive growth in the first quarter, expenditure on building and construction decreased in the following three quarters. The costs of ownership transfer also trended downward as the local property market cooled in the second half of the year. Business confidence ebbed in the latter half of the year, particularly in the face of the abrupt deepening of the global financial crisis. According to the Quarterly Business Tendency Survey conducted by the Census and Statistics Department during mid-December 2008 to mid-January 2009, large business establishments generally remained rather pessimistic about the near-term outlook *(Chart 9)*.

Chart 9 **Main Components of Domestic Demand (year-on-year rate of change in real terms)**

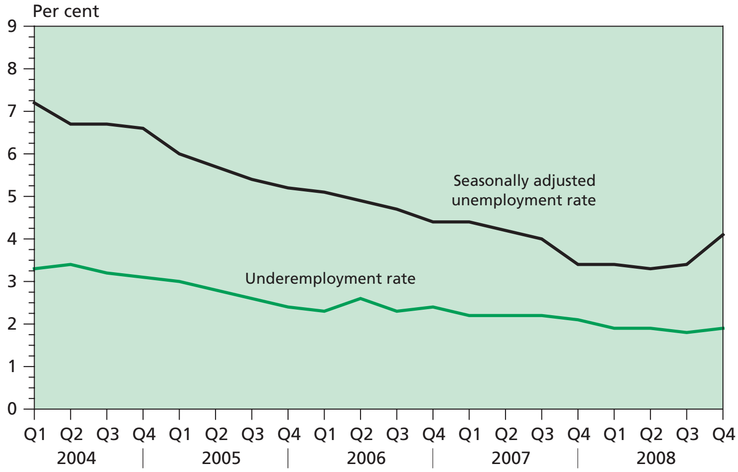


Domestic demand saw a declining trend over the course of 2008.

The Labour Market

The labour market continued to perform well during the first eight months of 2008, but deteriorated sharply in the remainder of the year as the adverse impact of the global financial crisis became increasingly apparent. On the supply side, whereas the year-on-year labour force growth held broadly stable throughout 2008, the growth in labour demand slowed significantly in the latter part of the year. The seasonally adjusted unemployment rate fell to a 10-year low of 3.2 per cent in mid-2008, but leapt to 4.1 per cent at year-end, with the number of unemployed rising to 141 300 *(Chart 10)*.

Chart 10 The Unemployment and Underemployment Rates



The downtrend in the unemployment rate was reversed from the third quarter as the labour market conditions worsened upon the onset of the global financial crisis

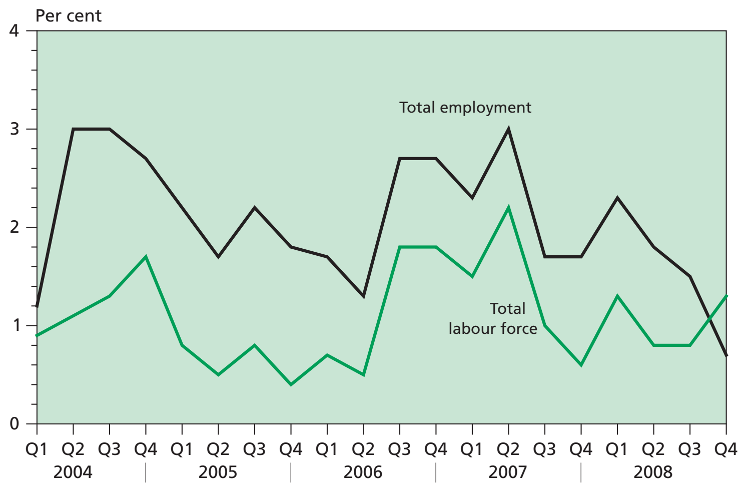
Total employment growth decelerated from 2.4 per cent in 2007 to 1.6 per cent in 2008, though it still outpaced labour supply growth (1.0 per cent). Employment growth in fact decelerated during the course of the year, with the year-on-year growth eventually lagging behind labour supply growth towards the year-end *(Chart 11)*. Total employment reached 3 544 300 in the fourth quarter of 2008. While the business services, financing, and repair, laundry, domestic and miscellaneous personal services sectors were the major sources of job creation for the year, notable job losses were seen in the manufacturing, construction (especially decoration and maintenance) and wholesale trade sectors.

On the other hand, the number of job vacancies in the private sector plunged by 33.1 per cent year-on-year to 32 200 in December 2008. This translated into a ratio of 23 job vacancies for every 100 unemployed persons in December 2008, down from 41 a year earlier. The corresponding ratio for higher-skilled jobs fell from 106 to 47, while that for lower-skilled jobs went down from 33 to 20.

Job vacancies decreased in nearly all sectors in December 2008, with more visible declines in the import and export trade, recreational and other personal services, and business services sectors. Yet, increase was mainly seen in the restaurants sector.

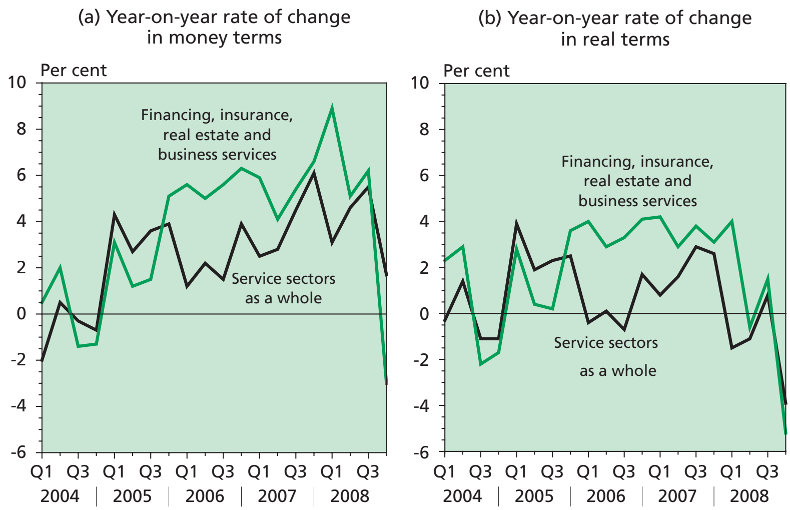
For 2008 as a whole, labour earnings measured by payroll per person engaged in the private sector rose by 2.6 per cent in money terms but fell by 1.7 per cent in real terms. With the labour market conditions apparently easing in the latter part of 2008, labour earnings in the private sector registered a year-on-year decline in the fourth quarter of 2008, by 2.1 per cent in money terms and 4.3 per cent in real terms. Employees in the financing, insurance, real estate and business services sector registered a larger pay cut in money terms, by 3 per cent. Individuals working in the transport, storage and communications; community, social and personal services; and manufacturing sectors also suffered pay cut of 2.4, 1.8 and 1.1 per cent respectively *(Chart 12)*.

Chart 11 **Total Labour Force and Total Employment (year-on-year rate of change)**



Employment continued to grow faster than the labour force in the first three quarters of 2008 but the trend was reversed in the fourth quarter.

Chart 12 **Labour Earnings**

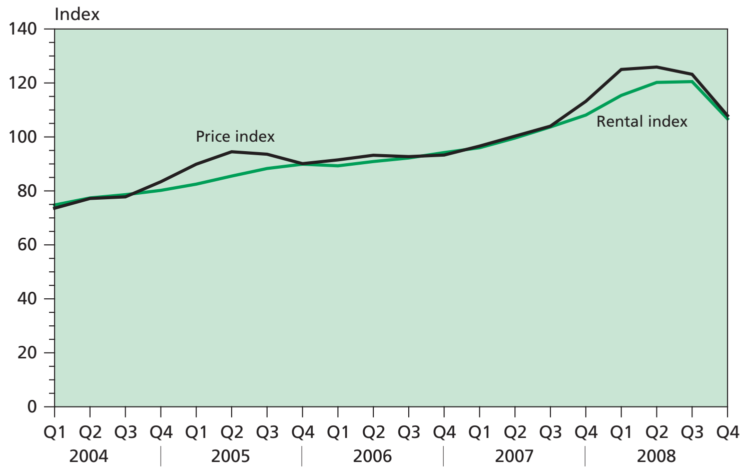


Labour earnings reverted to year-on-year decline in both money terms and real terms in the fourth quarter of 2008.

The Property Market

After a generally buoyant performance in early 2008, the local residential property market turned quieter towards mid-year, and took an abrupt downturn after the outbreak of the global financial crisis in September. Selling pressures intensified towards the end of the year, as prospective home-buyers and investors stayed on the sideline amid the rapidly deteriorating economic and employment outlook. The increasingly conservative stance of the banks towards extending mortgage loans, manifested in tighter property valuation and higher interest rates for new mortgages, also made financing more difficult. The leasing market for residential property also turned sluggish in the latter part of the year, amid mounting concerns about the global financial crisis. Having posted some gains in the first half of 2008, overall flat prices and rentals in the fourth quarter were down by 5 per cent and 1 per cent from a year earlier respectively *(Chart 13)*.

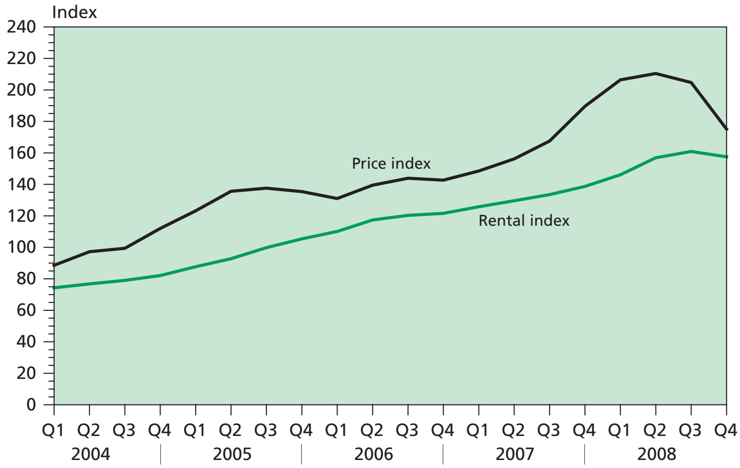
Chart 13 **Prices and Rentals of Residential Property (1999=100)**



In the face of the gloomy economic and employment outlook resulting from the global financial crisis, residential property prices and rentals both showed a sharp correction during the second half of 2008.

The non-residential property market also felt the pinch, with overall prices for office space in the fourth quarter of 2008 declining by 7 per cent from a year earlier. Price drops for Grade A, B and C offices were 9 per cent, 8 per cent and 4 per cent respectively. Office rentals also started to fall in the latter part of the year, but by only 2 per cent between the third and fourth quarters. This could be partly attributable to the fact that tenancies commenced towards the end of the year actually reflected the rentals that were agreed earlier on. Consequently, overall office rentals in the fourth quarter still posted a 14 per cent rise on a year-on-year basis, comprising increases of 15 per cent, 12 per cent and 8 per cent for Grade A, B and C offices respectively *(Chart 14)*.

Chart 14 **Prices and Rentals of Office Space (1999=100)**



Both prices and rentals of office space faced downward pressure in late 2008 amid the worsening business environment.

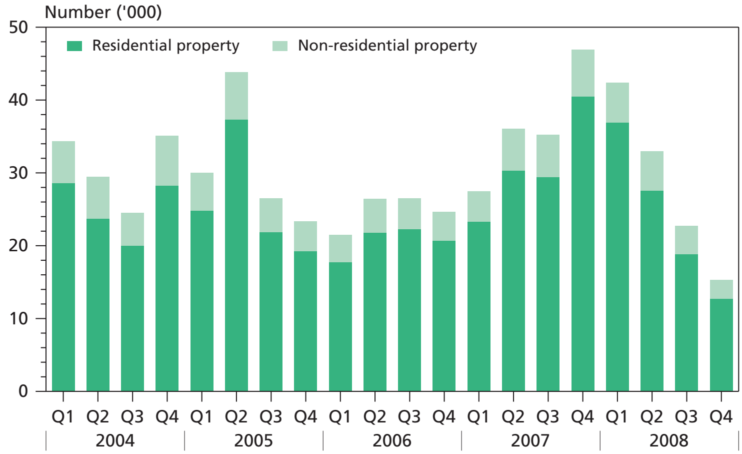
As for retail property, weaker retail sales resulting from a slowdown in inbound tourism and more cautious consumer spending dampened demand for shopping space. Overall prices for retail property in the fourth quarter of 2008 fell by 6 per cent from a year earlier, whereas rentals also edged down by 1 per cent over the same period after staying fairly steady earlier in the year. With the lackluster export outlook adversely affecting demand for industrial property, sale prices and rentals for flatted factory space in the fourth quarter were 11 per cent and 4 per cent lower than those in the third quarter respectively. Yet compared with a year earlier, prices were down by only 1 per cent, while rentals actually managed to record a 2 per cent increase thanks to the sturdy performance in the first half of 2008.

On the supply side, completions of private residential flats fell by 16 per cent to 8 800 units in 2008, which was a major factor contributing to the stable vacancy rate between end-2007 and end-2008 at 4.9 per cent. In regard to the potential supply of new private residential flats, it was estimated that the number of unsold completed flats and flats already under construction but not yet sold, together with the number of flats on disposed sites where construction has yet to commence, would be around 64 000 units in the next few years. This will be equivalent to about 3.5 times the average annual take-up of residential units between 2004 and 2008.

Regarding non-residential property, the supply for office space increased further to 341 000 square metres in 2008 from 320 000 square metres in 2007. This notwithstanding, the vacancy rate for office space still fell from 8.9 per cent at end-2007 to 8.4 per cent at end-2008, reflecting the strong space take-up in the early part of the year. Moreover, the vacancy rate in the core districts remained lower than the market average, as the new supply was mostly found in the non-core districts. On the other hand, the vacancy rate for shopping space rose from 8.1 per cent at end-2007 to 8.7 per cent at end-2008, attributable partly to the dwindling demand. Similarly, the market for flatted factory space also suffered a setback in the latter part of 2008. As take-up moved into negative territory for the year, the vacancy rate for flatted factory space rebounded from 6.2 per cent at end-2007 to 6.5 per cent at end-2008.

Transaction volume began to fall in the second quarter of 2008, and plunged sharply further in the third and fourth quarters. For the year as a whole, the number of sale and purchase agreements for residential property received by the Land Registry fell by 22 per cent to 95 931. Total consideration of these agreements fell by a similar extent of 21 per cent to $343.8 billion. Likewise, the number of sale and purchase agreements for non-residential property in 2008 dropped 21 per cent to 17 367 while their total consideration declined 24 per cent to $69.3 billion *(Chart 15)*.

Chart 15 **Sale and Purchase Agreements by Broad Type of Property**



Against the deteriorating economic backdrop, transactions contracted substantially in 2008, especially during the second half.

Price Movements

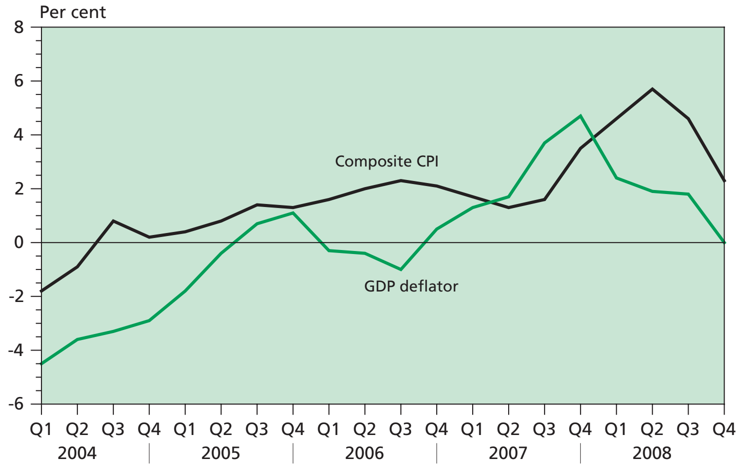
Inflation was a global concern during most of 2008. The surges in food and energy prices, as well as the tightening capacity constraints arising from strong economic growth in the past several years, had driven inflation in many economies to the highest seen in the last decade. As a small open economy, price pressures in Hong Kong generally followed the global trend. The Composite Consumer Price Index (Composite CPI) increased by 4.3 per cent in 2008, markedly faster than the 2 per cent recorded in both 2006 and 2007.

To mitigate the impact of inflation, in particular high food prices, on the underprivileged and lower-income groups, the Government introduced various relief measures, including, among others, Government payment of public housing rentals, a rates concession and a subsidy for household electricity charges. Taking out the effects of the one-off measures, the underlying consumer price inflation in 2008 was 5.6 per cent, likewise faster than the 2.8 per cent increase in 2007.

Nevertheless, with the retreat of commodity prices from mid-2008 and the deepening global economic downturn due to the escalation of the financial crisis, global inflationary pressures receded quickly towards the end of 2008. Inflation in Hong Kong showed largely similar developments during the year.

As a broad measure of the overall change in prices, the GDP deflator increased by 1.4 per cent in 2008. The moderate increase in the GDP deflator was mainly due to a deterioration in the terms of trade during most of 2008, resulting from export prices rising at a slower pace than import prices. Taking out the external trade components, the increase in domestic demand deflator was higher, at 2.7 per cent in 2008 *(Chart 16)*.

Chart 16 **Main Inflation Indicators (year-on-year rate of change)**



Consumer Price Inflation receded markedly in the latter part of 2008 amid the continuous tapering of food price inflation, the fall in energy prices and the weaker demand conditions.

Public Finance

Structure of Government Accounts

The Government controls its finances through a series of fund accounts. The General Revenue Account is the main account for day-to-day departmental expenditure and revenue collection. Eight other funds are established by resolutions of the Legislative Council for specific purposes: the Capital Works Reserve Fund, Capital Investment Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund.

The Capital Works Reserve Fund finances the public works programme, land acquisitions, capital subventions, major systems and equipment, computerisation and the payment of redemption money in respect of land exchange entitlements. Its income is derived mainly from land premiums and investment income.

The Capital Investment Fund finances the Government's capital investments, such as equity injections to the Airport Authority and the MTR Corporation Limited, and capital investments in the Housing Authority and the Urban Renewal Authority. Its income is derived mainly from appropriation from the General Revenue Account and dividends.

The Civil Service Pension Reserve Fund acts as a reserve to meet payment of civil service pensions in the unlikely event that the Government cannot meet such liabilities from the General Revenue Account. Its income is derived from investment income.

The Disaster Relief Fund finances grants for humanitarian aid in relief of disasters that occur outside Hong Kong. Its income is derived mainly from appropriation from the General Revenue Account.

The Innovation and Technology Fund finances projects that help promote innovation and technology upgrading in manufacturing and service industries. Its income is derived mainly from investment income.

The Land Fund was established on July 1, 1997 to enable the investments held by the former Trustees of the HKSAR Government Land Fund to be formally brought into the Government's account. Its income is derived from investment income.

The Loan Fund finances loan schemes such as housing loans and education loans. Its income is derived mainly from loan repayments and interest.

The Lotteries Fund finances welfare services through grants and loans. Its income is derived mainly from sharing the proceeds of the Mark Six Lottery.

Management of Public Finances

The principles underlying the Government's management of public finance are set out in the Basic Law: to keep expenditure within the limits of revenues in drawing up the budget, to strive to achieve a fiscal balance, to avoid deficits and to keep the budget commensurate with the growth rate of its gross domestic product. The Budget presented by the Financial Secretary to the legislature each year is developed against the background of a medium-range forecast to ensure that full regard is given to the longer-term trends in the economy.

Public Expenditure

Public expenditure is taken to include government expenditure from the General Revenue Account and the Government's statutory funds excluding the Capital

Investment Fund, plus expenditure by the government trading funds and the Housing Authority. Government grants and subventions to institutions in the private or quasi-private sectors are included, but not spending by organisations in which the Government has only an equity stake, such as the Airport Authority and the MTR Corporation Limited. Similarly, advances and equity investments from the Capital Investment Fund as well as repayment of government bonds and notes are excluded as they do not reflect the actual consumption of resources by the Government.

Financial Results

The Government's consolidated account recorded a surplus of $123.6 billion in 2007-08. Fiscal reserves at the end of March 2008 stood at $492.9 billion. This reserve is available to meet any calls on the Government's contingent liabilities and to cope with any short-term fluctuations in expenditure relative to revenue.

Total government revenue in 2007-08 amounted to $358.4 billion and spending, $234.8 billion. For details of revenue by source and of expenditure by component for 2007-08 and 2008-09 (Revised Estimate) see Appendix 6, Table 6.

Public expenditure in 2007-08 totalled $252.5 billion. There was an increase of 4.4 per cent in nominal terms or 1.3 per cent in real terms over the previous year. Some $40.3 billion, or 16 per cent of the public expenditure in 2007-08, was of a non-recurrent nature. Table 7 gives an analysis of expenditure by policy area group and Table 8, the growth rate of public expenditure as compared with the rate of economic growth.

Revenue Sources

Hong Kong's tax system is simple and relatively inexpensive to administer. Tax rates are low, and the Government gives a high priority to curbing tax evasion and minimising opportunities for tax avoidance. The major sources of revenue are profits tax (26 per cent), land premiums (17 per cent) and salaries tax (11 per cent). Other significant sources include revenue from stamp duties (14 per cent), properties and investments (8 per cent), utilities, fees and charges for services provided by the Government (4 per cent), bets and sweeps tax (4 per cent), general rates (3 per cent), and duties on dutiable commodities (2 per cent). These major sources of revenue are presented at Appendix 6, Chart 1.

The Inland Revenue Department collects about 56 per cent of total revenue, including profits tax, salaries tax, property tax, stamp duties, bets and sweeps tax, and hotel accommodation tax. Profits, salaries and property taxes (including tax under personal assessment), which together accounted for about 38 per cent of the total revenue in 2007-08, are levied under the Inland Revenue Ordinance. Persons liable to these taxes may be assessed on three separate and distinct sources of income: business profits, salaries and income from property.

Profits tax is charged only on profits arising in or derived from Hong Kong, from a trade, profession or business carried on in Hong Kong. In 2007-08, profits of unincorporated businesses were taxed at 16 per cent and profits of corporations at

17.5 per cent. In 2008-09, the tax rates were revised to 15 per cent and 16.5 per cent respectively.

Profits tax is paid initially on the basis of profits made in the year preceding the year of assessment and is subsequently adjusted according to profits actually made in the assessment year. Generally, all expenses incurred in the production of assessable profits are deductible. There is no withholding tax on dividends paid by corporations. Interest income, other than that received by financial institutions, and dividends received from corporations are exempt from profits tax. In 2007-08, the Government received about $91.4 billion in profits tax (about 26 per cent of total revenue).

Salaries tax is charged on emoluments arising in, or derived from, Hong Kong. The basis of assessment and provisional tax mechanism are similar to profits tax. Tax payable in 2007-08 was calculated on a sliding scale that progressed from 2 per cent, 7 per cent and 12 per cent on the first, second and third segments of net income (that is, income less deduction and allowances) of $35,000 each (revised to $40,000 in 2008-09), respectively, and then to 17 per cent on the remaining net income. No one, however, needed to pay more than the standard rate of 16 per cent (revised to 15 per cent in 2008-09) of his or her total income.

The earnings of husbands and wives are reported and assessed separately. However, where either spouse has allowances that exceed his or her income, or when separate assessments would result in an increase in salaries tax payable by the couple, they may elect to be assessed jointly. Salaries tax contributed some $37.5 billion (about 11 per cent of total revenue) in 2007-08. Owing to the generous personal allowances under the Hong Kong tax law, only 39 per cent of the workforce had to pay salaries tax for the year of assessment 2006-07.

Owners of land or buildings in Hong Kong were charged property tax in 2007-08 at the standard rate of 16 per cent (revised to 15 per cent in 2008-09) of the actual rent received, less an allowance of 20 per cent for repairs and maintenance. There is a system of provisional payment of tax similar to that for profits tax and salaries tax. Properties owned by a corporation carrying on a business in Hong Kong are exempt from property tax, but profits derived from ownership are chargeable to profits tax. Property tax contributed some $1.2 billion (about 0.3 per cent of total revenue) in 2007-08.

The Stamp Duty Ordinance imposes fixed and ad valorem duties on different classes of documents relating to assignments of immovable property, leases and share transfers. The revenue from stamp duties was some $51.5 billion, about 14 per cent of total revenue, in 2007-08.

A duty is imposed on the gross profits on horse racing and football betting administered by the Hong Kong Jockey Club, and proceeds of Mark Six lotteries. These are the only legal forms of betting in Hong Kong. Effective from September 1, 2006, the duty on horse racing is charged on a sliding scale, starting from the rate of 72.5 per cent on the first $11 billion of the gross profits. The rate progressed to 73 per cent, 73.5 per cent, 74 per cent and 74.5 per cent for each segment of

$1 billion of gross profits thereafter, up to 75 per cent on the remainder of gross profits exceeding $15 billion. The duty on football betting, which was introduced on August 1, 2003, is charged at a rate of 50 per cent of gross profits. The yield from betting duty in 2007-08 totalled some $13 billion, about 4 per cent of total revenue.

In 2007-08, a hotel accommodation tax of 3 per cent (revised to 0 per cent from July 1, 2008) was imposed on expenditure on accommodation by guests in hotels and guesthouses.

Under the Dutiable Commodities Ordinance, excise duties are levied on only four types of commodities to be consumed locally — hydrocarbon oil, liquor, methyl alcohol and tobacco, irrespective of whether they are manufactured locally or imported. The Customs and Excise Department is responsible for collecting these duties. In 2007-08, the department collected duties of $7.06 billion (about 2 per cent of total revenue).

Duties on wine and other non-hard liquors were exempted with effect from February 27, 2008. Duty on Euro V diesel was also removed on July 14, 2008.

The Rating and Valuation Department is responsible for the billing and collection of rates, which are levied on landed properties at a specified percentage of their rateable values. The rates percentage charge in 2008-09 was 5 per cent.

The rateable value of a property is an estimate of its annual open market rent as at a designated date. Revaluation of rateable values is conducted annually to better reflect prevailing market rents. The current Valuation List took effect on April 1, 2008, with rateable values reflecting the rental values on October 1, 2007.

The Valuation List contained about 2.3 million assessments on March 31, 2008. The revenue from rates in 2007-08 was $9.5 billion, amounting to about 3 per cent of total revenue.

To share wealth with the community, the Government continued to grant rates concession to all ratepayers to offset the rates payable for the four quarters from April 2008 to March 2009, subject to a ceiling of $5,000 per quarter for each rateable tenement. As a result, about 97 per cent of ratepayers were not required to pay any rates, while the remaining 3 per cent of ratepayers had their rates bills reduced by the full concession amount of $5,000, costing the Government about $11.2 billion.

The Rating and Valuation Department is also responsible for the billing and collection of Government rent for properties held under land leases granted on or after May 27, 1985, or on the extension of non-renewable land leases. Government rent is levied at 3 per cent of the rateable value of the property and is adjusted in step with any subsequent changes in the rateable value. There were about 1.8 million assessments in the Government Rent Roll on March 31, 2008. Total government rent collected in 2007-08 was $5.8 billion, or about 2 per cent of total revenue.

Fees and charges for services provided by government departments generated about $12.3 billion, or about 3 per cent of total revenue, in 2007-08. It is government policy that fees, in general, should be set at levels sufficient to recover the full cost of providing the services. Certain essential services are, however, subsidised by the Government or provided free of charge. Government-operated public utilities generated about $3.3 billion, which accounted for about 1 per cent of total revenue; the most important of these, in revenue terms, is water charges.

The Government also collected $27.9 billion from investments and interest income on the fiscal reserves in 2007-08, amounting to about 8 per cent of the total revenue.

Lastly, some $62.3 billion, or about 17 per cent of the total revenue in 2007-08, was generated from land transactions. All revenue from land transactions is credited to the Capital Works Reserve Fund to help finance the Public Works Programme.

Government Procurement and Supplies Management

Hong Kong, China is a signatory to the World Trade Organisation Agreement on Government Procurement (WTO GPA). Government procurement is undertaken in accordance with the principles of openness, transparency, fairness, public accountability, value for money and non-discrimination. Open tender procedures are widely used while restricted or single tender procedures may be used under exceptional circumstances where open competitive tendering would not be an effective means, such as in cases involving compatibility with existing equipment, patent or proprietary items. For complex and critical purchases, prequalification exercises may be conducted before tendering to ensure that suppliers are technically competent.

Purchases of goods and related services with values above predetermined thresholds of the WTO GPA are undertaken by the Government Logistics Department (GLD). These purchases are normally made by competitive tendering to ensure that user departments' needs are met at the best possible price, having regard to life-time cost and reliability of supply. Consideration is given to purchasing environmentally friendly products where available and appropriate.

To facilitate sourcing and market research, the GLD maintains and regularly updates the Supplier Lists comprising local and overseas suppliers for different categories of goods and services.

Notices for open and prequalification tenders are published in the Government Gazette and local newspapers, and put on the Internet. Suppliers on the relevant Supplier Lists and, in case of procurement covered by WTO GPA, consulates and overseas trade commissions will also be informed where appropriate. Subscribers to the Electronic Tendering System can download tender documents and submit tender offers electronically.

In 2008, the GLD procured and awarded contracts on behalf of user departments with a total value of $3.92 billion. Items bought from 27 different territories included computer equipment and software, food and beverages, transportation services, vehicle and spares, telecommunications equipment and spares, commonly used items such as stationery, distilled water and fuel oils, and essential and emergency items such as flags, mouth masks, surgical gloves, gowns and face shields.

Websites

Economic Analysis and Business Facilitation Unit, Financial Secretary's Office: www.eabfu.gov.hk
Financial Services and the Treasury Bureau: www.fstb.gov.hk
Government Logistics Department: www.gld.gov.hk