Free Trade and Globalisation—and Impacts on the Hong Kong Economy

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Seminar on "Free Trade and Globalisation –
The Hong Kong Experience in Retrospect and the Prospects"
Hong Kong, 1 December 2017

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*All opinions expressed herein are the author's own and do not necessarily reflect the views of any of the organisations with which the author is affiliated.

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- The Costs of Economic Globalisation
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- Concluding Remarks

Introduction:
The Meaning of Economic Globalisation

- Economic globalisation means the growth of international trade, cross-border direct investment and portfolio investment, cross-border flows of financial capital, human capital and labour around the world and finally the cross-border flows of information and knowledge.
- Economic globalisation is not new—The Silk Road between China and the West in the Han Dynasty, the Spanish conquests of Latin America and the Philippines, The Portuguese ventures to India, China, Taiwan and Japan, the Dutch and English East India Companies, and the China Clippers of the U.S.
- However, the speed of globalisation has greatly increased within the last several decades because of many reasons.
- According to Thomas Friedman's best-selling book, The World is Flat, economic globalisation now reaches virtually every corner of the Earth.

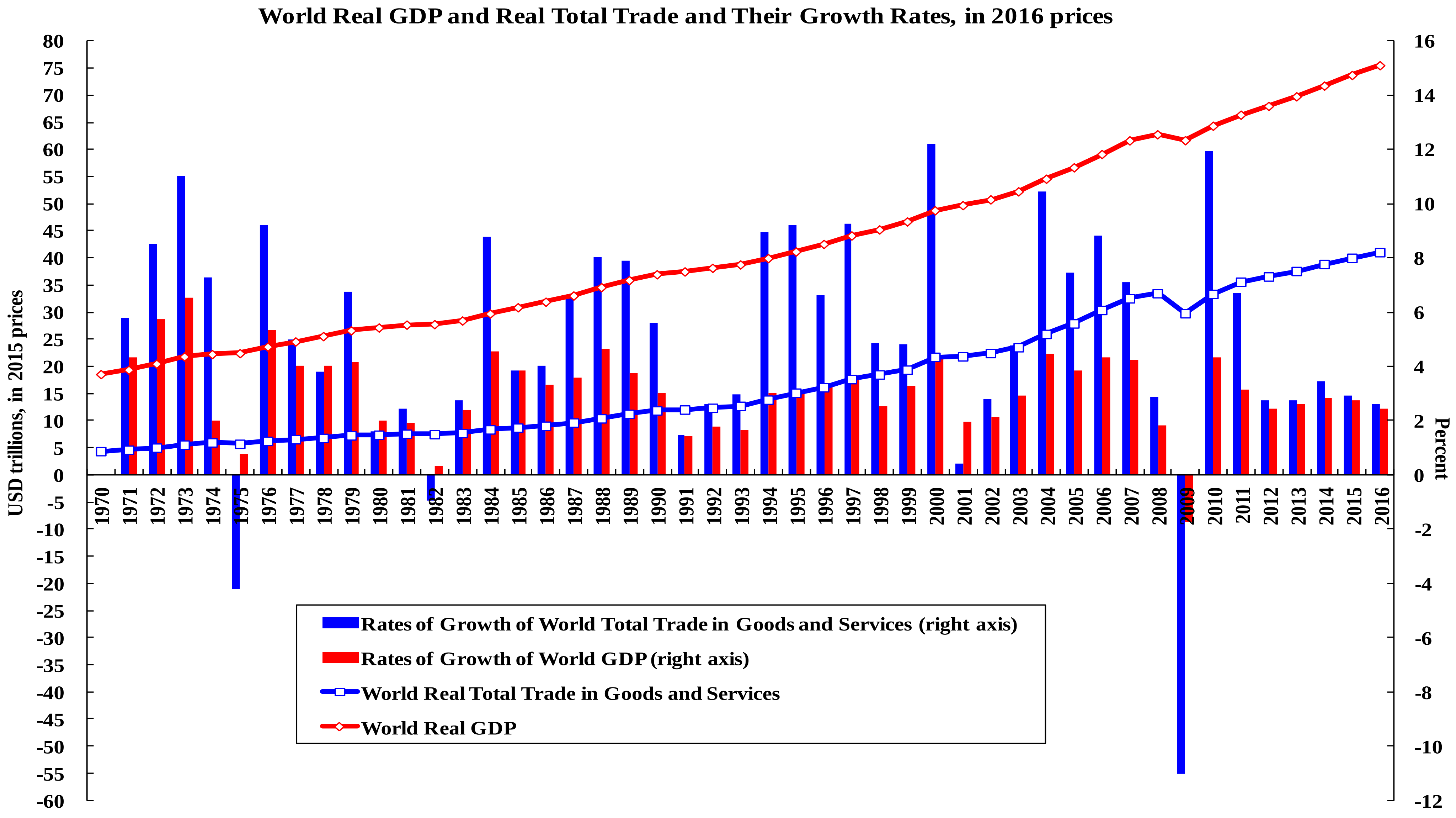
Introduction:
Economic Globalisation is being Questioned

- Globalisation has brought huge benefits to the entire world economy. Every participating country has had a net gain in the aggregate from economic globalisation, albeit to different degrees.
- However, while every participating country has had a net gain, domestic winners as well as losers have been created within every participating country at the same time.
- Economic globalisation has begun to be questioned by the common people who have not benefitted from it. The "Brexit" vote, the election of President Donald Trump in the U.S., and the rise of isolationists and protectionists in Austria, France, Germany and the Netherlands and Germany, are all testimony that many people in these countries consider themselves to be "losers" from economic globalization and are venting their anger and frustration by voting against the establishment or the so-called "elite".
- The losers should and must be compensated if globalisation were to continue in a sustainable manner. No one should have to lose as a result of globalisation--everyone can be made better off, because in principle, the gains should more than offset the losses.

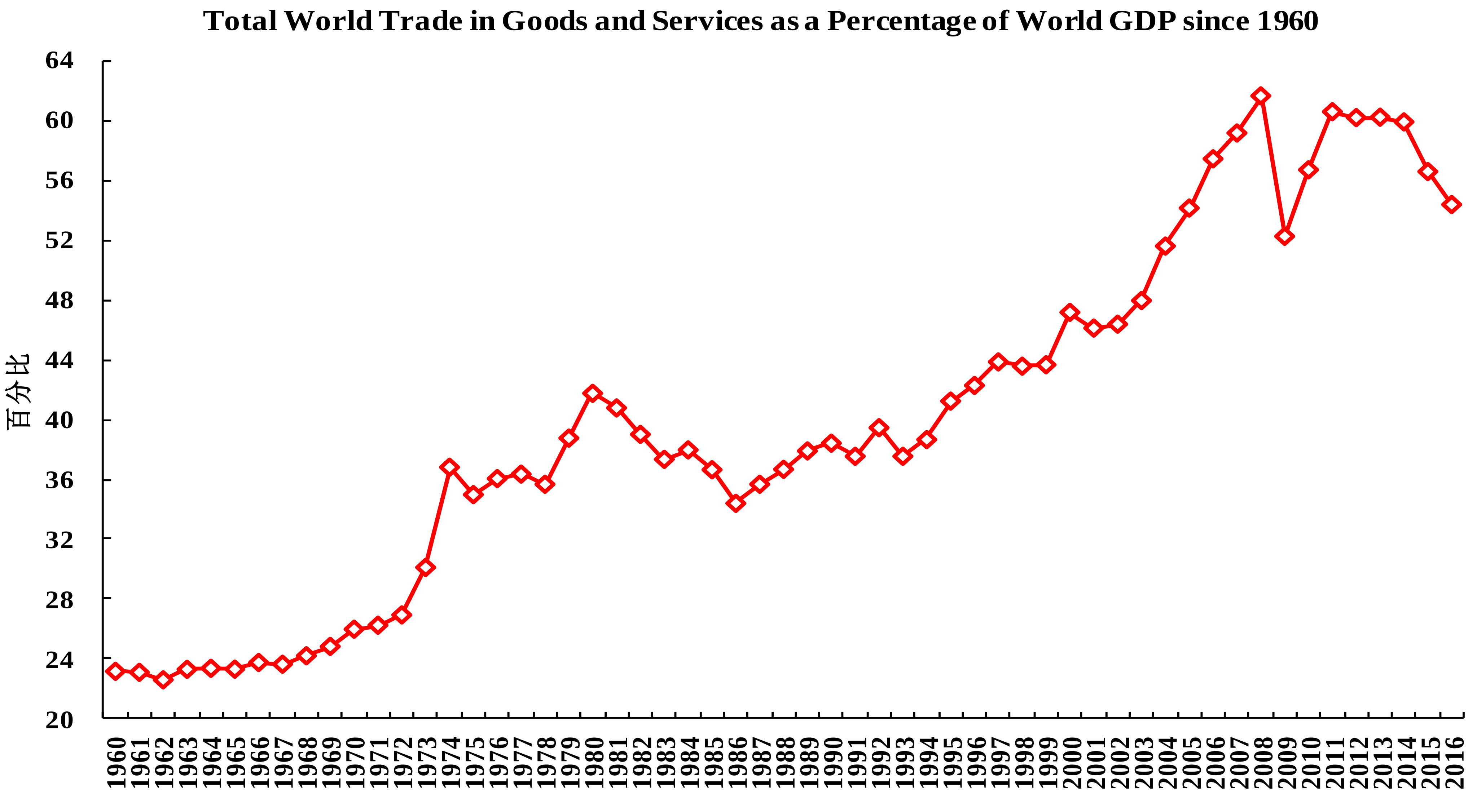
Introduction: The Growth of Total World GDP and Total World Trade

- Both total real world trade and total world foreign direct investment have grown much faster than total world real GDP since 1970. Between 1970 and 2008, the beginning of the most recent global financial crisis, total world real GDP grew at an average annual rate of 3.3% while total real world trade grew at an average annual rate of 5.5%.
- However, since the global financial crisis that began with the U.S. sub-prime loan crisis in 2007, the average annual rates of growth of real world GDP and real world trade have declined to 2.2% and 2.5% respectively. More recently, the International Monetary Fund projected that world real GDP would grow at 3.5% in 2017 and 3.6% in 2018 with the economic recovery.
- Total world trade as a percent of total world GDP increased from 26% in 1970 to 62% in 2010, but it has also been gradually declining since 2010.

Real World GDP and Trade in Goods and Services and Their Growth Rates (2016 prices)



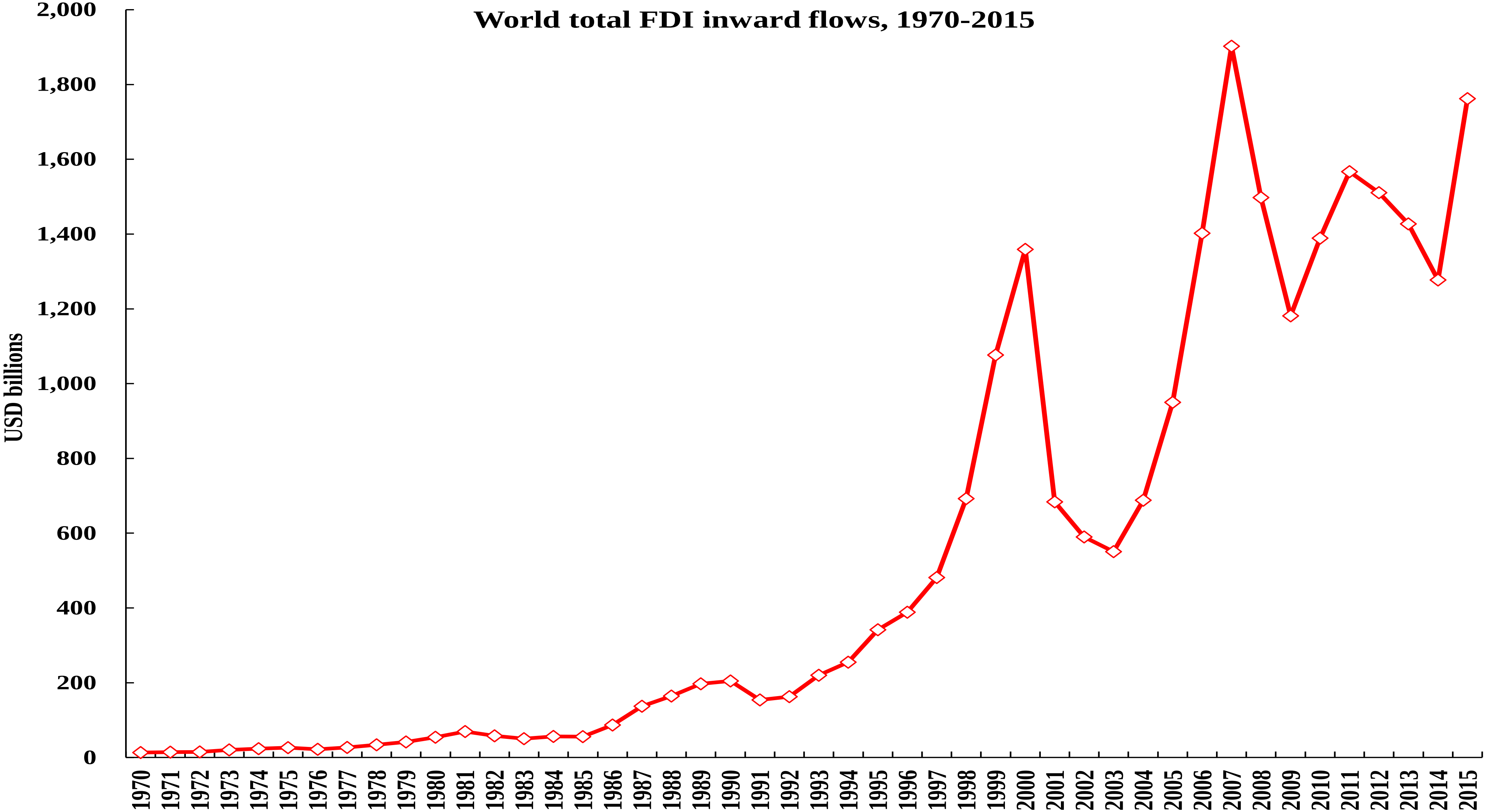
Total World Trade in Goods and Services as a Percentage of World GDP since 1960



Introduction: The Growth of Foreign Direct Investment (FDI)

- Falling barriers to as well as incentives for foreign direct investment (FDI) provided by investee countries have also greatly increased cross-border direct investment. National treatment for foreign direct investment is becoming increasing standard under the World Trade Organisation (WTO) and similar agreements.
- Data from the United Nations Commission for Trade and Development (UNCTAD) show that total world FDI increased at the average annual rate of 14% between 1970 and 2007, the beginning of the global financial crisis. Annual total world FDI may be estimated at approximately US$1.9 trillion in 2007. Since 2007 total world FDI has been declining by 1% per year.
- Foreign direct investments (FDI) often follow trade—e.g., to secure long-term supply of raw materials and natural resources; and trade often follows foreign direct investments—e.g., production by captive subsidiaries in foreign markets. A large proportion of world trade consists of intra-industry and intra-firm trade.
- International capital flows also include portfolio investment, foreign aid, foreign loans and short-term capital flows such as "hot money".

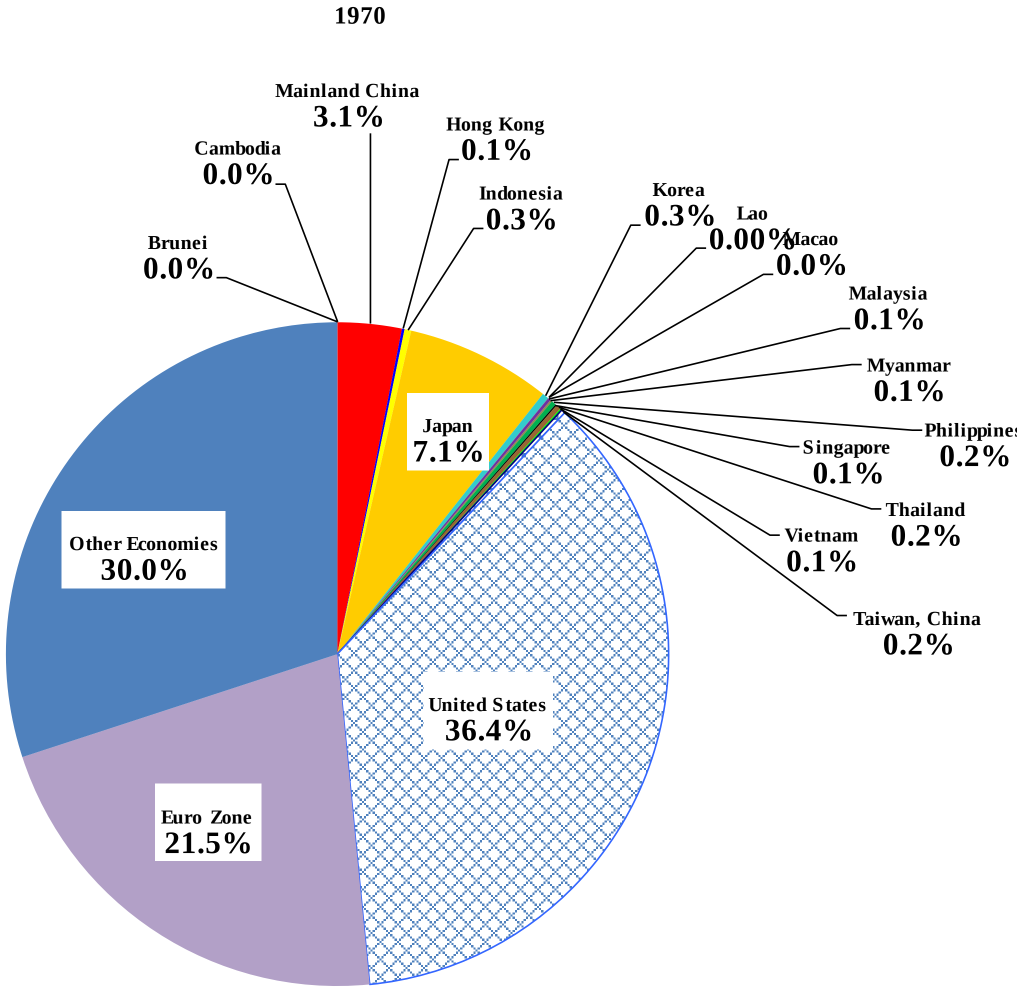
Total World Foreign Direct Investment (FDI), US$ since 1970

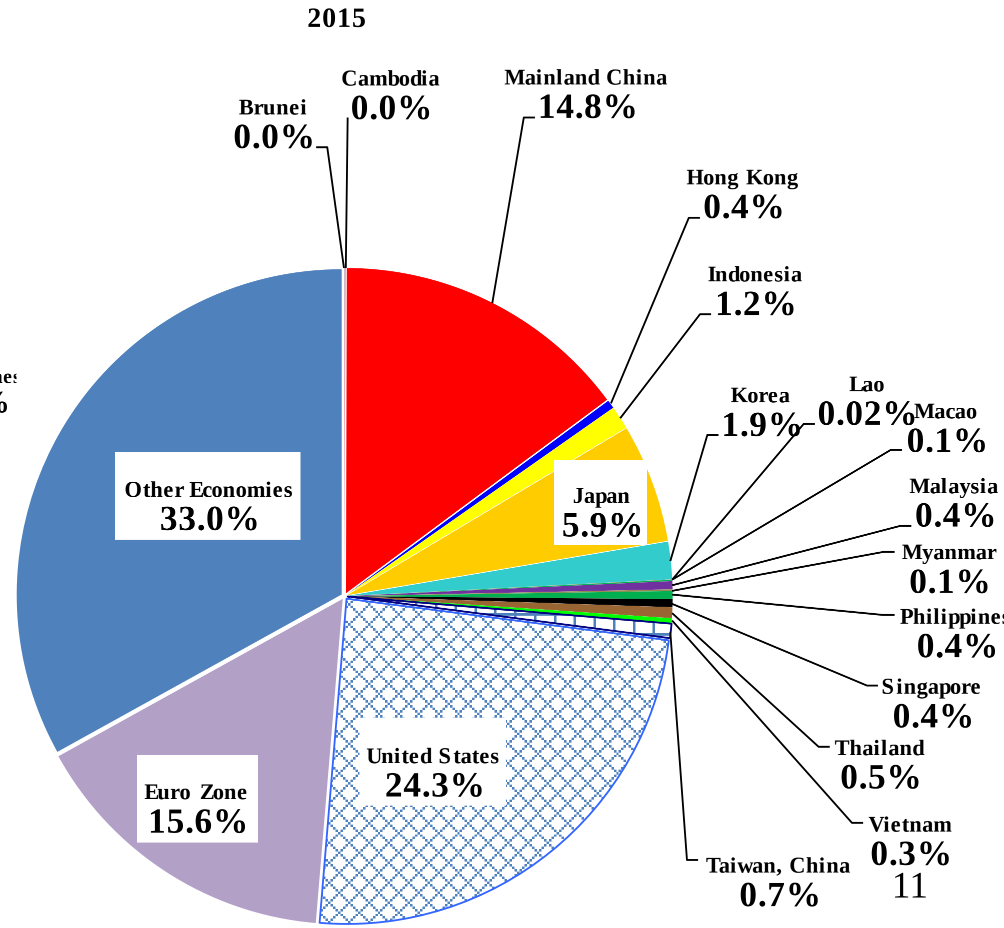


Introduction: The Effects of Economic Globalisation

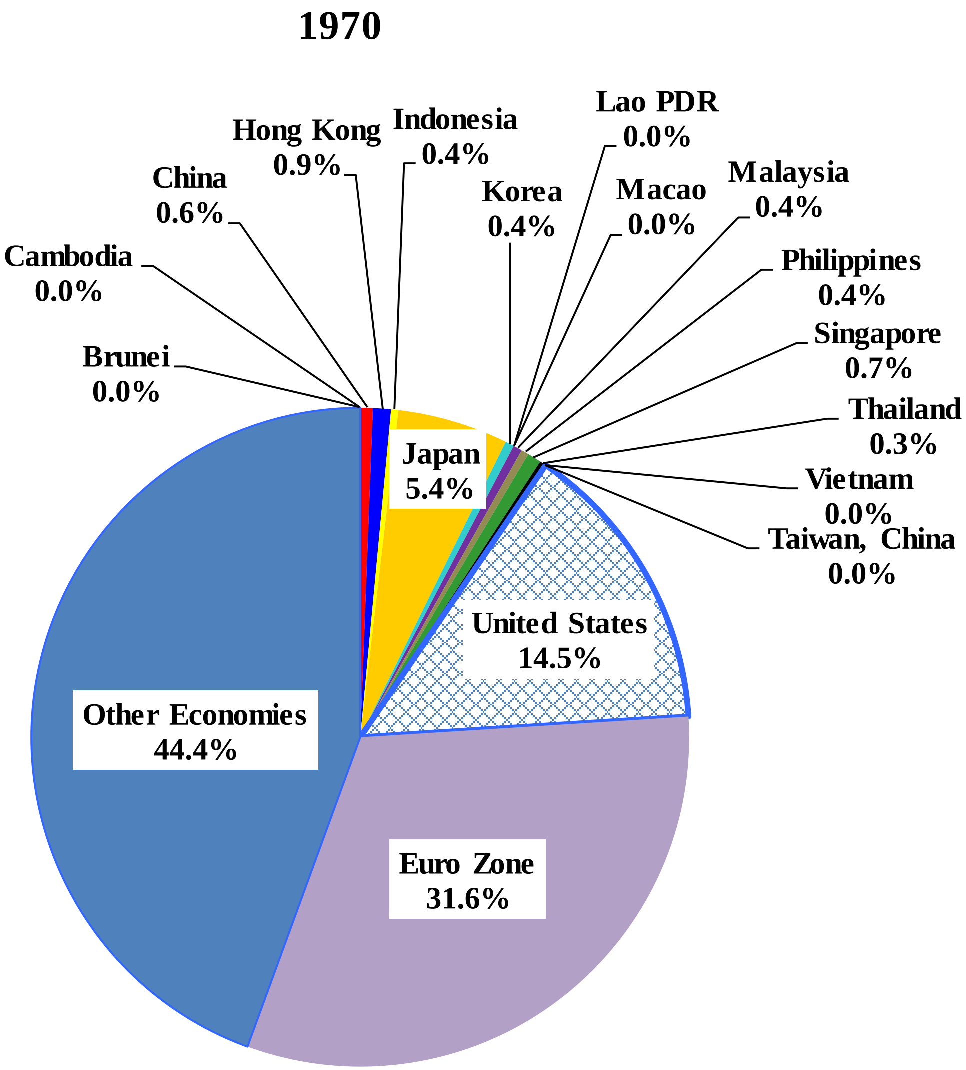
- Economic globalization has resulted in the massive growth of world trade and through world trade world GDP.
- The growth of international trade led and propelled successively the growth of the GDPs of Japan, the four Newly Industrialized Economies (Hong Kong, Singapore, South Korea and Taiwan), and Mainland China. They all adopted export-led economic growth policies in the early stages of their economic development.
- This has resulted in the center of gravity of the world economy shifting to East Asia from North America and Europe and within East Asia from Japan to Mainland China.
- Economic globalisation has also partially de-coupled the East Asian economies from the U.S. and Western European economics, meaning that they can continue to grow even as the U.S. and Western European economies go into recession, albeit at slower rates.

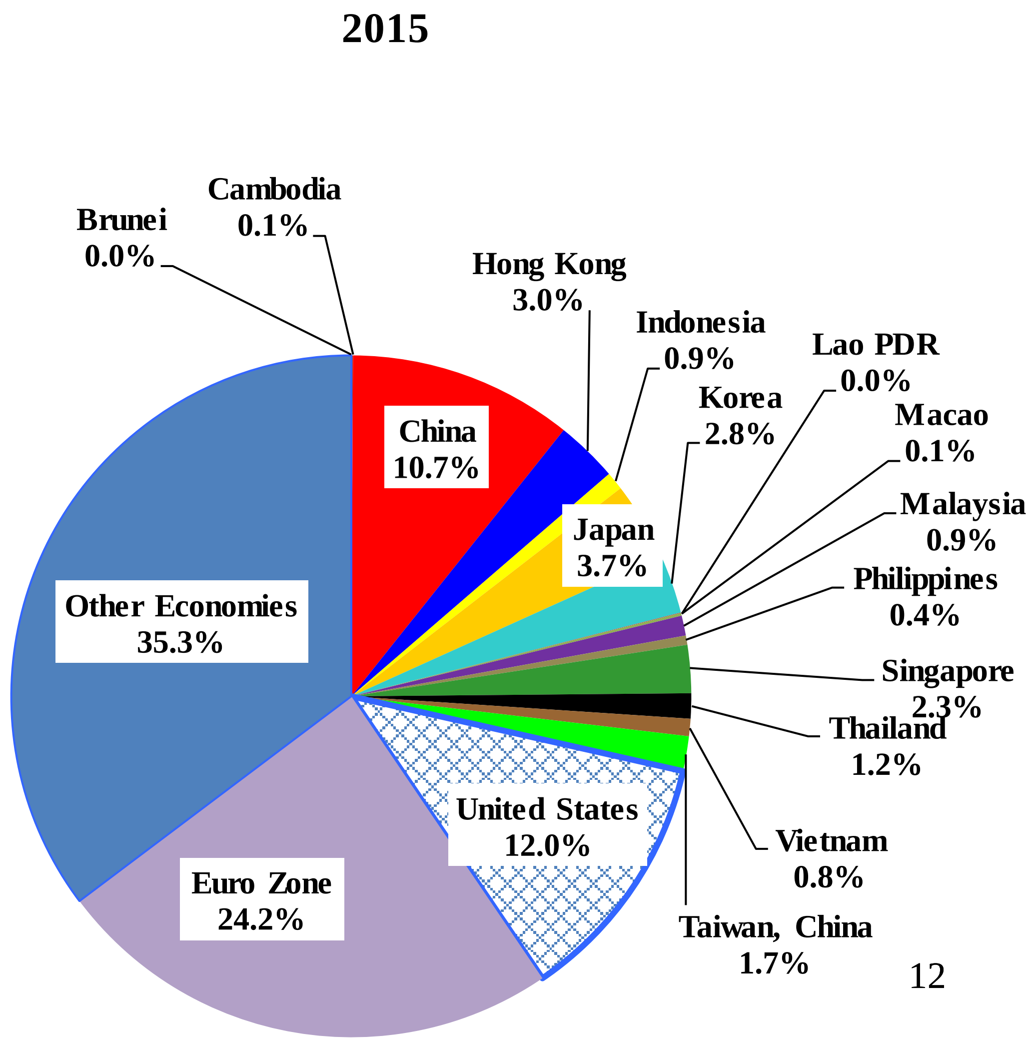
The Distribution of World GDP, 1970 and 2015, US$





The Distribution of International Trade in Goods and Services, 1970 and 2015





Introduction: The Effects of Economic Globalisation

- Economic globalisation has also enhanced the rate of return to investment in intangible capital by enlarging the potential markets.
- Economic globalisation has also led to the partial integration of the factor markets in the world, especially the capital markets and the markets for professional and technical personnel.
- Economic globalisation has led to massive short-term cross-border capital flows seeking higher yields.
- Economic globalization has resulted in a more equal distribution of income across countries and regions (but a less equal distribution of income within each country and region).

The Benefits of Economic Globalisation

- The creation of winners on a global basis—voluntary international trade is always win-win for both trading-partner countries.
- The more efficient allocation of capital--Investors everywhere are moving their capital around the world to seek the highest rates of return.
- The enlargement of markets--The entire world is the potential market and the entire world population have become potential customers.
- The huge potential of both technological and market economies of scale can be realized through expansions, mergers, acquisitions, consolidations, and formation of strategic alliances and partnerships.
- Economic globalisation enhances the returns to intangible capital.

The Benefits of Economic Globalisation

- Economic globalisation enhances the transfer of technology and knowledge across borders.
- It also promotes the widespread exchange of people and their cultures through tourism and education abroad.
- The mobility of capital has reduced the necessity for cross-country migration—bringing capital to labour rather than labour to capital.
- The U.S. as the leading provider of the global medium of exchange reaps significant benefits from the seigneurage.
- The possibility of global cooperation and coordination is enhanced (e.g., on the prevention of global warming).

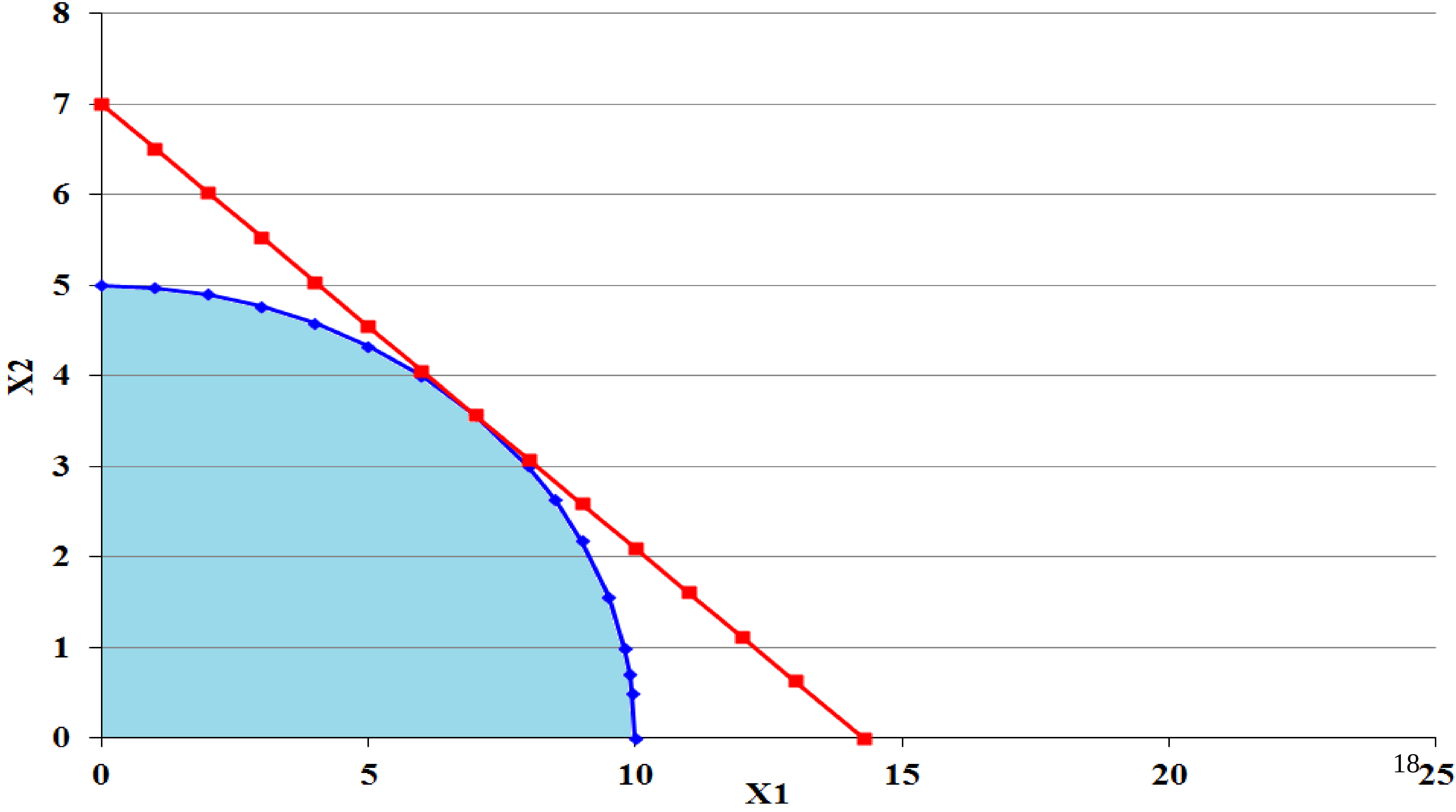
The Benefits of Economic Globalisation: International Trade

- Economic theory tells us that whenever a new economy joins the world economy, aggregate economic welfare of the world should increase. Moreover, the aggregate economic welfare of each country that participates in the world economy should also increase.
- The basic idea is a simple one: With voluntary international trade, if there is no gain for any of the trading partner countries, no trade will take place. In any such trade, both partner countries must gain. And the gains are sufficient to compensate the potential losers within each trading partner country.
- When a previously autarkic economy begins to participate in the world, international trade can only increase, and not decrease.
- However, the introduction of new international trade transactions will necessitate domestic adjustments in each of the trading partner countries, as some domestic industries will expand while other domestic industries will contract.

The Set of Consumption Possibilities under Autarky

- The set of production possibilities of an economy is the set of all possible combinations of goods and services that it can produce. In the chart we show the set of production possibilities of an economy with two goods, X1 and X2, shaded in blue.
- The solid blue line is the frontier of the set of production possibilities. An efficient economy always operates on the frontier of its set of production possibilities. We note that in order to produce more of X1, the economy will have to produce less of X2 and vice versa. Moreover, the more X1 that the economy has already been producing, the more X2 it has to give up on the margin in order to produce even more of X1. (This is the diminishing marginal rate of substitution (or convexity) assumption.)
- In the absence of international trade, the set of consumption possibilities of an economy is precisely the same as its set of production possibilities. It can only consume what it can produce.

The Sets of Consumption Possibilities under Autarky and with International Trade



The Expansion of the Sets of Consumption Possibilities with International Trade

- With international trade, the set of consumption possibilities can be expanded even with the set of production possibilities remaining the same.
- The red straight line represents the international price line. Its slope is the ratio at which a unit of X2 can be exchanged for a unit of X1 in the world market. It is drawn at its point of tangency to the set of production possibilities. (It is assumed that the economy is small, so that it is a price-taker in the world market, and thus the price line is a straight line.)
- With international trade, the set of consumption possibilities becomes the triangle bounded by the red line and the two axes.
- To see this, suppose the economy operates at the point of tangency of the set of production possibilities and the international price line, then by trading X1 and X2 internationally, it can achieve every other point on the red line, which are not attainable in the absence of international trade.
- Clearly the set of consumption possibilities with international trade is significantly expanded—it now properly contains the set of consumption possibilities under autarky. Thus, the economy must be better off because not only does it have all the previously available consumption possibilities to choose from but it also has choices previously unavailable to it.

The Benefits of Economic Globalisation: International Trade

- Thus, voluntary trade between two countries is always beneficial to both--it is always win-win for both countries. (However, the distribution of the gains from trade between the two trading- partner countries is in general indeterminate and depends on a variety of factors including the relative bargaining power of the trading-partner countries.)
- If one country is more efficient in the production one good (in terms of requiring less resources per unit of output) and the other country is more efficient in the production of the other good, then it seems obvious that specialization with trade can then make both countries better off.
- But even if one country is more efficient than another country in the production of every good, both countries can still gain from trading with each other. This is the core concept of the theory of comparative advantage.

The Creation of Domestic Winners (and Losers)

- The benefits to an economy from international trade can occur in two principal ways. First, its exporters can produce more goods and export them, and thereby create more GDP, profits and employment for the economy. Second, its importers also benefit as the demands for imports augment their revenues and profits as well as generate additional employment; and its consumers can enjoy more, cheaper imported consumer goods and services of greater variety, and its producers can enjoy more and cheaper imported inputs, including equipment, energy, material and service inputs.
- However, even though for the economy as a whole, there is always a positive net benefit, imports can potentially disrupt domestic industries through its competition with domestically produced goods, changing the relative prices between different goods in the economy, and displacing workers employed in these domestic industries. Increased exports can also create losers by bidding away resources needed by other industries. Losers will be created in the economy unless appropriate compensation and redistribution policies are adopted by the government. The market on its own cannot compensate the losers from international trade.

The Costs of Economic Globalisation

- The Creation of Domestic Losers
- The Intensification of Global Competition
- Factor-Price Equalisation
- Increased Domestic Income Inequality
- The Potential of Monopolisation
- Increased Vulnerability to External Economic Disturbances
- The Risks of Short-Term Cross-Border Capital Flows

The Costs of Economic Globalisation: The Creation of Domestic Losers

- However, even though the economy of every trading country is better off as a whole with than without international trade, winners and losers will be created in every economy as a result of trade. The losers will not be automatically compensated by the winners through the markets. Government intervention is necessary to make sure that there are no net losers, and in particular, no permanent losers.
- The failure of the government to redistribute the gains from trade will likely make the losers permanent. Permanent losers will oppose globalization and those who support it.
- The social costs of disruptions of industries and job displacements can be high.
- They can lead to the rise of protectionism and isolationism as a reaction to the costs of globalisation if not appropriately mitigated.
- However, there is sufficient net gain in the economy as a whole for all the losers to be potentially compensated by the winners.

The Costs of Economic Globalisation: Factor-Price Equalisation

- The “Factor-Price Equalisation Theorem” of the late Prof. Paul A. Samuelson (Nobel Laureate in Economic Sciences) states that the prices of identical factors of production, such as the wage rate of unskilled labour, or the user cost of capital, will be equalized across countries as a result of free international trade in goods (in the absence of transport costs).
- The theorem suggests that the wage rate of unskilled labour in a developed economy will fall whereas the wage rate of similar labour will rise in the developing economies. Eventually, they will equalize at a common low level in the world under free international trade (in the absence of transport costs). With transport costs, the wage rates will not be equalized, but the tendency is the same. This has actually occurred in many economies, including the U.S. and Hong Kong. **Any job that can be moved away will be moved away.**
- Samuelson, P. A. (1948). "International Trade and the Equalisation of Factor Prices", <u>Economic Journal</u>, June, pp. 163-184.

The Costs of Economic Globalisation: Increased Domestic Income Inequality

- Economic globalisation increases the degree of inequality of income within an economy, other things being equal. This is obvious since both winners and losers are created. The winners are better off than before and the losers worse off than before. The degree of domestic income inequality can be expected to increase, absent any government intervention. This can lead to political polarization if not properly mitigated.
- However, the increase in domestic income inequality can be accompanied simultaneously by increased international income equality, that is, increased equality among countries. In fact, this is also what has happened in the world.

The Costs of Economic Globalisation: The Potential of Monopolization

- Monopolization and cartelization are the natural outcomes of a completely free and unregulated (global) market economy. They tend to result in higher prices and poorer qualities for goods and services and less innovation.)
- Economies of scale (the network effect) and globalisation together also enable the rise of global monopolies or quasi-monopolies such as Alphabet (Google), Apple and Microsoft.
- It is fair to say that without the IBM consent degree in the U.S. there might not have been a Microsoft, and that without the legal restrictions on Microsoft there might not have been an Apple or a Google.
- Governments around the world must remain vigilant on anti-competitive behavior of the part of large firms.

The Costs of Economic Globalisation: The Risks of Short-Term Capital Flows

- While economic theory tells us that voluntary international trade benefits both trading-partner countries and voluntary foreign direct investment benefits both the investor- and the investee-countries, there is no theory which says that short-term capital flows are necessarily good for either the origin or the destination country.
- Exporters, importers and long-term cross-country direct and portfolio investors all prefer relative stability of the exchange rate. Short-term capital flows can cause significant volatility of the exchange rate and asset price bubbles and disrupt international trade.
- Moreover, when short-term foreign capital is utilized in an economy, it invariably leads to problems down the road because of maturity mis-match and currency mis-match.

Possible Mitigation of the Costs of Economic Globalisation

- A Universal Tax on Both Exports and Imports
- Reducing Short-Term Capital Inflows and Outflows
- Enhancing the Social Safety Net
- Investment in Intangible Capital

A Universal Tax on Both Exports and Imports: Taxing the Winners to Compensate the Losers

- A universal tax can be imposed on both exports and imports of an economy, with the proceeds being used exclusively to compensate the "losers". The justification is that the major beneficiaries of international trade (economic globalisation) in each country are its exporters (higher quantities of production, exports and profits) and its importers and consumers and users of imports. Thus, a tax to be levied on both exports and imports, with the proceeds used by the government to compensate the losers, seems to be fair.
- Taxing both exports and imports at the same rate also helps to avoid any domestic price distortion between export and imports. If only exports are taxed, and not imports, or vice versa, there will be a price distortion between exports and imports.
- The tax rate can be 1% or 0.5% but should basically be revenue-neutral, that is, sufficient revenues should be raised from the "winners" to compensate the "losers", no more and no less. The proceeds can be placed in a trust fund so as to prevent its diversion to be used for other purposes.

A Universal Tax on Both Exports and Imports: Taxing the Winners to Compensate the Losers

- One advantage of such a tax is that the proceeds can be used to protect the income of workers who lose their jobs because of imports. For those who are young, they should be re-trained with income support during the re-training period. For those who are say past 55 years of age, for whom the probability of their being able to adapt to re-training to qualify for a better paying job is low, they should simply be provided income support until they reach retirement age. So the tax revenue can be used as a kind of transitional and if necessary long-term income assistance.
- If such a tax is adopted by all economies, or all WTO members, there will be no distortion of the international prices. Under the proposal, exports from one country will be taxed again as imports in another country. However, the recipients of the two taxes are not the same. Unless an exporting country can use the export tax proceeds to compensate those damaged by its exports in the importing country, an export tax in the exporting country cannot substitute for an import tax in the importing country. Cross-country compensation is almost impossible to carry out.

Reducing Short-Term Capital Inflows and Outflows

- Free and unregulated short-term capital flows, both outbound and inbound, can be greatly de-stabilizing to the foreign exchange market, the exchange rate, and the capital market of an economy.
- Short-term capital inflows and outflows pose particular risks to developing economies because they unnecessarily increase the degree of volatility of the exchange rate and therefore discourage international trade and long-term foreign direct and portfolio investment.
- A freely floating exchange rate regime potentially attracts speculators and is subject to speculative attacks as the 1997-1998 East Asian currency crisis has shown.
- Reduction of the permissible leverage in currency speculation can discourage currency speculators and help stabilize the foreign exchange market and the exchange rate.

Reducing Short-Term Capital Inflows and Outflows

- One way to discourage and reduce short-term capital flows is the imposition of a Tobin tax on both inbound and outbound capital flows, but not current account flows. This is, in effect, a currency conversion tax on the entry and exit of capital.
- The Tobin tax was introduced by the late Prof. James Tobin, Nobel Laureate in Economic Sciences, as a currency transaction tax. Tobin suggested his currency transaction tax in 1972 in his Janeway Lectures at Princeton, shortly after the Bretton Woods system of monetary management ended in 1971. It can be applied to cross-border capital account currency exchange transactions.
- A typical rate for the Tobin tax is on the order of 1% or 0.5%.

Reducing Short-Term Capital Inflows and Outflows

- The Tobin tax can function as a device for discriminating between long-term and short-term capital flows. Suppose a Tobin tax of 1% is imposed on all capital account inflows and outflows. Then a one-month round-trip from U.S. Dollars into Renminbi and vice versa will imply a cost of 24% per annum, which should be sufficient to discourage most currency speculators. But for a long-term direct investor with a horizon of five years, the cost would only be an affordable 0.4% per annum.
- The tax rate of the Tobin tax can also be varied as necessary, providing additional flexibility—it can vary within a continuum from 0 to infinity—with infinity amounting to no inflow or outflow. It is also possible to impose the Tobin tax asymmetrically, that is, on either inflows or outflows, for example, in a real crisis.

Enhancing the Social Safety Net

- Global competition can cause temporary as well as permanent disruptions in employment and economic growth.
- Under economic globalisation, there can be two types of external economic disturbances that impact the domestic economy. The first type is of a cyclical nature, for example, the U.S. economy goes into a recession. For this type of economic disturbances, the best defense is a social safety net that provides unemployment benefits for a transitional period with the expectation that a cyclical downturn will be followed by a cyclical recovery.
- The second type is of a structural nature, for example, a domestic industry may need to contract as a result of imports, and workers are displaced. This will require re-training of younger workers and the provision of long-term income support for older workers.
- In both cases, the social safety net must be enhanced, refined and strengthened. A universal tax on both exports and imports can provide the necessary revenue for dealing with the structural problem.
- There should also be continuing education and training programs for workers.

Investment in Intangible Capital

- Technological obsolescence, whether domestic or imported, can also cause similar disruptions in employment and economic growth (e.g., Amazon.com wipes out mom-and-pop bookstores in the U.S. and elsewhere).
- In order to survive these disruptions and disturbances, the comparative advantages of an economy have to be continually created, maintained, preserved and renewed in addition to enhancement of the social safety net.
- The East Asian economic development experience provides an example of created as opposed to natural comparative advantage (human capital and R&D capital can substitute for natural resources).

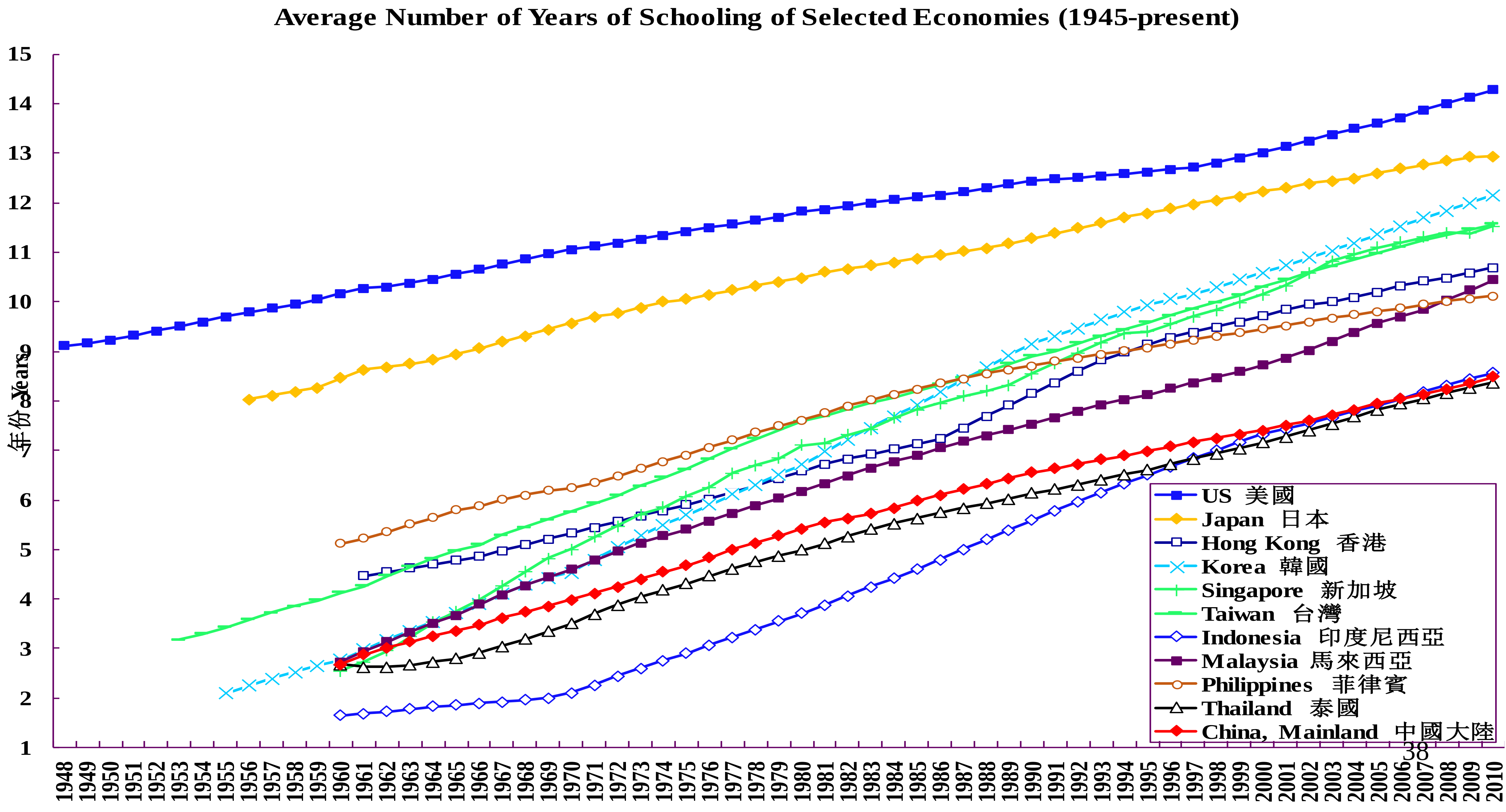
Investment in Intangible Capital

- Intangible capital enables the creation of new comparative advantages. Economies must adjust as new competitors emerge in the process of economic globalisation.
- Innovation is the most important driving force of economic growth today, especially for mature economies with their already-high capital-labour ratios and little growth in labour.
- Sustained investment in intangible capital such as human capital and research and development (R&D) is essential for the occurrence of technical progress or growth in total factor productivity in an economy.

Investment in Intangible Capital

- One indicator of the level of human capital in an economy is the average number of years of schooling per person in the working-age population. In the following chart, the average number of years of schooling is compared across selected economies.
- By this measure, the United States and Japan are clearly the global leaders. South Korea and Taiwan have also been catching up fast. Most of the other East Asian economies also have quite rapidly increasing levels of human capital but it will take a while before they can catch up with the levels of human capital in the developed economies.
- R&D expenditure as a percent of GDP also shows similar trends.

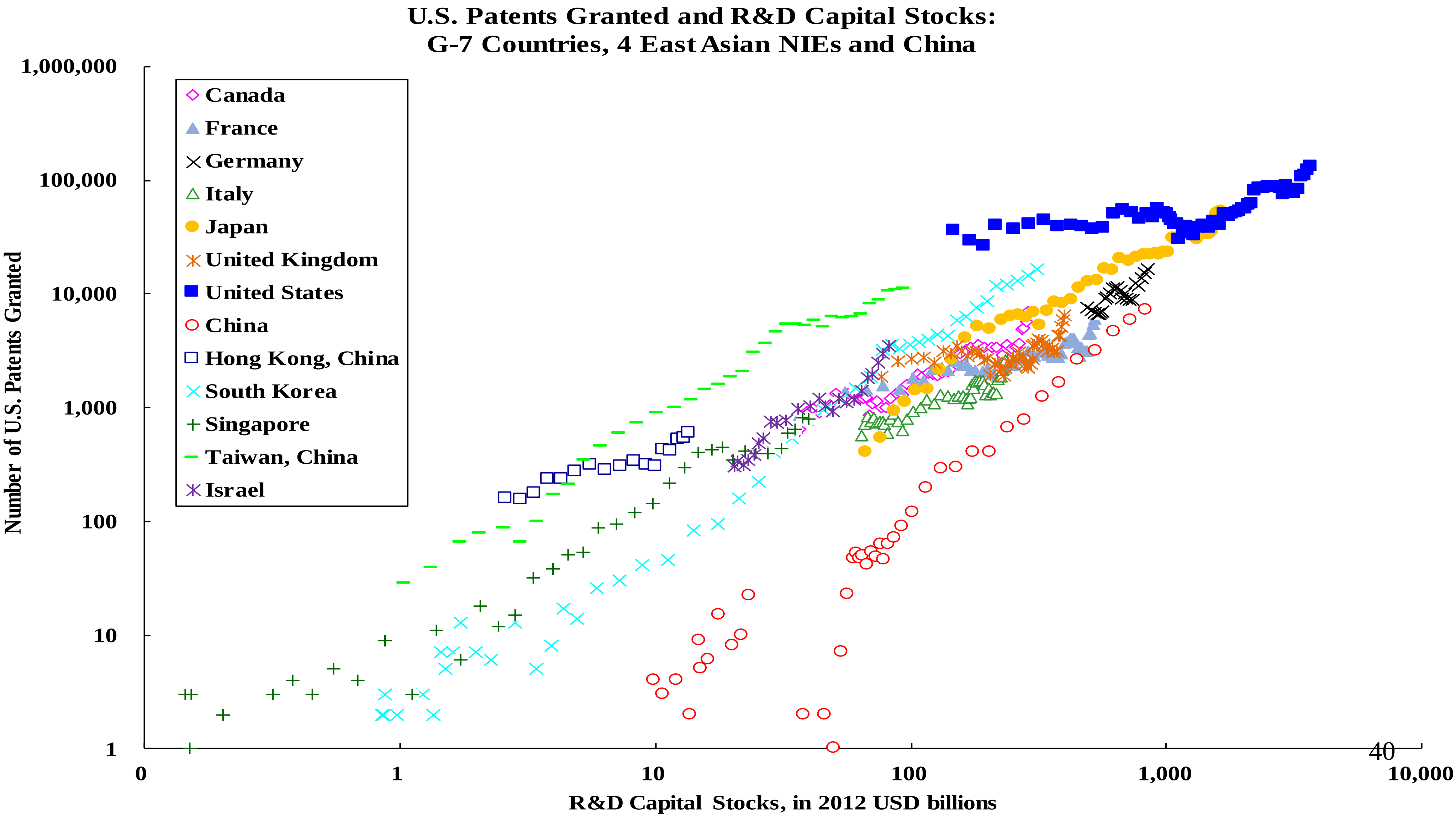
Average No. of Years of Schooling per Person in the Working Age Pop., Selected Economies



Investment in Intangible Capital

- The R&D capital stock, defined as the cumulative past real expenditure on R&D less depreciation of 10% per year, is an useful indicator of innovative capacity. It should quite properly be treated as capital since R&D efforts generally take years to yield any results.
- It can be shown to have a direct causal relationship to the number of patents granted (see the following chart, in which the annual number of U.S. patents granted is plotted against the R&D capital stock of that year for each country).
- The chart shows clearly that the higher the stock of R&D capital of an economy, the higher is the number of patents granted to it by the U.S.

U.S. Patents Granted and R&D Capital Stocks: G-7 Countries, 4 EANIEs, China & Israel



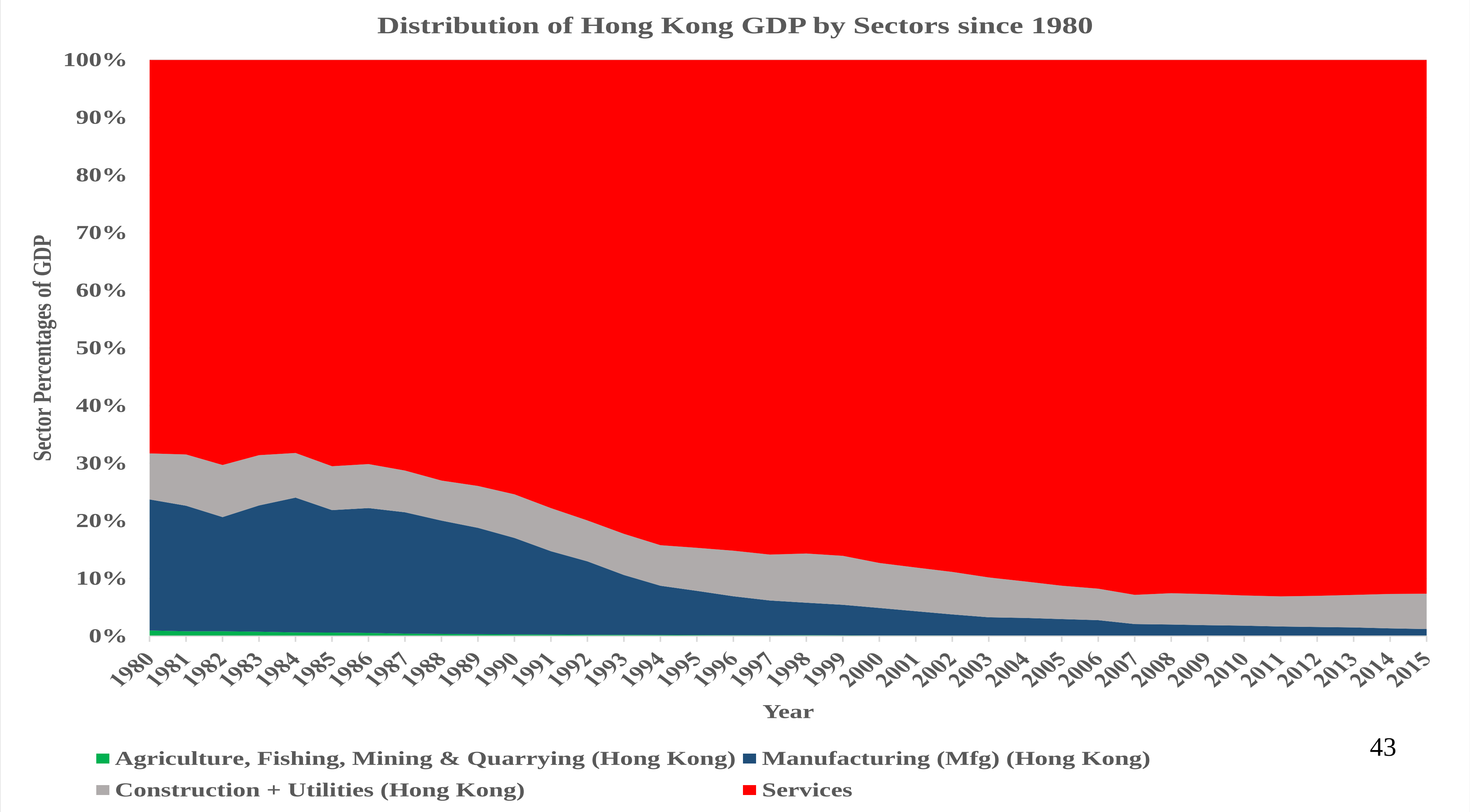
The Impacts on the Hong Kong Economy: Hong Kong as the Beneficiary of Globalisation

- Hong Kong has always been a free port with very few tariff barriers.
- Hong Kong as an entrepot port before 1949.
- Hong Kong as a manufacturer and exporter of light industrial goods, 1950s-1970s.
- Hong Kong as an entrepot port once again and a gateway for direct investment first to, and then from the Mainland, 1978-the present.
- Hong Kong as an international capital market and innovation hub in the future.

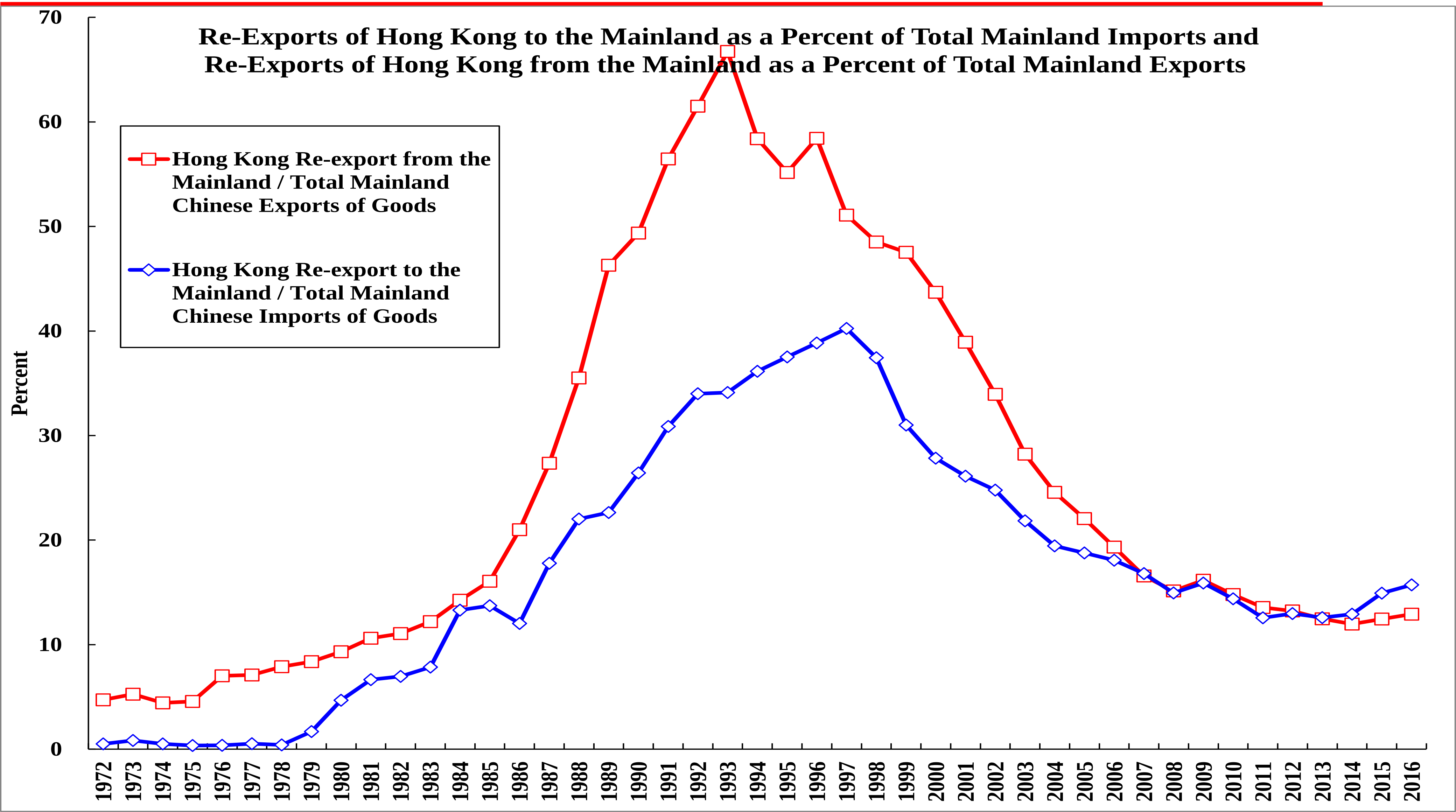
The Impacts on the Hong Kong Economy: Hong Kong as the Beneficiary of Globalisation

- The share of manufacturing in GDP has declined from 22.4% in 1980 to 1.1% in 2015. Basically manufacturing has left Hong Kong. Hong Kong direct investments in light manufacturing on the Mainland also face the twin challenges of rising real wage rate and Renminbi exchange rate.
- The share of the service sector already exceeds 93%.
- The four traditional key industries in Hong Kong--financial services, tourism, trading and logistics and professional services—have been providing the main support for Hong Kong's economic development and employment. However, their combined share in GDP has declined from its peak of 60.3% in 2007 to 57.2% in 2016 and their share of employment has not been growing in recent years.

The Shares of the Four Production Sectors in Hong Kong GDP



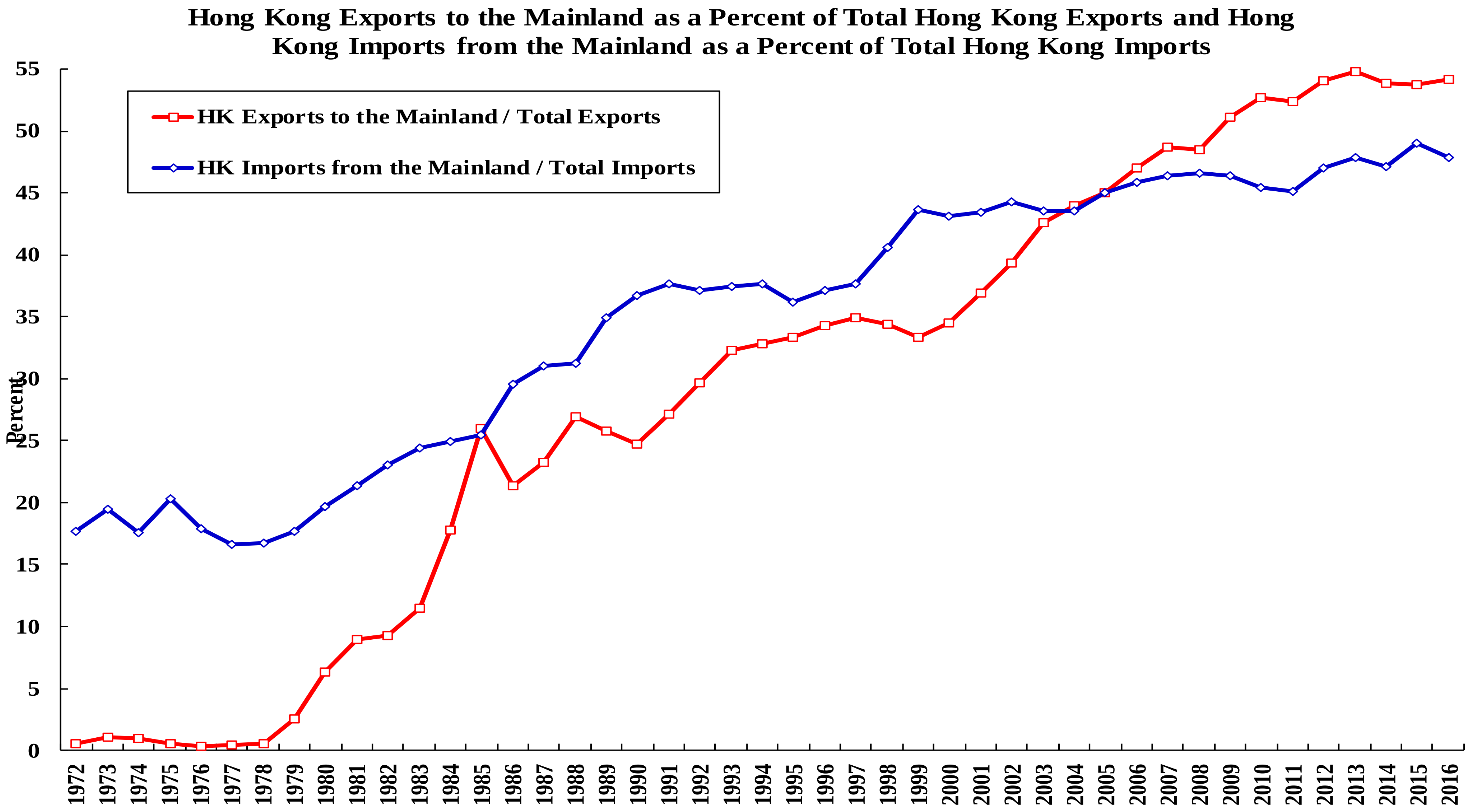
HK Re-Exports to and from the Mainland as a Percent of Mainland Imports and Exports



The Impacts on the Hong Kong Economy: Hong Kong as the Beneficiary of Globalisation

- At one point, close to 70% of Mainland exports and 40% of Mainland imports go through Hong Kong, but the percentages have been declining significantly.
- The Mainland is currently Hong Kong's most important export destination and the most important import origin (accounting for 52.8% and 46.7% respectively as of March 2017).
- Mainland annual direct investment in Hong Kong constitutes approximately half of annual total foreign direct investment in Hong Kong.
- The Mainland is the most important source of tourists to Hong Kong, accounting for more than 70%.
- Mainland enterprises are the mainstay of the Hong Kong Stock Exchange.

Hong Kong Exports to and Imports from the M'land as % of Total HK Exports and Imports

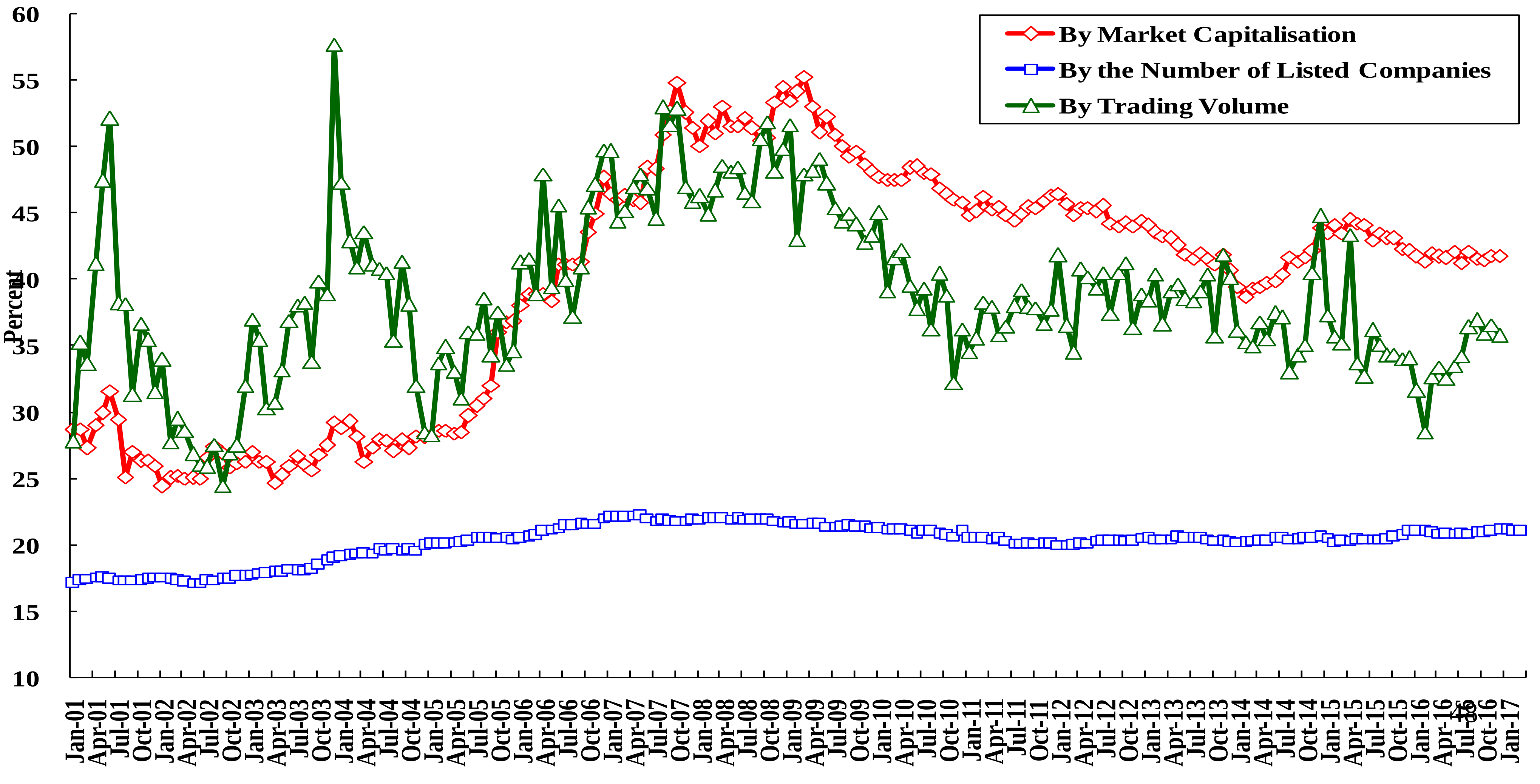


The Impacts on the Hong Kong Economy: Hong Kong as the Beneficiary of Globalisation

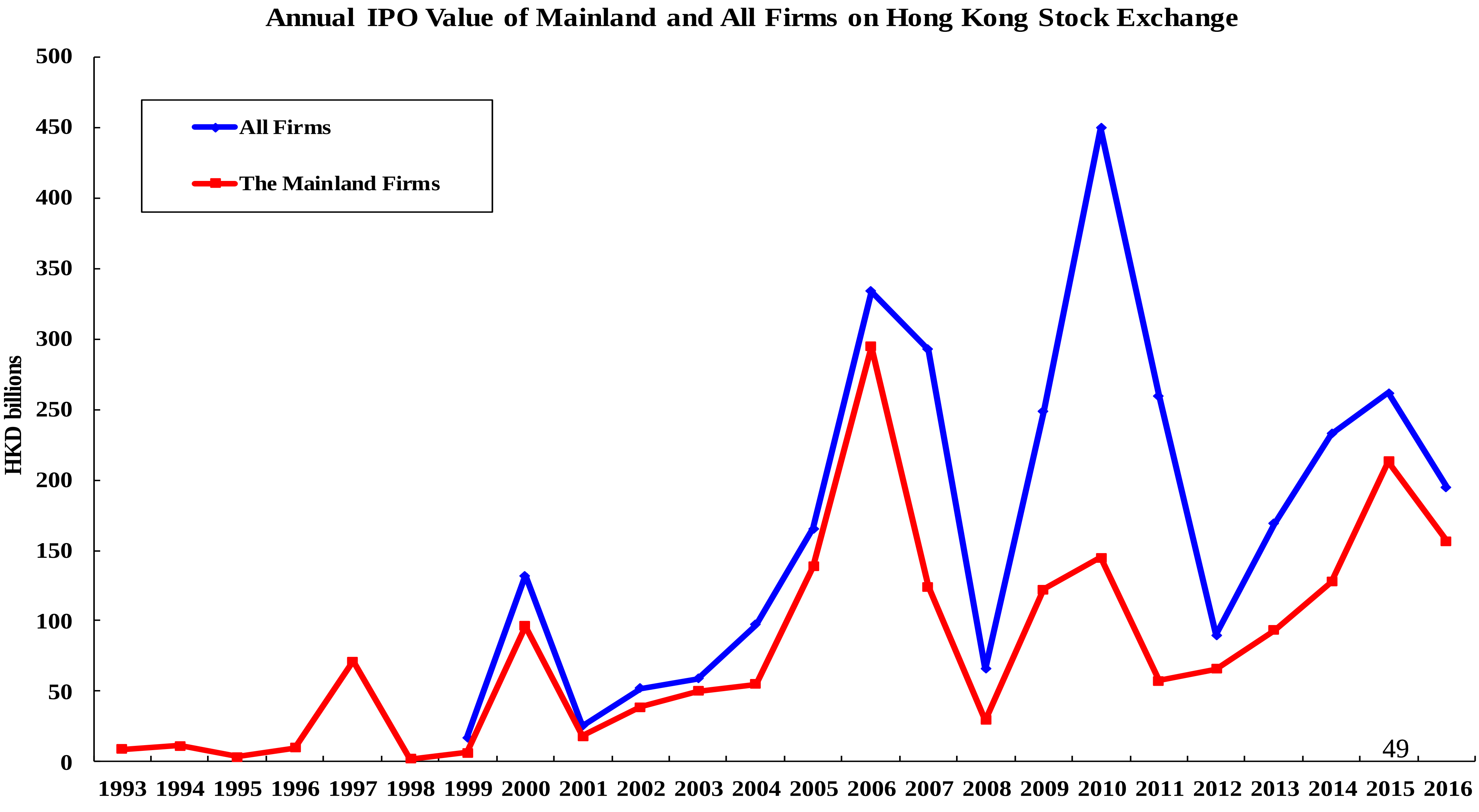
- Although Mainland enterprises constitute only 20% of the listed enterprises on the Hong Kong Stock Exchange by number, they constitute over 35% of the daily turnover on average and over 40% by market capitalization.
- They also account for and constitute half of the 50 enterprises included in the Hang Seng Index.
- From the point of view of IPO volume at the Hong Kong Stock Exchange, with the exception of the years of the Global Financial Crisis, Mainland enterprises account for way over 50%.

The Share of Mainland Enterprises on the Hong Kong Stock Exchange

The Share of Mainland Enterprises on the Hong Kong Stock Exchange by Market Capitalization, Trading Volume and the Number of Listed Enterprises



Annual IPO Value of Mainland and All Firms on Hong Kong Stock Exchange



The Impacts on the Hong Kong Economy: Hong Kong as the Beneficiary of Globalisation

- The Hong Kong economy has become quite dependent on the Mainland economy.
- For various reasons, the incentive for Mainland enterprises to list their shares in Hong Kong has diminished. That is why Hong Kong has to try to attract potential listings from other economies.
- The tourist arrivals from the Mainland have already peaked. The value-added of trading and logistics as a percent of GDP has been declining since 2005.
- The competition from Mainland ports, in addition to the slowdown in the growth of world trade, has caused the proportion of re-exports through Hong Kong in total Mainland trade to decline substantially.
- Hong Kong must embark on new directions in order to continue to grow and prosper, developing new industries to provide high value-added employment opportunities. It must further diversify its economy to reduce the over-dependence on any one particular sector or region. Above all, it cannot afford to turn inward and must remain internationalized.
- However, Hong Kong also lags behind in investment in intangible capital such as human capital and R&D capital. It must make an effort to catch up.

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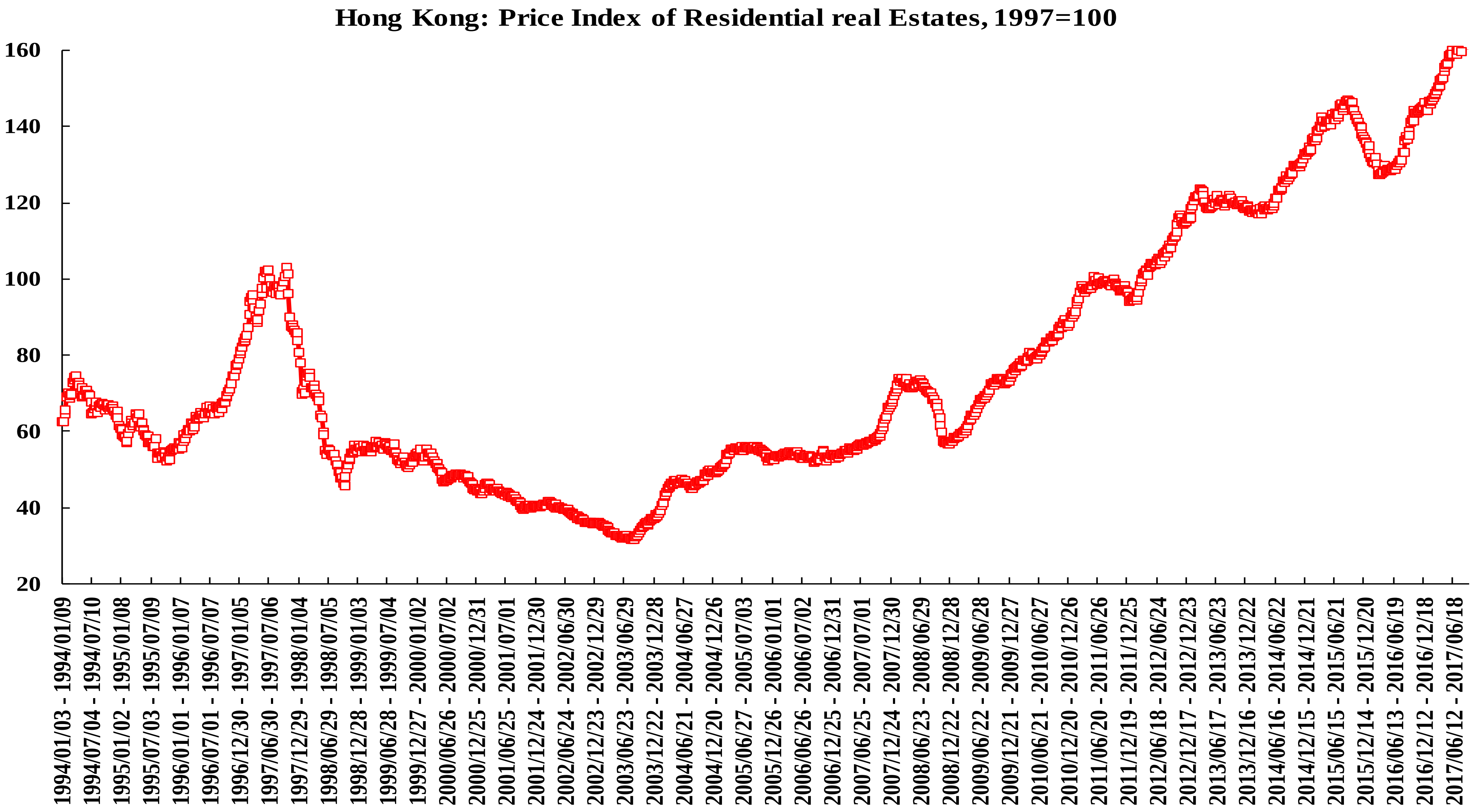
- The influx of capital and population from the Mainland, while it increases GDP and employment, has also driven up the already high price of housing.

Price Index of Residential Real Estate, Hong Kong: Centa-City Leading Index (1997=100)



Concluding Remarks

- Economic globalization has brought gains to every economy in the world.
- The principal problem of economic globalisation is one of the domestic distribution of the gains within each country and region. (Of course there is also the issue of the distribution of gains among the trading-partner countries, but that is a different problem altogether.)
- It is the responsibility of each of the domestic governments to try to redistribute part of the gains from the winners to the losers, so that everyone benefits. There should be enough overall net gain to make this possible. However, the free market on its own will not be able to do it. Government intervention is necessary.
- This will include the provision of transitional and if necessary long-term income support to the displaced workers and of re-training and re-employment assistance.

Concluding Remarks

- If the government can ensure that that everyone wins under economic globalisation, that no net losers are created under continuing globalisation, there will be popular support for continuing globalisation.
- The economy of Hong Kong has been a significant beneficiary of economic globalisation both directly and indirectly. The Mainland has clearly also been a major beneficiary of economic globalization. Without economic globalization, it would have been impossible for the Mainland to have lifted 600 million people out of poverty.
- It is in the interests of China to adopt policies that will enable it to support continuing economic globalization, which President XI Jinping affirmed in his speech at the Nineteenth Party Congress of the Communist Party of China.
- The Belt and Road Initiative supports continuing economic globalisation. It is in Hong Kong's interests to take maximum advantage of the opportunity.