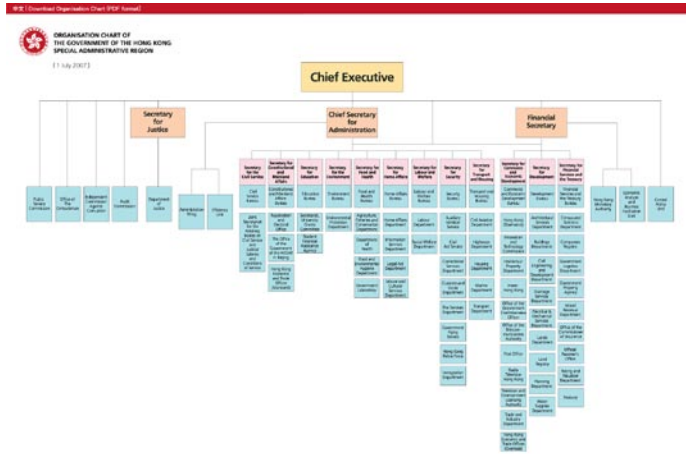


Macro Environment Study of Hong Kong

Executive Summary

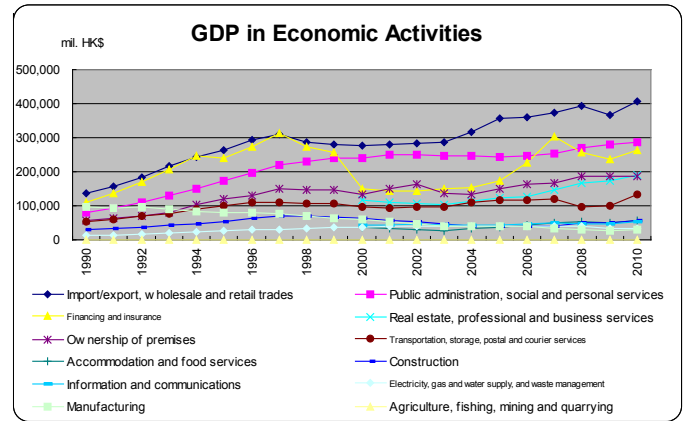
1 Macro Pictures of Hong Kong

1.1 Political Framework

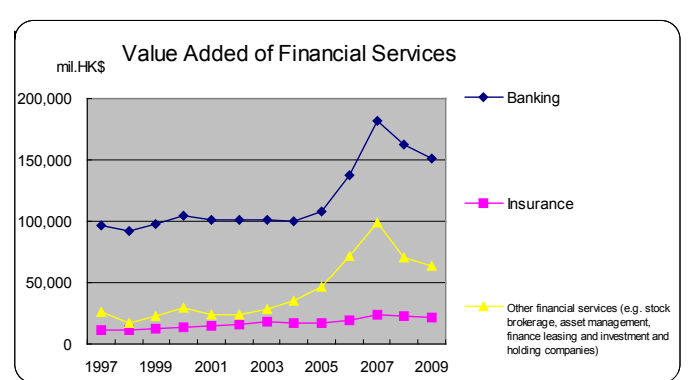
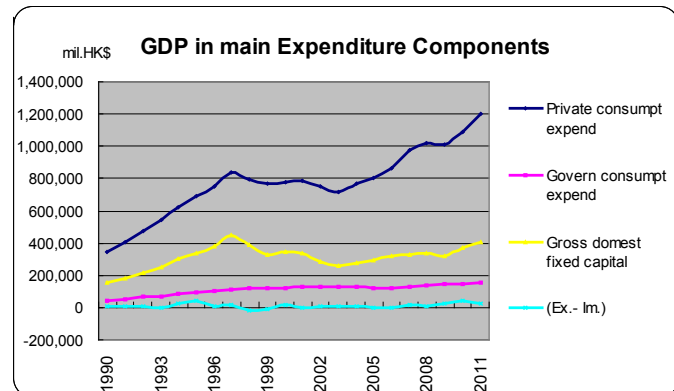
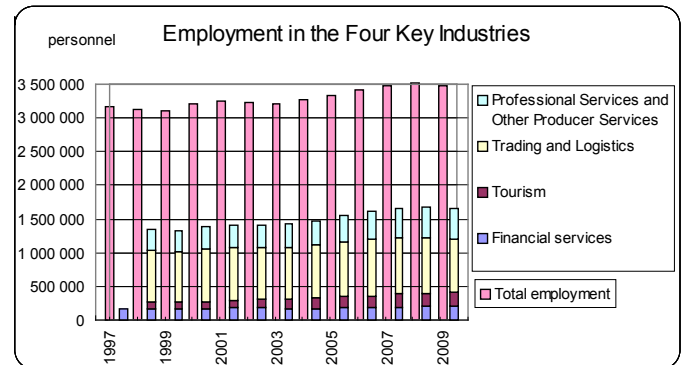
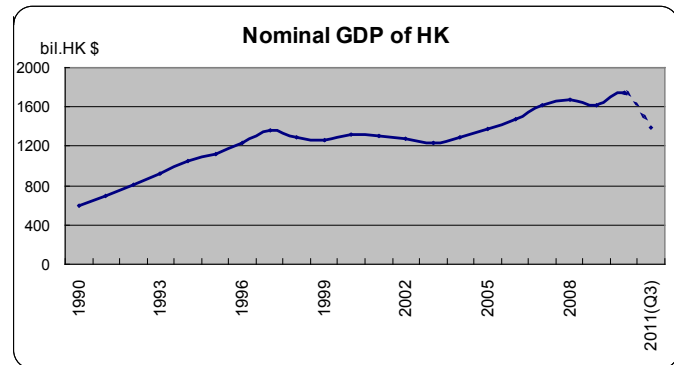
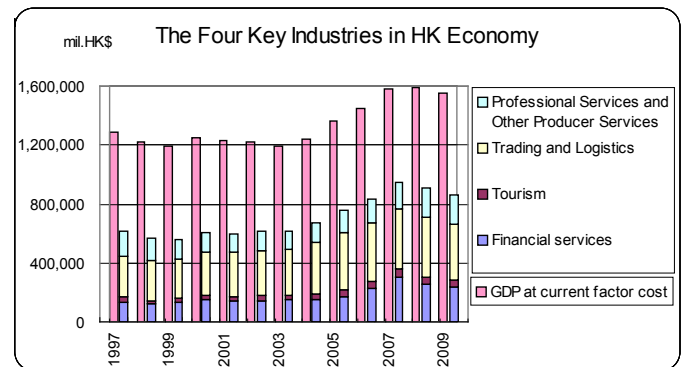


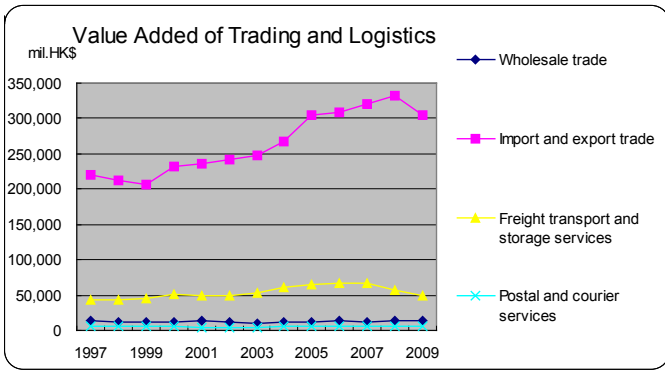
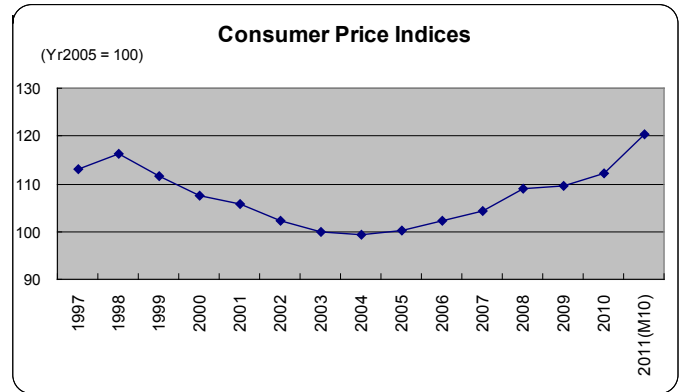
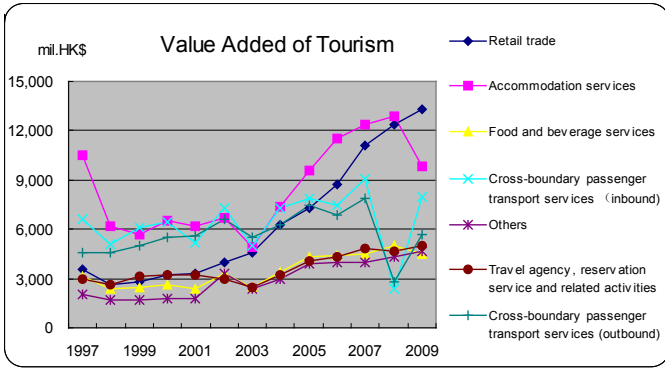
2 Economic Scenario

2.1 Gross Domestic Production (GDP)

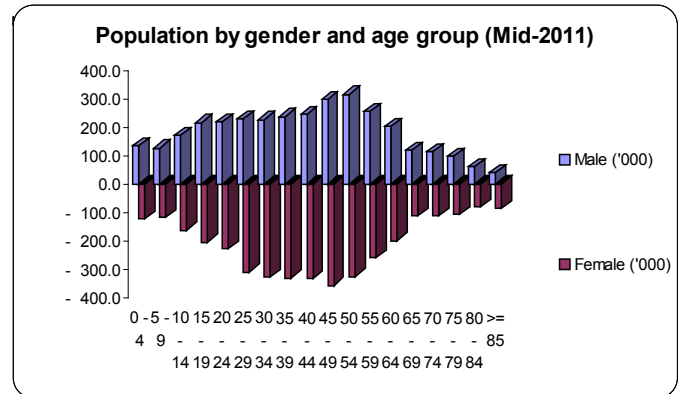
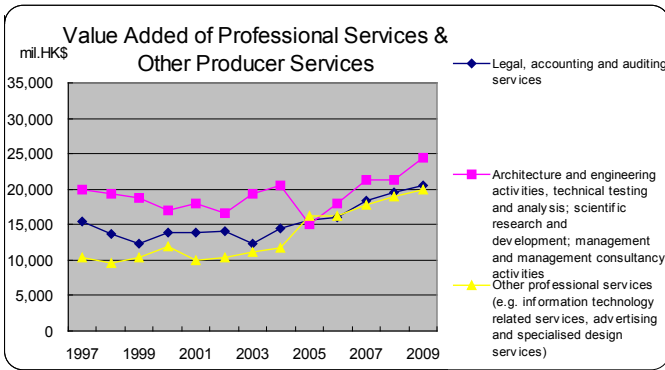
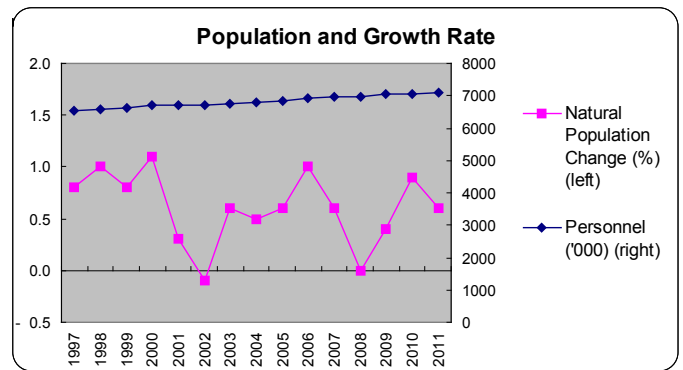


2.2 Pillar Industries

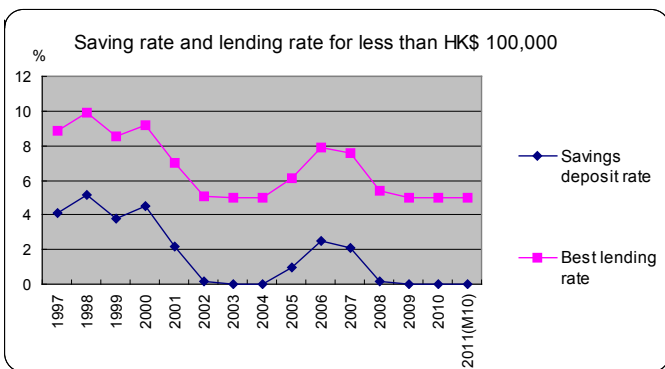




3 Population



2.3 Money Supply, Interest Rate & CPI

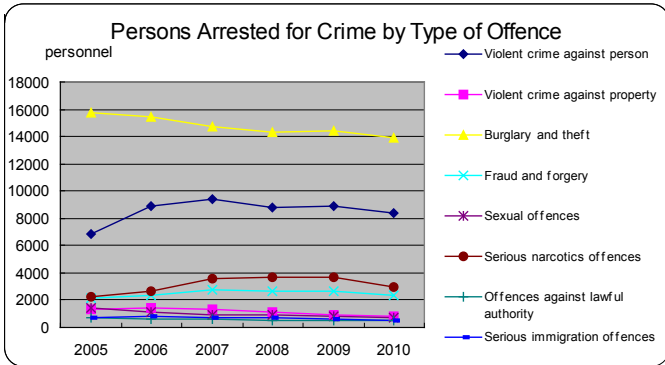


Population Aged 15 and Over by Educational Attainment (Highest Level Attended), 1996, 2001, 2006 and 2010

Educational Attainment	1996		2001		2006		2010	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
No schooling	480 852	9.5	469 939	8.4	423 310	7.1	329 200	5.2
Primary	3 508 338	69.2	3 682 443	65.7	3 788 469	64.0	4 239 400	69.3
Sixth Form	308 808	6.1	528 090	9.4	351 419	5.9	---	---
Post-secondary	768 520	15.2	918 500	16.4	1 361 473	23.0	1 554 300	25.6
Total	5 066 518	100.0	5 998 972	100.0	5 924 671	100.0	5 529 100	100.0

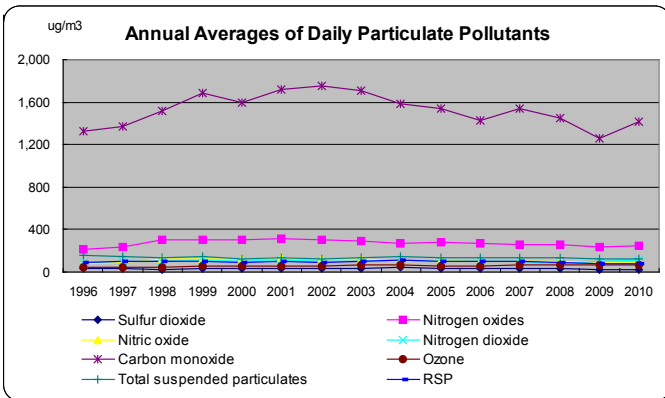
4 Social Matter

4.1 Crime Rate

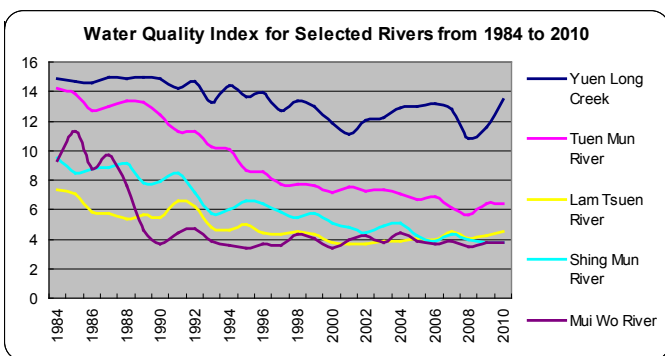


4.2 Natural Environments

4.2.1 Air



4.2.2 Water



Original Contents

Introduction

This is a study in evaluating the present situation in Hong Kong in a macro view. From this survey, it is believed that a better understanding and analysis of Hong Kong’s existing situation can help determine suitable action for later business development.

Methodology

The macro-survey includes 5 areas. They are Political, Economic, Population, Social and Natural Environments. Some variables and the corresponding quantifiers are listed out at the start. Data from these perimeters are collected and analysed in an objective manner. The following sections are going to discuss these issues.

1 Macro Pictures of Hong Kong

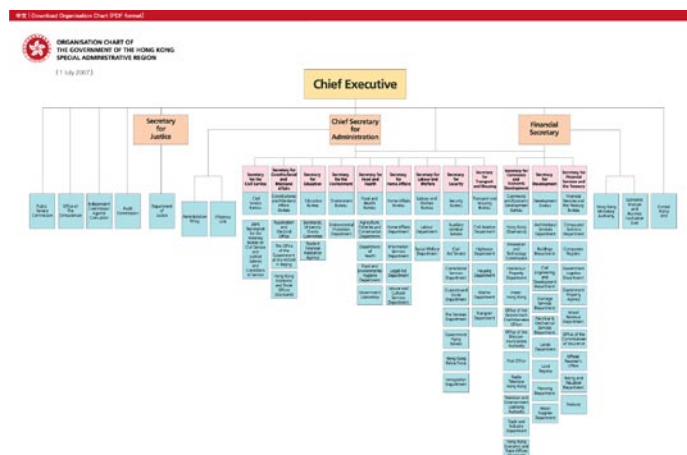
1.1 Political Framework

Hong Kong became a Special Administration Region (SAR) of the People’s Republic of China (PRC) on July 1, 1997. The basic law of the HKSAR, which prescribes the system to be practiced, came into effect on the same day. The basic law in Hong Kong is equal to constitution, all activities should comply with it.

Because Hong Kong was the colony of UK for about 100 years, the concept of governance by legislative, judiciary and executive is accepted by most of the citizens. The government of Hong Kong Special Administration Region also takes it as the principle in its governance.

Exhibit 1 is the governance structure of SAR.

Exhibit 1



Source: www.gov.hk 2011

1.1.1 Legislative

The Legislative Council is the law-making body of the Hong Kong Special Administrative Region. It comprises 60 members, with 30 elected directly by geographical constituencies and 30 elected by functional, occupation-based constituencies. Apart from its law-making function, the Legislative Council debates issues of public interest, examines and approves budgets, receives and debates the Chief Executive's policy addresses, and endorses the appointment and removal of the judges of the Court of Final Appeal and the Chief Judge of the High Court.

1.1.2 Executive

The Executive Council, presided over by the Chief Executive, decides on matters of policy, the introduction of bills to the Legislative Council and the drafting of subordinate legislation. The Council comprises 15 principal officials and 14 non-official members. All members are appointed by the Chief Executive from among senior officials of the executive authorities, members of the Legislative Council and public figures. They serve for a period no longer than the expiry of the Chief Executive's term of office.

1.1.3 Judiciary

The Basic Law ensures that Hong Kong remains within the common law system. The judiciary is independent from the legislative and executive branches of government, with the courts showing no bias. For the most serious types of criminal offences, a jury decides whether the accused is guilty or not, with a majority vote required. The Court of Final Appeal is the highest appellate court and is headed by the Chief Justice.

According to Wikipedia – Politics - As an academic discipline, “political science, the study of politics, examines the acquisition and application of power. Political scientist Harold Lasswell defined politics as "who gets what, when, and how". Related areas of study include political philosophy, which seeks a rationale for politics and an ethic of public behaviour, political economy, which attempts to develop understandings of the relationships between politics and the economy and the governance of the two, and public administration, which examines the practices of governance.” (Sources: http://en.wikipedia.org/wiki/Politics#As_an_academic_discipline) Hong Kong has a good system to balance the governance and the examination.

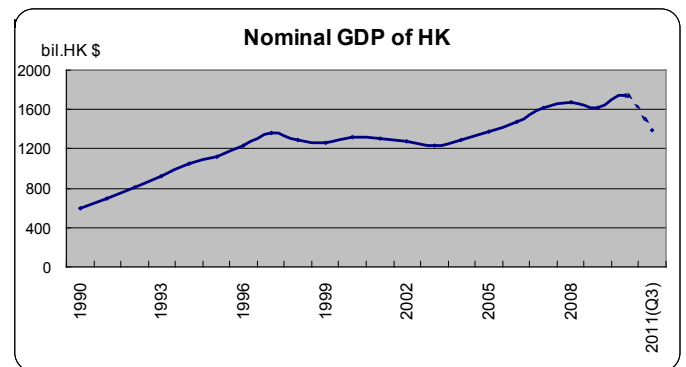
2 Economic Scenario

2.1 Gross Domestic Production (GDP)

The logic in this economic aspect is to look at GDP, Pillar Industries and money supply of Hong Kong. Through these three factors, a brief and essential economic picture of Hong Kong can be described. From here, a more accurate and objective approach of further action can be planned.

GDP is a very significance factor that measures economic activities of a place. The GDP diagram is shown in Exhibit 2.

Exhibit 2



Source: H.K. SAR – Census and Statistics Dept. (2011)

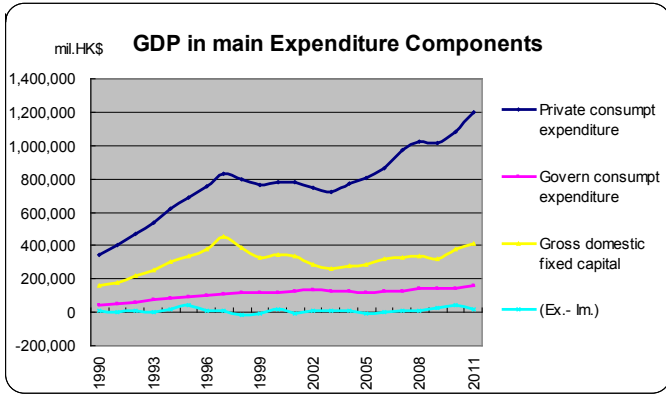
Remark: according to the previous data, although GDP value for 2011(Q3) was 1387 bil.HKD, the number was 118.261 bil. HKD larger than that of 2010(Q3).

From Exhibit 2, one can see that the economy of HK before 1997 was in the up trend sharply, it matched the background that HK was the only path to connect mainland China and the world. From year 1997 to 2003, HK grew in a slow way. After year 2003, the economy was up again. In addition, there's financial tsunami happened in year 2008. But according to the data, it seems that Hong Kong was not wound in the event and has recovered from it now.

According to the curve, it reminds people that the economic growth matches to the terms of Donald Tsang acting as Chief Executive of Hong Kong. Before that, he has 6 years experience of assuming Financial Secretary of Hong Kong from year 1995. So in Donald Tsang's period, it will be confident that a steady economy may be maintained due to his valuable experience.

Exhibit 3 is the GDP value separated by main expenditure.

Exhibit 3



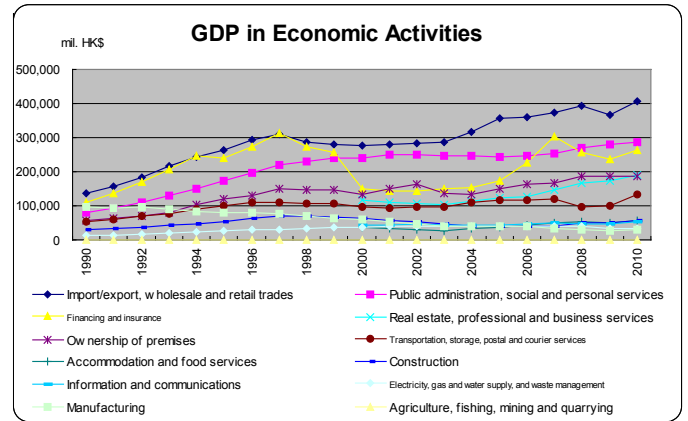
Source: H.K. SAR – Census and Statistics Dept. (2011)
 Remark: the data for year 2011 was evaluated value.

From exhibit 3, one can see that the curve of Private Consumption Expenditure matches quite well with the GDP value. The curve of Government Consumption Expenditure takes the role as supplement.

According to the data, it seems that the value of (Ex – Im) will come down sharply in year 2011. Europe debt crisis will affect the real economy in Asia manufacturing and transportation sectors.

Exhibit 4 is the GDP value separated by economic activities.

Exhibit 4



Source: H.K. SAR – Census and Statistics Dept.(2011)

About two years ago, the current Chief Executive decided to retire in year 2012. From then on, he and his team took more and more attention on the grassroots and the livelihood issues. The Census and Statistics Department has also made some changes. For example, mining has become part of agriculture. Accommodation and food services are no longer parts of wholesale and retail trades. Financing & insurance and real estate, professional & business services are two different industries, etc,.

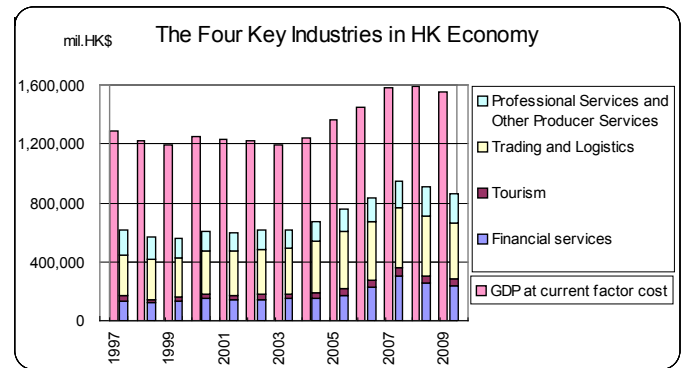
According to exhibit 4, one can see that after year 2008, there are three industries badly hurt by the financial tsunami. These three industries are “Import/export, Wholesale and Retail Trades”, “Financing & Insurance” and “Transportation, Storage, Postal and Courier Services”.

Financing and Insurance industrial decline matches with the world's circumstance. To Import/export, Wholesale and Retail Trades industry and Transportation, Storage, Postal and Courier Services industry, the decline and increase due to Chinese policy stimulating domestic demand. According to the mentioned three curves, the slope rates are so similar that the rise of Import/export, Wholesale and Retail Trades industry and Transportation, Storage, Postal and Courier Services industry can help to render growth of Finance and Insurance industry. The relationship between Financing and Insurance industries and the other two industries are complementary.

2.2 Pillar Industries

In the 2009-10 Policy Address, the Chief Executive announced that HK had four key industries, and in the future, these four key industries were still the pillar industries of HK. Exhibit 5 is the comparison of these four key industries and GDP value.

Exhibit 5



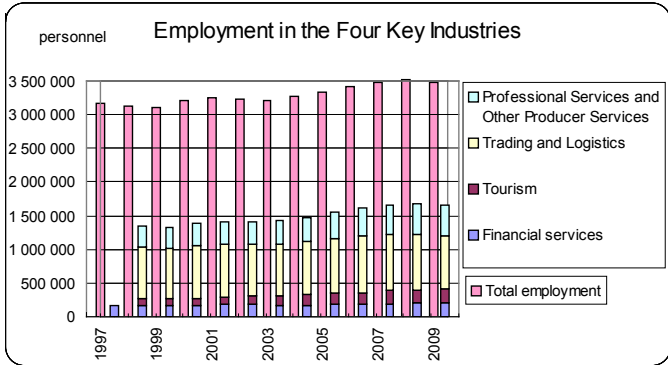
Source: H.K. SAR – Census and Statistics Dept. (2011)

From the above Exhibit 5, one can see that the four key industries composed about 60% of the GDP value. In addition, financial services and professional services & other producer services have developed a lot compared with the last decade.

Since they are key industries, their employment figure is another important factor to display.

Exhibit 6 is it.

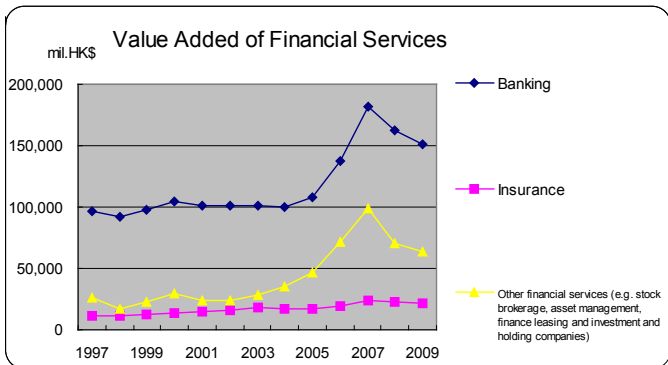
Exhibit 6



Source: H.K. SAR – Census and Statistics Dept. (2011)

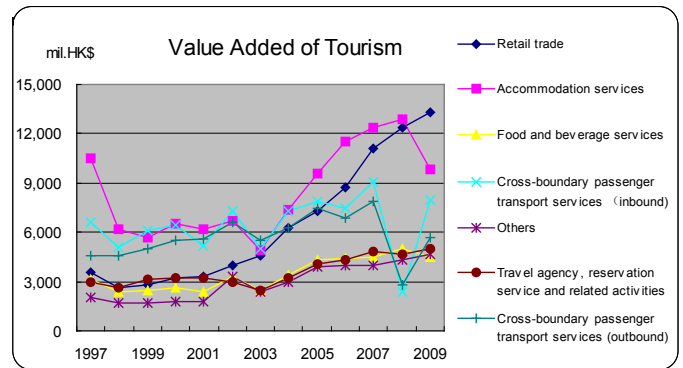
The following exhibits are the details of these four industries.

Exhibit 7



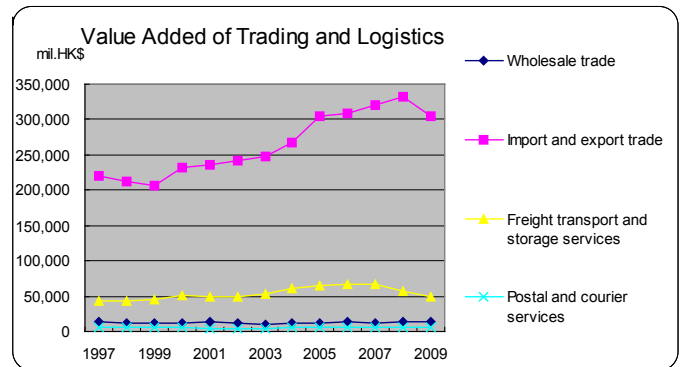
Source: H.K. SAR – Census and Statistics Dept. (2011)

Exhibit 8



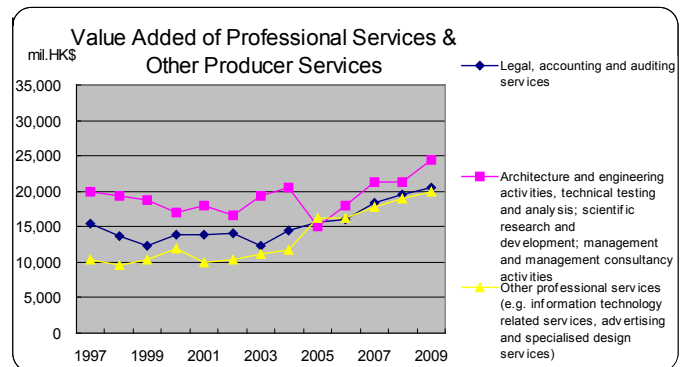
Source: H.K. SAR – Census and Statistics Dept. (2011)

Exhibit 9



Source: H.K. SAR – Census and Statistics Dept. (2011)

Exhibit 10



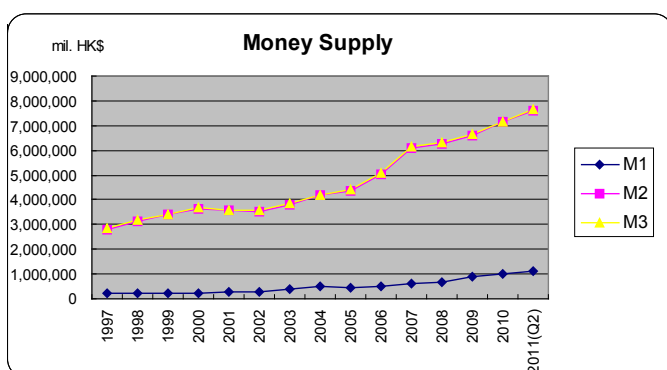
Source: H.K. SAR – Census and Statistics Dept. (2011)

According to above exhibits, one can see that in year 2008, financial services industry was badly wounded in the financial tsunami. As a result, even the visitors shopped, ate and lived in the same standard, they cut the budget in transportation. But in year 2009, CPI increased in a large way, visitors cut the meal budget too. In addition, because the government decided to put “Ten Major Infrastructure Projects” into reality soon, “Architectural, surveying, project engineering services; engineering and technical services; and business management and consultancy services” industries have greatly improved.

2.3 Money Supply, Interest Rate & CPI

Hong Kong classifies money supply into three types, M1, M2, and M3. There has been a large increment of M2 money supply after year 2002, Exhibit 11 indicates many active business operations, properly in investment market, have been taken place.

Exhibit 11



Source: H.K. SAR – Census and Statistics Dept. (2011)

M1 refers to the sum of legal tender notes and coins held by the public plus customers demand deposits placed with licensed banks.

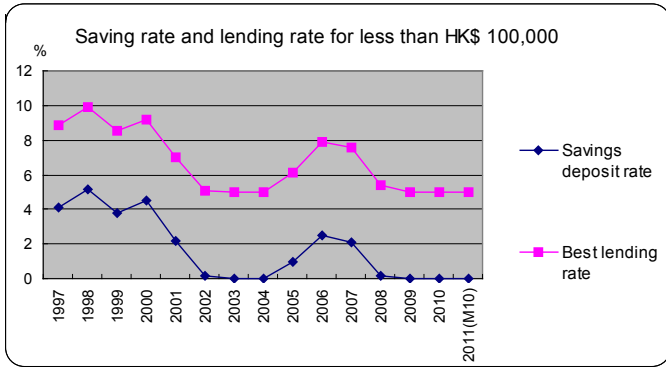
M2 refers to the sum of M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposits (NCDs) issued by licensed banks held by non-authorized institutions.

M3 refers to the sum of M2 plus customer deposits with restricted licence banks (RLBs) and deposit-taking companies (DTCs) plus negotiable certificates of deposits (NCDs) issued by RLBs and DTCs held by non-authorized institutions.

According to exhibit 11, even after the financial tsunami, the government didn't take measures to turn down M_2 and M_3 . On the contrary, the government took the role to help and assure enterprises to finance and come across this tsunami.

Money Supply is correlated with change of interest rate. Exhibit 12 is the detail of saving rate and lending rate for less than HK\$100,000.

Exhibit 12

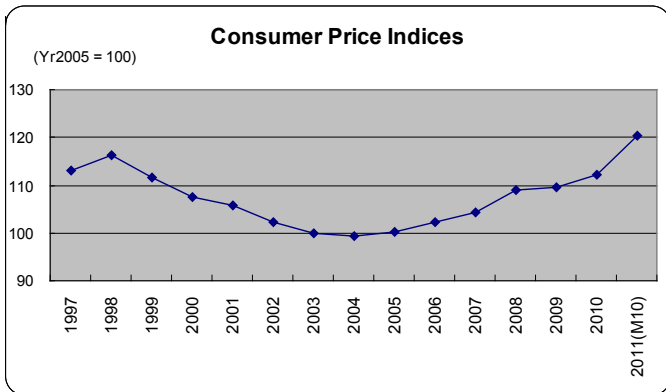


Source: H.K. SAR – Census and Statistics Depart. (2011)

Consumer Price Index (CPI) is the reflection of GDP value and money supply.

Exhibit 13 is the detail.

Exhibit 13



Source: H.K. SAR – Census and Statistics Depart. (2010)

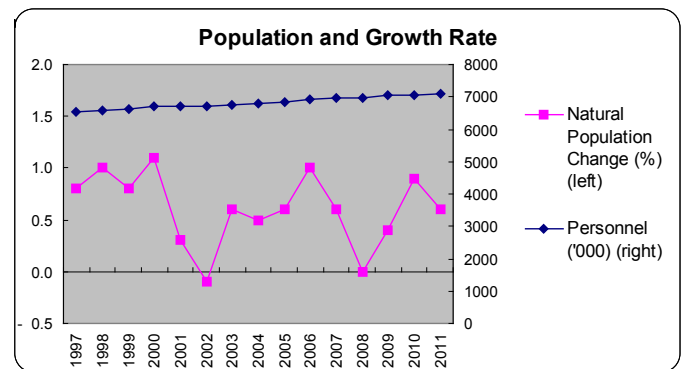
According to above three pictures, one can see that although public deposit is larger and larger, the saving rate is nil. Comparing with the rapid growth of CPI, it can be imaged that living in Hong Kong will be harsh.

According to above pictures, one can see that economy in Hong Kong is a safe and steady-going economy. Although government announces that people should care about recession, government would take all measures to stabilize the economy.

3 Population

Mostly, the situation of population nowadays reflects at least two decades of the economy in a place. Exhibit 14, 15 and Table 1 are the population figure of HK.

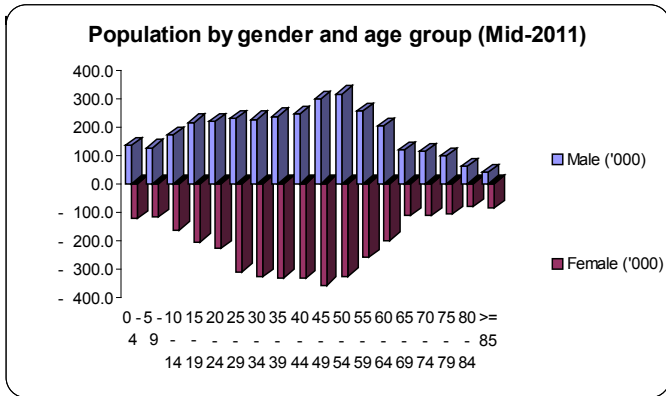
Exhibit 14



Source: H.K. SAR – Census and Statistics Depart. (2011)

According to the pass, population growth rate will raise while economy is declining. On the other hand, while economy grows, the situation will change. From exhibit 14, one can see that public is confident that economy in year 2011 will rise, though actual economic conditions always prove it to be contrary.

Exhibit 15



Source: H.K. SAR – Census and Statistics Dept. (2011)

Table 1

Population Aged 15 and Over by Educational Attainment (Highest Level Attended), 1996, 2001, 2006 and 2010

Educational Attainment	1996		2001		2006		2010	
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
No schooling	480 852	9.5	469 939	8.4	423 310	7.1	329 200	5.2
Primary	3 508 338	69.2	3 682 443	65.7	3 788 469	64.0	4 239 400	69.3
Sixth Form	308 808	6.1	528 090	9.4	351 419	5.9	---	---
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Total	5 066 518	100.0	5 598 972	100.0	5 924 671	100.0	5 529 100	100.0

Source: H.K. SAR – Census and Statistics Dept. (2011)

Remark: the data of year 2010 were the rough data, they need to be further classify.

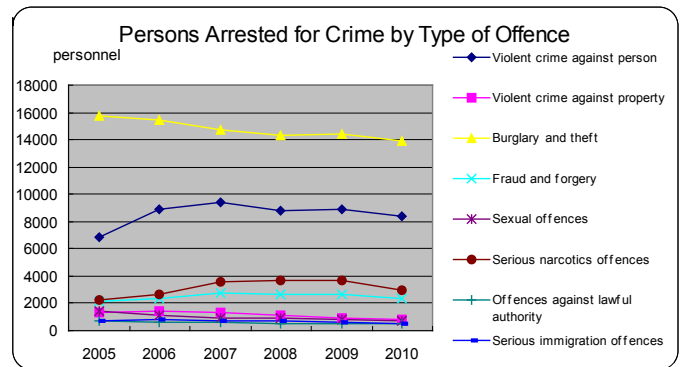
According to above information, one can see that over half of people in Hong Kong have finished primary education. In addition, Hong Kong is a place where people can gain fast and updated information. Hong Kong people always impress the world by their smartness and flexibility.

4 Social Matter

4.1 Crime Rate

The total number for crime cases and arrested personnel shows the law and order level of an area. In addition, it also tells which crimes are common in those places.

Exhibit 16



Source: H.K. SAR – Women and Men in Hong Kong Key Statistics (2011)

According to exhibit 16, one can see that crime rate in Hong Kong is very low. Comparing with its political part, Hong Kong is a place very suitable for living and doing business.

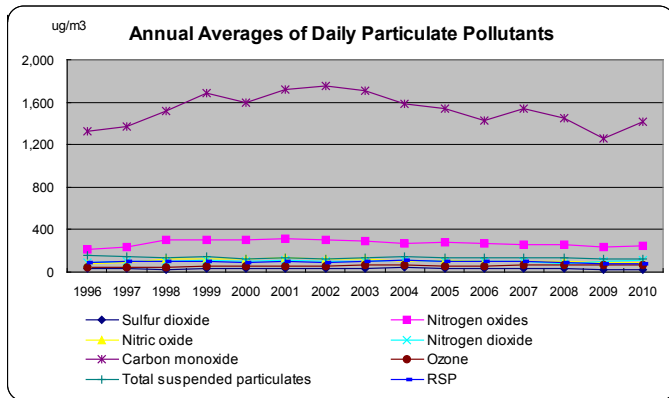
4.2 Natural Environments

The government and the environment protection department are now conducting a review on the marine air and water quality objectives. So the data for air and water quality will be updated later.

4.2.1 Air

Air Pollution is a main problem that Hong Kong Government is going to face with. Exhibit 17 shows the data of it in H.K. in recent years.

Exhibit 17

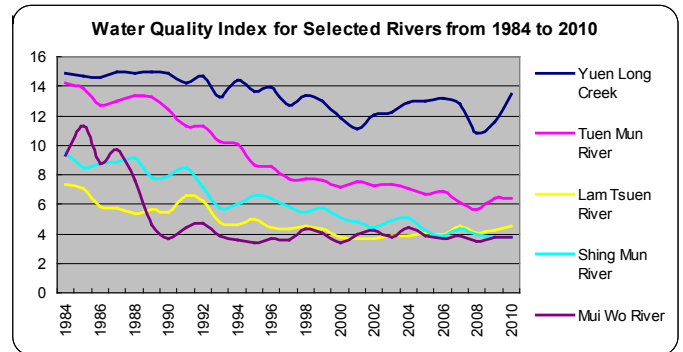


Source: H.K. SAR – Environ. Protection Dept. (2011) & Environmental Performance Reports 2011

4.2.2 Water

Water conditions vary by different regions. Exhibit 18 shows that.

Exhibit 18



Source: H.K. SAR – Environ. Protection Dept. (2011) and Hong Kong Annual Digest of Statistics 2011

Remark: index excellent ≥ 4.5 \geq good ≥ 7.5 \geq general ≥ 10.5 \geq bad ≥ 13.5 \geq very bad.

According to the data, one can see that although the air pollution level and the water quality index are very bad in the period of year 1999 to 2007, they are quite like 10 years before now. Hong Kong and the near areas such as Guangzhou and Shenzhen have less and less manufacturing industries. Environment will become more and more suitable for living.

Conclusion

Hong Kong is a small place. She must rely on Mainland China to strengthen her industries' types and advantages. China is changing herself from a manufacturing country to a consuming country. Providing services to China and cooperating with China became the major way for Hong Kong people to develop their career. It can also create some new industries.

In Hong Kong, people can exchange his money into various foreign currencies. They can also transfer them to every country within the legal limit. Therefore, Hong Kong is a world famous financial center with high level of freedom. So for a long time, financial services industry has been one of the pillar industry in Hong Kong. As Shanghai is now actively building herself as financial, trading, logistic and cultural center of China, what Hong Kong can do is to actively exploit new business and new areas and to test their feasibility. In one word, Hong Kong is now taking the role as a pioneer of China economic development.

Too many elements would change in the coming two years. For both Chinese and Hong Kong governments will turn to the next generation in year 2012. What the new government would focus on is unknown. However, economy increase is still the very important indicator to measure efficacy of a government.

Two year before, the current chief executive and his team paid more and more attention on the grassroots and the livelihood issues. But Hong Kong is so small a place to resist the higher and higher CPI. Moreover, there will be new voting for the next generation of Chief Executive in March 2012. While candidates present their Political Programs, social conflicts will also be stimulated.

- End of Report -

By: Jade Xuan
Analyst
(November 2011)

Jade Xuan**Disclaimer**
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