

Hinrich Foundation Sustainable Trade Index

Hong Kong Highlights

Introduction

The Hinrich Foundation commissioned the Economist Intelligence Unit to build the Sustainable Trade Index using 24 indicators to measure 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: **economic growth, social capital and environmental protection.**

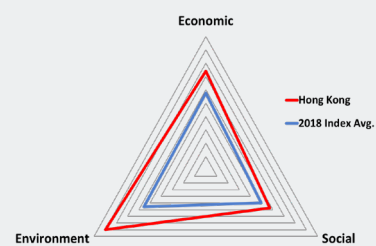
The Index measures the readiness of each economy to participate in global trade in a way that creates sustainable growth, encourages foreign direct investment, and support from multilateral development agencies.

The Index was created for the purpose of stimulating meaningful discussion of the full range of considerations for policy makers, business and civil society when engaging in international trade.



The Hinrich Foundation launched the inaugural Sustainable Trade Index in 2016. Visit www.hinrichfoundation.com to download the 2018 and 2016 Index.

Hong Kong Overview		
GDP per capita US \$43,740	Population 7.3 million	Exports % of GDP 187.4% of GDP
GDP growth 3.4% growth <small>(average since 2010)</small>	Labour Force 3.95 million	FDI net inflow US\$133 billion



SOURCE: World Bank, 2016 and Hinrich Foundation Sustainable Trade Index 2018

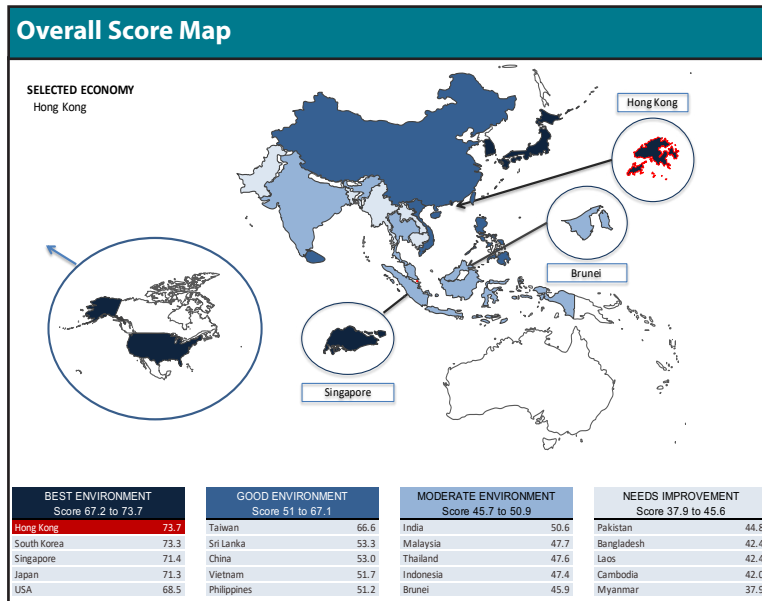
Overall performance

Hong Kong was the top performer and a bright spot for developed Asia on the 2018 Index— increasing four spots from fifth place in 2016 to first place overall on the 2018 Index. Its strong performance in technological infrastructure and labour force growth is coupled with steady increases in educational attainment and political stability.

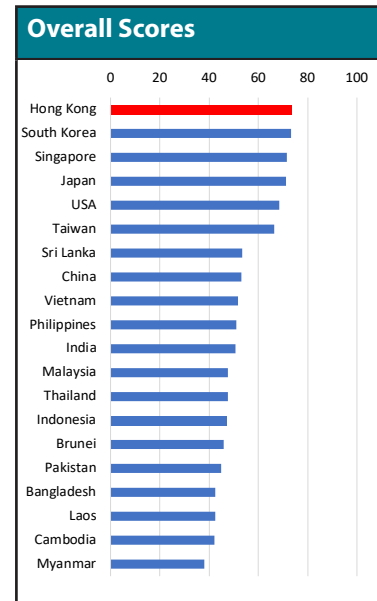
- **Economic:** Hong Kong placed second in the economic pillar, trailing only Singapore. Hong Kong topped the economic pillar in six indicators including: current account liberalization, tariffs & non-tariff barriers to trade, financial sector depth, foreign trade and payments risk, foreign direct investment and technological infrastructure.
- **Social:** Hong Kong's worst performance on the 2018 Index was on the social pillar. Despite strong scores in the majority of social indicators, Hong Kong's overall ranking was dragged down by high levels of inequality.
- **Environmental:** Hong Kong topped the environmental pillar due to top five performances in all indicators, excluding air pollution.

Overall Index Performance			
Pillar	2018 Rank	2016 Rank	Change
Economic	2	2	=
Social	6	7	+1
Environmental	1	1	=
Overall	1	5	+4

Hong Kong's score on each pillar compared with 2016 Sustainable Trade Index results.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Areas of top performance and improvement

- Top performance:** Foreign direct investment (FDI). Hong Kong topped the Index in a number of indicators, but its singular best performance was in the FDI indicator. For FDI, Hong Kong recorded a perfect 100 score and the number one ranking on the 2018 Index. This indicator measures inward FDI as a share of GDP. FDI is considered an important source of investment that supports trade and economic growth in an economy.
- Worst performance:** Inequality. Hong Kong scored last out of 20 economies on this indicator due to high levels of inequality. The inequality indicator uses the Gini coefficient to capture the inequality level between the upper and lower income brackets. Inequality is a continued problem for Hong Kong and could potentially become a burden to the economy's trade and growth.
- Most improved:** Technological infrastructure. This indicator measures IT infrastructure, which can directly impact an economy's ability to have a competitive environment for exporting and attract FDI. In the 2018 Index, Hong Kong climbed 10 spots to first place in this indicator, improving its attractiveness as a modern investment destination.

Top & Bottom Indicators		
Indicator	Region Avg.	2018 Score
Foreign direct investment	13.0	100
Financial sector depth	43.5	100
Tariffs & non-tariff barrier to trade	59.4	100
Foreign trade and payments risk	65.3	96
Gross fixed capital formation	42.2	27
Export market concentration	68.3	33
Export product concentration	84.6	82
Inequality (Gini coefficient)	62.3	0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Economic Pillar

Hong Kong placed second in the economic pillar, trailing only Singapore. Hong Kong continues to be a development model for poorer economies in the region, having moved from low-value added manufacturing into the production and export of higher-value technology and services.

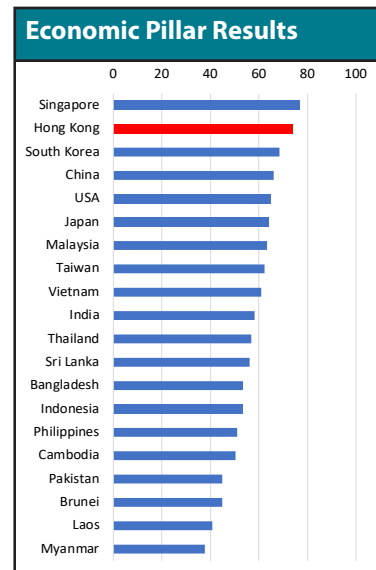
KEY TAKEAWAYS:

- Hong Kong placed second overall in the economic pillar, trailing only Singapore.
- Hong Kong topped the economic pillar in six indicators: current account liberalization, tariffs & non-tariff barriers to trade, financial sector depth, foreign trade and payments risk, foreign direct investment and technological infrastructure.
- The economy's lowest scores were related to lack of export market and product diversity. Placing at the bottom for these indicators could indicate a potential vulnerability for Hong Kong.

Hong Kong's economy is dependent on trade, which is reflected in the economy's top scores in trade-related indicators such as tariff and non-tariff barriers to trade, foreign trade and payments risk, and FDI. Hong Kong was one of only two economies to score a perfect score in tariff & non-tariff barriers to trade, which measures barriers such as trade quotas, licensing and import inspection. It had some of the lowest trade costs in the region, after the United States and Singapore. The trade costs indicator is a composite of four factors: infrastructure, logistics, corruption and legal system. Hong Kong scored in the top five for all four of these indicators.

Hong Kong's most improved economic indicator was technological infrastructure, which measures an economy's IT infrastructure. Hong Kong climbed 10 spots to secure the number one ranking in this indicator for 2018, which reflects the economy's ability to have a competitive environment for exporting and also impacts its ability to attract FDI. Despite its top score in technological infrastructure, Hong Kong scored toward the middle of the pack for technological innovation—an area where it is actively seeking to improve.

Hong Kong's lowest scores were related to the economy's lack of diversity in both export product and market concentration. Hong Kong scored 17 out of 20 economies in export market concentration, which measures exports by destination, and 19th out of 20 in export product concentration, which measures exports by products. Hong Kong's lack of export diversification could be a potential trading vulnerability.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Region Avg.	2018 Score
Current account liberalization	90.7	100
Tariffs & non-tariff barrier to trade	59.4	100
Financial sector depth	43.5	100
Technological infrastructure	62.5	100
Foreign direct investment	13.0	100
Foreign trade and payments risk	65.3	96
Exchange rate volatility	66.7	91
Trade costs	51.2	80
Technological innovation	26.2	17
Growth in labour force	64.0	60
Growth in per capita GDP	66.7	52
Gross fixed capital formation	42.2	27
Export market concentration	68.3	33
Export product concentration	84.6	82

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

CASE STUDY: GOVERNMENT INITIATIVES SEEK TO BOOST TECHNOLOGICAL INNOVATION

The Hong Kong government has identified the innovation and technology industry as a key area for economic growth.¹ Since the creation of Hong Kong’s Innovation and Technology Bureau (ITB) in 2015, the ITB has launched a number of new initiatives to stimulate innovation and technology development in Hong Kong including a Technology Voucher Programme (TVP) for small- to medium-sized enterprises (SMEs), a Research and Development Cash Rebate Scheme to encourage more spending on R&D, an Innovation and Technology Fund for Better Living (FBL) to help address social issues, and incubation programmes for start-ups and entrepreneurs.² Through initiatives like these, governments are realizing the need to promote and support the growing technology and innovation industry.

Social pillar

In the 2018 Index, there was an overall stagnation across all economies in the social pillar. Inequality and political instability are on the rise across the region, a trend that transcends wealth and development status. Hong Kong was one of the few economies to improve its social pillar ranking in the 2018 Index— moving up one spot from seventh place in 2016 to sixth place in 2018.

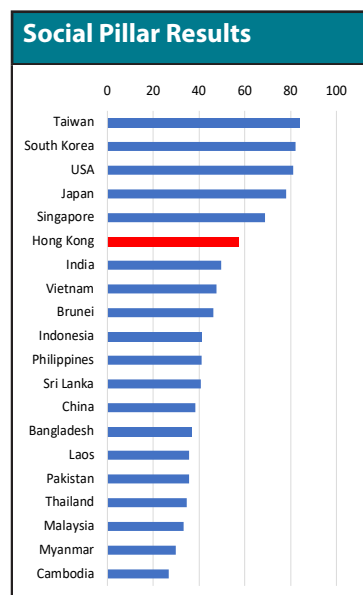
KEY TAKEAWAYS:

- Hong Kong was able to improve its ranking on the social pillar to sixth place in 2018.
- Hong Kong was the top performing Asian economy for labour standards, ranking second behind the United States.
- However, Hong Kong also bottomed the Index with the highest level of inequality, as the economy faces the challenge of addressing the growing gap between rich and poor.

Hong Kong was the top Asian economy in terms of labour standards, which is measured based on three categories: forced labour, child labour, and labour rights. Hong Kong scored second overall for labour standards, trailing only the United States in this indicator.

Hong Kong also scored in the top five economies for educational attainment, which measures total enrollment for tertiary education as a share of the percentage of the population of the corresponding age group. Educational attainment and skill acquisition are key indicators for trade and economic competitiveness.

Hong Kong’s worst performance on the social pillar reflected its high levels of inequality. Hong Kong scored last on the inequality indicator based on its Gini coefficient, which captures the inequality level between the upper and lower income brackets. Rampant inequality is an ongoing issue for Hong Kong— as well as for other upper-income economies on the Index— and could ultimately be a burden on trade and growth, as social dissatisfaction can prevent progress in liberalising trade policies.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Region Avg.	2018 Score
Labour standards	39.7	95
Educational attainment	38.4	70
Political stability	57.6	64
Inequality (Gini coefficient)	62.3	0

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Environmental pillar

Hong Kong topped the environmental pillar on the 2018 Index—maintaining the same ranking as the 2016 Index. This ranking may seem surprising, given Hong Kong’s poor air quality due to smog from neighbouring China and local traffic congestion. Despite a worsening score in air pollution, Hong Kong ranks in the top five for all other environmental indicators.

KEY TAKEAWAYS:

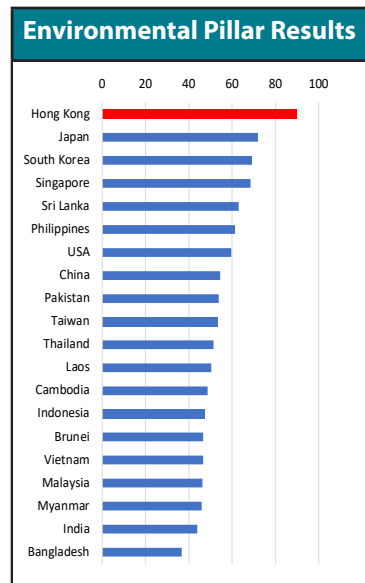
- Hong Kong placed first in the environmental pillar, due to strong performances in most environmental indicators including environmental standards in trade.
- Hong Kong’s worst performance on the environmental pillar was in the air pollution indicator, where it scored 12th out of 20 economies reflecting higher levels of pollution.

Hong Kong also scored in the top five economies with lowest levels of deforestation, water pollution, transfer emissions and share of natural resources in trade. As a bustling port city with few natural resources, a good record on reforestation and acceptable standards of water pollution, Hong Kong does many things right. Its smaller size also counts in its favour in this Index, since it does not suffer from the extremes in environmental performance seen within Asia’s larger countries.

Hong Kong’s worst performance was in air pollution, where it scored 12th out of 20 economies due to higher levels of air pollution. Air pollution is measured by levels of particulate matter 2.5 (PM 2.5) and highlights the important link between economic growth, trade and pollution.

CASE STUDY: THE PARIS AGREEMENT AND HONG KONG CLIMATE ACTION PLAN 2030+

In January 2017, the Hong Kong government announced its Hong Kong Climate Action Plan 2030+. The plan takes a proactive approach toward combating climate change and reducing Hong Kong’s carbon emissions by 2030, in accordance with its commitments through the Paris Agreement.³ Hong Kong says it will reduce its carbon intensity by 65 percent to 70 percent by 2030, using 2005 as the base year.⁴ Local electricity generation for Hong Kong’s dense urban area is the biggest culprit of carbon emissions, making up nearly 70 percent of total emissions, according to the government. In order to meet its goals, Hong Kong will reduce its dependence on coal-fired electricity in favor of natural gas.



SOURCE: Hinrich Foundation Sustainable Trade Index 2018

Indicator	Region Avg.	2018 Score
Environmental standards in trade	66.7	100
Deforestation	66.8	98
Water pollution	24.3	88
Transfer emissions	22.6	85
Share of natural resources in trade	85.3	99
Air pollution	67.2	68

SOURCE: Hinrich Foundation Sustainable Trade Index 2018

^{1,2} Government of Hong Kong-“Government support for innovation & technology”, February 2018- <https://www.gov.hk/en/residents/communication/government/innovation.htm>

³ The Government of the Hong Kong Special Administrative Region, “Hong Kong’s Climate Action Plan 2030+ announced”, 20 January 2017- <http://www.info.gov.hk/gia/general/201701/20/P2017012000736.htm>

⁴ Hong Kong Environmental Bureau, “Hong Kong’s Climate Action Plan 2030+”, January 2017- https://www.climate-ready.gov.hk/files/report/en/HK_Climate_Action_Plan_2030+_booklet_En.pdf

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Additional resources

The Hinrich Foundation commissioned The Economist Intelligence Unit (EIU) to build the Sustainable Trade Index. The Index uses 24 indicators to measure the trade impacts of 19 economies in Asia and the U.S. across the three recognized pillars of sustainability: economic growth, social capital, and environmental protection.

Visit our website at: www.hinrichfoundation.com/trade-research/sustainable-trade-index to download additional Sustainable Trade Index resources including:

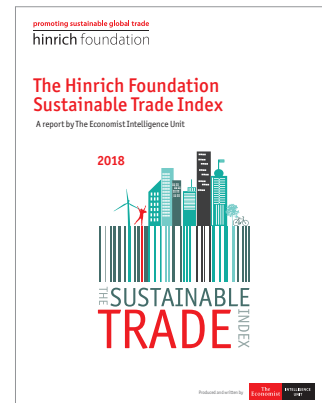
- **2018 Sustainable Trade Index white paper**- Prepared by the EIU, it presents and analyzes the 2018 Index findings for all 20 economies.
- **Index interactive data set and KPIs**- The comprehensive Index database allows users to directly interact with the Sustainable Trade Index data. For each economy, compare indicators, adjust score weights and visualize data in custom charts and graphs. It's a useful tool for regional comparisons or reviewing the performance of a particular economy.
- **Additional highlight reports for other economies**- Looking for information on other economies in the Sustainable Trade Index? Visit our website to download special reports on all 20 economies featured in the 2018 Index.
- **Index infographics, fact sheets and more!**

About the Hinrich Foundation

The Hinrich Foundation is a nonprofit organization that undertakes trade-related policy research and development work in Asia. It focuses on creating opportunities, choice and engagement through sustainable and mutually beneficial global trade. The Sustainable Trade Index aims to stimulate positive thinking about global trade and promote behaviors that will lead to better developmental outcomes, engagement and stability.

Connect with us

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Economic Pillar		Social Pillar		Environmental Pillar	
China	82.4	China	82.4	China	82.4
India	78.1	India	78.1	India	78.1
Japan	85.2	Japan	85.2	Japan	85.2
USA	88.5	USA	88.5	USA	88.5
South Korea	80.3	South Korea	80.3	South Korea	80.3
UK	86.7	UK	86.7	UK	86.7
France	84.9	France	84.9	France	84.9
Germany	83.6	Germany	83.6	Germany	83.6
Italy	81.2	Italy	81.2	Italy	81.2
Spain	79.8	Spain	79.8	Spain	79.8
Canada	87.1	Canada	87.1	Canada	87.1
Australia	84.5	Australia	84.5	Australia	84.5
Brazil	75.3	Brazil	75.3	Brazil	75.3
Indonesia	72.9	Indonesia	72.9	Indonesia	72.9
South Africa	70.1	South Africa	70.1	South Africa	70.1
India	78.1	India	78.1	India	78.1
China	82.4	China	82.4	China	82.4
USA	88.5	USA	88.5	USA	88.5
Japan	85.2	Japan	85.2	Japan	85.2
South Korea	80.3	South Korea	80.3	South Korea	80.3
UK	86.7	UK	86.7	UK	86.7
France	84.9	France	84.9	France	84.9
Germany	83.6	Germany	83.6	Germany	83.6
Italy	81.2	Italy	81.2	Italy	81.2
Spain	79.8	Spain	79.8	Spain	79.8
Canada	87.1	Canada	87.1	Canada	87.1
Australia	84.5	Australia	84.5	Australia	84.5
Brazil	75.3	Brazil	75.3	Brazil	75.3
Indonesia	72.9	Indonesia	72.9	Indonesia	72.9
South Africa	70.1	South Africa	70.1	South Africa	70.1
Average (all economies)	81.5	Average (all economies)	81.5	Average (all economies)	81.5
Best Trade 2018	USA	Best Trade 2018	USA	Best Trade 2018	USA

