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ECONOMY

Shenzhen's GDP passes that of HK for first time

Elaine Chan and **Sidney Leng**

Shenzhen's economy surpassed Hong Kong's for the first time last year, in part because the city played an instrumental role in helping transform its neighbour and once rural backwater into a hi-tech hub.

Economic growth in Hong Kong rose by just 3 per cent to HK$2.85 trillion in 2018, slowed by the effects of the US-China trade war, particularly in the last quarter, according to the annual budget revealed by Financial Secretary Paul Chan Mo-po yesterday.

Shenzhen's gross domestic product (GDP) last year, announced earlier this month, grew by 7.6 per cent to 2.42 trillion yuan (HK$2.87 trillion).

The southern city previously said its GDP in 2017 was larger than Hong Kong's, but was forced to withdraw that claim once the exchange rates were taken into account.

A comparison of the two economies also reveals how the hi-tech sector has become the engine driver for growth, underscoring Hong Kong's challenge to further embrace technology industries that have helped Shenzhen thrive and expand.

Hong Hao, managing director and head of research at Bocom International, said the different economic structures of the two cities meant Shenzhen's overall productivity would remain ahead of Hong Kong's in the coming years, even though by per capita terms, it lags behind.

"Hong Kong is heavily reliant on traditional industries such as finance and real estate, which covers about 70 per cent of the economy.," Hong said.

"Shenzhen's economy is mainly supported by manufacturing and technology, which contributes about 70 per cent."

He added that Hong Kong's economic model had its limits when it came to sustaining growth and high housing prices, while Shenzhen's tech-driven model could expand faster and for a longer period.

"Hong Kong is used to letting the market drive where its economy is heading. But if you solely rely on the market, it will make some short-sighted decisions," Hong said.

"The market will tilt the structure even more towards those strong sectors such as finance and real estate. But sometimes the government needs to intervene and lead."

Shenzhen's value-added hi-tech sector was valued at 613 billion yuan last year. It will rely on research and development to expand its economy to 2.6 trillion yuan by 2020.

It has invested more than 4 per cent of its GDP annually into research and development.

Hong Kong's expenditure on research and development, in contrast, accounted for 0.8 per cent of its GDP, or HK$21.28 billion in 2017, which is the most recently available data from official sources.

Yesterday, finance minister Chan said the Hong Kong government would set aside more than HK$50 billion to boost innovation and technology development.

This includes a HK$20 billion injection into the Research Endowment Fund to finance its work, and the establishment of a HK$2 billion Re-industrialisation Funding Scheme to help industries upgrade.

¥2.42tr

Shenzhen's gross domestic product (GDP), in yuan, for 2018, an increase of 7.6 per cent from 2017 and slightly above Hong Kong's GDP