

Navigator

Now, next and how for business

Hong Kong report

Hong Kong

From Trading Hub to Regional Service Centre

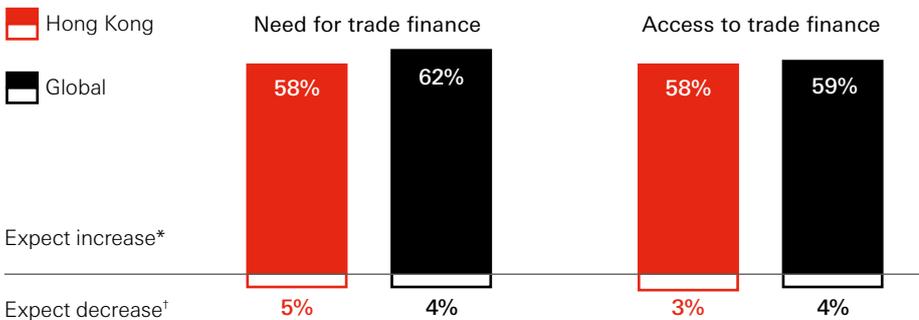
As ports in the Mainland become more globally competitive, the build out of Hong Kong's service sector - finance, accounting and law - is essential to its future growth.

Short-Term Snapshot

Hong Kong's output and trade performance both improved in 2017; the economy grew faster than at any time since 2011. As the gateway to the Chinese market and a regional entrepôt, Hong Kong has been buoyed by the recent recovery in global trade.

Nearly 70% of survey respondents in Hong Kong expect the upturn in their trade volumes to continue, in line with the developed country average. As China and Hong Kong become more closely integrated, Mainland collaboration will boost Hong Kong's growth prospects. Indeed, almost a quarter of our survey respondents say China will be their most important growth market over the next three to five years. Yet firms expect other developed economies in Asia to drive growth, too. Amongst developed markets, Japan (16%) and Singapore (15%) were named most frequently as target markets for expansion.

Outlook for trade finance need and access in the next 12 months



*Expect increase = Increase significantly + Increase slightly
 †Expect decrease = Decrease significantly + Decrease slightly

Source: TNS Kantar

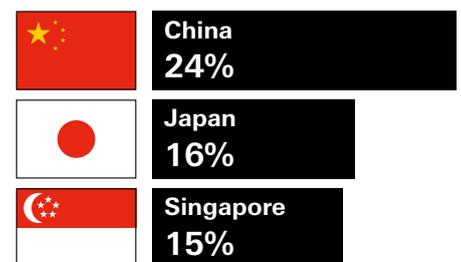
In light of the upturn in global trade, nearly three-fifths of survey respondents in Hong Kong anticipate needing more trade finance in the next 12 months, with only 5% expecting to need less. Similarly, around three-fifths of firms believe their access to trade finance will improve, with only 3% expecting it to worsen.

The services sector plays a crucial role in Hong Kong's economy, accounting for 17% of total exports in 2017 and placing Hong Kong among the top 10 global service exporters in the HSBC Trade Forecast sample. Major service exports include tourism and travel (33% of total service exports in 2016), transport and distribution (29%), and financial services (20%).

Action points for business

- ◆ Prepare a roadmap for where you want your business to expand in the next five years to maximise the gains from the revival in global trade.
- ◆ Domestic and global rivals are fighting for Asia's growing market. Assess how your business should respond to growing competition.

Which are the top 3 markets where your business will look to expand in the next 3-5 years?

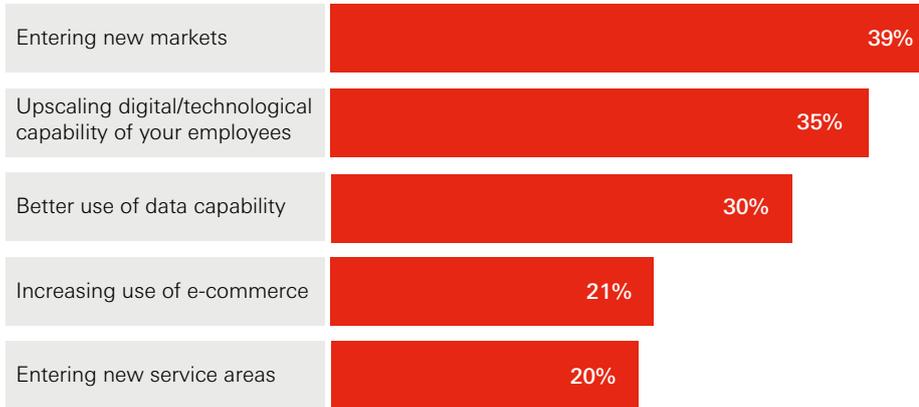


Source: TNS Kantar

A quarter of survey respondents recognise the Mainland as their chief growth market over the next 3-5 years.

Hong Kong firms are somewhat less sanguine about prospects for services trade than the global average. Still, 54% expect volumes to rise over the next 12 months, in line with other developed economies. Respondents cite the economic environment as the top factor behind services trade growth, and 35% say increasing demand for services is a reason for optimism—above the global average, reflecting the region’s rapid development.

How do you plan to grow your services business?



Source: TNS Kantar

Over three-quarters of businesses (76%) think easier access to data on consumers will level the playing field for trade, although a similar number (73%) think data regulation will create barriers to cross-border service delivery. Meanwhile, 86% of Hong Kong firms—in a proportion similar to other APAC markets—express concerns about cyber security.



Trade Policy Developments

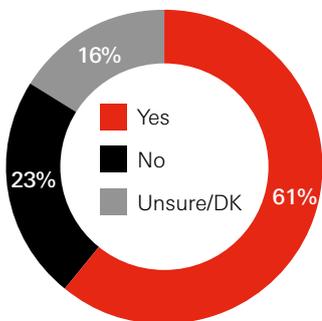
As an open economy, Hong Kong is inevitably affected by the recent trend toward increased protectionism amongst advanced economies. More than 60% of survey respondents note a move toward more protectionist policies globally, and 37% say these policies increase the cost of doing international business.

Hong Kong itself remains committed to trade liberalisation and recently signed a free trade agreement with ASEAN. In fact, our Hong Kong survey respondents rank the ASEAN 2025 Initiative second only to China’s Belt and Road Initiative in terms of the expected positive impact on their business. And Hong Kong continues to discuss further regional agreements, including the Regional Comprehensive Economic Partnership, which policymakers believe could be a pathway toward a future Free Trade Area of the Asia-Pacific.

Action points for business

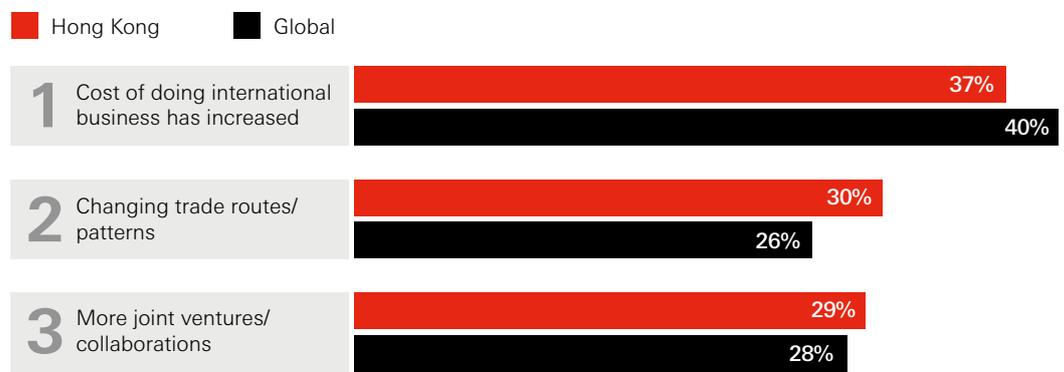
- ◆ Looser visa restrictions under the ASEAN Free Trade Agreement will offer firms opportunities to broaden their talent pool by hiring from ASEAN countries.
- ◆ As your business expands internationally, ensure your company has optimised the mixture of local control and head office oversight.

Are governments becoming more protective of their domestic business?



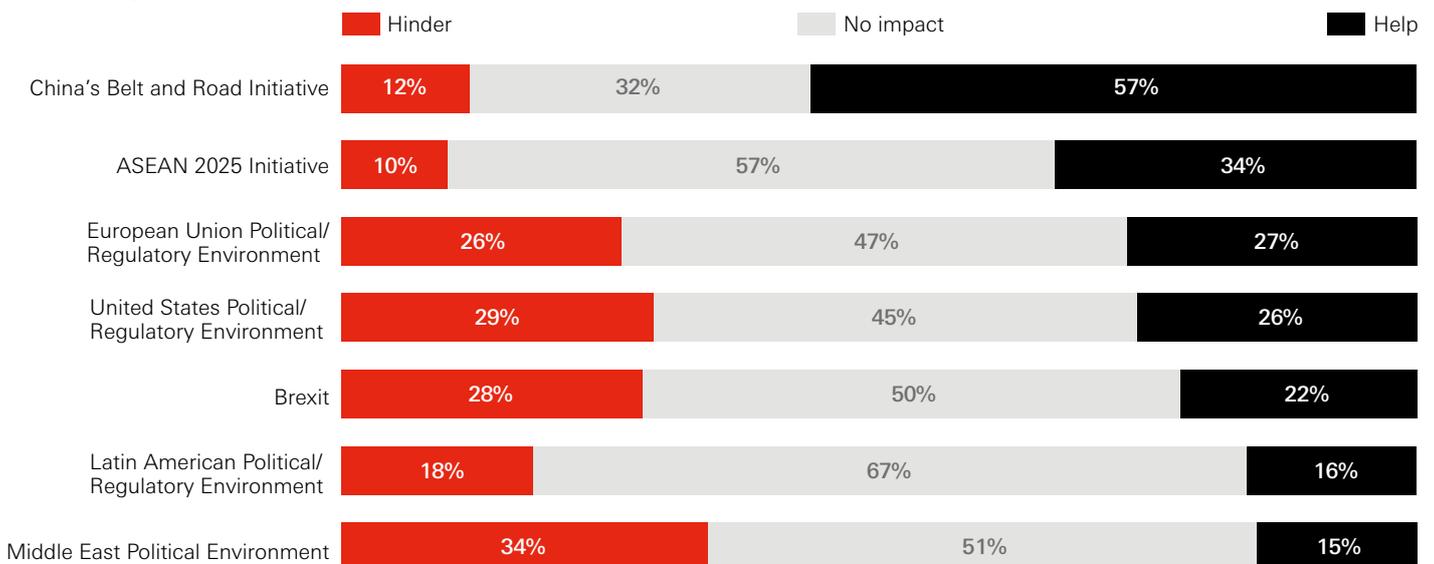
Note: may not total 100% due to rounding
Source: TNS Kantar

Top 3 impacts of protective policies on my business



Source: TNS Kantar

Impact of government/economic policies on my business in the next 2 years*



Source: TNS Kantar

*May not total 100% due to rounding

Long-Term Outlook for Trade

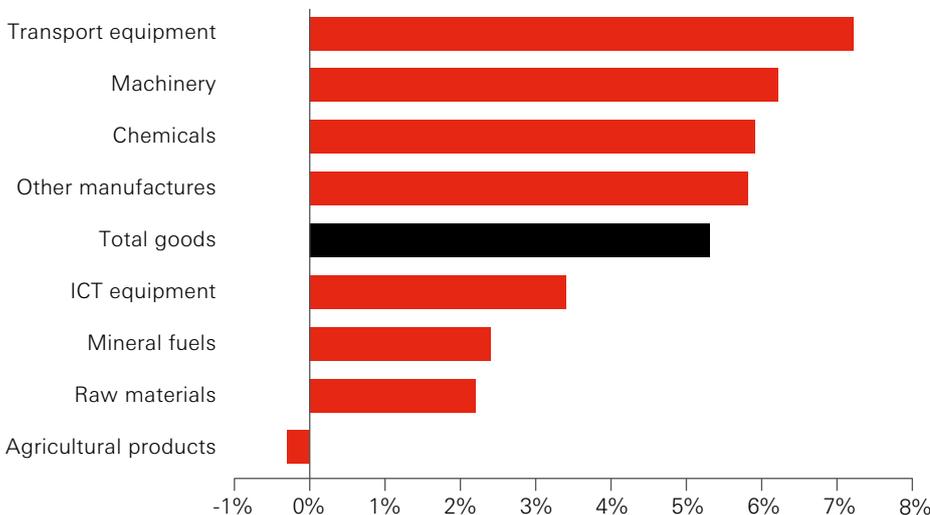
Hong Kong has benefitted from China’s strong growth by intermediating trade between the mainland and the rest of the world. While we expect Hong Kong’s position as a regional entrepôt for physical goods to support continuing growth in merchandise trade, services are likely to play an increasing role as the regional economy matures.

‘South-south’ trade flows will benefit Hong Kong

ICT products currently account for around 30% of Hong Kong’s exports, but we expect this share to gradually decline, in part reflecting the structural changes underway in the Chinese economy. For example, we expect consumer goods exports to the mainland will grow in importance, along with China’s burgeoning middle class. Trade in capital goods should also expand as Asia’s emerging economies continue on the path to industrialisation. We expect industrial machinery exports will grow by 7% per year from 2017 to 2030, accounting for a fifth of all exports by the end of that period.

As the Mainland continues to be Hong Kong’s principal trading partner, we expect China to remain in first place on the Hong Kong’s export destination Hotlist. Trade with other countries across the region should also grow rapidly; we forecast that by 2030, Asia (excluding Japan) will buy nearly three-quarters of Hong Kong’s total merchandise exports, up from around two-thirds today. By contrast, we expect the developed economies to account for 23% of Hong Kong’s exports by 2030, compared with 30% currently, reflecting the relatively subdued growth prospects for these mature economies.

Exports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Action points for business

- ◆ Hong Kong businesses will face more competition from rivals in China. Assess where your business can add value that mainland competitors cannot.
- ◆ To compete with low-cost providers in emerging Asia, Hong Kong companies should focus more on client relationships and product quality. Superior quality control and customer service standards can help to safeguard existing business against lower-cost alternatives.
- ◆ The region is crowded with investment opportunities, but Hong Kong businesses must play to their strengths. Emphasizing high standards of corporate governance and accountability can help to gain investor trust going forward.

Top 5 Hotlist destinations of goods exports

Rank	2016	2030
1	China	China
2	USA	India
3	Japan	USA
4	India	Vietnam
5	Vietnam	Japan

Note: Ranking among the 24 trade partners covered in the forecast

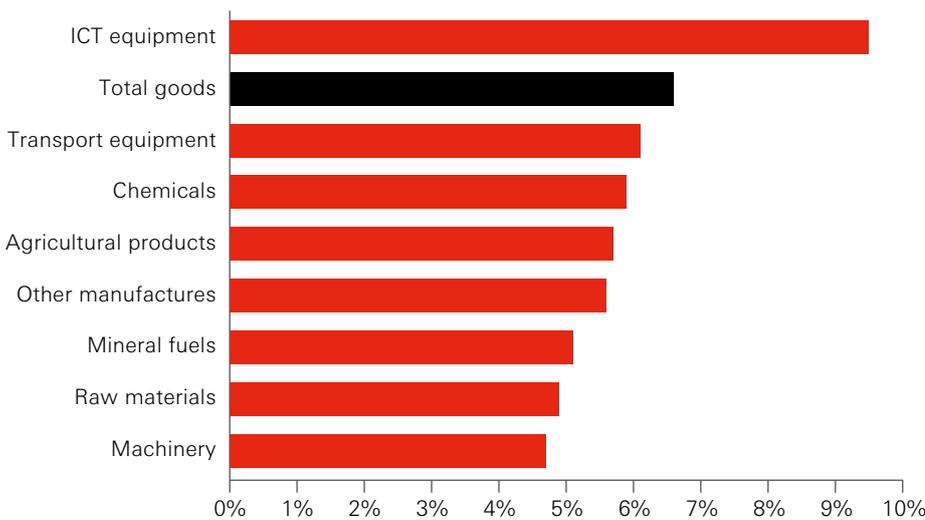
Source: Oxford Economics

Services are likely to play a bigger role in Hong Kong’s trade as the regional economy matures.

Chinese demand will fuel regional growth

Hong Kong will remain the gateway to China for Asia’s emerging economies as supply chains in manufactured goods and electronics spread across the region. The territory will supply both intermediary inputs for processing and final goods for consumption. We forecast ICT and transport equipment imports will grow by more than 6% annually through 2030; imports of other industrial products, such as chemicals bound for re-export to emerging Asia, should grow at a similar rate. Hong Kong will continue to play a starring role in the region’s growth by directing these imported industrial products to the markets in emerging Asia where they are needed. At the same time, accelerating demand in China will drive consumer goods imports destined for re-export to the mainland.

Imports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

We expect China to remain the primary source of Hong Kong’s imports, with sales growing 9% a year on average from 2021 to 2030—more than twice as fast as Korean imports and three times as fast as Japan’s. Imports from Vietnam and India, meanwhile, should also grow by around 9% a year during the period, all part of the movement of goods to satisfy Chinese demand.

Look for growth in service exports to China

As China’s economy becomes more services-oriented, Hong Kong’s service exports are likely to grow faster than its goods exports. ICT and business-to-business services (such as legal and accountancy services) will lead the way, as they leverage Hong Kong’s skilled workforce and receive privileged access to the Chinese market through the CEPA agreement. Historically, such exports were often ancillary to the supply of goods to the mainland. Today, the booming demand for business services in China means these industries can expand independently of Hong Kong’s goods trade.

As Chinese citizens get more affluent and transport links improve (for example, additional high-speed train lines in Shenzhen), more travellers from the mainland will visit Hong Kong to shop (taking advantage of the lower tax rate), gamble, and sightsee. In light of the strong growth in the aforementioned categories of services, we expect the share of transport and distribution to moderate to 25% of overall services exports in 2030, down from 29% in 2016.

Top 5 Hotlist origins of goods imports

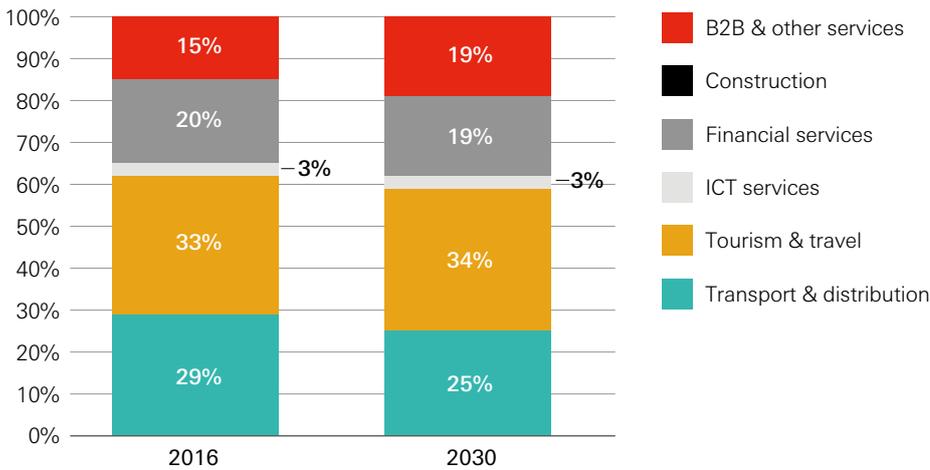
Rank	2016	2030
1	China	China
2	Singapore	Singapore
3	USA	USA
4	Japan	Korea
5	Korea	Japan

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

B2B service exports, which enjoy privileged access to the Chinese market, should grow by 8% a year over the next decade.

Sectoral shares in total services exports



Source: Oxford Economics

Top 5 Hotlist destinations of services exports

Rank	2016	2030
1	China	China
2	USA	USA
3	Japan	UK
4	UK	Japan
5	Singapore	Singapore

Note: Ranking among the 23 trade partners covered in the forecast

Source: Oxford Economics

We anticipate service exports to Chinese clients will grow by 8% per year from 2021 to 2030. For sales further afield, the Hotlist disguises the gradual reduction of developed-country involvement in Hong Kong services trade, as faster-growing Asian neighbours move up the ranks. Amongst the 24 trading partners covered in HSBC’s trade forecast, India and China are poised to be the most dynamic destinations for Hong Kong service exports, with growth expected to average 9% and 8% respectively per year to 2030.

About the HSBC Navigator

The HSBC Navigator presents a blend of survey evidence, policy analysis, and economic modelling to generate unique and timely insights into the changing landscape for global trade.

The business survey is a quantitative indicator of the short-term outlook for global trade. The survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 6,000 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 26 markets. Interviewees were polled on a range of questions including expectations around future growth in trade, trade finance needs, attitudes toward trade policy developments and strategic business plans.

The survey represents a timely source of information on the fast-evolving trade environment. And it can provide a useful contextual setting for interpreting developments in official data. In this way, economists at Oxford Economics are able to blend insights from the survey with their own analysis and modelling of developments in trade.

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade in goods and services, in part based on HSBC’s own analysis and forecasts of the world economy. A top-down approach is employed, with Oxford Economics’ suite of models used to ensure consistency between HSBC’s forecasts for economic growth and exchange rates in key countries and the more granular projections for bilateral trade flows presented here.

Oxford Economics employs a global modelling framework, with headline bilateral trade forecasts constructed as a function of demand in the destination market and the exporter’s competitiveness (as measured by unit labour costs in nominal USD terms). Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2017-20 and 2021-30.

These headline bilateral trade forecasts for goods and services are also disaggregated by sector, using Oxford Economics’ Industry forecasts to inform future production trends and taking into account the historic relationship between output and exports in each sector, by market:

- ◆ For trade in goods, sectors are classified according to the UN’s Standard International Trade Classifications (SITC) system at the two-digit level and grouped into 30 sector headings.
- ◆ For trade in services, we identify five broad sectors: B2B and other services, tourism & travel, transport & distribution, financial services, ICT services and construction.

Drawing on the Kantar TNS survey results and Oxford Economics’ long-term forecasts, Oxford Economics produces in consultation with HSBC a global report and specific reports on the following 23 markets: Argentina, Australia, Bangladesh, Canada, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Malaysia, Mexico, Poland, Saudi Arabia, Singapore, Turkey, UAE, UK, USA and Vietnam. The analysis of trade in goods also includes trade with Brazil and Korea for a total sample of 25 key trading markets; for trade in services the analysis also includes Korea for a total sample of 24 key trading markets.

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8 Canada Square
London E14 5HQ
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