

Navigator

Now, next and how for business

Hong Kong

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Caught in the crossfire of the US-China trade dispute

The expected cooling of Mainland China's economy and growing US-China trade tensions are likely to weigh on Hong Kong's trade outlook in the near term. Moreover, rising mortgage costs as the US normalises its own interest rates (leading to higher rates in Hong Kong, given the US dollar peg) threaten to pinch household spending and weigh on confidence. With plenty of domestic and external risks, sentiment is unsurprisingly more cautious than in last year's Navigator survey, although most respondents remain positive about the outlook.

What is happening now

Trade sentiment softens on increasing US-China trade tensions

The Hong Kong economy started 2018 on a strong footing, underpinned by solid household spending and continued momentum in exports. Similarly robust growth is unlikely in the second half of the year, however, in light of growing downside domestic and external risk. Higher interest rates will weigh on asset markets and domestic demand, while the slowing Chinese economy and escalating trade war between China and the US will inevitably weigh on export growth. Thus, the outlook for the Hong Kong economy—and especially for trade—appears less sanguine than last year.

Hong Kong has significant exposure to Mainland China and the US, both of which are top current trading partners and also rank among the top three biggest potential growth markets identified by respondents, along with Japan (Fig. 1). So it is unsurprising that a trade war between these markets would dampen Hong Kong firms' outlook on international trade; only 65% express positive sentiment, compared with 78% of respondents globally. Those with a negative outlook for their company consider the escalating US-China trade dispute the most important factor behind their pessimism.

Fig. 1: Which are the top 3 markets where your business will look to expand in the next 3-5 years? (Share of respondents identifying each market)



Source: TNS Kantar

How your business can respond

- ◆ Firms should take advantage of trade diversion opportunities as Chinese and US firms look for new markets or cheaper suppliers.
- ◆ Look at how you can hedge changes in currency value to respond to fluctuations
- ◆ Develop a trade strategy that can be adapted as developments unfold. Where necessary, seek professional advice about changes to countries' policies on tariffs and duties.

Policy developments

Firms are increasingly wary of rising protectionism

Hong Kong has benefitted from globalization in the past, both directly and indirectly. And further economic integration with Mainland China and the rest of the region—with initiatives such as Belt and Road, the Regional Comprehensive Economic Partnership (RCEP), and the Hong Kong-ASEAN Free Trade Agreement—should continue to allow Hong Kong to exploit its geographical advantages and status as a free port.

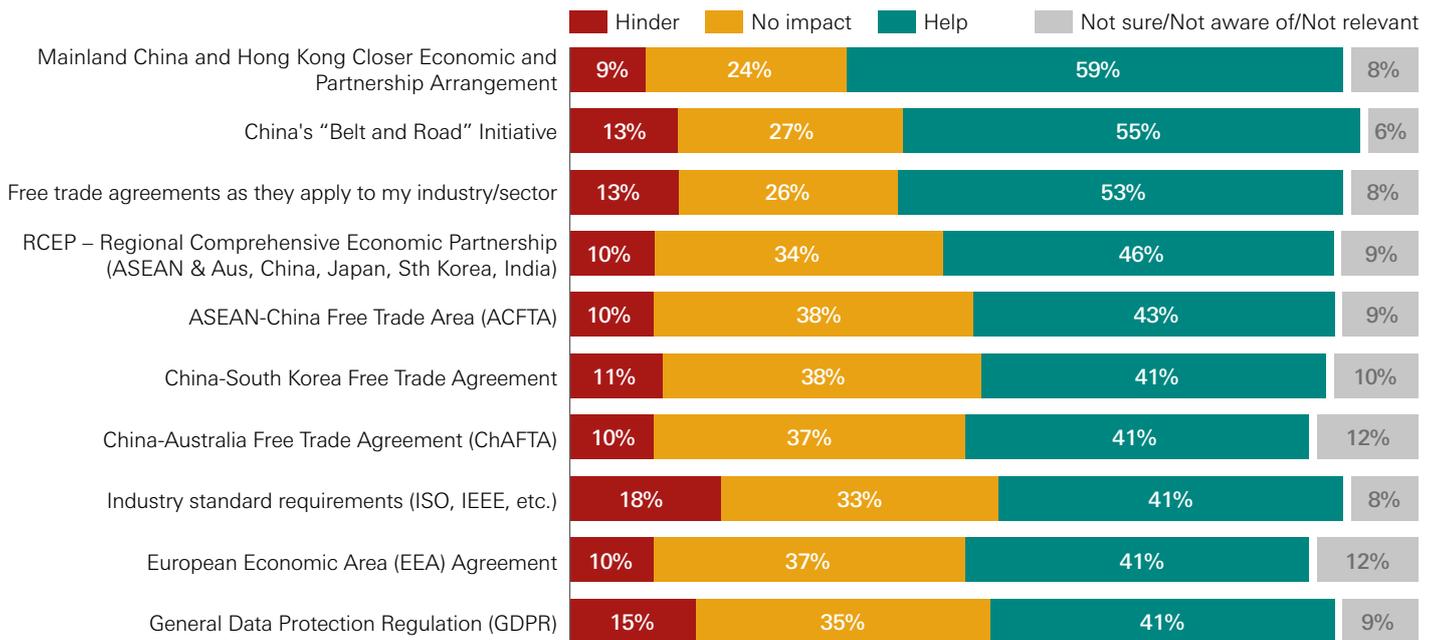
However, Hong Kong will inevitably get caught up in the escalating US-China trade war, which may well get worse before it gets better. Business leaders recognise this; 71% of firms agree that governments are becoming more protective of their domestic businesses, a 10-percentage-point increase since the 2017 survey and more than the global benchmark of 63%.

Unsurprisingly, businesses in Hong Kong expect benefits from policy initiatives that encourage a closer relationship with Mainland China. More than half of all firms surveyed see both the Closer Economic Partnership Arrangement between Hong Kong and the mainland (CEPA) and China’s Belt and Road Initiative as having a helpful impact on their business in the next three years (Fig. 2).

How your business can respond

- ◆ Hong Kong businesses should explore how to take advantage of new growth opportunities generated by China’s pledge to turn the region into an important pillar of the Belt & Road initiative.
- ◆ Firms should lobby for reform to expedite business regulation, especially around the use of data, which will help to ensure a level playing field for business.

Fig. 2: Relevance and impact of policy developments in the next 3 years



Source: TNS Kantar

*May not total 100% due to rounding

What is happening next for business strategy

Firms look to diversify and expand operations

Diversification is key to Hong Kong firms' ongoing strategy. Many report having expanded their product lines, services, or markets over the last two years, and top plans for the future include growing market share (Fig. 3).

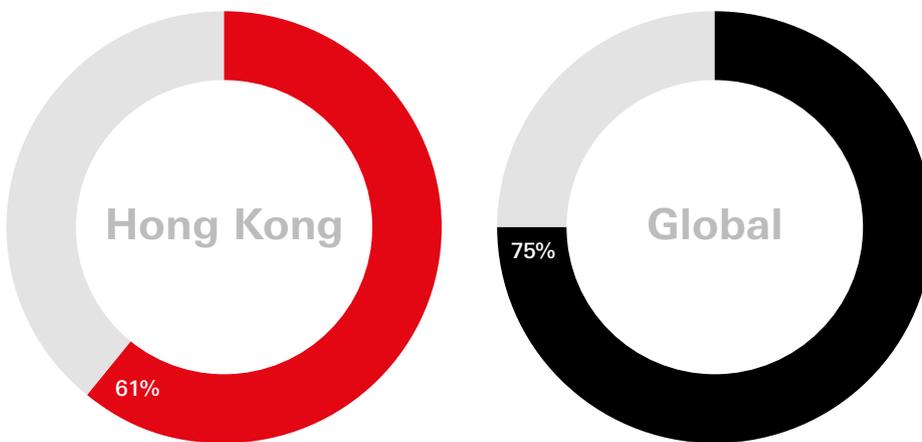
Compared with other markets, Hong Kong is a relative laggard in business use of data (Fig. 4). Only 61% of companies there use data to optimise performance, well below the global average of 75%. Of Hong Kong firms that do so, around half report that customer personal data, operational data, and other transactional/sales data are used the most frequently. Firms cite tighter regulation on data security and customer demand for data privacy and information-gathering transparency as the biggest challenges to more widespread adoption of digital technology.

Fig. 3: Top 3 actions for future company direction



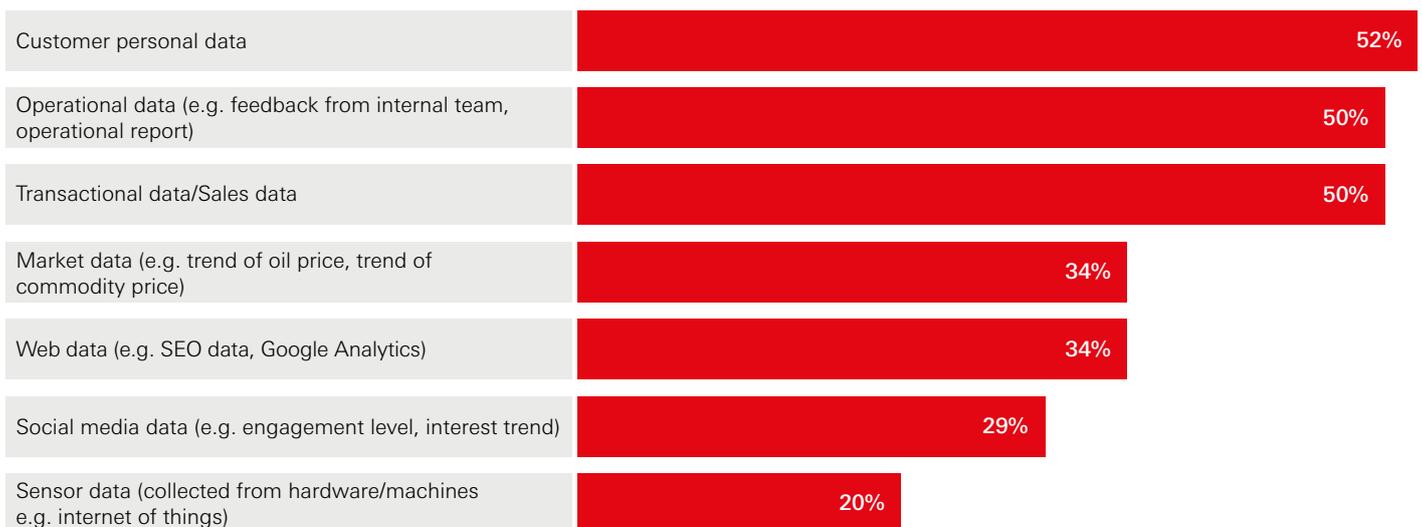
Fig. 4: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

Data sets currently being used



Source: TNS Kantar

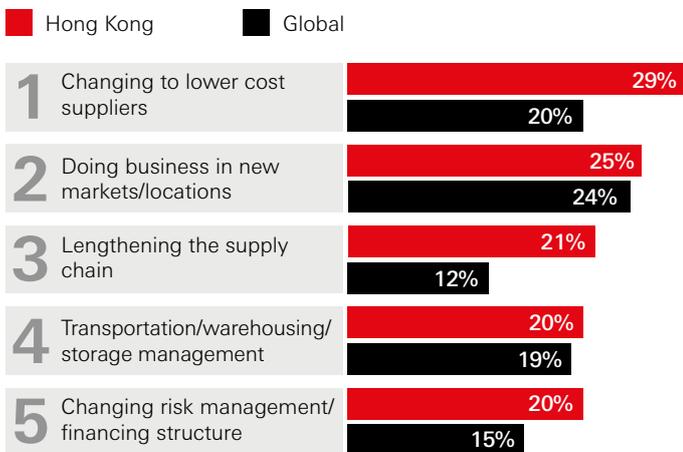
Cost reduction remains key to supply chain management

Hong Kong’s position as a free port makes it a hub for regional supply chains, particularly China-based firms. Hong Kong handles 13% of Mainland China’s exports and 15% of its imports, with nearly 60% of Hong Kong’s re-exports originating from the Mainland. Thus, supply-chain disruptions in Mainland China would have a significant adverse impact on Hong Kong trade.

Focussing on planned changes to supply chains, 29% of producers of goods report they are switching to lower-cost suppliers (Fig. 5), and 25% say they are exploring new markets—the top reported changes planned for the supply chain for goods over the next three years—as firms look to reduce costs, increase revenues, and gain access to international customers.

Fig. 5: Supply chain changes for goods

Top 5 planned supply chain changes in the next 3 years



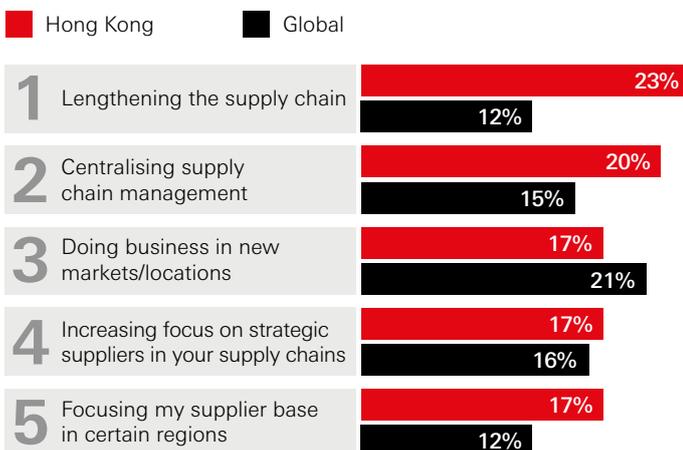
Source: TNS Kantar

For service businesses (Fig. 6), who also report cost reduction as their top objective, the top changes planned include lengthening the supply chain (23%) and centralising supply chain management (20%).

Many Hong Kong firms are also focusing on ethical and environmental sustainability. Across both goods and service sectors, a large majority (87%) agree sustainability is important to their organisations.

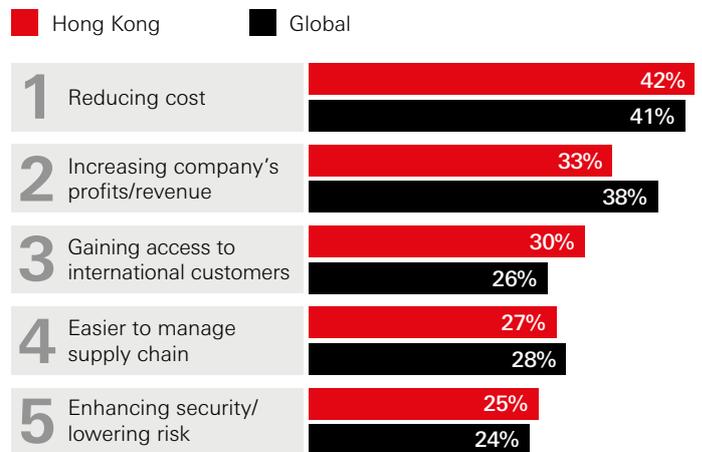
Fig. 6: Supply chain changes for services

Top 5 planned supply chain changes in the next 3 years

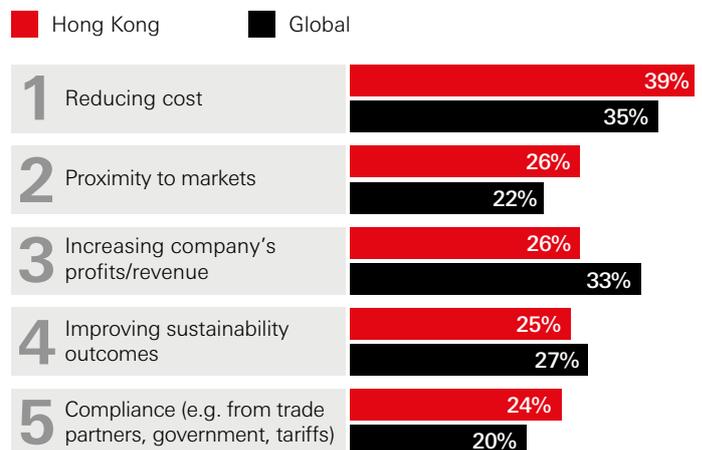


Source: TNS Kantar

Top 5 objectives behind the changes



Top 5 objectives behind the changes



About HSBC Navigator Hong Kong

The HSBC Navigator 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 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, 350 businesses were surveyed in Hong Kong. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade). The survey was conducted over a six week period from July to September 2018.

Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

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