LCQ5: Measures to mitigate impacts of Sino-US trade conflicts

Following is a question by the Hon Wong Ting-kwong and a reply by the Acting Secretary for Commerce and Economic Development, Dr Bernard Chan, in the Legislative Council today (October 31):

Question:

Since July this year, the United States (US) Government has imposed, one after another, three tranches of additional tariff measures on imports from Mainland China of a total worth of US$250 billion. In response, the Government of China has concurrently imposed additional tariff measures on imports from US of a total worth of US$110 billion. There are comments that the Sino-US trade conflicts may last for a protracted period of time, and their impacts on Hong Kong's economy are expected to surface gradually from the third quarter of this year. In this connection, will the Government inform this Council:

(1) of the outcome of the latest assessment of the impacts of the Sino-US trade conflicts on Hong Kong's economy; the mitigation measures implemented by the authorities at the international level and the progress of such measures;

(2) of the respective numbers of applications received and approved by the authorities so far since the enhancement measures for the "Dedicated Fund on Branding, Upgrading and Domestic Sales" were rolled out in August this year, as well as the average amount of grant and average processing time taken for each approved application; whether the authorities will raise the ceiling of the ratio of grant under the SME Export Marketing Fund to the expenditure incurred for export promotion activities, as well as provide financial assistance in respect of expenses on production line relocation; if so, of the details; if not, the reasons for that; and

(3) as the Financial Secretary has pointed out that the Sino-US trade conflicts may affect Hong Kong's banking sector through the credit and liquidity risk channels, whether the authorities have reviewed the capability of Hong Kong's financial system to withstand such challenge and made good preparation for that; if so, of the details; if not, the reasons for that?

Reply:

President,

Since the beginning of this year, the United States (US) has initiated conflicts in international trade, trade protectionism has risen, and the trade conflict between China and the US has been escalating. The Government has been closely monitoring developments and their impact on Hong Kong economy, maintaining close communication and exchanging information with the trade, responding promptly to their need with the introduction of various support measures.

Our replies to the three parts of the question are as follows:

(1) As a result of the "Section 301 investigation" report concerning the Mainland's intellectual property issues, the US has, in tranches, imposed additional tariffs at 10 per cent or 25 per cent on a total of US$250 billion worth of Mainland imports. In response, the Mainland has imposed additional tariffs at 5 per cent, 10 per cent or 25 per cent on US$110 billion worth of US imports. In respect of the US' and Mainland's tariff lists, a total of HK$185.7 billion of the concerned products were re-exported via Hong Kong, accounting for 4.8 per cent of Hong Kong's total exports of goods in 2017. Apart from re-export trade, the tariff measures also affect Hong Kong's offshore trade involving goods of Mainland origin destined to the US as well as other economic activities supporting China-US trade.

Apart from the direct impact on trade in goods, the impact of the China-US trade conflict on Hong Kong as a whole and on the global economy has begun to emerge. The uncertainties of the external environment have increased markedly, while the global economy as well as trade and investment sentiment have also deteriorated. Although the current economic data are still good, the outlook is not optimistic. Many institutions have lowered their forecasts for global economic growth next year and Hong Kong economy cannot stay immune. We estimate that the impact of China-US trade conflict on Hong Kong economic growth this year should be relatively limited. However, there will be significant impact on the economy in 2019.

In the past few months, the Government has announced and implemented a number of targeted measures, including strengthening various SME funding schemes to assist the trade in market promotion and development of the Mainland and the Association of Southeast Asian Nations (ASEAN) markets; enhancing the special concessionary measures of the SME Financing Guarantee Scheme operated by the HKMC Insurance Limited to further alleviate the financing burden of local enterprises; strengthening protection of Hong Kong exporters affected by the US tariff measures through the Hong Kong Export Credit Insurance Corporation; and assisting the trade to develop markets and transfer production base through the Hong Kong Trade Development Council.

At the international level, the Government will continue to adopt a multi-pronged strategy to explore more opportunities for Hong Kong, leveraging on our unique advantages under "one country, two systems". We will continue to actively forge free trade agreements (FTAs) and investment agreements with our trading partners. We have already signed FTAs with ASEAN and Georgia respectively and have concluded negotiations with the Maldives. Our bilateral negotiations with Australia are ongoing, and we will explore FTAs with the United Kingdom and the Pacific Alliance and seek accession to the Regional Comprehensive Economic Partnership. We will also expand our network of Economic and Trade Offices (ETOs), and we expect to set up the ETO in Bangkok early next year and the ETO in Dubai as soon as possible. We will continue our discussion with the respective governments on setting up the ETOs in Moscow, Mumbai and Seoul. In addition, we will actively attract foreign investors to Hong Kong, and grasp the opportunities brought by the Belt and Road Initiative and the Guangdong-Hong Kong-Macao Greater Bay Area, in order to diversify Hong Kong's economy.

(2) The Government has advanced the launch of the enhancement measures to the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) to August 2018, including the launch of the ASEAN Programme under the BUD Fund to provide funding support to individual non-listed Hong Kong enterprises in carrying out projects that aim to enhance their competitiveness and further business development in the ASEAN markets. We have also enhanced the Mainland Programme under the BUD Fund, including doubling the cumulative funding ceiling per enterprise, to strengthen support to SMEs.

The trade responded positively to the enhancement measures. As at September 30, the ASEAN Programme received 75 applications, with the funding amount sought in the range of about $17,000 to $1 million. The enhanced Mainland Programme received 273 applications in the third quarter, representing a substantial increase of 58 per cent as compared to the preceding quarter, with the funding amount sought in the range of about $6,000 to $1 million. The Programme Management Committee (PMC) approved the first application at its meeting in end September and the approved funding (about $130,000) represented 100 per cent of the amount sought. As applications for the BUD Fund are processed within 60 working days upon the quarterly application deadline, processing of the other applications will be completed by end December. To expedite the vetting process under the ASEAN Programme, the PMC will approve straightforward cases by circulation.

The Government has also advanced the launch of the enhancement measures to the SME Export Marketing Fund (EMF) to August 2018, including doubling the cumulative funding ceiling per SME and the maximum funding per application. The maximum amount of grant that SMEs can receive per application under the EMF is 50 per cent of the total approved expenditure, with a view to encouraging SMEs to consider the appropriateness and cost-effectiveness of the promotion activities while exploring and developing export markets. Upon the launch of the enhancement measures, the EMF received 1 609 applications in August and September, an increase of 20 per cent as compared to the same period last year.

We will continue to review the SME support measures from time to time to ensure that appropriate assistance is provided.

(3) The escalation of China-US trade conflict will inevitably affect Hong Kong's financial markets. Nevertheless, Hong Kong’s financial system has withstood crises one after another. With our resilient regulatory regime, Hong Kong can cope with market volatility. The banking system in Hong Kong is highly resilient. At the end of June 2018, major banks' average liquidity coverage ratio stood at 157 per cent, and their average capital adequacy ratio was over 19 per cent, well above the minimum regulatory requirements. The Hong Kong Monetary Authority (HKMA) has conducted a series of stress tests to assess the ability of the Hong Kong banking sector to withstand the impact of the rising trade tensions between the US and China. The results indicate that even in extremely adverse situations, banks

will still be able to meet the relevant capital and liquidity supervisory requirements.

As regards the securities and futures markets, the Securities and Futures Commission (SFC) monitors the market with vigilance, including the financial positions, operations and settlement status of brokers, as well as their ability to deal with different market situations. The SFC also works closely with the Stock Exchange of Hong Kong (HKEX) and the HKMA to address potential systemic issues in case they arise, in particular, ensuring that the trading and risk management systems of the HKEX can adequately handle shocks under extreme market situations.

The Government and the financial regulators will continue to closely monitor the developments and the financial market situation, with a view to ensuring financial stability.