LCQ9: Measures to assist Hong Kong enterprises in weathering China-US trade conflicts

Following is a question by the Hon Jeffrey Lam and a written reply by the Secretary for Commerce and Economic Development, Mr Edward Yau, in the Legislative Council today (November 28):

Question:

Since July this year, the authorities of the United States (US) have imposed, one after another, additional tariffs of 10 per cent or 25 per cent on imports from China of a total worth of US$250 billion. They have also indicated that the rates of the additional tariffs will be raised to a flat rate of 25 per cent with effect from January 1 next year. In response, the authorities of China have concurrently imposed additional tariffs of 5 per cent to 25 per cent on imports from US of a total worth of US$110 billion. Among the goods affected by the additional tariffs, those from China and re-exported to US via Hong Kong were worth over HK$130 billion in total, accounting for about 3.5 per cent of the value of Hong Kong's total exports of goods last year. The Government anticipates that the Sino-US trade conflicts will have significant impacts on Hong Kong's economy next year. Some members of the business sector hope that the Government will step up its efforts to support Hong Kong enterprises to weather the difficult time. In this connection, will the Government inform this Council:

(1) as the special enhanced measures, introduced this year by the Hong Kong Export Credit Insurance Corporation in response to the Sino-US trade conflicts to support exporters, will expire on June 30 next year, whether the authorities will (i) regularise these measures, (ii) raise the limit for the insured amount and increase the pre-shipment cover, and (iii) expand the scope of coverage to include exporters with annual sales turnover of $50 million or more and goods exported to overseas markets other than US;

(2) as quite a number of enterprises have relayed that financial institutions have recently kept lowering the credit facilities granted to them, thereby seriously affecting their cash flow, whether the authorities will consider re-launching the Special Loan Guarantee Scheme under which the Government will provide a loan guarantee of $100 billion so as to assist Hong Kong's manufacturers and exporters in their financing; and

(3) regarding the impacts on the economy of Hong Kong brought about by the US authorities' measure of raising across the board the rates of the additional tariffs on imports from China with effect from January 1 next year, of the outcome of the authorities' latest assessment, and whether they have formulated further measures to assist Hong Kong enterprises in weathering the challenges concerned?

Reply:

President,

Our consolidated reply for the three parts of the question is as follows:

Since the beginning of this year, the United States (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 Mainland products destined to the US as well as other economic activities that support China-US trade.

In addition, the China-US trade conflict has also affected international trade and investment activities, the global financial market and the overall economic sentiment, indirectly affecting all aspects of the Hong Kong economy, and the impact has begun to emerge. If the US raises the tariff level on the US$200 billion worth of Mainland imports from the current 10 per cent to 25 per cent from January 2019 as it announced earlier, the negative impact on the global economy, financial market as well as Hong Kong's economy would be more significant.

The Government has been closely monitoring developments of the China-US trade conflict and their impact on Hong Kong economy, maintaining close communication and exchanging information with the trade, and discussing with them on how to respond. The Commerce and Economic Development Bureau and the Trade and Industry Department (TID) have met with major local chambers and associations of small and medium enterprises (SMEs) many times to gauge their views on the tariff measures and jointly assess their impact on the trade. TID has also set up a dedicated liaison platform for better communication with and dissemination of information to the trade.

In the short term, the Government understands that the trade is particularly concerned about export credits and financing, especially for SMEs which are more susceptible to external factors. Therefore, the Government has promptly responded to the trade's need and introduced a number of short term measures, including:

(i) The Hong Kong Export Credit Insurance Corporation has introduced in phases special enhanced measures to strengthen protection for Hong Kong exporters affected by the US tariff measures, including providing six free buyer credit assessments for each Hong Kong exporter; providing 30 per cent discount on premium for "Small Business Policy" (SBP) holders (i.e. Hong Kong exporters with annual sales turnover less than $50 million); increasing the credit limit for SBP holders by 20 per cent to a maximum of $5 million; and providing free pre-shipment cover for SBP holders affected by the US tariff measures;

(ii) The application period for the special concessionary measures under the SME Financing Guarantee Scheme operated by the HKMC Insurance Limited has been extended to June 30, 2019. In addition, to further alleviate the financing burden of local enterprises and assist them to obtain financing from lending institutions, three additional support measures have been launched from November 19, 2018, i.e. reducing the annual guarantee fee rate by 50 per cent; increasing the maximum facility amount from $12 million to $15 million; and lengthening the maximum guarantee period from five years to seven years;

(iii) TID has been strengthening the dissemination of information in respect of the Hong Kong rules of origin to the trade and following up with the trade on the related review; and

(iv) The Hong Kong Trade Development Council (TDC) organises free seminars to help the trade understand the relevant trade measures and possible responses, and will also continue to help the trade develop emerging markets and transfer production base through organising trade missions, business matching services, etc.

In addition, the Government has also strengthened support to the trade in developing markets. The Government has advanced the launch of the ASEAN Programme under the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) to August 1, 2018 to provide funding support to individual non-listed Hong Kong enterprises to undertake projects for enhancing their competitiveness and furthering business development in the ASEAN market. Enterprises can obtain a maximum funding of $1 million on a matching basis for carrying out up to 10 ASEAN projects, with the funding ceiling per project being $1 million. In addition, to strengthen support to SMEs in exploring new markets and new business opportunities, the cumulative funding ceiling per enterprise for the current SME Export Marketing Fund and the Mainland Programme under the BUD Fund has been doubled, i.e. from $200,000 and $500,000 to $400,000 and $1 million respectively.

In the medium to long term, the Government will continue to adopt a multi-pronged approach. We will continue to establish stronger bilateral ties with like-minded trading partners and deepen Hong Kong's economic integration with different parts of the world through negotiating and forging free trade agreements and investment agreements. We will expand our overseas Economic and Trade Office coverage to new partners and markets with close economic and trade relations with Hong Kong and with development potential, so as to tap business opportunities and boost foreign direct investment into Hong Kong. We will continue to organise business missions with the TDC for the trade to explore business opportunities in new markets. We will also continue to assist the trade in grasping the opportunities brought by the Belt and Road Initiative and the development of the Guangdong-Hong Kong-Macao Greater Bay Area.

The Government takes into account the trade's situation and needs when implementing various measures. We will continue to closely monitor developments and maintain close communication with the trade. We will also keep reviewing our support measures to the trade, particularly SMEs, to ensure that they are appropriate.