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2018

TRADE WAR IMPACTS - HONG KONG'S PERSPECTIVE

Billy WONG

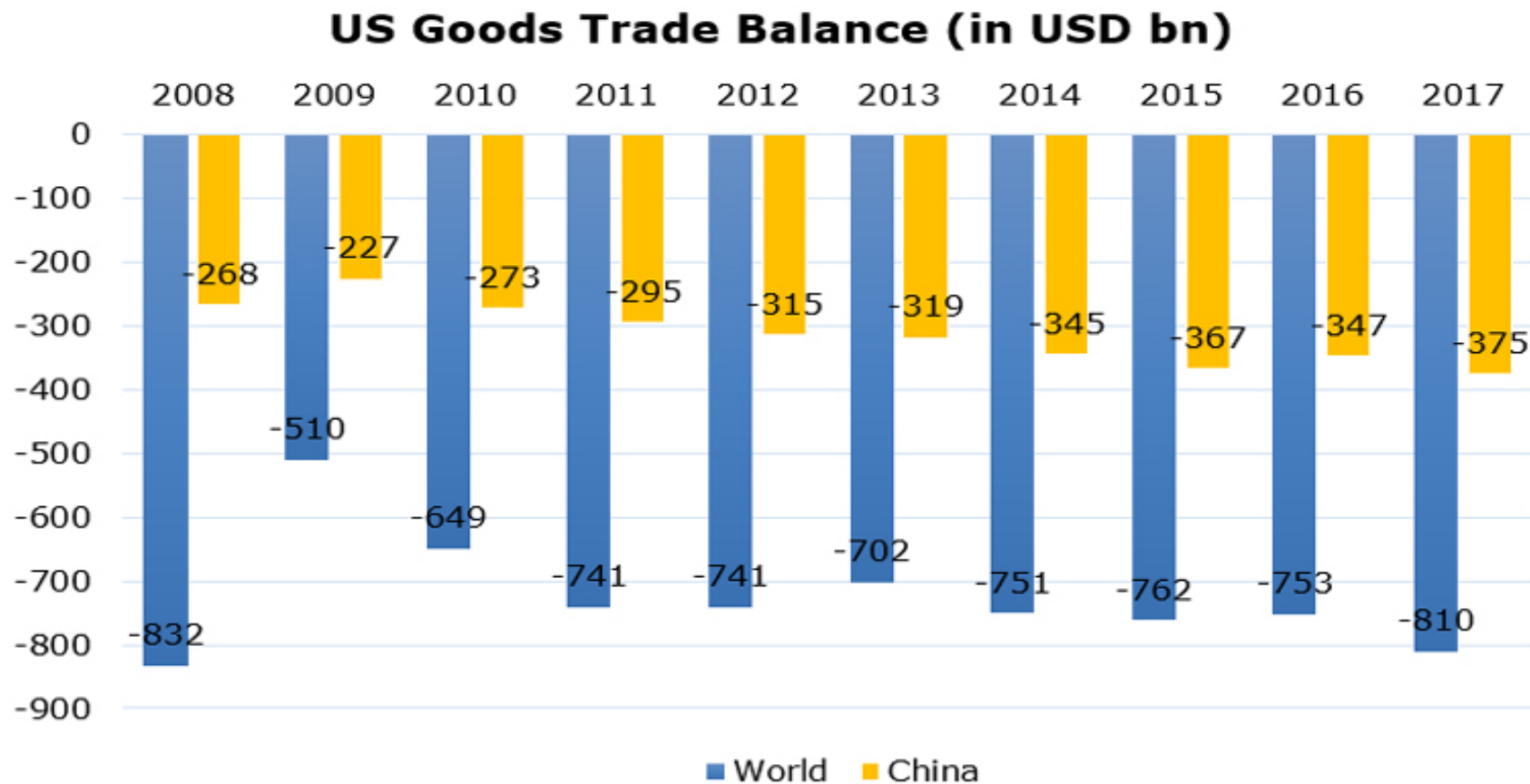
Deputy Director of Research, HONG KONG
TRADE DEVELOPMENT COUNCIL

Sino-US trade frictions - Hong Kong's perspective

Billy Wong
HKTDC Research
10 October 2018



Trade as the source of conflicts



Source: US Census Bureau

Friction: measures from the US

Section 201 global safeguard

Effective date: **7 February** 2018

Affected products: Large residential washers & solar panels/modules

Section 232 national security measures

Effective date: **23 March** 2018

Affected products: Steel and Aluminum

Measures: Additional tariffs of 25% on steel, additional tariffs of 10% on aluminium

Section 301 additional tariffs

Effective date: **6 July** 2018 on US\$34 billion worth of Chinese exports; **23 August** 2018 on another US\$16 billion; an additional US\$200 billion on **24 September** 2018.

Affected products: the third list extends across 80 HS Chapters, including textiles, leather, headgear and furniture

Measures: Additional tariffs of 25% for the first two lists, 10% for the third list in 2018 and will increase to 25% in 2019.

Friction: China's countermeasures

Countermeasures to Section 232 tariffs

Effective Date: 2 April 2018

Affected products: 128 items including wine, pork, fruits and steel products

Measures: Additional tariffs of 15% to 25%

Countermeasures to Section 301 tariffs

Effective Date: Same dates as the US for the three lists

Affected products: 545 US products worth US\$34 billion, and another 333 products worth US\$16 billion for the first two lists, additional 5,207 US products worth US\$60 billion under the third list

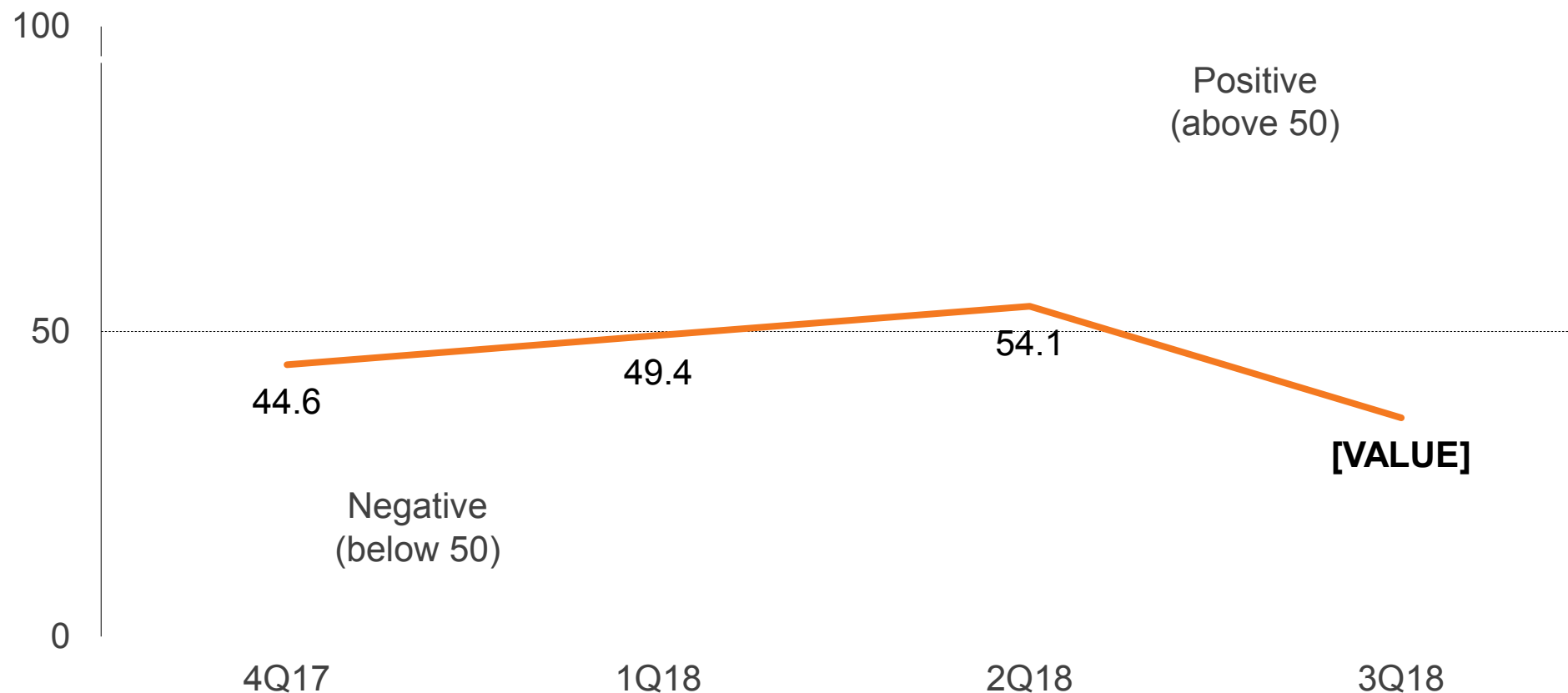
Measures: Additional tariffs of 25% for the first two lists, 5% for 1,636 items and 10% for 3,571 items of the third list

Hong Kong: collateral damage manageable

- Overall, HK handles US\$45bn worth of re-export (RX) trade between China and US in 2017, about 9% of HK total exports (TX) and 4% of our total trade. Of which, US\$36bn is RX from China to US, while US\$9bn is RX from US to China
- All measures including both US action and China's retaliation, if entered into force in full, represent about 56% of HK RX between China and US, or about 5% of HK TX in 2017
- The immediate impacts on these trade restrictions appear manageable in overall terms, even assuming all affected trade were lost with additional tariffs
- However, the downside is more significant if you consider supply-chain multiplier effect as well as the impact via sentiment

Hong Kong exporter sentiment fell back into contractionary

HKTDC Export Index



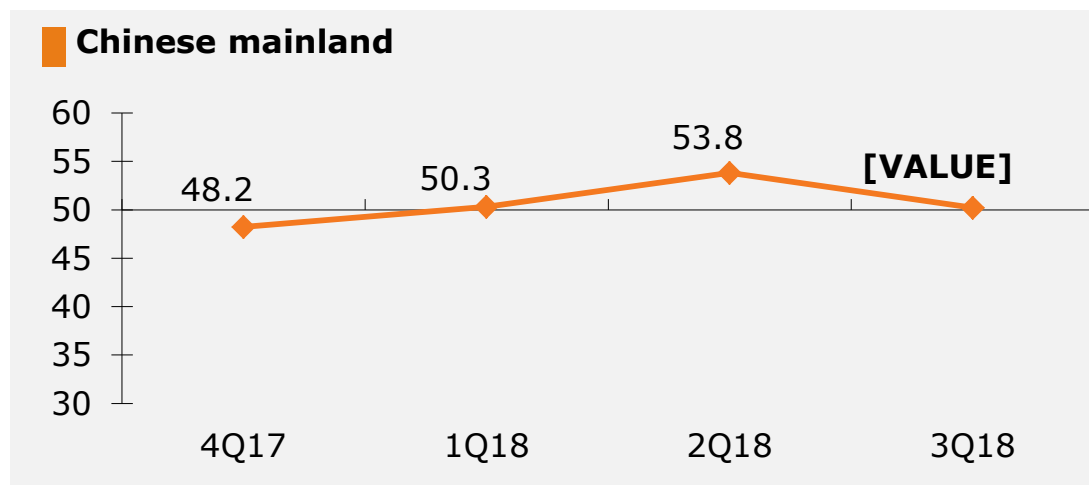
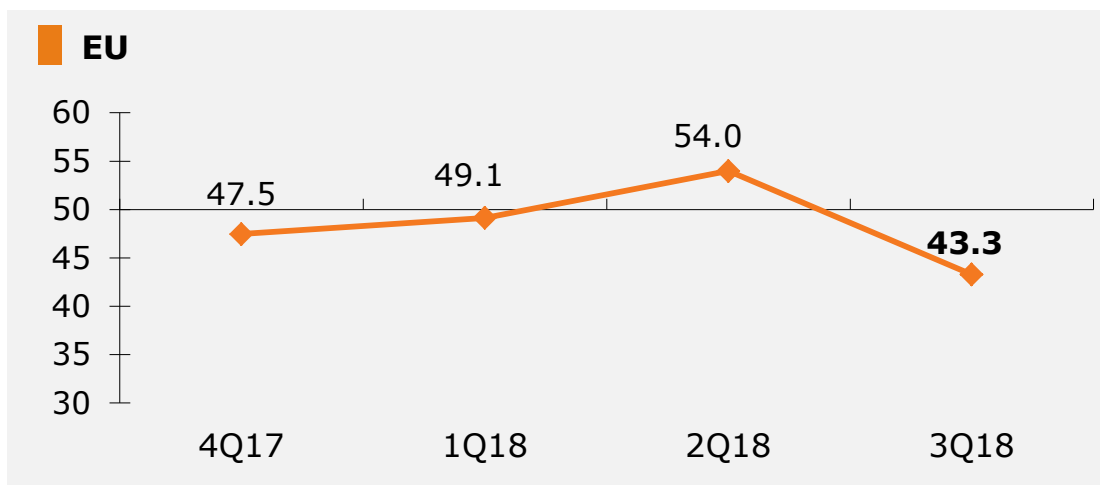
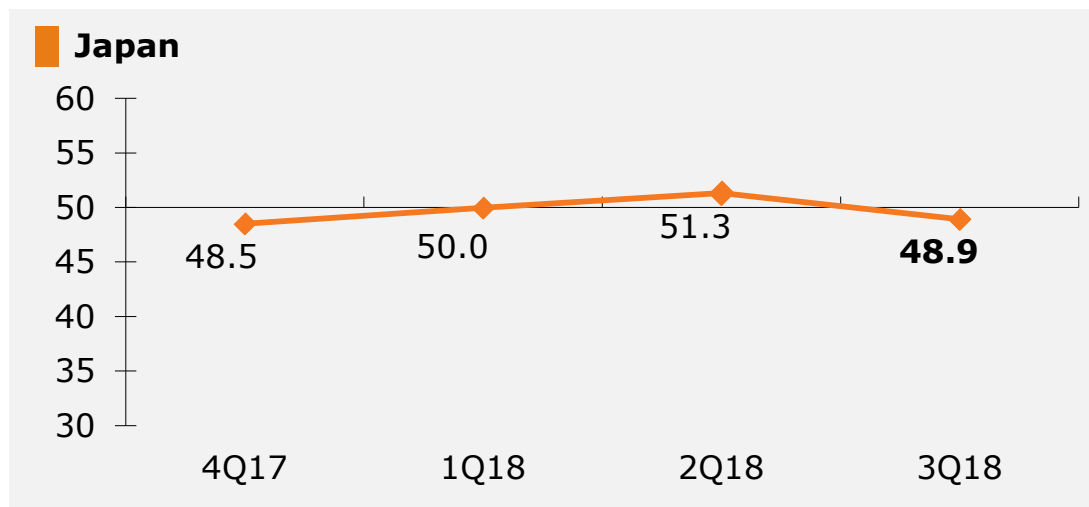
Source: HKTDC Survey

Concerns over slowdown in export growth across major sectors

Period	HKTDC Export Index	Electronics	Clothing	Toys	Jewellery	Timepieces	Machinery
3Q18	35.8 ↓	35.4 ↓	32.8 ↓	43.6 ↓	38.5 ↓	43.5 ↓	42.5 ↓
2Q18	54.1	55.2	43.6	53.2	41.3	49.0	54.9
1Q18	49.4	49.5	42.4	51.4	44.1	57.0	53.8
4Q17	44.6	44.8	40.7	43.3	36.8	41.2	47.8

Source: HKTDC Survey

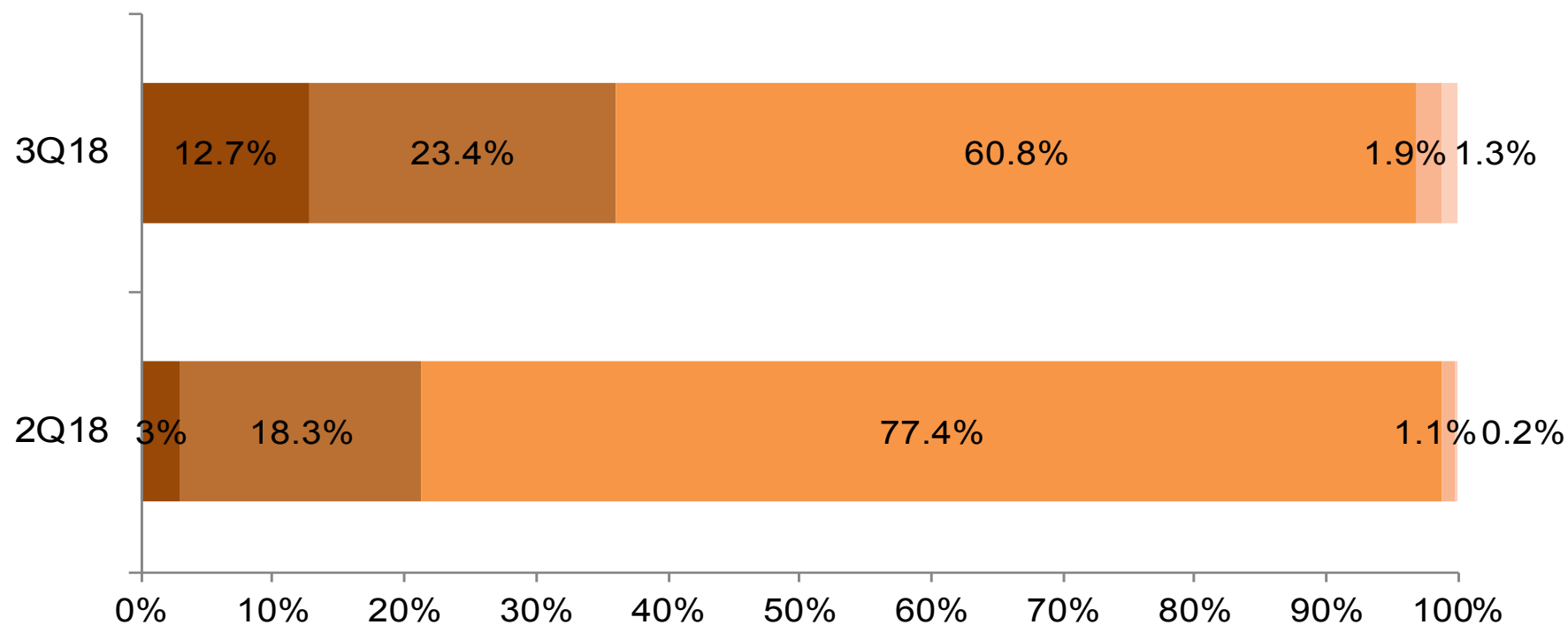
Divergent views towards China and US



Negative impact becoming more apparent

Up till now, what effect has the China-US trade friction had on your export performance?

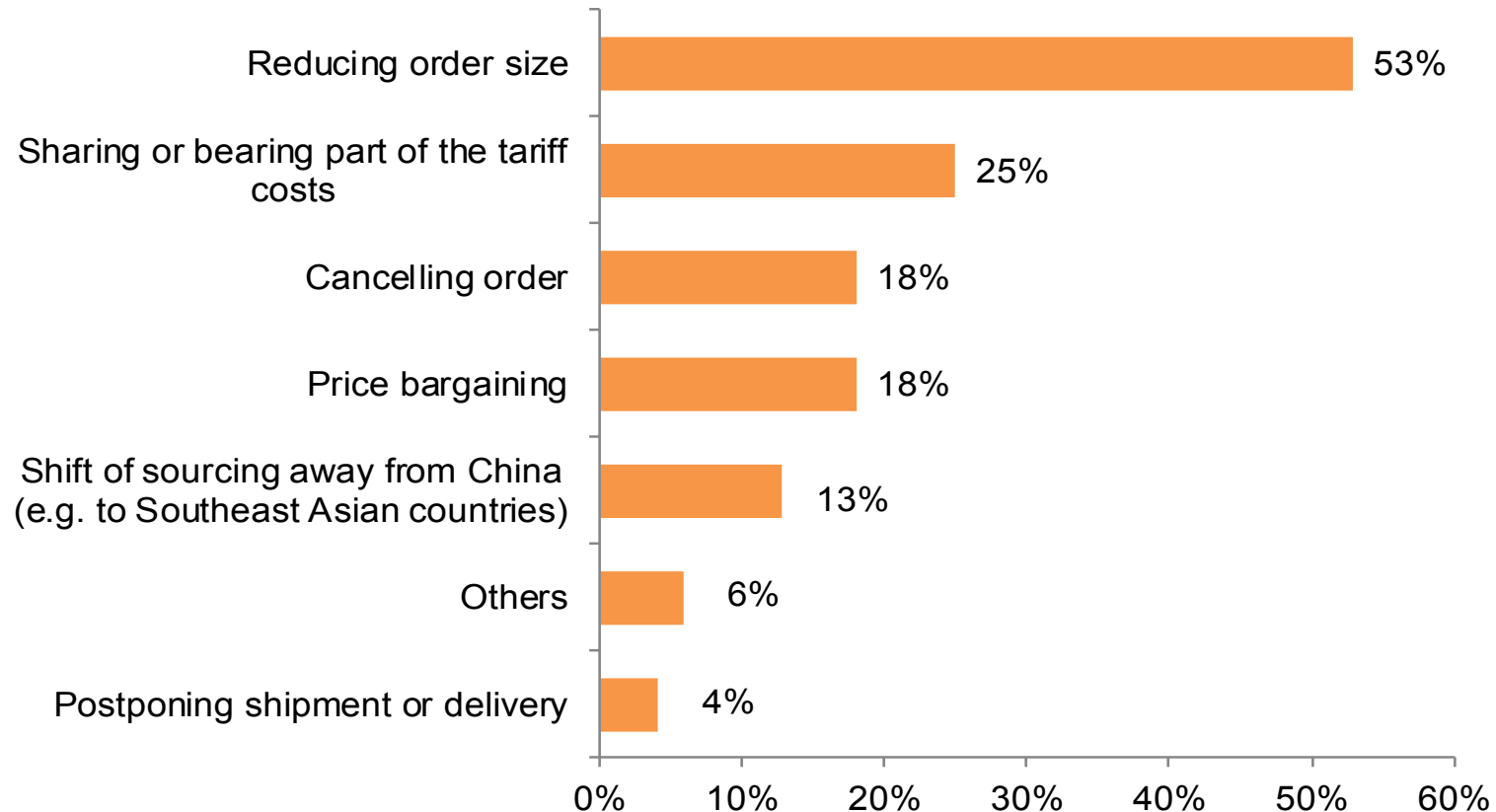
Very negative Slightly negative No impact Slightly positive Very positive



Source: HKTDC Survey

More than half experienced buyers cutting order sizes

How is the China-US trade friction affecting your company?

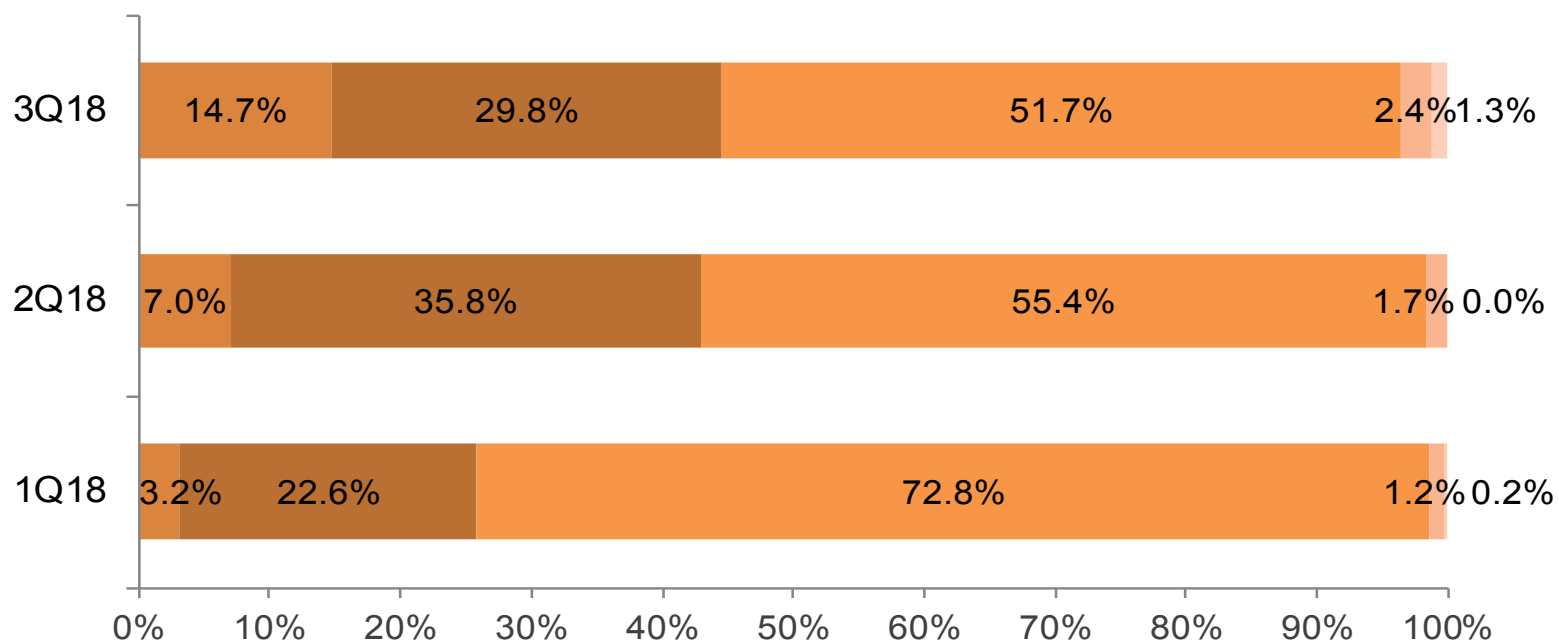


Source: HKTDC Survey

The heightened level of uncertainty has undermined HK's trade outlook

What effect do you expect the China-US trade friction to have on your export performance over the near term?

Very negative Slightly negative No impact Slightly positive Very positive



Source: HKTDC Survey

Thank you !

HKTDC Research

www.hktdc.com/research

A decorative graphic consisting of two overlapping, wavy, horizontal bands. The top band is a bright yellow, and the bottom band is a vibrant orange. The bands curve upwards from left to right, ending in a pointed, tail-like shape on the right side.

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