

20 November 2018

HONG KONG'S ECONOMY TO BE CHALLENGED IN 2019 AMID OPPORTUNITIES

Hong Kong is facing a challenging 2019 owing to a number of global and domestic uncertainties, however growth in innovation and technology is helping to counteract some of those uncertainties, according to the latest Hong Kong Economic Survey conducted by CPA Australia.

A challenging year ahead

Growth expectations for Hong Kong's economy in 2019 are down from expectation for 2018. While 62 per cent of respondents expected Hong Kong's economy to grow by two per cent or more in 2018, only 48 per cent of respondents expect the economy to grow at two per cent or more in 2019.

"Given emerging global risks, we are not surprised that respondents have lower growth expectation for Hong Kong's economy in 2019 than they did in 2018," said Mr Paul Ho, CPA Australia's Divisional President for Greater China.

"Our survey shows that the deteriorating trade relationship between US and China, anticipated lower economic growth in mainland China and high property prices are the factors most likely to have a negative impact on the Hong Kong economy in 2019. Falling confidence in the city's competitiveness is also likely to be contributing to a less positive outlook for Hong Kong's economy in 2019."

"Balancing out these downside risks is the government's significant investment in innovation and technology, the Greater Bay Area initiative and the opening of new infrastructure – all seen as the factors most likely to have positive impacts on the economy in 2019," Mr Ho said.

Trade war impacts

Though the possibility of a trade war is the factor respondents were most likely to expect to have a negative impact on Hong Kong's economy in 2019, it appears that most companies are taking a 'wait and see' approach to the potential trade war rather than taking action, with 51 per cent of respondents either stating they have yet to take any measures or believe the potential trade war will not have an impact on their company.

"While there are concerns with the impact a trade conflict may have on Hong Kong's economy, these concerns are not necessarily translating through to action at a company level. In fact, respondents appear somewhat more confident in their employer's performance in 2019, with 44 per cent expecting their employer to increase their headcount, compared with 37 per cent in 2018 and 31 per cent in 2017."

Increased support for innovation and technology and a lower profits tax rate on the first HK\$2 million in profit is no doubt contributing to a somewhat more positive outlook at a company level. However, further measures may be required, with a third of respondents suggesting increased support for SMEs, especially those most vulnerable to a trade war, as a policy action that would provide the greatest boost to the local economy in 2019," Mr Ho said.

Mr Ho said policy action should include expanding Hong Kong's trade relations through new free trade agreements and comprehensive double taxation agreements and expanding the Hong Kong government's global network of economic and trade offices.

Growth expectations being driven by industries outside of the four pillar industries

When asked which industries in Hong Kong have the highest growth potential over the next three years, respondents selected healthcare and medical services (36 per cent), followed by innovation and technology (31 per cent) and e-commerce (30 per cent).

“With an ageing population and the longest life expectancy in the world, it is not surprising that most Hong Kong survey respondents considered healthcare and medical services as having the most potential for growth.”

“What is more surprising is the high number of respondents that selected innovation and technology, e-commerce and biomedicine as sectors having the strongest growth potential in Hong Kong in the next three years. It is a signal that Hong Kong’s economy may be undergoing a transformation to a more knowledge-based, innovation driven economy.”

Greater Bay Area’s influence on the economy is positive

When asked what factors are most likely to contribute to Hong Kong’s economic growth in 2019, the Greater Bay Area initiative (31 per cent) was the most popular factor chosen by respondents. Adding support to this view, respondents were most likely to choose accelerating Hong Kong’s integration with the rest of the GBA (28 per cent) as the measure that will do most to improve Hong Kong’s international competitiveness.

“The opening of new infrastructure to improve Hong Kong’s connection to the rest of the Bay Area is clearly creating economic opportunities for Hong Kong, however infrastructure alone will not guarantee Hong Kong’s success in the Greater Bay Area, talent is the bridge connecting the region with the world.”

“Our survey also shows that communication skills (37 per cent) are considered the top skill university graduates should possess to get a job. Hong Kong’s young graduates should be seeking to master biliteracy and trilingualism to gain a competitive edge and enable them to capitalise on the opportunities brought by the GBA initiative,” he said.

“The year ahead looks positive however downside risk of a global trade war is adding a strong element of uncertainty that is impacting confidence. But Hong Kong is a resilient economy that has overcome similar challenges due to its solid foundations built on a low and simple tax system, strong work force and business-friendly regulatory environment,” Mr Ho concluded.

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About the survey

The survey was conducted from 8 to 23 October 2018 with 178 of CPA Australia’s Hong Kong members participating, including finance and accounting professionals from listed companies, multinational corporations, private enterprise, government and not-for-profit organizations.

About CPA Australia

CPA Australia is one of the world’s largest accounting bodies with more than 163,000 members working in 125 countries and regions around the world, with more than 25,000 members working in senior leadership positions. It has established a strong membership base of more than 18,000 in the Greater China region.

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