



# Choppy waters

## Assessing Asia's economic performance and outlooks

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# Basic outlooks on Hong Kong, trade

# Economy hit by political turbulence

Tough news abounds... but many sectors coming off inflated levels

Key questions: how long will the pain last? *will it cause lasting damage?*



**2019 GDP**  
-2.5 pp

- **Forecast(ing) Hong Kong 2019 GDP growth  $\approx$  0.5% (vs. 3.0% in 2018)**

- **First recession since 2008–09 GFC downturn**
- Real GDP rose by only 0.5% year on year April–June
- (=seasonally adjusted quarter-on-quarter contraction of 0.4%)

**July Prop., Value**  
-32.4%

- **Property, July y-o-y residential sales**

- Values down 32.4%
- Volume down 21.1%

**HSI**  
-US\$ 622 bn

- **Stock market (July 2–August 15)**

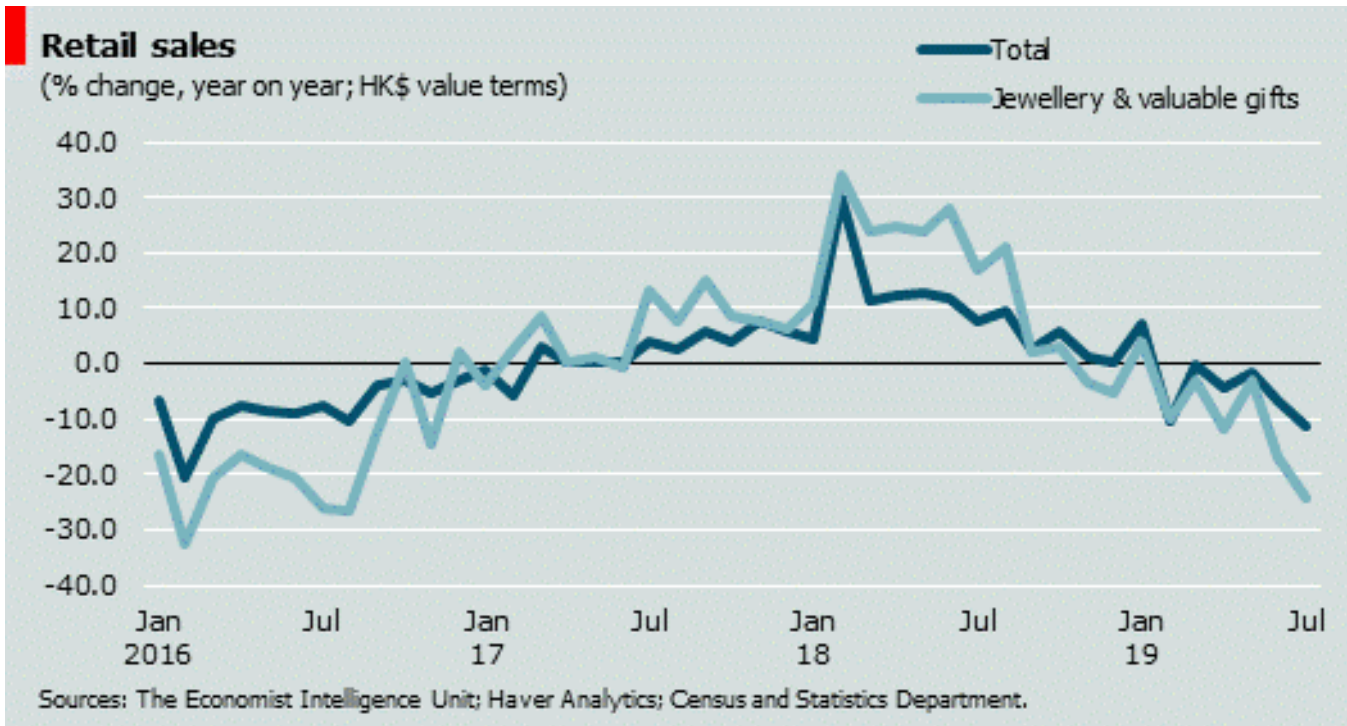
- US\$622bn in losses
- 12% drop in Heng Seng Index
- 20% plunge in share price for bellwethers Cathay Pacific and Sun Hung Kai (mid July–mid August)



Source: EIU, Bloomberg, Google Finance

# Retail slump

Industry heavily dependent on mainland Chinese tourist spending



## Summer retail spending dives

• **78.3% of all Hong Kong visitors are mainlanders**

➤ 2018 tourist arrivals up 11.4% y-o-y; retail up 11.2%

• Entered summer with weaker Rmb

• June: 6.7% y-o-y overall decline

• **July: 11.4% decline**

➤ **24.4% drop in retail sales of jewellery and valuable gifts** (dominated by visitor spending)

Additional source: Tourism Board

# Terminal difficulties

Yet Hong Kong's fundamental rule-of-law reasserted by the airport resolution



## August 9–13: airport shutdown

- 1,200 flights cancelled
- Aviation industry losses >HK\$600m (US\$76.48 m)
- **Court injunction returns HKIA to normal operations**
- **Central authorities enforce purge of Cathay Pacific top management and those staff who support protests or oppose Party instructions**

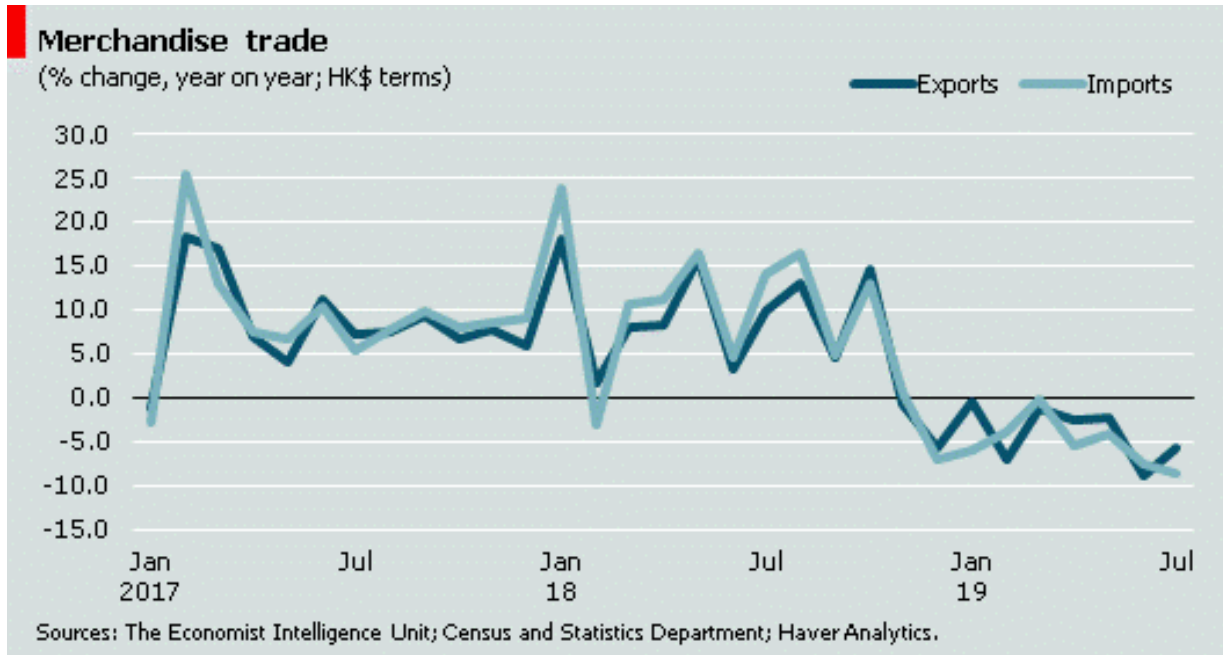
## Hong Kong International Airport: world's busiest air cargo centre

- Top five for passenger traffic in Asia (over 75m/yr)
- Important transit hub to other Asian destinations, especially ASEAN
  - Hong Kong tourists in Thailand spend more per day than those from Singapore, mainland China, Japan or US

Source: Reuters, UPI, ACI, Kasikorn Research Center

# + the trade war

Making a bad situation worse for Hong Kong and the mainland



- **Hong Kong trade flows continue to recede, July y-o-y**

- **Goods imports -8.7% to HK\$370.8bn (US\$47.3bn)→larger than -7.5% June figure**
  - Reflects weaker demand in a retail sector severely affected by protests
- **Goods exports -5.7%, to HK\$338.6bn (US\$43.2bn)→9th month of contraction**
- **January-July y-o-y: -5.1% imports, -3.9% exports**

- **2019 forecast: -2.7% imports, -1.8% exports**

# Encouraging signs

Not all indicators are negative

- **Longitudinal property values high**

- **Centa-City Leading Index holding at 188 level**
- Core real asset of economy showing resilience
- Housing prices must decline to achieve economic inclusiveness, ideally in an orderly unwind

- **HK\$ stable**

- **No sign of massive capital flight**
- Holding at 7.84:US\$ level (marginally depreciated but within the 7.75–7.85 pegged range)
- Still stronger than lows of March-May 2019
- No heavy intervention by HKMA

- **HKEX-mainland connectivity**

- **August 2019: mainland bourses start review of HKEX dual-class shares for Stock Connect**
- Major step towards solidifying HKEX reforms
- **November 2019: HKEX will offer futures contracts on the MSCI China A Index**

**Centa-City Leading Index**



**HK\$/US\$**



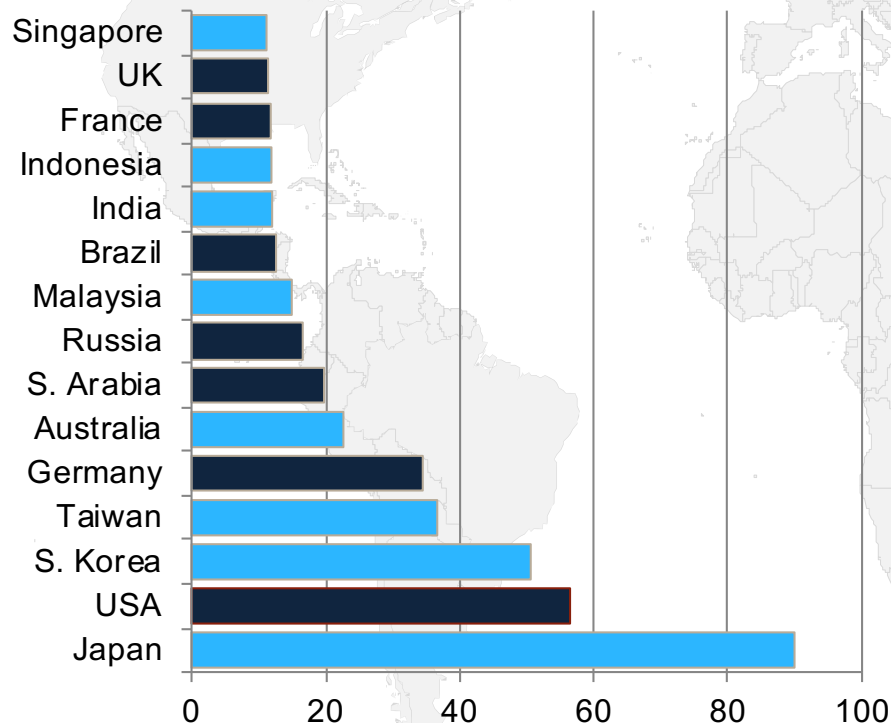
Source: Centaline Property, Trading Economics

# Global linkages in the US-China trade war

Around 40% of the pain of US manufacturing tariffs felt outside of China

**China exported US\$1.5 trillion of manufactured goods in 2011, but 40% of that value ultimately accrued to countries other than China.**

**Origin of value-added in China's manufacturing exports, 2011 (US\$bn)**



Source: OECD, The Economist Intelligence Unit

**87% of the China-US trade deficit is accounted for by manufacturing**

- Much value generated outside of China

**Only 60% of the value embodied in Chinese manufacturing exports to the US was created in China**

- Rest made of intermediate goods from other countries re-exported through Chinese supply chains

**Statistically speaking, the US has a smaller deficit with China and a bigger one with Japan and Korea**

- In the short-run Japan, Korea and Taiwan will be hard hit—also certain sectors in Malaysia, Indonesia and Singapore—but in the long-run supply chains will shift, potentially benefitting many ASEAN states













# Asia's ripple effects from trade war turbulence

Who says there are no “winners” in a trade war?













## Winners and losers

Information and communications technology

Strong benefits		Mild benefits		Disruption	
Malaysia		India		Philippines	
Vietnam		Indonesia		Japan	
		Thailand		Singapore	
				South Korea	
				Taiwan	









## Winners and losers

Automotive

Strong benefits		Mild benefits		Disruption	
Thailand		India		Japan	
Malaysia		Indonesia		South Korea	
		Philippines		Taiwan	
		Vietnam		Singapore	

## Winners and losers

Readymade garments

Strong benefits		Mild benefits		Disruption	
Bangladesh		Sri Lanka		Indonesia	
Vietnam		Pakistan		Cambodia	
India				Myanmar	

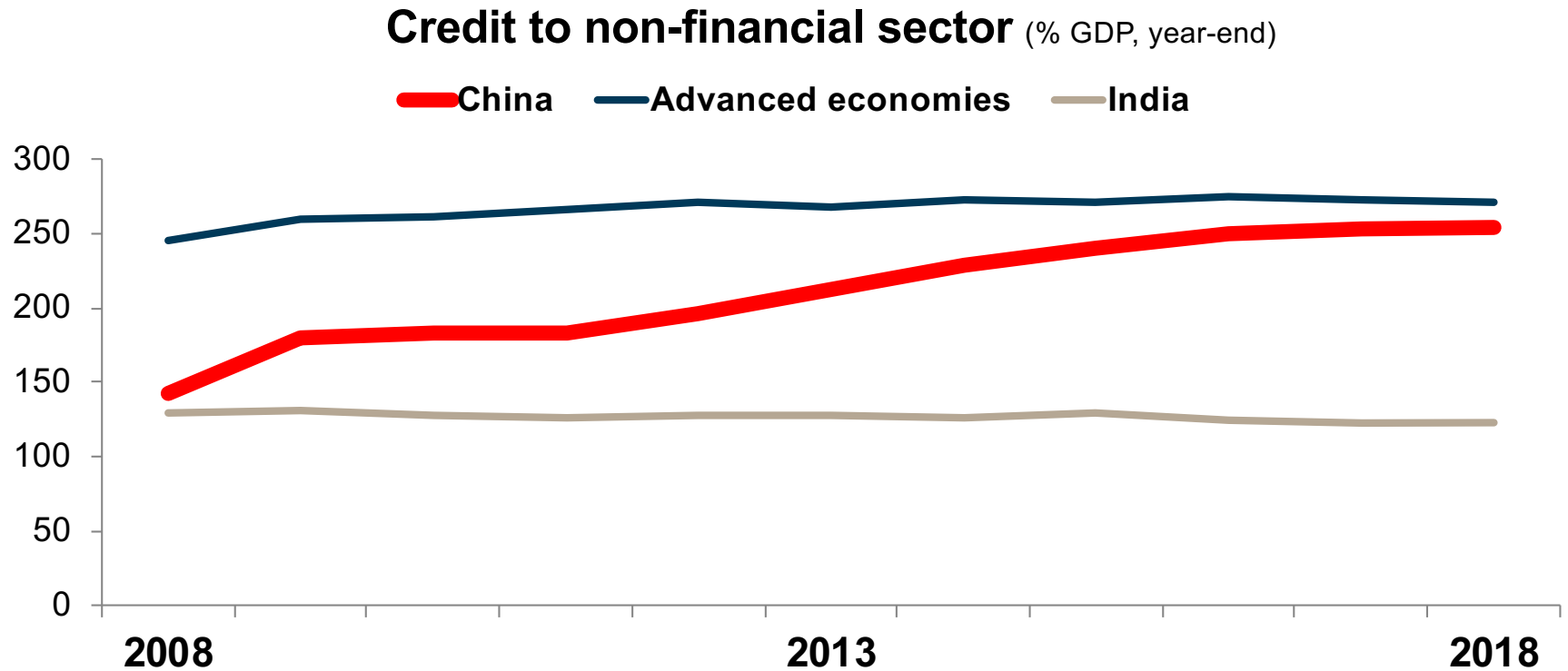
# Asia's economic challenges and opportunities

# Trade war exposure in China



# China's super-sized debt burden

Financial frailty; sagging private-sector investment



Source: BIS

- Several years of efforts to tackle financial risk have achieved little
- Regional banks looking shaky; interbank markets stalling
- Private sector struggling; in the short term things will get worse

# India still lacking Chinese double-digit growth

Modi has begun to disappoint his global cheerleaders

- Focus on infrastructure will be the main positive on policy side
- Independence of RBI being challenged: inflation risks mount
- Raja Sabha position to strengthen, but still no structural economic reform
- Construction, tourism, jewelry and garment sectors receiving support
- Social tensions building under BJP's *hindutva* push
- Repercussions of Kashmir still unfolding



## Economic growth

(%; fiscal years beginning Apr 1st)	2018 <sup>a</sup>	2019 <sup>b</sup>	2020 <sup>b</sup>	2021 <sup>b</sup>	2022 <sup>b</sup>	2023 <sup>b</sup>
GDP	6.8	6.7	6.6	6.8	6.6	6.4
Private consumption	8.1	7.0	6.7	7.0	7.3	6.4
Government consumption	10.3	9.8	5.8	5.1	4.2	6.3
Gross fixed investment	9.8	9.1	8.3	8.0	8.7	7.4

Source: The Economist Intelligence Unit

# ASEAN's comparative industrial advantage

Wage levels mean ASEAN has long term attractiveness

But wages + (hard and soft) infrastructure + policies... sustain industrialisation



# Asian infrastructure risk

South Asia and ASEAN emerging markets especially exposed

Infrastructure in ANZ and North Asia is sophisticated but natural disasters—exacerbated by climate change—have presented a challenge for economic activity, even in highly advanced economies like Japan and Hong Kong

**Besides Singapore, and Malaysia, infrastructure in ASEAN is underdeveloped**

Investment in port and air transport facilities are needed to support cross-border e-commerce to reduce delays in delivery. Archipelagos such as the Philippines and Indonesia are particularly challenging

	Infrastructure Risk	Port facilities	Air transport facilities	Retail and distribution network	Road network
Singapore	very low	very low	very low	very low	very low
Hong Kong	very low	very low	very low	very low	low
Australia	very low	low	very low	low	low
South Korea	very low	low	low	low	low
Taiwan	very low	very low	very low	low	low
Japan	very low	low	low	low	low
New Zealand	very low	very low	very low	low	low
Malaysia	low	low	very low	low	moderate
China	low	low	low	moderate	low
Thailand	moderate	moderate	moderate	moderate	moderate
Indonesia	moderate	moderate	moderate	high	high
India	moderate	high	moderate	moderate	high
Philippines	moderate	high	moderate	moderate	high
Vietnam	moderate	moderate	moderate	high	high
Pakistan	high	moderate	low	very high	high
Bangladesh	high	moderate	high	high	high
Myanmar	high	high	moderate	very high	high

■ very low   
 ■ low   
 ■ moderate   
 ■ high   
 ■ very high

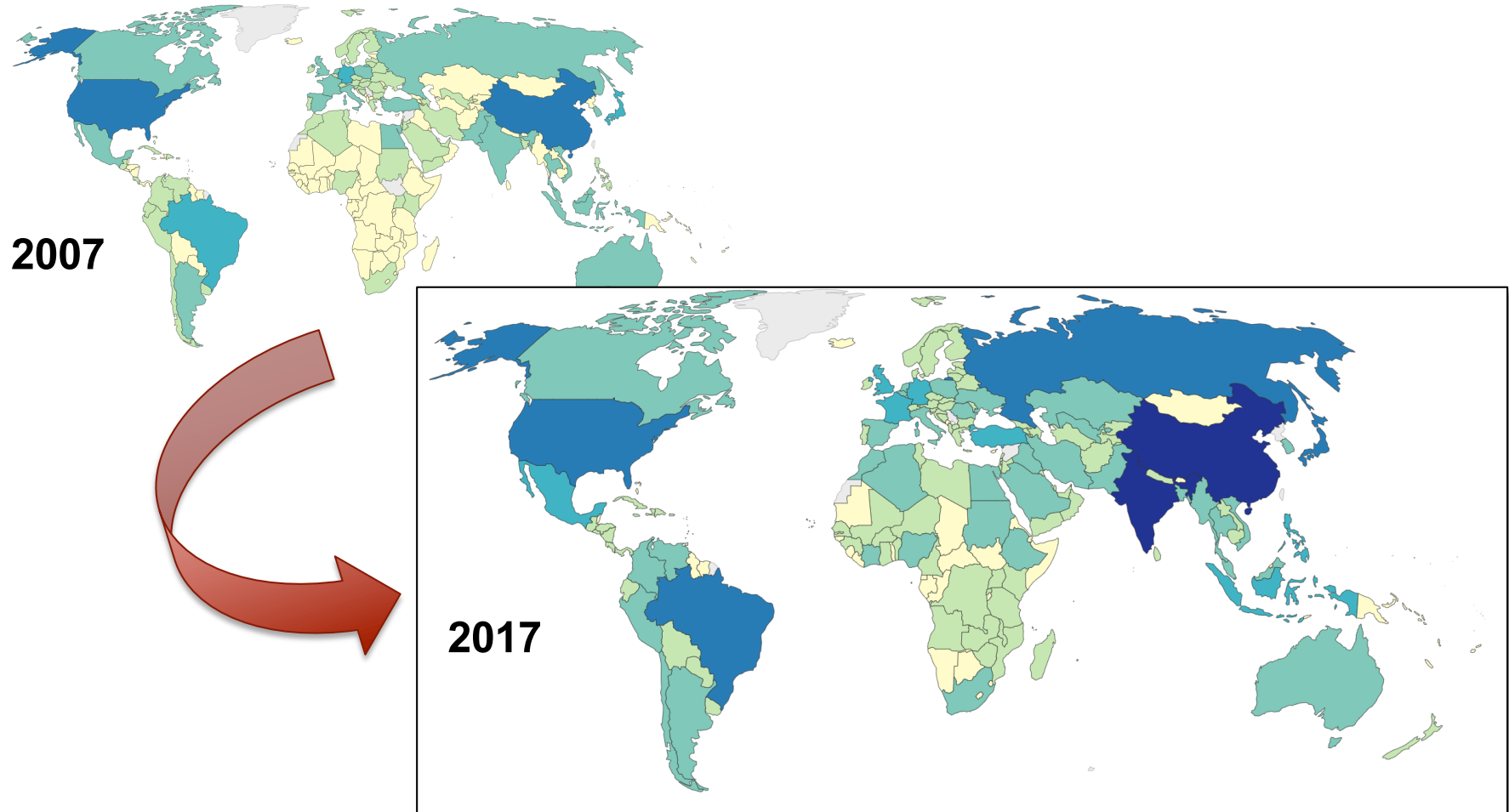
Source: The Economist Intelligence Unit

# Encouraging data on Asian e-commerce and consumption trends



# Asia's Internet (tidal) wave

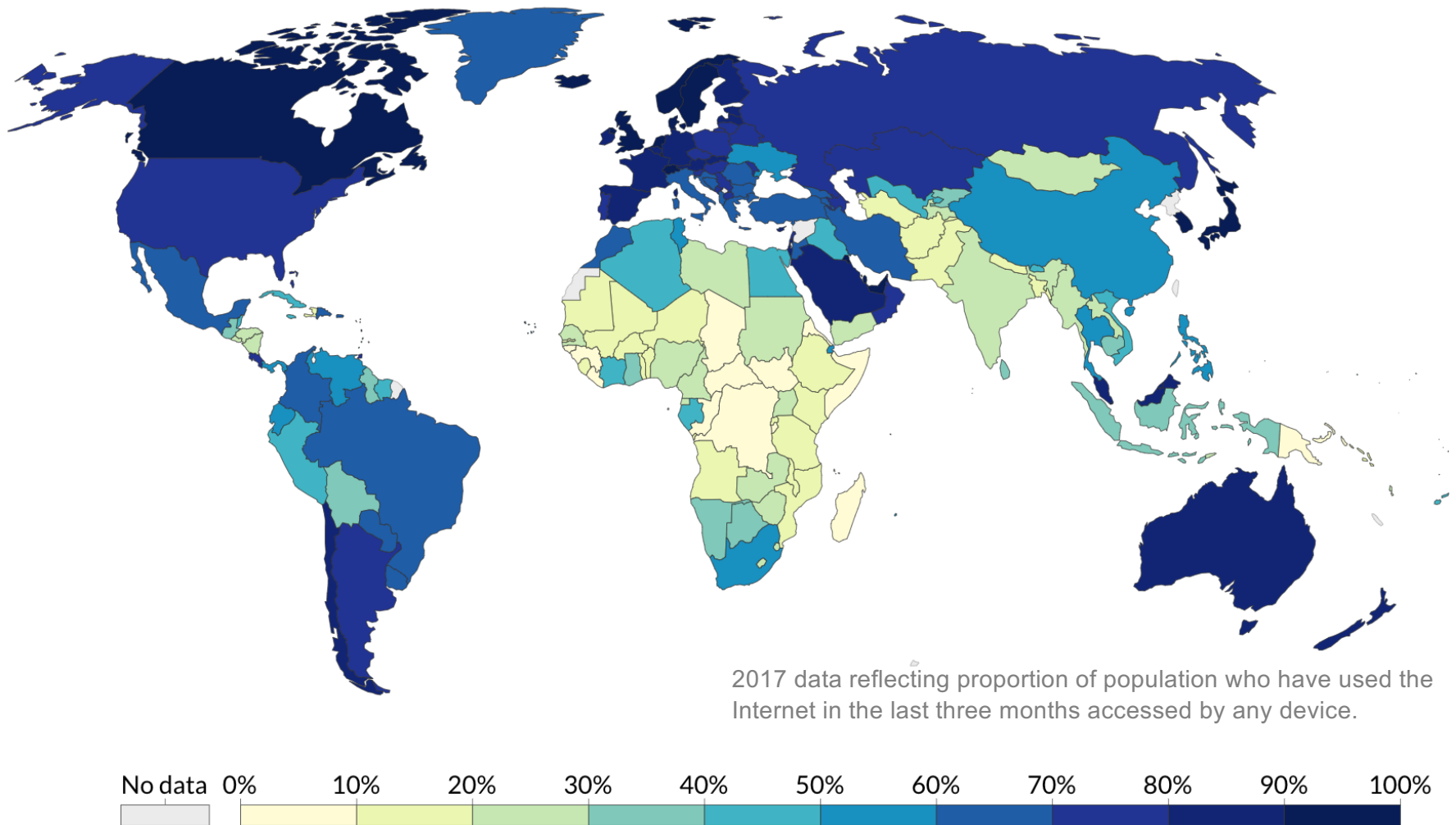
Concentration of the global Internet population has shifted decisively to Asia



Source: World Bank, Our World in Data.

# Global Internet penetration

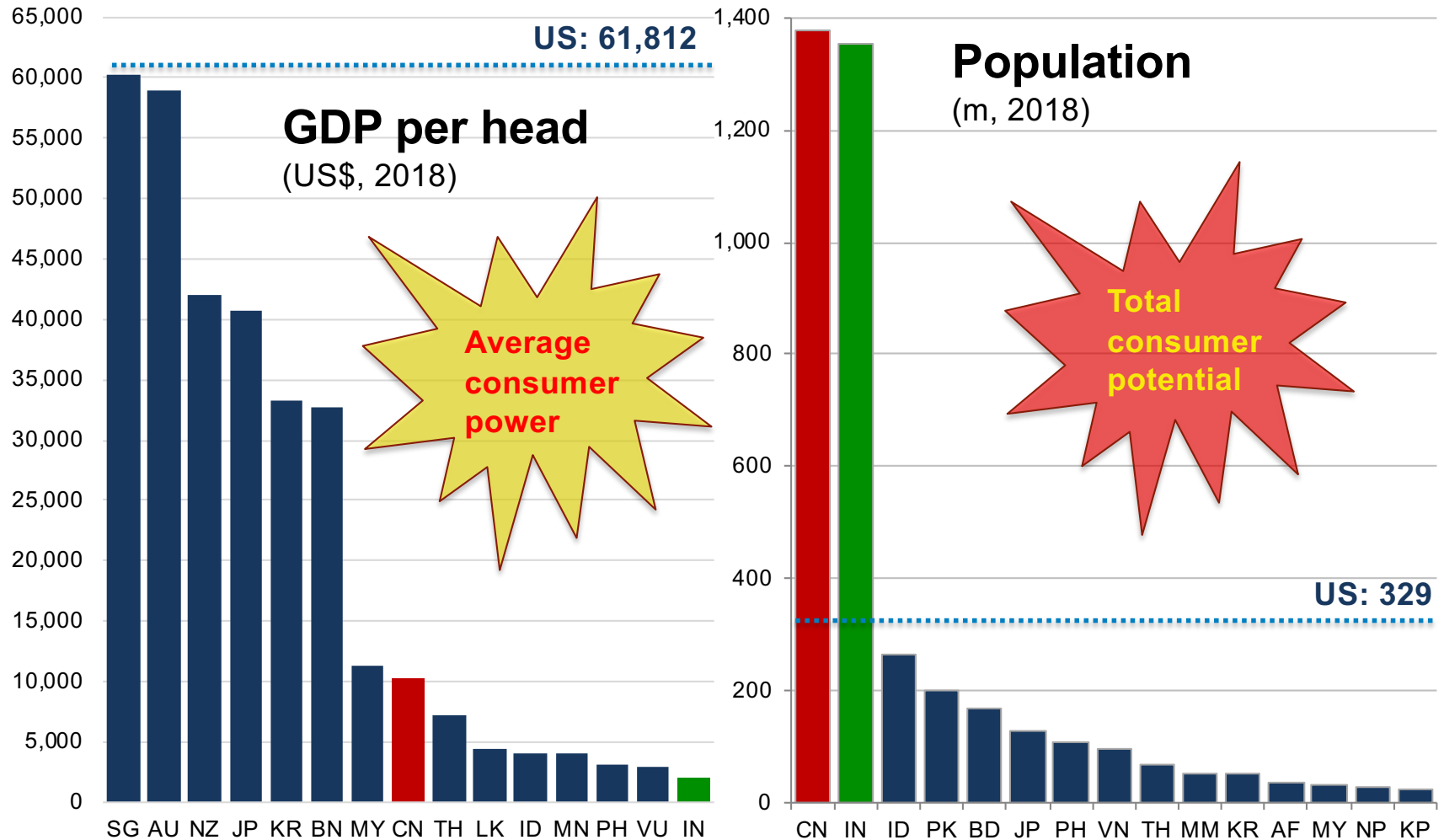
Most major Asia economies are far from saturation



Source: World Bank, Our World in Data.

# Asian “Big Data” economics: double vision

Wealth and population reflect duality of Asian digital market potential



Source: The Economist Intelligence Unit.

# New China e-commerce records

Online consumer “power” combining with “potential” in unique Chinese trends



Source: JD.com, Fenqile, *South China Morning Post*.

- June 1-18<sup>th</sup> 2019 sales volume on JD.com (promo originator) up **26.6%** y-o-y = **Rmb201.5bn (US\$29.3)**
  - **Pinduoduo demonstrated consumer power merging with consumer potential**
    - order volume surpassed 1.1 billion
    - Gross merchandise volume up 300% over 2018
  - **Chinese smartphone brands sales up 71%.**
  - **Maotai sales**, China's leading *baijiu* (high-proof grain alcohol), **doubled**
- **General shift to Chinese brands, locations:**
    - Chinese consumers (especially millennials) showing **less brand loyalty**
    - **Domestic brands are lower cost and adept at pushing into lower tier cities** (new driver of China's consumption growth)
    - **Chinese brands increased quality and marketing sophistication**
    - **“Buy local” trend** from US-China trade war

# Chinese leaping forward with smart cities

China's 5G rollout accelerating amid trade tension

## 5G pilot cities in China, 2019



Aim to nationally commercialise 5G by 2020

- Issued licenses ahead of schedule

**China Mobile and China Unicom pilot 5G in 40 cities, notably**

- Xiongan
- Zhangjiakou

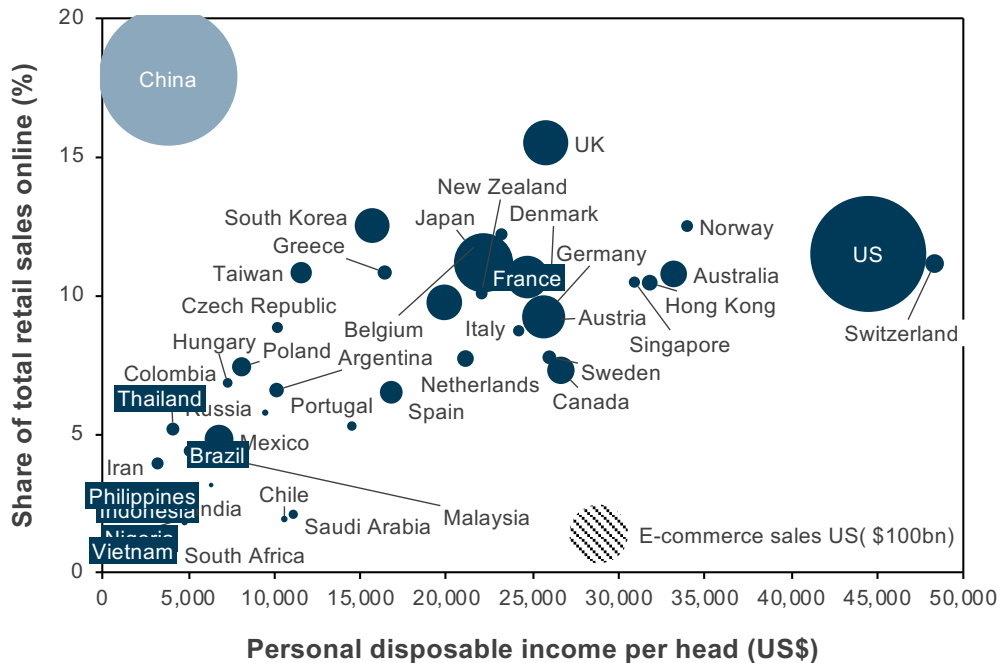
GSMA estimates **460m 5G connections in China by 2025**

Government targets **6G rollout by 2030**

# Digital urbanisation

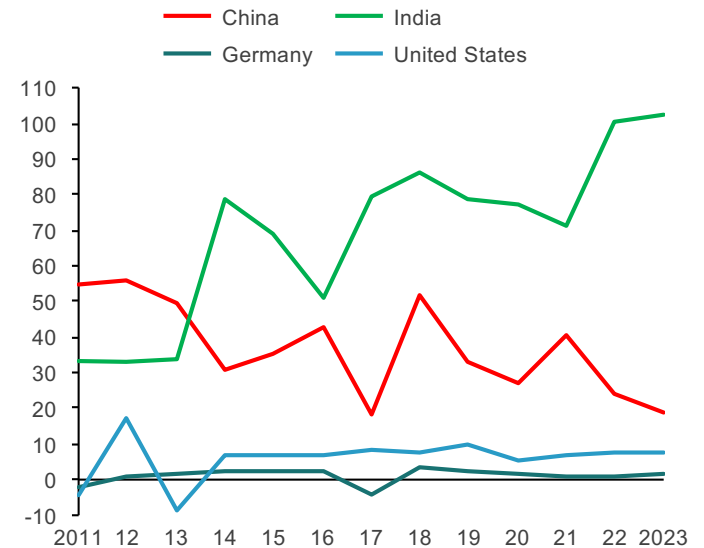
Rising income + online sales describes a new kind of urbanization

## B2C e-commerce penetration, 2018



## New Internet users

(People, m)



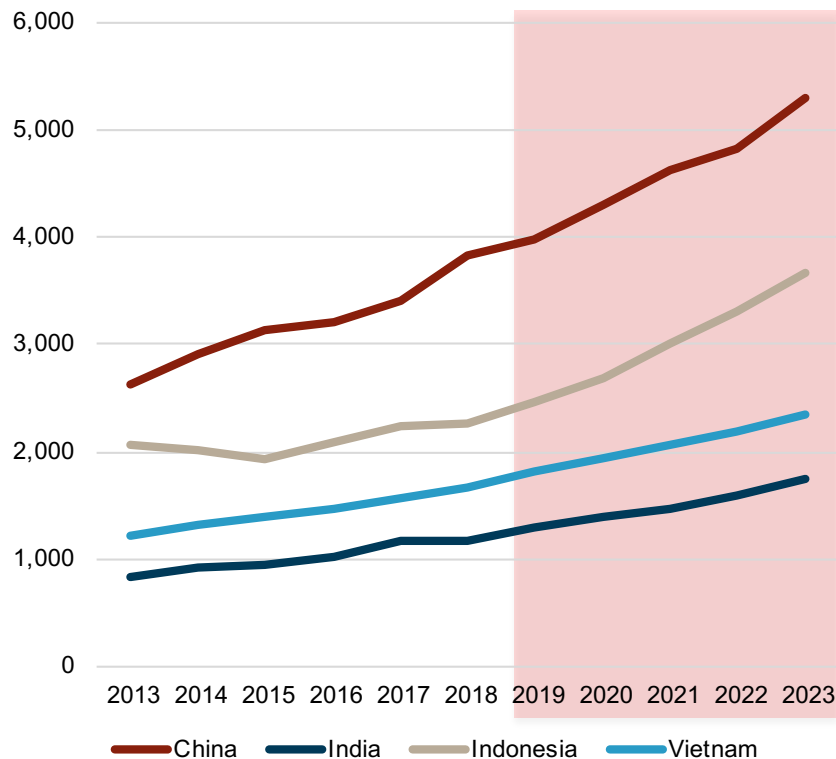
Source: The Economist Intelligence Unit, Planet Retail

# Asian private consumption trends

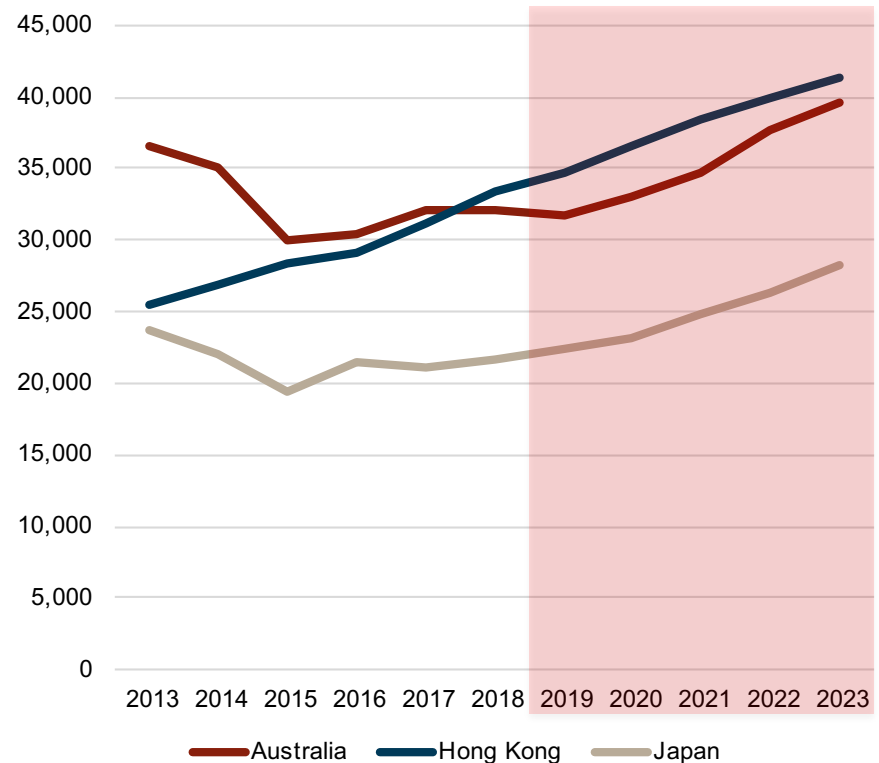
China pulling away from the pack of per person consumption levels

China expected to reach “lower high income” development level by 2023

**Private consumption per head (US\$)**  
Selected mid-income Asia



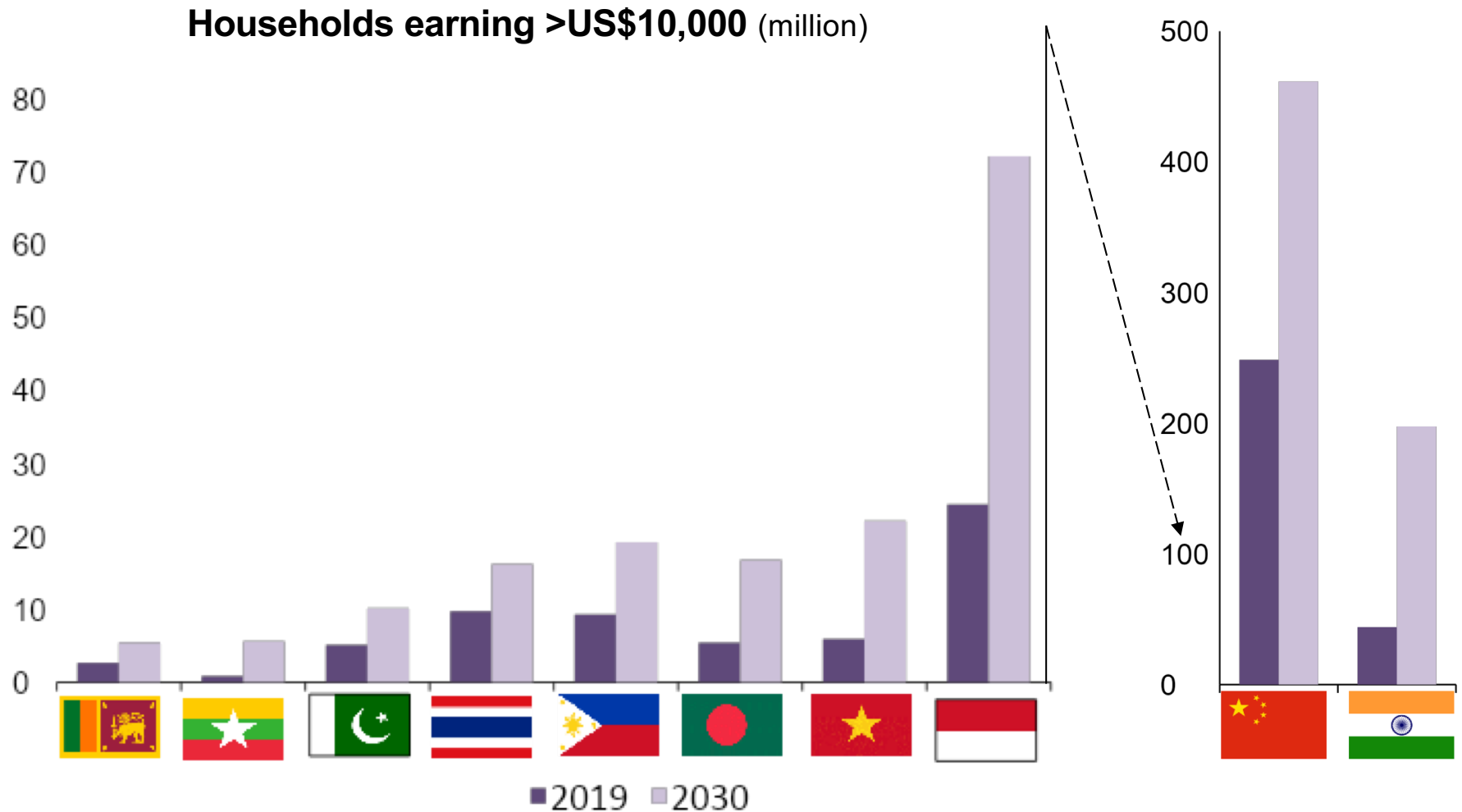
**Private consumption per head (US\$)**  
Selected high-income Asia



Source: The Economist Intelligence Unit

# Long-term ASEAN consumption outlook

Nearly 500m more households will earn >US\$10,000 by 2030



Source: The Economist Intelligence Unit



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