

Hong Kong

EMERGING NEW WORLD ECONOMIC ORDER



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Hong Kong has been always proudly presenting itself as “Asia’s world city”. The slogan is by no means an exaggeration. A vibrant multicultural city with an ambition to become China’s international financial hub has been involved in various significant business projects around the world – from Cambodia to Saudi Arabia to Poland. With the looming Washington-Beijing trade war, however, Hong Kong can’t be spared problems: decreasing exports, imports and demand for its professional services are just a few of possible consequences. Everything hinges on the gravity of the power conflict which has the potential to shake the city caught in the US-China crossfire.

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World's freest economy

According to the 2019 Index of Economic Freedom by the Heritage Foundation¹, Hong Kong the world's freest economy – it has been occupying this position for 25th consecutive year. The city is also a thriving international business, financial and cargo hub, as well as world's largest offshore renminbi centre.² Its business internationalization is solid: 8,754 firms based in Hong Kong have their parent companies registered overseas or in mainland China.³ Among them, Mainland China ranks first with 1 591 companies, then Japan with 1 393, USA: 1 351, United King-

dom: 712, and Singapore with 427.⁴ Furthermore, global FDI inflows to Hong Kong reached USD 104 billion in 2017, which places the city third globally.⁵

Thanks to its macroeconomic stability, infrastructure, an excellent transport, ICT, solid financial and monetary system as well as institutions, Hong Kong ranked seventh in the World Economic Forum's Global Competitiveness Report 2018. Furthermore, World Bank's Doing Business 2019 Report awarded the city the fourth place on the ease of doing business.⁶ Small and medium-sized enterprises

¹ <https://www.heritage.org/index/>

² THIRD QUARTER ECONOMIC REPORT 2018, HKSAR Government, November 2018

³ <https://www.info.gov.hk/gia/general/201812/12/P2018121200876.htm>

⁴ <https://www.info.gov.hk/gia/general/201812/12/P2018121200876.htm>

⁵ <http://hong-kong-economy-research.hktdc.com/business-news/article/Market-Environment/Economic-and-Trade-Information-on-Hong-Kong/etihk/en/1/1X000000/1X09OVUL.htm>

⁶ THIRD QUARTER ECONOMIC REPORT 2018, HKSAR Government, November 2018

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dominate the business scene with 300 000 of SMEs in the city.⁷

Hong Kong is also well known for its trade and investment arbitration services with awards being enforceable in more than 150 jurisdictions. It was ranked among top five dispute resolution centres worldwide according to the 2018 International Arbitration Survey by Queen Mary University of London and White & Case.⁸

Greater Bay Area: China's innovation and technology project

In Hong Kong, more than 90 percent of its GDP is produced by service industries, which is import and export, financial and insurance sector, as well as professional and business services (among others).⁹ On the other hand, Hong Kong has ambition to become world's leading centre of innovation and technology. Currently, the HKSAR government is to assign additional \$28 billion for "University research, re-industrialisation, application of technology in public services and fostering of an enabling en-

⁷ HK Government, Business Facilitation Advisory Committee Wholesale & Retail Task Force, WTRF Paper 43, June 2017.

⁸ https://www.brandhk.gov.hk/html/en/StrategicFocus/hk_arbitration_hub.html

⁹ <http://hong-kong-economy-research.hktdc.com/business-news/article/Market-Environment/Economic-and-Trade-Information-on-Hong-Kong/etihk/en/1/1X000000/1X09OVUL.htm>

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vironment for I&T.”¹⁰ In the 2018-19 budget, the HK government allocated additional HK\$50 billion to boost innovation and technology, in particular, biotechnology, AI and robotics research and development (R&D) projects.¹¹ The endeavour is necessary so as to catch up with South Korea and Singapore, as well as Shenzhen in mainland China.¹²

The situation results from HKSAR being so far more of a banking and finance centre rather than an innovation hub – which is to be changed in coming years without prejudice to the excellence in the abovementioned industries. According to the au-

thors of the Global Entrepreneurship Monitor, Hong Kong and Shenzhen Report 2016-17, ”Hong Kong and Shenzhen are facing a fantastic opportunity: that of being in the perfect position to build a highly unique and internationally competitive start-up hub with an unparalleled ecosystem, compatibility between the two cities and a supportive informal investment culture. While Shenzhen's start-ups are well geared to deliver innovative ideas with high growth potential, Hong Kong's entrepreneurs possess the know-how in taking ideas to the next level and ensuring their long-term sustainability.”¹³

What is worth noting, both Shenzhen and Hong Kong are located in the Greater Bay Area

¹⁰ THIRD QUARTER ECONOMIC REPORT 2018, HKSAR Government, November 2018

¹¹ HKSAR Government, The 2018-19 Budget; <https://www.budget.gov.hk/2018/eng/budget13.html>

¹² <http://eic.hkbu.edu.hk/eng/startupresearch/gem/gem.jsp>

¹³ <http://eic.hkbu.edu.hk/eng/startupresearch/gem/gem.jsp>

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which includes 11 cities in total, 69 million population, has around 56,000 sq. km land area, and is supposed to become a Chinese hi tech, innovation and tourism hub to rival Japan, South Korea and Singapore in Asia. Its GDP is estimated USD 1.69 trillion, which makes 14 per cent of China's total GDP.¹⁴

The much celebrated and – in many respects – unique giant sea crossing of Hong Kong-Zhuhai-Macao Bridge will contribute to the development of the Greater Bay Area. Beyond the bigger people flows, the bridge is expected to boost business in Hong Kong and attract more Chinese companies to the city. On the other hand, it provides the Chinese consumers with more op-

portunities to purchase imported goods that are cheaper in Hong Kong and bring them back home.

CBRE Group, Inc. which is one of world's largest commercial real estate services and investment firm predicts in its report that the Greater Bay Area is good positioned to become world's largest bay area economy.¹⁵ It spans, however, across a number of local jurisdictions, economic systems and customs territories. After all, it includes Hong Kong and Macao – two special administrative regions within “one country – two systems” framework. Yet in the future, a real integration of the region with the establishment of a specific common market would create a tremendous op-

¹⁴ <https://www.cbre.com.hk/en/about/media-centre/the-rise-of-the-greater-bay-area-as-the-worlds-largest-bay-area-economy>

¹⁵ <https://www.cbre.com.hk/en/about/media-centre/the-rise-of-the-greater-bay-area-as-the-worlds-largest-bay-area-economy>

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portunity to release and activate much more human resources and capital for the development, as well as a huge potential for innovation.

Entrepreneurship and startups

Hong Kong has always been famous for its entrepreneurial spirit. Its startup scene received a boost in 2005 when the government started the Cyberport Initiative which is an innovative digital community with 1000 digital tech companies.¹⁶ In the first half of the fiscal year 2018, Cyberport companies received HKD 3.89 billion of investment.¹⁷ They are mostly focused on FinTech, eCommerce,

IoT/Wearables and Big Data/AI, and aim at developing Hong Kong into a “Smart City”.¹⁸

The entrepreneurship rate in Hong Kong has grown massively since 2009: +159%, and this is a result of “booming start-up support ecosystem”.¹⁹ According to the recent InvestHK’s data “Hong Kong's start-up ecosystem grew 18 per cent year on year to 2,625 start-ups in 2018, while the number of jobs created rose a remarkable 51 per cent to 9,548. More than a third of the start-up founders are from outside Hong Kong.”²⁰ They come from UK, US, Mainland China

¹⁶ http://www.cyberport.com.hk/en/about_cyberport/about_overview

¹⁷ <https://technode.com/2018/11/15/hong-kong-tech-startup/>

¹⁸ http://www.cyberport.com.hk/en/about_cyberport/about_overview

¹⁹ Global Entrepreneurship Monitor (GEM) 2016-2017, Hong Kong and Shenzhen Research, <http://eic.hkbu.edu.hk/eng/startupresearch/gem/gem.jsp>

²⁰ <https://www.investhk.gov.hk/en/news/investhk-unveils-startmeuphk-festival-2019-agenda-and-partners.html>

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and Australia.²¹ The city is attracting entrepreneurs from overseas and Mainland thanks to its business-friendly climate, strategic geographical location, simple tax system, low tax rate, free flow of information and free port status.²²

A unique magnet and springboard for startups is the annual StartmeupHK Festival that was launched in 2013 by InvestHK – a department of the Hong Kong’s government responsible for Foreign Direct Investment and supporting businesses from overseas and Mainland. The initiative is aimed at helping founders of innovative and scalable startups from overseas to set up or expand in Hong Kong while providing information about lo-

cal startup ecosystem, connecting people to the startup community, hosting startup events and helping to foster a positive environment for startups to thrive.²³ This year’s StartmeupHK took place January 21-25, and focused on health care technology, life style innovations, retail solutions, smart city living, artificial intelligence and education, as well as how to bring together startups, corporations and investors.²⁴

What is critical for the city’s position and growth, the key business sectors for the startups include fintech, e-commerce, supply chain management and logistics technology, professional and consultancy services, as

²¹ <https://www.info.gov.hk/gia/general/201812/12/P2018121200876.htm>

²² <https://www.info.gov.hk/gia/general/201812/12/P2018121200876.htm>

²³ <https://www.startmeup.hk/about-us/>

²⁴ <https://www.startmeup.hk/festival-2019/>

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well as information technology and services.²⁵

Tourism in an Asian age

In tourism industry, Asia has been growing rapidly in recent years. According to the “Top 100 City Destinations 2018” report compiled by a global market research company Euromonitor International, six out of the top 10 most visited cities are in Asia. What is most interesting however, this is Hong Kong that ranked first for eighth successive year with a staggering (estimated) number of 29,827,200 visitors in 2018.²⁶ Euromonitor’s research also reveals that “China is set to overtake France as the leading

destination worldwide by 2030”.²⁷

The Greater Bay Area initiative that aims to set up a large economic zone integrating Hong Kong into the Mainland, offers the city’s tourism industry brand new opportunities. It will be able to offer visitors multi-destination tours, and Guangzhou-Shenzhen-Hong Kong Express Rail Link has already cut the trip time between Hong Kong and Guangzhou from about two hours to 48 minutes.²⁸

However, Hong Kong’s position as a tourist destination has a more complex side with a much increased influx of tourists which is perceived by some residents with concern as it has reportedly

²⁵ <https://www.investhk.gov.hk/en/news/investhk-unveils-startmeuphk-festival-2019-agenda-and-partners.html>

²⁶ <https://go.euromonitor.com/white-paper-travel-2018-100-cities>

²⁷ <https://twitter.com/Euromonitor/status/1059453533962096640>

²⁸ http://www.xinhuanet.com/english/2018-09/22/c_137486593.htm

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‘disrupted’ the city’s daily life in several areas.²⁹

Yet in the medium run, the city’s tourism sector is set to benefit from the establishment of the Greater Bay Area massively as the initiative has good chances to create a ‘tourism delta’ which will drive demand for resorts, shopping malls and so called MICE’s – meeting, incentives, conferences and exhibitions facilities.³⁰

Hong Kong amid Washington-Beijing trade war concerns

Currently, even some prominent Chinese experts from government-affiliated think-tanks express the view that the USA-China conflict is “inevitable and will carry on in the long term”.³¹ The looming trade war – if no deal has been clinched by March 2019 – has the potential for Hong Kong to both inflict significant pain as well as bring some opportunities. In a direct way, the tensions are set to have impact on about 9% of Hong Kong’s trade, as most of the goods involved in the trade war

²⁹ <https://beta.scmp.com/news/hong-kong/hong-kong-economy/article/2181895/hong-kong-residents-fed-influx-chinese-tourists>

³⁰ <https://www.cbre.com.hk/en/about/media-centre/the-rise-of-the-greater-bay-area-as-the-worlds-largest-bay-area-economy>

³¹ Zhang Yansheng, China Centre for International Economic Exchanges (CCIEE): “Trade war is ‘inevitable’ and will be long and drawn-out”; <http://www.cciee.org.cn/Detail.aspx?newsId=16129&TId=231>

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bypass the city.³² For the time being, HKSAR's GDP growth is expected to be healthy at 2.9 – 3 percent although some experts estimate it to reach 'just' 2.3 percent in the first quarter of 2019.³³

On the other hand, Beijing-Washington tensions have been affecting import, export and wholesale trade as well as professional and business services and manufacturing.³⁴ Therefore, an immediate victim has been the business environment which – if the external tensions continue to grow – may discourage at least some potential investors.

Hong Kong's domestic consumption is also likely to shrink as the result of the conflict between world's first and the second economy. Meanwhile, consumption has been benefitting from a near full employment.³⁵

Serious issues for the Hong Kong can be caused by an evident slowdown of China's economy which is predicted to grow somewhat more than 6 per cent in 2019.³⁶ This is because of the impact on the orders for HKSAR's services, including banking, finance, and logistics. Generally, exports of services grew by 3.1% year-on-year in the third quarter of 2018, slow-

³² <https://www.channelnewsasia.com/news/commentary/hong-kong-us-china-trade-war-effects-growth-slowdown-11150878>

³³ <http://hong-kong-economy-research.hktdc.com/business-news/article/Market-Environment/Economic-and-Trade-Information-on-Hong-Kong/etihk/en/1/1X000000/1X09OVUL.htm>

³⁴ *THIRD QUARTER ECONOMIC REPORT 2018, HKSAR Government, November 2018*

³⁵ *THIRD QUARTER ECONOMIC REPORT 2018, HKSAR Government, November 2018*

³⁶ National Bank of Canada: Financial Markets. Monthly Economic Monitor, Economics and Strategy; February 2019; <https://www.nbc.ca/content/dam/bnc/en/rates-and-analysis/economic-analysis/monthly-economic-monitor.pdf>

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ing down from the 5.9% in the second quarter of that year. According to Hong Kong government data, exports of financial services weakened, while exports of transport and business services increased only moderately.³⁷ Another effect of the external situation might be reduction in demand for raw materials – which could affect Hong Kong’s re-exports to Mainland. The ‘obvious’ result is a much more limited appetite for hiring and purchasing as of early 2019.³⁸

However, the city may to some extent ‘benefit’ from the current tensions between the mainland China and the USA. Apart from preferential trade status it enjoys

under the terms of the United States-Hong Kong Policy Act of 1992³⁹, it also has CEPA: Closer Economic Partnership Arrangement with Beijing. It is worth mentioning that “starting from 1 January 2019, goods of Hong Kong origin imported into the Mainland fully enjoy zero tariff through the enhanced arrangement for rules of origin.”⁴⁰

Economic ties with ASEAN

The city’s role as a gateway to China might be even strengthened regarding the ten ASEAN member countries whose total population is estimated to be

³⁷ *THIRD QUARTER ECONOMIC REPORT 2018, HKSAR Government, November 2018*

³⁸ <https://asia.nikkei.com/Business/Markets/Nikkei-PMI/Trade-wars-continue-to-impact-negatively-Hong-Kong-s-PMI>

³⁹ United States-Hong Kong Policy Act of 1992

⁴⁰ <http://hong-kong-economy-research.hktdc.com/business-news/article/Market-Environment/Economic-and-Trade-Information-on-Hong-Kong/etihk/en/1/1X000000/1X09OVUL.htm>

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more than 640 million.⁴¹ The free trade and investment agreements signed between the parties in November, 2017, are good tools to facilitate the trade with the Southeast Asian bloc.⁴² In practical terms, the two deals were designed to ensure legal certainty, better market access for goods and services as well as investment protection.⁴³ The ties with those fast developing economies are critical for HKSAR: the real GDP growth of the ASEAN Economic Community (AEC) taken as a whole reached 5.2% in 2017, and 5.1% in 2018.

AEC as a single entity is the third largest economy in Asia.⁴⁴

As of June 2018, 599 ASEAN companies were registered in Hong Kong; among them 61 regional headquarters, 144 regional offices and 394 local offices.⁴⁵ The AEC bloc has been the city's second biggest trading partner; as for trade in services, fourth largest partner.⁴⁶ Meanwhile, for the ASEAN itself, Mainland China has been the largest trading partner since 2009.⁴⁷ Therefore, there is a huge potential for expansion of economic cooperation and for increasing Hong Kong's role as a

⁴¹ ASEAN Key Figures 2018, The ASEAN Secretariat Jakarta, December 2018.

⁴² <http://hong-kong-economy-research.hktdc.com/business-news/article/Market-Environment/Economic-and-Trade-Information-on-Hong-Kong/etihk/en/1/1X000000/1X09OVUL.htm>

⁴³ <https://www.info.gov.hk/gia/general/201711/12/P2017111200313.htm>

⁴⁴ <https://hkmb.hktdc.com/en/1X09WKZD/hktdc-research/ASEAN-Market-Profile>

⁴⁵ <https://hkmb.hktdc.com/en/1X09WKZD/hktdc-research/ASEAN-Market-Profile>

⁴⁶ <https://www.info.gov.hk/gia/general/201711/12/P2017111200313.htm>

⁴⁷ <https://hkmb.hktdc.com/en/1X09WKZD/hktdc-research/ASEAN-Market-Profile>

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trading “middleman”. Actually, this is what is happening. According to the data provided by the Hong Kong Trade Development Council (HKTDC), “in the first nine months of 2018, US\$28.1 billion or 97% of Hong Kong’s exports to ASEAN were re-export items, of which 69.8% were originated from the mainland”.⁴⁸ Top exports markets within AEC have been Vietnam, Singapore, Thailand and Malaysia.⁴⁹ The trade between HKSAR and AEC totalled USD 106,835 mln in 2016; 120,097 in 2017, and 101,829 in the first nine months of 2018. However, as the prospect of a Beijing-Washington trade war started to bite, Hong Kong’s exports to Vietnam decreased 15.7 % in the

final months of 2018. The same can be said about the city’s trade with a giant non-ASEAN partner – India: exports there dropped 35.9 %⁵⁰

Belt and Road initiative

As redistribution of the global supply chain is looming, the city needs to adapt to market development and risk diversification. Definitely, HKSAR has a global perspective with interest both in big and smaller markets which may bring the city and its residents new bargains. Such a view had led Hong Kong to the Caucasus, precisely to Georgia with which HKSAR signed a Free Trade Agreement (FTA) in June 2018. The FTA which enters into force on February 13, 2019 is presented as a part of the city’s

⁴⁸ <https://hkmb.hktdc.com/en/1X09WKZD/hktdc-research/ASEAN-Market-Profile>

⁴⁹ <https://hkmb.hktdc.com/en/1X09WKZD/hktdc-research/ASEAN-Market-Profile>

⁵⁰ <https://hkmb.hktdc.com/en/1X09WKZD/hktdc-research/ASEAN-Market-Profile>

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larger Belt and Road (BRI) strategy and Georgia as a kind of its gateway to the region.

Generally, Hong Kong's authorities envision their city to benefit much from President Xi Jinping's signature 71-country strong initiative. Some prominent businesspeople predict "a mass migration of businesses and SMEs out of China into new areas to finish the manufacture of products, and new countries of origin along the belt and road. Hong Kong entrepreneurs will play a major role in this."⁵¹ Therefore, taking into account all the possible setbacks coming from the trade wars – the BRI potentially provides Hong Kong with unique prospects. Carrie

Lam, the Chief Executive of HKSAR declared in her 2018 Policy Address that the Government was going to do its best as a "facilitator" and "promoter", seizing the opportunities to capitalise on Hong Kong's strengths to serve the country's needs, and seeking active liaisons with the world to explore more business opportunities⁵². The endeavour in that direction was visible during the 2019 International Economic Forum in Davos, Switzerland.

On that occasion, the Swiss resort hosted 3rd Belt and Road Davos Forum, co-organized (among others) also by the HKSAR's Commerce and Eco-

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<https://www.beltandroad.news/2019/01/16/what-is-hong-kongs-role-in-a-new-economic-world-order/>

⁵²

https://www.policyaddress.gov.hk/2018/eng/policy_ch04.html

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conomic Development Bureau.⁵³ The vision presented by the city's representatives comprised a quite comprehensive part Hong Kong, and in particular, its professionals could play in infrastructure projects along the Belt and Road. This is: project financing and funding, bond issuing, legal and dispute resolution, accounting, insurance, business consultancy, risk assessment and management, construction, architecture and transport.⁵⁴

There are good reasons which favour Hong Kong in comparison to the Mainland China, besides the city's expertise and the ties it has to Europe and ASEAN. What matters is the rule

of law and impartial, reliable legal system – a necessary environment for any and every investor and business.

Conclusions

Hong Kong has been always proudly presenting itself as “Asia's world city”.⁵⁵ The slogan is by no means an exaggeration. A vibrant multicultural city with an ambition to become China's international financial hub has been involved in various significant business projects around the world – from Cambodia to Saudi Arabia to Poland.⁵⁶ With the looming Washington-Beijing trade war, however, Hong Kong can't be spared problems: de-

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<https://www.info.gov.hk/gia/general/201901/24/P2019012400997.htm>

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<https://www.info.gov.hk/gia/general/201901/24/P2019012400997.htm>

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<https://www.brandhk.gov.hk/html/en/StrategicFocus/BeltAndRoad.html>

⁵⁶ Belt and Road. Hong Kong: a key link for the belt and road. Compendium.

<https://www.beltandroad.gov.hk/compendium.pdf>

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creasing exports, imports and demand for its professional services are just a few of possible consequences. Everything hinges on the gravity of the power conflict which has the potential to shake the city caught in the US-China crossfire. Consequently, Hong Kong, as an externally-oriented economy, must remain vigilant and get prepared for responding to contingencies, at the same time, pursuing the development of a diversified economy in order to enhance its capabilities in withstanding external shocks⁵⁷.

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https://www.policyaddress.gov.hk/2018/eng/policy_ch04.html

Centre for International Relations (CIR) is an independent, non-government analytical centre established in 1996 which deals with Polish foreign policy and the most important issues of international politics. CIR is active in research, education and publishing, organises conferences and meetings, and participates in international projects in collaboration with similar institutions in many countries. CIR creates a forum for debate and exchange of ideas in matters of international politics, relations between states and challenges in the global world. CIR's activities are addressed above all to local-government officials and to entrepreneurs, as well as to officials of the central administration, politicians, diplomats, political scientists and the media. In 2014, CIR was again recognised as one of the best think-tanks in East-Central Europe in the study "The Leading Public Policy Research Organisations in the World" conducted by the University of Pennsylvania.

