

2018 Mid-Year Export Review: Potential Growth Overshadowed by Looming Trade Disputes

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Source: HKTDC

Hong Kong's 2017 export growth momentum was maintained into the opening months of 2018, with the HKTDC Export Index then jumping into expansionary territory in 2Q/2018, indicating the likelihood of sustained export growth over the near term. While the world's economic fundamentals may warrant a more optimistic outlook and faster growth for 2018, the looming Sino-US trade war poses a major threat and could significantly reduce the pace of growth if punitive trade measures are eventually adopted by both sides.

Summary of Hong Kong's External Trade

	2016		2017		Jan-Apr 2018	
	HK\$ mn	Growth %	HK\$ mn	Growth %	HK\$ mn	Growth %
Total exports	3,588,247	-0.5	3,875,898	+8.0	1,273,048	+9.3
Domestic exports	42,875	-8.5	43,455	+1.4	13,694	+1.5
Re-exports	3,545,372	-0.4	3,832,443	+8.1	1,259,355	+9.4
Imports	4,008,384	-0.9	4,357,004	+8.7	1,449,838	+10.7
Total trade	7,596,631	-0.7	8,232,902	+8.4	2,722,886	+10.0
Trade balance	-420,137		-481,106		-176,789	

Continued Export Growth in Early 2018

Following a strong rebound in 2017, Hong Kong's total exports continued to perform well in the first four months of 2018, given the solid and broad-based recovery in the world economy. Both private consumption and business investment in the developed world have continued to support growth.

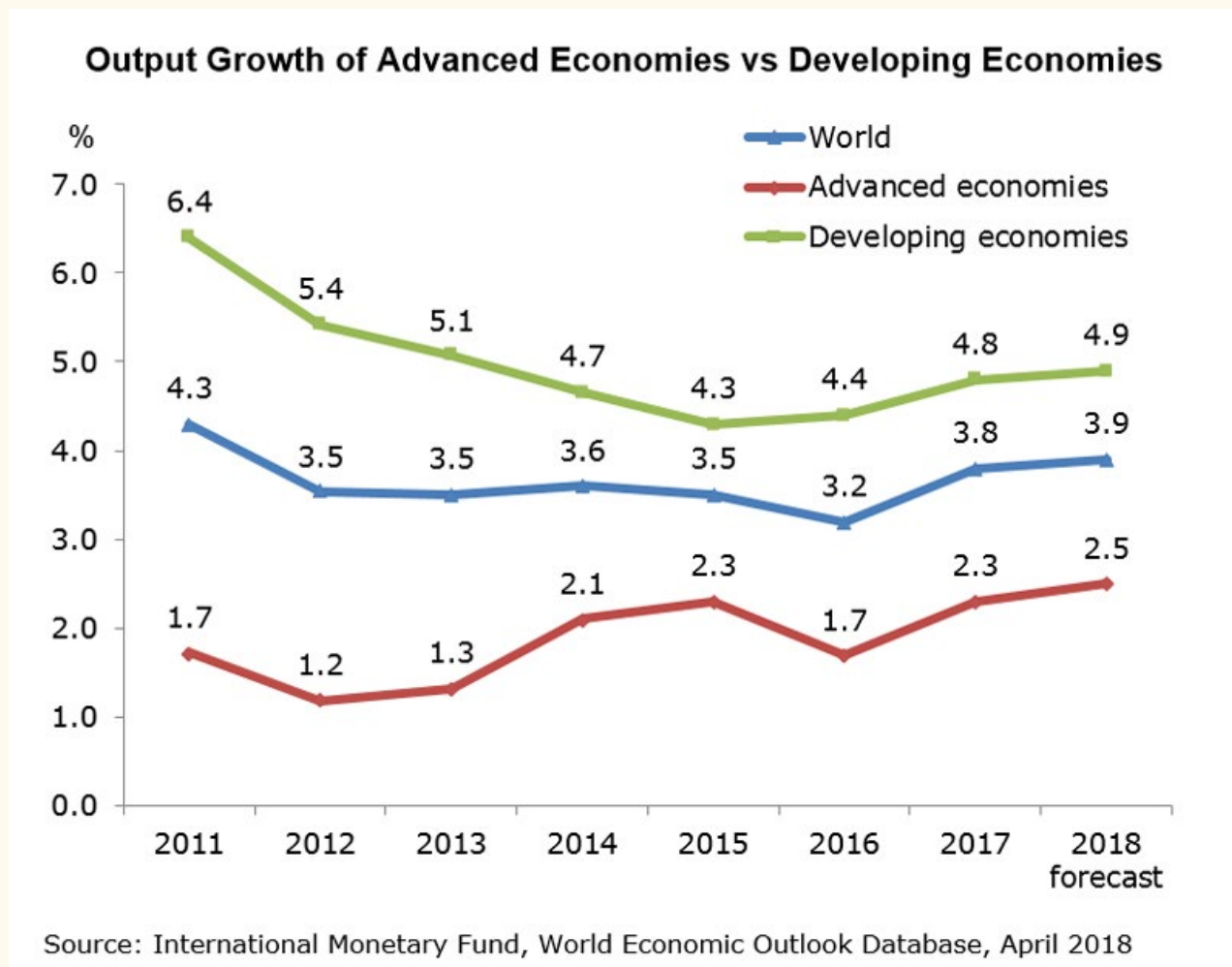
Hong Kong's Total Exports by Primary Destination

	2016		2017		Jan-Apr 2018	
	HK\$ mn	Growth %	HK\$ mn	Growth %	HK\$ mn	Growth %
US	324,040	-5.3	330,198	+1.9	107,045	+8.5
EU	330,641	-1.3	347,059	+5.0	113,077	+10.2
Japan	116,746	-4.9	128,474	+10.0	41,640	+5.3
Developing Asia	2,515,959	+0.7	2,761,088	+9.7	908,082	+9.3
China	1,943,469	+0.4	2,105,829	+8.4	694,082	+12.7
ASEAN	263,871	-2.7	284,050	+7.6	93,197	+2.5
Latin America	67,232	-10.4	68,302	+1.6	22,967	+13.4
Middle East	85,789	+7.1	82,926	-3.3	26,536	-1.8
Emerging Europe	65,301	+9.0	74,942	+14.8	28,570	+40.3
Africa	34,513	-4.5	37,186	+7.7	12,845	+19.9

Source: Hong Kong Trade Statistics, HKSAR Census and Statistics Department

Favourable Global Economic Environment

Partly supported by continued growth momentum, market sentiment and the US' expansionary fiscal policy, the IMF revised its world growth forecast upwards in April raising it from 3.7% to 3.9% for 2018, despite some signs of a slowdown in the first three months of the year. This accelerated growth projection can be attributed to the improved performance of developed economies, particularly the US, which are now expected to deliver combined growth of 2.5%, 0.5% up on the original October 2017 forecast.



Jewellery Trade

In the first four months of 2018, Hong Kong's exports of fine jewellery grew by about 20% – the highest among all of the major sectors. This robust export growth was driven by the demand for gold jewellery, while global economic growth also boosted demand for high-end accessories, such as diamonds. However, given that the gold price has remained high since the second half of 2017, the growth of fine jewellery exports is expected to slow down somewhat for the remainder of the year.

Sino-US Trade War Posting the Prominent Risk

the Sino-US trade dispute remains the most prominent and immediate threat to Hong Kong's export outlook. In fact, the risk that major trade barriers will be imposed has grown considerably. In 2017, China's share of the US' overall trade deficit in goods soared to 47%, up from 32% in 2007. This makes the trade deficit with China particularly politically sensitive. With trade tensions heightening between the US and other countries, many of them normally seen as US allies, it may be difficult to calm Sino-US trade relations over the coming months.

Following the 2017 recovery, growth momentum of Hong Kong's exports has extended into the first few months of 2018. With favourable world economic fundamentals, the HKTDC Export Index jumped into the expansionary zone in Q2 2018, indicating the likelihood of sustained Hong Kong export growth momentum over the near term.

While the world's economic fundamentals may warrant a more optimistic outlook and faster growth for 2018 than were originally forecast in December 2017, the looming Sino-US trade war is posing a major threat in the near term and could significantly reduce the pace of growth should punitive trade measures be imposed by both sides. Inevitably, Hong Kong exporters are becoming increasingly pessimistic about the possible impact of the ongoing Sino-US trade friction, with 43% of those recently surveyed worried about a negative impact, compared to just 26% who shared this view in the first quarter of 2018. Against such a backdrop then, it seems prudent to expect Hong Kong exports to have growth of around 6% for 2018 as a whole.