Source: South China Morning Post
Date: 15/8/2020

GDP TIPPED TO SHRINK BY 6-8pc AS VIRUS EXACTS HEAVY TOLL

City to see first back-to-back annual contractions with US-China tensions adding to grim outlook

Kanis Leung and **Kathleen Magramo**

Hong Kong's economy is expected to shrink by between 6 and 8 per cent this year – in what would be the first back-to-back annual contractions since record-keeping began in 1961 – as the city grapples with a third wave of coronavirus infections and escalating US-China tensions.

The city's gross domestic product slumped 9 per cent in the second quarter from the same period a year ago, falling just short of the record 9.1 per cent year-on-year decline for the first three months of 2020.

According to official figures announced yesterday, GDP contracted year on year for the fourth straight quarter, while the economic outlook for July through September also looked grim, with the tourism board reporting that arrivals to the city had slumped to next to nothing.

Yesterday's numbers marked the second time this year the government downgraded its annual GDP forecast, following the 4 to 7 per cent contraction predicted in April by Financial Secretary Paul Chan Mo-po, who warned at the time that the city was facing the threat of its worst recession ever.

Chan's initial estimate, made in February, foresaw a range of between 0.5 per cent growth and a 1.5 per cent decline.

Since record-keeping began nearly six decades ago, there have been only three full-year economic contractions: in 1998 (5.9 per cent), 2009 (2.5 per cent) and 2019 (1.2 per cent).

Government economist Andrew Au Sik-hung attributed the downgraded forecast to the weak global economy and latest wave of Covid-19 infections, as well as what was likely to remain a complete freeze on inbound tourism for the remainder of the year.

An uneven and bumpy recovery process around the world, he added, would only be exacerbated by growing conflict on the world stage.

"China-US relations and geopolitical tensions also increase uncertainty surrounding the economic outlook," he said at a press conference.

He added that if the city, which officially slipped into recession in third quarter 2019, could rein in the local public health crisis soon and did not suffer significant deterioration among other external factors, then the full-year decline might be able to hold at between 6 per cent and 7 per cent.

Hong Kong's export industry has been caught in a crossfire between Washington and Beijing, with goods made in the city for export to the United States requiring relabelling to "Made in China" after September 25, as part of US President Donald Trump's executive order suspending special treatment under the Hong Kong Policy Act of 1992.

But Au said the impact would be manageable given that domestic exports to the US accounted for less than 0.1 per cent of the city's total exports last year.

He noted the global economic focus had also been shifting from the West to the East due to China's outstanding growth over the past 10 to 20 years, adding its economic activities recently revived after it brought the pandemic under control.

Given Hong Kong's status as "an important financial centre and business centre in China," those trends meant the city still had "a lot of opportunities", he said.

Chinese University economist Terence Chong Tai-leung agreed the impact of changes to trade arrangements would be limited and might affect only a small number of local producers.

But he also predicted Sino-US trade would continue to decline, something that could reduce re-exports through Hong Kong, though they are not considered one of the city's primary economic drivers.

As China's GDP grew 3.2 per cent in the second quarter, Chong said trade between Hong Kong and the mainland might continue to pick up in the second half.

Dennis Ng Wang-pun, president of the Chinese Manufacturers' Association, meanwhile, lamented the shadow the city's export business had been operating under for the past two years.

"The consequence is minimal. But what's next? We don't know," Ng said, adding the US move had pushed businesses to focus more on branding development.

"If the brand is successful, then it doesn't matter where the product is made," Ng said.

Worried over the national security law that Beijing imposed on Hong Kong at the end of June, nearly four in 10 US businesses were considering relocating from the city, a poll by the American Chamber of Commerce of 13 per cent of its members found.

Iris Pang, ING Bank Greater China economist, predicted consumer appetite would remain weak, as people continued to struggle to make ends meet amid a jobless rate now at 6.2 per cent, a more than 15-year high.

Pang expected the pace of a recovery might be slow in the second half of the year, as the local government would be more cautious about relaxing social-distancing measures to avoid potential Covid-19 relapses.

Simon Wong Ka-wo, president of the Hong Kong Federation of Restaurants and Related Trades, said even the government's HK$10,000 cash payout scheme, intended to boost consumption, could not help eateries unable to provide dine-in services in the evening.

Wong said when residents ordered takeaway, they typically ordered simple dishes that charged a lower price. "Residents are tightening their belts," he said.

Retail sector lawmaker Peter Shiu-Ka-fai added that many businesses were sitting on the edge of a cliff, and landlords had done little to help in the way of relief measures.

Posters cover the front of a shuttered shop in Causeway Bay.