Economists project China GDP to record over 6% growth at most in 2023

by www.thestandard.com.hk
Friday, Feb 03, 2023

International organizations and investment banks intensively raised their projections for China's economic growth in 2023 following impressive recovery of the country's consumption market during the Spring Festival holidays. Some economists on an optimistic note predicted China's GDP may post strong 6 percent year-on-year growth at most this year, buoyed by the country's optimized epidemic response and effective pro-growth policies, injecting confidence and impetus into the global economic recovery.

The Chinese economy is projected to grow 5.2 percent year-on-year in 2023, the IMF said in its latest World Economic Outlook, up 0.8 percentage points from its projection in October.

In addition, Morgan Stanley raised its outlook for China's GDP growth this year to 5.7 percent from 5.4 percent, predicting that a rebound in activity will come earlier and be sharper than expected, according to media reports.

Global leading asset management firm Vanguard recently upgraded its forecast for economic growth in China to 5.3 percent from the 4.5 percent after a strong fourth-quarter performance, according to a press release on the company's website.

Besides, Swiss investment bank UBS AG upgraded its forecast to 4.9 percent growth, according to a note sent to the Global Times.

Experts said these international institutions' bullish predictions for China's economy reflected growing international confidence on the economic recovery of the world's second-largest economy on the back of the dynamism shown during the Spring Festival holidays in January. They may further upgrade their forecasts along with the stable recovery of the Chinese economy.

In the weeklong Spring Festival holiday, China saw nearly 2.9 million cross-border trips, up 120.5 percent year-on-year, and 308 million domestic trips, up 23.1 percent. Box office nationwide raked in 6.76 billion yuan ($1 billion), the second-highest figure for the annual holiday, the Xinhua News Agency reported.

"China's economy may grow 6 percent year-on-year at most in 2023," Chen Fengying, an economist and former director of the Institute of World Economic Studies at the China Institutes of Contemporary International Relations, told the Global Times on Saturday.

Chen attributed to swift economic recovery to strong policy support, fewer COVID-19 disruption as well as impressive growth in emerging sectors. "This year, the central government and localities have moved to announce policies prior to two sessions to support the overall recovery of the economy, whereas the development of emerging sectors such as PV and new-energy vehicles would further help stabilize employment and thus further release residents' consumption power," she said.

Cao Heping, an economist at Peking University, also shared similar views. He told the Global Times on Saturday that China's GDP growth rate may reach between 6-6.5 percent.

Apart from consumer spending, there are some new growth points in digital economy and infrastructure, according to Cao. "There are new investment opportunities in the restoration of infrastructure and networks in rural areas, combined with the digital upgrading of road, railway, ports and other large-scale infrastructure projects as well as the development of computing power, which would give birth to new industries and greatly transform China's economy," he said.

As an important tool in expanding domestic demand and stepping up supply-side structural reform, the country's infrastructure investment will outperform investment in the manufacturing sector and real estate sector, as the authorities have pledged to continue proactive fiscal policy and step up fund-raising for key projects in line with national development planning, according to a research report released by the Institute of Economics of the Chinese Academy of Social Sciences in a report released on January 28.

At a time of mounting challenges for world economic recovery, great expectations have been placed on China. IMF Managing Director Kristalina Georgieva told reporters in January, "There is a great deal of hope that China's reopening would lead through 2023 to a better impact on global growth," according to a transcript on the IMF's website.

The IMF projected that China's contribution for global economic growth would reach 25 percent in 2023.

The stable recovery of Chinese economy will provide a boost to the recovery and development of the Asia-Pacific region and the broader global economy, according to Chen, noting that the 3rd Belt and Road Forum for International Cooperation would be a valuable opportunity for emerging markets and developing countries to promote trade and attract investment.

Hong Kong-China border reopens as city looks to rebuild economy

by www.thestandard.com.hk
Monday, Feb 06, 2023

The border between Hong Kong and China fully reopened Monday, part of the city's campaign to rebuild its battered economy and tourism industry after years of Covid-induced isolation.

Daily quotas and testing requirements were dropped and all boundary checkpoints opened, freeing visitors of some of the world's toughest virus-related travel measures. A ban on unvaccinated travelers from anywhere in the world has also been lifted.

The opening marks a step in Hong Kong's bid to rebuild its reputation as a business hub connecting mainland China and the rest of the world, and comes days after Chief Executive John Lee unveiled a publicity campaign to revive the economy and welcome back visitors. Hong Kong doubled down on some of the strictest Covid restrictions in recent years even as other cities opened up, raising questions about its status as a global financial center.

Lee is working to attract new investment to the city, and has prioritized returning Hong Kong to normal life and regaining its status as a finance hub after protests in 2019, the imposition of national security laws in 2020 and the pandemic. That includes a bid to convince oil giant Saudi Aramco and its units to consider a secondary listing in Hong Kong, according to reports on Sunday.

While the lengthy closure had a devastating impact on the city's economy and business, money has been flowing back into Hong Kong as investors bet on a recovery in China and the city after the nation's pivot away from Covid Zero.

The local benchmark Hang Seng Index has surged almost 50 percent since the end of October.

Concerns about Hong Kong's future remain despite the revival campaign: A mass trial of prominent pro-democracy figures also gets underway Monday, the city's largest national security case to date and a test of the rule of law that has underpinned Hong Kong's success.

At the same time, Lee has dismissed calls for an independent commission to look into the city's handling of the pandemic. The city was forced to turn to the central government for help early last year when the rapid spread of the omicron variant caused a wave of deaths among unvaccinated elderly, resulting in one of the deadliest outbreaks globally.

China reopened its border with Hong Kong early last month in a limited manner, and the mainland is retaining a 48-hour pre-arrival PCR test requirement for people coming from Hong Kong or Macau if they have traveled overseas in the previous seven days.

Mainland visitors to Hong Kong could rebound to 78 percent of 2019 levels this year with the removal of restrictions including a daily traveler quota and mandatory Covid tests, according to Bloomberg Intelligence.

The tourism rebound — along with visitors' spending perks under the new HK$2 billion ($255 million) tourism campaign — stand to raise the city's 2023 retail sales by 22 percent, consumer and technology analysts Catherine Lim and Trini Tan said.

HK, Saudi Arabia exchanges to cooperate on cross listings

by www.thestandard.com.hk
Monday, Feb 06, 2023

The Hong Kong and Saudi stock exchanges signed a pact to cooperate in areas such as cross-listings, a day after Chief Executive John Lee Ka-chiu was reportedly said to be working to convince oil giant Aramco to list in the Asian financial hub.

The Hong Kong Exchanges & Clearing Ltd. and the Saudi Tadawul Group Holding Co. will also explore cooperation in fintech, ESG and other areas, the Asian exchange said in a statement.

“This agreement signals the beginning of even greater collaboration between our companies and our home markets, and we look forward to exploring many future areas of cooperation,” HKEX CEO Nicolas Aguzin said.

Dow Jones reported last year that Aramco was planning an additional share sale in Riyadh and a secondary listing that could potentially happen in London, Singapore or in other venues.

Lee continued his visit to Riyadh on Monday and attended a technology conference. He also met with Amin H Nasser, the President and the Chief Executive Officer of Saudi Aramco, at the conference.

After visiting Saudi Arabia, Lee will travel to the United Arab Emirates and stay until Feb. 11.

On Sunday night, Lee led a delegation and attended a gala dinner and Saudi Arabia – Hong Kong Investment Forum. The event was attended by over 300 representatives of local authorities and business leaders.

He announced in the forum that after rounds of productive exploratory discussions between the two sides, Hong Kong and Saudi Arabia would launch formal negotiations on an Investment Promotion and Protection Agreement (IPPA).

The IPPA and its negotiations will help strengthen investor confidence and increase bilateral investment flows, he added.

During the forum, Lee and the Minister of Investment of Saudi Arabia, Khalid Al-Falih, also witnessed the exchange of six Memorandum of Understandings or Letter of Intent between Hong Kong and Saudi Arabian enterprises or organisations, covering finance, innovation technology, business, transportations and energy, etc.

Lee believed that through the visit, Hong Kong could establish connections and strengthen cooperation with Saudi Arabia on all fronts, including economy, trade, investment and culture.

He further pointed out that Hong Kong is situated in a strategic location with world-class infrastructures and abundant professional talents, so Saudi Arabian capital and investment can have boundless opportunities in Hong Kong.

He added that Hong Kong is a bridge to enter the mainland market and is one of the engines for the development of the Greater Bay Area, creating a vast space for investment and development.

How Hong Kong can beat Singapore now that borders are open

by www.thestandard.com.hk
Tuesday, Feb 07, 2023

With the full reopening of Hong Kong's border with China on Monday, and the city dropping vaccine requirements for all visitors, the campaign to rebuild the territory's battered economy is full speed ahead. But can the city reclaim its crown as the region's top finance hub from Singapore, whose earlier reopening from Covid-19 gave it a significant head start?

Cross-border travel with China is expected to boost Hong Kong's population, give the city a wealth injection and help lift its economy out of the doldrums. Yet Singapore's tension-free ties with the West and corporate-tax incentives remain very attractive.

Here are six areas in which Hong Kong could triumph over rival Singapore, according to Bloomberg analysts.

Hong Kong could keep capturing far more equity business than Singapore in the next five years due to the China factor. The city's IPOs by deal value could triple to about US$40 billion in 2023 driven by China's reopening, its policy shift toward growth and pent-up demand for capital. During last year's drought, Hong Kong Exchanges still had 82 IPOs, raising US$13.4 billion, compared with only 11 deals and less than US$1 billion in Singapore. Through 2023, more Chinese companies listed in the US may seek listings in Hong Kong, boosting the city's market cap from the current US$5 trillion, versus Singapore's US$630 billion. Hong Kong's daily stock-trading turnover averaged US$15.9 billion and Singapore's, US$865 million last year. Hong Kong can keep its lead in equity business unless there are extensive sanctions against China by Western governments.

The China factor will continue to keep Hong Kong ahead of Singapore in the dollar-bond business, despite China's property-bond instability and elevated US Treasury yields. China's local-government owned enterprises' placements and high-yield debt exchanges have accounted for most corporate dollar-bond issuance in Asia ex-Japan since the fourth quarter of 2022. Some Chinese property developers, with sound financial health, could tap the market again in this year as Beijing might ease leverage rules. Offshore Chinese financial institutions are another group of potential issuers. All these might support demand for fixed-income traders and bankers in Hong Kong more than Singapore.

Finance professionals can get paid a lot more in Hong Kong than in Singapore, which can affect decisions when picking work locations. In 2023, industry workers in both cities might expect salary increases of about 4 percent, based on Mercer's survey. Average total compensation, including both salary and bonus, approaches US$300,000 for finance workers in Hong Kong — 52 percent higher than in Singapore, based on eFinancialCareers' report in 2022. For professionals with over 10 years of experience, the pay disparity could reach up to 66 percent. And effective tax rates for high earners are lower in Hong Kong, due to a 15 percent standard rate, whereas they can pay more than 20 percent Singapore. In short, people working in the front office, private equity and hedge funds can get much bigger paychecks in Hong Kong, while differences might be smaller for back- and middle-office posts.

Hong Kong may cement its status as Asia's asset-management hub as mainland China ends its border restrictions, despite some concerns over the city's political environment. Hong Kong's growth in assets under management outpaced that of Singapore in 2019, even as pro-democracy protests rocked the city, and in 2020 at the height of the Covid pandemic. Things stabilized in 2021 as Singapore shifted to living with Covid-19, based on the regulator's surveys of the industry. Hong Kong's assets under management could bounce back in 2023 from a potential drop in 2022 as wealthy Chinese resume travel and investment in the city.

Mainland China and Hong Kong's later reopening from strict Covid restrictions than Singapore and other major economies will give Hong Kong's economy a tailwind in a year of Fed-induced global recession. Visitors can now travel to the Chinese city freely, without facing any quarantine and forced Covid testing, putting Hong Kong on an equal footing with Singapore as a business hub. Consensus expects the city's GDP to bounce back 2.8 percent this year, from a likely 3 percent contraction in 2022. We see an upside to this estimate as the mainland's GDP growth could beat 5 percent and this will disproportionately boost fund and people flows to Hong Kong. Singapore's economy might only expand 2 percent this year, as its reopening benefits gradually fade.

Free trade agreement with the UAE will benefit HK: CE

by news.rthk.hk
Thursday, Feb 09, 2023

Chief Executive John Lee has expressed hopes of signing a free trade agreement with the United Arab Emirates, as he arrived in Dubai - the last stop of his trip to the Middle East.

At an investment forum on Wednesday local time, Lee said the trade in goods between the two places reached US$12.8 billion in 2021 - around 35 percent more than the year before.

He said the SAR is also a key gateway for merchandise trade between mainland China and the UAE.

The CE said a free trade agreement between Hong Kong and the UAE will be mutually beneficial.

"I believe our two economies and the companies that drive them have much to gain by a free trade agreement between us. Today, Hong Kong has signed eight free trade agreements with 20 economies," he said.

"An FTA between Hong Kong and the UAE, therefore, is the logical next step in our relations. I am confident it will substantially boost trade and investment ties between us."

Meanwhile, a major chamber of commerce in the UAE said it is opening an international office in Hong Kong, to promote trade and investment from the SAR to Dubai.

The chairman of Dubai Chambers, Abdul-Aziz Abdulla Al Ghurair, said he hopes business liaison between the two places will not be one-way.

"Similarly, we'd also like... the Hong Kong [Economic and Trade] office here to promote trade and investment in Hong Kong. I see this as a two-way communication," he said.

A number of memorandums of understanding were signed between companies and organisations in the two places.

One of the MOUs will enable a Hong Kong architectural practice and a tech start-up to reach a contract with a city project in the UAE capital Abu Dhabi.

Nicholas Ho, chairman of Ho & Partners Architects, said they will help buildings reduce carbon footprint by using new materials and artificial intelligence.

"They already knew that Hong Kong is famous for green and sustainability technology. So when the opportunity arises and we're able to present our design and technology solutions for net zero, they were already very excited," he said.

Tax consultation to be launched

by news.gov.hk
Monday, Feb 13, 2023

The Financial Services & the Treasury Bureau announced today that the Government will launch a consultation in mid-March on an initiative to enhance the tax certainty of onshore gains on the disposal of equity interests.

To increase the attractiveness of Hong Kong as an international investment and business hub, the Government will propose an enhancement initiative to provide clearer guidance as to whether the gains are subject to tax.

The bureau explained that as an appealing world-class business city, Hong Kong has been practising a simple and low tax regime. The initiative will not only facilitate businesses in expansion and restructuring through the disposal of equity interests, but also provide more tax transparency, lower the compliance cost of businesses, and increase the competitiveness of Hong Kong's tax system.

During the earlier legislative exercise on the Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Bill 2022, the Government put forward that it would look into appropriate measures to enhance the tax certainty for onshore gains made from transactions in respect of the disposal of equity interests.

The Government said this is in line with the views of the sector, which were gathered during the consultation period of the bill.

Govt optimises tax regime

by news.gov.hk
Wednesday, Feb 15, 2023

The Government today welcomed the European Union's (EU) positive feedback on the efforts made by Hong Kong in putting in place a new foreign-sourced income exemption (FSIE) regime.

In response to the EU's inclusion of Hong Kong on its watchlist on tax co-operation in 2021, the Government enacted the Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Ordinance 2022 last December to enforce a new FSIE regime for foreign-sourced dividend, interest, intellectual property income and disposal gain in relation to shares or equity interests received in Hong Kong.

The regime, which came into effect on January 1, seeks to address the possible exploitation of Hong Kong's tax arrangement by multinational enterprise entities without substantial economic substance in Hong Kong to bring about double non-taxation of such income, the Government explained.

It was pleased to note that the EU welcomed this development and confirmed that Hong Kong's FSIE regime fully complies with the Guidance on FSIE Regimes originally published in 2019 with regard to dividend, interest and intellectual property income.

Additionally, in light of the EU's recent update to its Guidance on FSIE Regimes, the Government said it will refine the city's FSIE regime regarding foreign-sourced disposal gain in relation to assets other than shares or equity interests.

Last December, the EU promulgated another guidance, explicitly requiring capital gains, as a general class of income covered by an FSIE regime, to be subject to the economic substance requirement.

Jurisdictions with ongoing FSIE reforms, such as Hong Kong, will be kept on the tax watchlist by the EU until necessary legislative amendments are made by the end of 2023 for implementation with effect from January 2024.

The retention of Hong Kong on the watchlist will not result in any adverse impact on the city's enterprises, the Government stressed.

Under the upcoming refined regime, foreign-sourced capital gains in relation to assets received by multinational enterprise entities in Hong Kong will remain exempt from tax provided that the economic substance requirement is complied with.

Individuals, standalone local companies and purely local groups will not be affected.

The Government will conduct a consultation to seek stakeholders' comments on the proposed FSIE regime refinements.

It will also request the EU to swiftly remove Hong Kong from the watchlist after making the necessary legislative amendments.

HK's economy set for strong rebound

by news.gov.hk
Wednesday, Feb 22, 2023

While delivering his Budget speech today, Financial Secretary Paul Chan announced that Hong Kong's economy will rebound via abundant opportunities as the city capitalises on its distinct advantages under the "one country, two systems" principle.

In his speech, he first addressed the matter of Hong Kong's economic situation in 2022 and why the external environment deteriorated markedly during that time.

Mr Chan explained that with the Russia-Ukraine conflict driving up international energy and commodity prices and rampant global inflation, major central banks sharply tightened their monetary policies, posing a drag on the performance of advanced economies. The Mainland's economic growth also slowed amid the subdued global economy and the fluctuating COVID-19 epidemic situation.

He said: "Amid moderated growth across major economies, decelerated growth in manufacturing and trading activities in Asia as well as the continued disruptions to cross-boundary truck movements between Hong Kong and the Mainland caused by the epidemic, Hong Kong's total exports of goods posted a notable decline of 13.9% in real terms last year.

"As for trade in services, exports of transport services and financial services both declined. Exports of travel services recorded a surge alongside the progressive relaxation of quarantine requirements for visitors, but remained far below the pre-epidemic level. Total exports of services declined mildly by 0.9% for the year as a whole."

On the domestic front, Mr Chan pointed out that the outbreak of the fifth wave of the epidemic early last year and tightened financial conditions weighed heavily on domestic demand.

Still, he said with the local epidemic situation stabilising, and the Government's counter-cyclical measures and disbursement of consumption vouchers making key impacts, employment conditions continuously improved.

"Private consumption expenditure has gradually revived since the second quarter, but still recorded a drop of 1% for the year as a whole. Dampened by the subdued economic outlook and rising borrowing costs, overall investment expenditure fell by 8.5%.

"With both external and domestic segments hit hard, the Hong Kong economy contracted by 3.5%in 2022. Nevertheless, the labour market showed improvement, with the seasonally adjusted unemployment rate declining gradually to the latest 3.4% after rising to 5.4% early last year.

"Inflation remained moderate in overall terms. While prices of individual items such as food, energy, and clothing and footwear recorded more notable increases, price pressures on other major components were largely contained. Private housing rentals also fell. Netting out the effects of the Government's one-off measures, the underlying inflation rate was 1.7% for last year as a whole."

Dampened by factors including tightened financial conditions, slackened global growth and heightened geopolitical tensions, Hong Kong's stock market continued to correct during most of last year and trading activities shrank, Mr Chan noted.

Be that as it may, he said amid market expectations of a slower pace of interest rate hikes among major economies and an accelerated return of the local economy to normalcy, the Hang Seng Index rebounded strongly by the end of the year.

“The residential property market underwent a marked correction last year. Flat prices dropped by 15.6% during the year. The number of transactions plunged by almost 40% to a low level of about 45 000. The non-residential property market also turned quiet.”

Mr Chan also outlined Hong Kong’s economic outlook for 2023 and the medium-term outlook.

He said: “The market generally expects that the negative impact on the global economy of the sharp tightening of monetary policies by major central banks will become more apparent this year. Heightened geopolitical tensions will also add to the downside risks.

“Last month, the International Monetary Fund forecast that global economic growth would slacken further to 2.9% this year.”

Apart from emphasising that sluggish external demand will continue to affect the Mainland’s exports this year, Mr Chan said the Mainland’s economy is resilient and has solid fundamentals.

On the upside, as economic activities quickly revive from the epidemic and the various economic stabilisation measures implemented over the past year gradually yield results, the growth of the Mainland’s economy is expected to accelerate visibly.

At the same time, he stressed that the economic growth of the US and Europe is expected to decelerate further this year.

“The market anticipates that US interest rates will rise further in the first half and stay elevated for some time, which is expected to further dampen demand. For the Eurozone economy, economic sentiment remained subdued. The pace of economic growth will soften notably due to the continued impact of monetary policy tightening and the Russia-Ukraine tension.”

The finance chief stated that given the further weakening of growth momentum in advanced economies, Hong Kong’s exports of goods will still face severe challenges this year. However, the accelerated growth of the Mainland economy coupled with the lifting of restrictions on cross-boundary truck movements should alleviate part of the pressure.

He revealed good news for exports of services, saying with the removal of quarantine requirements for inbound travellers and the normal cross-boundary travel between Hong Kong and the Mainland, the number of visitor arrivals is expected to see a strong rebound.

Domestically, as overall economic sentiment improves in tandem with the revival of economic activities and the rapid return of Hong Kong’s exchanges with the Mainland and the world to normalcy, private consumption will increase, Mr Chan emphasised.

“Having regard to the above factors, I forecast that the Hong Kong economy will see a visible rebound this year with growth of 3.5 to 5.5% for the year as a whole.

"In respect of prices, domestic cost pressures will increase alongside the economic recovery. Despite some moderation, external price pressures will remain notable this year. Taking all factors into account, I forecast that the underlying inflation rate and the headline inflation rate will rise to 2.5% and 2.9% respectively this year."

In the medium to long term, the Financial Secretary made it clear that Hong Kong's economy will see abundant opportunities as the city capitalises on its distinct advantages under the "one country, two systems" principle.

"Hong Kong's advantages under "one country, two systems" are unique. Besides, the current-term Government strives to forge a better integration of a capable government and an efficient market, proactively strengthening competitiveness, identifying new impetus for growth and expanding economic capacity.

"Considering all the above factors and taking into account the catch-up growth in the initial period arising from the continued return of economic activities from the epidemic to normalcy, I forecast that the Hong Kong economy will grow by an average of 3.7% per annum in real terms from 2024 to 2027, higher than the trend growth of 2.8% during the decade before the epidemic."

He added that the underlying inflation rate is forecast to average 2.5% per annum.