

Hong Kong's Export Trade in the Aftermath of the Terrorist Attacks in the United States on 11 September 2001

Purpose

This paper outlines the trading environment for Hong Kong's export trade in the aftermath of the terrorist attacks in the United States (US) on 11 September 2001.

Export performance prior to the September 11 incident

2. Since the beginning of this year, Hong Kong's external trade has remained sluggish amidst slackening global demand, consequential to the distinct slow-down in the US economy, renewed setback in the Japanese economy and moderating growth in the EU economies. The value of total exports of goods already weakened to a 1% decline year-on-year in the first half of 2001, and the decline enlarged to 5% in July and August combined.

Trading environment after the September 11 incident

3. Exports of goods fell markedly by 11% in value terms in September 2001 over a year before. The enlarged decline in exports in September was mainly attributable to more sluggish global demand. While all-cargo air services to the US did encounter some temporary disruption immediately after the September 11 incident, they returned to normal shortly afterwards, and on the whole the effect of the disruption on exports for the month was only modest. By and large, the extent of real impact on Hong Kong's exports brought about by the September 11 incident had yet to be seen.

Setback in demand in the US

4. The impact of the September 11 incident and the overhang of uncertainties from the ensuing events has further dampened the already weak US economy. The fall-off in consumer confidence has led to slow-down in personal consumption, which accounts for two-thirds of the US' GDP. In October 2001, the US Consumer Confidence Indicator slid to its lowest level in seven and a half years. The growth in personal consumption expenditure in the US also came down distinctly from 2.5% in the second quarter of 2001 to an eight-year low of 1.2% in the third quarter. The recent spate of massive layoffs and rising unemployment in the US would further dampen consumer

sentiment and hence consumer spending. In turn, business investment is also heavily hit.

5. The US is Hong Kong's second largest export market absorbing more than one-fifth of Hong Kong's total exports of goods. In the first eight months of 2001, our total exports to the US already registered a decline of 7.0% in value terms year-on-year amidst the slow-down in the US economy, and the decline enlarged to 14.3% in September. The further slow-down in the US economy in the wake of the September 11 incident is expected to further weaken exports to the US. Moreover, the continued setback in the US economy may have a knock-on effect on other major markets including the European and the Japanese markets; Hong Kong's exports to these markets would also feel the pinch indirectly.

6. Since the September 11 incident, some Hong Kong exporters have suffered from order cancellations and contraction of new orders as some US importers delayed purchases for the year ahead. In particular, Hong Kong's main lines of exports to the US market, including garments, toys, gifts, festive items etc might be more severely hit in the coming months, and exports of higher-value items could suffer even more. There is much concern about orders for exporting in the early part of next year. Nonetheless, the impact of the incident is not all negative; we understand that some orders which were destined for Muslim countries are being diverted to Hong Kong.

All-cargo air services

7. As mentioned in para. 3 above, there was temporary disruption of all-cargo air services to the US immediately after the September 11 incident and shipment of export goods to the US were affected. The disruption was nevertheless only short-lived and all-cargo air services to the US returned to normal shortly afterwards.

Freight cost

8. Subsequent to the September 11 incident, the local insurance industry follows the practice of the London insurance sector and has begun to collect an insurance premium surcharge at a rate of 0.05% of the value of cargo to be shipped overseas. The surcharge applies specifically to air-borne and sea-borne export cargo, and does not apply to river-based and land-based cargo or to imports in general. The actual surcharge imposed in individual cases may be subject to negotiation. The effect of the imposition of this insurance surcharge on the Hong Kong economy will mainly be felt in the form of cost impact on the trading sector. According to the Government Economist's crude

estimate, the higher airborne and seaborne export cargo insurance premium might have increased the operating costs of the import/export trade sector as a whole by around 0.11%, or reduced its gross margin by around 0.09%.

9. Separately, some 30 airlines have also levied cargo insurance surcharge on outward air cargo to recover the extra cost arising from the increase in insurance premium. According to the Government Economist's crude estimate, the cargo insurance surcharge might have increased the operating costs of the import/export trade sector as a whole by around 0.14%, or reduced its gross margin by around 0.11%.

10. In brief, the cost impact on exporters arising from the imposition of insurance premium surcharges on export cargo by insurers and airlines does not appear to be significant in overall terms, even though depending on the line of trade, there may be variations in cost impact amongst individual exporters. Also, as the increase in cargo insurance premium is a world-wide matter, it should have little differential effect on the relative competitiveness of Hong Kong's exports.

Support for export trade

11. The biggest difficulty faced by the export trade at the moment is the setback in demand in the US as well as in other major markets. This is very much a function of the global economic situation. As recognised by economic leaders at the APEC, globalization is a powerful vehicle that stimulates economic growth and the leaders have affirmed their determination to reverse the current economic downturn by advocating further trade liberalisation and committing to the launch of a new round of multilateral trade negotiations in the WTO. Hong Kong will continue to play its active role in furthering these objectives, and we will stand to benefit as the global trading environment further liberalises.

12. As our largest trading partner, China's accession to the WTO will have a significant positive impact on Hong Kong's export trade. To help our businessmen capture the trade and business opportunities so arisen, the Trade and Industry Department and the TDC have just issued a special newsletter highlighting the major implications of the accession and detailing the major market opening commitments made by China. They will continue to keep our businessmen abreast of the latest developments and organise seminars and talks to prepare our businessmen for the upcoming opportunities.

13. In his Policy Address unveiled last month, the Chief Executive announced the set-up of four funds with a commitment of \$7.5 billion to support the small and medium enterprises (SMEs) and the implementation of a series of support measures as proposed by the SME Committee. The SME Export Market Fund in particular should help encourage SMEs to participate in export marketing activities to expand access to markets outside Hong Kong.

14. In the wake of the September 11 incident, to help exporters reach out to more potential buyers, the TDC has continued to organise missions to participate in major overseas exhibitions and fairs, including those held in the US and Middle East. The TDC has also stepped up promotions in the Mainland to help Hong Kong companies leverage on the business opportunities arising from China's WTO accession.

15. Given concerns about economic prospects and safety in traveling, the September 11 incident understandably had some immediate impact on overseas buyers attendance of trade fairs in Hong Kong, particularly buyers from the US and Europe. However, the situation in September and October was better than expected. The Electronics Fair, for example, recorded only a slight decrease in the number of visitors. Meanwhile, the TDC has made additional efforts to attract buyers, especially those in the Mainland and Asian economies, through direct mailing, telemarketing, advertising, as well as sponsorship and incentive schemes. For example, major optical chain stores in Europe, Middle East, Japan and other Asian countries were invited to participate in the Optical Fair held in November 2001, and toys buying co-operatives in Germany have been invited to the Toys & Games Fair to be held in January 2002.

16. Furthermore, in support of exporters in this difficult time, the Hong Kong Export Credit Insurance Corporation (ECIC) has been strengthening its credit information network with a view to collecting the most up-to-date credit information on overseas buyers to facilitate exports on credit terms. It also provides risk management to exporters under cover. Despite the increasing number of claims, the ECIC has no immediate plan to raise the premium rates across-the-board. Neither has it adopted more stringent criteria for providing insurance cover because of the 911 incident. The ECIC also provides flexible terms of cover to exporters with unique exporting requirements.

Looking ahead

17. The setback in global demand is expected to continue in the near term. Yet the outlook for the Hong Kong export sector and the overall

economy beyond the shorter term should remain good, underpinned by further economic reform and development and continued market liberalisation in the Mainland, as well as the business opportunities arising from China's WTO accession.

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