

LCQ6: Impact of the recent political instability and natural disasters in other countries

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Following is a reply by the Acting Secretary for Commerce and Economic Development, Mr Gregory So, to a question by the Hon Lan Tai-fai in the Legislative Council today (March 30):

Question:

Regarding the impact on the global and Hong Kong's economies caused by the continuous political instability in a number of countries in the Middle East and North Africa in recent months, as well as the onset of natural disasters of severe earthquakes and tsunami in Japan on the 11th of this month, will the Government inform this Council:

(a) regarding the export and re-export trade involving export of goods to the aforesaid areas, whether the authorities had received, in the past three months, requests for assistance from local enterprises because they were unable to receive payments for goods, their clients refused to receive the goods delivered to them or rescinded orders, etc.; if they had, of the number of related cases and details; if not, whether they have planned to look into the relevant situations in depth;

(b) given that Japan is the third largest trading partner of Hong Kong, whether the authorities have assessed the impact of the aforesaid natural disasters in Japan on Hong Kong's import and export trade, as well as the tourism and retail industries; if they have, of the details; if not, the reasons for that; and

(c) whether the authorities have assessed the impact of the aforesaid incidents on the asset value of Hong Kong's Exchange Fund and on the financial market, and whether the authorities are prepared to introduce corresponding measures to assist small and medium enterprises in facing the possible impact brought by the aforesaid incidents?

Reply:

President,

My reply to the three parts of the question is as follows:

(a) In connection with the recent political instability in the Middle East and North

Africa and the major earthquake in Japan, the Hong Kong Export Credit Insurance Corporation (ECIC) has not received any reports or requests for assistance from exporters or policyholders regarding buyers' non-payment, refusal to take delivery of goods or cancellation of order, etc. for shipments to buyers in these regions.

Since the Middle East and North Africa are not major export markets of Hong Kong, the demand by exporters for the ECIC's insurance cover on these regions has been limited. For the Japanese market, the ECIC has so far received only four enquiries from policyholders on whether the ECIC will change its underwriting policy for the Japanese market. The ECIC will closely monitor Japan's situation and market conditions, and review its underwriting policy if necessary.

Also, the Trade and Industry Department (TID) has not received any request from Hong Kong enterprises for assistance regarding the above regions. The TID has contacted major trade and industry associations and learnt that so far they also have not received any such request.

(b) Given the close economic relationship between Hong Kong and Japan, the incidents following the earthquake in Japan will inevitably have an impact on our import and export trade, as well as the tourism and retail industries.

The TID has been in touch with the trade, including major local trade and industry associations and those trade associations related to the major import and export items with a view to understanding the likely impact of the incidents in Japan on our import and export trade. The general view is that trade between Hong Kong and Japan in major commodities, including telecommunications apparatus and equipment, electrical machinery and appliances, jewellery and apparel and clothing, may be adversely affected in the near future, although the actual impacts on different sectors may vary. The trade will need more time to make a realistic assessment of the situation.

The tourism sector has also been closely monitoring the situation in Japan. In view of the destruction and uncertainty caused by the earthquake and the tsunami, the trade has decided to cancel all Japan tours scheduled to depart before April 15. People who have joined these tours may choose to retain the tour fare for six months, or request a refund of tour fare after deducting a fixed service charge. As far as we know, travel agents are actively promoting and making arrangements for affected customers to switch to packaged tours to other destinations such as Southeast Asia in order to

minimise the impact on travel agents and employees in the sector resulting from the cancellation of Japan tours. This will not only help Hong Kong people avoid cancelling their travel plans due to the earthquake in Japan, but also enable tour escorts to be temporarily re-deployed to other outbound tours and make up for their losses.

In addition, we believe that the earthquake will affect Japanese tourists' desire to travel. We will keep a close eye on changes in the number of visitors from Japan, and assess the impact of the earthquake on inbound tourism in Hong Kong. To minimise the impact of a possible drop in the number of tourists from Japan on our tourism and retail industries, the Hong Kong Tourism Board will step up its efforts to attract tourists from the Mainland and other parts of Asia, as well as long-haul markets, to visit and spend in Hong Kong.

In respect of goods imported from the affected areas in Japan, although their supply may be disrupted due to the incidents, as an open economy, Hong Kong imports food and consumer products from diverse sources and local consumers usually have a wide array of choices. We believe that the incidents in Japan will not have a significant impact on the overall supply of consumer goods to Hong Kong and on our retail industry.

In view of the uncertainty surrounding the situation in Japan, it is difficult to assess the actual impact of the incidents on the Hong Kong economy at this stage, but we believe that the impact will be gradually reflected in the figures to be released in the coming months. Nevertheless, Hong Kong's recent strong economic performance has benefited mainly from the robust growth in the Mainland and other Asian economies. The developments in these areas will continue to be beneficial to the Hong Kong economy, providing an offset to the negative effect of the incidents in Japan.

(c) The persistently high oil prices amid the instability in the Middle East and North Africa, as well as the earthquake, tsunami and radiation leaks in Japan, have resulted in an uncertain outlook. Investors have therefore become more risk averse, while the global stock and foreign exchange markets have become more volatile. All these have affected the market valuation of the Exchange Fund's investments in these markets. However, with the prudent management approach and diversified investment strategy adopted by the Hong Kong Monetary Authority (HKMA), the impact on the Exchange Fund has been relatively mild so far. The HKMA will continue to closely monitor developments in the financial markets and manage the Exchange Fund

prudently.

Regarding the financial market, our local banking system and currency, foreign exchange and stock markets etc. are all operating in an orderly manner. In addition, there is no evidence of abnormal fund outflow. The crisis in Japan has limited impact on insurers in Hong Kong as well. The Administration will maintain close contact with the financial regulators to ensure that all parties concerned are kept abreast of comprehensive information on the crisis so that appropriate measures can be introduced when necessary.

The Government understands that the incidents mentioned above may lead to certain changes in the market environment, and bring about operational difficulties and challenges for enterprises, especially the small and medium enterprises (SMEs). The TID and the Hong Kong Trade Development Council (TDC) will continue to monitor the situation of the countries concerned and keep in touch with major trade associations to see whether Hong Kong traders have difficulties in conducting import and export trade with these countries, release timely information to the trade, and provide appropriate assistance when necessary. Moreover, the TDC will render assistance to companies seriously affected by the earthquake in Japan, in particular those whose business is highly concentrated in the Japanese market, and help them diversify their business into the Mainland or other promising markets.

If Hong Kong exporters need to know whether their Japanese buyers' ability to pay has been affected by the earthquake, they may contact the ECIC or make use of the "Free Quote" and "Online Policy Application" services (including buyer credit check) available at the ECIC's website "EC-link" to obtain the ECIC's proposed credit limits for the Japanese buyers for evaluating the risks involved in extending trade credits to them.

Finally, individual SMEs facing cash flow problems may consider applying for loans from lending institutions participating in the existing SME Loan Guarantee Scheme administered by the TID or the SME Financing Guarantee Scheme launched by the Hong Kong Mortgage Corporation Limited earlier this year.

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