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- Economic Vision
- 中銀內部研究
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Restructuring of Global Industrial Chains Brings New Opportunities for Financial Industry Development in Hong Kong

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Since 2000, the world has been experiencing a new round of industrial chain restructuring and gradually deeper development. The main motivation of restructuring has gradually changed from the initial consideration of reducing operating costs to industrial chain security and geopolitical factors. Thus, the industries involved in restructuring have gradually changed from the initial traditional manufacturing industries, including textile and garment etc., to emerging industries, including new energy, digital economy, consumer electronics etc. In view of this, this paper mainly analyzes the main reasons why the Southeast Asia region has become a destination to undertake industrial chain reconstruction, and its promotion effect on local economic development. On this basis, it elaborates the role positioning of Hong Kong in this round of industrial chain transfer, and the future development opportunities of the local financial industry.

I. Main Characteristics of this Round Global Industrial Chain Restructuring

There have been four rounds of large-scale and systematic industrial chain transfer in the world. The remarkable characteristics of the first four rounds of industrial chain transfer are that enterprises chose to transfer high-cost production capacity to emerging economies, because of lower labor cost and land resource prices, to improve economic efficiency and pursue higher profits. In contrast, the characteristics of the fifth round of industrial chain transfer are more complicated and diversified.

1. Geopolitics Situation has Become an Important Factor for this Round Industrial Chain Transfer

In recent years, unilateralism and trade protectionism have risen, and there has been a wave of anti-globalization, while efficiency and cost are no longer the only important criteria for multinational enterprises to layout the industrial chain. Some developed countries have made use of their advantages in new technologies and scientific patents to build a complex global industrial chain in order to control the resources and energy, intellectual property rights, core technologies and market

access standards, and set up policy barriers and investment restrictions in many key links to encourage enterprises to transfer production capacity to their own countries or the regions friendly to them. In this context, some countries and regions that are politically neutral and geographically close to Europe and the United States have also benefited and become the places to undertake this round of industrial transfer.

2. Major Public Security Events Accelerates the Fifth-round Industrial Chain Transfer

The COVID-19 epidemic in 2019, the Russia-Ukraine conflict in 2022, and the Palestinian-Israeli conflict in 2023 have damaged the original supply chain of global energy, food and some non-ferrous metals, hindered normal global trade exchanges, and disrupted the global industrial chain and supply chain, which makes governments fully aware of the importance of a stable and reliable industrial chain system. Therefore, some countries begin to promote the “China plus one” outsourcing policy, which further catalyze the process of this round of industrial chain transfer, but also affect the long-term healthy development of the global industrial chain system and the organization of global production.

3. Chinese Enterprises Become Important Participants in this Round Industrial Chain Transfer

Since 2018, being negatively affected by Sino-US trade frictions, Chinese exports to the United States have been restricted by high tariffs and other restrictions, and the share of Chinese exports in US imports has dropped from 21.2% at the peak in 2017 to 13.4% in 2023. At the same time, Chinese enterprises begin to accelerate the “going global”, have to move to other countries for production and assembly, achieving detour exports to European and American markets. According to the data of “2023 Statistical Bulletin of China’s Outward Foreign Direct Investment”, the total amount of China’s foreign direct investment in 2023 has reached 177.29 billion US dollars, an increase of 8.7%, accounting for 11.4% and 6.7% of the global FDI flow and stock in the same year, respectively, ranking third in the world.

4. Southeast Asia, India and Mexico Become Main Locations to Undertake Industrial Chains Transfer

Over the past five years, China’s FDI in ASEAN countries has grown at a compound annual rate of 12.9%, and in Mexico at a compound annual rate of 23.3%. The reasons for the above three regions to become destinations for this round of industrial chain transfer are different. The main advantages of Southeast Asia are lower costs, industrial supporting policies, stable and neutral geopolitical relations and open business environment; India’s main advantages are reflected in that it is an important ally of the United States in South Asia, has participated in a number of industrial cooperation framework agreements led by the United States, and enjoys the open policies of the United States in high-tech, biomedicine and other fields. Mexico’s main advantages lie in its proximity to the United States, its obvious geographical advantage, and the US-Mexico-Canada Agreement has further consolidated the economic and trade ties between the two countries.

5. Emerging Industries are Important Parts of this Round Industrial Chain Transfer

Because the proximity to raw material sources, strong support policies from governments and other reasons, emerging industries represented by new energy and digital economy also actively participate in global industrial transfer, and arrange some production assembly, market operation and other work in the undertaking place, so as to avoid high tariffs in the target markets and to develop new local markets. In terms of new energy vehicles, the Southeast Asia region, with its rich key mineral resources (including nickel, lithium, copper etc.), a large number of young labor force and a market with development potentials, has attracted many Chinese electric vehicle companies to transfer part of their production capacity here. In terms of the digital economy, Southeast Asia’s online media, travel and food delivery, online travel services, e-commerce and other fields have maintained growth for many years, and the development prospects of the digital economy have attracted a lot of international investment. Chinese companies are also actively involved in the construction of 5G infrastructure, data centers, e-commerce, artificial intelligence, and other fields.

II. Southeast Asia Become an Important Destination to Undertake Global Industrial Chains

Southeast Asia is undoubtedly one of the important regions to undertake this round of industrial chain transfer. Therefore, this chapter analyzes the main reasons for industrial chain moving into Southeast Asia and the impact of industrial chain moving into Southeast Asia on local economies.

1. Main Motivation of Industrial Chains Moving into Southeast Asia

Economic factor advantages. The first advantage factor is rich mineral resources. Southeast Asia is rich in copper, nickel, tin, aluminum, titanium, oil, natural gas and other mineral resources, which provide important raw materials for the production of new energy, consumer electronics and other industries. The second advantage factor is enough working-age work force. In terms of age distribution, the median ages of major ASEAN countries including Indonesia, the Philippines, Vietnam, Thailand, Malaysia, Cambodia, Singapore and Laos are 29.6, 24.7, 32.4, 39.7, 30.3, 26.8, 42.3 and 24.3, respectively. All except Thailand and Singapore are lower than the average age of 38.47 in China.

Rich industrial support policies. Southeast Asian countries have introduced supportive policies to attract multinational companies. It can be divided into tax incentive policies and non-tax incentive policies. Among them, tax incentive policies are mainly to set tax holidays or reduce part of taxes, including corporate income tax and import tax on raw materials. Non-tax incentives include streamlining procedures, reducing or eliminating foreign exchange controls, and preferential land leases.

Politically neutrality. ASEAN adheres to the international balance strategy of “security depending on the United States, economy relying on China”, maintains overall neutrality on regional and international relations, and good political and economic exchanges with the United States and other developed countries in the world. In addition, it also has relatively loose business environment. With its unique advantages and industrial support policies, ASEAN has continued to consolidate its position as a hub in the Asia-Pacific and global industrial division of labor system.

2.Undertaking Industrial Chains Promotes Economic Growth for Southeast Asia

With the industrial chain transfer, a large number of global FDI flows into the ASEAN region, boosting the rapid economic growth of ASEAN. From 2013 to 2022, ASEAN’s GDP grew at an average annual rate of 4.2%, significantly higher than the world’s average annual growth rate of 2.8% over the same period. At the same time, according to the “ASEAN Investment Report 2024” data in 2023, ASEAN FDI inflows reached 230 billion US dollars, accounting for 17% of the global FDI inflows, an increase of 0.5 percentage points over 2022. While China’s FDI flow to ASEAN was 25.12 billion US dollars, an increase of 34.7% in 2023, accounting for 14.2% of the total flow in the year, mainly flowing to Vietnam, Indonesia, Thailand and Singapore. From 2019 to 2023, with the industrial transfer, FDI from Chinese enterprises to the ASEAN region grew at an average annual rate of 13.5%. From the perspective of industry composition, the first target industry is the manufacturing industry of 9.15 billion US dollars, an increase of 11.4% over 2022, accounting for 36.4%, concentrated in the fields of automobiles, electronic products and renewable energy. In addition, according to “2023 Statistical Bulletin of China’s Outward Foreign Direct Investment” data, by the end of 2023, China has set up more than 7,400 enterprises with direct investment in ASEAN, an increase of 900 over the end of 2022, and employs more than 720,000 foreign employees, an increase of more than 60,000 over 2022.

III. Hong Kong’s Roles in Participating in Industrial Chain Restructure

Considering that the main destinations of this round of industrial chain restructure maintain relatively close economic relations, Hong Kong could deeply participate in the industrial chain restructuring from the three dimensions of “intelligence integration”, “business bridging” and “financing”.

1.Intelligence Integration Center for the Regional Development of Enterprises

Hong Kong could combine the advantages of trade services in the region, focus on the difficulties and pain points of Chinese enterprises in “going global”, and provide training guidance, information sharing, risk warning and other services for enterprises to invest and operate in Southeast Asia. Specific considerations can be made from the following four aspects. First, build a “going global” information sharing platform to provide Chinese enterprises with information services, including policies and regulations, market dynamics, and risk early warning; Second, hold seminars and training courses to introduce Southeast Asian countries’ national conditions, folk culture, characteristic industries, investment policies, laws and regulations, business etiquette, and past business success and failure cases to Chinese enterprises; Third, strengthen the training and guidance for Chinese enterprises to “going global”, cultivate international talents, improve the international operation ability and risk prevention awareness of enterprises, and improve the tax compliance awareness and ability of enterprises; Fourth, support Chinese “going global” enterprises to participate in the formulation of international standards and rules, so as to enhance their voice and competitiveness in the international arena.

2.Business Bridging Center for the Regional Development of Enterprises

Hong Kong could take advantage of the unique advantages of collection of the Eastern and the Western cultures, and cooperate with the local government agencies in Southeast Asia to build various matchmaking platforms for Chinese enterprises to invest and operate in Southeast Asia, promote the exchange of information among enterprises, and carry out cooperation to jointly explore overseas markets. There are two aspects worth considering. First, build a business matchmaking platform for Chinese enterprises to go overseas. From technology, projects, funds, professional services and other aspects of Chinese enterprises to match, share the ship. At the same time, with large multi-national and local leading enterprises as the starting point, develop a comprehensive trade service plan to attract various types of enterprises in the industrial chain to actively participate; Second, build a comprehensive business service platform for the comprehensive development of Chinese-funded enterprises. Leveraging Hong Kong’s advantages in professional services, such as law, accounting, rating, arbitration, management consulting and education, the local professional services industry joins hands with Chinese overseas enterprises to jointly explore the Southeast Asian market; Third, achieve the international upgrading of the solutions and products of Chinese enterprises going abroad. Taking advantages of Hong Kong’s integration with international market standards, attract more Chinese enterprises and products to test in Hong Kong and continue to optimize and iterate, so as to realize the transformation from local solutions to international solutions.

3. Financial Center for the Regional Development of Enterprises

Hong Kong needs to continue to improve its regional service network, enhance its financial service capabilities in the Southeast Asia, and provide customized financial solutions, including comprehensive financial services for Chinese enterprises, including cross-border investment and financing and foreign exchange risk management. The following four aspects are worth considering. First, provide investment-banking services, including IPO listing, additional offerings, rights issues, and bond issuance to provide financial support for large and medium-sized enterprises going overseas; Second, provide innovative and abundant one-stop financing support for “going global” enterprises, including structured financing, internal guarantee, and loans ; Third, increase support for Chinese enterprises’ “going global” M&A by providing diversified financing support, such as M&A loans and M&A bonds, as well as professional services, such as M&A financial advisory; Fourth, serve the needs of RMB business of Chinese enterprises in the overseas exhibition industry, make use of Hong Kong’s absolute advantages as a global offshore RMB center, build a cross-border RMB settlement channel in Southeast Asia, and provide an online and convenient RMB service platform for Chinese enterprises.

IV. Major Opportunities for Hong Kong's Financial Industry

As a relevant party in the fifth round of industrial chain restructure, Hong Kong could rely on the original advantageous field of “financing” and further develop into the upstream fields of “intelligence integration” and “commercial bridging” to promote the transformation of its own economy. In this process, Hong Kong's financial industry also needs to seize the opportunities such as the global layout of enterprises, the accumulation of personal wealth, and the rich usage scenarios of RMB, so as to consolidate its advantages and deepen its development.

1. Financial Opportunities in Global Layout of Enterprises

The industrial chain transfer involves enterprises to set up new companies across regions, recruit new employees, purchase new equipment, etc., which generates new capital requirements for enterprises, and also brings broad business opportunities for Hong Kong's financial industry. First, trade finance opportunities. As the two major trading partners of Hong Kong in this round of industrial chain transfer, Hong Kong has close economic relations with the two sides, especially in the offshore intermediate trade, which has great potentials for development, bringing a large number of business opportunities in import and export trade financing. Second, supply chain finance opportunities. The industrial chain transfer is usually accompanied by the common migration of upstream and downstream enterprises in the supply chain. New suppliers, new production locations, and even new customers bring a large number of integrated financial service opportunities, such as supply chain financing. Third, M&A financing opportunities. In the process of industrial chain transfer, enterprises increase M&A activities in the industrial chain for the purpose of improving operational efficiency and seizing the market, which also bring a large number of M&A loans, equity direct investment financing, structured financing, private financing and other business opportunities. Fourth, shipping insurance opportunities. The industrial chain transfer further consolidates Hong Kong's role as a trade intermediary between the Mainland China and ASEAN, and also promotes the deepening development of Hong Kong's shipping industry. Coupled with Hong Kong's efforts to attract more shipping companies to operate routes through Hong Kong, it is expected that a large number of professional insurance service opportunities related to ships, cargoes and shipowners' liabilities will be brought about.

2. Opportunities for Personal Wealth Accumulation

Industrial chain transfer is conducive to enhancing the competitiveness of enterprises, rapidly realizing regional development, and also brings a large number of wealth management customers, including business owners and corporate executives, to Hong Kong's financial industry. First, opportunities of Chinese executives. In the process of transferring some production capacity from the mainland to ASEAN, enterprises also send a large number of personnel to engage in production, technology, finance and other aspects of management. The payroll, exchange and financial management needs of these personnel bring business opportunities to the Hong Kong financial industry with local branches; Second, opportunities of Chinese in ASEAN. Due to language and cultural reasons, Chinese enterprises also hire a large number of local Chinese as employees and choose local Chinese enterprises as business partners when operating in ASEAN. These Chinese and business owners also become the target customer group of financial wealth management business; Third, opportunities of Hong Kong corporate headquarters' executives. With its advantages in taxation, law and finance, Hong Kong attracts a number of overseas Chinese enterprises to set up their regional headquarters in Hong Kong as a financial and trading center for their enterprises. Executives and business owners of these enterprises also have a large amount of asset allocation requirements.

3. Opportunities of Expanding RMB Application Scenarios

As the world's largest offshore RMB business center, Hong Kong could also take the opportunity to explore the RMB business scenarios and further consolidate the position of offshore RMB center. After Chinese enterprises “going global”, many enterprises still use the mainland as the procurement place of upstream raw materials and semi-finished products, that is, both ends of the trade are Chinese enterprises, creating an innate condition for the use of RMB in international trade. For products purchased in the mainland in large quantities (such as agricultural products, etc.), coupled with the broad development potentials of the mainland market, the buyers have a greater say. In order to avoid the exchange risk in the trade, this part of the trade may gradually be paid in RMB in the future.

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主要經濟指標 (Key Economic Indicators)

一、本地生產總值 GDP	2022	2023	2024/Q2	2024/Q3
總量 (億港元) GDP(HKD 100million)	28,090	29,010	7,165	7,479
同比增長率 (%) YoY change(%)	-3.7	3.3	3.3	1.8
二、對外商品貿易 External merchandize trade			2024/10	2024/1-10
外貿總值 (億港元) Total trade(HKD 100million)				
總出口 Total exports	45,317	41,774	3,930	37,421
總進口 Total imports	49,275	46,450	4,240	40,438
貿易差額 Trade balance	-3,958	-4,676	-310	-3,017
年增長率 (%) YoY Growth(%)				
總出口 Total exports	-8.6	-7.8	3.5	9.9
總進口 Imports	-7.2	-5.7	4.5	6.8
三、消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	1.9	2.1	1.4	1.8
四、零售市場 Retail market				
零售額同比升幅 (%) Change in value of total sales YoY(%)	-0.9	16.2	-2.9	-7.1
五、訪港遊客 Visitors				
總人數 (萬人次) Total arrivals(10 thousands)	60.5	3,400.0	409.0	3,667.9
年升幅 (%) YoY change(%)	561.5	5,523.8	18.3	37.0
六、勞動就業 Employment			2024/7-2024/9	2024/8-2024/10
失業人數 (萬人) No. of unemployed(10 thousands)	16.3	11.3	12.0	12.1
失業率 (%) Unemployment rate(%)	4.3	2.9	3.0	3.1
就業不足率 (%) Underemployment rate(%)	2.3	1.1	1.2	1.1
七、住宅買賣 Domestic property sales and price index			2024/8	2024/9
合約宗數 (宗) No. of agreements	45,050	43,002	3,654	2,848
住宅售價指數 (1999=100) Domestic price index	369.7	337.4	292.8	287.9
八、金融市場 Financial market			2024/9	2024/10
港幣匯價 (US\$100=HK\$) 期末值	780.8	781.1	777.0	777.3
HKD exchange rate (US\$100 = HK\$), end of period				
銀行體系收市總結餘 (億港元) 期末值	962.5	449.5	478.0	447.3
Closing aggregate balance(HKD 100million), end of period				
銀行總存款升幅 (%)	1.7	5.1	5.8	5.8
Change in total deposits(%)				
銀行總貸款升幅 (%)	-3.0	-3.6	-2.1	-3.2
Change in total loans & advances(%)				
最優惠貸款利率 (%) 期末值	5.6250	5.8750	5.6250	5.6250
Best lending rate (%), end of period				
恒生指數 Hang Seng Index	19,781	17,047	21,134	20,317