BEA 東亞銀行

Economic Research Department

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# Economic QuickView

## Hong Kong: Assessing Hong Kong's economic outlook amid escalating US tariffs

- US tariff shocks likely bring modest direct impacts but wider indirect influences.
- Domestic drivers including a services-oriented economic structure and the development of Northern Metropolis should enhance Hong Kong's resilience.
- Deeper integration with the Mainland will help mitigate negative impacts of tariffs.

## The US initiated the most aggressive trade tariffs in decades

**Global trade policy uncertainties have escalated rapidly under Trump's second presidency.** Since February 2025, the Trump administration has imposed sweeping trade tariff measures. Notably, China is one of the economies faced with the hardest tariffs, with the US once imposing additional 145% tariffs on all Chinese products. In response, China enacted 125% retaliatory tariff on all US imports. On 9th April, the US announced a 90-day pause on its tariff measures against all trading partners except China. On 11th April, the US issued a custom notice to temporarily exempt high-value electronic imports from reciprocal tariffs. Meanwhile, the US also raised the tariff rate on small-scale packages from Chinese Mainland and Hong Kong to 120% (effective on 2nd May), which will affect numerous e-commerce transactions. Global financial markets reacted negatively, as the risks of a global economic recession rose rapidly due to the potential disruptions by the US tariffs. Against a worsening global economic backdrop, Hong Kong's economy needs to focus on its domestic growth drivers and seek closer integration with Chinese Mainland to counter external headwinds.

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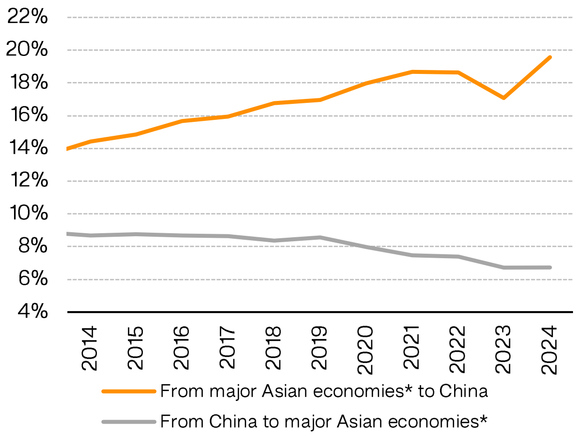
### US tariff shocks likely bring modest direct impacts but wider indirect influences

**Direct trade impacts are not significant for Hong Kong.** Despite the imposition of extreme tariffs, the direct impacts on Hong Kong's economy is likely to be small. The amount of exports between US and Chinese Mainland handled through Hong Kong only accounted for 5.6% of total exports in 2024. Hong Kong has been an important platform for Chinese Mainland to source for imports in the global market, with rising flows of re-exports from the rest of the world (outside the US) to Chinese Mainland via Hong Kong. This trend is likely to persist or accelerate, as Chinese firms will seek to further diversify its export markets and pursue a more balanced composition of supply network, thereby enhancing Hong Kong's resilience amid the US tariffs and other forms of restrictions.

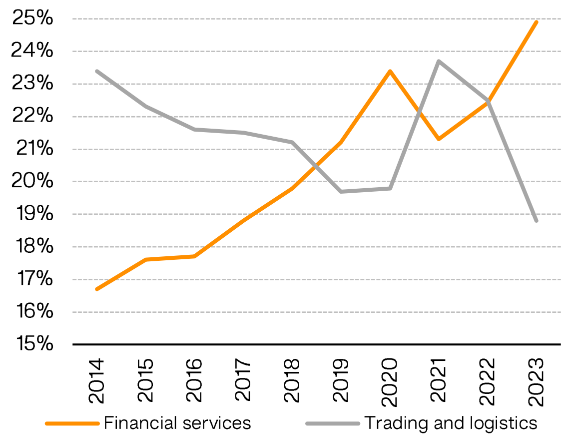
**Hong Kong's service-based economic structure would shield it from the direct fallout of US tariffs.** Hong Kong's economy is driven by services sectors, which accounted for 93.5% of GDP in 2023, while manufacturing activity took only 1.0% of GDP. Among the four key industries of Hong Kong, trade-related economic activity has been decreasing, with the GDP share of trading and logistics industry declining from 23.4% in 2014 to 18.8% in 2023, while domestic-focuses services are having a greater weight, with the share of public administration, social and personal services increasing from 17.2% to 20.9%. These domestic-focused services activities would help cushion the direct fallout from reduce trade demand.

**Share of Re-Exports through Hong Kong**




*Note: Major Asian economies include Japan, South Korea and ASEAN
Source: Census and Statistics Department

**GDP Share of Selected Sectors**




Source: Census and Statistics Department

**Indirect influences from tariffs require closer surveillance.** Apart from trade, the escalation of US-China tensions would dampen private confidence due to an uncertain outlook and volatile financial markets. The recent tit-for-tat increases in tariffs have created huge uncertainties for cross-border trade, likely promoting businesses to delay capital spending and expansion. In addition, Hong Kong's stock market has exhibited tremendous volatility since the announcement of the US reciprocal tariffs. Most notably, the Hang Seng Index closed lower by 13.2% on 7th April, the largest single-day decline since October 1997. The stock market later stabilised following the news that US delayed some of its tariffs. If such market volatility persists, the negative wealth effects would intensify, leading to a slowdown in household consumption.

## Large-scale investment initiative is set to enhance domestic resilience

**The Northern Metropolis (NM) development will bring vast investments.** Notwithstanding a challenging external environment, the SAR Government remains committed to accelerating various NM investment initiatives, including several large development areas, the Innovation and Technology Park in San Tin Technopole, a number of major transport infrastructure like the Northern Link, Hong Kong-Shenzhen Western Rail Link, Hung Shui Kiu station, and Central Rail Link. These NM projects will significantly boost capital investment and generate employment, serving as a new engine for Hong Kong's economic growth. According to the 2025/26 Budget, the SAR Government's capital works expenditure will be increased to around HKD 120 billion per annum from 2025/26 to 2029/30, up from a previous estimate of HKD 90 billion per annum from 2024/25 to 2028/29.

## Deeper integration with the Mainland will help mitigate negative impacts of tariffs

**Hong Kong can play an active role in facilitating Chinese Mainland's export diversification.** In the face of rising trade tensions with the US, Chinese Mainland is likely to accelerate efforts to diversify its export markets and investment destinations, especially with other Asian emerging economies, Middle East and Belt & Road nations. In addition to transhipment and logistics, Hong Kong's financial and professional services sector would support Chinese firms expanding overseas with cross-order financing, risk hedging, auditing, sales & marketing, legal, consulting and so on. These business opportunities would unleash the potential of Hong Kong's private sector.

**Hong Kong's role as an offshore fundraising centre for Chinese Mainland is poised to strengthen.** Given a tense bilateral relation, it is not only less appealing for Chinese firms to go listing in the US but also more concerning over potential forced de-listings of Chinese stocks from US exchanges. There were a total of 286 Chinese companies listed on US exchanges with market capitalisation of USD 1.1 trillion as of March 2025.[1] These Chinese companies are likely to consider Hong Kong as the preferred market for secondary or dual-primary listing. Besides, Chinese companies also require more funding to develop new markets and they are likely to pick Hong Kong to be the preferred fundraising centre.

**A rising international usage of RMB will offer Hong Kong new growth opportunities.** For years, Hong Kong enjoys abundant policy advantages by serving as the unique gateway, connecting the Mainland onshore market and the global market via the Mutual Connect schemes and other preferential treatments from the Mainland authorities. These financial reforms elevate Hong Kong to be the leading offshore RMB business center, handling about 75% of global offshore settlements, with the world largest liquidity pool of RMB 1.0 trillion deposits by February 2025. To further reduce its reliance on USD-based trade, Chinese Mainland is anticipated to further promote RMB-denominated trade and push forward an orderly internationalisation of the RMB. This will provide Hong Kong with opportunities to develop more RMB products and services and upgrade its RMB financial infrastructure, thereby enhancing Hong Kong's offshore RMB ecosystem.

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[1] Data are from US-China Economic and Security Review Commission.

## Hong Kong will benefit from global monetary easing

**Hong Kong is poised to see looser financial conditions if central banks start easing policy further.** While the US tariffs are likely to slow economic growth globally, most central banks still have the capacity to cut interest rates to stimulate growth. While the People's Bank of China has already signalled that reductions of reserve requirement ratios and rate cuts would arrive anytime, it is widely expected that other major central banks including the US Federal Reserve, the European Central Bank and the Bank of England will continue cutting rates in future. The Bank of Japan is also likely to pause its normalisation cycle to raise rates if the downside risks materialised. The continued global monetary easing cycle is likely to offer support for corporates and households with reduced financial burdens. Importantly, it would help drive sentiment in the housing market, as the negative carry of holding properties is set to narrow further.

**Hong Kong's economic fundamentals remained stable to absorb external shocks.** While the escalating trade protectionism will intensify pressures on Hong Kong's economy, Hong Kong's economic fundamentals remain stable, including a resilient labour market (unemployment rate at a low level of 3.2%); stable financial conditions (high credit rating with the S&P maintaining AA+ and stable outlook) and solid role as the international financial centre (3rd place in the latest Global Financial Centres Index published in March 2025). On balance, although the outlook of exports would be bumpy, Hong Kong's economy is expected to stay on a steady growth trend, underpinned by policy support from the Mainland and various domestic drivers.

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