Chairman’s Foreword
SLOW AND UNBALANCED GROWTH

The world’s major economies have recovered sluggishly in 2015–16. The US was the only exception in showing signs of growth, while the Eurozone and Japan are still to emerge from their economic predicament. Financial markets were generally volatile and monetary policies were divergent. Wide differences were observed in the performances of emerging economies. While Mainland China and India sustained rather good growth rates, resource-exporting countries such as Russia and Brazil stepped into recession, while South Africa hit rock bottom.

With favourable economic indicators and a declining unemployment rate, the US ended the hyper-stimulatory monetary policies that have been in place since the financial tsunami, setting interest rates back on their normal track. The Eurozone economy initially seemed to take a turn to the bright side, but geopolitical incidents such as the Ukraine crisis and terrorist attacks in France affected growth. Economically burdened by heavy debts over a protracted period, weaker member states in the region continued to face structural problems such as unsustainable public finances. Heightened geopolitical tensions in Eastern Europe and the Middle East, together with the influx of refugees and migrants, are all casting shadows over the future of the Eurozone.
Amidst external downward pressure and the challenge of structural adjustments, Mainland China still managed to secure growth of 6.9% in 2015. This rather decent performance came just in time to offset the effect of declining external trade as a result of weak global demand. Japan’s performance has been disparate in the face of subdued domestic demand and the persistent threat of deflation. The stimulation of export growth created by the depreciated Japanese Yen seemed to have faded. As the economic momentum weakened, the Bank of Japan unexpectedly rolled out a negative interest rate policy, but whether this will be successful in boosting the economy remains uncertain.

Growth was lacklustre in the majority of emerging markets last year, with Russia and Brazil falling into recession. While Asian emerging markets remain relatively resilient in terms of performance, weak global trade has caused declines in both production activities and exports. The highly fluctuating global currency environment has triggered sharp adjustments in the stock market. Along with large outflows of funds, the dramatic devaluation of currencies and plunging commodity prices, economic growth in Asian emerging markets has been generally under pressure.

The external trade environment deteriorated in 2015 as the global economy slackened, with the slowest growth recorded since the global financial crisis. Global financial markets also experienced heightened volatility, with the normalisation of interest rates in the US and uncertainties deriving from the divergent monetary policies of the major central banks — all of which further impaired international trade activities. Inadequate global demand had serious effects on exports across Asia, and Hong Kong could hardly remain unaffected.
CREATIVE DESIGNS EARNING HONG KONG COMPANIES HIGH VALUE ORDERS

With the global economy showing little sign of growth and overseas buyers dominating the market, inexpensive quality goods are no longer a strong enough winning ticket. Hong Kong enterprises need to make breakthroughs in traditional business models, and improve their products using new technologies and new designs that combine creativity with the speed-to-online platform and eco-friendly features. Active steps should also be taken to gain high value orders. As the focus of global economic activities is shifting east, the Belt and Road Initiative that covers more than 60 economies (including the numerous emerging markets of Southeast Asia, Central Asia, Central Europe, Eastern Europe and Africa) will bring enormous business potential and opportunities in terms of the construction of infrastructure, deepening of financial connections, expansion of trade and integration of people. Hong Kong has the necessary conditions to gain a share in funding, to be a financial management platform, a trade and logistics centre and an investment springboard. New openings can be identified through the expansion of these markets with promising growth potential.

ECONOMIC UNCERTAINTIES AHEAD

Looking ahead to the coming year, the pace of growth is expected to remain slow and unbalanced. Downward risks are evident and it may be unrealistic to hope for a significant rebound in global trade. In terms of advanced economies, the market generally expects moderate growth in the US, although we are yet to see whether its economy can withstand the effect of the Federal Reserve’s interest rate normalisation policy. Recovery in the Eurozone and Japan is expected to be weak.

Amongst the major emerging markets, the prospects for Russia and Brazil remain gloomy. Mainland China and other Asian emerging markets may appear more stable, but their pace of expansion is expected to decelerate to a certain extent. Emerging markets with less favourable economic fundamentals are considered to be more vulnerable to capital outflow and currency devaluation.
Tensions in the financial market are also reflected in commodity and fuel prices. Economies that depend on commodity exports will be affected, with their growth prospects and public finances pressured. Geopolitical tensions in different parts of the world also continue to cause major concerns. Unfavourable conditions are expected to persist in the external environment and the global demand will stay lacklustre; along with the strong US dollar against most other currencies, Hong Kong’s commodity export market is surrounded by unfavourable factors.

CONFIDENCE IS THE KEY TO NEW DOORS

The US is the major driver of the world’s economic prospects. The four-yearly US general election will take place in 2016, although the outcome of the election is generally expected to have only a limited effect on the country’s monetary policies. Economic recovery is expected to continue along the same path, and there is evidence of strong, steady growth in domestic demand. The basics of the economy are still outperforming those of most other major economies.

This year marks the first year of China’s “13th Five-year Plan”. Mainland China will reform its economic structure under the “new normal”, sustaining medium- to high-speed growth. Although growth is expected to ease over the next few years, the continuous progress of the reform will help promote creativity-driven growth, which in turn should facilitate economic development in the direction of high-value additions, bringing the strengths of the market into fuller play. The abovementioned policies, together with the Belt and Road Initiative, are all favourable for unleashing growth potential and exploiting novel business opportunities. While the economy is only inching forward, exporters should be confident and courageous in making breakthroughs in search of an exit.
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Confucius claimed that 50 is the age at which one finally understands the mandate of heaven. The Corporation is turning 50 this year. The management and staff have upheld the aim of encouraging and supporting Hong Kong trade over the past 50 years. Working relentlessly, they are committed to offering professional and high-quality credit insurance services to Hong Kong exporters, and their achievements deserve recognition. My heartfelt gratitude goes to the hard work and dedication of the Corporation staff, which has helped us make big strides forward. At the same time, I would like to thank all members of the Advisory Board, the Commerce and Economic Development Bureau of the Hong Kong Special Administrative Region Government, the Corporation’s reinsurers and reinsurance broker, banks, trade and industry associations and the International Union of Credit & Investment Insurers for their support. Last but not least, on behalf of the Corporation, I would like to express my cordial gratitude to all of our policyholders, and particularly our long-standing policyholders who continue to support the Corporation.

Eric Yim, JP
Chairman, Advisory Board