

HONG KONG | OVERVIEW

Could Hong Kong protests hit the marine market?

IBI INVESTIGATES ASIA'S SECOND-LARGEST BOATING MARKET AND ASSESSES THE IMPACT OF RECENT PRO-DEMOCRACY PROTESTS AND POTENTIAL REPERCUSSIONS

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HONG KONG



- **GDP rate:** 2.9% (2013 est.)
- **GDP forecast 2014:** 3%
- **GDP per capita:** \$52,700 (2013 est.)
- **Inflation rate:** 6.6% in September 2014
- **Unemployment rate:** 3.3% in June-August, 2014
- **Population:** 7,112,688 (July 2014 est.)
- **Area total:** 1,104 sq km
- **Coastline:** 733 km

Photo: YP Loke



▲ Hong Kong's Clear Water Bay

At the time of writing, the high-stakes poker game between the students and the government in Hong Kong appears to be coming to a thankful, blood-free impasse. However, it is not too early to consider what lasting impact the pro-democracy protests will have on the former British colony and the leisure marine industry, the second largest in Asia after Japan.

It's almost a given that the political conclusion can be accurately predicted. The students' demand that Hong Kong adopt genuine democracy is never going to be considered by Beijing. In this poker game, the banker will always win and there is little leeway for the Hong Kong government to play with in their talks with the students. There will be no question of public nomination of candidates.

So what are the likely outcomes of this impasse? Will Hong Kong ever be the same again and what are the repercussions for the leisure marine industry?

Considering the likely outcome, it will probably

be the consequential downturn in the economy and the family rice bowl that will bring some resolution to the situation. Already Hong Kong has suffered several billion HK\$ loss of retail sales and tourist receipts.

RULE OF LAW PREVAILS

With Hong Kong people driven by a strong business and a work ethic, it will not be long before the students are pressurised by their parents and the community to return to some form of normality, although the sudden grown-up politics of thousands of young Hong Kong people has been a learning curve in their power and the limits to which they can go.

Ultimately, the rule of law has prevailed in Hong Kong – protecting both the government and the protestors – and Hong Kong's standing as Asia's main financial centre is maintained for the present.

Ultimately, Beijing still needs Hong Kong. It's a place to raise capital and the channel for China to the outside world. ➔

“ Will Hong Kong ever be the same again and what are the repercussions for the leisure marine industry? ”

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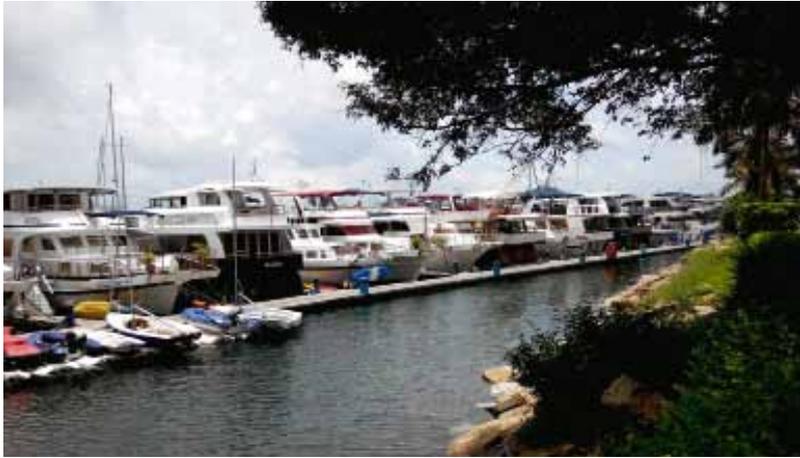


Photo: YP Lok

▲ **Discovery Bay, on the north-eastern coast of Lantau Island**

The effect on the leisure marine industry due to the recent political situation in Hong Kong is too early to predict. However, with Hong Kong the main distribution and service hub for the leisure, workboat and patrol boat market in China, some effect is already being seen due to the crackdown on overt spending in China which has now been running for two years.

According to Simon Boyde, director of marine equipment distributor Storm Force Ltd in Hong Kong: “Equipment sales to China boatbuilders have declined considerably in the past year to leisure boat,

workboat and patrol boat builders, showing that China government policy on tightening up on overt displays of wealth is also affecting government budgets in China as well as the private yacht market.”

After Japan, Hong Kong is the most developed boating market in Asia with a long association with sailing. As a British Colony, English expatriates established the Royal Hong Kong Yacht Club – a prestigious and active sailing club sitting on prime property – that defiantly retained the “Royal” title after the Island’s handover to China. While the club still has the colonial air, boating has filtered through to the upper classes. Many Chinese and Hong Kong Tai-pan’s (business entrepreneurs) are yacht owners, much of which is driven by corporate one-upmanship.

BERTHING SHORTAGE SLOWS GROWTH

In recent years, rich Chinese with Hong Kong connections have also chosen to berth their yachts in Hong Kong, where there is no boat tax (compared to 43% tax in China). The result being that marinas in Hong Kong are full, making it difficult for dealers to sell new boats into the market. This has spurred a growth in marina development near Hong Kong, mainly in the Pearl River Delta. In Hong Kong the government is not supportive of new marina projects (viewing boating as elitist) and resistance by strong environmental groups does not help. ➔

Hong Kong background

Occupied by the UK in 1841, Hong Kong was formally ceded by China the following year; various adjacent lands were added later in the 19th century. Pursuant to an agreement signed by China and the UK in 1984, Hong Kong became the Hong Kong Special Administrative Region (SAR) of the People’s Republic of China on 1 July 1997. In this agreement, China promised that, under its ‘one country, two systems’ formula, China’s socialist economic system would not be imposed on Hong Kong and that Hong Kong would enjoy a high degree of autonomy in all matters except foreign and defence affairs for the next 50 years.

Hong Kong has a free market economy highly dependent on international trade and finance. The value of goods and services trade, including the sizable share of re-exports, is about four times GDP. Hong Kong’s open economy left it exposed to both the Asian financial crisis of 1997 and the global financial crisis of 2008, but its increasing integration with China – through trade, tourism, and financial links – ensured it did not suffer as badly as the other Asian countries and also helped it recover more quickly than many observers anticipated.

Hong Kong economy snapshot:

- ▲ GDP on purchasing power parity (PPP) basis/world ranking: US\$381.3bn/36
- ▲ GDP 2013 growth rate/world ranking: 2.9%/120
- ▲ GDP per capita on PPP basis/world ranking: US\$52,700/15
- ▲ Labour force: 3.87 million
- ▲ Inflation rate August 2014: 3.9%

The mainland has long been Hong Kong’s largest trading partner, accounting for about half of Hong Kong’s exports by value. Hong Kong’s natural resources are limited, and food and raw materials must be imported. As a result of China’s easing of travel

restrictions, the number of mainland tourists to the territory has surged from 4.5 million in 2001 to over 20 million, outnumbering visitors from all other countries combined. Hong Kong has also established itself as the premier stock market for Chinese firms seeking to list abroad.

During the past decade, as Hong Kong’s manufacturing industry moved to the mainland, its service industry has grown rapidly and accounts for more than 90% of the territory’s economy. GDP growth averaged a strong 4% from 1989 to 2008, but has fallen to a current 2.9% as a result of the global financial crisis. Credit expansion and tight housing supply conditions have caused Hong Kong property prices to increase rapidly and some lower income segments of the population are increasingly unable to afford adequate housing. Hong Kong continues to link its currency closely to the US dollar, maintaining an arrangement established in 1983.

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Photo: YP Loke

▲ **Shelter Cove and the Hong Kong International Boat Show**

Other possible marinas sites are on hold because Hong Kong's harbour redevelopment plans have stalled as the various waterfront stakeholders fight over competing use. Protective infrastructure and seawalls have to be substantial and are capital intensive as the area is in the typhoon belt.

RETAIL AND DISTRIBUTION

According to Simon Boyde of Storm Force, there are no dedicated chandlery outlets in China. Because of this, much of the retail and distribution of marine equipment is centred on Hong Kong.

"Some 70% of our turnover is exported to China, with the main customers being leisure, commercial and patrol boat builders," says Boyde. "We are distributors for Side Power thrusters, which represent a large part of our turnover, Gill clothing and Victron Energy products.

"We have some 70 trade customers in China, especially in the commercial and patrol boat market, where 150 custom boats have been built in the last two years. In China there are a large number

“ There are about 1,200 sailing yachts in Hong Kong above dinghy size. This compares with around 200 in China ”

of boatbuilders almost exclusively building small commercial vessels for their local areas and quite small. China has not built that many leisure boats in recent years, and there are only about 20 that can manufacture to export standards. Once the China market improves, we are looking to expand our network there.”

With regard to the Hong Kong market, Boyde confirms: “There are about 1,200 sailing yachts in Hong Kong above dinghy size. This compares with China, which has about 200 sailing yachts.” This makes Hong Kong the largest sailboat market in Asia.

HONG KONG VS CHINA

Bart Kimman of Asia Yacht Services, a Hong Kong-based yacht broker and dealer for Grand Banks and Seawind catamarans, estimates the real number of Class 4 leisure boats, excluding those not active, is about 9,000.

“Some boat owners who are not active just keep their boat in a marina berth as these are valuable assets with the growing lack of berths in Hong Kong,” he says. “The Chinese border is generally not open to boating. While it is possible to bring boats across, the procedure is still quite bureaucratic and unfriendly. The result is that most crossings are a result of the few club-organised rallies that take place as annual events in the boating calendar. In my opinion, the Hong Kong market for leisure boats is the largest one in China outside of Japan.”

Hong Kong may be suffering from some teething troubles at the present time with the predominately student-led pro-democracy movement, but Hong Kong has gone through many up and downs in its history and always recovered. The bottom line is that the economy rules – whether it's for the government, business or private citizens – and a pragmatic approach is likely to be reached so that Hong Kong can carry on as the economic hub of Asia.

Given no economic downturn, the leisure marine business will also recover from any blip, although the lack of berths is still a key problem. **IBI**

Hong Kong boating statistics snapshot:

Total registered leisure boat park of Class 4 vessels (without a commercial purpose):	9,000
Leisure boat park boats >12m (estimate):	2,500
Total taxes and duties for leisure boats:	Zero %
Marinas existing/planned:	8/0
Clubs and locations with swinging moorings:	Not known
Total berths/moorings:	2,500
Number of quality boat dealers/agents:	20
Number of quality equipment outlets:	3