ASIA MONTHLY

June 2025

株式会社 日本総合研究所

https://www.jri.co.jp/en/reports/asia/

This report is the revised English version of the June 2025 issue of the original Japanese version (published 29th May.).

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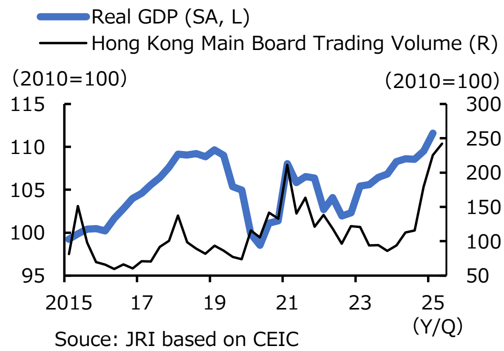
Topics *Panama Canal problem worsens risks to Hong Kong's outlook*

Hong Kong's economy continues to recover amid heavy investment from mainland China. However, growing dependence on China has become a liability. With the U.S.-China rivalry intensifying, problems surrounding the Panama Canal have heightened risks to the territory's outlook.

■ Hong Kong's economic momentum supported by businesses linked to mainland China

Hong Kong's economy continues to perform well. Real quarter-on-quarter growth for the January-March 2025 quarter accelerated to 1.9%, an increase from the 0.9% figure recorded in the previous quarter. Both imports and exports grew as businesses scrambled ahead of the Trump tariffs, and trade remained robust. Increased equity investment and other financial factors also added to the economic momentum. Furthermore, a large number of high-tech mainland Chinese firms are listed in Hong Kong and the rise of Chinese startup DeepSeek has triggered an inflow of cash into AI stocks.

<GDP and Stock Trading Volume in HK>

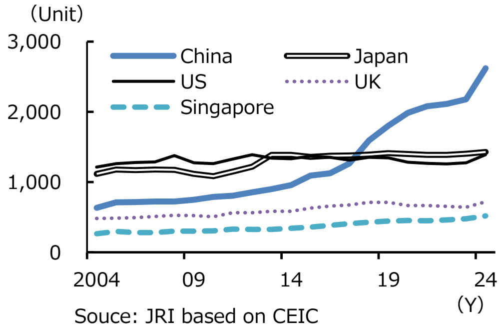


Souce: JRI based on CEIC

■ Hong Kong's increasing economic dependence on mainland China

Hong Kong's high growth from January to March contrasts with major developed countries whose economies either shrank, as in Japan and the U.S., or saw sluggish growth. The Chinese economy, which continues to grow relatively steadily due to policy effects, likely played a role in this. Another factor driving the territory's economy was aggressive investment from mainland China. The number of companies that are based outside of Hong Kong, including mainland China, and have operations in the territory grew from 9,039 to 9,960 in 2024. This was the second consecutive year of growth. Mainland Chinese firms in particular have become more prominent.

<Number of Hong Kong Offices of Foreign Companies (Top 5 Countries) >



Souce: JRI based on CEIC

In recent years, the Hong Kong government has stepped up efforts to attract extraterritorial companies. Mainland Chinese firms have been taking advantage of the perks available and actively expanded into the territory. In a 2022 policy speech, Hong Kong Chief Executive John Lee unveiled plans to boost the territory's competitiveness by attracting companies and talent, as well as developing and strengthening local sectors. The Office for Attracting Strategic Enterprises (OASES) was established following the speech, with . life and health technology, AI, and new energy among its focus areas. On April 8th 2025, an additional 18 companies decided to launch or expand operations in Hong Kong through OASES, taking the total to 84, the vast majority of which are from mainland China.

In December 2020, the United States introduced the Holding Foreign Companies Accountable Act. The law requires firms to comply with audit rules, with failure to comply for three consecutive years resulting in expulsion from U.S. stock exchanges. This intensified moves by U.S-listed mainland Chinese companies to seek Hong Kong listings. As the U.S. is expected to continue toughening rules for mainland Chinese firms, Hong Kong has been actively trying to replace it by encouraging companies to list their shares in the territory. In March 2023, Hong Kong Exchanges and Clearing (HKEX) reduced the minimum market capitalization required for newly listing firms, effectively relaxing listing rules for high-tech companies and other young firms. In May 2025, China's largest automotive battery company, Contemporary Amperex Technology (CATL), made its initial public offering (IPO) in Hong Kong, boosting financial activity in the territory.

■ U.S.-China tensions over the Panama Canal heighten risks for extraterritorial companies in Hong Kong

Though expansion by mainland Chinese firms has supported Hong Kong's current robustness, risks to its outlook are rapidly increasing. Trade, which is booming at the moment, will sooner or later shrink due to the imposition of the Trump tariffs. Even more problematically, Hong Kong's links with mainland China have become a greater liability than ever before as the U.S.-China rivalry has intensified.

Problems related to the Panama Canal in particular have heightened awareness of these risks. On March 4th, Hong Kong-based CK Hutchison agreed to sell the rights to operate key Panama Canal ports to a consortium of investors led by BlackRock, the world's largest asset manager, for $22.8 billion. However, the formal signing of the deal, which had been scheduled for April 2nd, was postponed under mounting pressure from the Chinese government.

The waterway was already in the spotlight at the end of 2024 after president-elect Trump expressed dissatisfaction over transit tolls and said that he would ask the Panamanian government to return the canal if it did not treat the U.S. fairly. But this has escalated into a discussion over whether China effectively controls the Canal given a Hong Kong company holds the right to operate port facilities at both ends. While CK Hutchison, which is registered in the Cayman Islands, is not a mainland Chinese company and does not operate under Beijing’s control, the U.S. has not backed down from its claim of Chinese influence. Meanwhile, China's State Administration for Market Regulation has announced the start of an investigation into whether there are problems with the transaction. Against this backdrop, CK Hutchison has found itself unable to continue operating its Panama Canal port business without taking Beijing’s wishes into account.

<Recent Developments Concerning the Panama Canal>

22-Dec-24	Before taking office as President, Mr. Trump expressed dissatisfaction with the high toll fees of the Panama Canal and asserted that if not treated appropriately, he would demand its return from the Panamanian government.
20-Jan-25	In his inaugural address, President Trump criticized China for unfairly controlling the Panama Canal and reiterated his vow to "take back" it.
22-Jan-25	At a press conference on January 22, Mao Ning, Foreign Ministry Spokesperson, countered the U.S. by stating, "we agree with Panama’s President José Raúl Mulino that Panama’s sovereignty and independence are not negotiable, and the Panama Canal is not under direct or indirect control by any power."
02-Feb-25	U.S. Secretary of State Rubio met with President Mulino in Panama, demanding the reduction of Chinese influence from the Panama Canal.
06-Feb-25	Panama has officially informed Beijing of its decision to withdraw from China's massive infrastructure and investment project, the Belt and Road Initiative.
04-Mar-25	The Hong Kong-based conglomerate, controlled by tycoon Li Ka-shing, agreed to sell the majority of its $22.8 billion global ports business, including assets along the strategically significant Panama Canal, to a consortium led by BlackRock. (The deal was meant to be signed on April 2, but it was postponed.)
14-Mar-25	China's state-owned media published comments criticizing CK Hutchison's port sale as a betrayal of China.
27-Mar-25	Media reported that China instructed state-owned firms to pause new deals with businesses linked to Hong Kong billionaire Li Ka-shing and his family.
28-Mar-25	China's State Administration for Market Regulation (SAMR) said it will review CK Hutchison's Panama Canal ports deal in accordance with laws.
07-Apr-25	The Panamanian audit found “many breaches” of the concession awarded to a subsidiary of logistics giant CK Hutchison to operate the two ports and said Panama did not receive US$1.2 billion it was owed under the contract.
09-Apr-25	U.S. Secretary of Defense Hegseth visited Panama and said that the Panama canal faces ongoing threats from China but that together the United States and Panama will keep it secure.
26-Apr-25	President Trump asserted on his social media that U.S. military and commercial ships should be allowed to travel free of charge through the Panama and Suez canals, two strategic routes for global trade and military operations.

Source: JRI based on various media reports

Although it is not clear how the Panama port issue will ultimately conclude, intervention by the Chinese government has clearly become a business risk that Hong Kong companies need to be vigilant of . In 2020, the Hong Kong National Security Law came into force, while the supplementary Safeguarding National Security Ordinance took effect in March 2024. These changes had already caused concern about doing business in Hong Kong among multinational companies and it is fair to say that the Panama Canal issue has put them even more on guard. Not only have the Trump tariffs increased the risk of a Chinese economic downturn, but observers must pay attention to the possibility of Hong Kong's economy reversing course as investors outside of mainland China become more wary.

(Minoru Nogimori)

Topics *China is getting serious in its efforts to expand consumption*

The Chinese government is redoubling efforts to revive consumption and released a "plan on special initiatives to boost consumption" in March this year. However, the plan centers on measures to pull demand forward and expand supply capacity, so it is hard to be optimistic about it fostering a sustained consumption revival.

■ The Chinese government's sharpened focus on consumption

The Chinese government has recently been redoubling its efforts to revive consumption. It likely decided to support the economy by stimulating personal consumption in response to weak domestic demand created by the prolonged real-estate slump.

This emphasis on consumption became clear at the end of 2024 at the Central Economic Work Conference, a key meeting where the Communist Party and the government set the direction of economic policy for the following year. Nine priority tasks were outlined at the meeting. In contrast to past years, "expansion of domestic demand" was at the top of the list and "expansion of consumption" was mentioned as a specific policy. This can be interpreted as a declaration of the Chinese government's intent to put consumption expansion at the top of its agenda and prioritize efforts to spur consumption. However, no specifics on the policies were presented at the conference.

Consumption was even more clearly emphasized during this year's session of the National People's Congress (NPC), China's parliament, from March 5th to March 11th.. While the demand shortage has been repeatedly pointed out since 2023, the phrase "consumption, in particular, is sluggish" was added to this year's Report on the Work of the Government. This was presented at the

<Overview of the Plan on Special Initiatives to Boost Consumption>

1. Increasing income	
(1)	Increase wage incomes
(2)	Expand asset incomes
(3)	Increase farmers' income
(4)	Promptly reimburse late fees owed to SMEs
2. Support consumption	
(5)	Provide support for childbirth and parenting
(6)	Provide support for education
(7)	Improve social security
(8)	Provide support for living
3. Service consumption	
(9)	Services for the elderly and children
(10)	Services for daily life (catering, domestic help)
(11)	Culture, sports, and tourism
(12)	Winter tourism
(13)	Inbound consumption
(14)	Opening up of service sector to foreign companies
4. Durable goods consumption	
(15)	Subsidize durable goods replacement (funded by ultra-long special treasury bonds)
(16)	Support for purchasing housing
(17)	Expansion of after-sales market for automobiles
5. Improving consumption quality	
(18)	Brand strengthening
(19)	New consumption
(20)	Support for domestic sale and independent branding of export goods
6. Improving consumption environment	
(21)	Work-life balance
(22)	Safety and security
(23)	Infrastructure construction
7. Deregulation	
(24)	Relaxation of consumption restrictions
(25)	Improvement of market access
8. A support system	
(26)	Integration of policies to boost consumption
(27)	Support for consumption infrastructure investment
(28)	Expansion of support from the fiscal side
(29)	Expand monetary support
(30)	Expansion of other forms of support

Source: Prepared by JRI based on information from Chinese government website beginning of the NPC session. It was likely included to remind ministries and local governments of the seriousness of the consumption downturn. It can also be noted that the clear statement of a plan to expand consumption through both income and expenditure growth marks a step forward from the statements made at the Central Economic Work Conference. Still, few specific measures were mentioned at the NPC either.

Specific and comprehensive steps to stimulate consumption were only announced after the session in the government's Plan on Special Initiatives to Boost Consumption. This was jointly issued by the General Office of the Communist Party of China Central Committee and the General Office of the State Council on March 16th.The plan is a comprehensive package to boost consumption, consisting of 30 items in eight areas (see the figure on the right). One of its stated aims is to turbocharge consumption and boost domestic demand by increasing purchasing power incomes and reducing financial burdens. Its other goals include generating effective demand through high-quality supply, improving the consumption environment to strengthen consumer willingness to spend and addressing barriers to consumption. The stimulus package's content is varied and one could almost call it a Chinese version of Japan's Basic Policy on Economic and Fiscal Management and Reform. Instructions have already been given to ministries and local governments to take action in various ways based on the plan.

Following the NPC sessions, some commentators were expecting additional stimulus measures to be announced at the Politburo meeting on April 25th. But at a press conference on the 28th, the previously announced policies were simply re-confirmed. Given these developments, it is clear that the Plan on Special Initiatives to Boost Consumption provides the basis for Beijing's current consumption stimulus measures. Various measures are expected to be taken on an ad hoc basis to achieve the goals of the plan.

■ The ambiguous effects of the consumption stimulation measures

The Plan on Special Initiatives to Boost Consumption includes several laudable measures. For instance, ,expanded support for childbirth, parenting, and education may lift disposable income and boost consumption. While they will take time, improvements to aspects of the social security system such as pensions, medical care, and elderly care should boost personal consumption by reducing anxiety about the future. However, an examination of the plan as a whole raises many questions. Assuming that it will lead to a sustained increase in consumption would be premature.

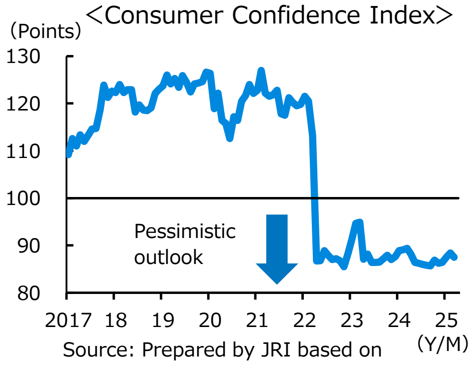
The plan has three main problems.

First, it lacks cohesiveness. Although it contains a raft of measures spanning various fields, they are so extensive and diverse that it is difficult to tell from the outside looking in which areas are the main focus. Moreover, most of the policies in each area are just re-statements of previously announced measures. Few are novel.

Second, the replacement of durable consumer goods, the plan's centerpiece, is likely to only have a limited effect in spurring consumption. The policy subsidizes the trade-in of durable consumer goods and is funded by 300 billion yuan raised by issuing ultra-long special treasury bonds. Consumption of durable goods certainly seems to have increased slightly because of the subsidies. Still, the maximum possible amount of the subsidies is equivalent to less than 1% of China's household consumption (51 trillion yuan in 2023), so any boost to overall consumption will be limited. In addition, the policy will pull demand forward, so consumption will fall back as its effect fades.

Third, many of the policies still focus on the supply side. The start of the Plan on Special Initiatives to Boost Consumption emphasizes "generating effective demand through high-quality supply" as well as "service consumption," which is arguably another centerpiece of the plan. It then outlines many policies aimed at strengthening supply capacity in this area. Providing large quantities of services that do not meet the public's needs could lead to oversupply, as in the goods sector.

<Consumer Confidence Index>



Source: Prepared by JRI based on data from CEIC

In conclusion, while consumption has plunged recently (see the figure on the right), the Plan on Special Initiatives to Boost Consumption will not be effective in lifting it sustainably. Although it may recover temporarily due to the durable goods replacement subsidy, it will likely prove difficult to break free from sluggish in the medium to long term.

(Junya Sano)